Chapter - I

Introduction

1.1 The three tier structure envisaged under the 73^{rd} and 74^{th} Constitutional Amendments has been in place for two decades in Tamil Nadu. As envisaged in Article 243 (I) and 243 (Y) of the Constitution of India, inserted through the 73^{rd} and 74^{th} Amendments, each State has to constitute a State Finance Commission once in five years to review the financial position of the local bodies and to make its recommendations to the Governor of the State. The State Finance Commission reports are landmark documents, for they mark, not only the fulfillment of the constitutional obligation to have a specially tasked body to recommend on the appropriate sharing of resources by the State Governments with the local bodies, but also provide an opportunity to look back periodically on the journey thus far on decentralization by assessing the role, performance and needs of the local bodies. As a constitutional body, the State Finance Commission is in a unique position to examine and evaluate the path taken so far and influence through its recommendations, the future of the critical institutions which are at the base of the pyramid of governance in the country.

1.2 In pursuance of the constitutional provisions and the concomitant State legislations, State Finance Commissions are being constituted in Tamil Nadu once in five years **Annexure – I (1)**. The Fifth State Finance Commission (FSFC) was constituted and notified in the Tamil Nadu Government Gazette on 01.12.2014 for making its recommendations for the Award period of 2017-18 to 2021-22 **Annexure – I (2)**. The Commission comprises the following Members:-

1.	Chairman	Thiru S. Krishnan, I.A.S.,
2.	Non-official Member	Thiru B. Senguttuvan, M.A.,M.L., Member of Parliament, Vellore.
3.	Ex-officio Member	Director of Municipal Administration
4.	Ex-officio Member	Director of Town Panchayats
5.	Ex-officio Member	Director of Rural Development and Panchayat Raj

Thiru Prashant M. Wadnere, I.A.S., served as Member Secretary of the Commission from 11.01.2016 to 10.09.2016.

1.3 Tamil Nadu is one of the few States where Finance Commissions have been regularly constituted and the recommendations acted upon. The State has seen significant changes in the socio economic and fiscal landscape since the First State Finance Commission was constituted and subsequent Commissions have taken note of those changes while making their recommendations. In the backdrop of stable governance, a peaceful law and order situation and the ever increasing expectations from Government and its institutions as providers of services, local bodies in Tamil Nadu have become vibrant institutions for citizen centric service delivery. This period has also witnessed robust economic growth, steady improvement in socio-economic indicators and a distinct demographic shift. The population residing in urban areas has grown at a markedly higher rate in the last two and a half decades and today nearby half the State's population is urban. This Commission will also have to take note of this changing scenario in making its recommendations.

Terms of Reference

1.4 The Terms of Reference of successive State Finance Commissions have been primarily based on the provisions of Articles 243 (I) and 243 (Y) and the relevant Local Bodies Acts. This Commission has been tasked with Terms of Reference as contained in the Constitution and the statutes, which are as follows:-

- The Commission shall review the financial positions of the rural and urban local bodies namely Village Panchayats, Panchayat Union Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations and make recommendations as to:-

  - 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 State, which may be divided between them and the allocation between the said local bodies of their respective shares of such proceeds;
    - the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the said local bodies;

- the grants-in-aid to the said local bodies from the Consolidated Fund of the State;

- the measures needed to improve the financial position of the local bodies and to suggest possible new avenues for tapping resources in rural and urban local bodies keeping in mind the local body tax structure in other States.

1.5 The main Terms of Reference of the Commission are very similar to those of the previous four Commissions. The Commissions may also be tasked to make recommendations regarding any other matter referred to it by the Governor in the interests of sound finance of the local level governments. Under this provision, additional terms of reference were given to the Second and Third State Finance Commissions. The Second SFC was requested to analyze repayment of loans extended by the Government to the local bodies, suggest measures and changes needed in the payment of pension to the retired employees of local bodies, and assess the accountability of the local bodies in utilizing the resources raised or received from Central, State and Other agencies. Similarly, the Third SFC was asked to focus on reclassification of local bodies other than Town Panchayats and the functions of Gram Sabhas in Village Panchayats. The First and Fourth SFCs were not given such additional Terms of Reference. **No additional Terms of Reference have been given to this Commission.**

Recommendations of the State Finance Commissions

1.6 The First State Finance Commission divided the whole devolution into two pools. Pool A comprised taxes such as surcharge on stamp duty, local cess and local cess surcharge and entertainment tax which belonged to local bodies but are collected by the Government. This pool was to be shared with the local bodies. Pool B consisted the rest of States Own Tax Revenue, to be distributed to local bodies in increasing proportion growing from 8% to 12% over the five years. For distribution between RLBs and ULBs, the Commission recommended a ratio of 60:40. For horizontal distribution, the Commission considered criteria such as total Population, SC & ST Population, financial viability, per capita House Tax collection, Core Civic Services, infrastructure maintenance deficiency, per capita receipts under own resources and existing per capita expenses on core services. The Commission also recommended introduction of equalisation and incentive funds, Property Tax reforms with quinquennial revision, fixing of water supply norms, creation of a capital fund by allocating 10-15% from the Revenue of ULBs, and switching over from house tax to property tax in Town Panchayats. While many recommendations were accepted, the main recommendation on sharing a fixed percentage of SoTR with local bodies was accepted with a modification, restricting the proportion to 8 percent share for the whole of the award period.

1.7 The Second SFC again recommended increasing the percentage of devolution per annum from 8% to 10%. Considering urban growth, the Commission recommended increasing the share of ULBs from 40% to 42% while RLBs were to be given 58%. For Horizontal distribution, the Commission retained both the population parameters and per capita own income as suggested by the First SFC and introduced five new parameters, viz., area, population of agricultural labourers, asset maintenance resource gap, inverse of per capita land revenue, and salary and pension expenses. The Commission also recommended re-classification of Local Bodies based on 1991 census, incentivization of taxation efforts, equalisation funds onwards self-financing projects on sewerage, drainage and over bridges, strengthening of Gram Sabhas, debt relief package to ULBs and a time frame for audit and placement of Local Body accounts before the Legislative Assembly.

1.8 The Third SFC recommended a uniform 10% share of tax revenue for the entire award period, retained the concept of Pool A and Pool B and introduced a third, Pool C. This was to comprise specific purpose grants for local bodies with 0.5 – 1.0% of States Own Tax Revenue share. The Commission retained the RLB to ULB proportion as 58:42. For horizontal distribution, the Commission retained total population, SC-ST population and area as criteria and added two new parameters viz., women population and debt burden of local bodies. The Commission also recommended incentivization of Solid Waste Management activities, tax mapping by GIS, incentivization for debt repayment as per schedule and re-classification of Local Bodies on revenue basis.

1.9 The Fourth SFC again recommended a uniform 10% share of SoTR for devolution. Devolution to ULBs was recommended to increase from 42% to 44%. For horizontal distribution, the Commission retained the Third SFC criteria except for omitting women population. Among other major recommendations, a special grant of Rs.200 crore was earmarked for Local Bodies out of the devolution for Solid Waste Management activities, continuation of the Infrastructure Gap Filling Fund and the Operations and Maintenance Fund with some increase and incentives for best practices.

1.10 The Government's acceptance of the recommendations varied from Commission to Commission. The Government accepted 115 of the 413 recommendations made by the First SFC, 283 of the 386 recommendations made by the Second SFC, 91 of the 308 recommendations made by the Third SFC and 112 of the 130 recommendations made by the Fourth SFC. The Government, has by and large, preferred simpler and fewer parameters to govern horizontal devolution. In many cases, the Government also diverged from the SFC recommendations and adopted its own criteria for devolution. A detailed note on recommendations of all State Finance Commissions and the action taken by State Government on those recommendations is annexed to this report **(Annexure – I (3)).**

Central Finance Commissions

1.11 The Terms of Reference (ToR) of the 14th Central Finance Commission required it to recommend "the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State, on the basis of the recommendations made by the Finance Commission of the State." The Commission recommended that the State Governments should strengthen SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and timely placement of the SFC report before State legislature, with action taken reports.

1.12 Among other recommendations, the Commission recommended distribution of grants to the States using 2011 population data with weight of 90 per cent and area with a weight of 10 per cent.

1.13 The grant to each State was to be divided into two - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of Census 2011. In the case of gram panchayats, 90 per cent of the grant would be the basic grant and10 per cent would be the performance grant. In the case of municipalities, the ratio between basic and performance grants would be 80:20.

1.14 The earmarked basic grants for Gram Panchayats would be distributed among them, using the formula prescribed by the respective SFCs for the distribution of resources. Similarly, the basic grant for urban local bodies would be divided into tier-wise shares and distributed across each tier, namely the Municipal Corporations, Municipalities and the Town Panchayats using the formula given by the respective SFCs. The State Governments should apply the distribution formula of the most recent SFC, whose recommendations have been accepted.

1.15 A detailed procedure for the disbursal of the performance grant to local bodies would have to be designed by the State Governments concerned, subject to certain eligibility criteria. The Commission also recommended that no further conditions or directions other than those indicated by it should be imposed either by the Union or the State Governments for the release of funds.

1.16 A reading of these recommendations makes it clear that the State Finance Commissions recommendations would apply to the release of basic grant to the local bodies. It is pertinent to note that the 14th Central Finance Commission has not made the acceptance of the SFC recommendations by State Government a precondition for their application to basic grant's release. The State Finance Commission cannot make any recommendations on the release of performance grants recommended by the 14th Central Finance Commission. The recommendations of the 14th Central Finance Commission are enclosed in the **Annexure – I (4)**.

Conclusion

1.17 The State Finance Commission, formed as per the Constitutional mandate, is informed by the reports of previous State Finance Commissions and the Central Finance Commissions. It also sought views extensively from local body representatives at all levels, experts in the area of local self-government and decentralization, academics, administrators and concerned Government departments. The Commission has adhered to the Constitutional provisions, the concomitant State legislations and its Terms of Reference in making its recommendations.

Chapter - II

Approach and Methodology

Approach

2.1 The Commission has been guided by the letter and spirit of the relevant provisions of the Constitution, statutes and conventions. The scope of the ToR has to be interpreted to mean that not only do the financial requirements and needs of local bodies have to be assessed but also the impact resource availability will have on the performance of local bodies in terms of service delivery will need to be considered. Thus, the Commission has considered not just the funds requirement of local bodies but also the devolution of adequate functions and functionaries required by the local bodies to effectively utilize the funds available. On that basis, to the extent warranted, the recommendations of the Commission also cover certain administrative and functional aspects.

2.2 We have taken into account the recommendations of previous Finance Commissions and their success or failure, in implementation through actions taken by the State Government. We also took note of the untapped potential as a result of the non-implementation of some recommendations of the previous Commissions. We consulted relevant stakeholders, experts and academic and research institutions. This broader approach helped us in identifying the issues of concern to the main stakeholders. The Commission has also drawn upon best practices followed in other parts of the country and has also been informed by some of the approaches followed globally, even though such understanding may not have been explicitly articulated in our recommendations.

2.3 While the Commission strives to suggest changes and improvements in institutional structures and resource sharing mechanisms, it is also conscious of the importance, and utility of the existing institutional structures, and the need to persist with them with improvements.

2.4 By and large, this Commission adopted the reporting template recommended by the 13th Central Finance Commission.

2.5 The core of our approach is the improvement in public service delivery at the cutting edge level. Urban and Rural Local Bodies face a constant challenge in delivering services to meet the needs and expectations of citizens. With the rising standards of living and exposure to the outside world through multiple channels, the felt needs and aspirations of the citizenry, both in rural and urban areas keeps increasing. The accentuated demographic shift towards urban areas has increased the pressure on Urban Local Bodies to provide infrastructure and services. Rapid urbanization is both due to migration from rural areas to urban areas in search of employment, quality education and civic facilities and due to the organic spread of urban centres taking over neighbouring rural areas. The Commission also considered the rapid population growth in Peri-Urban Panchayats, where infrastructure needs to be on par with core urban areas. The rising share of non-agricultural income in the rural economy has also increased the pressure for upgradation of services in rural areas.

2.6 A major challenge to achieve improvement in public service delivery is reforming structures and processes. Mere enhanced capital investment in urban and rural areas without norms and benchmarked service levels may not yield meaningful results. The Commission strived to find and suggest ways of financing the massive infrastructure deficit along with ensuring improved service delivery to meet specified norms.

2.7 Local bodies can be strengthened as robust institutions of self government with increased financial autonomy, better accountability and linking resource allocation with service delivery. Predictability of receipts can significantly enhance accountability. Improved sources of own revenue through taxation and better levy of user charges will go a long way in making local body administration self-sustaining. Judicious support from the State Government through need specific transfers will help local bodies discharge their functional responsibilities. Augmenting of resources needs to be accompanied by capacity building. Appropriate mechanisms need to be put in place to enable sustainable leveraging of their own resources. Innovative models of financing need to be explored including through Public-Private-Partnerships, impact funds, loans and other mechanisms.

2.8 The expected income of local bodies and the anticipated expenditure, based on service benchmarks are projected for the award period and the resource gap has been analyzed. The Commission was also mindful of the fiscal position of the State Government.

2.9 The relationship between the various departments and agencies of the State Government and local bodies with reference to augmentation of revenue of the local bodies and service delivery has also been studied and the issues which exist between them have been addressed by the Commission.

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

Methodology

2.11 The Commission relied mainly on the primary data collected from the local bodies and other stakeholders. In spite of the best efforts by the Commission, the quality of data remains a cause for concern. We have tried to improve the data by having sample checks done either directly by the Commission or through the Directorate of Local Fund Audit, the respective Heads of Department and in some cases through external agencies. We have also cross checked the data with other available sources. In case of conflict of figures, the source which is more authentic and based on better technical supervision has been taken into account.

Questionnaires to Local Bodies

2.12 In order to assess the income, expenditure, service levels, capital needs etc., a detailed Questionnaire was prepared by in-house Committees constituted by the Commission.

2.13 The Commission collected data from the local bodies online by installing its own Server System. Software for online data collection had been developed in house by the Commission and used through the Commission's website www.tnsfc.gov.in.The server was made available to all the local bodies twenty four hours a day throughout the period of the Commission. The data sheets were so designed to develop data in SQL formats simultaneously with the uploading of data by the local bodies. This facilitated the quick compilation of by the Commission Secretariat.

2.14 Guidelines to fill up the Questionnaires were also prepared and hosted on the Commission's server. Training sessions were conducted for all the end users to access the server IP, with username and password and themselves upload data on the server. Training sessions on filling up the questionnaires correctly were conducted at the regional level for Municipalities and Town Panchayats and at the District level for RLBs. In respect of RLBs, the data for all Village Panchayats, in each block were collected and entered at the block level, validated and uploaded on the Commission's server. The data so collected was cross verified by the Commission for each local body and alterations were allowed before the due date for freezing the data set.

2.15 Separate sets of Common Questionnaires were prepared for three tiers of ULBs and RLBs. The common questionnaire for ULBs was prepared by a Committee constituted for this purpose under the chairmanship of Commissioner for Municipal Administration, who is also a member of the Commission. Brain storming sessions were organized with the heads of department concerned and urban experts from reputed institutions of excellence. Similar effort was made for the RLBs under the Chairmanship of the Director of Rural Development and Panchayat Raj, another member of the Commission.

2.16 Questionnaires were also designed for Mayors of Municipal Corporations, Chairpersons of Municipalities and Town Panchayats and sent to them seeking their views on specific issues. The Commission has received enthusiastic response from public representatives.

2.17 The Commission Secretariat was fully engaged in the collection of data from each and every local body, consolidation and validation of data, in collating the data and preparing various statements for the Commission's discussions with the concerned Departments. This data forms the basis for the analysis by the Commission and by the external agencies as well.

Interactions with Local Bodies and Field Level Functionaries

2.18 The Commission toured the entire State to interact with Local Body representatives and other stakeholders. The Commission held five regional sittings in Vellore, Coimbatore, Madurai, Salem and Tiruchirappalli covering all the districts in the State. In these sittings the elected representatives of local bodies, NGOs, Industrial Organizations, District Collectors and District officials participated. These interactions provided vital inputs for the Commission to understand the concerns of various local bodies and also provided a ground level understanding of the functioning of the official machinery. Details of these interactions are in **Annexure – II (2).**

*** Commission's District visit - Vellore**

*** Field visit of Vellalore Compost Yard - Coimbatore Corporation on 01.03.2016**

*** Commission’s District visit - Coimbatore – Discussion with NGO’s and Industrialists**

*** Commission’s District visit – Madurai on 28.06.2016**

*** Commission’s District visit - Salem – Group Discussion**

Engagement of External Agencies

2.19 In order to get an outside perspective from experts and in depth analysis of specific issues, the Commission decided to engage external agencies to study the data collected from local bodies and to furnish analytical reports to the Commission.

2.20 The Commission had engaged six external agencies, namely, the Madras School of Economics, Institute for Financial Management and Research (IFMR-LEAD), Madras Institute of Development Studies, Department of Economics & Statistics, ICRA Management Consulting Services Limited and Athena Infonomics to carry out the studies.

2.21 The studies allotted to each of the agencies are as follows:-

Sl. No.	Agency / Organisation	Subject
1.	Madras Institute of Development Studies (MIDS)	Mapping Functions, Finances and Tax collections of Local Government – RLBs
2.	Institute of Financial Management and Research (IFMR - LEAD)	Own Revenue of Urban Local Bodies in Tamil Nadu
3.	Madras School of Economics (MSE)	Impact of urbanization of local Government Finances & Tracking of Property Tax potential.
4.	ICRA Management Consulting Services Limited	Analysis of staffing and organization in ULBs in Tamil Nadu.
5.	ATHENA Infonomics India Private Limited	Norms Based Devolution for Urban Local Bodies: A phased approach for Tamil Nadu.
6.	Department of Economics and Statistics	Report on Financial Status of Rural Local Bodies

2.22 All the above agencies were given the online data collected from all Urban / Rural Local Bodies and other secondary data collected from the line departments relevant to the studies under taken by them. The external agencies were also advised to use secondary data from other sources relevant to the Terms of Reference of their studies. The reports furnished by the external agencies were further analyzed by the Commission.

Workshops

2.23 The Commission had arranged a one day National Consultative Workshop on 28th August 2015 at Rain Tree Hotel, Chennai on the topic “Issues before the

Tamil Nadu Fifth SFC" in association with National Institute of Public Finance and Policy, New Delhi. Experts from various fields attended the workshop. All the experts from Urban and Rural Bodies presented their views on various issues affecting financial health of local bodies across the State, Central and State Commission's recommendations, emerging challenges and solutions for the way forward. The workshop was very useful starting point for the analytical frame work for the Commission. The approach adopted by other SFCs and principles adopted by them in vertical and horizontal resource allocation to their local bodies were discussed in detail. The details of the workshop are appended in **Annexure – II (3).**

*** NIPFP seminar held on 28.08.2015**

2.24 The Commission also participated in the National Workshop organized by the Ministry of Panchayat Raj and the National Institute of Rural Development and Panchayat Raj on 18th and 19th January 2016. The Commission benefitted from the interaction with the national and international experts who participated in the workshop. The Commission also got the opportunity to interact with the Chairpersons of other SFCs in the workshop.

Interaction with Secretaries to Government / Heads of Departments / Other Stakeholders

2.25 33 questionnaires were issued to various stakeholders including Secretaries to Government, Heads of Departments and others. The Commission had special interaction sessions with State and Central Government Agencies like, Principal Accountant General, Director of Local Fund Audit, TNUIFSL, TUFIDCO, CMWSSB, Director of Libraries, CMDA, DTCP, TNHB, Department of Highways, Department of Housing and Urban Development, TNSCB, Centre for Policy Research, New Delhi etc. The views which emerged during these interactions have been duly reflected in the Commission's report.

2.26 The Tamil Nadu Urban Infrastructure Financial Services Ltd (TNUIFSL) made a presentation to the Commission regarding "Municipal Finances" on18.04.2016 and has given useful inputs on key issues such as the effective implementation of National Municipal Accounting Manual (NMAM), timely finalisation of annual accounts in Urban Local Bodies, strengthening of existing accounting cadre of Urban Local Bodies, possible ways to improve the collection efficiency of Urban Local Bodies, incentive mechanisms, good practices in Urban Local Bodies and on aggregation of accounts of all Urban Local Bodies.

2.27 The Commission also invited an expert Thiru U.A. Vasantha Rao from the neighboring State of Karnataka for studying the Property Tax Reforms adopted by the Bangalore Municipal Corporation. The details of interaction are appended in **Annexure – II (4)**

Conclusion

2.28 While relying on the primary data collected from stakeholders, the Commission also made efforts to make its own analysis and also sought assistance from external agencies. We also put emphasis on one to one interactions with local body representatives, officials, NGOs, experts and other stakeholders. Our approach was entirely guided by the need to root our understanding and consequent recommendations on a realistic appreciation of the performance of local bodies, their requirements and possibilities of addressing their concerns within the mandate of the Commission.

Chapter - III

Status of Implementation of Fourth SFC's Recommendations

3.1 The Fourth SFC, constituted on 01.12.2009, submitted its report to the Hon'ble Governor of Tamil Nadu on 29.09.2011. The Government examined all the recommendations of the Fourth SFC including the recommendations on the devolution of resources from SOTR and transfer of Assigned Revenue. The decisions taken by the Government on the recommendations on the devolution of resources from the State Government to the Local Bodies were announced in the Budget speech on 21.03.2013. Further, the Report of the Fourth SFC along with the Explanatory Memorandum on the action taken on the recommendations of the Commission was laid on the table of the Tamil Nadu Legislative Assembly on 14.05.2013.

3.2 The Fourth SFC made 130 recommendations of which the Government accepted 101 recommendations without any change, 3 recommendations were accepted in principle and 12 recommendations were accepted with modification. 7 recommendations were not accepted by the Government and 7 recommendations were to be examined separately.

3.3 The status of acceptance of the recommendations of the Fourth SFC by the Government is tabulated in **Annexure - III (1)**.

Recommendations on Devolution of Finances

3.4 Out of 19 recommendations relating to devolution of resources, 14 were accepted without any change and 4 were accepted with modification. One recommendation was to be examined separately. The recommendation for continuance of the existing global sharing ratio to Local Bodies at 10% of the net State's Own Tax Revenue (SOTR) during the award period was accepted by the Government without any modification. The Government accepted the recommendation for a separate fund of Rs.200 crore for Integrated Solid Waste Management activities and also enhanced the fund to Rs. 250 crore. On the horizontal sharing of taxes between Rural and Urban Local Bodies as against the Fourth SFC's recommendation of 56:44 ratio, the

Government decided to retain the ratio at the preexisting level of 58:42. The Government accepted the Vertical Sharing ratio between the tiers of urban local bodies as 40:31:29 with a modification to the recommended ratio of 40:29:31 for Municipal Corporations, Municipalities and Town Panchayats respectively.

3.5 Government Orders on the accepted recommendations on devolution of finances were issued by the Finance Department. The Government orders on the decisions taken on other recommendations of the Fourth SFC are being issued separately by the respective departments, mainly the Rural Development and Panchayat Raj (RD & PR) Department and Municipal Administration and Water Supply (MA & WS) Department. Out of the 116 accepted recommendations, 73 recommendations have been implemented. The status of the accepted recommendations of the Fourth SFC on which orders were issued is tabulated in **Annexure – III (2)**.

3.6 A number of recommendations involve enacting new legislations or amending existing legislations and rules. Normally this proves to be time consuming. However, based on the recommendations of the SFC, the following new legislations and rules have been enacted or framed:

i. The Tamil Nadu Local Bodies Ombudsmen Act 2014.

ii. The Tamil Nadu Local Bodies Ombudsmen Rules 2015.

iii. The Tamil Nadu State Property Tax Board Act 2013.

iv. The Tamil Nadu State Property Tax Board Rules 2014.

v. The Tamil Nadu Local Fund Audit Act 2014.

3.7 Necessary rules for the purpose of carrying into effect the provisions of the Tamil Nadu Local Fund Audit Act 2014 are yet to be framed by the Government. Out of this 43 pending recommendations, further action is required on 39 important recommendations. A list of pending recommendations of the Fourth State Finance Commission which need further action is placed at **Annexure – III (3)**

Monitoring Mechanism

3.8 The Fourth SFC recommended the strengthening of the existing Finance Commission wing in the Finance Department with staff for the purpose of monitoring the implementation of the recommendations of the Fourth SFC and the recommendations of Central Finance Commissions on Local Body issues. The strengthened FC wing in the Finance Department was to be tasked with monitoring the follow up action taken on the recommendations of the SFC and to update the data base and website to simplify the work of future SFCs. Further, the Fourth SFC recommended that the subjects relating to the follow up action on the recommendations of the State / Central Finance Commissions and monitoring their implementation have to be dealt with exclusively by a section each in RD & PR / MA & WS Departments. That section can liaise and co-ordinate with the Finance Department and other stake holder departments. Although the Government has accepted these recommendations relating to the monitoring mechanisms in principle, no orders have been issued so far in this regard and the monitoring cell is yet to be constituted with adequate personnel. Similarly, no exclusive sections have been created in RD & PR and MA & WS Departments to deal with the issues relating to SFC. This has posed many difficulties in data compilation and follow up work.

3.9 In this connection, it is pointed out that based on the recommendations of the SFC, the Government of Kerala has setup a permanent SFC cell in the Finance Department entrusted with the following functions and duties.

i. Placing of the Report of the SFC before the Council of Ministers, preparation of Action Taken Report thereon and placing the Report and Action Taken Report before the State Legislature.

ii. Prepare details about assessed tax, collection made and arrears, in respect of each tax and non-tax revenue, for each level of LGs.

iii. Analyze Data collected for identifying broad trends among LGs and for identifying champions and innovations. Compile such good practices.

iv. Undertake a campaign to overcome the large slack in revenue collection.

v. Prepare a compendium of the relevant legal provisions and executive orders in respect of the administration of taxes by LGs, incentivisation programmes, innovations, recommendations of the SFC etc.

vi. Rationalize the number and type of Taxes, and assign at least a few important taxes to each level of LGs.

vii. Re - examine the current rates of taxation and consider an upward revision, remove maximum limits fixed on tax as also the conditionalities that hamper or restrict taxation powers of LGs.

viii. Incentivize tax efforts of LGs by reworking the formula for devolution of funds.

ix. Act as the nodal section for monitoring the finances of the Local Governments.

x. Create the data bank on finances of Local Governments for the use of State and Central Finance Commissions.

xi. Up keep and maintenance of the online software developed for the Fourth SFC.

xii. Collection and comparative studies of SFCs Reports of other States.

xiii. Organize training programmes for the staff of LSGIs.

xiv. Transfer of funds to Local Bodies, monitoring expenditure and utilization of funds.

3.10 Various SFCs and Central Finance Commissions have pointed out the necessity of an effective monitoring mechanism within Government at the appropriate level/ departments to take follow up action on the recommendations of the SFCs.

3.11 Recommendations

i. **The Departments concerned must take follow up action on the pending recommendations of the Fourth State Finance Commission and ensure compliance in accordance with the Explanatory Memorandum submitted in the Assembly. (Annexure – III (3)) (para 3.7)**

ii. **The recommendations of the Fourth SFC regarding strengthening the existing FC wing in the Finance Department and forming exclusive sections in RD & PR and MA & WS departments to deal with the subjects relating to SFCs are reiterated. (para 3.8)**

iii. **A permanent SFC cell should be formed in Finance Department similar to the Kerala model to deal with the issues relating to State Finance Commissions. (para 3.9)**

iv. **The data collected by the Commission should be taken up for further analysis and after the report of the Commission is laid on the table of the Legislative Assembly, the Report and the study Reports specifically prepared by the expert bodies at the behest of the Commission should be hosted on the tn.gov.in website. (para 3.11)**

Chapter - IV

Assessment of Finances of Rural Local Bodies

Introduction

4.1 The 73rd Amendment of the Constitution of India gave constitutional status to Panchayat Raj Institutions (PRIs) and established a uniform structure, system of regular elections, and flow of funds through State Finance Commissions. As a follow-up, the State Governments were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of local self-government. Consequent upon the 73rd Amendment of the Constitution, the Tamil Nadu Panchayats Act, 1994 was enacted. Under this Act, a three-tier structure of PRIs viz., Village Panchayats (VPs) at the village level, Panchayat Union or Block Panchayats (BPs) at the intermediate level and District Panchayats (DPs) at the district level was established.

4.2 Article 243G of the Constitution provides the scope of devolution of powers and functions to the Panchayat Raj Institutions. 29 functions were specifically listed out in the XI Schedule of the Constitution. The 74th Amendment provided for the formation of District Planning Committees. Panchayats form the last tier of the multi-level system of federalism in India. Panchayats derive their power from the States, which have the responsibility to nurture and develop Panchayats. The Union Government offers the required support and handholds the States to fulfill their mandated role. Hence, an essential pre requisite for greater devolution to local self-government bodies is greater devolution from the Union to the States.

4.3 Details regarding Panchayats

Total number of District Panchayats	:	31
Total number of Panchayat Unions	:	385
Total number of Village Panchayats	:	12524
Total number of habitations	:	79394
Average number of habitations per Panchayat	:	6

Total Rural Area (in sq.km)	:	1,04,149.61
Average Area per Panchayat (in sq.km)	:	8.32
Total Rural population (Census 2011)	:	404,86,223
Total Women population	:	201,73,040
Total ST population	:	6,69,086
Total SC population	:	99,69,580
% of SC population over total population	:	24.62%

Devolution of Functions to Rural Local Bodies

4.4 Article 243G of the Constitution read with the XI Schedule empowers State Legislatures to devolve 29 functions to PRIs. The main limitation of this provision is that unlike the Union, State and Concurrent Lists in the VII Schedule where it is ensured that there are clearly delineated powers between the Centre and the States and clarity on the powers which are shared under the Concurrent list, most of the items in the XI Schedule are also part of List II in the VII Schedule, i.e. they are also State subjects. Hence, an overlap is inevitable and the actual delegation from the State level to the local bodies varies from State to State.

4.5 The Ministry of Panchayati Raj brings out an annual publication, since 2006, on the status of devolution across Indian States. The latest report in this series has been prepared for the year 2015-16 by the Tata Institute of Social Sciences. Tamil Nadu ranks second in terms of the Improved Index of Devolution in Policy. When the indices of policy and practice are adjusted against each other, Tamil Nadu secures the 4thrank overall amongst the States. What is most striking about Tamil Nadu is that the State ranks very high at the 2nd position in terms of the Finance component of the Devolution in Practice indicator, but ranks 11thin terms of the Functions component. This implies that in practice, the State is transferring substantial funds, but the functions being transferred are comparatively less. Further, in terms of the devolution index by tiers, Tamil Nadu ranks 2nd for the Village and Block Panchayats, but 6th for District Panchayats.

4.6 The Commission had entrusted a study on "Mapping Functions, Finances and Functionaries in Rural India" to the Madras Institute of Development Studies for a comparative analysis of devolution in terms of functions, finances and functionaries among selected States of Tamil Nadu, Kerala, Karnataka, Rajasthan, and Telengana. The macro and micro analysis of the status of Panchayats across the five states suggests that there is a wide variance between what is prescribed in the Act from above and what is practiced by Panchayats below. Even in Karnataka, although the Government has prescribed detailed guidelines for fixing property taxes, the Gram Panchayats have not adopted the same. Although Rajasthan has been ranked high in terms of Devolution Indices, it was found that the level of knowledge about Panchayats among the GP functionaries, members and rural citizens and also own resource mobilization was much higher in Tamil Nadu. Panchayats in Tamil Nadu are also effectively used by the Government to implement state-sponsored schemes. Panchayats in India are still a long way from becoming institutions of self – governance and require further support and direction from State Governments. These findings are of interest and have been kept in mind while making recommendations.

Receipts and Expenditure of Rural Local Bodies

4.7 Own tax revenue, non-tax revenue, State Finance Commission devolution, Central Finance Commission grants and Assigned / Pooled Assigned Revenue are the main sources of revenue of rural local bodies. The expenditure of RLBs is classified as administrative / revenue expenditure and capital expenditure. The overall Receipts and Expenditure of RLBs in the past 5 years are furnished in the following table:-

Table IV – 1

(Rs. In Crore)

Details of Receipts and Expenditure (RLBs)*												
Total Receipts								Total Expenditure				
Year	**Tax**	**Non-Tax**	**SFC**	**CFC**	**Assigned/ Pooled Assigned Revenue**	**Others**	**Total**	**Year**	**Salary**	**Others**	**Capital Expenditure**	**Total**
2010-11	186	265	1775	294	434	346	3300	**2010-11**	476	1446	746	**2668**
2011-12	219	300	2663	388	358	446	4374	**2011-12**	492	1628	881	**3001**
2012-13	259	362	2966	401	464	433	4885	**2012-13**	531	2162	1355	**4048**
2013-14	302	408	3774	527	360	561	5932	**2013-14**	588	3149	1826	**5563**
2014-15	358	452	3368	626	593	821	6218	**2014-15**	665	2973	2050	**5688**
2015-16	368	509	3670	735	633	709	6624	**2015-16**	799	3760	2340	**6899**
Total	**1692**	**2296**	**18216**	**2971**	**2842**	**3316**	**31333**	**Total**	**3551**	**15118**	**9198**	**27867**
Percentage to Total	**5%**	**7%**	**59%**	**9%**	**9%**	**11%**	**100%**		**13%**	**54%**	**33%**	**100%**

** excluding Central and State Government scheme grants and expenditure*

Table IV – 2

Rural Local Bodies- Tamil Nadu

Key Financial Indicators on Per Capita Basis

(In Rupees)

Per Capita Indicators	2010-11	2011-12	2012-13	2013-14	2014-15
Total Receipts	815.09	1080.37	1206.58	1465.19	1535.83
Revenue Receipt	729.63	970.21	1099.63	1326.62	1333.05
Others	85.46	110.16	106.95	138.57	202.79
Own Revenue Receipts					
Own Tax	45.94	54.09	63.97	74.59	88.43
Assigned / Pooled Assigned Revenue	107.20	88.43	114.61	88.92	146.46
Non Tax	65.45	74.10	89.41	100.78	111.64
SFC devolution	438.42	657.75	732.59	932.17	831.89
CFC grants	72.62	95.84	99.05	130.17	154.62
Total Expenditure	658.99	741.24	999.85	1374.05	1404.92
Salary	117.57	121.52	131.16	145.23	164.25
Others	357.16	402.11	534.01	777.80	734.32
Capital Expenditure	184.26	217.60	334.68	451.02	506.35

Table IV – 3

Rural Local Body Revenue as percentage of GSDP

(Rs. In Crore)

Per Capita Indicators	2014-15	2015-16
Total Receipts	**6218**	**6624**
Revenue Receipt	2224	2219
SFC devolution	3368	3670
CFC grants	626	735
Total Expenditure	**5688**	**6899**
Salary	665	799
Others	2973	3760
Capital Expenditure	2050	2340
GSDP at Current prices	1092564	1212668
Percentage of Total Receipts to GSDP	0.57	0.55
Percentage of Total Expenditure to GSDP	0.52	0.57
Percentage of SFC devolution to own receipts	54.17	55.40
Percentage of CFC grants to own receipts	10.07	11.10
Percentage of Capital Expenditure to GSDP	0.19	0.19

Overall Financial Analysis of RLBs

Revenue

4.8 It may be seen from the tables above, that SFC Devolution is the single largest source of funding for RLBs accounting for 59% of the total for the six year period from 2010-11 to 2015-16. Along with CFC grants and Assigned Revenues and Other sources, the external sources account for 29% of the receipts of the RLBs, while their own sources of tax and non-tax revenue accounted for only 12%. Hence, there is a fairly high dependency ratio. While there is a continuous increasing trend in the receipt of tax, non tax and CFC grants of Panchayat Raj Institutions for the years 2010-11 to 2015-16, there is a discordant trend in the receipt of SFC devolution by Village Panchayats. The amount declined from Rs. 3774 crore in 2013-14 to Rs. 3368 crore in 2014-15 and increased to Rs. 3670 crore in 2015-16, not reaching the levels of 2013-14. It is likely that SFC funds could have been intercepted to pay dues on behalf of the Local Bodies to other entities which has not been captured in the RLB accounts fully. There could also be misclassification of some of the devolution funds as scheme linked releases. This uncertainty in receipt of funds from the largest source of funding for RLBs is not a very desirable trend and needs to be rectified. The total receipts under pooled revenue decreased in the year 2011-12 and 2013-14, due to lesser realization on surcharge on stamp duty, seigniorage and royalty on minor minerals. Aggregate revenue from the year 2010-11 to 2014-15 shows buoyancy. Component wise analysis of revenue receipts items is presented separately.

Expenditure

4.9 The operation and maintenance expenditure for the past five years shows an increasing trend with an aggregate growth of 22.35 percent per annum. Aggregate capital expenditure shows that there is an increase in expenditure from Rs.746 crore in the year 2010-11 to Rs. 2340 crore in the year 2015-16 with an aggregate growth of 26.11 percent in the past five years. This faster rate of growth of capital expenditure implies that the proportion of capital expenditure increased from 27% of the total to nearly 34% during the period under review. It must be noted that this capital expenditure excludes the expenditure incurred out of Central and State Government schemes, most of which is also capital in nature. Seen in this context, the necessity and quality of capital expenditure needs to be carefully considered.

Village Panchayat

4.10 The Village Panchayat is Local Self Government at the grass root level. In Tamil Nadu, there are 12524 Village Panchayats. The total number of habitations in 12,524 Village Panchayats is 79,394. The number of habitations per district ranges from 314 in Perambalur District to 6109 in Vellore District. The post of Panchayat Secretary has been created for all the 12,524 Village Panchayats to look after all matters relating to Village Panchayat administration. Out of total number of posts of 73,227 sanctioned for Village Panchayats 72527 posts are filled up and the remaining 700 posts are vacant. The details are shown Table IV – 4 below.

Table IV - 4

Details of posts sanctioned in Village Panchayats

Sl. No.	Category	No. of Post Sanctioned	Men in Position	No. of vacant posts
1.	Panchayat Secretary	12524	11824	700
2.	OHT Operator	35548	35548	0
3.	Sweeper	25155	25155	0
	Total	**73227**	**72527**	**700**

The DRD is of the view that the functionaries currently available with village panchayats are adequate, except for certain large panchayats with an income exceeding Rs. 1 crore. Government had sanctioned creation of posts of Village Panchayat Development Officer in such Village Panchayats. Filling up of the posts has been held up due to litigation.

Obligatory functions of Village Panchayats

4.11 Section 110 of Tamil Nadu Panchayats Act, 1994, mandates the Village Panchayats to carry out the following functions.

- Provision of drinking water supply.
- Provision and Maintenance of street lights.
- Public Sanitation
- Construction, Repair and Maintenance of all Village Roads, Bridges, Culverts and Causeways.
- Maintenance of burial grounds.
- Implementation of Central and State Government Schemes.

4.12 Resources of Village Panchayats

i. Tax Revenue

Among the three tiers of RLBs, Village Panchayats alone have the powers to levy taxes. Village Panchayats levy House Tax, Profession Tax and Advertisement Tax.

ii. **Non Tax Revenue**

Licensing fee for building plan and layout approval, Dangerous and Offensive Trade License fees, Market fees, Water Charges, Fee on cart stand, Fishery rentals, Lease rent, Income from markets, Fees, Fines and Penalties are the major sources of non tax revenue of Village Panchayats.

iii. **Assigned and Shared Revenue**

Surcharge on Stamp Duty, Entertainment Tax, lease rent and seigniorage charges and social forestry auction fees are the assigned and shared revenue sources of Village Panchayats.

iv. **Devolution and grants**

- State Finance Commission Devolution
- Central Finance Commission Grant

Gram Sabha

4.13 Special Gram Sabha meetings are conducted by the Village Panchayats at least 4 times in a year on 26th January, 1st May, 15th August and 2nd October. In addition, Village Panchayats conduct regular Gram Sabha meetings whenever required. Quorum for the Gram Sabha varies from 50 to 300 depending upon the population of the Panchayat. Gram Sabhas are conducted in different habitations on rotation basis to ensure representation from all the areas.

4.14 The Gram Sabha approves the Village Development Plan, Annual Budget, Audit Report, Lists of Beneficiaries under various schemes and also reviews various schemes implemented by different departments. Gram Sabhas also act as Social Audit fora.

Accounts maintained by Village Panchayats

4.15 At present 6 Accounts are maintained at the Village Panchayat level. The details of receipts and expenditure and mode of operation of the six accounts are indicated below in Table IV – 5.

Table IV – 5

Sl. No.	Account Name	Item	Mode of operation
1.	**Account No I:** Village Panchayat General Fund	1. Own Tax Revenue 2. Assigned/ Pooled Assigned Revenue 3. SFC Devolution and other Grants. 4. Non Tax revenue miscellaneous receipts interest and Deposits.	Jointly operated by the President and Vice-President. In exceptional cases where there is adversarial relationship between the President and the Vice-President the Village Panchayat may by a resolution authorize any member other than the Vice-President to operate the account along with the President provided that the prior approval of the Inspector of Village Panchayats (District Collector) is obtained.
2.	**Account No II:** Village Panchayats payments to TANGEDCO and / or TWAD Board Account	1. Central Finance Commission Grant. 2. Minimum SFC devolution. 3.Interest	Jointly operated by President and Vice President. It is operated only for the payment of electricity consumption charges to TNEB or the Water Charges payable to TWAD Board. Surplus amount, if any may be redistributed on the orders of the District Collector.
3.	**Account No III:** Village Panchayat Scheme Fund Account	Indira Awass Yojana (IAY), Rural Infrastructure Scheme (RIS), Rural Building Maintenance and Renovation Scheme (RBMRS), Interest and Others.	Jointly operated by President and Vice President of Village Panchayats. However, Bank Manager will honour the cheque signed by the President and Vice-President only if it is presented along with the release orders in the form of proceeding of the BDO (V.Pts) for the payment against works under Village Panchayat scheme fund concerned.
4.	**Account No IV:** Mahatma Gandhi National Rural Employment Guarantee Scheme(MGNREGS)	MGNREGS fund and Interest on unspent fund	Jointly operated by President and Vice President of Village Panchayats. However, Bank Manager will honour the cheque signed by the President and Vice-President only if it is presented along with the release orders in the form of proceeding of the BDO (V.Pts) for the payment of works under MGNREG scheme fund concerned.
5.	**Account No V:** Rural Housing Schemes (RHS)	RHS fund and Interest on unspent fund	Jointly operated by President and Vice President of Village Panchayats. However, Bank Manager will honour the cheque signed by the President and Vice-President only if it is presented along with the release orders in the form of proceeding of the BDO (V.Pts) for the payment of works under Rural Housing Scheme fund concerned.
6.	**Account No VI:** Chief Minister's Solar Powered Green House Scheme(CMSPGHS)	CMSPGHS fund and Interest on unspent fund	Jointly operated by President and Vice President of Village Panchayats. However, Bank Manager will honour the cheque signed by the President and Vice-President only if it is presented along with the release orders in the form of proceeding of the BDO (V.Pts) for the payment of works under CMSPGH scheme fund concerned.

Revenue Receipts of Village Panchayats

4.16 The total revenue receipts account wise of Village Panchayats are shown below

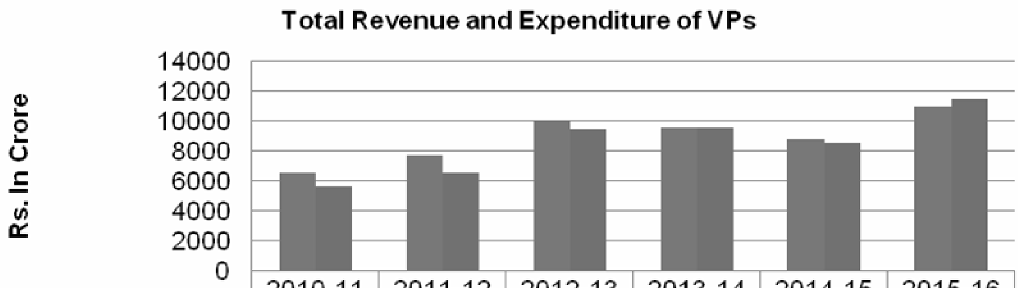
Table IV - 6

(Rs. In Crore)

Sl. No.	Account	2010-11	2011-12	2012-13	2013-14	2014-15
1.	V.Pt. Acct.No.I	1691.83	2077.79	2533.93	2776.42	2892.67
2.	V.Pt. Acct.No.II	551.63	734.51	747.50	1015.33	1197.05
3.	V.Pt. Acct.No.III	951.72	851.34	1436.68	1637.20	1363.05
4.	V.Pt. Acct.No.IV	2373.27	3280.18	4027.23	3106.88	2253.28
5.	V.Pt. Acct.No.V	898.11	491.82	237.47	95.40	54.70
6.	V.Pt. Acct.No.VI	42.93	227.08	1076.97	951.76	1046.65
Total		**6509.49**	**7662.72**	**10059.78**	**9582.99**	**8807.4**

Source: *Data obtained from Local Bodies*

Chart IV - 1



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total Revenue	6509.49	7662.72	10059.78	9582.99	8807.40	10938.03
Total Expenditure	5621.45	6550.71	9480.10	9578.42	8571.36	11473.93

4.17 The total receipts of the Village Panchayats had increased from Rs.6509.49 crore in 2010-11 to Rs. 10,059.78 crore in 2012-13. The dip in the total receipts of Village Panchayats in 2013-14 and 2014-15 compared to 2012-13 is due to the decrease in the allotment under MGNREGS (Account No. IV) and closure of the Rural Housing Scheme (Account No. V). The share of Village Panchayats Account No. I which stood at 25.99% in 2010-11 increased to 32.84% in 2014-15. The average receipts per Village Panchayat had increased from Rs. 51.97 Lakhs in 2010-11 to Rs. 80.33 Lakhs in 2012-13 and decreased 2013-14 onwards.

Table IV – 7

Overall average Revenue Receipts per Village Panchayat

(Rs. In Lakh)

Sl. No.	Account	2010-11	2011-12	2012-13	2013-14	2014-15
1.	V.Pt. Acct.No.I	13.51	16.59	20.23	22.17	23.10
2.	V.Pt. Acct.No.II	4.40	5.86	5.97	8.11	9.56
3.	V.Pt. Acct.No.III	7.60	6.80	11.47	13.07	10.88
4.	V.Pt. Acct.No.IV	18.95	26.19	32.16	24.81	17.99
5.	V.Pt. Acct.No.V	7.17	3.93	1.90	0.76	0.44
6.	V.Pt. Acct.No.VI	0.34	1.81	8.60	7.60	8.36
Total		**51.97**	**61.18**	**80.33**	**76.52**	**70.33**

Own Tax Revenue

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

Table IV - 8

Own Tax revenue of Village Panchayats

(Rs. In Lakh)

Sl. No.	Year	House Tax		Profession Tax		Advertisement Tax		Total	
		Total	per V.P	Total	per V.P	Total	per V.P.	Total	per V.P.
1.	2010-11	10499	0.84	8042	0.64	59	0.005	18600	1.49
2.	2011-12	12381	0.99	9428	0.75	91	0.007	21900	1.75
3.	2012-13	14942	1.19	10786	0.86	141	0.01	25869	2.07
4.	2013-14	17053	1.36	12970	1.03	162	0.01	30185	2.41
5.	2014-15	19823	1.58	15732	1.26	226	0.02	35781	2.86

Source: *Data obtained from Local Bodies*

4.19 In absolute terms, the collection of House Tax had improved from Rs. 104.99 crores in 2010-11 to Rs. 198.23 crores in 2014-15, but its share in total own tax revenue had come down marginally from 56.45 percent in 2010-11 to 55.40 percent in 2014-15. The share of Profession Tax has improved from 43.24 percent to 43.97 percent and Advertisement Tax from 0.32 percent to 0.63 percent in the corresponding period.

4.20 The low proportion of own revenue to total revenue receipts of Rural Local Bodies is both a reflection of the low tax base and the reluctance of local bodies to fully exploit the revenue sources assigned to them. In a presentation to the Commission based on a detailed local study in three Village Panchayats by Anand Sahasranaman of IFMR, it was highlighted that substantial revenue potential exists, in particular in terms of House Tax. The rates are very low, many properties are not included in the registers for collection and even the demand is not fully collected. Similar is the case with water charges. The study concluded that greater local revenue raising, coupled with enhanced quality of services could lead to significantly improved outcomes without necessarily enhancing devolution.

House Tax

4.21 In rural areas, House Tax is levied by Village Panchayats on the owner of the house under the provisions laid down in sections 172 of the Tamil Nadu Panchayat Act 1994.

4.22 The Tamil Nadu Panchayats Act 1994 indicates that the House Tax can be levied at the rate and on the basis which were in force prior to the commencement of the 1994 Act or on the classified plinth area at the rate specified in Schedule-I of the Act. Prior to the commencement of the Tamil Nadu Panchayat Act 1994, the Panchayats were given option to levy on the basis of (i) Capital Value or (ii) Annual Rental Value or (iii) Plinth Area Basis at the minimum and maximum rates suggested by the Tamil Nadu Panchayat Act, 1958. The provision of Tamil Nadu Panchayats Act, 1994 indicates that a Village Panchayat would have option to continue the basis adopted at the commencement of the 1994 Act or switch over to the rate fixed on plinth area basis. Rule 3 of the Tamil Nadu Village Panchayats (Assessment and Collection of Taxes) Rules 1999, empowers the executive authority to determine the capital value of houses and thereby House Tax. In practice, the assessment is fixed by the Village Panchayat Presidents without any clear cut guidelines regarding land value, value of building, area of houses, type of houses, age of houses etc. Table IV – 9 shows that although nearly 70 percent of the properties are assessed on plinth area basis. The number of houses covered under capital and plinth area basis are as follows:

Table IV - 9

Assessment of House Tax and Collection 2014-15

Basis	Assessment		Collection	
	No. of houses	%	Rs. In Crore	%
Capital Value	3703325	30.40	60.26	30
Plinth area	8478573	69.60	137.97	70
Total	**12181898**	**100**	**198.23**	**100**

4.23 The Fourth SFC recommended that the House Tax in respect of terraced or tiled or thatched buildings with a plinth area not exceeding 200 sq. feet be fixed at Rs.40/- per annum during the next revision. During the meeting to ascertain the follow up action on Fourth SFC recommendations, it was informed that a statutory provision already exists in Schedule I under Section 172 (1) of the Tamil Nadu Panchayats Act 1994 for the levy of Rs. 40 as house tax for building with plinth area not exceeding 200 sq. feet or 18.58 sq. m. Now the minimum house tax is fixed at Rs. 40 per annum by all Village Panchayats.

4.24 The Fourth SFC recommended that in respect of houses with plinth area of more than 200 sq. ft. the existing rates be increased by 25% under plinth area based taxation and in respect of assessment on capital value basis, the existing rates be increased by 25% subject to minimum of Rs. 40 per annum during the next revision. This is yet to be implemented.

4.25 The Third and Fourth SFCs recommended to revise the unit measurement in Square Decimetres into Square metres under schedule of the Act. Although the recommendation has been accepted the government, orders in this regard are yet to be issued by the Government.

4.26 Self Financing Educational Institutions have been brought under house tax net vide G.O.(Ms).No. 38, RD & PR (PR-1) Department, dated: 05.03.2008. They are being assessed on plinth area basis. For new constructions, House Tax is being levied only on plinth area basis.

4.27 The Fourth SFC recommended that the building on which or the premises in which cell phone towers are erected be levied with house tax as applicable to commercial buildings. It is learnt that necessary instructions have been given to Village

Panchayats Presidents in this regard. The tax collection on cell phone towers in the last 5 years contained in Table IV – 10 is yet to show the full impact of the revision of tax.

Table IV –10

Cell Phone Tax Collections

(Rs. In Crore)

Year	Collection
2010-11	0.20
2011-12	0.09
2012-13	0.16
2013-14	0.17
2014-15	0.75

Source: *Data obtained from Local Bodies*

4.28 During its District sittings, the Commission has received a number of suggestions on administrative and other measures to enhance house tax collection. The suggestions include:

- Using hand billing machine for House Tax collections in Village Panchayats.
- Introducing a slab system for various types of houses with no discretion to be given to the Village Panchayats.
- Using GPS / GIS techniques
- Revising the minimum rate of house tax to Rs.100.
- Integrating the property tax assessment and building license module on work flow basis.
- Bringing unassessed buildings under the house tax net by comparing with list of electricity service connections and commercial tax registration list.
- Constituting Tribunals to settle issues on tax assessments, with the BDO (Village Panchayats) functioning as an arbitral authority and the Assistant Director acting as the appellate authority. At present the Panchayat President is both the assessing and appellate authority.

- Levy and collection of vacant land tax in Peri-Urban areas.
- Introduction of self assessment mechanisms through a dedicated website.
- System of Zonation could be followed as in Municipalities to reduce discretion to Panchayat Presidents.
- Rates in Peri Urban Panchayats may be enhanced in order to reduce the gap with urban local bodies.
- Instituting system of incentives for effective tax collection.
- Mandatory assessment period may be fixed for a week in the month of April every year to ensure that the assessment are regularly updated.
- Small upward increments in tax may be effected every year.
- Plinth area basis can be adopted in all Village Panchayats to avoid arbitrariness.

4.29 The Commission has been informed that the following recent improvements have been made in the Tax collection mechanism by the Village Panchayats.

- Creation of computerised data base at Village Panchayat level to monitor receipt of tax and non-tax revenue (online Form 30 in TNRD Website).
- Guidelines have been issued for the release of 14th CFC performance grant to Village Panchayats showing 5% increase in their own source of revenue (tax and non tax revenue) over the preceding year as reflected in the audit report, as one of the conditions.
- Government have issued orders for the appointment of Zonal Deputy BDO for clusters of Village Panchayats to ensure effective Panchayat administration including tax and non tax revenue collections.

4.30 Further, in lieu of levying license fee on mobile service providers, the Director of Rural Development has indicated that the rate of levy of surcharge on House Tax for large commercial buildings is 60 percent as per Explanation II in Schedule I under Section 172 of the Tamil Nadu Panchayat Act 1994. Hence the Village Panchayat presidents can levy House Tax for those buildings on which or the premises in which the cell phone towers are erected at the rate applicable to commercial buildings.

4.31 Many persons require property valuation certificate for production in courts and for other purposes. These are usually given by local authorities. In Andhra Pradesh such certificates are being issued by the local bodies on collection of fees. A similar system may be introduced in Tamil Nadu to augment revenues of local bodies.

4.32 Recommendations

i. **The recommendations of Third SFC and Fourth SFC to revise the unit measurement in square decimetre into square metre under Schedule I of the Act is reiterated. (para 4.25)**

ii. **The recommendation of Fourth SFC, that the quinquennial revision of House Tax in respect of all Village Panchayats be brought forward to a common date i.e. 1st April 2013 through appropriate amendments to the Act and Rules so as to ensure that Village Panchayats do not postpone or not revise House Tax, is reiterated. (para 4.32)**

iii. **The recommendation of Fourth SFC that the Government in RD & PR Department shall take up the issue with Ministry of Rural Development of Government of India for levying service charges on Central Government properties is reiterated. (para 4.32)**

iv. **To enhance house tax collection, the following measures should be taken: (para 4.28)**

   a. **GPS, GIS techniques are to be used for tax assessment.**

   b. **Hand billing machines should be used for House Tax collection.**

c. **Slab system should be introduced for various types of houses to have transparent and non discretionary levy.**

d. **Unassessed buildings should be brought under tax net by comparing with list of electricity service connections and Commercial Taxes registration list.**

e. **The minimum rate of House Tax may be revised to Rs.100 per annum.**

f. **Windmills, lands and buildings on which cell phone towers are erected should be taxed at rates applicable to commercial buildings as per Explanation II to Schedule I under Section 172 of the Tamil Nadu Panchayats Act and this should be enforced. (para 4.30)**

v. **Tribunals should be constituted at the district level to settle issues on tax assessments and the Block Development Officer (Village Panchayats) should function as an arbitral authority and the Assistant Director (Panchayat) should act as the appellate authority. (para 4.28)**

Profession Tax

4.33 Article 276 read with Entry 60 in List II of Schedule VII of the Constitution empowers States to levy a tax on professions, trades, callings and employments. Village Panchayats are empowered to collect Profession Tax through an amendment to section 198 A of Tamil Nadu Panchayat Act 1994. The tax can also be levied on the employer to deduct from the salaries or wages of the employees and remit to the local body. The recent trends in Profession Tax collection by Village Panchayats as shown in Table IV - 8 above indicates that despite the ceiling on the tax, the collection has been increasing. This implies that the number of persons being brought within the net is increasing and they are also increasingly falling in the higher slabs of tax. Unless the ceiling is now revised, the tax buoyancy of Profession Tax could be adversely affected.

4.34 The two key issues with regard to Profession Tax are the upward revision of the limit as Rs. 2500/- per annum prescribed in Article 276 of the Constitution and the identification of the agency to collect the tax. The Fourth SFC and the 14^{th} CFC have both recommended upward revision of the ceiling on Profession Tax. The recommendation of the 14^{th} CFC has been accepted by the Government of India. Hence, the only action that is required to be taken by Government of India is the introduction of the necessary Constitutional Amendment to effect the change. The Commission reiterates that the Government of Tamil Nadu should strongly take up the issue with the Government of India.

4.35 The second issue relates to the agency for collection of Profession Tax. In certain other states like Karnataka and Maharashtra, Profession Tax is collected by the respective Commercial Taxes Departments. While there could be some administrative convenience gains by having the tax collection done by a State agency, in rural areas the Panchayat functionaries would be more effective in Profession Tax collection based on their local knowledge. Further, local collection of taxes enhances local accountability. For all these reasons, the Commission is of the view that the present practice obtaining in Tamil Nadu of the Local Bodies levying, collecting and appropriating Profession Tax should be continued.

4.36 However, there could be significant additions to the tax base if data bases of prospective tax payers – those registered as dealers under various Commercial Taxes Acts, under the Shops and Establishments Act, with professional bodies like Bar Councils, Institute of Chartered Accountants or Company Secretaries, Medical Council etc. are shared with Local Bodies by the concerned State and Central Government agencies including the Employee Provident Fund Organization and professional bodies.

4.37 Recommendations

i. **State Government should take up with the Government of India the early passage of the necessary Constitutional amendments to increase the ceiling on Profession Tax and simplify the process of**

raising the limit in future as recommended by the 14th CFC. (para 4.34)

ii. **State and Central Government agencies like the Commercial Taxes Department, Labour and Employment Department, Employee Provident Fund Organization and professional self regulating organizations should co-ordinate and co-operate with local bodies to enable more effective collection of Profession Tax. (para 4.36)**

Advertisement Tax

4.38 . The 14th CFC recommended that States may like to consider steps to empower local bodies to impose advertisement tax and improve own revenue from the source. Section 172A of the Tamil Nadu Panchayats Act 1994 already empowers the levy and collection of Advertisement Tax except on advertisements in newspapers and in electronic media by the Village Panchayats.

4.39 As per the Tamil Nadu Panchayats (Licensing and Levy and Collection of Advertisements) Rule 2009 the power to levy and collect Advertisement Tax and fee was vested with the District Collector. In accordance with the Fourth SFC recommendation, necessary instructions have been issued by the DRD & PR to the District Collectors to periodically assess the number of advertisements and hoardings put up in rural areas and to credit the amount to concerned Village Panchayat's accounts. The amount of Advertisement Tax transferred to Village Panchayat is as follows:

Table IV –11

Advertisement Tax Collection

(Rs. In Crore)

Year	Amount
2010-11	0.59
2011-12	0.91
2012-13	1.41
2013-14	1.62
2014-15	2.26

Source: *Data obtained from Local Bodies*

4.40 Clearly the collection of Advertisement Tax is well below potential, considering the increasing propensity to put up banners, hoardings, posters and flex boards in rural areas with the technology for convenient printing becoming more widely available. During its interactions, the Commission was made aware that the usual practice appears to be for applications to be made to Collectors and for such permissions being granted after some delay. Advertisements are put up even before permission is granted, and neither the local body nor the district administration seriously enforces the law in such cases. Many local body and other representatives have represented that the powers to authorize advertisements and to levy and collect the tax should be bestowed on the local bodies themselves.

4.41 The reason for vesting the powers to permit advertisements with District Collectors is primarily from a law and order stand point. A mechanism could be devised which ensures that revenue collection for the local body is ensured and Government's concerns on law and order implications addressed. It may be specifically prescribed that the application for permission to install the advertisement should be accompanied by proof of remittance of the applicable tax into the appropriate local body's account. In order to reduce the delay in grant of permission for the advertisement, and to ensure that local enforcement is more effective, the powers to grant permission may be delegated to Revenue Divisional Officers. Local bodies may be empowered to prosecute and levy penalties on persons who put up unauthorized hoardings and advertisements, in addition to removing hoardings which have not received the requisite permission.

4.42 Recommendations

i. **As per the Tamil Nadu Panchayats (Licensing and Levy and Collection of Advertisements) Rules 2009, vide G.O. (Ms). No. 41, Rural Development and Panchayat Raj (PR-1), Department, Dated: 18.05.2009, power to grant permission for erecting hoardings and displaying advertisement boards are vested with the District Collector. This power may be delegated to Revenue Divisional Officers. Any application for grant of permission should be**

considered only if it is accompanied by proof of payment of tax into the account of the local body concerned. (para 4.39, 4.40 and 4.41)

ii. **Local bodies may be empowered to prosecute and levy penalties on persons who put up unauthorized hoardings and advertisements in addition to removing hoardings which have not received requisite permission. (para 4.41)**

iii. **The Local Body may be empowered to remove advertisements which have not received the requisite permission. (para 4.41)**

iv. **Rural Local Bodies should be allowed to collect tax for all types of advertisements including wall paintings / writings, posters, banners and flex boards.(para 4.41)**

v. **As per the existing rules, the license for advertisement is granted for 3 years and the collection of tax is by every half year. Licensing for shorter periods could also be considered. The revision of tax should be done annually with an upward revision of atleast 5 percent per year. (para 4.41)**

Non Tax Revenue

4.43 The major sources of non-tax revenue are water charges, D&O trade license fees and building plan approval fees. The average annual collection of non tax revenue per Village Panchayat has improved from Rs. 1,30,361 in 2010-11 to Rs. 2,20,612 in 2014-15. The composition of average non tax revenue per Village Panchayat is shown below:

Table IV - 12

Average Non Tax Revenue per Village Panchayat

(In Rupees)

Source	2010-11	2011-12	2012-13	2013-14	2014-15
Building layout approval fee	30621	35715	41185	49449	51302
D&O Trade license fees	4487	4639	6188	8703	9566
Water charges	27108	35172	37129	38247	46966
2c tree patta	655	806	695	711	854

Encroachment fee	224	224	248	271	567
Rent	1605	1637	2044	1797	2332
Seizure and warrant fee	958	455	335	415	583
Fine and Penalty	535	790	1038	990	1294
Market / Shop rent	2060	3282	3138	2986	4615
Rent from marriage / community hall	535	639	751	990	1118
Fishery rental	2116	2555	1908	1868	2395
Fee from useful trees	2340	3857	2355	2803	2595
Rent from shops	910	1278	1421	1365	1661
Slaughters house	271	655	471	503	767
Lease from land	232	463	351	551	671
Ferries	343	192	359	351	391
Income from Choultries / Guest house	48	256	96	311	128
Fairs and festivals	200	248	343	439	591
Library cess	7833	9510	12983	12600	14620
Income from tools and plants	72	80	104	128	176
Income from solid waste	152	112	216	208	359
Funeral rite grants	719	1517	2052	1757	2044
Interest	6883	8799	20169	22764	18732
Income from Bus stand	655	607	806	1150	862
Audit para recovery	631	767	862	958	1198
OFC charge	136	200	144	471	615
Cell phone tower charge	160	72	128	136	599
Wind mill	479	615	727	423	623
Toll fee	527	775	735	1062	1741
State / Central Government awards	1932	527	982	1677	782
Two wheeler / cycle stand auction amount	631	687	878	910	918
Entrance fee	727	814	1198	1278	1597
Others	33288	33599	39859	36610	46583
Income from cycle / car / auto stand	112	96	152	200	216
Cable TV line	176	248	88	303	551
Total	**130361**	**151888**	**182138**	**195385**	**220612**

4.44 The 14th CFC recommended that the State Governments should take action to assign productive local assets to the panchayats and put in place enabling rules so that they can obtain the best returns while leasing or renting common resources. Guidelines for assigning productive local assets to Village Panchayats have already been issued vide the Tamil Nadu Panchayats (Procedure for Conducting Public Auction of Leases and Sales in Panchayats) Rules 2001 and the Tamil Nadu Panchayats (Acquisition and Transfer of Immovable Property) Rules 2000. Village Panchayats are to maintain a record of such productive assets vested in Village Panchayats in Form / Register No.16. Revenue generating assets vested with Village Panchayats include Shandies, Fish ponds, Shops, Community Halls, Rental Buildings, Trees and Plantations, R.O. Plants, Bicycle and Motor cycle sheds etc.

4.45 A large number of assets including buildings for various purposes have been created in Village Panchayats under many Central and State schemes. The utilization of these buildings for the original purpose has ceased for various reasons. Such assets can be put to better use and also gain some revenue for the Village Panchayats.

Recommendation

4.46 The Commission recommends that many assets, including buildings of Village Panchayats, are lying vacant and unused. Such assets should be identified, renovated and rented out to augment revenue. (para 4.45)

Water charges

4.47 In G.O. (Ms). No. 260, Rural Development Department, dated 09.12.1998, Local Bodies were required to collect a deposit of Rs.1000/- and fix a monthly water charge of at least Rs.30/- for the supply of drinking water through house hold connections. No upper ceiling for water charges is prescribed in the Government order. Accordingly, the Village Panchayats fix the rates of monthly water charges and deposits based on Panchayat resolutions. The income derived from water charges and operation and maintenance expenditure for water supply are compared below:

Table IV - 13

(Rs. In Crore)

Item	2010-11	2011-12	2012-13	2013-14	2014-15
Income Monthly water supply charges	33.95	44.05	46.50	47.90	58.82
Expenditure a) Charges for water pumps	24.57	34.73	45.30	58.21	58.53
b) Amount paid to TWAD	81.42	74.40	78.64	98.64	116.23
c) Maintenance of hand pump / power pump water supply sources	227.46	297.87	408.74	485.24	501.05

Total	**333.45**	**407.00**	**532.68**	**642.09**	**675.81**
Percentage of coverage	**10.18**	**10.82**	**8.73**	**7.46**	**8.70**

4.48 The water charges collected are not sufficient to meet even a fraction of the cost of the O & M expenditure for water supply. This is because most of the panchayats supply water through public taps. Wherever the water source is sufficient, house connections are given under CWSSs operated by TWAD. TWAD has been charging Rs.3 per kilo litre of water supplied to Village Panchayats since 1998, again recovering only a small portion of the O & M cost incurred by them. Many Village Panchayats are not able to settle even these very modest water charges claimed by TWAD, owing to paucity of funds. Village Panchayats also complain that they are being overcharged on volume basis as bulk water meters are not provided in many cases and the volume of supply is worked out based on rule of thumb calculations.

4.49 As per established policy, provision of water supply through public fountains is the first priority for Village Panchayats. If there is sufficient quantity of water in Village Panchayats, then house service connections are given. The guidelines issued by the Government in G.O. M.S. No.260, RD Department Dated: 09.12.1998 do not cover supply of drinking water to business, commercial, institutional and industrial establishments. Accordingly, Village Panchayats are focusing on providing adequate quantity of drinking water primarily for domestic purposes.

4.50 The Commission has also been apprised that based on the recommendations of the Fourth SFC, the accumulated arrears payable to TWAD Board were settled by the Director of Rural Development from the devolution grant/assigned revenue payable to Village Panchayats with Rs.202.87 crore drawn from SFC devolution grant and Rs.100.00 crore from assigned revenue.

4.51 During district interactions, the Commission received suggestions that Village Panchayats may be permitted to establish water purifying units and to sell it to the local population at cost and that collection of water charges may be improved by fixing water meters on household connections and tracking down illegal connections.

4.52 Recommendations

i. **Village Panchayats should be encouraged to enhance water charges by including enhancement of water charges as one of the factors based on which allocation from the Capital Grant Fund / Pooled Fund for Deficit RLBs is to be considered. (para 4.52)**

ii. **Measures to improve collection of water charges should be undertaken including through fixing water meters and tracking down illegal connections. Water meters should be made mandatory for all house service connections and water charges should be collected on the basis of actual consumption. (para 4.51)**

iii. **The quantum of water supplied under CWSS to Village Panchayats should be measured by bulk meters to be installed by TWAD Board, out of the special allocation recommended by the Commission. (para 4.48)**

iv. **Village Panchayats should be permitted to establish water purifying units and to sell such purified water to the public at cost. (para 4.51)**

Dangerous and Offensive (D&O) Trades License Fees

4.53 Under the Tamil Nadu Panchayat Act 1958, trades which are likely to be offensive or dangerous to human life were listed and there was a provision to levy license fees. Based on the provisions in the said Act, the Government had last notified the list of D&O trades in G.O. (Ms) No. 1269, Rural Development & Local Administration Department, Dated: 26.07.1977. Section 159 of the Tamil Nadu Panchayat Act 1994, empowers Village Panchayats to issue D & O Trade Licenses. The rates of D&O Trade license fees are revised once in 5 years through notification by the Collector in the District Gazette. The list of trades are also to be updated and notified in the District Gazette. The income derived from D&O trade license fees in the last 5 years is as follows:

Table IV - 14

(Rs. In Crore)

Year	Amount Collected

2010-11	5.62
2011-12	5.81
2012-13	7.75
2013-14	10.90
2014-15	11.98

Source: *Data obtained from Local Bodies*

Recommendation

4.54 The Commission reiterates the recommendation of the Fourth SFC to change the nomenclature of D & O Trade License fees as Trade License fees as in the case of the Greater Chennai Corporation. (para 4.53)

Bus Stand fees

4.55 The Second SFC recommended the revision of Bus Stand fees. Based on the recommendations, orders were issued in G.O. (M.S) No. 175, Home (Transport-III) Department, Dated:04.03.2002 and amendment was made in 2004 to the Tamil Nadu Panchayat (Public Landing Places, Halting Places, Cart Stands) Rules 1999.

4.56 After 2002 there has been no revision of Bus Stand fees in respect of motor vehicle (Heavy and Light). The Fourth SFC had recommended a revision of the bus stand fees by 25 %. However, this has not been effected so far.

4.57 The Commission recommends that the bus stand fees may be revised by 50%. (para 4.56)

Building Plan and Layout Approval Fee

4.58 As per the Tamil Nadu Panchayat Building Rules, 1997 the layout plan of a land is approved by the executive authority of Village Panchayats with the prior concurrence of the Director of Town and Country Planning. The District Collector through Assistant Director (Panchayats) ensures timely grant of layout approval by the Village Panchayat Presidents. The Block Development Officer (Village Panchayats) ensures the receipt of layout approval fee and the registration by the Village Panchayat of Open Space Reservation (OSR) land handed over by the layout applicant and its recording in the Village Panchayat Assets Register.

4.59 In respect of residential buildings with plinth area less than 4000 Sq. ft. and commercial buildings with plinth area up to 2000 Sq. ft., building plan approval is given by the Village Panchayat President. For plan approvals exceeding this limit, the Village Panchayat President gives approval with the prior concurrence of DTCP. It is learnt that it is proposed to amend the Tamil Nadu Panchayat Buildings Rules, 1997 for fixation of time limit for grant of building plan approval by the Executive Authority of Village Panchayats. Further, provisions for time limit for grant or refusal of technical concurrence for building plan approval of sites/buildings above 4000 sq. feet for commercial building and other type of buildings by the appropriate authority (DTCP / CMDA) mentioned in Rule 3(1) are also under consideration to avoid delay on the part of technical authorities.

4.60 Unlike Urban Local Bodies, Panchayat Raj Institutions do not have planning officials for technical evaluation of layout and building plan approval. There is a need for a separate wing at least at the District level to provide technical support and to monitor of layout and building plan approval by Village Panchayats. A special Country Planning Unit may be created at the district level to provide such technical support.

4.61 Many local body representatives indicated to the Commission that the non-regularization of unapproved layouts is causing considerable revenue loss to local bodies, as they are unable to collect house tax from persons residing in such layouts. Further, some expenditure on providing basic services is also getting incurred in such cases as people reside in unapproved layouts. It is learnt that the Government is considering launching a scheme for the regularization of unapproved layouts based on certain norms. This may be expedited to ensure that local bodies receive revenue. However, necessary regulatory and legal measures must also be taken to ensure that the problem of unapproved layouts does not recur.

4.62 The fees for building plan and layout approval were last revised in 18.08.1997. They are currently levied at the following rates:

Table IV - 15

Sl. No.	Category	Nature of construction /	Maximum rates	Minimum rates

		activity		
(1)	(2)	(3)	(4)	(5)
1.	Building Plan approval	1. Building Area	Rs. 100 per Sq. metre or part there of	Rs. 5 per Sq. metre or part there of
		2 . Construction of Well	Rs. 100	Rs. 25
		3. Compound Wall	Rs. 100 (lump sum)	Rs. 25 (lump sum)
		4. Inspection Fees	Rs. 50	Rs. 25
		5. Plan Copy for more than 3 copies	Rs. 10 per additional copy	Rs. 5 per additional copy
2.	Lay-out approval		Rs. 1000 per acre	Rs. 500 per acre

Additional costs will need to be incurred on staff for greater scrutiny and speedier disposal of applications; hence there is a strong case for upward revision of these fees.

4.63 Recommendations

i. A special Country Planning Unit may be created at the district level to provide technical support for the grant of layout and building plan approvals in rural areas. (para 4.60)

ii. Regularization of unapproved layouts based on certain norms should be expedited to ensure that local bodies receive revenue. Necessary regulatory and legal measures must also be taken to ensure that the problem of unapproved layouts does not recur. (para 4.61)

iii. The fees for Building Plan and Layout approval should be revised at the earliest. (para 4.62)

Assigned / Pooled Assigned Revenue

4.64 The taxes, duties, cesses and surcharges collected by the State Government on behalf of local bodies and assigned to them are called Assigned Revenue. This category includes Entertainment Tax and Surcharge on Stamp Duty. Earlier, local cess and local cess surcharge on land revenue were also an important source of revenue for Rural Local Bodies which are no longer available.

Entertainment Tax

4.65 The collection of Entertainment Tax has been dwindling over the years consequent on the changes effected in the Entertainment Tax Act, 1939. In 2004 Entertainment Tax was reduced from 25% of the gross payment for admission for new films to 15% and from 20% of the gross payment for old films to 10% in Municipal Corporations and Special Grade Municipalities. Further, the compounding system has been done away with and a simple system of levy of 10% of the gross payment for admission in the areas of Municipalities, Town Panchayats and Village Panchayats was brought in. Further, in 2006 the Government have ordered for exemption of tax for new films and also for old films named in Tamil. To compensate the loss due to this waiver, Rs. 30 crore per annum was granted by the Government as Entertainment Tax compensation fund. The share of RLBs out of this fund was Rs.3 crore per annum. The basis for exemptions from Entertainment Tax was modified in 2011. Now, the above loss to local bodies is not being compensated by the Government. The Government also exempted tax on cable T.V. operators and waived the tax dues from 2003-2006 from cable T.V. operators.

4.66 A key change in the scenario is the enactment of the 101stConstitution Amendment Act which enables the introduction of a Goods and Services Tax in India. Amongst other taxes, Entertainment Tax, unless it is levied and collected by local bodies, is subsumed in GST. Hence, Entertainment Tax as it is levied in Tamil Nadu at present will get subsumed under GST. The Government must take urgent action to legislate and permit Local Bodies to levy and collect Entertainment Tax, before the new GST provisions come into effect. In Tamil Nadu’s context this is very important as the entire revenue from Entertainment Tax was assigned to local bodies even though it was collected by a State Government agency.

Surcharge on Stamp Duty

4.67 Surcharge on Stamp Duty is levied under the Indian Stamp Act 1899. At present 5 instruments relating to transactions in immovable property namely, Gift, Mortgage with Possession, Sale, Exchange and Lease in Perpetuity are levied with Stamp Duty, Surcharge on Stamp Duty and Registration Charges. Surcharge on Stamp Duty is levied at 2 percent of the value of the transfer of immovable property based on the provisions contained in the respective Local Body Act. Given the large value of many of these transactions, the revenue potential of Surcharge on Stamp Duty is high. The Third and Fourth SFCs recommended the levy of surcharge on (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and(v) Settlement which requires amendment to the respective Acts. Though the recommendation was accepted by the Government, the required amendments are yet to be made.

4.68 The Commission has been informed that at present “Construction Agreement” entered into between the builder and landlord is also registered, but no surcharge is levied on the instrument. Similarly, the Stamp Duty on settlement deeds entered into by family members to transact property amongst themselves may also be considered for levying surcharge.

4.69 While studying the accounting process for remittance of Stamp Duty the Government account, it was learnt that collections are credited to a single head of account and thereafter based on details of the transactions available with each Registrar, proceedings are drawn up for transferring the amounts collected as surcharge. The Commission is of the view that adopting an accounting mechanism in which the surcharge collected is credited into a separate head of account will be more appropriate and make for greater transparency and accountability. Further, the Commission is also of the view that the details of collection of surcharge should be informed to the local bodies concerned and to the District Collector by the Registration Department.

Pooling of Assigned Revenue

4.70 The practice of pooling of the assigned revenue at the State level and thereafter apportioning the amount not on the basis of where the tax is collected, but on other criteria has crept in from about 2007-08. This practice could amount to a deviation both in letter and spirit from decentralization and devolution. In respect of RLBs the Pooled Assigned Revenue was apportioned 2/3rdon population basis and 1/3rd for priority schemes at the State level. In the case of Entertainment Tax, revenue was pooled at State level in respect of RLBs with effect from 2007-2008 and 1/3rd of the dues was passed on to them till 2010-11 and the balance 2/3rd was allocated towards the funds for priority schemes. Subsequently, it has been ordered by the Government to distribute 2/3rd of the Entertainment Tax to RLBs on population basis and 1/3rd for priority schemes from 2011-12. The Government has modified the ratio of pooling of assigned revenue to 50:50 in 2016-17.

Table IV - 16

Pooled Assigned Revenue of Village Panchayat

(Rs. In Crore)

Source	2010-11	2011-12	2012-13	2013-14	2014-15
Pooled Assigned Revenue	284.93	175.38	203.64	179.83	287.40

Source: *Data obtained from Local Bodies*

4.71 The Commission is strongly of the view that Assigned Revenues are levied and collected in the names of the local bodies and hence it is not proper to pool such revenues and transfer them on the basis of adhoc formulae or for scheme implementation. Such revenues must be distributed based on origin. The purpose of levy of such taxes or surcharges are to equip the local bodies concerned for certain activities they would be needed to do. In the case of Entertainment Tax, the place where entertainment is provided will see congregation of people even from outside the jurisdiction of the local body and require the local body to provide additional services. Revenue from Surcharge on Stamp Duty increases when more transactions are entered into in an area. Greater sale activity is bound to see more construction and habitation and concurrently the need for provision of more services by the local body.

4.72 Assigned revenues cannot be viewed as equalization funds. Such equalization funds, which compensate jurisdictions which do not receive such revenues, have to come out of other mechanisms including the State's resources, which are devolved or granted to the local bodies.

4.73 Hence the Commission strongly recommends that pooling of assigned revenues must be done away with forthwith and the assigned revenues should be distributed to the local bodies based on the place where they actually accrue, after deducting cost of collection, if any. No other conditions or criteria should be applied. The Fourth SFC had also recommended that in respect of RLBs, the assigned revenue be transferred to RLBs, as per their entitlement. Although the Government accepted the recommendation, the practice of pooling of assigned revenue continues.

4.74 Recommendations

i. **Since Entertainment Tax is expected to be subsumed under the Goods and Services Tax in Tamil Nadu and 101st Constitution Amendment permits levy and collection of Entertainment Tax by Local Bodies, Government of Tamil Nadu should enact necessary legislation to enable Local Bodies to levy, collect and appropriate Entertainment Tax. (para 4.66)**

ii. **Pooling of Assigned Revenues viz. Surcharge on Stamp Duty and Entertainment Tax must be done away with. The Assigned Revenues should be distributed to the Local bodies based on the place where they actually accrue, after deduction of cost of collection. (para 4.73)**

iii. The recommendation of Third SFC and Fourth SFC to levy surcharge on Stamp Duty on documents relating to (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) Settlement is again reiterated. (para 4.67)

iv. Surcharge on Stamp Duty should be levied on registration of "Construction Agreements" and "Settlement among Family Members" to augment revenue to the local bodies. (para 4.68)

v. Separate receipt head of account should be indicated under the major head "0030 Stamps and Registration fees" Stamp Duty for remitting the Surcharge on Stamp Duty. (para 4.69)

vi. The details of collection of Surcharge on Stamp Duty should be shared with the local bodies concerned and the District Collector by the Registration Department. (para 4.69)

Shared Revenue

Fishery Rental

4.75 The Third State Finance Commission recommended that 50% of the fishery rental in Panchayat Union tanks be shared with Village Panchayats and 25% of the proceeds of fishery rental in respect of PWD tanks be shared with Village Panchayats. The Government while agreeing to the first recommendation has modified the sharing pattern in respect of Public Works Department tanks.

4.76 During interactions, local bodies also complained of delays in release of their shares. Further, the tendency for diversion of revenue away from the Government and duly elected local bodies to the traditional village level groupings through the practice of informal real auctions after the official auctions are conducted was also mentioned.

4.77 Recommendations

i. **The timely release of the Panchayat share of the proceeds of fishery rentals from Panchayat Unions and Public Works Department tanks should be regularly monitored by the District Collectors and the Director Rural Development and Panchayat Raj. (para 4.76)**

ii. **The process of the auctions should be carefully monitored and it should be ensured that upset prices are fixed on a realistic basis and auctions are not confirmed whenever collusive bidding to keep auction prices down artificially is suspected. (para 4.76)**

Social Forestry

4.78 The Third SFC recommended 50:50 sharing of the gross receipts from Social Forestry. But the Government accepted the recommendation with a modification that the net proceeds would be shared in the ratio of 75:25 among Village Panchayats and Forest Department respectively, with a cap on wage expenditure at 35% of the gross collection, beyond which the wage costs would be borne by the Government. Accordingly, the shares of Village Panchayats from 2009-10 to 2013-2014 have been released by the Forest Department as indicated below

Table IV - 17

(Rs. In Crore)

Year	Net proceeds from Social Forestry Plantation vested Panchayat and PWD lands vested with Panchayats	75% Panchayat Share
2009-10	8.38	6.29
2010-11	13.53	10.15
2011-12	10.42	7.82
2012-13	9.03	6.77
2013-14	13.57	10.18

Source: *Principal Chief Conservator of Forest report*

4.79 It is noticed that there is an abnormal delay in release of funds by the Forest Department to Village Panchayats. Hence the Fourth SFC recommended that the entitlement on the share of Social Forestry proceeds to Village Panchayats for the previous year be released in the first quarter of the subsequent year.

4.80 The Commission was informed that on completion of the sale during a financial year, proposals are sent to Government for release of the Panchayat's share and the process of issue of Government Orders and the delays in reconciling and obtaining the Accountant General's certification of the sale amount having been deposited in the Treasury hold up releases. A simplified system of sanction of release to the local bodies by the District Collector and an online system of transfer to the concerned Panchayats could considerably reduce delays.

4.81 Further, it has been suggested that a committee may be constituted comprising representatives of the Forest Department, Rural Development and Panchayat Raj Department and the local Panchayat President for taking up plantations under the Social Forestry Plantation Scheme. For this, a corpus fund at the Panchayat level may be created for raising nurseries and the wage costs of plantation may be met under the MGNREGS. If wage costs are met from out of MGNREGS, there may be no justification for deduction of wage cost by the Forest Department.

4.82 Recommendations

i. **A simple procedure should be evolved to release the share of social forestry sale proceeds to the Village Panchayat in time, such that sanction for the release is accorded at the District Level itself and the funds are transferred to Panchayats as electronic credits. (para 4.80)**

ii. **Taking up social forestry plantation works under MGNREGS could be considered, but in such cases, the deduction of wage costs by the Forest Department would not be justified and the entire sale proceeds should be transferred to the Village Panchayat. (para 4.81)**

Mines and Minerals

4.83 As per Section 188 (q) of Tamil Nadu Panchayats Act 1994, a sum equivalent to the seigniorage fees collected by the Government every year from persons permitted to quarry for road materials in the Village Panchayat shall be credited to the Village

Panchayat fund. The quarry lease rent and seigniorage fees collected by the Department of Geology and Mining on the minor minerals savudu, gravel, sand and rough stones is apportioned to the respective Local Bodies. The Department of Geology and Mining collects the lease rent and seigniorage fees and remits the amounts into government account. The year wise details of the collections, entitlement to Local Bodies and the amount actually adjusted to the local bodies are given below:-

Table IV - 18

Details of Collection

(Rs. In Crore)

Year	Lease Amount		Seigniorage fees		Total
	Rural	Urban	Rural	Urban	
2010-11	30.97	2.08	77.35	3.02	113.42
2011-12	13.76	0.88	126.75	6.23	147.62
2012-13	8.15	0.16	138.33	6.23	152.87
2013-14	0.86	-	141.58	6.71	149.16
2014-15	0.41	-	134.89	4.69	139.99

Source: *Geology and mining department report*

Table IV - 19

Details of entitlement

(Rs. In Crore)

Year	Lease Amount		Seigniorage fees		Total
	Rural	Urban	Rural	Urban	
2010-11	26.06	1.95	73.06	3.04	104.11
2011-12	13.76	0.88	120.77	6.24	141.65
2012-13	7.06	0.16	135.27	6.24	148.73
2013-14	0.86	-	133.49	6.65	141.00
2014-15	0.41	-	128.27	4.69	133.37

Table IV - 20

Details of adjustment made

(Rs. In Crore)

Year	Lease Amount		Seigniorage fees		Total
	Rural	Urban	Rural	Urban	
2010-11	23.83	1.95	72.65	3.04	101.47
2011-12	14.64	0.87	115.46	6.11	137.08

2012-13	4.60	-	128.42	4.99	138.01
2013-14	3.12	0.07	128.71	7.62	139.52
2014-15	0.75	-	120.67	4.20	125.62

4.84 The difference between the entitlement and actual adjustment from 2010-2011 to 2014-2015 amounting to Rs.27.16 crore is due to procedural delay in bill presentation, not obtaining permits, non availability of details and pending litigation.

4.85 As per the Fourth SFC's recommendation, the Government in G.O. (Ms.) No. 57, Industries (MMB-1) Department, Dated 03.03.2016 directed that the 75% of the revenue from seigniorage fee due to a particular Village Panchayat having quarries be passed on by the District Collector to the respective Village Panchayat and the balance of the seigniorage fee be shared with the Village Panchayats affected by the Mining / Quarrying activity.

4.86 At present the entire receipts from mining of the specified categories of minor minerals is shared with the local bodies. The Commission found that the quarry lease rent and seigniorage fees collected from both major and minor minerals are remitted in to a single head of account:-

0853 - 00 Non Ferrous Mining and Metallurgical Industries 102 – Mineral concession Fees, Rents and Royalties - AB. Rents and Royalties (0853-00-102-AB-0003).

4.87 Therefore, the exact amount of lease rent and seigniorage fees intended to be apportioned to the local bodies could not be verified from the Government receipt accounts.

4.88 Many local body representatives indicated to the Commission that prior to the entrusting of quarrying of river sand exclusively to the Public Works Departments, local bodies received river sand quarry receipts too from the Government. The Public Works Department currently directly undertakes mining and remits the sale proceeds directly to Government. Local bodies represent that the quarrying and transportation operations adversely affect the roads and other infrastructure in their areas and hence this revenue should also be shared with the Local Bodies. Currently the revenue from sand quarries, excluding loading charges and VAT, is budgeted to be Rs. 200 crores. This is a revenue source with considerable upside as well. There is considerable merit in the demand that the revenue from sand quarries should be shared with the Local Bodies. However, the Commission is of the view that that sharing the entire proceeds of a particular source of revenue leaves the authority competent to levy and collect the revenue very little incentive to actually collect the revenue. Hence, the Commission recommends that 60 per cent of the revenue from sand quarrying should be transferred to local bodies on the same basis as with the other minor mineral based revenue, i.e. 75 per cent to the local body where the quarry is located and 25 per cent to be distributed by the District Collector to the neighbouring local bodies that are impacted by quarrying activity.

4.89 It has been represented to the Commission that the share of the Village Panchayats in the revenue from mines and minerals are released to them after a considerable lag. It was suggested that 75 percent of the Collection of the previous year could be released in advance and the short falls adjusted subsequently. Delays in the release should be avoided.

4.90 The Commission also took note of the recent amendments to the Mines and Minerals (Development and Regulation) Act which have mandated the formation of District Mineral Foundations in areas affected by mining. As per the District Mineral Foundation Rules, 30% of the seigniorage / royalty fee payable on all types of mining will be collected additionally for the DMF. The DMF will be chaired by the District Collector and will utilize the funds for various and welfare and development activities in the areas where the mining actually takes place and in neighbouring areas which are affected by such mining.

4.91 Since revenue from sand quarrying is being made shareable and local bodies would have some additional income from the new District Mineral Foundation that is being created as per the recent amendments to the Mines and Minerals (Development and Regulation) Act, on the same logic in which it has been recommended that only 60 per cent of the sand quarry receipts are to be shared with the local bodies, the proportion of revenue from minor minerals to be shared with local bodies may also be reduced to 60 percent, which would leave the Government with an incentive to levy and collect this revenue more effectively and at higher rates.

4.92 Recommendations

i. **A separate receipt head of account to be opened, only for the remittance of lease rent and seigniorage fees of minor minerals intended to be apportioned to the local bodies. (para 4.86)**

ii. **The proportion of revenue from minor minerals to be shared with local bodies should be fixed at 60 percent to leave the Government with an incentive to levy and collect this revenue more effectively and at higher rates. (para 4.91)**

iii. **60 percent of the revenue from sand quarrying should also be transferred to local bodies on the same basis as other minor mineral based revenue, i.e., 75 percent to the local body where the quarry is located and 25 percent to be distributed by the District Collector to the neighbouring local bodies that are impacted by quarrying activity. (para 4.88)**

iv. **The release mechanism for the share of the Village Panchayats should be changed and 75 percent of the entitlement of the Panchayat based on the previous year's collection should be released in advance to overcome delays. The advance release can be adjusted against actual collection subsequently. (para 4.89)**

Track Rent on Optical Fibre Cable

4.93 Government have issued consolidated policy guidelines for grant of permission for use of public right of way for laying optic fibre cables in G.O. (Ms) No.7, Information Technology Department, dated 12.02.2001. In the said Government order, payment of Rs.4,400/- per km. per year as annual track rent by the applicants has been prescribed in respect of Village Panchayats by the Government. Further in G.O. (2D) No.13, Information Technology (B4) Department, dated 30.05.2014, Government have issued orders specifying the terms and conditions for the grant of permission for the use of public right of way by any applicant proposing to lay Optical Fibre Cable (OFC) and for the collection of Annual Track Rent by concerned Village Panchayat from the commercial institution for the laying of Cables.

Table IV – 21

(Rs. In Crore)

Source	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
OFC Annual Track Rent	0.17	0.25	0.18	0.59	0.77	0.48

4.94 From the above revenue details it is observed that the revenue potential is not exploited fully. The annual average collection made for five years in Rs.40 lakhs only. It shows that OFC track rent is collected only for around 900 KMs, whereas OFC have been laid for significantly longer distances across the State by many public and private companies. Therefore, the District Collectors should arrange for a survey of the cables laid Village Panchayat wise and ensure that Annual Track Rent is levied on and collected from all the companies that are liable to pay.

4.95 Recommendations

i. **The Government should take necessary action to resolve the legal issues regarding collection of track rent on OFC feeders and Cable Television cables at the earliest to enable local bodies to collect track rent. (para 4.94)**

ii. **The District Collectors should arrange for surveys of the OFCs laid Village Panchayat wise and ensure that the Annual Track Rent is levied and collected as per the G.O.s in force. (para 4.94)**

SFC Devolution

4.96 Although the Fourth SFC recommended that the vertical share of RLBs may be fixed at 56 per cent, the Government retained the existing vertical sharing ratio for RLBs at 58 percent of the divisible pool of State Finance Commission devolution. From out of this share, the sharing ratio for District Panchayats, Panchayat

Unions and Village Panchayats is 8:32:60. From out of the share of Village Panchayats, 10% is allocated for the Infrastructure Gap Filling Fund (IGFF) for Village Panchayats and it is utilised on Project / Scheme basis only. Out of fund transferred to IGFF, 50% is allocated to Tamil Nadu Village Habitation Improvement Scheme (THAI) and from the remaining 50% of the fund, a part of the amount was retained by the DRD for providing basic amenities in the Districts and the balance allocated to the Districts based on population.

4.97 From out of the 60% share of Village Panchayats in the State Finance Commission devolution, as per the Fourth SFC recommendation the minimum lump sum grant to Village Panchayats has been increased from Rs.3.00 lakhs to Rs. 5.00 lakhs per Village Panchayat per year. The balance amount from out of the share of Village Panchayats in the SFC devolution on the horizontal sharing ratio as indicated below:

Table IV - 22

a	Total population (2011 census)	60%
b	SC / ST population	20 %
c	Area	20%

4.98 The minimum lump sum grant of Rs.5.00 lakhs is provided per Panchayat per annum to meet the requirements towards electricity and water supply payments. The gross State Finance Commission grants transferred to each tier of RLBs are as follows:

Table IV - 23

(Rs. In Crore)

Commissions	Year	Village Panchayats		Panchayat Unions	District Panchayats	Total
		SFC	IGFF			
Third SFC	2007-08	950.15	-	506.75	126.69	1583.59
	2008-09	1029.86	-	549.26	137.31	1716.43
	2009-10	1073.20	-	577.38	275.97	1926.55
Fourth SFC	2010-11	1688.93	-	900.76	225.19	2814.88
	2011-12	1832.86	166.62	1066.39	266.60	3332.47
	2012-13	2237.47	203.41	1301.80	325.24	4067.92
	2013-14	1774.27	506.32	1306.93	326.80	3914.32
	2014-15	1979.70	584.60	1367.63	341.91	4273.84

Source: *Budget documents*

4.99 Till 2006-07, 8% of SoTR was shared among the local bodies. The subsequent step by step hike in devolution percentage increase to reach 10 percent by 2010-11 has meant that the quantum of State Finance Commission devolution to Village Panchayats has gone up significantly.

Table IV - 24

The average SFC Devolution and other grants per Village Panchayat

(Rs. In Lakh)

Year	SFC Devolution (Excluding minimum lump sum grant of Rs.3.00 lakhs / 5.00 lakhs)	Other grants	Total
2010-11	6.63	0.49	7.12
2011-12	10.24	0.56	10.80
2012-13	12.49	0.53	13.02
2013-14	14.15	0.55	14.70
2014-15	11.62	1.17	12.79

Central Finance Commission Grant

4.100 During the year 2005-06 and 2006-07, CFC grant was shared by Village Panchayats and Panchayat Unions. From 2007-08 onwards the entire amount is transferred to Village Panchayats. The following is the breakup of the Central Finance Commission grant to Village Panchayats.

Table IV - 25

Central Finance Commission Grant

(Rs. In Crore)

Year	Details	Village Panchayats
2010-11	13th CFC grant	293.60
2011-12	13th CFC grant	388.07
2012-13	13th CFC grant	400.56
2013-14	13th CFC grant	526.83
2014-15	13th CFC grant	625.77
2015-16	14th CFC grant	735.05
Total		**2969.88**

Source: *Online Report*

4.101 There are two types of grants for Village Panchayats local bodies as per the recommendation of 14th CFC. In case of Village Panchayats, 90 percent is the basic grant and 10 percent is the performance grant.

i. Basic Grant

The purpose of the Basic Grant is to provide a measure of unconditional support to the Village Panchayats to deliver the basic functions assigned to them under their respective statutes. The grant is intended to improve the status of basic civic services including water supply, sanitation, including septage and sewerage, solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street lighting and burial and cremation grounds. For the distribution of the basic grant amongst Village Panchayats, the State Governments are required to apply the distribution formula of the most recent SFC whose recommendations have been accepted. This has been reflected in the Government orders issued in G.O.(Ms).No, 108 RD& PR (PR-1) Dept., Dated: 24.07.15 regarding release of the Basic Grant to Village Panchayats.

ii. Performance Grant

The 14th CFC considerably simplified the conditions for release of the Performance Grant. To be eligible for performance grants, the Village Panchayat will have to submit audited accounts that relate to a year not earlier than two years preceding the year to which the gram panchayat seeks to claim the performance grants. It will also have to show an increase in the own revenues of the local body over the preceding year, as reflected in the audited accounts. The Government has also notified the guidelines regarding the eligibility and procedure to be adopted for the release of the performance grants vide G.O.(Ms).No.55, RD & PR Dept., Dated: 5th May, 2016. The Panchayats are required to show at least a 5 per cent increase in their own revenue collection each year over the preceding year in order to be eligible for the release.

Village Panchayat Scheme Accounts

4.102 Various Central and State funded schemes are implemented through Village Panchayats. The funds received for these schemes are deposited in different accounts. The details of receipts of these fund accounts are as follows.

i. Account No.3 (Village Panchayat Scheme Fund Account)

The Village Panchayat funds from various schemes such as Indira Awaas Yojana (IAY), Rural Infrastructure Scheme (RIS) and Rural Building Maintenance and Renovation Scheme (RBMRS) are maintained at account No.3. The funding for the IAY scheme was shared by the Central and State in the ratio 75:25. The other two schemes are funded by the State Government.

ii. Account No.4 (MGNREGS Scheme)

The Village Panchayats maintain a separate account for Mahatma Gandhi National Rural Employment Guarantee Scheme. The Central Government bears 100% wage cost of unskilled manual labour. The material cost is shared in the ratio of 75:25 between the Central and State Governments.

iii. Account No.5 (Rural Housing Scheme)

The Village Panchayats maintain a separate account for the erstwhile Rural Housing Scheme. This Account is for 100% State Government Schemes.

iv. Account No.6 (Chief Minister's Solar Powered Green House Scheme)

The objective of the scheme was construction of house measuring 300 sq. ft with solar power at a unit cost of Rs. 2.10 lakhs which is entirely funded by State Government.

The following table shows the Account wise total inflow of funds to Village Panchayats and expenditure incurred.

Table IV - 26

(Rs. In Crore)

YEAR	Schemes				Total
	VP - Account No.3	VP - Account No.4	VP - Account No.5 (RHS)	VP - Account No.6	

	(IAY, RIS, RBMRS)	(MGNREGS)		(CMSPGHS)	
Total Receipts					
2010-11	951.72	2373.3	898.11	42.93	**4266**
2011-12	851.34	3280.2	491.82	227.08	**4850.4**
2012-13	1436.7	4027.2	237.47	1077	**6778.4**
2013-14	1637.2	3106.9	95.4	951.76	**5791.2**
2014-15	1363.1	2253.3	54.7	1046.7	**4717.7**
2015-16	1651.4	3224.6	106.7	1282.8	**6265.5**
Total Expenditure					
2010-11	828.96	2323.4	605.99	21.44	**3779.8**
2011-12	656.86	2895.7	751.56	142.14	**4446.3**
2012-13	1492.2	3810.9	323.67	1016.7	**6643.5**
2013-14	1492.2	3183.8	137.69	961.38	**5726.3**
2014-15	1266.5	2218.1	91.5	1186.5	**4762.7**
2015-16	1493.2	3384.8	102.75	1311.4	**6292.2**

4.103 Schemes Implemented by utilizing SFC Devolution

i. Infrastructure Gap Filling Fund (IGFF)

Based on the recommendations of the Third and Fourth SFC, 10 percent of the devolution to the rural local bodies have been deducted from the share of Village Panchayats and allocated towards the Infrastructure Gap Filling Fund (IGFF) and used on project / Scheme basis. Out of this, 50 percent is allocated to the Tamil Nadu Habitations Improvement Scheme (THAI) and from the remaining, Rs. 93 crore allocated to District Collectors at the rate of Rs. 3.00 crore per District. From the remaining portion, 75 percent is released to District Collectors based on population and 25 percent retained by DRD & PR for providing basic amenities in the Districts.

ii. Further, additional deductions are also made from the devolution intended for RLBs for different priority schemes from time to time. These schemes include:-

a. **Rural Infrastructure Scheme (RIS)** is intended to stabilize the assets created under MGNREGS and to create basic infrastructure facilities and durable assets in the Village. 60% was ear-marked for upgradation of road works and 40% for stabilising assets created under MGNREGS.

b. **Panchayat Unions School Renovation Scheme (PUSRS) / Comprehensive School Infrastructure Development Scheme (CSIDS)** was launched in 2011-2012 with the objective of providing basic infrastructure facilities like new building, kitchen sheds, water supply, toilets etc., in the Panchayat Union Primary and Middle schools.

c. **Rural Building Maintenance and Renovation Scheme (RBMRS)** was introduced with the objective of maintaining the assets of RLBs, such as anganwadi centres, Panchayat Office buildings, overhead tanks, self help group building, community halls, integrated sanitary complexes for women.

d. **Energisation of street lights / solar lights was** introduced in 2011-12 under which existing street lights in the Village Panchayats were replaced with solar powered street lights.

e. **Rural Roads Maintenance Scheme (RRMS)**

f. **Bus Plying Roads Improvement Scheme (BPRIS)**

g. **Tamil Nadu Rural Roads Improvement Scheme (TNRRIS)**

Local Body representatives have objected to such deductions from SFC devolutions before the Commission and requested that the entire share of the Village Panchayats should be released to them without deductions or earmarks.

Scheme Component of Pooled Assigned Revenue (SCPAR)

4.104 The assigned revenue due to rural local bodies from the proceeds of Surcharge on Stamp Duty and Entertainment Tax are being pooled at the State level and apportioned to the Village Panchayats and Panchayat Unions. The two thirds of the assigned revenue has been apportioned to the Village Panchayats and Panchayat

Unions in the ratio of 67:33 based on population as per 2011 Census. The balance one-third has been earmarked for 'Fund for the Priority schemes in Rural Areas' for implementing specific development schemes in the rural areas and for Tamil Nadu Village Habitations Improvement Scheme (THAI) in the ratio of 50:50.

4.105 The following table shows the scheme wise total inflow of funds to Village Panchayats and the expenditure incurred.

Table – IV – 27

Village Panchayat – State and Central Schemes

(Rs. In Crore)

Schemes	Total Receipts					Total Expenditure				
	2010-11	2011-12	2012-13	2013-14	2014-15	2010-11	2011-12	2012-13	2013-14	2014-15
State Schemes										
IAY(25%)	144.99	167.12	274.39	275.96	191.41	106.08	109.61	311.91	250.75	189.12
RIS	156.09	61.83	82.63	91.54	95.35	159.99	81.41	66.09	100.07	102.67
RBMRS	45.36	28.70	59.54	154.74	150.99	62.49	48.99	48.27	151.37	174.60
Others	170.29	92.31	196.96	287.06	351.08	182.17	88.01	130.17	188.93	232.72
RHS	898.11	491.82	237.47	95.40	54.70	605.99	751.56	323.67	137.69	91.50
CMSPGHS	42.93	227.08	1076.97	951.76	1046.65	21.44	142.14	1016.73	961.38	1186.54
Sub Total	1457.77	1068.86	1927.96	1856.46	1890.18	1138.16	1221.72	1896.44	1790.19	1977.15
Central Schemes										
IAY (75%)	434.99	501.38	823.16	827.90	574.22	318.23	328.84	935.75	752.27	567.38
MGNREGS	2373.27	3280.18	4027.23	3106.88	2253.28	2323.38	2895.69	3810.91	3183.82	2218.12
Sub Total	2808.26	3781.56	4850.39	3934.78	2827.50	2641.61	3224.53	4746.66	3936.09	2785.50
Grand Total	**4266.03**	**4850.42**	**6778.35**	**5791.24**	**4717.68**	**3779.77**	**4446.25**	**6643.10**	**5726.28**	**4762.65**

Village Panchayat Expenditure

4.106 The total expenditure of the Village Panchayats had gone up from Rs. 5621.45 crore in 2010-11 to Rs. 9578.42 crore in 2013-14 and declined to Rs. 8571.36 crore in 2014-15. The details of account wise expenditure incurred by the Village Panchayats are presented below:

Table IV - 28

The Aggregated Account wise Expenditure of Village Panchayats

(Rs. In Crore)

Sl. No.	Account	2010-11	2011-12	2012-13	2013-14	2014-15
1.	V.Pt. Acct.No.I	1456.06	1698.47	2262.34	2676.87	2932.92
2.	V.Pt. Acct.No.II	385.62	405.99	574.26	1175.27	875.79
3.	V.Pt. Acct.No.III	828.96	656.86	1492.19	1443.39	1266.49
4.	V.Pt. Acct.No.IV	2323.38	2895.69	3810.91	3183.82	2218.12
5.	V.Pt. Acct.No.V	605.99	751.56	323.67	137.69	91.50
6.	V.Pt. Acct.No.VI	21.44	142.14	1016.73	961.38	1186.54
	Total	**5621.45**	**6550.71**	**9480.10**	**9578.42**	**8571.36**

Source: *Obtained from local bodies*

The average expenditure per Village Panchayat is worked out in the following table

Table IV - 29

(Rs. In Lakh)

Sl. No	Account	2010-11	2011-12	2012-13	2013-14	2014-15
1.	V.Pt. Acct.No.I	11.63	13.56	18.06	21.37	23.42
2.	V.Pt. Acct.No.II	3.08	3.24	4.59	9.38	6.99
3.	V.Pt. Acct.No.III	6.62	5.24	11.91	11.52	10.11
4.	V.Pt. Acct.No.IV	18.55	23.12	30.43	25.42	17.71
5.	V.Pt. Acct.No.V	4.84	6.00	2.58	1.10	0.73
6.	V.Pt. Acct.No.VI	0.17	1.13	8.12	7.68	9.47
	Total	**44.89**	**52.29**	**75.69**	**76.47**	**68.43**

Source: *Obtained from local bodies*

Account No.1

4.107 The regular operational expenditure of Village Panchayats are met from the Village Panchayat Fund Account No.1. The following types of the expenditure are incurred out of the Village Panchayat Fund Account No. 1:

- Administrative Expenditure
- Sitting fee for elected representatives
- Traveling allowances for elected representatives.
- Pay and allowances for elected representatives.
- Pension contribution for Village Panchayat employees.
- Purchase of stationery.
- Purchase of Forms and Registers.

- Building rent.
- Expenditure.
- Contingency Expenditure.

Capital Expenditure

- Construction of buildings
- Formation of Roads
- Construction of Bridges and Culverts
- Water supply and sanitation works

Maintenance Expenditure

- Maintenance of Street lights
- Maintenance of Hand pumps and Power pumps
- Maintenance of Village Panchayat Roads
- Maintenance of burial and burning grounds
- Sanitation works

Miscellaneous Expenditure

- Repayment of loans
- Refund of Deposits
- Advances repaid
- Funeral Grants as permitted by the Government

4.108 Under the General Administration head, expenditure is incurred towards payment of salary to the staff, rent for buildings, telephone charges, meeting expenses, purchase of stationery and other contingent expenditure. On an average during 2014-15, each Village Panchayat spent Rs 3.86 lakhs on General Administration of which Rs.2.79 lakhs was towards salaries and wages.

Table IV - 30

Compositions of average expenditure per Village Panchayats

(In Rupees)

Sl. No.	General Administration	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Pay and allowance	199225	208743	224345	248028	278649
2.	Allowance for elected representatives	8975	8663	12113	12688	12081
3.	Stationeries	7721	8807	10468	11769	12600
4.	Rent for buildings	487	511	743	830	1118
5.	Insurance Amount paid for employees	3593	3849	5238	5462	5462
6.	Bonus	3721	3721	3761	3825	4192
7.	Pay arrear for employees	9326	12408	9382	7194	4008
8.	Telephone Charges	926	806	1230	1525	1852
9.	Gram sabha meeting	2914	2731	3601	3577	3346
10.	Advertisement expenditure	5469	3385	5933	5222	4144
11.	Panchayat President honorarium	3609	4112	6675	7625	7993
12.	Other Administrative expenditure	40315	35212	41025	47948	50176
Total		**286281**	**292948**	**324514**	**355693**	**385621**

Electricity Charges

4.109 The major expenditure item for Village Panchayats is on current consumption charges. Although this expenditure is to be primarily met out of Account No 2, when there is a shortfall in that Account, the expenditure is incurred out of Account No 1 as well. The average electricity charges per Village Panchayat was Rs. 2,79,679 in 2010-11 which went up to Rs. 6,85,971 in 2014-15. The details of Average Electricity Charges incurred per Village Panchayat are presented below:

Table IV – 31

Average Electricity Charges per Village Panchayat

(In Rupees)

Electricity Charges	2010-11	2011-12	2012-13	2013-14	2014-15
Street Lights (Acct. No. 1)	22884	30996	42598	55965	53098
Water Pumps (Acct. No.1)	19618	27731	36171	46479	46734
Village Panchayat Buildings (Acct. No.1)	3218	3705	5302	8200	7977

CC Charges(Acct. No.2)	233959	256683	385628	541488	578162
Total	**279679**	**319115**	**469699**	**652132**	**685971**

Online module for TANGEDCO Service Connections in Village Panchayats

4.110 In order to provide a system for energy audit in Village Panchayats and to streamline the consumption of electricity and payment of electricity charges, an online module for validation and grouping of TANGEDCO service connections has been developed. This module will help in payment of current consumption charges in time and for analysis of electricity consumption by different categories of panchayat assets which will in turn help in energy use planning.

4.111 Recommendations

i. **All the unused electricity connections of Village Panchayats should be surrendered. The Village Panchayat should ensure that electricity charges are paid only for the electricity connections used by the Village Panchayat for its functions. (para 4.110)**

ii. **TANGEDCO should raise its electricity consumption demand only after taking and recording the actual meter reading and not on a historical or ad hoc basis. (para 4.110)**

iii. **Since most of the electricity charges are incurred on water supply connections, the installation of solar powered motor pumps should be taken up wherever feasible. An energy efficiency audit of water pumps should be taken up. (para 4.110)**

iv. **TANGEDCO should provide the data related to Village Panchayat current consumption charges online to facilitate timely payment and close monitoring to avoid belated payment of electricity charges. Further, TANGEDCO should use other modes of communications such as SMS to intimate meter readings and electricity charges to the Village Panchayats. (para 4.110)**

Maintenance Expenditure

4.112 The expenses incurred under the head are:

- Maintenance of buildings of the Village Panchayat.
- Repairs and maintenance for hand pump, power pump mini motor and purchase of spares for street lights and for buildings maintained by Village Panchayat.
- Maintenance of roads, bridges and streets

4.113 The average expenditure towards O & M per Village Panchayat had gone up from Rs.5.28 lakhs in 2010-11 to Rs. 10.27 lakhs in 2014-15. This is due to the creation of additional assets every year under various schemes that require maintenance. In 2014-15, major amount was spent for the purchase of spare parts for hand pump / power pump and mini motors (Rs. 4.00 lakhs) followed by purchase of spare parts for street lights (Rs. 2.21 lakhs). Village Panchayats are spending on an average around Rs. 86,745 per annum for the maintenance of streets / roads / bridges in 2014-15. The details are given below:

Table IV - 32

Average maintenance expenditure per Village Panchayat

(In Rupees)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
Maintenance of open wells / farm ponds	18732	20600	30158	41249	45656
Purchase of spare parts for hand pump / power pump and mini motors	181619	237839	326365	387448	400072
Purchase of spare parts for street lights	125663	156715	186530	213055	221287
Maintenance of TV and Radio	2268	3242	3457	5174	5893
Maintenance of Public toilets	3457	4064	6739	7330	8041
Maintenance of Street roads / bridges	61985	65953	82817	78777	86745
Remittance of Library cess	3673	6228	8088	8456	11210
Maintenance of Village	9111	10484	15786	16049	17239

Panchayat Buildings					
Maintenance of burial / burning ground	5765	6563	7490	9230	9214
Maintenance of tools and plants	5094	8112	10316	9909	10164
Maintenance of Panchayat properties	2523	3537	4144	5749	5957
Maintenance of drainage	8983	11290	17574	19946	20912
Purchase of sanitary materials	27451	30597	52579	59063	64293
Maintenance of play grounds	5206	2268	2132	2651	2699
Expenditure for sports competition	10436	1158	1725	3505	3354
Funeral rites grant	3162	7186	8879	10164	10636
Maintenance of Village Panchayat markets	1701	2347	3058	4567	5142
Anganwadi buildings	1158	1908	2300	3066	4360
Noon meal centres	1940	1094	1789	2435	2827
Others	48347	51054	74210	83599	91369
Total	**528274**	**632239**	**846136**	**971422**	**1027070**

The details of roads owned and maintained by Village Panchayats

Table IV – 33

Sl. No.	Type of Surfaces	Village Panchayats roads (Length in Km)
1.	Black topped	66727
2.	Cement Concrete	2633
3.	Double layer WBM	2148
4.	Single layer WBM	7249
5.	Gravel	5947
6.	Earthen	31254
Total		**115,958**

Capital Expenditure:

4.114 The average expenditure towards capital works from out of Account No 1 which was Rs. 2.75 lakhs per Village Panchayat in 2010-11 went upto Rs. 7.79 lakhs in 2014-15. Extension of water supply accounted for 21.34 percent followed by Streets, Roads and Bridges with 19.34 percent in 2014-15. The table presents the average capital expenditure incurred by a Village Panchayat.

Table IV - 34

Average Capital expenditure per Village Panchayat

(In Rupees)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
Tools and Plants	3234	5621	8791	9725	10779
Open well / tanks	6260	7162	16504	27994	34877
Hand Pump	12049	13901	22796	30070	32258
Power Pump	28178	40546	67447	93948	127563
Mini Power Pump	11450	16201	33512	52028	75870
Extension of water supply	53601	72373	120800	158456	166257
Extension of street lights	22613	31364	37688	46143	45561
TV& Radio	1174	1126	1757	2475	4320
Drainage	13941	18061	28681	32250	34462
Public Toilets	1166	1589	2970	2954	4735
Streets/Roads/Bridges	84885	100216	128697	136434	150711
Building	11969	11889	14141	18628	26533
Library	1405	1142	2188	3202	3960
Others	22653	23347	33416	47581	61258
Total	**274578**	**344538**	**519388**	**661888**	**779144**

Account No. II Village Panchayat payments to TANGEDCO and TWAD Board

4.115 The amount spent towards charges to TANGEDCO and TWAD and other expenditure are given below:

Table IV - 35

Average Expenditure under Account No. II (per Village Panchayat)

(Rs. In Lakh)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
Maintenance of street lights, Power pumps, Village Panchayat buildings electricity charges (Including expenses spent from Acct No. 1)	2.80	3.19	4.70	6.52	6.86
Maintenance of drinking water amount paid to TWAD	0.65	0.59	0.63	0.79	0.93
Surplus fund transferred to Account No. I	0.01	0.03	0.04	1.81	0.17
Surplus fund transferred to Account No.III	0.03	0.01	0.02	0.59	0.04
Other Expenditures	0.05	0.04	0.04	0.78	0.07

Total	3.54	3.86	5.43	10.49	8.07

The average current consumption charges has increased from Rs. 2.80 lakhs in 2010-11 to Rs 6.86 lakhs in 2014-15. In total, EB charges accounted for 79.09% in 2010-11 and 85 % in 2014-15.

Account No.III Village Panchayat Scheme Fund Account

4.116 The amounts spent under Account III are given below:

Table IV - 36

Average Expenditure under Account No.III (per Village Panchayat)

(Rs. In Lakh)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
Indira Awaas Yojana	3.39	3.50	9.96	8.01	6.04
Rural Infrastructure Scheme (RIS)	1.28	0.65	0.53	0.80	0.82
Rural Building Maintenance and Renovation Scheme (RBMRS)	0.50	0.39	0.39	1.21	1.39
Other Expenditures	1.45	0.70	1.04	1.51	1.86
Total	**6.62**	**5.24**	**11.92**	**11.53**	**10.11**

Account No. IV MGNREGS

4.117 The average amount spent under MGNREGS per Village Panchayat is given below:

Table IV - 37

(Rs. In Lakh)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
MGNREGS	18.41	22.99	30.24	25.01	17.46
Others	0.14	0.13	0.18	0.41	0.25
Total	**18.55**	**23.12**	**30.42**	**25.42**	**17.71**

The total amount incurred on MGNREGS was Rs.2323.38 crore in 2010-11 which increased to Rs. 3384.81 crore in 2015-16.

Account No. V Rural Housing Scheme

4.118 The amount spent under Rural Housing scheme per Village Panchayat is given below:

Table IV - 38

(Rs. In Lakh)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
RHS	4.77	5.83	2.45	0.96	0.57
Others	0.07	0.17	0.13	0.14	0.16
Total	**4.84**	**6.00**	**2.58**	**1.10**	**0.73**

Table IV - 39

4.119 Account No.VI Chief Minister's Solar Powered Green House Scheme (CMSPGHS) (per Village Panchayat)

(Rs. In Lakh)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
CMSPGHS	0.17	1.12	8.00	7.53	9.33
Others	0.00	0.01	0.12	0.15	0.14
Total	**0.17**	**1.13**	**8.12**	**7.68**	**9.47**

A consolidated financial statements for Village Panchayats is at **Annexure IV (1)**

Peri - Urban Panchayats

4.120 The Village Panchayats which are situated within a radius of five kilometres from Municipalities and Municipal Corporations are termed Peri Urban Panchayats. District Collectors identified and reported to the Fifth State Finance Commission that there are 582 peri urban panchayats in the State as detailed below:

Table IV - 40

Peri - Urban Panchayats

Sl. No.	District	No. of V.Pts. closer to Municipalities/Corporation
1.	Kancheepuram	27
2.	Tiruvallur	39
3.	Cuddalore	21
4.	Villupuram	29
5.	Vellore	116
6.	Tiruvannamalai	22
7.	Salem	21
8.	Namakkal	05
9.	Dharmapuri	07
10.	Krishnagiri	15
11.	Erode	11
12.	Tiruppur	14

13.	Coimbatore	11
14.	The Nilgiris	09
15.	Thanjavur	14
16.	Nagapattinam	00
17.	Tiruvarur	12
18	Tiruchirappalli	17
19.	Karur	13
20.	Ariyalur	07
21.	Perambalur	02
22.	Pudukkottai	12
23.	Madurai	27
24	Theni	04
25.	Dindigul	19
26.	Ramanathapuram	09
27.	Virudhunagar	53
28.	Sivagangai	26
29.	Tirunelveli	04
30.	Thoothukkudi	09
31.	Kanniyakumari	07
Total		**582**

4.121 Even though the Peri - Urban Panchayats are located in close proximity to Municipal Corporations / Municipalities and the civic demands of people reflect features of the adjoining Municipal Corporation / Municipalities, the revenue of Peri - Urban Panchayats is similar to other Village Panchayats. Provision to collect house tax at the rates on par with adjacent urban local bodies, requires amendments to the Tamil Nadu Panchayats Act 1994 and notification of such Peri - Urban Panchayats by the Government. The Fourth SFC recommended that the Peri - Urban Panchayats be empowered to levy vacant land tax (VLT) for house sites other than agricultural lands based on plinth area as in Urban Local Bodies by amending the Tamil Nadu Panchayats Act 1994. This recommendation has been accepted by the Government. The14th Central Finance Commission has also suggested that the levy of vacant land tax by Peri Urban Panchayats be considered. The levy of vacant land tax by Peri Urban Panchayats requires amendment to the Tamil Nadu Panchayats Act 1994 and notification of such Peri Urban Panchayats by the government. These Panchayats will also require adequate manpower to categorize and survey vacant land.

4.122 The Fourth SFC recommended that the norms for appointment of sanitation staff in Peri Urban Panchayats be revised by the CRD & PR so as to facilitate the Peri Urban Panchayats to appoint additional sanitation staff to meet the growing needs of solid waste management activities. Accordingly, the Government has issued orders prescribing the norms for appointment of sanitary workers by Village Panchayats vide G.O.(Ms).No. 130 RD & PR (E-5) Department, dated: 14.09.2013. Further, Government had issued orders vide G.O. (Ms). No. 129 RD & PR (E-5) Department, dated: 14.09.2013 for the appointment of 16726 sanitary workers in Village Panchayats.

4.123 Recommendations

i. **The Tamil Nadu Panchayats Act 1994 should be suitably amended to permit classification as Peri Urban Villages based on population and proximity to ULBs and to collect house tax at the rates on par with adjacent ULBs. (para 4.121)**

ii. **The recommendations of the Fourth SFC and 14th CFC that Peri - Urban Panchayats be empowered to levy Vacant Land Tax (VLT) for house sites other than agricultural lands based on plinth area as in ULBs by amending the Tamil Nadu Panchayats Act 1994 is reiterated. (para 4.121)**

iii. **Large Village Panchayats should be bifurcated based on population to solve some of the issues relating to Peri Urban Panchayats. (para 4.121)**

Panchayats Union

4.124 In Tamil Nadu, there are 385 Panchayat Unions. The Panchayat Unions are the intermediate level rural local body which have traditionally played a very important role in the implementation of various development programmes in rural areas. The Panchayat Union Council is not empowered to levy taxes. The sources of funds for the Panchayat Union are non tax revenue, Assigned and Pooled Assigned Revenue, SFC devolution and grants released under various Central and State Government schemes. The Block Development Officer (Block Panchayats) is the executive authority of the Panchayats Union. He is assisted by administrative and technical wings.

Table IV – 41

Total Staff strength of Panchayat Unions

Sl. No.	Category	Total Number of		
		Posts sanctioned	Staff in Position	Posts vacant
1.	Panchayat Union employees	3090	2770	320
2.	Government employees	15533	11616	3917
Total		**18623**	**14386**	**4237**

Source: *DRD Report*

4.125 The Functions of the Panchayat Unions are

- Implementation of various centrally sponsored and State schemes.
- Construction, repair and maintenance of classified Panchayat Union roads and bridges, culverts and causeways on such roads.
- Construction and maintenance of elementary and middle school buildings
- Construction and maintenance of water bodies i.e. minor irrigation tanks, ponds and ooranies under the control of Panchayat Unions.
- Preventive and remedial measures for any epidemic.
- Fairs and festivals classified by the Panchayat Union council.
- Opening and maintenance of Panchayat Union markets.

Role of Panchayat Unions in Creating and Maintaining Rural Infrastructure:

4.126 All the 385 Panchayat Unions have permanent office buildings and are provided with vehicles, furniture, computers, printers, UPS and internet facilities. To provide integrated services by line departments at one Block Level and to disseminate information related to the development process online, 270 Block Panchayats Service Centres have been created. There are 21,513 elementary schools and 6,518 middle schools under the control of Panchayat Unions. Infrastructure facilities such as construction of class rooms, kitchen sheds, water supply, toilet facilities and compound wall are provided under various schemes of the Central and State Governments and from general funds of Panchayat Unions. Panchayat Unions own and maintain a road length of 31,585 kms in rural areas. There are 21,609 minor irrigation tanks and 48,758 ooranies / ponds in rural areas under the control of Panchayat Unions.

Table IV – 42

Details of Roads Owned and Maintained by Panchayat Unions

Sl. No.	Type of Surface	Panchayat Union Roads (Length in Km)
1.	Black topped	29,189
2.	Cement Concrete	274
3.	Double layer WBM	244
4.	Single layer WBM	514
5.	Gravel	266
6.	Earthern	1,098
Total		**31,585**

4.127 Panchayat Unions maintain six accounts for their transactions as detailed below

Table IV – 43

Classification of Accounts

Sl. No.	Account	Category	Items covered
1.	Account No. I	General fund	1) Assigned/Shared Revenue 2) Pooled Assigned Revenue 3) Non Tax Revenue 4) SFC grants 5) Other grants 6) Deposit and advances
2.	Account No. III	Education fund	1) Grant for salary of conductress 2) Deposits 3) Advances
3.	Account No. V	Nutritious Noon Meal Programme fund	1) Grants for Nutritious Noon Meal centres 2) Deposits 3) Advances
4.	Account No. IX	State Welfare Schemes	Grants for State Welfare Schemes
5.	Account NO X	NABARD	Village Panchayats and Panchayats Union Market Development Scheme and Others
6.	Central Welfare Schemes	Central Welfare Schemes	Grants for Central Welfare Schemes

Revenue Receipts

4.128 The account wise total revenue of Panchayats Unions is as follows:

Table IV - 44

Total Receipts Consolidation (Excluding opening balance)

(Rs. In Crore)

Sl. No.	Accounts	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Account No. I	960.82	1364.09	1371.84	1865.37	1905.46
2.	Account No. III	8.07	18.49	7.50	15.08	8.66
3.	Account No. V	676.83	685.36	348.41	323.66	355.50
4.	Account No. IX	1052.73	875.72	1645.86	1728.31	1462.74
5.	Account No. X	22.00	15.73	19.63	23.11	23.28
6.	Central Schemes	314.39	306.94	417.36	570.42	393.08
Total		**3034.84**	**3266.33**	**3810.60**	**4525.95**	**4148.72**

Source: *Online data obtained from Local bodies.*

Chart IV - 2

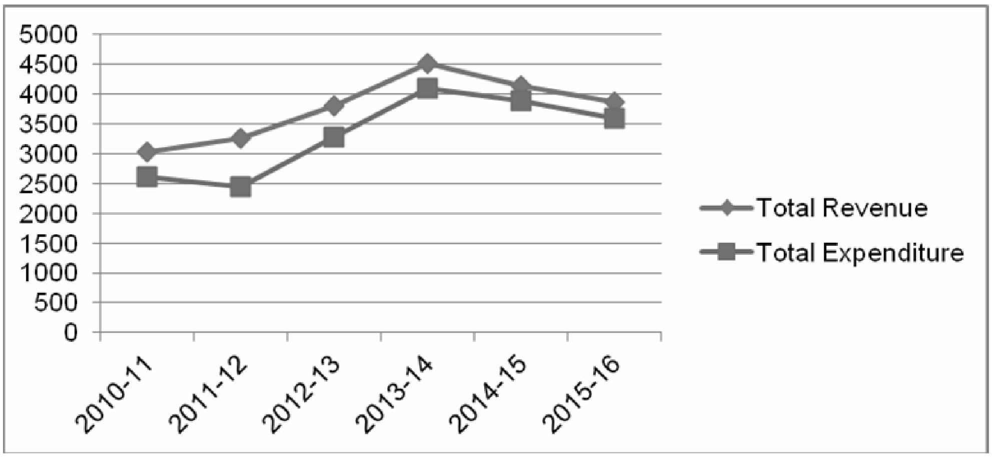


Table IV - 45

Average Receipt per Panchayat Union

(Rs. In Crore)

Sl. No.	Accounts	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Account No. I	2.50	3.54	3.56	4.85	4.95
2.	Account No. III	0.02	0.05	0.02	0.04	0.02
3.	Account No. V	1.76	1.78	0.90	0.84	0.92
4.	Account No. IX	2.73	2.27	4.27	4.49	3.80
5.	Account No. X	0.06	0.04	0.05	0.06	0.06

6.	Central Schemes	0.82	0.80	1.08	1.48	1.02
Total		**7.89**	**8.48**	**9.88**	**11.76**	**10.77**

4.129 The total revenue receipts of Panchayat Unions had increased from Rs. 3034.84 crore in 2010-11 to Rs. 4525.95 crore in 2013-14 and dipped to Rs. 4148.72 crore in 2014-15. On an average the receipts of a Panchayat Union had improved from Rs.7.89 crore in 2010-11 to Rs.11.76 crore in 2013-14 and dipped to Rs.10.77 crore in 2014-15.

Table IV - 46

Average Own Receipts per Panchayat Union (Untied)

(Rs. In Lakh)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Assigned Revenue	11.17	27.65	32.73	24.40	56.11
2.	Non Tax Revenue	26.38	28.67	34.73	42.35	45.68
3.	Deposits and Advances	40.91	62.03	50.94	69.20	75.35
Total own revenue		**78.46**	**118.35**	**118.40**	**135.95**	**177.14**
1.	SFC devolution*	160.99	227.75	229.90	339.40	307.00
2.	Other grants	10.11	8.22	8.03	9.17	10.78
Total Grants		**171.10**	**235.97**	**237.93**	**348.57**	**317.78**
Total Panchayat Union Receipts		**249.57**	**354.32**	**356.33**	**484.52**	**494.92**

Net after impounding shares towards certain schemes.
Source: *Online data obtained from Local bodies.*

4.130 It is observed that the average own receipts of Panchayat Unions improved from Rs. 78.46 lakhs in 2010-2011 to Rs. 177.14 lakhs in 2014-15. Own receipts of the Panchayat Unions as a proportion of total untied receipts accounted for 31.44 % in 2010-11 and 35.79 % in 2014-15. Apart from own resources, the Panchayat Unions receive grants from SFC and also other grants. The flow of funds to Panchayat Unions from SFC grants has increased from Rs. 160.99 lakhs per Panchayat Union in 2010-11 to Rs.307.00 Lakhs in 2014-15. In the total receipts of Panchayat Unions receipts, SFC grants accounted for 64.51% in 2010-11 and 62.03% in 2014-15

Expenditure

4.131 Panchayat Unions incur various types of expenditure classified into administrative, capital, maintenance, deposits, loans and advances and other expenditures. The average expenditure incurred by a Panchayat Union from its General Fund has been presented in Table IV - 47.

Table IV - 47

Average expenditure per Panchayat Union – General fund

(Rs. In Lakh)

Sl. No.	Head	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Administrative Expenditure	53.13 *(27.31)	54.99 (27.86)	57.17 (21.95)	67.84 (17.79)	85.06 (19.32)
2.	Capital Expenditure	86.46 (44.45)	83.31 (42.22)	130.99 (50.29)	198.56 (52.07)	234.13 (53.18)
3.	Maintenance Expenditure	24.11 (12.39)	24.41 (12.37)	33.38 (12.82)	51.69 (13.56)	54.93 (12.48)
4.	Deposits, Loan and advances	29.40 (15.11)	33.72 (17.09)	37.44 (14.37)	59.49 (15.60)	62.30 (14.15)
5.	Others	1.43 (0.74)	0.91 (0.46)	1.49 (0.57)	3.72 (0.98)	3.87 (0.87)
Total		**194.53 (100.00)**	**197.34 (100.00)**	**260.47 (100.00)**	**381.30 (100.00)**	**440.29 (100.00)**

**Percentage in total expenditure shown in brackets.*

4.132 In absolute terms, though the administrative expenditure per Panchayat Union had increased from 2010-11 to 2014-15, in relative terms its share in total expenditure under General fund had come down from 27.31 % in 2010-11 to 19.32 % in 2014-15. The Capital expenditure per Panchayat Union had increased from Rs. 86.46 lakhs in 2010-11 to Rs. 234.13 lakhs in 2014-15. Similarly, the maintenance expenditure has also increased. If the existing vacancies are filled up, the Panchayat Unions, would incur higher administrative expenditure.

Administrative Expenditure-

4.133 Out of the total administrative expenditure under General Fund (Account No. I) of Rs. 204.55 crore in 2010-11 and Rs.327.48 crore in 2014-15, salaries alone accounted for 54.43 % and 52.91 % respectively. The break up details of administrative expenditure per Panchayat Union is given below.

Table IV - 48

Average Administrative Expenditure Component wise (per Panchayat Union)

(Rs. In Lakh)

Sl. No.	Head	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Salaries	28.92	30.65	30.33	34.88	45.01
2.	TA	1.61	1.64	1.88	2.01	2.42
3.	Pension contribution	0.59	0.45	0.44	0.49	1.46
4.	Stationeries	1.53	1.19	1.68	1.83	1.78
5.	Telephone	0.63	0.56	0.75	0.68	0.88
6.	Rent	0.16	0.17	0.23	0.28	0.17
7.	Fairs and Exhibitions	0.21	0.16	0.25	0.29	0.23
8.	Forms and Registers	0.72	0.64	0.75	0.88	0.80
9.	Contingency	5.21	5.23	6.87	6.77	8.69
10.	Electricity	1.07	1.07	1.39	1.52	1.60
11.	Sitting Fee	0.70	0.47	0.49	0.49	0.80
12.	Fixed TA	0.45	0.53	0.48	0.45	0.74
13.	Uniform	0.01	0.01	0.05	0.01	0.01
14.	Fuel	1.07	1.67	1.66	1.94	1.94
15.	Others	10.25	10.55	9.92	15.32	18.53
	Total	**53.13**	**54.99**	**57.17**	**67.84**	**85.06**

Maintenance Expenditure

4.134 Maintenance expenditure which accounted for 12.39 percent of the total general fund expenditure in 2010-11, had risen very marginally to 12.48 percent in 2014-15. In absolute terms, it went up from Rs.92.80 crore in 2010-11 to Rs. 211.47 crore in 2014-15. The composition of average maintenance expenditure per Panchayats Union is shown in Table IV - 49.

Table IV - 49

Average maintenance Expenditure per Panchayats Union

(Rs. In Lakh)

Sl. No.	Head	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Roads	11.07	13.51	17.46	24.58	27.95
2.	Buildings	3.45	3.10	3.69	5.27	6.56
3.	MI Tanks	0.38	0.36	0.44	0.47	0.79
4.	Rural Dispensary	0.08	0.07	0.08	0.07	0.21
5.	Vehicles	0.86	1.00	1.13	1.16	1.27
6.	Minor Bridges	1.07	0.79	1.15	1.47	2.14
7.	Drinking Water	2.80	2.26	4.49	10.98	8.33
8.	Others	4.40	3.32	4.94	7.69	7.68
	Total	**24.11**	**24.41**	**33.38**	**51.69**	**54.93**

Under maintenance expenditure, road maintenance accounted for the highest share of 45.91 % in 2010-11 and 50.88 % in 2014-15.

Capital Expenditure

4.135 Under the General Fund, Capital expenditure accounts for a substantial share of 44.45 % in 2010-11 which had further gone up to 53.18 % in 2014-15. The capital expenditure by its components are shown below:

Table IV - 50

Average capital expenditure per Panchayat Union

(Rs. In Lakh)

Sl. No.	Head	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Buildings	12.89	11.48	15.88	21.16	25.59
2.	Roads	34.41	35.60	56.98	73.13	90.02
3.	Bridges/Dams	6.82	5.65	9.08	12.79	18.06
4.	Drinking Water	14.41	12.42	26.51	55.47	57.26
5.	Instruments / Medicine	0.28	0.15	0.22	0.45	0.69
6.	Others	17.65	18.01	22.32	35.56	42.51
	Total	**86.46**	**83.31**	**130.99**	**198.56**	**234.13**

4.136 The average capital expenditure per Panchayat Union had increased from Rs. 86.46 lakhs in 2010-11 to Rs. 234.13 lakhs in 2014-15. On an average 40 percent of total capital expenditure is spent for road works.

Table IV - 51

Total Expenditure Consolidation (Excluding Closing Balance)

(Rs. In. Crore)

Sl. No.	Accounts	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Account No. I	748.93	759.77	1002.81	1467.99	1695.10
2.	Account No. III	21.29	20.91	12.46	17.34	7.09
3.	Account No. V	585.79	645.65	375.61	325.09	353.92
4.	Account No. IX	970.95	748.31	1484.05	1731.44	1432.18
5.	Account No. X	23.09	16.07	21.23	26.00	28.25
6.	Central Schemes	270.43	260.66	395.53	538.82	366.42

Total	2620.48	2451.37	3291.69	4106.68	3882.96

4.137 The Average Expenditure per Panchayat Union is worked out and presented in the following table.

Table IV – 52

Average total expenditure per Panchayat Union

(Rs. In Crore)

Sl. No.	Accounts	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Account No. I	1.95	1.97	2.60	3.81	4.40
2.	Account No. III	0.06	0.05	0.03	0.05	0.02
3.	Account No. V	1.52	1.68	0.98	0.84	0.92
4.	Account No. IX	2.52	1.94	3.85	4.50	3.72
5.	Account No. X	0.06	0.04	0.06	0.07	0.07
6.	Central Schemes	0.70	0.68	1.03	1.40	0.95
Total		**6.81**	**6.36**	**8.55**	**10.67**	**10.08**

4.138 The following table shows the total receipts and expenditure and surplus / deficit of Panchayat Unions Account wise:

Table IV - 53

Year	Details	Account					Central Schemes	Total
		Number I	Number III	Number V	Number IX	Number X		
2010-11	Receipts	960.82	8.07	676.83	1052.73	22.00	314.39	**3034.84**
	Expenditure	748.93	21.29	585.79	970.95	23.09	270.43	**2620.48**
	Surplus / Deficit	211.89	-13.22	91.04	81.78	-1.09	43.96	**414.36**
2011-12	Receipts	1364.09	18.49	685.36	875.72	15.73	306.94	**3266.33**
	Expenditure	759.77	20.91	645.65	748.31	16.07	260.66	**2451.37**
	Surplus / Deficit	604.32	-2.42	39.71	127.41	-0.34	46.28	**814.96**
2012-13	Receipts	1371.84	7.50	348.41	1645.86	19.63	417.36	**3810.60**
	Expenditure	1002.81	12.46	375.61	1484.05	21.23	395.53	**3291.69**
	Surplus / Deficit	369.03	-4.96	-27.20	161.81	-1.60	21.83	**518.91**
2013-14	Receipts	1865.37	15.08	323.66	1728.31	23.11	570.42	**4525.95**
	Expenditure	1467.99	17.34	325.09	1731.44	26.00	538.82	**4106.68**
	Surplus / Deficit	397.38	-2.26	-1.43	-3.13	-2.89	31.6	**419.27**
2014-15	Receipts	1905.46	8.66	355.5	1462.74	23.28	393.08	**4148.72**
	Expenditure	1695.1	7.09	353.92	1432.18	28.25	366.42	**3882.96**
	Surplus / Deficit	210.36	1.57	1.58	30.56	-4.97	26.66	**265.76**

The consolidated financial statement for Panchayat Unions is in **Annexure IV (2)**

District Panchayats

4.139 District Panchayats are constituted as per Section 24 of the Tamil Nadu Panchayats Act,1994. In Tamil Nadu, there are 31 District Panchayats. The ward members to the District Panchayat are elected directly, while the Chairperson is elected from among the ward members. An Assistant Director from the Department of Rural Development and Panchayat Raj is appointed as Secretary to District Panchayat and is assisted by a team of supporting staff.

4.140 The functions of the District Panchayats are:

- Preparation of development plans for the district.
- Compilation of administrative reports of Village Panchayats and Panchayats Union Councils in the District and preparation of Annual Report for the District.
- Planning and reviewing Agriculture, Land Development, Animal husbandry, Dairy, Poultry, Fishery schemes and Rural industries.
- Planning and reviewing rural housing programmes particularly housing for SC/STs.
- Identification of major water supply schemes.

Capacity Building in District Panchayat

4.141 Out of 31 District Panchayats in the State, 28 District Panchayats have permanent office buildings. All the District Panchayats have been provided with Computers, Printers and internet facility. All the District Panchayat Chairpersons and District Panchayat Secretaries are provided with vehicles for close monitoring of the State and Central Schemes implemented in rural areas. At the district level the District Collector, through the District Rural Development Agency is implementing all State and Centrally sponsored Schemes as per Section 163 of the Tamil Nadu Panchayats Act 1994. District Panchayats are mainly advisory bodies.

Revenue Receipts

4.142 District Panchayats have no taxation powers. The SFC devolution is the only source of their revenue. 8% of the share for RLBs is given to District Panchayats for administrative and capital expenditures. Some District Panchayats receive income from their own properties like lands and buildings. The fund flow to District Panchayats is as follows.

Table IV - 54

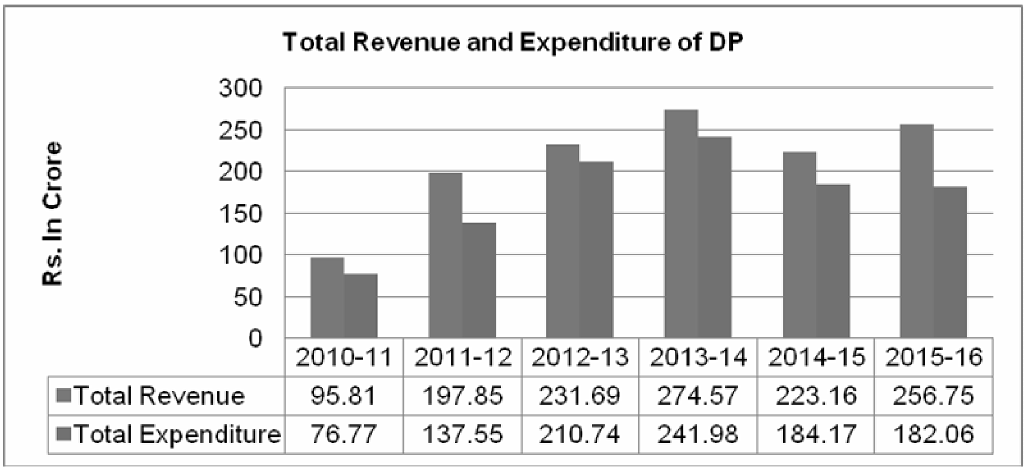
Fund flow to the District Panchayats

(Rs. In Crore)

Year	SFC devolution	Others	Total
2010-11	74.94	20.87	95.81
2011-12	172.15	25.70	197.85
2012-13	200.03	31.66	231.69
2013-14	243.95	30.62	274.57
2014-15	190.24	32.92	223.16

Source: *Data obtained from Local Bodies*

Chart IV - 3



There is a dip in the quantum of SFC devolution received by the District Panchayats from 2014-15 onwards because SFC funds receivable by the District Panchayats are shared for Rural Infrastructure Scheme and Comprehensive School Infrastructure Development Scheme.

Expenditure

4.143 The expenditure is classified as administrative and works expenditure. The administrative expenditure consists of pay and allowances, sitting fees for members, travelling allowance, telephone charges, fuel charges, jeep maintenance, stationeries, building rent and others. The works expenditure consists of capital expenditures on roads, bridges, buildings, health, water supply and street lights and maintenance expenditure incurred for maintaining the assets.

4.144 The number of staff in District Panchayats ranges from 6 to 11. The staff working in District Panchayats are deputed from Government departments. Their pay and other allowances are met from the District Panchayat fund. Out of total number of posts of 249 sanctioned for district panchayats 191 posts are filled up and 58 posts are vacant.

The details of expenditure of the District Panchayats are as below:

Table IV - 55

Expenditure of the District Panchayats

(Rs. In Crore)

Year	Total Expenditure	Administrative Expenditure			% in total Expenditure	Expenditure on Works	% in total Expenditure
		Pay & Allowances	Others	Total			
2010-11	76.77	3.92	1.99	5.91	7.70%	70.85	92.30%
2011-12	137.55	4.30	2.45	6.75	4.91%	130.80	95.09%
2012-13	210.74	4.84	3.35	8.19	3.89%	202.55	96.11%
2013-14	241.98	5.69	3.04	8.73	3.61%	233.26	96.39%
2014-15	184.17	6.05	2.61	8.66	4.70%	175.51	95.30%

Source: *Data obtained from Local Bodies*

4.145 The share of administrative expenditure in total expenditure has decreased from 7.7 % in 2010-11 to 4.7 % in 2014-15. Corresponding share of expenditure for works has increased from 92.3% to 95.3%. The major portion of SFC devolution intended for the District Panchayats is spent on capital or maintenance nature of works taken up in Village Panchayats. The details of various works expenditure incurred from SFC devolution is as follows:

Table IV - 56

Work wise Expenditure Incurred from SFC grant

(Rs. In Crore)

Sl. No.	Work	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Cement Road	16.83	34.66	47.69	33.66	33.74
2.	B.T. Road	20.74	37.95	49.65	72.85	56.36
3.	Drainage	2.09	5.28	8.54	7.47	7.16
4.	Drinking Water	11.13	16.14	44.48	62.63	38.14
5.	Street Lights	0.64	2.10	3.26	4.24	2.00
6.	Others	1.07	4.76	5.12	8.48	4.93
Total		**52.50**	**100.89**	**158.74**	**189.33**	**142.33**

Source: *Data obtained from Local Bodies*

The consolidated financial statement for District Panchayats is at **Annexure IV (3)**

4.146 As per the recommendations of the Fourth SFC, the norm for annual administrative expenditure is 15% of SFC devolution or Rs. 20 Lakhs, whichever is less. District Panchayat wise expenditure details are available in **Annexure IV (4)**. An analysis of District Panchayats wise data reveals that all the District Panchayats expenditure is within the 15 percent norm except for The Nilgiris District Panchayat, but almost all District Panchayats spent more than the annual ceiling of Rs. 20 lakhs towards administrative expenses.

4.147 The annual administrative expenditure of District Panchayats has increased from Rs. 19.08 lakhs in 2010-11 to Rs. 29.38 lakhs in 2015-16, however, the average administrative expenditure for District Panchayat as a percentage of the SFC devolution has come down from 7.89 percent in 2010-11 to 3.79 percent in 2015-16.

Recommendation

4.148 The Commission recommends that the ceiling on the administrative expenditure of the District Panchayats be revised as 7.5 percent of the total SFC devolution or Rs. 40 lakhs whichever is less. (para 4.146)

District Planning Committee

4.149 The District Planning Committee is constituted for every district under section 241 of the TN Panchayats Act 1994. District Panchayat Chairman is the Chairperson and District Collector is the Vice Chairperson of the Committee. Members of Parliament, Member of Legislative Assembly Constituencies, and representatives of local bodies are the members.

Chapter - V

Assessment of Finances of Urban Local Bodies

Introduction

5.1 Tamil Nadu is one of the most urbanized states in India. According to Census 2011, the urban population of Tamil Nadu is 48.4% of the total population. The percentage of urban population in Tamil Nadu is much higher than the national proportion of 31.16%. The decadal growth rate of Tamil Nadu's urban population was 44.06% and 27.2% in the 1991-2001 and 2001-2011 decades, while the total population grew by only 11.7% and 15.6% respectively. Resultantly, the proportion of urban population has increased from 34.2% in 1991 to 48.4% in 2011. Tamil Nadu is projected to lead the country in urban growth over the next decade as well and the projected percentage of urban population for Tamil Nadu by the year 2030 has been estimated as 67%, which will be the highest in the country.

5.2 After the upgradation of 8 Corporations and 8 Municipalities during 2011-12, the demographic profile and area of Urban Local Bodies in Tamil Nadu is indicated in **Table V - 1** below:

Table V - 1

Categories	Number	Area (in Sq.kms)	Area %	Population (in lakh)	Urban Population %
Corporations	12	1704.31	16.08	148.38	46.91
Municipalities	124	2502.09	23.62	87.40	27.63
Town Panchayats	528	6388.20	60.30	80.53	25.46
Total	**664**	**10594.60**	**100**	**316.31**	**100**

5.3 ULBs in Tamil Nadu are governed under the following enactments:-

i. Tamil Nadu District Municipalities Act, 1920, which covers Municipalities and Town Panchayats
ii. The Chennai City Municipal Corporation Act, 1919
iii. The Madurai City Municipal Corporation Act, 1971
iv. The Coimbatore City Municipal Corporation Act, 1981, Coimbatore adopted ten remaining Corporations as separate Acts with the same provisions.

5.4 Due to growing urbanization, ULBs require more funds for upgrading basic services viz., provision of protected water supply, solid waste management, liquid waste management, storm water drainage, roads, street lights, provision of parks and playgrounds and burial and cremation grounds. In addition, ULBs have to bear the increased establishment and pension expenses of the employees and retired employees on par with the State Government employees. Before the constitution of the First State Finance Commission, most of the Urban Local Bodies were not in a position to meet even the salary of the employees due to the very poor financial position.

5.5 The present overall financial position of ULBs in Tamil Nadu is captured in Table V - 2. On the whole, the ULBs were in surplus during the period under review, although Corporations suffered a revenue deficit in 2014-15. Aggregate revenue receipts grew by only 37% in five years, while capital fund availability increased by 172% and Capital expenditure by the largest percentage of 221%.

Table V – 2*
Aggregate Financial Position of ULBs

(Rs. in Crore)

Sl. No.	Item	2010-11	2011-12	Growth rate (%)	2012-13	Growth rate (%)	2013-14	Growth rate (%)	2014-15	Growth rate (%)
1.	Revenue Receipts	6838	8351	22.13	9907	19	10447	5.45	9379	-10.22
2.	Revenue Expenditure	3815	4125	8.13	5318	29	6872	29.22	7624	10.94
3.	Surplus / Deficit	3023	4226		4589		3575		1755	
4.	Capital Fund	3290	2993	-9.03	4017	34	5084	26.56	5660	11.33
5.	Capital Expenditure	3442	3739	8.63	5436	45	6856	26.12	7606	10.94
Total Receipts		**10128**	**11344**		**13924**		**15531**		**15039**	
Total Expenditure		**7257**	**7864**		**10754**		**13728**		**15230**	

** The aggregate figures in Table V – 2 includes some adjustments in classification between Revenue and Capital accounts and the opening and closing balance and hence differ slightly from the figures in subsequently tables.*

Table V - 3

Tier wise Financial Position of ULBs

(Rs. in Crore)

Sl. No.	Item	2010-11	2011-12	2012-13	2013-14	2014-15
	Corporations					
1.	Revenue Receipts	3039	3852	4754	5033	4102
2.	Revenue Expenditure	2193	2265	3137	4329	4911
3.	Surplus / Deficit	846	1587	1617	704	-809
4.	Capital Fund	1304	959	1657	2494	3361
5.	Capital Expenditure	1336	1354	2398	3516	4471
	Total Receipts	**4343**	**4811**	**6411**	**7527**	**7463**
	Total Expenditure	**3529**	**3619**	**5535**	**7845**	**9382**
	Municipalities					
1.	Revenue Receipts	2168	2585	2984	3203	3363
2.	Revenue Expenditure	925	1080	1230	1356	1471
3.	Surplus / Deficit	1243	1505	1754	1847	1892
4.	Capital Fund	994	1079	1376	1326	1144
5.	Capital Expenditure	1077	1199	1581	1594	1523
	Total Receipts	**3162**	**3664**	**4360**	**4529**	**4507**
	Total Expenditure	**2002**	**2279**	**2811**	**2950**	**2994**
	Town Panchayats					
1.	Revenue Receipts	1631	1914	2169	2211	1914
2.	Revenue Expenditure	697	780	951	1187	1242
3.	Surplus / Deficit	934	1134	1218	1024	672
4.	Capital Fund	992	955	984	1264	1155
5.	Capital Expenditure	1029	1186	1457	1746	1612
	Total Receipts	**2623**	**2869**	**3153**	**3475**	**3069**
	Total Expenditure	**1726**	**1966**	**2408**	**2933**	**2854**

5.6 When the tier wise financial position is considered, while Municipalities and Town Panchayats continued to be in revenue surplus throughout the period under review, Corporations went into a deficit of Rs.809.00 Crore in 2015-16 and this was because of the huge revenue deficit of Rs.1090.00 Crore in Chennai Corporation alone. The other Corporations were in surplus in that period.

5.7 More detailed tables showing the financial position of all ULBs, Chennai Corporation, all other Municipal Corporations, Municipalities and Town Panchayats are to be found in **Annexures V (1), V (2), V (3), V (4) and V (5).**

Revenue Receipts of ULBs

5.8 The revenue receipts of ULBs are from several sources. Broadly they can be categorized as own revenue including tax revenue and non tax revenue and other revenue received by ULBs including assigned revenue, devolution, grants, loans and other receipts. Table V - 4 shows the aggregate of major heads of revenue receipts of ULBs.

Table V - 4
Aggregate of all ULBs

Sl. No.	Item	2010-11		2011-12		2012-13		2013-14		2014-15	
		Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage
Own Tax											
1	Total Tax	1317.20	18.56	1397.71	18.36	1667.50	17.50	1847.81	17.17	1948.99	17.28
2	Total Non-Tax	986.73	13.91	1315.31	17.27	1658.19	17.40	1861.20	17.30	1847.05	16.37
3	Assigned Revenue	281.05	3.96	407.04	5.35	501.60	5.26	573.44	5.33	487.73	4.32
Total Own Revenue		**2584.98**	**36.43**	**3120.06**	**40.98**	**3827.29**	**40.17**	**4282.45**	**39.80**	**4283.77**	**37.97**
4	SFC Devolution	1770.66	24.95	2043.17	26.83	2497.10	26.21	2697.56	25.07	2678.34	23.74
5	CFC Grant	149.21	2.10	166.76	2.19	263.68	2.77	277.24	2.58	300.57	2.66
6	State Scheme Grants	1243.29	17.52	1030.01	13.53	1380.91	14.49	1683.66	15.65	1711.25	15.17
7	Central Scheme Grants	490.86	6.92	372.36	4.89	512.69	5.38	428.60	3.98	362.79	3.22
8	Others	856.47	12.07	882.06	11.58	1046.92	10.99	1389.98	12.92	1944.82	17.24
Total Grants		**4510.49**	**63.57**	**4494.36**	**59.02**	**5701.30**	**59.83**	**6477.04**	**60.20**	**6997.77**	**62.03**
Total Revenue Receipts		**7095.47**	**100.00**	**7614.42**	**100.00**	**9528.59**	**100.00**	**10759.49**	**100.00**	**11281.54**	**100.00**

Tier wise major heads of revenue receipts are as follows:

Table V - 5

Municipal Corporations

Sl. No.	Item	2010-11		2011-12		2012-13		2013-14		2014-15	
		Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage
Own Tax											
1	Total Tax	896.04	27.86	941.06	27.02	1164.20	24.65	1297.52	23.24	1359.89	21.41
2	Total Non-Tax	455.75	14.17	731.49	21.00	973.21	20.61	1131.93	20.28	1092.85	17.21
3	Assigned Revenue	132.04	4.11	224.77	6.45	265.82	5.63	310.11	5.56	250.43	3.94
	Total Own Revenue	**1483.83**	**46.14**	**1897.32**	**54.47**	**2403.23**	**50.89**	**2739.56**	**49.08**	**2703.17**	**42.56**
4	SFC Devolution	707.09	21.99	839.88	24.11	1071.18	22.68	1145.46	20.52	1113.44	17.53
5	CFC Grant	62.44	1.94	75.84	2.18	134.13	2.84	133.00	2.38	145.00	2.28
6	State Scheme Grants	291.74	9.07	197.56	5.67	443.07	9.38	688.36	12.33	853.55	13.44
7	Central Scheme Grants	292.35	9.09	206.79	5.94	224.36	4.75	142.00	2.54	135.00	2.13
8	Others	378.73	11.78	265.77	7.63	446.17	9.45	733.56	13.14	1400.70	22.06
	Total Grants	**1732.35**	**53.86**	**1585.84**	**45.53**	**2318.91**	**49.11**	**2842.38**	**50.92**	**3647.69**	**57.44**
	Total Revenue Receipts	**3216.18**	**100.00**	**3483.16**	**100.00**	**4722.14**	**100.00**	**5581.94**	**100.00**	**6350.86**	**100.00**

Table V - 6

Municipalities

Sl. No.	Item	2010-11		2011-12		2012-13		2013-14		2014-15	
		Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage
Own Tax											
1	Total Tax	290.76	13.82	313.09	13.55	344.91	12.56	377.16	13.81	404.41	15.02
2	Total Non-Tax	303.69	14.44	323.03	13.98	390.85	14.24	391.90	14.35	414.41	15.39
3	Assigned Revenue	77.83	3.70	92.79	4.01	125.97	4.59	148.66	5.44	142.14	5.28
Total Own Revenue		**672.28**	**31.96**	**728.91**	**31.54**	**861.73**	**31.39**	**917.72**	**33.60**	**960.96**	**35.70**
4	SFC Devolution	569.43	27.07	686.84	29.72	730.23	26.60	720.45	26.38	818.87	30.42
5	CFC Grant	44.62	2.12	36.08	1.56	65.26	2.38	64.40	2.36	70.40	2.62
6	State Scheme Grants	481.64	22.89	410.78	17.77	553.75	20.17	521.85	19.11	464.72	17.26
7	Central Scheme Grants	76.95	3.66	67.56	2.92	183.96	6.70	114.46	4.19	91.86	3.41
8	Others	258.90	12.31	381.08	16.49	350.62	12.77	392.53	14.37	285.23	10.60
Total Grants		**1431.54**	**68.04**	**1582.34**	**68.46**	**1883.82**	**68.61**	**1813.69**	**66.40**	**1731.08**	**64.30**
Total Revenue Receipts		**2103.82**	**100.00**	**2311.25**	**100.00**	**2745.55**	**100.00**	**2731.41**	**100.00**	**2692.04**	**100.00**

Table V - 7

Town Panchayats

Sl. No.	Item	2010-11		2011-12		2012-13		2013-14		2014-15	
		Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage
Own Tax											
1	Total Tax	130.40	7.34	143.56	7.89	158.39	8.40	173.13	7.55	184.69	8.25
2	Total Non-Tax	227.29	12.80	260.79	14.33	294.13	14.27	337.37	13.79	339.79	15.18
3	Assigned Revenue	71.18	4.01	89.48	4.92	109.81	5.33	114.67	4.69	95.16	4.25
Total Own Revenue		**428.87**	**24.16**	**493.83**	**27.13**	**562.33**	**27.29**	**625.17**	**25.56**	**619.64**	**27.68**
4	SFC Devolution	494.14	27.83	516.45	28.38	695.69	33.76	831.65	34.00	746.03	33.33
5	CFC Grant	42.15	2.37	54.84	3.01	64.29	3.12	79.84	3.26	85.17	3.80
6	State Scheme Grants	469.91	26.47	421.67	23.17	384.09	18.64	473.45	19.35	392.98	17.55
7	Central Scheme Grants	121.56	6.85	98.01	5.39	104.37	5.06	172.14	7.04	135.93	6.07
8	Others	218.84	12.33	235.21	12.92	250.13	12.14	263.89	10.79	258.89	11.56
Total Grants		**1346.60**	**75.84**	**1326.18**	**72.87**	**1498.57**	**72.71**	**1820.97**	**74.44**	**1619.00**	**72.32**
Total Revenue Receipts		**1775.47**	**100.00**	**1820.01**	**100.00**	**2060.90**	**100.00**	**2446.14**	**100.00**	**2238.64**	**100.00**

5.9 Total own revenue of ULBs in the year 2014-15 constitutes 37.97% of total revenue receipts. In the Corporations, the proportion is higher at 42.56%. In Municipalities, it is 35.70% and 27.68% in Town Panchayats. The dependency ratio of Corporations, Municipalities and Town Panchayats on total grants is 57.44%, 64.30% and 72.32%, respectively. While their own revenue ratio improved during the period under review, Municipalities and Town Panchayats have to further increase the proportion of own source of income to meet their both obligatory and discretionary expenses.

5.10 Own tax revenue includes Property Tax, Advertisement Tax, Vacant Land Tax etc., and non tax revenue includes rent and lease on urban local body properties, user charges for providing services and fees collected for issue of license etc. Table V - 8 shows the breakup of various elements of own revenue of ULBs.

Table V - 8

Breakup of Own Source of Revenue of ULBs

Sl. No.	Item	2010-11 Rs. in Cr.	2010-11 Percentage	2011-12 Rs. in Cr.	2011-12 Percentage	2012-13 Rs. in Cr.	2012-13 Percentage	2013-14 Rs. in Cr.	2013-14 Percentage	2014-15 Rs. in Cr.	2014-15 Percentage
Own Tax											
1	Property Tax	997.20	39%	1036.75	33%	1218.34	32%	1334.85	31%	1425.91	33%
2	VLT	47.11	2%	56.75	2%	82.50	2%	95.31	2%	80.53	2%
3	Profession Tax	261.56	10%	296.11	9%	355.16	9%	401.04	9%	432.96	10%
4	Advertisement Tax	0.26	0%	0.27	0%	0.15	0%	0.42	0%	0.38	0%
5	Others	11.11	0%	7.77	0%	11.15	0%	16.67	0%	9.32	0%
Non-Tax Revenue											
6	D &O License Fee	17.22	1%	18.90	1%	21.11	1%	26.01	1%	31.45	1%
7	Building Licence Fee	77.19	3%	79.65	3%	100.36	3%	135.15	3%	108.88	3%
8	Bus Stand Fee	25.53	1%	25.96	1%	27.17	1%	28.92	1%	28.53	1%
9	Water Supply	228.00	9%	278.47	9%	307.42	8%	334.00	8%	377.66	9%
10	Rents & Lease	150.25	6%	171.28	5%	194.36	5%	199.04	5%	214.02	5%
11	Others	488.54	19%	741.05	24%	1007.77	26%	1138.08	27%	1086.51	25%
12	Assigned Revenue	36.82	1%	93.55	3%	176.85	5%	226.49	5%	183.99	4%
13	Surcharge on Stamp Duty	244.23	9%	313.49	10%	324.75	8%	346.95	8%	303.74	7%
Total Own Revenue		**2585.02**	**100%**	**3120.00**	**100%**	**3827.09**	**100%**	**4282.93**	**100%**	**4283.88**	**100%**
Property Tax / Own Revenue		**39%**		**33%**		**32%**		**31%**		**33%**	
Total Own Tax / Own Revenue		**50.96%**		**44.80%**		**43.57%**		**43.15%**		**45.50%**	
Total Non-Tax / Own Revenue		**49.04%**		**55.20%**		**56.43%**		**56.85%**		**54.50%**	

5.11 Property Tax accounts for between 39% in 2010-11 and 33% in 2014-15 of the own revenue. Non-tax revenues account for between 49.04% and 54.50% of own revenue in the same period. The aggregate total Own Revenue of ULBs is Rs.4283.88 Crore in the year 2014-15.

Own Tax Revenue of ULBs

Property Tax

5.12 Property Tax is the main source of income for ULBs. This is an ideal tax base for local bodies as it is not mobile and can be objectively verified and subjected to tax in a fair and equitable manner. Section 81 of the Tamil Nadu District Municipalities Act 1920 and relevant provisions in the other Urban Local Bodies Acts empower the ULBs to levy Property Tax on all Lands and Buildings within the ULB limits except those which are statutorily exempted. The Table below shows that Property Tax collection has ranged between 72 % and 76 % of the total tax collection of ULBs in the five year period from 2010-11 to 2014-15.

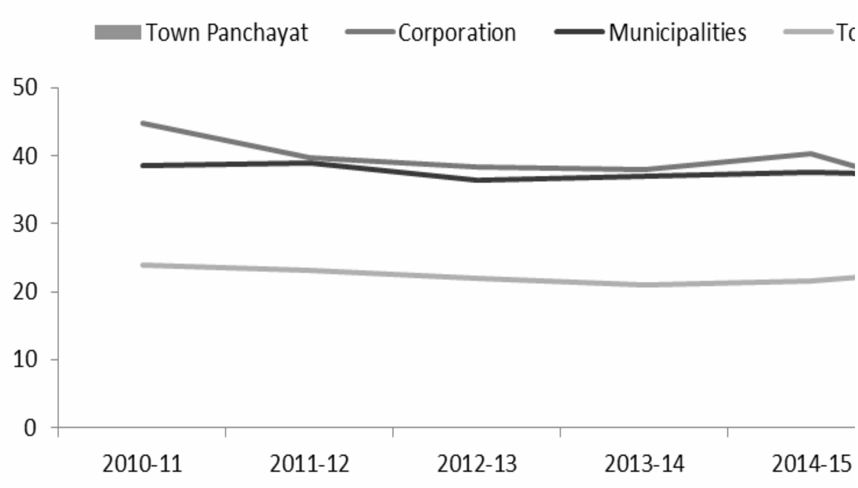
Table V - 9

Composition of own revenue and tax revenue to total revenue*

Ratios	2010-11	2011-12	2012-13	2013-14	2014-15	Median
Property Tax/Total Tax	76	74	73	72	73	73
Vacant Land Tax/ Total Tax	4	4	5	5	4	4
Profession Tax/ Total Tax	20	21	21	22	22	21
Advertisement Tax/Total Tax	0	0	0	0	0	0
Other Tax/Total Tax	1	1	1	1	0	1
Water Supply/ Non-Tax	23	21	19	18	20	20
Sewerage Charges/ Non-Tax	3	3	2	2	3	3
Other Non-Tax/Non-Tax	74	76	79	80	77	77
Total Tax/Total Own Revenue	57	52	50	50	51	51
Non-Tax/Total Own Revenue	43	48	50	50	49	49

Own revenue excluding assigned revenue

Property Tax Revenue as Percentage of Own Revenue



5.13 As shown in the above graph, in 2014-15 the share of Property Tax in own tax revenue was 39% in Corporations, 37% in Municipalities and 24% in Town Panchayats. The share of Property Tax in own revenue was more or less constant for Town Panchayats and Municipalities during the period 2010-11 to 2014-15, but it has decreased for Corporations.

Table V - 10

Collection Efficiency of Property Tax for ULBs

Property Tax – Demand, Collection and Balance

(*Rs. In Crore)*

		2010-11	2011-12	2012-13	2013-14	2014-15
Municipal Corporations						
Demand*	Current	564.17	712.50	829.02	884.65	935.01
	Arrear	576.73	537.22	573.77	601.13	788.39
	Total	**1140.90**	**1249.72**	**1402.79**	**1485.78**	**1723.40**
Collection*	Current	436.31	508.58	585.62	680.29	704.34
	Arrear	188.73	166.96	221.96	172.78	278.01
	Total	**625.04**	**675.54**	**807.58**	**853.07**	**982.35**
Balance	Current	127.86	203.92	243.40	204.36	230.67
	Arrear	388.00	370.26	351.81	428.35	510.38
	Total	**515.86**	**574.18**	**595.21**	**632.71**	**741.05**
Percentage of Collection	Current	77.34	71.38	70.64	76.90	75.33
	Arrear	32.72	31.08	38.68	28.74	35.26
No. of assessments		**1882613**	**2701048**	**2921888**	**3007451**	**3061933**
Percentage of growth			**43.63**	**8.10**	**3.00**	**1.81**
Municipalities						
Demand*	Current	239.02	256.59	277.03	301.70	319.30
	Arrears	213.81	222.15	227.07	201.15	291.11
	Total	**452.83**	**478.74**	**504.10**	**502.85**	**610.41**
Collection*	Current	179.13	200.00	222.25	249.12	267.79
	Arrears	60.05	57.05	70.16	52.33	47.41
	Total	**239.18**	**257.05**	**292.41**	**301.45**	**315.20**
Balance	Current	59.89	56.59	54.78	52.57	51.51
	Arrears	153.76	165.10	156.92	148.82	243.70
	Total	**213.65**	**221.69**	**211.70**	**201.39**	**295.21**
Percentage of Collection	Current	75	78	80	83	84
	Arrears	28	26	31	26	16
No. of assessments		**2126152**	**2174624**	**2260679**	**2333430**	**2443911**
% of growth			2.285	3.96	3.22	4.73
Town Panchayats						
Demand *	Current	84.52	90.10	95.45	104.41	112.07
	Arrear	43.71	44.68	45.62	46.75	45.59
	Total	**128.23**	**134.78**	**141.08**	**151.15**	**157.65**
Collection	Current	70.26	77.40	84.21	93.09	100.07
	Arrear	12.71	10.90	11.98	10.38	12.21
	Total	**82.97**	**88.30**	**96.19**	**103.47**	**112.28**
Balance	Current	14.26	12.70	11.24	11.32	12.00
	Arrear	31.01	33.78	33.65	36.37	33.38
	Total	**45.26**	**46.48**	**44.89**	**47.69**	**45.37**
Percentage of Collection	Current	83.13	85.90	88.22	89.16	89.29
	Arrear	29.07	24.40	26.25	22.20	26.79
No. of Assessments		**2151313**	**2219455**	**2284907**	**2339228**	**2590525**
Percentage of growth			3.17	2.95	2.38	10.74

5.14 An analysis of the demand collection balance of Property Tax of ULBs in Tamil Nadu shows that the collection efficiency is highest in Town Panchayats where the collection of current demand has ranged between 83% and 89% in the last five years, while it is lowest for Corporations where it has ranged between 70% and 77%. This has meant that more arrears have been left to be collected in Municipalities and Corporations. In terms of the tax collection ratio, Town Panchayats reached the target set by JNNURM (85%).

5.15 However, the DCB table indicates the demand as per the books and does not indicate whether all properties that are to be taxed have been subjected to tax or not. The trends in increase in the current demand give some indication of the efforts made to bring more properties into the tax base. The growth of the current demand in Municipal Corporations shows a decelerating trend with the growth rate in current demand declining from 26.29% in 2011-12 to16.35% in 2012-13 and further to 6.71% in 2013-14 which implies that addition to the tax base has slowed down. Arrear collection has grown 13% (corporations), 3% (municipalities) and 8% (town panchayats) per annum. Arrear collection rates are higher for Corporations, but they also have a high level of arrear demand to current demand.

5.16 The per capita and per property current and arrear demand and collection of Property Tax from the year 2010-11 to 2015-16 by categories of ULBs are summarized in the table below.

Table V - 11

Per capita and Per Property Demand and Collection of Property Tax

Property Tax	Corporations			Municipalities			Town Panchayats		
	2010-11	2015-16	CAGR	2010-11	2015-16	CAGR	2010-11	2015-16	CAGR
Per Capita Property Tax Demand (Rs.)									
Current	549	663	4%	289	333	3%	104	135	5%
Arrear	561	565	0%	258	202	-5%	54	50	-2%
Total	**1110**	**1228**	**2%**	**547**	**535**	**0%**	**158**	**185**	**3%**
Per Capita Property Tax Collection (Rs.)									
Current	425	478	2%	217	258	4%	87	113	5%
Arrear	184	234	5%	73	68	-1%	16	22	7%
Total	**609**	**712**	**3%**	**290**	**326**	**2%**	**103**	**135**	**6%**
Current Demand / property	3000	3084	1%	1124	1377	4%	393	509	5%

Current Collection / property	2320	2225	-1%	843	1067	5%	327	426	5%
Total Demand / property	**6067**	**5713**	**-1%**	**2105**	**2370**	**2%**	**596**	**698**	**3%**
Total Collection / property	**3324**	**3311**	**0%**	**1112**	**1447**	**5%**	**386**	**508**	**6%**

5.17 As per the data collected by the Commission from the ULBs, the per capita current demand for Property Tax in Municipal Corporations has increased from Rs.549 in 2010-11 to Rs.663 in 2015-16 with 4% growth per annum. Per capita current Property Tax collection has increased from Rs.425 in 2010-11 to Rs.478 in 2015-16 with 2% growth per annum. The per capita incidence of Property Tax in Municipalities is about 50 per cent of the level found in Corporations and in Town Panchayats it is about one-fourth the level. Individual local body wise analysis of the incidence of Property Tax could enable focused efforts in enhancing Property Tax collection even without increasing the rates.

5.18 The per property incidence of Property Tax is also quite revealing. The proportion between Corporations, Municipalities and Town Panchayats is approximately 9:3:1. This implies that it is possible that although the rates in the Corporation areas are significantly higher, when juxtaposed to the proportion of per capita incidence, there is a possibility that there are more persons per property in the Corporations which could also imply that some properties are not captured in the net. Per property demand of Property Tax in Corporations has marginally increased from Rs.3000/- in 2010-11 to Rs.3084/- in 2015-16, while per property collection has decreased during the period from Rs.2320/- to Rs.2225/-. Similarly, the Corporations perform better in arrear collection and its growth per annum (5%) is higher than the growth of the per capita arrear demand. Town Panchayats and Municipalities have performed better in terms of higher growth per property collection and demand compared to Corporations.

State wise Comparison of Property Tax

5.19 The Commission had entrusted a study on “Impact of Urbanization on Government Finances and Tracking Property Tax Potential” to the Madras School of Economics. From this study and certain other reports, including the 14th CFC commissioned study through the Administrative Staff College of India, Hyderabad on “Municipal Finances and Service Delivery in India”, some cross State comparisons on Property Tax along selected indicators like the proportion of Property Tax to Own Tax

Revenue and Property Tax as a proportion of Revenue Expenditure, both of which indicate dependency; the per capita collection of Property Tax and proportion of Property Tax to GSDP is presented. The interstate comparison has confined itself to a group of like or comparator States in each category based on availability of data.

5.20 In 2007-2008, Property Tax as a percentage of own tax revenue in Tamil Nadu was 53%, but by 2012-2013 this proportion had declined to 48% and stands at 6th rank amongst states. As Table V – 12 below shows, in some States, Property Tax as a proportion of Own Tax Revenue even exceeded 60 per cent.

Table V - 12

Property Tax as a percentage of Own Tax Revenue of ULBs

(Rs. In Crore)

States	Property tax		Own Tax Revenue		Property tax as a % of OTR	
	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
Assam	40	96	65	190	62%	51%
Karnataka	616	1357	1057	2431	58%	56%
Kerala	118	226	213	363	55%	62%
Madhya Pradesh	188	366	350	682	54%	54%
Tamil Nadu	749	1203	1423	2520	53%	48%
Uttar Pradesh	365	712	795	1198	46%	59%

Source: *Compiled and calculated from "Municipal Finance and Service delivery in India", 14th CFC.*

5.21 The tier wise property tax collection as a percentage of expenditure of ULBs for selected States is presented in Table V -13 below:

Table V - 13

Property Tax to Revenue Expenditure (Self-Reliance Indicator)

State	Municipal Corporation		Municipality		Nagar Panchayat		Total	
	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
Andhra Pradesh	37%	50%	46%	66%	32%	46%	39%	52%
Gujarat	22%	19%	76%	82%	NA	NA	33%	29%
Karnataka	54%	44%	61%	57%	67%	47%	55%	45%
Maharashtra	31%	26%	25%	16%	NA	NA	31%	25%
Tamil Nadu	36%	32%	31%	25%	25%	22%	32%	28%
West Bengal	28%	37%	19%	11%	3%	3%	25%	28%

Source: *Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.*

5.22 In both Andhra Pradesh and Karnataka, the proportion of Property Tax to the Revenue Expenditure of the ULBs is significantly higher. Even in the case of Gujarat and Maharashtra, where octroi is a significant local body revenue, the proportion of Property tax to revenue expenditure is quite high. In the case of Tamil Nadu for all three categories of ULBs, the proportion of Property Tax to Revenue Expenditure has actually declined by 4 per cent in the period between 2007-08 to 2012-13.

5.23 Table V -14 shows the Per Capita Property Tax of three categories of ULBs in some major States,

Table V - 14

Per Capita Property Tax of ULBs and ranks of Major States

State	Per Capita Property Tax in Major States(2012-13)					
	Per Capita Property Tax in major States (2012-13) (Rs.)			Ranks (using Per capita property tax)		
	Municipal Corporation	Municipality	Nagar Panchayat	Municipal Corporation	Municipality	Nagar Panchayat
Andhra Pradesh	914	304	471	4	2	1
Gujarat	479	677	0	6	1	6
Karnataka	947	271	30	3	4	3
Maharashtra*	1787	289	0	1	3	6
Tamil Nadu	773	289	134	5	3	2
West Bengal	1170	102	15	2	5	4
Total	**813**	**206**	70			

**For Maharashtra information on Nagar Panchayats not available.*

Source: *Compiled and calculated from "Municipal Finance and Service Delivery in India", 14th CFC*

5.24 It is matter of concern that in all three categories of ULBs, although Tamil Nadu ranks quite high, the per capita property tax collection, particularly in Corporations lags behind comparator States. Given that Tamil Nadu's per capita income is also higher than some of the comparator States, including the neighbouring States of Andhra Pradesh and Karnataka, this clearly implies that there is unexploited Property Tax collection potential.

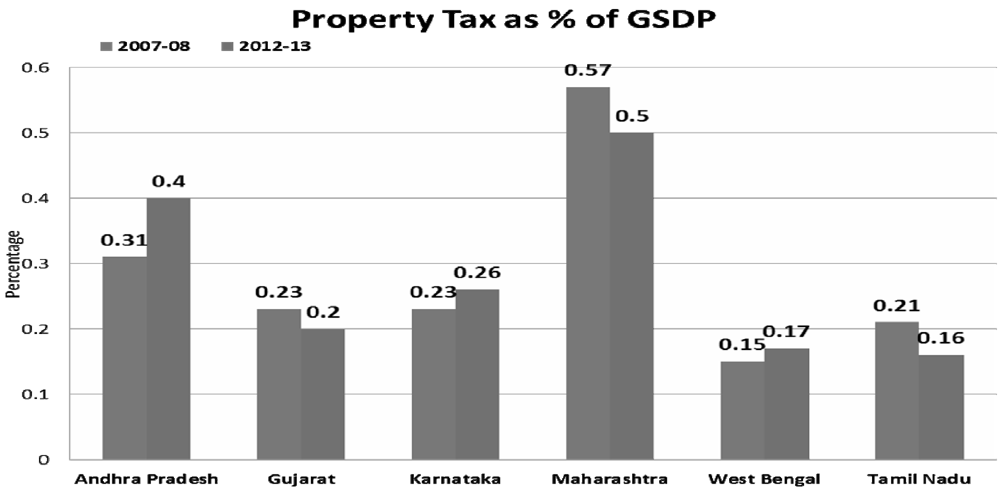
5.25 Table V - 15 below presents the State-wise collection of Property Tax as a proportion of GSDP for select States. The 13th Finance Commission estimated that the national average of the proportion of property tax to GDP is 0.16 per cent to 0.24 per cent. The average for developed countries for the 2000-2009 period was 2.12 per cent of GDP for OECD Countries, and 0.60 per cent for developing countries, and 0.67 for transition countries.

Table V - 15

Property tax as percent of GSDP and Ranks of States

State	2007-08	2012-13	CAGR (%)	% OF PT TO GSDP 2007-08	% of PT to GSDP 2012	Rank in 2007-08	Rank in 2012-13
Andhra Pradesh	662	1642	19.9	0.31	0.40	2	2
Gujarat	773	1302	11	0.23	0.20	3	4
Karnataka	616	1357	17.1	0.23	0.26	4	3
Maharashtra	3911	6614	11.1	0.57	0.50	1	1
Tamil Nadu	749	1203	9.9	0.21	0.16	5	6
West Bengal	442	1004	17.8	0.15	0.17	6	5

Source: *ASCI (2014)*



Source: *Own calculations*

5.26 Tamil Nadu, has one of the highest State's Own Tax Revenue as a proportion of GSDP at 9.6 per cent in 2012-13 as per the 14th Finance Commission Report, which is much higher than the all India average of 6.4 per cent. However, Tamil Nadu's Property Tax as a proportion of GSDP was 0.21 per cent in 2007-08 and this actually declined to 0.16 per cent in 2012-13. Hence, Tamil Nadu is below the national average on this measure and is also significantly lower than the States of Maharashtra, Andhra Pradesh, Karnataka and Gujarat. This is clearly an area of concern.

5.27 The above analysis indicates that Tamil Nadu is lagging in utilizing the potential of Property Tax. What is a challenge, is also an opportunity. The State is already a leader in terms of collection of State's Own Tax Revenue. Potential for enhancing SOTR is thus limited. The introduction of GST also means that the State's ability to take up additional resource mobilization measures in a major area of State taxation will now be considerably constrained. Hence, the area to focus on to raise additional revenue to meet an increased portion of the huge expenditure required to provide quality urban infrastructure, is Property Tax. The Government of Tamil Nadu in the Vision Tamil Nadu 2023 envisages expenditure on Urban Infrastructure of Rs.2,63,350 Crore. Finding innovative means of financing this requirement, including through enhancing Property Tax collection should be the goal of the State. The Commission recommends that the State should target to reach at least the developing country average of Property Tax collection, which is 0.60 per cent of GSDP by the end of the Fifth State Finance Commission's award period.

5.28 Although the target may seem ambitious, reaching the target may not require significant enhancement of the rates of taxation and can be achieved by addressing certain key issues. Property tax collection depends on the following factors:

i. Updation of Property Registers and enumeration of properties for taxation
ii. Improving collection efficiency
iii. Assessment and valuation system
iv. Extent of exemptions; and
v. Tax rate

All of these issues need to be attended to in the Tamil Nadu context to increase Property Tax realization.

Updation of Property Tax Register and Enumeration of Properties

5.29 It is estimated that the absence of regular updating of assessment registers leads to 20% to 25% of properties in ULBs going unassessed or under assessed. The number of assessments and total demand by type of properties are given in Table V - 16 below.

Table V - 16

Number of Assessments and Total Demand by Type of Property

Category	Number of Assessments (As on March 2015)			Annual Tax Demand (Rs in Crore)		
	Corporations	Municipalities	Town Panchayats	Corporations	Municipalities	Town Panchayats
Residential	2746479 (89%)	2116730 (86%)	2394201 (92%)	439.35 (48%)	221.58 (63%)	79.01 (65%)
Commercial	231780 (7%)	292605 (12%)	182783 (7%)	352.91 (45%)	86.30 (23%)	19.61 (17%)
Industrial	81882 (3%)	34400 (1%)	13257 (1%)	77.11 (3%)	21.12 (6%)	12.34 (12%)
Others *	1822 (1%)	176 (1%)	284 (1%)	65.64 (4%)	9.70 (8%)	1.11 (7%)
Total	3061933 (100%)	2443911 (100%)	2590525 (100%)	935.01 (100%)	319.30 (100%)	112.07 (100%)

Source: *Own calculations based on SFC data*

5.30 As expected, the largest proportion of the properties are residential. The commercial Property Tax rates in Corporations are significantly higher than the general rates, and as a result although only 7 per cent of the assessed properties are commercial, they account for 45 per cent of the tax. In Municipalities, 12 per cent of the properties are commercial and yield 23 per cent of the revenue and in Town Panchayats, 7 per cent of the properties are commercial and they yield 17 per cent of the revenue. This leads to the conclusion that there could be room to reclassify more properties in Corporations as commercial, when compared to the number of commercial properties in municipalities. In municipalities in particular, there could be grounds to review the rate of tax on commercial properties.

Table V - 17

Number of Property Tax Assessments (2010-11 to 2015-16)

Year	Corporations		Municipalities		Town Panchayats	
	No. of Assessments	Growth (%)	No. of Assessments	Growth (%)	No. of Assessments	Growth (%)
2010-11	1880613	-	2126152	-	2151313	-
2011-12	2701048	43	2174624	2	2219455	3
2012-13	2919888	8	2260679	4	2284907	3
2013-14	3007451	3	2333430	3	2339228	2
2014-15	3061933	2	2443911	5	2590525	11

Source: *Own calculations based on SFC data*

5.31 The number of assessments in Municipalities and Town Panchayats increased 4.18% per annum. The increase in assessments was higher for corporations mainly due to the addition of assessed properties in 2011-12 from added areas due to reclassification of ULBs in 2010. The consequent decline in Municipalities was made up by reclassification of Town Panchayats as Municipalities. The fact that the number of assessments did not decline in Town Panchayats implies that new assessees were added post reclassification which is creditable.

5.32 The number of Property Tax assessments have not significantly increased in the 5 years from 2011-12. According to rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books shall be updated by the executive authority once in 5 years. Due to the non-implementation of quinquennial revision, the Master Registers have not been updated. This underlines the urgency for the quinquennial revision.

5.33 Detailed guidelines and instructions have been incorporated in the Municipal Manual to maintain a Register of Building Licenses issued for construction and reconstruction and to verify the data of completion or occupation of the building for the assessment of Property Tax. Improved coordination between the Town Planning Wing and Revenue Wing would lead to sharing of data regarding planning permissions, construction and completion. This linkage could be structurally strengthened through an automated work flow process between the Town Planning and Revenue wings. This can be done through generating Temporary Assessment Numbers whenever Building Licenses are issued by the Town Planning wing, and when the building is completed and completion certificate is issued, it is automatically taken up for assessment by the Revenue wing. In Chennai, where the powers to permit different types of buildings are with different authorities, ranging from the Corporation to CMDA to the Government, an online link between the databases of CMDA and Corporation of Chennai would ensure a fool proof system of updation of Property Tax registers. This could be done alongside the automation and online process proposed to be introduced for Building Plan clearances in CMDA.

5.34 Use of Geographical Information System (GIS) mapping to identify the omitted properties and to bring them under Taxation have already been recommended by both the Central and State Finance Commissions in the past. The CMA has informed that GIS study has been completed for 17 ULBs under the Tamil Nadu Urban Development Project (TNUDP) III and GIS mapping is to be taken up in the remaining Municipalities and City Municipal Corporations under the Tamil Nadu Sustainable Urban Development Project (TNSUDP). As per the GIS survey report, the details of the unassessed and under assessed properties made available for 5 ULBs taken up in the first phase are as follows:

Table V - 18

Number of ULB	Total No. of Assessments	No. of unassessed properties	No. of under assessed properties
Erode (C)	122358	15086	71014
Dindigul (C)	42919	3323	18033
Virudhunagar (M)	31473	234	18782
Sivaganga (M)	16934	723	11599
Ooty (M)	22981	5036	14623
Total	**236665**	**24402**	**134051**

5.35 The total additional revenue potential realized as a result of this exercise in these 5 ULBs is estimated at Rs.85.53 crores.

5.36 The Commission strongly recommends that GIS mapping of all ULBs in the State, be completed in a time bound manner. It is learnt that in TNSUDP, provision has been made to complete GIS mapping for all the remaining 118 Corporations and Municipalities. Town Panchayats have been left out of this coverage. Only Ponneri Town Panchayat was covered on a pilot basis. The Commission recommends that a sum of Rs.35 crore may be set aside out of the SFC devolution to complete GIS mapping of all the Town Panchayats.

5.37 It was also brought to the attention of the Commission that at the time of conversion of the manual Property Tax demand - collection register to the digitized system during 2000-01, there had been some omissions in the updation of Property Tax demand. This should be eliminated through special efforts.

5.38 In 2011-12, when eight Corporations and eight Municipalities were upgraded and expanded with the addition of adjoining Panchayats, Town Panchayats and Municipalities, the Property Tax registers of the merged Local Bodies were not fully computerized and linked with the existing Property Tax module of the Corporations. This need to be rectified and the Property Tax systems should be integrated to enable effective and convenient tax collection from the entire tax base.

Improving Collection Efficiency

5.39 It has already been seen that the collection efficiency of Corporations and Municipalities is below 80 per cent. Efforts are required to improve collection efficiency in order to prevent the further build-up of arrears. Revenue Assistants should verify the list of defaulters, take appropriate action to collect the tax, and scrutinize the self assessment returns which are submitted online and take action to raise the demand. Further, Property Tax Clearance Certificate may be made mandatory to acquire the Government benefits and to avail services like electricity connections.

5.40 Greater awareness building through IEC programmes to pay Property Tax can be undertaken, similar to the advertisement campaigns undertaken for Income Tax and Service Tax payment. The expenditure on such campaigns can be shared on a pro rata basis by the ULBs. The IEC programmes could also involve the Residents Welfare Associations, local NGOs and Chambers of Commerce.

5.41 Advance payment of Property tax may be encouraged as recommended by the Fourth SFC. Accordingly, the Commission recommends that prompt payment rebates should be offered to encourage payment before time. Incentives can be given to Wards and Streets which show the best collection performance, in terms of percentage of collection by implementing small special schemes exclusively in that area. Penalty should be imposed for belated payments. Tax defaulters list should be published by the ULBs soon after the close of the financial year.

5.42 A tax payer living in one zone of the Corporation cannot access the facility of paying the tax in another zone or through any service centres. An online system would facilitate “anywhere anytime” payment of tax. Implementation of such an online system should be a priority task.

5.43 There continue to be arrears of Property Tax due from State Government departments for their buildings. The accumulated arrears as on 31.03.2015 in Municipalities and Corporations were reported to be Rs.34.82 Crore and Rs.55.17 Crore respectively. A mechanism initiated by the Commissioner of Municipal Administration to ensure that department-wise and local body wise demands for Property Tax are consolidated and adequate budgetary provision is sought from the Finance Department in the relevant heads of account should be put in place to prevent accumulation of arrears.

5.44 The Supreme Court has upheld the levy of Service Charges on buildings belonging to the Central Government Departments. The Ministry of Urban

Development, Government of India has issued certain guidelines to all the State Governments for regulating the payment of Service Charges in respect of Central Government properties in the ratio of 75%, 50% or 33⅓ of Property Tax depending on the utilization of full or partial or nil services. ULBs must ensure timely collection of the Service Charges. Instances of refusal to pay Service Charges must be taken up with the Government of India through the Government of Tamil Nadu. The executive instructions on payment of Service Charges should be replaced through a suitable legislation at the earliest.

5.45 There are large arrears in Property Tax in ULBs due to litigation. The reasons for pendency of civil cases have to be thoroughly examined and a special drive launched to ensure speedy disposal.

5.46 One of the channels of revenue leakage in ULBs is write off of Property tax demand. As long as the property continues to be in existence, write off of Property Tax for reasons such as "present address of the owner is not available", as has come to light in some audit reports of the Director of Local Fund Audit and of the C & AG, is not acceptable. As far as Property Tax is concerned, so long as the property is in existence, the owner, his legal heirs, executor or administrators are responsible for payment of Property Tax. In the case of liquidation, the first charge on the sale proceeds of the property is Property Tax. Therefore, the Property Tax should not be subjected to write off except in cases such as double taxation or error in calculation. The Commission recommends that strict instructions should be issued to ULBs not to encourage write off of Property Tax quoting reasons commonly quoted for other types of dues.

Assessment and Valuation Systems

5.47 The 14th CFC had noted that mostly there is a convergence of views in SFC reports that Property Tax should be levied on plinth area basis. In Tamil Nadu, before 1993, the Property Tax was assessed by the annual rental value method and by the capital value method. While calculating Property Tax in the annual rental value method, the monthly rental value of the buildings multiplied by 12 was taken to be the gross value of the property with deduction of 10% in lieu of allowances for repairs. In the capital value method, 6% of the total cost of the estimated value of the land and buildings had been taken as an annual value of the property. After arriving the annual ratable value, the tax payable on the property is fixed based on the rate of the taxation.

5.48 With effect from 1.10.1998, the Government of Tamil Nadu introduced a common method of calculation for arriving at the property tax in ULBs. While assessing the Property Tax in this method, the following details are taken into account to arrive the basic value of the property.

- Area of the building
- Age of the building
- Type of the building (i.e. RCC Roof, Tiled Roof and Thatched and AC Sheet)
- Usage of the building i.e. Residential, Commercial and Industrial
- Zonal value of the ULB concerned.

5.49 Depreciation has been allowed for age of the building and discount is allowed for the type of the building i.e. for tiled roof, AC sheets and for thatched roofing. After allowing all the depreciations and discounts, the value of the property is calculated as per the zonal value of the ULB concerned. Finally, the Property Tax is arrived at based on the annual value of the building x rate of taxation. Ceiling has also been fixed for residential, commercial and industrial buildings to restrict the increase of Property Tax while conducting quinquennial revision. This method of assessing the tax created, in practice, several incongruities and inconsistencies amongst residential, commercial and industrial properties causing a lot of litigation.

5.50 The Commission during its interactions with experts, elected representatives and officials received several suggestions about the need to change the method of assessing property values to an Area Based Mechanism in which the basic land value is linked to the Guideline Value of the land as periodically revised by the Registration Department with appropriate discounts and rebates based on the use, location, quality and age of the building. The Commission had a detailed interaction with Thiru.U.A.Vasantha Rao, who had led the Property Tax Reforms in Bengaluru which resulted in a substantial increase in revenue. The Commission recommends that an Area Based Property Assessment System may be considered for adoption in Tamil Nadu as well.

5.51 While determining the Property Tax payable, the value of the property has to be arrived at based on the guideline value of the land, the value of the building, the built up area, number of floors and usage. The properties could be grouped into the following indicative categories:

- i. Properties with ground floor only
- ii. Properties with ground + 2nd floor
- iii. Properties with ground + 2nd floor + 3rd floor
- iv. Properties on residential
- v. Commercial use
- vi. Apartments
- vii. Industrial properties,
- viii. Special class buildings.

5.52 As per the Rule 6 (A) Schedule IV of the Tamil Nadu District Municipalities Act, 1920 the Director of Municipal Administration may prescribe suitable guidelines for fixing the reasonable annual value of the land and buildings from time to time to arrive at the Property Tax. The Commission suggests that the Director of Municipal Administration may examine and introduce the new method of Property Tax calculation. The Government may mandate the adoption of the new methodology during the next revision of property tax. The adoption of such a methodology will also eliminate the discrepancies which have crept into assessment of properties which were assessed prior to 01.10.1993.

5.53 The Commission also recommends that as the proposed methodology for Property Tax assessment will enable an automatic calculation of the tax to be paid based on data, some of which, like the guideline value of the land is already available online and the rest could be provided by the assesse directly, like the type of building, plinth area etc., the system of self-assessment could now be effectively utilized, with provisions for scrutiny and audit to ensure that the self-assessment has been done correctly. Filing of self-assessment return by the taxpayer was introduced in Tamil Nadu in 1998. The response from the property owners to this system has not been encouraging. The system has to be popularized by simplifying it and making it an on-line automated process, in which the tax payer would be informed about the amount due immediately on filling in the requisite details about the property.

Property Tax Board

5.54 The Government established a Property Tax Board in compliance with the recommendations of the 13th CFC to help to determine valuation of properties. The Property Tax Board has not started functioning effectively as of yet. The Commission recommends that the Property Tax Board should be activated and disputes relating to valuation of property referred to the Board for speedy resolution.

Extent of Exemptions

5.55 Article 285 of the Constitution exempts Central Government properties from the levy of property tax. Although this issue has been partially addressed through the service charges being now permitted to be levied, this exemption, which treats Central and State Government properties differently is anachronistic and requires to be revisited.

5.56 As a general policy, the State Government should not provide exemptions to any entity from the tax and non-tax levies of local bodies. In cases, where the grant of such an exemption becomes necessary, the local bodies should be compensated for the loss.

5.57 Under Section 83(c) of the Tamil Nadu District Municipalities Act 1920 and similar provisions in the different City Municipal Corporation Acts, educational institutions are exempted from the levy of Property Tax. At present there are a large number of Self Financing Educational Institutions, which levy high fees and are not run on a charitable basis. In such cases, exemption from payment of Property Tax is not justified, considering that these institutions do extensively make use of civic services. In rural areas, such self-financing educational institutions are subject to levy of House Tax which is already being collected. Anomalous situations arise when a Village Panchayat is merged with a nearby ULB and such self-financing educational institutions hitherto paying House Tax in the Village Panchayat are no longer liable to Property Tax. Hence, the Commission recommends that the buildings of self-financing educational institutions should be subjected to tax at an appropriate rate.

5.58 The Fourth SFC had recommended the levy of additional House Tax/Property Tax on the owners of the buildings having cell phone towers as applicable to commercial buildings. In the Commission's interactions it was found that most cell phone towers have not been brought into the tax net. Suitable guidelines should be issued to ULBs by the CMA and DTP under the relevant provisions of the Act and Rules to assess Property Tax on cell phone towers based on the height and capacity.

Tax Rates and Revisions

5.59 According to Rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books shall be updated by the executive authority once in 5 years. This forms the basis for quinquennial tax revisions, which are the backbone for the fiscal health of ULBs. The Government should ensure the periodical revision of Property Tax which will improve the financial position of the ULBs. The last revision of Property Tax in most ULBs except Chennai Corporation and the four Municipalities viz., Kallakurichi, Villupuram, Periakulam and Paramakudi was carried out in 2008. The revision which was due in 2013 has not been carried out so far. Rule 8(1) (A) permits a maximum postponement of 7 half years by the Government of the quinquennial revision. Hence the non-revision could soon amount to a violation of the statutory provisions.

5.60 The last revision of Property Tax in Chennai Corporation took effect from 01.04.1998. The Fourth SFC had observed: "The Chennai Corporation which has to meet a huge gap in infrastructure provision should feel financially bold to plan for future demand and improve its maintenance functions. Given this requirement, non-revision of Property Tax will seriously affect the revenue mobilisation effort of the Corporation and consequently will be a contributing factor for infrastructure gaps and deficiency in maintenance. A situation of no revision in the Corporation, while the surrounding Municipalities, Town Panchayats and Village Panchayats keep revising Property Tax and user charge is also inexplicable." This observation is even more valid today. The stalling of the general revision is a serious setback to ULBs seeking to augment internal resources.

5.61 Section 81(A) of the District Municipalities Act 1920, empowers the State Government to publish a notification directing any Municipal Council to levy Property Tax or any other taxes. Section 81 (A) (2) makes it obligatory on Municipal Councils to give effect to the tax at the rate indicated in the Government notification. Sub-section

(3) prevents the Municipal Councils from reducing the rate of tax to below what has been notified by Government. Section 81(A) was inserted by a specific amendment in 1944. The purpose appears to have been to force the Municipalities to either levy or enhance the rate of tax. Now a notification under this section has come to be seen as a requirement for ULBs to revise taxes in their jurisdiction. This is an incorrect interpretation and has led to prolonged periods of non-revision of taxes. Section 81(A) should be seen as only a safeguard for revenue, whereby the local body is restrained from either doing away with a tax or reducing the rate of levy. The Commission recommends that Government may issue suitable instructions reiterating the above legal position and thereby ensure that timely and appropriate general revision of taxes is carried out by the respective ULBs.

5.62 As per established practices and procedures to carryout quinquennial revision of Property Tax, the ULB authorities have to conduct revision with the assistance of Special Revision Officers who inspect each and every house / building / vacant land in the jurisdiction of the entire town, thereby preventing escaped assessments and under-assessments. In the general revisions conducted in 1998 and 2008, no Special Revision Officers were appointed and the revised assessment registers were prepared by the ULB authorities with the help of available revenue employees. The Government must ensure that adequate support staff are made available for the next General Revision and a scientific basis of assessment with application of GIS technology is adopted.

5.63 On the previous occasion that a General Revision of Property Tax was carried out, ceilings were placed on the enhancement of Property Tax as indicated below:

Table V -19

1	Residential Building (Whether Owner occupied or rented)	25%
2	For Industrial Building	100%
3	For Commercial Building	150%

5.64 The ceilings are arbitrary and tend to perpetuate the under assessments made during previous revisions. This is unfair to other Property Tax payers. The Fourth SFC had recommended to remove the ceiling on the fixation of Property Tax fixed for general revision in respect of all categories of buildings. The Commission recommends that no arbitrary ceiling limits should be placed on extent of revision of Property Tax.

5.65 Recommendations

i. **The target for Property Tax collection for ULBs should be fixed to reach 0.60 percent of GSDP by the last year of award period i.e., 2021-22. (para 5.27)**

ii. **The coordination between the Town Planning and Revenue Wings should be structurally strengthened through an automated work flow process with data sharing regarding planning permissions, construction and completion to ensure that properties are brought to tax promptly. (para 5.33)**

iii. **In Chennai, where the powers to permit different types of buildings are with different authorities, ranging from the Corporation to CMDA to the Government, an online link between the databases of CMDA and Corporation of Chennai would ensure a fool proof system of updation of Property Tax registers. This could be done alongside the automation and online process proposed to be introduced for Building Plan clearances in CMDA. (para 5.33)**

iv. **GIS mapping of all ULBs to bring left out properties to assessment should be completed in all Municipalities and Corporations. A special drive should be launched for Town Panchayats as well to cover all Town Panchayats in a phased manner during the award period. (para 5.34)**

v. **The Computerisation of the Property Tax system must be speedily completed and online Self Assessment of Property Tax should be implemented with the necessary enabling amendments to the Tamil Nadu District Municipalities Act, 1920 and other City Municipal Corporations Act. (para 5.38)**

vi. **Property Tax Clearance Certificate may be made mandatory to acquire the Government benefits and to avail the service like electricity connections. (para 5.39)**

vii. Greater awareness building through IEC programmes to pay Property Tax can be undertaken, similar to the advertisement campaigns undertaken for Income Tax and Service Tax payment. The expenditure on such campaigns can be shared on a pro rata basis by the ULBs. The IEC programmes could also involve the Residents Welfare Associations, local NGOs and Chambers of Commerce. (para 5.40)

viii. Prompt payment rebates should be offered to encourage payment before time. (para 5.41)

ix. Incentives can be given to Wards and Streets which show the best collection performance, in terms of percentage of collection by implementing small special schemes exclusively in that area. (para 5.41)

x. Penalty should be imposed for belated payments. Tax defaulters list should be published by the ULBs soon after the close of the financial year. (para 5.41)

xi. "Any time anywhere" remittance systems should be enabled for Property Tax in all ULBs (para 5.42)

xii. A mechanism should be initiated by the Commissioner of Municipal Administration to ensure that department wise and local body wise demand for Property Tax are consolidated and adequate budgetary provisions sought from the Finance Department under the relevant heads of account to prevent accumulation of arrears on State Government buildings. (para 5.43)

xiii. Government should take up necessary amendments to Article 285 of the Constitution to make Central Government, buildings liable for Property Tax. In the interim, Ministry of Urban Development, Government of India must be impressed upon to make statutory provisions enabling levy of service charges to replace the current

executive instructions which have proved ineffective. (para 5.44 & 5.55)

xiv. Strict instructions should be issued to the Urban Local Bodies not to encourage write off of Property Tax quoting invalid reasons since properties are stationary. (para 5.46)

xv. The differences in the methodology of tax calculation between properties belonging to the period prior to 1993 and post 1993 should be done away with and all urban properties should be treated alike. (para 5.52)

xvi. An Area Based Property Assessment System should be introduced for Property Tax. The value of the property should be determined based on the guideline value of the land, the value of the building, the built up area, type and quality of construction, number of floors and its usage. The Government should mandate the adoption of the new methodology during the next revision of Property Tax. (para 5.50, 5.51 & 5.52)

xvii. As the proposed methodology for Property Tax assessment will enable an automatic calculation of the tax to be paid based on data, some of which, like the guideline value of the land is already available online and the rest could be provided by the assesse directly, like the type of building, plinth area etc.. The system of self-assessment could then be effectively utilized, with provisions for scrutiny and audit to ensure that the self-assessment has been done correctly. Filing of self-assessment return by the taxpayer was introduced in Tamil Nadu in 1998. The response from the property owners to this system has not been encouraging. The system has to be popularized by simplifying it and making it an on-line automated process, in which the tax payer would be informed about the amount due immediately on filling in the requisite details about the property. (para 5.53)

xviii. The Property Tax Board should be activated and disputes relating to valuation of property referred to the Board for speedy resolution. (para 5.54)

xix. The list of tax exempted properties under section 81 of the District Municipalities Act 1920 should be reviewed and minimized, specifically self financing educational institutions should be brought under the Property Tax net by suitably amending the Act. (para 5.57)

xx. Cell Phone towers and buildings on which such towers are situated should be assessed to Property Tax as commercial buildings with the levy based on the height and capacity of the cell phone towers. (para 5.58)

xxi. Despite the provisions contained in the ULB Acts, the quinquennial general revision of Property Tax has not been done since 2008 and since 1998 for some ULBs. There should be no further postponement of the general revision. In the event of further postponements of general revision, the Government should compensate the ULBs and CMWSSB for the loss of revenue. (para 5.60)

xxii. Section 81(A) of the District Municipalities Act, 1920 should be seen as only a safeguard for revenue, whereby the local body is stopped from either doing away with a tax or reducing the rate of levy. Government may issue suitable instructions reiterating the above position and thereby ensure that timely general revision of taxes is carried out by the respective ULBs. (para 5.61)

Vacant Land Tax

5.66 Based on the recommendations of the Third SFC, the Tamil Nadu Municipal Laws (Amendment) Act was passed in 2009 which permitted the levy of Property Tax on Vacant Lands on a plinth area basis with a minimum of Rs 0.10 and a maximum of Rs.0.60 per sq. ft. per half year. The Vacant Land Tax rates for ULBs in Tamil Nadu (other than Chennai Corporation) as notified in 2009 are shown in the Table V – 20 below:

Table V - 20

Vacant Land with reference to its location	A Grade		B Grade		C Grade	
	Min (in Paise)	Max (in Paise)	Min (in Paise)	Max (in Paise)	Min (in Paise)	Max (in Paise)
Streets in residential area	20	40	15	30	10	20
Main roads and bus route other than those which lead to arterial road	30	50	20	40	15	30
Arterial roads, main roads and bus route roads which lead to arterial road	40	60	30	50	20	40

According to the rules 2009 the ULBs have been grouped as follows:

A grade: Municipal Corporations and Special Grade Municipalities

B grade: Selection Grade and First Grade Municipalities

C grade: Second Grade and Third Grade Municipalities

5.67 The details of Vacant-Land Tax revenues over the five year period is presented in the table below:

Table V - 21

(Rs. In Lakh)

ULBs	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	2260.13	2770.42	4657.11	5654.25	4320.84	13.84%
Municipalities	1180.14	1318.30	1560.63	1641.19	1616.06	6.49%
Town Panchayats	1229.85	1555.71	1987.46	2187.92	2135.72	11.67%
Total ULBs	**4670.12**	**5644.43**	**8205.20**	**9483.36**	**8072.62**	**11.57%**
Per capita figures						
Municipal Corporations	15.62	19.04	31.83	38.42	29.20	13.33%
Municipalities	13.44	14.28	16.09	16.09	15.08	2.33%
Town Panchayats	15.31	19.01	23.84	25.77	24.69	10.04%
Total ULBs	14.93	17.65	25.10	28.37	23.63	9.62%

5.68 However, as observed by the Fourth SFC, there is no systematic approach to listing out vacant lands within the ULB limits and assessing the tax promptly. During interactions with the Commission it was pointed out that the tax was typically levied for 6 back half years when building plan permission was applied for. On an aggregate, VLT accounted for about 3.4 per cent of the revenue of the ULBs. In terms of collection efficiency, it was less than 40 per cent on an average in Municipal

Corporations and Municipalities but exceeded 95 per cent in Town Panchayats. The number of Vacant Land Tax assessments has increased considerably in the Corporations from 2010-11 to 2014-15, with 52% growth in Municipal Corporations, 45% in Municipalities and just 10% in Town Panchayats.

5.69 Used effectively, Vacant Land Tax is an important instrument to penalize owners who leave valuable land idle, thereby encouraging development of the land and enhancement of Property Tax revenues of the ULB. Even within Tamil Nadu, certain ULBs like Coimbatore Corporation, Municipalities like Kallakurichi, Thiruvallur, Anakaputhur, Sembakkam, Thiruverkadu and Town Panchayats in the Chennai Metropolitan Area have used VLT much more effectively. A systematic GIS based survey of the land, followed up with a field verification of ownership based on the relevant revenue records would yield an inventory of such vacant land on which VLT can be levied. From a policy perspective, there is a strong need to institutionalize processes that allow flow of information on registration of sales, transfers etc. of properties/vacant lands from the Registration Department to the ULBs.

5.70 The 14th CFC suggested that the levy of Vacant Land Tax by Peri-Urban Panchayats be considered in addition a part of land conversion charges can be charged by State Government with Municipalities and Panchayats. The Commission has separately recommended that the recommendation of 14th CFC on levy of Vacant Land Tax in Peri-Urban Panchayats should be considered by the Government.

5.71 The 14th CFC suggested that the Vacant Land Tax to be fixed as a percentage of the tax on market value of land depending on the classes of the cities to increase the revenue earnings of local bodies. The Commission recommends that a revision in the rate of levy of vacant land tax could be considered since the present rate of levy is not indexed to the value of the land.

5.72 Recommendations

i. **A systematic GIS based survey of the land, followed up with a field verification of ownership based on the relevant revenue records should be carried out. Based on the inventory of vacant land, VLT should be levied. (para 5.69)**

ii. **The basis and rate of levy of Vacant Land Tax should be revised since the present rate of levy is not indexed to the value of the land. (para 5.71)**

Land Value Capture

5.73 There is a growing recognition of the need to have a set of tools which enable both the Government and the ULBs to capture the benefits which accrue to private persons as a result of increased land value that result from policy changes and public investments. Transaction based instruments like Stamp Duty and Surcharge on Stamp Duty are the traditional method, but are a limited source and come into play only when sale transactions occur. In Tamil Nadu, there are already certain mechanisms in operation for land value capture, on behalf of ULBs, Regional Development Agencies and the State Government, including Urban Land Tax, area based Development Charges, charging for premium FSI, and Infrastructure and Amenities Charges. There is scope to further enhance these tools to fetch revenue to ULBs, Regional Planning and Development Authorities and Government to fund infrastructure development. Some of the possible measures are discussed in the succeeding paragraphs.

Development Charges

5.74 ULBs need adequate funds for enhancing the social infrastructure capacity of a developing locality. Development charge is one of the revenue sources of ULBs to provide social infrastructure. At present, the Development Charges levied at the time of granting planning permission are designed only to cover the administrative expenses of the development authority, or the local body as the case may be, and only partially cover the capital cost of providing the development infrastructure. These capital costs relate to the historical cost of providing the infrastructure and are typically inadequate to meet the incremental capital costs.

Betterment Levies

5.75 The 14th CFC observed that betterment tax is available to both gram panchayats and municipalities as an optional tax. Urban Local Bodies were generally not levying this tax, even though they are allowed to. The State should review the position and prepare a clear legislative framework for the levy of betterment tax.

5.76 In Tamil Nadu, the provisions for a betterment levy are available under Section 34 to 40 of the Tamil Nadu Highways Act, 2001. Section 34 read with Section 36 refer to cases where an increase in the value of specified lands on account of the work undertaken by Highways Department, such increases may be the subject to the levy of betterment charges under the orders of Government. As per Section 40 of the Tamil Nadu Highways Act, 2001 the betterment charges shall be payable by the concerned owners within such period as may be prescribed. The capital gains tax rules allow for any betterment charges paid to local town planning authorities to be deducted while computing net capital gains, treating it as a cost of improvement.

5.77 Betterment Charges / Contributions could be collected from all the landowners whose properties have already been developed and put to use. These charges could be a percentage (say 1% or 2%) of the value of land and must be levied on all land owners whose land has been developed and put to use, irrespective of the type of use. The levy could be annual or half-yearly and land owners may be allowed to pay the amount in monthly installments if they desire. These charges would also be equitable since wealthier land owners would be contributing larger amounts for public benefit. Owner occupied residences, where the household incomes are very low and below taxable limits could be exempted from these charges. The betterment levy could also be an increment or percentage of the Property Tax on the property, once a proper revision of the current property tax rates has been carried out.

5.78 As announced in the Budget 2013-14, Transit Oriented Development, which permits densification of development along corridors where a major public transportation investment has been made, like Metro Rail, Mono Rail, or BRTS, must be invariably accompanied by a betterment levy which can then part fund the investment cost. As an ongoing payment, unlike a lumpy upfront levy like enhanced development charges, Premium FSI charges or Infrastructure and Amenities Charges, a betterment levy would not present an entry barrier to development or re-development of properties, but would fairly tax all properties which have benefited from development.

5.79 The Commission accordingly recommends that the Government may consider implementing a betterment levy for urban infrastructure works undertaken by ULBs to ensure more effective land value capture on a sustainable basis, along the lines of the existing provisions under the Tamil Nadu Highways Act, 2001.

5.80 Recommendation

The Commission recommends that betterment levy should be implemented for urban infrastructure works undertaken by ULBs to ensure more effective land value capture on a sustainable basis, along the lines of the existing provisions under the Tamil Nadu Highways Act, 2001. (para 5.79)

Profession Tax

5.81 Profession Tax is levied by States on the income earned by way of profession, trade, calling or employment. The Constitution (Sixtieth Amendment) Act of 1988 revised the ceiling for Profession Tax from Rs 250 per annum to Rs 2500. In Tamil Nadu, the tax is levied under the Tamil Nadu Municipal Laws (Second Amendment) Act 59 of 1998, which require that the tax is levied on every company which transacts business and every person, who is engaged actively or otherwise in any profession, trade, calling or employment within the ULB limits and has earnings of more than Rs.20,000/- per half year. Profession Tax is subject to quinquennial tax revision as well, with an increase in rate not less than 25% and not more than 35%.
The tax is levied at the rates specified as follows:

Table V - 22

Slabs for Profession Tax

Monthly Salary	Professional Tax Amount Payable in Tamil Nadu
Salary less than Rs.3500	Rs.16.50 per month
Salary between Rs.5000 to Rs.7500	Rs.30 per month
Salary between Rs.7500 to Rs.10000	Rs.85 per month
Salary between Rs.10000 to Rs.12500	Rs.126.50 per month
For salary above Rs.12500	Rs.182.50 per month

***Source:** Tamil Nadu Municipal Laws (Second Amendment) Act 59 of 1998*

5.82 Based on the recommendation of the Fourth SFC, profession tax has been revised with effect from 1.10.2013 with an increase between 25% and 35% and restricting the maximum amount to Rs.1250 per half year. The details of the revenues from Profession Tax for the three tiers of the ULBs are presented in Table V - 23 below:

Table V - 23

(Rs. In Lakh)

ULBs	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	18242.40	21225.71	26145.23	28986.70	30490.96	10.82%
Municipalities	4792.29	5055.63	5823.51	6848.89	7884.28	10.47%
Town Panchayats	3162.38	3353.27	3590.17	4252.60	4909.96	9.20%
Total	**26197.07**	**29634.61**	**35558.91**	**40088.19**	**43285.20**	**10.56%**
Per capita figures						
Municipal Corporations	126.08	145.88	178.68	196.98	206.04	10.32%
Municipalities	54.57	54.77	60.02	67.16	73.56	6.16%
Town Panchayats	39.36	40.97	43.07	50.08	56.77	7.60%
Total	**83.73**	**92.66**	**108.76**	**119.94**	**126.69**	**8.63%**

5.83 Profession Tax revenues are growing at around 10% for all tiers of ULBs. The DCB statement contained in Table V - 24 indicates that in Municipal Corporations, the collectible balance in 2011-12 was 21.14% higher than the previous year and the number of assessments also increased by 19.98% from 2,43,024 to 2,91,601 in that year. While for ULBs as a whole, the number of assessments have increased gradually over the 5-year period, in the case of Municipalities, the number of assessments went down each year after 2011-12. Town Panchayats are the only tier of ULBs where the number of assessments is seen to be increasing each year. Town Panchayats also record a steady collection efficiency range of 88-90%.

Table V - 24

Profession Tax – Demand, Collection and Balance Statement

(Rs. in crore)

		2010-11	2011-12	2012-13	2013-14	2014-15
Municipal Corporations						
Demand	Current	180.41	213.04	270.93	295.82	334.48
	Arrear	31.91	36.41	40.94	45.11	48.76
	Total	212.32	249.45	311.87	340.93	383.24
Collection	Current	177.43	208.22	267.07	290.47	328.14
	Arrear	6.26	6.55	9.3	9.82	11.56
	Total	183.69	214.77	276.37	300.29	339.7
Balance	Current	2.98	4.82	3.86	5.35	6.34
	Arrear	25.65	29.86	31.64	35.29	37.2
	Total	28.63	34.68	35.5	40.64	43.54
Percentage of Collection	Current	98.35	97.74	98.58	98.19	98.1
	Arrear	19.62	17.99	22.72	21.77	23.71
No. of Assessments		243024	291601	299298	335291	352464
Municipalities						
	Current	45.331	52.3307	57.4797	67.1619	78.3856
	Arrear	34.0061	36.2774	33.5156	37.1071	40.6146
	Total	**79.3371**	**88.6081**	**90.9953**	**104.269**	**119.0002**
Collection	Current	38.5221	44.3403	49.5746	59.1783	70.0178
	Arrear	11	9.2023	10.2533	9.684	11.2301
	Total	**49.5221**	**53.5426**	**59.8279**	**68.8623**	**81.2479**
Balance	Current	6.8089	7.9904	7.9051	7.9836	8.3678
	Arrear	23.0061	27.0751	23.2623	27.4231	29.3845

	Total	**29.815**	**35.0655**	**31.1674**	**35.4067**	**37.7523**
Percentage of Collection	Current	84.98	84.73	86.25	88.11	89.32
	Arrear	32.35	25.37	30.59	26.1	27.65
Total No. of Assessments		225864	240202	218687	205500	201673
Town Panchayats						
Demand	Current	31.44	33.26	36.18	42.66	47.32
	Arrear	3.74	3.45	4.14	3.57	4.76
	Total	35.18	36.71	40.32	46.23	52.08
Collection	Current	29.38	30.68	34.06	39.23	44.62
	Arrear	2.07	1.87	2.55	1.93	2.08
	Total	31.45	32.55	36.61	41.16	46.7
Balance	Current	2.06	2.58	2.12	3.43	2.7
	Arrear	1.67	1.58	1.59	1.64	2.68
	Total	3.73	4.16	3.71	5.07	5.38
Percentage of Collection	Current	93.45	92.24	94.14	91.96	94.29
	Arrear	55.35	54.2	61.59	54.06	43.7
Total No. of Assessments		**230105**	**238151**	**261343**	**280965**	**296254**

5.84 From an administrative point of view, at present, the pay drawing officers of the State Government have deducted Profession Tax during the disbursement of salary and pay to the ULBs regularly. In respect of traders, entrepreneurs, self-employed persons, private employers and employees, Profession Tax has not been paid regularly. The list of the taxpayers other than the government servants has not been ascertained by the ULBs. The Commission recommends that the local bodies should systematically verify the details of employees of private companies, and self-employed professionals, with reference to data that is available with other departments such as Income Tax Department, Labour Department, Provident Fund Commissioner, and professional bodies like the Bar Council, Medical Council, Institutes for Company Secretaries, Chartered Accountants, Architects etc and update the Profession Tax assesses list.

5.85 From a policy standpoint, the 14thCFC recommended that the ceiling on Profession Tax may be raised from Rs.2500 to Rs.12,000 per annum, and further that Article 276(2) may be amended to enable fixation of the limits on the levy of Property Tax by Parliament, subject to the recommendations of the Central Finance Commission, without having to resort to a Constitutional amendment on each occasion. This recommendation has been accepted by the Union Government, but the Constitution Amendment Bill is yet to be introduced. The State Government may take up the issue of amending the Constitution to enable both the enhancement of the limit and enablement of future increases by the Parliament.

5.86 Recommendations

i. **ULBs should systematically verify the details of employees of private companies, and self-employed professionals, with reference to data that is available with other departments such as Income Tax Department, Labour Department, Provident Fund Commissioner, and professional bodies like the Bar Council, Medical Council, Institutes for Company Secretaries, Chartered Accountants, Architects etc and update the Profession Tax assesses list. (para 5.84)**

ii. **The State Government should take up with the Government of India the early passage of the necessary Constitutional amendments to enhance on even remove the ceiling on the Profession Tax that can be levied and to simplify the process of raising the limit in future as recommended by the 14th CFC. (para 5.85)**

Advertisement Tax

5.87 As per Sections 285B, 285C, 285CC of the Tamil Nadu District Municipalities Act, 1920 and similar provisions in other Municipal Corporations Acts, District Collectors have been vested with the powers to permit hoardings, banners, placards on lamp posts, telephone posts, posters on writing on walls including compound wall and through buses and vehicles and to levy Advertisement Tax on such advertisements taking into account the size of the hoardings, the width of the road in respect of public lands and where the advertisement is on private land, subject to consent of the land owners. Since the Act provides for tax and fee components, which are to be classified and reported under separate accounting heads, some misclassification is possible. The revenues from both heads are presented in Table V - 25 below:

Table V – 25*

(Rs. In Lakh)

	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	170.35	253.17	329.93	252.68	283.27	10.71%
Municipalities	45.81	77.5	31.65	66.35	58.88	5.15%
Town Panchayats	5.32	8.81	5.69	10.75	7.16	6.12%
Total ULBs	**221.48**	**339.48**	**367.27**	**329.78**	**349.31**	**9.54%**
Per capita figures						
Municipal Corporations	1.18	1.74	2.25	1.72	1.91	10.21%
Municipalities	0.52	0.84	0.33	0.65	0.55	1.04%
Town Panchayats	0.07	0.11	0.07	0.13	0.08	4.57%
Total ULBs	**0.65**	**0.99**	**1.07**	**0.97**	**1.02**	**9.54%**

**Adjusted figures*

5.88 As can be observed, although the revenues from Advertisement Tax are growing at about 10% for all ULBs aggregated, the absolute collection figures are still low. Town Panchayats do not record more than Rs.10 lakhs as revenue under Advertisement Tax in any year except 2013-14. Per capita collection remains as low as Rs.2, even in the case of Municipal Corporations. Data collected by the Commission reveals that Coimbatore and Madurai Corporations have received almost the entire revenue from Advertisement Tax received by Municipal Corporations. Receipts through Advertisement Tax in most Municipalities and Town Panchayat is negligible. The profusion of banners and hoardings across most urban areas in Tamil Nadu indicates that the ULBs are not deriving the due benefit from Advertisement Tax either because the tax collected by the District Collector and remitted into Government Account is not transferred to the ULBs regularly or because many advertisements escape tax because of poor enforcement of the legal provisions.

5.89 Despite the recommendations made by previous SFCs and the instructions issued from Government from time to time, a streamlined mechanism for collection of Advertisement Tax is yet to emerge. There is also lack of awareness regarding the legal provisions for grant of permission for hoardings and banners and for the payment of tax. While the grant of permission for hoardings and banners may have certain law and order implications and hence may need to be under the control of the District Administration, some streamlining of the processes is possible. The applications could be made to the respective Local Bodies with a requirement to pay the due fee and tax in advance. The fees and tax could be remitted into the Local Bodies' accounts straightaway. The application along with the proof of payment of the due fees and tax could then be submitted to the authority competent to grant permission. Given the burden of work on District Collectors, the power to grant permission could be delegated to the Revenue Divisional Officers/ Sub Collectors. Local Bodies could be given enforcement powers to ensure that advertisements without due permission and payment of tax are not put up.

5.90 Recommendations

i. **The procedure for grant of permission for hoardings and banners should be revised and the applications for permission to advertise being be made to the respective Local Bodies with a requirement to remit the due fee and tax in advance, directly into the Local Bodies accounts straightaway. The application along with the proof of payment of the due fees and tax could then be submitted to the authority competent to grant permission. (para 5.89)**

ii. **The power to grant permission could be delegated from the District Collectors to the Revenue Divisional Officers/ Sub Collectors. Local Bodies should be given enforcement powers to ensure that advertisements without due permission and payment of tax are not put up. (para 5.89)**

Non-Tax Revenue

5.91 The ULBs received 38% to 43% of their own revenue from non-tax sources (excluding assigned revenue) during 2011-12 to 2014-2015. The share of non tax revenue in the total income of the Corporations, Municipalities and Town Panchayats is 19%, 14% and 16% respectively. With a significantly faster growth of non-tax revenue of 19% in Corporations, there is a shift in the composition of own revenue in favour of non tax revenue, with the share increasing from 14% to 20% in the period from 2010-11 to 2013-14. The share of non-tax revenue stayed constant in Municipalities in the 18 to 20% range with 8% growth per annum. The share of non tax revenue in Town Panchayats has increased from 13% in 2010-11 to 15% 2014-15 with a growth rate of 11% per annum.

Table V - 26

Break up of Other Non-Tax Revenues

(Rs. in Crore)

Sl. No.	Fees & fines	2010-11	2011-12	2012-13	2013-14	2014-15
	i. Fees & fines					
1	D&O Trade Licence Fee	17.22	18.9	21.11	26.01	31.45
2	Licence fees under PF Act	0.81	0.6	0.37	0.59	0.3
3	Building Licence Fee	77.19	79.65	100.36	135.15	108.88
4	Encroachment Fees	3.62	4.63	4.35	4.25	3.85
5	Parking Fees	6.13	6.3	8.45	8.74	9.96
6	Lamp Post/ Wall Advert. Fee	1.95	3.12	3.51	2.88	3.11
7	Bus Stand Fees	25.53	25.97	27.17	28.92	28.53
8	Cart Stand fees / Taxi stand fees	6.24	6.29	7.64	11.39	8.92
9	Survey fees	0.54	0.8	0.7	0.86	0.92
10	Cinema Theatre Income	0.49	0.37	0.41	0.48	0.51
11	Development charges	28.13	25.77	38.64	40.92	29.51
12	Fishery Rental	1.53	1.24	1.09	1.21	1.47
13	Fairs & Festivals	3.46	2.27	5.52	5.65	6.71
14	Tourist Bus Fees	0.04	0.04	0.06	0.04	0.04
15	Rent from travelers Bunglow & Rest houses	0.45	0.7	0.76	0.66	0.79
16	Road cutting restoration charge	21.34	17.99	27.74	50.28	75.82
17	Demolition charges for unauthorised construction & building service charges	2.6	3.49	4.96	6.72	6.77
18	Other income	10.35	11.63	8.87	9.62	12.48
19	Others (Cost of Tender schedule, Printed form sold at SEVAI MAIYAM)	50.5	67.08	68.12	84.35	74.21
20	Magisterial fines	0.06	0.11	0.22	0.31	0.16
21	Toll collection / Parking Fee	0.19	0.26	0.45	0.21	0.21
22	Natural calamities grant	10.23	31.97	15.94	1.46	6.17
23	Grant for scheme & implementation	105.89	111.8	126.59	149.24	148.47
24	Cost of copy application Fees on Birth & Death certificate	2.97	3.83	3.47	5.42	5.69
25	Penalties & Bank charges for Dishonoured cheque	0.21	0.13	0.06	0.13	0.14
26	Law charges & court cost recoveries	0.13	0.06	0.02	0.03	0.01
27	Hire charges	0.63	0.19	0.17	0.2	0.21
28	Sale of compost manure	0.3	0.18	0.17	0.21	0.31
29	Sale of scraps	3.13	1.15	2.15	2.23	2.84
30	Receipt from hospitals & dispensaries	0.04	0.12	0.15	0.18	0.21
31	Lands & Buildings (Parks, Grounds, Shops) (Entry fees)	1.78	2.11	1.95	2.95	3
32	Income from road margin	1.71	1.75	2.02	2.78	2.85
33	Fees from flat promoters	5.64	1.06	2.07	0.7	3.15
34	Septic tank cleaning charges	0.41	0.52	0.61	0.72	0.61
35	Ferry Services	0.12	0.17	0.18	0.22	0.2
36	Fines & Penalty	2.19	2.5	4.48	4.36	5.38
37	Cable T.V. (Track rent including OFC)	4.05	4.03	6.31	7.03	5.92
38	Hoarding/ Cut out Fee	0.12	0.18	0.66	0.21	0.24
39	Warrant/ Distraint Fee	0.03	0.05	4.51	0	0
ii. Income from Investments (Fixed Deposits)		33.38	64.39	129.92	139.86	59.82
iii. Income from Properties						
40	Markets	45.19	45	52.32	51.76	53.58
41	Shops	76.97	97.43	107.17	113.01	124.85
42	Slaughter House	3.1	3.02	4.2	3.98	5.06
43	Kalyana Mandapam	3.75	4	4.62	5.2	5.51
44	Lodge/ Rest House	0.06	0.06	0.17	0.07	0.11

Sl. No.	Fees & fines	2010-11	2011-12	2012-13	2013-14	2014-15
45	Pay & Use Latrines	16.99	17.41	20.44	21.36	21.15
46	Avenue Trees	0.94	1.46	1.24	1.02	1.14
47	Insurance claim amount	0.03	0.01	0.01	0	0.04
48	Quarters rent	3.22	2.91	4.2	2.64	2.58
iv. Income from Special Services						
49	Sewerage Farms	15.18	16.92	17.93	18.37	19.6
50	Sale of Rubbish/ garbage / compost	0.06	0.14	0.08	0.13	0.1
51	Burial Ground/ Burning Ghat / Electrical Crematorium /Gasifier Crematorium	0.85	0.75	1.25	1.13	1.43
52	Silt clearance	0	0	0	0	0
53	Leasing of lands	7.97	10.77	8.96	9.24	9.88
54	Miscellaneous recoveries	5.49	6.61	10.73	9.9	8.71
55	Interest from bank	30.85	53.74	72.36	75.21	70.79
56	Dividend on shares	0.12	0.11	0.14	0.1	0.28
57	Rent on lands & buildings	3.81	5.42	4.9	7.94	7.95
58	Others	101.92	249.76	388.53	445.91	458.74
	Total Non Tax Revenue	**747.83**	**1018.92**	**1331.18**	**1504.14**	**1441.32**

5.92 Under Non-tax revenue a major portion of the receipts is under lease of land and rent. When properties are leased out, it must be ensured that the rate of return on capital employed is achieved. The potential of own land of ULBs which could fetch substantial revenue has been neglected over a long period. A clear study needs to be made to improve the revenue by utilizing the land and properties of the Urban Local Bodies.

Table V - 27

Non-Tax Revenue excluding Water Supply and Sewerage Charges

(Rs. In Lakh)

	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	33830.89	56511.10	79134.19	92793.44	85141.77	20.27%
Municipalities	22722.61	24074.66	29696.36	29274.41	30669.83	6.18%
Town Panchayats	18195.94	21228.87	24247.25	28284.87	28210.57	9.17%
Total	**74749.44**	**101814.63**	**133077.80**	**150352.72**	**144022.17**	**14.02%**
Per capita figures						
Municipal Corporations	233.82	388.38	540.80	630.58	575.33	19.73%
Municipalities	258.73	260.81	306.08	287.08	286.15	2.04%
Town Panchayats	226.45	259.38	290.85	333.09	326.16	7.57%
Total	**238.92**	**318.34**	**407.03**	**449.86**	**421.54**	**12.03%**

5.93 The Municipal Corporations and Municipalities have developed remunerative projects by utilizing their own funds and also availing financial assistance from funding agencies. ULBs should be encouraged to take up more remunerative projects including on a PPP basis so that the ULBs' properties, in particular land, are effectively utilized to augment their finances. The Commission is of the view that in several cases, construction of new market complexes, truck terminals, theme parks and other remunerative assets for the ULBs cannot be taken up within the ULB, as space may be insufficient. In such cases such remunerative projects may be taken up in adjoining rural areas with a profit sharing arrangement with the Village Panchayats concerned.

5.94 Private markets and vehicle parking lots are being maintained by the private owners in some of the ULBs. There are provisions in the Tamil Nadu District Municipalities Act and the Municipal Corporation Acts to levy license fees on open private markets. But, such fees are not being properly levied and collected on private markets by the ULBs.

5.95 The lands of ULBs have been given on lease to co-operative marketing societies and to the Regulated Market Committees to establish Uzhavar Santhais. There are large arrears of rent payable to ULBs for the Uzhavar Sandhais which should be settled by the Cooperative Marketing Societies/ Regulated Market Committees without further delay.

5.96 Unregulated parking in many cities and towns interferes with free flow of traffic, and inconveniences pedestrians. Corporations and larger Municipalities must enforce effective vehicle parking policies which will ensure that public streets are available for movement of vehicles and non-motorized traffic and augment the revenue of the ULB. Based on effective enforcement of parking policies, construction of multi-level car parks on a PPP basis will become remunerative enterprises for ULBs.

5.97 During the district level interactions, some ULB representatives raised the issue of the G.O.(Ms).No.92, MA&WS Department, Dated. 03.07.2007 which regulates the manner in which leases are to be renewed and rents enhanced. As per the G.O., rent can be enhanced by 15 per cent every 3 years three times, i.e. aggregating 9 years as a whole. If the present lessee does not agree to the rent enhancement, a fresh tender-cum-auction is to be conducted. It was represented that the effective period of 9 years before which the property normally does not come up for auction is too long and should be shortened. However, this G.O. which is in consonance with court pronouncements has had the impact of reducing litigation and being fair both to the lessees who have to invest in order to set up a shop at a particular location and need a definite period of time to recover their investments and to the local body by offering periodic revenue increases. Hence, there appear to be no pressing reasons to reconsider the arrangement as it may give rise to more litigation.

5.98 Recommendations

i. **The present executive instructions regarding regulation of lease and rent should be replaced with Statutory Rules to provide greater sanctity and certainty, allowing for more investment in creation of remunerative assets which would augment the non-tax revenue. (para 5.92)**

ii. **The development of remunerative projects like new market complexes, truck terminals, theme parks etc could be taken up jointly with Village Panchayats in areas adjoining the ULBs on a profit sharing basis. (para 5.93)**

iii. **Arrears of rent payable to ULBs for the Uzhavar Sandhais should be settled by the Cooperative Marketing Societies/ Regulated Market Committees without further delay. (para 5.95)**

iv. **To augment non-tax revenue, the ULBs should prepare and enforce effective parking policies and also create parking lots including multi-level car parks on PPP mode. (para 5.96)**

Service Charges

Water Charges

5.99 The collection of user charges is crucial to maintain and sustain the quality of service delivery of water supply services in ULBs. ULBs are under acute pressure to not only increase investments towards asset creation, but also to ensure regular maintenance and efficient operations commensurate with the rapidly increasing demand for these services in urban areas. The income from the water supply includes the water charges collected based on the meter reading, tap rate charges and other income from water supply through tanker lorries.

5.100 The 14th CFC recommended that the State should progressively move towards cent percent metering of individual drinking water connections to households, commercial establishments, industrial and other institutions. The 14th CFC had recommended that all existing individual connections in Urban Local Bodies should be metered by March 2017 and the cost of this should be borne by the consumers. The 14th CFC also recommended that ULBs should rationalize their service charges in such a way that they are at least able to recover the operation and maintenance cost from the beneficiaries. The Fourth SFC recommended that water charges should be so structured to meet at least the operation and maintenance costs and depreciation. In the view of the non-installation or non-functioning of water meters, most ULBs levy water charges on tap rate basis. The present tariff levied by ULBs except Chennai ranges from Rs.50/- to Rs.100/- p.m. and Rs.150/- per K.L. Installation of quality water meters should be accorded the highest priority given the scarcity of water, so that charging would be based on the usage of water.

Table V - 28

Water Supply User Charges

(Rs In Lakh)

	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	10811.19	15004.67	16467.93	18499.73	22010.25	15.28%
Municipalities	7477.28	8024.21	9130.92	9479.67	10054.59	6.10%
Town Panchayats	4499.96	4806.3	5132.17	5410.42	5686.55	4.79%
Total ULBs	**22788.43**	**27835.18**	**30731.02**	**33389.82**	**37751.39**	**10.62%**
Per capita figures						
Municipal Corporations	74.72	103.12	112.54	125.72	148.73	14.76%
Municipalities	85.14	86.93	94.11	92.96	93.81	1.96%
Town Panchayats	56.00	58.72	61.56	63.72	65.75	3.26%
Total ULBs	**72.84**	**87.03**	**93.99**	**99.90**	**110.49**	**8.69%**

5.101 Table V - 28 above indicates that during the review period, the overall user charges for water supply across all three tiers of ULBs exhibit positive growth both at the absolute and per capita levels. All tiers of ULBs also indicate a positive trend in collection efficiency (collection over demand), with Town Panchayats showing, on average, higher collection rates in the range of 81-87 %, than Municipalities (73% to 79%) or Municipal Corporations. Chennai Metro Water collected revenues in the range of Rs 562.09 crore and Rs 646.51 crore which is not captured in the above table since the collection does not fall under the purview of the Greater Chennai Corporation.

Table V - 29 summarizes the position relating to the income and expenditure on water supply in ULBs.

Table V - 29

Water Supply Expenditure Status

Municipal Corporations

	2010-11	2011-12	2012-13	2013-14	2014-15
Municipal Corporations					
Income	**108.11**	**150.05**	**164.68**	**185.00**	**220.10**
O & M Expenditure (Except Chennai)					
Salaries to Water Supply Staff	18.98	21.38	22.51	26.79	32.38
Power charges	25.77	37.42	56.06	81.11	88.40
Payment to TWAD	38.37	36.43	52.18	64.46	76.17
Maintenance	13.70	20.58	24.94	30.54	33.57
Water Supply through Private Lorries	2.91	4.29	7.38	10.36	16.87
Repairs and Maintenance for Motor Vehicles	2.91	4.52	6.84	7.78	7.29
Others	12.77	21.83	6.42	42.64	82.41
Total	**115.41**	**146.45**	**176.33**	**263.68**	**337.09**
Percentage of Expenditure on Income	**107**	**98**	**107**	**143**	**153**
Municipalities					
Income	**74.77**	**80.24**	**91.31**	**94.80**	**100.55**
O & M Expenditure					
Salaries to Water Supply Staff	30.37	33.77	37.01	40.77	45.60
Power charges	37.11	35.24	51.63	68.95	79.43
Payment to TWAD	18.66	21.18	26.15	25.10	35.77
Maintenance	16.79	18.12	27.27	35.73	26.51
Water Supply through Private Lorries	3.22	4.32	6.12	7.15	7.46
Maintenance for Motor Vehicles	6.32	6.61	9.16	11.78	10.20
Others	2.01	1.95	10.32	30.49	26.99
Total	**114.48**	**121.19**	**167.66**	**219.97**	**231.96**
Percentage of Expenditure on Income	**153**	**151**	**184**	**232**	**231**
Town Panchayats					
Income	**45.12**	**48.18**	**51.43**	**54.20**	**57.01**
O & M Expenditure					
Salaries to Water Supply Staff	19.51	22.44	25.13	29.54	31.77
Power charges	33.28	32.31	49.09	63.34	68.22
Payment to TWAD	33.57	28.54	32.74	40.03	40.08
Maintenance	55.96	61.20	84.01	104.52	107.94
Water supply through private lorries	1.59	1.95	3.03	4.42	4.35
Maintenance charges to Motor vehicles	4.21	5.30	7.12	8.95	10.86
Others	5.56	5.70	6.42	8.33	9.74
Total	**153.68**	**157.44**	**207.54**	**259.13**	**272.96**
Percentage of Expenditure on Income	**341**	**327**	**404**	**478**	**479**

5.102 Income in Table V - 29 includes excess water charges through meter charges, tap rate charges and other income from water supply lorries. The O&M Expenditure does not include loan repayment.

5.103 While the collections show an upward trend, a comparison of total water user charges against the O&M expenditure incurred towards provision of water supply reveals that a majority of ULBs are still unable to recover the O&M expenditure.

Clearly, the income generated through water supply user charges is not adequate to repay the loans which are borrowed for the water supply scheme. The income from water charges were only 22% to 47% of O&M expenditure during 2014-15.

5.104 The income from water charges was only 30% of the O&M cost of water supply in respect of Town Panchayats, in 2010-11 and decreased even further to 21% in 2014-15. For Municipalities, it was 65% in 2010-11, which declined to 43% in 2014-15 and in respect of Municipal Corporations, it ranged between 1% in 2010-11 and 65% in 2014-15. The O&M cost incurred on water supply in ULBs are much higher than the water supply income. This is an unsustainable situation and there is an urgent necessity to restructure user charges to meet at least the O&M costs. TWAD has reported that ULBs have a total outstanding liability of Rs.349.53 Crore towards payment of water charges to TWAD up to 2015-16. In line with the recommendations of the 14^{th} CFC, the Commission recommends that all individual water supply connections should be metered and water consumption charges should be levied on the metered supply at a rate that at least ensures the recovery of the operation and maintenance costs.

5.105 The Managing Director, CMWSSB, informed the Commission that one of the main sources of revenue of CMWSSB is the Water and Sewerage Tax, which is linked to the Property Tax levied by Corporation of Chennai. Due to non-revision of Property Tax of Corporation of Chennai from 1998 onwards, the Water and Sewerage Tax has also not increased. The CMWSSB is not in a position to meet out the O&M cost of the water supply. The SFC amount is devolved to Corporation of Chennai and the CMWSSB receives one-tenth of the devolution to the Corporation. The Government apportions the Chennai Mega City Development Mission funds equally between the Corporation of Chennai and CMWSSB. Recently, in order to meet the payment obligations for water supplied from the desalination plants, Government intercepted funds from the SFC devolution intended for Corporation of Chennai and passed on the funds to CMWSSB. Therefore, the CMWSSB has requested to consider increasing the share of devolution allocated to CMWSSB.

5.106 The Commission recommends that all individual water supply connections in ULBs should be metered and water consumption charges should

be levied on the metered supply at a rate that at least ensures the recovery of the operation and maintenance costs. (para 5.104)

Sewerage Charges

5.107 Sewerage User Charges are being levied by Urban Local Bodies in the urban areas where an underground drainage system has been provided. In most of the cities in the State, underground drainage systems are still under construction.

Table V - 30

Sewerage user charges

(Rs. In Lakh)

	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR
Municipal Corporations	932.74	1633.39	1719.29	1900.28	2133.02	17.99%
Municipalities	139.54	142.3	227.02	391.71	659.23	36.42%
Town Panchayats	13.53	13.18	11.38	13.3	15.95	3.35%
Total ULBs	**1085.81**	**1788.87**	**1957.69**	**2305.29**	**2808.2**	**20.93%**
Per capita figures						
Municipal Corporations	6.45	11.23	11.75	12.91	14.41	17.44%
Municipalities	1.59	1.54	2.34	3.84	6.15	31.09%
Town Panchayats	0.17	0.16	0.14	0.16	0.18	1.83%
Total ULBs	**3.47**	**5.59**	**5.99**	**6.90**	**8.22**	**18.82%**

5.108 While income from this source exhibits a positive growth trend during the review period, collection efficiency is, however, poor across all ULBs. At present, sewerage charges cover 34% to 45% of the operation and maintenance expenditure of Municipal Corporations and 5% to 12% in respect of Municipalities. The sewerage systems need to stabilize further before more effective cost recovery becomes possible.

Fees

Trade Licenses

5.109 Trade License fee is one of the components of the Non-Tax Revenue of local bodies. The Schedule V of the Tamil Nadu District Municipalities Act, 1920 covers the details of Trades for issue of Trade Licenses and collection of fees. The list appended to the Schedule covers certain Trades only. With economic growth and technological advances, a number of new trades are coming up in cities. The First SFC had recommended inclusion of additional Trades for fixing of fees and grant of licenses. But this was adopted only in certain ULBs with the approval of the Council. Many

ULBs have not yet incorporated the additional Trades for want of Government orders. The Trade License fee was also not revised periodically in most of the ULBs. The Council has the power to notify the list of trades and to revise the rate once in three years.

5.110 The Fourth SFC had recommended that the Rule provisions in Schedule-V in Tamil Nadu District Municipalities Act, 1920 and the relevant schedule in respect of other Municipal Corporation Acts be amended to enable the Council to notify the list of trades and to revise the rates once in three years. Although the recommendation was accepted, so far no amendment has been issued by the Government. The Commission reiterates the recommendation of the Fourth SFC recommends that the necessary amendments may be notified at the earliest.

5.111 The Commission reiterates the recommendation of the Fourth SFC to change the nomenclature D&O trade license fee, be revised as "Trade License fee" as in the case of Chennai Corporation.

5.112 The Corporation of Chennai suggested that the Commercial Taxes department should create a separate mandatory field in the application form for registration as dealers to capture the details of the trade license given by the local bodies and the payment of License fee, Property Tax and Profession Tax. It is also suggested to provide URL services to the local bodies to get the MIS reports relating to the registration of traders periodically with the payment details of Property Tax, Profession Tax and trade license, so as to enable to bring the defaulters under tax net. The Commission sees merit in this suggestion and recommends that the Government may issue suitable directions to the Commissioner of Commercial Taxes to effect the necessary changes in the registration forms for dealers at least as part of the GST Reform process.

5.113 Recommendations

i. **The Commission reiterates the recommendation of the Fourth SFC that the Rule provisions in Schedule-V in Tamil Nadu District Municipalities Act, 1920 and the relevant schedule in respect of other Municipal Corporation Acts be amended to enable the Council to notify the list of trades and to revise the rates once in**

three years. The necessary amendments may be notified at the earliest. (para 5.110)

ii. **The Commission also reiterates the recommendation of the Fourth SFC to change the nomenclature D&O trade license fee, be revised as “Trade License fee” as in the case of Chennai Corporation. (para 5.111)**

iii. **The Commission recommends that the Government may issue suitable directions to the Commissioner of Commercial Taxes to create a separate mandatory field in the application form for registration as dealers to capture the details of the trade license given by the local bodies and the payment of License fee, Property Tax and Profession Tax. as part of the GST Reform process. (para 5.112)**

Building License Fees

5.114 Building License fees are also one of the sources of income of Non-tax revenue. Under Section 321 of the Tamil Nadu District Municipalities Act, 1920, the Council is empowered to frame bye-laws for fixing the fee to issue Building Licenses / Planning Permissions.

5.115 The present system is not geared to detect violations and deviations in construction. Vigilant administrative action is required to ensure that the conditions of the building license or planning permission are enforced and additional revenue collected whenever additional construction takes places or penalties become due for violations.

5.116 The Commissioner of Municipal Administration informed the Commission that a Centralized Web Based Application Software has been developed under TNUDP III to issue the planning / building permission. The CMA should ensure the implementation of this software at the earliest.

The details of fees collected through building licensing activities is as follows:

Table V - 31

(Rs. In Lakh)

Sl. No.	ULBs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Municipal Corporations (12)	3639.62	3221.57	4353.28	7631.89	5371.35	8268.44
2	Municipalities (124)	1628.45	1924.57	2343.91	2403.87	2396.16	2742.32
3	Town Panchayats (528)	2451.20	2817.78	3338.80	3478.57	3478.77	3120.72
	Total	**7719.27**	**7963.92**	**10035.99**	**13514.33**	**11246.28**	**14131.48**
	(Total in crore)	**77.19**	**79.64**	**100.36**	**135.14**	**112.46**	**141.31**

5.117 The Town Planning Officers / Town Planning Inspectors of ULBs monitor the building license fee by perusing the plans and drawings with reference to respective bye-laws approved by the Council. At present, different fee structures are being adopted by the local bodies to issue building license, according to the bye-laws approved by the Council. For issue of planning permission, the rate prescribed by DTCP/CMDA is being collected. The fees collected through ULBs by the DTCP / CMDA area are not uniform, because there is no common building rule for DTCP and CMDA area respectively. Speedy implementation of the common building Rules is desirable for greater clarity and improved revenue collection.

5.118 Recommendations

i. **Common building Rules should be notified at the earliest for greater clarity (para 5.117)**

ii. **All Government Buildings belonging to the State as well as Central Governments should be obligated to obtain necessary building licenses and planning permissions from the competent authority, namely, ULB or Local Planning Authority or CMDA by remitting such fees as prescribed in the ULB's Bye-laws. (para 5.117)**

Bus Stand Fees:

5.119 The Urban Local Bodies are collecting entry fees for buses entering the bus stand as per the rates fixed by the Commissioner of Transport. The fees were last revised in G.O.Ms.No.175, Home (Transport-III) Department, Dated: 04.03.2002, and notified as follows:

Table V - 32

Sl. No	Category of Bus stand	Existing rate of fees (Rs.)	Revised rate of fees (Rs.)
1	Class A	4.00	15.00
2	Class B	3.00	12.00
3	Class C	2.00	8.00
4	Class D	1.50	5.00

5.120 The level of bus stand fees is not commensurate with the needs and requirement of the capital outlay and for the maintenance and upkeep of the assets and for the expansion of Bus stand and civic amenities.

5.121 Since the debt of ULBs, has to be serviced, there is an urgent need to revise the bus stand fees. The Fourth State Finance Commission recommended 25% increase in the Bus stand fees. Although, the recommendation was accepted, no orders were issued effecting the increase. A higher increase is thus warranted.

5.122 The Commission recommends that the bus stand fee should be increased by 50%. (para 5.121)

Track Rent Fees on OFC Feeders and Cables

5.123 Government of Tamil Nadu has ordered the levy of track rent for OFC Feeders vide G.O.(Ms).No.7, Information Technology Department, Dated: 12.02.2001. However, the total collection by Local Bodies has been very small. BSNL is reportedly not paying any track rent by quoting a legal opinion given by the Solicitor General of India. The Commission recommends that Government in the Information Technology Department may take suitable action to enable the collection of Track Rent by resolving the legal issues if any, and addressing the Government of India, Ministry of Communication and Information Technology.

5.124 It has been brought to the notice of the Commission that the track rent on cables is not being paid citing some court orders. Necessary action to speedily resolve the legal issues to enable local bodies to levy and collect track rent on cable television.

5.125 The Commission recommends that the Government should take necessary action to resolve the legal issues regarding collection of track rent on

OFC feeders and Cable Television cables at the earliest to enable local bodies to collect track rent. (para 5.124)

Pooling of Assigned Revenue

Entertainment Tax

5.126 The Tamil Nadu Entertainment Tax Act 1939 classifies the sources of the Entertainment Tax as follows:

Table V - 33

Head of Account 0045 00 101 AA 01 Tax paid in Cash		Head of Account 0045 00 101 AB Other Receipts	
Shareable	**Non-Shareable**	**Shareable**	**Non- Shareable**
Section 4(A) (1)Tax on payments for admission to Cinematographic exhibition. (2)Section 4(H) Tax on dubbed film	Section 4(B) (1)Tax on Horse Race.	Section 4(F) (1)Tax on amusements	Section 4(E) (1)Tax on Cable TV. (2)Section 4(G) Tax on Recreation Parlour

Table V - 34

Entertainment tax transferred to ULBs

(Rs. In Crore)

Year	Greater Chennai Corporation	Other Corporations	Municipalities	Town Panchayats	Total
2010-11	3.79	1.75	1.14	1.19	**7.87**
2011-12	20.14	1.99	1.08	0.93	**24.14**
2012-13	38.96	13.56	1.63	0.75	**54.90**
2013-14	18.08	9.42	0.91	0.47	**28.88**
2014-15	28.62	12.46	0.90	0.90	**42.88**
2015-16	20.00	15.70	1.37	0.88	**37.95**

5.127 The collection of Entertainment Tax has been dwindling over the years consequent on the changes effected in the Entertainment Tax Act, 1939. It has started from 2004 with the reduction of Entertainment Tax from 25% of the gross payment for admission for new films to 15% and from 20% of the gross payment for old films to 10% in Municipal Corporations and Special Grade Municipalities. Further, the compounding system has been done away with and a simple system of levy 10% of the gross payment for admission in the areas of Municipalities, Town Panchayats was brought in. Further, in 2006 the Government have ordered for exemption of tax for new films and also old films name in Tamil. To compensate the loss due to this waiver, Rs.30.00 crore per annum was granted by the Government as Entertainment Tax compensation fund. The Government also exempted tax on cable T.V. operators and waived the tax dues from 2003-2006 from cable T.V. operators. The Government has taken a policy decision to run the cable TV operations by the Tamil Nadu Arasu Cable TV Corporation and the local bodies to not derive any revenue from this operation.

5.128 A key change in the scenario of Entertainment Tax is the enactment of the 101st Constitution Amendment Act which enables the introduction of a Goods and Services Tax in India. Amongst other taxes, Entertainment Tax, unless it is levied and collected by local bodies, is subsumed in GST. Hence, the Government must take urgent action to legislate and permit Local Bodies to levy and collect Entertainment Tax, before the new GST provisions come into effect. In Tamil Nadu's context this is very important as the entire revenue from Entertainment Tax was assigned to local bodies even though it was collected by a State Government Agency.

5.129 The Commission recommends that Government must take urgent action to legislate and permit Local Bodies to levy and collect Entertainment Tax, in the light of new GST provisions. In Tamil Nadu's context this is very important as the entire revenue from Entertainment Tax was assigned to local bodies even though it was collected by a State Government agency. (para 5.128)

Surcharge on Stamp Duty

5.130 Surcharge on Stamp duty is one of the major sources of assigned revenue to ULBs. At present it is levied on five instruments which are Gift, Mortgage with Possession, Sale, Exchange and Lease in Perpetuity of immovable property. The amount collected as surcharge and adjusted to ULBs are as follows

Table V – 35

(Rs. in Crore)

Year	Municipal Corporation	Municipalities	Town Panchayats	Total
2010-11	177.39	141.24	109.16	427.79
2011-12	308.70	236.86	178.13	723.69
2012-13	394.27	200.04	158.87	753.18
2013-14	479.87	190.20	159.40	829.47
2014-15	469.32	193.78	157.19	820.29
Total	**1829.55**	**962.12**	**762.75**	**3554.42**

Table V – 36

Amount of surcharge transferred to local bodies

(Rs. In Crore)

Year	Municipal Corporation	Municipalities	Town Panchayats	Total
2010-11	173.64	137.00	105.89	416.53
2011-12	299.44	229.75	172.79	701.98
2012-13	382.44	194.04	154.10	730.58
2013-14	465.47	184.49	154.62	804.58
2014-15	455.24	187.97	152.47	795.68
	1776.23	**933.25**	**739.87**	**3449.35**

Source: IGR

5.131 A practice which could amount to a deviation both in letter and spirit from decentralization and devolution which crept in from about 2007-08 is the practice of pooling of the assigned revenue at State level and there after apportioning the resources on different set of criteria.

5.132 The Government decided to implement the Tamil Nadu Urban Road Infrastructure Fund at the ULB level in 2009-10 with the assistance of 50% of the assigned revenue on Surcharge on Stamp Duty and the Inspector General, Registration has been diverting 50% of the surcharge collected to the TURIF. In respect of ULBs the balance 50% is being sanctioned. The Commissioner of Municipal Administration and the Director of Town Panchayats are authorized to draw and disburse the surcharge amount to the respective ULBs.

5.133 The Commission is strongly of the view that Assigned Revenues are levied and collected in the names of the local bodies and hence it is not proper on the part of the Government to pool such revenues and transfer them on the basis of ad hoc formulae or for scheme implementation. Such revenues must be distributed based on origin. The purpose of levy of such taxes or surcharges are to equip the local bodies concerned for certain activities they would be needed to do. Surcharge on Stamp Duty collection increases when more transactions are entered into in an area. Greater sale activity is bound to see more construction and habitation and concurrently the need for provision of more services by the local body.

5.134 Assigned revenues cannot be viewed as equalization funds. Such equalization funds, which compensate jurisdictions which do not receive such revenues, have to come out of other mechanisms including the State's resources which are developed or granted to the local bodies.

5.135 The Commission strongly recommends that pooling of Assigned Revenue must be done away with forthwith and the Assigned Revenues should be distributed to the local bodies based on the place where they actually accrue, after deducting cost of collection, if any. No other conditions or criteria should be applied.

5.136 It was noticed they are not specified in the respective sections of the respective Local Bodies and therefore this subject needs amendments to the respective sections by the orders of the Government. After the amendment of the Local Bodies Act, a notification under section 9(1) (a) of the Stamp Act 1899 has to be issued by the Government.

5.137 The Third and Fourth SFCs recommended to levy surcharge on (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) Settlement which requires amendment to the respective Acts. Though the recommendation was accepted by the Government, the required amendments are yet to be made.

5.138 Recommendations

i. **Pooling of Assigned Revenues including Surcharge on Stamp Duty must be done away with. The Assigned Revenues should be distributed to the local bodies based on the place where they actually accrue, after deducting cost of collection, if any. (para 5.135)**

ii. **The recommendation of the Third and Fourth SFC to levy surcharge on Stamp Duty on documents relating to (i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) Settlement is again reiterated. In addition "Construction Agreements" and "Settlement among Family Members" should also be made subject to Surcharge on Stamp Duty. (para 5.137)**

iii. **The details of collection of Surcharge on Stamp Duty should be informed to the local bodies concerned and the District Collectors by the Registration Department. (para 5.138)**

SFC / CFC / Schemes Funds of ULBs as follows

5.139 The major source of resources for Urban Local Bodies is the State Finance Commission devolution of funds. SFC devolution constituted 48% to 56% of the total revenue receipts of the ULBs during 2010-11 to 2014-15. SFC devolution to Urban Local Bodies have alleviated the poor finance position as the ULBs which were under pressure and not able to meet even the salary and terminal benefits of the employees in time.

Table V - 37

Sl. No.	Item	2010-11		2011-12		2012-13		2013-14		2014-15	
		Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage	Rs. in Cr.	Percentage
1	SFC Devolution	1736.83	48%	2003.66	56%	2410.55	53%	2624.10	52%	2543.40	50%
2	IGFF	13.58	0%	8.84	0%	43.16	1%	37.22	1%	70.70	1%
3	OMGFF	20.25	1%	30.67	1%	43.42	1%	36.24	1%	64.24	1%
4	CFC Grants	150.00	4%	181.00	5%	234.00	5%	277.00	5%	300.00	6%
5	Other Grants	1702.71	47%	1364.54	38%	1826.47	40%	2112.15	42%	2073.68	41%
	Total	**3623.37**	**100%**	**3588.71**	**100%**	**4557.60**	**100%**	**5086.71**	**100%**	**5052.02**	**100%**

Expenditure Analysis of ULBs

5.140 One of the challenges for ULBs is to meet the expenditure on establishment and O&M of water supply, street lights, roads, liquid waste and solid waste management. The Revenue expenditure of Municipalities and Town Panchayats is more than their own sources of revenue. When compared with Revenue receipts, the establishment expenditure towards salaries and terminal benefits of Municipalities and Town Panchayats display an upward trend from 2010-11 to 2014-15. The salary and pension commitment has exceeded 49% of own income of 66 Municipalities. The percentage of Operation and Maintenance expenditure to total revenue expenditure also shows an upward trend.

Table V - 38

Aggregate Table Revenue Expenditure

Sl. No	Expenditure	2010-11	% on Total Expend	2011-12	% on Total Expend	2012-13	% on Total Expend	2013-14	% on Total Expend	2014-15	% on Total Expend
1	Salaries	1288.09	33.76	1472.29	35.67	1578.98	29.69	1767.17	25.71	1942.32	25.47
2	Terminal Benefits	453.16	11.88	500.75	12.13	516.78	9.72	597.42	8.69	641.74	8.42
Total		**1741.25**	**45.64**	**1973.04**	**47.8**	**2095.76**	**39.41**	**2364.59**	**34.4**	**2584.06**	**33.89**
O&M Expenditure											
1	General Administration	1267.96	33.23	1215.25	29.44	1988.3	37.39	2949.99	42.92	3286.69	43.11
2	Water Supply	314.73	8.25	347.49	8.42	466.87	8.78	645.69	9.39	732.26	9.6
3	Public Health	15.3	0.4	13.16	0.32	16.06	0.3	27.71	0.4	28.1	0.37
4	Conservancy	143.01	3.75	182.37	4.42	236.63	4.45	288	4.19	348.03	4.56
5	Roads	11.72	0.31	15.33	0.37	23.48	0.44	19.78	0.29	23.3	0.31
6	Storm Water Drains	5.67	0.15	9.55	0.23	13.29	0.25	13.87	0.2	18.4	0.24
7	Street Lights	160.94	4.22	185.25	4.49	277.8	5.22	330.82	4.81	351.84	4.61
8	Sewerage	2.02	0.05	3.22	0.08	2.75	0.05	9.69	0.14	9.77	0.13
9	Library Cess	34.3	0.9	38.86	0.94	43.75	0.82	47.38	0.69	44.79	0.59
10	Discretionary Service and Others	8.6	0.23	10.5	0.25	9.36	0.18	12.64	0.18	15.01	0.20
11	School Buildings	11.3	0.3	11.98	0.29	11.89	0.22	22.09	0.32	28.65	0.38
12	Others	21.86	0.57	26.85	0.65	33.62	0.63	47.29	0.69	49.89	0.65
Total		**1997.41**	**52.36**	**2059.81**	**49.90**	**3123.8**	**58.73**	**4414.95**	**64.22**	**4936.73**	**64.75**
Debt servicing–Interest		77.06	2.02	94.6	2.29	98.82	1.86	93.87	1.37	104.02	1.36
Total Revenue Expenditure		**3815.72**	**100**	**4127.45**	**100**	**5318.38**	**100**	**6873.41**	**100**	**7624.81**	**100**

Table V - 39

Aggregate Table Capital Expenditure

Sl. No	Expenditure	2010-11	% on Total Expend	2011-12	% on Total Expend	2012-13	% on Total Expend	2013-14	% on Total Expend	2014-15	% on Total Expend
1	Water Supply	362.31	13.37	409.75	13.51	479.63	10.79	566.05	10.26	664.49	11.05
2	Sewerage	21.24	0.78	11.22	0.37	33.76	0.76	71.07	1.29	51.72	0.86
3	Roads	1231.14	45.45	1372.14	45.25	2173.86	48.92	2667.55	48.35	3081.39	51.25
4	Storm Water Drains	126.8	4.68	189.67	6.26	295.91	6.66	329.86	5.98	302.44	5.03
5	Street Lights	67.76	2.5	91.66	3.02	105.72	2.38	185.38	3.36	205.78	3.42
6	Public Health and Sanitation	242.11	8.94	229.64	7.57	331.99	7.47	382.9	6.94	315.36	5.24
7	Conservancy	60.46	2.23	80.72	2.66	173.37	3.9	108.58	1.97	98.69	1.64
8	Culverts	202.81	7.49	241.78	7.97	322.88	7.27	453.44	8.22	359.47	5.98
9	Debt repayment – Principal	197.34	7.28	198.52	6.55	273.04	6.15	427.26	7.74	575.98	9.58
10	Others	196.96	7.27	206.95	6.83	253.11	5.7	324.66	5.88	357.51	5.95
Total		**2708.93**	**100**	**3032.05**	**100**	**4443.27**	**100**	**5516.75**	**100**	**6012.83**	**100**

5.141 In respect of Capital Receipts & Expenditure, the loans obtained for capital expenditure constitutes a considerable portion of the Capital Fund. The increase in capital expenditure in ULBs is to cater to the growing infrastructural development needs of the ULBs. This increase in capital expenditure barely keeps pace with the aspirational needs of the rapidly growing urban population, and has to ensure that there is enhancement of quality of infrastructure and services.

Capital Expenditure

5.142 Data for the period 2010-11 to 2014-15 shows that in ULBs, the Capital Expenditure exceeds Revenue Expenditure primarily because the emphasis is on development of basic infrastructure in order to provide better services to the public. Capital Expenditure comprises creation of assets towards water supply, sewerage, storm water drains, street lights, public health and sanitation, conservancy, roads and bridges and debt repayment. The expenditure on roads and bridges including upgradation and formation of new roads constitutes the single largest item of Capital Expenditure accounting for 56.07 per cent of the total. The other important component is debt repayment, which has grown steadily over the years due to regular borrowings, showing the greater credit-worthiness of the ULBs**.**

Table V - 40

Revenue Receipts & Expenditure of Municipal Corporations are as follows:

(Rs. In Crore)

Sl. No	**Income**	**2010-11**		**2011-12**		**2012-13**		**2013-14**		**2014-15**	
1	Taxes	896		941		1164		1297		1360	
2	Non Taxes	456		731		973		1132		1092	
3	SFC Devolution (Net)	707		840		1071		1145		1113	
4	Assigned Revenue	132		225		265		310		250	
	Total	**2191**		**2737**		**3474**		**3884**		**3815**	
	Expenditure		**% on total**		**% on total**		**% on total**		**% on total**		**% on total**
1	Salaries	708.16	32.29	823.43	36.34	885.53	28.23	991.29	22.89	1088.78	22.17
2	Terminal Benefits	302.22	13.78	333.85	14.74	348.49	11.11	398.07	9.19	429.13	8.74
	Total	**1010.38**	46.07	**1157.28**	51.08	**1234.02**	39.34	**1389.36**	32.09	**1517.91**	30.91
	Operation and Maintenance										
1	General Administration	913.34	41.64	750.61	33.13	1456.29	46.42	2317.48	53.52	2652.88	54.02
2	Water Supply	96.45	4.4	125.08	5.52	153.81	4.9	236.89	5.47	304.72	6.21
3	Public Health	10.66	0.49	7.63	0.34	6.84	0.22	16.21	0.37	18.99	0.39
4	Conservancy	53.83	2.45	77.23	3.41	88.79	2.83	113.01	2.61	122.4	2.49
5	Roads	5.66	0.26	6.19	0.27	8.4	0.27	7.89	0.18	11.47	0.23
6	Storm Water Drains	3.46	0.16	5.32	0.23	8.76	0.28	8.56	0.2	12.68	0.26

7	Street Lights	44.16	2.01	61.51	2.71	98.3	3.13	137.33	3.17	141.8	2.89
8	Sewerage	0.83	0.04	0.69	0.03	0.89	0.03	7.19	0.17	7.19	0.15
9	Library Cess	11.68	0.53	11.67	0.52	16.96	0.54	18.75	0.43	18.19	0.37
10	Discretionary Service and Others	2.45	0.11	3.69	0.16	3.08	0.1	3.54	0.08	5.03	0.1
11	School Buildings	3.51	0.16	3.92	0.17	4.13	0.13	8.94	0.21	15.22	0.31
12	Others	5.82	0.27	7.05	0.31	11.7	0.37	22.74	0.53	24.53	0.5
Total		**1151.85**	52.52	**1060.59**	46.81	**1857.95**	59.23	**2898.53**	66.94	**3335.1**	67.91
Debt servicing – Interest		**31.11**	1.42	**47.79**	2.11	**45.04**	1.44	**42**	0.97	**57.85**	1.18
Total Revenue Expenditure		**2193.34**	**100**	**2265.66**	**100**	**3137.01**	**100**	**4329.89**	**100**	**4910.86**	**100**

5.143 The salary and terminal benefits expenditure from the year 2010-11 to 2014-15 has increased steadily with an aggregate growth of 39.93% over a period of 5 years. Based on the recommendations of the Second SFC, the Government has already issued norms for salary and terminal benefits not to exceed 49% of the own revenue of Corporations and Municipalities. Accordingly, in respect of Municipal Corporations, this limit is maintained on an aggregate basis. However, in some of the Municipal Corporations the salary and terminal benefits expenditure already exceeds 49%. The own source of income of Thanjavur Municipal Corporation amounts to Rs.19.276 Crore while the expenditure on salary and terminal benefit amounts to Rs.21.86 Crore, while in Dindugal, income from own sources amounts to Rs.17.56 Crore and expenditure on salary and terminal benefits amounts to Rs.25.89 Crore.

5.144 O&M costs incurred by Municipal Corporations have shown an increasing trend from the year 2010-11 to 2014-15 with an aggregate growth of 58.68%. The general administrative expenses in Corporations in 2011-12 accounted for 33.13% of Total Expenditure, but rose to 54.02% by 2014-15. The increase is higher during the years 2013-14 and 2014-15 due to the operation of social schemes intended to the benefits of poor citizens. The Commission observes Revenue Expenditure has exceeded Revenue Receipts in the year 2013-14 and the gap has widened even further in 2014-15. Corporations have to do more to enhance their own revenue.

5.145 Capital Expenditure under Public Health and Sanitation is 2.41% of the Total Expenditure, which is meager. A clear study should be under taken to assess the requirement of Public Health & Sanitation expenditure to fulfill the needs of the general public.

Table V - 41

Capital Income and Expenditure - Municipal Corporations

(Rs. In Crores)

Sl. No	Income	2010-11		2011-12		2012-13		2013-14		2014-15	
1	Grants in aid from State Government	291.74		197.56		443.07		688.36		853.55	
2	Grants from Central Government	292.35		206.79		224.36		206.37		202.96	
3	Loan Account	155.80		98.36		205.79		435.89		954.39	
4	Own Fund	341.11		289.18		543.89		865.92		903.92	
	Total	**1081.00**		**791.89**		**1417.11**		**2196.54**		**2914.82**	
	Expenditure		**% on total**		**% on total**		**% on total**		**% on total**		**% on total**
1	Water Supply	168.50	17.74	177.20	17.99	182.29	10.01	160.59	6.30	234.46	7.12
2	Sewerage	5.93	0.62	4.38	0.44	19.22	1.06	17.57	0.69	8.63	0.26
3	Roads	379.17	39.93	307.68	31.23	856.57	47.03	1330.03	52.17	1845.07	56.02
4	Storm Water Drains	51.25	5.40	105.41	10.70	174.92	9.60	204.18	8.01	185.71	5.64
5	Street Lights	20.50	2.16	40.47	4.11	41.22	2.26	113.88	4.47	115.83	3.52
6	Public Health and Sanitation	76.05	8.01	69.04	7.01	89.46	4.91	105.46	4.14	79.40	2.41
7	Conservancy	39.01	4.11	50.85	5.16	114.76	6.30	65.94	2.59	67.17	2.04
8	Culverts	59.33	6.25	84.52	8.58	104.99	5.76	142.33	5.58	139.03	4.22
9	Debt repayment – Principal	78.12	8.23	88.63	9.00	157.03	8.62	303.68	11.91	467.09	14.18
10	Others	71.74	7.55	57.08	5.79	80.79	4.44	105.78	4.15	151.02	4.59
	Total	**949.60**	**100**	**985.26**	**100**	**1821.25**	**100**	**2549.44**	**100**	**3293.41**	**100**

Table V - 42

Revenue Receipts and Expenditure of Municipalities

(Rs. In Crore)

Sl. No	Head of Income	2010-11		2011-12		2012-13		2013-14		2014-15	
1	Taxes	290.76		313.09		344.91		377.16		404.41	
2	Non Taxes	303.69		323.03		390.85		391.9		414.41	
3	SFC Devolution (Net)	569.43		686.84		730.23		720.45		818.87	
4	Assigned Revenue	77.83		92.79		125.97		148.66		142.14	
	Total	**1241.70**		**1415.75**		**1591.96**		**1638.17**		**1779.83**	
	Expenditure		**% on total**		**% on total**		**% on total**		**% on total**		**% on total**
1	Salaries	384.29	41.5	428.92	39.7	452.03	36.8	498.53	36.8	555.56	37.8
2	Terminal Benefits	126.27	13.7	141.58	13.1	140.98	11.5	166.44	12.3	184.02	12.5
	Total	**510.56**	55.2	**570.5**	52.8	**593.01**	48.2	**664.97**	49.0	**739.58**	50.3
	Operation and Maintenance										
1	General Administration	166.2	18	239.57	22.2	266.81	21.7	256.12	18.9	259.67	17.7
2	Water Supply	84.11	9.09	87.42	8.09	130.65	10.6	179.2	13.2	186.36	12.7
3	Public Health	2.86	0.31	3.57	0.33	5.88	0.48	5.81	0.43	5.02	0.34
4	Conservancy	47.33	5.12	53.49	4.95	72.83	5.92	80.58	5.94	108.87	7.4
5	Roads	2.2	0.24	3.92	0.36	5.62	0.46	3.11	0.23	2.78	0.19
6	Storm Water Drains	0.65	0.07	2.06	0.19	1.44	0.12	1.45	0.11	1.10	0.07
7	Street Lights	51.27	5.54	51.1	4.73	76.89	6.25	79.67	5.87	85.84	5.83
8	Sewerage	0.58	0.06	0.64	0.06	0.8	0.07	0.73	0.05	0.77	0.05
9	Library Cess	16.87	1.82	20.3	1.88	19.61	1.59	21.37	1.58	18.68	1.27
10	Discretionary Service & others	0.56	0.06	0.55	0.05	0.85	0.07	2.71	0.2	2.04	0.14

11	School Buildings	7.26	0.78	7.88	0.73	7.32	0.6	12.7	0.94	13.06	0.89
12	Others	10.94	1.18	12.63	1.17	15.33	1.25	16.76	1.24	19.48	1.32
	Total	**390.83**	42.2	**483.13**	44.7	**604.03**	49.1	**660.21**	48.7	**703.67**	47.8
Debt servicing – Interest		**23.88**	2.58	**27.44**	2.54	**32.95**	2.68	**31.01**	2.29	**28.31**	1.92
Total Revenue Expenditure		**925.27**	**100**	**1081.07**	**100**	**1229.99**	**100**	**1356.19**	**100**	**1471.56**	**100**

5.146 The expenditure on salaries and terminal benefits account for almost 50% of the total Revenue Expenditure of the Municipalities. The expenditure on salary and terminal benefits which was Rs.739.58 Crore in 2014-15 was almost equal to the SFC devolution amount of Rs.818.87 Crore. Further, the expenditure incurred on Public Health and Conservancy has increased to 7.48% out of Total Expenditure, reflecting the crunch on Sanitation and Conservancy activities.

5.147 There is a higher rate of increase under general administration year by year and in 2014-15, it increased by 17% compared to 2013-14. Action has to be taken to curtail unnecessary administrative expenditure. Under water supply and street lights, huge incremental expenditure can be observed. This must be focused at the administrative level and quality of maintenance must be achieved.

Table V - 43

Capital Income and Expenditure - Municipalities

(Rs. In Crore)

Sl. No	Income	2010-11		2011-12		2012-13		2013-14		2014-15	
1	Grants from State Government	481.64		410.78		553.75		521.85		464.72	
2	Grants from Central Government	121.57		103.64		249.22		178.86		162.26	
3	Loan	89.71		82.79		143.71		186.17		81.11	
4	Contribution from Municipal Funds	132.76		183.94		222.57		233.34		232.48	
	Total	**825.68**		**781.15**		**1169.25**		**1120.22**		**940.57**	
	Expenditure		**% on Total**		**% on Total**		**% on Total**		**% on Total**		**% on Total**
1	Water Supply	94.69	10.99	117.58	11.55	145.15	10.82	164.65	11.63	201.19	15.35
2	Sewerage	9.70	1.13	3.43	0.34	9.27	0.69	27.59	1.95	33.38	2.55
3	Roads	396.77	46.06	488.67	48.00	613.02	45.70	618.97	43.70	527.78	40.28
4	Storm Water Drains	34.86	4.05	42.62	4.19	50.15	3.74	58.56	4.13	49.70	3.79
5	Street Lights	22.70	2.64	31.59	3.10	40.08	2.99	42.56	3.01	62.67	4.78
6	Public Health & Sanitation	81.06	9.41	82.86	8.14	140.85	10.50	143.10	10.10	114.87	8.77
7	Conservancy	13.52	1.57	16.61	1.63	37.34	2.78	25.79	1.82	12.31	0.95
8	Culverts	74.01	8.59	83.19	8.17	119.40	8.90	129.56	9.15	112.79	8.61
9	Debt repayment – Principal	66.24	7.69	67.96	6.68	81.02	6.04	92.17	6.51	82.06	6.26
10	Others	67.78	7.87	83.57	8.20	105.21	7.84	113.34	8.00	113.53	8.66
	Total	**861.33**	**100**	**1018.08**	**100**	**1341.49**	**100**	**1416.29**	**100**	**1310.28**	**100**

Table V - 44

Revenue Receipts and Expenditure - Town Panchayats

(Rs. In Crores)

Sl. No.	Head of Income	2010-11	2011-12	2012-13	2013-14	2014-15
1	Taxes	130.48	143.56	158.39	173.13	184.69
2	Non Taxes	227.29	260.79	294.13	337.37	339.79
3	SFC Devolution (Net)	494.14	516.45	695.69	831.65	746.03
4	Assigned Revenue	71.18	89.48	109.81	114.67	95.16
	Total	**923.09**	**1010.28**	**1258.02**	**1456.82**	**1365.67**
	Expenditure					
1	Salaries	195.64	219.94	241.42	277.35	297.98
2	Terminal Benefits	24.67	25.32	27.31	32.91	28.59
	Total	**220.31**	**245.26**	**268.73**	**310.26**	**326.57**
Operation and Maintenance						
1	General Administration	188.42	225.07	265.20	376.39	374.14
2	Water Supply	134.17	134.99	182.41	229.60	241.18
3	Public Health	1.78	1.96	3.34	5.69	4.09
4	Conservancy	41.85	51.65	75.01	94.41	116.76
5	Roads	3.86	5.22	9.46	8.78	9.05
6	Storm Water Drains	1.56	2.17	3.09	3.86	4.62
7	Street Lights	65.51	72.64	102.61	113.82	124.20
8	Sewerage	0.61	1.89	1.06	1.77	1.81
9	Library Cess	5.75	6.89	7.18	7.26	7.92
10	Discretionary Service and Others	5.59	6.26	5.43	6.39	7.94
11	School Buildings	0.53	0.18	0.44	0.45	0.37
12	Others	5.10	7.17	6.59	7.79	5.88
Total (Operation and Maintenance)		**454.73**	**516.09**	**661.82**	**856.21**	**897.96**
Debt servicing – Interest		**22.07**	**19.37**	**20.83**	**20.86**	**17.86**
Total Revenue Expenditure		**697.11**	**780.72**	**951.38**	**1187.33**	**1242.39**

Table V - 45

Capital Income and Expenditure - Town Panchayats

(Rs. In Crore)

Sl. No.	Details	2010-11	2011-12	2012-13	2013-14	2014-15
1	Grants in aid from State Government	469.91	421.67	384.09	473.45	392.98
2	Grants from Central Government	163.71	152.85	168.66	251.99	221.10
3	Loan	88.58	80.33	82.54	82.72	71.42
4	Own Fund	140.11	145.82	181.39	274.42	282.67
	Total	**862.31**	**800.67**	**816.68**	**1082.58**	**968.17**
	Expenditure					
1	Water supply	99.12	114.97	152.19	240.81	228.84
2	Sewerage	5.61	3.41	5.27	25.91	9.71
3	Roads	455.20	575.79	704.27	718.55	708.54
4	Storm water drains	40.69	41.64	70.84	67.12	67.03
5	Street lights	24.56	19.60	24.42	28.94	27.28
6	Public health and sanitation	85.00	77.74	101.68	134.34	121.09
7	Conservancy	7.93	13.26	21.27	16.85	19.21
8	Culverts	69.47	74.07	98.49	181.55	107.65
9	Debt repayment –	52.98	41.93	34.99	31.41	26.83

	Principal					
10	Others	57.44	66.30	67.11	105.54	92.96
	Total	**898.00**	**1028.71**	**1280.53**	**1551.02**	**1409.14**

5.148 The general administrative expenses in respect of Town Panchayats have increased from Rs. 265.20 crore in 2012-13 to Rs. 376.39 crores in 2013-14, which is an increase of 41% in one year, which is unusual. Under Capital Expenditure, major expenses incurred are on road formation, which accounted for 50.28% of Total Capital Expenditure. Under Public Health and Sanitation and Conservancy head, the expenditure amounts to 9.95% of total expenditure.

Debt Level

5.149 The upward trend in loan raising is due to paucity of revenue resources and to meet the capital needs apart from Central and State support. The loans received from various schemes are in Table V – 46.

Table V - 46

Loans obtained by the ULBs under various schemes

(*Rs.in Crore)*

Sl. No.	Scheme	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	IUDP	11.28	11.34	17.36	9.00	6.59	5.97
2	JNNURM (UIG)	6.04	2.85	9.70	10.27	13.96	15.08
3	UIDSSMT	12.31	19.16	9.74	16.31	12.6	6.16
4	GoTN	11.52	9.19	9.20	6.88	7.81	6.13
5	TNUDF	97.58	82.93	110.58	104.36	32.38	146.4
6	JICA	0.00	0.00	4.50	2.50	39.1	26.5
7	KfW	33.48	16.07	32.54	48.2	76.12	90.62
8	ADB	0.00	0.00	0.08	0.00	0.06	0.00
9	WB	0.89	0.44	0.44	0.44	0.45	100.45
10	TNUIFSL	0.88	0.60	22.31	72.19	60.55	61.75
11	TUFIDCO	86.74	57.16	64.23	110.63	249.88	325.21
12	HUDCO	0.89	14.71	12.12	11.01	4.33	0.84
13	BSUP	0.79	00.0	0.00	0.00	0.00	60.00
14	IHSDP	9.24	2.61	6.82	6.83	1.19	1.13
15	Others	62.46	44.41	132.39	306.15	601.89	491.54
	Total	**334.11**	**261.47**	**432.01**	**704.77**	**1106.91**	**1337.78**

5.150 A major portion of loans have been received from TNUIFSL and TUFIDCO by the ULBs. The loan eligibility ceiling has been fixed by Government at four times the receipt of the ULBs. Even though, grants and funds under devolution assist the ULBs, the overdue of loan is substantial.

5.151 However, not all the ULBs are in a position to mobilize loans and augment resources available to meet capital expenditure, as their revenue raising potential is limited making it difficult to service the debt. ULBs need to enhance their revenue raising potential.

Issuance of Municipal Bonds to Augment Capital Receipts

5.152 To augment the revenue of the ULBs, the 14^{th} CFC suggested that the local bodies and States explore the issuance of municipal bonds as a source of finance with suitable support from the Union Government. In Tamil Nadu, larger Municipal Corporations have raised the bonds for capital projects. Madurai Corporation has raised funds through the issue of Municipal bonds for the formation of the inner ring road. Through the Tamil Nadu Urban Infrastructure Financial Services Ltd (TNUIFSL), smaller ULBs are being enabled to raise pooled finances including bonds and debt. Given the large requirement for urban infrastructure, Government should continue to encourage ULBs to raise debt in a sustainable manner. Apart from increasing the funds available, bonds and debt instruments inculcate financial discipline and enable more effective project implementation.

Recommendation

5.153 The Commission recommends that ULBs must be encouraged to issue bonds and other debt instruments for augmenting resources for capital projects. (para 5.152)

Chapter-VI

Towards Streamlining Accounts, Audit and Fiscal Data

The Importance of Accountability and Audit

6.1 An efficient and streamlined financial management system is the key to better governance. Local Bodies are responsible for anincreasingly higher and significant share of public expenditure – based on their own sources of revenue, and out of devolved funds and grants, both untied and scheme linked received from the State and Central Governments.Transfers from Central and State Government account for60% to 70% of the expenditure of Local Bodies. In this context, there is a strong imperative to significantly improve the quality of both account keeping and to ensure timely and effective audit of the accounts. This will substantially enhance transparency and also enable greater accountability of Local Bodies, particularly to the local communities. In addition, both the Central and theState Finance Commissions can make more appropriate recommendations andthe Central and State Governments as well as legislaturescan take suitable decisions based on such accurate and consistent fiscal data related to Local Bodies. The 14^{th} CFC has rightly retained timely compilation of accounts and completion of audits as the main performance related criteria in its recommendations.Keeping this in view,the Commission has focusedon the further improvements required in theaccounting and audit framework related to local bodies.

Central and State Finance Commission Recommendations

6.2 The 14^{th}CFC had expressed concern over the near absence of financial data on Local Bodies and its poor quality, wherever it is available. The 14^{th}CFC had in its recommendationsemphasized the need to have reliable data on the finances of Local Bodies in order to enable all stakeholders to makeinformed decisions and hence linked the performance grant to the timely compilation of accounts and theiraudit. During the district level interactions of the Fifth State Finance Commission, many NonGovernmental Organizations and academic institutions emphasized importance of disseminating information on the local bodies' finances, allocations and their utilization to the public in such a way as to enable even a layman to gain a good understanding of how public funds are utilized. As such, the most critical element of accountability for local bodies is the proper upkeep of accounts. There are now clear prescribed national standards laid down in the National Municipal Accounts Manual (NMAM) for Urban Local Bodies based on the double entry Accrual Based Accounting System andunder the Panchayat Raj Institutions Accounting System (PRIA)for Rural Local Bodies on a simpler cash based Accounting System.

Accrual Based Accounting - Urban

6.3 The National Municipal Accounts Manual(NMAM) provides the classificationstructure that facilitates capture of all types of financial information within an Urban Local Body, including the budget for various functions and the accounting of individual transactionsmade under the budget.

The salient Features are:

i. The Assets with value havebeen brought into the accounts.

ii. The Financial Statements are prepared on Accrual Basis andall transactions have two fold effectsof Debit and Credit.

iii. The true picture of the Income and Expenditure relating to the year can be ascertained.

iv. Code Numbers have been allotted according to the nature of transactions for improved classification.

6.4 The Government of Tamil NaduvideG.O.(Ms).No.70, MA&WS Department, Dated: 17.05.2013accepted the NMAM and initiated the process of updating the existing accounts manual in line with the National Municipal Accounting Manual.

6.5 In the Corporation of Chennai, whilethe National Municipal Accounting Manualhas been adopted, as a part of the ”ERP tools software”, the integration of the accounting module with other departments' functional modules, is yet to be completed. This has meant that the full utility of a comprehensive Management Information System and the benefits of a complete e-governance solution are yet to be derived.

6.6 The Commissioner of Municipal Administration has reported that the accounts of Urban Local Bodies are in the process of being compiled as per the G.O. The delay in compliance is due to the delay in updating the accounting software as well as the lack of skilled human resources.The CMA has further informed that acentralized web-based software application for ULBs is being implemented in Tamil Nadu and 29 Modules have been developed. Theaccounts in 51 ULBs are being compiled based on the updated accounting manual. The software application will be extended to other Municipalities and Municipal CorporationsbyDecember 2016.

6.7 The lack of a dedicated accounts cadre in Municipalities is impeding the process of upgrading the Finance and Accounts systems.To address thisissue,the Government in G.O.(Ms).No.26, MA&WS Department, Dated: 10.02.2016 has constituted the Municipal Accounts Service and framed service rules for the posts covered under this service. The re-designation ofposts in the existing accounts wing of Municipalities commensurate with the qualification and mode of appointment specified in the Tamil Nadu Municipal Accounts Service is under examination. Once qualified Accountants are appointed in Urban Local bodies, it is expected that the quality of accounts-keeping will be significantly enhanced and accounts in the specified formats will be compiled in time from the year 2017-18 onwards.

Accounting Arrangements – Rural

6.8 A new simplified accounting framework, namely the “Model Accounting System for Panchayats” was developed in 2009 to bring about transparency and accountability in the maintenance of accounts of PRIs. PRIA Soft was developed by the National Informatics Centre in consultation with the Ministry of Panchayati Raj to establish a standardized accounting software for use by all the three tiers of PRIs. It also facilitated the adoption of eight model accounting formats as prescribed by the C&AG. PRIA Soft is a web based software. It captures the four tier accounting structure comprising Major Heads, Minor Heads, Sub-Head and Object Heads and generates reports in the formats prescribed by the C&AG. The aim of the software, apart from making the process of accounting easy and simple, was to bring about transparency in PRIs’ accounts and allow for reports to be available in the public domain.

6.9 Government ofTamil Nadu issued orders in G.O.(Ms).No.26, RD & PRI (PR1) Department, Dated: 12.04.2012 for implementation of the PRIA Soft Model Accounting System in all the threetiersof Panchayat Raj Institutions namely, Village Panchayats, PanchayatUnions, and District Panchayats from the year2012-13 onwards. The application hasfeatures for data entry and administration at any level. All the three tiers of Rural Local Bodies have beenprovided with computer hardwareand broadband connectivity.

6.10 There are still some problems with completeness and reliability in the manner in which data is inputted into this software. As a result, this Commission wasnot able to fully capture financialdata relating to PRIs from this software.It appears thatdata has not yet been entered in PRIA Soft in all the formats prescribed by the Comptroller and Auditor General of India. The PRIs continued to keep books of accounts in the formats obtaining prior to the implementation of PRIA Software.The Commission had to thus obtain the data required by it from RLBs through distribution of questionnaires.

6.11 State and District Level Monitoring Committees have been constituted for implementation of PRIA Soft Model Accounting System. More training at the village level, and deployment of skilled human resources at critical levels to provide support are requiredto realise the full impact and benefit of the implementation of this software. This effort requires to be intensified to ensure that credible fiscal data is made available to all stakeholders including policy makers.

Auditing Arrangements

6.12 The C & AG takes up the audit of ULBs and RLBs based on provisions contained in the Comptroller and Auditor – General's (Duties, Powers and Conditions of Service) Act, 1971 (CAG'S (DPC) Act). Section 14 of the Act deals with audit of bodies or authorities substantially financed from the Consolidated Fund of India or of a State and states as follows:

> **14 (1)** Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly, the Comptroller and Auditor-General shall, subject to the provisions of any law for the time being in, force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.
>
> **Explanation:** Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union territory having a

Legislative Assembly in a financial year is not less than rupees twenty-five lakhs and the amount of such grant or loan is not less than seventy-five percent of the total expenditure of that body or authority shall be, deemed, for the purposes of this sub-section, to be substantially financed by such grants or loans as the case may be.

14(2) Not withstanding anything contained in sub-section (1) the Comptroller and Auditor General may with the previous approval of the President or the Governor of a state or the Administrator of a Union territory having a Legislative Assembly, as the case may be, audit all receipts and expenditures of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of India or of any State or any Union territory having a Legislative Assembly, as the case may be in a financial year is not less than rupees one crore.

6.13 Audit of Urban Local Bodies is conducted by the Principal Accountant General (General and Social Sector Audit) under section 14(2) of the CAG's DPC Act, 1971.Audit of Panchayats Raj Institute (PRIs) had been conducted under section 14(1) of the CAG's DPC Act, 1971 up to 2014-15. Based on the recommendations of the 13th CFC that the Comptroller and Auditor General of India must give technical guidance and supervision over the audit of all the Local Bodies in the State at every tier and category, the Government issued orders in G.O.(Ms).No. 618 (RD&PR) Dept., Dated 10.12.2012 that the instrument of Audit of all the three tiers of the Panchayat Raj Institutions to the Comptroller and Auditor General (C&G) be made without any restrictions and the Accountant General will be free to choose an appropriate number of Local Bodies for review. Accordingly from 2015-16 onwards the Audit of PRIs was taken up under section 20(1) of theCAG's (DPC) Act, 1971 which provides that where the audit of the accounts of any body or authority has not been entrusted to the Comptroller and Auditor-General by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority.

6.14 The Accountant General conductstest audit which is followed up by inspection reports issued to the executive authorities of Local Bodies. The audit is conducted in conformity with auditing standards issued by the Comptroller and Auditor General of India. The audit reportsare prepared and submitted to the Governor of Tamil Nadu under Article 151 of the Constitution of India. The Government of Tamil Nadu has issued general orders fixing a time limit of 4 weeks for aresponse by the executive authorities for all paragraphs included in anaudit report issued by the Accountant General (General and Social Sector Audit). The audit reports of the C&AG are discussed by the Public Accounts Committee.

Legal Framework forAudit of PanchayatInstitutions

6.15 Originally based on the powers conferred in the Tamil Nadu Panchayats Act, 1994, the Tamil Nadu Panchayats (Issue and Disposals of Audit Reports of Panchayats Union Council and District Panchayats) Rules, 2000 and Tamil Nadu Panchayats (Issue and Disposals of Audit Reports of Village Panchayats) Rules, 2000 were framed to provide for conduct of audit in Panchayat Unions and District Panchayats and Village Panchayats.Under these Rules the Director of Local Fund Audit (DLFA) is the statutory Auditor for Panchayat Unionsand District Panchayats. The DLFA conducts only test audit of Village Panchayats. The Deputy Block Development Officer (Audit) in each Panchayat Unionis empowered to audit the accounts of Village Panchayats and certifies them.

6.16 The 13thCFC in its report recommended that the State Governments must put in place an audit system for all Local Bodies.The FourthState Finance Commission also recommended enacting a legislation to provide for and regulate the audit oflocal funds and to authorize the Director of Local Fund Audit to audit the accounts related to the local authority. Accordingly, the Government of Tamil Nadu enacted the "Tamil Nadu Local Fund Audit Act, 2014" (Act 24/2014) to provide an effective and efficient audit system forall Local Authorities and certain other authorities, bodies or institutions and funds. TheAct enables the Director of Local Fund to conduct audit ofall Urban Local Bodies,District Panchayats and Panchayat Unions and of 20% of Village Panchayats every financial year. The Act also containsa penal provision to penalize the executive authorities of Local Bodiesfor failure to execute the mandatory provisions of the Act.

6.17 As per the Section 20 of the Tamil Nadu Local Fund Audit Act, 2014, DLFA should submit annually a consolidated report of the accounts audited by him to the Legislative Assembly.

Status of submission of Accounts and Audit by Local Bodies

6.18 Following tables show the arrears in audit and accounts of Local Bodies

Table VI - 1

Arrears in audit of PRIs by DLFA

Category of PRI	Year	Total number	Accounts submitted	Audit completed	Audit pending
DPs	2015-16	31	6	6	25
BPs	2015-16	385	297	31	354

Source: *DLFA*

Table VI - 2

Arrears in submission of Accounts by ULBs as on 30.09.2016

Category of ULB	Total number of ULBs	Number of ULBs not submitted their accounts relating to		
		2013-14	2014-15	2015-16
Municipal Corporations	10 (2013-14) 12 (2014-15 and 2015-16)	-	-	9
Municipalities	126(2013-14) 124 (2014-15 and 2015-16)	2	10	63
Town Panchayats	528 (2014-15 and 2015-16)	-	-	60

Source: *DLFA*

Out of 385 Panchayat Unions 297 Panchayat Unions which had submitted their accounts for the year 2015-16 to DLFA, the audit was completed by DLFA in 31 Panchayat Unions.

Table VI - 3

Arrears in Audit by DLFA

Position of non-completion of audit of ULBs by DLFA as of 30.09.2016

Category of ULB	Total number	2013-14			2014-15			2015-16		
		Accounts submitted to DLFA	Audit completed out of (A) Audit completed out of (A)	Audit pending (A) – (B)	Accounts submitted to DLFA	Audit completed out of (A)	Audit pending (A) – (B)	Accounts submitted to DLFA	Audit completed out of (A)	Audit pending (A) – (B)
		(A)	(B)	(C)	(A)	(B)	(C)	(A)	(B)	(C)
Municipal Corporations	10 (2013-14) 12 (2014-15, 2015-16)	10	10	-	12	6	6	3	-	3
Municipalities	126 (2013-14) 124 (2014-15, 2015-16)	124	124	-	114	98	26	61	-	61
Town Panchayats	528 (2014-15 and 2015-16)	528	527	1	528	450	78	468	21	447

Source: *DLFA*

Issues in theexisting Accounting and AuditFramework

6.19 Despite the Director of Local Fund Audit being present in Urban Local Bodies and Rural Local Bodies to carry out the audit, and the Accountant General also providing technicalsupervisionof the Audit of Urban and Rural Local Bodies, the various processes initiated to reform and strengthen the Accounting and Audit system are yet to stabilize. Although there is goodimprovement in the quality and timeliness of availability of accounts, there are still delays and full compliance with the time schedule prescribed in the Local Fund Audit Act, 2014 for completion of accounts and their audit is yet to be fully achieved. It has been reported that the Budget and Expenditure Control systems at the local body level require further strengthening. There are several instances of misclassificationof expenditure and non-adherence to prescribed formats.

6.20 There is a lack of uniformity in the application software used by different local bodies. Modules have not yet been fully integrated on a functional basis to disseminate reliable and timely information.The existing online portals on accounting and, budgetary information of Urban and Rural Local Bodies, particularly those relating to State Governmentschemes and grants, have not been fully updated and hence the full information required for decision makers and the public is not available. The above discrepancies are due to the following reasons.

i. Shortage of staff

ii. Want of requisite skills for maintaining accounts in theprescribed standard formulated by the Government.

iii. There is no credible and integrated database available.

iv. In addition, the DLFA also reported to the Commission that in the present software system for Urban Local Bodies, there is no provision for extracting reports of actual receipts and charges code-wise. The DLFA also suggests that there should be provision for online transfer of Annual Accounts and related information to the proposed Audit Information Management software of the Local Fund Audit Department. There also needs to be a special provision for extracting separate Balance Sheets for the 3 accounts maintained by ULBs.

Internal Audit

6.21 The Commission during its interactions in district hearings received suggestions from Local Body authorities and District Collectors for the establishment of an Internal Audit system in Local Bodies to ensure an internal quality check on the day to day transactions and to enable more effective compliance.

6.22 The mission of Internal Audit is to ensure that the department is carrying out its activities and programmes as authorized by the appropriate authority and ensure that the results are consistent with the established goals and objectives, using resources in an economical and efficient manner. It is essentially concerned with verifying the effectiveness of internal controls in operation and ensuring compliance with Acts, Rules, Government orders and Court judgments. The functional activities and funds flow of Local Bodies would be more effective with a strengthened internal control mechanism. **The Fourth SFC had also made a recommendation to introduce internal audit in urban local bodies with professional Charted Accountants or Cost and Management Accountants through outsourcing to facilitate better accountability and strengthen the audit and account system. This recommendation is re-iterated.**

Budgetary and Expenditure Control

6.23 The National Municipal Accounting Manual outlines the accounting policies, procedures, and guidelines designed to ensure correct, complete and timely recording of municipal transactions and to produce accurate and relevant financial reports. The manual also provides guidelines for the preparation of budgets and the implementation of effective budgetary control systems. It recommends the integration of the budgeting and accounting systems to achieve better control.

6.24 In respect of Rural Local Bodies, the operation of the existing accounting procedures, especially in PRIA soft accounting system, is not producing the desired results. In Karnataka, the funds flow and accounts of all RLBs are available online for public viewing. Making such information available online will substantiallyenhance accountability and transparency.

Local Bodies operating through the State Treasury

6.25 One of the key structural issues relating to budgetary control and financial accountability in Local Bodies relates to manner in which fund releases take place. Government finances at the Central and State levels operate strictly on the doctrine of lapse with any provisions made in the budget for the year, with the funds unspent as on the last day of the financial year lapsing and requiring a fresh appropriation of funds by the legislature. Local Bodies are not subject to the doctrine of lapse as they maintain their funds mainly in bank accounts. To overcome the lapse of funds in Central and State budgets, there is a tendency to treat local bodies as repositories of non-lapsable funds. As a result, even when the funds released earlier have not been fully utilized, large amounts of funds are released to local bodies often at the fag end of the financial year. The Government of India, despite agreeing to route releases through the State's Consolidated Fund to improve accountability, now requires immediate pass through of funds from the State onward to the local bodies, without further scrutiny on the needs and fund availability. Such funds are then retained by the local bodies in a number of bank accounts. While the intent may be to ensure that State Governments do not utilize the funds intended for scheme implementation in local bodies as a ways and means support, the unintended consequences are many. First, such practices severely strain the already limited financial management capacity of local bodies. Secondly, it raises some question-marks on the quality of public expenditure. Given the vagaries and uncertainties surrounding releases of scheme linked funds from the Central and State Government level, local bodies are unable to plan their expenditure in advance, and often scramble to expend the funds when lumpy releases are made. Thirdly, funds get accumulated in bank accounts for extended periods of time, while the finances of the Central and State Governments continue to be strained.

6.26 With the computerized and automated financial and accounting systems being able to handle large numbers of accounts and fund flows much more easily, and the Government of India having introduced the Central Plan Scheme Monitoring System (CPSMS) and the Government of Tamil Nadu implementing the Integrated Financial and Human Resources Management System, the possibility of allowing local bodies to operate through the State Treasury should be considered. This would ensure that based on authorized budgetary allocations made and sanctions issued, the local bodies could directly draw funds for expenditure through the

Treasury system. The funds, until they are required can remain in the Government Account. A reauthorization mechanism could be adopted for amounts remaining unspent at the end of the financial year. This would ease the cash position of both the State and Central Governments as they would not have to resort to costlier borrowings to make scheme releases only for the funds to lie trapped in bank accounts with local bodies. It would also lead to much higher levels of accountability. It is learnt that in Kerala all local bodies operate through Treasury savings Bank (TSB) accounts. In Tamil Nadu, operation through PD Accounts on the letter of audit mechanism in respect of at least State Government released funds can be considered, in consultation with the C & AG.

Social Audit in Rural Development

6.27 Social audit strengthens accountability and transparency in Rural Local Bodies. Social Audit encourages community participation and collective decision making thereby strengthening local democracy. The most appropriate institutional level for Social Audit is the Gram Sabha. The 73rdConstitutional Amendment Act provides for constitution of Gram Sabhas under Article 243(A). The Tamil Nadu Gram Sabha Rules, 1998 as amended in 2006, explain in detail, the procedure for conduct of Gram Sabhas. Based on the MGNREG Audit Scheme Rules, 2011, the Government has issued orders in G.O.(Ms.).No.64, RD&PR Department, dated 27.7.2012 for the formation of an independent Social Audit unit. Tamil Nadu has been recognized as a State where social audit has been well institutionalized. However, there is still room for further improvement.

E Governance

6.28 E-governance Systemswere introducedin all Local bodies with the primary objective of enhancing quality of delivery services to citizens, providing services “on anywhereanytime basis”, attain synergy in functioning and provide timely and reliable MIS reports for decision making.

6.29 A number of applications have been developed to bring uniformity, ease of access and usability for officials of ULBs and citizens. As a general principle, software modules should be developed on a Web-centric environment and modules should be integrated and developed on service oriented e-Governance infrastructure.

6.30 The lack of uniformity inapplicationsoftware and modules is often because of the exploitation by vendors of software products. This leads to not only avoidable expenditure to local bodies but also adelay in deriving the beneficialimpact in governance. The Commission is of the viewthat local body staff should be intensively trained to acquire computer knowledge and allowed to operate onlyontheplatform of integrated software modules for the wholedepartment.

6.31 The Tamil Nadu Local Fund Act, 2014 empowerstheaudit of documents inelectronic form. Hence,the Local Fund Audit Teams also need to acquire the requisite Computer Aided Audit Technology skills and required software through thetechnical guidance of theAccountant General.

6.32 Inspite of various efforts by the Government, the impact of e-governance has been limited to certain bigger urban local bodies only. The Commission observed that the functional requirement and the capacity of theend users to absorb e-governance solutions arelower in most urban local bodies, except the few bigger Municipal Corporations. A well designed Municipal e-governance system which will integrate all functional department modules with the Financial Accounting Module inorder to get a holistic view of the various departments and consequently better delivery of service to citizens and also provide MIS information to the controlling authorities to enable informed decisions.

6.33 Recommendations

i. **The relevant provisions of the Local Fund Audit Act, 2014 should be effectively implemented in order to ensure that the local body accounts are compiled and audited in time in order to ensure that the local bodies are able to avail of the Performance Grants under the 14^{th} CFC. (para 6.2 and 6.16)**

ii. **The implementation of the Municipal e-governance system which will integrate all functional department modules with the Financial Accounting Module in order to get a holistic view of the finances and operations of ULBs should be completed expeditiously. (para 6.32)**

iii. **The DRD & PRI shall ensure effective implementation of PRIA Soft Model Accounting System with more focus on deployment of skilled human resources at critical levels training at the village level to realise the full impact and benefit of the software so that credible fiscal data is made available to all stakeholders including policy makers. DRD & PR should work towards making available the accounts of RLBs online to be viewed by the public as is being done in Karnataka. (para 6.8 to 6.11)**

iv. **The Government should consider, in consultation with the C & AGand Controller General of Accounts,implementing through the Central Plan Scheme Monitoring System (CPSMS) and the Integrated Financial and Human Resources Management System being implemented in Tamil Nadu, a mechanism of allowing local bodies to incur expenditure on the basis of Personal Deposit Accounts on Letters of Credit mechanisms from the State Government's accounts through the Treasury system. This would improve accountability in local bodies and also ensure more efficient use of fiscal resources. (para 6.26)**

v. **The deployment of dedicated accounting staff in the Municipalities and Corporations should be expedited. (para 6.7)**

vi. **Tamil Nadu Institute ofUrban Studies and the State Institute of Rural Development should impart intensive training to enhance the capacity of employees in key financial and e-governance issues. (para 6.7& 6.30)**

vii. **The recommendation of the Fourth SFC to introduce internal audit in urban local bodies with professional Chartered Accountants or Cost andManagement Accountants through outsourcing to facilitate better accountability and to strengthen the audit and account system is re-iterated. (para 6.22)**

Chapter -VII

Equation between Specialized Departments / Agencies and Local Bodies

7.1 The Commission, by reviewing the financial positions of rural and urban local bodies, has to make recommendations on the criteria to govern the distribution of the net proceeds of taxes, duties, toll and fees levied by the State Government, between the State and the local bodies and to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. The Commission also needs to recommend measures required to improve the financial position of local bodies and suggest possible new avenues for tapping the additional resources.

7.2 Local bodies rely ona number of specialized agencies and departments to perform some of the functions listed in the XI and XII Schedule of the Constitution of India for assignment to rural and urban local bodies respectively.Such agencies and departments continue to be closely involved in the performance and delivery of some of these functions. In addition, Local Bodies also draw on technical expertise or funds or both from these agencies and are also required to pay for the services availed of from such agencies. Hence, the Commission has to focus on the equation between such specialized departments/agencies and the local bodies. In interactions between the Commission and the officials of these departments and agencies, various issues which have direct impact on the financial health of local bodies were discussed. These issues are covered in this Chapter, apart from being incorporated in other chapters wherever relevant.

Tamil Nadu Water Supply and Drainage Board (TWAD)

7.3 The Tamil Nadu Water Supply and Drainage Board (TWAD) is a statutory body constituted by the Government of Tamil Nadu in1971 under the TWAD Act, 1970 for providing protected water supply and sewerage facilities for the entire State except the Chennai Metropolitan Area. TWAD presently maintains 541 Combined Water Supply Schemes (CWSS) covering 7 Corporations, 52 Municipalities, 304 Town Panchayats, 43,526 rural habitations and 532 industries/institutions and 3 Government owned water supply projects. TWAD ensures adherence to various norms relating to quantity and quality of urban and rural water supply, underground sewerage water discharge and measurement of water quality.

7.4 TWAD Board's major activities are: (i) Planning, Investigation, Design and Execution of water supply and sewerage schemes; and (ii) Operation and Maintenance of CWSS and other water supply schemes which are not handed over to local bodies. TWAD Board currently maintains 541 CWSSs. The major sources of income for TWAD Board are from (i) Centage and investigation charges claimed for the implementation of various schemes for local bodies including of Combined Water Supply, Water Supply Improvement and Underground Sewerage schemes under various State, Central Government and Externally Assisted Programmes and with loan funding availed of by the Urban Local Bodies from various sources; and (ii) Collection of bulk water charges from local bodies and other customers for the Water Supply schemes maintained by TWAD.

7.5 The overall Income - Expenditure Statement of TWAD for 2014-15 and the Income Expenditure Statement relating to CWSSsmaintained by TWAD are depicted below:

Table VII– 1

Overall Income-Expenditure Statement of TWAD - 2014-15

(Rs. In Crore)

2014-15	Expenditure	2014-15	Income
145.45	Cost of Personnel	158.13	By Centage
157.29	Pension and Commutation	2.17	By Recovery of Establishment Expenditure
31.46	Terminal Benefits Leave Salary & Gratuity	9.62	By Pension & Gratuity Contribution (Other than Centage)
0.92	Employees Welfare Schemes Payments	0.73	By Employees Welfare Schemes Receipts
7.27	Administrative Expenses	14.02	By Miscellaneous Receipts
1.00	Audit fees	0.82	By New Health Insurance Scheme Contribution
0.95	New Health Insurance Scheme Payments	0.20	By Profit on disposal of Assets
0.02	Loss on Disposal of Assets	28.87	By Interest Received(Schedule 1.1)
0.00	Financial Charges(Interest) (Schedule 2.2)	13.53	By Hire charges
13.50	R & M of Buildings, Vehicles Rigs & Plant and Machinery & Computer and others	0	
0.28	Laboratory Maintenance Expenses	2.38	By water Testing Income
2.40	Field Testing Kits	5.03	By Field Testing Kits

0.33	Material Quality Control Laboratory Expenditure	2.67	By Material Quality Control Laboratory Income
1.46	Depreciation	0.01	By Publication Subscription
362.33	**Sub Total**	**238.18**	**Sub Total**
	Operation And Maintenance		
10.98	Maintenance of Board owned WSS-Schedule 1.2.1	31.94	Water charges Board owned WSS(Schedule 1.2.1)
455.75	Maintenance of CWSS (Schedule 1.2.2)	186.74	Water charges Board owned WSS(Schedule 1.2.1)
54.05	Maintenance of Hogenakkal Project WSS(Schedule 1.2.3)	23	Water charges Hogenakkal Project WSS(Schedule 1.2.3)
0.32	Depreciation on Board Scheme	47.22	Grants from NRDWP/SMS for power consumption
0.00		140	Grants from Devolution fund for Gap
0.00		0.74	Fuel charges Received
521.10	**Sub Total**	**429.64**	**Sub Total**
883.43	**Total**	**667.82**	**Total**
933.7	Balance b/d (from Balance Sheet for (2013-14)		Income relating to previous year
215.61	Excess expenditure over income for the year	7.44	a) Water Charges Collection CWSS
0.96	Payment related to previous year	0.01	b) Water Charges Collection Board Owned WSS
30.22	Maintenance of Hogenakkal Project WSS 13-14	3.78	c) Expenditure related to Maintenance of Hogenakkal Project for the year 2013-14
0.8	Appointment of Gift	2.68	d) others
14.24	Appropriation to Pension and Gratuity Funds	12.73	water charges of Hogenakkal Project WSS 13-14
0.15	Appropriation of Assets Reserve Funds	0.8	Appointment of Gift
0		1168.24	Excess of Expenditure over Income transferred to Balance Sheet
1195.68	**Total**	**1195.68**	

Table VII - 1 clearly brings out that the three major sources of expenditure for TWAD Board are the costs incurred on maintaining CWSSs, Pension Cost and Cost of Personnel. These three costs are not covered at all by the sources of income intended to cover them – Centage charges and the Water Supply Charges collected against CWSSs. There is a large excess of expenditure over income. In 2014-15 alone it was Rs. 215.61 crores and the total carried forward excess of Expenditure over Income as on 31.3.2015 was Rs. 1168.24 crores.

Table VII - 2

Statement of CWSSs Income and Expenditure - 2011-12 to 2015-16

(Rs. In Crore)

Sl. No.	Details of Income / Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Opening Balance	-430.04	-574.14	-725.11	-933.71	-1,183.34
2	**Revenue Income**					
	a) Income from water services	201.03	210.45	216.53	255.37	252.75
	b) Income from sewage collection and treatment operations	0.00	0.00	0.00	0.00	0.00
	c) Grants	43.00	60.19	99.12	178.59	222.11
	d) Other income	264.20	302.92	281.02	252.00	384.60
	Sub Total (a to d)	508.23	573.56	596.67	685.96	859.46
3	Capital Income	0.00	0.00	0.00	0.00	0.00
	Total Income (1+2+3)	78.19	-0.58	-128.44	-247.75	-323.88
4	**Revenue Expenditure**					
	a) O&M Expenditure on water supply	314.15	383.22	425.26	551.00	526.42
	b) O&M Expenditure on sewage collection and treatment operations	0.00	0.00	0.00	0.00	0.00
	c) Other Expenditure	338.18	341.31	380.01	384.59	400.89
	Sub Total (a to c)	652.33	724.53	805.27	935.59	927.31
5	Capital Expenditure	0.00	0.00	0.00	0.00	0.00
	Total Expenditure (4+5)	**652.33**	**724.53**	**805.27**	**935.59**	**943.18**
6	**Closing Balance**	**-574.14**	**-725.11**	**-933.71**	**-1,183.34**	**-1,251.19**

7.6 Table VII - 2 depicting CWSS income and expenditure shows very little revenue growth from water services, while the O&M expenditure on water supply services has increased two – fold. While the increase in expenditure is primarily due to natural cost increases, there could also be efficiency and economy factors at work, which need to be addressed. The projected O&M gap on water supply is Rs.943.18 Crore which is unsustainable and must be remedied. TWAD is an important institution in Tamil Nadu with considerable technical skills and is a repository of a number of good practices and an important technical partner of Local Bodies in the delivery of one of the most important basic services, water supply and sewerage. It cannot be allowed to become financially dysfunctional.

7.7 The Commission in the course of interactions with elected representatives and field functionaries at the district hearings, with TWAD Board officials and with the

Principal Secretary, MA&WS and the Additional Chief Secretary, Finance, specifically addressed itself to the financial issues facing TWAD.

7.8 The first issue relates to the rate of Centage charges. The Board is currently permitted to collect centage charges at the rate of 5% of the project cost of urban water supply schemes and 13% for rural water supply schemes. The centage charges payable by Urban Local Bodies to TWAD were brought down from 18.5% to 5% in 2010, vide G.O. Ms. No.34, MA&WS (WS4) Department, Dated:15.02.2010. TWAD estimates that centage charges of 20 per cent are required to adequately cover the overhead costs incurred by it. This level of centage charges are too high. The levy of a higher centage charge on Rural Local Bodies as against what is levied on Urban Local Bodies, which is justified on the grounds that Urban Local Bodies actually borrow money for the implementation of Water Supply Schemes, and hence would prefer to have them implemented at as low a cost as possible. If they engaged the services of Design Consultants and Project Management Consultants (PMC) who would perform the same role as TWAD Board on a competitive bid basis, they would be able to procure such services at a significantly cheaper rate.

7.9 This implies that TWAD needs to address productivity issues of its Project Formulation and Scheme Execution divisions. They should be able to take up a larger volume of works with the existing staff. Redeployment of vacant positions and rationalizing the number of divisions are all measures which must be considered to reduce staffing costs and to be reasonably competitive.

7.10 However, there are limits to such cost reduction. TWAD follows Government scales of pay and pension. This places a heavy burden which cannot be wished away. The pension costs in TWAD now exceed the salaries of current employees. It is learnt that a consultant has been engaged to study ways to improve TWAD's financial viability and technical productivity. The recommendations contained in the report of the consultantshould be speedily considered and implemented.

7.11 Further, TWAD Board also incurs a social cost since it has to be adequately staffed to investigate and implement schemes which may not be viable or feasible for a private consultancy firm to take up. Some standing staff costs are incurred on such activity and hence an allowance has to be made for the social obligation cost that TWAD incurs. Hence, this Commission is of the view that a process of restructuring TWAD Board's existing divisions needs to be taken up to rationalize staff strength and provide enough staff to carry out key functions. At the same time, there is a case to consider an upward revision of Centage Charges from the present 5 per cent and 8 per cent for ULBs and RLBs. The Commission recommends, that an increase to 7.5 per cent and 10 per cent for ULBs and RLBs may be considered as an interim measure to improve TWAD's fiscal health.

7.12 The next major issue relates to the Bulk Water Supply charges. The following water charges are collected by TWAD based on the quantum of water supplied to them:

Table VII - 3

(Rs. per Kilo Litre)

For Rural Local Bodies	3.00
For Urban Local Bodies	4.50
For industrial / Commercial Organisations	
Who have paid proportionate cost of scheme	15.00
Who have not paid proportionate cost of scheme	60.00
Private Educational institutions / Hospitals	30.00
Govt. Organisations / hospitals / Orphanages	10.00
Break Even Cost (as calculated in 2012)	
For Rural	7.00
For Urban	11.00
For private industries	150.00

With the current O&M cost on CWSS, the water charges collected from local bodies are simply not sufficient to maintain the schemes. During the interaction held by the Commission, TWAD stated that the water tariff has not been revised since 2002 and proposals have been sent to the Government during 2014 for a modest revision of the rate of water charges from Rs.3 to Rs.7 for RLBs, Rs.4.50 to Rs.11 for ULBs and from Rs.30/- to Rs.150/- per kilo litre for industries and commercial organizations. TWAD justified their proposal for upward revision of the rate of water charges citing the actual average maintenance cost and increasing deficit between the expenditure on CWSS and the demand of water charges of the Board. The revision of water supply charges sought by TWAD Board is very modest. The Commission recommends that this revision of water supply charges may be approved by the Government in the first instance. The charges may require further revision to take note of the substantial increase in the electricity tariff for water supply schemes which was effected by the Tamil Nadu Electricity Regulatory Commission inDecember, 2014. Power is the largest item of cost for operation and maintenance of water supply schemes. The Table VII – 4 below illustrates the huge gap that has arisen in the cost of maintenance of CWSSs by TWAD Board.

Table VII – 4

Cost of Maintenance of CWSS per Annum (2015 – 2016)

(Rs. In Crore)

Power	317.36
Direct costs	
Consumable	7.03
Man power	119.94
Royalty	4.93
Field management	3.53
Over heads	
Maintenance office staff	38.53
Maintenance Office Exp.	1.06
Total	**527.59**
Cost recovered from local bodies and others 2015-16	
Domestic	164.85
Non- Domestic	51.58
Total	**216.43**
Excess cost due to Maintenance of CWSS	311.16

7.13 TWAD's difficulty gets compounded as even the very modest water charges are not fully remitted by the local bodies. The DCB Statement in Table VII – 5 below indicates the large arrears in payment of water charges by the local bodies.

Table VII – 5

DCB Statement on Collection of Water Charges

(Rupees in Lakh)

Year	Items	Village Panchayats	Town Panchayats	Municipalities	Municipal Corporations	Total
	OB	80,93.63	10,68.00	13,58.62	182,19.00	287,39.25
2010-11	Demand	66,16.95	27,78.65	23,34.86	31,87.64	149,18.10
	Collection	81,47.84	31,74.16	28,76.12	27,73.77	169,71.89
	Balance	78,00.12	7,52.85	10,14.65	184,31.00	279,98.62

2011-12	Demand	66,39.86	29,63.42	24,28.96	35,48.25	155,80.49
	Collection	70,87.36	30,49.77	25,86.60	26,14.34	153,38.07
	Balance	73,52.62	6,66.50	8,57.01	193,64.91	282,41.04
2012-13	Demand	67,40.85	26,90.94	27,48.91	40,73.16	162,53.86
	Collection	75,60.78	27,98.68	29,91.51	33,20.40	166,71.37
	Balance	65,32.69	5,58.76	6,14.41	201,17.67	278,23.53
2013-14	Demand	86,14.16	36,04.27	36,72.62	32,21.71	191,12.76
	Collection	82,40.23	34,41.66	30,26.35	24,33.79	171,42.03
	Balance	69,06.62	7,21.37	12,60.68	209,05.59	297,94.26
2014-15	Demand	94,06.33	35,23.89	28,27.66	34,34.01	191,91.89
	Collection	108,67.76	35,90.38	26,40.72	39,15.01	210,13.87
	Balance	54,45.19	6,54.88	14,47.62	204,24.59	279,72.28

Table VII - 6

Water charges pending from local bodies as on 31-03-2015

(Rs. In Lakh)

Local body	Number	Amount
Village Panchayats	124	2898.62
Town Panchayats	107	445.28
Municipalities	52	866.22
Other Municipal Corporations	7	226,09.09
Total		**268,19.21**

It is unfortunate that the biggest pendency in collection of water charges has been with Municipal Corporations who should have the highest ability to pay.

7.14 During the district interactions, elected representatives raised some issues about TWAD's performance. Many representatives pointed out that the promised quantity of water is not delivered by TWAD under CWSS. As per the figures obtained from TWAD, the Board maintains 541 CWSSs with a designed quantity of supply of 1770 MLD, against which 1498 MLD is supplied. Further, this quantum of supply is not measured by 100% bulk supply metering, but by proxies including the number of fillings of Over Head Tanks. This is clearly an unsatisfactory situation. To maintain accountability of TWAD to its main bulk consumers, the Local Bodies, it is essential that 100 per cent bulk water supply metering is carried out under all CWSS without fail. For this the Commission recommends that an amount of Rs.25 crores spread over the first two years of the Award period be set apart from the Infrastructure Gap Filling Fund/Capital Grant Fund to install bulk meters for all local body bulk consumers to accurately measure the actual quantity of water supplied under the CWSS.

7.15 TWAD has indicated that reviving some of the existing CWSSs which have out lived their normal life would be a low cost way to enhance the levels of water supply to many Local Bodies. TWAD has submitted a proposal for Rs.589 crores to undertake such revival of 273 such schemes which are more than 15 years old to yield about 180 MLD. Of this, Rs.309 crores relates to works benefitting rural areas, while Rs.70.13 crores relates to Municipal Corporation, Rs.81.10 crores to Municipalities and Rs.129.15 crores to Town Panchayats. Such works represent a lower cost option of augmenting water supply. The cost per kilo litre of water supplied works out to about one-third the cost of a new scheme. Such revamping can also be executed speedily. The Commission recommends that such revamp of existing CWSS be made eligible for funding under the Capital Grant Fund being recommended separately in another Chapter.

7.16 The Commission also considered the issue of a mechanism to have the outstanding dues on water charges to be recovered 'at source' from out of the SFC devolution and paid to TWAD Board. While such a measure would no doubt help TWAD Board and considerably reduce the administrative burden of collection of water charges, it would considerably reduce the accountability of local bodies and also leave them with no incentives to economize on such recurring expenditure. Diversion of devolution funds directly to agencies like TWAD Board will make the local bodies less accountable and hence intercept of devolution should be the last resort after exhausting all means of collection from the localbodies.However, recommendations being made elsewhere which will help TWAD. The enhancement of the Minimum Lump Sum grants to Village and Town Panchayats will help them settle water charges bills. Further, the recommendation to establish the Pooled Fund for Deficit RLBs and ULBs for chronically deficit ULBs and RLBs with the provision that the first charge on these Funds will be electricity and water supply bills will also help recovery from the deficit local bodies.

7.17 Finally, as TWAD performs essentially a basic service expected of local bodies, i.e. provision of water supply and sewerage, including maintenance and has reached a situation of chronic deficit, the Commission is recommending that 20 percent each of the Pooled Funds for Deficit RLBs and ULBs may be provided to TWAD over and above the water charges and centage payments. This would amount to 2 percent of RLBs' devolution and 1 percent of ULBs' devolution.

7.18 Recommendations

i. **The Centage charges payable to TWAD board may be increased to 7.5 per cent for ULBs and 10 per cent for RLBs as an interim measure. (para 7.11)**

ii. **TWAD shall initiate a process of restructuring existing divisions to rationalize staff strength and enhance productivity on key functions. (para 7.11)**

iii. **Government may approve the water charges revision proposal already sent by TWADin 2014. (para 7.12)**

iv. **TWAD should also send fresh proposals on further revision of water charges updating the costs specifically on account of electricity tariff increases.In future, revision of water tariffs should be automatically effected through a price fixation formula so that small annual increases are made which are relatively easier for the local bodies to bear as opposed to large infrequent increases in tariffs. (para 7.12)**

v. **An amount of Rs. 25 crores spread over the first two years of the Award period is set apart from the Capital Grant Fund to install bulk meters for all local body bulk consumers to accurately measure the actual quantity of water supplied under the CWSSs. (para 7.14& 10.42)**

vi. **20% of the Pooled Funds for Deficit RLBs and ULBs, amounting to 2% of the RLB devolution and 1% of the ULB devolution may be provided to TWAD Board as a deficit correction mechanism for maintenance of CWSSs, over and above the water charges levied.(para 7.16, 7.17& 10.47)**

Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB)

7.19 Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) was constituted under CMWSS Act 1978 (TN Act 28 of 1978). CMWSSB or Metro Water is vested with the responsibility of promoting and securing the planned development of water supply and sewerage services, operation, maintenance and creation of the required infrastructure and implementation of perspective plans to meet the requirements of Chennai Metropolitan Area. At present, Metro Water covers a 426 sq. km area with a population of 67.27 lakhs (as per 2011 census), out of which the piped distribution of water supply covers 263 sq.kms with 12 lakhs assesses. The total quantity of water requirement per day for the Chennai City Municipal Corporation population is 1078 MLD based on a service level norm of 150 LPCD. Presently, the Board is supplying 830 MLD of water per day with a gap of 248 MLD.

7.20 Surface water is the main source of water for CMWSSB. Water is currently drawn from Red Hills (Puzhal), Chembarambakkam, Veeranam, Cholavaram, Poondi, and the Telugu Ganga project. In addition, ground water is drawn from dedicated well fields. Further, Minjur and Nemmeli desalination plants also supplement the water availability. Various projects have been taken up by CMWSSB to provide comprehensive water supply and sewerage services to the city's newly added areas.

Table VII - 7

Growth in Water Supply Operations

Sl. No.	Description	In 2015
1.	Operational area (sq.km)	426
2.	Population (in lakh)	71.88
3.	Water supply (MLD)	830
4.	Length of Water mains(kms)	6,520
5.	Distribution Stations	74
6.	Water Treatment Capacity (MLD)	1,494
7.	No. of consumers	6,61,405

7.21 The extent of coverage of sewerage in Chennai Corporation is 100% in the core city and 35% in the areas added to the original area in 2011. CMWSSB is providing sewerage services to Chennai city including waste water treatment, reuse of treated water and power generation from Sewage Treatment Plants. Sewage Treatment Plants in Chennai have an installed capacity of 769 MLD. Sewage generated from houses and other buildings is collected through the sewerage system of a length of 3,994 kms. This sewage is taken to 232 sewage pumping stations operated in the city. The collected sewage from pumping stations is conveyed to 13 Sewage Treatment Plants. The sewerage services of the Board have also increased manifold since its inception in 1978.

Table VII - 8

Growth in Sewerage System

Sl.No.	Description	In 2015
1.	Length of sewer mains (in km)	3,994
2.	No. of pumping stations	228
3.	Sewage treatment capacity (MLD)	769
4.	No. of consumers	7,78,488

7.22 The capacity of sewerage treatment is 769 MLD through 13 plants, for which quantity of sewerage treated is 572 MLD including added areas. As per CPHEEO norms, the sewerage treatment capacity should be 80% of the water supplied to the city which implies that the sewerage treatment capacity in Chennai is adequate based on the present levels of supply, as informed by the Board. However, the extensive use of ground water by private residences and businesses which finds its way into the sewerage system may strain capacity.

7.23 The Board earns income through sale of water and services relating to sewerage, Water and Sewerage Tax, grants and subsidies from the Government and other miscellaneous revenue such as service charges, testing fees etc. It is informed by the Board that no revision of water rates for domestic use have been effected since1998-99 and for commercial use since 01-01-2003. As of now, CMWSSB obtains the assessment details from Chennai Corporation and levies 7% (1.5% for water and 5.5% for sewerage services) of the annual value of properties fixed by the Chennai Corporation as Water and Sewerage Tax. The demand for the tariff and tax are raised and collected half yearly.

Table VII - 9

Income & Expenditure Statement 2010-11 to 2015-16

(Rs. In Crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Actual	Actual	RE	RE
Income						
Sale of Water & Sewer Charges	241.27	237.68	259.69	260.99	300.09	315.09
Water Tax and Sewerage Tax	98.79	103.69	107.41	111.42	155.09	164.87
Other Income	79.55	69.85	64.33	85.16	46.33	38.13
TOTAL - (A)	**419.61**	**411.22**	**431.42**	**457.56**	**501.51**	**518.09**
Expenditure						
Operating and Maintenance Expenditure	70.26	74.19	101.16	189.05	158.72	167.20
Power	63.85	63.34	73.61	78.01	153.22	159.52
Purchase of Desal water	95.79	125.73	152.53	172.41	175.01	181.03
Payment & Provision to Employee	131.97	158.66	153.71	157.27	169.48	185.02
Office & Administrative Expenses	6.36	6.35	6.73	6.57	9.44	9.63
Water Lorry Expenses	15.45	19.48	25.20	18.59	53.91	54.45
Total Operating Expenses (i)	**383.68**	**447.76**	**512.94**	**621.90**	**719.78**	**756.85**
Debt Service Charges (ii)	93.11	93.99	96.05	90.57	95.00	88.77
Depreciation & Provisions (iii)	120.54	136.04	141.51	145.89	150.00	150.00
Prior Period Adjustment (iv)	48.09	32.65	24.17	39.21		
Total – (B) =(i)+(ii)+(iii)+(iv)	**645.42**	**710.43**	**774.66**	**897.58**	**964.78**	**995.62**
Revenue Deficit (C) =(A)-(B)	-225.81	-229.20	-343.24	-440.02	-463.27	-447.53
Add: Grantsand Subsidies (D)	100.37	117.48	176.15	257.29	200.90	215.62
Net Revenue Deficit (E)=(C)+(D)	**-125.45**	**-181.72**	**-167.08**	**-182.73**	**-262.37**	**-261.91**

Particulars	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	Actual	**Actual**	**Actual**	**Actual**	**Actual**
A-Income					
Revenue Receipts	340.06	341.38	367.1	372.4	559.01
Capital Receipts (including loan)	4337.98	4948.88	5485.51	6144.52	6853.55
Other Receipts	179.92	187.33	240.48	342.44	222.72
Total – (a+c)	**519.98**	**528.71**	**607.58**	**714.84**	**781.73**
B-Expenditure					
Revenue Expenditure	383.68	447.76	512.94	621.9	695.72
Capital Expenditure (including loan)	4127.91	4557.09	4926.65	5402.92	5856.78
Other Expenditure	261.74	262.67	261.72	275.68	280.82
Total - (a+b)	**645.42**	**710.43**	**774.66**	**897.58**	**976.54**
Excess of Expenditure Over Income (B-A)	**125.44**	**181.72**	**167.08**	**182.74**	**194.81**

Source: Metro Water

Financial Status of the Board

7.24 The tax collection efficiency for water tax is 80.7% for the year 2014-2015 and 70.07% for sewerage tax. The gap in collection is found to be Rs.138.96 Cr.It is seen from income and expenditure statement that the revenue deficit is primarily due to the high operating costs of Desalination, other operational costs, power and establishment which account for 68.03% of the existing expenses. Clearly the revenues of Metro Water have not kept pace with the rising expenditure. Hence, the Board needs to generate additional revenue to meet just its O & M expenditure. This implies that revision of water tariff cannot be postponed any further. The core city areas of Chennai already have lower water tariffs than the newly added areas. This is a peculiar situation in which more wealthy and established residents of the city pay lower water tariffs than those inhabiting newly urbanized areas. Chennai is a water scarce city, where the level of supply is still well below the required level of supply and the most effective incentive to conserve water is to charge appropriately for it. In any event, the poor would be covered by public stand posts and/or tanker based supply. They also often purchase additional water at a hefty premium.

7.25 The Fourth State Finance Commission had already emphasized the need for quinquennial revision. This Commission is of the view that water and sewerage tax elements should be revised quinquennially in line with Property Tax of Corporation of Chennai. It must be borne in mind that Water and Sewerage Tax are fixed payments regardless of the water supplied and are hence linked to capital investment and asset creation, i.e. for debt servicing. The operation and maintenance costs have to be recovered through water tariff revisions. As has already been recommended for TWAD Board, it is essential that revision of water tariffs stay in line with cost increases and it would be less burdensome and irksome if they are carried out in small increments annually rather than in large increments less frequently.

7.26 Tariff revision alone does not cover the whole story. Cost efficiency measures are also needed. Greater power efficiency and higher employee productivity are also very important. During the interaction with the Commission, the Managing Director, CMWSSB stated that the leakage of water, non-metering and the maintenance of desalination plants are causes of concern. Under the Tamil Nadu Vision 2023, the State is aiming for 24x7 pressurized water supply in all the Corporation Cities. This implies that the distribution systems need to revamped to plug leakages, reduce non-revenue water and eventually full metering. A project for this purpose on a Public Private Partnership basis has already been bid out for Coimbatore Corporation. Eventually such projects have to be extended to the other Corporations including Chennai.

7.27 Out of 6,61,405 water supply connections provided by Metro Water, only 24,805 are metered connections. Metered connections are provided only for water intensive consumers. Metering leads to overcoming the inequity in billing the consumers who use more water and who use less water equally. Metering helps to bring in economy in the usage of water, measure the efficiency of the water supply system and also to reduce leakages and wastages. Hence, the Commission is of the view that digital meters need to be installed for all connections. The 14^{th}CFC recommended that urban and rural local bodies should progressively move towards 100 percent metering of individual connections in urban and rural areas by 31^{st} March,2017 and cost of this should be borne by the consumers. All new connections should be given only when functioning meters are installed. While providing protected water supply through community taps is unavoidable for poorer sections of population, metering of water consumed in such cases also would ensure efficient supply.

7.28 The debt position of Board as on 31.03.2015 is Rs.1220.22 Cr. of which Government loans amount to Rs.727.52 crore and other loans fromfinancial institutions amount to Rs.492.70 crore. The debt is incurred primarily for capital investments. Metro Water for several decades since its inception was an entity which was financially self sufficient and was able to service its own debt. However, now CMWSSB is not repaying the debts availed due to its large deficit.

7.29 Metro Water has large projects proposed to be taken up in the next five years costing Rs.5806.41 crore as detailed below:

TableVII - 10

Proposed Improvements/New projects

(Rs. In Crore)

Sl. No.	Project	Project Cost
1.	Construction of 400 MLD desalination plant Perur at the East Coast Road.	4070.67
2.	Establishing 150 MLD Sea Water Desalination Plant at Nemmeli.	1000.00
3.	Construction of45 MLD TTRO plant at Kodungaiyur STP	255.00
4.	Plugging of Sewerage outfalls	300.00
5.	Transmission of Water from Thervoykandigai by providing 900 mm dia, DI main for a length 17.0 km	93.77
6.	Sustainable Water Security Mission	5.00
7.	54 MLD STP at Sholinganallur	65.97
8.	Laying of New Water Supply Mains in uncovered areas and replacement of choked up water mains for 310 kms	16.00
	Total	**5806.41**

A substantial portion of this expenditure will need to be raised as debt, while the balance portion would need to come from other sources including share of devolution intended for Chennai city and transfers from CMDA. The Second SFCrecommended 10% share to Metro Water from SFC devolution intended for Chennai Corporation and this sharing pattern is being continued till now. The share in SFC devolution received by Metro Water in the past years is as given in the table.

Table VII - 11

SFC Devolution – 10% share to CMWSSB from the allotment of Chennai Corporation			
		(Rs. In Crore)	
Sl. No.	**Year**	**Chennai Corporation allotment**	**10% to CMWSSB**
1.	2010-11	312.91	31.29
2.	2011-12	368.84	36.88
3.	2012-13	452.23	45.22
4.	2013-14	463.75	46.38
5.	2014-15	446.76	55.32*

** During the year 2014-15 CMWSSB is received Grant in excess of 10 percent*

7.30 On behalf of CMWSSB it has been represented that the percentage of devolution to CMWSSB should be enhanced given the overall financial stress they are placed in. The revenue budget of CoC and CMWSSB are in the proportion of 83:17 and the capital budgets in the proportion of 30:70. Further, in 2015-16 and 2016-17, the Government have issued orders intercepting the SFC devolution due to the CoC and diverting it to CMWSSBto meet payment for Nemmeli desalination Project commitments. While the Commission deprecates the tendency to resort to such interception and diversion of devolution resources it clearly illustrates that the needs of CMWSSB are larger and the Government's fiscal position does not permit open ended grants. CMWSSB does not also receive any of the 14th CFCgrants. In these circumstances, this Commission recommends that the sharing of devolution between CoC and CMWSSB may be modified from the present 90:10 ratio to 85:15.

7.31 Further, as CMWSSB is responsible for creating infrastructure for the whole of Chennai, CMDA must also allocate funds to CMWSS Board for undertaking water supply and sewerage projects out of its Planning and Development Fund.

7.32 Recommendations

i. **The sharing of devolution in Chennai City between CoC and CMWSSB may be modified from the present 90:10 ratio to 85:15 ratio. (para 7.30)**

ii. **The CMWSSB is responsible for creating infrastructure for the whole of Chennai. CMDA must also allocate funds to CMWSS Board for undertaking water supply and sewerage projects out of its Planning and Development Fund. (para 7.29 and 7.31)**

Town and Country Planning Department (T&CP)

7.33 The Town and Country Planning Department prepares Master Plans, Detailed Development Plans and accords planning permissions and building permissions under the Town and Country Planning Act, 1971 for areas other than the Chennai Metropolitan Area which is under CMDA's control. The total area falling under the Directorate of Town and Country Planning is 1,28,869 sq. km and at present there are master plans for6950 sq. km. which are the areas identified for rapid urban development and are taken up for preparation of Detailed Development Plan in conformity with the Master Plan of the Town. The Department has also commenced a phased programme to prepare Master Plans for the whole area of the State.

7.34 Infrastructure and Amenities charges are collected while according permission for major residential, commercial, industrial and institutional building proposals. These charges are remitted into the Government Account and utilised to implement projects to ensure provision of basic amenities like water supply, link roads, sewerage facilities, high-level bridges etc. Centage charges are also credited to the Government account. In addition, under the Town and Country Planning Development Fund, which continues to have reflows through the collection against loans made to various ULBs from the Fund, specific proposals from Urban Local Bodies for (i) Heritage Town Development Plans, (ii) Traffic Improvement Projects, (iii) Park Development Programme.

7.35 Development Charges and the 1% contribution from out of the own revenue of local bodies constitute the Local Planning Area (LPA) fund. The LPA fund is utilized for the establishment of Composite LPAs, and Regional LPAs and also for the execution of various projects such as heritage town development, park and play fields development, traffic and transportation improvement, development of GIS based applications etc. The funds received from local bodies by DTCP are the following:

Table VII - 12

(Rs. In Lakh)

Details	2010-11	2011-12	2012-13	2013-14	2014-15
	Urban / Rural	**Urban / Rural**	**Urban / Rural**	**Urban / Rural**	**Urban / Rural**
Development Charges	994.04	1402.32	1356.13	1430.84	1000.23
Infrastructure & Amenities Charges	225.6 Crore	238.16 Crore	247.63 Crore	222.89 Crore	143.46 Crore
Centage Charges	-	-	394.16	463.52	308.40
1% Contribution from Planning Fund from 1975 – 2015 all area Total Amount	Demand 6471.71		Collection 849.22		Balance 5622.49
Others	-	-	-	-	-

Source: DTCP

7.36 The Commission observed that there is a huge amount of arrears of payment as 1% contribution from General Funds of all local bodies. The Third SFC had recommended to abolish the 1% contribution of local bodies to the LPA fund. The Government have also accepted the recommendations of the Third SFC with a modification that the actual establishment cost of the planning wing of the planning authority should be borne by the ULBs in areas under planning authorities. Accordingly, the Fourth SFC has also recommended that reconciled and audited establishment expenditure of the planning wing of the Town and Country Planning Authority should be borne by all the local bodies in such areas from the date from which it is given effect to and till then the local bodies have to remit the arrears on 1% of their own income to T&CP authorities. During the interaction with the DTCP,he stated that most of the local bodies under DTCP areas have not contributed 1% of their revenue income to the LPA fund. This Commission concurs withand re-iterates the Fourth SFCrecommendation, thatthe audited establishment cost of planning authorities should be reimbursed by the local bodies.

7.37 An issue that many elected representatives raised during the course of district hearings related to the regularization of unauthorized layouts. There are reportedly 23,374 unauthorized layouts overan extent of 38,886 acres in the local bodies.A Committee under the Chairmanship of Justice S. Rajeswaran (High Court Judge, Retd.) was separately constituted by the Government, vide G.O.(Ms).No. 161 Housing and Urban Development Department Dated: 8.11.2014, for evolving rules & guidelines for regularization of unauthorized buildings which were constructed on or before 01.07.2007. The Committee has submitted its report to Government on 07.11.2015. The Government is actively considering it for implementation.In the meantime, the Madras High Court in its order dated: 20.09.2016 in W.P.No.19566 of 2015has directed that no transactions should be registered by the competent Registrars unless the approval of the competent authority is obtained for the layout / plot / building. On behalf of the local bodies, it was strongly urged that in many places while there is pressure and need to provide basic amenities in such layouts, as people have started living in those areas, the local bodies are unable to collect Property Tax as the layouts and consequently the building plans have not received the necessary approvals. **The Commission recommends that Government may take an early decision on this vexed issue which will not only resolve a long pending issue, but will also enable local bodies to collect the revenues due to them, wherever feasible.**

7.38 Recommendations

- **i. Town and Country Planning authorities can devise a mechanism to train the village level staff and elected representative on existing provisions / rules for the building / layout approval to check any approval in excess of provisions / rules on building / layout approvals. (para 7.37)**
- **ii. The Commission reiterates the recommendation of Fourth SFC that, the reconciled and audited establishment expenditure of the Planning wing of the T&CP authorities should be borne by all the local bodies in such areas. (para 7.36)**
- **iii. The Commission recommends thatthe Government should take an early decision on the issue relating to regularization of unauthorized layouts. (para 7.37)**

Chennai Metropolitan Development Authority (CMDA)

7.39 Chennai Metropolitan Development Authority is a statutory body constituted under the Town and Country Planning Act, 1971. The main function of CMDA is to prepare the Master Plan for the metropolitan area and implement the Plan as provided for in the Act. Within Chennai Metropolitan Area, applications for changes in land use and applications for plan approval as per the Development Rules, subject to the delegation of powers are examined by CMDA. Chennai Metropolitan Area has jurisdiction over 1189 sq.km comprising of Chennai Corporation, 7Municipalities, 12 Town Panchayats and 179 Village Panchayats, falling within Chennai,Thiruvallur and Kancheepuram districts.

7.40 CMDA is implementing the Second Master plan in Chennai Metropolitan Area with a focus on development up to the year 2026. The revised Development Regulations are in force with reference to the Second Master Plan including delegation of powers to all local bodies in its purview.

7.41 The CMDA mobilizes funds through Development Charges, Infrastructure and Amenities charges, Open Space Reservation (OSR) charges, regularization charges, 1% contribution of local bodies and deposits for adherence of planning permission rules etc. The Infrastructure and Amenities Charges and regularization charges which are collected while issuing planning permissions are remitted into the Government account and the remaining funds kept in Planning and Development Fund Account.

7.42 The OSR charges and Development Charges collected by local bodies in the CMDA area and remitted to CMDA and the expenditure incurred from the Planning and Development Fund of CMDA for infrastructure projects in local bodies are tabulated below:

Table VII – 13

(Rs. In Lakh)

	Urban Local Bodies						
	(CoC, Municipalities and Town Panchayats)						
Sl. No.	Details	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1.	Development charges	1378.75	869.26	1576.35	1416.32	385.59	5626.27
2.	Infrastructure and Amenities Charges	13864.05	10414.55	12964.1	17962.3	10770.3	65975.3
3.	OSR Charges	4609.63	4532.49	7744.75	6399.41	4921.38	28207.66
4.	Regularisation Charges	281.62	330.85	108.15	299.73	1094.97	2115.32
5.	1%/ (0.25%) Contribution from local body	140.59	126.2	260.01	243.41	1370.02	2140.23
Total		**20274.64**	**16273.35**	**22653.36**	**26321.17**	**18542.26**	**104064.78**

Table VII – 14

(Rs. In Lakh)

	Rural Local Bodies						
Sl. No.	Details	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1	Development charges	333.91	337.93	219.62	192.15	145.8	1229.41
2	Infrastructure and Amenities Charges	327.98	209.8	248.53	384.59	465.83	1636.73
3	OSR Charges	1885.01	2539.66	2293.08	2913.15	2829.77	12460.67
4	Regularisation Charges	1.66	315.86	227.7	213.44	188.56	947.22
5	1%/ (0.25%) Contribution from local body	0.47	0.13	0.15	0.07	0.03	0.85
Total		**2549.03**	**3403.38**	**2989.08**	**3703.4**	**3629.99**	**16274.88**

Table VII – 15

(Rs. In Lakh)

Disbursement of 75% DC&OSR charges to the Local Bodies from 2010-11 to 2014-15 by CMDA					
Year	Chennai Corporation	Municipalities	Town Panchayats	Rural Local bodies	Total
2010-11	1474.99	2284.83	1109.19	Nil	4869.01
2011-12	1355.16	2512.23	734.97	Nil	4602.36
2012-13	3601.36	1584.24	707.96	Nil	5893.56
2013-14	6212.2	1878.26	577.61	Nil	8668.07
2014-15	4800.00	138.82	82.63	Nil	5021.45
Total	**17443.71**	**8398.38**	**3212.36**	**Nil**	**29054.45**

Table VII – 16

(Rs. In Lakh)

CMDA Grantto Local Bodies for the period 2010-11 to 2014-15			
Year	**LAP Assistance**	**CBED Expenses**	**Grand Total**
2010-11	343.99	104.84	448.83
2011-12	358.35	39.41	397.76
2012-13	189.82	38.03	227.85
2013-14	333.04	98.89	431.93
2014-15	379.90	62.91	442.81
Total	**1605.10**	**344.08**	**1949.18**

7.43 The income and expenditure statement of CMDA, shows that the CMDA is financially viable. The funds allocated for infrastructure development of local bodies is meager considering their revenue potential. The CMDA should provide more funds for the creation of infrastructural and civic amenities in the local bodies in their jurisdiction.

7.44 Several powers relating to building plan approval and accordinglyplanning permission have been delegated to the concerned local bodies, even down to the level of the Village Panchayats. Often such local bodies do not have adequate town planning specialists to assist in the process. This results in faulty approvals being granted at the local body level itself, which has several long term consequences. In this context, it is suggested that steps may be taken to provide more trained or qualified town planning staff both in Urban Local Bodies and at the Panchayat Union level in Rural Local Bodies. Local Body clearances should be accorded only after the requisite technical scrutiny of the planning permission applications. A mechanism of fixing responsibility on the architects who prepare such planning permission proposals should also be ensured, as they are professionals who would be bound by a professional code of conduct.

7.45 Recommendations

i. **CMDA shouldpositivelyconsider allocation of more funds for provision of infrastructure and civic amenities in local bodies in proportion to the resources raised from the properties that fall within these ULBs. (para 7.43)**

ii. **CMDA shouldinitiate action to provide more trained or qualified town planning staff both in Urban Local Bodies and at the Panchayat Union level in Rural Local Bodies. Local Body clearances should be accorded only after the requisite technical scrutiny of the planning permission applications. A mechanism of fixing responsibility on the architects who prepare such planning permission proposals should also be ensured, as they are professionals who would be bound by a professional code of conduct. (para 7.44)**

Tamil Nadu Slum Clearance Board (TNSCB)

7.46 The Tamil Nadu Slum Clearance Board constituted under the Tamil Nadu Slum Areas (Improvement and Clearance) Act, 1971 is responsible for identifying slums and slum dwellers and to offer them improved housing and other facilities including through resettling them in tenements constructed by the Board.

7.47 As per the Census 2011, Tamil Nadu has 14.63 lakh households living in urban slums. TNSCB implements various programmes like insitu tenement construction, provision of insitu plots and infrastructure development, rehabilitation and resettlement, and community development, to improve the environment of slums and to enhance the living standards of urban slum families. The Urban Local Bodies provide civic facilities such as roads, storm water drains, water supply, street lights and parks in such slum areas which are redeveloped.

7.48 As part of the Tamil Nadu Vision 2023, the Government proposes that all cities in Tamil Nadu will be slum free. This ambitious goal requires the construction of 2 lakh tenements / houses every year from 2016-17 onwards, at an estimated cost of Rs.65,000 crore. The funds are proposed to be raised by convergence of grants available from GOI / GOTN under existing schemes and by raising loans and other forms of financing from financial institutions and the market. In an interaction with the Commission, the Managing Director of the Tamil Nadu Slum Clearance Board indicated that the Board would have the capacity to build upto 50,000 housing units per year, subject to availability of lands. He further indicated that in the last five years the Board has completed 59,000 slum tenements under various schemes.

7.49 Urban housing is one of the biggest challenges facing the State, given the rapid rate of urbanization in Tamil Nadu, this challenge is bound to become more acute. Tackling this challenge is critical to making cities and towns in the State more livable and to ensure that the urban areas in the State remain economically vibrant. Clearly the task of providing adequate affordable housing in urban areas requires a multi-pronged approach in which TNSCB plays a significant role, but not the only role. Regulatory changes would be required to place obligations on private developers to provide affordable housing in a fool proof manner such that the truly needy avail of such housing stock. Similarly, Public Private Partnership models need to be worked out which enable the creation of affordable housing stock, both on the ownership and rental models, where the Government or Government entities, including Urban Local Bodies, participate through provision of land as their equity contribution. In the Budget 2016-17, the Government have announced the Shelter Fund. This needs to be operationalized at the earliest. There are many managerial models that can be attempted to ensure that affordable housing apartment blocks cater to the truly deserving and at the same time remain well maintained and financially sustainable.The Commission strongly recommends early operationalization of such models through the Shelter Fund and the Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC). The existing schemes available under the Government of India's Housing for All programme also need to be fully converged.

7.50 Recommendations

i. **The TNSCB should work outPublic Private Partnership models which would enable the creation of affordable housing stock, both on ownership and rental models, where the Government or Government entities, including Urban Local Bodies, can participate through provision of land as their equity contribution. (para 7.49)**

ii. **The Government have announced the Shelter Fundin the Budget 2016-17, it should be put in to operation at the earliest. (para 7.49)**

iii. **TNSCB should work out alternative managerial models that can be attempted to ensure that affordable housing apartment blocks**

cater to the truly deserving and at the same time remain well maintained and financially sustainable. The Commission strongly recommends early operationalization of such models through the Shelter Fund and the Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC). The existing schemes available under the Government of India's Housing For All programme also need to be fully converged. (para 7.49)

Highways Department

7.51 The Highways Department maintains State Highways, Major District Roads, Other District Roads totaling 59,299 km in length. The length of roads taken over by the Highways department from local bodies for upgradation during the last five years is only 31.80 km of rural roads and 5.32 km of urban roads.

Tamil Nadu Rural Road Development Fund

7.52 As per Section10 of the Tamil Nadu Motor Vehicles Taxation Act, 1974, a fund called 'The Tamil Nadu Rural Road Development Fund' has been constituted into which such percentage of the Motor Vehicle Tax not exceeding 10 percent, as may from time to time, be fixed by the Government is credited. The Fund constituted as per the Act is to be expended on the development and maintenance of public roads in rural areas. The corpus of the fund for 2014-15 is Rs.179.98 crore.

7.53 The Fourth SFC had recommended that the corpus of the Tamil Nadu Rural Road Development Fund be transferred to RD & PR Department so as to develop and maintain the public roads in rural areas. The Government has not accepted this recommendation since the TNRRDF is intended for maintaining ODRs serving rural areas. Given that rural roads under the Panchayat Union and Panchayats do not receive any dedicated maintenance funding and since the TNRRDF continues to be available to the Highways Department, it would be appropriate that a greater length of rural roads should be converted into ODR and handed over the Highways Department for maintenance.

Upgradation of Local Body Roads to Other District Roads

7.54 Highways Department has indicated that important bus plying local body roads maybe upgraded and reclassified as Other District Roads (ODR) and handed over to the Highways Department for maintenance. Highways Department has identified the following parameters for up gradation of rural roads to ODR standards.

i. Local body roads having a length of 2 km and more.

ii. Local body roads having connectivity with any two roads either of which are National Highways or State Highways or Major District Road or Other District Roads.

iii. Missing links between two continuous stretches of SH/MDR/ODR which are currently local body roads.

iv. Roads that connect major industrial centres, agricultural marketing centres, tourism centres, religious places and taluk headquarters.

v. Roads having a traffic intensity of 2000 PCU and more.

7.55 On the above basis, 7,964 kms of local body roads have been identified for up gradation as ODR. Joint inspection of these roads has been carried out by the Highways Department and Rural Development officials to ascertain whether they satisfy the norms for upgradation and to determine the cost of immediate improvements needed for upgradation as Other District Roads. On an average an amount of **Rs.20.00 lakh / km** would be required for improving these roads to ODR standards as per Indian Road Congress (IRC) norms. The required improvements for the upgradation of these roads needs to be carried out in a phased manner. Out of 7,964 kms, identified for upgradation, improvement of**2,500 kms** roads can be taken up in the first phase. As far as rural areas are concerned in Tamil Nadu, substantial progress has been made on ensuring road connectivity and to provide all weather surfaces to many connecting roads in rural areas. In this context, the emphasis must now shift from formation of new roads and blacktopping them for the first time to enhancing the quality of rural roads to provide effective cost saving through travel time reduction and improved fuel efficiency, apart from enhancing road safety. Hence, the Commission recommends that the improvement of 2500 km of local body roads to ODR standards may be taken up as a priority by Panchayat Unions through the enhanced Infrastructure Gap Filling Fund/ Capital Grant Fund, with an allocation of Rs. 100 crore per year for this purpose during the Award period.

7.56 The Commission recommends that the improvement of 2500 km of local body roads to ODR standards may be taken up as a priority by Panchayat Unions through the enhanced Infrastructure Gap Filling Fund/ Capital Grant Fund, with an allocation of Rs. 100 crore per year for this purpose. (para 7.55 and para 10.42)

Tamil Nadu Pollution Control Board (TNPCB)

7.57 Tamil Nadu Pollution Control Board (TNPCB) was constituted by the Government of Tamil Nadu in pursuance of Water (Prevention and Control of Pollution) Act 1974, (Central Act 6 of 1974). It enforces the provision of Water (Prevention and Control of Pollution) Act 1974, the Water (Prevention and Control of Pollution) Cess Act 1977, Air (Prevention and Control of Pollution) Act 1981, and the Rules made under the Environment Protection Act, 1986. The State Pollution Control Board is also responsible for the monitoring and enforcement of the Municipal Solid Waste (Management and Handling) Rules 2016.

7.58 TNPCB levies Water Cess on the consumption of water by industries / local authorities under the provisions of the Water (Prevention and Control of Pollution) Cess Act, 1977. The proceeds are remitted into the Government of India's account and 80% of it is being transferred to TNPCB by Government of India. As per the Water Cess Act, the water consumed / supplied by local bodies shall be quantified from the meters fixed in local bodies. The Pollution Control Board has furnished the details of cess collected from the local bodies for the past 5 years (2010-2011 to 2014-2015) which shows fluctuation in cess collection. The Fourth SFC had recommended that domestic water supply should be exempted from collection of Water Cess. This Commission re-iterates the recommendation. Further, until domestic water consumption is exempted from payment of Water Cess, the Pollution Control Board should examine the possibility of giving back as a grant the Water Cess collected to the local bodies or agencies from whom the amount is collected, to undertake activities connected with protection of the environment within the local area.

7.59 The Ministry of Environment, Forest and Climate Change, Government of India has notified the Solid Waste Management Rules, 2016. As per the Rules, the local bodies are responsible for the collection, treatment and disposal of solid waste.

The Board is the monitoring authority under the said Rules and is responsible for granting authorization to local bodies for processing and disposing of solid waste and advocating the concept of waste segregation at source, waste reduction, recycle and reuse to avoid environmental degradation. The Commission while interacting with Board, suggested that TNPCB may establish more Regional Facility Centres for the scientific disposal of solid wastes in the local bodies similar to the concept of the arrangements which were made to establish Common Effluent Treatment Plants. The Commission is of the view that on the “polluter pays” principle, that in the case of large building complexes, whether residential, industrial, educational, medical or commercial, the responsibility should be fixed on the owners or the managerfor proper solid and liquid waste management, and an appropriate solid waste user fee levied on bio-degradable and non bio-degradable waste generated in order to incentivize reduction of solid waste generation.

7.60 Recommendations

i. **The Commission re-iterates the recommendation of the Fourth SFC that levy of Water Cess for water used for domestic purposes should be withdrawn through a State Amendment to the Water (Prevention and Control of Pollution) Cess Act, 1977. (para 7.58)**

ii. **In the meantime, the Pollution Control Board shall examine the possibility of releasing the Water Cess collected on domestic water supply to the local bodies or the agency operating the water supply system, for use on environmental upgradation efforts. (para 7.58)**

iii. **The Commission is of the view that appropriate solid waste management fees should be levied on the owners or managers of large residential, commercial, educational, medical and industrial complexes based on biodegradable, non-biodegradable waste generation and disposal of debris in order to reduce solid waste generation. (para 7.59)**

Tamil Nadu Energy Development Agency (TEDA)

7.61 The Tamil Nadu Energy Development Agency was formed to promote the use of renewable energy in the State and supports its activities through product identifications and bid process management. The installed capacity of renewable energy is 8219.67 MW, which is 39% of the total installed capacity of the State. The contribution of renewable energy to the total energy generated in the State is 13.43%. Under the Tamil Nadu Solar Energy Policy 2012, it is proposed to encourage grid tied solar roof top systems in Government and private buildings. Large capacity addition is proposed through solar power generation by use of power purchase agreements and renewable energy certificate mechanism. Net metering concept has been permitted both for domestic and commercial consumers for the net energy drawn from grid and solar energy fed to the grid.

7.62 Electricity consumption for street lighting and drinking water supply are an important component of expenditure for all local bodies in the State. Economising on such expenditure and enhancing the use of renewable energy need to be consciously encouraged.

7.63 Recommendations

i. **A portion of the Capital Grant Fund should be set apart for meeting the cost of the capital investment required towards establishing local renewable energy generation facilities, including solar panels, wind energy and bio-methanation plants. (para 7.61)**

ii. **Solar powered drinking water pumping facilities wherever feasible should also be encouraged. (para 7.62)**

Department of Public Libraries

7.64 Library Cess is levied under Section 12(1)(a) of the Tamil Nadu Public Libraries Act, 1948. The current rate of library cess is 10 paise per rupee in the form of a surcharge on property tax or house tax levied under the relevant local body Acts. Thisrate of cess is followedin all the Local Bodies except in Chennai District, where library cess is still levied at the rate of 5 paise per rupee for old buildings and 10 paise per rupee for new buildings with effect from 01.04.2008.

7.65 Details of remittance of Library Cess by local bodies, year wise since 2010-11 and tier wise is given below:

Table VII - 17

(Rs. In Crore)

Tier	2010-11	2011-12	2012-13	2013-14	2014-15
Village Panchayats	4.34	7.67	9.08	9.23	12.98
Town Panchayats	9.54	9.49	9.65	11.07	9.76
Municipalities	21.38	19.07	21.79	25.68	18.77
Municipal Corporations (Excluding Chennai Corporation)	16.08	14.00	17.48	20.05	28.13
Chennai Corporation	8.69	17.18	12.56	14.08	10.06
Total	**60.03**	**67.41**	**70.56**	**80.11**	**79.70**

7.66 The Director of Public Libraries informed the Commission that a sum of Rs.139.24crore is pending up to the year 2015-16 as detailed below:

Table VII - 18

(Rs. In Crore)

Sl.No	Local Bodies	LibraryCess
1	Corporation	41.88
2	Municipalities	41.81
3	Town Panchayats	29.91
4	Panchayat Unions	25.64
	Total	**139.24**

The abstract of receipts and expenditure from 2010-11 to 2015-16 (up to 02/2016) is given below.

Table VII - 19

(Rs. In Crore)

Details	2010-11	2011-12	2012-13	2013-14	2014-15
Total Receipts	141.59	119.03	114.48	145.44	142.84
Total Expenditure	199.66	125.46	85.15	134.82	182.12

The details of expenditure incurred by the department of public libraries for the past four years are as follows:

Table VII - 20

Expenditure Details	2012-13	2013-14	2014-15	2015-16
Salaries	19.31	23.35	14.38	16.28
Wages	-	-	11.54	13.34
Refund to Government as from Library salaries	3.54	8.87	2.93	1.79
Contingencies	5.06	5.89	6.22	5.57
Training/Workshop	0.31	0.16	0.21	0.23
Special Initiatives	0.29	0.11	0.08	-
Publishers welfare Board	-	0.36	-	-
Purchase of Books	1.51	19.90	68.70	36.18
Purchase of Dailies	5.57	6.09	8.43	7.83
Purchase of periodical Journals	5.11	6.76	7.63	8.67
Purchase and Maintenance	2.45	2.85	2.43	1.71
Buildings Construction	2.75	1.35	1.29	3.22
Maintenance of Building	1.23	1.23	2.04	2.19
Public Library fund 20% Contribution	6.56	8.76	9.35	6.79
Grants to Connemara Library	0.50	0.50	0.50	0.50
Anna Centenary Library	7.64	13.60	7.24	5.96
Investments	78.11	48.75	25.69	1.26
Other expenditure	8.53	12.83	6.81	6.83
Non salary Deductions and Refunds	14.77	9.12	-	-
Other Loans to Districts	-	-	6.65	2.43
Total	**163.26**	**170.46**	**182.12**	**120.76**

7.67 The above tables relating to expenditure, which are departmental actuals and not audited by the DLFA, show an excess of expenditure over receipts in all the years. While interacting with the Commission,the Director of Public Librariesrequested that the library cessamounts pending remittance with local bodies should be remitted at the earliest. The Director of Public Libraries has also represented that the existing library cess may be enhanced from, 10 paise per rupee of property/house tax to 15 paise.The Commission is of the view that the justification for such an increase in library cess is not very strong as there could be substantial savings in expenditure through resort to subscription to online publications.**However, the Commission recommends that the DRD, DTP, CMA and Commissioner, Corporation of Chennai be advised to clear pending dues of library cess as per the audited accounts at the earliest as a statutory due. (para 7.66)**

Hindu Religious and Charitable Endowments Department (HR & CE)

7.68 Duringthe Commission's District interactions, it wasrepresented that the local bodies are incurring increasing levels of expenditure towards providing civic services to the floating population that visit pilgrim centres particularly during festival days. This places considerable financial strain on the local bodies since they get very little revenue from the festivals,which mostly accrues to the temples.Local body representatives and District Collectors were of the view that the temple authorities should share more of the expenditure on provision of civic amenities and services provided within a radius of 1 KM in and around temples.

7.69 During interaction with the Commissioner of HR&CE, it was informed that as per existing instructions, the HR & CE Department shares 50 percent of the cost incurred in providing such services in the case of notified festivals. However, at present only 8 festivals are notified and a number of festivals which are becoming popular are not notified.The Fourth SFC had recommended that the HR& CE Department and Temples should share the expenditure for providing civic amenities for non-notified festivals with a floating population of 50,000 and above as well.Based on the recommendations, instructions were issued to share 50% of the expenditure on provision of civic amenities even for non-notified festivals in cases where the temples have surplus income. The instructions do not appear to be fully observed in the field.

7.70 Recommendations

i. **The Commission reiterates the Fourth SFC's recommendation that the HR & CE Department / Temples should meet atleast 50 percent of the cost incurred on provision of civic services even for non-notified festivals is reiterated. In case a particular temple does not have a surplus, the Commissioner, HR & CE should arrange to make payments to the Local Body from the overall surpluses available with them. (para 7.69)**

ii. **The Commission also recommends in order to ensure proper coordination regarding provision of amenities and to ensure that public safety concerns are effectively addressed, more festivals which see large numbers of pilgrims should benotifiedby HR & CE Department.**

Chapter - VIII

Assessment of State's Finances

8.1 In accordance with Para 5 of the Commission's Terms of Reference, the Commission is required to take into account the resources of the State Government, the demands thereon, in particular the expenditure of the State on pension and debt servicing including the debt servicing on behalf of local bodies or other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on the revenue account for State's commitments on capital account and other commitments also, while making its recommendations.

8.2 The revenue performance of any State depends on a number of factors, important amongst them being economic growth prospects. Tamil Nadu constitutes only 3.969% of India's land area but accounts for 6.061% of India's population of 119 crores as per the 2011 Census. Tamil Nadu is currently the second largest State economy in India. Amongst large States, Tamil Nadu ranks third in terms of per capita income (GSDP), while it is seventh overall amongst all Indian States in terms of Population. In the last 25 years, the State has been one of the strongest performers in terms of economic growth and Tamil Nadu's per capita income which was below the national average in the early 1990s has increased faster than most other States and it is now almost 70 percent above the national average.

8.3 Despite such strong economic performance and a sustained revenue raising effort, Tamil Nadu had witnessed cyclical episodes of serious fiscal stress. This is because the levels of public expenditure in the State are quite high given the high expectation of quality public services amongst the people. Further, as a more globalized and export dependent economy, with the goods and services produced in the State having markets both in other States of India and internationally, the State is more vulnerable to slowdowns linked to global and national factors beyond its own control. At times of such economic slowdowns, revenue collection grows more slowly, and since committed expenditure cannot be easily cut back on, fiscal stress results. Such instances of stress have manifested themselves at the end of the 1990s as well as during the early years of the current century. A similar situation arose around 2010-11 and despite a strong fiscal performance in 2011-12 and 2012-13, revenue growth in Tamil Nadu succumbed to the general economic slowdown during the subsequent years with revenue and fiscal deficits widening.

8.4 However, the State which was a pioneer in the area of fiscal responsibility, by enacting a Fiscal Responsibility and Budget Management Act in 2003, even before the 12th Finance Commission recommended such a measure, has striven hard to ensure that fiscal targets are not breached. Even in the face of adversity, Tamil Nadu has ensured that fiscal imbalances were corrected and fiscal indicators were kept within prudent limits. As a result, fiscal deficit has been consistently kept below 3 per cent of GSDP.

8.5 The Commission has obtained projections on the finances of the State in the prescribed formats from the Finance Department for the award period from 2017-18 to 2022-23. The projections submitted to the Commission were compared with the forecasts submitted by the State Government to the Fourteenth Finance Commission and the assessments made by the Fourteenth Finance Commission for Tamil Nadu. These projections have been taken into consideration by the Commission in making its assessment of the State's finances.

8.6 By far, Commercial Taxes are the most important source of the State's own tax revenue in Tamil Nadu, followed by Stamps and Registration, State Excise Duty and Motor Vehicle Taxes. The ratio of State's own tax revenue to GSDP in Tamil Nadu historically has been one of the highest amongst States for many years. As per 14th Finance Commission's report, in 2011-12, Tamil Nadu's own tax-GSDP ratio was almost double that of West Bengal. Only Karnataka has higher tax-GSDP than Tamil Nadu as per the 14th Finance Commission reported figures for 2011-12 and 2012-13. As per the old series of GSDP figures, Tamil Nadu's SOTR:GSDP ratio was 8.9 percent in 2011-12. With the adoption of the new series of GSDP data with 2011-12 as the base year and with the revised methodology indicated by the Central Statistical Organization, the GSDP of Tamil Nadu was revised upwards and consequently the ratio of State's own tax revenue to GSDP was recalculated as 7.92 percent for 2011-12. The slowdown in the manufacturing and the real estate and construction sectors, which are significant revenue bases for the State has meant that the growth rate of taxes slowed and as a result SOTR:GSDP ratio is now estimated to be only 7.14 percent in the Revised Estimates for 2015-16 and 6.62 percent as per the Revised Budget Estimates for 2016-17. SOTR has been estimated by the Finance Department at Rs. 90,691.87 crore for the year 2016-17. The cumulative SOTR for the Commission's award period have been estimated as Rs. 6,63,139 crore.

8.7 A key factor that would have a profound impact on the trajectory of SOTR growth during the award period is the impending introduction of the Goods and Services Tax. GST is a destination based tax on the consumption of Goods and Services with an uninterrupted flow of credit against taxes paid at previous stages of manufacture and trade being available as set-off. Thus, only value addition will be taxed and the burden of the tax is to be borne by the final consumer. The salient features of GST are summarised below:

- Under GST, tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is termed as Place of supply.
- GST would subsume numerous Central and State taxes as follows:

Table VIII - 1

Taxes that would be subsumed under GST

Sl. No.	State	Centre
1.	VAT/Sales Tax	Central Excise Duty
2.	Entertainment Tax other than those levied by local bodies	Additional Excise Duty
3.	Luxury Tax	Service Tax
4.	Taxes on lottery, Betting and gambling	Countervailing Duty
5.	Cesses and Surcharges	Special Additional Duty
6.	Entry tax of all kinds	Surcharges and Cesses

Table VIII - 2

Commodities kept outside GST

Alcoholic Liquor	(Local Excise + VAT)
Petroleum Crude	(Central Excise + VAT)
Motor Spirit	
High Speed Diesel	
Natural Gas	
Aviation Turbine Fuel	

- Tobacco and Tobacco Products would be subsumed under GST. In addition the Central Government can levy Central Excise Duty on Tobacco
- The proposed GST Model is a Dual taxation based with the Centre and States simultaneously levying tax on a Common Tax base.

Table VIII - 3

Transaction	Under New system	Under old system	Comments
Supply within the State	SGST and CGST	Excise, Service Tax and VAT	SGST goes to the State and CGST goes to the Centre
Supply outside the State	IGST	Excise, Service Tax and CST	IGST goes to the Centre. But this would be apportioned between the Union and the States

8.8 With the passage of the 101st Constitution Amendment Act, 2016 GST will now have to be introduced before September 2017 and most likely from 1st April 2017.The shift from an origin based tax system to a destination based system, the removal of the cascading effect of State VAT on Central Excise and Service Tax, the power for States to now tax services and the uncertainty surrounding the tax rate structure all make it very difficult to estimate the trajectory of GST revenues for Tamil Nadu and the consequent impact on the State's finances. As per the Constitutional Amendment, States will be entitled to 100 per cent compensation for a five year period, and it can be reasonably expected that this compensation will protect a 14 per cent growth rate on the tax collection base of 2015-16. However, the State could suffer losses if the Central Government suffers lower collections on account of CGST which replaces Central Excise and Service Tax, as this would form part of the divisible pool of Central Taxes of which 42 per cent is devolved to the States. Further, the Centre could also reduce funding under various schemes, many of which are implemented by Local Bodies, to find adequate funding for the compensation package for States. Hence, it is quite clear that the introduction of GST will have a significant impact on the revenue profiles of the Centre as well as State Governments. Hence, any projections for the future have to be done with care and are subject to considerable uncertainty.

8.9 For Tamil Nadu which earns a substantial part of its revenue from VAT and Central Sales Tax, the shift to GST will have a significant impact. The Table VIII - 4 below shows the revenue from various items of tax which are to be subsumed under GST as per the assessment of the Commercial Taxes Department.

Table VIII - 4

State's Revenue Items to be subsumed under GST

(In Crore)

Sl. No.		2013-14
1.	VAT Goods	23195.10
2.	Tobacco	889.41
3.	Central Sales Tax including ITC adjustment	3136.40
4.	Entry Tax	1870.87
5.	Luxury Tax	288.70
6.	Betting Tax	5.14
7.	Entertainment Tax	72.10
8.	Purchase Tax	339.60
9.	Input Tax Credit reversal	1752.90
	Total - A	**31550.22**
10.	CST (Compensation)	0.00
11.	Devolution fund - Central Excise	1826.83
12.	Devolution fund - Service Tax	2582.54
13.	Devolution fund - Other tax on Commodities Services	0.00
	Total - B	**4409.37**
	Grand Total (A+B)	**35959.59**

8.10 Non-tax revenue include interest receipts, receipts from user charges and fees related to urban development, mines and minerals and industries. Farm forest receipts, lease, rents, royalty and siegnorage fees from certain minor minerals are shared with local bodies. The growth of non-tax revenue since 2010 has grown at a relatively slower rate and for non-tax revenue, a uniform growth rate of 6% has been assumed for the forecast period i.e. 2017-18 to 2021-22 by the Finance Department. This appears reasonable since most of these levies are at specific rates and not ad valorem rates and hence not very buoyant unless revised periodically.

8.11 Although Local Bodies do not directly receive a share in the fiscal transfers to the State from the Centre, trends in such transfers significantly impact the State's finances and could constrain fiscal space. Central transfers to States have traditionally belonged to three broad categories - Finance Commission recommended transfers including both devolution and grants, Plan grants and grants under various Centrally Sponsored Schemes and Central Schemes. In recent times, based on the recommendations of the 14th Finance Commission, the abolition of the

Union Planning Commission, the restructuring of Centrally Sponsored Schemes advert changes in the funding patterns and the proposed merger of the Plan and Non-Plan heads of expenditure after the end of the Twelfth Plan period in 2016-17, the structure of transfers from Government of India has changed significantly and affected State finances.

8.12 First and foremost, while the Fourteenth Finance Commission enhanced the share of States in the divisible pool of taxes to 42 per cent from 32 per cent, Tamil Nadu's share in the horizontal sharing amongst the States came down sharply from 4.969 per cent in the Thirteenth Finance Commission's award period to 4.023 percent. This 19.04 per cent reduction in the inter-se share of Tamil Nadu was the largest proportionate reduction amongst all the States. Despite the 10 per cent step in devolution, Tamil Nadu's overall share in Central taxes has only marginally increased from 1.59% to 1.69%. Further, the Commission has not recommended any State Specific Need Grants considering the increase in the overall devolution by 10%. Share in Central taxes for the State have been estimated at Rs.23,108 crore during 2016-17 RBE.

8.13 The only grants recommended by the Fourteenth Finance Commission are Local Body Grants. The aggregate Basic and Performance grants recommended for Village Panchayats and ULBs in Tamil Nadu are Rs. 17009.74 crore for the award period from 2015-16 to 2019-20.These are substantially larger than the Rs. 5455.90 crore recommended by the Thirteenth Finance Commission. The proportion of Basic Grants which are released without any conditions to the Local Bodies has also been stepped to 90 per cent in the case of Village Panchayats and 80 per cent in the case of ULBs as against 65 per cent recommended for both PRIs and ULBs by the Thirteenth Finance Commission. On the Performance Grants as well, the conditions for release have been substantially simplified and are not based on any policy action to be taken by the State Governments. Hence, a substantially enhanced and more easily accessible source of funding has been created for the Local Bodies by the 14^{th} Finance Commission.

8.14 As far as Plan Grants and other scheme related grants from the Government of India is concerned, many major changes have taken place. With the abolition of the Union Planning Commission, Central Assistance to State Plans, which were typically called Plan Grants has stopped. There were a multiplicity of schemes and programmes implemented by a number of Ministries and Departments of the Government of India and funds flowed to States either as Central Assistance for Centrally Sponsored Schemes, which were part of the Central Plan, or as Additional Central Assistance for certain schemes which were treated as part of the State Plan. In many schemes, the Central Share was 100 per cent or at least 75 per cent. In view of the enhanced devolution pool recommended by the 14th Finance Commission, the schemes have been restructured and financing pattern modified. The existing 66 Centrally Sponsored Schemes have been restructured as 28 Umbrella Schemes. Of these, 6 are Core of the Core schemes for which the funding pattern remains unchanged from before, for instance under MNREGS, the Central Government will continue to fund 100 per cent of the wage component and 75 per cent of the material component, under the Sarva Shiksha Abhiyaan (SSA), 65 per cent and so on. For 20 Umbrella Schemes identified as Core schemes, the sharing pattern between the Centre and the States will be 60:40 and for 2 optional schemes, the sharing pattern will be 50:50. This implies that the State Government will now have to take on a higher burden in terms of providing the matching share of funding for Centrally Sponsored Schemes. Although the 14th Finance Commission had estimated and anticipated that the aggregate transfers to States as a percentage of the gross revenues of the Union, which had reached 53.7 per cent in 2011-12, will continue at 49 per cent every year, this proportion has already dropped to less than 48 per cent.

8.15 On the expenditure side, Revenue Expenditure has grown steadily. Tamil Nadu's strength of State Government employees is significantly higher than many other States due to its thrust on human resource intensive social sectors and the provincialisation of the employees in these sectors. The State has historically had very high level of salary expenditure relative to its total revenue expenditure. As an economy measure, filling up of vacancies had not been done for a number of years, and a new policy decision to fill staff vacancies has caused an increase in revenue expenditure. Further, the Seventh Central Pay Commission's recommendations will also have to be implemented during the 5th State Finance Commission's award period. All these factors will place significant additional pressure on the State Government's finances.

8.16 Taking note of all these factors, the Finance Department has adopted a growth rate of 17.22 per cent for 2017-18 considering the impact of Seventh Central Pay Commission recommendations. It is expected that the revenue expenditure in 2017-18 is likely to be in the order of Rs.1,92,277 crore and the revenue deficit in 2017-18 alone is likely to be around 24,930 crore. For the remaining years, the assumption on growth of revenue expenditure is 11 per cent except during the year 2018-19. During the award period of the 5th State Finance Commission, the revenue deficit is estimated to be Rs.1,21,244 crore.

8.17 In the above scenario, we would like to provide projections of the relevant receipt and expenditure heads of the State for the period 2017-18 to 2021-22by adopting the following bases:

i. During the forecast period, the own tax revenue has been assumed to grow annually at about 13 percent and own non tax revenue at 6 percent. Grants-in-aid from GOI is projected to grow at 12 percent while the share in Central taxes has been shown to increase at 14 percent. As these projections are realistic, the Commission concurs with the projections of the State Government.

ii. For the major revenue items, tax buoyancy is used for projections. Tax revenues normally respond to changes both in the tax rates and the tax bases. Tax base changes as a result of economic growth, which is reflected in the growth of GSDP.

iii. Nominal GSDP growth is taken as 12 percent.

iv. Growth rates are used for most expenditure items; expenditure is considered discretionary; but sectoral growth rates are varied to suit the growth targets; in particular, expenditure on education, health, power and irrigation are to be allowed to grow at a much higher rate than other sectors. It is seen that the State Government spends more on Social services and is followed by General Services, Economic Services and Grant-in-aid& contributions during 2011-12 to 2014-15. The Commission finds that the growth rate adopted by the State Government in the revenue expenditure projections for the forecast period are reasonable and can be adopted as such.

v. Interest payments are generated by applying an effective interest rate on the outstanding liabilities at the beginning of the financial year.

vi. Considering the likely impact of the Seventh Central Pay Commission recommendations on the State, complying with the FRBM target during 2017-18 would be a challenge. However, it should be possible that the fiscal deficit target of 3 per cent of GSDP would be achieved for the remainder of the forecast period.

vii. Given the large uncertainties created by the impending introduction of GST and the difficulties involved in making forecasts with any degree of conviction or comfort, the Commission decided the projections of the State Government are as good as any alternative projection and may be adopted.

viii. The interest payment to Total Revenue Receipts is likely to be in the ratio of 14.50 per cent during the forecast period. The pension and other retirement benefits are also likely to grow at 12.85 percent. Other components of revenue expenditure are also likely to grow during the award period. Further, capital receipts are assumed to grow at about 14.20 percent while the capital outlay at about 15 percent. Considering the reasonableness in the projections made by the State Government, the Commission decided to adopt the projections.

8.18 As per the review of State's Finances and the projections, we find that the State Government during the award period will show a huge deficit on the revenue account. Since the fiscal deficit target is expected to be adhered to during the award period, except in 2017-18, capital outlays are likely to increase relative as a proportion of GSDP. The accounts of State finances for the previous years and the forecast for the award period of the Fifth State Finance Commission as furnished by the State Government are placed at **Annexures VIII (1), VIII (2) and VIII (3).** The overall financial position of the State taking into account the impact of the implementation of GST has been considered by the Commission in making its recommendations on the share of taxes to be devolved to local bodies for the award period.

Chapter - IX

Assessment of Gap in Financial Resources of Local Bodies

9.1 This Chapter includes an analysis of the projected receipts of Local Bodies from various sources, projected levels of expenditure on various heads and the anticipated requirement of funds of Local Bodies to provide essential infrastructure and services during the award period so as to assess the gap, if any, in the financial resources of the Local Bodies. The revenue and capital receipts of the Local Bodies and the expenditure on various items like administration, operation and maintenance, and capital works for the period from 2010-11 to 2014-15 and for 2015-16 wherever data was available have been discussed in detail in Chapters IV and V the Assessment of Finances of RLBs and ULBs respectively.

9.2 The 14th CFC has recommended substantially enhanced grants for Rural and Urban Local Bodies in Tamil Nadu for its award period 2015-2020. The aggregate grants total Rs.17,009.74 crores over the five year period as against the aggregate local body grants of Rs.5,455.90 crores recommended by the 13th CFC. Further, the basic grant component which is released without any conditionalities has been enhanced to 90% in the case of Village Panchayats and 80% in the case of Urban Local Bodies as against 65% in the 13th CFC recommendations. The conditions for release of the grants have also been considerably simplified. This will ensure that substantially more funds from this source will also be available to the local bodies in Tamil Nadu for 3 out of the 5 years of the award period of this Commission. The Table IX – 1 and Table IX - 2 below show the year wise breakup of the 13th and 14thCFC grants for VPs and ULBs in Tamil Nadu.

Table IX - 1

13th CFC - Local Body Grants

(Rs. In Crore)

	2010-11		**2011-12**		**2012-13**		**2013-14**		**2014-15**		**2010-15 Total**	
	Recomm.	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**
RLBs	**287.13**	**287.10**	**446.81**	**377.76**	**656.23**	**466.87**	**776.11**	**471.65**	**917.53**	**668.48**	**3083.81**	**2271.86**
Basic Grant	287.13	287.10	332.97	359.89	389.16	408.84	461.11	471.65	545.95	515.52	**2016.32**	**2043.00**
Performance Grant			113.84	17.87	267.07	58.03	315.00	0.00	371.58	152.96	**1067.49**	**228.86**
ULBs	**220.87**	**220.84**	**343.69**	**293.87**	**504.77**	**346.53**	**596.99**	**362.80**	**705.77**	**449.63**	**2372.09**	**1673.67**
Basic Grant	220.87	220.84	256.13	276.84	299.34	314.48	354.69	362.80	419.95	396.54	**1550.98**	**1571.50**
Performance Grant			87.56	17.03	205.43	32.05	242.30	0.00	285.82	53.09	**821.11**	**102.17**
GRAND TOTAL	**508.00**	**507.94**	**790.50**	**671.63**	**1161.00**	**813.40**	**1373.10**	**834.45**	**1623.30**	**1118.11**	**5455.90**	**3945.53**

Table IX – 2
14th CFC - Local Body Grants

(As on 24.10.2016)	2015-16		2016-17		2017-18		2018-19		2019-20		2015-20 Total	
	Recomm.	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**	**Recomm.**	**Recd.**
Rural Local Bodies	**947.65**	**947.65**	**1484.31**	**656.09**	**1710.90**	**0.00**	**1975.07**	**0.00**	**2659.50**	**0.00**	**8777.43**	**1603.74**
Basic Grant	947.65	947.65	1312.19	656.09	1516.12		1753.87		2369.86	0.00	**7899.69**	**1603.74**
Performance Grant			172.12		194.78		221.20		289.64		**877.74**	
Urban Local Bodies	**790.04**	**790.04**	**1416.82**	**546.97**	**1629.33**	**0.00**	**1877.10**	**0.00**	**2519.02**	**0.00**	**8232.31**	**1337.01**
Basic Grant	790.04	790.04	1093.95	546.97	1263.96		1462.18		1975.71	0.00	**6585.84**	**1337.01**
Performance Grant			322.87		365.37		414.92		543.31		**1646.47**	
GRAND TOTAL	**1737.69**	**1737.69**	**2901.13**	**1203.06**	**3340.23**	**0.00**	**3852.17**	**0.00**	**5178.52**	**0.00**	**17009.74**	**2940.75**

(Rs. In crore)

Rural Local Bodies (RLBs)

9.3 The projections of Income and Expenditure for the award period of the Commission make the assumption that the Receipts of the Rural Local Bodies would grow at 13%, while expenditure would grow at about 12%. Although State's Own Tax Revenue has been estimated to grow at 14 per cent, the assumptions on growth of devolution have been made a little more conservatively as inter year variations in tax rate growth and consequently of devolution have resulted in some variations in the actual receipts by local bodies. Salary expenditure has been assumed to grow at 15 per cent in 2017-18 and 12 per cent thereafter to accommodate the impact of the Seventh Pay Commission recommendations. Other items of revenue expenditure are projected to grow at 12 per cent.

District Panchayats

9.4 The net SFC devolution to District Panchayats during the period 2010-11 to 2014-15 is given below:

Table IX - 3

Fund Flow to District Panchayats

(Rs. In Crore)

Year	SFC Devolution
2010-11	74.94
2011-12	172.15
2012-13	200.03
2013-14	243.95
2014-15	190.24

9.5 The amount devolved in 2010-11 is a distortion, as it appears that a significantly higher devolution in 2009-10 of Rest. 275.97 crores has been adjusted in the devolution for 2010-11. Further, out of the devolution intended for District Panchayats, some deductions have been made towards implementation of specific schemes. Hence, only the net devolution as reported by the District Panchayats has to be been taken into account for projection. Accordingly, the receipts of District Panchayats are expected to grow as indicated in Table IX – 4 below.

Table IX - 4

District Panchayats

Projection of Receipts

(Rs. In crore)

Assumed Growth Rate	SFC	Others	Total
	13%	13%	
2017-18	303.90	7.02	310.93
2018-19	343.41	7.94	351.35
2019-20	388.05	8.97	397.02
2020-21	438.50	10.13	448.63
2021-22	495.50	11.45	506.96

Table IX - 5

District Panchayats Net Budgetary Position Projection

(Rs. In crore)

Year	Revenue			Expenditure				Surplus/Deficit
	SFC	Others	Total	Salary	others	Capital	Total	
Budgetary projection	**13%**	**13%**		**12%**	**12%**	**12%**		
2017-18	303.90	7.02	310.93	12.88	0.00	189.92	202.80	108.13
2018-19	343.41	7.94	351.35	14.43	0.00	212.71	227.13	124.21
2019-20	388.05	8.97	397.02	16.16	0.00	238.23	254.39	142.63
2020-21	438.50	10.13	448.63	18.10	0.00	266.82	284.91	163.72

2021-22	495.50	11.45	506.96	20.27	0.00	298.84	319.10	187.85

Panchayat Unions

9.6 The net SFC devolution to Panchayat Unions during the period 2010-11 to 2014-15 is given below:

Table IX - 6

Fund Flow to Panchayat Unions

(Rs. In Crore)

Year	SFC Devolution
2010-11	506.86
2011-12	817.43
2012-13	791.30
2013-14	1166.58
2014-15	1061.67

9.7 Panchayat Unions also contribute to rural infrastructure schemes. Hence, only the net devolution as reported by the Panchayat Unions has to be been taken into account for projection. The projections on the receipt and expenditure of Panchayat Unions on the above basis and the net budgetary position are as indicated in Table IX - 7 below.

Table IX - 7

Projection of Receipts for Panchayat Union

(Rs. In Crore)

Assumed Growth Rate	Non Tax revenue	SFC Grant	Other grants	Total
	13%		**13%**	
2017-18	211.35	1450.00	261.39	1922.74
2018-19	238.83	1623.49	295.37	2157.68
2019-20	269.88	1819.52	333.76	2423.16
2020-21	304.96	2041.05	377.15	2723.16
2021-22	344.60	2291.37	426.18	3062.15

Excluding Deposits & advances

For non tax revenue a trend based growth of 13% is adopted. In respect of SFC devolution and other grants, 13% growth was assumed.

Table IX - 8

Projection of Expenditure for Panchayat Unions

(Rs. In crore)

	General Administration	Capital Expenditure	Maintenance expenditure	Others	Total
Assumed Growth Rate	**12%**	**12%**	**12%**	**12%**	
2017-18	462.87	1209.80	368.43	97.32	2138.41
2018-19	518.42	1354.97	412.64	108.99	2395.02
2019-2020	580.63	1517.57	462.15	122.07	2682.42
2020-2021	650.30	1699.68	517.61	136.72	3004.31
2021-2022	728.34	1903.64	579.72	153.13	3364.83

Excluding Deposits & advances

On the expenditure side a uniform 12 % growth has been assumed.

Table IX - 9

Panchayat Union Net Budgetary Position

(Rs. In Crore)

	Receipts	Expenditure	Surplus / Deficit
2017-18	1922.74	2138.41	-215.67
2018-19	2157.68	2395.02	-237.34
2019-20	2423.16	2682.42	-259.26
2020-21	2723.16	3004.31	-281.15
2021-22	3062.15	3364.83	-302.67

Village Panchayats

9.8 In Village Panchayats, Account No. I is the Village Panchayat General Fund Account into which flow own tax/non-tax revenue, assigned revenue, SFC devolution and deposits and advances. Account No. II is the Earmarked Fund into which the CFC grants and minimum lump sum grant of SFC devolution are credited.

9.9 While making projections for Revenue, differential growth rates have been assumed for Account I and II by taking past behavior pattern into account. For projecting expenditure, a uniform growth rate of 12 % is assumed.

Table IX - 10

Projection of Revenue for Account – I of Village Panchayats

(Rs. In Crore)

Assumed Growth Rate	Tax Revenue	SFC Grants	Other Grants	Non Tax Revenue	Miscellaneous Revenue	Total
	11%	13%	13%	11.00%	11.00%	
2017-18	489.35	2155.14	755.92	377.86	293.70	4071.97
2018-19	543.18	2435.30	854.19	419.43	326.01	4578.11
2019-20	602.93	2751.89	965.23	465.56	361.87	5147.49
2020-21	669.25	3109.64	1090.71	516.78	401.67	5788.06
2021-22	742.87	3513.89	1232.51	573.62	445.86	6508.75

Excluding Deposit

Table IX - 11

Projection of Expenditure from Account - I of Village Panchayats

(Rs. In Crores)

Assumed Growth Rate	General Administration	Electricity	Maintenance expenditure	Capital Expenditure	Total
	12%	12%	12%	12%	
2017-18	696.68	189.69	1807.16	1370.93	4064.47
2018-19	780.29	212.46	2024.02	1535.44	4552.20
2019-20	873.92	237.95	2266.90	1719.69	5098.47
2020-21	978.79	266.51	2538.93	1926.06	5710.28
2021-22	1096.25	298.49	2843.60	2157.18	6395.51

Excluding Deposits

Table IX - 12

Projection of Revenue for Account II of Village Panchayats

(Rs. In Crore)

Assumed Growth Rate	CFC	Minimum SFC Grant	Interest	Total
	13%		@ 8%	
2017-18	938.59	626.2	125.18	1689.97
2018-19	1060.60	626.2	134.94	1821.75
2019-2020	1198.48	626.2	145.97	1970.65
2020-2021	1354.28	626.2	158.44	2138.92
2021-2022	1530.34	626.2	172.52	2329.06

9.10 The Minimum SFC devolution grant of 5 lakhs per Village Panchayat is presumed for award period.

Table IX - 13

Projection of Expenditure from Account – II of Village Panchayats

(Rs. In Crore)

Assumed Growth Rate	Street Light Electricity Charge	TWAD	Excess fund trans to Acct. I	Excess Fund trans to Acct. III	Others	Total
	12%	12%	12%	12%	12%	
2017-18	1107.79	190.29	69.84	19.91	30.01	1417.84
2018-19	1240.72	213.13	78.23	22.30	33.61	1587.98
2019-20	1389.61	238.70	87.61	24.97	37.64	1778.53
2020-21	1556.36	267.35	98.13	27.97	42.16	1991.96
2021-22	1743.12	299.43	109.90	31.32	47.21	2230.99

Table IX - 14

Village Panchayat Accounts Net Budgetary Position

(Rs. In Crore)

	Account- I			Account -II		
	Revenue	Expenditure	Surplus /Deficit	Revenue	Expenditure	Surplus /Deficit
2017-18	4071.97	4064.47	7.50	1689.97	1417.84	272.13
2018-19	4578.11	4552.20	25.91	1821.75	1587.98	233.77
2019-20	5147.49	5098.47	49.02	1970.65	1778.53	192.12
2020-21	5788.06	5710.28	77.77	2138.92	1991.96	146.96
2021-22	6508.75	6395.51	113.23	2329.06	2230.99	98.07

The projections for all the years show a small surplus in both Account –I and Account –II

Urban Local Bodies (ULBs)

9.11 The receipts and expenditure heads are projected in view of the estimated growth rates and expected needs of ULBs during the award period so as to assess the gap in receipts and expenditure. On the capital side, the need to fill the gaps as per the Service Level Bench Marks for basic services have been given due consideration.

9.12 The gross SFC devolution to the ULBs during the period 2010-11 to 2014-15 is furnished below.

Table IX - 15

Fund flow of SFC Devolution

(Rs. In Crore)

Year	Corporations	Municipalities	Town Panchayats
2010-11	707.1	569.4	494.14
2011-12	839.9	686.8	516.45
2012-13	1071.2	730.2	695.69
2013-14	1145.5	720.5	831.65
2014-15	1113.4	818.9	746.03

9.13 The assumptions and methodology used for projections are summarized below:-

i. Revenue Receipts

- The target of achieving property tax collection of 0.6% of GSDP over the five-year period has been used to determine the target growth rates across local bodies for property taxes. The significant potential for enhancement of property taxes across ULBs in Tamil Nadu has been discussed in considerable detail in Chapter V.

- Non tax revenue has been estimated to increase at 13%.

- Assigned revenue is projected to increase at 15%, based on trend analysis of the past five-year period.

- SFC devolution is projected to increase at 13%, on the same basis has been assumed for RLBs.

ii. Revenue Expenses

- Staff strength in ULBs is greater than in RLBs, hence staff costs have been projected differently. Salaries have been projected to increase at 9% year on year. However, on account of the Pay Commission revision, a one-time increase of 17% has been accommodated for 2017-18, post which the standard growth rate is applied.

- General Administration and Maintenance expenditure is projected to increase at 12%, based on a combination of historical trends and 4th SFC projection basis.

iii. Capital Receipts

- State Government Grants and Transfers are projected to grow at 12%.

- Loans are projected to grow at 12% for Municipalities and Town Panchayats, and at 20% for Municipal Corporations

- 14th CFC has laid out an enhanced scheme of transfers to local bodies. Specifically, it has slotted a total of Rs. 8232.31 Crore to Urban Local Bodies in Tamil Nadu across the five-year period ending 2019-20. We have projected the Central Grants and Transfers on this basis. The revised allocation translates to a growth rate of 30 per cent for ULBs across the board. Post 2020, Central Grants are projected to grow at 15% annually.

Table IX - 16

Projected Receipts from Central Funds

(Rs. In Crore)

Year	Corporations	Municipalities	Town Panchayats
2017-18	516.19	412.69	562.31

2018-19	704.60	563.31	767.56
2019-20	961.78	768.93	1047.72
2010-21	1106.05	884.27	1204.88
2021-22	1271.96	1016.91	1385.62

iv. Capital Expenses

- Debt repayments have been projected to grow at the same rates as loan growth rates

- For scheme expenditure (capital expenditure), the capital gap estimation is based on the per capita sufficiency of assets across key categories (roads, water supply, sewerage and storm water drains) is considered. The capital investment estimates for filling this gap are taken from the Report on Indian Urban Infrastructure and Services, by the High Powered Expert Committee (HPEC) for estimating the investment requirement for urban infrastructure services (2011), after being suitably re-indexed for inflation. On this basis, the total investment requirement over the five-year period for Municipal Corporations, Municipalities and Town Panchayats has been estimated at 40%, 25% and 25% on full stock replacement basis. This includes a depreciation component of 10% (assuming a 10-year life cycle). This is also largely in line with the gap estimated by the 4th SFC in terms of asset sufficiency, in the light of service norms. This translates to a year on year growth rate of 12% for Municipal Corporations and Town Panchayats, and 18% for Municipalities. Capital expenditure in Municipal Corporations has grown significantly in the last five years and the base of expenditure is large. Hence, further growth is expected to moderate.

The projected revenue receipt, revenue expenditure, capital receipt, capital expenditure and budgetary position of Municipal Corporations are provided below:

Table IX – 17 (a)

Projection of Revenue Receipts – Municipal Corporations

(Rs. In Crore)

Year	Tax	Non Tax	Assigned	SFC	Total
2017-18	2604.80	1778.29	380.88	1606.58	6370.54
2018-19	3707.89	2009.46	438.01	1815.43	7970.79
2019-20	5278.12	2270.69	503.71	2051.44	10103.96
2020-21	7513.33	2565.88	579.27	2318.13	12976.60
2021-22	10695.11	2899.45	666.15	2619.48	16880.19

Table IX – 17 (b)

Projection of Revenue Expenditure – Municipal Corporations

(Rs. In Crore)

Year	Salaries	General Administration and Maintenance	Total
2017-18	151349	5369.77	6883.27
2018-19	164971	6014.15	7663.85
2019-20	179818	6735.84	8534.03
2020-21	196002	7544.15	9504.16
2021-22	213642	8449.44	10585.86

Table IX – 17 (c)

Projection of Capital Receipts – Municipal Corporations

(Rs. In crore)

Year	Grants from State	Grants from Centre	Loans	Total
2017-18	1199.18	445.67	1649.18	3294.03
2018-19	1343.08	579.26	1979.02	3901.36
2019-20	1504.25	752.91	2374.82	4631.98
2020-21	1684.76	978.60	2849.79	5513.15
2021-22	1886.93	1271.96	3419.74	6578.63

Table IX – 17 (d)

Projection of Capital Expenditure – Municipal Corporations

(Rs. In crore)

Year	Schemes	Debt	Total
2017-18	4562.66	807.13	5369.79
2018-19	5110.18	968.56	6078.73
2019-20	5723.40	1162.27	6885.67
2020-21	6410.21	1394.72	7804.93

2021-22	7179.43	1673.67	8853.10

Table IX – 17 (e)

Projected Net Budgetary Position

(Rs. In crore)

Year	Revenue Receipts	Revenue Expenditure	Surplus / Deficit
2017-18	6370.54	6883.27	-512.73
2018-19	7970.79	7663.85	306.94
2019-20	10103.96	8534.03	1569.94
2020-21	12976.60	9504.16	3472.44
2021-22	16880.19	10585.86	6294.33
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2017-18	3294.03	5369.79	-2075.76
2018-19	3901.36	6078.73	-2177.37
2019-20	4631.98	6885.67	-2253.69
2020-21	5513.15	7804.93	-2291.78
2021-22	6578.63	8853.10	-2274.47

9.14 Municipal Corporations are projected to move into revenue surplus of Rs. 306.94 crore by 2018-19, and maintain the surplus during the remaining 4 years of the award period. The capital account though, is projected to be in deficit. However, the deficit would be made up for in part by the revenue surplus, translating to a positive overall balance over the five-year period. The aggregate account is projected to be in surplus for the last two years of the forecast period (2020-21 and 2021-22).

9.15 The projected revenue receipts, revenue expenditure, capital receipts, capital expenditure and budgetary position of Municipalities are provided below:

Table IX – 18 (a)

Projection of Revenue Receipts – Municipalities

(Rs. in Crore)

Year	Tax	Non Tax	Assigned	SFC	Others	Total
2017-18	778.32	597.95	210.76	1181.54	4.24	2772.80
2018-19	1113.20	675.68	242.38	1335.14	4.49	3370.89
2019-20	1592.18	763.52	278.73	1508.71	4.76	4147.90
2020-21	2277.25	862.77	320.54	1704.84	5.05	5170.45
2021-22	3257.08	974.93	368.62	1926.47	5.35	6532.45

Table IX – 18 (b)

Projection of Revenue Expenditure – Municipalities

(Rs. In crore)

Year	Salaries	General Admin and Maintenance	Total
2017-18	772.28	1286.89	2059.17
2018-19	841.78	1441.32	2283.10
2019-20	917.54	1614.28	2531.82
2020-21	1000.12	1807.99	2808.11
2021-22	1090.13	2024.95	3115.08

Table IX – 18 (c)

Projection of Capital Receipts – Municipalities

(Rs. In crore)

Year	Grants from State	Grants from Centre	Loans	Total
2017-18	652.89	356.30	113.95	1123.15
2018-19	731.24	463.11	127.62	1321.97
2019-20	818.99	601.94	142.94	1563.86
2020-21	917.27	782.38	160.09	1859.74
2021-22	1027.34	1016.91	179.30	2223.55

Table IX – 18 (d)

Projection of Capital Expenditure – Municipalities

(Rs. In crore)

Year	Schemes	Debt	Total
2017-18	2017.99	115.28	2133.28
2018-19	2381.23	129.12	2510.35
2019-20	2809.85	144.61	2954.47
2020-21	3315.63	161.97	3477.59
2021-22	3912.44	181.40	4093.84

Table IX – 18 (e)

Projected Net Budgetary Position

(Rs. In Crore)

Year	Revenue Receipts	Revenue Expenditure	Surplus / Deficit
2017-18	2772.80	2059.17	713.63
2018-19	3370.89	2283.10	1087.79
2019-20	4147.90	2531.82	1616.08
2020-21	5170.45	2808.11	2362.34

2021-22	6532.45	3115.08	3417.37
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2017-18	1123.15	2133.28	-1010.13
2018-19	1321.97	2510.35	-1188.38
2019-20	1563.86	2954.47	-1390.60
2020-21	1859.74	3477.59	-1617.86
2021-22	2223.55	4093.84	-1870.29

9.16 Municipalities are expected to maintain a revenue surplus across the period, starting from Rs.713.63 Crore in 2017-18. This revenue surplus would, at an aggregate level, cover the capital account deficit, translating to a positive net balance over the five-year period. The aggregate account is projected to be in surplus for the last two years of the forecast period (2020-21 and 2021-22).

9.17 The projected revenue receipt, revenue expenditure, capital receipt, capital expenditure and budgetary position of Town Panchayats are provided below:

Table IX – 19 (a)

Projection of Revenue Receipts – Town Panchayats

(Rs. In Crore)

Year	Tax	Non Tax	Assigned	SFC	Others	Total
2017-18	338.41	490.28	129.80	1076.45	11.69	2046.63
2018-19	460.80	554.02	149.27	1216.39	12.39	2392.87
2019-20	627.47	626.04	171.66	1374.52	13.14	2812.82
2020-21	854.41	707.42	197.40	1553.21	13.92	3326.37
2021-22	1163.43	799.39	227.01	1755.12	14.76	3959.72

Table IX – 19 (b)

Projection of Revenue Expenditure – Town Panchayats

(Rs. In Crore)

Year	Salaries	General Administration and Maintenance	Total

2017-18	414.22	1326.82	1741.04
2018-19	451.50	1486.04	1937.54
2019-20	492.13	1664.37	2156.50
2020-21	536.42	1864.09	2400.52
2021-22	584.70	2087.78	2672.49

Table IX – 19 (c)

Projection of Capital Receipts – Town Panchayats

(Rs. In Crore)

Year	Grants from State	Grants from Centre	Loans	Total
2017-18	552.11	485.49	100.35	1137.94
2018-19	618.36	631.02	112.39	1361.77
2019-20	692.56	820.19	125.87	1638.62
2020-21	775.67	1066.05	140.98	1982.70
2021-22	868.75	1385.62	157.90	2412.26

Table IX – 19 (d)

Projection of Capital Expenditure – Town Panchayats

(Rs. In Crore)

Year	Schemes	Debt	Total
2014-15	1382.31	26.83	1409.14
2015-16	1548.19	30.05	1578.24
2016-17	1733.97	33.66	1767.63
2017-18	1942.05	37.70	1979.75
2018-19	2175.10	42.22	2217.32
2019-20	2436.11	47.29	2483.39
2020-21	2728.44	52.96	2781.40
2021-22	3055.85	59.32	3115.17

Table X – 19 (e)

Projected Net Budgetary Position

(Rs. in Crore)

Year	Revenue Receipts	Revenue Expenditure	Surplus / Deficit
2017-18	2046.63	1741.04	305.58
2018-19	2392.87	1937.54	455.33
2019-20	2812.82	2156.50	656.32
2020-21	3326.37	2400.52	925.85
2021-22	3959.72	2672.49	1287.23
Year	**Capital Receipts**	**Capital Expenditure**	**Surplus / Deficit**
2017-18	1137.94	1979.75	-841.80
2018-19	1361.77	2217.32	-855.55
2019-20	1638.62	2483.39	-844.77
2020-21	1982.70	2781.40	-798.70
2021-22	2412.26	3115.17	-702.91

9.18 Town Panchayats are expected to maintain a revenue surplus throughout the period, starting from Rs. 305.58 Crore in 2017-18. However, the capital account is projected to be in deficit over the period. The aggregate account is projected to be in surplus for the final two years of the award period (2021-22).

The gap in the capital account for the ULBs would be met through scheme growth, loans and their borrowings.

Table IX - 20

Projection of Overall Surplus/ Deficit across Urban Local Bodies

(Rs. In Crore)

Municipal Corporations	Revenue Receipts	Revenue Expenditure	Surplus / Deficit	Capital Receipts	Capital Expenditure	Surplus / Deficit	Overall Surplus/ Deficit
2017-18	6370.54	6883.27	-512.73	3294.03	5369.79	-2075.76	-2588.49
2018-19	7970.79	7663.85	306.94	3901.36	6078.73	-2177.37	-1870.44
2019-20	10103.96	8534.03	1569.94	4631.98	6885.67	-2253.69	-683.75
2020-21	12976.60	9504.16	3472.44	5513.15	7804.93	-2291.78	1180.66
2021-22	16880.19	10585.86	6294.33	6578.63	8853.10	-2274.47	4019.86
Municipalities	Revenue Receipts	Revenue Expenditure	Surplus / Deficit	Capital Receipts	Capital Expenditure	Surplus / Deficit	Overall balance
2017-18	2772.80	2059.17	713.63	1123.15	2133.28	-1010.13	-296.50
2018-19	3370.89	2283.10	1087.79	1321.97	2510.35	-1188.38	-100.59
2019-20	4147.90	2531.82	1616.08	1563.86	2954.47	-1390.60	225.47
2020-21	5170.45	2808.11	2362.34	1859.74	3477.59	-1617.86	744.48
2021-22	6532.45	3115.08	3417.37	2223.55	4093.84	-1870.29	1547.08
Town Panchayats	Revenue Receipts	Revenue Expenditure	Surplus / Deficit	Capital Receipts	Capital Expenditure	Surplus / Deficit	Overall balance
2017-18	2046.63	1741.04	305.58	1137.94	1979.75	-841.80	-536.22
2018-19	2392.87	1937.54	455.33	1361.77	2217.32	-855.55	-400.22
2019-20	2812.82	2156.50	656.32	1638.62	2483.39	-844.77	-188.46
2020-21	3326.37	2400.52	925.85	1982.70	2781.40	-798.70	127.15
2021-22	3959.72	2672.49	1287.23	2412.26	3115.17	-702.91	584.32

Chapter - X

Scheme of Devolution

10.1 The Commission is required to review, *inter alia*, the financial position of local bodies and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, tolls and fees levied by the State Government, between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. In accordance with Para 5 of the ToR, the Commission is required to take note of the financial position of the State Government as well. Projections regarding the State's finances and compliance with the fiscal objectives set out under the Tamil Nadu Fiscal Responsibility (TNFR) Act, 2003 need to be factored into the analysis.

10.2 As per the amended provisions of the TNFR Act, 2003 the State Government is committed to eliminate revenue deficit by 2019-20 and maintain the ratio of fiscal deficit to Gross State Domestic Product (GSDP) at 3 percent. Tamil Nadu had a revenue surplus in 2011-12 and 2012-13. However, with the broader economic slowdown and the slowdown in the growth of tax revenue of both the Centre and the States, Tamil Nadu went into revenue deficit again in 2013-14 and this deficit has widened each year since. Projections show that the revenue deficit will peak in 2017-18 and thereafter decline as a percentage of Total Revenue Receipts. Fiscal deficit was 2.30 per cent of GSDP in 2011-12 and has consistently stayed within the 3 per cent ceiling ever since. Fiscal deficit is estimated to be 2.96 per cent of GSDP in the Revised Budget Estimates 2016-17. It is expected to be 3.40 per cent in 2017-18, before coming down to about 3 per cent for the rest of the forecast period. The fiscal prospects of the State based on the projections regarding State Finances have been considered in detail in Chapter VIII.

10.3 In Chapter-IX the gap in resources for each tier of local bodies has been worked out making certain assumptions on growth rates which have been outlined. Based on the projections made by the Commission, it appears that among RLBs, District Panchayats and Village Panchayats would be in a surplus position in all years of the award period. Panchayat Unions are expected to be deficit. Amongst ULBs, in view of the higher needs for staff related expenditure in Municipal Corporations, they are expected to be in a revenue deficit in the first year of the award period, with a gradually increasing revenue surplus in subsequent years, while Municipalities and Town Panchayats would be in revenue surplus throughout. Once the need for capital investment to meet the Service Level Bench Marks, relating to provision of basic services is factored in, the overall deficit grows on account of substantially enhanced capital expenditure in ULBs. This deficit will need to be covered by borrowings and through scheme related transfers, both from Central and State Governments which are intended primarily to meet capital expenditure. Projections show that the overall financial position of the local bodies, in particular the Rural Local Bodies, would be comfortable.

What the Aggregate Numbers Hide

10.4 While at the aggregate level, RLBs and ULBs appear to be relatively comfortable, an issue highlighted during the district interactions of the Commission and in the data collected by the Commission is the presence of major internal variations. Analysis by the Commission has found that out of the 12,524 Village Panchayats, 1552 were in surplus for all five of the years from 2010-11 to 2014-15, while 3079 were surplus in 4 years and 3972 were in surplus in 3 years. Only 238 were in deficit all of the 5 years. Out of the 385 Panchayat Unions, 140 were in surplus all the 5 years, 62 were surplus in 4 years and 60 were in surplus in 3 years. Only 31 were in deficit all of the 5 years. All the District Panchayats were in surplus in all of the years.

Table X – 1 (a)

Number of Surplus / Deficit Panchayat Union

Panchayat Unions	Years				
	2010-11	2011-12	2012-13	2013-14	2014-15
Surplus	231	313	264	248	213
Deficit	154	72	121	137	172

Table X – 1 (b)

Number of Years Local Bodies have been in Surplus / Deficit Panchayat Unions

No. of Years Surplus / Deficit	5 years Surplus	4 years Surplus	3 years Surplus	2 years Surplus	1 year Surplus	All 5 Years Deficit	Total
Number of Panchayat Unions	140	62	60	49	43	31	**385**

Table X – 1 (c)

Number of Surplus / Deficit Local Bodies

Village Panchayats	Years				
	2010-11	2011-12	2012-13	2013-14	2014-15
Surplus	8233	9630	6784	5948	7786
Deficit	4291	2894	5740	6576	4738

Table X – 1 (d)

Number of Years Local Bodies have been in Surplus / Deficit Village Panchayats

No. of Years Surplus / Deficit	5 years Surplus	4 years Surplus	3 years Surplus	2 years Surplus	1 year Surplus	All 5 Years Deficit	Total
Number of Village Panchayats	1552	3079	3972	2706	977	238	**12524**

10.5 Amongst Corporations, as Tables X – 2 (a) and X – 2 (b) below show, 8 were in surplus in all 5 years and one Corporation in 3 out of the 5 years. None were in deficit in all the five years. Amongst Municipalities, 97 were in surplus all the 5 years. 10 were in surplus in 4 out of 5 years, 7 in 3 out of the 5 years and only 4 were in deficit in all the 5 years. Amongst Town Panchayats, 426 were in surplus in all the 5 years, 21 were in surplus in 4 out of the 5 years, 31 were in surplus in 3 out of the 5 years and only 33 were in deficit in all the five years.

Table X – 2 (a)

Number of Surplus / Deficit Corporations

Corporations	Years				
	2010-11	2011-12	2012-13	2013-14	2014-15
Surplus	11	10	9	8	9
Deficit	1	2	3	4	3

Table X – 2 (b)

Number of Years Local Bodies have been in Surplus / Deficit Corporations

No. of Years Surplus / Deficit	5 years Surplus	4 years Surplus	3 years Surplus	2 years Surplus	1 year Surplus	All 5 Years Deficit	Total
Number of Corporations	8	0	1	1	2	0	**12**

Table X – 3 (a)

Number of Surplus / Deficit Municipalities

Municipalities	Years				
	2010-11	2011-12	2012-13	2013-14	2014-15
Surplus	**111**	**112**	**109**	**110**	**112**
Deficit	**13**	**12**	**15**	**14**	**12**

Table X – 3 (a)

Number of Years Local Bodies have been in Surplus / Deficit Municipalities

No. of Years Surplus / Deficit	5 years Surplus	4 years Surplus	3 years Surplus	2 years Surplus	1 year Surplus	All 5 Years Deficit	Total
Number of Municipalities	97	10	7	2	4	4	**124**

Table X – 4 (a)

Number of Surplus / Deficit Town Panchayats

Town Panchayats	Years				
	2010-11	2011-12	2012-13	2013-14	2014-15
Surplus	482	475	469	466	458
Deficit	46	53	59	62	70

Table X – 4 (b)

Number of Years Local Bodies have been in Surplus / Deficit Town Panchayats

No. of Years Surplus / Deficit	5 years Surplus	4 years Surplus	3 years Surplus	2 years Surplus	1 year Surplus	All 5 Years Deficit	Total
Number of Town Panchayats	426	33	21	8	9	31	**528**

These findings will have to be factored in while designing the devolution scheme.

What Constitutes State's Own Tax Revenue

10.6 The SFC devolution to local bodies since 2010-11 can be seen in **Annexure X - (1).** From the gross SOTR, the following deductions have been made during the past years so as to derive the net SOTR:

i) Entertainment Tax

ii) Transfers to Tamil Nadu Rural Road Development Fund, Infrastructure Development Fund (a separate Fund created from out of Surcharge on General Sales Tax)

iii) Transfers to Road Maintenance Fund towards road projects (not given effect to)

iv) Surcharges under Sales Tax, Motor Vehicle Tax, and Land Revenue i.e. Local Cess and Surcharge (not in vogue now)

v) Assigned Revenue pooled at State level for RLBs and ULBs under the expenditure budget

vi) Electricity tax (2008-09 alone)

10.7 Gross SOTR includes the net receipts under the major head "0045" Entertainment Tax after deducting the payments made to local bodies of 90% of the gross receipts under Entertainment Tax. 10% is retained as collection charges by the State Government. The Fourth SFC had noted that the entire receipts under the head of account, 0045 101 AA 01 – 'Tax Paid in Cash' were again deducted while working out the net SOTR from the gross SOTR since 2007-08. The Fourth SFC had observed that this amounts to double deduction. The Fourth SFC had also observed that from 2007-08, only the share of RLBs under Pooled Assigned Revenue provided under Rural Development Department's expenditure budget has to be deducted. From 2011-12 RBE, the urban share of surcharge on stamp duty is pooled at the State level and 50% of it is transferred to TURIF and 50% for distribution to ULBs from out of the expenditure budget of MA & WS Department. Therefore, the provision made in the expenditure budget towards release of the ULB share of surcharge on stamp duty can also be deducted from the gross SOTR, provided the amount is not deducted under the receipt major head 0030 02 901 AA. Accordingly, the following deductions were made permissible from the gross SOTR:

i) Share of Entertainment Tax and surcharge on Stamp Duty of RLBs/ULBs provided in the expenditure budget if not deducted under the receipt major head.

ii) Transfers to Tamil Nadu Rural Road Development Fund; and

iii) All surcharges.

10.8 The Finance Department has indicated that the deductions from Gross SOTR are being made on the above basis at present. Provision to release Surcharge on Stamp Duty is being made under separate expenditure heads of account for both RLBs and ULBs and the deduct entry in the receipts head is no longer under operation, although token minus entries are shown in the Budget Estimates and Revised Estimates and some small transactions are reported in the accounts. Hence, the provision made in the expenditure heads is deducted from the SOTR.

10.9 The Commission notes that "Entertainment Tax, not levied by Local Bodies", is being subsumed under GST. Therefore, the deduction on account of Entertainment Tax from SOTR would not be necessary after the introduction of GST.

10.10 As regards Surcharge on Stamp Duty, the Commission has recommended elsewhere that the practice of pooling assigned revenue should not be resorted to and such revenues should be automatically transferred to the local bodies in whose jurisdiction they are collected. In this context, the quicker and more efficient way of transferring the surcharge on stamp duty to the Local Bodies is by operating a deduct entry under the receipt head of account and authorizing the District Collectors to issue proceedings for transfer of the amounts collected in each local body, based on a certification by the District Registrars. In such a system, no provision needs to be made in the Expenditure Budget towards release of Surcharge on Stamp Duty dues to local bodies. Only the net collection of Stamp Duty would be available under the relevant receipt head of account which can be released without deductions.

10.11 It has been indicated to the Commission that in the case of devolution to the States from the Centre, the divisible pool by definition, under Article 279 of the Constitution contains only net revenue from Central Taxes and the cost of collection of Central Taxes is excluded from the divisible pool. The Commission believes that the same approach should be followed in the case of devolution from State taxes as well. In any event, the cost of collection is a very small proportion of the total taxes collected.

10.12 Accordingly, the Commission recommends that net SOTR for the award period may be determined by permitting the following deductions from gross SOTR:

i. **Surcharge on Stamp Duty of RLBs / ULBs provided in the expenditure budget, if not already deducted under the receipt major head**

ii. **Cost of collection for the major tax items – Commercial Taxes, State Excise, Stamps and Registration and Motor Vehicles Tax**

iii. **Other surcharges, if any.**

(para 10.6, 10.7 and 10.8)

10.13 The Commission analysed the final entitlement to SFC devolution as per formula and the taxes actually collected and the actual releases made by the State Government Annexure X – (1). Over the period of 20 years starting from the award period of First SFC (1997-98) till the award period of Fourth SFC (2016-17), as described in the preceding paragraphs, the methodology for deductions from gross SOTR to arrive at net SOTR has undergone changes. Usually the SFC devolution is sanctioned and distributed based on the Budget Estimates under the relevant heads of account for first 10 months in the financial year. A further 4 installments are paid in the remaining 2 months based on the Revised Estimates for the year. From time to time the entitlement of local bodies based on the AG's actuals of previous years' collections is worked out and shortfalls between the entitlement and actual transfers are also released additionally along with regular dues, in the subsequent financial years.

10.14 The Commission calculated the entitlement and actual transfers based on the methodology followed by Finance Department upto the financial year 2014-15, which shows that there are cumulative arrears of Rs.156.90 crore for RLBs and Rs.395.11 crore for ULBs to be paid by the State Government. A statement showing the entitlement and actual transfers of SFC devolution is in **Annexure X - 2. The Commission recommends that the cumulative arrears of Rs. 156.90 crore for RLBs and Rs. 395.11 crore for ULBs be added to the divisible pool in the first year of the award period, i.e. 2017-18 and released to the respective local bodies as per the devolution scheme recommended. (para 10.13)**

10.15 In recent years, most notably from 2013-14, there have been situations where the Budget Estimates of tax revenue receipts have been scaled back in the Revised Estimates and the actual revenue collections have fallen short of the estimated collections. This has meant that excess releases have been made in the first ten months and the balance four installments in the last two months are adjusted accordingly resulting in smaller than anticipated releases. Local Bodies are thus being subjected to uncertainty in the receipt of their expected or anticipated devolution. Some of the Local Body elected representatives raised this issue with the Commission during its interactions with them.

10.16 A possible solution to this problem is to convert the level of devolution determined, i.e. the Global Sharing Ratio, into a grant, based on the projections of tax receipts. This would insulate the Local Bodies from any unexpected diminution of the devolution amounts they expect to receive; in case the tax receipts fall below the expected or normal growth rates. However, it also implies that the local bodies will not get a share in case the revenue receipts exceed projections. While there is some merit in such an arrangement, particularly from the Local Bodies point of view, given the overall uncertainties surrounding the level of receipts of the Government consequent on the introduction of GST, this may not be an opportune time to consider such a change. The next Commission may choose to revisit this issue once the GST structure and collections have stabilized.

Implications of Implementation of GST

10.17 The Fourth SFC had recommended that the GST loss compensation if any received from GOI may also have to be shared with local bodies. This recommendation was on the assumption that local taxes and surcharges will be subsumed under the State GST and the local bodies would thus suffer losses.

10.18 As of now only Entertainment Tax, if not levied by local bodies, is being subsumed under GST. The 101st Constitution Amendment Act, which enables implementation of GST has substituted the present Entry 62 of List II of the Seventh Schedule with a new entry which reads as follows: "Taxes on entertainment and amusement to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council". Thus local bodies can be empowered to levy and collect Entertainment Tax and the Commission has already recommended that Government should introduce legislation to enable local bodies to collect Entertainment Tax.

10.19 As matters stand, GST can also be levied on Entertainment as a service, and the likelihood of such a levy is high. It would thus be permissible to have both GST and a local body levied Entertainment Tax on the same base. In the event the Government does not enact necessary legislation to enable the levy of entertainment tax by local bodies, and levies GST on Entertainment, the local bodies would have to be compensated for the loss of revenue. In such a case, the compensation may be made equal to 90 per cent of the State GST collected on entertainment services and paid out on the destination principle.

10.20 Apart from possible losses in own tax revenues due to the introduction of GST, the State Government may also suffer losses in devolution in case the Central Government revenues suffer on account of introduction of GST. There is no indication yet that the Government of India will compensate the consequent loss in devolution to the States. If the State receives compensation from the Centre on account of reduced devolution from Central taxes, then it is only fair on a like to like basis to compensate local bodies for any loss they suffer in devolution on account of the impact of introduction of GST on the collection of State Taxes. Such compensation should be 10 per cent of the compensation that the State receives from the Centre for the impact of introduction of GST on collection of State taxes. In order to make the Commission's intent adequately clear, it is clarified that the issue of compensation will arise only if two conditions are fulfilled: first, the Centre agrees in principle to compensate States for loss on account of reduced devolution from Union Taxes due to introduction of GST; and second, the State actually receives compensation from the Centre on account of the impact of GST on State's tax collections.

10.21 Recommendations

i. **The State Government should compensate Local Bodies for loss of Entertainment Tax revenue in case a separate legislation enabling local bodies to collect Entertainment Tax is not passed. This compensation should extend to 90 per cent of the State GST collected on Entertainment Services and be distributed on the destination principle. (para 10.19)**

ii. **In the event there is a loss in State Tax collection due to the introduction of GST and the Government of India also agrees to**

compensate States for loss in devolution from the Union divisible pool of taxes to the States on implementation of GST, in addition to the losses in State's tax revenue, then on a paripassu basis, the State should share 10 per cent of the compensation that it receives from the Centre for the shortfall in revenue collections of the State due to introduction of GST, with the Local Bodies. (para 10.20)

Interceptions and Deductions from Devolution:

10.22 In the course of the district sittings, many local body representatives stated before the Commission that the Government and Heads of Department intercept or deduct amounts from out of the devolution intended to be released to the Local Bodies for a variety of reasons. While IGFF has become an accepted practice, the main grievance of local body representatives from all tiers is that such deductions / interceptions create uncertainty about the actual amounts that the local body will receive in the course of the year thereby affecting their plans for expenditure. In theory, devolution implies that the resources belong to the recipient and should be passed on without any constraint and it is thereafter up to the local bodies to decide on how to utilize the funds.

10.23 There are two ways in which amounts are interdicted from the local body's due devolution. The first is interception, where some amounts are interdicted from what is due to a local body and paid out to meet a specific item of expenditure which that particular local body would have to meet in any case. These are typically loan dues, pension dues and statutory dues. The second is, deductions which are made in aggregate from what is due as devolution to all the local bodies in a tier and utilized for specific schemes or works or payments. The concern of the local body representatives is that amounts due to a particular institution or class of local bodies are utilized in or by another set of institutions.

10.24 In the case of ULBs, usually interceptions are resorted to, mainly to pay debt service obligations owed by the ULB to financial institutions, pension payment commitments which are paid by the DLFA and similar liabilities. Since most of the commitments are liabilities which are of the nature of a senior charge on the revenues of the ULBs, such interceptions can be condoned as a last resort measure.

10.25 In the case of RLBs, deductions are being made from the devolution intended for District Panchayats, Panchayat Unions and Village Panchayats. These deductions have increased from 23.34 % of the total devolution to RLBS in 2010-11 to 37.15 % in 2015-16. Further, the deductions are being made for an increasing range of purposes. While some like remitting water charges to TWAD Board clearly appear to have some justification given the long delays in payment, other deductions are for various implementation of different schemes.

10.26 The practice of making deductions, beyond what is permissible based on SFC recommendations, is a non-transparent mechanism, which has the effect of converting the devolution pool into a discretionary grant fund. While the Commission is of the view that such deductions should not be resorted to beyond what is recommended by the SFCs, it would be instructive to go into the reasons for such a practice arising. Firstly, it appears that the manner in which devolution funds have been distributed amongst RLBs has not fully achieved the equity objective and some RLBs are short of resources for various reasons. Secondly, the manner in which funds are allocated within the RLBs sometimes fails to address some of the priority needs, including the provision of basic services. Earmarking funds out of the devolution for certain priority items of expenditure addresses these concerns. Credibility is also preserved when the deducted amounts are being spent in the RLBs on asset creation. Further, the funds flow to many of the RLBs appears quite adequate and hence they do not feel the adverse impact of the deductions too strongly.

10.27 However well-intentioned the practice of deducting funds from the SFC recommended devolution may be, it is a non-transparent mechanism which needs to be discouraged. The Commission intends to recommend some modifications in the design of the devolution mechanism, elsewhere in this Chapter, to address some of the concerns which the administrative innovation of deductions has attempted to remedy.

Recommendation

10.28 The Commission recommends that the practice of deducting funds from the devolution beyond the purposes and mechanisms recommended by the SFC should be eschewed. Interception from devolution should be exercised only as a last resort measure and only to meet statutory dues, court ordered dues, loan

dues, pension dues, and in exceptional cases, electricity and water supply related charges. Even in such cases, interception of SFC devolution should be only to the extent of devolution due to that particular local body, without affecting the devolution flowing to other local bodies. (para 10.22 – 10.27)

Transfers to Local Bodies other than SFC Devolution

10.29 Apart from SFC devolution, assigned revenue such as entertainment tax and surcharge on stamp duty, shared revenue like lease amounts from minor mineral quarries, seigniorage fees, receipts from social forestry plantations, several grants through State and Centrally sponsored schemes and other non-plan discretionary grants are being transferred to local bodies, which have been described in detail in Chapters IV and V. The State Government is also committed to bear the salary expenditure of Block Development Officers, Municipal Commissioners, Municipal and Corporation School Teachers and Panchayat Union Elementary School Teachers. Such commitments are quantified below:

Table X - 5

(Rs. in Crore)

Details	2014-15	2015-16 RE	2016-17 (RBE)
Municipal Commissioners Salaries	5.38	6.06	6.87
Salaries to Municipal and Corporation Elementary School Teachers	338.17	375.15	423.72
Salaries of Municipal and Corporation Secondary/ Higher Secondary School Teachers	337.15	360.85	407.85
Salaries of BDOs (BPs)	163.87	172.50	188.68
Salaries of BDOs (VPs)	72.82	81.50	82.46
Salaries to Panchayat Union Elementary School Teachers	3876.07	4134.55	4454.30
Total	**4793.46**	**5130.61**	**5563.88**

10.30 The pension liabilities of local body officials and teachers is also met by the State Government for which separate figures are not readily available. The employer contribution for Municipal and Panchayat Union School teachers who are part of the Contributory Pension Scheme is also being paid by the Government and this sum amounted to Rs. 178.07 crores in RE 2015-16 and Rs. 233.38 crores in RBE 2016-17.

Global Sharing

10.31 The Commission took into account on the one side, the projections which clearly show the State Government in a constrained fiscal situation with large revenue deficits which are not expected to be eliminated in the medium term, the adverse impact of the Fourteenth Finance Commission's recommendations, the likely additional commitments on account of the implementation of the Seventh Pay Commission's recommendations and the uncertainty caused by the impending introduction of GST.

10.32 On the other side, the financial position of local bodies is relatively stronger. As discussed in Chapter IV, amongst all States, Tamil Nadu has been ranked significantly higher in terms of financial devolution as compared to devolution of functions and functionaries. In addition, there has also been a significant three-fold increase in the grants for Local Bodies recommended by the 14th CFC with a larger proportion flowing as Basic Grants and the conditionalities on the Performance Grants having been simplified. Many of the restructured Central Government schemes continue to be local body focused and would bring in additional funding. Both RLBs and ULBs have significant unexploited potential for mobilizing their own sources of revenue which have been discussed in detail in Chapters IV and V. For ULBs, substantial enhance merit of Property Tax revenue can be relatively easily achieved.

10.33 In this context, the Commission deliberated on the justification for the current level of devolution of 10 per cent of SOTR. After considering all aspects, **the Commission recommends that the existing overall vertical devolution proportion of 10 per cent of the net State's Own Tax Revenue (SOTR) may be retained for the award period of the Commission. (para 10.31 and 10.32)**

Vertical Sharing Ratio between Rural and Urban Local Bodies

10.34 Population is the main criterion for the distribution of SFC devolution. In the process of deriving vertical and horizontal ratios for SFC devolution, the Commission took into account the 2011 Census population for rural and urban local bodies. The population of the RLBs and ULBs as per the 2011 Census, is as follows:

Rural	:	37229590	-	51.6%
Urban	:	34917440	-	48.4%

10.35 While this is the Census 2011 population, the Census accounts Census Towns, which are really Village Panchayats and Cantonment Towns as urban areas. The RLB and ULB populations have to be accordingly adjusted.

The Second SFC had considered the following criteria with assigned weights to arrive at the vertical sharing ratio for rural and urban local bodies:

Table X - 6

i)	Population (1991)	50%
ii)	**Needs:**	
a)	O & M	10%
b)	Capital	10%
c)	Debt.	5%
iii)	**Resource Potential:**	
a)	Inverse per capita	15%
b)	Inverse assigned revenue	10%
	Total	**100%**

10.36 Based on the above formula, the vertical sharing ratio for **Rural: Urban** was arrived at **59:41** by the Second SFC. At that time, the 2001 Census population figures were not available. Hence, the Commission took the 1991 population and to adjust for the urbanization that occurred during the 1991 to 2001 decade, 2% increase in the proportion of urban population was assumed. Since 50% weightage was given for population, the share of urban areas was increased by 1 per cent, thus resulting in the 58:42 ratio. The Commission also recommended to revise the ratio as 59:41 if the reclassification package i.e., downgrading of 178 Town Panchayats and upgrading of 18 Census towns was implemented by the Government.

10.37 The Third SFC took note of the criteria and weightages worked out by the Second SFC and taking into account the population of Census Towns under rural, worked out the vertical sharing ratio as 58:42 for RLBs and ULBs.

10.38 Commending the criteria and weights adopted by the Second SFC and Third SFC as having adequately captured the field realities, given dependable outputs and produced a robust scheme for vertical sharing, the Fourth SFC decided to adopt the same criteria and weights. While noting that ideally fund requirements based on norms should have been obtained, the Fourth SFC adopted the data obtained from local bodies with projections for the operation and maintenance needs and for capital needs. The anticipated requirements furnished by the local bodies were taken as such without normalization since it was possible to normalize only the ULB's estimates. The capital needs of ULBs were normalized whereas the same could not be achieved for the RLBs. On this basis, the Fourth SFC recommended a vertical sharing ratio between rural and urban local bodies of 56:44. This recommendation of the Fourth SFC was modified by the Government which retained the sharing ratio of 58:42.

10.39 The Commission examined the issue and found that the formula and calculation mechanism adopted by the Second SFC and persisted with by the Third and Fourth SFCs is robust and should be adopted this time as well. The formula has been applied to the RLB and ULB population as per the 2011 Census and the data collected by the Commission for the other indicators. The detailed working is in **Annexure X (3).** The results yield a 56:44 sharing ratio, which is very reasonable in the Commission's view. **Accordingly, the Commission recommends that the 56:44 sharing ratio between RLBs and ULBs may be adopted. (para 10.39)**

Capital Grant Fund for Rural Local Bodies:

10.40 As per the recommendations of the Fourth SFC, 10 per cent of the devolution to RLBs was impounded into the Infrastructure Gap Filling Fund, which was to be released on a project basis and not formula basis by both DRD and the District Collectors. Accordingly, 50 per cent of IGFF was utilized for the THAI Scheme and balance was divided between the DRD and District Collectors for sanction of specific works. As already pointed out, a significant portion of the devolution intended for RLBs is being deducted for a number of schemes and to meet certain maintenance needs.

10.41 In view of the reasons indicated in para 10.40 above, **the Commission recommends that a Capital Grant Fund may be established to replace the IGFF, into which 20 per cent of the aggregate devolution intended for RLBs would be paid. Of this Fund, 20 per cent would be set apart for taking up projects which are deemed to be of importance at the State level. These works may be identified and approved by a Committee comprising the Secretary, Rural Development and Panchayati Raj, Director of Rural Development, a representative of the Finance Department and Member Secretary, State Planning Commission. The balance 80 per cent would be distributed district wise, based on the formula adopted for horizontal distribution amongst District Panchayats. The project wise allocation of these funds would be decided by the District Planning Committee based on**

detailed guidelines to be issued by the RD & PR Department in consultation with Finance and Planning and Development Departments. (para 10.40)

10.42 As already recommended in Chapter VIII, the following items may be accorded priority in sanction from the Capital Grant Fund for RLBs:

- **i. Improvement of 2500 km of local body roads to ODR standards may be taken up as a priority by Panchayat Unions through the enhanced Infrastructure Gap Filling Fund/ Capital Grant Fund, with an allocation of Rs. 100 crore per year for this purpose. (para 7.55)**
- **ii. An amount of Rs. 25 crores spread over the first two years of the Award period be set apart from the Capital Grant Fund to install bulk meters for all RLB bulk consumers to accurately measure the actual quantity of water supplied under the CWSS. (para 7.14)**
- **iii. An amount of Rs. 309 crores for revamping of Old CWSSs which are not functioning to full capacity to provide additional water supply to rural areas. (para 7.15)**

Pooled Fund for Deficit RLBs:

10.43 Another issue to be addressed is horizontal equity. SFC devolution has been the main source of financing for RLBs in the last two decades. 20 years of devolution based on a variety of formulae have left many Panchayat Unions and Village Panchayats in surplus while some still suffer from chronic deficits. Funds provided to the RLBs are intended to be expended fully on implementation of works and services intended for the people residing in the Local Bodies. Accumulating large sums as surpluses is neither desirable nor prudent, and should not be encouraged.

10.44 The issue of chronic deficits in some RLBs also needs to be specifically addressed. Further, as the Commission has recommended the practice of pooling Assigned Revenues should be done away with, an equalization fund is required.

10.45 Accordingly, the Commission recommends that 10 per cent of the overall devolution intended for RLBs be credited into a Pooled Fund for Deficit RLBs.

40 per cent of the amounts available in this Fund, i.e. 4 per cent of the overall devolution intended for RLBs, may be disbursed in the first three years of the award period by the DRD only amongst those Panchayat Unions and Village Panchayats which have been in deficit for at least 3 of the last 5 years. The list of such 127 Panchayat Unions and 3921 Village Panchayats is too bulky to be annexed to the report and will be provided separately to DRD. The distribution amongst these deficit RLBs will follow the vertical and horizontal distribution formulae indicated for Panchayat Unions and Village Panchayats. After the first three years of the award period, the list of deficit RLBs may be updated on the basis of the accounts for the subsequent years and the distribution may be done amongst those RLBs which are still found to be deficit. In case there are no deficit RLBs at that stage, the funds available in the Pooled Fund or if the total funds available in the Pooled Fund exceed 100 percent of the basic devolution including the minimum lump sum grant of the deficit RLBs, then such excess funds may be transferred to the Capital Grant Fund. (para 10.45)

10.46 40 per cent of the Pooled Fund for Deficit RLBs, should be allocated with 20 per cent retained by the DRD and 20 per cent distributed amongst District Collectors based on the horizontal District Panchayat wise share. These Funds can be utilized by the DRD/District Collectors to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes. For instance, it was pointed out to the Commission that there are certain Panchayats where the pumping of water for drinking water purposes has to be from great depths due to circumstances beyond their control and they are unable to meet the electricity charges for such pumping.

10.47 TWAD provides a basic service as an agent of RLBs / ULBs. It also incurs a huge deficit in the maintenance of CWSSs. A provision of sharing the devolution between Chennai Corporation and CMWSSB has been made separately. Accordingly, the Commission recommends that 20% of the Pooled Fund for Deficits RLBs i.e. 2% of the RLB devolution will be provided to TWAD to meet the deficit on CWSSs in addition to the water charges levied and collected from RLBs. (para 7.17)

10.48 The Commission strongly recommends that since the Capital Grant Fund and Pooled Fund for Deficit RLBs provide the necessary tools to address equity and flexibility concerns and to meet important requirements that may not be prioritized by individual RLBs, the practice of deducting funds from the devolution intended for RLBs must be scrupulously avoided. (para 10.22)

Vertical Sharing Ratio between Tiers of RLBs

10.49 The ratio recommended by the Third SFC for the vertical sharing of devolution resources between the District Panchayats, Panchayat Unions and Village Panchayats was 8 : 32 : 60. The Fourth SFC recommended continuation of the same ratio even while they recommended that Pooled Assigned Revenue need not be shared with the District Panchayats. This Commission has taken note of the following considerations in determining the vertical sharing ratio:

- Representatives of Panchayat Unions during their interactions with the Commission represented that since the 14^{th} CFC in its recommendations had substantially enhanced RLB grants and provided them exclusively to Village Panchayats, and since in the Tamil Nadu context, Panchayat Unions are bodies tasked with several functions and have expenditure requirements which need to be catered to, the share of the Panchayat Unions needs to be increased.
- As per the projections made in Chapter X, Panchayat Unions are likely to be in deficit during the Award period, while Village Panchayats and District Panchayats will be in surplus.
- The Commission has recommended that the practice of pooling Assigned Revenue, specifically Surcharge on Stamp Duty should be done away with and such revenue should be transferred directly to the Local Body concerned. These funds will also thus flow to the Village Panchayats.
- Village Panchayats have taxation powers to raise additional resources and they should be encouraged to do so.
- Large deductions have been effected in the past from the devolution intended for District Panchayats without affecting their surplus position. Such deductions are now proposed to be eliminated with the creation of the Capital Grant Fund and Pooled Fund for Deficit RLBs.

10.50 In view of the above, the Commission recommends that while the District Panchayats share of the devolution is retained at 8 per cent without any reduction, some rebalancing is required between the shares of Village Panchayats and Panchayat Unions. The shares of Village Panchayats and Panchayat Unions may be modified from the 60:32 ratio at present to 55:37. **The Commission recommends that the vertical sharing ratio between RLBs may be determined as 8:37:55 amongst District Panchayats, Panchayat Unions and Village Panchayats. (para 10.49)**

Minimum Lumpsum Grant

10.51 At present, a Minimum Lumpsum Grant of Rs.5 lakhs is given to each Village Panchayat and credited to Account No 2 to meet the obligatory payments to TANGEDCO and TWAD Board. During the district level interactions, there were representations that the minimum grant amount may be increased as many small Village Panchayats struggle with electricity and water supply payments. The Commission discussed this issue with the DRD, who also supported the increase of the minimum lumpsum grant. **Accordingly, the Commission recommends that the minimum lumpsum grant may be increased from Rs.5 lakh to Rs.7 lakh per Village Panchayat per year.** This amount will be deducted from the 55 per cent devolution share of Village Panchayats and distributed to all Village Panchayats on a monthly basis. The balance amount from out of Village Panchayats' share of SFC devolution has to be distributed on the horizontal sharing ratio suggested below.

10.52 The minimum lump sum grant of Rs. 30 lakhs for Panchayat Unions was retained unchanged by the Fourth SFC. Hence, the minimum lump sum grant for Panchayat Unions has not been revised upwards for nearly 10 years. As the Commission has recommended an increase in the share of Panchayat Unions and a minimum lump sum grant achieves certain equity objectives particularly for smaller local bodies, there is good reason to review the level of the minimum lump sum grant for Panchayat Unions. **The DRD was also consulted in the matter. The Commission recommends that the Minimum Lump Sum Grant to Panchayat Unions may be increased to Rs. 40 lakhs per annum per Panchayat Union to be released on a monthly basis out of the 37 per cent share of Panchayat Unions in the SFC devolution.**

Horizontal Ratio within each Tier of RLBs

10.53 The Fourth SFC had recommended the following ratio for horizontal distribution within each tier of PRIs:

Total population (2011 Census)	:	60%
SC/ST population	:	20%
Area	:	20%

10.54 Clearly population needs to be the major factor for determining the allocation of resources to Local Bodies as it is the best determinant of need and potential of the local body. Area is a relevant criterion from the perspective of the additional costs that need to be incurred to provide services over a larger and less densely populated area.

10.55 A key consideration is poverty and backwardness. Thus far the proportion of the SC/ST population in the area was taken as a proxy for the backwardness measure. Undoubtedly the proportion of the SC/ST population continues to be an important indicator of poverty and backwardness, particularly in rural areas.

10.56 The Commission also looked at the various Backwardness Indicators adopted by the State Planning Commission for determining the Blocks eligible for funding under the State Balanced Growth Fund. Five parameters: literacy rates, health attainments, poverty levels, industrial development and agriculture development levels have been adopted. While in certain cases direct measures like Infant Mortality Rate and Maternal Mortality Rate were available, in certain other cases, proxy indicators and identification of backward blocks by the concerned departments like the Agriculture Department, Education Department and the Directorate of Industries and Commerce were used. The Commission felt that such a methodology was not suitable to adopt for the devolution exercise for RLBs.

10.57 Comparison of per capita income levels is a strong indicator of both need and capacity and has been adopted with 50 per cent weightage by the 14th CFC. However, at levels below the State level, per capita GSDP, i.e. per capita Gross District Domestic Product tends to present skewed results. Development literature indicates that Per Capita Consumption Expenditure is a more robust indicator of welfare, since it measures actual consumption by households, unlike per capita GDP which accrues to a number of factors of production and includes firm level income averaged out over the population and is thus a less perfect measure of individual welfare. Further, in smaller geographical areas, such averaging could lead to distortions as the incomes earned at the firm level in one territorial jurisdiction is actually reflected as consumption expenditure in another jurisdiction.

10.58 With the NSSO permitting the pooling of consumption data from the Central and State samples for the 68th Round of the National Sample Survey, the Commissioner of Economics and Statistics has indicated that validated and statistically relevant district level data of per capita consumption expenditure is now available. Per capita consumption expenditure data is available separately for Rural and Urban areas district wise. The district wise Rural and Urban Monthly Per capita Consumption Expenditure (MPCE) computed on Mixed Reference Period (MRP) and per capita GDDP for 2011-12 are presented in **Annexure X (4)**. An inter district comparison of the data shows that the ratio between the highest and the lowest district in terms of MPCE is 2.07:1 in rural areas and 2.23:1 in urban areas which is much closer than the gap in per capita GDDP between the highest and lowest district, which is 4.94:1. The Commission is of the view that the district wise MCPE data which is now available should be utilized to more accurately reflect poverty and backwardness in the horizontal sharing scheme.

10.59 The Commission has converted the district level MPCE into a distance based criterion and applied it as such to the District Panchayats, and on a population weighted basis to the Panchayat Unions and Village Panchayats. A detailed technical note on the methodology adopted is contained in **Annexure X (5).** The Commission has detailed workings on the impact of the Per Capita Consumption Expenditure criterion as applied to all the District Panchayats, Panchayat Unions and Village Panchayats. As the spreadsheets would be too bulky to form part of the Report, they are being provided separately to the DRD.

10.60 Accordingly, the Commission recommends that the horizontal distribution of the SFC devolution to Rural Local Bodies may be done on the basis of the following formula:

Table X - 7

Sl.No.	Criterion	Weight
1.	**Population as per 2011 Census**	**60 per cent**
2.	**Area**	**15 per cent**
3.	**Scheduled Caste/Tribe Population**	**15 per cent**
4.	**Per Capita Consumption Expenditure Distance**	**10 per cent**
	Total	**100 per cent**

Devolution Scheme for Urban Local Bodies:

10.61 At present, the following deductions are made out of the SFC devolution of resources intended for Urban Local Bodies:

- Incentive Fund for efficient tax collection, which is 2.5 per cent out of the aggregate share of devolution intended for ULBs.
- Infrastructure Gap Filling Fund which was 7 per cent of the share of the devolution for each tier of ULBs
- Operation and Maintenance Gap Filling Fund which was 3 per cent of the share of the devolution for each tier of ULBs

10.62 In addition, 50 per cent of Assigned Revenue (Surcharge on Stamp Duty and Entertainment Tax) is pooled and transferred to Tamil Nadu Urban Road Infrastructure Fund (TURIF). The Commission has already indicated that the practice of pooling assigned revenue should be done away with and the assigned revenues should be transferred to the local bodies as per their entitlement.

10.63 The Commission has also adopted some ambitious but still achievable targets and projections for Property Tax revenue collection by ULBs. The increase of ULB Property Tax: GSDP ratio to meet the average level amongst Developing Countries of 0.60 per cent of GSDP will enable ULBs to be much more self-reliant. Accordingly, greater incentives need to be offered to ULBs to enhance their tax collections.

10.64 Further, the DMA, DTP, Director of the Tamil Nadu Institute of Urban Studies DLFA and other experts have all attested to the need for greater capacity building and for support for certain technological interventions to enhance efficiency and effectiveness in ULBs.

10.65 The Commission's recommendations on the devolution scheme for ULBs takes note of the above considerations.

Incentive Fund

10.66 The Fourth SFC report traced the history of various attempts to introduce matching funds and incentive grants for RLBs and ULBs to encourage House Tax and Property Tax collection. The Fourth SFC recommended that from the vertical share of

SFC devolution recommended for rural and urban local bodies, 2.5 percent may be allocated as a separate corpus for incentive fund from SFC devolution. The Fourth SFC further recommended State and District Level incentives and cash awards to Local Bodies linked to efficiency in tax collection. These incentives were subject to certain stringent conditions relating to collection percentage of both current and arrear demand and growth percentage over previous year's collection. Further, they were also conditional on general revision of taxes having taken place in the last five years. It appears that no orders have as yet been issued to operationalize the incentive scheme.

10.67 This Commission has set ambitious targets for property tax collection by ULBs. This has to be backed by an effective incentive mechanism. **Accordingly, out of the aggregate devolution intended for ULBs, 5 per cent may be set apart for the incentive fund. ULBs who have actually improved their Property Tax collection by more than 20 per cent may be made eligible to receive the incentive amount as a matching share of the collection in excess of 10 per cent growth rate. This incentive will be paid out based on the audited tax collection figures provided by the Director of Local Fund Audit. In case, many ULBs qualify and the amount payable as incentive exceeds the size of the fund, the incentive payable ULB wise will be adjusted on a pro rata basis to fit within the overall size of the fund available for that year. In case no ULBs qualify, the incentive amount will be carried over into the next year. At the end of the award period, any undisbursed incentive amount will lapse to the Government Account. (para 10.66)**

Special Grant to Tamil Nadu Institute of Urban Studies

10.68 The Tamil Nadu Institute of Urban Studies made a detailed presentation to the Commission and submitted a proposal for upgrading the existing TNIUS Campus in the first phase at a total cost of Rs. 52.56 crores and for establishing three regional campuses at a cost of Rs. 30.94 crores in the second phase, totaling Rs. 83.50 crores. A special grant has been sought from the Commission for this purpose. The period over which the grant has been sought goes beyond the award period of the Commission. Further, the proposal focuses mainly on upgrading the physical infrastructure. Presumably alternative funding would be found for ensuring the adequate quality faculty are engaged.

10.69 As has already been pointed out, there is considerable need for capacity building in the urban affairs sector in Tamil Nadu. Adequate investment is needed for upgrading training institutions functioning in this area. TNIUS is the leading institution engaged in capacity building for ULBs in Tamil Nadu. **Hence, the Commission recommends that a special grant of Rs. 25 crores may be provided to TNIUS to be distributed in equal annual installments over the award period out of the aggregate devolution for ULBs in Tamil Nadu. TNIUS should also open the regional centres in the first phase itself, if need be in rented premises or by co-locating with other government training institutions, so that capacity building activities for ULB elected representatives and staff can be taken up without delay. (para 10.68)**

Vertical Sharing Ratio between the Tiers of ULBs

10.70 The Fourth SFC had recommended the following criteria and weightages both for the vertical and horizontal devolution amongst ULBs:

2011 Census population	:	80%
Area	:	15%
Debt outstanding	:	5%

10.71 The Commission has considered various inputs received by it on the formula to be adopted for the vertical and horizontal sharing amongst ULBs. Formulae adopted hitherto have provided many ULBs with surpluses, but have left some ULBs in deficit. Further, after the cleanup of the debt of ULBs, further debt is provided only to those ULBs which would be in a position to sustain the borrowing. Financially weak ULBs do not have access to debt financing either. Hence, the Commission is of the view that the debt outstanding criterion may be dropped from the devolution formula.

10.72 In order to more effectively address two dimensions of equity – interse between ULBs and within the ULB itself, the Commission recommends that the following two criteria should be added:-

i. Marginal Per Capita Consumption Expenditure distance, calculated on a per ULB basis in the same manner and for the same reasons as cited in the case of RLBs, and

ii. Proportion of slum population, as this necessitates provision of additional urban services to a population that may not be able to pay for them.

10.73 Accordingly the Commission recommends that the following devolution formula may be adopted for both the vertical sharing between tiers and horizontal sharing within the tier for ULBs: (para 10.72)

Table X - 8

Sl. No.	Criterion	Weight
1.	Population as per 2011 Census	65 per cent
2.	Area	15 per cent
3.	Per Capita Consumption Expenditure Distance	10 per cent
4.	Proportion of Slum Population	10 per cent
	Total	100 per cent

10.74 On the basis of this formula, the vertical sharing ratio between the tiers of ULBs has been arrived at as 40:29 : 31 for Municipal Corporations, Municipalities and Town Panchayats respectively. Although it appears that the vertical sharing between the 3 tiers stays unchanged from the Fourth SFC ratio, when the new formula is applied, it make a difference to the horizontal sharing within each tier of ULBs. The detailed working is in **Annexure X (6).**

10.75 In paras 10.58 and 10.59 above, the reasons for adopting MPCE Distance as a measure have been discussed in detail. Those reasons apply in the case of ULBs as well. The technical note contained in Annexure X (5) explains the methodology of working out the ULB wise shares based on the MPCE criterion. The Commission has data ULB wise on the distribution which are too bulky to be annexed to the Report. The data has been provided separately to the Director of Municipal Administration and Director of Town Panchayats to ease the process of working out the distribution of resources.

Minimum Lumpsum Grant

10.76 A Minimum Lump sum Grant is being provided to Town Panchayats. This amount is primarily intended to ensure sufficiency of funds to pay electricity bills and water charges to TANGEDCO and TWAD. The Fourth SFC after detailed analysis had recommended that the Minimum Lump sum Grant per Town Panchayat may be enhanced from Rs.10 lakh to Rs. 20 lakh.

10.77 In the light of the upward revision of electricity tariffs and the recommendations of the Commission to enhance TWAD's water charges, after consulting with the DTP, **the Commission recommends that the Minimum Lump sum Grant for Town Panchayats may be enhanced from Rs. 20 lakh to Rs. 30 lakh. (para 10.76)**

Capital Grant Fund for Urban Local Bodies:

10.78 The Fourth SFC enhanced the proportion of funds deducted from the share of SFC devolution to each tier of ULBs for the Infrastructure Gap Filling Fund from 3 per cent to 7 per cent. This Fund was to be utilized specifically for projects.

10.79 Infrastructure needs of ULBs are growing rapidly and matching contribution shares are required from the Government and the ULB concerned under various Government of India schemes and also to implement schemes through borrowing. Hence, it is important that a more sizeable fund is created to ensure that ULBs have an assured source of funds for financing capital works.

10.80 The Commission recommends that a Capital Grant Fund may be established to replace the IGFF, into which 15 per cent of the aggregate devolution intended for ULBs tier wise would be paid. This Fund, which would have three parts corresponding to each tier of ULB, would be utilized to support capital works linked to basic functions and services in the ULBs. Sanctions for works would be accorded based on guidelines to be issued by Government and subject to approval of an empowered committee in order to minimize delays in according administrative sanction. (para 10.78 and 10.79)

10.81 In Chapter V, a recommendation had been made that Rs. 35 crores would be allocated for implementing a GIS Based Property Tax assessment scheme in Town Panchayats. Given the importance of this initiative to enhance revenues of Town Panchayats, they should be willing to take up the scheme out of their own funds. However, to enable centralized co-ordination, it is recommended that the Rs. 35 crores may be allocated in equal installments over the five year award period from out of the Capital Grant Fund for Town Panchayats as a special grant for completing GIS based mapping and field enumeration in all Town Panchayats for updating Property Tax Registers. (para 5.37)

10.82 In Chapter VII a recommendation was made that the revival of outlived CWSSs could be taken up as a priority work under the Capital Grant Fund. Accordingly, the share of the cost of ULBs is Rs. 70.13 crores for Corporations, Rs. 81.10 crores for Municipalities and Rs. 129.15 crores for Town Panchayats. This project is recommended for implementation under the respective CGFs. (para 7.15)

Pooled Fund for Deficit ULBs:

10.83 Horizontal equity amongst ULBs is an issue. 20 years of devolution based on a variety of formulae have left most ULBs in surplus while some still suffer from chronic deficits. The issue of chronic deficits needs to be addressed. Further, as the Commission has recommended the practice of pooling Assigned Revenues should be done away with, an equalization fund is required.

10.84 Accordingly, the Commission recommends that 5 per cent of the overall devolution intended for ULBs be impounded into a Pooled Fund for Deficit ULBs subsuming the Operation and Maintenance Gap Filling Fund. 40 per cent of the Fund, i.e. 2 per cent of the devolution amounts tier wise should be disbursed in the first three years of the award period by the DMA and DTP respectively only amongst those Corporations, Municipalities and Town Panchayats which have been in deficit for at least 3 of the last 5 years based on audited accounts. The distribution amongst these deficit ULBs will follow the horizontal distribution formula for ULBs. After the first three years of the Award period, the list of deficit ULBs may be updated on the basis of the accounts for the subsequent years and the distribution may be done amongst those ULBs which are still found to be deficit. In case there are no deficit ULBs at that stage, the funds available in the Pooled Fund or if the total funds available in the Pooled Fund exceed 100 percent of the basic devolution including the minimum lump sum grant of the deficit ULBs, then such excess funds may be retained by the DMA and DTP along with the balance 50%. (para 10.83)

10.85 Out of another 40 per cent of the Pooled Fund for Deficit ULBs (i.e. 2 per cent of the devolution to ULBs tier wise) 30 percent (i.e. 1.5 percent of devolution) will be retained by the DMA and DTP. These Funds can be utilized by the DMA / DTP to provide grants to those ULBs who have special problems which cannot be

addressed under any of the existing transfer mechanisms or schemes. The first priority under this fund should be accorded to settling electricity and water supply dues. The unutilized portion of the Pooled Fund can be transferred to the Capital Grant Fund. (para 10.83)

10.86 TWAD maintains CWSSs for both RLBs & ULBs. Hence, a special provision needs to be made for TWAD from out of ULB allocation as well. Accordingly, 20% of the Pooled Fund for Deficit ULBs (i.e. 1 % of the devolution intended for ULBs) should be provided to TWAD to meet the deficits on CWSSs maintenance, in addition to the water charges payable by the respective ULBs. (para 10.86)

10.87 As per the projections made available to the Commission by the Finance Department the Gross SoTR for 2017-18 is estimated to be Rs.1,03,089.44 crores. After adjusting for the permissible deductions from Gross SOTR to arrive at Net SoTR and adding back the arrears of previous years to be released, the quantum of SFC devolution at the global sharing ratio recommended at 10 per cent, and adding back the arrears to be released, the total fund flow to Rural and Urban Local Bodies in 2017-18 would be Rs. 10,532.39 crore. On the whole, Rs. 65,473.84 crores are expected to devolve to Local Bodies during the award period of the Fifth State Finance Commission.

Chapter - XI

Recording of Best Practices

11.1 The 13th Central Finance Commission recommended that the State Finance Commissions should record the best practices in local bodies of their States in their reports and provided for a separate chapter for Best Practices in the template suggested for the SFC reports. Based on the above, the Fourth SFC had included a number of best practices in its Report and recommended for their implementation in other local bodies wherever appropriate and possible. All these recommendations have been accepted by the Government.

11.2 The Commission requested all the District Collectors, and concerned Heads of Departments to send details of best practices in the local bodies under their jurisdiction. The Commission also directly saw some of the best practices during their field visits. Some of the best practices brought to the attention of the Commission have been collated in this chapter.

Rural Local Bodies

Convergent Delivery of Services to Public

11.3 In Theni District, to overcome the problem of landlessness and unemployment amongst tribals, Block Panchayat Administration took some proactive steps. Poramboke land was identified and land pattas were provided to Scheduled Tribe families. Seasonal unemployment was resolved through providing Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) job card. Further, the Panchayat Administration has constructed group houses under Indira Awaas Yojana Scheme for upliftment of BPL houseless people and beneficiaries are engaged to construct their own houses. To reduce morbidity, the Block Panchayat has provided drinking water and organized medical camps for health improvements.

Delivery of Services to Public in Theni District

Berigai Village Panchayat – Solid Waste Management - Krishnagiri

11.4 In Berigai Village Panchayat, a sanitation team was formed comprising 9 workers for cleaning and sanitation and 6 workers for segregating the bio-degradable and non-biodegradable waste. The public donated a sum of Rs.3.770 Lakhs to the Village Panchayat towards the Solid Waste Management fund, which was utilized to purchase a new tractor for collection of Solid Waste in the Panchayat. All schools have been provided with toilets and drinking water facilities, and every household is provided with a

Toilet under the Individual Household Latrine Scheme (IHLS). This Village Panchayat has been declared as an open defecation free Panchayat for the year 2015-16. All the streets / Roads have been provided with CC pavements / paver blocks / BT Roads.

“Thooimai Berigai” (Cleaning Beriga) Movement in Berigai Village Panchayat

Odanthurai Village Panchayat – Coimbatore District - Civic Services

11.5 The Odanthurai Village Panchayat in Coimbatore District has been declared as open defecation free Panchayat for the year 2015-16. Every individual house was provided with individual house hold latrines. In this Panchayat, each and every habitation have been provided with cement concrete roads, black top roads, paver block roads and street lights. Further, 60 solar lights have been provided to reduce the electricity consumption bill. In this Village Panchayat, all the tube lights have been replaced with LED lights thereby saving 25% of power consumption.

Odanthurai Village Panchayat

Kookal Village Panchayat – Nilgiris District - Civic services

11.6 In Kookal Village Panchayat of the Nilgiris District, road connectivity has been provided to all habitations. Individual house hold water supply connections and street lights have also been provided in all habitations. In this Panchayat, infrastructure development activities like construction of community hall, green houses, special houses for Scheduled Tribes, foot path, retaining wall, cement concrete road and drainage have been undertaken for all the villages. In Uyilatti village, people voluntarily contributed funds and purchased dustbins to be given to the shops at Kookal Thorai.

Kadanad Village Panchayat - Udhagamandalam Panchayat Union - Nilgiris District Solid Waste Management Scheme

11.7 Kadanad Village Panchayat with an area of 102 sq.kms is located 12kms North of Udhagamandalam town. Kadanad is the second largest Panchayat in the Nilgiris District, consisting of 35 habitations with 2346 households having a population of 9380 and a literacy level of 80%.

11.8 Kadanad Panchayat was selected for the implementation of a Solid Waste Management System under the Nirmal Bharat Abhiyan (NBA). Villagers have been educated about the importance of the scheme by conducting various Awareness Campaigns. Solid Waste Management is being implemented in 20 habitations (1073 households) out of 35 habitations in this Panchayat. Bio-Degradable and Non Bio-Degradable waste generated in 1073 households are collected from every household daily by engaging 24 nos. of 'Thooimai Kaavalar' appointed under Nirmal Bharat Abhiyan (NBA) scheme. The total waste collected is 600 kg per day with the following composition:

Bio-degradable	@	90%	=	540 kg per day
Recyclable	@	9%	=	54 kg per day
Inert	@	1%	=	6 kg per day

11.9 Bins with fencing arrangements are located at prominent accessible places for collection of only non-degradable wastes. 400 nos. of waste segregation plastic bins have been provided at the identified collection points for collection of wastes separately i.e., Bio-degradable and Non Bio-degradable direct from the households.

11.10 Dustbins were kept in all habitations of Kadanad Panchayat for collection of Bio-degradable and Non Bio-degradable household waste. Bio-degradable waste is collected everyday by the Panchayat and dumped in a pit dug under MGNREGS for composting. The plastic waste is sorted and shredded in a rehabilitated shed. Rs.4.00 Lakhs has been sanctioned through Tamil Nadu Women Development Corporation Limited for the purchase of a Shredding Machine. The sale of shredded plastic yields additional revenue to the Panchayat.

Daily collection of wastes from Every Household

Non Degradable Wastes transported to Segregation Shed

Compost pits for collection of wet waste

Vehicle used for collection of waste

Segregated Non Degradable Waste at the Shed

Infrastructure Developed for Solid Waste Management

11.11 Financial assistance has been provided by converging funds from various Government schemes to ensure that adequate infrastructure is provided for successful implementation of the Solid Waste Management Programme.

Table XI - 1

(Rs. In Lakh)

Sl. No.	Name of works	Funding Agency	Amount
1.	Improvement of existing agricultural godown as segregation shed	DRDA, Udhagai	2.500
2.	Providing roofing facility in front of segregation shed with concrete flooring	HADP, Udhagai	3.500
3.	Providing 1 no. of transport vehicle (Tipper lorry) and purchase of bins	HADP, Udhagai	22.350
4.	Providing approach CC road to segregation shed	HADP, Udhagai	4.000
5.	Providing plastic shredding machine	Magalir Thittam, Udhagai	4.000
6.	Construction of toilets, water supply facilities etc.,	Kadanad Panchayat General fund	1.500

Urban Local Bodies

Greater Chennai Corporation - Promotion of Non Motorised Transport

11.12 Greater Chennai Corporation is the first Municipal Corporation in India to adopt and implement a Non - Motorised Transport (NMT) Policy. Many initiatives were launched promoting this policy.

11.13 In order to promote Non - Motorised Transport (NMT) thereby reducing pedestrian - vehicle conflict, pollution and traffic congestion, Greater Chennai Corporation has undertaken a project for widening the footpaths from 5 feet to 10 feet. To ensure the safety of pedestrians, especially the vulnerable sections of the society such as elderly women, children, students and differently abled, the Corporation has completed footpath 124 improvement along 34 Bus Route Roads at the cost of Rs.21.88 crore in the first phase which is well appreciated by the public and 12 footpath works at an estimated cost of Rs.34.75 crore are in progress. For the first time, the level of the footpaths is kept at 15cm height uniformly throughout the length of the footpath for the benefit of pedestrians and physically challenged people on wheel chairs. Road junctions are connected with table top crossings which also act as speed breakers.

11.14 Greater Chennai Corporation is providing ramps to all the property entrances and is shifting junction boxes, transformers and other structures of service utility departments to the edge of the footpath to ensure an obstruction free footpath. Granite bollards are being fixed across the footpath to avoid parking of vehicles. Footpath thus constructed has brought in accolades from all the quarters. **Greater Chennai Corporation has received 5 National level awards for this project.**

Madurai Corporation - Truck Terminal

11.15 The congestion in the core city is mainly because of the large number of goods transport vehicles plying the in the area. The offices of a number of goods transport are located within the Central Business District (CBD) area of Madurai attracting large number of goods vehicles into the heart of the city causing heavy traffic congestion.

11.16 Market area survey revealed that there are about 650 lorry transport booking offices within the city limits. Around 2500 trucks are plying in and out of Madurai city. On an average, 1000 trucks enter into and 700 trucks leave from Madurai daily. From the analysis of the Origin – Destination survey, it was found that predominantly trucks are arrive into the city from Dindigul road followed by Melur road, Aruppukottai road and Tirunelveli road. Hence it was proposed to develop truck terminals in these directions.

11.17 For the purpose of trucks arriving from Melur road, Sivagangai road and Ramnad road, a truck terminal has been constructed with a base year capacity of 250 trucks behind the Omni Bus Terminus in an 8 acre area.

11.18 The construction of a truck terminal at Mattuthavani has been completed including Drivers' Rest Room, Restaurant, and Workshop Facilities and with Surveillance Cameras. Each Truck Terminal was constructed at a cost of Rs. 6.00 crore

Madurai Corporation - Omni Bus Stand

11.19 Construction of an Omni bus stand is also part of the core city de-congestion programme. Omni buses were being operated from the Shopping Complex bus stand to various destinations in-and-out the State. Due to this, the Shopping Complex bus stand was highly cramped.

Madurai Corporation

Omni Bus Stand - Mattuthavani

11.20 The New Omni Bus Terminal is adjacent to Mattuthavani Integrated Bus Stand now serves as the best link for Omni bus passengers for their onward journey to neighboring towns, districts or to any place in the city. Nearly 2000 passengers are utilizing Omni buses; around 66 Private bus operators are operating Omni buses from Madurai City. The new Omni bus stand has been established over an area of 14.50 acres with 18 bays, 66 booking offices. The Omni bus terminus has modern toilets, RO plant and stainless steel chairs for passengers, and internal roads for a length of 465 meters with storm water drainage facilities. The Core City has now become a traffic congestion free area. The new Omni bus terminus is also more convenient both for the public as well as the Omni bus operators. It was constructed for a cost of Rs. 6.00 crore.

Madurai Corporation - RO Plant

11.21 Madurai Corporation has taken effective steps to provide pure drinking water by installing RO Plants in all Corporation Schools and Corporation Hospitals. Providing clean drinking water will help prevent the spread of pathogenic micro organisms that are usually transmitted through contaminated water. The RO Plants serve the drinking water needs of the Corporation School Students & Staff. The patients who are coming to the Urban Primary Health Centers and Maternity Homes of Madurai Corporation are also benefitted. Around 66 nos. of RO Plants have been installed for a total cost of Rs. 2.60 crore.

RO Plant - Madurai

Tiruchirappalli Corporation - Construction of Community Toilets

11.22 Construction of Community Toilets in slums began in the year 1999-2000. The City Council resolved to construct 398 Community Toilets at an estimated cost of Rs. 3033 Lakhs.The Corporation identified and demarcated the area for usage of a particular Community Toilet and formed user groups area-wise.

11.23 SHE (Sanitation and Hygiene Education) teams were formed. Two SHG members are the members of the SHE team. Each SHG member is the caretaker on a rotation basis, and is responsible for collecting user charges and maintaining the accounts. Monthly cash collections are deposited by SHE teams in a common bank account and financial statements presented in the monthly SHE team meetings. Funds remaining after covering O&M expenses are used for Health and Sanitation activities in the community. The Corporation takes care of the repairs and major maintenance of these Community Toilets.

Community Toilets - Tiruchirappalli

Tiruchirappalli Corporation – Kalmandhai - Declared India's First 100% Sanitized Slum

11.24 This is a collaborative venture of Tiruchirappalli Corporation, Water Aid, Gramalaya and the people of Kalmandhai**.** Tiruchirappalli City Corporation is the first city in India where open defecation has been prevented in all slums.

11.25 The involvement of community based organizations in the project combined with City Corporation in providing Integrated Sanitary Complexes (ISPs), offering vacant sites for constructing community toilets with Water Aid, UK funding enabled the project to become a successfully demonstrated model. In Tiruchirappalli City Corporation, 126 slum Communities are maintaining sanitary complexes under the pay and use system with the support of the City Corporation. The Gramalaya experience proved that adequate involvement of the community, training in maintenance of public toilets and with earnings from user charge as a revenue model for is a sustainable approach for the slum communities. It also generates tremendous confidence among women to partake in slum welfare and day-to-day decision making.

The first city in India where open defecation prevented in all slums

11.26 Tiruchirappalli shows that community managed toilets and bathing complexes provide a model that can work at city-level when supported by city authorities where declaration of 168 slums as open defecation free was made possible.

Namakkal District - Pallipalayam Municipality - Power Generation Scheme from Bio Degradable Waste using Bio Methenation Cum Power Generation Plant

11.27 Pallipalayam Municipality located in Namakkal District is a second grade Municipality with a total area of 4.70 sq.km. The population of this Municipality is 41,010 as per 2011 census. The per capita generation of waste of Pallipalayam Municipality is estimated to be 350 gram per day. The storage capacity of Biogas power generation plant is 5TPD.Daily 15MT of garbage is collected in Pallipalayam Municipal area consisting of 1.76 MT from food waste, meat waste and vegetable waste. Totally 3.76 MT of Bio degradable waste is fed daily into the Bio gas power generation plant.

11.28 A sum of Rs.90.00 Lakhs was sanctioned under the Solid Waste Management component of Integrated Urban Development Mission (IUDM) 2012-13 for the construction of one Bio Methanation cum power generation plant (5TPD capacity) at Avathipalayam compost yard. At present,86 street lights are (in ward no.1,2&3)burning using 18 units power and 5 Electric Motors and 6 Lights consume 80 units power in the compost yard area. Totally, 98 units of power is used from the biogas power generated by the plant.

11.29 Now Solid waste management works (2015-16) under Swach Bharat Mission are in progress. After completion of these Solid Waste Management works, 177.55 units of power will be available to operate Electric Motors at the Preprocessing unit and Refinement unit. Totally 275.55 unit of power will be generated per day from the Biogas power generation plant.

11.30 As a result, Pallipalayam Municipality will save Rs.6.53 lakhs per annum, from the Electricity consumption charges to be paid to TANGEDCO.

Tambaram Municipality - Modern Submersible Dust Bin

11.31 Tambaram borders the Chennai Metropolitan city. Rapid urbanization has brought challenges in solid waste management due to not just the increase in the quantity, but also the diversity and quality of the waste generated due to the large number of people passing through the Municipality enroute to the metropolis of Chennai.

11.32 Tambaram Municipality has contracted the waste management including primary collection in almost half the wards and in the rest of the wards, solid waste is managed by the Municipality itself. The total waste generated in the town is approximately 110 MT every day. The waste is transported to a dump yard at Kannadapalayam. An

Integrated Solid Waste Management Project for Tambaram and Pallavapuram Municipalities is being constructed at Venkatamangalam village for processing the waste.

11.33 A unique study – the Litter Free Tambaram Survey (LIFTS) was initiated by the Commissioner of Municipal Administration with the theme “My waste My Responsibility”. It was inferred that citizens were ready to dispose their waste themselves, if provided good quality bins without having to face the challenges of pests, animals and unhygienic overflowing conditions. Based on this inference, for the first time in the country, it was proposed to install 15 semi-submersible next generation bins, on an experimental basis at 5 strategic locations in Tambaram. On a pilot basis 3 color coded next generation bins, were installed in five places at West Tambaram.

11.34 Each semi-submersible bins has the coloured and illustrated half above the ground level and remaining portion embedded in the ground and has a capacity of 700 Kgs. The unique design allows for natural compaction due to gravity and less odor. The bins will be lifted twice a week using a specially designed crane. Within a short period of time these bins have captured the imagination of the local people and have become their favorite mode of disposal.

11.35 CCTV cameras have been installed at 2 pilot locations, to capture the disposal behavior of the citizens. Detailed analysis on the disposal pattern of the residents, frequency, quantity, quality and effectiveness of segregation was made based on closely scanning the video footage over a few months following the installation. IEC activities are being carried out to usher in concrete behavioral change amongst the public to segregate and dispose waste by themselves. Based on the experience, the facility is being extended to 157 locations.

11.36 Under the Special Solid Waste Management Fund, an amount to Rs.8.76 cores was sanctioned for supply and installation of these bins in 157 locations covering 10 wards on first phase and the works are in finishing stage.

11.37 The Municipality is carrying out IEC activities continuously to motivate the public on segregation. Further the municipality has proposed to extent the scheme throughout the town by motivating the public on their responsibility in handing their waste in the concept "My Waste My Responsibility".

E Governance and Financial Discipline through Software Firewall:

11.38 The main aim behind the implementation of a user friendly, centralized web based software throughout all ULBs is to make all their services accessible to the common man. The 29 basic services provided by the ULBs are to be delivered in 2 phases. In Phase I, 11 modules including Taxation, Accounts and Public Health activities like Registration of Births and Deaths and Issue of Trade Licenses are being taken up. 18 modules are included in Phase-II covers Integrated Personnel Management System, Works, Council related issues, and Audit.

11.39 Double entry accounting system is adequately covered in the financial accounting module. Periodical reports can be generated daily, monthly and yearly at any point of time which reflects the real financial position of the ULB.

11.40 Revenue income like property tax, water charges, profession tax, and non tax receipts are integrated with the respective financial account heads which prevents improper usage of account heads. Software has automated control over the credit of revenue in to the respective funds (revenue fund, water supply fund and elementary education fund).

11.41 As on date, software training is being given to 2409 end users in Phase-I modules. All these above user friendly IT initiatives have not only lead to better service delivery outcomes within the stipulated time and enhanced citizen satisfaction but also facilitates Executive authorities of ULB to monitor the activities online even when they are away from their offices.

Conversion of Conventional Street lights to LED resulting in 40 % savings in Electricity Consumption charges

11.42 Street lighting is a basic amenity and one of the most important responsibilities of a local body. The 11 Corporations (except Chennai) and 124 Municipalities in the State maintain a total of 6.99 lakh Street lights. Out of the total expenditure of Urban Local Bodies, the expenditure on street lighting constitutes 25-40% which is a heavy burden on the financial resources of the ULBs. This necessitated the implementation of measures to increase energy efficiency of street lights.

11.43 On a pilot basis, 2,07,834 fluorescent tube lights were proposed to be replaced with LED light fixtures with energy efficiency measures in 9 Corporations and 35 Municipalities of Thanjavur and Tiruppur Regions utilizing the services of ESCOs. It is observed that electricity consumption has come down by about 25-40% lead to savings in the electricity bill.

11.44 It is also proposed to replace 3,07,300 conventional street lights in 5 Regions (Chengalpet, Vellore, Salem, Madurai, Tirunelveli) and in Dindigul Corporation with energy saving LEDs and measuring equipment with 100% investment by the ESCOs by determining the actual payback period as the concession period.

Universal Coverage of Nila Vembu for all School Children

11.45 Apart from effective integrated vector control measures for Dengue, based on the experience of previous years and scientific evidence, “Nila Vembu Kudineer (NVK)” is strongly recommended as an effective antiviral preventive and therapeutic measure.

11.46 The pediatric age group is the vulnerable group for dengue infection and attendant complications and mortality. From January 2016 onwards all schools

(Government, Private, Govt. Aided, ICDS centers) of all the Urban Local Bodies (ULBs) have been included in the Universal Coverage of Nila Vembu Kudineer distribution.

The following are the details of Universal Nila Vembu coverage programme in schools:

Table XI - 2

(Rupees)

Sl. No	Category	Total No. of schools (Govt. / Govt. aided / Private / ICDS centers)	Total No. of Students	Estimated Nila Vembu requirement / Year	Estimated Cost / Year
1	Corporations	3106	1248164	36862	42355465
2	Municipalities	6993	2008512	48998	21834920
Total		**10099**	**3256676**	**85860**	**64190385**

11.47 The outcome of this exercise, which is being carried out for the past 10 months has resulted in lesser incidence of dengue positive cases and nil mortality rates in the student age – cohort in particular and in the overall urban population (in 124 Municipalities and 11 Corporations). Apart from schools, NVK distribution is being planned in all ICDS centers to cover the children in that age group as well. On completion of 2 years of this exercise, the department will undertake an appraisal of the outcomes through WHO.

Reconciliation of TANGEDCO bills with Property Tax Assessments to Identify Evasions

11.48 All the 11 Corporations and Municipalities were instructed to get the Electricity consumer bill details in their area from TANGEDCO. Based on a reconciliation of this data base with the property tax assessments, buildings which were left out from being taxed and not being rightly classified were identified and brought under the right tax categorization. This exercise has resulted in converting 5, 55,515 assessments into the commercial category and realization of an additional revenue of Rs.9.03 crore as on 01.09.2015. This exercise is being continued.

Bio / Vermi Composting

11.49 At present, bio composting is being successfully done in 461 Town Panchayats. Every day 99.09 M.T of bio compost is produced by Town Panchayats. Town Panchayats are earning Rs. 35 lakhs every month by selling bio compost. Totally, 908 M.T of bio-compost stock is available with the Town Panchayats. Vermi composting is also being done successfully in 136 Town Panchayats. Every day 11.79 M.T of vermi compost is produced by Town Panchayats. Rs. 8.50 lakh is earned by Town Panchayats every month by selling vermi compost. Totally 233.00 M.T of vermi compost stock is available in the Town Panchayats.

11.50 Recommendation

The Commission recommends that the best practices adopted in civic services by some of the local bodies indicated should be tried by other local bodies as well. The Heads of Departments concerned and the District Collectors should take initiatives to follow the best practices proved successful wherever possible through IEC.