PART - I

INTRODUCTION AND METHODOLOGY

CHAPTER 1

INTRODUCTION

1.1.1. Local self Government was central to the ideological framework of India's national movement. It was in this context Gandhiji had said,"True democracy cannot function by twenty men sitting at the centre. It has to be worked from below, by the people of every village".

1.1.2. Freedom was won but soon lost to centralization of power and authority. Huge investments made through capital intensive projects did not percolate down to the masses. It was not difficult to diagnose the malady, not at least for Nehru, who said, "To uplift lakhs of villages is not an ordinary task. This can be done only if people take up the responsibility. They are not merely to be consulted, the effective power has to be entrusted to the people".

A visionary like Perarignar Anna, former Chief Minister of Tamil Nadu, felt the same way, "Village Panchayats constituted the bed-rock of democracy and unless we strengthen them, our democracy cannot be strong and vibrant".

1.1.3. Converting the vision into reality was a daunting task. Particularly so, because India is a vast country with a surging population of multi-ethnic characteristics. Political and economic management of such a big nation from one particular location is difficult, inefficient and unprofessional. It was under this realization that the late Prime Minister, Rajiv Gandhi launched the Panchayat Raj Act, "It is a revolution that will bring democracy to the door steps of crores of Indians; it is a revolution that will open the doors of opportunity to millions of Scheduled Castes and Scheduled Tribes and at least to half of the population of our country, the women of India".

1.1.4. The 73rd and 74th Constitutional Amendments came into effect on April 24, 1993. This was a land mark of transition of political power to the grass root. This was also a big leap to achieve Gandhiji's `Village Swaraj'. Conformity legislations were soon passed in the States. It not only provided a constitutional status to the local bodies

but also laid down, without ambiguity, that legislature could, by law, endow them with such powers and authority that may be necessary to enable them to function as institutions of self - Government. Hopes were aroused. All over the country, there was excitement about strengthening the local self Government. It was expected to provide greater participation by the people in the affairs of local bodies, in planning and implementation of development programmes. The local bodies were, in turn, expected to provide more responsiveness to the needs and aspirations of the citizens.

CHAPTER - 2

HISTORICAL BACKGROUND

1.2.1. The system of local self-government, both urban and rural is not alien to Tamil Nadu. The inscriptions in Uthiramerur exhibit the existence of a similar system during Chola period in 10th and 11th centuries which was controlling the entire community life. The system of election was in existence even during those days. The British rule eclipsed the systems which were in vogue in Tamil Nadu as well as in India. However, the Imperial government later realised the necessity of local self-government and initiated many measures to create local bodies under various enactments.

A. URBAN LOCAL BODIES:

1.2.2. History reveals that the Municipal Administration in Madras, was first introduced in the year 1687, when a Corporation was set up to levy certain direct taxes and to provide certain amenities like education, cleaning the roads etc. Subsequently however, this Corporation was substituted by a Mayor's Court in 1726 to collect taxes for provision of local amenities. This was also established in Bombay and Calcutta, but lasted only till 1842. In 1850 a new Act, viz., Improvements in Towns Act, was passed by the Government of India extending the local self Government to the whole country and authorising a system of administration by Councillors in the matters of construction, repairs, cleanliness, lighting, maintenance etc. However in 1863, based on the report of the Royal Army Sanitary Commission, pinpointing the insanitary state of affairs in Indian towns, a series of Acts were passed, which led to the establishment of city municipalities through Lord Mayo's Resolution of 1870.

1.2.3. During the late 19th century, Lord Ripon undertook an evaluation study on the progress of the local self-Government since 1870, and the Lord Ripon's resolution of 1882 came into force, whereby the Government made attempts to divide the functions between the provincial Government and the Local Bodies in order to raise more income through local sources by the local bodies themselves. Subsequently, based on the recommendations of the Royal Commission on decentralization set up in the year 1907 and the Montague- Chelmsford Report of 1918, the Government of India Act 1919 was passed wherein, among other things, the system of 'Dyarchy' was introduced. The type of organization, powers and responsibilities of urban local bodies differed from State to State but there was a similarity in organizational structure of these urban local bodies.

1.2.4. For the smaller cities and towns, Municipalities were formed, while big cities were governed by Municipal Corporations. The Corporations were headed by a Mayor and the Municipality by a Chairman. In Tamil Nadu the Madras City Municipal Corporation Act 1919 was enacted and the Municipal Corporation started functioning with effect from 1919 in the very same building named after Lord Ripon.

1.2.5. The enactment of District Municipalities Act in 1920 enabled the formation of municipal councils to elect the local representatives and chairpersons with powers to frame their own budgets. The tax payers were allowed to vote and also stand as a representative to the councils. This Act also underwent changes from time to time to efficiently function, to suit the changing circumstances and also to overcome technical and legal deficiencies. These urban local bodies were having regular executives to carry on their day to day work based on the general principles and policy laid down by the councils.

1.2.6. The urban local body administration has also been reviewed by various commissions/enquiry committees appointed by the Central and State Governments for improving the resource generation and providing service responsibilities.

1.2.7. A significant difference between the Panchayat Raj and the Urban Local Bodies is: while the Panchayat Raj body has a linkage of organisations with a three tier system, the urban local bodies are independent and have no linkage either with the higher bodies or with the administrative machinery at the District level. They were mostly controlled directly by State Government and all the aids have been rendered direct from the State. However, an Inspector, who was also the inspector of other local bodies at the State level, was controlling the municipal bodies. Now a separate Director/Commissioner is looking after the Municipal Administration. The Corporations were however under the direct control of the Government until recently when they are placed under the administrative control of the Director General of Municipal Corporations. The organisation and powers of these bodies are dealt with in greater detail in the appropriate chapters in Part IV.

B.RURAL LOCAL BODIES:

1.2.8. The Panchayati Raj system on the other hand, was in vogue in India from time immemorial. History reveals that there was a well developed system of Village Panchayats in ancient India that had almost become defunct during the 17th and 18th century under the British rule. Gandhiji had remarked 'long ago, how long history does not record, the Indian genius worked out the "village and local panchayat" through which "the villagers' life has maintained its even tenor away from the din of battle and the rush of rising and falling empires". Inspite of its ancient origin the Panchayats or ancient republics as termed by Gandhiji, were broken under the British rule, by their ruthless method of revenue collection and it was only during the period of Lord Mayo in 1871, the rural bodies were revived, that too, at the District level and not at the village level.

1.2.9. The Local Funds Act of 1871 actually enabled the Governor- in- Council to declare any district or part of the district as a local fund circle to enable the local bodies created under that enactment to collect local taxes. Under the 1884 Act, a three tier system of local bodies was brought into force with a group of villages known as Panchayat taluk boards at taluk level and district boards at district level only to collect revenue. This was further modified and in 1920, the Madras Local Boards Act and the

Madras Village Panchayats Act were enacted replacing the Act of 1884, yet retaining the three tier structure of Union (Panchayats), Taluk Boards and District Boards and enforcing the demarcation and reservation of tax powers. Upto India's independence the Panchayats in Tamil Nadu and in India as a whole, were rocked with many amendments and new Acts. Finally District Boards Act 1920 was in force with amendments made from time to time. Yet the control of finances was from above, first for the centre and only thereafter for the provinces.

1.2.10. It was only after India's independence, Mahatma Gandhi revived the "little republic" by his moving words viz "India's independence must begin at the bottom. Thus every village will be a republic or a Panchayat having full powers. The greater the powers to the panchayats, the better for the people". As a result, Article 40 in Part IV of the Constitution of free India laid down the principle, " The State Government shall take steps to organize village panchayats and endow them, with such powers and authority as may be necessary to enable them to function as units of self-government."

1.2.11. Accordingly, after extensive studies by various Commissions and study team, the Village Panchayats Act 1950 was enacted in Tamil Nadu to look after the local needs of the people. The Village Panchayats were classified as Class I and Class II and were in charge of areas of civic functions, like roads, health, sanitation, lighting, drinking water supply through wells, etc. The District Boards were taking care of major works like roads between villages , health protection, education upto High Schools, Maternity, Dispensaries, hospitals, choultries, etc.

1.2.12. After the dawn of freedom the community development programme for development of rural areas was looked after through the community development blocks, constituted by the Government of India all over the country to cover rural population of about 75,000 in a Block. A situation arose, thereafter, where the local bodies were confined to civic functions while the government authorities took care of all developmental functions. The question of people's participation in developmental programmes was not envisaged in the system in vogue which was engaging the attention of the national government.

1.2.13. In the year 1952, a study team under the chairmanship of Shri Balwantrai Mehta was constituted to study these aspects. One of the major recommendations of the study team was that all developmental programmes undertaken in a local area should be channelised through elected bodies.The study team also recommended the creation of an inter-connected system of democratic institutions at village, block and district level which could undertake developmental activities with the people's participation. The team also recommended that the block level institution could be converted as a Panchayat Union/Samithi which should be the unit in charge of all development work since the unit at district level would be unviable and the panchayats at village level should undertake the provision of basic amenities in villages and also involve in the developmental activities formulated by the block level institution. The district level organisation, namely, Zilla Parishad was more to co-ordinate the activities of various samithis at district level.

1.2.14. The advent of Tamil Nadu Panchayats Act, 1958 incorporating the recommendations of Dr.Balwantrai Mehta Committee envisages a clear demarcation of duties and responsibilities between the institutions at block level and village level. It also provided for entrustment of the National Extension Service and CD programmes to the panchayat unions which were coterminous with the erstwhile blocks . The panchayats were classified as Village and Town Panchayats and were expected to attend to all the civic services while the panchayat unions were designed to attend to the common civic services of the entire local area and also infrastructure facilities in common to the area such as link roads, health protection, maintenance of dispensaries, maternity centres, elementary education, maintenance of irrigation tanks and other development functions under NES, CD schemes and also other schemes entrusted by the State and Central governments. While implementing these schemes, panchayats at the village level were utilised as agencies. The Government placed at the disposal of Panchayat Union Councils, the entire staff working in the former CD blocks free of cost and also a few additional ministerial staff for the functioning of the Panchayat Union Councils.

1.2.15. The Tamil Nadu Government considered to have only a two tier system. The District Boards were abolished and the Panchayat Unions assumed the role as successor body for the District Boards. In lieu of the District Board, the District Development Council was created by a separate enactment to review and monitor the various development programmes and the functioning of the Panchayats in the rural areas under the chairmanship of the Collector of the District.

1.2.16. The Panchayat Union was the fulcrum of all developmental functions where all extension services of different departments connected with the rural administration were made available to facilitate local people to have easy access for help and remedial action, especially in the case of Agriculture, Animal Husbandry, Public Health, Education, Family Welfare etc. The people's participation in development functions was ensured by formation of the elected councils in which the representatives of Village and Town Panchayats were members. In all the schemes under CD, a small contribution was being collected by the Block Administration from the local people. After the advent of Panchayat Union Councils, the Panchayat Unions were permitted to contribute from their own resources, the amount needed as people's contribution. This also ensured actual participation by the local public in the creation of infrastructure facilities in the local area. The system was established and the credentials of the Panchayat Unions were accepted for over two decades.

1.2.17. However, late eighties exhibited a definite change in the role of Panchayat Unions when various developmental functions like Agriculture, Animal Husbandry, Elementary Education, Public Health were taken over by the line departments of Government under one or the other pretext. The introduction of new employment oriented schemes by the centre, with full assistance shared by State and Centre without any contribution from the public or the Panchayat Union, has reduced the actual participation by the local public in these programmes. The entire style of functioning had become more or less of a Government department and in course of time, the Panchayat Unions

were reduced to the level of Government Departments, with main activities confined to massive employment oriented schemes like NREP, RLEGP, JVVT, IRDP, EAS etc. depending on full assistance from the Central and State Government. In course of time the statutory functions assigned under the Act have been given decreasing attention.

1.2.18. However, in the context of the successful implementation of economic programmes like IRDP and employment programmes like JVVT it was considered necessary to make panchayat unions once again the focal point of development works in rural areas without which, there cannot be any better performance to alleviate poverty and create infrastructure and community assets which have to be taken care of by the local bodies after their creation.

STUDIES ON THE LOCAL BODY FINANCES AFTER 1958

1.2.19. Shri Balwantrai Mehta Committee suggested the democratic decentralized system, for the planning and implementation of the community development programmes through a three-tier system and for a switch over to an institutionalized participative approach to rural development at local levels. In Tamil Nadu and other states concomitant Acts were passed. Only a few States had adopted its recommendations in full.

1.2.20. The Santhanam Committee 1963 which followed next, suggested various tax and non-tax resources that could be implemented by the P.R.Institutions after studying the resource mobilisation efforts taken in all the states. After formation of the three tier system consequent on Balwantrai Mehta Committee recommendations and the setting up of a Financial Corporation in the three tier institutions, a declining trend in the running of these institutions was observed.

1.2.21. The Central Government appointed a High Level Committee in the year 1977 under the chairmanship of eminent legislator Dr. Ashoka Mehta, to review the P.R. system and also to enquire into the causes of decline of the Panchayati Raj Institutions and to recommend appropriate measures to reform and rejuvenate them. This Committee submitted a number of recommendations for reform and revitalization of the Panchayati Raj based upon 'the central premise of linking institutions of democratic decentralization with socially motivated economic development' and emphasized the need for District Planning and mobilization of funds on their own, for the plan implementation.

1.2.22. Subsequently, in 1985 and 1986,the G.O.I. constituted two committees. The Sarkaria Commission recommended constitutional provision to secure elections to Local Bodies. The P.K.Thungan Committee recommended constitutional recognition for Local Bodies. The G.V.K.Rao Committee constituted in 1985 suggested, among other things, for the devolution of powers and authority to the village panchayats and the L.M. Singhvi Committee 1986 suggested for allotment of adequate resources by the Finance Commission appointed by the G.O.I. under the Constitution of India, for implementing various rural development and poverty alleviation programmes at the grass root levels.

1.2.23. Meanwhile in Tamil Nadu,the State Government also constituted a committee called the "Panchayat Education Finance Enquiry Committee" in 1969 to examine the strain on the resources and capacity of the Panchayat Unions in meeting the expenditure on elementary education.

1.2.24. In 1976, the Vasudevan Committee was constituted by the Tamil Nadu Government to study and examine the pattern of assistance to the Panchayat Unions. But no orders have been issued on the recommendations of this committee by the Government except on the revised classification of blocks suggested.

1.2.25. Under Section 143A introduced to the Tamil Nadu Panchayats Act 1958, in 1989, an expert committee had to be formed to review the financial position of the Panchayats and Panchayats Unions once in five years. As per this provision, an "Expert Committee" was constituted in the year 1990, under the chairmanship of Thiru A.R.Damodaran Ex.MLC to study the financial position of the Panchayat Union Councils and Village Panchayats and to suggest measures for the improvement and augmentation of the finances of the Panchayats and Panchayat Union Councils.

1.2.26. The Municipal Finance was also reviewed in Tamil Nadu from time to time. In the year 1972 the Government constituted a High Power Committee of officials under the chairmanship of Thiru S.Venkitaramanan, I.A.S., to go into the details of the ways and means position of the Corporations in Tamil Nadu and to suggest measures to tide over the financial crisis as well as to improve the financial position of the Corporations. Subsequently, the High Level Committee headed by Thiru A.N.Sattanathan went through the administration of Madras Corporation in the year 1978 and gave suggestions for improvement of finances of the Corporation among other administrative reforms needed. The Shanmuganathan Committee and later on the Municipal Finance Enquiry Committee headed by Thiru T.V.Vasudevan, I.A.S., during the year 1980 also conducted deep studies on the financial positions of the Corporations and made various recommendations for strengthening the finances and tax reforms. However, the Government of India, during the year 1992, took into consideration the suggestions and views expressed by the V.K.Rao Committee (1985) for devolution of powers to the Local Bodies and L.M.Singhvi Committee (1986) recommendations for allotment of adequate resources to the Local Bodies and sought to amend the Constitution of India Act 1992 by introducing the 73rd and 74th Amendments.

LATEST CONSTITUTIONAL AMENDMENTS

1.2.27. The institution of Local Bodies in India failed to acquire the status and dignity of viable units of self-government and a responsive people's body. Hence keeping in view the past experiences, the Government of India under the visionary leadership of the late Prime Minister Mr.Rajiv Gandhi, initiated efforts to provide constitutional status to local self-Government to impart " certainty, continuity and strength". Accordingly, the 73rd and 74th amendments to the Constitution of India were carried out in the year 1992.

1.2.28. The Tamil Nadu Panchayats Act 1958 was replaced by the new concomitant Tamil Nadu Panchayats Act 1994. With inclusion of the transitional areas viz. the Town Panchayats, the District Municipalities Act 1920, was suitably amended. Municipal Corporation Acts also underwent similar amendments to incorporate constitutional amendments.

1.2.29. The new Tamil Nadu Panchayats Act 1994 has a three-tier Panchayati Raj System on the rural side with a District Panchayat at the District level, Panchayat Union at the intermediary level and Village Panchayat at the grass root level.

1.2.30. The amended Municipality / Corporation Acts 1994 now have Corporations, Municipalities and Town Panchayats on the urban side.

1.2.31. The 73rd and 74th Constitutional amendments have further endowed, the local Governments with powers and functions to enable them to function effectively as self-governing institutions. The urban local bodies will hereafter be responsible, in addition to their usual functions of provision and maintenance of civic services, regulation of industry, trade and construction activities for such functions and implementations of the centrally sponsored and State level Socio Economic Schemes , prominent among them, being the Urban Basic Services for the Poor, Nehru Rozgar Yojana, Integrated Development of small and medium towns and improvement of slums. As many as 18 items have been listed in Schedule 12 of the Constitution in this respect.

1.2.32. The rural local bodies comprising of the three layers of the Panchayati Raj Institutions will be responsible for the same type of civic services as mentioned above, and in addition, for the execution and management of a large array of development schemes and works including the Jawahar Rozgar Yojana, Mid-day Meals Schemes and local planning for economic and social development. Twenty nine subjects have been illustrated in Schedule 11 of the Constitution in this connection. The Constitutional amendments (73rd and 74th Amendment Acts) also provide, among other things, the election of the members directly from the territorial constituencies of the area concerned with one third reservation of seats for women through the State Election Commission newly constituted. The rural self-government under the new three-tier Panchayati Raj system and the three layers of urban local Government are expected to function as vibrant and viable units of self-Government with adequate assistance from the State and Centre. In this context we can recall the democratic fervour with which Dr.Kalaignar M.Karunanithi, Hon'ble Chief Minister of Tamil Nadu in his inaugural address at Sathyamurthy Centre for Democratic Studies, Chennai said " The centre is like a Dam, the Panchyats are like the fields and the States are like the canals which link the two".

EMERGENCE OF THE STATE FINANCE COMMISSION

1.2.33. One of the salient features of the Constitution (73rd and 74th) Amendments Act 1992, was the constitution of a Finance Commission in all the States, within one year from the commencement of the Constitutional Amendment Act initially,

and there after for every fifth year, to review the finances of the Local Bodies and to recommend the principles on the basis of which the taxes are to be appropriated by or assigned to the Local bodies, as also grants-in-aid to the local bodies from the consolidated fund of the state. The recommendation of this Commission should be placed before the legislature of the State. The basic function of the State Finance Commission is to look into the finances of the local bodies, both urban and rural, and to devise a system of distribution of the Government revenues to the local bodies, its powers of taxation and its responsibilities for improving its local finances and services.

1.2.34. The Tenth Finance Commission also indicated in its report that in future, the recommendations of the State Finance Commissions will be taken into consideration while making financial allocations to the States.

1.2.35. In accordance with the above provisions contained in the Constitutional Amendments and the conformity legislations enacted by the State Governments, the Government of Tamil Nadu, in G.O. Ms. No.350, Finance (Resources) Department dated 23.4.1994, constituted the first State Finance Commission with the appointment of Member-Secretary and subsequently in G.O.Ms.No.161, RD, dated 6.9.94, the Chairman and other members were appointed as detailed below:-

1.	Thiru R.Arumugham, I.A.S.(Retired)	Chairman
2.	Thiru Kuzha Chelliah, Ex.M.L.A.	Non-Official Member
3.	The Director of Municipal Administration, Madras	Ex-Officio Member
4.	The Director of Rural Development	Ex-Officio Member
5.	Member Secretary, State Finance Commission	Member

1.2.36. In the first instance, the Commission was expected to review the financial position of the Panchayats alone and make its recommendations. Subsequently in G.O. Ms. No.971, Finance (Resources) Department, dated 6-12-1994, the Tamil Nadu Government enlarged the scope of the Commission to cover the urban local bodies as well. Being the first statutory Finance Commission set up under constitutional provisions, it took some months to secure all the administrative sanctions and clearances from the State Government. It also took some time to set up a new office and organise staff, drawn from three departments namely, Finance, Rural Development and Municipal Administration. After getting over all the preliminary administrative hurdles, the actual work of the SFC in Tamil Nadu commenced only with effect from March 1995, with the full complement of Staff and the required administrative infrastructure.

SCOPE OF THE STATE FINANCE COMMISSION

1.2.37. In the two notifications issued in G.O.Ms. No.350, Finance, dated 23.4.94, and G.O. Ms. No.971, Finance, Dated 6.12.1994 necessary terms of reference were issued to the Tamil Nadu State Finance Commission. Accordingly, the Commission should review the financial position of the different tiers of panchayats and the urban local bodies in the State and make recommendations as to—

(a) the principles which should govern—

i. the distribution between the State and panchayats/urban local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them, and allocation between the district panchayats, panchayat union councils and village panchayats / urban local bodies of their respective shares of such proceeds;

ii. the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the panchayats/urban local bodies

iii. the grants - in - aid to the panchayats/urban local bodies from the Consolidated fund of the State;

b) the measures needed to improve the financial position of the panchayats/ urban local bodies.

In reviewing the financial position of the panchayats/urban local bodies, the Commission should also:-

i. assess the financial position of the panchayat unions/urban local bodies as on 31st March 1994 with reference to revenue receipts and expenditure and the debt position;

ii. assess, as far as may be practicable, the financial position of the Village panchayats as on 31st March 1994 with reference to revenue receipts and expenditure.

Further in making its recommendations, the Commission should have due regard to the resources of the State Government, the demand thereon and the need to generate adequate surplus on revenue account for State's commitments on capital account. The Commission should also have regard to—

i. the existing level of devolution of resources to the Panchayats/urban local bodies and the adequacy of such devolution;

ii. the maintenance and upkeep of capital assets owned by, or entrusted to, panchayats/ urban local bodies;

iii. the tax efforts of the panchayats / urban local bodies and incentives to increase such tax efforts.

The Commission can suggest changes, if any, in the existing classification of panchayat unions/ Municipalities and Town Panchayats on the basis of their financial position and suggest measures to improve the financial management of panchayats/urban local bodies and to reduce unproductive expenditure in panchayats/urban local bodies. The report of the Commission should however cover the period of five years commencing from 1.4.1997.

1.2.38. The Tamil Nadu State Finance Commission constituted under Section 198 of the Tamil Nadu Panchayats Act 1994 in G.O.Ms.No.350 Finance (Resources) Department, dated 23.4.94 started functioning with Thiru M.A. Gowrishankar, I.A.S., and subsequently with Thiru K.Skandan, IAS. as Member-Secretary . Thiru Rameshram Mishra, I.A.S. was appointed as Member-Secretary, State Finance Commission in G.O. Ms.No.2001, Public (Special.A) Department, Dated 6.6.95. The above officers were assisted by Thiru R.Alakiri Raju, Joint Secretary in the rank of Additional Director of Rural Development, Thiru S.Ramachandran, Officer on Special Duty in the rank of Accounts Officer, Directorate of Rural Development and Thiru R.K.A.I.Angamuthu/Selvi Amelia G. Dare Deputy Secretaries drafted from Finance Department, Secretariat.

CHAPTER - 3

BASIC APPROACH

1.3.1. The Main objective of the State Finance Commission is to review the existing financial conditions of the Local Bodies and suggest improvements in the augmentation of resources to match their responsibilities and to improve the delivery system to the public. The Terms of Reference issued by the Government as well as the objectives of the State Finance Commissions envisaged in the Constitutional amendments indicate that State Finance Commission is distinct from the Central Finance Commission. The latter has only to suggest distribution of the funds between the Centre and the States while the former has to recommend the taxes of the State which could be assigned to the Local Bodies and also to indicate the principles of distribution of funds by the State Government to the Local Bodies and in the distribution of funds among the different tiers of Local Bodies besides inter se distribution . The Terms of Reference also indicate that the State Finance Commission has to ensure a sound financial management besides suggestions for avoiding unproductive expenditure. It also envisages the measures needed for upkeep of the assets created and maintained by the Local Bodies to ensure public utility.

1.3.2. The above objectives will definitely require the State Finance Commission to study the existing financial conditions and suggest improvements of the Local resource generation besides the revised distribution system and the taxes to be assigned by the State Government to ensure proper maintenance of services.

1.3.3. This will involve an in-depth study, not only on the Financial Resources, but also on the deficiencies in the delivery mechanism, and financial management for improvement of the levels of service. Introducing economy or possible privatisation of services which will reduce the burden of the Local Bodies will also have to be examined.

1.3.4. The efficiency in delivery system will also involve study of the manpower now available and redeployment if necessary, aiming at the same time, a better delivery mechanism. Similarly, for improvement of resources, if any deployment of man power is necessary commensurate with the additional resource generation, that also will form part of the recommendations. The level of Operation and Maintenance (O & M) of existing assets and services compared to the required normative level and the additional resources needed to achieve that level will also be a subject-matter to be examined.

1.3.5. The Government have required the projection of funds needed for a period of five years commencing from 1997-98 to 2002. This will necessitate the State Finance Commission to assess the funds needed for O & M during these years. This cannot exclude O & M needed for the possible improvements in the level of services based on standard norms. In that context, it will be necessary to assume the possible additional

O & M needs and the investments likely to be made to better the normative level of services during the next five years. In this context, the State Finance Commission will have to visualise also the investment needs. Such investments will depend upon the project financing by the Government over and above the surplus to be created by the Local Bodies from their revenue accounts. The investment need for improvement of the services at a minimum level during the next five years in a phased manner has been assumed for providing funds for O & M during the next five years.

1.3.6. In various National workshops in which the role of State Finance Commission was discussed, it was stressed that "Plan and Non-Plan" has no relevance to the local public with regard to the betterment of the services. The National Workshop initiated by NIPFP on various issues involved, suggested that the State Finance Commission will have to take into account the impact of the plan expenditure for the non-plan provision to be made for O & M during the next five years. In this context, the State Finance Commission has decided to adopt an integrated approach of all the issues vital for better "Financial Management" .

1.3.7. State Finance Commission accordingly has suggested the tax reforms needed for improvement of the local resources. While recommending reforms, the methods adopted in the neighbouring States, the suggestions made by the TIME Research Foundation Calcutta on property tax reforms, besides the reforms introduced in States like West Bengal, Bihar, Karnataka, Andhra Pradesh, Gujarat and Maharashtra, have been studied. Similarly, in the case of assignment of taxes, various types of assignment prevailing in other States have also been studied before making suitable recommendations.

1.3.8. On the sharing of the Government revenue, the principles adopted by some of the State Finance Commissions which have submitted their Reports have also been taken into consideration. Some have adopted the principles of general sharing out of the total tax revenue of the State and some have adopted the existing procedure of sharing individual taxes earmarked for the Local Bodies.

1.3.9. In Tamil Nadu also, both the options have been considered by State Finance Commission. Some of the taxes now levied by the State and passed on to the Local Bodies are found among the list of taxes earmarked for Local Bodies by the Local Taxation Inquiry Commission (1953). State Finance Commission is of the view that any sharing of revenue from the State should exclude these items which are already earmarked for Local Bodies but are collected by the State and passed on to the Local Bodies to have an efficient and better management of collection system. These revenues depend on local potential and yield will be substantial where better potential is available. The inclusion of these taxes in general sharing will be objected to by Local Bodies since it will lead to distribution by diverting the income from higher potential areas to lesser ones.

1.3.10. Accordingly, State Finance Commission has proposed to retain the existing method of devolution of revenues out of the taxes already earmarked for Local Bodies, either collected by them or by the Government. In some cases the State

Government have made additional levy on the same taxes for the benefit of the State Government. State Finance Commission has taken the view that the entire levy on these basic taxes should go to the Local Bodies in full. For instance in northern States, octroi is a major resource. But there is no octroi levied in Tamil Nadu. The Santhanam Committee which went into the working of Panchayat Raj Finance in 1963 suggested that the Local Bodies should be allowed to levy octroi. However, the National Level Taxation Committees indicated that the octroi should be abolished in stages and in lieu thereof, the States could permit the Local Bodies to levy Surcharge on Sales Tax. Similarly, the Local Bodies were levying tolls on the vehicles plying through their areas, before the enactment of the Motor Vehicles Taxation Act. But now the toll tax has been abolished and is substituted by Motor Vehicles Tax.

1.3.11. State Finance Commission has therefore recommended for sharing of this revenue of the State in which the Local Bodies have a legitimate claim, by taking it to a divisible pool and distributing it to all the Local Bodies on an equitable principle to be evolved by them. State Finance Commission has also studied the various other taxes levied by Tamil Nadu Government and have suggested for sharing of the taxes which have specific relevance to local bodies by taking them to the divisible pool.

1.3.12. Similarly, in the case of core civic services, the State Finance Commission has tried to assess the need for increasing the level of service and work out the cost involved for such improvements by way of capital investment. It has also tried to suggest methods for project financing for achieving the capital investments through pooling of surplus funds from Local Bodies, utilising Tenth Finance Commission award as a corpus fund, obtaining institutional finance, and creation of a financial institution exclusively for the Local Bodies for upgrading their level of services. Certain amount has been set-apart from the distribution for the post devolution inequality and to provide incentive for performance. Efforts have also been taken to identify the services which could be privatised or executed through BOT (Build, Operate and Transfer) by involving financial institutions, non-governmental organisations and also industries, wherever possible.

1.3.13. There have also been studies on enforcing economy, redeployment of existing man-power, liberalisation of powers to avoid delays, better control and accountability mechanism needed and organisational re-structuring to ensure viability. Similarly, avoidance of duplicity of institutions has also been looked into wherever necessary and feasible. State Finance Commission has also given due consideration to the financial constraints of the State in their resources position and has ascertained the projection of revenues as well as expenditure commitments of the State for the five-year period covered by State Finance Commission.

1.3.14. The devolution of functions indicated in Schedules 11 and 12 of 73rd and 74th Amendments to the Constitution has got a vital bearing on the functioning of the Local Bodies in the socio-economic field. State Finance Commission has tried to find out the nature of devolution likely to be made for making suitable recommendations for devolution of finance and functionaries needed for implementing such functions by the

various tiers of Local Bodies. Though a model package has been drafted by State Finance Commission in consultation with various departmental representatives of the State Government, the final decision of the Government has not been made available to State Finance Commission. Hence this aspect has not been fully gone into by the Commission for making suitable recommendations. It is hoped that when the Government issues necessary orders for the devolution of functions, it will also correspondingly provide necessary devolution of funds already earmarked and functionaries who are already attending to such functions in the line departments.

1.3.15. To facilitate the process of decision making, various methodologies have been adopted by State Finance Commission in gathering data and views from various levels as discussed in the ensuing chapter.

CHAPTER - 4

METHODOLOGY

Information through Questionnaire

1.4.1. Being the first Commission, the SFC evolved its own Procedures and Methodology. As a first step, the Commission collected data through computer compatible and user friendly formats or questionnaires to facilitate processing through appropriate application of software with the aid of computers. These questionnaires were exhaustive, seeking information in great detail on the resources and expenditure of the rural local bodies for a period of five years and that of the urban local bodies for a period of three years ending 31.3.94. This included service levels, infrastructure maintenance, staff pattern, resource mobilisation, liabilities undischarged and suggestions from the Local Bodies for improvements. They were field tested in Tirunelveli, Chidambaranar, Madurai, Pasumpon Muthuramlinga Thevar and Chengalpattu Districts. Expert comments from Tvl. S.Guhan, Fellow Emeritus, MIDS, Madras and Dr. D.N.Basu of Planning Commission, New Delhi, and from other state level officers, were obtained before adoption by the State Finance Commission.

1.4.2. The printed questionnaires were despatched to the various local bodies as follows with guidelines in Tamil to fill them up.

			Numbers
1.	Village Panchayats	-	12,584
2.	Panchayat Unions	-	384
3.	District Panchayats	-	28
4.	Town Panchayats	-	635
5.	Municipalities	-	104
6.	Municipal Corporations	-	6

1.4.3. In addition, the officers of the State Finance Commission were deputed to all the districts to conduct detailed instruction classes to the concerned at the District level. After filling up of the questionnaires by the Local Bodies, a super check was conducted by the Assistant Directors of Town Panchayats, Regional Directors of Municipal Administration and Divisional Development Officers and Personal Assistants (PD) to Collectors of the districts concerned with regard to institutions under their control. The staff of the State Finance Commission conducted a random check of the filled-in questionnaires before they could be despatched back to the Commission, to ensure accuracy. Simultaneously, a separate set of questionnaires were sent to the Tahsildars

and District Collectors for obtaining the details of the demand and collection of land revenue, local cess, local cess surcharge, adjustment of local cess and local cess surcharge, waiver of land revenue, compensation, if any, paid to local bodies etc.

1.4.4. About 25,000 copies of various types of questionnaires intended for VIPs, Experts, NGOs and Public were also sent to the District Collectors/Local Bodies for distribution to the public, VIPs, Experts, NGOs and other eminent persons to elicit their views and suggestions for revamping the local body system. While the availability of the questionnaires intended for the public was published in the local dailies for response by those interested , the questionnaires pertaining to VIPs, experts and NGOs were either posted or sent through special messengers along with a comprehensive brochure for their remarks.

In-depth Studies

1.4.5. The State Finance Commission, Tamil Nadu conducted a study of tax-payers and beneficiaries of Local Bodies by approaching them through NGOs, by means of an In-depth sample study . This is mainly due to the fact that the information sought earlier through the questionnaires was from the officials, scholars and other eminent persons and not from the common people. In consultation with Dr.Raja J.Chelliah, an eminent economist, Dr.Palanidurai, Full-time Member, State Planning Commission,Chennai and Dr.Shankar, Director, Madras School of Economics, eight Districts were identified in which ten Municipalities, twenty five Town Panchayats and twenty five Panchayat Unions as detailed in Appendix No.3 were selected for sample study. The following are the parameters adopted for selection of Districts:-

1. Urban concentration and industrialization
2. Agricultural prosperity
3. Dry Districts
4. Trading/Commercial Activities
5. Hilly areas.

1.4 .6. The work of conducting the indepth study was entrusted to the District Collectors by utilizing the services of the (1) Madras School of Social Work, (2) Assistant Director of Statistics Coimbatore and Dharmapuri, (3) Rural Development Organisation, Nilgiris, (4) Bharathidasan University, Department of Economics, Tiruchi, (5) Alagappa University, Karaikudi, (6) Nehru Yuva Kendra, Nagai Quaid-e-Milleth District an (7) YMCA Marthandam, Kanyakumari . The above agencies were invited for one day training programme at the State Finance Commission office, and were given a specially designed questionnaire suitable to the various tiers of local bodies, prepared with the help of the Madras School of Economics. The Government had also made a liberal sanction to take care of the expenses incurred by the agencies towards the conduct of these studies. About 2500 samples (or households) were taken up for study giving weightage to occupational patterns, like agriculture, land ownership, self-employed tax payers and non-tax payers as detailed below:-

1.	For 25 Panchayat Unions (4 Village Panchayats with 10 samples each)	-	1000 samples
2.	For 25 Town Panchayats (20 samples each)	-	500 samples
3.	For 10 Municipalities (50 samples each)	-	500 samples
4.	For 3 Corporations (Madras 300 and other 2 @ 100 each)	-	500 Samples
	Total in 8 Districts	=	2500 Samples

The study was carried out by the agencies through questionnaire and by eliciting views by interviewing the local people.

1.4.7. The work of these agencies was reviewed by the Tamil Nadu State Finance Commission from time to time till its completion on 21.3.96.

Data Entry and Tabulation Scheme:

1.4.8. The filled in questionnaires, containing the data and views expressed by the Local Bodies, General Public, VIPs, NGOs, Tax payers and beneficiaries under in-depth study were received at the Tamil Nadu State Finance Commission office, sorted out and indexed with necessary code numbers to identify their respective levels. They were then sent to the Government Data Centre, Madras for computerisation and storage provided thereat. The Government in G.O. Rt. No.768, Finance (Resources) Department, dated 8.11.95 sanctioned a special honorarium for each of the Data Entry operators at Government Data Centre, Madras to attend to the input data entry work of the replies furnished in the questionnaires, considering the volume of data involved. However due to preoccupation in other items of work in the Government Data Centre, Madras, the data entry work for the village panchayats relating to 19 Districts was done through a private agency after obtaining necessary government permission.

1.4.9. The interpretation of data and correlation of various parameters were entrusted to Madras School of Economics headed by Dr.Raja J.Chelliah; Government in G.O.Rt. No.694, Finance (Resources) Department, Dated 27.9.95, sanctioned the funds needed and the entrustment of the work to them. The suitable format for the in-depth study in Districts and tabulation formats for the outputs needed for interpretation of data, were also designed by the Madras School of Economics.

The draft tabulation scheme was prepared by select officers and adopted by the Commission after scrutiny by a special team consisting of experts. The details of the officers and special team involved are given in Appendix No. 4.

1.4.10. The tabulation schemes were adopted on the dates indicated below:-

1.	28.09.95	-	The rural sector
2.	09.10.95	-	The urban sector
3.	12.10.95	-	The VIP, Public and other NGOs questionnaires.

1.4.11. The tabulation schemes were then handed over to the Government Data Centre, Chennai for report generation for interpretation and analysis. They were subsequently retrieved and handed over to State Finance Commission and Madras School of Economics. These outputs formed the basis for the various findings of the SFC.

Constitution of the Task Forces:

1.4.12. To enable the State Finance Commission to have an integrated approach, detailed studies on the resource generation, normative level of service and cost involvement thereon and the delivery mechanism needed to absorb the additional responsibilities involved, were done on the following:-

1. Maintenance of the existing obligatory Core Civic functions/services
2. Standard norms for minimum level of services.
3. Normative level for O&M of existing services and also for additional investments.
4. Augmentation of Resources
5. A good delivery system, organised structure with adequate powers.

1.4.13. Special studies were therefore undertaken to work out the norms for Core Civic services, augmentation of resources and evolving of equitable distribution system, organisation of the entire structure of the local body along with adequate powers and procedures, accountability etc. Three specialised agencies were appointed as below for constituting theTask Forces with the approval of the Government:-

	Name of the Task Force and	**Subject dealt with -**
1.	Anna Institute of Management, Chennai	Organization and Powers of Local Bodies
2.	M/s Kirlosker Consultants Limited,Chennai	Norms for core civic service and their O&M, Cost involvement and projection of the needs for five years and possible areas of privatisation.
3.	Institute for Financial Management and Research, Chennai	Augmentation of Tax and non - tax Resources , projection of resource generation for five years evolving principles for equitable distribution to local bodies.

1.4.14. The members of the Task Forces were constantly in touch with the officials of the Tamil Nadu State Finance Commission and took part in most of the meetings, conferences, etc. organised by it. They had access to all the data retrieved from the various questionnaires floated by this Commission. The status reports furnished by these Task Forces were reviewed by the Tamil Nadu State Finance Commission from time to time and in areas where expert advice was required the Heads of Departments/ representatives of the respective Corporations, Boards and institutions were called to meet and interact with the members of the Task Force in the presence of the State Finance Commission officials. The final reports of these three Task Forces were received and reviewed by the SFC and the salient features of such of their recommendations that were acceptable to the SFC were absorbed and incorporated in the report of the Tamil Nadu State Finance Commission.

Visits to other States/Institutions:

1.4.15. The Government in G.O.Ms.No.73, Finance (Resources) Department, dated 1.2.1995 permitted the members of the Tamil Nadu State Finance Commission to undertake tours within and outside the State of Tamil Nadu. The members and select officers of the Tamil Nadu State Finance Commission therefore made selective tours in and out of Tamil Nadu State as a team and also individually, to interact with various officials/executives of the Local Body institutions, and members/officers of those State Finance Commissions. The areas covered by the team/part thereof outside the State of Tamil Nadu were as follows:

1. Karnataka,
2. Andhra Pradesh
3. Kerala
4. Maharashtra
5. West Bengal
6. Orissa
7. Delhi

1.4.16. The State Finance Commission's team from Tamil Nadu were met by their counterparts in the above mentioned States. They had organised meetings, conferences and visits and enlightened the Tamil Nadu State Finance Commission's team on the various issues pertaining to democratic decentralisation in their States.

1.4.17. The Tamil Nadu State Finance Commission was greatly enriched by these visits, by gaining an insight into the functioning of Local Bodies in other States. The experiences gained through these visits have also been recorded in this report.

Participation in National Level Forums:

1.4.18. Chairman and Member Secretary, State Finance Commission participated in the National level meetings of SFCs organised by Planning Commission in New Delhi on 28.10.94 and 29.10.94 and also the National level Workshops held at Hyderabad on March 19 -1995 and at Mussourie on 3.7.95. The Chairman Thiru R.Arumugham, I.A.S., and the Member Secretary Thiru Rameshram Mishra, I.A.S., of the Tamil Nadu State Finance Commission also had the privilege of being co-opted as members in two of the Working Groups that presented their final recommendations during the fourth National Workshop at New Delhi on the 3rd and 4th November 1995. The above working groups (5 nos.) were actually the off-shoot of the decision taken during the third National workshop held at Mussourie on 3.7.1995 to study the following aspects:

1. Local Finance data base
2. Functional domain of Local Bodies with reference to plan and non-plan activities.
3. Expenditure norms
4. Augmentation of resources
5. Transfers to Local Bodies

1.4.19. Thiru Rameshram Mishra, I.A.S., Member Secretary, State Finance Commission, Tamil Nadu, also took part in the first meeting of the Committee constituted by the Government of India to suggest guidelines and proper mechanism for utilisation of local bodies grant recommended by the Tenth Finance Commission, on 24.6.1996 at New Delhi.

1.4.20. The participation of the senior officers of the Tamil Nadu State Finance Commission in these national forums encouraged the Commission to have similar brain storming sessions with the field officers of the Tamil Nadu Local Body institutions before framing its recommendations.

Conduct of Conferences and Seminars:

1.4.21 . The local body institutions in Tamil Nadu are covered by three prominent Heads of Departments viz. Director of Municipal Administration, Director of Rural Development and Director of Town Panchayats, Chennai. With the advent of the new Constitutional amendments (73rd and 74th Amendments) the efficiency of the staff working in these departments has to be toned up to make the local self Governments in Tamil Nadu as viable and vibrant institutions. It was therefore decided to meet them and to draw from their 'vast store-house of experiences' through discussions, the pros and cons of the various issues, involved in the development of Local Body system in Tamil Nadu as per the constitutional amendments. The Tamil Nadu State Finance Commission invited these three Heads of Departments to conduct conferences and seminars with select representatives from each Local Bodies, not exceeding 100 in number.

1.4.22. The first conference was convened for the Executive Officers of Town Panchayats and was held at the Conference Hall of Panagal Building, Chennai-15 on 15.2.96 and 16.2.96.There were six sessions spread over two days. The details of subjects discussed in each technical session and of Chairpersons, who are senior Government functionaries are indicated in Appendix-8. The final recommendations were compiled and handed over to State Finance Commission in the form of a memorandum by the Commissioner of Town Panchayats, Chennai.

1.4.23. The second conference was organised by the Commissioner of Municipal Administration, Chennai for nearly all the Commissioners of Corporations and Municipalities jointly, at Madras on 26.2.1996 and 27.2.96 There were six sessions in this conference also, spread over the two day period. The details of technical sessions chaired by the various officers are indicated in Appendix No.9. The final recommendations of the above six technical sessions were presented in the form of a memorandum, to the SFC.

National Level Conference:

1.4.24. In order to reap a richer and wider experience through 'meeting of minds' from different parts of the country, the Tamil Nadu State Finance Commission, in collaboration with the M.S.Swaminathan Research Foundation and Madras School of Economics, organised a National Conference on Local Body Finance during 14th and 15th of March 1996 at Chennai. Eminent persons, scholars, experts and Senior Administrators from many of the States, were invited to "promote cross fertilisation of ideas" and ascertain the 'trend of thinking across the country on the Local Body Finance'. In this conference , there were five technical sessions covering two days viz., 14th and 15th March 1996. The guests of honour among others during this function were Dr.Raja J.Chelliah, Chairman, Madras School of Economics and Chairman, National Institute for Public Finances and Policies, New Delhi, Dr.M.S.Swaminathan, Founder Director, M.S.Swaminathan Research Foundation, Thiru V.Karthikeyan, retired Chief Secretary to Government of Tamil Nadu, Thiru N.Haribhaskar, I.A.S., Chief Secretary, Government of Tamil Nadu. The eminent persons who chaired and presented papers in each technical sessions and the list of participants are furnished in Appendix No.10.

1.4.25. The final recommendations of the technical sessions were presented by the concerned Chairpersons during the valedictory function. The views that emerged were printed in a book form along with the papers presented by the participants concerned. The National Conference was really beneficial to the State Finance Commission in gaining new ideas, suggestions for improvement and a vision for developing a successful local body system in Tamil Nadu.

Meetings with the Secretaries to Government:

1.4.26. The Constitution (73rd and 74th Amendment) Act 1992 brought in its wake, certain functions, listed under the 11th/12th schedule of the amendments, to be devolved to the Local Bodies. The State Government have incorporated 29 items under the 4th schedule for rural local bodies and 18 items for urban local bodies under 10th and 11th schedule for devolution.

1.4.27. The devolution of these functions to the local bodies would necessitate amendments to certain acts, rules or executive instructions. In the light of this, extensive meetings were organised with the concerned Secretaries to Government of Tamil Nadu, to enlist their views and also for arriving at decisions on transfer of funds by Tamil Nadu State Finance Commission to the respective Local Bodies. Therefore, the transfer of functions has a vital bearing on the recommendation of **SFC .**

Dates of the Meetings with Secretaries to Government:

1.	07.12.1995	-	Thiru M.Ahmed, IAS, Secretary to Government, Animal Husbandry and Fisheries Department and others.
2.	08.12.1995	-	Tmt. C.K. Gariyali, IAS, Secretary to Government, Social Welfare and Nutritious Meal Programme Department and others.
3.	12.12.1995	-	Thiru T.R.Srinivasan, IAS, Secretary to Government, Co-operation, Food and Consumer Protection Department and others.
4.	21.12.1995	-	Thiru R.Sellamuthu, IAS, Secretary to Government, Handlooms, Handicrafts, Textiles and Khadi Department and others.
5.	22.12.1995	-	Tmt. Susan Mathew, IAS,Secretary to Government, Energy Department and others.
6.	28.12.1995	-	Thiru R.Poornalingam, IAS, Secretary to Government, Health & Family Welfare Department and others.
7.	03.01.1996	-	Thiru Debendranath Sarangi, IAS, Secretary toGovernment, Housing & Urban Development Department and others.
8.	05.01.1996	-	Thiru P.Natesan, IAS, Secretary to Government, Adi-Dravidar and Tribal Welfare Department and others.

9.	09.01.1996	-	Thiru H.M. Pande, IAS, Secretary to Government, Labour & Employment Department and others.
10.	10.01.1996	-	Thiru P.Baskaradoss, IAS, Secretary to Government, Public Works Department and others.
11.	07.02.1996	-	Thiru S.Meikantadevan, IAS Secretary to Government, Revenue Department and others.
12.	07.02.1996	-	Thiru N.Athimoolam, IAS, Secretary to Government, Small Industries Department and others.
13.	09.02.1996	-	Thiru V.Manivannan, IAS, Secretary to Government, Environment & Forest Department and others.
14.	12.02.1996	-	Tmt.Girija Vaidyanathan, IAS, Additional Secretary to Government, Education, Science & Technology Department and others.
15.	20.02.1996	-	Thiru R.C.Panda, IAS, Secretary to Government, Agriculture Department and others.
16.	22.02.1996	-	Dr. S.Narayan, IAS, Secretary to Government, Rural Development Department and others.

1.4.28. The salient features of the discussion held with these Secretaries to Government of Tamil Nadu were later on communicated to them and they were asked to take follow up meetings with all the Heads of Departments at their level and issue necessary Government orders on the devolution of functions, funds and staff to Local Bodies, for their respective Departments. The Food and Consumer Protection Department alone has issued orders in G.O. Ms. No.84 CF&CP, dated 4.4.1996 till date.

Meetings with Fund raising and Funds utilising Departments:

1.4.29. To explore possibility of raising resources and plugging leakage to verify the unit cost of various prices adopted, the existing service levels and the feasibility of achieving the normative level, the cost implication, SFC held meetings with the following, Fund Raising Departments:

1. Commissioner for Commercial Taxes Department
2. Inspector General of Registration
3. Commissioner of Transport
4. Commissioner for Land Revenue
5. Commissioner of Geology and Mines

6. Chief Engineer, Tamil Nadu Electricity Board
7. Tamil Nadu Water Supply and Drainage Board
8. Chief Engineer, Public Works Department
9. Chief Engineer, Highways and Rural Works
10. Director of Public Health & Family Welfare
11. Madras Metropolitan Development Authority
12. Director of Town and Country Planning

1.4.30. The simplification of procedure, receipt of revenue collected by the Government for the local bodies, its distribution, the standards and norms of service levels, staff, managerial difficulties in implementing schemes, etc. were discussed in great depth during these meetings, along with the three Task Forces constituted for the State Finance Commission.

1.4.31. The Heads of Local Bodies Departments viz. Director of Municipal Administration, Director of Town Panchayats and Director of Rural Development were also requested to present their Memorandum to the Tamil Nadu State Finance Commission with their recommendations for the effective functioning, fund raising and fund utilising methods to be adopted in Local Bodies, for the consideration of the State Finance Commission.

Meetings with Nodal Departments:

1.4.32. In its quest to find measures needed for improvement of the financial position of the Local Bodies and to formulate principles to govern the distribution of the funds receivable from the State Government to the Local Bodies, the Tamil Nadu State Finance Commission also held detailed discussions with the Nodal Departments viz. Finance Department, Rural Development Department and Municipal Administration and Water Supply Department. The Resource Allocation Mechanism (RAM) for the urban and rural local bodies has been designed by the Tamil Nadu State Finance Commission keeping the above discussion in mind.

1.4.33. This (RAM) was discussed in depth with the Secretaries to Government Rural Development and Municipal Administration and Water Supply Departments viz., Dr. S.Narayan, IAS and Ms. Malathi, IAS respectively on two separate dates viz. 18.6.96 and 23.7.96. Their views were elicited and they were requested to give Memoranda to indicate the total requirement of funds needed for the Local Bodies under their control for consideration by the Tamil Nadu State Finance Commission.

1.4.34. The SFC meetings with Secretary to Government, Finance Department were also held in four different spells, viz., on 18.4.96 and 8.10.96 with Thiru P.V.Rajaraman, I.A.S., and on 29.5.96 and 15.7.96 with Dr.S.Gurumurthi, I.A.S. The fund flow from State to Local Bodies was discussed with them at great length. The Finance Department was also requested to give a memorandum indicating the financial

commitments and constraints of the State Government and the additional amount that could be made available to the local bodies by the Finance Department, for examination by the Tamil Nadu State Finance Commission. Based on the projection of State Finance for the next five years so received, the principles for allocation and distribution of funds from Government to the various tiers of urban/rural local bodies have been evolved by SFC.

Meetings with Service Associations and Pensioners:

1.4.35. It is a well known fact that decision making in the affairs of any local body today has become " a specialised field of Public Administration" as it provokes criticism/ appreciation especially when new situations arise out of changes in legal provisions or development programmes. The process of revamping the financial and social status of the local bodies in Tamil Nadu may lead to a spate of criticisms/appreciations. To overcome this, the Tamil Nadu State Finance Commission organised special meetings at headquarters and at zonal levels with the general public, VIPs, experts, to elicit their views on the Constitutional (73rd and 74th) amendments. The service associations of Municipalities and Town Panchayats also met the Chairman, State Finance Commission and submitted their memoranda on 14.5.96. The retired rural and urban local body staff and officials also met the Tamil Nadu State Finance Commission for a round of discussions and presented their memoranda at Trichy on 1.7.1996. The Chairman, Tamil Nadu State Finance Commission along with a few officials, launched a programme of meeting the representatives of the general public in different District headquarters and received many valuable suggestions and recommendations, through their interaction and the memoranda presented by them. As Gandhiji said " start all economic reasoning from the genuine needs of the public and help the poor to help themselves out of poverty", the Tamil Nadu State Finance Commission was really able to decipher the genuine needs of the people through these sessions and to adopt most of their recommendations in this report, to help them come out of their backwardness and also to rejuvenate the grass root level Institutions.

District Sittings:

1.4.36. District sittings were held in the following districts to elicit the views of ex-local body representatives, ex-legislators, sitting MLAs and MPs, officials and non-government officials as to how the services rendered by the local bodies could be improved, and their resources strengthened and on empowering them on the lines of 73/74th Constitutional Amendments.

27.06.1996	-	South Arcot Vallalar District
02.07.1996	-	Tiruchirapalli
03.07.1996	-	Madurai
09.07.1996	-	Ramanathapuram
11.07.1996	-	Kamarajar

12.07.1996	-	Chidambaranar
16.07.1996	-	Chengai - M.G.R.(Now Anna and MGR)
17.07.1996	-	Thiruvannamalai Sambuvarayar
24.07.1996	-	Coimbatore
25.07.1996	-	Periyar

1.4.37. Many N.G.Os, scholars, retired officials and general public attended these District sittings along with the sitting MLAs/MPs of that area and had a lively interaction with the State Finance Commission. The Collectors also presented Memoranda reflecting the views of the Local Bodies with reference to their needs and resources.

1.4.38. In the Districts not covered by the Tamil Nadu State Finance Commission as a team, the Member Secretary, State Finance Commission undertook tours and collected the Memoranda after discussions with the District Collectors, Project Officers, District Rural Development Agencies, Regional Directors of Municipal Administration and Assistant Directors of Town Panchayats concerned on the following dates:-

10.7.1996	-	Kanniyakumari
11.7.1997	-	Tirunelveli
17.7.1996	-	Perambalur and Karur
18.7.1996	-	Dindugul
25.7.1996	-	Dharmapuri & Salem

1.4.39. The memoranda so collected from the general public, VIPs, experts, NGOs, MLAs, MPs, ex-MLA, Ex-MPs etc. were grouped according to the District concerned and all the important suggestions, views and recommendations were culled out and taken into consideration, while, framing this Report.

Meetings of State Finance Commission :

1.4.40. The State Finance Commission constituted by this Government in G.O. Ms. No.350, Finance (Resources) Department, dated 23.4.1994 always worked as a team to achieve its goal. The activities and progress of the work done in the Commission were reviewed by the five member team from time to time and policy guidelines laid. The Members of the State Finance Commission met nearly every second month to review the status of the work done so far and to interlock their minds as to the future course of action to be undertaken for establishment of a sound Local Body Finance based on the lines of 73rd and 74th Constitutional Amendment Act. The State Finance Commission had nine sittings as indicated below, and reviewed the progress and discussed on the view points and methodologies to be adopted during each sitting before implementing them.

1.	First Sitting	-	20.10.1994
2.	Second Sitting	-	17.03.1995
3.	Third Sitting	-	14.07.1995
4.	Fourth Sitting	-	12.10.1995
5.	Fifth Sitting	-	23.02.1996
6.	Sixth Sitting	-	31.05.1996
7.	Seventh Sitting	-	27.08.1996
8.	Eighth Sitting	-	27.09.1996
9.	Ninth Sitting	-	11.11.1996 & 12.11.1996

1.4.44. In its final sitting on 12.11.1996 the draft Report of the State Finance Commission was placed and adopted.

Part I

INTRODUCTION AND METHODOLOGY

INTRODUCTION AND METHODOLOGY

The Seventy third and Seventy fourth Constitution Amendments Acts (1992), heralded a new era, in the chapter of the Local bodies by providing, among other things, the constitution of a State Finance Commission in all the states within one year from the commencement of the Constitutional Amendment Act initially and thereafter for every fifth year. Accordingly, the Government of Tamil Nadu issued two notifications covering Rural and Urban Local bodies in G.O.Ms.No.350, Finance, Dated 23.4.94 and G.O.Ms.No.971, Finance, Dated 6.12.94, constituting the State Finance Commission and specifying the necessary terms of references .

The State Finance Commission of Tamil Nadu effectively started functioning only with effect from March 1995 with the following members:-

–	1.	Thiru R.Arumugham, IAS (Rtd)	-	Chairman
	2.	Thiru Kuzha Chelliah Ex-M.L.A.	-	Non-official Member
	3.	The Commissioner of Municipal Administration, Chennai	-	Ex-officio Member
	4.	Director of Rural Development	-	Ex-Officio Member
	5.	Member Secretary State Finance Commission	-	Member

State Finance Commision was to review the financial position of the panchayats and the urban local bodies, in the State and make recommendations for augmenting their resources for the period covering five years from 1.4.97.

The Tamil Nadu State Finance Commission therefore launched its programme by adopting the following methodology:

1. Questionnaire : Prepared in consultation with the National and State Planning Commissions, field tested and then sent (a) to all the local bodies in the State, (b) to select VIPs like MPs, MLAs, experts , eminent persons and persons who are interested in Local Body Administration (c) to interested public and (d) to all the District

Collectors and Tashildars for obtaining data; their views and suggestions.

2. **Indepth Study** : Taken up for tax payers and beneficiaries in all the categories of Rural and Urban Local Bodies in eight districts by a few non - governmental organisations to elicit their views through questionnaires prepared by Madras School of Economics.

3. **Data Entry** : Entered the data generated by the filled in questionnaries into computers at the Government Data Centre, Chennai and retrieved.

4. **Data Interpretation** : The data entered from the various questionnaires were interpreted with the help of Dr.Raja Chelliah, Chairman, Madras School of Economics.

5. **Task Forces** : Constituted to study specialised subjects in a professional manner to aid and advise the Commission viz.:-

a) Institute for Financial Management Research, Chennai.	- Augmentation of Resources in Local Bodies
b) Kirloskar Consultants, Chennai.	- Norms for Core Civic Services & O&M Cost- Possible Areas of Privatisation.
c) Anna Institute of Management, Chennai.	- Organisation and Powers of the Local Bodies.

6. **Visits to Other States** : Visited State of Karnataka, Andhra Pradesh, Maharashtra, West Bengal, Orissa and New Delhi to study their systems and obtained their views.

7.	**Visits to Other Institutions**	:	Visited the All India Institute for local self-government, Bombay and National Institute of Rural Development, Hyderabad, National Institute of Public Finance and Policy, New Delhi and held discussions to know their views to augment the resources and improve the service levels in Local Bodies.
8.	**National level forums**	:	Attended National level conferences at Hyderabad, Mussourie and New Delhi to gain national perspective and insight into other states' functioning of Local Bodies.
9.	**State Level Conferences**	:	Held for the Commissioners of Corporations and Municipalities and the Executive Officers of select Town Panchayats to understand the field level problems better.
10.	**National Conference at Tamil Nadu**	:	Held jointly with M.S.Swaminathan Research Foundation and Madras School of Economics to interact with National level policy makers, administrators, experts and field executives.
11.	**Interaction with Secretaries to Government of Tamil Nadu**		Held detailed discussions with 17 Secretaries to Government, Tamil Nadu along with their Heads of Departments, and gathered details for the devolution of funds, functions and functionaries to Local Bodies in accordance with 11/12 schedules of 73/74 Constitutional Amendments.
12.	**Interaction with line agencies**	:	Held detailed discussions with funds raising and funds utilising departments to discuss about mobilisation of more resources and to project the unit cost of various items upto 2002.
13.	**Interaction with nodal departments**	:	Held detailed discussions with Secretaries to Government and Heads of Department of Rural Development, Municipal Administration and Water Supply and

			Finance Dedpartment to obtain their views on allocation of resources and on various other problems facing the Local Bodies.
14.	**Interaction with retired employees of Local Bodies**	:	Held detailed discussions with Pensioners' Association and Examiner of Local Fund Audit to find out ways and means to set right the problems faced by them.
15.	**Field visits**	:	Visited a few Local Bodies in the field to assess the problems faced by them in maintenance of assets, improvement of civic services etc.
16.	**District sittings**	:	Held District sittings in select districts and had interaction with MPs, MLAs, Ex-legislators, Ex-Presidents of Local Bodies and obtained their views through memoranda.
17.	**Sittings with Collectors & Other Senior Officials**	:	Held discussions with District Collectors and senior Officials of seven districts to obtain their views on the problems confronting the Local Bodies.
18.	**Sittings of the Commission**	:	Had nine sittings to review the progress and approved decisions that finally emerged and incorporated in the report.

PART - II

AUGMENTATION OF RESOURCES

CHAPTER - 1

REVENUE SOURCES OF LOCAL BODIES

2.1.1. The general principles to guide the assignment of revenue sources among the three different levels of government in a federation is the a Congruence principle, namely, the less mobile a tax base and stronger the spatial concentration of the tax base and ownership, the lower should be the level of government to which those taxes should be assigned. Using the criteria of equity and efficiency, Musgrave (1984) suggested the following broad principles of revenue assignment:

1. Taxes suitable for economic stabilisation should be central;
2. Progressive redistributive taxes should be assigned to central governments;
3. Tax bases distributed highly unequally between jurisdictions should be centralised;
4. Taxes on mobile factors of production are best handled centrally;
5. Residence - based taxes such as sales of consumption goods to consumers or excises are suited to States;
6. Taxes on completely immobile factors of production are best suited for local levels;
7. Taxes of lower levels of government should be cyclically stable;
8. Benefit taxes and user charges are to be used appropriately at all levels;
9. Resource taxes and Value - added Tax (VAT) are appropriate for sharing between governments.

2.1.2. The local bodies under different tiers have been vested with powers for local taxation (which have been) devolved over the years under various circumstances and spheres. The local bodies enjoyed such powers even before the advent of British rule. During the British rule, the entire system underwent changes and the system of local government was given effect to under various stages with limited devolution of powers and finances. They could be seen from the reports of the various Committees constituted during the British rule like Royal Commission on Devolution (1906) and Indian

Taxation Enquiry Committee (1924). The pre-Independent situation more or less continues even after Independence. The powers of local Taxation have been examined by various Committees/ Commissions and also different Enquiry Commissions from time to time, and several recommendations were made to Government of India. The significant of these commissions are Local Finance Enquiry Committee (1950), Taxation Enquiry Commission (1953-54) and Santhanam Committee (1963) in respect of rural bodies and Zakaria Committee (1963) in respect of Urban bodies, and Rural-Urban Relationship Committee (1966).

2.1.3. The Local Finance Enquiry Committee(1950) recommended as many as 12 items of revenues out of the State and Central lists for making available the net proceeds of the revenues exclusively to the local bodies.

2.1.4. The principle to devolve taxation powers to local body should envisage the taxes over which the local governments should have full control in terms of determination of tax rate, assessment, collection and appropriation of the proceeds. It should depend on the suitability to meet the civic obligations, since the local governments provide many essential services. Their tax resources should be such that they ensure the smooth discharge of local functions.

2.1.5. The following guidelines are indicated for the choice of local taxes by (Vide Working Group Reports on Municipal Finance)

1. The tax base should be immobile, to allow the local authorities some freedom to vary the tax rates without the tax base vanishing.

2. The tax yield should be adequate to meet local needs and be sufficiently buoyant (i.e.expanding, at least, as fast as expenditure over a period of time);

3. The tax yield should be stable and predictable and it should not be susceptible to cyclical fluctuations;

4. The tax should be perceived to be reasonably fair (in terms of progressivity) by taxpayers;

5. The tax should be easy to administer efficiently (at minimum resource costs) and effectively;

6. It should not be possible to export much if any, of the tax burden to non-residents;

7. The tax base should be visible, to ensure accountability on the part of Local government.

2.1.6. The Taxation Enquiry Commission (1953-54) considered it desirable and necessary that out of the various recommendations made by the Local Finance Enquiry Committee (1950), certain items of Resources should be reserved for being utilised solely by/or/for the local bodies. It also indicated that these taxes should be allowed to be developed only by the local bodies, or for them; where the State Governments are utilising any of the taxes for the purpose of the State revenues, the State Government should gradually withdraw from the field and meanwhile allot the proceeds from these taxes to the local bodies. The items recommended by the Taxation Enquiry Commission (1953-54) to be earmarked for Local Taxation are:

i. Taxes on lands and buildings, (Property/House/Vacant land Tax)

ii. Taxes on the entry of goods into the area of a local authority for consumption, use or sale therein, popularly known as octroi,

iii. Taxes on vehicles other than those mechanically propelled.

iv. Taxes on animals and boats.

v. Taxes on professions, trades, callings and employment, (Profession Tax) and

vi. Taxes on advertisements other than advertisements published in the newspaper.

The above recommendations mostly fall in line with the general principles of Local Body Finance indicated in the earlier paragraphs. Besides, the Taxation Enquiry Commission also suggested certain types of grant-in-aid in addition to tax assignments by the government to the local bodies, the details of which will be discussed at the appropriate context. The Santhanam Committee on Panchayat Raj Finance (1963) felt that the financial resources have to be adequate for the functions allotted to each Panchayat Raj institution and substantial assistance should come from the Government. At the same time, it should not detract the dignity and autonomy of a self-governing institution due to dependency on assistance from higher level. It is essential that for stability and growth of these institutions, they should have substantial and growing resources entirely within their power to exploit and to develop.

2.1.7. The Committee of Ministers of Local Administration (1963), in their report, indicated that making a few recommendations for augmenting the resources of local bodies will be futile without proper assessment of their actual needs. The Committee, therefore, recommended that the over-all needs in respect of basic minimum services should be assessed and resources found out to bridge the gap between the resources and needs. According to the recommendations of various Commissions and Committees, adequate assistance has been suggested to the local bodies for discharging the obligatory and

discretionary functions. However it is found, in practice difficult to assess the level of needs and services and also the levels in the stages of development in each of the various local bodies and quantify and classify them into various categories for the purpose of financial assistance. This has resulted in adoption of ad-hoc measures for financial assistance.

2.1.8. The present Constitutional requirement (73rd & 74th Amendments) for a three tier system of Panchayat Raj and a uniform three types of urban local bodies and the suggested devolution of additional functions to these local bodies involve corresponding additional financial responsibilities for the local bodies which have to be taken care of by the Centre and State. The need for a State Finance Commission to review the finances of the local bodies has therefore arisen as exhibited under 243.I of 73rd Constitutional Amendment Act(1992). It is also found necessary that the State Finance Commission's recommendations will have to precede those of the Union Finance Commission so that the requirements of Local bodies could be considered by Union Finance Commission.

2.1.9. The District Planning Committees and Metropolitan Committees envisaged under the Constitutional Amendments devolve the Constitutional responsibility to consolidate the plans prepared by the DPCs for all the local bodies which ought to be taken care of by the State Planning Commissions to adequately provide financial resources for the various functions now allocated to each of the tier of the local bodies. Mere transfer of power or transfer of funds may not achieve the objective of the Constitutional amendments made. It is necessary to adopt an integrated approach of functions, finance and functionaries, while making recommendations for augmentation of resources as well as for assistance from the various levels of Government. The resources of Local bodies can be generally grouped under four broad heads, viz.,

1. Own Resources
2. Assigned/Shared Revenues
3. Grants and
4. Loans.

2.1.10. Own Resources consist principally of own taxes, fees and other non-tax revenues. The own taxes comprise generally Property/House Tax, Profession Tax, Vehicle Tax, Tax on agricultural land, Pilgrim Tax, Tax on animals, in all the local bodies. In Tamil Nadu, only in the case of Madras Corporation, a few more taxes are levied, namely, Tax on Companies, Tax on Timber, and Tax on Advertisements. Tax on Advertisement is levied by Municipalities in Kanyakumari District also.

2.1.11. Assigned Revenues as on date contain two parts, (1) Taxes levied, collected and passed on to local bodies by State Government (2) Taxes levied, collected and shared by the State government with the local bodies.

2.1.12. So far as the Grants are concerned, there is no specific system of grant-in-aid and there is no general purpose grant such as per capita Grant for

Establishment as envisaged by the Taxation Enquiry Commission (1953-54). The grants are given either as incentive for tax efforts or for matching the efforts in maintenance of services. Mostly, the grant-in-aid is discretionary and unpredictable and no specific provision has been made in the statute to make them compulsory, except in a few cases. Loans are availed of for creating infrastructural facilities with the permission of the Government subject to the capability to discharge the debt service.

EXISTING RESOURCES OF LOCAL BODIES AND TAXES WHICH ARE COMMON IN NATURE.

2.1.13. In Tamil Nadu, the resources of local bodies are mainly derived from various sources, namely, taxes, non-taxes, assigned revenues and grants by the different tiers as indicated below:

1. Municipal Corporation

Own taxes	Assigned revenues	Grants	Other revenues
1.Property Tax	1.Entertainment tax	----	Non tax
	2.Stamp duty surcharge	Centrally	Revenues likeincome
2.Vacant Land	3.Surcharge on Sales Tax	sponsored	from properties like
Tax	4.Income from minor minerals	special	Shops, Bus stands,
3.Profession Tax		schemes	Guest house etc.
4.Vehicle Tax			
5.Tax on animals			2. Licence fees on
6.Tax on Timber			D & O Trade
7.Tax on Companies			3. Licence fees on
8.Tax on advertisement			building regulations
* Applicable only for			4. User charges;
Chennai city			5. Misc.Revenues.
Corporation.			

2. Municipalities

Items 1 to 5 as in Municipal Corporation	- Do -	Grants for Specific schemes & for other services like Maternity Centres on ad -hoc basis	- Do -

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3.Town Panchayats

Own taxes	Assigned revenues	Grants	Other revenues
1. House Tax	- Do -	1. Road Maintenacne and improvement grant.	-Do-
2. Profession Tax			
3. Vehicle Tax		2.Lighting grant (Both on ad hoc basis)	
4.Tax on Agricultural land for specific purpose.		3. Other grants for Agency functions.	

4.Village Panchayats

-do-	1.Local Cess	1.House Tax matching grant	-do-
	2.Entertainment Tax	2.Water Supply grant	
	3.Stamp duty surcharge	3.Lighting grant	
	4.Surcharge on Sales Tax	4. Rural Development Programmes grant	
	5.Minor Minerals	(1. statutory 2-3Adhoc)	

5.Panchayat Unions

Local cess surcharge on Land Revenue	1.Local Cess	1.Local Cess surcharge matching grant.	Income from properties & Misc Revenues
	2.Entertainment tax	2. Local Roads grant.	
		3.Discretionary grants for entrusted functions like Dispensary, Maternity Centres, Minor Irrigation. (All on ad hoc basis.)	
		4. Agency Function grants.	

6.District Panchayats

(Not yet specified)

2.1.14. It may be seen from the above that the tax on property, tax on profession, trades, calling and employment (Profession Tax), and Vehicle Tax are common in nature in both urban and rural local bodies. In respect of non-tax items, almost all the items, namely, user charges like water charges, licence fees on D & O trade, licence fees on buildings and income from properties and income through remunerative enterprises are common in respect of all the civic bodies. The perceptible difference in the tax and non-tax structure is found only in respect of intermediary Panchayat Raj bodies, namely, Panchayat Unions (Samithis).

2.1.15. As far as Tamil Nadu is concerned, the District level tier viz. District Panchayat has been newly constituted and its powers for taxation as well as for other Resources have not yet been defined. Similarly, the functions envisaged for the local bodies are mostly common in respect of Municipal Corporations, Municipalities, Town Panchayats and Village Panchayats, though they may differ in area coverage and degree of operation. In respect of Panchayat Unions and District Panchayats, the obligatory as well as discretionary functions vary from those of the other local bodies. These bodies are mainly intended to monitor the developmental activities viz. Agency functions. The Village Panchayats are given limited responsibility on the civic functions like maintenance of panchayat roads, provision of sanitation, garbage clearance, street-lighting and water-supply. The major aspects like health protection, provision of medical facilities, provision of primary education and the maintenance of roads linking the villages have been vested with the Panchayat Unions. While the entire ranges of civic functions of providing civic amenities including Public health, medical care and Education are looked after by the urban local bodies themselves, in the rural set-up, the functions have been segregated and entrusted to the grass-root level body, namely, Village Panchayat and the intermediary body, namely,Panchayat Union, depending on the capability and the infrastructural facilities available at the village and Panchayat Union level.

2.1.16. In the case of Town Panchayats, they have all along been under the Rural set up and only after 74th Amendment, they have been brought under District Municipalities Act 1920. Though they have been included under urban Local bodies most of the characteristics are still of rural nature and they still continue to adopt the provision of Tamil Nadu Panchayats Act 1994 relating to Taxation powers of village panchayats as a transitional arrangement. These details need to be explained, since augmentation of resources of the various tiers has to be clearly defined, taking into account the responsibilities entrusted to them. The functional domain has been briefly indicated even though they are dealt with in detail in different Chapters. Any effort for augmentation of resources in isolation of the duties and responsibilities identified for the local bodies may prove futile. Considering these aspects, the various avenues and resources available to local bodies, both urban and rural, have been discussed in detail in the succeeding Chapters, institution-wise to facilitate better understanding of the over-all position of the resources of each of the institutions. Wherever the principles of taxation, assessment, collection and appropriation of proceeds are common in nature they have been discussed in detail under one tier of local body, and the distinct differences in respect of the other local bodies alone have been dealt with under the respective appropriate local bodies.

CHAPTER - 2

RESOURCES OF URBAN LOCAL BODIES

MUNICIPAL CORPORATIONS

Property tax:

2.2.1. The own tax revenues of the Municipal Corporations are detailed in the earlier chapter, and of them Property Tax is the major source of Revenue. The Property Tax belongs to the class of general benefit tax. In Tamil Nadu, Municipal Corporations are given powers to levy property tax under the respective City Municipal Corporation Acts.

2.2.2. The Property Tax yields the major income. The average income from this source accounts for one-third of the total revenue and 90% of the total tax revenues and Rs.106 per capita out of the total per capita income of Rs.338/-. There are about 9.03 lakhs assessees in all these Corporations as below:

Table 2.1. Property Tax - Details of Assessees - Municipal Corporations

	No. (In Lakhs)	No. %	Demand Yield Rs. in Crores	%
Residential	7.21	79.84	59.37	58.00
Non-Residential	1.76	19.50	38.37	37.48
State Govt.	0.04	0.44	3.69	3.60
Central Govt.	0.02	0.22	0.94	0.92
Total	9.03	100.00	102.37	100.00

2.2.3. This is a buoyant tax for these Local Bodies. But the inter se variation among the Corporations is very wide. While the per capita income from Property Tax in Coimbatore is Rs.281 in 1993-94, it is Rs.57.91 in Tirunelveli. These variations are likely to be due to reasons like adoption of different rates or difference in basis or pattern or method of assessment. If a common pattern of assessment is ensured, there is adequate scope for improvement. Another aspect for improvement relates to the tax performance which is dealt with separately. It is interesting to note that about 80% of the total assessees are residential and 19.50% commercial (non-residential). State and Central Government assessees form only 0.66% of total assessees. The residential assessees (80%) contribute about 60% of the total demand while non-residential (commercial) (19.50%) contribute 38% of the total demand. The contribution from Government properties is

insignificant. The average tax per assessee in absolute figures realised from non-residential assessees, is more than 2.65 times over the contribution from residential assessees. This indicates that efforts to enforce higher level of taxation from non residential assessees are already available.

2.2.4. The collection performance of the demand contributes for the variation in the income among the local bodies.

Table . 2.2 PROPERTY TAX : DEMAND AND COLLECTION (1991/92 TO 1993/94)

(Rs.in lakhs)

Corporation	1991/92		1992/93		1993/94	
	Demand	Collection	Demand	Collection	Demand	Collection
Coimbatore	1409.64	751.67	1655.10	928.08	2542.64	1188.31
		(53.32)		(56.07)		(46.74)
Chennai	5957.89	3700.32	6401.86	3940.54	6545.98	4908.65
		(62.11)		(61.55)		(74.99)
Madurai	2788.12	695.82	3016.92	1258.06	3053.66	949.02
		(24.96)		(41.70)		(31.08)
Salem	934.58	415.19	886.33	321.05	1076.69	460.36
		(44.43)		(36.22)		(42.76)
Trichy	812.17	343.30	906.69	431.89	1102.99	554.18
		(42.27)		(47.63)		(50.24)
Tirunelveli	288.40	166.60	349.03	192.03	40.16	20.99
		(57.77)		(55.02)		(52.27)
All Corporations.	12190.79	6072.90	13215.93	7071.66	14362.11	8081.52
		(49.82)		(53.51)		(56.27)

(Figures in the parantheses indicate percentage collection in demand)

Note: Demand includes current demand and arrears in the previous year.

2.2.5. It is noticed that the collection performance in all the Corporations except Chennai needs substantial improvement. Even in Chennai, the collection performance is ranging between 60 and 75 per cent. With full fledged tax collection administrative machinery available in these higher level Local Bodies, collection percentage should be very high. It evidently indicates that system and procedure for collection need reorientation with modern techniques. The Property Tax is definitely a most promising source to those local bodies and an in-depth study will provide for better systems to increase the income substantially.

2.2.6. The Property Tax is accompanied by a number of service taxes, viz, water supply, drainage, lighting, education, scavenging etc. at different rates as decided by the respective Local Body. The details in percentage to Property Tax are given below:

Table 2.3. COMPONENTS OF PROPERTY TAX (in Percentage) (1991-92)

Components of Property Tax	Coim-batore	Chennai	Madurai	Salem	Trichy	T.veli	All Corpns
General Purpose Tax	15.78	59.27	37.47	12.79	17.29	31.08	41.77
Drainage Tax	24.99	0	19.77	10.77	20.17	0	9.18
Education Tax	6.58	22.18	18.43	14.85	14.41	18.23	17.42
Library cess	2.24	3.71	3.65	4.74	7.78	6.63	3.73
Lighting tax	0	14.83	0	8.93	11.53	9.20	9.38
Scavenging tax	0	0	7.49	7.38	8.65	9.20	1.90
Water tax	50.43	0	13.18	40.53	20.17	25.66	16.64
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 2.4. COMPONENTS OF PROPERTY TAX (in Percentage)
(Average for1991-92 to 1993-94)

Components of Property Tax	Coim-batore	Chennai	Madurai	Salem	Trichy	T.veli	All Corpns
General Purpose Tax	24.30	58.98	36.99	12.89	17.29	30.35	43.20
Drainage tax	19.57	0.00	20.06	10.48	20.17	0.00	8.46
Education Tax	7.07	22.44	18.34	14.59	14.41	18.10	17.55
Library Cess	2.51	3.76	3.82	6.46	7.78	7.11	3.93
Lighting Tax	0.00	14.83	0.00	8.76	11.53	9.48	9.09
Scavenging Tax	0.00	0.00	7.41	7.23	8.65	9.48	1.98
Water Tax	46.55	0.00	13.38	39.58	20.17	25.47	15.79
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Water and Sewerage Tax in Chennai is levied and collected by Chennai Metropolitan Water Supply and Sewerage Board.

2.2.7. The rationale in fixing the percentages for the components also needs further study as the income derived from the respective component should have a match to cover these services. Since the existing rates are being adopted for several decades depending on the conditions and priority of services obtained in earlier days, they need a fresh look. Since these service taxes are treated as components of property tax, they also get waived while tax concessions/exemptions are considered. There is no justification for including these service taxes while giving exemption/concession. This aspect also

needs a de novo examination especially when the principle of cost recovery is thought of through taxes and user charges. The deficiencies in the existing pattern of assessment are discussed below to evolve a better, simpler and a more acceptable common pattern.

2.2.8. The levy of property tax is based on the gross annual rental value of the property, obtaining in a free market. Due to the operation of Rent Control legislation in Cities, the free market rent has almost ceased to exist and the Municipal authorities are expected to value the property for tax purposes on the basis of fair rent as prescribed in the Rent Control legislation, supplemented by various judicial pronouncements. This situation has virtually resulted in freezing the property tax base. In order to get away from this, various alternative bases have been suggested in different studies and forums namely, capital value, site value, area measurement value. However, the capital value base also assumes free market rate as in the case of rental value. The adoption of site value system except in the cases of developed areas or new creations is fraught with difficulties. The adoption of area measurement method has also the possibility of introducing a large element of subjectivity in its impact. In the absence of a suitable and effective alternative valuation base, there is need for not applying rent control legislation against the concept of notional rental value for taxation purposes. The freezing of rent under Rent Control Act has caused heavy revenue loss to the local authorities.

2.2.9. In Tamil Nadu, the Municipal Corporations adopt the annual rental value basis for the purpose of arriving at their tax assessment. In Chennai and Coimbatore Municipal Corporations, a system of area-linked rental unit value system based on the plinth area of the building, with provision for addition in taxes for the type, nature age and location of the property. The method of adopting ARV in common to all the areas was subject to serious objections and criticisms, since the value of the properties throughout the City is not equal, so also the rental value. The developments in all the areas are also not equal. The properties located in places of affluence and other commercial areas fetch more price and rental than those in other residential areas. Applying the same standard for properties in different localities within a city has created a lot of difficulties in implementing tax provisions. Further the concept of adopting notional rental value has also given scope for many disparities and deficiencies even within the same locality due to discretion of the tax levying authorities. The adoption of the new method viz., adopting the rental value with reference to plinth area, nature, type age and location of the property has given a better fairness and transparency in assessment and more acceptability from the public, yielding better income from property tax.

2.2.10. The Chennai corporation has divided its area into zones. Depending upon the geographical location, availability of various civic amenities, accessibility to market, shopping complex,schools and colleges, hospitals and transport facilities, the rent for the building in these areas differs from place to place. A pilot survey was conducted street by street in each area. As a result of such study, a basic rateable value per square foot was arrived at for each street in each area,keeping in mind the provisions of the Tamil Nadu Buildings (Lease and Rent Control) Act. Two different types of basic rates were arrived at depending upon the usage of the building, namely, residential or non

residential. The basic rate for non - residential ranged from Rs.2 to Rs.6 per square foot,while the basic rate for residential ranged from 40 P. to Rs.1.60 per square foot. The corporation prepared a directory of such basic rates street by street in each area and the rates finally prescribed were adopted while revising the tax The Chennai Corporation did the quinquennial revision,in a cyclical way by taking a Zone consisting of one fifth of the total divisions each year. This has helped them to arrange for an intensive door to door survey, test check, and also super check by the higher officials. The revised rate per square foot was indicated in a Directory and published and objections heard. The property owners/occupiers were requested to file a Property Tax Return and it is stated that about 75 % of the property owners had responded to the notification promptly and only the remaining 25% were defaulters, in respect of whom the assessors have made spot verification and filed the returns based on such verification.

2.2.11. In respect of Cinema Theatres, Hotels, Lodges, Kalyana Mandapams, Nursing Homes and Hostels different methods of assessment were followed.

2.2.12. The revised procedure based on accepted principles ensured more transparency and fetched three times more than the earlier level of tax income. The revision had good impact and exhibited an increase of property tax of more than Rs.10 crores between 1992-93 and 1993-94.

2.2.13. The Corporation of Coimbatore has also adopted a plinth area based square foot rate and the plinth area basic rate fixed is as detailed below:

1. Residential houses and Educational Institutions.Rs.2.50 per s.ft.
2. Industrial sheds.Rs.4.00 per s.ft.
3. Hospitals, Marriage Halls etc. Rs.5.00 per s.ft.
4. Offices, Restaurants, Cinema Theatres Rs.6.00 per s.ft.
5. Star Hotels Rs.8.00 per s.ft.

Unlike the Chennai Corporation, where rebates were given on the basic rate, Coimbatore Corporation added further surcharges to the basic rates fixed for the location, nature and age of the building. No concessions were given for owner occupation. It is learnt that in the method adopted by Coimbatore Corporation some deficiencies leading to the disproportionate assessment between areas and among the different types of the usage have been noticed by the Corporation. The revised method adopted by the Coimbatore Corporation has yielded a substantial increase in the per capita income of property tax from Rs.190 in 1992-93 to Rs.281 in 1993-94 In Chennai Corporation, the increase in the per capita income was from Rs.98 to Rs.122.

2.2.14. It is understood that the Madurai Corporation is also implementing a similar system.

2.2.15. The principles followed by the Corporations more or less fall in line with those recommended in the composite area linked system for property tax reform suggested by the Times Research Foundation, Urban Studies Centre,Calcutta and also adopted and tested in Andhra Pradesh, Bihar and Calcutta.The system is now being suggested in Karnataka State also. Immediate action is required for tax mapping of the buildings in the entire area to ensure that all the properties within the area are brought under the tax map. This kind of area linked system appears to be closer to real life situations, besides enhancing the tax yields and ensures greater equity for distribution of tax burdens among different individuals, areas and uses and less disputes. Since the three Corporations have already got experience by introducing the new "Area wise unit value system" and have succeeded in achieving transparency, public acceptability and better yield, a similar system can be introduced in other Corporations and other tiers of local bodies also.

2.2.16. However, in order to ensure a common approach instead of each one following their own method of assessment, a regulation can be made by the Government by introducing suitable amendments to the relevant Acts as well as to the Rules made thereunder. The system is likely to have more acceptability because distinctions have been made between areas and buildings coming under residential and non-residential, and even in this concept, the type, nature and amenities available are also taken into consideration and suitable rebate / concessions are allowed. Besides, the publication of the rates adopted for the areas will ensure transparency among the public and even at the early stage, objections, if any, could be heard and finalised before going in for actual taxation instead of making the assessee to take recourse to individual tax revision petitions. It is also suggested that in all these cases of assessments, a Central Valuation Cell may be formed with people qualified in making such survey and assessment, so that there will be uniformity in all the areas. There is no need for review of the assessment by the Executive every time, since the general objections on method of fees are settled even at the time of settling rates in the various locations.

2.2.17. Appeal to Tax Appeal Committee should be allowed to remove defects, if any, noticed in such assessment by the Appeal Committee.

2.2.18. Wherever the residents want to appeal further, instead of filing suit in civil courts, a Municipal Assessment Tribunal can be proposed to deal with such appeals to ensure uniformity in decisions and also to see that the cases are disposed of quickly. If a separate Special Tribunal cannot be appointed immediately, the judicial authority at the district level can be made as the Tribunal for taxation matters in the initial stages and based on the experience this could be developed later by a separate Assessment Tribunal for the local bodies as a whole and if necessary the cost of tribunal can be met in common by all local bodies in the area.

2.2.19. While classifying the areas, the Calcutta Municipal Corporation Act 1980 has proposed a system whereby all the streets in Calcutta are required to be classified in terms of arterial roads, sub arterial roads, collector roads, local roads and

pedestrian pathways. The types of roads are also taken as one of the parameters for deciding the location of the area and also the category of the street in the respective area.

2.2.20. The Task Force on Augmentation of Resources appointed by the State Finance Commission has also made suggestions for similar classification of the entire local body into six categories,as under:

1. Affluent Area with all amenities.
2. Affluent area without one or more amenities.
3. Middle income area with all amenities.
4. Middle income area without one or more amenities.
5. Low income area with all amenities.
6. Low income area without one or more amenities.

To decide the category of the area it was suggested that the width of the road, namely arterial, sub-arterial or interior roads may be taken as one of the parameters. The basic rateable value per sq.ft. for all the six categories as indicated above in respect of Chennai and other Corporations and additional rateable value to be added to the basic rateable value depending upon the type, use and age of the building were also suggested.

2.2.21. As against the existing range of tax in the Chennai Corporation of 6.25% to 11.5% per half year, a fixed rate of 8.33% per year which is equal to one month's rent was also suggested to the State Finance Commission. The principle indicated here is a little different from the one adopted by the Chennai Corporation where the question of dividing the area into six categories has not been followed. But a sample survey has been done in each location, street by street, and the unit value for the rental for each street in an area has been arrived at, taking into account the real value obtaining in that locality. Though a survey is needed, it will have more acceptability than the adoption of uniform unit value for all the categories in all the areas. A detailed study will therefore have to be made, before arriving at the final method to be adopted.

2.2.22. However, the switching over from the present annual value system to the area linked unit value system may be recommended by the State Finance Commission to ensure better acceptability to the people and more revenue yield for the local body.

2.2.23. A revised tax structure is recommended by State Finance Commission after taking into account the various rates and methods adopted in the three Municipal Corporations and also the recommendations made by the Task Force. The details are found in Appendix No.11.

2.2.24. Service Tax Component:

On a perusal of the components of the service tax accompanying the property tax, different rates are levied by different local bodies. In Chennai Water tax and sewerage tax are levied by Metro Water Board. As has been observed earlier. the rates as well as the priorities were fixed several years before, depending upon the conditions then prevailing. The provision of protected water to all people, the provision of street lights for all the areas - minimum of tube lights and sodium vapour lamps for important areas - has become a policy compelled from higher level Governments and also on account of the aspirations of Public. There are cases where components for drainage and scavenging have been included. The scavenging tax was intended, according to the Act, to provide private scavenging from individual houses. This system has been mostly abolished even in Municipal areas on introduction of septic tanks and low cost sanitation schemes. New houses constructed are generally provided with septic tanks or are connected to the drainage system of the local body concerned. Regarding Chennai Corporation the water and sewerage taxes have been separated from the local body's purview and they are being collected by the Chennai Metropolitan Water Supply and Sewerage Board and the entire scheme of provision of infrastructural facilities as well as maintenance and supply of water is maintained by the Chennai Metropolitan Water Supply and Sewerage Board. In other Corporations, the entire facilities are looked after by the Municipal Corporations concerned. Study of the amount realised by way of general purpose tax and service tax component, indicates that about 47% of the tax goes towards the service tax. In short, Components of general purpose tax and the service tax almost share equally the amount collected by way of Property tax. On a further study of the actual amount realised in the five Corporations by way of various service taxes and the expenditure connected with those services in the revenue account, they are not uniform and there are variations among the various service expenditure concerned. In certain cases the expenditure is much more than the tax component and in certain other cases, the expenditure is below the level of taxation. Instead of dividing the service tax separately for each item, the total property tax may be divided into two parts, one for general purpose and the other for service purposes, with flexibility for utilising the income realised from the service tax to the service which has got more priority in the area. This type of dividing the tax into two parts will also enable the local body to exempt the buildings which are now coming under the exemption category from the payment of general purpose tax alone and to collect the portion of service tax. There can be no objection to this course even from the presently exempted assessees including the Government of India. This will also enable the local body to collect and earn service tax from all the assesseès.

2.2.25. The user charges will be related to only the quantum of special service done to individuals like water supply or other benefits directly delivered to those individuals who need such services at their doorsteps for which it is necessary to have enabling provision in the Act to ensure cost recovery of Services provided and maintained. This is necessary in the context of inadequacy of the component taxes to take care of both Provision and maintenance of the services as envisaged in the provisions of the Act.

2.2.26. Exemptions: At present, exemptions are granted under the provisions of the Acts and Rules in relation to specific types of buildings. The exempted properties are:

1. Properties having annual rental value below Rs.180.
2. Buildings belonging to charitable and religious institutions.
3. Buildings belonging to educational institutions (only for schools) and not for hostels.
4. Buildings classified as monuments of attraction.
5. Buildings belonging to Central Government. (They are levied service charges)

The properties of the State Government are levied property tax on a par with non-residential properties in the area. The details of exemption in Municipal Corporations are as below:

Table 2.5 Property Tax - Exempted Properties and Expected Demand as on 31.3.94.

Corporation	Details	ARV Below Rs.180	Charity & Relig.	Educat. Inst.	Monument	Total
Coimbatore	Assessees	4787	45	153	0	4985
	Exp.Demand	1.36	18.57	94.96	0	114.89
Chennai	Assessees	n.a.	702	1899	n.a	n.a
	Exp.Demand	n.a	n.a	n.a	n.a	n.a
Madurai	Assessees	n.a	45	369	2	416
	Exp.Demand	n.a	0.16	10.13	n.a	10.29
Salem	Assessees	12716	152	43	0	12911
	Exp.Demand	2.79	n.a.	n.a.	n.a.	n.a.
Trichy	Assessees	2595	6	73	2	2676
	Exp.Demand	0.28	n.a.	n.a.	n.a.	n.a.
Tirunelveli	Assessees	n.a.	25	83	43	151
	Exp.Demand	n.a.	0.15	19.52	0.35	20.01

Note: n.a. means not available; Exp.: means expected demand in rupees.)

There have been objections to the grant of exemptions to various types of buildings which are classified as belonging to charitable and religious institutions or to educational institutions. The Hospitals or dispensaries which are run by some institutions classified as charitable institutions are now levying fees and they should not be allowed any such concessions or exemption from paying property tax due to the local bodies. Similarly, in the case of educational institutions also, there have been representations from the local body that the schools which levy fees and also the nursery and kindergarten schools which have a mushroom growth and collect hefty fees and donations from the students should not be allowed any concessions. The original purpose of giving such concessions and exemptions to educational institutions should have been mainly with the intention of involving private individuals and institutions in the field of promoting education in view of the difficulties faced by the Government to open schools for meeting the requirement of people from its own funds. To encourage private enterprise to enter the field of education,these concessions were made available. Even today it cannot be said that the Government is in a position to cater to the entire need of the people by opening schools or colleges to the extent necessary. So the private participation is very much necessary and unless some concessions are made available, there may not be much response from that segment. However, the total exemption from taxation is not equitable since these institutions avail all the civic facilities made available by local bodies like roads,lighting, water supply etc. The service tax component of the property tax should not be exempted even if general purpose tax is exempted. As a preliminary step, instead of total exemption, concession may be given from the levy of general purpose tax and restrict the levy to service component of the tax alone .

2.2.27. In the case of Industrial Estates concession on Taxation is now being given. This concession should be available only for a specific period of 5 years on par with the moratorium period for taxes. Thereafter concession on service tax component can be given but not on the general purpose tax.

2.2.28. In the case of Central Government properties also, the principle is 'not to levy' property tax. The Government of India have no objection for meeting the service charges for the facilities provided by the local bodies. The mere levy of water charges for the supply of water will not be adequate since the local body has to incur heavy expenditure on providing the infrastructural facilities and only thereafter, supply charges arise. Service Tax component is intended to cover the cost of provision of infrastructural facilities in the area in common to all the localities. There is no justification for exempting this claim in respect of Central Government buildings as in the case of educational and other charitable institutions indicated earlier. Hence these buildings may also be subjected to the levy of service tax, even if the general purpose tax is exempted from being levied on them. It is seen from the statistics gathered that the loss of tax revenue from the educational institutions is roughly Rs.1.25 crores in the six Corporations alone. In the case of charitable institutions, it is about Rs.19 lakhs per year in the Corporation area. At least 50% of the amount can be realised if the total exemption is converted into a concession in respect of general purpose component of the property tax.

2.2.29. The Public Sector Undertakings of the Government of India are also claiming exemption from levy of property tax in respect of the buildings owned by them on the ground that their buildings would also fall under the category of Central Government properties. Recently the Apex Court has decided this issue in the case of International Airport Authority of India and has held that the exemption given in the Constitution of India will be applicable only to the buildings belonging to the various departments of the Government of India and will not be applicable to the public sector undertakings or other commercial ventures of the Government of India. The local bodies will have to take action for the collection of the property tax from this category of assessees. While doing so, there is also another claim that these organisations have own provision for services within their areas, and hence they are not liable for taxation by the local body. The question of internal services alone will not be a criterion, since the location and the area in which these properties are situated are provided with common basic amenities and facilities by the local body concerned and any approach road or way to the buildings of the public sector undertakings will have to pass through the normal infrastructural facilities provided by the local bodies. At best, the public sector undertakings may request for non-levy of user charges, but cannot avoid the levy of property tax. The Government of India in the Ministry of Urban Affairs and Employment has constituted a Working Group on taxation of Government properties in India under the Central and State Governments. The views obtained from various sources support the view that there should be no exemption for the Government of India buildings and such buildings should also be taxed treating them on a par with other types of properties which are liable for taxation by the respective local bodies, since similar taxes are levied already on the properties of the State Government. In the above circumstances, the State Finance Commission recommends the taxation of properties of the Government of India as a matter of principle even though the tax derived out of this will not be very significant. There have also been suggestions that the exploitation of the sub-soil should also be taxed under property tax. Such exploitation is made in laying cables for lighting, telephones, laying of pipes and transportation networks etc. This has also been suggested in one of the points raised by the Time Research Foundation, Urban Studies Centre,Calcutta. There is a divergence of opinion in this regard. One seems to be that the local body should frame bye-laws for the licensing of any works involving excavations of sub-soil and that there need not be any levy of tax. Another view is that land includes sub-soil and surface and that all exploitation of sub-soil for transportation network,electricity supply, telephone connections or other telecommunication facilities, pipe lines, water-supply, sewerage, drainage, shopping plazas, warehousing facilities, railways and ports should also be subjected to local taxation on the value of structures and appliances. There are other views that in all these cases, instead of tax, surcharge can be levied. Taking all these different views into consideration, it does not seem proper to levy tax on these items equivalent to property tax but there is a good case for levying surcharges or licence fees in all these cases.

2.2.30. The rules prescribe that a General Revision of value of properties should be done once in five years by the Executive Authority in respect of all properties and the tax due on such revaluation can be claimed after following the procedure for assessment

like issue of notice, hearing of objection etc. In Tamil Nadu the General revision which is a mandatory one has been postponed for more than two decades by Government on the grounds of non-availability of elected local body. This is only an executive work not connected with the local body. The revision of rate of taxation will alone fall within the ambit of local body. The postponement has caused non-revision of values for more than 2 decades. Adoption of the current value for general revision now permitted has led to steep increase in tax amount even more than 5 times. The Government also has laid condition that the increase in the revised amount should not exceed certain limits as indicated by Government for residential, non residential and commercial properties. Thus the Government have fettered the freedom of the local body not only to revise the valuation periodically, but also restricted the legitimate levy based on the existing situation. The Local Body has been affected in both ways. This was done with the populist view to appease the public. On the other hand, tax-payers feel that they were not against any regular periodical revision and the Local body would also have been benefitted if done periodically and any steep rise at a time is not acceptable to them. Ultimately the Local Body has lost considerable income.

2.2.31. In Chennai Corporation the revision has been made after 1970 only in the year 1993. No compensation for such loss of income could also be claimed from the Government. While the property tax is the only source available for a substantial taxation, restrictions from higher level in implementing the taxation in the normal course has virtually destabilised the resource position. In other States, no such interference has occurred in the local taxation from higher level Government. While the State Government expects the local body to realise the due share of income by local taxation to meet their statutory responsibility and not to depend on Government for day to day administration, it should also be the policy of Government not to unilaterally enforce restrictions, concessions or abolition or write off of the sources available / earmarked to local bodies. If, in the interest of public cause, such policies are to be adopted by State Government a simultaneous compensation for Loss of Revenue should be made available to Local Bodies. The State Finance Commission considers that this should have a statutory backing also to avoid arbitrary decisions. The SFC has also suggested to adopt the inflation rate for revising the value of properties during General revision of values based on Comsumer Price Index.

2.2.32. The suggestion is made with the intention that local body should take advantage of inflationary trends to correct the deficiencies in income realisation. In practice, the value of properties assessed based on inflationary trend will affect the property owners who have them for their own Residential purpose. The inflation added value will only be theoretical and notional and will be helpful only to those who convert their liquid assets for more value by way of business. For those who have been living in these buildings, for a number of years, it would only affect them adversely, since they will have to pay higher tax based on notional increase without relative benefit out of such increase in value. This will have wider resistence. This could of course apply to non residential and commercial or rental properties but not to those on own occupation. Taxation Enquiry Commission(1950) has also indicated that a theoretical pursuit of progression will imply a great burden on those whose main form of possession or source

of income is immovable property as distinguished from other type of possessions or investments. The tax payer should have sufficient income to pay the tax levied and in this context the suggestion will not be workable to a part of tax-payers.

2.2.33. Further when revision of value is taken segment-wise or zone wise, any increase in rate every year will be impractical. Any revision in value or rate should be periodical and the period of three years appears to be reasonable. However to have a regular flow of funds and also to deploy staff in systematic manner without resorting to additional seasonal employment, the general revision alone can be arranged zone-wise or for group of Divisions/wards every year by dividing the entire area in three zones/ Divisions. The revision of rate of levy may be left to Local Bodies. A minimum and maximum rate of levy on ARV may be prescribed to avoid low taxation.

Collection Procedure:

2.2.34. The other area requiring improvement for a better financial yield is the procedure for collection of taxes. At present, in Chennai Corporation, tax payers are permitted to pay the taxes through certain designated banks of course based on the tax demand to be received from Corporation authorities. The system of serving demand is available only in respect of local body taxation. In the case of taxes payable to the Government, the responsibility to file returns and disclose the income or turn-over in business etc., lies on the taxpayer and the payment of tax has to be made at the counters prescribed by the Government. Even in respect of Electricity charges, the payments are done in counters opened. The non-payment of such taxes like income-tax or sales tax or Electricity Consumption charges will invite the use of penal provisions in the relevant legislations and this prompts the tax-payers to pay the taxes within the time stipulated and the major portion of the tax-payers will normally pay the taxes within that time. The serving of demand notices in the case of local body taxes came to vogue in earlier days when the property tax assessees were only a very few in number. Particularly with the advent of flat system and the construction of multi-storeyed complexes, this system is not practicable due to the heavy manual work involved besides the requirement of more infrastructural facilities needed by way of staff and other equipment. Even with the introduction of computers the serving of notice of demand on the tax-payers numbering about 9.03 lakhs in all the Corporations is a stupendous task. It is likely to involve delay and other incidental lapses like non-receipt of demand notices etc. Further the collection of money from such assessees directly by the staff of the local body will also be impracticable. A new system has to be found out, whereby the responsibility of paying tax will be devolved on the tax-payer while the local body will retain its power to pursue only the defaulters whose number will not be much. This will reduce the scriptory work and the man-power required for such work. The non-availability of sufficient personnel at the required norms is one of the reasons attributed by the local bodies for the low rate of performance in collection.

2.2.35. The new system for collection may be as follows: Whenever the first assessment is made and whenever a general revision is done, a pass book or a card may be issued to the assessees. The said pass book or card will contain the amount of tax fixed, the due date for payment, the grace time allowed for payment, and the penalty to be added for making payment after the expiry of grace time separately for each half year for a period of, say,the next five years or up to the period of next general revision envisaged under the rules. Unless the tax is revised in the meantime for any property for any reason whatever, the amount of tax indicated in the card or the pass book will be final and the responsibility will lie on the tax- payer for payment of the tax at the appropriate counters in the zones fixed by the local body or at the branches of the specified nationalised banks to be declared by the local body as the collecting agency. The amount of tax can be produced along with the pass book or the card and necessary entries for payment will be made therein and the said pass book or card with the entries will stand as proof for payment of the tax by the tax-payer. This will reduce a lot of unnecessary clerical work now involved in the collection and will minimise the deployment of personnel for the said purpose and also scope for misuse and misapplication. The initial task of furnishing pass book or card to each tax-payer will involve a large quantum of work but the work which was otherwise required will get reduced at the time of next General revision. This will also create a situation where the local body will have to pursue only such of those tax-payers who have not paid the taxes within the grace time allowed and the local body also will be able to effectively resort to penal proceedings for collection from such defaulters.

2.2.36. In the same manner, the local body can also think of introducing a system whereby a rebate of 2% could be given to those who make payment of the taxes before the expiry of the due dates and also additional concessions to those who make advance payments at 5% for more than a year i.e. more than two half years. This rebate could also be specifically indicated in the pass book or card itself, so that the collecting agency will automatically give effect to the payment of rebate at the time of collection of taxes. This is also likely to infuse enthusiasm in the tax-payers to be prompt in payment of the taxes. In respect of those who are paying the taxes in advance they will have a proper receipt available in their pass book or card and the safety needed for proper accounting is achieved. The present reluctance to pay taxes in advance is due to the fact that the local body takes the advance payment into their deposit account but fail to give proper credit at the time of issuing demand notices for the successive periods and very often the tax payers have to make protracted correspondence with the local body involving delay in tracing out the credit entries in the deposit account books. All these will get eliminated in the system of issue of pass book or card and of making entries therein as and when payment was made and the said pass book or card will be a document of acknowledgment for the tax-payer.

2.2.37. In the case of defaulters, penalty of 5% may be added for each half year concerned and collected.

2.2.38. The above reforms in the levy, assessment and collection procedure will lead to better tax mapping efforts and collection performance. Even if it is considered that the change in procedure could not be immediately given effect to in all the Local bodies at one stroke, some of the local bodies can be taken up for pilot study of collection procedure and the changed system may be introduced in the other areas based on the experience of such study. The reform will also help reducing administrative cost in collection. Provision of Computer will also further add to the efficiency in performance.

2.2.39. The following further reforms are needed in the property tax administration to ensure more yield as well as better administration:

1. A minimum and maximum rate of taxation should be fixed so that the local bodies will not resort to very low level of taxation.

2. The Valuation Cell may be appointed at state level in the Regional Centres consisting of technically qualified people like Engineers, Town Planners and Revenue Officers.

3. The special notice of assessment issued should indicate the basis of taxation.

4. A Tax Squad under the Valuation Cell may be created for making surprise checks to avoid evasion of tax mapping. They may be given independent power to assess or reassess a building wherever omissions are found.

5. The fixation of annual rental value should be freed from the restrictions in the Rent Control Act, since even for fixing the Plinth area Unit Rental value, the local bodies have been taking care of the provisions of Rent Control Act. This can be achieved if the Local Bodies Acts contain provision for method of calculation or enabling provision to prescribe suitable rules applicable under Local Bodies Act.

6. A standard percentage of collection should be fixed for ensuring better performance of tax collection; and if necessary, Government assistance in full or in part may be denied for poor performance. Action may also be taken against the concerned machinery of the Local Body for poor performance on tax mapping wherever remedial action has not been taken even after direction from the inspecting authorities.

7. Vacancy remission should be given for the actual vacancy for a continuous period of 90 days instead of 30 days now provided for, since it causes difficulty in working out the rebate or concession.

8. The present Taxation Rules provide for a Revision every half year and the Tax-payer avails it on the ground that there is reduction in value during the course of the half-year. Instead of that, revision petition can be allowed only twice during the period of five years after the general revision to avoid frequent petitions and unnecessary correspondence over that.

9. Write-off of the arrears can be allowed only after exhausting all the provisions for collection including the filing of a suit to avoid indiscreet write-off. Any such indiscreet write-off should be made questionable.

10. The tax collection machinery may be given a bonus for higher collection of the arrears of tax involved.

11. The local body which shows best performance in tax collection could be awarded special assistance from the Government as a form of recognition.

12. Distraint against immovable property will enable improvement in collection.

13. Instead of civil suit, appeal on all Tax matters could be made to a Tribunal to enable easy disposal and uniform decisions, which may be initially attached to the District court in each District. Separate Tribunal can be formed based on the need and experience. With the reforms proposed it is hoped that income from property tax may yield at least twice the existing level.

The Property Tax litigations pending in courts and the amount involved are as follows:

Table 2.6. Property Tax : Details of Litigations

	Cases	Rs.(crores)
Municipal Corporation	12063	18.50
Municipalities	56850	12.19
Town Panchayats	32012	1.80

The above facts indicate that there is need for some change in procedure to avoid cases being taken to the court resulting in abnormal delay. The new procedure for assessment of Property Tax is likely to reduce the number of cases going to court as against the assessment, in view of the transparency and publicity of the rates levied in each area and the amount payable by the individuals. At present the local bodies have got the power to initiate distraint proceedings for the attachment of movables besides

filing civil suits against the defaulters. There should be some rigid procedure for distraint against immovable properties also by which the assessees are made to pay the amount without resorting to court. The application of Revenue Recovery Act will improve the situation in collection. In the case of arrears which are not covered by court stay also review has to be made on procedures and special efforts to settle the matters may produce better results in the collection. Anyway, the local bodies have to concentrate on the collection of arrears which account for more than a year's tax proceeds. If the assessees resort to legal cases or make the Local body resort to Legal action for collection, a special provision has to be made in the enactment to make the assessees deposit at least 50% of the tax assessed in the case of new assessments, and deposit the old tax and 50% of increase in new tax in the case of general revision. This has also been the view of high courts in many cases where writ petitions have been filed against enhancement in the general revision. In the case of regular defaults distraint proceedings should be resorted to instead of filing suits.

2.2.40. Therecommendations of the Commission under Property Tax Administration are as below:

1. Switching over from the present Annual value system to the area linked unit value system which ensures better acceptability to the people and more revenue yield for the Local Bodies is recommended.

2. Basic Ratable plinth area monthly rental value with ranges proposed by SFC are given in the Schedule in Appendix No. 11. The rates applicable to all urban bodies are furnished in the schedule.

3.i. As an immediate step, a revision may be carried out. General revision may be done thereafter once in three years for administrative ease.

ii. ARV may be revised once in three years based on inflation rate with reference to consumer price index. If the average rate of inflation goes down then the revision rate should be based on that index. On the other hand, if it goes up, the revision rate should also go up on the same proportion. Such a revision to adjust for inflation should be made known to the tax payers in advance.

iii. For example, the average inflation rate is 10% and so at the end of 3 years the ARV will have to be revised upwards by about $(1.1)^3-1 = 33\%$. Allowing for the 10% depreciation (=3.3%) the net ARV increase eligible for taxation will be 29.7%.

iv. If such inflation indexing is done, then the revision will lead to growth in the real revenues from the property tax and also avoid indiscriminate increase in the tax payable by the taxpayers.

v. General revision is proposed once in three years to have effective implementation without deployment of additional staff. General revision can be done by dividing the area into Zones and revision made zone-wise or for a group of divisions/wards every year.

4. Computerization: The average number of property tax assessees per corporation are 1,37,968, per municipality are 21,981 and per town panchayat are 3,184. Since a large number of records have to be maintained in order to administer this tax efficiently. SFC recommends that the urban local bodies may computerize their property tax records and their property tax systems. Computerization is desirable in the case of Town Panchayats also.

5. Service Tax Component: The total property tax may be divided into two parts, one as general purpose tax and the other as service tax on 50:50 basis. Purposes in common like water supply, lighting, scavenging, and drainage may be met from Service tax with flexibility for utilising the income realised from service tax to the components with reference to top priority in the area. However, out of the service component tax of 50 %, the Local Body should uniformly set apart at least half the amount towards water supply and sewerage/drainage.

6. A directory of property tax may be printed and made available to the tax payers indicating the rate of taxation adopted areawise with all exemptions/ concessions and incentives and penal provisions. This should be reprinted whenever a general revision is done. This will go a long way to fetch transparency and reduce litigation.

7. A preliminary analysis of the revised structure reveals that it will lead to an additional revenue generation by a minimum of 30-40% for the Corporations, (for Chennai alone, it is likely to be more than 50%), 25-35% for the municipalities and 35-45% for the Town Panchayats.

Exemptions:

8. Total exemption for all educational institutions from taxation is not equitable since the institutions avail all the civic facilities like roads, lighting, water supply etc. Instead of total exemption, concession may be given in the levy of general purpose tax by restricting the levy to service tax alone.

9. In the case of Industrial Estates, the tax concession should not be available for more than a period of 5 years. Thereafter, concession on service tax can be given proportionate to services locally provided but not on general purpose tax.

10. The taxation of properties of the Central Government is recommended as a matter of principle even though the tax derived may not be appreciable.

11. In the case of Central Government buildings as also in the case of educational institutions and other charitable institutions, service tax may be levied in addition to the user charges now collected.

12. Public sector undertakings which have their own provision for services within their areas may be levied general purpose property tax in full and service tax in proportion to the service provided by local body from its funds in its locality.

13. **General Revision:** There should be no restrictions,concessions, abolition or write-off of tax or other revenue sources available/ earmarked to Local Bodies by Government without consulting the LBs.

14. If such intervention is found necessary by the Government in the interest of public cause, compensation for loss of revenue should be simultaneously made available to the Local Bodies by the Government.

15. **Collection Procedure:** The SFC recommends that the responsibility of paying tax should devolve legally on tax payers.by suitable provisions in the enactments.

16. The new system for collection may be as under:
At the time of first assessment/General Revision a pass book or a card may be issued to the assessees. The pass book/card will contain particulars about tax levied, due date of payment, grace time allowed for payment, penalty for delayed payment separately for each half year for the next 3 years i.e. upto the next general revision. The amount of tax indicated will be final, unless the tax had to be revised in the meantime for any reason.

17. It is the responsibility of the tax payer to pay the tax at the appropriate counters in the Zones or in the specified branches of nationalised banks declared as the collecting agency. At the time of payment, entries will be made in the pass book or card and such entries will stand as proof for payment of tax.

18. A rebate of 2% may be allowed for prompt payment and 5% for advance payment of tax. These rebate rates may be indicated in the Pass Book/Card itself, so that the collecting agency can accept the tax allowing the rebate at the time of collection of tax.

19. In the case of defaulters a penalty of 5 % of tax may be added for each half year concerned and collected.

Further Reforms Recommended in Property Tax Administration

20. A Minimum and maximum rate of Tax (consisting of General Purpose and Service Tax) may be fixed, to avoid low level of taxation as below:

Table 2.7. Property Tax: Proposed Rates of levy

	Minimum	Maximum
Municipal Corporations	20%	40%
Municipalities	15%	35%
Town Panchayats	15%	30%

21. A Tariff and Valuation Cell consisting of technically qualified people like Engineers, Town Planners and Revenue Officers may be created at State Level/with Regional Centres to help local bodies, in the valuation of properties and assist in any determination of cost of services for user charges.

22. A Tax Squad under the Valuation Cell may be created at Headquarters for making surprise checks to avoid evasion of tax mapping. The Squad may be given powers to direct assessment by the Local Body in cases of omission.

23. Application of the Rent Control Act to rental value adopted by local bodies should be eliminated by laying down guidelines for the procedure for valuation in the respective Local Acts.

24. A minimum performance of tax collection should be ensured, Government assistance to Local Body should be related to Tax performance. Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.

25. Tax collection machinery may be given incentive for higher collection of tax involved.

26. Permitting distraint against immovable properties will enable improvement in collection.

27. Reduction in Tax for vacancy remission may be given for vacancy for a continuous period of 90 days, instead of 30 days now adopted.

28. The present Rules provide for request from assessee for revision of tax every half year. This provision should be limited to only twice within 3-year period after the initial assessment/ general revision, to avoid frequent requests

29. Write-off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.

30. Instead of suit, in civil courts, all tax matters could be dealt with by a Special Tax Tribunal to avoid delay in disposal and to ensure uniformity in decisions. Initially District Courts may be the Tribunals. Based on the need and experience, Special Tribunals may be created.\

31. **General for all Local Bodies:** If the assessees/Lessees resort to legal proceedings, or if the Local Body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned whereby the assessees may have to deposit 50 % of the tax assessed in case of new assessments or to deposit the old tax and 50% of increase in new tax in the case of general revision, and the Lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceedings should be resorted to instead of filing suits.

Profession Tax

2.2.41. The Profession Tax is another important revenue of the local bodies, especially for the upper tiers namely Corporations and Municipalities. Under the respective Acts of the Corporations, powers have been given to levy profession tax on all professions, trade, and calling in the area of the local body concerned. Prior to 1st April 1992, the profession tax was based on the provisions available in the respective legislations governing the Corporations or other local bodies. The maximum and minimum tax leviable based on the income of the individuals/ Establishments was indicated in the Act itself and the local bodies were given the freedom to levy the tax at the rates of their own choice in between the maximum and minimum and enforce it in their areas through the personnel of the local bodies concerned. Since the profession tax was levied mainly on the basis of income of the persons, tax in respect of self-employed professionals like doctors, lawyers, traders, and others could not be assessed correctly, as their income is normally not ascertainable by the local body staff. Only in the case of salaried employees the assessment was made through the returns to be filed by the employers and proper levy was made.Here also it was made compulsory on the part of the employers to deduct the amount of profession tax from the salary of the employee concerned in two instalments as prescribed by the Act and pass it on to the local body. Prior to the compulsion made through amendment to the provisions of the Act, the collection of profession tax even from the salaried class was not significant. With a view to improving the resources of the local bodies a new consolidated Act namely the Tamil Nadu Tax on Professions, Trades,Callings and Employment Act 1992 was enacted to levy the tax based on the profession calling etc. with the maximum limit of Rs.1250 per half year (Rs.2500 per year) as allowed in Article 276 of the Constitution of India. Prior to the revision of rate, the rates which were in force were maximum of Rs.125 per half year and Rs.250 per year (Maximum limit).

2.2.42. According to the new Act, dealers registered under the General Sales Tax Act 1959 were liable to pay profession tax based on their annual gross turn-over as indicated below:

Table 2.8. Profession Tax on Traders as per new Act 1992

	Annual turn-over	Half-yearly tax Minimum Rs.	Maximum Rs.
i)	Less than Rs.50,000	200	750
ii)	Rs.50,000 - Rs. 1 lakh	300	750
iii)	Rs.1 lakh -Rs.2 lakhs	500	1000
iv)	Rs. 2 lakhs or above	1000	1250

In respect of the employees, various slabs have been prescribed based on their half-yearly income and the rates to be adopted for the slabs have also been indicated in the Act. Regarding the professionals, various parameters have been adopted like the period of service in the connected profession and the assumed gross income in the profession and the tax for half year or full year has been prescribed at a flat rate depending on their period of service etc.

2.2.43. Anyhow several representations have been made by the Traders' Association and many Writ Petitions have been filed in the High Court against the new Act and also against the rates of tax levied thereunder, on the ground that the tax on the traders should be based on their income as was done in the earlier Act and should not be based on the turn-over and also on the plea that the new rates of tax are very high. The Government exempted the levy of tax on those traders whose annual turn-over was less than Rs.75000/-; but, still the Association was not satisfied.

2.2.44. Based on subsequent discussions, the Government announced some more concessions in 1993-94. It is understood that the matter was further discussed by the end of 1993-94 and the rates of tax for the dealers were again revised based on the annual turn-over as follows:-

Table 2.9. PROFESSION TAX ON TRADERS FROM 1.4.1992.

	Category All registered dealers with turn-over up-to	Half-yearly Tax Minimum Rs.	Maximum Rs.
1.	Rs. 1 lakh	60	90
2.	Rs.1 lakh - 2 lakhs	90	120
3.	Rs.2 lakhs - 3 lakhs	120	240
4.	Rs.3 lakhs - 5 lakhs	240	300
5.	Rs.5 lakhs - 7.5 lakhs	300	360
6.	Rs.7.5 lakhs - 10 lakhs	360	600
7.	Rs.10 lakhs - 15 lakhs	600	720
8.	Rs.15 lakhs - 20 lakhs	720	840
9.	Rs.20 lakhs and above	840	1020

Similarly in the case of Companies, the rates were revised for levy of tax on the directors, dividing them as part-time and full-time. The revised rates were given retrospective effect from 1-4-92, with a clause to waive the penalty due for the delay, if the reduced taxes were paid before 30-4-94.

2.2.45. On a further agitation from the Traders' Association, the tax rates were further revised with effect from 1-4-95 as below, which are now in force.

Table 2.10 Profession Tax on Traders Revised from 1.4.95.

		Order from 1.4.92 rate of tax per half year		Revised rate of tax per half year	
		Min. Rs.	Max. Rs.	Min. Rs.	Max. Rs.
Dealers registered under the TNGST Act 1959 (TN Act I of 1959) and whose annual gross turnover of all sales or all purchases is					
1.	Less than Rs.1 lakh	60	90	30	60
2.	Rs.1 lakh or more but less than Rs.2 lakhs	90	120	60	120
3.	Rs.2 lakhs or more but less than Rs.3 lakhs	120	240	120	240
4.	Rs.3 lakhs or more but less than Rs.5 lakhs	240	300	240	300
5.	Rs.5 lakhs or more but less than Rs.7.50 lakhs	300	360	300	360
6.	Rs.7.50 lakhs or more but less than Rs.10 lakhs	360	600	360	540
7.	Rs.10 lakhs or more but less than Rs.15 lakhs	600	720	540	600
8.	Rs.15 lakhs or more but less than Rs.20 lakhs	720	840	600	690
9.	Rs. 20 lakhs or more	840	1020	690	720

2.2.46. The following professions / trades have not been specifically mentioned in the enactment and may be notified under the item "others":

1. Computer/Typewriting, shorthand, accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods Manufacturers and Exporters.
4. Beauty Parlours and Beauticians
5. Legal Consultants other than Legal Practitioners
6. Non-Bank Financial Services Companies.
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially organised Music parties.
15. Lending Libraries
16. Dry Cleaners

The Government will have to issue a special notification under the proviso to section 3(3) of the Act. This measure is estimated as capable of increasing the yield on an average by 25 to 30 % for larger Municipal Corporations and 15 to 20 % for Municipalities and 10 to 15 % for Town Panchayats. It was also suggested to SFC to increase the slab rates every year to include the incidence of inflation. A minimum and maximum has been prescribed with reference to the Constitution and increase of rates over and above the ceiling cannot be resorted to. The litigation in relation to Profession Tax was mainly because of the steep increase in the level of taxation due to the new enactment. Any suggestion for increase in the rate every year based on inflation may not be now advisable and perhaps this could be considered later. The proper implementation of the present Act is expected to ensure a higher level of income compared to the revenue derived in previous years. Since the Government have negotiated and finalised the various rates, the SFC feels that the present rates may be in force for the next five years and any revision can be considered later. Similarly all petty traders who are not covered under turn over system may also be included under "others" for a flat rate Tax.

2.2.47. The following table indicates the income from profession tax in Municipal Corporations:-

Table 2.11. Corporations : Income from Profession Tax (Rs. in Lakhs)

	1991-92	1992-93	1993-94	Average
Chennai	253.18	473.81	1143.73	623.57
Coimbatore	45.92	48.31	117.88	70.70
Madurai	28.04	27.93	120.99	58.99
Salem	23.25	7.97	66.80	32.67
Trichy	39.56	29.62	109.31	59.50
Tirunelveli	16.91	20.92	61.31	33.05
Total	406.86	608.56	1620.02	878.48

2.2.48. Though the yield from this tax is not very substantial in Town Panchayats and Village Panchayats, still it forms one of the major revenue in those areas also. The tax realisation under Profession Tax in 1993-94 is Rs.22 per capita in all the Corporations put together as against Rs.8 in the year 1992-93. With the various amendments made and concessions allowed, it is hoped, the income is likely to increase further. The enforcement of collection on the traders and professionals is a major difficulty experienced by the local bodies. Though powers have been given for penal action for non-registering by the professionals and traders under the new Act of 1992, there has not been much of a response from this section of people.

2.2.49. The study indicates that about Rs.8.77 crores are realised from salaried class in all the Corporations put together under the Profession Tax. The shops and establishments have contributed about Rs.2.23 crores while the Companies have contributed about Rs.72 lakhs. Banks have contributed Rs.2.57 crores. The income from the professionals like consultants, contractors, commission agents, legal practitioners, and medical practitioners is comparably very low as may be seen from the table below:

Table 2.12. Corporations: Profession Tax: Assesees Nos. and Demand

ASSESSEES	NO.	DEMAND (Rs. in lakhs)
Salaried	2,38,881	877.56
Shop & Estt.	1,21,731	223.16
Companies	54,417	72.45
Banks	60,877	257.34
Consultants	40,498	28.53
Contractors	2,182	26.69
Commssn.Agents	1,393	31.34
Legal Practitioner	17,698	52.99
Medical Practnr.	7,825	56.05
Others	17,268	62.61
Total	5,62,770	1688.71

This is because the particular class or category have not responded so far for payment of tax under the Act in view of the negotiations that were going on with the Government and the Writ Petitions filed in the High Court against the implementation of the Act against them.

2.2.50. Now that it has been settled and the Government have given final concessions on the rates to be levied, the enforcement machinery has to be strengthened and the rates finally approved by Government may be continued. Local Body should take immediate steps to make tax mapping of all assessees liable under the Act through their staff and issue notices to them for non-enrolment and registration and also initiate penal action at least in a few cases which will compel all the assessees to resort to voluntary enrolment and registration under the Act.

2.2.51. In this context, it may be pointed out that in Maharashtra State and Andhra Pradesh State the levy has been taken away from the hands of the local bodies and has been entrusted to the Government Department, namely, Commercial Taxes Department. The Commercial Taxes Department deals mostly with the traders and other business people and it will be easier for them to finalise the tax based on their annual turn-over furnished in the annual returns to be filed by the traders before them. In the case of professionals, the department has no hold over them to compel them to file any return. However, it is understood from the Andhra Pradesh and Maharashtra States that the department has been able to implement the provisions of the Act in relation to these professionals also. During the visits of the Commission to these two States it was informed that the total income under this head has increased manifold compared to the income realised by the local bodies, when the tax collection was enforced by them. The taxes collected are distributed to the concerned local body after retaining some percentage as collection charges by the Government.

2.2.52. This system was being supported by some of the departmental representatives and also some representatives of the public, V.I.Ps. etc. while a survey was conducted to know their views in this regard. The only pertinent question, however, that arises is that the local bodies are enforcing only a few taxes on their own, of which profession tax is one and whether the Profession Tax should also be handed over to the Government for collection.

RECOMMENDATIONS:

2.2.53. SFC RECOMMENDS THE FOLLOWING:

1. Local Body should take immediate steps for tax mapping of all kinds of assessees. Notices may be issued to those who have not registered Penal action may be initiated at least in a few cases which will make others to seek voluntary registration and enrolment.

2. The following professions / trades have not been specifically mentioned in the enactment

1. Computer/Typewriting,Shorthand. Accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods manufac-turers and Exporters.
4. Beauty Parlours and Beauticians.
5. Legal Consultants other than Legal Practitioners.
6. Non-Bank Financial Service Companies
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially Organised Music Parties
15. Lending Libraries
16. Dry Cleaners
17. Petty traders (not covered by turn over system)

The Government may issue a special notification under the proviso to section 3(3) of the new Profession Act 1992 to include them under "Others" and also to make the provision applicable to all Local Bodies both Urban and Rural.

3. The present rates finally notified by Government after negotiations may be in force for the next five years and any revision can be considered later.

4. After careful examination SFC considers that the profession tax may be continued to be collected by Local bodies. The C.T.Department may be made responsible to furnish the list of traders and their turn over to the Local Body concerned to enable them to adopt the turn over as finalised by the Commercial Tax Department. When assessment of a year is still under process of finalisation the turn over of earlier year can be adopted initially and arrears collected later. With the revised rates coupled with better collection experience the yield is likely to increase thrice of the existing level.

Vehicles Tax:

2.2.54. The local bodies have been given power to levy a tax on vehicles which are non-motorised like carts, bicycles and rickshaws. Recently the Government have announced the abolition of this vehicles tax in toto. Local bodies have also been representing that this tax may be abolished in view of the meagre amount realised and the high expenditure involved in the collection of this tax. Originally all the vehicles which are not coming within the purview of the Motor Vehicles Taxation Act, were brought under this taxation. Now there are vehicles which are energised with motors but not coming within the limit of taxation under the Motor Vehicles Taxation Act. There are also certain two-wheelers which are levied life-time tax by the Motor Vehicles Department. Not only in Cities but also in villages, two wheelers have come to play a vital role in transportation, and the carts, bullock carts or hackney carriages have almost dis-appeared from the scene. Bicycles being the common man's vehicle were already exempted from the levy of any tax. Instead of totally abolishing the vehicles tax, the local bodies could be allowed to levy a tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act. and also on Tractors for which exemptions are obtained.

2.2.55. There are about 11.26 lakhs vehicles in the category of Mopeds and Two Wheelers and Tractors in the State.

The following rates are proposed:

Table 2.13. Vehicle Tax - Rate of Levy

1. Bicycles and carts	Exempted	
2. Two Wheelers	Rs.10-50	per year
3. Tractors	Rs.15-30	per year

The number of such vehicles will be sizeable in urban areas like Municipalities and Corporations. Though their number may be less in Town Panchayats and Village Panchayats, it will also be not difficult to identify them because they are being registered in the Motor Vehicles Department for numbering. The income that can be expected from this is estimated at about Rs.2.00 crores for the state if a minimum levy is collected.

Recommendations

2.2.56. The following are the recommendations of SFC.

Tax on carts and bicycles has been abolished. Instead of totally deleting the provision of Vehicles Tax, Local Bodies may be allowed to levy tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act and also on other two wheelers and tractors.

The rate of levy may be as below:

	Vehicle Type	Tax (Rs.) per year
1.	Bicycles and Carts	Exempted
2.	Two Wheelers	10-50
3.	Tractors	15-30

Tax on animals and carriages

2.2.57. The tax amount realised under this head is very meagre. Therefore, instead of levying taxes on animals, a uniform pattern and system of licensing of animals like dogs. pigs and other domestic animals can be introduced.

2.2.58. Recommendations

SFC recommends that tax on animals may be abolished. A uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced,

2.2.59. In Chennai Corporation, there are three other taxes in existence, viz., tax on companies, tax on timber, and tax on advertisements as indicated below:

Tax on Timber :

2.2.60. Timber tax has been in existence in Chennai Corporation for a very long time right from the inception of the Act. The trade in timber carried on in the Buckingham Canal was impressive in those days. The tax seems to have been prescribed in city since timber of all kinds were being imported from Kerala and other states and also from outside countries and the transport took place by road as well as sea. The High Level Committee on Chennai Corporation Administration 1978 has pointed out that this tax is one which can be easily collected since the trade is concentrated only in select localities in the city. But the income under this tax has been very low in all the three years(1991-92 to 1993-94) and no effort seems to have been made for improving the revenue under this item. This has been pointed out by the 1978 Committee and it suggested that the Corporation may prepare an upto date list of all wholesale dealers in timber with the estimated value of transaction carried on by them during the last 3 years which could be counter checked with Commercial Tax Department since the assessments for several years have not been made and demands issued. This tax was considered likely to yield a substantial income to the Corporation taking into account the very high price of timber prevailing. Though the existing rate of tax is not available it is presumed that a certain percentage of the value of the timber transacted seems to have been levied and collected. The High Level Committee also suggested even in 1978 to raise the level of taxation at least to 5% of the value of the timber.

It is stated that a similar tax was available in Bombay but the introduction of Octroi has made that tax redundant. With the high price of timber now being sold, there could be a reasonable expectation of high yield of revenue to the Corporation even if the tax is levied at the current rate. This tax is not levied in other Corporations and only the Chennai City Municipal Corporation Act contains provisions for this. The position of taxation for timber under the Sales Tax Act was verified. It is noted that tax at 8% on the sale of timber has been prescribed and is being collected by the Tamil Nadu Government. This tax may amount to double levy on the same commodity. However this tax is available only to Chennai Corporation which is the oldest Corporation. Perhaps Sales Tax came into effect and later on when new Corporations were formed, this provision has not been extended. Being peculiar to Chennai, this may be continued. The need for this tax in other Corporations may also be examined and extended to them.

2.2.61. Recommendations.

The tax now collected in Chennai Corporation may be continued and extended to other Corporations after due examination .

2.2.62. Company Tax :

The Chennai City Municipal Corporation Act empowers taxation on the companies based on the paid-up capital of the company if its head office or principal office is situated in the city of Chennai. The logic of this taxation is not known. It is understood that the companies were divided into 7 categories and the minimum tax is Rs.60 per year and the maximum is Rs.2000 per year. In respect of companies whose Head or principal office is not in the city, but whose branches are in the city, the taxes based on the gross income received or derived in the city in the year immediately preceding is to be taken for taxation. The levy varies from Rs.100/- per year to Rs.2000/- per year. Though the income was ranging from Rs.8 to 10 lakhs between 1972-73 to 1976-77 as furnished by the High Level Committee on Chennai Corporation Administration, it is found that only Rs.5 lakhs is now being collected as seen from the particulars obtained by the State Finance Commission.

2.2.63. The High Level Committee on Administration of Chennai Corporation found that the percentage of collection was fairly high at that time and the cost of collection was also negligible. The Committee recommended for stepping up the rates of this tax and expected the yield to progressively go up to Rs.20 lakhs in the next few years commencing from 1977 - 78. The yield has practically fallen down. It is not known why the Corporation has not made any efforts to improve the tax efforts under this item especially when the number of companies in Chennai has sufficiently increased. Companies registered under Cooperative Societies Act are exempted from levy and all other companies are liable for taxation. Since the details and number of companies are not available, it is not possible to estimate the probable income that can be derived by the Corporation from this source. However, there is lack of efforts to improve

the income from both timber tax and the companies tax which were specifically allocated for Chennai City Municipal Corporation only under the enactment. State Finance Commission considers that while new tax domains are not very much, why the existing tax provisions could not be availed of and fully exploited needs to be examined especially when the revenues under these items are likely to be substantial in view of the formation of more companies under the Companies Act in Chennai City.

2.2.64. Recommendations:

This tax now available for Chennai Corporation may be continued and extended to other Corporations, after due examination.

2.2.65. Tax on Advertisements stands on a different footing. From this tax, more income can be realised in view of the momentum gained in the manner of advertisement and the usage of this weapon by most of the firms and companies for the purpose of improving their level of business. Further it is seen that in big cities there should be some regulatory mechanism to control the advertisements which are at present made through posters, lamp posts, walls of buildings and compounds and cut-outs. In view of this, tax on advertisement may be suitably modified and the urban local bodies can be permitted to levy this tax so that the nature and types of advertisements could be regulated besides having a sizeable yield of revenue to the local bodies under this head. The advertisements on the Highways are being controlled by a Committee in the case of Madras City, and by the Highways and Rural Works Department in other cases. Even though regulation and control are exercised by a Committee or by a Government Department, the income realised on that account should be made available to the particular local body within whose area such advertisements are made either on the Highways or on any other roads. In the case of advertisements made in private buildings, the control should be exercised only by the local body. The Chennai Corporation has levied Advertisement tax. This subject has been further dealt with under New Tax domain in paragraph 2.2.111 to 114.

Vacant Land Tax:

2.2.66. International experiences indicate that vacant land tax can be a major source of revenue for the urban local bodies. It is known that in many developing countries like Latin America, vacant land is taxed at a higher rate when compared to built-up property. This is done with the intention of curbing speculation on land on the one hand and to promote housing on the other, both of which are needed in urban areas. This source is under-exploited in our country, though provisions are available to levy tax on vacant lands in the urban areas like Corporations and Municipalities. In view of the fast development that is taking place, new housing lay-outs are coming up in more numbers and the promoters are plotting out the lands and selling the vacant plots to those who are desirousof purchasing them. In fact, many have taken this form as a source of investment with the

hope of getting speculative increases in value of the land at a later date. The real estate business is one of the thriving businesses nowadays throughout the State and it is also represented that the real estate people are making huge profits and at the same time, do not contribute much to the local bodies' revenues out of their huge profits.

2.2.67. In fact it is also brought to notice that in many cases un-authorised lay-outs are drawn and the vacant plots are sold away to the unwary individuals without proper approval.

Table 2.14. Municipal Corporations Unapproved Layouts (as on 31.3.94)

Corporation	Unapproved Layouts (in Nos.)
Coimbatore	150
Madras	1137
Madurai	58
Salem	n.a
Trichy	363
Tirunelveli	74

In such cases, people who have their own money are able to put up constructions and even start living in the houses so put up, seeking all facilities from the local bodies concerned. Though there are rules and regulations for the purpose of regulating and planning the lay-outs through the Chennai Metropolitan Development Authority and the Directorate of Town and Country Planning, the unauthorised lay-outs are also coming into existence. The cost of plots in the approved lay-outs is going up abnormally because of the activities of the real estate promoters. With all this, the concerned local body has not realised any benefit while the local body has to face the responsibility of providing basic facilities to those new-comers in their areas.

2.2.68. To obviate this situation, a system of levy on vacant land at the rate of 1 to 2 % of the capital value following a life cycle vacant land tax system was considered by SFC. Under this system, the tax for 10 years is to be collected at one go at the time of the transfer of the vacant land as such from the purchaser. After implementation, during the next transfer, the buyer will have to pay 10 years' vacant land tax deducting the tax which has already been paid calculating from the date of previous purchase to the date of subsequent sale out of the tax collected for the first ten years. The value determined at the Registrar's office can be used for determining the value and the collection of this tax can be made as a component of the registration fees collected by the Registration Department. The amount so collected may be passed on to the local body concerned by the Registration Department. It was also suggested that 1/10th of the realisation of the

tax should be set apart as capital reserve and should be made available only for capital works in the area concerned. It was also considered whether a Tariff and Valuation Cell proposed at the State Level can guide the local bodies in the adoption of the valuation of properties wherever necessary.

2.2.69. There is one important point which needs to be considered in this regard. Middle class people who are desirous of owning a house and who are in pursuit of a suitable plot of lands are not able to own it as it would happen in the case of affluent people. So they would first go in for purchase of a vacant plot with the available funds and will keep the plot vacant expecting sanction of loan or other facilities for the purpose of construction. Even for purchasing a plot they would have to mobilise all their savings. Levying a tax on them as a penalty for keeping the land vacant for some years will be detrimental to their interests and will dampen their urge to own a property.

2.2.70. The real person who is benefited on account of the rise in value of the land is not the purchaser but the real estate people who sell the plot of land at a high cost which includes also their profit and in some cases, even without following the rules and regulations for the formation of a lay-out,to provide minimum facilities of roads, open space reservation etc.

2.2.71. Instead of levying the vacant land tax on the purchaser, wherever new lay-outs are promoted, a one-time tax for a specific period (for five years) can be levied against the lay out promoter at the time when they get approval for their lay outs from the planning authorities. It will be difficult to enforce collection of vacant land tax subsequently from the purchasers in view of the difficulty in identification of the buyers from time to time. It is also considered that the burden of this vacant land tax should not be mulcted upon the buyer, since the benefit of inflation and cost escalation is availed only by the seller and not the buyer. The subsequent tax etc. on vacant land can be collected from sellers when they sell their property as detailed in the recommendations hereunder.

2.2.72. Recommendations:

SFC recommends the following:

1. The levy of Vacant Land Tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided in the location for the existing inhanitants at high cost.

2. The burden of Vacant Land Tax should not be mulcted upon the buyer, since the incremental benefits of price are mainly availed of only by the seller and not the buyer.

3. A one-time vacant land tax may be levied for a specific period, namely, ten years on the promoter of a lay out at the time when the

promoter gets approval from the planning authorities and passed on to Local Body concerned.

4. A tax rate of 0.5 to 1% of the capital value is considered to be a normal rate on vacant urban land.

5. The following life-cycle vacant land tax system may be adopted in the case of subsequent sellers of vacant land. Under this system, the tax for 10 years may be collected at one go in the following manner. Any vacant urban land, at the time of transfer should have paid up one time tax for 10 years. During the first round of transfer, the seller should pay 10 years' taxes on the vacant land and this can be collected on the basis of present value computation at the range of rates indicated, depending on the resolution of the Local Body concerned. The value determined for land and property as per guidelines of Registration Department can be used for determining the amount due. The Registrar can collect this tax and pass it on directly to the local body concerned.

Example: If the land is assessed to have a capital value of Rs.10000, the present value of the taxes at 0.5 % for the next 10 years, discounted will be Rs.337.90.

Pilgrim Tax:

2.2.73. At present, pilgrim tax is collected in certain areas on the basis of the levy made by the local bodies. These places are to be notified as places of importance due to religious functions or festivals or some such reason. In certain cases. the levy is made throughout the year in the area where the people come for pilgrimage. In certain places, the levy is restricted to a particular period of the year when big festivals take place and large crowds assemble. In all these cases, pilgrim tax is levied as an addition to the railway ticket and is collected by the Railway authorities and passed on to the State Government which in turn would pass it on to the local body concerned. There are not many such Centres in Tamil Nadu which are levying this tax. Among the Corporations, Madurai falls under this category, collecting pilgrim tax. The rates of pilgrim tax are in force for many decades and no revision has been made.

2.2.74. Due to activities for promotion of tourism and due to the publicity about the famous temples and places of pilgrimage, tourism and pilgrimage have increased substantially over a period of ten years. In Tamil Nadu alone, the season at Courtallam, Kodaikanal, Ootacamund and Yercaud has attracted a large number of people during a particular part of every year. The local bodies of such places of tourist importance are naturally expected to make provision of civic facilities not only for the local public but also for the floating population which at times far outnumber the local population. They have to make additional facilities and also have to increase the existing facilities to meet the

needs of the tourists during the seasons. Similarly in the case of temple towns also, the number of pilgrims has substantially increased. During the season when the pilgrims go to Sabarimala and return, they visit almost all the temple towns in the southern part of Tamil Nadu, because they ordinarily engage tourist buses and visit all places of importance in the State. This increases the floating population of those places and the local bodies have to make provision for the civic facilities of large number of pilgrims by way of addition to the existing facilities. The roads of these local bodies are put to heavy usage during this period of pilgrimage and additional responsibility is cast on the local bodies to maintain the roads in proper condition. The supply of drinking water to the pilgrims and floating population is also a task faced by the local body concerned.

2.2.75. In order to make the local bodies realise additional revenue, it could be recommended that the following types of places can be allowed to impose pilgrim /or similiar type of tax:

1. Places of holiday resorts and seasonal specialities;
2. Temple towns;
3. Places of geological or archaeological importance;

2.2.76. One way of realising this levy is to expand the scope of the tax which may be modified and given some other nomenclature instead of its present pilgrim/Tourist tax and the levy may also be made on the bus passengers by way of an addition to the bus tickets. The tax on the bus passengers can be collected at the place of pilgrimage or the place of importance on their return journey. A stamp on the back of the ticket or a printed token accompanying the ticket may be issued, in token of the collection of the pilgrim tax. This particular stamp or the tokens may be made available to the Transport Corporations or the private bus owners every month or as and when the need arises periodically. The amount of pilgrim/Tourist tax may be collected in a lump sum from the Transport Corporations or the fleet owners once a month based on the capacity of the buses and number of trips per day at Rs.100 - 150 per trip. This will relieve the local body of the task of identifying the individual pilgrims or tourists. The rate can be fixed after taking into account the average number of visitors making visit to the particular place.

2.2.77. In the alternative, a flat rate can be levied per bus per trip to the area based on the seating capacity of the bus, and the amount collected from the Transport Corporation or the fleet owners, allowing them to collect the pilgrim tax from the passengers. It may be seen that barring these Transport Corporation buses and private buses, people throng to the places of pilgrimage and other importance in vans, lorries and also by engaging private vehicles like vans and cars etc. The local bodies may make their own arrangements to collect the pilgrim/Tourist tax from those who visit the place in such vehicles at the entry point of the local body or town concerned.

Table 2.15. Pilgrim Tax:Rate proposed for Private Vehicles.

VEHICLE TYPE	TAX
Bicycles and Two wheelers	Exempted
Private Cars and Taxi Cabs	Rs.10 - Rs. 25
Vans, lorries etc., carrying people	Rs.25 - Rs. 50
Private Tourist Buses	Rs.100 - Rs.200

2.2.78. Recommendations

SFC recommends the following:

1. Pilgrim tax or a similar tax may be levied in respect of
(1)places of holiday resorts and seasonal specialities
(2) temple towns
(3)places of geological or archaelogical importance.

2. Scope of the tax may be modified by giving some other nomenclature.

3. Identification of the areas falling within the three categories should be notified by Government with identification of seasons when these centres attract pilgrims/tourists.

4. Tax may be levied for the seasonal period at higher rates or can be uniformly levied at a lesser rate throughout the year. The scope of collection of Pilgrim Tax to cover both railway and bus passengers may be notified. In the case of bus and railways, notification of rates can be made.

5. Such tax on bus passengers may be levied as on addition to bus fares. It may be collected at the place of pilgrimage/tourism on their return journey. A stamp on the back side of the ticket or the issue of separate tokens will ensure collection of tax. The stamp or the tokens may be made available to the Transport Corporations or private bus owners periodically or as and when necessary.

6. The amount of Pilgrim/Tourist Tax may be collected in a lump sum from Transport Corporations or fleet owners once in a month based on the capacity of the buses and the number of daily trips at Rs.100-150 per trip (i.e.

Rs.2-3 per passenger on an average). This will relieve the Local Body of the task of identifying individual pilgrims and tourists. The rate can be fixed after taking into account the average number of visitors to the place.

Or in the alternative:

7. A flat rate can be levied per bus per trip based on the seating capacity of the bus and the amount can be collected from the Transport Corporations or the fleet owners, allowing them to collect pilgrim tax from the passengers.

8. Regarding people visiting the tourist or pilgrim centres in vans, lorries and private vehicles, cars etc., the Local Bodies may make their own arrangements to collect the tax.

9. Rates recommended for private vehicles are as follows:-

Bicycles and Two wheelers	No tax
Private cars and taxi cabs	Rs. 10 to Rs.25 per trip
Vans, lorries etc.	Rs. 25 to Rs.50 per trip
Private Tourist Buses	Rs.100 to Rs.200 per trip

Assigned Taxes and Revenues:

2.2.79. The assigned revenues are derived in two parts; one from taxes or duties assigned to local bodies for levy but collected by the Government and passed on to the local bodies after deduction of collection charges; and the other from taxes or duties levied by the Government and collected by the Government and the proceeds shared between the local bodies and the Government. The following are the assigned revenues available to the Municipal Corporations:

1. Surcharge on duties on transfers of property;
2. Entertainments Tax;
3. Surcharge on Sales Tax;
4. Lease of minor minerals.
5. Toll Compensation

2.2.80. The details of Revenue on the above in 1993-94 are given below:

Table No.2.16 Municipal Corporations - Details of Assigned Revenues by sources

	Coimbatore		Chennai		Madurai		Salem		Trichy		Tirunelveli		All Corporations	
	Amount	Percap	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.
Surchar. Stampduty	3.71	45.39	25.34	65.96	1.63	17.34	1.27	21.35	1.88	28.15	0.55	14.57	34.37	47.51
%	46.87		42.27		25.51		33.36		40.26		31.87		40.71	
Adl.Sur.on Saletax	0	0.00	22.80	59.35	1.83	19.45	0	0.00	0	0.00	0	0.00	24.63	34.04
%	0.00		38.03		28.61		0.00		0.00		0.00		29.17	
Entertainment tax	4.20	51.44	11.77	30.64	2.94	31.19	2.52	42.48	2.78	41.64	1.16	31.00	25.37	35.07
%	53.13		19.63		45.88		66.37		59.55		67.80		30.05	
Toll Compensation	0	0.00	0.04	0.10	0	0.00	0.01	0.18	0.08	0.13	0.05	0.15	0.06	0.09
%	0.00		0.06		0.00		0.27		0.19		0.33		0.07	
Total	7.91	96.83	59.95	156.05	6.40	67.99	3.80	64.01	4.67	69.92	1.72	45.72	84.43	116.70
%	100.00		00.00		100.00		100.00		100.00		100.00		100.00	

(Amounts in Rs. Crores and per capita figures in rupees)

Surcharge on duty on transfers of property:

2.2.81. Under the enactments of the Chennai City Municipal Corporation Act and the other Municipal Corporation Acts, and also under District Municipalities Act 1920 and Tamil Nadu Panchayats Act 1994, a surcharge is levied on the duty on transfer of immovable property. Prior to 1-7-1976, the amount of consideration involved in the transaction was the basis for levy of stamp duty and the surcharge but it was replaced by market value thereafter. The amount realized as surcharge on market value of properties involved in the transfer is transferred to the respective local body after retaining a percentage as collection charges. This levy is limited to five types of instruments indicated in the Local Bodies Act. The rate of levy is fixed as not exceeding 5 per cent of the value specified in the instrument. The types of instruments and the amount on which duty is to be levied are extracted below:

1.	Sale of immovable property	The market value of the property as set forth inthe instrument and in a case where the market value is finally determined by any authority under section47A of the Indian Stamp Act1899 (Central Act II of 1899), the market value as so determined by such authority.

2.	Exchange of immovable property	The market value of the property of the greater value as set forth in the instrument and in a case where the market value is finally determined by any authority under Sec.47A of the Indian Stamp Act 1899, (Central Act II of 1899) the market value as so determined by such authority.
3.	Gift of immovable property	The market value of the property of the greater value as set forth in the instrument and in a case where the market value is finally determined by any authority under Sec.47A of the Indian Stamp Act 1899, (Central Act II of 1899) the market value as so determined by such authority.
4.	Mortgage with possession of immovable Property	The amount secured by the mortgage as set forth in the instrument.
5.	Lease in perpetuity of immovable property	An amount equal to one-sixth of the whole amount or value of the rents which would be paid or delivered in respect of the first fifty years of the lease as set forth in the instrument.

2.2.82. The levy is effected by the Registration Department along with the stamp duty and credited to Government funds. In Tamil Nadu, in Chennai Municipal Corporation area, a stamp duty of 8 per cent and surcharge of 5 per cent are being collected in respect of the above mentioned types of instruments. The Government retains the stamp duty of 8 per cent and distributes the amount of surcharge viz., 5 per cent after deducting collection charges. The amount payable to the Chennai Corporation is straight-away passed on by the Inspector General of Registration to the Corporation in quarterly intervals. In the case of other Corporations and other Local Bodies the stamp duty is 7 per cent while the surcharge is 5 per cent. Here also the Government retains the stamp duty of 7 per cent and distributes the remaining surcharge of 5 per cent after deducting collection charges to the local body concerned through the Collector of the District. The District Registrar intimates the amounts due, to the Collector and the Collector sanctions, draw and adjust the money to the concerned local body.

2.2.83. This source of income accounts for about 12 per cent of the total income of all the Corporations and works out to Rs.47.5 per capita in 1993-94. The average income from this source among the Corporations ranges from Rs.13 per capita in Tirunelveli to Rs.51 per capita in Chennai.

2.2.84. During the discussion with the department it was informed that the market value is fixed based on the guideline value of the property adopted from time to time in the local Register's Office. It is also understood that this guideline value is being up dated every year. Wherever it is necessary for verification of the value fixed according to the guidelines, it is being done by the higher level officers of the department and it is duly communicated to the Registrar concerned. But it was also made known that so far no statutory backing is available for the adoption of such guideline value which has been prescribed as the proper indication of the market value of the property to avoid the evasion of duty by under-valuation of the instruments. It was also pointed out that if the system is statutorily authorized, there will be legal backing for enforcing these guideline values. When that is done, the guideline value can also be taken for adoption by the local bodies whenever they have to resort to valuation on capital value basis for fixing the annual rental value of the properties or for arriving at the rental value. A closely co-ordinated effort between the local body and the Registration Department would help eliminating discretion likely to arise even in the fixation of guideline value within the local body area. The local body has more interest in this matter since the local body is the direct beneficiary of the surcharge levied on the value of the property.

2.2.85. The income from stamp duty and surcharge is stated to have reached Rs.700 crores during 1995-96. It is stated that there is still scope for further substantial increase, if proper safeguards are taken in the fixation of value and for prohibiting the flight of documents to the neighbouring States to avoid payment of higher duty in Tamil Nadu. The Government may consider rationalising the rate of levy by widening the base to prohibit flight of documents.

2.2.86. Another important point raised during the discussion was about the high-rise buildings where proper valuation of the flats could not be enforced. Most of the real estate promoters adopt the value for the undivided share of land and register the documents of sale in respect of such land to the purchasers and the cost of the building is completely avoided from the ambit of duty. The flats are sold only after completion of construction and after provision of all basic facilities by the promoter. Taking advantage of the loopholes in the legal provisions, the promoters treat the construction as a separate component and register the undivided share of the land only in favour of the purchaser of the flat. Similar problem which arose in Karnataka State was amicably settled and duty is being collected on the cost of the building as well as the land in Karnataka State. This is stated to have yielded a considerable increase in the duty payable to the Government. There was a similar problem in Maharashtra State also but the Tamil Nadu Registration Department has pointed out that the system adopted in Maharashtra State may not be suitable to the conditions prevailing in Tamil Nadu. Therefore, the stamp duty on transfer of such high-rise buildings can be fixed by adopting the Karnataka pattern. Thereby there will be a sizeable increase in the duty and surcharge collected.

2.2.87. It was also indicated that there should be some kind of restrictions in providing facilities like water supply, electricity, and drainage connections only on the basis of registered documents relating to the buildings and not on the basis of the

documents in respect of the land. But these points need to be studied in detail before arriving at a conclusion on the legal provisions needed for enforcing the suggestions. Anyway, the State Finance Commission would like to bring to the notice of the Government the huge evasion of stamp duty and surcharge in the case of transfers of the above high-rise buildings so that the Government may think of bringing in proper legislative enactments and rules thereunder to curb the evasion.

2.2.88. In this context, it will be pertinent to point out that it is the real estate promoter who is benefited by the high price and who also paves the way for evasion of payment of stamp duty on documents by the buyers. Some method has to be found out to ensure that the promoters are properly taxed, without affecting the buyers who have to make large investments for purchase of the property and at the same time, have to pay heavy stamp duty and surcharge. It may also be suggested that in the cases where undivided share of a land is sought to be transferred, the departmental representative of the Registration Department and the local body should make an inspection of the property to find out whether any construction has been put up in the land by the date of such transfer and registration of the document. In cases where the buildings have been put up, the Registration Department should be empowered to include the cost or market value of the building also in the transfer document for the purpose of collection of stamp duty and surcharge. There may be a genuine objection to the effect that the buyer of mere house site should not be charged with stamp duty for the building he is going to construct or he has constructed after the purchase of the house site. This is quite acceptable in the case of an individual purchaser of a house site and the construction of the building started after the buying of the land. In reality, the real estate promoters do not give possession of the land, be it the whole or be it an undivided share of the land, but give possession of only the flat after completing the construction and hence there is vast difference between the construction put up by a single owner and the construction put up by a flat promoter. In this context, the State Finance Commission recommends a study of the existing pattern in Karnataka State and its acceptance, with suitable modifications or amendments to the provisions of law.

Flight of documents:

2.2.89. One of the methods of evasion of stamp duty is to register the documents in the neighboring States where either the rate of duty is less or where the Registering Officer takes into account only the value as stated in the document for the purpose of levy of stamp duty. In all these cases of registration outside the State, the normal procedure to be adopted is that a copy of the document should be sent to the concerned Registering authority in Tamil Nadu for the purpose of indexing. But this procedure is not followed and the indexing takes place very rarely. On the other hand, the indexing is done along with some other transaction over that property by way of a mortgage and its subsequent discharge. By this method, the Registering Officer is compelled to have the indexing done along with the subsequent transactions over the same property. It was suggested by the Registration Department that any document so registered outside the State and not received within the stipulated date for the purpose of indexing should face

annulment and this will compel the production of document or the receipt of information within the stipulated time for the purpose of indexing. In all such cases, re-registration of the document after collecting the difference in stamp duty and surcharge as applicable in Tamil Nadu may be suggested. Even if the document is not produced in time for indexing or re-registration, the Registering Officer should be given powers to collect the difference in stamp duty and surcharge whenever the document comes before him, treating it as an insufficiently stamped instrument. Such a procedure is adopted by the Courts when an unstamped or insufficiently stamped document is sought to be produced in Court and stamp duty and penalty are collected before admitting such a document in evidence. It was also pointed out that because of the flight of documents to the neighbouring States, both the State Government and the Local Bodies lose substantial revenue. This problem is being faced for a number of years and is being discussed in many a forum and a solution should necessarily be found. The re-registration may be made compulsory for the value as per guidelines. The Tamil Nadu Government have recently brought legislation to this effect.

2.2.90. In some States, the total stamp duty collected is made available to the local bodies but a perusal of the rates prevailing in some of the States shows that they are far below the rates of Tamil Nadu. Further in Tamil Nadu there is a levy of surcharge in addition to the stamp duty and the income from Stamp Duty and Surcharge are separately earmarked for the State and the Local Bodies respectively. In such circumstances, the State Finance Commission does not feel it necessary to pass on the income from stamp duty also to the local bodies. This source of revenue is a major contributor to local body finance and there is much scope for increasing the revenue under this head by plugging the loopholes and by checking evasions. The suggestions made in the earlier paragraphs need consideration urgently.

Procedure for adjustment:

2.2.91. As explained earlier, except in the Chennai Corporation, the money due to the local bodies is worked out by the District Registrar concerned, local body-wise,and passed on to the Collector for adjustment to the respective local bodies. In this, the Collector has no part to play except to draw and forward the amount to the respective local body,which involves a time-lag of minimum one or two months. During the discussion with the representatives of the local bodies and also during the consultation with the department, it was agreed that there is no need for routing the amount through the Collector In the case of Entertainments Tax the Commercial Tax Officer concerned distributes the amount to the local bodies directly and the local body concerned takes credit for the money in the treasury on the basis of the distribution order of the Commercial Tax Officer by presenting necessary bills. A similar procedure can be followed for adjustment of the surcharge on stamp duty also requiring the District Registrar to indicate the distribution for the various local bodies in the order with permission to the local bodies to get credit to their accounts in the treasuries by presenting necessary bills. This will expedite the adjustment procedure and avoid unnecessary delay.

2.2.92. Recommendations:

SFC recommends the following:

1. The Government may consider giving legal backing for issue of periodical guidelines, on value of properties to be adopted for registration (now being followed by deciding regular common principle).

2. It is brought to notice of the Government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. The Government may consider bringing in a proper legislation to curb this evasion.

3. A study of the pattern adopted in Karnataka State to levy stamp duty on built-up area in high-rise buildings for adoption with suitable modifications. Amendments to the provisions of law are needed in this regard.

4. Regarding flight of documents to neighbouring States for registration, the re-registration of the documents may be made compulsory as per the value of land obtaining in Tamil Nadu with reference to the guidelines. (Government of Tamil Nadu have already initiated action) The Government may also consider rationalising the rate of levy by widening the base to avoid flight of documents to nearby States.

5. There is much scope for increasing revenue by plugging the loopholes and by checking evasions.

6. The procedure similar to the one adopted in the case of Entertainments Tax may be adopted for adjustment of the revenue to local bodies.

7. The District Registrar may indicate the distribution for the various local bodies as is done now and authorise the local body concerned to get credit in their accounts in the Treasuries by drawing necessary bills. This will expedite early adjustments and avoid unnecessary delay. The system of routing adjustment through the Collector may be dispensed with.

Entertainment Tax:

2.2.93. The Tamil Nadu Entertainment Tax Act 1939 and the Tamil Nadu Local Authorities Finance Act 1961 regulate the levy of Entertainments Tax on entertainment like cinema, horse races,etc. The basic tax and additional surcharge are levied under the 1939 Act while the surcharge is levied under the 1961 Act. Till 30.6.89 the entertainment tax ranged from 25 to 40 % of the payment for admission and the surcharge on Entertainment Tax was 100 % of the tax payable on the ticket. The additional surcharge ranged from 5 paise to 50 paise depending on the total payment for admission, tax and surcharge put together. Show tax was imposed in 1949 and up to 30.6.89 this was Rs.5 per show for theatres located in Corporation areas and Rs.2 in other areas. The surcharge on Show Tax was 150 % of the Show Tax. The additional surcharge on Show Tax varied between Rs.27.50 per show and Rs.5 per show. The Tamil Nadu Local Authorities Finance Act 1961 was enacted to enable the local bodies to levy a surcharge on Entertainments Tax and Show Tax. Till 1.4.70 the surcharge on Show Tax was 300 %. The Tamil Nadu Entertainments Tax Act and the Tamil Nadu Local Authorities Finance Act were amended by Act 40 of 1989 which came into force from 1.7.89 and the taxation structure of entertainments , other than horse races, was completely revised. Section 13 of the Entertainments Tax Act 1989 dispensed with the provision of Tamil Nadu Local Authorities Finance Act 1961 and one consolidated levy of Entertainments Tax including the surcharge previously levied under the Local Authorities Finance Act 1961 was prescribed. The tax varied according to location and type of theatre. In the Municipal Corporation areas like Chennai, Madurai and Coimbatore the tax was 40 % of the gross payment for admission inclusive of the amount of tax. Under section 4 of the Act, this was made applicable to the cinemas situated in the peripheral areas of the Corporation within 5 KM. The tax in Corporation areas was thus based on actual collections. In Municipal and Panchayat areas,the tax was levied under two methods, one by gross collection capacity and the other by compounding method. Here also the method of taxation varied according to location, type of the local body and the nature of the theatre. and tax was expressed as a percentage of the gross collection capacity. It varied from 30% to 60% depending upon the nature of the theatres. This was further related to the number of shows. An option was given to the owners of the theatres to choose the taxation on compounding system which envisaged a certain number of presumptive shows per week and a compounded rate fixed per week. The compounded rate has to be paid irrespective of the actual number of shows exhibited. The percentages were calculated on the gross collection capacity and multiplied by the presumptive number of shows. Here also the rate of tax and number of shows varied depending upon the location and nature of the theatre. The variation was between 26% to 13%. The presumptive number of shows also varied from 23 to 12 for a week. The managements of the cinema theatres were given freedom to fix the rates of admission with effect from 28.10.1994.

2.2.94. The Entertainments Tax Act was amended by Tamil Nadu Act 37 of 1994 to enable the levy of tax on television exhibition through cable network. By Act 38 of 1994 the tax on dubbed films was also raised by 10%. In respect of television exhibitions the tax was 40% of the gross receipts which was made on the contribution, or subscription

or installation or connection charges or any other charges collected by the operators. This came into force from 1-9-94. Prior to 1-7-89, the revenue realised from Entertainments Tax was shared between the State and the local bodies at 90% and 10 % respectively. The proceeds from Show Tax and from the additional surcharge on Entertainments Tax and Show Tax were retained fully by the State. The entire collections from surcharge on Entertainments Tax and surcharge on Show Tax were passed on to local bodies. From 1.7.89 onwards, in view of the composite levy including the surcharge, the sharing pattern was revised as below:

2.2.95. Under Section 4, 30% goes to Government and 70% to Local Bodies (Municipal Corporation areas). Under Section 5A & 5B; the distribution to other Local Bodies is as below:

		Government	Municipalities & other Local Bodies
(i)	I Grade and Selection Grade Municipalities	35%	65%
(ii)	II Grade and III Grade Municipalities	35%	65%
(iii)	Panchayats	40%	
	Panchayat Union Councils		30%
	Panchayats		30%
(iv)	Panchayat Townships and Municipal Townships	35%	65%

Coming to the income realised, a study was made by the Tamil Nadu Institute of Urban Studies which has indicated the proportion of sharing between the local bodies, Government and the owner as discussed in ensuing paragraphs:

2.2.96. In respect of Special Grade Municipalities and Corporations the Entertainments Tax accrual to the local body was as below:

Table 2.17.Entertainment Tax accrual to Corporations & Special Grade Municipalities

	Before 1.7.89 % to actual gross collection capacity		From 1.7.89 % to actual gross collection capacity	
E.T.	18.22	36.44	49.60	28% Municipality
S.C.on E.T.	18.22			
A.S.C. E.T.	13.16			12% Government
Net to Theatre owner		50.40		60%

The share of Municipality came down from 36 to 28% (about 22% fall)

2.2.97. In respect of Municipalities in Selection Grade, I Grade, II Grade, III Grade and Township Committees also the position is similar since the introduction of compounding system:

Table 2.18. Entertainment Tax accrual to other Municipalities

	Before compounding system (% of actual gross Collection)	
	Before 1.7.89	From 1.7.89
Municipality:E.T.	18.22	
S.C.on E.T.	18.22	36.44
Government:A.S.C./E.T.	13.16	13.16
Total	49.60	49.60
Total taxes		49.60
Net to Theatre Owner		50.40

2.2.98. After the introduction of compounding system of tax the share of local bodies and Government is as follows:

Table 2. 19. Entertainment Tax accrual to Municipalities after Compounding

	Prior to Compounding	Per show basis		Per week basis	
Municipality	36.44%	16.2 to	21 %	13.2 to	18 %
Government	13.16%	10.8 to	14 %	8.8 to	12 %
	49.60 %	**27.0**	**35%**	**22.0**	**30%**
Theatre owner	50.40 %	65 to	73 %	70 to	78%

It may be seen that the share of the local body has fallen steeply by about 50%

2.2.99. It has thus been indicated in the said study that the share due to the Municipal Corporations and Special Grade Municipalities came down from 36 to 28 %. In the case of other local bodies, the share due to local bodies has fallen by about 50%.It has also been pointed out by the said study that the share of the local bodies from this source was declining gradually from 1948 (90%) and finally it was reduced to 60 % in 1989. Cinema theatres are not attracting much crowds at present because of the influence of TV, Video Cassettes, VCR, VCP and Cable TVs. This has affected the collection in cinema theatres and correspondingly the income from this source is further declining. In view of the amendment in 1994 there may be collection of some tax from the cable

operators and it is hoped that the loss of income due to reduction of collection in cinema theatres could be off-set at least to some extent. However, the fact remains that in the guise of compounding, the share of income enjoyed by the local bodies has got reduced. This tax was considered to be one of the buoyant taxes with the local bodies but the various concessions and changes in the tax structure have materially affected the income of the local bodies under this head. In many States the Entertainments Tax has been authorised to be levied by the local bodies themselves. However, with a view to achieving uniformity in the whole State in relation to method and levy, the levy is made by the State Government and this has to be retained. However as this happens to be one of the local taxes, the benefits derived from this taxation go to the local bodies in entirety subject to a deduction of only the collection charges. The State Finance Commission therefore recommends the assignment of 90 % of the realisations out of this tax to the local bodies.

2.2.100. Recommendations

SFC recommends the following:

1. This tax being earmarked as one of the local taxes, the benefits should go to the local bodies in entirety subject to deduction of only collection charges.

2. The assignment should be 90 % of the total realisations of this compounded Tax to the Local Bodies.

3. Any concessions/remissions in the tax affecting local bodies may be resorted to by Government after consulting the Local Bodies.

SURCHARGE ON SALES TAX

2.2.101. The present General Sales Tax Act 1959 was enacted replacing the earlier General Sales Tax Acts of 1939 and 1956. The surcharge on Sales Tax is regulated by the Tamil Nadu Sales Tax Surcharge Act 1971. The rates of surcharge have undergone changes from 1971 onwards depending upon the areas.Finally as per Act 20 of 1990, the rate of surcharge leviable from 1.4.91 was 15 % in Chennai Corporation, 12 % in other Corporations and Special Grade Municipalities and 10 % in other Municipal areas and 8 % in all other areas. The rate of surcharge was further revised on a uniform basis as per Tamil Nadu Act 36 of 1991 at 15 %. It is seen that the total surcharge so collected was proposed to be distributed as detailed below: 50 % of the realisations from Chennai Corporation area will go to Chennai Corporation. 20 % of the realisations will be allocated to Municipalities and Corporations of Madurai and Coimbatore on a sharing formula as below:

1. Directly on population basis 50%
2. On per capita own revenue realised basis 25%
3. As gap grant to bridge real deficit 25%

2.2.102. This formula had to be up-dated based on 1991 Census figures. For the year 1993-94, the Government sanctioned assignment of surcharge on sales tax on an ad hoc basis. The additional surcharge was also levied as a percentage on the general sales tax payable with effect from 1.7.89 at 4 %. This levy was modified as 5 % in Chennai and suburban areas from 10.6.1981 to 31.8.1989. The levy of additional surcharge at 5 % was extended to Coimbatore and Madurai and suburban areas for 16 KM. This levy of additional surcharge was abolished from 1.4.89 to 30.6.89. From 1.7.89 onwards the additional surcharge at 5 % was levied only in Chennai and up to 32 KMs. from the peripheral limits of Chennai. It was explained that this amount has been earmarked by the Government for meeting the project cost of the new water supply scheme from Krishna River . However it was not passed on to Metro Water but retained with the Government. Committee on Rural Urban relationship 1966 recommended that when the octroi is not levied, a surcharge not exceeding 25% on the Sales Tax may be levied, for distribution to Local Bodies.It is felt that instead of the levy of octroi which is in force in northern States like Maharashtra, U.P. & M.P the surcharge levied by Tamil Nadu Government could be an alternative tax to Local Bodies in Tamil Nadu. It was also noticed with reference to budget speech in 1989-90, that the proceeds out of this source was intended to be passed on to the local bodies. This was subsequently modified in the budget speech 1990-91 and partial apportionments were indicated. This has been further explained in later paragraphs.

2.2.103. The funds realised out of this surcharge for the last three years and the amounts distributed to the local bodies out of that, are indicated below:

Table 2. 20. Details of Surcharge on Sales Tax - Collection and Adjustment to Local Bodies

	1991-92	1992-93	1993-94
			(Rs. in crores)
Amount realised	189.88	221.66	215.03
Amount adjusted to Local body	—	110.50	38.21

2.2.104. It can be seen from the above that the amount passed on to local bodies is very low compared to the level of taxation. The local bodies have been making claims for a share in the Sales Tax since the local bodies have to contribute for the proper servicing in the market and other business areas which contribute to a great extent to the collection of a large volume of sales tax. Even if the portion of sales tax is not passed on, at least the surcharge levied and realised should be totally made available to the local bodies. In this context another important factor will have to be borne in mind. Due to lopsided economic development, most of the proceeds under Sales Tax are likely to accrue to larger cities where the spending power of the people is high and in fact Chennai

Corporation could claim the highest percentage. Another factor is that the headquarters of many Companies are located mostly in Chennai City and the origin of collection of sales tax on a large volume of goods and merchandise sold in the State as well as surcharge on it will be stated to be Chennai. Hence the principle of origin should not be applied as the major criterion for sharing the revenue.

2.2.105. Now the S.T.surcharge has been merged with Sales Tax and only single Tax is levied. The proportionate amount of Sales Tax equivalant to former surcharge i.e. 15% of the Sales Tax may be made available to Local Bodies.

Sharing pattern now available:

2.2.106. As indicated earlier, the sharing pattern adopted by the Government is as follows:

Chennai Corporation : 50 % of the realisations in Chennai City.

The balance is to be pooled and distributed between other Corporations and Municipalities: 20% of pool.

In this formula the contributions due to the **Town Panchayats and Rural local bodies** have been completely left out. However, from the Government Orders issued during 1995-96 it is seen that fixed ad hoc amount has been allocated to the Town Panchayats and the Village Panchayats.

2.2.107. The present system of sharing does not therefore appear to be on any equitable principle. The Task Force on Resources has suggested the division of surcharge as below:30 % of the surcharge on sales tax realised should be passed on to the local bodies of origin. 70 % of the surcharge should be brought under a divisible pool which should be subjected to the formula-based sharing with all other local bodies. They have also made a recommendation for passing on the additional surcharge on sales tax to Chennai City and area within 32 KMs. of Chennai. Since the additional surcharge was indicated for a specific purpose. SFC does not consider that portion for any distribution. The SFC considers that the total share may be taken to divisible pool. The general principle for distribution is discussed in Part V.

2.2.108. Recommendation:

SFC recommends that since the surcharge on Sales Tax levied has been merged with the compounded Sales Tax, 15% of the compounded tax (equivalent to the rate of surcharge previously levied) may be assigned to Local Bodies and taken to a divisible pool.

Toll Compensation:

2.2.109. Toll Compensation was paid in lieu of toll collected before introduction of Motor Vehicle Tax. This will depend on the decision regarding sharing of Motor Vehicle Tax dealt with in later paragraph.

Recommendation

SFC considers that since share of Motor Vehicles tax is being recommended for divisible pool, no separate toll compensation will be necessary after the pool is created.

New Tax domains:

2.2.110 A few items as new tax domains are suggested and they are : (i) Advertisement tax for hoardings; (ii) Cable TV Tax; They are discussed in ensuing paragraphs.

Advertisement Tax:

2.2.111. In Chennai Corporation and in Municipalities in Kanyakumari District Advertisement tax is already being levied. In other Corporations and Municipalities, advertisement charges are being collected in the form of licence fees at different rates for different types of advertisements. But there is no uniformity in the rates or methods of collection. Advertisements have gained a more important role in promoting and marketing of products and services. Advertisement through hoardings has increased and has generally, been accepted even in rural areas. Many advertising agencies have come to take hoardings on lease basis.

2.2.112. It has been indicated to SFC that a hoarding of the size of 20 feet x 20 feet is now fetching a minimum of Rs.12 per square foot and a maximum of Rs.15 per square foot for a period of one month. It has also been indicated that the rent to be realised roughly works out to Rs. 4800 to Rs.6000 per month. In such cases of leasing of hoardings, the painting of the message is free; and if it is otherwise, the cost of painting the message, at Rs.4.50 per sq.ft. is being deducted. The cost of the hoarding of the above size is estimated at Rs.67,000/-,(which consists of the income to lessor Rs.25,000/-, cost of fabrication and erection Rs.40,000/-, and the cost of painting of message Rs.2,000/-) On the basis of this yardstick, the following classifications and levy for advertisements through the hoardings are recommended. The following is the suggested classification and rate of levy of tax:

Table 2.21. Advertisement Tax : Suggested Classification and Rates of Levy

Classification			Basic rate of tax
(a) Size	(i)	Below 200 s.ft.	Rs.1.00 / s.ft.
	(ii)	Above 200 s.ft.	Rs.1.50 / s.ft.
(b) Location (increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) Type	(i)	High-rise	Rs.1000/-
	(ii)	Others	Rs.500/-
(d) Message	(i)	Social	Rs.100/-
	(ii)	Commerical	Rs.500/-

2.2.113. The hoarding is a fast growing and high revenue yielding industry in metropolitan cities and bigger towns. Even in smaller towns hoardings are used for advertisement but their number is small and it is only a matter of time that this industry picks up even in smaller towns. The levy of this Advertisement tax will not only yield revenue but will also help in the regulation of the hoardings in accordance with the social objectives and in restricting the spurt of indecent hoardings which are offensive to the society as a whole. The revenue implications from out of this source could not be clearly estimated for want of information about the existing number of such hoardings and their sizes. Within the jurisdiction of the Chennai Corporation, the hoardings are controlled by a Committee under the chairmanship of the Collector instead of by the Corporation. In all fairness, this should be under the control of the Corporation/Local Bodies and the revenue earned should go to the Local Body concerned. Similarly, all the hoardings in the Highways it is stated, are controlled by the Highways and Rural Works Department, and the revenue is also appropriated by that department. This type of licensing should be left to the Local Body within whose jurisdiction the hoardings are situated or located; and, if for any reason, for proper regulation, the Highways Department alone will have to do it, the yield must go only to the local body concerned after retaining collection charges. The local bodies may be required to take an inventory of all the hoardings within their limits, along with their sizes and types for ensuring a uniform method of levy. Though it may not be possible to adopt the same rate of levy both in Corporations/Municipalities/rural local bodies, the rates may be suitably prescribed by the local bodies concerned. The SFC recommends that the Government may prescribe a minimum and the maximum of the rates. Other types of advertisements through lamp posts and posters on wall and writing on walls, including compound walls through buses and vehicles also should be subjected to levy of Tax / Fee by the Local Body. Advertisement through slides in cinema houses was being levied by Government but has been discontinued. This should also be revived. Generally all types of Advertisement except through newspapers, and cut outs, should be brought under taxation.

2.2.114. Recommendations

The SFC recommends the following:

1. All the hoardings should be under the control of the concerned Local Bodies and the revenue earned should go to the Local Body concerned.

2. In the case of hoardings in Highways, the taxation may be permitted to be done by the Local Body within whose jurisdiction the hoardings are situated and provided for in the respective enactments.

3. If, in the interest of proper regulation, the Highways Department has to regulate the hoardings, the yield may be made available to the Local Body concerned, after retaining collection charges.

4. The Local Bodies may take an inventory of all the hoardings within their limits, with size and type for ensuring a uniform method of levy of tax.

5. The rates for different Local Bodies may be adopted within the minimum and the maximum suggested below.

Classification		Basic rate of tax	
(a) Size	(i)	Below 200 s.ft.	Rs.1.00 / s.ft.
	(ii)	Above 200 s.ft.	Rs.1.50 / s.ft.
(b) Location (increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) Type	(i)	High-rise	Rs.1000
	(ii)	Others	Rs. 500
(d) Message	(i)	Social	Rs. 100
	(ii)	Commercial	Rs. 500

Computing the fees liability based on the table :

Use the square foot rate to compute the base rate and to that add the charges pertaining to the locational parameters.

Example: A 20' X 20' highwise hoarding, in Chennai Corporation carrying a commercial message should yield Rs.3,000 per year.

6. Other types of advertisements through lamp posts and posters and writings on walls, including compound walls through buses and other vehicles, should also be subjected to levy of tax/fee by the Local Bodies.
7. Advertisement through slides in cinema houses was subjected to levy of Tax, but later on, it was discontinued. This levy may be revived.
8. All types of advertisements, except through newspapers and cut-outs, should be brought under taxation.

2.2.115. A few suggestions were made to SFC about the levy on the Cable TV operators since the demand for cable TV service is growing fast even in small towns. This activity can be taxed under three heads as detailed hereunder:

1. Licence fee of 2% on an investment of Rs.500000 for every 150 cable connections.
2. Leeway rights across and along local body roads for each connection at Rs.60 per year.
3. Cable TV Service to customers as Sales Tax for a charge of Rs.150 per cable connection.

2.2.116. However, it may be pointed out that the Tamil Nadu Government had already taken into account the Cable TV operators and by Act No.37 of 1994 had prescribed tax on television exhibition by cable system at 40% of the gross receipts which has been subsequently reduced to 20 % by an Act passed in 1995 with effect from 1st April 1995. This amount has been included in the Entertainments Tax which is shared by the Government with the local bodies. But the revenue now derived from the cable TV. when compared to rates suggested is likely to be very low. Though the Cable TV charges may be levied by the local body, since this has already been included as one of Components under the Entertainments Tax, this cannot now be separately levied by the local body. The Government may however permit Local Body to levy Leeway rights alone in all the roads in Local Body area for each connection at Rs.60/- per year from the operator. This levy also may be collected along with Entertainment Tax and the entire money passed on to the local body concerned, after retaining the collection charges, as in the case of Entertainments Tax.

2.2.117. **Recommendations**

1. Leeway rights roads on all in the local body area for each Cable T.V. connection at Rs.60 per year may be levied by Local Bodies.

2. The collection may be done by Government along with Entertainment tax. The entire money will be due to the Local Bodies, after retaining the collection charges.

New Assignments from state taxes:

2.2.118. Other sharable taxes from which the local bodies could claim reasonable share are as below:

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State excise Revenue
4. Motor vehicles Tax
5. Agricultural Income Tax
6. Sugarcane cess
7. Urban land Tax
8. Terminal Taxes on goods or passengers carried by railways, sea or air.

They are discussed in detail hereunder.

Tax on luxuries in hotels and lodging houses:

2.2.119. The Government are levying a tax on luxuries provided in hotels and lodging houses based on the accommodation charges per room per day. The rate of levy as on 1.4.89 is as follows:

Table 2.22. Rate of Levy of Tax on Luxuries as on 1.4.89.

	Where the accommodation charges for residence per room per day is	Percentage
1.	not less than Rs.50 but less than rupees 100	10
2.	not less than Rs.100 but less than Rs.200/-	15
3.	Rs.200 or more	20

2.2.120. The income derived by the Government under this head is Rs.45 crores. The Hotels and lodging houses are normally liable for local taxation and therefore the above revenue should accrue to the local body concerned. Now the local bodies are levying only property tax on such buildings. Though it may be the intention of the

Government that the levy should be made by the Government to have an effective regulation of these hotels and lodging houses, there is justification for at least a portion of the income accruing to the local body concerned and accordingly SFC recommends at least 25% of the tax may be assigned to the concerned Local body. There are no firm figures available to arrive at the share due to the different local bodies from this revenue. This may be included for pooling and distribution

2.2.121. Recommendation

The SFC recommends that 25% of the income may be allocated to the local body for inclusion in general divisible pool for distribution to all local bodies.

Betting Tax:

2.2.122. Under the Tamil Nadu Betting Tax Act 1935 the Government are collecting the betting tax and surcharge in the venue of bettings. As far as Tamil Nadu is concerned inter venue betting is available at Chennai and Uthagamandalam enabling the bookers to bid for the race meetings held not only at Chennai but also at Hydrabad, Bangalore, Bombay, Calcutta, Mysore and Pune. The revenue derived from this source is about Rs.5.48 crores per year. A share of at least 25% out of this should normally be assigned to the local body concerned namely Chennai Corporation and Udhagamandalam Municipality.

State Excise Revenue:

2.2.123. The State Government is levying excise duties under the Tamil Nadu Prohibition Act 1937 and the Tamil Nadu Medicinal and toilet preparation Excise Duties act 1955. This levy includes the levy on IMFS and country liquor and other alcoholic items. The local bodies have been making claims for a share in this income since the local bodies have to take care of the environment in the respective areas. The total revenue under this head has risen from Rs.12 crores in 1980 to Rs.564 crores in 1992-93. The income during 1994-95 is Rs.614 crores. It is not possible to fix any specific percentage of sharing to the different types of local bodies and hence 25% of this revenue is recommended to be assigned and taken for General distribution from divisible pool to all local bodies.

Motor Vehicles Tax:

2.2.124. The Motor vehicles Taxation Act was introduced in 1931 at a time when the local bodies were collecting tolls on such vehicles in the respective area of local bodies. In those earlier days the District Boards and the Municipal Authorities and the Chennai Corporation were collecting such tolls. On the introduction of the Motor Vehicles Tax, the toll collection by the local bodies was abolished and the amount of toll collected during that period was given as Toll Compensation to the respective local bodies. It

could be seen that the total toll compensation now-available to the local bodies is only about Rs.100 lakhs. On the other hand the amount collected by the Government as Motor Vehicles Tax has been steadily increasing and the present income during the year 1994-95 has come to about Rs.333.57 crores. During the discussion with the departmental officers it was indicated that about 7% of the Motor Vehicle Tax collected is set apart as Rural Road Development Fund, from which amounts are given for improvement of rural roads through Highways and Rural Works Department. About Rs.20 crores is being sanctioned as Local Roads grant for Panchayat Union Roads only. But roads are maintained not only by the High ways Department but also by the various types of local bodies. The lengths of Roads in Local Bodies are as follows:

Table 2.23 Details of Roads in Local Bodies

Local Body	Length of road KM.
Municipal Corporation	4643
Municipality	6052
Town Panchayats	13312
Panchayat Unions	45504
Village Panchayats	104621
Total	174132

2.2.125. Motor vehicles are plying through all the roads, whether they are State,National or Local Bodies. With the increase in the number of motor vehicles, particularly with the onslaught of two-wheelers, the roads in local bodies are put to heavy wear and tear. The number of vehicles as on 1.1.96 is as follows:

Table 2.24. Details of Motor Vehicles in Tamil Nadu as on 1.1.96.

Stage carriages:(Public and Private)	21219
Contract carriages	91250
(Autos, Taxi cabs & Omni buses)	
Private services vehicles	4480
Goods carriages, lorries etc.	1,57,661
Non Transport:	
Motor Cycle	5,16,233
Scooter	3,79,499
Moped	11,36,257
Motor car	2,90,700
Other Vehicles:	
Station wagon, jeep etc.	83,566
	26,80,865

2.2.126. There is therefore every justification for the claim made by the local bodies to a reasonable share out of the Motor Vehicles Tax to enable them to maintain their roads in a tolerably good condition. At present, no Road Maintenance Grant is given to the urban local bodies. In the case of Panchayat Unions, local road grant is being given by the Government for maintenance of roads linking the villages which is also not adequate for yearly maintenance. The interior roads of the local bodies (Village Panchayats) have to be maintained only by the local bodies out of their slender resources. The level of maintenance of the roads in urban local bodies like Municipalities and Corporations has to be equal to the standard of the Highways Department since in the roads in urban areas, more number of buses and heavy motor vehicles are plying. The local bodies have been claiming 50 % of the amount of collection under the Motor Vehicles Tax to be set apart for distribution among the local bodies.

2.2.127. The cost of maintenance of the Local Body Roads as per the norms prescribed by Highways and Rural Works Department and as computed by Task Force works out to Rs. Rs.216.32 crores at normative level for 95-96. The share from this tax will therefore help the local bodies in achieving at least to some extent the proper maintenance of the roads. The State Finance Commission, taking into consideration the higher responsibility of State Government in respect of the State Highways, recommends that at least 40% of the Motor Vehicles Tax collection should be set apart by the Government for sharing through divisible pool among the various types of local bodies. Suitable norms are being indicated by the State Finance Commission separately for distribution among local bodies. Toll compensation now available may be withdrawn after this allocation.

Agricultural Income Tax:

2.2.128. The Agricultural Income Tax is levied by the State Government under the provisions of the relevant Act of 1955. Initially the tax was confined to the agricultural income derived from the plantation crops. In 1958 the scope of tax was enlarged to enable the levy on non-plantation crops also. But from 1.4.92, the tax on non-plantation crops has been abolished. The levy is based on income or on compounding basis. The income from this source has increased substantially in 1991-92 and subsequently there is a decline. About Rs.17 crores is realised as revenue from this source per year.This tax is mostly collected from hilly areas where plantation crops are usually raised. The local bodies covering such hilly areas are in districts like the Nilgiris, Salem, Coimbatore, Madurai, Dindigul-Mannar Thirumalai . These local bodies have to spend heavy amounts for the maintenance of roads and for provision of lighting etc., and their income from the property tax, because of the hilly terrain, is not at all comparable to the property tax income in the plains. In view of the peculiar situation of these local bodies, the SFC recommends that Government may allocate a of 25% from this tax to the areas covered by plantations.

SUGAR CANE CESS

2.2.129. Under the Tamil Nadu Sugar Factories Control Act, 1949, a sugarcane cess is levied from the sugar mill owners. The realisation under this cess is to be utilised for road development, research and development and equity participation in the new sugar mills. The road development is a duty vested with the local bodies within the jurisdiction of which the sugar mill is located. It is understood that the Director of Sugar is holding this fund and spending on the development of road in the concerned area by undertaking the job through that department.

Recommendation

2.2.130. Since the local body is very much concerned with roads within its area, SFC considers it desirable that the money allocated for the purpose in the area should be passed on to the local bodies or IN THE ALTERNATIVE the local body and the Sugar Mill concerned should be made jointly responsible for the upkeep of roads of the local body concerned which lead to the area where the Mill is situated.

Urban Land Tax:

2.2.131. With a view to augment the resources of the state, to carry out slum clearance schemes and housing schemes for low income groups, to rationalise the scheme of taxation of land in urban areas put to non-agricultural use and to secure a return commensurate with the pronounced increase in the land value, the Urban Land Tax Act was enacted and it came into force in the City of Chennai from 1.7.1963. Though this Act was subsequently struck down by the High Court it was later on upheld by the Supreme Court and collections were resumed from 1969. It is stated that the Urban Land Tax is payable in lieu of :-

1. The Ryotwari assessment
2. The assessment levied under the Chennai Inams(Assessment) Act 1956 or under the Andhra Inams (Assessment) Act 1955
3. The ground rent
4. The quit rent
5. Any amount due under Chennai City Land Revenue Act, 1851.
6. Such other amount as the government may by special order specify, payable in respect of such land, but shall be in addition to any tax on such land payable under any other law for the time being in force.

2.2.132. This Act has been extended to the Municipal Towns of Coimbatore, Salem, Trichy and Madurai and also subsequently to belt areas lying within 16 KM from the outer limits of Chennai City. This Act was further extended to Tirunelveli and other peripheral areas of Coimbatore, Salem, Tiruchirapalli and Madurai. This Act was further extended to the following 21 special grade and selection grade Municipalities; viz. Erode, Thiruppur,

Thanjavur, Tuticorin,Uthagamandalam, Karur, Nagarkoil, Pollachi, Kumbakonam, Mayiladudhurai, Dindigul, Palani, Kanchipuram, Cuddalore, Vellore, Udumalaipettai, Villupuram, Pudukkottai, Karaikudi, Rajapalayam, Namakkal and to the two townships namely Mettur and Kodaikanal (Now Municipalities). The Tamil Nadu Urban Land Tax Act 1992 rationalised the levy of tax uniformly in these areas. Certain exemptions have also been granted from the levy by the Government. An amount of Rs.7 crores is being collected per year by the Government as will be seen from the budget for 1994-95. As may be seen from the objectives and purposes for which the levy was made and the reason for such levy indicated earlier, the local bodies who are now looking after the maintenance of the slum areas and also the housing colonies of low income groups are eligible for a share in this tax. It may also be seen that this levy is in lieu of ryotwari assessment, ground rent, quit rent and amount due under Chennai City Land Revenue Act. The Urban Local Bodies have not been given any share from the land revenue collected in their areas. Though the District Municipalities Act 1920 has an enabling provision to levy Tax on agricultural lands also, the levy is not being made in view of the instructions from the Government. Taking all these into consideration, the urban local bodies indicated above will be eligible to have a share from this source of income to enable them to carry out the function of maintenance of slum areas and housing colonies of low income groups. This income can be shared with the local bodies in whose areas the tax is levied. The State Finance Commission recommends a 50% share out of this revenue to urban local bodies concerned.

Terminal Tax on Passengers and Goods carried by rail:

2.2.133. Local Finance Enquiry Committee, 1950 and Taxation Enquiry Commission, 1953-54 and Zakharia Committee, 1963 have recommended that a levy on terminal tax on passengers and goods carried by rail should be enacted. It has to be done by Government of India. Zakharia Committee has further recommended that pending enactment, the railways should make a recurring annual grant to State Government for development of urban areas from where rail earnings mainly arise. This may be pursued by the State Government with the Government of India.

Surcharge on bus tickets on floating population:

2.2.134. To tax floating population who come to Metropolitan Cities and important Centres of trade and industry from a distance of 150 KM., a surcharge may be collected on busfares from persons travelling from a distance of 150 Kms to these areas and made available to Local Bodies.

Local Body Cess on passengers travelling by bus:

2.2.135. To ensure provision and proper maintenance of Bus stands/shelters and to provide passenger facilities it is suggested that surcharge on the bus tickets may be collected on behalf of Local Bodies. It is ascertained that the number of passengers travelling through Transport Corporation buses per day is more than in the order of about 150 lakhs through Town Bus, mofussil short distance buses and long distance buses.

A levy of 5 paise on Local Town buses, 25 paise on Moffusil buses and 50 paise on Long distance buses in addition to ticket fare is likely to yield good income. This could be pooled and distributed on need basis to various Local bodies.

NON TAX REVENUES

2.2.136. The non tax revenues can be broadly classified into four categories and they are:

1. User charges,
2. Licence, fees and other charges,
3. Income from properties,
4. Income from special services.

They are discussed in detail below:

User charges:

2.2.137. Almost in all the forums, it has been stressed that the most unexploited source of revenue of the local bodies is the User charges. The user charges have been mostly subsidised even when there is affordability and without considering need for recovery of cost of service. This has caused resistance while claiming reasonable rates to cover at least a portion of cost recovery. The concept of user charges though talked often in higher level forums, has not become acceptable among the local public. Even the elite people question the wisdom of collection of user charges in view of the Property tax levy which consists some of the components for services. The Tax Component is only to help the local bodies to provide necessary infrastructure service for the entire area for the benefit of the community as a whole. The user charges is for the special service made available to the consumers. Public awareness is mainly needed to understand the distinction of the tax and user charges and the need for the local body to claim such user charges.

User charges can be defined as the charges levied for access to and the use of a given service. It is possible to recover user charges only in cases where the principle of exclusion, namely, excluding those who do not pay, can be applied. In the case of urban local bodies, the scope for levying user charges is very wide. The user charges are normally confined only to water supply.

2.2.138. The contribution of water charges is furnished below:

Table 2.25. Municipal Corporations Income from user charges for Water supply 1993-94

	In terms of % to Non Tax	In terms of % of Total Income
Coimbatore	56.52	9
Madurai	33.97	6
Salem	58.82	9 - 12
Tiruchi	34.61	6 - 7
Tirunelveli	12.05	12 - 13

2.2.139. There are other items of services such as sewerage/drainage/garbage and solid waste collection, and communication facilities like roads. for which also the cost of service has considerably increased User charges will be an additional source of revenue to meet inadequacy in maintenance of these services. An awareness must be created among the local citizens that they should willingly pay and get the service they want in better manner. The user charges will contribute to the improvement of the infrastructure facility already existing. Statutorily the responsibility of providing basic amenities like roads, lighting, sanitary arrangement and water supply has been earmarked to the local bodies from the inception of such bodies, and they were also looking after these facilities in a modest way on a minimal level subject to resource availability. Now, there is considerable change in the concept and growth in the aspirations of people. Policy makers have also interest in achieving certain State/National level standard norms for providing a minimum level of services in lighting, roads, water-supply etc. They are above the level of affordability of the respective local bodies and could be achieved only with the assistance of the Government to meet the resource gap of the Local Bodies. The provision of protected water supply with individual pipe connections costs very heavily in view of the fact that the water has to be taken from long distances by way of a combined water supply scheme etc. Even providing deep borewells and constructing over-head tanks with provision of taps, as public stand pipes, costs very high. Similarly, a minimum level of lighting viz. tube-lights has been aimed at and the norms of spacing of lamps are also adopted to ensure better service. In certain types of local bodies based on the necessity and also request from the public sodium vapour and mercury lamps and high-mast lamps are provided in important areas. The Electricity Board which has followed a policy of providing the equipments and lights at its own cost has changed its policy and is claiming cost for every light to be provided depending on the nature of light. This has also increased the expenditure on lighting. The Government will have to consider subsidising the Electricity charges in the case of Urban Local Bodies.

2.2.140. In the case of urban local bodies assistance is given only in the form of loan for creating infrastructures like water supply, roads etc. and other remunerative schemes. They are expected to meet the Debt servicing and maintenance besides

future extensions from their own funds. Unless user charges are collected to ensure cost recovery, it will be impossible to maintain these services and also to meet debt servicing.

2.2.141. The ability and willingness to pay of the different consumer groups,has to be assessed before levying user charges as the capacity differs in respect of different consumer groups. The economic pricing to achieve full cost recovery will be difficult in respect of cost and time over-run projects. The marginal cost linked prices are likely to be too high in relation to prevailing price level and it will be difficult to work out economic cost from the local body Accounts. The SFC recommends the following broad principles that can guide the pricing of publicly-provided goods and services.

1. Wherever the exclusion principle applies, charges may be levied for services provided. Charges should be levied on all those who are clearly identified as being the beneficiaries of the service, as in the case of water charges.
2. If beneficiaries can not be clearly identified, user charges are inappropriate. In such a case some specific benefit taxes can be levied on the entire local population. Street lighting is a case in point. The yield from the general benefit taxes such as the drainage tax, water tax etc. can be taken into account while fixing the user charges so that the charges cover the remaining part of the cost to be recovered. However, for the measure to work efficiently, proper earmarking of the benefit tax collections should be done. At present, though earmarking is required according to the existing rules, it is not carried out in practice.
3. The poor may be subsidised directly rather than through reduced prices.
4. Transfers from the State and Centre may be used to finance the services if and only if charges and benefit taxes are not adequate to fully fund the locally required quantities of services. In such a case, the local government will be accountable to the higher levels. Public Sector Activities are unlikely to be efficient unless financial accountability is clearly established.

2.2.142. The SFC suggests that affordability for the poor which is the most voiced concern can be overcome by levying the lowest rate for such section of people or if necessary they may be subsidised or exempted directly rather than through reduced prices. The SFC considers that progressive rates of charges for higher consumption blocks and higher commercial rates for commercial and institutional users can be adopted..

2.2.143. The service charges instead of being determined at State level, local autonomy in fixing the charges should be given to local bodies with guidelines for such fixation, making the State permission compulsory to decrease the charges.

2.2.144. The in-depth study conducted by the State Finance Commission and also the views received from the public, reveal that the local public are not unwilling to pay for the services if the services are provided properly and regularly.

2.2.145. The State Finance Commission therefore, recommends that the urban local bodies like Municipal Corporations which have got greater potential for claiming user charges can improve their services.The transparency in the conditions of service in the various localities can help claiming a reasonably higher charges at least 200% more than what is now being collected. The local body should prioritise the services depending upon the local needs and meet the cost involved therein from out of the user charges and also from out of the service tax component of the property tax. Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage. As far as possible, the local body should aim for full cost recovery of these services in corporation area by cross subsidy against affordable community.

2.2.146. In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage / drainage. For clearance of septic tanks and cess pools special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.In the case of lighting, the Government should come forward to meet the current consumption charges in full in the case of Rural Bodies and weaker Town Panchayats and subsidise the Current Consumption charges in Urban Local Bodies.

2.2.147. Recommendations

The SFC recommends the following:

1. After a careful situation- analysis it is considered that urban local bodies like Municipal Corporations and Municipalities of special and selection grade have scope for charging higher user charges under water supply at least 200 % more than what is collected at present.

2. SFC recommends the following steps to streamline the principles for user charges and to ensure higher level of income and service.

i. The local body should prioritise the services depending upon local needs and meet the cost involved from out of user charges and from out of service tax.

ii Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage.

iii. The Local Body should aim for full cost recovery of these services in the Corporations and Municipalities of special and selection grade area by cross subsidy against affordable community and by higher commercial and institutional rates.

iv. The community who cannot afford higher rates may be subsidised or totally exempted.

v. In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage/drainage/garbage not attended to by them.

vi. For clearance of septic tanks and cess pools, special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.

vii. Similar charges may be considered for other cases like Hotels, Lodges. Hospitals, Nursing Homes and Kalyana Mandapams and other public places for clearance.

2.2.148. Privatisation can also be aimed at by involving the local public or Non Governmental Organisations like Exnora International who are coming forward to take up even partial operations involved. The local bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies who are interested in taking up that work on a commercial basis. This has been dealt with in greater detail in Part.III.

2.2.149. The SFC suggests that in the case of user charges, a Tariff and Valuation Cell may be set up at the State/Regional level which can give all technical expertise and help the local bodies in identifying the right pricing policy for their services. Transparancy in the operation of the local bodies is expected to go a long way in creating public awareness, community participation, and necessary good will among the local public. This will lead to a better management of these services in the local area.

2.2.150. SFC also suggests that in the case of all Municipal Corporations, special and Ist grade Municipalities, a cost cell may be necessary as part of the administration for the preparation of balance sheets of the institution and providing reliable data base for efficiently pricing the services as per principles discussed earlier, and liaisoning with tariff and valuation cell at the state level wherever necessary in respect of pricing policies and also to prepare the assets and liabilities statement at the end of every year.

2.2.151. In view of the suggestion to have a tariff and valuation cell at the state level with Regional level branches, there does not appear any need for creation of a seperate cost cell at the local body level since the existing accounting mechinery itself can act as cost cell and have liaison with the tariff and valuation cell at the state/Regional level and arrive at proper conclusions.

2.2.152. The preparation of balance sheet and the assets and liabilities statement should be made as a part of the duty of the accounting side at the end of each year and also in respect of each service, if possible. This needs a change in system of budgeting and accounting by switching over to commercial type of accounting from the existing type of government accounting and also go in for computerising the accounts.

Recommendations

SFC recommends the following:

2.2.153. 1. Privatisation can be aimed at by involving the local public or by promoting or encouraging NGOs like Exnora International. Local Bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies. The experience of Coimbatore Corporation may be considered in this context.

2. The Tariff and Valuation cell proposed at the State level with regional level branches for Property Tax administration may be entrusted with the following role in respect of user charges:

i To prepare a pricing guidelines manual for circulation among all the local bodies.

ii To assist the local bodies in arriving at the right price/tax structure for their services in order to make them economically viable.

iii For already existing services, to work out economic charges and to review the pricing policy. If the hike in the charges is very high, then the hike can be imposed gradually over two to three years.

iv In the case of new schemes to workout the charges to cover O & M costs, debt service, and depreciation.

3. In the case of projects financed with loans, capital cost recovery should not normally be spread over periods exceeding 15 years.If, however, the annuity payable is found not affordable, it can be spread further up to 20 years.

4. Formation of Costing Cell in Local Bodies:

SFC considers that it must be made the duty of the Accounting side of Local Body to prepare Balance Sheet and statement of assets and liabilities at the end of each year and in respect of each service.

ii It should act as costing cell within the local body following the guidelines of Valuation and Tariff Cell at State level.

iii. There is need for change in the system of budgeting and accounting to commercial type instead of the present Governmental system of accounting and also for computerisation of Accounts to achieve the objectives.

Licence, fees and other charges:

2.2.154. The D & O Trade Licence fees constitute a major revenue source now contributing 5 to 6 % of Non Tax Revenue. The main draw back in this source is the lack of periodic revisions. Many local bodies have been adopting the rates fixed even three decades earlier. The rates now levied are nowhere near the present condition. No doubt the licence fee can be levied only to meet the cost involved in rendering these services. The cost of administration has very much gone up and the rates levied are on the very low side. Further the present procedure followed in issue of trade licences is found to be very cumbersome and it needs a thorough re-examination and simplification and responsibility of taking licence should be made compulsory on traders and deterrent penalty for default is needed to avoid evasion. It is also found difficult for local bodies to prepare a full list every year.

2.2.155. Immediate tax mapping based on sources may be done and a computerised list can be prepared. Changes can be recorded once in a year. The change in ownership of the trade also has to be compulsorily registered with local body as in the case of transfer of ownership in property tax. Issue of licences can also be decentralised at divisional or zonal levels of the Local Body instead of concentration at headquarters. Computerisation will enable quicker issue of certificates and time limit for application, enquiries and issue may be streamlined to suit present conditions.

2.2.156. Further there are many types of trades which have newly come to exist and they need inclusion in the list for purpose of licencing and control, while those which are found obsolete should be deleted from the list. An attempt has been made by the Damodaran Committee on Panchayat Finance in the year 1990 to rationalise the system and also the rates, prescribing a minimum and maximum for the various types of trades. Subsequent to that also, there might be a few new trades which have come up recently and they will have to be added in the list. The rates adopted by the Damodaran Committee were based on the rates which had been adopted by the Madurai Corporation at that time which were then found reasonable for adoption in respect of all local bodies.

2.2.157. While applying these rates, the rates for Municipal Corporations could be suitably enhanced. Based on the rates recommended by The Task Force and also the rates recommended by Damodaran Committee (1990), the revised rates are proposed in the Appendix No.12 & 17 for both Urban and Rural Local Bodies. If more than one trade is conducted in one premises,the higher rate that is applicable should be charged. A

minimum levy to be compulsorily collected has also been prescribed. The mapping of all the trades in the area should be done immediately and computerised and only additions and deletions should be carried out in future years. The procedure now in vogue for enforcing this trade licence is to get applications in the month of February for issue of licence / renewals for the period commencing from the first of April of the next financial year. If the licence is not renewed before the end of June, the local body has to initiate penal action for prosecuting the defaulters. In most of the cases, it is found that voluntary renewal or application for trade licence does not happen and only after inspection and detection, licences are being applied for. It has been brought to notice that the omissions are many in number. It is necessary to prescribe sufficiently higher penalty, equivalent to three or four times of the normal licence fee, when the omission is found out so that it will ensure the filing of applications at the appropriate time for obtaining licence/renewal. The local Body should also have power to recover through distraints against immoveable properties in the case of defaulters.

2.2.158. At the time of registration of dealers under the Sales-Tax Act, the authorities may be required to insist on production of the licence obtained from the local body and to quote Local Body Licence number in their application for licence. This will enable the licensing of all trades without omission.

2.2.159. The licence fees can be suitably updated once in three years based on inflationary rates. The local body may also issue a licence for a period up to 3 years on collection of the licence fees in advance with a rebate of 10%.

2.2.160. In the case of installation of machinery licence fee is now being collected with reference to the Horse Power of Motors. No licence fee is collected in respect of the subsidiary machinery installed and run with the aid of the prime Motor. For instance, in the case of power-looms, four to six power-looms can be ordinarily run with the help of one 5 HP Motor and the licence fee is collected only on the basis of the HP of the prime motor and not on the basis of the number of power-looms that are run. Similarly, in the case of a Printing Press also, one 3 HP Motor can run two or three litho or off-set presses. Hence the installation fees for machines may be fixed not only on the basis of the HP of the motor but also taking into consideration the minimum machinery that could be installed and run with the aid of the prime Motor, for which licence fee is levied. Similarly, changes in the Motors with higher capacities are not being intimated and though there are rules for penalty for violations, it is difficult to find out the changes and to locate the period of such changes. It should therefore be provided that the owner should be compelled to take permission while changing the motor with higher capacity and the penalty for failure to do so should be not less than three to four times the ordinary licence fee that could be levied. Deterrent action may also be provided for by prosecution of the offender.

2.2.161. Recommendations

SFC, after situation analysis, recommends the following:

1. D & O Trade. The local bodies will have to undertake tax mapping to prepare a computerised list based on immediate survey and the additions and deletions can be made once in a year. Computerisation will enable quicker issue of licences.

2. The time limit for application, enquiries and issue may be streamlined to suit the current situation and published through a common pamphlet in all local bodies and also published in common places.

3. The Revised Rates for the various trades, taking into consideration, the recommendations of the Damodaran Committee (1990) are proposed by the SFC for urban/rural bodies separately as Schedules in Appendix Nos. 12 & 17. Any industry or trade not covered in the list may be brought under 'Others' provided for in the schedule.

4. If more than one trade is conducted in one premises, the higher rate will be collected. Minimum levy has been prescribed for collection compulsorily.

5. The penalty for default may be three or four times the normal licence fee. A Grace time for renewal with penalty may be given for a period of 3 months from April to June Prosecution may be launched in July of every year. The local body should have power to recover through distraint. on immoveable properties in the case of defaulters in addition to prosecution powers.

6. At the time of registration of traders under the ST Act, the authorities concerned may be required to insist production of the licence issued by the local body and even insist on quoting the number of licence in the form of application itself.

7. The licence fee prescribed should be suitably updated once in three years based on inflationary rates, and on Consumer Price Index.

8. The local body may also issue a licence for a period of 3 years on collection of licence fee in advance for those willing with a rebate of 10%.

9. In the case of installation of machinery, in addition to the collection of licence fee on the basis of Horse Power of Motors, fee should be collected in respect of additional or subsidiary machinery run with the aid of the prime motor.

10. Changes in Motors with higher capacities are liable to be informed failing which heavy penalty equivalent to 3 or 4 times the normal fee should be levied and deterrent action by Prosecution should also be done. The owner should be compelled to take permission while changing the motor with higher capacity.

Income from properties:

2.2.162. The Municipal Corporations own properties like markets, bus stands, shopping complexes, guest houses and the return by way of rent collected from these properties is not commensurate with the prevailing market rent in the same locality for similar building collected by private property owners. In certain cases location of such assets contributes to "no demand" which lead to assets lying unused. This is an important source of revenue for the local body provided they are managed properly, especially in Municipal Corporations, where space is scarce for business community. The Municipal Corporations now earn 62% of income from Non Tax only under this source.The Corporations mostly construct these buildings on loan assistance from various funding authorities and they have to pay annuities from out of the earnings, besides meeting the cost of maintenance including the cost of staff concerned. The private entrepreneurs in the same locality adopt the procedure of selecting the tenants even before or at the initial stage of the construction and obtain huge amounts as advances, thereby reducing their financial liabilities. They also fix the rent based on the market rates and also raise the rent from time to time depending upon the local market conditions.

2.2.163. Though it may be difficult to adopt the principle and procedure adopted by private people in toto by the local bodies, a re-thinking should necessarily be made on the method of creating assets with a view to realising reasonable return at least to balance the project, if not to be more remunerative. There is good demand for the private buildings. There will be equal demand for the properties of the local bodies if they are situated in proper locations. In fact these ventures are thought of only to further the income of local body and hence fixing rent on P.W. rates which do not take care of remunerative aspects as well as refund of annuities besides proper maintenence should be dispensed with.

2.2.164. The local bodies also could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate. The local bodies should also be allowed to take reasonable advances from the intending allottees and this will substantially reduce the financial burden in the creation of assets. The local bodies should also have the freedom to create the assets by deploying their own departmental officials or local contractors and should not be compelled to give such projects only to the Government machinery like P.W.D. or other departmental agencies, which consume more time and also charge heavy centage charges resulting in high escalation in cost.

2.2.165. The completion of the project in time will avoid cost escalation and ensure early allotment of the property to the allottees in accordance with the agreements drawn up beforehand. In addition, the allottees should, even at the beginning, be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there was no default in payment of rent or lease amount or no violation of terms of lease.

2.2.166. In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid, if any, shall be forfeited or returned to the defaulter after adjusting the arrears if any due with cost of reauction and a penal fees for default. This method will ensure transparency in the transaction and also instil confidence in the minds of the bidders who seek allotment as in the case of private properties.

2.2.167. The change-over to the new method will definitely help the local bodies realising higher income and better management of the assets of the local bodies. This also will help avoiding intermediaries colluding to depress the lease amount and have a second lease with higher profit.

2.2.168. The Corporations can also adopt the method of Build, Operate and Transfer (BOT) in respect of the assets sought to be created. The privatisation of the maintenance of these commercial assets could also be tried with a view to devolve maintenance on contractors and at the same time to provide for a net return.

2.2.169. Recommendation

The SFC recommends the following for improvement of income from properties:

1. The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate.

2. The local bodies may take advances from intending allottees and this will reduce the financial burden substantially in the creation of assets.

3. The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised Government machinery.

4. The allottees should be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there is no default in payment of rent or lease amount or no violation of terms of lease.

5. In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost of re-auction with a penal fee for default.

6. The local body can also adopt the method of Build, Operate and Transfer (BOT) in respect of assets to be created.

7. The privatisation of the maintenance of these commercial assets on contract system can also be tried with a view to achieve economy in maintenance and to avoid deployment of special staff and to provide for a net return.

8. In all these types of transactions the Government may prescribe suitable buil t- in check to ensure accountability.

Income from Special Services:

2.2.170. The special services like private connections for water supply have been dealt with under user charges. The other main item under this category will be in relation to Town Planning where there is a high potential for collection of development charges. In the case of new Lay Outs coming up or in under-developed localities, there is much scope for defraying the cost of providing basic amenities like roads,lights and drainage through betterment/development charges. This can be tried in Corporations, especially in industrial areas and also in upper middle class and rich neighbourhoods. The charges can be fixed in accordance with the norms fixed by the Chennai Metropolitan Development Authority depending upon the width of the road and the frontage of the property and if the charges are considered to be high, it may be collected in easy instalments. The money collected should not be diverted for other purposes but should form a seperate development fund.

2.2.171. Another income through this source is building licence fees. The local bodies are collecting licence fees for construction/alteration of buildings within their area which has to be approved through plans prepared by the authorised authorities and presented to the local bodies. The charges are based on the rates prescribed by the Director of Town and Country Planning or by the Chennai Metropolitan Development Authority. This is done more for the regulation of the construction of buildings according to the planning system initiated by the planning authorities like CMDA and DTCP. The licence fees is appropriated by the local body concerned.

2.2.172. In the case of unapproved Lay Outs where the buildings are constructed without the approval of the lay out by the planning authorities and without presenting proper plan applications to the local bodies, according to the existing rules, property tax can be levied on the buildings so constructed. The local body will resort to the levy of property tax on such buildings. Once the property tax is collected the owners of the building expect all facilities to be provided by the local body concerned in their respective areas. However, the formation of roads and provision of lights are essential items to be provided by the Lay Out promoters according to the conditions of the Planning authorities.

2.2.173. In the case of unapproved lay outs, the local bodies find it difficult to provide these basic amenities in the absence of approval of the lay out, and the promoters escape after sale of the plots to individuals. At present they have powers to prosecute the persons who have constructed the buildings without proper plan approval and once the Court levies a penalty which is paid by the owner of the building, the local body has to satisfy itself by providing the civic amenities, even though the area continues to be an unapproved lay out. In the case of Chennai and other Corporations there are powers for demolition of buildings constructed without approval but such powers are not available to the other local bodies. Further the demolition process is also a difficult one and can not be normally resorted to due to various pressures and pulls. At the same time, the local body loses the money which could otherwise be collected as development charges in those areas.

2.2.174. The State Finance Commission would like to point out that the Planning authorities should look into this aspect and prescribe necessary and suitable safeguards for the avoidance of such unapproved lay outs, and also for regularisation with deterrent additional levies as penalties.

2.2.175. Even in the case of approved layouts, where the promoter is to provide the roads and lights and hand over the public places to Local bodies, the standard of road is often found bad and only the Local Bodies have to relay and develop the roads. It may also be considered whether the cost of laying roads as per standard norms of planning authorities can be required to be deposited by promoters with the local body at the time of approval of the layouts so that Local Body itself can take up the laying of roads to the standards prescribed.

2.2.176. The local bodies have often indicated that the planning authority like CMDA is collecting development charges through the local bodies while issuing planning permits but these amounts are not made available to the respective local bodies for the purpose of providing the basic amenities in the new developing areas. The CMDA has pointed out that these charges are collected for the use of the CMDA for maintaining the organisation, and also to help the local bodies in providing facilities like bus stands, markets and other common facilities needed in the area; and they would call for projects from the various local bodies and sanction them according to the availability of funds. They also admit that the money collected in a particular area is not earmarked for that area but the total amount collected is being utilised for the benefit of the local bodies who

come up with proposals for projects. The State Finance Commission considers that the responsibility of the local body to provide the initial basic amenities in the newly developed areas is very heavy and hence at least a portion of the development charges collected by the CMDA should be set apart for the concerned local body to meet at least a portion of its liability in creating infrastructure for developing these areas. The Planning authority should, however, make available their technical advice in all these projects to be taken up by the local bodies

2.2.177. It is also found that development charges are not collected by the DTCP in the cases covered by the DTCP while sanctioning plan permits. Local bodies may be empowered to collect development charges in the case of the newly formed lay outs at the time of sanction of the lay out, after permission is granted by the DTCP. The local bodies could utilise that amount for developing the particular area by earmarking the funds for that purpose. The DTCP may, however, prescribe the charges that may be collected by the local bodies as development charges for the purpose of ensuring uniformity, which should be commensurate with the cost of providing the facilities.

2.2.178. Wherever people of a particular locality need extension of certain services to their area from the available services like water supply, lighting, etc., it is found that they are also prepared to contribute a portion of the cost involved to local bodies. The local bodies may be permitted to collect contributions from the public who are willing. If willing, free labour offered also can be accepted.

2.2.179. Recommendations

The SFC recommends the following:

1. Under Town Planning, there is a high potential for collection of development charges.

2. In the case of new lay outs, the cost of providing basic amenities like roads, lights and drainage can be met through development/ betterment charges.

3. This can be tried in Corporations, in industrial areas and in upper middle class and rich neighbourhoods.

4. The charges can be fixed in accordance with the norms of the CMDA depending upon the width of the road and the frontage of the property.

5. If charges are considered high, it may be collected in instalments. The money collected should not be diverted for other purposes but should form a separate Development Fund.

6. Necessary and suitable safeguards may be provided for avoidance of unapproved lay outs in future with deterrent additional levy as penalties.

7. Even when the promoter hands over the lay out as per present regulations after laying roads etc., the standard of road is stated to be very bad and the Local Bodies are compelled to relay them. The cost of laying roads as per standard norms may be required to be deposited by the promoters at the time of approval of layouts, so that Local Body itself can take up the work of laying of roads.

8. SFC considers that the responsibility of Local Body to provide initial basic amenities in the newly developed areas is very heavy and therefore at least a portion of the development charges collected by CMDA should be set apart to the concerned Local Body to meet the cost of provision of basic infrastructure for new developing areas. The Planning authorities should make available their technical advice in the projects to be taken up by the Local Bodies.

9. Wherever people of a particular locality want extension of certain services and are also willing to contribute a portion of the cost, the local bodies may be permitted to collect such contributions from the public. This is likely to create local participation coupled with increased sense of liability on local public against misuse of the assets.

LAND USE:

2.2.180. The urban local bodies like Corporations and Municipalities have vacant lands belonging to them in their areas. It has been indicated during the conferences and also in the District Sittings that the porambokes as well as vacant lands in the local body area have been subjected to encroachment and this has affected the usage of the land by the local body for its betterment.

2.2.181. A survey of the local body may be arranged both in urban and rural areas and all the porambokes and vacant lands belonging to the local bodies may be identified and a list of such assets may be got prepared by each local body. The vacant lands can be put to proper use by opening shopping complexes, markets, bus stands or even slaughter houses wherever necessary.

2.2.182. In the case of layouts, open spaces are indicated for public purposes like schools, shops, Parks etc. Excepting the space indicated for parks, other places are not handed over to Local Body. It is understood that if such spaces allocated are not utilised for the purpose within a year the promoter could convert it as housing site and sell. In most cases, the allocation of spaces is not even known due to the fact that construction and development of the area take place in a phased manner. The places allocated are mostly got converted. To avoid this, the open spaces indicated for shops and schools should not be converted but should be left with local body for allocation for the specific purpose. This will enable the local body to have adequate space for its activities. This will bring income to the local body.

2.2.183. Removal of encroachment is a point on which the representatives of the local bodies have stressed very much during the sittings of the Commission in the Districts. It is stated that for removal of the encroachments, the help of the revenue authorities has to be sought and the local body has no power to evict the encroachers. It is felt that any encroachment within the area of a local body may be permitted to be removed by the local body itself and in the case of lands not entrusted to the local body, the revenue authorities may coordinate and help the local body to remove the encroachments. The road margins on highways which are normally encroached by private users for providing shops etc. should be cleared and the local body concerned should be given powers to use the road margins by having their own shops or by issuing licence to private people for a short term with powers to resume the space at any time when the road margins are required by the Highways Department. This will ensure proper regulation of the area and also augmentation of the income of the local body.

2.2.184. Recommendations

The SFC recommends the following:

1. Both in urban and rural Local Bodies, a survey should be made to list out all the porambokes and vacant lands and a list of such assets should be prepared.

2. Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands,slaughter houses etc.

3. In the new lay outs, open spaces are indicated for schools shops parks etc. Excepting the space indicated for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities.

4. Any encroachment within the local body area should be permitted to be removed by the local body itself.

5. In the case of lands not entrusted to local body, the revenue authorities may coordinate and help the local bodies to remove the encroachments.

6. The road margins on Highways should be cleared of all encroachments and the local bodies should have power to use the road margins to have their own shops or to issue licences to private people for short term leases, with powers to resume as and when required by Highways Department. This will ensure proper regulation of road margins and also augmentation of income for the local body.

LICENSING OF EXISTING MARKET SHOPPING COMPLEXES AND BUS STANDS.

2.2.185. According to the existing procedure, they are leased out in auction and the highest bidder is being allowed to occupy. He is also allowed to continue by paying a nominal increase in the lease amount, even after the lapse of the period. After the lease period of three years, the rules provide for a fresh auction but due to administrative instructions, fresh auction is not resorted to and the existing lessees are allowed to continue with some marginal increases in the lease amount. This procedure affects not only the right of the local body to conduct fresh auction according to the rules but also makes the income more unviable. No doubt it is true that the lessees who have occupied the shops etc., might have gained some amount of goodwill and it would be difficult for them to shift the place of business, after they had established the business at the particular place. But, on this account, the conduct of fresh auction should not be avoided but it should be conducted according to the rules. The present lessee may also be permitted to participate in the auction. During the finalisation of the lease for a fresh term, the existing lessee may be given option to pay the higher bid and his continuance may be considered favourably. One of the conditions for the continuance of the lease must be that he should not have defaulted in payment of the lease amount during the earlier tenure of lease and not violated the terms of lease.

2.2.186. It was also reported that the existing lessees are often becoming defaulters and the existing procedure for collection is cumbersome and the local body is forced to resort to filing of civil suits for collection of arrears, which naturally involve long delay in court proceedings. Even during the pendency of such proceedings, the local body is not in a position to vacate the defaulting lessee, because of administrative directions issued from time to time.

2.2.187. In the matter of lease or continuation of lease, or in the collection of arrears from the lessees, no outside interference should be allowed.

2.2.188. The procedure of Tender-cum-Auction may be adopted and the period of lease may be fixed as three years, with a gradual increase in lease amount or rent once in a year at a percentage to be determined even at the beginning of the lease. At the end of the three year period, of lease, a fresh auction should necessarily be conducted with an upset price suitable to the then market rates.

2.2.189. For the collection of lease amount and arrears, the local bodies should be vested with the powers of distraint not only in respect of moveables but also in respect of the immoveable properties of the lessee.

2.2.190. The procedure of tender-cum-auction will eliminate the chance for depression of bid amount during auction, by formation of a cartel among the bidders, and the likelihood of sub-leasing or sub-letting of the property at a higher rate. The auction and lease should be liable for cancellation by the local body at any time if it is proved or brought to the notice of the local body that there is sub-leasing or sub-letting of the property.

2.2.191. Recommendations:

The SFC recommends the following:-

1. In the matter of lease or extension of lease, there should be no outside interference.

2. Tender - cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage.

3. At the end of three years, fresh auction with an upset price according to prevailing market rates may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding.

4. For collection of lease amount and arrears, the Local Bodies should have the powers of distraint against moveables as well as the immoveable properties.

5. Tender cum auction will eliminate cartels and depression of lease amount in the auction and sub leasing or sub letting. (6) Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

FIXING OF FEES IN THE MARKET BUS STANDS ETC.,

2.2.192. It has been stated that the present provisions enabling the fixation of fees to be collected in markets, bus stands, parking spaces etc. need a re-thinking. It has been stressed that the fee should be reasonably comparable to the rates prevailing in the near vicinity so that the low rate of fee can be avoided. In the case of bus stands, fees are collected from each bus passing through the bus stand directly from the conductor of the bus concerned. Mostly the bus operators are Transport Corporations and only a very few buses are run by the private bus operators in the State. Instead of each local body appointing a person exclusively for the purpose of collecting the fees from each bus passing through the bus stand, it may be considered whether the Transport Corporation itself can be made to pay a lumpsum amount to each local body where the bus stand is situate at a rate to be agreed upon between the local bodies and the Transport Corporations depending on the trips. This will avoid the necessity for each local body to appoint a person for the collection at each bus stand and also avoid leakage of revenue to unconcerned persons. Similarly the private bus operators in the area may also be asked to pay a lumpsum amount to the local body of the area as in the case of transport corporations.

2.2.193. In big urban areas dormitories or lodges may be constructed by the local body in or near the bus stand itself to enable the travellers to stay overnight in case of necessities and this will fetch a sizable income to the local body concerned.

2.2.194. Recommendations

The SFC recommends the following:

1. For collection of bus stand fees from buses,the Transport Corporations may be made to pay a lumpsum to the local body at a rate to be agreed upon depending upon the trips which will avoid the necessity of each local body employing a person to collect the amount. and also avoid leakage. The private bus operators also can be asked to pay a lump sum amount to the local bodies concerned. The amount may be collected in two instalments in advance.

2. In big urban areas, dormitories or lodges may be constructed by the local body in or near the bus stand to enable the travellers to stay overnight and this will fetch a sizable income to the local body concerned.

PRIVATE MARKETS:

2.2.195. There are many private markets in the local body areas. In these cases the local bodies have been permitted to issue licence to such private markets on certain conditions for the operation of the market. Each market generates a sizable amount of income but the local body not only loses its right to open a market in the area because of the existence of the private market but also loses sizeable income. It is often represented that private markets should be acquired by the local body for its maintenance by suitable enactment. The Municipal Finance Enquiry Committee,1980 has also recommended that all these private markets can be acquired and made as public markets and to that extent the Municipal Act may be suitably amended. Due to legal difficulties this recommendation has not yet been followed up. However, in view of the need for regulating the markets, even if a share of the income from the market cannot be obtained, specific service charges may be permitted to be levied for garbage clearance etc. in cases where such special services are to be provided by the local body to the private markets.

2.2.196. The SFC recommends that in view of the need for regulating the markets, even if share of income from private markets could not be got, specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply etc. by the Local Body from the private markets.

2.2.197. **PARKING FEES:** In the case of urban areas where a number of motor vehicles like cars, lorries and two wheelers and also cycles are moving, there is a great

need for providing parking spaces. Such parking spaces may also be located near the railway stations, bus stands and markets. Now the railway authorities are leasing the rights for providing stands for cycles and other vehicles to private individuals. The local body can take up such parking spaces and run and thereby earn a sizeable income. This type of stands are now being operated by many private persons who make huge money out of it. This will not only help in the regulation of traffic but also enable the local body to earn income from this source.

RECOMMENDATION:

2.2.198. Local Body can take up the parking spaces in their areas and run them and earn sizeable income by maintaining cycle stands near the bus stand, railway station and other important places.

2.2.199. INCOME FROM MARKETING COMMITTEES

The SFC recommends the following:

Marketing Committees collect fees and retain them for maintaining their infrastructure. The maintenance of infrastructure of Local Body like roads, environmental sanitation around the market committees is with the Local Bodies. Hence SFC recommends that the fees may be increased and 50 % of the collections may be transferred to the concerned Local Body to compensate for the cost of maintenance of roads and other necessary infrastructure in and around the marketing committees. This may need necessary amendment of the relevant legislations.

GRANTS

2.2.200. The grant-in-aid to Municipal Corporations on revenue account is very meagre covering only 5 % of the total revenue receipts of the Municipal Corporations in 1991-92, 2.6% in 1992-93 and 3.21 % in 1993-94. In terms of per capita, the grant-in-aid works out to Rs.14,21 in 1991-92, Rs.10.53 in 1992-93 and Rs. 10.85 in 1993-94.

2.2.201. The general purpose grants are limited to a few Corporations in select years and the specific purpose grants constitute about 90 % of the total grants in all these three years viz., 1991-92 to 1993-94. Medical grants account for a higher percentage against the specific purpose grants given to the Corporations. The levels of grants vary among the Corporations. In 1991-92 Chennai Corporation has received 64% of the total grants and in 1992-93 and 1993-94 the percentage has exceeded more than 80 %. The variations imply that there are larger imbalances in sharing the grants. Correlation of co-efficient between per capita grant and per capita total revenue receipts has been indicated as 0.12, 0.77 and 0.81 (0.52 average for the three years). This also strengthens the case that the grant distribution policy is often ad hoc in nature. A regular grant made available to all the Corporations and other Local bodies is for Noon Meal Centres since the Centres are run with the government grants provided for the purpose.

2.2.202. In the case of Corporations, in view of the potential available for raising of resources, the grant-in-aid should be limited to the extent of dire necessity in respect of specific purposes. In principle the urban bodies have so far been made to raise resources for maintenance and the assistance from the Government was restricted to Capital Formation and that too mostly by way of loans.

2.2.203. However principles of distribution of funds from the State to the local bodies are being considered by SFC separately, by which, a reasonable share of Government funds will be made available to the Municipal Corporations, and other urban local bodies also though there was no such steady and regular devolution earlier. The need for further grant-in-aid can be studied after experimenting the system of distribution aiming equitable distribution.If there is still need to compensate any short-fall to any of the Corporations, equalisation grant will be necessary.However till the principle of devolution is accepted, the existing grants should be continued. The specific purpose and incentive and statutory grants will have to continue since they have been sanctioned based on certain criteria like reaching the level of services, mobilising more resources or guaranteed by the statute for specific purpose. This has been taken care of while the principle for distribution of general pool is recommended in Part V.

2.2.204. The services like maternity, dispensary, family welfare are based on National goals. They are now indicated in schedule 11 of 74th Amendment for entrustment to local bodies, though they are already dealt with by them. The intention of including these items as entrusted functions will imply the devolution of funds earmarked for the purpose by Central Government and State Government. Hence these activities should be supported with Government assistance by way of grant irrespective of normal devolutions for core civic services aimed at by SFC since these items have not been included in the core services.

2.2.205. There have been frequent representations that the local bodies are not able to contain the level of staff expenditure due to the policy of the Government in sanctioning increased Dearness Allowance based on cost of living index every half year on par with the Central Government employees. The rates paid to the Government servants are applied to the servants of the local bodies also but the local bodies do not have any elastic source of revenue to raise additional resources to bridge the gap arising out of such escalation in cost of establishment every year. In addition the local bodies have to bear the liability of pension for their employees on par with the Government servants. Except in the case of Chennai and Coimbatore Corporations, in all other Corporations and other local bodies there is difficulty in meeting the pensionary liability and in certain cases even the provident fund collections of the employees are frittered away due to deficit financing. When the pay of the local bodies staff was revised with reference to the second pay commission, it was agreed that the Government will subsidise the dearness allowance enhancement from time to time. Though this was adhered to in the early stages. the entire system of D.A. subsidy has not been implemented by the Government for a long time.It has been the request of the local bodies that the Government should compensate the local bodies for the cost involved in paying the increased D.A outside the General devolution.

2.2.206. In this context in States like Maharashtra, Andhra Pradesh and Karnataka, a general purpose grant is being sanctioned to the local bodies to meet a portion of their cost of establishment. There is every justification for sanctioning subsidy for the D.A. increase. Perhaps the percentage may vary between the different tiers of local bodies. The State Finance Commission recommends the reimbursement of D.A. increases to these local bodies.

2.2.207. Recommendations:

The SFC recommends the following:

1. The Specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.

2. Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to Rural Local Bodies)

3. Principles of distribution of funds from State to local bodies are being considered separately. After experimenting the system of distribution, the need for further grants in aid can be studied. If there is still need, Equalisation grants will be necessary. This has been recommended in the Part V "Resource Allocation Mechanism".

4. The reimbursement of D.A.increases may be sanctioned to the local bodies outside the general devolution. There is every justification in the claim, even though the percentage of requirement may vary among the local bodies.

2.2.208. Penalties and fines:

Penalties and fines to be levied for violations furnished in the schedules to enactments relating to each Corporation may be suitably amended with reference to rates proposed under the Tamil Nadu District Municipalities Act, 1920 in Appendix Nos.13 and 14

2.2.209. Transfer to Capital Account :

It was forcefully represented on behalf of the various Local Bodies that even if there was scope for improving the income through remunerative and entrepreneurial schemes, the Local Bodies did not have the required capital to invest. Taking this fact into consideration SFC recommends the creation of a Capital Account in each of the

Local Body as detailed below:

A Capital account may be created by transfer of contributions as under.

Corporations, S.G.& Spl. Grade Municipalities	15% of Total Revenue every year
Other Municipalities and S.G.& Spl.Grade TPs.	10% of Total Revenue every year

From out of the above Capital Fund, the Local Bodies can meet their future capital expenditure for taking up remunerative and entrepreneurial investments.

CHAPTER - 3

MUNICIPALITIES

PROPERTY TAX:

2.3.1. Section 81 of the District Municipalities Act 1920, empowers the Municipal Councils to levy Property Tax on all land and buildings within the Municipal limits except those specifically exempted under the Act. The tax comprises of general purpose tax, tax on water and drainage, lighting and scavenging. Education Tax as per the Elementary Education Act and Library cess as per the Local Library Authorities Act are also levied along with the above components. The Act and Rules made thereunder have not prescribed any maximum or minimum rate of tax, unlike in the case of Corporations and Town Panchayats. Chennai City Municipal Corporation Act prescribes the maximum and minimum at 30% and 19.5% and Madurai City Municipal Corporation Act prescribes the maximum and minimum at 35% and 15.5% In the absence of specific indication about the minimum or maximum, the rate of property tax now in vogue ranges widely from 12.5% to 40% of ARV per year including all component taxes. The general purpose tax alone ranges from 2% to 18%. The component of general benefit taxes collected and their ranges are as follows:

Table.2.26 Municipalities -Property Tax : Ranges of Components

	TAX	RANGE
1.	Water Tax	3% to 13%
2.	Drainage Tax	0% to 4.32%
3.	Lighting Tax	2% to 4%
4.	Scavenging Tax	2% to 3%
5.	Education Tax collected under) Elementary Education Act)	5%
6.	Library Cess collected at the rate of 10% of the total property tax on behalf of Local Library Authority.	

2.3.2. These rates are in vogue for decades. This clearly indicates that the Municipal Councils hesitate to revise the rates substantially and there is no compulsion to have a minimum level of taxation as in the case of other local bodies. This also exhibits that there is complete lack of uniformity in the property tax structure among the Municipalities. Though uniformity is not necessary, the wide disparity reveals that the potential is not fully exploited by the Municipalities. It is necessary that there should be a minimum level of efforts on the part of the Municipalities though the maximum can be left to their discretion depending upon inflationary trend, local need and conditions. This is especially needed when a rationalised system of distribution of Government funds to

weaker local bodies is to be introduced. All the local bodies should be made to exploit a minimum level of taxation and they cannot be allowed to earn more assistance as a weaker institution without proper tax efforts. The Commission therefore recommends that a minimum of 15% of ARV as Property Tax for a year (excluding the education tax and library cess which are chargeable under separate enactments) may be provided by means of suitable amendments to the Act and the rules.

2.3.3. The Shanmuga Sundaram Committee, which dealt with the finances of the Municipalities, recommended a progressive slab rate on the principle of ability to pay. The Taxation Enquiry Commission, 1953-54 has however opined that progressive taxation cannot be suitably introduced as a feature of property tax levied by local bodies. Even in Chennai Corporation where there was a progressive slab rate in vogue, with the switching over to plinth area rental value, the progressive slab rates have been given up.

2.3.4. The Property Tax yields major income to the Municipalities also, which accounts for one third of the total revenues and more than 85% of the total tax revenues. In terms of per capita it yielded Rs.273 against the total per capita income of Rs.799 of Municipalities in 1993-94.

Table 2.27 Municipality : Composition of Own Tax Revenues

Own Tax Sources	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
	(Rs. in crores)					
Property Tax (PT) : Tax on General Purposes	10.15	22.80	11.12	23.20	12.94	20.14
Scavenging Tax	4.54	10.19	4.95	10.33	5.80	9.02
Lighting Tax	4.78	10.74	5.29	11.04	6.37	9.91
Water Tax	10.62	23.85	12.23	25.55	15.28	23.78
Drainage Tax	2.82	6.34	3.06	6.39	3.58	5.58
Education Tax	6.41	14.39	6.99	14.59	8.50	13.23
Library Cess	0.54	1.21	1.14	2.38	1.42	2.21
Total P.T	39.87	89.52	44.78	93.48	53.90	83.88

There are about 22.76 lakhs assessees in all the Municipalities as detailed below:

Table 2.28 Municipality: Details of Property Tax Assessees.

	No. of Assesses in Lakhs	% of Nos.	Demand in Rs. Crores	% of Demand
Residential	16.53	72.63	47.57	65.46
Non-Residential	6.11	26.84	20.68	28.45
State Government	0.09	0.41	3.87	5.33
Central Government	0.03	0.12	0.55	0.76
Total	22.76	100.00	72.67	100.00

2.3.5. About 73 per cent of the total assessees are residential contributing Rs.47.57 crores accounting for 65.46 % of the property tax, while non-residentials consisting 26.84 per cent of the total assessees contribute only Rs.20.68 crores accounting for 28.45%. State and Central Government properties form only 0.53 per cent of the total assessees contributing Rs.4.42 crores accounting to about 6 % of the property tax income. Contribution from Government properties is also significant compared to the lesser number of assessees. The average tax per assessee in absolute figures realised from non-residential category is 1.18 times over the contribution from the residential assessees. This indicates that efforts to enforce higher level of taxation from non-residential assessees are not adequate. In view of the wide variation in the rates of taxation adopted by the Municipalities, there will be correspondingly wide variation in the per capita income among the Municipalities from out of the property tax. The variations are not only due to the different rates adopted but also due to the pattern or method of assessment adopted and collection performance. If a minimum level of taxation and a common pattern of assessment are ensured there is adequate scope for improvement of resources from this source. The overall collection performance of the Municipalities under Property Tax varies from 51% to 75%. With simplification of the procedure for collection and systematic and regular follow up of the defaulters, the collection performance should substantially increase.

2.3.6. A pendency of 56,850 cases involving Rs.12.19 crores of Property Tax due to litigation also contributes for the low collection. The balance of property tax collectible at the end of 93-94 is Rs.48 crores of which roughly about one fourth is pending on account of litigation. It is stated that this is mainly due to quinquennial revision done with effect from 1.10.93 (II Half year 1993-94) and large number of the litigation is due to this quinquennial revision cases. The remaining balance is huge and reflects the lack of performance on the part of the local bodies concerned to make an effective follow up. It is also not clear whether there is stay by the court in respect of the entire amount covered by litigation. The position evidently needs more detailed scrutiny. Better control and review by supervisory authorities at Regional level is likely to reduce the pendency of cases in courts as well as on other arrears.

2.3.7. The realization of income out of the components of property tax does not match the cost of services incurred and there is wide variation between the income and expenditure.

Table 2.29. Municipality - Income from Propety Tax Components with Corresponding Expenditure.

	Average Income (Rs. in Crores)	Average Expenditure (Rs. in Crores)
ScavengingTax	5.80	31.48
Lighting Tax	6.37	6.56
Water Tax	15.28	12.01
Drainage Tax	3.58	1.99
Total	31.03	52.04

2.3.8. Hence the property tax can be divided into two components, (1) General Purpose Tax and (2) Service tax, as has been referred to while dealing with the Corporations, with liberty to fix the components of service tax in proportion to total needs of the concerned Municipality and to appropriate the amount realised from service tax for the different services with priority according to local conditions. This kind of a combined levy of service tax can be imposed on those who claim exemption from payment of property tax. Detailed discussion has been already made under Municipal Corporations on this subject.

TAX REFORMS

2.3.9. The Municipalities also resort to annual rental value basis for the purpose of levying property tax. Instructions have been given by the Director of Municipal Administration in 1993 to adopt the basic value for different zones for the purpose of fixation of ARV. The basic value is to be based on rental yield per Sq.ft. per month in respect of residential properties. The Municipalities have been instructed to adopt the rent obtained per month for newly constructed RCC residential buildings measuring 1000 Sq.feet and to convert it to annual rental value per Sq.ft. This basic value will depend upon the property value in different locations in the zones. Over this value, discount for (i) age of the building, (ii) owner's occupation have also been indicated. Since the rental value has been fixed for RCC buildings, further discounts have been indicated with percentage of deduction to be made for the various types of buildings as detailed below:

1.	For Rcc Buildings	..	No allowance
2.	For tiled, AC sheet and GA sheet, etc., roof buildings	..	25%
3.	For thatched roof buildings	..	50%

2.3.10. Similarly instructions have been given to adopt incremental rates based on the use of the buildings, namely, (i) industrial use, (ii) commercial use, (iii) nursing homes, (iv) Kalyana Mandapam etc. At the same time instructions have also been given to limit the increase of absolute Tax amount during quinquennial revision as detailed below:

(i)	Residential Buildings (Owner occupied)	..	Enhancement should not exceed 50% of the pre-revision tax
(ii)	Residential buildings (Rented)	..	Enhancement should not exceed 100% of the pre-revision Tax.
(iii)	Industrial buildings	..	Enhancement should not exceed 150% of the pre-revision tax.
(iv)	Commercial buildings	..	Enhancement should not exceed 200% of the pre-revision tax.

(v) In no case revised tax should be less than the existing tax. The above instructions are specific only for the General Revision done from 1.10.93 and not made applicable to Regular assessments for which orders of Government prescribing guidelines are stated to be awaited.

2.3.11. System of filing of Returns by the assessees has also been introduced as per the circular in the Municipalities. It is understood that the majority of the assessees have not filed their returns and hence it was not possible to make assessments based on the returns. The officials of the Municipalities have been deputed to obtain returns and also to verify the particulars given in the returns wherever received since most of those who have filed the returns, have furnished incorrect particulars.

2.3.12. It appears that the system of filing return by assessees has become operative in Chennai, Coimbatore and Madurai Corporations, in view of transparency exhibited in fixing plinth area value by consultation and publication of Directory. The Municipalities should first make assessees aware of the tax reforms and publish the rates fixed location-wise and then call for the returns. It is likely that there will be more voluntary returns as found in Chennai. Fixing of ceiling for the quantum of increase in Tax during the quinquennial revision, was resorted, to avoid steep increase in tax likely to arise due to the postponement of quinquennial revision for many years and such steep increase was likely to create protests from the tax payers. When the local body has freedom to levy and collect tax it is not fair to fix any ceiling on the amount to be levied and collected by them. This will result as disincentive in mobilising additional resources.

2.3.13. The circular issued by the Director of Municipal Administration also aims at adopting plinth area rental value system suitable to locality. Since the system now introduced in the Corporation of Chennai, Coimbatore and Madurai has been successful

the relevant Acts and Rules may be suitably amended to enforce the method of assessment now followed in the Corporations, in Municipal Bodies also to avoid different methods. The Task Force have recommended various rates applicable to Chennai Corporation, other Corporations, Municipalities and also to Town Panchayats. The State Finance Commission has recommended rates to be adopted in the respective urban local bodies in Appendix No.

Collection:

2.3.14. The collection of Property Tax in Municipalities needs improvement as already stated earlier. The statement below indicates the collection performance for the three year from 1991-92 to 1993-94.

Table 2.30 Municipality - Details of Demand and Collection of Property Tax

(Rs.in Crores)

GRADE	1991/92		1992/93		1993/94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	23.42	14.29 (61.01)	26.85	15.97 (59.48)	35.58	18.53 (52.08)
Selection	16.14	9.28 (57.47)	16.60	8.87 (53.42)	22.29	11.89 (53.32)
First	20.38	10.41 (51.11)	21.14	12.00 (56.77)	27.08	20.17 (74.47)
Second	12.99	5.55 (42.72)	13.66	6.86 (50.23)	17.64	8.15 (46.20)
Third	2.12	1.30 (61.10)	2.54	1.43 (56.34)	3.34	1.73 (51.99)
Total	75.05	40.83 (54.40)	80.79	45.13 (55.86)	105.93	60.47 (57.08)

Note: Demand includes current demand and opening balance; figures in brackets give percentage of collection to total demand.

2.3.15. The various other issues and points connected with assessment, levy and collection and also exemption from tax, discussed under the Corporations, will apply equally to the Municipalities also.

2.3.16. The Municipal Bodies lose a substantial sum of about Rs.5.7 crores due to exemptions given to buildings of charitable and educational institutions in their areas.

2.3.17. The assessment, levy and collection of vacant land tax dealt with under Corporations will be applicable to Municipalities also.

2.3.18. In the case of appeals on assessment, the general views expressed by the representatives of the local bodies during the District sittings favour the creation of a tribunal exclusively for the disposal of local body cases within the proximity of the concerned local body. This has also been dealt with under Municipal Corporations and the recommendations will be applicable to the Municipalities also.

2.3.19. Recommendations:

The SFC recommends the following

1. A minimum of 15% and Maximum of 35% Tax on ARV a year (excluding education tax and library cess levied under suitable enactment may be prescribed by suitable amendments to the Tamil Nadu District Municipalities Act, 1920 and the Rules.

2. If a minimum level of taxation and a common pattern of assessment are ensured, there is adequate scope for improvement of resources.

3. The collection of Property Tax in Municipalities needs improvement. Better control and review by supervisory authorities at Regional level is necessary to reduce the pendency through court cases as well as arrears and to improve performance of collections.

4. Property tax can be divided into two components(1)General Purpose Tax (2) Service Tax, as recommended under Municipal Corporations.

5. The combined levy of service tax can be imposed on those who claim exemption from payment of property tax as recommended under Municipal Corporations.

6. Tax Reforms: The various rates recommended in Schedule in Appendix No.11 indicates the rates for Municipalities. They may be adopted by the Municipalities.

7. The method of assessment, levy and collection of Property Tax, Service component tax and vacant land tax recommended under Corporations will be applicable to Municipalities also.

8. All tax reforms recommended under Corporations shall apply to the Municipalities.

Profession Tax

Profession Tax

2.3.20. The details of this taxation have also been discussed elsewhere. The present Act applies to all local bodies uniformly and the rates indicated therein are also applicable to all the persons liable to pay Profession Tax under different categories. The yield from Profession Tax accounted for 6.6% of the aggregate revenue of all the Municipalities during the year 1993-94. In the year 1991-92 it was 3.7 % which fell down to 2.3% in 92-93. The income from Profession Tax accounted for 16.11% of Tax income in 1993-94. Since the new Act came into force from 1992 there was increase in the income during the year 1993-94. This contributed to Rs.53 per capita out of total income of Rs.799 per capita. As has already been explained under the Corporations, there is a lot of scope for further income from this source. The total demand with category of assessees in Municipalities is given below:

Table 2.31. Municipality - Profession Tax: Asseesses and Demand

Category of Assessees	Number (in lakhs)	Amount (in crores)
Salaried	2.94	4.44
Shops and Establishments	0.75	1.64
Companies	0.20	0.82
Banks	0.03	0.23
Professionals	0.05	0.23
Doctors & Legal practitioners		
Others	0.23	0.66
Total	4.20	8.02

2.3.21. As may be seen from the table above, the maximum income accrues only from salaried classes. The other categories, namely, companies, self-employed persons, professionals etc. have not been fully brought into the tax net perhaps due to litigations pending till 1993-94. The rate of Tax has since been modified by the Government as discussed in detail under Corporations. With the modification of slabs and reduction in rates, it is hoped that the assessees under the other categories could now be brought into the Profession Tax net. The income under this head will increase substantially if efforts are made to map the assessees in the area and steps taken to initiate penal action for non-compliance of enrolment and registration as required in the new enactment. Even mere issue of notices in a few cases is likely to motivate the assessees to apply for voluntary registration. All recommendations under Municipal Corporations will apply to Municipalities.

Tax on carriages, animals, carts etc.

2.3.22. The general opinion is that this tax can be abolished. The collection is not worth even the cost involved. The Government have already abolished the vehicles tax. In view of the difficulties encountered in the levy and collection and the high expenditure involved in mobilizing this tax resource, this tax may be abolished. However, as already explained, automobile vehicles which do not come under the purview of the Motor Vehicles Taxation Act, may be brought under the tax net.

2.3.23. The recommendations relating to taxes viz., Vehicle Tax, Tax on advertisements, Pilgrim/tourist tax and all other Taxes dealt with under "Municipal Corporations" will apply to the Municipal Bodies.

New Tax Domains:

2.3.24. Under the new tax domains, (i) Advertisement tax on hoardings, (ii) Cable T.V have been suggested and discussed in detail under the Corporations. The benefits of these sources are intended to apply to all the Local bodies. The detailed discussions have already been made under Municipal Corporations.

Additional Assignments of State Taxes:

2.3.25. Similarly the recommendations relating to assignment/sharing of revenue from the following State Taxes have also been discussed earlier under Municipal Corporations and the recommendations made therein will be extended to Municipalities also.

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State excise duties
4. Motor Vehicles Tax
5. Agricultural income tax
6. Sugarcane cess
7. Urban land tax
8. Terminal taxes on goods or passengers carried by railways, sea, or air.

Tax on Agricultural Lands:

2.3.26. There is Specific Provision under Sub Sec 4(a) of Sec 81 in the District Municipalities Act 1920 to levy tax on Agricultural lands. It is understood that this levy has been discontinued due to the Executive instructions from Government. The L.R. is collected by Government from all Lands irrespective of whether they come under Rural or Urban Local body. The Rural Local bodies have been assigned income from the Lands

by way of Local Cess and Local Cess surcharge. No provision for such cess or surcharge is available in the Acts relating to Urban Local bodies, perhaps on the presumption that these bodies have more of non agricultural population and the income from land will not be substantial. The present composition of Municipal and Corporations areas have sizeable cultivable lands. It is fair that this category of population should also contribute to the Local body finance. The Government may permit taxing on Agricultural Lands by the urban bodies or pass on the LR collected in the area to the Local Bodies viz; Municipalities and Municipal Corporations and Town Panchayats.

The SFC also recommends that Government may examine the levy of Local Cess and Local Cess Surcharge in these areas also by suitable amendment to Act and assign the revenue to Local Body concerned.

2.3.27. Recommendations

The SFC recommends the following:

1. The Government may permit the Municipalities to tax on the agricultural lands authorised under sub-section (4)(a) of section 81 of Tamil Nadu District Municipalities Act, 1920 or pass on the land revenue collected in the area to the Urban bodies concerned.

2. A Local Cess and surcharge as in the case of Rural bodies may be provided for in the District Municipalities Act 1920 and collected in Municipal /Town Panchayat areas and passed on to Municipalities/ Town Panchayats. Newly constituted Municipalities/Town Panchayats have sizeable agricultural lands within their areas.

Assigned / Shared Taxes: (Existing)

2.3.28. The assigned revenues now available to Municipalities are the same as available to the Municipal Corporations viz;

i. Entertainment Tax,
ii. Surcharge on Stamp Duty,
iii. Surcharge on Sales Tax and
iv. Income from minor minerals, and
v. Toll compensation.
vi. The portions relating to all the above items except item iv. have been dealt with in greater detail under Municipal Corporations and recommendations made therein will equally apply to the Municipalities. The income from minor minerals is being dealt with separately under the Panchayat Unions and the recommendations made therein will apply to all urban bodies including Municipalities. The income from existing Assigned/Shared Taxes is as follows.

Table 2.32 Municipality - Assigned Revenues according to Sources

(Rs. in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Surcharge on Stamp Duty	14.92	43.14	20.84	51.02	18.12	46.23
Surcharge on sale tax	3.19	9.23	2.54	6.23	0.74	1.88
Local Cess	0.00	0.00	0.00	0.00	0.00	0.00
Entertainment Tax	15.85	45.83	16.49	40.37	19.34	49.33
Toll Compensation	0.61	1.77	0.90	2.21	0.99	2.52
Lease on Mines &Minerals	0.01	0.03	0.07	0.17	0.02	0.04
Total Assigned Revenue	34.58	100.00	40.84	100.00	39.21	100.00

The Surcharge on Stamp Duty and Entertainment Tax contributed major income.

2.3.29. Recommendations:

The SFC recommends the following:

1. Recommendations made under Municipal Corporations regarding all assignments under Surcharge on Stamp Duty , Entertainment Tax, Sales Tax will apply to the Municipalities.

2. Regarding the income from minor minerals the recommendations made under the Panchayat Unions will apply to Municipalities.

Grants:

2.3.30. The details of grants available to Municipalities and income derived are given below:

Table 2.33. Municipality: Details of Grants From State Government(Rs.in Crores)

Details	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
For General Purpose	1.46	13.49	0.88	13.10	0.80	12.69
For Specific Purpose	0.49	4.54	1.61	24.05	1.82	28.75
Roads						
Public Health	0.46	4.24	0.43	6.27	0.49	7.69
Medical	0.29	2.69	0.48	7.11	0.65	10.27
Noon-Meal Centres	0.36	3.35	0.50	7.51	0.51	7.98
Education	7.28	67.01	1.57	23.49	1.95	30.75
Total for specific purposes	**8.88**	**81.83**	**4.59**	**68.53**	**5.42**	**85.44**
Incentive Grants						
Small Savings incentive	00	0.00	0.09	1.41	0.02	0.32
House Tax Matching Grant	00	0.00	0.24	3.72	0.01	0.20
Total	**00**	**0.00**	**0.33**	**5.13**	**0.03**	**0.52**
Compensation Grants	0.51	4.68	0.89	13.24	0.09	1.35
Total	10.85	100.00	6.69	100.00	6.34	100.00

2.3.31. The Grants have yielded Rs.11.12 per capita and contributed 5.73% of total income . House Tax Matching Grant relates to a few Town Panchayats recently upgraded as Municipalities. No such grant is available to Municipalities as such. The Municipalities are expected not only to maintain civic amenities like roads, water supply, lighting, public health, sanitation, solid waste management, garbage clearance, Public Health Protection, but also Maternity and child welfare Centres and dispensaries on medical side. The revenue derived from the available sources to Municipalities is very limited, inelastic and inadequate to meet the minimum level of civic amenities to be provided to the public. The basic policy governing fiscal relationship between the State Government and Municipalities had so far been to enable the municipalities to achieve self-sufficiency in finances on the revenue account through their own efforts, with support from State Government only for capital finance requirements. The State Government should therefore be willing to ensure that the revenue capacities of the Municipalities are enhanced by assignment of buoyant taxes. Inadequacy of resources and inelastic nature of this source of Municipalities are known factors. Even the property tax and profession tax which contribute major resources are inelastic and cannot be increased often. Besides the mobilisation of additional revenues from these two sources also has been subject to outside interference. The revision of property tax has not been done regularly for the last two decades, due to postponements ordered. Even when revision was done, ceiling for

quantum of increase was prescribed. Similarly, in the case of profession tax many of the assessees could not be brought under tax mapping due to resistance and frequent litigation on the very enactment itself.

2.3.32. While these are the constraints on resource mobilisation, Municipalities have to incur sizeable expenditure on establishment due to the policy of Government in extending all benefits applicable to the Government employees to Local Body employees. Provision of services like maternity centres is governed by population norms adopted by national and state Governments. So also, minimum norms for lighting and Water supply have also been aimed at. The above factors contributed to a higher level of expenditure on services at Municipalities. The aspirations and expectations of local public have also grown substantially. Unless Government is willing to ensure assignment of some more buoyant taxes indicated earlier to the Municipalities, it may not be possible for them to meet the entire revenue expenditure from out of their own resources.

2.3.33. It is necessary that the Municipalities have to be considered for a regular system of Revenue grants-in-aid from the State Government to enable them to keep at even keel as recommended under Corporations. To avoid any complacency on the part of Municipalities, the eligibility for grant-in-aid may be related to capacity as well as performance of the Municipality in the different grades.

2.3.34. A system for distribution of the allocations to be made by State to Local Bodies is being suggested by the State Finance Commission elsewhere and on that basis, a regular assistance for the Municipalities could be provided to help those which are really in need of help.

2.3.35. In this context, it is pertinent to point out that other States like Karnataka, Andhra Pradesh and Madhya Pradesh sanction general purpose grants to Municipalities to match a portion of their cost of establishment. In this context the need for aassistance for staff expenditure by way of D.A. Subsidy has been examined in detail and recommendations made under Corporations applicable to all Local bodies.

2.3.36. Recommendations:

The SFC recommends the following:

1. It is necessary that the Municipalities have to be considered for a regular system of Revenue grants from the State Government.

2. To avoid complacency on the part of Municipalities, the eligibility for grants-in-aid may be related to the fiscal capacity as well as performance of the Municipality in the different grades. A distribution system is being formulated by State Finance Commission.

3. All recommendations relating to D.A. Subsidy will apply to Municipalities also.

4. Specific Purpose and Incentive grants now available may be continued.

NON-TAX REVENUES:

2.3.37. The non-tax revenues of the Municipalities are the same as available to the Municipal Corporations. The details are given in the Table below:

Table 2.34. Municipality - Non-Tax Revenues According to Soruces(Rs.in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Licence Fees	3.66	10.65	4.32	10.78	4.85	10.22
Income from properties	16.41	47.77	18.09	45.17	19.53	41.13
Income from Spl.services	9.09	26.46	11.91	29.76	15.77	33.21
Other miscellaneous receipts	5.19	15.11	5.72	14.30	7.33	15.43
Total non-tax revenue	34.35	100.00	40.04	100.00	47.48	100.00

2.3.38. Non tax resources have been dealt with in detail and various suggestions have been made for improvement of the existing source of income by revision of rates, simplification of procedures and better enforcement. All these recommendations will equally apply to Municipalities and they are not dealt with separately. The income from this source has contributed 29.22% of total income and Rs.56.74 per capita.

2.3.39. Recommendations:

Recommendations for improvement of existing source of income by revision of rates, simplification of procedures and better enforcement in respect of all items of Non-Tax Revenues made under the Municipal Corporations will apply to the Municipalities also.

2.3.40 Penalties and Fines:

The revised rates for penalties and fines adopted in Schedules VII and VIII of Tamil Nadu District Municipalities Act, 1920 are indicated in Appendix No.13 and 14. This will apply to Town Panchayats also.

2.3.41 D & O Trade Licences:

The revised maximum rates proposed for D & O Trade Licence Fee are given in Appendix No.12 A minimum percentage of levy to be enforced has also been indicated therein:

CHAPTER - 4

TOWN PANCHAYATS

2.4.1. Town Panchayats were, for the first time constituted, under the Tamil Nadu Panchayats Act 1958. They were among the constituents of the Panchayat Union Councils. The entire community development schemes implemented in early 60s were executed Town Panchayats also. The origin of Town Panchayats and their relative position in the previous Acts and how this nomenclature has adversely affected the Town Panchayats as well as Tamil Nadu in the allocation of resources made available to panchayats by the Government of India under various Employment oriented schemes have been dealt with in greater detail under the Part IV relating to ' "Organisation and Powers". It has also been explained that most of the Town Panchayats now in existence do not statisfy the ingredients prescribed for the upgradation of Village Panchayats as Town Panchayats. Most of them still do not have the Urban characteristics barring a few, who are also very weak financially. Once they become Town Panchayats they lose the assistance available to a Village Panchayat and they are also saddled with higher establishment expenditure.

2.4.2. The revenue sources now available to the Town Panchayats are based on Tamil Nadu Panchayats Act 1994 as detailed below.

1. House Tax
2. Profession Tax
3. Vehicle Tax
4. Tax on agricultural land for specific purposes.

2.4.3. The income from these sources in the years 1991-92 to 1993-94 is given below:

Table 2.35. Town Panchayats - Composition of Own Tax Revenues

(Rs. in Crores)

Own Taxes	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
House Tax	15.67	72.89	15.92	79.80	16.82	49.58
Water Tax	1.48	6.90	1.56	7.82	1.74	5.12
Profession Tax	4.04	18.77	2.12	10.64	14.89	43.87
Tax on Carriages & Animals	0.01	0.06	0.01	0.04	0.15	0.43
Tax on Carts/ Vehicles	0.06	0.27	0.06	0.29	0.06	0.17
Tax Agricultural Land	0.07	0.32	0.07	0.34	0.10	0.29
Pilgrim Tax	0.17	0.79	0.21	1.07	0.18	0.52
Own Tax :Total	21.50	100.00	19.95	100.00	33.94	100.00

House Tax:

2.4.4. The Town Panchayats levy house tax while the other urban local bodies levy property tax. The distinction in the ingredients between the Property tax and house tax is that the House Tax is levied only on the building and property tax is levied on the building and also on the land appurtenant to that building. The Property tax has components for services while House Tax does not have such components. Though the Town Panchayats have been brought under the 74th Constitutional Amendment Act and included under the District Municipalities Act 1920 as transitory area, they are allowed to continue the same taxes levied under the Tamil Nadu Panchayats Act 1994 till they switch over to taxation under the District Municipalities Act.

2.4.5. During the course of District sittings and also in the conference of the Executive Officers of Town Panchayats, views in favour of switching over to the municipal taxation was stressed. Though these institutions are considered as a transitional area between the rural and urban, they may be allowed to switch over to the municipal taxation, so that, when they are upgraded as Municipalities, there may not be difficulty in following all the taxation policies.

2.4.6. At present the House Tax does not have any service components and only those who have protected water supply schemes, levy water tax in addition to House Tax under Public Health Act. Under the property tax, components for various services like scavenging, lighting, water and drainage are included. In the case of Town Panchayats no education tax could be levied since they have no responsibility on primary education. A General Purpose property tax and a service tax consisting of water, drainage, lighting and scavenging can be levied by the Town Panchayats on par with the other urban local bodies.

2.4.7. At present the house tax is levied at a maximum of 20% on the Annual Rental Value or at 1% of the capital value per year. Most of the Town Panchayats have resorted to levy based on ARV. The rate of levy ranges from 5 to 20 %. The details of income from House Tax is given below:

Table 2.36 Town Panchayats - House Tax - No. of Assessees

	Assessees Nos. (In lakhs)	%in Nos.	Demand yield (Rs.in Crores)	Per centage
Residential	18.26	83.01	12.60	71.28
Non-Residential	3.57	16.23	4.11	23.25
State Government	0.16	0.70	0.91	5.14
Central Govt.	0.01	0.06	0.06	0.33
TOTAL	22.00	100.00	17.68	100.00

Exempted cases		Demand
Education	:	Rs. 1.01Crores
Charities	:	Rs. 0.40 Crores

2.4.8. The income from House tax ranged from Rs.15.42 crores to Rs.16.53 crores in the years 1991-92, 1992-93 and 1993-94, and contributed about 19.24% of the total income. The percentage of income has fallen down during the years 1992-93, 1993-94 (From 24.4% in the year 1991-92 to 21.9% in 1992-93 and 19% in 1993-94.) In terms of per capita the income ranges between Rs.18 and Rs.19. The per capita income from this source is very low. The income per assessee was as below:

Table 2.37 Town Panchayats - House Tax - Income per Assessee

Residential	:	Rs. 69.00
Non-Residential	:	Rs.115.13
Ratio	:	1:1.47

The tax on non residential should contribute at least two to three times the tax on residential. Hence there is scope for tapping from non-residential. The collection performance under this tax is very low and varies widely in the different grades of Town Panchayats from 54% to 69%. The tax yield is static without any substantial growth.

2.4.9. The tax administration in the Town Panchayats needs revamping. The reason for low performance is attributed to the ban on general revision for two decades . Though the ban has been lifted in Municipalities the Town Panchayats are still awaiting instructions. Sizable amounts have been lost due to non-revision for two decades, namely, 4 general revisions. It will be difficult to enforce the general revision based on the current value of the properties since it will lead to steep rise in the tax amount which will be resisted by tax payers. The views expressed during District sittings,the replies received to the questionnaires from public, VIPs and NGOs and opinion gathered through in-depth study, reveal that the local public are not unwilling for increase in tax. They prefer general revisions regularly and in a systematic manner. They are averse to the steep increase consequent to non revision for several years. This aspect was discussed by Damodaran Committee in 1990. The loss of income to Town Panchayat is due to the policy of Government. That committee recommended compensation in cases where such postponements are ordered by higher authorities. The Acts and Rules should be suitably amended to prohibit postponements The law should also be specific to the effect that compensation should be paid to the local bodies whenever any tax or cess or other levies of the local bodies are either waived or postponed by Government.

2.4.10. The main reform needed in Town Panchayats is to introduce property tax.Other reforms on assessment, levy, appeal, collection and distraint under Municipal Corporations/ Municipalities should apply to the Town Panchayats.

Tax rates which may be adopted by Town Panchayats. The General revision of taxes zone wise during the course of 3 years, instead of undertaking revision at the end of the 3rd year, has also been suggested based on experience of the Municipal Corporations like Chennai, Coimbatore and Madurai This and the other suggestions relating to Tax Tribunal, dispensing with demand notices, introduction of pass book system, collection through counters and banks, follow up of the defaulters through bill collectors, awarding of incentives to the tax collection payers for prompt and advance payments, introduction of incentive to the tax collection machinery made under Municipal Corporations may be made applicable to Town Panchayats also.

2.4.12. The percentage of components under the service tax may be examined in detail by the department keeping in mind the priority of the service within the maximum ceiling prescribed for the property tax The Government have prescribed in the Tamil Nadu Panchayats Act, the minimum and maximum level for House Tax but no such ceiling is available for the municipal bodies. A minimum of 15% per year may be prescribed including components for Town Panchayats. Those who levy already higher than the minimum will continue at that level and any reduction of rate should have approval of 'Inspector'. This tax can be divided into two components viz. general purpose and service tax as recommended under Municipal Corporations.

2.4.13. Recommendations:

The SFC recommends the following:

1. The main reform needed is to introduce property tax in Town Panchayats by switching over from the House Tax now levied under Tamil Nadu Panchayats Act, 1994.

2. All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/ Municipalities will apply to Town Panchayats also.

3. The Property tax at plinth area monthly rental value specifically proposed for Town Panchayats for various locations and furnished in Schedule in Appendix No. 11 may be adopted by Town Panchayats.

4. The General Revision of Property Tax in Town Panchayats may be taken up every year dividing the total area zone-wise on a cyclic system in three years instead of undertaking revision at one time at the end of the final year.

5. All recommendations relating to formation of Tax Tribunal, dispensing with demand notices, introduction of Pass Book system, collection through counters and banks, follow-up of the defaulters through bill collectors, awarding of incentives to tax payers for prompt and

collectors, awarding of incentives to tax payers for prompt and advance payment, introduction of bonus to collection staff who achieves higher percentage of collection as indicated under Municipal Corporations will apply to Town Panchayats also .

6. The components falling under the service tax (viz., part of Property Tax) may be examined in detail and fixed keeping in mind the priority of service in the Town Panchayats subject to the maximum ceiling prescribed for the property tax. However, at least 50 % of service tax may be made available for water supply.

7. A minimum of 15 % and maximum of 30% per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

Profession Tax:

2.4.14. The details of Profession Tax assessees in Town Panchayats are given below:

Table 2.38. Town Panchayats - Profession Tax - Details of Assessees

	No. of Assessees (In Lakhs)	Demand (Rs. in crores)
Salaried	2.89	6.02
Shops and Establishment	0.68	1.23
Companies	0.17	0.78
Banks	0.03	0.27
Other Professionals Consultants Lawyers and Medical Practitioners	0.88	0.51
Total	4.65	8.81

2.4.15. Profession Tax is levied in Town Panchayats on the same basis as in other local bodies viz., Corporations and Municipalities since the present enactment is common to all the Local bodies. There are about 3.77 lakhs assessees under the salaried class and about 0.88 lakhs assessees under the non-salaried sector of which professionals like Doctors, legal practitioners, consultants etc. account for 2.27% Town Panchayats derive about Rs.8.30 crores from salaried classes and Rs.0.51 crores from others. In terms of per capita the income from this source accounted for Rs.5 in 1991-92, Rs.2 in 1992-93 and Rs.17 in 1993-94 and in terms of percentage this source contibuted 6.4 % in 1991-92, 3% in 1992-93 and 17.1% in 1993-94 of the total income. The jump in revenue in 93-94 was due to the implementation of the new enactment of 1992.

2.4.16. Recommendation:

The SFC recommend the following:

All the recommendations made under Municipal Corporations will apply to Town Panchayats also.

Vehicles Tax:

2.4.17. The Town Panchayats levy Vehicles Tax under the Tamil Nadu Panchayats Act, 1994. When they switch over to the Municipal Act, they will be eligible to levy Tax on Animals and Carriages and Tax on Carts as envisaged under the District Municipalities Act. The Vehicles Tax has since been abolished by Government. The recommendations made under other Municipal bodies will be applicable to the Town Panchayats.

2.4.18. Recommendation:

The SFC recommend the following:

Vehicles Tax has since been abolished by the Government. The recommendations made under Municipal Corporations to cover two wheelers will be applicable to Town Panchayats also.

Tax on Agricultural and for Specific purposes:

2.4.19. The Town Panchayats are eligible to levy tax on agricultural land for specific purposes under the Tamil Nadu Panchayats Act, 1994. This tax was available even under the Tamil Nadu Panchayats Act, 1958. During the last 40 years, negligible number of Panchayats utilised the provision. Even with a matching grant provision the Town Panchayats have not exploited this source, Damodaran Committee (1990) discussed this and recommended modification of the provision by necessary amendment to enable levy of development charges on all assessees in the locality without specific reference to agricultural land. When the Town Panchayats switch over to the taxation under Municipal Act they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

Pilgrim/Tourist Tax:

2.4.20. The recommendations made under 'Municipal Corporations' may be extended to Town Panchayats also.

Assigned/Shared Revenues:

2.4.21. The details of Assignments/Shared Taxes available to Town Panchayats are as below:

Table No.2.39 Town Panchayats - ASSIGNED/SHARED REVENUES BY SOURCES
(Rs. in Crores)

Sources	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Surcharge on Stamp Duty	17.68	83.54	23.43	84.83	22.47	83.82
Surcharge on Sales tax	0.27	1.29	0.68	2.46	0.33	1.23
Local Cess	0.26	1.25	0.37	1.35	0.39	1.44
Entertainment Tax	2.85	13.47	3.05	11.05	3.54	13.21
Toll Compensation	0.01	0.07	0.03	0.13	0.03	0.11
Lease:						
Mines & Minerals	0.08	0.39	0.05	0.18	0.05	0.20
Shared revenue : Total	21.15	100.00	27.61	100.00	26.81	100.00

2.4.22. The assigned revenues available to Town Panchayats are the same as those that are available to the Municipal Corporations and Municipalities, viz., Entertainments Tax, Surcharge on Stamp Duty, Surcharge on Sales Tax, Income from minor minerals. No Toll compensation is however available to Town Panchayats. These items have already been discussed and the recommendations made in earlier chapters will be applicable to the Town Panchayats also.

2.4.23. Local Cess and Local Cess Surcharge under T.N.P.Act 1958 was levied in the Town Panchayat areas. Since the Town Panchayats now come under the Municipalities Act 1920 the revenue cannot be collected in these areas. Since these taxes were already in force in these areas, they may be continued by suitable amendments to the Municipal Act as suggested earlierunder Municipalities and proceeds of both LC and LCS passed on to Town Panchayats.

2.4.24. Recommendations:

The recommendations made under Municipal Corporations and Municipalities will be applicable to Town Panchayats also.

Grants:

2.4.25. The income from various grants available to Town Panchayats is given below:

Table 2.40 Town Panchayats - Details of Grants From State Government

(Rs. in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
For General Purpose	1.01	46.73	1.34	45.90	1.17	39.24
For Specific Purpose						
Roads	0.50	23.03	0.65	22.18	0.60	19.93
Public Health	0.22	10.11	0.37	12.51	0.20	6.71
Medical	0.01	0.48	0.01	0.20	0.01	0.47
Noon-Meal Centres	0.00	0.06	0.00	0.14	0.00	0.13
Education	0.02	0.87	0.03	1.14	0.32	10.86
Total specific purpose	0.75	34.55	1.06	36.18	1.13	38.11
Incentive Grants						
Small Savings incentive	0.01	0.44	0.05	1.95	0.15	5.11
House Tax Matching Grant	0.29	13.59	0.31	10.43	0.33	10.96
Total Incentive	0.30	14.03	0.36	12.38	0.48	16.07
Compensation Grants	0.10	4.69	0.16	5.54	0.20	6.59
Grants : Total	2.16	100.00	2.92	100.00	2.98	100.00

House Tax Matching Grant:

2.4.26. The Tamil Nadu Panchayats Act provides for grant to match the house tax collection in Village Panchayats. The Town Panchayats transferred from Kerala State to Tamil Nadu, are allowed the benefit of Matching Grant. All the other Town Panchayats in the State are claiming matching grant for the house tax This issue was discussed by Damodaran Committee, (1990) and recommendations were made that Village Panchayats upgraded as Grade II Town Panchayats, may be continued to be given such assistance till they improve finances. Since more than two-thirds of the Town Panchayats are having rural characteristics even now, and many of them are even at the verge of being downgraded as Village Panchayats, the assistance to the Town Panchayats by means of matching grant is found necessary for the following reasons:-

1. When the Village Panchayats are upgraded, they lose matching grant which was equivalent to house tax collection which formed a substantial revenue before upgradation.
2. With upgradation as Town Panchayat, a minimum level of managerial staff with an Executive Officer and secretarial assistance have to be provided. which increases the cost of administration.

2.4.27. Even before initiating steps to augment resources, the withdrawal of matching grant very much affects the financial condition of the upgraded Town Panchayats. The upgraded Town panchayats could be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of 3 years, by which time they should improve the financial condition. The Town Panchayats should in the meanwhile switch over to property tax applicable to Municipal bodies. The Government could however ensure to equalise the loss involved through a special per capita grant for a specific period after the period even after the period of three years. This needs amendment to District Municipalities Act 1920.

2.4.28. Recommendation:

The SFC recommends the following:

The Village Panchayats upgraded as Town Panchayats may be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of three years by which time, they should improve their financial condition. In the meantime, the Town Panchayats should switch over to Property Tax applicable to Municipal Bodies. The Government could however ensure the equalisation of loss involved by means of a special grant for a specific period wherever found necessary even after the period of 3 years. In the case of transferred territories from Kerala State, the matching grant may be continued since they were allowed to avail the assistance given by Kerala Government at the time of transfer.

Half Grant for Dustless Surfacing and Road Grant for improvement:

2.4.29. The Government provides ad hoc grant every year for improvement of the roads and also a 50 % grant for dustless surfacing of the roads in Town Panchayats. The quantum of allocation is very small and it can be distributed only to a few Town Panchayats, on reimbursement basis. Only such of those Town Panchayats which can afford to incur the expenditure in advance can avail the grant. It does not really help the Town Panchayats which are in dire need of such assistance Town Panchayats which are finding it difficult even to meet the payment of salary to staff, cannot think of availing this grant.

2.4.30. The Town Panchayats have been claiming a regular road grant. Necessary steps have been taken for taking into account the length of the roads available in all the local bodies, for the purpose of distribution of the share of Motor Vehicle Tax to the local bodies The distribution principles proposed by the SFC will take care of the requirements of all the Town Panchayats, based on performance and need.

2.4.31. Improvement of the roads can be taken under special schemes extended to Town Panchayats. The capital investment in local bodies is being dealt with separately in Part III of the report.

2.4.32. Recommendation:

The SFC Recommends the following:

1. Recommendations have been made for taking into account the length of the roads available in all the local bodies for the purpose of allocation of the share out of Motor Vehicles Tax to the divisible pool. The distribution principles recommended by SFC are expected to take care of the requirements of the Town Panchayats, based on performance and need.

2. The State Finance Commission recommends that improvement to roads can be taken up under special schemes formulated for Town Panchayats. The maintenance of the roads should be from out of own Revenue and distribution of funds from Government under Revenue Account.

Lighting Grant:

2.4.33. Weaker Town Panchayats are given ad hoc grants for lighting to enable them to meet the cost of electricity consumption charges. The SFC considers that Town Panchayats should be given assistance from Government to meet the current consumption charges on par with Village Panchayats. Recommendations made under Village Panchayats may be applied to Town Panchayats also. However, till such time the said recommendations are examined and implemented the lighting grant now given may be continued .

2.4.34. Recommendation:

The SFC recommends the following:

Pending decision on the recommendation for general distribution of share of tax revenue of State to Local Bodies the existing lighting grant may be continued.

Drainage Grant:

2.4.35. A two third grant for construction of drainage is now being sanctioned to Town Panchayats. The provision in value is very small. In view of the need for encouraging the Town Panchayats to take up such work, at least all the Town Panchayats in special and selection grades may be assured of a regular yearly grant on a matching basis. This

need has been examined by the Task Force on Norms and level of service and included in the investment need for five years in part III of the report.

2.4.36. Recommendation:

The SFC recommends the following:

The grant now available is paltry and not adequate. All the Town panchayats in Special and Selection Grades may be initially assured of a regular yearly grant on a matching basis for taking up drainage schemes.

Non - Tax Revenue:

2.4.37. The source of non-tax revenues in Town Panchayats are the same as available to Municipal Corporations and Municipalities. Various Recommendations indicated under Municipal Corporations will apply to Town Panchayats also.

2.4.38. The details of Non Tax Revenue sources and income derived are given below:

Table 2.41 Town Panchayat Non-Tax Revenue by Soruces (Rs. in Crores)

	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
D&OTrade Licence Fees	0.70	3.78	0.77	3.65	0.79	3.37
Encroachments fees	0.05	0.25	0.06	0.29	0.05	0.20
Building Licence fees	1.19	6.46	1.27	5.95	1.32	5.69
Tourist Bus fees	0.15	0.83	0.16	0.74	0.22	0.96
Fees from other services	1.02	5.54	1.22	5.73	1.42	6.11
Fairs and festivals	0.22	1.18	0.24	1.12	0.28	1.18
Total	**3.33**	**18.04**	**3.72**	**17.48**	**4.08**	**17.52**
Income from properties Lands & Buildings Parks	0.51	2.76	0.52	2.47	0.63	2.70
Avenue Trees produce	0.48	2.58	0.62	2.94	0.49	2.09
Markets	2.33	12.59	2.79	13.11	2.87	12.34
Shops/Shopping Complex	1.12	6.05	1.32	6.23	1.69	7.26
Slaughter houses	0.16	0.89	0.18	0.82	0.21	0.91
Bus/Cart & Vehicle stands	1.36	7.36	1.62	7.61	1.66	7.11
Pay & Use latrines	0.11	0.59	0.17	0.80	0.15	0.64
Income from other properties	1.28	6.95	1.65	7.78	1.58	6.78
Total	**7.35**	**39.77**	**8.87**	**41.76**	**9.28**	**39.83**
Income from special services						
Lighting	0.12	0.65	0.07	0.35	0.07	0.28
WaterSupply& Drainage	4.23	22.87	4.87	22.91	6.04	25.95
Medical Institutions	0.05	0.25	0.09	0.40	0.10	0.43
Sewage Farms	0.07	0.37	0.08	0.39	0.12	0.53
Sale:Rubbish,grab.,manure	0.07	0.39	0.07	0.32	0.06	0.26
Town Planning	0.05	0.26	0.05	0.24	0.04	0.19
Income from other services	0.08	0.43	0.09	0.42	0.09	0.40
Total	**4.67**	**25.23**	**5.32**	**25.02**	**6.52**	**28.03**
Miscellaneous receipt						
Income from investments	1.06	5.76	1.10	5.20	1.08	4.64
Interest from L.F.Deposits	0.13	0.68	0.12	0.57	0.13	0.56
Lapsed Deposits	0.21	1.11	0.23	1.07	0.27	1.14
Recov.Charges for services	0.05	0.25	0.08	0.36	0.08	0.34
Any other Miscellaneous	1.69	9.17	1.82	8.54	1.85	7.93
Total	**3.14**	**16.96**	**3.35**	**15.74**	**3.41**	**14.61**
Non Tax : Total	**18.49**	**100.00**	**21.26**	**100.00**	**23.29**	**100.00**

2.4.39. Recommendation:

The SFC recommend the following:

All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayat also.

CHAPTER - 5

RESOURCES OF RURAL LOCAL BODIES

PANCHAYAT UNIONS

2.5.1. The structure and the duties and responsibilities allocated to the Panchayat Unions are dealt with in detail under Part IV "Streamlining the Delivery Mechanism". The revenues available to the Panchayat Unions can be broadly classified under

1. Own Taxes
2. Assigned/Shared revenues
3. Grants (Statutory and Non-statutory) and
4. Other Miscellaneous Revenues.

They are discussed in detail hereunder:

2.5.2. **1. Own Taxes:** The only source of Own Tax relevant to PUs is Local Cess Surcharge. Section 168 of the Tamil Nadu Panchayats Act, 1994 empowers the Panchayat Unions to levy LCS at a minimum of Rs.5 and a maximum of Rs.10 on every rupee of land revenue. This is in addition to the Local Cess levied by the Government under Section 167 of the said Act. Under the Tamil Nadu Panchayats Act, 1958, the maximum levy of LCS was Rs.2.50 and it was enhanced in 1992 to Rs.5 (minimum) and Rs.10/- (maximum) and all the Panchayat Unions have switched over to the minimum rate of Rs.5/- from the year 1992.

2.5.3. Damodaran Committee (1990) which examined the question of enhancement of LCS had recommended only a maximum of Rs.3.50. In view of the higher rates now adopted, the potential for levy under this taxation has increased. The following figures of realisation under this source will indicate the growth of revenue:

Table - 2.42 Panchayat Unions - Own Tax Revenues

Year	Income (Rs.in crores)	Per capita (in rupees)	Percentage to total income
1989-90	12.86	3.96	6.26
1990-91	15.18	4.67	6.08
1991-92	9.55	2.94	3.65
1992-93	15.46	4.76	5.21
1993-94	21.24	6.53	5.48

2.5.4. Though the rate has been revised from 1993-94, the impact has not been fully reflected in 1993-94. The per capita income was Rs.2.15 in 1988-89; it has increased to Rs.3.96 in 1989-90 and to Rs.6.53 in 1993-94. The average per capita income worked out to Rs.4.57. This income contributed roughly 5 to 6 % of the total income of Panchayat Unions. The income exhibited in the Panchayat Union accounts does not reflect the actual collection but only the adjustments made out of the collection. Though the levy is made by Panchayat Unions, the collection is done by the Revenue Department.

2.5.5. A system of provisional advance payment and final adjustment after the Jamabandhi is in vogue for this purpose. Considerable delay is noticed in adjustments as could be seen from the figures given below and this has been pointed out even by Damodaran Committee (1990).

Table 2.43 Panchayat Unions - Adjustment of LC and LCS

Year	Collection of Land Revenue as per Govt. Accounts	LC and LCS due for adjustment *	Amount actually adjusted as per Accounts
		(Rs. in crores)	
1990-91	24.83	18.54	4.28
1991-92	27.64	20.64	2.44
1992-93	25.41	18.97	12.03
1993-94	43.13	32.21	9.73
1994-95	36.68	27.93	12.76

(* Worked out on the basis of G.O.Ms.No.836,RD & LA, dated: 7.6.82.)

2.5.6. This could be avoided by simplifying the procedure which has been discussed in subsequent paragraphs. The per capita income derived out of this source by Panchayat Unions category-wise is given below:

Table 2.44 Panchayat Unions - Percapita Income from LCS - Categorywise

Category	Per capita income in Rupees
I	13.06
II	6.78
III	5.38
IV	4.02
V	4.05
VI	2.77

There is wide variation among the income derived in Category I and other categories. Panchayat Unions having more than Rs.4 per capita of land revenue are classified as Category I and they comprise mostly of wet lands.

2.5.7. There is also wide variation among the Panchayat Unions within the same Category also. The potential of Panchayat Unions varies and hence equal realisation out of this tax is not possible. This is evident from the figures given under Maximum and Minimum per capita realisation under each category indicated below:

Table 2.45 Panchayat Unions - Measures of Variations in Per Capita Own Tax: Category-wise (In Rupees)

Measures/Category	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per capita Own Tax Revenue:Mean	13.06	6.78	5.38	4.02	4.05	2.77
Standard Deviation	12.60	6.69	4.60	3.81	6.27	2.61
Minimum	0.16	-1.15	0.00	0.00	0.00	0.00
Maximum	60.40	30.85	24.77	35.63	38.88	13.65
Coef. of Variation	96.48	98.67	85.50	94.78	154.81	94.22
PU>= Average	11	17	25	52	12	24

2.5.8. The categorisation of PUs based on per capita land revenue was introduced right from the inception (initially with four Categories and later on, with six Categories) to equalise the imbalances through higher Government assistance to the PUs in the lower Categories. In this context a matching-cum-incentive grant was introduced to enable the Panchayat Unions to levy a higher rate between the minimum and the maximum rates prescribed, and realise additional income by way of matching grant. The percentage of matching grant was related to rate of levy and collection. This aspect is discussed in more detail under " Grants".

2.5.9. Suggestions to increase the minimum to Rs.10 and the maximum to Rs.20 under LCS were made to State Finance Commission. The impact of levy of cess and surcharge over the land revenue on the agriculturists has been discussed in earlier Reports and in a more detailed manner by Damodaran Committee (1990). The land revenue is unpredictable and the collection of basic Land Revenue remains at Rs.5 to 6 crores for many decades. The successive governments have not considered any revision of land revenue. The collection of land revenue is often affected due to adverse seasonal conditions. The acceptability for this increase is very remote, especially when the policy of the Government is to give more relief and aids to agriculturists even at the existing level of taxation by way of subsidies. The SFC recommends to continue the existing minimum and maximum prescribed in the TNP Act 1994.

Existing Procedure for adjustment:

2.5.10. Further, the term "Land Revenue" covers a wide variety of assessments on land and under this head, the Revenue Department collects basic Land Revenue, water charges, additional water charges, miscellaneous revenues like penalty, encroachment fees and other items classified by the department. But the LC and LCS could be levied only on the basic Land Revenue. The maintenance of accounts for the demand and collection of LC and LCS is subject to the classification of components liable for LC and LCS by Revenue Department from time to time. The demand raised against the assessee is for one lump sum consisting of various components explained above. The collection made against the lump sum demand will have to be proportionately accounted for against each of the components included therein. The figures of collection will again depend upon the figures to be furnished by the Revenue officials at the Village and Taluk levels, after settlement in Jamabandhi. Thus the present system involves reference to Village and Taluk level accounts to ascertain the figures. The local bodies are not aware of either demand or the collection relating to LC and LCS and they have to depend only on the adjustments effected by the Department at the appropriate time as prescribed under the rules and executive instructions. The delay in adjustment referred to earlier in para 2.5.5. can be attributed to the delay in administration in the finalisation of the accounts and arriving at the amounts realised under the various components. At the inception of Panchayat Unions, to ensure predictability of income, a system of advance payment based on the average settled land revenue based on previous three normal Faslis (years) was adopted. It was expected that the average demand will take care of vagaries of monsoon and other adverse seasonal conditions. Even to ascertain the average for a particular year, there was difficulty for Development Department due to non-availability of figures of basic Land Revenue

Revised Procedure for Adjustment:

2.5.11. Damodaran Committee (1990) collected the figures of land revenue from the Collectors of Districts but found them to vary very widely with the expected State figures of Basic Land Revenue between Rs. 5 and 6 crores. With the help of the Commissioner of Revenue Administration, the figures were reconciled and the figures of land revenue so arrived at were utilised for the re-classification of Panchayat Unions. Adjustments based on the figures to be ascertained from the Revenue officials have caused considerable administrative delay. The system needs simplification to ensure predictability and easy adjustment. As the basic land revenue has not undergone any perceptible change for many years, an average land revenue can be arrived at, once in five years, and the said average land revenue could be adopted as the basis for all assignments and grants released during the course of 5 years without any relation to demand and collection. The average land revenue now worked out by the State Finance Commission for the purpose of arriving at revised classification of the blocks can be the basis for adjustments for the next five years. Certain reductions can be allowed to cover the deficiencies in collection which is very much fluctuating among the Districts. The

Government can decide to release 85 or 90% on the basis of the above mentioned average demand, without any further need for adjustment based on actual collections every year. Such a system will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that the actual collections do not fall below 85 or 90%. Similar suggestions were made by Damodaran Committee also in 1990.

2.5.12. Whenever there is waiver of land revenue on account of adverse seasonal conditions the local bodies are being requested to waive LC and LCS. In principle the Government have agreed that Panchayat Unions will be given compensation for such losses. The system of compensation has so far helped one or two districts, and that too, not in all the years of waiver. No compensation appears to have been made regularly all these years. If this only source of tax available to Panchayat Unions is also linked with land revenue for waiver, it will create total financial imbalance. Though there is force in giving remission to agriculturists, in view of the peculiar position of the local bodies, the loss due to the waiver should not be passed on to the local bodies.

2.5.13. The LCS should be credited to general funds only as required in the Act Provisions. The executive instructions directing remittance to education fund account may be withdrawn since there is no need for a separate Education account as at present. The maintenance of school building could be made compulsory by allocating a minimum percentage of its general revenue towards that.

2.5.14. A regular systematic review of adjustment of Revenues to Panchayat Unions by higher authorities viz., collectors/CRA may also be adopted to minimise delays at lower levels.

Alternative for Linkage to Land Revenue:

2.5.15. Damodaran Committee (1990) examined the question whether the linkage of land revenue for levy of LC and LCS could be eliminated and whether the levy can be made on the land holding instead of as a cess on the land revenue. This could not be examined in detail because of the necessity to study the possible impact of the levy on the land holdings as well as on the local bodies. This will also have to depend only on the revenue officials at the village level for the particulars and to update it every year. However, it will be equally difficult as in the case of land revenue, in view of the fact that the levy will be based on the area of holdings and the nature of land covered without requiring calculation over the various components of Land Revenue. SFC considers that no other alternative for linkage is available except the one indicated above. This needs detailed study after the collection of data relating to Land holdings from Revenue Department. The SFC recommends for further study on this aspect.

2.5.16. **Recommendations**

The SFC recommends the following:

1. The continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.

2. Adoption of the following procedure for adjustment of the revenue to Panchayat Unions: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., the revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.

3. While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.

4. The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from the General Fund itself.

5. A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.

6. Alternative suggestion to link the levy to land holdings instead of on Land Revenue may be studied further.

Land Revenue Reform:

2.5.17. Some reforms on the basis of levy of land revenue were suggested to SFC. . This study is beyond the purview of the SFC. However, SFC considers that suggestion may be brought to notice of the Government. The suggestions are based on the presumptive levy on agricultural income at current day yield and basic floor rates for crops specific levy.

ASSIGNED / SHARED REVENUE

2.5.18. The following are available to Panchayat Unions as assigned/shared revenues:

1. Local cess under sec. 167 of the Tamil Nadu Panchayats Act.

2. Entertainment Tax levied under the Tamil Nadu Entertainments Tax Act.

3. Seigniorage fees collected by the Geology and Mines Department on minor minerals in the areas of the local bodies concerned.

The income from the above sources in the last 5 years as obtained by SFC is given hereunder.

Table 2.46 Panchayat Unions - Income from Assigned/Shared Revenues by Sources

(Amount Rs.in crores)

TAX YEAR	LOCAL CESS		ENTERTAIN-MENT TAX		MINES & MINERALS		TOTAL	
	Amount	%	Amount	%	Amount	%	Amount	Percapita (In Rs)
1989-90	1.87	28.48	4.50	68.73	0.18	2.79	6.55	2.02
1990-91	3.12	35.55	5.05	57.53	0.61	6.92	8.78	2.70
1991-92	1.71	24.36	4.67	66.68	0.63	8.96	7.01	2.16
1992-93	2.76	32.84	5.04	59.93	0.61	7.23	8.41	2.59
1993-94	3.74	38.59	5.36	55.20	0.60	6.20	9.70	2.99
5years Average	2.64	32.63	4.92	60.87	0.53	6.50	8.09	2.49

2.5.19. The per capita average income from Assigned / Shared Revenues category wise and the variation in realisation observed within each category could be seen below:

Table 2.47 Panchayat Unions - Measures of Variations in Per Capita shared Revenue Category wise 1993-94 (Per Capita in Rs.)

Measures	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per Capita Shared Revenue:Mean	4.98	3.12	2.96	1.96	2.29	3.10
Standard Deviation	6.90	2.48	2.38	1.67	3.54	3.61
Minimum	0.26	0.00	0.39	0.00	0.00	0.00
Maximum	36.72	12.73	10.38	12.40	24.54	21.66
Coef.of variation	138.55	79.49	80.41	85.20	154.59	116.45
PUs>=Average	9	14	21	51	10	20

2.5.20. The details of the revenues are examined below:

1. LOCAL CESS: Local Cess was levied at 45 Paise per rupee of land revenue under the Tamil Nadu Panchayats Act 1958. This levy was a combination of various cesses collected at the time of the abolition of the District Boards and the creation of Panchayat Unions. Since the rate was in force for decades, Damodaran Committee (1990) suggested an increase from 45 Paise to Re.1 per rupee of land revenue. The Government have amended the Tamil Nadu Panchayats Act 1958 suitably in 1992 and have increased the levy to Re.1/- per rupee of land revenue. The Tamil Nadu Panchayats Act, 1958 envisaged the distribution of 45 Paise collected as below:

i. 4/9th of local cess to Elementary Education account of PUs.

ii. 2/9th of local cess collected in Town Panchayat areas to the con cerned Town Panchayats.

iii. Not less than 20 Paise per capita to Village Panchayats.

iv. Balance to the General Fund of Panchayat Unions.

The amended Act 1992 and rules issued in G.O.Ms.No.106, R.D., Dated: 20.5.93 provided for a specific method of distribution as below:

i. 20% to Education Account
ii. 75% of proceeds in Village and Town Panchayats to the respective panchayats
iii. 5% to Panchayat Unions

2.5.21. However the new Act of 1994 has indicated an enabling provision to ensure that 20% of the proceeds to be transferred to Education account and the balance to be credited to Panchayat Unions. Under the enabling provision in section 169 of the Act, suitable rules have to be issued for adjustment of this amount to Village Panchayats, Panchayat Union Councils, and District Panchayats. No rules have been issued so far. No amount is collectable and transferable to Town Panchayats under the new Act of 1994 as they have been taken out of Panchayat Development area. The distribution to village panchayats and Education Account is continued on the basis of earlier amended enactment of 1992 pending issue of rules under the Tamil Nadu Panchayats Act 1994. Section 169 also contains an enabling provision for deduction of expenses incurred by the Government in the collection of the cess but no deduction has been given effect to. According to the rules, now in force the Panchayat Unions are eligible to retain 25% including the distribution to Elementary Education Account of 20%. This would mean that out of one rupee collected, Panchayat Unions will be eligible to keep 25 Paise including the education account while the Panchayats will get 75 Paise. The total income from this source to Panchayat Unions works out to less than about Re.0.50 per capita and average per Panchayat Union works out to about Rs.0.35.

2.5.22. The apportionment among the Panchayats and Panchayat Unions was previously prescribed based on proportion of cess levied by the then District Boards, Village Panchayats and by Government under Elementary Education Act. The Panchayat Unions were levying LCS only at 25 Paise then, which was later on raised with a ceiling of Rs.2.50. Now a minimum of Rs. 5 and a maximum of Rs.10 have been prescribed under LCS and all Panchayat Unions have levied the minimum of Rs.5. Thereby the income of Panchayat Unions has doubled. The LCS Matching Grant will also bring additional income. Except for maintenance of Elementary Education buildings, there is no other function necessitating the maintenance of a separate Education Fund with 20% distribution. This maintenance aspect could be taken care of by Panchayat Unions from their General Fund.

2.5.23. The SFC considers different options for adjustment of LC in future as below:

i. the entire LC could be passed on to Village Panchayats, in view of the sizable increase of income under LCS to Panchayat Unions.

ii. The apportionment of the 25% LC available to Panchayat Unions in each District to the District Panchayats concerned.

iii. 25% of LC available to Panchayat Unions may be pooled at State level for distribution to District Panchayats on a formula basis.

2.5.24. The difficulties relating to levy demand, collection and adjustment explained earlier in respect of LCS equally applys to Local Cess also, since the figures have to be obtained only from the Revenue officials. Suggestions made by SFC for easy

and regular adjustment of LCS based on average Land Revenue may be adopted for this levy also. Local Cess due to Village Panchayats may be directly credited to VPC fund instead of routing through Panchayat Union general fund to avoid delay in adjustment.

2.5.25. Recommendations

The SFC recommends the following options for apportionment of Local Cess:

1.i. The entire LCmay be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.

ii. Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.

iii. 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.

2. Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.

3. Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

Entertainments Tax:

2.5.26. i. The Government allocates 60% of Entertainment tax collection in Panchayat Union areas to the Panchayat Unions, of which 30% is to be adjusted to the concerned Village Panchayat where the theatre is located. Representations were made during Conferences and District Sittings that the share due to local bodies may be increased to 90%. At the same time, there was also a plea that the share of Village Panchayats should also be increased. In this context, the origin for the sharing has to be considered. Proceeds of Entertainments Tax was earmarked to Village Panchayats. The Panchayat Unions were permitted to levy Surcharge on Entertainments and Show Taxes under the Local Authorities Finances Act, 1961 and this portion of amount was due to Panchayat Unions. An additional surcharge on Entertainments Tax and Show Tax was levied by the Government to be retained by the Government. While compounding all the components, the share due to the various agencies was reported to have been fixed on the basis of the income then derived in the ratio of 40:30:30. This would mean that 40% of the collections went to the Government inclusive of 10% collection charges normally retained, while 30% went to Panchayats and another 30% went to Panchayat Unions. The legitimate claim of the Panchayat Unions for a share in the compounded tax is to spread the tax benefit to the entire area of Panchayat Unions. In the circumstances,

there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions in relation to this revenue especially when the Panchayat Unions do not have any other source to depend. This being a local taxation earmarked by Local Finance Taxation Enquiry Commission 1953-54, the retaining of a share to the Government may not be fair and the total revenue can be passed on to the local bodies, in which case the revenue can be divided between the Panchayat Unions and Panchayats in the ratio of 30:70.

Procedure for Adjustment:

ii. During the discussions with officials of the Commercial Taxes Department it was understood that delay in adjustment to local bodies was due to constraints in budget allocations since this apportionment is regulated by budget allocation under "Compensation and assignments". In the case of LCS, Surcharge on Stamp duty, Mines and minerals, the apportionment due to Local Bodies is exhibited as "Deduct Refunds" under the respective Revenue Head. Similary the apportionment due to Local bodies under this revenue may also be exhibied as "Deduct Refunds" under the revenue head relating to Entertainment Tax which will facilitate adjustment without budget allocation This being the revenue due to Local body it should not get into State Taxes. There can be no objection to this procedure, since similar procedure is already in vogue in respect of other assigned revenues payable to Local Bodies.

iii. The amount due to Village Panchayats/ Panchayat Unions can be credited direct to /V.P.C./Panchayat Union General funds separately instead of adjusting the total amount to General fund of Panchayat Unions to avoid delay in adjustment to Village Panchayats.

2.5.27. Recommendations

1. The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.

2. This tax has been earmarked as a local taxation by Local Finance axation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.

3. The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The

SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

Mines and Minerals:

2.5.28. Leasing of minor minerals is done by State Government, while the major minerals are controlled by the Central Government. In the case of minor minerals, leases are granted through tender/auction system by the officials of the Revenue Department. Minor minerals generally consist of sand, clay, quarries of metal jellies and black granite. The amount realised by tender/auction is earmarked for being entirely passed on to Panchayat Unions for sharing between Panchayat Unions and Panchayats at the ratio of 50:50.

2.5.29. During the discussion with the Department of Geology and Mines, it was undersood that annually about Rs.30 crores are collected for minor minerals, excluding granite and another sum of Rs.30 crores towards black granite. Collection from black granite has not yet been distributed to local bodies, pending determination of method of distribution benefiting place of origin and others. The other Rs.30 crores are stated to be distributed as per orders issued in G.O.Ms.No.170, RD & LA, Dated 6.3.89. But, on a perusal of the figures of adjustment made during the years 1991-92 to 1994-95 in the State Accounts and also with reference to figures furnished by local bodies, not more than Rs.2 crores have been adjusted in any one year as against the amount of Rs.30 crores due to the local bodies. This could be seen from the figures given below:

Table 2.48 Panchayat Unions - Mines and Minerals - Adjustment Details

(Rs. in Crores)

	Revenues as per Govt. Acts	Adjustment as per Govt. Acts
1990-91	66.62	2.00
1991-92	24.65	0.72
1992-93	62.82	0.65
1993-94	53.36	1.32
1994-95	63.12	0.55

2.5.30. Prior to 1989 there was difficulty in adjustment due to procedural changes indicated in G.O.Ms.No.834, RD & LA, dated 7.6.82 and it has already been sorted out in G.O.Ms.No.170, RD & LA Dated 6.3.89. Still there seems to be inordinate delay in adjustment of huge amounts. The amount has to be adjusted only at the District level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector concerned and there are no budget constraints. This income will form a major revenue to the local bodies. The arrears adjustable to local bodies will be on an average more than Rs. 25 crores per year which will amount to more than Rs.125 crores over the

period of last five years. The SFC considers that the arrears due could be adjusted immediately by District Officials. The simplification of procedure is needed to avoid such delays.

Simplefication of Procedure:

2.5.31. The Departmental Representatives have, during the discussion with SFC, have indicated that there will be no difficulty in adjusting the amount directly when the leases are finalised, normally in the month of June of every year. The Collectors should ensure adjustments of amounts in respect of all those cases where confirmation is ordered, immediately after such confirmation of leases. This could be achieved by including a condition in the orders to be issued confirming the leases, directing the party concerned to make simultaneous remittance of the amount in the local body (Panchayat Union Council) and produce receipts before issue of permission to quarry. The local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence / permit and bring to notice the excess exploitation, if any.

2.5.32. The adjustment of income from this source should be made available to LB concerned whether it is Rural or Urban. Regarding Granites there have been representations that though large money is realised by way of exports the local body is not benefited in any way. The revenue collected from Granite appears to be too low compared to its marketing potential and the Government may fix higher rates taking export potential. The amount may be distributed to local bodies of origin (whether Rural or Urban) at 50% and 50% may be retained at State as divisible incentive fund for Distribution on the principles evolved by SFC. In the case of major minerals, 25% of the Royalty received by the State Government may be assigned to the Local bodies. Of this, 50% may be adjusted to local body of origin and the balance taken to the incentive fund at State level for distribution.

2.5.33. Recommendations

The SFC recommends the following:

1. Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.

2. The following simplified procedure to ensure prompt adjustment to Local Bodies:

2.5.34. The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any. The revenue collected on granite appears to be very low compared to its export potentiality.. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to incentive fund for distribution on the principles evolved by SFC. The respective administrative Heads will distribute to the Local Bodies this amount. In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund as mentioned earlier.

Non Tax Revemies:

2.5.35. This source contributes 5 to 7% of the total income and it works out to Rs.5 to Rs.7 per capita. The details of item wise Receipt for five years are furnished hereunder.

Table 2.49 Panchayat Unions - Non-Tax Revenues (Amount Rs.in crores)

Per capita in Rs.

	1989-90		1990-91		1991-92		1992-93		1993-94	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1.Fees & fairs	3.68	24.55	3.86	23.47	4.38	23.92	4.88	24.21	5.65	25.39
2.Receipt from properties	3.20	21.32	4.41	26.82	3.92	21.37	5.66	28.09	5.16	23.19
3.Receipt from Special services	1.16	7.76	1.07	6.53	1.85	10.09	1.69	8.36	1.51	6.76
4.Other Misella-neous Revenues	6.96	46.37	7.10	43.18	8.17	44.62	7.94	39.34	9.94	44.66
Total	15.00	100.00	16.44	100.00	18.32	100.00	20.17	100.00	22.26	100.00
Percapita Total income	**4.62**		**5.06**		**5.64**		**6.21**		**6.85**	

Most of the Non-Tax revenues in Rural areas relate to the Panchayats and there appears no scope for Panchayat Unions to increase the revenue under this item, except under Social forestry ,and by opening of Panchayat Union markets and shandies or Kalyana Mandapams. The Panchayat Unions will be eligible only for a share in the income from Market/Shandy as the local panchayat in whose area the market is situated will be eligible for a share.

Grants - in Aid :

2.5.36. The Panchayat Unions were constituted mainly to be the implementing agencies for various development programmes,in the Panchayat Development Blocks, which were earlier implemented in Community Development Blocks through Government. They were requested also to take care of a few common programmes like Maternity centres, dispensaries, Elementary Education, Health protection which were earlier with the District Boards. These programmes were implemented in the entire area of Panchayat Union consisting of village and town panchayats. The very creation of Panchayat Union envisaged major Revenues by way of assignments and grants from the Government, allocated for the respective economic Development programmes under the plan and non-plan provisions of the State Government. The Panchayats were designed to look after civic amenities while the Panchayat Unions were expected to play a vital role and as a fulcrum to implement the socio-economic programmes formulated by Government. In fact the Panchayat Unions had extension officers from various Departments like Agriculture, Animal Husbandry, Co-operation, Industries, etc. It was only in late 80s that these schemes were slowly taken over by the line departments whereby the Panchayat Union was reduced to the level of a government department, ultimately acting as agency for employment oriented programmes now being implemented. It is therefore no wonder that the Panchayat Unions derived their income mostly from grants which are classified as statutory and non-statutory.

2.5.37. The details of Government grants for Revenue items for a period of five years from 1989-90 to 1993-94 are furnished in the statement at Appendix No.82.

2.5.38. The income (total and Per capita) from Grants for five years and the variations in minimum and maximum grant received, category -wise for both statutory and non-statutory grants are given in the Tables below:

Table 2.50 Panchayat Union - Grant-in-aid for 1989-90 to 1993-94

Year	Amount (Rs.in crores)	Percapita (In Rs.)	Percentage to total income
1989-90	170.02	52.31	82.78
1990-91	207.79	63.94	83.20
1991-92	225.91	69.51	86.33
1992-93	251.34	77.34	84.78
1993-94	327.60	108.80	84.58

Table 2.51 Panchayat Unions - Average Per Capita Income from Statutory and Non Statutory Grants with Minimum and Maximum

Category	Average- Statutory	Percapita Non statutory	Minimum Statutory	-Percapita Non statutory	Per capita in Rs. Maximum Statutory	-Percapita Non Statutory
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	21.92	64.93	2.34	28.68	115.43	166.40
II	13.10	64.29	—	24.04	37.24	193.14
III	11.36	72.96	3.09	25.64	59.59	161.50
IV	8.86	68.21	—	10.56	46.26	199.75
V	9.67	73.83	—	16.42	95.25	326.05
VI	7.40	64.82	—	5.25	33.40	163.64

Statutory Grants:

2.5.39. Section 180 of the Tamil Nadu Panchayats Act 1994 provides for statutory grants to match the collection of Local cess surcharge. Section 182 provides for a Local roads grant based partly on population and partly on the length of roads. These two statutory grants contributed Rs.7 to Rs.15 per capita and accounted for 11 to 14% of the total income.

Local Cess Surcharge Matching Grant:

2.5.40. Section 180 of Tamil Nadu Panchayats Act 1994 provides for sanction of local cess surcharge matching grant on the proceeds of LCS. For the purpose of sanctioning of such grants, the Panchayat Development Blocks are classified as they are to be reclassified once in five years as laid down in Section 181. This provision also permits sanction of grants at varying rates for the different classes of development blocks. This provision was adopted from 1958 Act.

2.5.41. A classification of blocks is available on the basis of per capita land revenue. Since LR is the basis for the own resources of Panchayat Unions, this has been adopted as basis. Reclassification of blocks has been examined in detail in the Part 4 on "Organisation and Powers". The SFC has recommended the continuance of the present basis and method of classification and that the classification of six categories already done will continue to be operative.

2.5.42. A statement arriving at the LCS Matching Grant now payable by Government for the different categories of blocks is given in table below. Though the latest figures of land revenue of the Panchayat Unions have been obtained from Taluk Officials , they needed reconciliation as the basic land revenue of the State as per these

figures amounted to Rs.9.97 crores a year. This appears to be high when compared to the basic LR reconciled by Damodaran Committee (1990). There is no scope for increase in basic LR. The present commitment on LCS Matching Grant given in the statement has therefore been based on Average basic LR adopted by Damodaran Committee pending reconciliation of figures now collected. Since revised rates for the grants for levy between Rs.5-10 have not been prescribed, the grant due for the maximum rate of Rs.2.50 which was in force, is now being adopted for release. So also the population figures are based on 1981 census inclusive of Town Panchayat area. A Statement of existing commitments to Government has been worked out and furnished in the Table No.2.52 at page 170.

2.5.43. The objective of higher assistance for lower categories and higher weightage to higher levy, envisaged by the formula, has not been achieved. This has also been commented by the Damodaran Committee. That Committee, found out that the formula has contributed for wide variation in the Government assistance to IcategoriesIV to VI . The per capita income of LCS itself varied from Rs.8.82 (for category I) to Rs.1.78 (for category VI.) Hence this variation could not be reduced since it was not practical to reduce rate of assistance already in existence to higher categories. The increase in ratio of assistance to lower categories enhanced the commitment of Government considerably. That Committee, therefore, suggested a special per capita grant to equalise the difference in per capita income arising out of the formula for categories IV to VI.

2.5.44. The amount payable adopting the formula admissible for levy of Rs.2.50, for the LCS realised at Rs.5 works out to Rs. 42.97 crores. If higher ratio is to be adopted, the commitment of the Government will increase considerably. The revised formula proposed for adoption as well as the commitment thereon to the Government is given in Appendix No.15.

The SFC emphasises the need for this grant since this will be an incentive for the Panchayat Unions to move to higher rate of Levy. While general principles for distribution of Government allocations are proposed, this has been taken care of by providing a separate reserve to meet equalisation of deficiencies on general devolution and also the incentive grants now available.

Local Roads Grant:

2.5.45. Local Roads Grant is also a statutory grant admissible to Panchayat Unions under Section 182 of the Tamil Nadu Panchayats Act 1994. The grant was originally paid at 40 paise per capita at the inception of the Panchayat Unions. This was in lieu of the toll collected by District Boards and abolished by the introduction of Motor Vehicles Taxation Act in 1931. From 1970-71, the basis was modified to cover population and also the length of roads.(at 18 paise per capita and at different rates per kilometre as worked out by the the Chief Engineer, Highways from time to time with special reference to the

terrain, namely, coastal, deltaic, hilly and ordinary) The existing rates for length of roads which are in force from 1981 have not been revised. The Government, however, sanctioned grant based on the norms and also additional ad-hoc grant on pro-rata basis. The Damodaran Committee (1990) examined the formula adopted and recommended the norms for maintenance based on the surface cadre of various types of roads in consulatation with Highways and Rural Works Department. The formula for LRG is even now based on Tracts (Terrain). This basis may be changed and the grant related to surface of the Roads. Highways Department has indicated the current rates for maintenance of the various types of roads in Village Panchayat and Panchayat Union area. The amount needed for maintenance of Panchayat Union roads on normative level has been arrived at with suitable addition for inflation. The amount has been worked out and projected for 1997-98 at Rs.103.30 Crores.

2.5.46. As against this the Government provides Rs.20 Crores a year.(from 1996-97). The sharing of Motor Vehicle Tax has been discussed under Municipal Corporations. An allocation of 40% of Motor Vehicles Tax has been suggested to be earmarked to local bodies considering the nature, type and level of maintenance of Government roads. The amount is included in the divisible pool for distribution among local bodies. There will be no separate LRG after such distribution is adopted . Till then the existing grant may continue.

2.5.47. Recommendations

The SFC recommends the following:

1. The SFC considers that decision will have to be taken on the revised formula for LCS Matching Grant applicable to the rates of levy of LCS from Rs. 5 to 10 as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption. The amount needed will be met out by the Equalisation and Incentive Fund indicated in Part V of the Report.

i. The formula for LRG is based on Tracts (Terrains). This may be changed and the rates related to surface of the roads as per the latest rates indicated by CE(HW&RW) to the State Finance Commission. The LRG may be continued on the existing principle of population and length of roads. The rate for length of roads may be adopted at the revised rates indicated by CE (HW&RW).

ii. The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways and Rural Works Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.

iii. Since the share on MVT is proposed to be taken to the divisible pool for distribution, no separate Local Roads Grant may be made thereafter. Till then the grant may continue.

Non-Statutory Grants:

2.5.48. Panchayat Unions are in receipt of various Non Statutory Grants as below:-

1. Grants for Maternity Centres
2. Grants for maintenance of Dispensaries
3. Development Grants like Village Work Grants (Rural water supply, Link roads and school buildings)

2.5.49. There are other types of grants, namely, Women and Children Welfare Grant, and Social Education Grant. In addition, they are now sanctioned various plan grants under Centrally Sponsored Schemes namely:

1. Jawahar Velai Vaippu Thittam
2. I.J.V.V.T. (Intensive Jawahar Velai Vaippu Thittam)
3. Employment Assurance Scheme
4. MP Local Area Development Scheme
5. Central Rural Sanitation Scheme
6. Decentralised District Plan

They are dealt with hereunder:

Grants for Maintenance of Maternity Centres:

2.5.50. The Panchayat Unions have been entrusted statutorily with the duties of opening and maintenance of Maternity Centres and also Dispensaries. The opening of Maternity Centres is linked with the national policy of population criteria for providing multi-purpose centres. This aspect is now under the control of Health and Family Welfare Department. The Government have taken over the Maternity Centres maintained by Panchayat Unions. However, the Panchayat Unions have been required to meet the payment of salary of Ayahs. Panchayat Unions do not have any other role in the functioning of the Maternity Centres. Under the 73rd Amendment to the Constitution, the maintenance of Maternity Centres and other health programmes have to be entrusted to the Rural Local Bodies and the matter is separately dealt with. If any transfer is to be made to the Local Body, the funds as well as the functionaries will be placed at the disposal of the appropriate level of local body. The question of meeting the salary of Ayahs alone (who form a diminishing category) has been objected to by representatives of Local bodies. 2/3rd assistance by way of Grant is given from the Government for this purpose (Rs.2.60 crores a year). The commitment of Government on the remaining 1/3rd will be only Rs. 1.30 crores. In view of the practical difficulties involved in absorbing these staff,

they are allowed to be under Panchayat Unions. The Government could reimburse the entire cost of the Ayas to Panchayat Unions as grant and continue them as Panchayat Union Staff till they retire, pending decision on the subject to be covered by devolution of functions.

2.5.51. Recommendation:

The SFC recommends the following:

Grant for maintenance of Maternity Centres: The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service,or until the subject is decided under devolution of functions.

Grant for Maintenance of Dispensaries:

2.5.52. The dispensaries maintained by the District Boards were handed over to the Panchayat Unions as successor body. At the initial stages the Panchayat Unions were also encouraged to open dispensaries in their area in addition to the Primary Health Centres located in their areas. The Government assured in sixties a 50% grant for the maintenance of one dispensary in a Panchayat Union, but however limited the maximum of grant to between Rs.5000 and Rs.5400. This limit was based on the level of expenditure in the year 1960. The ceiling is still in existence. This grant is available only to a few Panchayat Unions. Now the Panchayat Unions are not allowed to open new dispensaries Many of the Panchayat Unions having dispensaries are finding it difficult to maintain them. Apart from the non-availability of doctor or para-medical staff, non availability of adequate medicine contributes to the ineffective working of dispensaries. The implementation of this programme is also related to the entrustment based on 11th Schedule to the 73rd Amendment of the Constitution, and pending decision, the existing dispensaries could be continued by the Panchayat Unions with grant for meeting the full cost of maintenance. Similarly, there are Rural dispensaries functioning on contract basis in which the Doctors/ paramedical staff are paid subsidy. The subsidy fixed is stated to be inadequate and the dispensaries are therefore not functioning regularly The Government may consider the need for continuance of such Rural dispensaries which were formed in the days of District Board when there were no medical facilities in rural areas. This could be privatised by permitting the local Doctors who are willing, to use the building. The working of the dispensaries in Panchayat Unions needs examination.

2.5.53. Recommendation :

The SFC recommends the following:

Grant for maintenance of dispensaries:

1. The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.

2. The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas

3. Rural Dispensaries could be privatised by permitting local willing doctors to use the building.

4. The working of the dispensaries in PUs needs examination.

Irrigation Grant:

2.5.54. The minor irrigation tanks with less than 100 acres of ayacut have been transferred to the control of Panchayat Unions. The Government agreed to provide a grant equivalent to annual requirement of maintenance based on the allocations to be worked out by the Collector following a five year cycle system. Due to paucity of funds, meagre allocations are made in the State budget. However with the allocations available under various Employment Programmes and also in drought relief schemes, standardisation as well as major repairs to the tanks are being attended to by Government. The Panchayat Union is not expected to meet any expenditure from its funds. The maintenance will depend on the availability of grant from Government. Since this comes under discretionary and non-statutory functions which depends on Government grant, the Panchayat Unions are not able to predict and plan the works. A regular system of repairs has to be ensured with a predictable level of yearly maintenance grant for a period of five years.

2.5.55. Recommendation:

The SFC recommends the following:

A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

Development Grants:

2.5.56. The Village Works Grant (viz. link roads, water supply and school buildings) and grant for Animal Husbandry Fisheries envisaged under community development programmes are not now in force. Ad hoc grants for specific schemes are given and there is no regular flow of funds. Special schemes for Rural Water Supply are being taken up through aided schemes of State and Centre through TWAD Board with full assistance in Village Panchayats, Ad hoc yearly grant is given for the maintenance of hand pumps and power pumps in villages through Panchayat Unions to meet the cost of repairs. A re-look of entire water supply programmes may be taken up and a regular system for making good deficiency in water supply with powers to appropriate authorities may be evolved.

Centrally Sponsored Employment Programmes:

2.5.57. There are about six different programmes with Central aid with dual objectives viz., area development and rural employment. But each scheme has its own norms and guidelines. The infrastructure to be created is also indicated in guidelines. They do not cover all the infrastructure comprised in the civic services. A few, like roads and water supply, drainage are covered under this scheme. This is more a capital investment programme with 100% assistance by Centre/ State implemented through Panchayat Unions. The role of State Finance Commission is limited to maintenance of the assets created and handed over to the local body. The development grants are in the nature of discretionary ones and they can neither be predicted nor insisted.

2.5.58. Two more non-statutory Grants, viz. Women and Children Welfare Grant and Social Welfare Grant, Noon Meals grant are sanctioned to Panchayat Unions and the allocation is very negligible. These programmes which are in vogue are based on certain model programmes indicated by the concerned administrative departments. These schemes may be re-examined as a part of devolution.

2.5.59. Recommendations

The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

Table . 2.52 (para 2.5.42 at page 164)

Statement showing the category wise land Revenue, Local cess and Local cess surcharge and Local cess surcharge Matching Grant Admissible for LCS at Rs.250 and Rs.5 at the existing pattern of Assistance

(Amout and Population in Lakhs) **(Per capita in Rupees)**

Existing Category	Population	Land Revenue		Local cess		LCS @ Rs.5/-		LCS @ Rs.2.50		% of LCSMG.	LCSMG at existing rate for levy of Rs.5		LCSMG for levy of Rs.2.50	
		Amt	Per capita	Amt	Per capita	Amt	Per capita	Amt	Per capita		Amt	per capita	Amt	per capita
I	34.75	130.54	3.76	130.54	3.76	652.70	18.80	326.35	9.39	(125)	815.88	23.48	407.94	11.74
II	30.93	72.40	2.34	72.40	2.34	362.00	11.70	181.00	5.85	(140)	506.80	16.39	253.40	8.19
III	52.74	99.86	1.89	99.86	1.89	499.30	9.45	249.65	4.73	(155)	773.92	14.67	386.96	7.34
IV	116.83	151.76	1.29	151.76	1.29	758.80	6.45	379.40	3.24	(170)	1289.96	11.04	644.98	5.52
V	37.61	47.28	1.26	47.28	1.26	236.40	6.30	118.20	3.14	(185)	437.34	11.63	218.67	5.81
VI	52.14	47.39	0.91	47.39	0.91	236.95	4.55	118.48	4.22	(200)	473.90	9.09	236.96	4.54
*	**325.00**	**549.23**	**1.68**	**549.23**	**1.68**	**2746.15**	**8.45**	**1373.08**	**4.22**		**4296.80**	**13.22**	**2148.91**	**6.61**

Notes:

1. Population according to Damodaran Committee is 366.30 lakhs - Since Town Panchayats have been taken to Municipalities Act, Rural Population is reduced.

2. Land Revenue figures adopted, are based on land revenue compiled by Damodaran Committe which includes landrevenue pertinent to Town Panchayat area, pending reconciliation of latest land revenue figures of panchayat unions (Excluding Town Panchayat Area)

CHAPTER - 6

VILLAGE PANCHAYATS

2.6.1. The following are the resources by way of taxes to the Village Panchayats:

(a) House Tax
(b) Profession Tax
(c) Vehicle Tax
(d) Tax on Agricultural Land for specific purpose
(e) Pilgrim Tax
(f) Water Tax

2.6.2. The composition of Own Tax Revenues for a period of five years from 1989-90 to 1993-94 is furnished hereunder.

Table 2.53. Village Panchayats - Composition of Own Tax Revenues

(Rs. in crores)

	1989-90	1990-91	1991-92	1992-93	1993-94	AVG.
House Tax	6.35	7.11	7.15	7.82	8.62	7.42
	(74.08)	(75.55)	(76.53)	(74.59)	(50.89)	(67.67)
Library Cess	0.58	0.33	0.33	0.58	0.68	0.50
	(6.82)	(3.48)	(3.50)	(5.54)	(4.02)	(4.57)
Water Tax	0.32	0.67	0.63	0.60	0.74	0.59
	(3.72)	(7.09)	(6.77)	(5.74)	(4.38)	(5.41)
Profession Tax	0.82	0.90	0.83	1.03	6.54	2.02
	(9.55)	(9.54)	(8.94)	(9.83)	(38.62)	(18.49)
Vehicle Tax	0.39	0.36	0.34	0.39	0.28	0.35
	(4.50)	(3.87)	(3.67)	(3.67)	(1.64)	(3.21)
Tax on Agri. Land	0.09	0.02	0.02	0.03	0.03	0.04
	(1.04)	(0.25)	(0.19)	(0.28)	(0.19)	(0.35)
Pilgrims Tax	0.03	0.02	0.04	0.04	0.04	0.03
	(0.29)	(0.22)	(0.41)	(0.35)	(0.26)	(0.30)
Total	8.57	9.42	9.34	10.49	16.94	10.95
	(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**

(Figures in the parantheses indicate percentage in totals.) Figures rounded to Crores.

2.6.3. The mean per capita income from Own Resource (including non tax) is Rs.6.68. There are 9176 panchayats below the mean and 3407 above the mean.

2.6.4. The mean on per capita income on Own Taxes varies from 2.70 to 4.35 for the category of Panchayats based on population ranges. Panchayats having more than 5000 population have more average per capita income with lesser standard deviation as may be seen hereunder:

Table 2.54 Village Panchayats - Own Tax Revenue - Per Capita Variations on Population Ranges (Per Capita in Rs.)

Population	Mean	standard Deviation	Minimum	Maximum	Coef.of variation	VPS>= AVG	No.of VPS	Popula-tion
Own Tax Revenue:								
Upto 1000	3.29	10.42	0.00	240.38	315.80	272	1400	1233611
1001 - 2000	2.76	10.01	0.00	590.45	362.81	1297	4782	7188736
2001 - 3000	2.70	4.44	0.00	113.58	164.43	830	2781	6830630
3000 - 4000	3.09	4.88	0.00	90.02	157.82	335	1566	5405785
4000 - 5000	3.33	5.57	0.00	105.10	167.21	221	876	3906021
ABOVE 5000	4.35	7.25	0.00	133.36	166.42	285	1178	7934883

House Tax:

2.6.5. House Tax in Panchayat is levied under Section 172 of the Tamil Nadu Panchayats Act, 1994. The tax is levied on the owners of the houses. The distinction between the property tax levied in urban local bodies and the house tax levied in rural local bodies has already been explained while dealing with the tax resources of the Town Panchayats. In Village Panchayats, house tax is levied only on the building. The Tamil Nadu Panchayats Act, 1994 indicates that the house tax can be levied at the rates and on the basis which were in force prior to the commencement of 1994 Act or on the classified plinth area at the rates specified in Schedule I to the Act. Prior to the commencement of 1994 Act, the Panchayats were given the option to levy on the basis of (i)capital value (ii) ARV or (iii) plinth area basis at the minimum and maximum rates suggested by the 1958 Act. The provision now made indicates that the Village Panchayats would have the option to continue the basis adopted at the commencement of the Act or switch over to the rate fixed for plinth area in Schedule I to the new Act. The tax based on the capital or rental value will have buoyancy since there is provision for quinquennial revision of the value by the Executive Authority. Plinth area basis indicated in Schedule I to the Act prescribes the rate of tax for the different types of buildings with a minimum and maximum and a surcharge for usage of the building as indicated therein. The fixation of the rate of tax for the plinth area will make the tax yield static, unless the tax rate is revised between the minimum and the maximum or additions or new constructions of buildings take place. There will be no buoyancy as in the cases related to capital or ARV basis.

2.6.6. The number of assessees as on 31.3.94 are as below:

Table 2.55 - Village Panchayat House Tax - Details of Assessees

Residential	77,34,200
Non-residential	4,28,900
Total	**81,63,100**
Exempted properties	2,16,260
Total Average demand per Assessee	Rs. 8.65

2.6.7. The collection performance including arrear demands ranges from 41 to 46% as against 60% in 1990 indicated by Damodaran Committee.

2.6.8. Tax exemptions in village panchayats, accounts for Rs.1.25 crores.

2.6.9. The incremental benefit due to the increase in valuation will not be available to the Village Panchayat if it resorted to tax related to Plinth area as per existing schedule and it will affect adversely the income generation from this taxation which is the only major tax resource available for the Village Panchayats. As in the case of other local bodies, plinth area rental value can be prescribed instead of the tax directly to plinth area indicated in the schedule to the Act.This will give flexibility in revising the value and earning more yield by way of general revision. As per information available 12321 Panchayats are adopting Capital value basis while 58 Panchayats adopt ARV basis and 114 Panchayats adopt Plinth area basis. The revised tax structure related to plinth area ARV with minimum and maximum for different types of buildings are indicated and recommended by the SFC in Appendix No.20. It was brought to the notice of the SFC by DRD that the Village Panchayats found it difficult to meet the cost of maintenance of the Radio/Television sets supplied to them from out of their slender resources. DRD suggested that a surcharge on House Tax might be levied for the purpose of meeting the said cost. Though it is doubtful whether such an additional surcharge will yield any substantial income to the Village Panchayats, SFC recommends that like library cess an additional surcharge on House tax may be levied at the rate to be decided by the Government, for the purpose of meeting the cost of provision and maintenance of Radio/ Television sets supplied to the Village Panchayats and has included this in the revised structure furnished in the above Appendix.

2.6.10. The house tax in the villages is now levied yearly. There are deficiencies in the levy and collection due to non-availability of personnel to take such responsibilities in the Panchayats. The President was the Executive Authority of the Village Panchayat and he has to levy the tax and collect it through the Group clerks. The Village Panchayats are ill-equipped in the machinery needed for collection and for looking after the civic services. The collection is very low. Action is needed for strengthening the machinery at

the village level to enable proper collection of resources and maintenance of civic services. It is hoped that with the appointment of a suitable machinery to look after the affairs of the Village Panchayats, tax collection can be streamlined to increase the yield from this source.

2.6.11. By revising the tax based on plinth area rental basis, Executive Authority will be able to assess and fix the levy on the houses in the Village Panchayats immediately. Due to fluctuations in prices and inflation in the economy, the period of general revision fixed as once in 5 years appears to be too long and it is recommended that the revision can be done once in three years as recommended for urban bodies, so that there will not be any steep increase to the tax payers and at the same time, the Local Body will also have the incremental benefit of prices for the purpose of taxation, without waiting for a long period of 5 years.

2.6.12. The collection of tax is a major issue in the Village Panchayats and it is noted that the collection is far below the expectations due to want of efficient collection machinery in the villages as already pointed out. It has been even represented by non officials during the District Sittings that the collection percentage was high during the period when the V.A.Os. were collecting the house tax and it has fallen down due to want of supervision and effective machinery for collection. In this context it may be pointed out that the per capita income from house tax worked out by Damodaran Committee (1990) was Rs.1.77 in 1988-89. The per capita income from house tax now worked out to Rs.2 in all the years from 1989-90 to 1992-93 and it was Rs.3 in the year 1993-94. There has only been a marginal increase in the per capita income from house tax. This evidently indicates that the tax collection machinery has to be strengthened.

2.6.13. It has been suggested under urban local bodies that a system of passbooks can be introduced to avoid the issue of demand notice every time. Similar attempt can be made in the case of Village Panchayats also so that the scriptory work and the deployment of personnel for that purpose can be avoided. The Passbooks will contain information about the tax fixed for the period up to the time of next revision and any further changes in course of time. This could be done through computers proposed for Panchayat Unions. As pointed out earlier in Urban Bodies, the information about due date for payment, concession for prompt payment, rebate for advance payment, penalty for late or non-payment etc. can also be recorded in the passbook. In the case of Village Panchayats, it is easier to fix the dates for particular wards for collection and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection. In the case of defaulters, the Executive Authority who will be a local man may contact the defaulters and arrange for early collection. This procedure may perhaps help those who are ready to volunteer payment. The number of persons to be directly contacted is likely to be considerably reduced. The publication of the assessment list can also be resorted to so that the appeal and revision cases can be reduced to the minimum.

2.6.14. The people in the Panchayats villages should also be educated about the

2.6.14. The people in the Panchayats villages should also be educated about the need for prompt payment of taxes and the benefits derived out of such taxation to the local body. With the regular devolution of funds from Government under the new distribution system proposed, the Village Panchayats can also instill confidence in the local people on the betterment of the civic services. If provisions for distraint proceedings against immovable properties and recovery through Revenue Recovery Act are made available, it will help the realisation of tax arrears from cantankerous persons who are prone to resort to legal remedies often.

2.6.15. The existing procedure for revision and appeal can continue in respect of house tax in Village Panchayats. There is scope for improvement if the collection machinery is strengthened. The higher incidence of tax collection will itself double the existing income.with corresponding matching grant.

2.6.16. Recommendations

The SFC recommends the following:

1. A revised rate based on the plinth area rental value may be adopted since the existing tax structure di rectly related to plinth area will be static and no future revisions based on value could be done. The revised rates are indicated in the scheduled in Appendix No.20. In addition, as in the case of Library Cess, an additional surcharge at the rate to be decided by Government may be levied for meeting the cost of provision and maintenance of Radio/Television sets of the Village Panchayats.

2. The general revision once in five years now adopted may be revised as once in three years, so that there will not be any steep increase of taxation on the tax payers in villages and at the same time the Village Panchayats will also have the benefit of incremental increase in prices for the purpose of taxation.

3. The House Tax payer in Village Panchayats may be given the same types of concession allowed to tax payers in urban local bodies for prompt/advance payment of taxes.

4. The system of Passbook proposed to be introduced to urban Local Bodies to avoid the issue of demand notice every time may be adopted in Village Panchayats. The Local Public may be educated about the change of system and also the benefits of rebate for prompt and advance payments. This will reduce scriptory work and avoid the deployment of additional personnel for that purpose. If necessary, the system may be implemented after a pilot study in select panchayats.

5. In Village Panchayats it will not be difficult to fix the dates for collection centres consisting of specific wards and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection.

6. Only in the case of defaulters, the Officers of Village Panchayats will have to contact assessees and arrange for early collection.

7. All the procedures indicated under Municipal Corporations and also the publication of the assessment list in the Village Panchayat may be resorted to, so that appeal and revision cases can be reduced to the minimum.

8. An enabling provision for distraint proceedings against immovable properties and recovery through Revenue Recovery Act may help clearance of arrears in VPs also.

9. The existing procedure for revision and appeal of House Tax may continue in Village Panchayats.

Profession Tax:

2.6.17. This tax is being levied under the new Profession Tax Act about which a detailed discussion has been made under the Urban Local Bodies. This tax which was yielding Rs.0.82 crores in a 1989-90 has steeply increased to Rs.6.54 crores in 1993-94 due to enforcement of new enactment of 1992. The income in subsequent years would have increased due to the new enactment. The recommendations made under Madras Corporation will apply to the Village Panchayats also.

2.6.18. Recommendation

The SFC recommends the following:

The recommendations made in respect of Municipal Corporations and Town Panchayats will apply to VPs also.

Vehicles Tax:

2.6.19. The Village Panchayats had been levying tax on carts, bicycles etc. so far. The Government have abolished the Vehicles Tax recently. In view of the difficulties experienced in the levy and collection and also the high cost of collection involved, this tax was recommended to be abolished even by Damodaran Committee (1990) and also by various earlier Committees. The quantum of collection under this tax was very minimal and it contributed only 0.2 to 0.4 per cent of the total income. This tax has since been

abolished by Government. But the total abolition of Vehicles Tax will affect the source and the revenue of the local body and hence suggestions have been made for converting the levy as one against automobile vehicles which are not now attracting the provisions of the Motor Vehicles Taxation Act under Municipal Corporations. Recommendations made thereunder will apply to village Panchayats also.

2.6.20. Recommendation

The SFC recommends the following:

The Vehicle tax has already bene discontinued. All power driven vehicles like tractors, and two wheelers may be made liable for vehicles tax at different ranges of rates proposed, under Municipal Corporations.

Pilgrim/Tourist Tax:

2.6.21. This has been dealt with under Urban Local Bodies and all the recommendations made therein may be applicable to the rural local bodies also.

Tax on Agricultural Land for Specific Purposes:

2.6.22. This tax is leviable under Section 171(3) of the Act which is optional and is linked with specific purpose. This may be considered as a tax for betterment of the area with any specific item and this levy could be made only for a specific period with the sanction of the Inspector. The agriculturists in the area are subjected to land revenue, local cess,local cess surcharge and all these are based on the agricultural lands. The provisions to levy an additional tax for specific purpose on agricultural land has not created any impact all these years. This provision in the Statute has not at all been utilised. The development of the village is not related only to the agriculturists alone, but it also covers non-agricultural section of the people in the village . Except the house tax,the property holders do not contribute anything for the development purposes though few may own both lands houses . In fact the levy for the development of civic services should comprise the property holders also and not the agriculturists alone. Damodharan Committee (1990) which has also examined this aspect has recommended for suitable modification of the provision to enable levy of betterment charges on the property holders for provision or extension of any civic services in the area. This will supplement a portion of the cost involved in the provision of the schemes like water supply/ street lighting/ sanitation etc. The levy on agriculturists will involve dependency on the revenue authorities and also subjected to complicated procedures. On the other hand, the levy of betterment charges on all the properties can be done by the Panchayat, since the Panchayat is the authority to levy and collect wherever necessary. The owners of vacant lands also should be liable for this levy of betterment charges. This provision in the Act may be suitably amended.

2.6.23. Reommendation

The SFC recommends the following:

Instead of this tax, an enabling provision for levy of betterment charges can be made on all the properties in the area. The Panchayats can levy and collect whenever funds are needed. The owners of vacant lands also may be made liable for this levy of betterment charges. The Tamil Nadu Panchayats Act, 1994 may be suitably amended..

Water Tax:

2.6.24. In Urban Bodies, water tax is a component of the property tax and in Village Panchayats, water tax is levied only in places where piped water supply is made available. Under the Tamil Nadu Panchayats Act, 1994, the responsibility for provision of drinking water has not been vested with the Village Panchayat. However, the supply of water has been one of the major civic functions of the Panchayat and the omission in the Act has to be rectified. The amendments made to Tamil Nadu Panchayat Act, while enacting the formation of TWAD Board , has deleted therelevent provision in the Tamil Nadu Panchayats Act. In practice, the TWAD Board creates the assets and passes them on to the local bodies for maintenance and supply. The local bodies also create drinking water wells, overhead tanks, ground level reservoirs, etc and also provide stand pipes out of their own sources. The maintenance and provision of piped water supply costs very heavily. The system of user charges for full recovery of the cost could not be applied to Village Panchayats. The water supply which costs very heavily cannot also be made entirely free of cost.

2.6.25. A suitable provision may be made in the Tamil Nadu Panchayats Act 1994 enabling the levy of water tax as an addition to the house tax compulsorily in all village panchayats where water supply has been made available either through protected water supply scheme or through overhead tanks and pipe lines, or by provision of hand pumps and power pumps. In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

2.6.26. It has been represented during the District Sittings that house connections in village panchayats have been prohibited by the higher authorities even in places where house connections will yield revenue to the village panchayts. The Government may permit the house connections wherever adequate water is available for supply.

2.6.27. Recommendations

The SFC recommends the following:

1. A suitable provision may be made in the Tamil Nadu Panchayats Act, 1994 enabling the compulsory levy of water tax as an addition to house tax in village panchayats.

2. In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

3. The Government may permit the house connections in village panchayats where adequate water is available for supply, so that there will be more yield in revenue.

Assigned/Shared Revenues:

2.6.28. The following are the Assigned/Shared revenues:

1. Local Cess
2. Surcharge on Stamp Duty
3. Entertainments Tax
4. Mines and Minerals.

The income of Village Panchayats from the above sources is furnished below:

Table 2.56 Village Panchayats - Details of Income from Assigned/Shared Revenues

(Rs. in crores)

Details	1989/90	1990/91	1991/92	1992/93	1993/94	Average
Surcharge on Stamp duty	32.06 (93.60)	35.00 (93.14)	36.35 (95.38)	47.11 (95.35)	49.46 (95.28)	40.00 (94.66)
Local Cess	0.89 (2.63)	0.68 (1.80)	0.40 (1.05)	0.53 (1.07)	0.71 (1.36)	0.64 (1.52)
Entertainment Tax	1.25 (3.65)	1.68 (4.49)	1.22 (3.20)	1.43 (2.89)	1.45 (2.79)	1.41 (3.33)
Mines & Minerals	0.04 (0.12)	0.22 (0.58)	0.14 (0.36)	0.34 (0.69)	0.30 (0.57)	0.21 (0.49)
Total : Assigned/Shared Revenues	34.25 (100.00)	37.58 (100.00)	38.11 (100.00)	49.41 (100.00)	51.91 (100.00)	42.26 (100.00)

(Figures in the brackets indicate the percentages to total)

2.6.29. Items 2, 3 and 4 have been examined in detail, including the sharing between Panchayat Union and Village Panchayats under chapter V "Panchayat Unions" with suitable recommendations. Hence they are not examined again under this head. Item 1 has also been discussed under "Municipal Corporations". However distribution of item 1 to Village Panchayat has been discussed in para 2.6.31.

2.6.30. The percapita Assigned /Shared Taxes in Village Panchayats ranges between Rs.3.49 - 4.50. Higher per capita was found in the lowest population group i.e. Village Panchayats with population up to 1000. Standard deviation was very high which showed wide variation among the Panchayats in this group as may be seen in the statement below:

Table 2.57 Village Panchayats - Shared Revenue - Variations with reference to Population (Per Capita in Rs.)

Population	Mean	standard Deviation	Minimum	Maximum	Coef.of variation	VPS>= AVG	No.of VPS	Popula-tion
Upto 1000	4.50	24.08	0.00	849.69	534.72	285	1391	1213921
1001 - 2000	3.44	6.66	0.00	105.10	193.18	1212	4786	7193364
2001 - 3000	3.61	6.65	0.00	98.03	184.19	733	2783	6835881
3000 - 4000	3.60	6.56	0.00	120.67	181.98	446	1569	5415596
4000 - 5000	3.49	5.45	0.00	55.25	156.14	253	876	3906021
ABOVE 5000	3.56	4.72	0.00	52.82	132.53	360	1178	7934883

Surcharge on Stamp Duty:

2.6.31. The Surcharge on Stamp Duty is levied at 5 % of the value of the property. The recommendations made for Urban Local Bodies are applicable to Village Panchayats also. However, the Tamil Nadu Panchayats Act indicates that the amount collected in the Panchayat Development Block shall be pooled every year for the entire Block and then distributed among all the village panchayats in the Block in proportion to the land revenue collection of the panchayat. This provision has been made to ensure that all the Panchayats in the Panchayat Development area get a portion of the income under this surcharge. In the case of other local bodies, the surcharge collected in their area is passed on to the respective local body after deduction of collection charges.

2.6.32. Suggestions were made for distribution at 30% on origin basis and 70% on population basis for Village Panchayats. Damodaran Committee (1990) also examined the change of method of distribution in view of the difficulties experienced in ascertaining the land revenue collections from the revenue department and consequent delay in adjustment to the panchayats. The distribution based on population of the village panchayats was examined and it was found that it affected panchayats which were in receipt of sizable amounts under the present system (on land revenue basis.) Even now

the position is found to be the same on examining some cases in a division. The land revenue based system has perhaps been adopted considering the fact that the transactions in the villages will be mostly based on the agricultural lands unlike in urban areas where the predominant transactions will be based on properties, other than agricultural lands. Any change in the existing procedure will require amendment of the Act and it is also likely to affect adversely the amount realised by the various Panchayats. There will be difficulty in working out the payment origin wise in Village Panchayats.

2.6.33. To avoid the delay, Damodaran Committee (1990) recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge, instead of waiting for the receipt of collection figures every year. The average demand can be modified once in five years when the classification of blocks is made on the basis of average land revenue. This will eliminate the delay in adjustment. This can be linked to Land holdings if a system of levy of Local cess/Local Cess surcharge is to be linked to Land holdings, which has been suggested in paragraph 2.5.15. and 2.5.16.

2.6.34. The amount sanctioned is now initially credited to the Panchayat Union Funds and then the Panchayat Union Commissioner transfers the amount to the Village Panchayat account, after working out the amount due to the various Panchayats. In this process there has been considerable delay and in certain cases Panchayat Unions which are not financially sound have diverted the funds for their use. Ultimately the amount due to Panchayats has not been adjusted for years. This may, therefore be directly credited to the Village Panchayat Account in the Panchayat Union by the District Registrar of Assurances and the Panchayat Union Commissioner can give credit for the amount due to the various Village Panchayats on the basis indicated above. The procedure for adjustment has already been dealt with in chapter 2 "Municipal Corporations

2.6.35. Recommendations:

The SFC recommends the following:

1. Assignment of Local Cess, Surcharge on Stamp Duty, Entertainment Tax and Mines and Minerals have been discussed in detail under "Panchayat Unions" and recommendations made there under will apply to VPs.

2. Any change in the procedure for distribution of surcharge on stamp duty to VPs will require amendment of the Tamil Nadu Panchayats Act 1994. It is also likely to affect adversely the amount realised by the various Panchayats at present, if distribution is based on population. Hence the existing procedure based on LR may be continued.

3. To avoid delay, Damodaran Committee recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge instead of waiting for the receipt of collection figures every year. These figures may be collected Panchayatwise and kept at Panchayat Union level. This can be linked to Land holdings if a system of levy of Local cess/Local Cess surcharge is to be linked to Land holdings, which has been suggested in paragraph 2.5.15. and 2.5.16.

4. The amount sanctioned is now initially credited to Panchayat Union funds and then the Panchayat Union Commissioner transfers the amount to Village Panchayat account after working out the amount due to various Village Panchayats. This revenue may be directly adjusted to the account of VPs and the Panchayat Union Council can work out the amounts due to each VP and give credit to individual Panchayats.

Income from Fees and Charges:

2.6.36. The source of income under this category is similar to those available under the Urban Local Bodies, like D & O Trade Licence, Building Licence, Encroachment fees, income from markets and shandies etc. The specific items which need separate examination under the village panchayats are discussed below:

Income from Social Forestry:

2.6.37. This is a source by which the Village Panchayats can improve their income substantially. The income has gradually increased from Rs.1.99 crores in 1989-90 to Rs.3.27 Crores in 1992-93. The income represents 18 to 28% of Non Tax which is really substantial.During the District Sittings, in Districts like Ramanathapuram, and Chidambaranar where the income from other sources is very negligible, representations were made that there is much scope for realising substantial income from social forestry. It was also represented that the Panchayats may be permitted to raise forestry in all poramboke lands and the tank bunds irrespective of ownership. The right for auctioning should be left to the local bodies and regular system of tender cum action should be prescribed to enable realisation of maximum possible income. It was pointed out that the present system of auctioning is not transparent and it leads to the depression of the bid amount by vested interests and enables a second lease by those lessees for a sizable higher amount. The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

2.6.38. A special study on the planting and rearing of the trees under this scheme is needed to ensure simplification of procedure and reasonable freedom to the local body in the matter of incuring expenditure for rearing with purpose of having better survival ratios. The expert opinion could be obtained from the Departmental Officers available at District Level instead of seeking sanction and permission from outside Departments.

2.6.39. Recommendations:

The SFC recommends the following:

1. Social Forestry is a rich potential to Village Panchayats. The Panchayats may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. The right of auctioning should be left to the local bodies and a regular system of tender cum auction should be prescribed to enable realisation of real income.

2. The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightaway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

3. This Scheme needs study on simplification of procedure with reasonable freedom to Local body on expenditure relating to planting and rearing. Expert opinon may be confined to Officers in the District.

Fishery Rental:

2.6.40. The right for auctioning fisheries in respect of panchayat union vested tanks is exercised by the Revenue department. Similarly in tanks owned by PWD and in system canals the auctions are done by Fisheries Department or by the Fishery Development Corporation. The auction amount relating to panchayat union vested tanks is due to the village panchayats concerned. The Government favoured the lease in favour of Fish Farmers' Cooperative Societies in the area. The local bodies actually do not have any role in realising the income by their own methods. It was pointed out even during the Damodaran Committee (1990) that fake societies are formed and in collusion, the auction amount is kept at low level while higher profits are realised by the lessee and out of that, a certain portion is paid to the local community for their public purposes and the balance is appropriated by the people connected with those fake societies. Even the paltry sum collected is not regularly passed on to the village panchayats concerned. The power of auction is required by the local body so that there will be a possibility of augmenting the resources of the local body. SFC considers that the societies also can compete along with the other bidders and but there should be no monopoly condition to lease it to the society alone. The SFC would like to stress that the power of auctioning

such local body assets should be only with the concerned local body and if necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation and with powers to Collectors to interfere where the implementation is not properly done.

2.6.41. Regarding the PWD tanks also the share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease, so that the exploitation over and above lease amount, could be watched and brought to notice, at least for future leases. In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

2.6.42. Recommendations

The SFC recommends the following:

1. The power of auctioning local body assets should be only with the concerned local body. If necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation. Collectors may be given powers to interfere where the implementation is not properly done. Fish Farmers' Development Co-operative Agencies should also be a bidder along with others and no monopoly should be given to them.

2. Regarding PWD tanks also, a share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease so that over exploitation could be watched and brought to notice to avoid future leases.

3. In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a Committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

2C.Patta Trees.

2.6.43. The Chief Engineer, Highways has stated that in respect of avenue trees, the income from usufructs is given to the local body and the income for each of the trees is fixed after ascertaining the market price likely to fetch for the usufructs for a period of three years. The Panchayats will have to remit the lease amount to the Government and then enjoy the usufruct by auctioning it to any lessee by adopting usual procedure. No lease of the avenue trees should be granted for more than three years at a time. The

Panchayat Unions are eligible to auction the trees standing on the tanks transferred to the control of the Panchayat Unions. In respect of trees standing on the tank bunds vested with the Panchayat Unions and in respect of Public Works Department tanks which are not covered by system area, auction is done by Revenue Department and the proceeds are adjusted to the Panchayats concerned. There were representations that such auctioning is not done properly and the local Presidents do not have any knowledge of the auction and in the result, the auction is finalised for a very low amount. People who have vested interest join together and depress the auction price. It was therefore suggested that such auctions relating to the trees should be done by a Committee consisting of representatives of the Panchayat Union Council, representative of the Panchayat, the Panchayat Union Commissioner and the Revenue Officials concerned. The auction should be decided by the Committee and this will ensure better price in the auctioning.

2.6.44. The auction amount could also be remitted to the Panchayat Union Council concerned for credit in the Village Panchayat funds. In respect of Town Panchayats the amount can be directly credited to the Town Panchayat funds. There were also representations that there should be control over the dead trees that fall down and if it is not given, the removal by the people in scandalous methods, cannot be avoided. If the Panchayats are given powers to report the dead trees and initiate action to remove them from the roads and sell them, it may be possible to dispose of the trees quickly and realise better revenues.

2.6.45. Recommendations

The SFC recommends the following:

1. Wind fallen trees should be auctioned by a committee consisting of representatives of PU Council, Panchayat, PU Commissioner and Revenue official concerned. The auction should be decided by the Committee, to ensure better price.

2. The auction amount may be remitted to the PU Council Treasury for credit to the Village Panchayat funds.

3. In respect of Town Panchayats, the amount may be directly credited to Town Panchayat Funds.

4. In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realisation of better revenues.

Fairs and Festivals:

2.6.46. The Panchayats have been given powers under Section 111 of the Tamil Nadu Panchayats Act 1994 to control the fairs and festivals declared as Panchayat Festivals. In case of such festivals the Panchayat are obliged to make provision of sanitary arrangements and water supply to public who attend such fairs and festivals which are normally notified by the Collector. They attract more number of pilgrims and others from the nearby areas. There is provision for fixing the share of expenditure to be made by the Temple authority by the Collector after consultation with them. It is now understood that the Temple Authorities have been exempted from paying their shares. Most of the Temples have represented that they do not have adequate resources and that the expenditure has been incurred by the Panchayat without prior consultation with the Temple Authorities. There are many temples which attract the pilgrims throughout the year in large numbers which naturally involve additional expenditure to the local body concerned. In this context the levy of Pilgrim or Tourist Tax on such floating population has been discussed under "Urban Bodies".

2.6.47. In view of the difficulties experienced in getting a share from the temples, it may be considered as an alternative, whether the temples having sizable income throughout the year through pilgrims may be required to share or contribute to the expenditure on civic amenities to be provided by the local bodies concerned. For instance, the temple at Thiruchendur has been contributing from its own fund for laying of roads etc. A Similar attempt can be made in respect of other big temples in Tamil Nadu. The Temples may collect addition fee along with entrance fee and pass on to Local body.

2.6.48. Recommendations

The SFC recommends the following:

1. Levy of Pilgrim/Tourist Tax has been discussed under Urban Local Bodies. They may be applied to Village Panchayats also.

2. In view of the difficulty in getting a share on Expenditure on festivals from the temples, as an alternative, the temples having a sizable income throughout the year through pilgrims may be required to share or contribute to the expenditure on civic amenities to be provided by the local bodies concerned. The Temple at Tiruchendur has been contributing from its own funds for laying of roads etc. and a similar attempt can be made in respect of other big temples in Tamil Nadu. OR The temple may collect an additional fees along with the entrance tickets and pass on that money to concerned Local Body.

Penalties and Fines:

2.6.49. Sections 243 to 247 of the Tamil Nadu Panchayats Act 1994 deal with Penalties and fines that can be made for violations of the provisions of the Tamil Nadu Panchayats Act. The Penalties and fines indicated in schedules II & III of the 1994 Act are the same as those indicated in the 1958 Act. Damodaran Committee (1990) suggested revised rates of penalties and fines since they were fixed a long time back and needed revision. It is necessary that the rates should be revised to suit the present day conditions and be deterent to curb the tendency to violate the provisions. Higher punishment is likely to have a deterrent effect on the commission of such violations and offences.

2.6.50. SFC recommends that the rates now proposed taking into account the rates indicated by Damodaran Committee (1990) for schedules II & III of the Tamil Nadu Panchayats Act furnished in Appendix Nos.(18 & 19) may be adopted with suitable amendment to Act.

2.6.51. Recommendation

The SFC recommends the following:

The revised rates proposed by Damodaran Committee (1990) in lieu of rates indicated in Schedules II and III of the Tamil Nadu Panchayats Act, 1994 and suitably revised by SFC may be adopted and the Act amended suitably. (vide Appendix Nos. 18 & 19)

Grants:

2.6.52. The income from the Grants-in-aid to Village Panchayats may be seen from the statement below:

Table 2.58 - Village Panchayat DETAILS OF GRANTS-IN-AID FROM HIGHER LEVEL GOVERNMENTS (Rs. in Lakhs)

DETAILS	1989/90		1990/91		1991/92		1992/93		1993/94		5 Yr.Avg.	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Statutory Grants:												
House Tax Matching Grant	485.00	9.70	659.03	14.39	815.40	19.72	855.23	18.58	867.48	14.15	736.43	15.06
Small Savings Grant	25.63	0.51	33.42	0.73	14.29	0.35	28.65	0.62	196.08	3.20	59.61	1.22
Statutory Grants	510.63	10.21	692.45	15.12	829.69	20.06	883.88	19.20	1063.56	17.35	796.04	16.28
Non Statutory Grants:												
Water Supply Grant	82.03	1.64	73.34	1.60	33.59	0.81	36.56	0.79	112.99	1.84	67.70	1.38
Street Light Grant	12.68	0.25	11.41	0.25	80.72	1.95	53.28	1.16	202.06	3.30	72.03	1.47
Funeral rites Grant	55.10	1.10	47.70	1.04	51.68	1.25	57.43	1.25	108.32	1.77	64.05	1.31
Development Grants												
Jawahar Velai vaippu	4085.51	81.72	3539.13	77.27	2950.49	71.34	3329.66	72.33	4280.37	69.84	3637.03	74.38
Intensified J.V.V.T.	135.66	2.71	118.47	2.59	129.99	3.14	169.93	3.69	230.57	3.76	156.92	3.21
Employment Assurance	44.13	0.88	47.22	1.03	30.38	0.73	39.53	0.86	64.00	1.04	45.05	0.92
Prog. of Assured Empl.	8.66	0.17	15.67	0.34	12.70	0.31	8.51	0.18	23.94	0.39	13.90	0.28
Others	65 30	1.31	34.90	0.76	16.58	0.40	24.35	0.53	42.90	0.70	36.81	0.75
Development Grant: Total	4339.26	86.79	3755.39	81.99	3140.14	75.93	3571.98	77.60	4641.78	75.74	3889.71	79.55
Non-Stat.Grants: Total	4489.07	89.79	3887.84	84.88	3306.13	79.94	3719.25	80.80	5065.15	82.65	4094.39	83.72
Total Grants	**4999.70**	**100.00**	**4580.29**	**100.00**	**4135.82**	**100.00**	**4603.13**	**100.00**	**6128.71**	**100.00**	**4889.53**	**100.00**

Table 2.59. - Village Panchayat - In come from Grants - Percapita According to Population Ranges and Variations

Population	Mean	Standard deviation	Minimum	Maximum	Coef.of Variation	VPS>= Avg.	No.of VPS.	Popula-tion
GRANT REVENUE:								
UPTO 1000	28.18	43.13	0.00	509.80	153.06	382	1396	1221908
1001 - 2000	21.68	28.22	0.00	398.17	130.14	1473	4783	7190164
2001 - 3000	17.89	21.21	0.00	208.98	118.57	863	2782	6833172
3000 - 4000	15.37	17.75	0.00	145.85	115.45	510	1566	5404112
4000 - 5000	15.50	18.01	0.00	151.51	116.18	292	877	3910224
ABOVE 5000	**14.79**	**15.87**	**0.00**	**122.07**	**107.25**	**398**	**1179**	**7940081**

the Village Panchayat, an equal amount is payable by the Government which is called House Tax Matching Grant. This grant is an incentive for the Village Panchayats to realise more collections so that they will have an equal amount of contribution from the Government. However, it has been observed during the last 30 years that this grant has not actually created enthusiasm for increasing the rate or for improving the performance of collections. The Village Panchayats have very meagre income under House Tax, though it is considered to be a major revenue (The per capita income is only Rs.2/- and the percentage to total revenue is only between 5 & 6). The matching grant can be modified to infuse involvement for realising more income from House Tax by linking it to the rate of levy and percentage of collection. But the system will need care in working out the entitlement. The new system of distribution of funds allocated by the Government will take into account the tax performance as one of criteria for devolution of funds. This may perhaps serve as an incentive for Village Panchayats to have a better tax performance. The existing system of matching grant can also be linked to collection performance.

2.6.54. During the District Sittings and also in the memoranda received from the officials there is a demand for increasing the matching grant from 100% to 300%. Now the Panchayats are also sought to be categorised with reference to their income . The grant is now given on equal basis to all Panchayats irrespective of their financial viability. Based on the categories evolved the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. SFC recommends that the rates indicated in Appendix No.20 may be adopted.

2.6.55. Recommendations

The SFC recommends the following:

1. The new system of devolution of funds other than statutory grants takes into account the tax performance as one of the criteria for devolution of funds.

2. The existing system of House Tax matching grant can also be linked to collection performance instead of providing equal amount.

3. Based on the categories of village panchayats now suggested, the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. Specific recommendations given in Appendix No. 20 may be adopted.

Grants for Water Supply and Street Lighting: (Discretionary)

2.6.56. The Village Panchayats are now given assistance by the Government to enable them to meet the electricity consumption charges on public lighting and for meeting the repairs on hand pumps and power pumps under the Water Supply Schemes. These grants are made on an ad hoc basis and not based on any regular formula. The question of creation of divisible pool for the devolution from State Taxes and principles for horizontal distribution to Village Panchayats have been dealt with in detail in Part V of the Report. In such a case,there may not be any need for special grants for the above purposes. However till the Government takes a decision on devolution of funds the present method of assistance by way of grant for street lighting and for water supply will have to be continued by the Government on a regular basis. The consumption charges in Public lighting and the repair of water sources may be met in full by Government.

2.6.57. Recommendation:

The SFC recommed the following:

Till a decision is taken on the recommendation on divisible pool, the present method of assistance by way of grant for street lighting and for water supply will have to continue on a regular basis. The consumption charges in public lighting and also the repair charges for water sources, may be met by Government in full.

Development Grants:

2.6.58. All Development grants like JVVT, are routed through the Panchayat Unions based on the criteria and guidelines fixed by the Government of India for distribution of funds to the Panchayats on Population basis. These grants will continue as long as the Central and State assistance are made available. Hence no specific suggestions or recommendations are required, except that the grants intended for Village Panchayats may be directly adjusted to the Panchayat funds by the District authorities to avoid delay in routing it through the Panchayat Unions. The guidelines indicate the purpose for which the moneys can be spent. If freedom is given to the local bodies, they may utilise the funds for priority items in the area rather than the purpose indicated for the grant. This is a policy decision to be taken at the higher levels of government financing.

2.6.59. Recommendations

The SFC recommends the following:

1. Thegrants intended for Village Panchayats may be directly adjusted to the Panchayat Funds by the District authorities to avoid delay in routing through the Panchayat Unions.

2. If freedom is given to the local bodies, they may utilise the funds under Employment schemes for priority items in the area rather than sticking to the purpose indicated for the grant. This will be a major policy decision to be taken at the higher levels of government.

Remunerative Schemes:

2.6.60. In Village Panchayats where higher population/income is now available the remunerative shemes like shops, markets, bus stands stalls and community centres can be encouraged with assistance from Government. The assistance from Government cannot be entirely Loan as in the case of urban local bodies. A percentage Grant-cum-loan system can be adopted. The freedom to implement these schemes should be left to the Panchayats except for technical guidelines and supervision. These aspects have been dealt with under urban local bodies. They may be extended to Village Panchayats also, However, the Panchayat Union Commissioner may be the liason as well as supervisory authority for implementation, auction and other related matters.

2.6.61. Recommendations

The SFC recommends the following:

1. In village panchayats with higher population/income, remunerative schemes like shops, markets, bus stands and stalls and community centres may be encouraged with assistance from Government.

2. The assistance should not be entirely on loan basis as in Urban Bodies but should be on the basis of Grant-cum-Loan.

3. The freedom to implement the schemes should be left to the Panchayats except for technical guidelines and supervision. These aspects have been dealt with under "Municipal Corporations". They may be extended to Village Panchayats also. The Panchayat Union Commissioner may be the liason as well as supervisory authority for implementation, auction and other related matters in respect of "Remunerative Enterprises".

Projection of Resource Generation:

2.6.62. Projected position of the expected resource generation under Own Tax and non-tax sources of the different tiers of Local bodies during the periods from 1997-98 to 2001-02 are given in Tables 2.60 to 2.64 below. These figures do not however take into account the possible additional revenue generation from new tax domains, general sharing from State Taxes and the possible improvement of overall finances of Local bodies from non-tax resources, pending acceptance of the various recommendations for streamlining the methods and procedures made by the SFC.

Table. 2.60

Municipal Corporation Detailed Projection of Own Revenues

(Rupees in Crores)

	1997 - 98	1998 - 99	1999-2000	2000 - 01	2001-02	Total
A. Taxes						
(a) Property Tax	135.05	145.10	190.35	209.56	230.69	910.75
(b) Profession Tax	16.14	16.95	19.49	21.43	23.58	97.59
Total	151.19	162.05	209.84	230.99	254.27	1008.34
B. Non Tax:						
(a) Fees, Fines etc.	10.69	11.98	14.37	15.81	17.39	70.24
(b) Income from Propety	40.41	48.49	58.19	69.82	83.79	300.70
(c) Income from Miscellaneous	7.81	8.00	8.21	8.42	8.62	41.06
(d) Income from Special services	3.88	4.11	4.36	4.63	4.91	21.89
Total	62.79	72.58	85.13	98.68	114.71	433.89
Total (A+B)	213.98	234.63	294.97	329.67	368.98	1442.23

Table 2.61

Municipalities

Detailed Projection of Own Resources (Rupees in crores)

	1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A. Taxes						
(a) Property Tax	67.13	70.48	84.58	97.59	105.13	424.91
(b) Profession Tax	10.42	10.63	12.33	12.77	13.23	59.38
Total	**77.55**	**81.11**	**96.91**	**110.36**	**118.36**	**484.29**
B. Non Taxes						
(a) Income from fees, fines, charges	7.00	7.52	8.85	9.97	11.24	44.58
(b) Income from Properties	23.91	25.72	27.67	29.80	32.10	139.20
(c) Income from Special Services	28.08	32.02	36.53	41.68	47.57	185.88
(d) Income from Miscellaneous Receipts	8.77	8.99	9.21	9.44	9.68	46.09
Total	**67.76**	**74.25**	**82.26**	**90.89**	**100.59**	**415.75**
Total (A+B)	**145.31**	**155.36**	**179.17**	**201.25**	**218.95**	**900.04**

Table 2.62

Town Panchayats - Detailed Prjections of Own Revenues

(Rs in crores)

		1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A.	House Tax	20.19	20.59	27.80	29.75	31.83	130.16
	Profession Tax	15.73	16.52	18.17	19.98	21.98	92.38
	Other Taxes	2.59	2.72	2.85	3.00	3.15	14.31
	Total	**38.51**	**39.83**	**48.82**	**52.73**	**56.96**	**236.85**
B.	Fees Fines charges	5.00	5.50	6.05	6.65	7.32	30.52
	Income from Properties	13.98	15.38	16.92	18.61	20.47	85.36
	Income from Special Services	8.73	9.34	10.00	10.70	11.45	50.22
	Income from Miscellaneous Receipts	3.89	3.97	4.05	4.13	4.21	20.25
	Total	**31.60**	**34.19**	**37.02**	**40.09**	**43.45**	**186.35**
	Total (A+B)	**70.11**	**74.02**	**85.84**	**92.82**	**100.41**	**423.20**

Table 2.63

Panchayat Unions Detailed Projections of Own Revenues

(Rs in crores)

		1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A.	Own taxes (LCS)	37.00	37.00	37.00	37.00	37.00	185.00
B.	Income from fees, fines and charges	5.95	6.54	7.19	7.91	8.70	36.29
	Income from properties	5.94	6.53	7.18	7.90	8.69	36.24
	Income from Special Services	1.93	2.12	2.34	2.57	2.83	11.79
	Income from Miscellaneous Revenues	5.88	6.47	7.12	7.83	8.61	35.91
	Total - B	**19.70**	**21.66**	**23.83**	**26.21**	**28.83**	**120.23**
	Total (A+B)	**56.70**	**58.66**	**60.83**	**63.21**	**65.83**	**305.23**

Table 2.64

Village Panchayats Detailed - Projections of Own Revenues

(Rs. in Crores)

	1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A. Own Taxes						
(a) House Tax	8.62	9.05	9.50	12.00	18.00	57.17
(b) Profession Tax	7.95	8.35	8.76	9.20	9.66	43.92
(c) Water Tax	0.90	0.94	0.99	1.04	1.09	4.96
(d) Vehicle Tax	0.50	0.50	0.50	0.50	0.50	2.50
Total (A)	17.97	18.84	19.75	22.74	29.25	108.55
B.Fees Fines etc.	13.98	14.68	15.41	16.18	17.00	77.25
Total (A+B)	31.95	33.52	35.16	38.92	46.25	185.80

2.6.63. The increase in revenue under taxes and non taxes of the various tiers of local bodies has been indicated in the earlier paragraphs. The projection for the Assigned revenue has not been made in this part since, instead of tax based devolutions, a general sharing pattern out of the total pool of revenue of the State is recommended in Part-V. The tax based devolutions will arise only when, for any reason, the general sharing pattern is not accepted by the Government.

2.6.64. The recommendations made in this part, mainly, were related to the Augmentation of Resources under different types of revenues either from local sources or from assignments from higher bodies. There are a few suggestions which could help augmenting the local resources for providing the infrastructure needs in the respective areas. They are indicated below for further detailed study:

1. Development, sponsored through institutions, who can either adopt a village or a portion of village or take up specific item of development in the area. This may need some concessions to such sponsors by way of tax benefits. A recent incident can be recalled in which a multi-national company venturing in Automobile manufacture in Marai Malai Nagar has come forward to construct a Health Centre for the benefit of the local people. Such events would multiply in good number, provided Government extends encouragement.

2. People's participation through `Shramdan' (contributary labour) by agreeing to take up development in their area with allocation of funds by the Government. This will arise in places where people come forward to take up a particular project or a work, contributing either labour or matching money contribution, expecting aid from the State and Centre. It is suggested if people take the initiative for contributing 1/3rd of the cost of the project, the balance 2/3rd could come from State and the Centre on equal sharing basis. Such matching contributions from the State and the Centre are over and above the normal allocations, due from the higher Governments to the Local bodies. Such a programme, reflecting the spirit of ancient schemes like Kudimaramath, would help to inject considerable impetus to the spirit of self-help and self-respect among the people and their Local bodies. Such projects can cover the long felt needs in the field of education, health, irrigation and other common amenities. The Government can encourage such voluntary contributions and provide funds which will help creation of assets with the public participation and also ensure a proper maintenance later.

3. Consequent on the policies of economic liberalisation, corporate institutions are coming up in large number, besides existing institutions and business houses. There are many industrialists living abroad as NRIs. It may be possible to persuade such NRIs or the Industry or business houses to either donate liberally to a common development fund or take up specific schemes in the areas of their choice. This may need some incentive by way of exemption from or concession in tax benefits. Such a scheme was available for rural development some years earlier and this could help developing infrastructure in the local bodies. Consequently, the strain on the Government and local body finance could be reduced, and money thus saved could be utilized for maintenance.

4. The local bodies should be educated to take advantage of specific, purpose-oriented central schemes like non-conventional sources of energy, rain harvesting schemes etc. and promote development in their area in the respective fields. Efforts should be taken to ensure that allocation for such schemes are neither left under-utilised or unutilised.

CHAPTER - 7

DISTRICT PANCHAYATS

2.7.1 Section 24 of the Tamil Nadu Panchayats Act, 1994 contemplates the constitution of District Panchayat for each district having jurisdiction over Panchayat Unions and Village Panchayats. This is the first highest tier of the Rural Local Bodies as envisaged in the 73rd Amendment to the Constitution of India. Accordingly, the Tamil Nadu Government have constituted District Panchayats in all the districts in their G.O. Ms. No.100, Rural Development Department, dated 13-4-1995. The Collectors have been appointed as Special Officers and the Project Officer, DRDA is now holding the post of Chief Executive Officer. The Government have transferred the employment-oriented programmes which were being executed through DRDA to the District Panchayats, and the related funds have also been placed at the disposal of District Panchayats. The role of the District Panchayats, as envisaged in the Act is only advisory in character and watching the progress of the schemes in the Panchayat Unions and Panchayats. and also to advise on matters on which the Government need advice from the District Panchayats. The G.O. has however entrusted the monitoring of employment-oriented schemes to the District Panchayats and also placed at the disposal of DPs the officers and staff working under the control of DRDA and also some of the officers from the Collectorate. Paragraph 12 of the G.O. indicates that all expenditure relating to implementation of programmes and expenditure on staff shall be debited to the DP General Fund and that further additions to DP General Fund shall be based on the recommendations of SFC.

2.7.2. The role of District Panchayat and the activities earmarked among DP, PU and VP in respect of the 29 items indicated in Schedule 11 to 73rd Amendment to the Constitution, duly incorporated in the new Tamil Nadu Panchayats Act, 1994, have not yet been finalised. The existing scenario is that, DPs will operate the employment-oriented schemes like JVVT etc. transferred as per the above G.O. In respect of these programmes, provisions have already been made in the Budget for the schemes as well as for the cost of staff involved. The entire money will therefore be flowing to the General Fund of DPs as per the district allocation now being made by the Government. As far as the additions to DP General Fund are concerned, SFC has taken the view that out of the total allocations to be made by State Government to the Local Bodies, after dividing such allocation between Urban and Rural as per the norms proposed by SFC, the amount needed for the actual expenditure of the DPs will be retained out of Rural allocation and the balance will be distributed to PUs and VPs. on principles proposed by SFC. The amount retained for DPs will be distributed as Block Grant. In this context, the probable expenditure needed for a DP has to be evolved which will again depend on the role of DP to be decided by the Government. However the DRD has given some indications of the

requirements of the staff. This has been projected for the year 1997-98 and indicated as Rs.21 lakhs. Projection for subsequent years upto 2001-2002 has also been furnished. It appears that the staff covered by and JVVT and other employment programmes have been included in this estimate but, for them provision is already available in respective budget of the government and they have been distributed to DPs already. The amount needed over and above that for the new set up has not been clearly indicated. However, recently Government have distributed funds to District Panchayats to an extent of Rs.1 crore each for 1996-97. Taking this as guidelines, devolution of block grant to District Panchayats is discussed in Part V of the Report. The suggestion for assignment of Local cess to DPs and block grants to meet actual needs could be the recommendations of the SFC for the time being. When Devolution of functions and the new setup of the DPs office is known the amount further required can be reappropriated from the total pool intended for Rural.

2.7.3. Recommendations:

The SFC recommended the following:

The suggestion for assignment of Local cess to DPs and block grants taking the distribution made for 1996-97 to District Panchayats by Government at Rs.1 crore each as guidelines to meet actual needs could be the recommendations of the SFC for the time being. When devolution of functions and the new set up of the DPs office is known the amount further required can be reappropriated from the total pool intended for Rural.

CHAPTER - 8

DEBT SERVICING AND LIABILITIES

2.8.1. The analysis of revenue receipts and expenditure shows that there is a marginal surplus in most of the local bodies but as a matter of fact, the surplus found is not a real one.

2.8.2. The expenditure is limited to the available funds and does not reflect the provision actually needed. In view of the deficit in finances, the deficiency in provision of funds relating to debt servicing and contribution payable to Pension Fund is found very common.

2.8.3. The debt servicing is a major issue which needs better understanding of fiscal conditions to ensure sound financing of the local bodies. Efforts taken to improve the resources will not be really useful if the accumulated liabilities are allowed to continue. At the same time, if the increase in revenue realised is diverted towards discharge of liabilities, it will hamper the improvement in core services of the local bodies. The debt position today is an accumulated one over years. The position of Debts accumulated in the various urban local bodies as on 31.3.94 is shown below in the tables:

Table 2.65 I. Loans of Local Bodies (Rs. in crores)

Name of Institution	Annuity overdue		Penal Int.	Current Annuity pending	Total
	Prl.	Int.			
Corpns.	127.86	25.89	0.02	8.10	161.87
Municipalities	38.89	53.82	1.16	20.64	114.51
Town Pts.	20.96	23.39	0.26	3.30	47.91
Total	187.71	103.10	1.44	32.04	324.29

Table 2.66 II. Ways and Means Advances: (Rs.in crores)

Institution	Amount overdue		Current due	Total
	Prl.	Int.		
Corpns.	0.38	0.37	—	0.75
Municipts.	5.77	4.33	3.19	13.29
Town Pts.	3.96	4.65	0.53	9.14
Total	10.11	9.35	3.72	23.18

2.8.4. Debt position mostly relates to Loan for Water Supply Schemes. The loans are normally repayable over a period of 15 years and the annuity is accordingly fixed. It could be seen from the tables above. Interest liability is more than the principal.

2.8.5. The following factors contributed for the accumulation.

i. No proper estimation of the schemes seems to have been done in many cases which is evident by cost over run, much more than inflation due to time over run. The Local Bodies have no say either in original or Revised Estimates prepared by the Technocrats.

ii. The time over-run has been considerable. (even to the extent of six to seven years) The Local Bodies have no effective control or say on this aspect.

iii. While moratorium is allowed for repayment of the principal, the interest liabilitystarts from the date of sanction, to be paidfrom the local body's funds even before the benefits of the schemes accrue to local body. The principal is drawn by the implementing body directly from Government and the local body had no chance of even earning interest on the principal. The non-payment of interest on due dates, which is not wilful, entails levy of penal interest which is an addition to the already accumulated interest liability.

iv. The User charges could not be fixed to meet full cost recovery in view of affordability. Even the rates now in force could not be fully realised in view of deficiency in supply of water. The realisation of user charges takes considerable time after handing over of the scheme which contributed to further delay in payments. (v) In the case of Remunerative works, the rent rates indicated by P.W.D. were very low and even for that, the interference at higher level combined with collusion at lower level depressed the lease amount.

2.8.6. Water Supply is a Core Service on which attention is paid at National level to achieve a minimum level of supply to each individual as per targeted norms adopted by Governments. The Local Bodies, whether Urban or Rural cannot bear the entire burden of the Schemes which involve huge investments. Rural Water Supply is taken care of by Government in full. In the case of Urban bodies also the lower grades of Municipalities and Town Panchayats need assistance from Government not only by way of Loan but also through Grants.

2.8.7. In the case of schemes already completed, with huge cost and low returns, unless special assistance is given, it may not be possible for the local bodies to repay the amount. The following are the recommendations made for ensuring regular payments.

1. The payment schedule may be revised with more number of instalments.

2. Interest rate may be subsidised by the Government to lower level of tiers of urban bodies.

3. Clause for penal interest may not be insisted upon in view of the slender financial resources of the local bodies, and the default in payment not being wilful.

4. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out, to avoid high overhead cost included therein.

5. The local bodies may be allowed to clear the arrears by paying current annuity with one instalment of arrears without additional instalment on outstandings.

2.8.8. It has been brought notice that assistance assured to compensate certain expenses incurred by the local bodies consequent to policy decision of the Government, such as"D.A. subsidy" has not been released for several years (which was assured to the local bodies for compensating the additional expenditure incurred by the local bodies for payment of enhanced D.A. from time to time). The Directorate of Municipal Administration has estimated this arrears till 31.3.95 at Rs.45 crores in its letter to Government dt. 1.2.95 Similarly such payments are stated to be due to Town Panchayats, Panchayat Unions and also Municipal Corporations for a number of years. The quantum of arrears is not readily available with the Commission. The SFC recommends that such arrears not paid by Government could be sanctioned and adjusted towards the debts due from the local bodies.

2.8.9. Similarly it has also been noticed by SFC and also indicated in earlier chapters that the assignments of revenues due to local bodies from out of surcharge on Sales Tax, Local Cess and Local Cess Surcharge, Mines and Minerals has not been adjusted for quite number of years. The amount not released has accumulated in Government account. The SFC recommends that these amounts can also be sanctioned and adjusted by the Government wherever possible to the Local Body concerned against the loan payments due.

2.8.10. If timely adjustment of all these revenues is ensured by special direction from Government in future years, compulsory repayment of the current annuities along with one instalment of annuity over-due can be insisted upon from the Local Bodies.

2.8.11. The Directorate of Municipal Administration has stressed the necessity for payment of compensation for the loss in property tax administration due to the

postponement of quinquennial revision during the years 1975-76, 1980-81, and 1985-86 and also because of the ceiling fixed for the revision to be made by the local bodies. The hands of the local bodies are stated to have been fettered to exploit the taxation powers in full. The loss has been estimated at Rs.81 crores for the three general revisions which have not taken place in Municipalities. In addition, the DMA has also indicated a loss of Rs.19.76 crores towards the amount due from school buildings which have been exempted from payment of property tax due to the policy of the Government. The same position exists in other local bodies also. The loss of revenue due to the concession to school buildings works to about Rs. 5 crores in Municipalities per year and Rs.1.25 crores in Corporations and about Rs. 1 crore in Town Panchayats.

2.8.12. The SFC feels that there is no provision to compensate the loss so far incurred. The SFC has already taken a stand that in future, if the Government interferes with the taxation power of the local bodies, or grant any exemption in any of the levies ultimately due to the local bodies, the local bodies should be compensated to the extent of the loss suffered by them. In this context, the SFC would like to indicate that the Government may consider the scaling down of the loan commitment of the local bodies or the re-scheduling of the loan repayments suitably after adjusting the dues from the Government to Local Bodies and also giving rebate on interest elements including waiver of the penal interest levied.

2.8.13. In the case of Debts created for Remunerative Schemes, the Government should give liberty to fix rentals by the Local Bodies suitable to market conditions (as already dealt with in earlier chapters) to enable them to discharge the liability.

2.8.14. The repayment of existing debts on these items may be rescheduled with more instalments.

2.8.15. The Government also should make the technical agencies who implement the schemes responsible for sharing the escalation by prescribing a time limit for completing the work and the local body should have a say whenever the works are not done within the time limit.

Other Liabilities:

2.8.16. The local bodies have huge liabilities under two heads, namely, (1) payment of pension/pensionary contributions (2) remittance of provident fund amounts collected from the employees but not deposited in the accounts of the Government.

Pension Liabilities:

2.8.17. Local body employees have been declared eligible for all pensionary benefits that accrue to the Government servants. The Government formed a separate fund for this purpose administered by the Examiner of Local Fund Accounts (now the Director of Local Fund Accounts) and the local bodies have been directed to pay a

contribution of 8.33 % as pension contribution on the maximum of the pay scale of the employees per year. This was subsequently modified as 10 % and finally increased to 20% (in 1993). The information furnished by the Director of LF Accounts indicates that an annual contribution of about Rs. 6 crores is payable by the local bodies to that fund. The total outgo from that fund every year towards pension, increased DA to the pensioners, gratuity for the people retiring during the year comes to about Rs. 19 crores as may be seen from the table below:

Table 2.67 Pension Contribution Demand and the Commitment on Payment of Pension and Other Benefits (As in 1995-96)

Name of Local body	Pension contribution Demand for 95-96.	Expre. on pension.	Deficit
		(Rs. in crores)	
1. Municipalities	2.30	6.71	4.41
2. Panchayat Unions	2.29	8.31	6.02
3. Town Panchayats	1.72	4.81	3.09
Total	6.31	19.83	13.52

2.8.18. Even the normal contribution of Rs.6 crores is not being remitted regularly by many of the local bodies for want of funds. A table showing the payment pending with the local bodies on this account, as on 31.3.94 is furnished below (as obtained from Director of Local Fund Audit Tamil Nadu)

Table 2.68 Details of Pension Contribution payabale by the Local Bodies

Local Body	Pension arrears (payable by Local Bodies)	Contri-bution to LF Pending	Contri-bution to Govt. Pending	Total
		(Rupees in lakhs)		
Corporations.	1.53	1.28	—	2.8
Muncipalities.	96.78	28.07	41.23	166.08
Town Pts. 45.07	176.14	1.20	222.4	
Panchayat Unions		262.87	35.55	298.42
Total	**143.38**	**468.36**	**77.98**	**689.72**

2.8.19. As on 31/3/94, the arrears to be paid by the local bodies to Local Fund Department on account of pension contribution is about Rs.4.68 crores. The Government have adjusted arrears payable by the Municipalities and Town Panchayats from out of the Surcharge on Sales Tax and also from the arrears of Profession Tax payable to these bodies on behalf of B, C and D Group of employees from the Government.

2.8.20. The Director of LF Accounts has pointed out to SFC that in spite of the adjustments made from these assigned revenues and even after withdrawing some amount from the corpus fund created for this purpose, he has not been able to pay the pension due to the local body employees in full and still there are arrears payable towards the enhanced D.A. and other benefits granted by the Government in certain local bodies. He has also pointed out that even if the entire pension contribution is collected from the local bodies, there will be a regular gap of about Rs.12 to 13 crores per year at the present level, which will be increasing year after year in view of the enhanced D.A. payment and the additional pensionary benefits likely to accrue consequent on the revision of pension whenever Pay Commission recommendations are implemented.

2.8.21. The main issue is about the authority Which will meet the gap between the contribution collected and the actual pension payment. Since Local Bodies have been required to pay 20% contribution it does not appear correct to ask them to meet the balance also. This will amount to the total pension being paid by the local bodies themselves. This was not visualised, when the pension scheme was introduced. This will not also be practical since the Local Bodies find it difficult even to pay the salary of staff and pension contribution. In fact, they find it difficult to raise additional resource needed for the enhanced D.A. and the pay revisions from out of their inelastic resources.

2.8.22. This situation warrants that the Government alone will have to bear the commitment. Creation of a separate Fund, administered by the Director of Local Fund Accounts and Audit for this purpose will not be viable unless the Government contributes to the fund from time to time to cover deficit. Instead the contributions of the Local Bodies may be adjusted against the releases to be made by the Government or got remitted to Government account by compulsion and the entire pensionary payments could be taken over by the Government with direct payment through the Treasuries.

2.8.23. The Director of LF accounts may, perhaps, continue to be the authority sanctioning pensionary benefits for the employees of the local bodies, since the transfer of this work to the Accountant General may not be acceptable to him without additional staff deployment. SFC feels that the retired employees of the Local Bodies should not be made to continue in unpredictable position in getting their monthly pension. Since the Government have extended the pensionary benefits to the employees of the Local Bodies on par with the Government employees with a Social objective, it is but fair that the Government comes to the rescue of the Local Bodies in this respect.

2.8.24. SFC therefore recommends that the Government should accept the gap in commitment of pensionary benefits to the employees of local bodies.

Provident Fund:

2.8.25. The employees of the Local Bodies are eligible for the Provident Fund scheme. The Fund is administered by the Local Bodies themselves. The Local Bodies deduct the subscriptions from salary but do not remit the amount so collected into the Deposit Account of the Government. Interest earned out of the PF deposit will be utilised for payment of interest to the employees. Due to paucity of funds, most of the Local Bodies while drawing pay bills show the recovery particulars for the PF but do not remit it. Only the net amount required for payment to staff as salary is drawn and the recoveries are taken credit in the respective Deposit Accounts. The procedure is that the money kept in the Deposit Account should be drawn and remitted to the Government account in the Treasury under the head "Deposits bearing interest". The interest accruing on these deposits is not normally adequate to meet the interest commitment on the subscriptions. As on 31-3-94, the subscriptions not remitted by the Urban Local Bodies works out to Rs.15.06 crores (Corporations, Municipalities and Town Panchayats all put together) as given in the table below:

Table 2.69 Provident Fund amount pending remittance

	Provident Fund not remitted	Fifth Pay Commission arrears to be credited to PF not remitted (Rupees in lakhs)
Corporations	622.59	444.23
Municipalities	691.68	462.79
Town Panchayats	191.63	80.78
Panchayat Unions	n.a	n.a
Total	**1505.90**	**987.80**

2.8.26. In addition,the arrears of Fifth Pay Commission, ordered to be credited to the Provident Fund account of the employees have not also been adjusted by these Local Bodies to the credit of the PF account of the employees and as on 31-3-94 the arrears in these three local bodies amount to Rs.9.88 crores.

2.8.27. Since there has been no earnings on PF deposits, the amount to be met from the Local Body funds, as interest payable to subscribers will also be sizeable. Ultimately when an employee of Local Body retires from service he will face difficulties in realising terminal benefits out of Provident Fund.

2.8.28. The SFC considers and recommends that the entire Provident Fund administration may be taken out of the control of the concerned Local Bodies and may be centralised, as in the case of Government servants which is done by the Accountant General. This can be entrusted to Director of Local Fund Accounts for administration as par with A.G. The total Provident Fund deduction by the Local Bodies may be worked out at least once in a half-year and the amount got compulsorily remitted to the authority concerned. If necessary, in the case of defaulters, adjustment from the Government assistance to be released by the Government to the Local Bodies may be resorted to.

2.8.29. Unless some such drastic step is taken, the appropriation of this fund by the Local Bodies can not be prevented which caused difficulties to the employees retiring after a long period of service.

2.8.30.. Recommendations:

In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

i. The payment schedule may be revised with more number of instalments.

ii. Interest rate may be subsidised by the Government to the LBs in the lower level grades.

iii. Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.

iv. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.

v. The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.

vi. It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.

vii. It is brought to the notice of SFC that the assignments of revenues due to LBs from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.

viii. If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.

ix. **The SFC recommends** to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local Bodies. Rebates on interest element including waiver of penal interest may also be given.

x. In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.

xi. The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The LBs should have a say in cases of time over-runs.

2.8.31. Pension Contribution and Commitment on Payment of Pension

i. **The SFC considers** that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the LBs. are not in a position to meet even the monthly salary payments and the pension contribution.

ii. The SFC, therefore, considers that the Government may to bear the commitment

iii. SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted

against releases to be made by Govt. or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.

iv. The Director of LF Accounts may continue to be the authority to sanction pensionary benefits.

Provident Fund

2.8.32. The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local bodies cannot be controlled.

CHAPTER - 9

DEVOLUTION OF FINANCE CONSEQUENT TO DEVOLUTION ENVISAGED UNDER 73RD AND 74TH AMENDMENTS TO THE CONSTITUTION

2.9.1. Under the 73rd Amendment to the Constitution, 29 items have been indicated in 11th Schedule as those to be administered through Rural Local Bodies. The 74th Amendment to the Constitution indicates 18 items in Schedule 12 to be administered through Urban Local Bodies. It has also been indicated that the list is only illustrative and not exhaustive and the State Government can entrust any other item which they deem fit for being implemented through Urban or Rural Local Bodies.

2.9.2. out of the 18 items in Schedule 12 to be transferred to Urban Local Bodies. 9 items are already administered by the Urban Local Bodies either from their own funds or with the assistance of the State Government. Only 9 items now remain to be decided for transfer to the control of Urban Local Bodies. There are no tiers as in the case of Rural Local Bodies and each Urban Local Body is a separate entity. SFC had held elaborate discussions with the Heads of Departments and Secretaries to Government and had also worked out a model package for devolution at the appropriate tiers and if necessary, in a phased manner. The orders of the Government are still awaited. These aspects have been dealt with in greater detail in the Part IV relating to "Streamlining the delivery System".

2.9.3. Pending issue of orders on devolution of functions by the Government, SFC is not in a position to examine the financial impact arising out of these devolutions to the Rural and Urban Local Bodies. Hence, no specific recommendations have now been proposed. However, SFC expects that with the orders of devolution of functions, the funds and functionaries already existing will also be devolved to appropriate Local Body. Any marginal adjustments needed on the financial impact could be examined only after completion of devolution of functions.

PART III

IMPROVING CIVIC SERVICES

CHAPTER 1

INTRODUCTION

3.1.1. Providing Civic services for the well being of its citizens is an obligatory function of the local bodies. This has been further reinforced by the 73rd/74th Constitutional Amendment Acts 1992. In common parlance, core Civic service would mean water supply, roads, streetlights, sewerage and sanitation, storm water drain and solid waste management. Some include primary health, primary education and environmental hygiene as equally important civic services to be discharged by the local body towards its citizens. However, these additional services are not proposed to be covered in this Chapter.

CHAPTER 2

PREVIOUS STUDIES

3.2.1. Being a major determinant of quality of life of the people, the levels of Civic services in the local bodies have engaged the attention of many experts and committees. It has been commonly held by them that fixing norms for basic services is an extremely complex task as it depends on a number of variables such as the fiscal capacity of the local bodies and users, topography and geology of the area, technology opted for use and various other factors. Therefore, a given set of norms is at best a guideline and cannot be used in all situations.

3.2.2. There have been several studies by the Expert Groups but they are mostly in urban areas. Foremost among them is the Zakaria Committee (ZC) in 1963 in which an attempt was made to evolve the physical standards, the possible cost implication including O&M cost in water supply, sewerage, storm water drain and roads in small, medium and large towns. The National Institute of Urban Affairs (NIUA) studies in 1986, 1987, 1992, and 1995 on water supply, sewerage,sanitation and solid waste collection and disposal focused on O&M. The National Master Plan (NMP) India, International water supply decade, 1983, the 8th Five Year Plan (1992-97) study by the Government of Gujarat, 1989, Report on Rural Sanitation 1993-94 and Working Group (III) on Expenditure norms, Ministry of Urban Affairs and Employment, November 1995 headed by noted economist Dr.Raja Chelliah did highlight the service levels in Rural areas. Comparative levels of supply suggested by these studies for Water-supply, sewerage sanitation and solid waste management is given in Tables 3.1, 3.2, and 3.3 below:

Table 3.1 Norms and Standards for Water Supply

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
a. Zakaria Committee on Augmentation of Financial Resources of Urban local Bodies,1963	Urban: SmallTowns:45 lpcd Medium Towns:67.5-112.5 lpcd Large Towns:157.5-202.0 lpcd Super Metropolitan: 270 lpcd Rural: Not Suggested	Urban: Small Towns:Rs.227.34 Medium Towns:Rs.277.86-378.90 Large Towns:Rs.492.57-593.61 Super Metropolitan:Rs.820.95 Rural: Not Suggested	Urban: Small Towns:Rs.93.71 MediumTowns:Rs.95.48-109.12 Large Towns:Rs.123.77-128.83 Super metropolitan:Rs.136.40 Rural: Not Suggested
b. Committee on Plan Projects for Industrial Townships (COPP), 1973	Urban: 180 - 225 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
c. Report on Norms and Space Standards for Planning Public Sector Project ToSws,TCPO,Min. of Works and Housing,Govt. of India, 1974	Urban: 180 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
d. National Master Plan (NMP), India, Inter-national Water Supply and Sanitation Decade, 1981-90 Ministry of Urban Development, 1983	Urban: House Connection: 70-250 lpcd with average of 140 lpcd Public Stand posts: 25-70 lpcd with average of 40 lpcd Rural: Piped supply:25-70 lpcd with average of 40 lpcd Spot Source Supply: 40 lpcd	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
e. Planning Commission (PC) Task force on Housing and Urban Development(Financing Urban Development), 1983 High:Rs.1042.00	Urban: Not Suggested Rural: Not Suggested	Urban: Surface System Low: Rs.850.15 High:Rs.1214.50 Groundwater:Low: Rs.694.00 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
f. NIUA: Maintaining Gujarat Municipal Services - A Long Range Perspective, 1987	Urban:SmallTowns:95.125 lpcd MediumTowns: with industrial-base - 150 lpcd Problem areas: 90 lpcd; Average: 80-150 lpcd Large Towns: with Industrial base - 170-210 lpcd Problem areas: 120-125 lpcd Average 115-210 lpcd Rural: Not suggested	Urban: Problem Areas Rs.1254-1463 Average:Rs.627-731.50 Rural: Not Suggested	Urban: Small Towns: Rs.22.99 Medium Towns:Rs.25.08 Large Towns:Rs.45.98-60.61 Rural: Not Suggested
g. Operation Research Group (ORG), Delivery and Financing of Urban Services, 1989	Urban: Small Towns: 80 lpcd MediumTowns: 80-150 lpcd Large Towns: 180 lpcd Rural: Not Suggested.	Urban: Small Towns:Rs.603.15 Medium Towns:Rs.319.03 - 680.28 Large Towns:Rs.804.26 - 1108.09 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
h. Government of Gujarat (GOG) 2005 (papers on Perspective Plan), 1989	Urban:Small Towns: 100 lpcd Medium & Large Towns: 140 lpcd Scarcity Season: 13 lpcd Rural: 40 lpcd	Urban: HouseConnections: Rs.825 Problem areas:Rs.1072.50 Augmentation/Extension: Rs.412.50 Rural: Simple Well: Rs.288.75 Handpump:Rs.99.00 House Connection: Rs.412.50 - 495.00 Regional Water Supply: Rs.495.00 - 990.00	Urban: Not Suggested Rural: @ 3% of Capital Cost
i. Manual on Water supply and Treatment, CPHEEO, Ministry of Urban Development, Government of India, 1991.	Urban:Small Towns:70-100 lpcd Medium Towns: 100 - 150 lpcd Large Towns: 150-200 lpcd Public Standposts: 40 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
j. 8th Five Year Plan, Government of India, 1992-97.	Urban: With Sewerage 125 lpcd Without Sewerage: 70 lpcd Public Stand posts: 40 lpcd Rural: 40 lpcd.	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
k. NIUA: Costs of Urban Infrastructure, 1995 (Based on DWSSDU, HUDCO & CIDCO estimates)	Urban: Not Suggested Rural: Not Suggested	Urban:Small Towns:Rs.485.76 Medium Towns:Rs.390-403.97 Large Towns:Rs.569.98 Metropolitan:Rs.203.48 Rural: Not suggested.	Urban: Small Towns:Rs.141.24 Medium Towns:Rs.108.42-119.55 Large Towns:Rs.172.64 Metro: 76.41 Rural: Not Suggested

Table 3.2 Norms and Standards for Sewerage/Sanitation

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
a. Zakaria Committee, 1963	Urban: Small Towns: Low cost sanitation methods Medium Towns: Public sewers with partial coverage by septic tanks, and partial treatment to sewerage. Large Towns: Full coverage by sewerage with proper treatment facilities. Super Metro: Same as above. Rural: Not suggested.	Urban:Small Towns:Rs.353.64 Medium Towns:Rs.429.42-568.35 Large Towns:Rs.694.65 - 820.95 Super Metro:Rs.947.25 Rural: Not Suggested.	Urban:Small Towns:Rs.103.37 Medium Towns:Rs.109.88-117.46 Large Towns:Rs.136.40 - 150.30 Super Metro:Rs.154.09 Rural: Not Suggested.
b. The Manual on Sewerage and Sewage Treatment, CPHEEO, 1980.	Urban: Not suggested in terms of population/area coverage, type of system, etc. However, it said that sewers should be designed for a minimum of 150 lpcd water supply level. Rural: Not suggested.	Urban: Not suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
c. National Master Plan, India, 1983	Urban: 100% population coverage by sewerage system with treatment facilities in class I cities, and low cost sanitation for other urban centers. Rural: Low cost sanitation	Urban: Not suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
d. Planning Commission, Task Force on Housing and Urban Development, 1983.	Urban: Not Suggested Rural: Not Suggested	Urban: Water borne system with treatment: Low:Rs.1214.50 High:Rs.1735.00 Septic tank: Low: 694.00 High:Rs.780.75 Pit Latrines: Low:Rs.416.40 High:Rs.520.50 Rural: Not Suggested.	Urban: Not Suggested Rural: Not Suggested
e. NIUA (1987)	Urban: 100% coverage by Sewerage excluding slums in class I urban centers and cities already have sewerage system. Low cost sanitation methods for other urban centers. Rural: Not Suggested.	Urban: Sewerage: 836.00 - 940.50 Low cost sanitation: 627.00 - 731.50 Rural: Not Suggested.	Urban: Medium Towns: 12.54 - 20.90 Large Towns: 37.62 - 39.71 Rural: Not Suggested.
f. ORG, 1989	Urban: 100% population coverage by sanitation services by using different technological options. Rural: Not suggested.	Urban: Small Towns: 934.99 Medium Towns: 383.41-857.64 Large Towns: 604.27 Metro: 587.45 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
g. Govt. of Gujarat, 1989.	Urban: 100% coverage by sewerage with treatment facilities in class I cities and cities already having sewerage systems. Low cost sanitation methods for other urban centers. Rural: Low Cost Sanitation.	Urban: Average:Rs.825.00 Problem areas:Rs.990.00-1155.00 For extension of service Rs.495.00 - 577.50 Low cost sanitation as per design standard of UNDP/ World Bank:Rs.4455.00	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
h. Report on Rural Sanitation (1993-94)	Urban: Not suggested Rural: Low cost sanitary methods as pef the models given below: a. Rural concrete plate (without lining) b. Square concrete plate (without lining) c. Single pit (Brick lined) d. Single pit (with provision of double pit in future) e. As above f. As above (with concrete lined and brick flooring) g. Double pit - brick lined (without super structure) h. Double pit - concrete ring - lined (without super structure) i. Single pit (with provision for double pit in future) j. Single pit - concrete lined with honey comb (with provision for double pit in future) k. Double pit - brick lined (with super structure) l. Double pit - concrete lined (with super structure) Average: Rs.2500/latrine	Urban: Not suggested Rural: a. Rs.321 b. Rs.357 c. Rs.714 d. Rs.881 e. Rs.1309 f. Rs.1607 g. Rs.1785 h. Rs.2321 i. Rs.2678 j. Rs.2975 k. Rs.3094 l. Rs.3630	Urban: Not suggested Rural: Not suggested
i. NIUA (1995)	Urban: Not suggested Rural: Not suggested	Urban: Small Towns:Rs.149.98 Medium Towns:Rs.207.82 -442.35 Large Towns:Rs.117.36 Metro:Rs.124.99 Rural: Not suggested	Urban: Small Towns:Rs.25.95 Medium Towns:Rs.35.37 - 35.75.85 Large Towns:Rs.20.12 Metro:Rs.21.43 Rural: Not Suggested

Table 3.3 Norms and Standards of Solid Waste Collection and Disposal

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95 prices)
a. TCPO, 1970	Urban: Suggested basic guidelines for provision of dustbins, collection centers, disposal of solid waste, etc. Rural: Not suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not suggested Rural: Not Suggested
b. Planning Commission, 1983	Urban: Not Suggested Rural: Not Suggested	Urban: Rs.87-139, depending upon the standards and size of cities. Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested.
c. ORG, 1989	Urban: Suggested average waste generation level 380 grams/capita per day Rural: Not Suggested	Urban: For waste collection: Rs.33-100, depending upon the quantity of waste collected For transportation Rs.90 Rural: Not suggested	Urban: Not Suggested Rural: Not Suggested
d. NIUA (1986 & 1992)	Urban: Suggested waste generation level in the range of 250-450 grams/capita per day, depending upon the size of cities, their functions etc. Recommended 100% collection of generated waste in a city. Staff norms: i. 62.78 scavengers per 10,000 population as per UP Health Manual ii. 2.8 sanitary workers per 1000 population as per report of the committee on 'urban wastes', 1973. Rural: Not suggested.	Urban: Not suggested Rural: Not suggested	Urban: Not Suggested. However report mentioned that on an average, 80% of the total revenue expenditure spent on account of salaries and wages of sanitation staff. Rural: Not suggested.

3.2.3. On the lines of decision at the National Workshop of State Finance Commissions in July 1995 at Mussorie, five Working Groups were constituted. Group III, under the Chairmanship of Dr.Raja J.Chelliah, was entrusted to evolve the 'working guidelines' for setting out the minimum norms of expenditure and suggest method of adjusting these norms to specific state or region. The Working Group presented its report in November 1995. It considered Primary education and Primary health also as core functions of the local bodies in addition to water supply, sanitation,sewerage, solid waste collection and disposal. However, for the purpose of this study SFC will confine itself to the last three and the findings are given below in Table 3.4.

Table 3.4 Minimum Physical Standards of Services

Service	Sector	Minimum levels of services to be obtained in next 5 years		Remarks
		Population/Area target	Service level target	
I Water Supply	Urban	100% population to be covered	Piped water supply with sewerage - 150 lpcd Piped water supply without sewerage 70* lpcd (*including wastage of water - roughly 20%)	Public stand posts in the low income settlements. One source for 20 families within a sources/stand posts walkingdistance of 100 meters.
	Rural	100% population to be covered including 'No Source' hard core problem villages in some states.	40 lpcd safe drinking water Additional 30 lpcd in DDP/DPAP areas for cattle needs.	One hand pump/spot source for 250 persons in a walking distance of 1.6 km. or elevation difference of 100 mt. in hilly areas.
II.Sanitation/ Sewerage	Urban	100% city area to be covered by sewerage system with treatment facilities in large urban centers.	Large city: full coverage by sewerage with treatment. Medium town: Public sewers with partial coverage by septic tanks. Small town: Low cost sanitation methods.	In low income areas of large cities community latrines may be provided.
	Rural	All households to be provided access to safe sanitation. Elimination of manual scavenging by using low cost sanitary methods.	Low cost sanitary methods of disposal:- Sanitary latrines of different models may be used such as round concrete plate with lining (single pit)	

Service	Sector	Minimum levels of services to be obtained in next 5 years		Remarks
		Population/Area target	Service level target	
			square brick/concrete plate with/without lining (single pit with provision of double pit), etc.	
III. Solid Waste Collection Disposal	Urban	All the solid waste generated should be collected and disposed	100% collection of generated waste with its proper disposal. Hazardous wastes such as hospital wastes must be incinerated in all cases. Whereas mechanized composting and incinerated is recommended for large urban centers, sanitary land fill method of disposal may be used in small and medium towns.	Keeping in view the refuse generation level and its composition, each local body should determine the requirements of collection bins/ collection centers, kind of transport vehicles to be used, staff deployment for various activities, type of treatment to be given to the collected wastes, etc.

3.2.4. The Damodaran Committee constituted by Government of Tamilnadu in 1990, to look into the finances of Panchayats and Panchayat Unions suggested transfer of resources to achieve minimum normative levels of service. For Road maintenance, it suggested transfer of 20% of Motor Vehicle tax proceeds. The O&M costs were worked out as follows:

Table 3.5 O&M Norms for Roads as per Damodaran Committee

Road surface	O&M Cost/km in Rs.
Mud	9733
Gravel	14724
Metalled/WBM	15369

3.2.5. Similarly, this Committee increased the maintenance cost by nearly three times to Rs.1000/- per year per hand pump and Rs.2000/- per year per power pump. It also suggested replacement of tubelights by the Panchayats twice a year, with a lineman to be deputed at Government cost from the Electricity Board.

3.2.6. The Sector Policy Study (SPS), 1994 commissioned by TWAD Board with support of the World Bank, covered both Rural and Urban areas and broadly looked into long term goals in sources development, project financing, cost recovery, quality and issues in O&M.

Table 3.6 Water Demand Estimation*

Year	Population in lakhs			Water Demand in Million cubic milli liters		
	Urban	Rural	Total	Urban	Rural	Total
1991	192	367	559	1033	759	1792
1996	231	364	595	1136	797	1933
2011	346	546	892	1703	1196	2899

*Source: Sector Policy Study, 1994, TWAD.

3.2.7. All the above studies have made an attempt to arrive at a desired level of civic service by taking into account the capital investment and annual O&M needed. The cost varied with technology options, regional variation and different methods adopted for costing. It is felt not advisable to dilute these norms. However, if there are constraints of resources, it has been suggested to phase out the investments over a number of years. For better life of assets and sustained levels of service, regular O&M must be taken up.

CHAPTER - 3

EXISTING SITUATION ANALYSIS

3.3.1. The State Finance Commission had evolved service Norms and Operation & Maintenance levels for core civic services and possible areas of privatisation of these services in local bodies. The details are as follows:

Sample Methodology:

3.3.2. A few samples of local bodies were taken on the guidelines given by the State Planning Commission wherein the districts were grouped under the following 5 major heads depending on economic character or geographical features viz. urban concentration and industrial, agricultural prosperity, trading and commercial, dry and hilly regions. Of the total 22 districts at the time of sampling, 12 were selected in this process for the study. Further, under each district various categories of local bodies i.e. Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions had been selected at random so as to have a proportionate distribution of all the categories. The districts and the number of local bodies selected under each category are given in Table 3.7.

Table 3.7 Sample Districts and Number of Local bodies

District/ Class	Corporation	Municipalities	Town Panayats	Panchayat Unions	Village Panchchayat	Total
Coimbatore		1	5	4	16	26
The Nilgiris		1	2	2	8	13
Madurai	1					1
Tiruchirapalli	1	1	3	7	14	26
Nagapattinam Quaide Milleth		2	2	6	17	27
PM Thevar		1	2	4	8	15
Chennai	1					1
Chengai MGR		2	4	8	16	30
Kanyakumari		1	5	2	6	14
Dharmapuri		1	2	3	9	15
Salem	1					1
North Arcot Ambedkar				2	6	8
Total Selected	**4**	**10**	**25**	**38**	**100**	**177**
Total Existing	**6**	**104**	**635**	**384**	**12583**	**13712**
Sample %	**66**	**10**	**4**	**10**	**0.79**	**1.29**

Note: Data was collected for 35 Panchayat Unions (covering about 1200 Village Panchayats) and 90 Village Panchayats individually.

3.3.3. The list of local bodies selected is given in the Appendices 95 and 96. Primary information was obtained through a structured questionnaire dealing with basic information, operation and maintenance, staffing and service levels, which was mailed to all the sample local bodies. Field visits were made and informal discussion were held with the officials of local bodies and local citizens to capture their perceptions of existing levels of services and their expectations. To substantiate primary data collected through questionnaire and visits, secondary information on various aspects were cross checked at the Directorate of Municipal Administration, Directorate of Town Panchayats, Directorate of Rural Development, TWAD Board, Tamilnadu Electricity Board, Highways and Rural Works Department and other funds utilizing departments. The shortage and nonconformity of data were made good through the SFC questionnaire and through estimation made from out of the existing service levels based on the relative parameters available.

3.3.4. Based on the information analyzed from the local bodies, certain service level indicators were generated with regard to physical performance, operation and maintenance for all the categories. These indicators are used as the basis for assessing the existing situation and for recommending norms for various service sectors. The sample analysis for each service is given below:

WATER SUPPLY:

i) Average per capita supply per day:

3.3.5. This has been calculated for 1995 population for the sample categories of local bodies. The average per capita supply per day varies with different categories of local bodies. Among Corporations, it is 45 LPCD in Salem and 99 LPCD in Madurai with an average supply of 74 LPCD. In the sample Municipalities, it varies between 47 LPCD and 79 LPCD with an average of 69 LPCD. In Town Panchayats, the minimum per capita supply is 30 liters and the maximum is 66 liters with an average of 42 liters whereas in case of Village Panchayats, it ranges between 6 to 29 liters with an average of 22 LPCD. The average supply level indicated above within each category of local body can be considered as an indicator of the existing supply level. In this context, it may be noted that as per the TWAD Board Standards, the minimum water supply levels should be 70 to 135 LPCD in Urban areas and 40 LPCD in rural areas.

ii) Mode of Supply:

3.3.6. The general mode of water supply are by way of House Service Connection (HSC - metered or unmetered) public stand post, public hand pump and occasionally through lorry tankers. Water supply through HSC and public stand post constitutes the protected water supply. Though 100% HSC coverage is desirable both for levels of service to the public and for recovery of user charge fees, it is not possible on account of lack of adequate source and for want of strong distribution net work. In fact, Government have restrained in some cases giving additional HSCs to minimize water supply consumption. In such cases, the local bodies should provide public fountains/ stand posts and hand pumps in adequate number at the appropriate locations. The Government of Tamilnadu has prescribed norms of about 150 persons per hand pump. The dependency ratio is elaborated in the Table 3.8.

Table 3.8 Dependancy ratio for Water Supply

Category	Population dependent on House Service Connection %			Persons per Standpost/Hand pump		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	59	36	78	127	54	227
Municipalities	32	18	41	184	99	216
Town Panchayats	16	8	29	164	99	221
Village Panchayats	2	1	4	136	93	183

iii) **Storage Capacity Adequacy:**

3.3.7. Table 3.9 given below helps to determine the number of times the tank/reservoir has to be filled in to meet the water demand and to time staggered supply to enable maximum and

equitable supply to the entire town. This also indicates the stand by capacity available in cases of emergency and also helps to estimate pumping machinery and power equipments. It may be noted that Central Public Health and Environmental Engineering Organization (CPHEEO) has prescribed a minimum of 15% Storage Capacity Adequacy ratio.

Table 3.9 Storage adequacy and Distribution Network

Category	Storage capacity to Quantity of water produced - %			Distribution Network Coverage %		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	90	42	199	77	74	79
Municipalities	21	6	37	47	19	87
Town Panchayats	47	7	102	53	34	75
Village Panchayats	43	22	62	14	0	42

(Distribution / Road Length *100)

iv) Distribution Network Density:

3.3.8. The Table 3.9 given above expressed in percentage, is a ratio of the total distribution net work length to the total road length within the local body limits. Though this is an indicator of the extent of physical coverage of the water supply distribution system, it does not give any indication as to which part of the town is poorly connected.

v) Establishment - O&M Expenditure - per capita and per MLD

3.3.9. Please see Table below 3.10. It may be noted that higher O&M expenditure per capita does not necessarily imply higher service levels, as for example, in case of Anna and MGR Districts, the average per capita supply is 32 LPCD and cost of provision of service is Rs.13.69 per capita per annum whereas for 31 LPCD in Coimbatore district the cost per capita is only Rs.3.05 per annum. In contrast, the reduced O&M expenditure per MLD water supplied definitely reveals the efficiency levels. These figures could be utilized in water pricing on quantity basis.

Table 3.10 Water Supply Maintenance

Category	O & M Expenditure per Capita - Rs.			O & M Expenditure per MLD of Water Supplied - Rs.Lakhs		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporation	41	23	57	6.42	2.97	11.69
Municipalities	53	28	77	7.57	5.93	10.12
Town Panchayat	17	9	33	3.75	2.45	4.98
Village Panchayat	10	5	16	1.90	1.10	2.41

(The average normative O&M expenditure per capita per annum on water supply work is around Rs.12/- in rural areas and Rs.40-70 in urban areas.)

(The average normative O&M Expenditure per MLD of water supply per annum is around 5.90 lakhs in rural areas and Rs.10 lakhs in urban areas)

3.3.10. Besides the above statistical interpretation, the isues that emerged during the course of discussion in the field were of the inability of the local body to supply water regularly and of fixed quantity due to erratic power supply and low voltage. In most of the Town Panchayats and Panchayat Unions, regular maintenance staff is not available, casual staff engaged at meager salary are not reliable. Added to this are the inadequacy of sufficient public standpost, ban on house service connection, poor distribution network and shortage of water quantity.

SEWERAGE AND SANITATION:

i) Households covered with a safe disposal system:

3.3.11. Households having access to either Under Ground Drainage (UGD), Septic Tank, Low Cost Sanitation (LCS) or to public convenience are considered to have access to a Safe Disposal System. A sample indication is given in the table below:

Table 3.11 Coverage with Safe disposal system

Category	Average	Minimum	Maximum
% House Holds (HHs) Covered by safe disposal system			
Corporation	44	28	84
Municipalities	23	8	56
Town Panchayat	41	18	73
Village Panchayats	3	1	5
% House Holds (HHs) Covered by UGD			
Corporation	26	0.00	78
Municipalities	3	0.00	11
Town Panchayat	0	0.00	0
Village Panchayats	0	0.00	0
% HHs Covered by Septic tanks			
Corporation	16	2	32
Municipalities	13	4	35
Town Panchayat	24	14	43
Village Panchayats	0.14	0	0.48
% HHs Covered by LCS			
Corporation	2	0	4
Municipalities	2	1	3
Town Panchayat	13	0.35	27
Village Panchayats	0.07	0	0.15

ii) **Operation and Maintenance expenditure per capita per annum:**

3.3.12. This indicator of the cost of providing service to a population can be taken to arrive at the user price to be charged, which could be in the form of a surcharge on water tax or a separate component of property tax. In few of the local bodies, a separate head of account for this sector is not provided. Hence the per capita expenditure as assessed for the sample local bodies given below (Table 3.12) may not be indicative of the actual costs. For Maintenance, the average staff per 10000 population in the categories of technical, skilled and unskilled for various types of local bodies is given in Table 3.12.

Table 3.12 Maintenance Cost for Sewerage and Sanitation

Category	Expenditure per capita per annum - Rs.			Average Staff per 10,000 population		
	Average	Minimum	Maximum	Technical	Skilled	Unskilled
Corporations	40	15	77	0.86	1.60	11.02
Municipalities	48	3	161	0.21	0.28	0.44
Town Panchayats	15	6	28	0.20	0.25	2.13
Village Panchayats	0.20	0	0.30	0.01	NA	0.57

3.3.13. Other issues and observation that emerged during the course of field visits and discussion are the fact that low cost sanitation is yet to improve in design, construction and acceptability; individual septic tanks are the major mode of disposal for most urban local bodies and underground facilities is available, as per TWAD Board information, only in 19 towns and even there, the coverage is limited.

SOLID WASTE MANAGEMENT

3.3.14. In this case, the service level has been assessed by the collection performance of waste, availability of dustbins, vehicle fleet and conservancy staff.

i) Per capita Waste Generation

3.3.15. The quantity of solid waste generated varies among local bodies depending upon the character of the town, whether it is say, tourist, pilgrim centre, market, industrial etc. The sources of waste are generally the household kitchens, hotels, kalyana mandapams, markets, hospitals and industries.

3.3.16. Per capita is the total waste generated divided by the population. But except for weighment in corporations (that too, not regularly) in no other local body, it is weighed at all. In case of rural local bodies, it is mostly the household waste burnt or used as a cattle field. However, for assessing the minimum garbage collection facility, the Task force has assumed an average of 50 gms. per capita per day.

Table 3.13 Per Capita Waste Generation and Collection Performance

Category	Per capita waste generated per day (gms)			Collection performance (%)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	447	333	687	83	74	90
Municipalities	365	223	650	66	62	69
Town Panchayats	163	120	194	38	16	61
Village Panchayats	50	50	50	1	0	3

ii) Collection Performance

3.3.17. It is the ratio of total waste collected and disposed to the total waste generated per day in the local area. Since in most cases, the waste is not weighed, it is estimated by the number of trips made daily between the collection points and disposal yards and the capacity of vehicles. Ideally 80% collection performance is desirable.

iii) Dustbin Spacing:

3.3.18 Availability of dustbins at appropriate locations saves time of the collecting staff and helps in efficient use of vehicles. Table below presents the average distance between two dustbins, and if it is very high then it results in the dumping of waste outside house and street corners resulting in unhygenic environment and also makes the collection tedious and time consuming. In urban areas, the average dustbin spacing should not be more than 100 meters. In rural areas as they exist, they are either absent or negligible.

Table 3.14 Dustbin Spacing and Vehicle Adequacy

Category	Distance between Dustbins (meters)			Vehicle Capacity Adequacy Ratio (%)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	816	230	2151	31	11	68
Municipality	407	172	656	34	21	58
Town Panchayat	2649	368	8638	24	0	56
Village Panchayat	-	-	-	0	0	0

iv) Vehicle Capacity Adequacy

3.3.19. Not merely availability of vehicles, but their efficient use and proper maintenance are the parameters on which collection performance depends. Most of the smaller local bodies employ animal or hand drawn vehicles. In the table above, the hand drawn vehicles have not been included. Vehicle Capacity Adequacy Ratio (%) is the total vehicle capacity available to total waste generated per day.

Table 3.15 Road length per conservancy staff

Category	Road length per Conservancy staff (Meters)			Conservancy Staff per 1000 Population (No.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	280	145	364	0.53	0.43	0.59
Municipalities	423	369	533	0.45	0.35	0.61
Town Panchayats	11445	1322	34550	9.42	0.97	24.82
Village Panchayats	22231	14887	29576	0.02	0	0.05

3.3.20. Efficiency in street cleaning primarily depends on the number of conservancy staff. Public Health Department prescribes the norm of 400-600 meters of road length per sweeper depending on the density of population.

3.3.21. Also given here below are some additional information or indicators like Expenditure per Ton of Waste Collected and O&M Expenditure per capita:

Table 3.16 Some Expenditure on Solid Waste Management

Category	Expenditure per Ton Waste collected (Rs. in lakhs)			O&M Expenditure per Capita (Rs.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	1.63	0.18	4.24	39.09	8.37	91.56
Municipalities	2.92	1.33	4.71	68.31	21.49	129.46
Town Panchayats	2.66	0.24	5.00	18.27	1.70	40.24
Village Panchayats	1.03	1.03	1.03	0.16	0.16	0.16

ROADS AND STORM WATER DRAINS:

i) Extent and Category of Roads

3.3.22. Roads as a necessary infrastructure for economic development and for traffic movement is beyond doubt. The condition of roads depend on its regular maintenance and presence of storm water drain. During the field visits, it was assessed that 30 to 50% of the BT/Concrete surfaced roads are in fair to poor condition. In Town Panchayats and Panchayat Unions, most of the roads are either mud or WBM and suffer from lack of any maintenance. The extent and grade of road in various categories of local bodies is given in the table below:

Table 3.17 Average % of BT/Concrete surface, WBM and others

Category	BT/Concrete	WBM	Others
Corporations	81	12	7
Municipalities	76	18	6
Town Panchayats	25	31	44
Village Panchayats	19	44	37
Panchayat Unions	19	36	35

ii) Staff and O&M Expenditure per km. of Road length

3.3.23. The minimum number of staff required for maintenance of roads as per Highways and Rural Works Department standards is 3 persons per 10 km. The mix of staff would be Technical staff - 1 per 100 km; skilled - 1 per 25 km; and unskilled - 2 per 8 km. The amount spent annually on maintenance of one km. of road is as follows:

Table 3.18 O&M on Roads

Category	Staff per km. of Road Length (Nos.)			O&M Expenditure per km. of Road length (Rs. lakhs)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	0.58	0.05	1.12	0.36	0.07	0.70
Municipalities	0.11	0.03	0.27	0.15	0.06	0.33
Town Panchayats	0.01	0	0.04	0.03	0.02	0.06
Village Panchayats	0.04	0.01	0.10	0.22	0.11	0.32
Panchayat Unions	0.04	-	-	0.037	-	-

STORM WATER DRAINAGE NETWORK

3.3.24. Storm Water Drains are required for channelisation of storm water. Failing this, there will be water stagnation which in turn would pose problems of water borne disease, inconvenience to traffic and pedestrian movements, besides reducing the life of the road. Atleast the main roads should be provided with drains and the minor arterial roads should be given proper gradient to enable the water flow into the drains:

Table 3.19 Network and Types of Drains

Category	Storm Water Drainage Network (%)			Percentage of Pucca Drains		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	38	11	72	98	91	100
Municipalities	38	10	74	44	23	59
Town Panchayats	42	1	84	71	32	100
Village Panchayat s	5	0	17	-	-	-

ii) O & M Expenditure per km. of Drain length

3.3.25. The major O&M expenditure is in the form of cleaning, de-siltation and minor repair every year before the monsoon. The expenditure depends upon the availability of funds apart from the physical and climatic conditions.

Table 3.20 O & M Expenditure on Drains

Category	O&M Expenditure per km. of Storm Water Drains (Rs.)		
	Average	Minimum	Maximum
Corporations	9685	7617	11752
Municipalities	2655	0	7596
Town Panchayats	4002	1037	9453
Village Panchayats	-	-	-

STREET LIGHTING:

It is like a road furniture to enable better visibility at nights.

i) Types of Streetlights and Spacing:

3.3.26. Minimum spacing required between successive lamp posts is dependent on road width, traffic volume, the use (commercial/residential or industrial) and ofcourse on the availability of funds. For a normal two lane road, preferred spacing is 30 meters.

Table 3.21 Spacing and Types of Streetlights

Category	Types of Streetlights (%)			Streetlight spacing (meters)		
	Sodium vapor lamps	Tube lights	Others	Average	Minimum	Maximum
Corporation	13	77	10	28	23	35
Municipality	12	87	1	39	28	49
Town Panchayat	4	91	5	55	44	63
Village Panchayat	1	89	10	59	37	109

ii) Length per staff and O & M Expenditure per light:

3.3.27. Quality of maintenance depends upon the capacity of staff and the lights per staff is an indicator of their work load. In Town Panchayat and Panchayat Union, the maintenance is done by the State Electricity Board on pehalf of the local body. On discussion with Electricity Board staff it was ascertained that the desired norm should be 90 fixtures per person (Technical staff - 1 and Helpers - 10 per 1000 fixtures). The O&M Expenditure on streetlighting is mainly current charges and replacement of spares. The average life of a tube light is 4 months and that of sodium vapor lamp is four years, under normal power supply conditions. The average annual O&M expenditure on streetlighting varies between Rs.450/- to Rs.950/- depending on the type of fixtures, including Rs.18 to Rs.39 towards the establishment.

Table 3.22 O & M Expenditure in Streetlights

Category	Lights per staff (nos)			O&M Expenditure per light (Rs.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	571	70	1541	599	272	998
Municipalities	236	62	323	645	514	918
Town Panchayats	1758	699	3475	297	192	375
Panchayat Unions	3006	95	8185	68	23	127
Village Panchayats	NA	-	-	103	86	122

3.3.28. The Existing Situation Analysis of Core Civic Services in local bodies is completely based on the sample survey. However scientifically the samples may have been chosen and not withstanding all efforts to reflect the reality, this methodology suffers from the lacunae of over-generalization. Therefore, in the following pages, universal figures have been adapted wherever available and the inferances drawn from the sample study have been moderated by interacting and cross-checking with the line departments/agencies. It remains a fact undisputed, that perhaps for the first time an exhaustive attempt has been made to analyse all relevant socio, economic and environmental parameters related to Civic Services.

CHAPTER 4

POPULATION FORECAST

3.4.1. Forecast of population is essential to assess the levels of services and the requirement of funds. Here it is limited to the period of implementation of the State Finance Commission's Report i.e. Five years commencing from April 1997 (1997-98 to 2001-2002). While analyzing the population, it may be noted that Urban and Rural population have been worked out on the basis of census definition. The same is reflected in table 3.23. However, from the points of local bodies, Town Panchayats are now (after bringing them under District Municipalities Act, Amendment 1994) deemed as urban despite the fact that about 421 Town Panchayats representing a population of nearly 59.36 lakhs are still rural in character.

Table 3.23 Population Trends in Tamilnadu and India

	Population in lakhs			Decadal Growth Rate %		
TAMILNADU	**1971**	**1981**	**1991**	**1961-71**	**1971-81**	**1981-91**
Urban	125	160	192	38.63	27.94	19.38
Rural	287	324	367	16.20	13.24	12.92
Total Tamilnadu	412	484	559	28.75	17.50	15.39
Household size Urban	5.10	4.93	4.65			
Household size Rural	4.70	4.64	4.38			
Total Tamilnadu	**4.79**	**4.74**	**4.46**			
INDIA						
Urban	1091	1595	2176	37.90	46.50	36.45
Rural	4390	5257	6287	21.67	19.91	19.60
Total India	5481	6852	8463	24.58	25.10	23.51
Household size Urban	5.23	5.52	5.51			
Household size Rural	5.53	5.44	5.63			
Total India	**5.46**	**5.46**	**5.60**			

3.4.2. As per census figure in comparison to total population of the country, Tamilnadu population has grown at a lower rate in the last two decades. Growth trends for both urban and rural areas indicate decline from 28.75% in 1961-71 to 15.39% in 1981-91. The average household size has reduced too. In forecasting for 2002, the decreasing rate of growth has been used. The annual compounding growth during the same period declined from 2.56% (1961-71) to 1.63% (1971-81) and then to 1.44% (1981-91). It is estimated to go down further to 1.28% by 2001-2002. While computing the population in various categories of local bodies, the change in its proportion to the total population of the State over the last two decades has been used as a yardstick. The forecast is given in Table 3.24.

Table 3.24 Summary of Population Forecast: ** (in Lakhs)

Local Body	1991	1996	1997	1998	1999	2000	2001	2002
Chennai Corporation	38.41	41.58	42.11	42.65	43.19	43.75	44.31	44.87
All Corporations	70.30	75.34	76.30	77.28	78.27	79.27	80.28	81.31
Municipalities	71.86	76.89	77.88	78.87	79.88	80.90	81.94	82.99
Town Panchayats	87.29	92.51	93.69	94.89	96.10	97.33	98.58	99.84
Total Urban	**229.45**	**244.74**	**247.87**	**251.04**	**254.25**	**257.5**	**260.8**	**264.14**
Panchayat Unions & Village Panchayats (Rural)	329.14	350.51	354.99	359.53	364.13	368.79	373.51	378.28
Total	**558.59**	**595.24**	**602.86**	**610.57**	**618.38**	**626.29**	**634.30**	**642.42**

****Note:** The Rural and Urban Break-up in this table do not tally with previous table i.e. Table No.3.23. This is because it defers from census definition of Urban and includes all urban local bodies like Corporations/ Municipalities and Town panchayats.

CHAPTER 5

NORMS FOR CORE CIVIC SERVICES

3.5.1. Fixing up of norms for civic services has been an extremely sensitive issue. Several studies in the past have fixed-up a National Minimum, not withstanding the fact that some States have already crossed this level and that should not act as a disincentive in further improving the services. Any effort to arrive at the norm should take into account the existing levels of services. In Chapter 3, SFC has already analyzed the existing situation as have emerged from the sample study through the questionnaire and through the Indepth study. In fact, in certain cases, the universal data pertaining to the existing service level is available, for example, in cases of water supply (except in Village Panchayats), Roads, Storm Water Drains (except in Village Panchayats) and Street lighting. In all these cases, they have been utilized to arrive at service gaps and investments. In other cases like sanitation, solid waste management, water supply and storm water drain for the Village Panchayats, the sample data have been universalized. Norms have been fixed for 2002 bearing in mind the existing service levels, what is achievable within the constraints of resources and technology and ofcourse a desirable level as assessed by various studies. Based on the norms and forecast of population by year 2002, the quantum of service required has been estimated. Then comparing with the existing level, the service gap has been assessed. Depending on the technology used, the related unit cost has been arrived at and by multiplying the same with gaps in services, the investment requirements have been assessed.

(A) WATER SUPPLY:

i) Existing situation:

3.5.2. While assessing the existing situation, the per capita supply as suggested by the Sector Policy Study of TWAD Board has been taken into account and not the sample survey except for the Village Panchayats. Similarly for mode of supply, persons per standpost and source dependency, the samples have been expanded to universe. The existing position is given below.

Table 3.25 Existing situation for Water Supply

	Source Dependency		Mode of Supply			Persons per	Weighted	Total	
	Surface/ Infilter-ation Wells	Ground Water	HSC	Stand post	Hand pumps	Standpost/ Handpump	Average percapita supply	Population in 1995	Exist-ing supply (1995)
	% of Total Supply		% Population Covered			Nos.	Litres	Lakhs	MLD
Chennai Corporation	99	1	78	10	12	54	73	41.05	298
Corporations	82	18	57	25	18	143	73	74.39	570
Municipalities	83	17	32	44	24	184	48	75.92	364
Town Panchayats	72	28	16	56	28	164	34	91.34	311
Village Panchayats	20	80	2	62	36	170	22	346.08	761

Note:

i. Mode of Supply : Sample expanded to Universe

ii. Per capita Supply: For Corporations, Municipalities and Town Panchayats: Universal figures, in case of Village Panchayats: Sample expanded to Universe.

iii. Persons per standpost: Sample expanded to Universe

iv. Source Dependency: Sample expanded to Universe

ii) Norms:

3.5.3. The norms have been set taking into consideration the availability of source and the possibility of achieving the same in the medium term period i.e. from 1997-2002. While fixing the norms and the unit cost, detailed discussions were held with the officials of Metro Water and TWAD Boards. The supply level indicated below includes domestic, non-domestic and industrial requirements including distribution losses. HSC is suggested as a convenient mode for supply of for cost recovery.

Table3.26 Working Sheet for Water Supply Norms

	Source Dependency			Mode of Supply			Persons per		Total per capita Supply	Estimated Population by 2002	Total Supply Excluding Hand pumps
	Surface	Infiltration	Ground Water	HSC	Stand post	Hand pump	Stamd post	Hand pump			
	% of Total Supply			% Population Covered			Nos.		Litres	Lakhs	MLD
Chennai Corporation	100	0	0	80	10	10	30	100	90	44.87	363
Other Corporations	50	30	20	80	10	10	30	100	90	81.31	659
Municipalities	40	25	35	70	20	10	30	100	70	82.99	526
Town Panchayats	40	25	35	30	50	20	30	125	55	99.84	437
Village Panchayats	40	20	40	5	50	45	30	125	40	378.28	832

Note: Source Allocation is based on discussions with TWAD Board officials.

iii) Gaps, Unit cost and the Capital Investments required

3.5.4. The demand supply gaps in water supply are estimated in terms of quantity of water, number of public standposts and handpumps to be installed to meet the demand of the additional population by 2002.

3.5.5. The unit cost for various sources has been arrived based on costs of some of the recent projects implemented by the TWAD Board. In case of corporations, it has been presumed that augmentation from the existing local sources has been exhausted and therefore successive augmentation will cost Rs.4 crores per MLD. Investment required is arrived by the product of gap and the unit cost.

Table 3.27 Gaps for Water Supply and Additional Requirement by 2002

	Additional Quantity by source			Total quantity	Stand posts	Hand-pump	Source Development Cost			Hand-pumps cost/ unit	Capital investment
	Surface	Infil-tration	Ground				Surface	Infil-tration	Ground		
	MLD			MLD		Nos.	Rs.lakhs/MLD				Rs.Lakhs
Chennai Corporation	66	0	0	66	7165	0	-	-	-	0	26335.73
Corporations	73	30	4	107	12085	832	400	400	112	0.20	41623.43
Municipalities	65	40	56	161	37144	0	94	111	112	0.20	16877.53
Town Panchayats	51	32	44	127	135230	525	94	111	112	0.20	13338.87
Village Panchayats	28	14	28	70	504866	62060	94	111	112	0.20	19823.84
TOTAL	**217**	**116**	**132**	**465**	**689325**	**63417**					**91663.7**

SEWERAGE AND SANITATION:

i) Existing Situations:

3.5.6. Considering its size and requirements, the norms for the Chennai Corporation have been worked out separately. Except for that, the public systems are virtually non-existant and needs immediate action. The existing coverage as has been universalized from sample is given below:

Table 3.28 Existing Coverage in Public System %

Category	UGD	LCS	Public Toilets	SepticTanks/ Private	Uncovered
	Percentage of Population dependent on each system				
Chennai Corporation	85	4	3	2	6
Other Corporations	9	1	0.1	20	69.9
Municipalities	3	2	5.0	13.0	77
Town Panchayats	0	13	4	24	59
Village Panchayats	0	0.10	2	0.1	97.8

ii) Norms:

3.5.7. Norms have been fixed for population to be covered by different safe disposal systems like underground drainage network, septic tanks, low cost sanitation and public conveniences. Except for UGD network, all other systems are built and maintained at the individual household levels. But, with enhanced water supply levels, such systems are not technically and

environmentally viable. UGD system has been recommended for Municipalities having more than 70 LPCD water supply. Basing on these technicalities and what is achievable, norms have been fixed as follows:

Table 3.29 Normative Coverage

Percentage of Population

Category	UGD	LCS	Public convenience	Private or/ Uncovered
Chennai Corporation	90	5	5	0
Other Corporations	30	10	10	50
Municipalities	25	10	15	50
Town Panchayats	0	25	10	65
Village Panchayats	0	10	10	80

Gaps:

3.5.8. Gaps in sanitation have been estimated by deducting from the total population to be covered by 2002, the existing population covered by respective disposal system.

Table 3.30 Gaps in Services:

Category	Additional Population to be covered-lakhs UGD	LCS	Public Convenience
Chennai Corporation	5.6	0.7	2.2
Other Corporations	15.1	3.2	1.8
Municipalities	18.6	6.5	8.8
Town Panchayats	0.0	13.0	6.8
Village Panchayats	0.0	35.8	29.3

Table 3.31 Unit Cost

Rs. Per Capita

Category	UGD	LCS	Public Convenience
Chennai Corporation	2500	800	1500
Other Corporations	2500	800	1500
Municipalities	2500	800	1500
Town Panchayats	-	800	1000
Village Panchayats	-	800	1000

Table 3.32 Capital Investment

Rs. in crores

Category	Amount
Chennai Corporation	156.82
Other Corporations	540.44
Municipalities	414.74
Town Panchayats	100.97
Village Panchayats	257.46
Total	**1470.43**

SOLID WASTE MANAGEMENT

i) Existing Situation

3.5.9. The samples taken during the survey have been universalized to arrive at the existing position.

Table 3.33 Existing Position in Solid Waste Management

Local body	Waste generated per capita Grams	Collection ** Performance %	Vehicle capacity to waste %	Households per dust-bin No.
Chennai Corporation	695	85	68	84
Other Corporations	366	82	41	271
Municipalities	365	70	39	102
Town Panchayats	153	46	27	363
Village Panchayats	NA	0	0	3568

** Note: Aparently the Collection Performance is very high. This is under suspect as revealed by the field position and may be on account of small and unrepresentative samples.

ii) Norms:

3.5.10. In the target year (2002), the total waste generated per day in local bodies is assumed to be 20 to 25% higher than the existing level due to changing consumption pattern. In Corporation and Municipalities, the collection will be done every day except for the internal roads, where it has to be done every alternate days. In Town Panchayats, there will be alternate day of collection and in Village Panchayats, once a week. Similarly, number of households per dustbin is arrived on the assumption that there are 50 houses on a 100 metre stretch of road and the vehicles are assumed to be making 2 to 3 trips a day, carrying 50% of its normal capacity.

$$\text{Capacity of Dust bin} = \frac{\text{(Waste generated per capita x HH size(5) x No. of Hhs/dustbin)}}{\text{Collection frequency in days}}$$

Table 3.34 Normative Level

Local body	Waste generated per capita **Grams**	Collection Performance **%**	House holds per dustbin **Nos.**	Capacity of dustbin **Kgs.**	No. of trips per vehicle **Nos.**
Chennai Corporation	750	90	50	200	3
Other Corporations	500	90	50	100	3
Municipalities	450	90	50	100	3
Town Panchayats	200	50	50	50	2
Village Panchayats	100	15	50	25	2

iii) Gaps:

3.5.11. For Panchayats, atleast one vehicle per Panchayat Union is recommended. In Corporations and Municipalities, it is expected to make 3 trips a day and in Town and Village Panchayats 2 trips per vehicle a day.

Table 3.35 Additional Requirements

Local body	Dustbins required	Vehicle capacity	Nos. of vehicles		
			5 tonne capacity	3 tonne capacity	1.5 tonne Tractor
	Nos.	Tonnes			
Chennai Corporation	8258	1045	146	105	0
Other Corporations	12119	926	130	93	0
Municipalities	18322	1699	170	283	0
Town Panchayats	34911	794	0	132	265
Village Panchayats	149372	567	0	0	384

iv) Unit Cost:

3.5.12. The unit cost of dustbins have been arrived at on current market rates evolved in consultation with officials of Chennai Corporation. The vehicle costs are actual market prices as in 1995-96.

Table 3.36 Unit Cost

Dustbin		Vehicles	
Capacity-kgs	Unit Cost-Rs.	Capacity-Tonnes	Unit Cost-Rs.lakhs
25	600	5	6.00
50	1200	3	4.00
100	2400	1.5 tractor	3.50
200	6000		

v) Capital Investments:

3.5.13. The investment suggested is for collection and disposal only. In addition, the sanitary land fill system would cost Rs.120 per tonne. Other methods of disposal are discussed later.

Table 3.37 Capital Investment

Rs. Crores

Category	Amount
Chennai Corporation	17.91
Other Corporations	14.39
Municipalities	25.91
Town Panchayats	18.75
Village Panchayats	22.40
Total	**99.36**

5. ROADS AND STORM WATER DRAINS:

Storm Water Drains play an important role in maintaining the condition of Roads. Hence they are taken together.

i) Existing Situation:

3.5.14. Existing situation of roads has been analysed in terms of percentage of existing BT/WBM/other surfaces. Existing BT roads have not been taken into account in estimation of capital investments required as the improvements and maintenance forms part of revenue expenditure. It may be noted that the Road length and surface types are universal figures and in case of Village Panchayats, for Storm Water Drains, samples have been expanded to universe.

Table 3.38 Existing Situation of Roads & Storm Water Drains

Category	Road length	BT	WBM	Metal/ Others	Drain Length	% Road covered	Kutcha	Pucca open	Pucca closed
	Km.	% of Total Road Length			Km.		% of Roads Coverage		
Chennai Corporation	2159	99	0.1	1	628	29	0	0	100
Other Corporations	2484	65	17	18	636	23	11	89	0
Municipalities	6052	69	16	15	4760	53	33	67	0
Town Panchayats	13312	29	24	47	5152	23	41	59	0
Panchayat Unions	45504	19	45	35	-	-	-	-	-
Village Panchayats	105252	15	16	69	2175	2	0	100	0

Note: Kutcha Drains are not considered in calculating % roads covered.

ii) Norms:

3.5.15. All roads have to be upgraded to BT in stages i.e. Earthen to WBM and WBM to BT. Similarly for Storm Water Drains, covered or open Pucca drains, are recommended basing on hierarchy of the road. In bus route roads, which carry major portion of traffic, pucca covered drains are recommended. In case of Town and Village Panchayats, open pucca drains are suggested for a portion and other roads do not really need drains.

Table 3.39 Roads and Drainage Coverage Recommended

Category	Roads			Drains	
	BT	WBM	Gravel/Other	Pucca Open	Pucca Covered
	% of total Road Length				
Chennai Corporation	100	0	0	20	40
Other Corporations	100	0	0	40	10
Municipalities	100	0	0	70	10
Town Panchayats	40	40	20	40	0
Village Panchayats	20	25	55	10	0
Panchayat Unions	30	40	30	-	-

Note: In Municipalities existing situation in drains is better, hence norms set to maintain the existing levels. In-case of certain Municipalities with a very low service level, at least main roads are to be provided with drains.

iii) Gaps:

3.5.16. Gaps in roads and storm water drains have been estimated based on the existing situation and the levels to be achieved as per the norms given below:

Table 3.40 Upgradation

	Road to be upgraded		Km.	Drainage Works		Km.
	WBM to BT	Earthen to BT	Metal to WBM	Kutcha to Pucca Open	New Pucca Open	New Pucca Covered
Chennai Corporation	3	25	0	0	432	236
Other Corporations	423	437	0	70	358	497
Municipalities	375	0	555	1564	0	303
Town Panchayats	1479	0	2139	945	0	0
Village Panchayats	5119	-	9293	3684	0	0
Panchayat Unions	2361	2493	0	-	-	-

iv) Unit Cost:

3.5.17. The roads may be assumed to fall into 3 categories of width - single lane (4 metres), intermediate lane (5.5 metres) and two lane (7 metres). The unit cost for each category has been worked out basing on designs. The same has also been discussed with H&RW/PWD officials to ensure that they reflect existing schedule of rates. Presuming that higher width roads are in greater proportion in higher grade of local bodies and that their upgradation cost is higher, the weighted cost of upgradation has been worked out as follows:

Table 3.41 Cost of Upgradation (Rs. in lakhs)

	Weighted Cost of Upgradation per Km. of Road			Capital Cost/Km. of Storm Water Drain		
	WBM to BT	Metal to WBM	Earthen to BT	Kutcha to Pucca Open	New Pucca Open	New Pucca covered
Chennai Corporation	9.30	10.0	25	9.30	10.0	25
Corporations	4.05	6.98	8.49	9.30	10.0	25
Municipalities	3.88	6.70	8.98	9.30	10.0	20
Town Panchayats	3.00	5.10	7.61	5.20	6.0	-
Rural Areas	2.95	5.04	7.85	5.20	6.0	-

v) Total Investment:

3.5.18. The total capital investment required for upgradation of roads is estimated at Rs.1858.17 crores and for the storm water drain, it is estimated at Rs.666.51 crores in the next five years as given below:

Table3.42 Capital Investment required for roads and storm water drains

Rs. Crores

Category	Roads	Drains
Chennai Corporation	174.99	102.08
Other Corporations	54.23	166.47
Municipalities	99.43	157.28
Town Panchayats	153.34	49.12
Village Panchayats	619.39	191.56
Panchayat Unions	756.79	---
Total	**1858.17**	**666.51**

5. STREET LIGHTING

i) Existing Situation:

3.5.19. Street light forms another important infrastructure associated with roads. The levels of service of the street lights depends on the spacing between lamp posts and type of lamps. It also depends on the road hierarchy. Narrow spacing and Sodium Vapour lamps are required on primary network, while distanced spacing and other regular bulbs may be sufficient in teritiary roads. The existing situation as obtained from universal figures is given below:

Table 3.43 Existing Scenario in Street Lights

	Road	Total No. of lights	Average Distance between posts	Distribution of Lights %		
				Tube lights	Sodium Vapour/ Mercury	Ordinary
	Kms.	Nos.	Metres			
Chennai Corporation	2159	78990	27	66	34	0
Other Corporations	2484	79006	31	83	15	3
Municipalities	6052	177874	34	89	10	1
Town Panchayats	13312	214069	62	92	4	4
Village Panchayats	105252	869980	121	94	1	5

ii) Norms:

3.5.20 It will depend on the importance of the road and density of population. Hence, in case of Corporations and Municipalities, the norms will be on higher side. In Corporations, 15-20% of the roads are bus-route roads, 15 meter wide, where lights are to be provided on both sides. It is also recommended to replace ordinary lamps atleast by tube-lights wherever they exist.

Table 3.44 Normative Spacing in Street Lights

Category of Local body	Spacing Metres	Distribution of lights %	
		SodiumVapour	Tube lights
Chennai Corporation	25	40	60
Other Corporations	25	30	70
Municipalities	30	20	80
Town Panchayats	40	10	90
Village Panchayats	80	2	98

iii) Gaps:

3.5.21. Additional number of lights required to be installed is estimated as the difference between the requirements as per the norms and the existing number of lights as given below:

Table 3.45 Additional Requirements

Category of Local body	Additional lights needed - Nos.	
	Sodium Vapour	Tube Lights
Chennai Corporation	8004	0
Other Corporations	18151	4289
Municipalities	21687	3607
Town Panchayats	23839	103065
Village Panchayats	13232	153513

iv) Unit Cost:

3.5.22. SFC has arrived at the unit cost of lights based on the discussion with Chennai Corporation and Tamilnadu Electricity Board Officials. In case of Town Panchayats and Village Panchayats, the costs are based on the charges levied by Tamilnadu Electricity Board per tube-light The weighted cost per lamp has been worked out basing on the use of 70 watts or 150 watts.

Table 3.46 Unit Cost

Category of Local body	Rs. Unit Cost of lights - Weighted	
	Sodium Vapour	Tube lights
Chennai Corporation	7340	4100
Other Corporations	7340	4100
Municipalities	7075	4100
Town Panchayats	5800	3500
Village Panchayats	5800	3000

Capital Investment:

3.5.23. The total capital investment required for street lighting is estimated at Rs.238.20 crores as shown below:

Table 3.47 Capital Investment

Category	Rs. Crores
Chennai Corporation	5.87
Other Corporations	15.08
Municipalities	16.82
Town Panchayats	49.90
Village Panchayats	150.52
Total	**238.19**

3.5.24. The capital investment for all the six core civic services to be delivered at the desired (normative) level in the local bodies has been worked out at Rs.5249.32 Crores for 1995-96. Providing for 12% escalation annually, it is Rs.6584.73 crores at 1997-98 price level. It may be noted that the Corporations and Municipalities which are primarily urban in character, corner nearly 48% of the proposed investments. However, the percentage of increase over the existing level is much higher in the local bodies where infrastructure are not adequate at the moment.

Table 3.48 SUMMARY OF TOTAL COST

(Rs. Crores)

	Service Sector	Chennai Corpo-ration	Other Corpo-rations	Munici-palities	Town Panchayats	Village Panchayats	Panchayat Unions	Total (Base year 1995-96)
i.	Water Supply	263.36	152.87	168.78	133.39	198.24		916.64
ii.	Sewerage and Sanitation	156.82	540.44	414.74	100.97	257.46		1470.43
iii.	Solid Waste Management	17.91	14.39	25.91	18.75	22.40		99.37
iv.	Roads	174.99	54.23	99.43	153.34	619.39	756.79	1858.17
v.	Storm Water Drains	102.08	166.47	157.28	49.12	191.56		666.51
vi.	Street Lighting	5.87	15.08	16.82	49.90	150.52		238.20
	Total	**721.03**	**943.48**	**882.96**	**505.46**	**1439.57**	**756.79**	**5249.32**
Recommended per Capita expenditure per year - Rs.								
A	For 1997 Population	342	552	227	108	81	43	
B	For 2002 Population	321	518	213	101	76	40	
Expenditure Required - Rs. Crores								
C	Per Local Body (5 years)	721.04	188.70	8.49	0.80	0.11	1.97	
D	Per Local Body (per year)	144.21	37.74	1.70	0.16	0.02	0.39	
E	Existing Expenditure (per year)	99.5	23.05	0.56	0.04	NA	NA	
F	% Increase over Existing	45	64	204	298			

3.5.25. Since the investment has to be made over a period of 5 years, it has been phased over 1997-2002 providing for 20% every year with 12% price escalation annually as given below:

Table 3.49 Phasing of Capital Investment

Investment Phasing	Capital Cost 1997-98 Price level	1997/98 20%	1998/99 20%	1999/2000 20%	2000/01 20%	2001/02 20%	Total Capital Cost 100%
i. Water Supply	1149.83	230.0	257.6	288.5	323.1	361.9	1460.94
ii. Sewerage and Sanitation	1844.51	368.9	413.2	462.7	518.3	580.5	2343.57
iii. Solid Waste Management	124.65	24.9	27.9	31.3	35.0	39.2	158.38
iv. Roads	2330.88	466.2	522.1	584.8	655.0	733.6	2961.70
v. Storm Water Drains	836.06	167.2	187.3	209.8	234.9	263.1	1062.28
vi. Street Lighting	298.80	59.8	66.9	75.0	84.0	94.0	379.64
Total	**6584.73**	**1317.0**	**1475.0**	**1652.1**	**1850.3**	**2072.3**	**8366.51**

Note: Price Escalation Factor 12% Annually

3.5.26. The capital investment of Rs.8366.51 Crores is necessary if the service-levels have to be increased in the local bodies as suggested. In fact on this, depends the quality of life of the citizens. At this point of time, the moot question is whether it is within the scope of the SFC to look into the capital investments or confine itself only to Revenue expenditure of O&M. If gone by the words of the G.O. constituting and defining the scope of SFC, only the Revenue expenditures are to be looked into. However, there have been scores of conferences and workshops at the National level and in various other forums, where the Role of SFC has been discussed. All of them have gone on record, that the work of SFC will remain incomplete if it does not look into the levels of civic services and provide ways to improve them. Therefore assessing capital investment needs is an inseparable part. The Project Finances to raise this capital has been dealt with separately.

CHAPTER 6

PROJECT FINANCE

i) Available Windows:

3.6.1. The capital investment needs of the local bodies, especially for water-supply and sanitation is supplemented by way of loans from LIC and Government. These loans are raised on behalf of the local bodies by TWAD, on Government guarantees. Besides, the Urban local bodies are supported by a mixture of loans and grants from the Municipal Urban Development Fund (MUDF). Under the scheme, the Fund provides a performance and need based capital grants, which in case of a deserving local body could be as high as 75% of the capital cost of a service scheme. In this, a Financial Operating Plan is prepared covering five years of past financial history of the local body and it presents a five year forecast of the situation under alternative assumptions of revenue collection, rate revision measures and capital investment decisions. This fund is coming to a close by September, 1996 and it is proposed to upgrade MUDF into a Financial Institution called the Tamilnadu Urban Development Fund. This will have two streams - the loan funds and the grant funds. The grant fund will be targeted towards local bodies with a weak resource base and service levels. These Funds will be managed by an Assets Management Company, with participation from Infrastructure Leasing at Financial Service (ILFS), Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC), apart from equity from the Government of Tamilnadu. In case of small Municipalities and the Town Panchayats, loan based assistance is available from the centrally sponsored Integrated Development of Small and Medium Towns (IDSMT) Programme. Similarly, TUFIDCO, an institution created under the Companies Act in 1989, supports investments in programmes targeted towards lower income areas. It has a share capital of Rs.10 crores and the Government of Tamilnadu has an equity of 51% and the rest are with some local bodies and Housing and Urban Development Corporation (HUDCO). Currently the programmes financed are Low Cost Sanitation, Urban Poverty Alleviation Programme, NRY and associated sub-components. This agency channelises HUDCO loans for these projects. In case of local bodies within the Chennai Metropolitan Area, Metropolitan Infrastructure Development Corporation (MIDC), has been created in 1996, to provide financial support in implementing projects under the Mega City Project. It provides finances to the extent of 50% of the project cost, and offers a 10% subsidy for any service scheme. MIDC is planning to support the entire cost of the project and having been created under the Companies Act, there is no restriction on this agency from borrowing from the capital markets.

ii) Power to raise Resources:

3.6.2. The Central and State borrowings are governed by the Public Debt Act of 1944 and Public Debt Rules of 1946. At the local levels, the borrowings are governed by the Local Authorities Loan Rules, 1937, amended to date. Chennai Corporation is empowered by Chennai City Municipal Corporation (CCMC) Act 1919, to raise resources, by way of debenture or otherwise on security of all or any of the taxes, duties, fees and dues, any sums of money required for construction works, land acquisition, to pay off Government dues or to repay loans previously

raised. But the essential condition is that the previous sanction of the State Government is necessary, particularly the terms and conditions, date of flotation , time and method of repayments needs to be approved by the State. Similarly, the Metro Water Board (Section 32 of Madras Metropolitan Watersupply and Sewerage (MMWS) Act, 1978) and Tamilnadu Watersupply and Drainage (TWAD) Board (Section 34 of TWAD Act) have the power to borrow and raise funds from the Institutions as well as markets with the guarantee by Government.

iii) Guarantee Procedures:

3.6.3. Guarantees are provided for activities related to public interest i.e. for approved public developmental purposes when borrowed from Financial Institutions, Banks or from the Public, mostly for the capital expenses. The proposals of guarantee amounts to a contingent liability and are normally reviewed at the same level as loan. In view of the increasing contingent liability and for the fact that they have been evoked in the past for small sums, G.O.Ms.No.552, Finance Department dated 6-7-1994 stipulates that Government guarantee need not be given in cases, where the activity is purely on a commercial or self-sustaining basis, and also opines that to the extent possible, loan or credit should be against the assets created by the project; the question of guarantees arise only if this is not feasible. In case an organization is financially sound, the Government indicates that the agency could credit rate itself so that need for the Government guarantee is minimized.

3.6.4. The Finance Accounts 1993-94, Government of Tamilnadu below reveals the amount guaranteed and the outstanding principal. These statements have to be necessarily placed before the legislature during the budget session.

Table: 3.50 Government Guarantee and Principal Outstanding

Rs. in Crores

	Agency	Amount Guaranteed	Outstanding Principal
1.	Total	6303.23	3537.70
2.	Chennai Corporation	36.00	36.00
3.	MMWSSB	54.58	12.42
4.	TWAD:		
	a) from LIC,	300.13	240.30
	b) from HUDCO	37.30	27.35
5.	MMDA	4.05	0.60
6.	Coimbatore Corporation	11.68	10.54

3.6.5. Any development proposal for credit or loan generally involves revision of tariffs and rates, and some may even involve levy of new taxes or rates. In the case of Property tax, which is the most important source of revenue for the Urban local bodies, as per the existing rules, it will have to be revised once in every five years; it is another matter that the revision is not being done so. Similarly, in case of environmental services, local authorities can frame bye-laws to levy or raise the user charges. For example, one of the convenants of the World Bank aided TNWSSP was in terms of revision of Water Rates in the project towns. In lines with the agreement, the rates were revised in the project towns of Madurai, Coimbatore and Salem. Whenever a project is sent to finance for guarantees on line with the appraisal methodology, any commitment in terms of revision of tariff and rates is generally accorded priority, as non-commitment would add to the burden of the State in terms of guarantees.

Table 3.51 Financing of Projects (Capital Investment for achieving normative Core Civic Services (at 1995-96 price level)

(Rs. in Crores)

Sector	Corporations	Municipalities	Town Panchayats	Panchayat Unions	Village Panchayats	Total
Water Supply	416.23	168.78	133.39	—	198.24	916.64
Sewerage and Sanitation	697.26	414.74	100.97	—	257.46	1470.43
Solid Waste Management	32.31	25.91	18.75	—	22.40	99.37
Roads	229.23	99.43	153.34	756.79	1376.18	1858.17
Storm Drains	268.55	157.28	49.12	—	191.56	666.51
Street Lighting	20.96	16.82	49.90	—	150.52	238.20
Total	1664.54	882.96	505.47	756.79	2196.36	5249.32

3.6.6. The above table indicates the capital needs for the core civic services. In earlier pages we have rephased this investment over a period of five years (1997-2002) providing for inflation. In case of Corporations, which are mostly viable, we can go for Public Issues of Equity or Bonds or go for Institutional finance. This is also true for the Municipalities that are well off. Depending on the financial position, the Corporations and the Municipalities can go for a mix of Remunerative and Service projects. In case of not so well off Municipalities and the Town Panchayats, we can suggest a mix of loan which can be repaid over a period and grants from the Government. Village Panchayats, whose repayment capacity is poor, will have to depend to a greater extent on Government assistance. In all those, cost recovery by way of user charges atleast towards O&M, can be tried and privatization wherever possible can be taken-up. These concepts and the need for a Capital Fund have been dealt with separately.

CHAPTER 7

NORMS FOR O & M AND STAFFING

3.7.1. In the past, emphasis has always been on capital expenditure, neglecting totally the O&M aspects. This has led to inefficient management and premature aging of the assets. The constraint was mainly resources. Therefore, the thrust is now on closing the gaps to the extent possible by investment in operation and maintenance of service. In this Part III, SFC has subscribed to the view that for better level of operation and maintenance of services, additional manpower for the civic services is indispensable.

Approach:

3.7.2. Now, the issue involved is estimation of Manpower-cost and operation and maintenance cost on a normative basis vis-a-vis the existing position. The existing staff position has been taken by universalizing the sample. The norms for staff have been arrived at for the water supply by considering CPHEEO norms, for public health on the basis of Norms Committee of Government of Tamilnadu and for Roads on the basis of Highways and Rural Works department's norms. For sewerage and sanitation, the staff requirements in term of numbers have been clubbed with O&M and not segregated and for the storm water drains, manpower has been suggested on a temporary basis only for the period before and after the monsoons. The norms on manpower have been finalized after a detailed discussion with the officials of the line departments. For existing expenditure on establishments, the universal figures as computed by the Government Data Centre out of the detailed questionnaires, have been taken and for the normative establishment expenditure, it has been derived from the proposed staff strength except for Corporations where the levels were found reasonable and have been assumed to remain the same. For the O&M, the existing cost has been taken from the universal figures as computed by Government Data Centre except for Storm Water Drains, where no figures were available. The normative O&M cost have been derived from the universal figures except for water-supply, where the norms were fixed after due deliberations with TWAD/Metro Water officials.

Water Supply

3.7.3. Man power norms for water-supply operation is based on Central Public Health Engineering and Environmental Organization (CPHEEO) norms. These norms have been adopted for all local bodies except for Chennai Corporation. In case of Chennai Corporation, the Metro Water Board (MMWSSB) caters to the water supply requirements, and the existing manpower is taken as the normative level.

3.7.4. Operation and Maintenance expenditure has been estimated for all categories based on the source of water; Corporations will need a source of surface water in the range of 75 to 150 MLD, Municipalities in 5 to 25 MLD, Town and Village Panchayats in the order of less than 5 MLD. It is assumed that 30% of water requirements

in Town Panchayats and 80% in Village Panchayats is not met from ground water. For Man-power, it is assumed that each Village Panchayat will have more than 10 wells. The O&M expenditure per unit quantity of water produced is arrived at on the basis of TWAD Board projects, which works out to Rs.3.20 lakh per MLD (1993-94 prices). The estimation of Man-power cost and O&M cost by 1995-96 on a Normative basis vis-a-vis the existing position is given below:

Table 3.52 Water Supply

A.Estimation of Manpower and Establishment Cost

Local body category	Quantity of water supplied MLD	Distribution Length Km.	Total Existing Manpower Nos.			Total Manpower required for Existing level of Services (Normative) - Nos.				Additional Manpower required (Nos.)			Establishment Expenditure Rs. Lakhs		
			Technical	Skilled	Semi skilled	Technical	Skilled	Semi Skilled General	Semi Skilled Distribution	Technical	Skilled	Semi skilled	Existing 1993-94	Existing 1995-96	Normative 1995-96
Chennai (MMWSSB)	298	1598	507	1192	1699	-	-	-	-	-	-	-	1400.00	1694.00	1694.00
Other Corporations	272	1938	54	218	797	25	135	165	2422	0	0	1790	392.84	475.34	800.38
Municipalities	364	2844	146	437	728	104	936	728	1244	0	499	1244	1042.56	1261.50	1365.28
Town Panchayats	311	6310	168	311	795	635	1013	1013	2761	467	702	2978	419.96	508.15	1014.92
Village Pants. (PU)	761	6371	381	989	20014	384	3465	1925	2787	3	2476	0	269.56	326.17	1638.49
Total	**2006**	**19061**	**1256**	**3147**	**24033**	**1148**	**5549**	**3831**	**9214**	**470**	**3677**	**6012**	**3524.92**	**4265.16**	**6513.07**

B. Estimation of Operation Maintenance Expenditure

(Amount - Rs. in lakhs)

Local body Category	Quantity of Water Supplied MLD	Annnual Establishment Expenditure per MLD 1995-96		Annual Operation and Maintenance Expenditure per MLD 1995-96		Total Expenditure including Establishment Expenditure		
		Existing	Normative	Existing	Normative	Existing	Normative	Additional
Chennai Corporation	298	5.7	5.7	3.5	3.5	2736.40	2736.40	0.00
Other Corporations	272	1.7	2.9	2.7	4.3	1206.40	1961.82	755.42
Municipalities	364	4.2	3.8	5.0	4.3	3342.00	2915.92	0.00
Town Panchayats	311	2.1	3.3	4.3	4.0	1988.00	2267.89	279.89
Village Panchayats	761	0.4	2.2	3.3	3.7	2838.70	4428.33	1589.63
Total	2006					**12111.50**	**14310.36**	**2624.94**

Note: i) Existing Manpower sample expanded to universe.

ii) Technical AEE/AE Supervisor, Skilled Operators, Helpers, Electricians, Mechanics; Semi-skilled - unskilled Watchman etc.

iii) Existing Expenditure (1993-94 level) inflated to 1995-96 level by 10%;

iv) O&M for Madras (MMWSSB) is taken at the existing levels and manpower is adequate;

v) For other local bodies, it is assumed based on few projects of TWAD Board which works out to be 3.2 lakhs per MLD at 1993-94 prices;

vi) In case of Village Panchayats, Panchayat Union is taken as entity for estimation of Manpower;

vii) Wherever normative number of staff is less than existing staff, there existing staff is considered for estimating establishment cost;

viii) Existing establishment is based on data computed by Government Data Centre.

Sewerage & Sanitation

3.7.5. The expenditure requirements to operate and maintain Sewerage and Sanitation systems are dependent on the types of systems adopted. In the absence of these information, the expenditure norms have been assumed at 25% more than the existing level. In case of Chennai Corporation, the expenditure includes both Corporation and Metro Water Board. The expenditure for other Corporations has been derived based on the Chennai Corporation expenditure but related to the coverage through different systems. The level of expenditure in the Village Panchayats is assumed to be same as that in Town Panchayats. The estimates of Manpower cost and O&M costs are given below.

Table 3.53 O&M Costs for Sewerage and Sanitation (1995-96) (including the Manpower Cost)

	Annual O&M Expenditure		1995 Poulation	Existing Per Capita	Normative 1995-96	Annual O&M Expenditure
	1993-94	1995/96		1995-96		
	Rs. Lakhs		Lakhs	Rs.		Rs. Lakhs
Chennai Corporation	2562.6	3100.7	41.1	75.5	94	3875.9
Other Corporations	236.0	285.6	33.3	8.6	57	1888.2
Municipalities	1436.6	1737.6	75.9	22.9	29	2172.0
Town Panchayats	470.0	568.7	91.3	6.2	8	710.9
Village Panchayats	625.0	756.3	346.1	2.2	8	2693.4
Total	**5329.56**	6448.77				**11340.32**

Note:

i. Based on actual expenditure incurred during 1993/94
ii. 10% escalation over Normative
iii. Chennai expenditure includes both Corporation and Metro Water iv. Other Corporation 60% of Chennai, Based on existing coverage with reference to Chennai.
v. Village Panchayats norms were considered equal to Town Panchayats
vi. In absence of Normative expenditure, Normative was assumed 25% excess of existing.

Technologies :

3.7.6. Insanitary land disposal of solid waste could lead to the emission of pollutants like leachate and land fill gas containing various gasses like CO, methane, etc. Hence any land disposal option should aim at reducing this potential pollution hazards. Various technologies have been developed for effective disposal of waste, which include one or more of the following processes:

- Homogenisation
- Composting
- Vermi Composting
- Material Separation
- Anaerobic Digestion
- Mass Burn Incineration
- Fluidised Bed Combustion
- Waste Derived Fuel
- Aggregate Production
- Containment Engineering
- Dilution and Dispersal
- Ocean Dumping

All the above methods may not be directly applicable in the present context, due to various constraints ranging from the nature of waste to financial constraints to socio-cultural aspects. However, these technologies need to be explored and experimented with so as to adopt them to local conditions.

Suitability of the Technologies:

3.7.7. The suitability of the above discussed technologies depends upon various factors like

- Waste Composition
- Waste Characteristics
- Total Waste available
- Unit costs of the Technology

Implementation of any of the above technologies requires an in-depth analysis of the above factors in relation to the local conditions. The following table gives the general prerequisites of some of these technologies, which are prevalent in India and their unit costs.

Table 3.54 Comparative Evaluation of Solid Waste Treatement Technologies

Technology	Main Features	Land Requirements	Min.Waste Qty	Cost/Tone
1. Santary Landfill	▪ Use of soil cover to minimise infiltration of rain water. ▪ Compaction of deposits to minimise voids. ▪ Engineering designs to minimise the surface ground water entry. ▪ Control of leachate and gas emissions through suitable mitigitive measures.	1.25 cu.m/tone	No requirement	Minimum Rs.1 - 1.25 lakhs (for 100 tonnes per day)
2. Organic Manure (Composting)	▪ Treatment of garbage with biological innoculum. ▪ Organic manure is use full for agriculture and horticulture purposes ▪ Rejected waste free from pollutants due to sanitisation treatment.	30,000 sft.	150 tonnes per day	Capital - Rs.0.8 - 1 lakh O&M - Rs.1200-1250 Manure Price-Rs.2100
3. Pelletisation (Refuse Derived Technology)	▪ Segregation of recyclables and natural comostable materials. ▪ Heating system helps in Sterlisation of waste, avoiding health hazard. ▪ Process time is 30 min.	40,000 sft (Indoor & Outdoor requirements)	100 tonnes per day	Capital Rs.31500 O&M Rs.35000 Pellets price - Rs.1200

Technology	Main Features	Land Requirements	Min.Waste Qty	Cost/Tone
4. Incineration	▪ Segregation of combustible and non-combustable materials. ▪ Burning the combustibles throughincineration ▪ 90% of waste volume is reduced. ▪ High capital investment & demands skilled labour.	Negligible	100 tonnes per day	Rs.1-2 lakhs
5. Power Generation	5 - 10 MW power generation		500-600 tonnes per day	Rs.2 - 2.5 lakhs

3.7.8. Norms for manpower requirement for Solid Waste Management are in terms of road length per conservancy staff and number of drivers per vehicle. In case of Corporations and Municipalities, the manpower Norms are as adopted by local bodies and in Town Panchayats and Village Panchayats, recommendations of the Norms Committee (Government of Tamilnadu) have been adopted after adjustments for reduced collection frequency and lower population densities. The total number of supervisory staff is assumed at 10 per cent of the conservancy staff. O&M expenditure from collection to disposal stage has been arrived at, based on the average distance and tonnage carried by a vehicle per trip. In addition to fuel cost and repairs, a 10% provision is made for other accessories such as maintenance of dustbins, and equipments for collection.

Table 3.55 Solid Waste Management 1995-96

A.Estimation of Manpower and Establishment Cost

Local body category	Road Length	Existing Vehicles	Total Existing Staff		Norms		Total Staff required			Additional Staff		Normative Annual Estt Cost	
			Conservancy staff	Drivers	Road length per Conservancy staff	Drivers per Vehicle	Conservancy staff	Drivers	Supervisory	Conservancy staff	Drivers	Total	Per tonne
	Km.	Nos.	Nos.		Nos.		Nos.			Nos.		Rs. Lakhs	
Chennai Corporation	2228	429	7305	687	300	1.25	7427	537	743	122	0	2746.02	0.96
Other Corporations	2484	110	7437	167	300	1.25	8280	138	828	843	0	2881.90	2.36
Municipalities	6052	329	14307	359	400	1.25	15130	411	1513	823	53	5207.03	1.88
Town Panchayats	13312	974	1163	497	1600	1.25	8320	1218	832	7157	721	1317.40	0.88
Village Panchayats	45504	0	2047	0	5600	1.25	8126	0	813	6079	0	1072.59	0.56

B. Estimation of O & M Cost (1995-96)

(Rs. in lakhs)

Local Body Category	Waste Generated	Establishment cost per tonne per annum		Only O & M per tonne per annum		Total Annual Cost		
	Tons/day	Existing	Normative	Existing	Normative	Existing	Normative	Additional
Chennai Corporation	2852	0.71	0.96	0.08	0.09	4069.60	3016.86	0.00
Other Corporations	1222	1.12	2.36	0.05	0.09	1564.20	2997.95	1433.75
Municipalities	2771	1.08	1.88	0.06	0.06	3229.50	5381.18	2151.68
Town Panchayats	1489	0.48	0.88	0.13	0.05	1197.90	1388.24	190.34
Village Panchayats	1925	NA	0.56	NA	0.05	NA	1164.18	1164.18

Note: Sample expanded to Universe Supervisory staff assumed 10% of Conservancy Staff.

Roads:

3.7.9. Norms for manpower requirement for regular and periodic maintenance of roads have been assumed as those followed by the Highways and Rural Works Department, Government of Tamilnadu. O&M expenditure includes bi-annual maintenance (Patch Works) and periodic maintenance of BT roads i.e. resurfacing once in six years. Normative expenditure per KM. of road is estimated based on the distribution of roads by width for different categories of local bodies. This is arrived at based on the existing widths in Madras and Tiruppur. O&M expenditure is very high in comparison to that of the norm. This is because as per present practice, local bodies account the periodic renewals and replacements as part of Revenue expenditure.

Table 3.56 Roads

A. Estimation of Manpower requirement: (1995-96)

Local body category	Road Length	Total Existing staff			Norms for staff per Km. (Highways norms)			Total Staff Required			Additional Required			Total Establi-shment cost	Per Km.
		Tech-nical	Skilled	Un-Skilled	Tech-nical	Skilled	Un-Skilled	Tech-nical	Skilled	Un-skilled	Tech-nical	skilled	Un-skilled		
	Km.		Nos.		@ 1/100	@ 1/25	@ 2/8		Nos.			Nos.		Rs. Lakhs	
Chennai Corporation	2159	281	151	0	-	-	-	281	151	0	0	0	0	290.17	0.13
Other Corporations	2484	389	199	115	0.01	0.04	0.25	25	99	621	0	0	506	547.47	0.22
Municipalities	6052	182	182	303	0.01	0.04	0.25	104	242	1513	0	61	1210	312.28	0.05
Town Panchayats	13312	266	266	133	0.01	0.04	0.25	635	532	3328	369	266	3195	815.98	0.06
Village Panchayats	105252	1053	2105	1053	0.01	0.04	0.25	1053	4210	26313	0	2105	25260	5052.10	0.05
Panchayat Unions	45504	455	910	455	0.01	0.04	0.25	455	1820	11376	0	910	10921	2184.19	0.05

B. Estimation of O&M Expenditure (1995-96) (Rs. in Lakhs)

Local body category	Existing Road Length Km.			Total Road Lemgth	Existing Annual Maintenance Cost (Including Establishment Cost)		Normative Bi-annual Maintenance Cost (Patch Works)/Km.			Normative Total Annually (Patch Works)	Normative Periodic BT Maintenance 6 yearly Per km.	Normative Total Annually	Normative Total Patch Works and Periodic Maintenance	Per Km.
	BT	WBM	Others	Km.	Existing/ Km.	Total	BT	WBM	Gravel					
Chennai Corporation	2131	3	25	2159	0.55	1074.6	0.92	0.29	0.20	652.71	3.23	1147.19	1799.90	0.83
Other Corporations	1624	423	437	2484	0.30	1233.7	0.92	0.29	0.20	565.77	3.23	874.25	1440.02	0.58
Municipalities	4164	958	930	6052	0.15	2197.4	0.87	0.28	0.19	1352.58	2.90	2009.13	3361.71	0.56
Town Panchayats	3846	3186	6280	13312	0.21	2035.2	0.41	0.15	0.09	879.32	1.36	874.32	1753.64	0.13
Village Panchayats	15931	17020	72301	105252	0.01	1130.1	0.41	0.15	0.09	5248.78	1.36	3621.65	8870.43	0.08
Panchayat Unions	8797	20563	16144	45504	0.04	1678.3	0.41	0.15	0.09	2716.97	1.15	1689.02	4406.00	0.16

Note:

i. Manpower expanded to Universe

ii. Existing manpower in Panchayat Union is assumed as in Village Panchayats.

iii.In case Technical Staff requirement is less than 1 per local body, minimum 1 per one local body is considered.

Storm Water Drains:

3.7.10. Cleaning of drains before and after monsoon and minor repairs are the major maintenance expenditures. At present local bodies book this expenditure as part of Public works, hence the details of existing expenditure levels is not available. SFC recommends no permanent staff for storm water drains as this is an annual activity, which can be carried out by temporary workers (NMR). It is recommended that drains should be cleaned twice in a year, i.e. before and after the monsoon. It is assumed that a worker can clean 200m of drain per day. At the daily wage of Rs.60/- annual maintenance expenditure in case of open drain works out to 1% of the capital costs.

Table 3.57 O & M Costs for Storm Water Drains (1995-96)

Local body category	Drain Length		Existing Annual Maintenance Cost (including labour)		Normative Annual Maintenance Cost (including labour)	
	Open Km.	Closed	Existing/ Km.	Total	O&M/Km.	Total (Rupees in lakhs)
Chennai Corporation	0	628	NA	NA	0.26	80.38
Other Corporations	636	0	NA	NA	0.07	20.99
Municipalities	4760	0	NA	NA	0.07	157.08
Town Panchayats	5152	0	NA	NA	0.07	170.02
Village Panchayats	5263	0	NA	NA	0.07	173.67
Total	**15811**	**628**				**602.14**

Note:

i. Manpower to be on Temporary basis.
ii. O&M Expenditure towards drains is for Cleaning and Repairs
iii. Cleaning twice a year (Before and after Monsoon)
iv. Cleaning per Km. Rs.300 for 200m of Drains per manday
v. Maintenance of Open Drains - Rs.3000 per km./year
vi. Maintenance Closed Drains - Rs.12500 per km/once.

Street Lighting:

3.7.11. Manpower requirements for operation and maintenance of street lighting have been worked out based on the field observations. In case of Town and Village Panchayats, the street light maintenance is currently being done by the Electricity Department. In calculating the total manpower requirements, these two categories of local bodies are assumed to have their own manpower for street lighting operations. The O&M expenditure for street lights has been calculated separately for Corporations, Municipalities and Town Panchayats and Village Panchayats.

Table 3.58 Street Lighting

A. Estimation of Manpower (1995-96)

Local body Category	Total Existing Staff		Norms for 1000 Lights		Total Requirement		Gap		Total Estt. cost	Estt. Cost per light
	Technical	Helper	Technical @ 1/1000	Helper @ 1/100	Technical	Helper	Technical	Helper	Rs.Lakhs	Rs./nnum
Chennai Corporation	100	1022	1	10	79	790	0	0	47.91	61
Other Corporations	43	482	1	10	79	790	36	308	22.32	28
Municipalities	201	1348	1	10	178	1779	0	430	54.52	31
Town Panchayats	0	0	1	10	635	2141	635	2141	51.16	24
Village Panchayats	0	0	1	10	870	8700	870	8700	156.60	18

B. Estimation of O&M Cost (1995-96)

Local body category	Street Lighting				Existing Annual Maintenance Cost		Normative Cost per light				Annual Expenditure including Estt. (Normative)	
	SV lamps	Tubelights	Others	Total	Per light Rs.	Total Rs.lakhs	Etablishment Rs.	SV Lamps	Tubelights	Others	Total Rs.Lakhs	Per Light Rs.
Chennai Corporation	26540	52450	0	78990	1872	1479.00	61	2027	469	559	832.12	1053
Other Corporations	11657	65263	2086	79006	319	252.00	28	2027	469	559	576.57	730
Municipalities	18660	157780	1434	177874	494	878.50	31	1943	469	559	1165.52	655
Town Panchayats	9441	196455	8173	214069	379	811.90	24	1640	440	515	1113.17	520
Village Panchayats	11976	815322	42682	869980	304	2648.70	18	1640	440	515	4163.20	479

Note:

Manpower: Sample expanded to universe

At present in Town Panchayats and Village Panchayats TNEB staff maintains them and Establishment cost is paid by TNEB.

Table 3.59 Existing and Normative O&M Expenditure for all Core Civic Services as by 1995-96

(Rs. in lakhs)

Local body category	Water Supply		Sewerage & Sanitation		Solid Waste Management		Roads		Stormwater Drains		Street lighting		Total	
	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative
Chennai Corpn.	2736.4	2736.4	3100.7	3875.9	4069.6	3016.9	1074.6	1799.9	--	80.4	1479.0	832.1	12460.3	12341.6
Other Corpns.	1206.4	1961.8	285.6	1888.2	1564.2	2998.0	1233.7	1440.0	--	21.0	252.0	576.6	4541.8	8885.6
Municipalities .	3342.0	2915.6	1737.6	2172.0	3229.5	5381.2	2197.4	3361.7	--	157.1	878.5	1165.5	11384.9	15153.1
T. Panchayats	1988.0	2267.9	568.7	710.9	1197.9	1388.2	2035.2	1753.6	--	170.0	811.9	1113.2	6601.8	7403.7
P.Unions	-	-	-	-	-	-	1678.3	8870.4	--	-	-	-	1678.3	8870.4
V.Panchayats	2838.7	4428.3	756.3	2693.4	-	1164.2	1130.1	4406.0	--	173.7	2648.7	4163.2	7373.7	17028.7
Total	**12111.5**	**14310.0**	**6448.9**	**11340.4**	**10061.2**	**13948.5**	**9349.3**	**21631.6**	**--**	**602.2**	**6070.1**	**7850.6**	**44040.8**	**69683.1**
Rs. Per Capita	**20**	**24**	**11**	**19**	**17**	**23**	**16**	**36**	**--**	**1**	**10**	**13**	**74**	**122**

Note: For year wara break-up from 1997-98 to 2001-2002, add 10% per year.

Table 3.60 Total O&M Expenditure for Core Civic Services at the Existing level of Investment

(Rs. in lakhs)

Local body Category	Existing	Normative	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Chennai Corporation	12460.3	12341.6	13575.7	14933.3	16426.6	18069.3	19876.2	21863.8
Other Corporations	4541.9	8885.5	9774.1	10751.5	11826.6	13009.3	14310.2	15741.2
Municipalities	11385.0	15153.4	16668.7	18335.6	20169.1	22186.0	24404.6	26845.1
Town Panchayats	6601.7	7403.8	8144.2	8958.6	9854.5	10839.9	11923.9	13116.3
Village Panchayats	7373.8	21493.2	23642.6	26006.8	28607.5	31468.3	34615.1	38076.6
Panchayat Unions	1678.3	4406.0	4846.6	5331.3	5864.4	6450.8	7095.9	7805.5
Total	**44041.0**	**69683.5**	**76651.9**	**84317.1**	**92748.7**	**102023.6**	**112225.9**	**123448.5**
Rs. Per Capita	**75**	**119**	**129**	**140**	**151**	**165**	**179**	**195**

Note: Rate of Inflation 10.0 %

Table 3.61 O & M For Additional Investment

Local body Category	Services	Sectorwise Allotment 1995-96	Normative 1995-96	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	Water Supply	14310.4	2141.5	570.1	1254.1	1881.2	2508.3
Other Corporations	Sewerage & Sanitation	11340.3	5284.9	1406.8	3095.1	4642.6	6190.1
Municipalities	Solid Waste Management	13948.4	6475.5	1723.8	3792.3	5688.4	7584.6
Town Panchayats	Roads	21631.7	2926.1	778.9	1713.7	2570.5	3427.3
Village Panchayats	Storm Water Drain	602.1	6269.7	1669.0	3671.8	5507.7	7343.6
Panchayat Unions	Street Lights	7850.6	1004.4	267.4	588.2	882.4	1176.5
Total		**69683.5**	**24102.1**	**6416.0**	**14115.2**	**21172.8**	**28230.4**
Rs.Per Capita		**119**	**41**	**10**	**23**	**34**	**45**

O&M Normative 1995-96 for Additional Services is if full investment is made.

1996-97 & 1997-98 will have no need for Operation and Maintenance as the infrastructure are new and investment phased out.

Table 3.62 A. Total O&M Expenditure for Core Civic Services

A. Water Supply: (Rs. in lakhs)

Local body category	Existing	Normative 1995-96	1996/97	1997/98 1995-96	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	2736.4	2736.4	3010.0	3311.0	3642.2	4006.4	4407.0	4847.7	72
Other Corporations	1206.4	1961.8	2158.0	2373.8	2611.2	2872.3	3159.5	3475.5	64
Municipalities	3342.0	2915.9	3207.5	3528.3	3881.1	4269.2	4696.1	5165.7	42
Town Panchayats	1988.0	2267.9	2494.7	2744.1	3018.6	3320.4	3652.5	4017.7	27
Village Panchayats	2838.7	4428.3	4871.2	5358.3	5894.1	6483.5	7131.9	7845.1	14
Total	**12111.5**	**14310.3**	**15741.4**	**17315.5**	**19047.2**	**20951.8**	**23047.0**	**25351.7**	**26**
Rs. Per Capita	**21**	**24**	**26**	**29**	**31**	**34**	**37**	**40**	

B. Sewerage and Sanitation: (Rs. in lakhs)

Local body category	Existing	Normative	1996/97	1997/98	1998/99	1999/2000 1995-96	2000/01 1995-96	2001/02 1996-97	Rs. per capita
Chennai Corporation	3100.7	3875.9	4263.5	4689.8	5158.8	5674.7	6242.1	6866.3	103
Other Corporations	285.6	1888.2	2077.0	2284.7	2513.2	2764.5	3040.9	3345.0	62
Municipalities	1737.6	2172.0	2389.1	2628.1	2890.9	3180.0	3497.9	3847.7	31
Town Panchayats	568.7	710.9	782.0	860.2	946.2	1040.8	1144.9	1259.4	8
Village Panchayats	756.3	2693.4	2962.8	3259.1	3585.0	3943.5	4337.8	4771.6	8
Total	**6448.9**	**11340.4**	**12474.4**	**13721.9**	**15094.1**	**16603.5**	**18263.6**	**20090.0**	**21**
Rs. Per Capita	**11**	**19**	**21**	**23**	**25**	**27**	**29**	**32**	

C. Solid Waste Management:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	4069.6	3016.9	3318.6	3650.4	4015.4	4417.0	4858.7	5344.6	80
Other Corporations	1564.2	2998.0	3297.7	3627.5	3990.3	4389.3	4828.2	5311.1	98
Municipalities	3229.5	5381.2	5919.3	6511.2	7162.3	7878.6	8666.4	9533.1	77
Town Panchayats	1197.9	1388.2	1527.1	1679.8	1847.7	2032.5	2235.8	2459.3	17
Village Panchayats		1164.2	1280.6	1408.7	1549.5	1704.5	1874.9	2062.4	4
Total	**10061.2**	**13948.5**	**15343.3**	**16877.6**	**18565.2**	**20421.9**	**22464.0**	**24710.5**	**26**
Rs. Per Capita	**17**	**24**	**26**	**28**	**30**	**33**	**36**	**39**	

D. Roads:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	1074.6	1799.9	1979.9	2177.9	2395.7	2635.2	2898.8	3188.6	48
Other Corporations	1233.7	1440.0	1584.0	1742.4	1916.7	2108.3	2319.2	2551.1	47
Municipalities	2197.4	3361.7	3697.9	4067.7	4474.4	4921.9	5414.1	5955.5	48
Town Panchayats	2035.2	1753.6	1929.0	2121.9	2334.1	2567.5	2824.3	3106.7	21
Village Panchayats	1130.1	8870.4	9757.5	10733.2	11806.5	12987.2	14285.9	15714.5	28
Panchayat Unions	1678.3	4406.0	4846.6	5331.3	5864.4	6450.8	7095.9	7805.5	14
Total	**9349.3**	**21631.6**	**23794.9**	**26174.4**	**28791.9**	**31670.9**	**34838.1**	**38321.9**	**40**
Rs. Per Capita	**16**	**37**	**40**	**43**	**47**	**51**	**56**	**60**	

E. Storm Water Drains

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation		80.4	88.4	97.3	107.0	117.7	129.5	142.4	2
Other Corporations		21.0	23.1	25.4	27.9	30.7	33.8	37.2	1
Municipalities		157.1	172.8	190.1	209.1	230.0	253.0	278.3	2
Town Panchayats		170.0	187.0	205.7	226.3	248.9	273.8	301.2	2
Village Panchayats		173.7	191.0	210.1	231.1	254.3	279.7	307.7	1
Total		**602.2**	**662.3**	**728.6**	**801.4**	**881.6**	**969.8**	**1066.8**	**1**
Rs. Per Capita		**1**	**1**	**1**	**1**	**1**	**2**	**2**	

F. Street Lighting:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	1479.0	832.1	915.3	1006.9	1107.6	1218.3	1340.1	1474.2	22
Other Corporations	252.0	576.6	634.2	697.6	767.4	844.2	928.6	1021.4	19
Municipalities	878.5	1165.5	1282.1	1410.3	1551.3	1706.4	1877.1	2064.8	17
Town Panchayats	811.9	1113.2	1224.5	1346.9	1481.6	1629.8	1792.8	1972.0	13
Village Panchayats	2648.7	4163.2	4579.5	5037.5	5541.2	6095.3	6704.9	7375.4	13
Total	**6070.1**	**7850.6**	**8635.6**	**9499.2**	**10449.1**	**11494.0**	**12643.5**	**13907.8**	**15**
Rs. Per Capita	**10**	**13**	**15**	**16**	**17**	**19**	**20**	22	

Table 3.63 O&M Expenditure for Core Civic Services for Additional Investment

A. Water Suply: (Rs. in Lakhs)

Local body Category	Water Quantity **MLD**	Total O&M Per MLD **Rs. Lakhs**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	66.0	9.2	606.0	-	-	161.3	354.9	532.4	709.86
Other Corporations	41.0	7.2	295.7	-	-	78.7	173.2	259.8	346.40
Municipalities	161.0	8.0	1289.7	-	-	343.3	755.3	1133.0	1510.66
Town Panchayats	128.0	7.3	934.2	-	-	248.7	547.1	820.7	1094.00
Village Panchayats	71.0	5.8	413.2	-	-	110.0	242.0	362.9	483.86
Total	**467.0**	**37.5**	**3538.8**	**-**	**-**	**942.1**	**2072.5**	**3108.8**	**4144.78**

B. Sewerage and Sanitation: (Rs. in lakhs)

Local body Category	Additional Investment **Rs.Lakhs**	O&M Per Capita **Rs.**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	15681.7	100.0	724.0	-	-	192.7	424.0	636.0	848.00
Other Corporations	54044.1	100.0	2578.0	-	-	686.3	1509.8	2264.7	3019.59
Municipalities	41474.3	100.0	2550.0	-	-	678.8	1493.4	2240.1	2986.78
Town Panchayats	10096.7	12.0	179.9	-	-	47.9	105.3	158.0	210.66
Village Panchayats	25746.2	12.0	579.6	-	-	154.3	339.4	509.2	678.93
Total	**147043.0**	**-**	**6611.5**	**-**	**-**	**1760.0**	**3871.9**	**5808.0**	**7743.96**

C. Solid Waste Management:

(Rs. in lakhs)

Local body Category	Additional Waste tobe Collected **Tonnes**	O&M Per tonne **Rs. Lakhs**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	513	1.1	542.65	-	-	144.5	317.8	476.7	635.59
Other Corporations	600	2.5	1471.99	-	-	391.8	862.1	1293.1	1724.13
Municipalities	964	1.9	1872.05	-	-	498.3	1096.3	1644.5	2192.66
Town Panchayats	508	0.9	473.62	-	-	126.1	277.4	416.1	554.80
Village Panchayats	1858	0.6	1123.66	-	-	299.1	658.1	987.1	1316.13
Total	**4443**		**5483.97**	**-**	**-**	**1459.8**	**3211.7**	**4817.5**	**6423.31**

D. Roads:

(Rs. in lakhs)

Local body Category	New BT Road **Km.**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	3	12.8	-	-	3.4	7.5	11.3	15.07
Other Corporations	423	394.0	-	-	104.9	230.7	346.1	461.47
Municipalities	375	240.1	-	-	63.9	140.6	210.9	281.20
Town Panchayats	1479	463.3	-	-	123.3	271.4	407.0	542.66
Village Panchayats	5119	1743.0	-	-	464.0	1020.8	1531.2	2041.59
Panchayat Unions	2361	1004.4	-	-	267.4	588.2	882.4	1176.53
Total	**9760**	**3857.6**	**-**	**-**	**1026.9**	**2259.2**	**3388.9**	**4518.52**

Includes only Patch Works Resourcing will be incurred only in year 2002/2003.

E. Storm Water Drains:

(Rs. in lakhs)

Local body Category	Additional Drains Open	Closed	Annual Total	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	Nos.		**Rs. Lakhs**						
Chennai Corporation	432	236	88.8	-	-	23.6	52.0	78.0	104.00
Other Corporations	358	497	150.8	-	-	40.1	88.3	132.5	176.67
Municipalities	0	303	77.5	-	-	20.6	45.4	68.1	90.80
Town Panchayats	0	0	0.0	-	-	0.0	0.0	0.0	-
Village Panchayats	0	0	0.0	-	-	0.0	0.0	0.0	-
Total	**790**	**1036**	**317.1**	**-**	**-**	**84.3**	**185.7**	**278.6**	**371.47**

F. Street Lighting:

(Rs. in lakhs)

Local body Category	Additional Lights	Annual Total	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	Nos.	**Rs. Lakhs**						
Chennai Corporation	8004	167.1	-	-	44.5	97.9	146.8	195.73
Other Corporations	22440	394.5	-	-	105.0	231.0	346.5	462.00
Municipalities	25293	446.1	-	-	118.7	261.2	391.9	522.53
Town Panchayats	126904	875.0	-	-	232.9	512.5	768.7	1024.92
Village Panchayats	488352	2410.3	-	-	641.6	1411.6	2117.4	2823.19
Total	**670993**	**4293.0**	**-**	**-**	**1142.7**	**2514.2**	**3771.3**	**5028.37**

Note: Since these are new assets, the maintenance cost has been provided from second year onwards.

3.7.12. To what extent the O&M requirements at a normative level for the existing assets of Core Civic Services can be met out of Own Resources (Tax and Non-tax) of the local bodies and further how the gaps can be breached with the state assistance by way of Assignments or grants-in-aid, has been dealt exhaustively in Part I and V. Now the additional O&M requirements of Rs.242.03 crores at 1995-96 price level has to be met. We have not made any provision for this, as we expect that we should be able to recover a return of atleast 4.64% on the capital investment for the O&M. This should definitely be possible by increase use of cost recovery through user charges and by Privatization of Civic Services wherever feasible. This is dealt at length in the following pages.

CHAPTER 8

POSSIBLE AREAS OF PRIVATIZATION IN CIVIC SERVICES

3.8.1. Privatization of infrastructure is a product of poor performance of public systems and drying up of traditional source of funds for such schemes. This process is gaining support from the Government, having innovations in the financial markets and designs such of schemes and programmes, which focus on outright privatization to gradual disinvestments.

3.8.2. Although privatization has received much attention over the past few years, the concept is neither new nor unique. In western countries, even inherent Government functions such as tax collection, mail delivery etc. were performed by private contractors. Even in India, private sector has come in a large way in providing shelter and other services. But it is wrong to presume and expect that all public services can be privatized. In fact, evaluation of the services that have been already privatized indicate that many of the eulogised advantages are yet to materialize. A factor crucial to privatization is the fixation of tariff and the willingness to pay for the services. In fact the need for privatization in itself would not have arisen, had the Government revised the rates regularly.

3.8.3. The concepts in vogue in Privatization of infrastructure are BOT, BOO & BOOT. These are forms of concessions usually referring to new projects where the private party leases assets from a public authority for the provision of a service. BOT: Build, Operate and Transfer is a concession wherein a private party agrees to finance, construct, operate and maintain a facility for a certain period and transfer the same to the Government after an agreed period. BOO, on the otherhand, enables the operator to Build Own and Operate and a similar form of concession is BOOT - Build, Own, Operate and Transfer.

3.8.4. Private mobilization of resources for infrastructure is possible provided they are structured to meet the investor's needs. Such private investments can provide better and efficient service. This is because private institutions achieve their results using standard instruments (equity, bonds, internally generated cost etc.), risk assessments (foreign exchange regulation, political interference) and cost mechanisms. Debt for such projects, apart from private entities

(with Government guarantee) and commercial lenders, come from external funding only through intermediary routes. In countries wherein privatization has been accepted, there has been a parallel growth between infrastructure financing and the capital market.

3.8.5. The potential advantages of private agencies over the Government organizations include, their:

* Ability to operate in competitive market to offer lower production and delivery costs
* Greater efficiency in service delivery
* Better access to current technology
* Greater capacity to obtain and maintain capital equipment
* Wider choice and more flexibility in service provision
* More efficient decision making
* Reduced financial burdens on government for wages,operating costs, debt servicing and investment
* Fewer restrictions in work and hiring practices and
* More flexibility in adjusting the types and levels of services to changing needs.

3.8.6. The experiences of CIDCO (City and Industrial Development Corporation), Bombay in privatization of water supply, of MMWSSB (Madras Metro Water Supply and Sewerage Board) in Pump House maintenance and privatization of Solid Waste Collection by Chennai and Bombay Corporations are fairly successful examples. It is difficult to replicate them but the principles of privatization emanated are understandable and clear. Some of the possibilities of privatization of infrastructure facilities are as follows:

Maintenance of Water Supply Systems, Sewerage Treatment Plants and Pump Houses:

3.8.7. Maintenance of Water supply system is a potential area for privatization. The Local bodies can be responsible for development of water resources and conveying them to storage reservoirs. Beyond that, the supply to households can be taken up by the private agencies. All the maintenance functions like repairs and maintenance of pipe lines, pump houses, chlorinators, preparation of water charges bills etc. has been entrusted to private contractors in the case of CIDCO. CIDCO buys water in bulk from MWSSB and the delivery of water supply is directly done by them. But the O&M and collection has been privatized. CIDCO has also privatized repairs and maintenance, O&M of Pump Houses, billing and recovery. It has been assessed that the effective savings are in the range of 25 to 30%. In case of Madras Metropolitan Water Supply and Sewerage Board, they have privatized O&M of 22 head works, 22 wells at Anna Nagar. For the O&M of bore wells the cost of MMWSSB works out approximately to Rs.22 lakhs whereas private bids were received 22 to 40% less. Similar to the lines of water supply, pipeline maintenance, yearly contracts have been awarded to the lowest bidders to maintain the sewerage treatment plant and pump houses. CIDCO, Bombay and Metro Water, Madras have privatized these activities. Apart from the better delivery of services, there has been a reduction in cost by 40%.

Collection and disposal of Solid Waste:

3.8.8. The major maintenance functions like street sweeping, debris removal, garbage collection and cleaning of markets and shopping complexes etc. can be entrusted to the private sector. If the disposal mechanism involves simple land filling even this can be contracted out. The total town can be divided into a few sectors and roughly a sector with 25,000 population can be entrusted to a single contractor who can arrange to lift 10 to 15 tones of garbage collected per day from 25 to 30 points and clean about 8 to 10 kms. of road per day. However, the work done by the contractor should be maintained on record and a sanitary inspector or some other authority responsible for the disposal of solid waste should periodically supervise the operations of the Contractor. The experience of Chennai Corporation in collection of solid waste shows that the role played by the private organization will even attract public participation and that could dramatically improve the collection performance. Chennai in fact is known for EXNORA clubs which for a fee of Rs.20/- per month organizes primary collection. These are in turn dumped at the Corporation transfer points. Similarly, the CIDCO, experience in Bombay shows that expenditure to the organization will be much less than what would have been the expenditure if they had maintained the system on their own.

Collection of Service Charges:

3.8.9. It has been a moot question whether collection of service charges and taxes should be privatized. Experience in Bombay Corporation shows that though there are initial increase in collection performance, it subsequently led to public harassment. However, this showed some improvements when CIDCO entrusted the same task to prominent NGOs and Social organizations like the Senior Citizens Club, Lions Club etc. by permitting them to retain one percent in addition to providing office space. This resulted in improved collection performances apart from giving flexibility of timings for the people to pay their dues. It has also been experienced that CIDCO would have spent 2.5% less of the total collection even at a higher level of collection performance.

Development and Maintenance of Parks and Gardens:

3.8.10. It has been the practice of the administration to entrust maintenance of Parks, Gardens, Traffic Islands and other green spaces around the city to industrial houses and NGOs in lieu of advertisement rights given to them. CIDCO's experience of further streamlining this system has been by inviting open tenders to maintain parks and gardens by fixing the reasonable level of maintenance by the fixed number of labourers and the items of work to be performed being laid down. In return, the contractor can be permitted to lease out the space for advertisement.

Maintenance of Streetlights and Roads:

3.8.11. In this, the small local contractors who are likely to respond better to the local public are encouraged to maintain 1000 to 1200 streetlights at a cost generally not exceeding 2.1/2 % to 3% of the value of the assets. The contracts include operation, maintenance and minor repairs of the lights. Generally, a condition is put that at any point of time not more than 5% of the streetlights in the area should be under repair in which case a penalty is levied. It may also be

noted that O&M operation on roads is possible on bus route roads in Town Panchayats, Municipalities and Corporations provided the advertisement rights are with the private operators.

3.8.12. Despite the evidence that private participation has distinct advantages in provision of various services, opposition remains strong in many ways. The most dominant feeling is that these social services ought to be provided by Government and there should be no commercial bidding. Labour Unions fear loss of Government jobs and organized consumer groups apprehend large increase in the cost of subsidized services. Notwithstanding this position, CIDCO's experience show that the overhead routinely levied at 15 to 22% has tremendously come down somewhere between 1.5 to 2% for the service management. Besides, it leads to increased vigilance and public participation in the management of various operations for efficient and better services. Our consultant who were associated with the preparation of the Tiruppur Area Development Project consisting of water supply, sewerage and drainage facilities, industrial effluent system and to improve intra-city roads have estimated a project cost of Rs.589 crores which would be implemented on BOT basis and managed by the New Tiruppur Area Development Company Limited (NTADCL). This project will be funded through a debt of Rs.426 crores and equity of Rs.163 crores. It is proposed to levy composite tax to recover the cost of investment.

3.8.13. Basing on the experience and success in some places, State Finance Commission recommends the following select areas where privatization could be attempted:

* Primary collection and deposition at bins - by community groups in all large urban centers like Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur.

* Regional waste management agency for disposal facility - in Chennai Metropolitan Area and Large Urban Agglomerations.

* Road and street light maintenance on major arteries by providing advertising rights on poles in larger urban and commercial centers like, Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur or Using contracting mechanism for maintaining street lighting.

* Maintenance of pumping Station and Transmission Systems by Private contractors. Chennai has already privatized pumping activities in Sewage Station. This could be extended to integrated schemes.

* Privatization of Sewage Treatment facilities, wherever it could be linked to reuse of treated waste water - (MRL, SPIC Projects).

* Among rural communities, maintenance of Common Resources could be initiated, the Urban Basic Services Programme (UBSP) has succeeded in forming neighborhood committees responsible for certain developmental planning activities. The same need to be extended to the rural communities. In special programmes, UNICEF has trained local communities in O&M of hand pumps. These efforts need to be strengthened.

Part II

AUGMENTATION OF RESOURCES

CHAPTER 2 : MUNICIPAL CORPORATIONS

PROPERTY TAX: (Paragraph 2.2.40)

1. SFC recommends switching over from the **present Annual value system to the area linked unit value system** which ensures better acceptability by people and more revenue yield for Local Body.

2. Basic Ratable plinth area monthly rental value with ranges proposed by SFC is given in the Schedule in Appendix No.11 The rates applicable to all urban bodies are furnished in the schedule.

3. SFC recommends:

(1) As an immediate step, a revision may be carried out. General revision may be done thereafter once in three years for administrative ease.

(2) ARV may be revised once in three years based on inflation rate with reference to consumer price index. If the average rate of inflation goes down then the revision rate should be based on that index. On the other hand, if it goes up, the revision rate should also go up in the same proportion. Such a revision to adjust for inflation should be made known to the tax payers in advance.

(3) For example, the average inflation rate is 10% and so at the end of 3 years the ARV will have to be revised upwards by about $(1.1)^3$-1 = 33%. Allowing for the 10% depreciation (=3.3%) the net ARV increase eligible for taxation will be 29.7% .

(4) If such **inflation indexing** is done, then the revision will lead to growth in the real revenues from the property tax and also avoid indiscriminate increase in the tax payable by the taxpayers.

(5) General revision is proposed once in three years to have effective implementation without deployment of additional staff. General revision can be done by dividing the area into Zones and revision made zone-wise or for a group of divisions/wards every year.

COMPUTERIZATION:

4. The average number of property tax assessees per corporation are 1,37,968, per municipality are 21,981 and per town panchayat are 3,184. Since a large number of records have to be maintained in order to administer this tax efficiently, SFC recommends that the urban local bodies may computerize their property tax records and their property tax systems. Computerization is desirable in the case of Town Panchayats also.

5. **Service Tax Component:** The total property tax may be divided into two parts, one as general purpose tax and the other as service tax on 50:50 basis. Purposes in common like water supply, lighting, scavenging, and drainage may be met from Service tax with flexibility for utilising the income realised from service tax to the components with reference to top priority in the area. However, out of the service component tax of 50 %, the Local Body should uniformly set apart at least half the amount towards water supply and sewerage/drainage.

6. A directory of property tax may be printed and made available to tax payers indicating the rate of taxation adopted areawise with all exemptions/ concessions and incentives and penal provisions. This should be reprinted whenever a general revision is done. This will go a long way to fetch transparency and reduce litigation.

7. A preliminary analysis of the revised structure reveals that it will lead to an additional revenue generation by a minimum of 30-40% for the Corporations, (for Madras alone, it is likely to be more than 50%), 25-35% for the municipalities and 35-45% for the Town Panchayats.

EXEMPTIONS:

8. Total exemption for all educational institutions from taxation is not equitable since the institutions avail all the civic facilities like roads, lighting, water supply etc. Instead of total exemption, concession may be given in the levy of general purpose tax by restricting the levy to service tax alone.

9. In the case of Industrial Estates, the tax concession should not be available for more than a period of 5 years. Thereafter, concession on service tax can be given proportionate to services locally provided but not on general purpose tax.

10. The taxation of properties of the Central Government is recommended as a matter of principle even though the tax derived may not be appreciable.

11. In the case of Central Government buildings as also in the case of educational institutions and other charitable institutions, service tax may be levied in addition to the user charges now collected.

12. Public sector undertakings which have their own provision for services within their areas may be levied general purpose property tax in full and service tax in proportion to the service provided by local body from its funds in its locality.

GENERAL REVISION:

13. There should be no restrictions,concessions, abolition or write-off of tax or other revenue sources availabie/ earmarked to Local Bodies by Government without consulting the LBs.

14. If such intervention is found necessary by Government in the interest of public cause, compensation for loss of revenue should be simultaneously made available to Local Bodies by Government.

COLLECTION PROCEDURE:

15. The SFC recommends that the responsibility of paying tax should devolve legally on tax payers, by suitable provisions in the enactments.

16. The new system for collection may be as under:

At the time of first assessment/General Revision a pass book or a card may be issued to the assessees. The pass book/card will contain particulars about tax levied, due date of payment, grace time allowed for payment, penalty for delayed payment separately for each half year for the next 3 years i.e. upto the next general revision. The amount of tax indicated will be final, unless the tax had to be revised in the meantime for any reason.

17. It is the responsibility of the tax payer to pay the tax at the appropriate counters in the Zones or in the specified branches of nationalised banks declared as the collecting agency. At the time of payment, entries will be made in the pass book or card and such entries will stand as proof for payment of tax.

18. A rebate of 2% may be allowed for prompt payment before the expiry of the due date and 5% for advance payment of tax for more than a year. These rebate rates may be indicated in the Pass Book/Card itself, so that the collecting agency can accept the tax allowing the rebate at the time of collection of tax.

19. In the case of defaulters a penalty of 5 % of tax may be added for each half year concerned and collected.

FURTHER REFORMS RECOMMENDED IN PROPERTY TAX ADMINISTRATION

20. A Minimum and maximum rate of Tax (consisting of General Purpose and Service Tax) may be fixed, to avoid low level of taxation as below:

	Minimum	Maximum
Municipal Corporations	20%	40%
Municipalities	15%	35%
Town Panchayats	15%	30%

21. A Tariff and Valuation Cell consisting of technically qualified people like Engineers, Town Planners and Revenue Officers may be created at State Level/with Regional Centres to help local bodies, in the valuation of properties and assist in any determination of cost of services for user charges.

22. A Tax Squad under the Valuation Cell may be created at Headquarters for making surprise checks to avoid evasion of tax mapping. The Squad may be given powers to direct assessment by the Local Body in cases of omission.

23. Application of the Rent Control Act to rental value adopted by local bodies should be eliminated by laying down guidelines for the procedure for valuation in the respective Local Body Acts.

24. A minimum performance of tax collection should be ensured. Government assistance to Local Body should be related to Tax performance. Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.

25. Tax collection machinery may be given incentive for higher collection of tax involved.

26. Permitting distraint against immovable properties will enable improvement in collection.

27. Reduction in Tax for vacancy remission may be given for vacancy for a continuous period of 90 days, instead of 30 days now adopted.

28. The present Rules provide for request from assessee for revision of tax every half year. This provision should be limited to only twice within 3-year period after the initial assessment/ general revision, to avoid frequent requests.

29. Write - off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.

30. Instead of suit, in civil courts, all tax matters could be dealt with by a Special Tax Tribunal to avoid delay in disposal and to ensure uniformity in decisions. Initially District Courts may be the Tribunals. Based on the need and experience, Special Tribunals may be created.

31. If the assessees/Lessees resort to legal proceedings, or if the Local Body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned whereby the assessees may have to deposit 50 % of the tax assessed in case of new assessments or to deposit the old tax and 50% of increase in new tax in the case of general revision, and the Lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceedings against immoveables should be resorted to instead of filing suits. Recovery under Revenue Recovery Act may also be allowed for collection of arrears.

PROFESSION TAX : (Para 2.2.53)

32. Local Body should take immediate steps for tax mapping of all kinds of assessees. Notices may be issued to those who have not registered. Penal action may be initiated at least in a few cases which will make others to seek voluntary registration and enrolment.

33. The following professionals who have not been specifically mentioned in the enactment need to be notified under the item "Others"

1. Computer/Typewriting,Shorthand. Accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods manufacturers and Exporters.
4. Beauty Parlours and Beauticians.
5. Legal Consultants other than Legal Practitioners.
6. Non-Bank Financial Service Companies
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially Organised Music Parties
15. Lending Libraries
16. Dry Cleaners
17. Petty traders (not covered by turn over system)

34. The Government may issue a special notification under the proviso to section 3(3) of the new Profession Act 1992 to include them under "Others" and also to make the provision applicable to all Local Bodies both Urban and Rural.

35. The present rates finally notified by Government after negotiations may be in force for the next five years and any revision can be considered later.

VEHICLES TAX: (Para 2.2.56)

36. Tax on carts and bicycles has been abolished. Instead of totally deleting the provision of Vehicles Tax, Local Bodies may be allowed to levy tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act and also on other two wheelers and tractors. The rate for levy may be as below:

Vehicle Type	**Tax (Rs.)**
Bicycles and Carts	Exempted
Two Wheelers	10 - 50
Tractors	15 - 30

TAX ON ANIMALS AND CARRIAGES: (Para 2.2.58)

37. Tax on animals may be abolished. A uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced,

TAX ON TIMBER: (Para 2.2.61)

38. This Tax now collected in Chennai Corporation may be continued and extended to other Corporations also by Government.

COMPANY TAX: (Para 2.2.64)

39. This tax available to Chennai Corporation may be continued and extended to other Corporations.

VACANT LAND TAX: (Para 2.2.72)

40. The levy of Vacant Land Tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided in the location for the existing inhabitants at high cost.

41. The burden of Vacant Land Tax should not be mulcted upon the buyer, since the incremental benefits of price are mainly availed of only by the seller and not the buyer.

42. A one-time vacant land tax may be levied for a specific period namely, ten years on the promoter of a lay out at the time when the promoter gets approval from the planning authorities.

43. A tax rate of 0.5 to 1% of the capital value is considered to be a normal rate on vacant urban land.

44. The following life-cycle vacant land tax system may be adopted in the case of subsequent sellers of vacant land. Under this system, the tax for 10 years may be collected at one go in the following manner. Any vacant urban land, at the time of transfer should have paid up one time tax for 10 years. During the first round of transfer, the seller should pay 10 years' taxes on the vacant land and this can be collected on the basis of present value computation at the range of rates indicated, depending on the resolution of the Local Body concerned. The value determined for land and property as per guidelines of Registration Department can be used for determining the amount due. The Registrar can collect this tax and pass it on directly to the local body concerned.

EXAMPLE: If the land is assessed to have a capital value of Rs.10000, the present value of the taxes at 0.5 % for the next 10 years, discounted will be Rs.337.90.

PILGRIM TAX: (Para 2.2.78)

45. Pilgrim tax or a similar tax may be levied in respect of (1)places of holiday resorts and seasonal specialities (2) temple towns (3)places of geological or archaelogical importance.

46. Scope of the tax may be modified by giving some other nomenclature.

47. Identification of the areas falling within the three categories should be notified by Government with identification of seasons when these centres attract pilgrims/ tourists.

48. Tax may be levied for the seasonal period at higher rates or can be uniformly levied at a lesser rate throughout the year. The scope of collection of Pilgrim Tax to cover both railway and bus passengers may be notified. In the case of bus and railways, notification of rates can also be made.

49. Such tax on bus passengers may be levied as an addition to bus fares. It may be collected at the place of pilgrimage/tourism on their return journey. A stamp on the back side of the ticket or the issue of separate tokens will ensure collection of tax. The stamp or the tokens may be made available to the Transport Corporations or private bus owners periodically or as and when necessary.

50. The amount of Pilgrim/Tourist Tax may be collected in a lump sum from Transport Corporations or fleet owners once in a month based on the capacity of the buses and the number of daily trips at Rs.100-150 per trip (i.e. Rs.2-3 per passenger on an average). This will relieve the Local Body of the task of identifying individual pilgrims and tourists. The rate can be fixed after taking into account the average number of visitors to the place.

OR IN THE ALTERNATIVE:

51. A flat rate can be levied per bus per trip based on the seating capacity of the bus and the amount can be collected from the Transport Corporations or the fleet owners, allowing them to collect pilgrim tax from the passengers.

52. Regarding people visiting the tourist or pilgrim centres in vans, lorries and private vehicles, cars etc., the Local Bodies may make their own arrangements to collect the tax.

53. Rates recommended for private vehicles are as follows:-

Bicycles and Two wheelers	No tax
Private cars and taxi cabs	Rs. 10 to Rs.25 per trip
Vans, lorries etc.	Rs. 25 to Rs.50 per trip
Private Tourist Buses	Rs.100 to Rs.200 per trip

ASSIGNED TAXES AND REVENUES:

SURCHARGE ON DUTIES ON TRANSFERS OF PROPERTY: (Para 2.2.92)

54. The Government may consider giving legal backing for issue of periodical guidelines, on value of properties to be adopted for registration now being followed.

55. It is brought to notice of the Government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. The Government may consider bringing in a proper legislation to curb this evasion. SFC also recommends a study of the pattern adopted in Karnataka State to levy stamp duty on built-up area in high-rise buildings for adoption with suitable modifications. Amendments to the provisions of law are needed in this regard.

56. Regarding flight of documents to neighbouring States for registration, the re-registration of the documents may be made compulsory as per the value of land obtaining in Tamil Nadu with reference to the guidelines. (Government of Tamil Nadu have already initiated action). The Government may also consider rationalising the rate of levy by widening the base to avoid flight of documents to nearby States.

57. The SFC feels that there is much scope for increasing revenue by plugging the loopholes and by checking evasions.

58. The procedure similar to the one adopted in the case of Entertainments Tax may be adopted for adjustment of the revenue to local bodies.

59. The District Registrar may indicate the distribution for the various local bodies as is done now and authorise, the local body concerned to get credit in their accounts in the Treasuries by drawing necessary bills. This will expedite early adjustments and avoid unnecessary delay. The system of routing adjustment through the Collector may be dispensed with.

ENTERTAINMENTS TAX: (Para 2.2.100)

60. SFC considers that this tax being earmarked as one of the local taxes, the benefits should go to the local bodies in entirety subject to deduction of only collection charges.

61. SFC recommends the assignment of 90 % of the total realisations of this compounded Tax to the Local Bodies.

62. SFC considers that any concessions/remissions in the tax affecting local bodies may be resorted to by Government after consulting the Local Bodies.

SURCHARGE ON SALES TAX: (Para 2.2.108)

63. Since the surcharge on Sales Tax levied has been merged with the compounded Sales Tax, 15% of the compounded tax (equivalent to the rate of surcharge previously levied) may be assigned to Local Bodies and taken to a divisible pool.

TOLL COMPENSATION : (Para 2.2.109)

64. Since share of Motor Vehicles tax is being recommended for divisible pool, no separate toll compensation will be necessary.

NEW TAX DOMAINS

ADVERTISEMENT TAX: (Para 2.2.114)

65. All the hoardings should be under the control of the concerned Local Bodies and the revenue earned should go to the Local Body concerned.

66. In the case of hoardings in Highways, the taxation may be permitted to be done by the Local Body within whose jurisdiction the hoardings are situated and provided for in the respective enactments.

67. If, in the interest of proper regulation, the Highways Department has to regulate the hoardings, the yield may be made available to the Local Body concerned, after retaining collection charges.

68. The Local Bodies may take an inventory of all the hoardings within their limits, with size and type for ensuring a uniform method of levy of tax.

69. The rates for different Local Bodies may be adopted as suggested below in No.70.

70. The following is the suggested classification and rate of levy of tax:

Classification			Basic Rate of Tax
(a) SIZE	(i)	below200 sq.ft.	Rs.1.00/sq.ft.
	(ii)	above 200 sq.ft.	Rs.1.50/sq.ft.
(b) LOCATION (Increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) TYPE	(i)	High - rise	Rs.1000
	(ii)	Others	Rs. 500
(d) MESSAGE	(i)	Social	Rs. 100
	(ii)	Commercial	Rs. 500

71. Computing the fees liability:

Use the square foot rate to compute the base rate and to that add the charges pertaining to the locational parameters.

Example: A 20' X 20' hazardous hoarding, in Chennai Corporation carrying a commercial message should yield Rs.3,000 per year.

72. Other types of advertisements on lamp posts and posters and writings on walls should also be subjected to levy of tax/fee by Local Bodies.

73. Advertisement through slides in cinema houses was subjected to levy but later on it was discontinued. This levy may be revived.

74. All types of advertisements, except through newspapers and cut-outs, should be brought under taxation.

CABLE TV : (Para 2.2.117)

75. Leeway rights in all Roads in Local body area for each Cable T.V. connection at Rs.60 per year may be levied by LBs.

76. The collection may be done by Government along with Entertainment tax. The entire money will be due to the Local Bodies, after retaining the collection charges.

TAX ON LUXURIES IN HOTELS AND LODGING HOUSES: (Para 2.2.121)

77. The SFC recommends that 25% of the income accrued may be assigned to the local body.

BETTING TAX: (Para 2.2.122)

78. A share of at least 25% out of this tax revenue may be distributed to Chennai Corporation and Udhagamandalam Municipality.

STATE EXCISE REVENUE: (Para 2.2.123)

79. The SFC considers that the local bodies may be allocated a share on this revenue. It is not possible to fix any specific percentage of sharing to different types of local bodies.Hence 25 % of this revenue may be allocated for inclusion in general divisible pool for distribution to all local bodies.

MOTOR VEHICLES TAX: (Para 2.2.127)

80. 40 % of the Motor Vehicles Tax collection is recommended to be set

apart by the Government for sharing through divisible pool between the various types of local bodies. Norms are indicated separately for distribution.

81. The toll compensation now available may be withdrawn after this allocation.

AGRICULTURAL INCOME TAX : (Para 2.2.128)

82. A share of 25 % of this tax may be allocated to the areas covered by Plantations.

SUGAR CANE CESS : (Para 2.2.130)

83. Since the local body is very much concerned with roads within its area, SFC considers, it desirable that the money allocated for the purpose in the area should be passed on to the local bodies or IN THE ALTERNATIVE the local body and the Sugar Mill concerned should be made jointly responsible for the upkeep of roads of the local body concerned which lead to the area where the Mill is situated.

URBAN LAND TAX : (Para 2.2.132)

84. A share of 50 % out of this revenue may be allocated to concerned urban local bodies.

TERMINAL TAX ON PASSENGERS AND GOODS: (Para 2.2.133)

85. The State Government may pursue with the Government of India for getting a recurring annual grant from the Railways on account of Terminal Tax as suggested by Taxation Enquiry Commission, 1953-54 and Zakaria Committee, 1963.

SURCHARGE ON BUS TICKETS: (Para 2.2.134)

86. The SFC considers that to meet the problems involved due to floating population in specific areas a surcharge may be collected on bus fare from persons travelling from a distance of 150 KM to Metropolitan Cities/important centres of trade and industry and made available to the concerned local body.

LOCAL BODY CESS ON PASSENGERS TRAVELLING BY BUS: (Para 2.2.135)

87. A levy of 5 paise on Local Town buses, 25 paise on Mofussil buses and 50 paise on long distance buses in addition to ticket fare is likely to yield good income. This could be pooled and distributed on need basis to various local bodies.

NON TAX REVENUES :

USER CHARGES : (Para 2.2.147 & 153)

88. After a careful situation-analysis it is considered that urban local bodies like Municipal Corporations and Municipalities of special and selection grade have scope for charging higher user charges under water supply at least 200 % more than what is ollected at present.

89. SFC recommends the following steps to streamline the principles for user charges to ensure higher level of income and service:

(1) The local body should prioritise the services depending upon local needs and meet the cost involved from out of user charges and from out of service tax.

(2) Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage.

(3) The Local Body should aim for full cost recovery of these services in the Corporations and Municipalities of special and selection grade area by cross subsidy against affordable community and by higher commercial and institutional rates.

(4) The community who cannot afford higher rates may be subsidised or totally exempted.

(5) In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage/drainage/garbage not attended to by them.

(6) For clearance of septic tanks and cess pools, special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.

(7) Similar charges may be levied for hotels, lodges, hospitals, nursing homes and Kalyana Mandapams and other public places for clearance.

90. Privatisation can be aimed at by involving the local public or by forming NGOs like Exnora International. Local Bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies. The experience of Coimbatore Corporation may be considered in this context.

91. The Tariff and Valuation cell proposed at the State level with regional level branches for Property Tax administration may be entrusted with the following role in respect of user charges:

(1) To prepare a pricing guidelines manual for circulation among all the local bodies.

(2) To assist the local bodies in arriving at the right price/tax structure for their services in order to make them economically viable.

(3) For already existing services, to work out economic charges and to review the pricing policy. If the hike in the charges is very high, then the hike can be imposed gradually over two to three years.

(4) In the case of new schemes to work out the charges to cover O & M costs, debt service, and depreciation.

92. In the case of projects financed with loans, capital cost recovery should not normally be spread over periods exceeding 15 years. If, however, the annuity payable is found not affordable, it can be spread further up to 20 years.

93. Formation of Costing Cell in Local Bodies:

(1) SFC considers that it must be made the duty of the Accounting side of Local Body to prepare Balance Sheet and statement of assets and liabilities at the end of each year and in respect of each service.

(2) It should act as costing cell within the local body following the guidelines of Valuation and Tariff Cell at State level.

(3) There is a need for change in the system of budgeting and accounting to commercial type instead of the present Governmental system of accounting and also for computerisation of Accounts to achieve the objective.

LICENCE FEES AND OTHER CHARGES

D & O TRADE: (Para 2.2.161)

94. The local bodies will have to undertake tax mapping to prepare a computerised list based on immediate survey and the additions and deletions can be made once a year. Computerisation will enable quicker issue of licences.

95. The time limit for application, enquiries and issue may be streamlined to suit the current situation and published through a common pamphlet in all local bodies and also published in common places.

96. The Revised Rates for the various trades, taking into consideration, the recommendations of the Damodaran Committee (1990) are proposed by the SFC for urban/rural bodies separately as Schedules in Appendix Nos.(12 & 17). Any industry or trade not covered in the list may be brought under 'Others' provided for in the schedule.

97. If more than one trade is conducted in one premise, the higher rate will be collected. Minimum levy has been prescribed for collection compulsorily.

98. The penalty for default may be three or four times the normal licence fee. A grace time for renewal with penalty may be given for a period 3 months from April to June. Prosecution may be launched in July of every year. The local body should have power to recover through distraint. on immoveable properties in the case of defaulters in addition to prosecution powers.

99. At the time of registration of traders under the ST Act, the authorities concerned may be required to insist production of the licence issued by the local body and even insist on quoting the number of licence in the form of application itself.

100. The licence fee prescribed should be suitably updated once in three years based on inflationary rates, based on Consumer Price Index.

101. The local body may also issue a licence for a period of 3 years on collection of licence fee in advance for those willing with a rebate of 10%.

102. In the case of installation of machinery, in addition to the collection of licence fee on the basis of Horse Power of Motors, fee should be collected in respect of additional or subsidiary machinery run with the aid of the prime motor.

103. Changes in Motors with higher capacities are liable to be informed failing which heavy penalty equivalent to 3 or 4 times the normal fee should be levied and deterrent action by prosecution should also be taken. The owner should be compelled to take permission while changing the motor with higher capacity.

INCOME FROM PROPERTIES: (Para 2.2.169)

104. The SFC recommends the following for improvement of income from properties:

(1) The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate.

(2) The local bodies may take advances from intending allottees and this will reduce the financial burden substantially in the creation of assets.

(3) The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised Government machinery.

(4) The allottees should be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there is no default in payment of rent or lease amount or no violation of terms of lease.

(5) In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost of re-auction with a penal fee for default.

(6) The local body can also adopt the method of Build, Operate and Transfer (BOT) in respect of assets to be created.

(7) The privatisation of the maintenance of these commercial assets on contract system , can also be tried with a view to have economy in maintenance and to avoid deployment of special staff and to provide fora net return.

(8) In all these types of transactions, the Government may prescribe suitable built-in check to ensure accountability.

INCOME FROM SPECIAL SERVICES : (Para 2.2.179)

105. (1) The SFC considers that under Town Planning, there is a high potential for collection of development charges.

(2) In the case of new lay outs, the cost of providing basic amenities like roads, lights and drainage can be met through development/betterment charges.

(3) This can be tried in Corporations, in industrial areas and in upper middle class and rich neighbourhoods.

(4) The charges can be fixed in accordance with the norms of the CMDA depending upon the width of the road and the frontage of the property.

(5) If charges are considered high, it may be collected in instalments. The money collected should not be diverted for other purposes but should form a separate Development Fund.

BUILDING LICENCE FEE/UNAPPROVED LAYOUTS: (Para 2.2.179)

106 (1) SFC suggests that necessary and suitable safeguards may be provided for avoidance of unapproved lay outs in future with deterrent additional levy as penalties.

(2) Even when the promoter hands over the lay out as per present regulations after laying roads etc., the standard of road is stated to be very bad and the Local Bodies are compelled to relay them. The cost of laying roads as per standard norms may be required to be deposited by the promoters at the time of approval of layouts, so that Local Body itself can take up the work of laying of roads.

(3) SFC considers that the responsibility of Local Body to provide initial basic amenities in the newly developed areas is very heavy and therefore at least a portion of the development charges collected by CMDA should be set apart to the concerned Local Body to meet the cost of provision of basic infrastructure for new developing areas. The Planning authorities should make available their technical advice in the projects to be taken up by the Local Bodies.

(4) Wherever people of a particular locality want extension of certain services and are also willing to contribute a portion of the cost, the local bodies may be permitted to collect such contributions from the public. This is likely to create local participation coupled with increased sense of responsibilities on local public against misuse of the assets.

LAND USE: (Para 2.2.184)

107. (1) Both in urban and rural Local Bodies, a survey should be made to list out all the porambokes and vacant lands of Local Bodies and a list of such assets should be prepared.

(2) Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands,slaughter houses etc.

(3) In the new lay outs, open spaces are indicated for schools, shops, parks etc. Excepting the space indicated for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities.

(4) Any encroachment within the local body area should be permitted to be removed by the local body itself.

(5) In the case of lands not entrusted to local body, the revenue authorities may coordinate and help the local bodies to remove the encroachments.

(6) The road margins on Highways should be cleared of all encroachments and the local bodies should have power to use the road margins to have their own shops or to issue licences to private people for short term leases, with powers to resume as and when required by Highways Department. This will ensure proper regulation of road margins and also augmentation of income for the local body.

LICENSING OF EXISTING MARKETS AND SHOPPING COMPLEXES AND BUS STANDS: (Para 2.2.191)

108. The SFC recommends the following:-

(1) In the matter of lease or extension of lease, there should be no outside interference.

(2) Tender-cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage.

(3) At the end of three years, fresh auction with an upset price according to prevailing market rates may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding.

(4) For collection of lease amount and arrears, the Local Bodies should have the powers of distraint against moveables as well as the immoveable properties.

(5) Tender cum auction will eliminate cartels and depression of lease amount in the auction and sub leasing or sub letting.

(6) Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

FIXING OF FEES IN THE BUS STANDS: (Para 2.2.194)

109. For collection of bus stand fees from buses,the Transport Corporations may be made to pay a lumpsum to the local body at a rate to be agreed upon depending upon the trips which will avoid the necessity of each local body employing a person to collect the amount. and also avoid leakage. The private bus operators also can be asked to pay a lump sum amount to the local bodies concerned. The amount may be collected in two instalments in advance.

110. In big urban areas, dormitories or lodges may be constructed by the local body in or near the bus stand to enable the travellers to stay overnight and this will fetch a sizable income to the local body concerned.

PRIVATE MARKETS: (Para 2.2.196)

111. The SFC recommends that in view of the need for regulating the markets, even if share of income from private markets could not be got, specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply etc. by the Local Body from the private markets.

PARKING FEES: (Para 2.2.198)

112. Local Body can take up the parking spaces in their areas and run them and earn sizable income by maintaining cycle stands near the bus stand, railway station and other important places.

INCOME FROM MARKETING COMMITTEES : (Para 2.2.199)

113. Marketing Committees collect fees and retain them for maintaining their infrastructure The maintenance of infrastructure of Local Body like roads, environmental sanitation around the market committees is with the Local Bodies. Hence SFC recommends that the fees may be increased by 50 % and the collections may be transferred to the concerned Local Body to compensate for the cost of maintenance of roads and other necessary infrastructure in and around the marketing committees. This may need necessary amendment of the relevant legislations.

GRANTS: (Para 2.2.207)

114. SFC recommends that specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.

115. Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to Rural Local Bodies)

116. Principles of distribution of funds from State to local bodies are being recommended separately. After experimenting the system of distribution, the need for further grants in aid can be studied. If there is still need, Equalisation grants will be necessary. This has been recommended in the Chapter "Resource Allocation Mechanism".

117. SFC recommends the reimbursement of D.A. increases to the local bodies outside the General Devolution. There is every justification in the claim, even though the percentages may vary among the local bodies.

PENALTIES AND FINES: (Para 2.2.208)

118. Penalties and fines to be levied for violations furnished in the schedules to enactments relating to each Corporation may be suitably amended with reference to rates proposed under the Tamil Nadu District Municipalities Act, 1920.

CAPITAL FUND: (Para 2.2.209)

119. A Capital Fund may be created by transfer of contributions as under:

Corporations,S.G.&Spl. Grade Municipalities	15% of Total Revenue every year
Other Municipalities and S.G.&Spl.Grade TPs.	10% of Total Revenue every year

From out of the above Capital Fund, the LBs can meet their future capital expenditure for taking up remunerative and entrepreneurial investments.

CHAPTER 3 : MUNICIPALITIES

PROPERTY TAX: (Para 2.3.19)

120. (1) A minimum of 15% Tax on ARV a year (excluding education tax and library cess levied under separate enactments) may be prescribed by suitable amendments to the Tamil Nadu District Municipalities Act, 1920 and the Rules.

(2) If a minimum level of taxation and a common pattern of assessment are ensured, there is adequate scope for improvement of resources.

(3) The collection of Property Tax in Municipalities needs improvement. Better control and review by supervisory authorities at Regional level is necessary to reduce the pendency through court cases as well as arrears and to improve performance of collections.

(4) Property tax can be divided into two components (1) General Purpose Tax (2) Service Tax, as recommended under Municipal Corporations.

(5) The levy of service tax can be imposed on those who claim exemption from payment of property tax as recommended under Municipal Corporations.

(6) The various rates recommended in Schedule in Appendix No.11 may be adopted by the Municipalities.

(7) The method of assessment, levy and collection of Property Tax, Service component tax and vacant land tax recommended under Corporations will be applicable to Municipalities also.

(8) All tax reforms recommended under Corporations shall apply to the Municipalities.

PROFESSION TAX: (Para 2.3.21)

121. The income under this head is likely to increase substantially if efforts are made to bring all the assessees in the area into the Tax net and initiate penal action for non-compliance of enrolment and registration as required in the new enactment. Issue of notices and enforcing penal provision in a few cases are likely to make all the assessees apply for registration. All recommendations under Municipal Corporations will apply to Municipalities.

122. Recommendations relating to Tax on carriages, animals, carts etc. under Municipal Corporations will apply to Municipalities.

123. All the recommendations relating to vehicles tax, tax on advertisements, pilgrim/tourist tax and other taxes recommended under Corporations shall be applied to the Municipalities also.

NEW TAX ASSIGNMENTS: (Para 2.3.25)

124. All the recommendations relating to sharing of revenue from the following State Taxes indicated under Municipal Corporations will be extended to Municipalities also:

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State Excise Revenues
4. Motor Vehicles Tax
5. Agricultural Income Tax
6. Sugarcane Cess
7. Urban Land Tax
8. Terminal Taxes on goods or passengers carried by railways.

TAX ON AGRICULTURAL LANDS: (Para 2.3.27)

125. The State Finance Commission recommends that the Government may permit the Municipalities/ Town Panchayats to tax on the agricultural lands authorised under sub-section (4)(a) of section 81 of Tamil Nadu District Municipalities Act, 1920 or pass on the land revenue collected in the area to the Urban bodies concerned.

126. The State Finance Commission recommends that a Local Cess and surcharge as in the case of Rural bodies may be provided for in the District Municipalities Act 1920 and collected in Municipal /TPs areas and passed on to Municipalities/Town Panchayats. Newly constituted Municipalities/Town Panchayats have sizeable agricultural lands within their areas.

ASSIGNED / SHARED TAXES: (Para 2.3.29)

127. Recommendations made under Municipal Corporations regarding all assignments under Surcharge on Stamp Duty , Entertainment Tax, Sales Tax will apply to the Municipalities.

128. Regarding the income from Minor Minerals the recommendations made under the Panchayat Unions will apply to Municipalities.

GRANTS: (Para 2.3.36)

129. The State Finance Commission considers it necessary that the Municipalities have to be considered for a regular system of Revenue grants from the State Government.

130. To avoid complacency on the part of Municipalities, the eligibility for grant-in-aid may be related to the fiscal capacity as well as performance of the Municipality in the different grades. A distribution system has been formulated by State Finance Commission.

131. The recommendations relating to D.A. Subsidy under Municipal Corporation will apply to Municipalities also.

132. Specific Purpose and Incentive grants now available may be continued.

NON TAX REVENUES: (Para 2.3.39)

133. Various suggestions and recommendations for improvement of existing source of income by revision of rates, simplification of procedures and better enforcement in respect of all items of Non-Tax Revenues made under the Municipal Corporations will apply to the Municipalities also.

PENALTIES AND FINES: (Para 2.3.40)

134. The revised rates for penalties and fines adopted in Schedules VII and VIII of Tamil Nadu District Municipalities Act, 1920 are indicated in Appendix Nos. 13 & 14. This will apply to Town Panchayats also.

D & O TRADE: (Para 2.3.41)

135. Recommendations made under Municipal Corporations will apply to Municipalities and Town Panchayats also.

CHAPTER 4 : TOWN PANCHAYATS

HOUSE TAX: (Para 2.4.13)

136. The main reform needed is to introduce property tax in Town Panchayats by switching over from the House Tax now levied under Tamil Nadu Panchayats Act, 1994.

137. All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/Municipalities will apply to Town Panchayats also.

138. The Property tax at plinth area monthly rental value specifically proposed for Town Panchayats for various locations and furnished in Schedule in Appendix No.11 may be adopted by Town Panchayats.

139. The General Revision of Property Tax in Town Panchayats may be taken up every year dividing the total area zone-wise on a cyclic system in three years instead of undertaking revision at one time at the end of the final year.

140. All recommendations relating to formation of Tax Tribunal, dispensing with demand notices, introduction of Pass Book system, collection through counters and banks, follow-up of the defaulters through bill collectors, awarding of incentives to tax payers for prompt and advance payment, introduction of bonus to collection staff who achieves higher percentage of collection as indicated under Municipal Corporations will apply to Town Panchayats.

141. The components falling under the service tax (viz., part of Property Tax) may be examined in detail and fixed keeping in mind the priority of service in the Town Panchayats subject to the maximum ceiling prescribed for the property tax. However, at least 50 % of service tax may be made available for water supply.

142. A minimum of 15 % per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

PROFESSION TAX: (Para 2.4.16)

143. All the recommendations made under Municipal Corporations will apply to Town Panchayats.

VEHICLES TAX : (Para 2.4.18)

144. Vehicles Tax has since been abolished by the Government. The recommendations made under Municipal Corporations to cover two wheelers and Tractors will be applicable to Town Panchayats also.

TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES: (Para 2.4.19)

145. This provision is now available to Town Panchayats under the Tamil Nadu Panchayats Act 1994. When the Town Panchayats switch over to taxation under the District Municipalities Act 1920 they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

PILGRIM/TOURIST TAX: (Para 2.4.20)

146. All the recommendations made under Municipal Corporations shall be extended to Town Panchayats.

ASSIGNMENTS/SHARED TAXES: (Para 2.4.24)

147. The recommendations made under Municipal Corporations and Municipalities will be applicable to Town Panchayats also.

GRANTS

HOUSE TAX MATCHING GRANT: (Para 2.4.28)

148. The Village Panchayats upgraded as Town Panchayats may be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of three years by which time, they should improve their financial condition. In the meantime, the Town Panchayats should switch over to Property Tax applicable to Municipal Bodies. The Government could however ensure the equalisation of loss involved by means of a special grant for a specific period wherever found necessary even after the period of 3 years. In the case of transferred territories from Kerala State, the matching grant may be continued since they were allowed to continue the assistance given by Kerala Government at the time of transfer.

HALFGRANT FOR DUSTLESS SURFACING AND ROAD GRANT FOR IMPROVEMENT
(Para 2.4.32)

149. Recommendations have been made for taking into account the length of the roads available in all the local bodies for the purpose of allocation of the share out of Motor Vehicles Tax to the divisible pool. The distribution principles recommended by SFC are expected to take care of the requirements of the Town Panchayats, based on performance and need.

150. The State Finance Commission recommends that improvement to roads can be taken under special schemes formulated for Town Panchayats. The maintenance of the roads should be from out of own Revenue and distribution of funds from Government under Revenue Account.

LIGHTING GRANT: (Para 2.4.34)

151. Pending decision on the recommendation for general distribution of share of tax revenue of State to Local Bodies, the existing lighting grant may be continued.

DRAINAGE GRANT: (Para 2.4.36)

152. The grant now available is paltry and not adequate. All the Town panchayats in Special and Selection Grades may be initially assured of a regular yearly grant on a matching basis for taking up drainage schemes .

NON TAX REVENUE: (Para 2.4.39)

153. All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayats.

CHAPTER 5 : PANCHAYAT UNIONS

OWN TAXES: (Para 2.5.16)

154. Local Cess Surcharge

(1) The SFC recommends the continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.

(2) The SFC recommends adoption of the following procedure for adjustment of the revenue to Panchayat Union: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., a revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however

be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.

155. While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.

156. The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from General Fund itself.

157. A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.

158. Alternative suggestion to link the levy to Land holdings instead of on Land Revenue may be studied further.

ASSIGNED/SHARED REVENUE

LOCAL CESS: (Para 2.5.25)

159. The SFC recommends the following options for apportionment of Local Cess:

(1) The entire LC may be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.

(2) Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.

(3) 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.

160. Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.

161. Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

ENTERTAINMENTS TAX: (Para 2.5.27)

162. The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.

163. This tax has been earmarked as a local taxation by Local Finance Taxation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.

164. The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

MINES AND MINERALS: (Para 2.5.33 & 34)

165. Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.

166. The SFC recommends the following simplified procedure to ensure prompt adjustment to Local Bodies:

The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted

to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any.

167. The revenue collected on granite appears to be very low compared to its export potentiality. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to an "Incentive Fund" to be created. The respective administrative head will distribute to the Local Bodies the amount allocated to the Department.

168. In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund mentioned in earlier paragraph.

GRANTS-IN-AID

LOCAL CESS SURCHARGE MATCHING GRANT: (Para 2.5.47)

169. The SFC considers that decision will have to be taken on the revised formula applicable to the rates of Levy of LCS (from Rs. 5 to 10) as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption.

LOCAL ROADS GRANT: (L.R.G.) (Para 2.5.47)

170. (1) The formula for LRG is based on Tracts (Terrains). This may be changed and the rates may be related to surface of the roads as per the latest rates indicated by CE(HW) to the State Finance Commission. The LRG may be on the existing principle of population and length of roads The rate for length of roads may be adopted at the revised rates indicated by CE (HW).

(2) The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.

(3) Since the share on MVT is proposed to be taken to the divisible pool for distribution no separate Roads grant may be made thereafter. Till then the grant may continue.

NON STATUTORY GRANTS

GRANT FOR MAINTENANCE OF MATERNITY CENTRES: (Para 2.5.51)

171. The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service, till the subject is decided under devolution of functions.

GRANT FOR MAINTENANCE OF DISPENSARIES: (Para 2.5.53)

172. (1)The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.

(2) The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas

(3) Rural Dispensaries could be privatised by permitting local willing doctors to use the building.

(4) The working of the dispensaries in PUs needs detailed examination.

IRRIGATION GRANT : (Para 2.5.55)

173. A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

DEVELOPMENT GRANTS

CENTRALLY SPONSORED EMPLOYMENT PROGRAMMES (Para 2.5.59)

174. The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

CHAPTER 6 : VILLAGE PANCHAYATS

HOUSE TAX: (Para 2.6.16)

175. The SFC recommends the following:

(1) A revised rate based on the plinth area rental value (Appendix No.16) may be adopted since the existing tax structure based on plinth area will be static and no future revisions based on value could be done. In addition, as in the case of Library Cess, an additional Surcharge at the rate to be decided by Government, may be levied for meeting the cost of provision and maintenance of Radio/Television sets of the Panchayats.

(2) The general revision once in five years now adopted may be revised as once in three years. There will not be any steep increase of taxation on the tax payers in villages and at the same time the Village Panchayats will also have the benefit of incremental increase in prices for the purpose of taxation.

(3) The House Tax payer in Village Panchayats may be given the same types of concession allowed to Tax payers in urban local bodies for prompt/advance payment of Taxes.

(4) The SFC recommends that the system of Passbook proposed to be introduced to urban Local Bodies to avoid the issue of demand notice every time may be adopted in Village Panchayats. The Local Public may be educated about the change of system and also the benefits of rebate for prompt and advance payments. This will reduce scriptory work and avoid the deployment of additional personnel for that purpose. If necessary the system may be implemented after a pilot study in select panchayats.

(5) The SFC considers that in village panchayats it will not be difficult to fix the dates for collection centres consisting of specific wards and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection.

(6) Only in the case of defaulters, the Officers of Village Panchayats will have to contact assessees and arrange for early collection.

(7) The SFC recommends that all the procedures indicated under Municipal Corporations and also the publication of the assessment list in the village panchayat may be resorted to, so that the appeal and revision cases can be reduced to the minimum.

(8) The enabling provisions for distraint proceedings against immovable properties may help clearance of arrears in VPs also.

(9) The existing procedure for revision and appeal of House Tax may continue in Village Panchayats.

PROFESSION TAX: (Para 2.6.18)

176. The recommendations made in respect of Municipal Corporations and Town Panchayats will apply to VPs also.

VEHICLES TAX: (Para 2.6.20)

177. The Vehicle tax has already been discontinued.

All power driven vehicles like tractors, and two wheelers may be made liable for vehicles tax at different ranges of rates proposed, under Municipal Corporations.

PILGRIM/TOURIST TAX : (Para 2.6.21)

178. All the recommendations made under Municipalities may be made applicable to the VPs also.

TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES: (Para 2.6.23)

179. The SFC considers that instead of this tax, an enabling provision for levy of betterment charges can be made on all the properties in the area. The Panchayats can levy and collect whenever funds are needed. The owners of vacant lands also may be made liable for this levy of betterment charges. The Tamil Nadu Panchayats Act, 1994 may be suitably amended.

WATER TAX : (Para 2.6.27)

180. (1) A suitable provision may be made in the Tamil Nadu Panchayats Act, 1994 enabling the compulsory levy of water tax as an addition to house tax in village panchayats.

(2) In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

(3) The Government may permit the house connections in village panchayats where adequate water is available for supply, so that there will be more yield in revenue.

ASSIGNED/SHARED REVENUES: (Para 2.6.35)

181. Assignment of Local Cess, Surcharge on Stamp Duty, Entertainment Tax and Mines and Minerals have been discussed in detail under "Panchayat Unions"

and recommendations made there under will apply to VPs.

SURCHARGE ON STAMP DUTY: (Para 2.6.36)

182. (1) The SFC considers that any change in the procedure for distribution of surcharge on stamp duty will require amendment of the Tamil Nadu Panchayats Act 1994. It is also likely to affect adversely the amount realised by the various Panchayats at present, if distribution is based on population. Hence the existing procedure based on LR may be continued.

(2) To avoid delay, Damodaran Committee recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge instead of waiting for the receipt of collection figures every year. These figures may be collected Panchayatwise and kept at Panchayat Union level. This can be linked to the number of land holdings if a system of levy of LC/LCS is to land holdings as suggested in para 2.5.15 & 2.5.16.

(3) The amount sanctioned is now initially credited to the Panchayat Union Funds and then the Panchayat Union Commissioner transfers the amount to the Village Panchayat account after working out the amount due to the various Panchayats. This revenue may be directly adjusted to the account of VPs and the Panchayat Union Council can work out the amounts due to each VP and give credit to individual Panchayats.

INCOME FROM FEES AND CHARGES: (Para 2.6.39)

INCOME FROM SOCIAL FORESTRY:

183. (1)The SFC considers that Social Forestry is a rich potential to Village Panchayats. The Panchayats may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. The right of auctioning should be left to the local bodies and a regular system of tender cum auction should be prescribed to enable realisation of real income.

(2) The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightaway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

(3) This scheme needs study on simplification of procedure with reason able freedom to Local Bodies on expenditure relating to planting and rearing. Expert opinion may be confined to officers in the District.

(4) These recommendations may also be made applicable to urban Local bodies where urban Forestry schemes are implemented.

FISHERY RENTAL : (Para 2.6.42)

184. (1) The power of auctioning local body assets should be only with the concerned local body. If necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation. Collectors may be given powers to interfere where the implementation is not properly done. Fish Farmers' Development Co-operative Agencies should also be a bidder along with others and no monopoly should be given to them.

(2) Regarding PWD tanks also, a share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease so that over exploitation could be watched and brought to notice to avoid future leases.

(3) In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a Committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

(4) The above recommendations may be extended to urban Local bodies wherever the fishing operations are in existence.

2-C PATTA TREES: (Para 2.6.45)

185. (1) Wind fallen trees should be auctioned by a committee consisting of representatives of PU Council, Panchayat, PU Commissioner and Revenue official concerned. The auction should be decided by the Committee, to ensure better price.

(2) The auction amount may be remitted to the PU Council Treasury for credit to the Village Panchayat funds.

(3) In respect of Town Panchayats, the amount may be directly credited to Town Panchayat Funds.

(4) In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realisation of better revenues.

FAIRS AND FESTIVALS: (Para 2.6.48)

186. (1) Levy of Pilgrim/Tourist Tax has been discussed under Municipal Corporations. They may be applied to Village Panchayats also.

(2) In view of the difficulty in getting a share on expenditure during festivals from the temples, as an alternative, the temples having a sizable income throughout the year through pilgrims may be required to share orcontribute to the expenditure on civic amenities to be provided by the local bodies concerned. The Temple at Tiruchendur has been contributing from its own funds for laying of roads etc. and a similar attempt can be made in respect of other big temples in Tamil Nadu. OR The temple may collect an additional fees along with their entrance tickets for the Local Body and pass on that money to concerned Local Body.

PENALTIES AND FINES: (Para 2.6.51)

187. The revised rates proposed by Damodaran Committee (1990) in lieu of rates indicated in Schedules II and III of the Tamil Nadu Panchayats Act, 1994 and suitably revised by SFC may be adopted and the Act amended suitably. (vide Appendix Nos.18 &19)

GRANTS:

HOUSE TAX MATCHING GRANT (STATUTORY): (Para 2.6.55)

188. (1) The new system of devolution of funds other than statutory grants takes into account the tax performance as one of the criteria for devolution of funds.

(2) The existing system of House Tax matching grant can also be linked to collection performance instead of providing equal amount.

(3) Based on the categories of village panchayats now evolved, the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. Specific recommendations given in Appendix No.20 may be adopted.

GRANTS FOR WATER SUPPLY AND STREET LIGHTING (DISCRETIONARY): (Para 2.6.57)

189. Till a decision is taken on the recommendation on divisible pool the present method of assistance by way of grant for street lighting and for water supply will have to continue on a regular basis. **The consumption charges in public lighting and**

also the repair charges for water sources, may be met by Government in full.

DEVELOPMENT GRANTS : (Para 2.6.59)

190. (1) The grants intended for Village Panchayats may be directly adjusted to the Panchayat Funds by the District authorities to avoid delay in routing through the Panchayat Unions.

(2) If freedom is given to the local bodies, they may utilise the funds under Employment schemes for priority items in the area rather than sticking to the purpose indicated for the grant. This will be a major policy decision to be taken at the higher levels of government.

REMUNERATIVE ENTERPRISES: (Para 2.6.61)

191. (1) In village panchayats with higher population/income, remunerative schemes like shops, markets, bus stands and stalls and community centres may be encouraged with assistance from Government.

(2) The Assistance should not be entirely on loan basis as in Urban bodies but should be on the basis of Grant-cum-Loan.

(3) The freedom to implement the schemes should be left to the Panchayats except for technical guidelines and suupervision. These aspects have been dealt with under "Municipal Corporations". They may be extended to Village Panchayats also. The Panchayat Union Commissioner may be the liasion as well as supervisory authority for implementation, auction and other related matters in respect of "Remunerative Enterprises".

CHAPTER 7 : DISTRICT PANCHAYATS (Para 2.7.3)

192. The SFC has taken the view that out of the total allocations to be made by State Government to the LBs and to be divided between Urban and Rural as per the norms proposed by SFC, the amount needed for actual expenditure of the DPs will be retained out of the Rural allocation and the balance will be distributed to PUs and VPs on principles proposed by SFC. The amount retained for DPs will be distributed as Block Grant, In addition devolution of a share on Local Cess has also been recommended. The Government have recently distributed funds to District Panchayats to an extent of Rs.1 crore for 1996-97. Taking this as guidelines, devolution of block grant to District Panchayats is discussed in Part V Resource Allocation Mechanism of the report.

CHAPTER 8 : DEBT SERVICING AND LIABILITIES: (Para 2.8.7) (2.8.15)

193. In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

(i) The payment schedule may be revised with more number of instalments.

(ii) Interest rate may be subsidised by the Government to the LBs in the lower level grades.

(iii) Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.

(iv) The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.

(v) The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.

(vi) It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.

(vii) It is brought to the notice of SFC that the assignments of revenues due to Local Bodies from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.

(viii) If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.

(ix) The SFC recommends to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local

Bodies. Rebates on interest element including waiver of penal interest may also be given.

(x) In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.

(xi) The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The Local Bodies should have a say in cases of time over-runs.

PENSION CONTRIBUTION AND COMMITMENT ON PAYMENT OF PENSION: (Para 2.8.31)

194. (i) The SFC considers that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the Local Bodies. are not in a position to meet even the monthly salary payments and the pension contribution.

ii) The SFC, therefore, considers that the Government may have to bear the commitment

iii) SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted against releases to be made by Government. or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.

(iv) The Director of LF Accounts may continue to be the authority to sanc tion pensionary benefits.

PROVIDENT FUND : (Para 2.8.32)

195. The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the

authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local Bodies cannot be avoided. This may be given to Director of Local Fund Accounts and Audit.

PART IV

STREAMLINING THE DELIVERY SYSTEM

CHAPTER 1

ORGANISATION

4.1.01 The details of Rural and Urban Local Bodies now in existence institutionwise are as given below:

Rural Local Bodies:

i) Village Panchayats		12,584
ii) Panchayat Unions		384
iii) District Panchayats		28
	Total :	**12,996**

Urban Local Bodies:

iv) Town Panchayats		635
v) Municipalities		104
vi) Municipal Corporations		6
	Total :	**745**
	Grand Total :	**13,741**

Out of the total population in the State, Rural Local Bodies cover 58% and the Urban Local Bodies 42%.

CONSTITUTION / RE-CONSTITUTION:

A. Village Panchayats

4.1.02 Village Panchayats have been constituted as per Section 3 of the Tamil Nadu Panchayats Act, 1958 and Sec.4 of the Tamil Nadu Panchayats Act 1994, for every local area comprising of a revenue village or villages or any portion of a revenue village or contiguous portions of two or more revenue villages with a population estimated at not less than 500. The average population of a Village Panchayat is 2583.

4.1.03 While under Local Boards Act 1920, the panchayats were classified as Major and Minor Panchayats, as per the provisions of Madras Village Panchayats Act 1950, they were classified as Class I and Class II. The Tamil Nadu Panchayat Act, 1958, however, classified the

panchayats as Village/Town Panchayats. The Major/Class I Panchayats are equal to the present Town Panchayats and Minor/Class II Panchayats are equal to the Village Panchayats. As per the existing provisions, for constituting a Village Panchayat, a minimum population of 500 will be adequate and no financial limit is necessary. The average receipt and expenditure of a Village Panchayat excluding Development and Non-Statutory Grants based on 5 years average (1989-90 to 1993-94) is Rs.57,768/- and Rs.52,000/- respectively. Though the state average annual receipt and expenditure of a Village Panchayat appear to match, the financial position of majority of Village Panchayats is found to be very poor, they are unviable to maintain the core basic services like drinking water supply and street lights in their area. There, per capita total receipt is Rs.35 as against the per capita total expenditure of Rs.32. The per capita own revenue is Rs.7. Per capita assigned revenue is Rs.13 of which per capita surcharge on Stamp Duty alone accounts for Rs.12. Of the percapita total expenditure, the administrative cost accounts only Re.1 per capita. This low level expenditure is due to staff in the Village Panchayats not being fully deployed. Details of number of panchayats with annual receipts and charges according to population and per capita ranges, are given in Appendices 89 & 90. To perform the obligatory functions statutorily vested with the Panchayats as per Sec.110 of the Tamil Nadu Panchayats Act 1994, viz., roads, street lighting, public health arrangements, water supply etc. minimum level of income is required, though the level will vary among the panchayats based on geographical area.

4.1.04 It is necessary to have a democratic institution at the grass root level. Though the Tamil Nadu Panchayats Act 1958 was repealed and replaced by the Tamil Nadu Panchayats Act 1994, the norms for population prescribed for the constitution of Village Panchayats remained the same as adopted in 1958 Act. Of the 12,584 Village Panchayats, only 53 have a population upto 500. The maximum number of Village Panchayats are in the population rages of 1001 - 3000 (7629 Nos). The number of Village Panchayats and ranges of population (1991 Population) are as given below:

Table 4.1 Number of Village Panchayats according to population range.

Range of Population	Number of Village Panchayats
up to 500	53
501 - 1000	1,258
1001 - 2000	4,811
2001 - 3000	2,818
3001 - 4000	1,583
4001 - 5000	884
Exceeding 5000	1,177
Total	**12,584**

4.1.05 Since the average population of a Village Panchayat works out to 2583, keeping the population norm as 500 for the constitution of a Village Panchayat is likely to lead to fragmentation

of villages, making the units unviable both from the point of view of management and provision of minimum level of basic services like roads, street lights, public health, water supply etc,.

4.1.06 The former Chief Secretary to Government of Tamil Nadu, Thiru. R.A. Gopalsamy, I.C.S. in his introductory note on the background of the Tamil Nadu Panchayats Act, 1958 has indicated that though there is a flexible provision that a Village Panchayat may have a population of 500, as a matter of administrative policy, no Village Panchayat is to be delimited with a population lesser than 1000 unless it is shown to the satisfaction of the Government that such a delimitation is unavoidable. Though no income limit could be prescribed for the initial constitution, the revision of population norms may create near financial stability so as to provide the required level of physical and social infrastructure.

4.1.07 The Commission after detailed examination considers that a minimum population of 2500 may be prescribed for the constitution of Village Panchayats in future. The proposed norm may not affect the existing Village Panchayats. Whenever two or more Village Panchayats desire for merger, the Government may encourage such proposals, as this would result in consolidation of settlements, leading to the formation of good and viable units for better administration and for provision and maintenance of civic services to the people in the area. A suitable financial incentive may also be allowed by the Government to such Village Panchayats which agree for the merger. The existing 53 Village panchayats with population up to 500 may be considered for amalgamation with the nearby Panchayats in due course.

Classification of Village Panchayats:

4.1.08 Neither the Tamil Nadu Panchayats Act 1958 nor the new Tamil Nadu Panchayats Act 1994 has any provision for classifying Village Panchayats into grades. From the point of administrative convenience it is felt desirable to classify the Village Panchayats into grades. The normal criterion adopted for such a classification in the case of other local bodies like Town Panchayats and Municipalities is based on average annual income. For classifying the Village Panchayats, various **criterion** such as total population, backwardness of the area and average annual income of the Village Panchayats were examined. The work load generally is considered with reference to financial transactions. After detailed deliberations, the commission felt that the criterion based on the average annual income (including non-statutory and Development grants) will be appropriate and hence the same is considered. It is further decided that the Village Panchayats may be classified into 3 grades.

4.1.09 **Accordingly, for the 3 grades the classifications are given below:**

Table 4.2. **Norms for the classification of Village Panchayats into - 3 grades.**

Grade	Range of average annual income (including Non-Statutory and Development grants) for the last 5 years ending 31.3.94	No.of Village Panchayats
III	Up to Rs.50,000	5,297
II	Rs.50,001 to Rs.1 Lakh	3,597
I	Above Rs. 1 Lakh	3,690
	Total :	**12,584**

Note: This range of annual income may be reviewed periodically and suitably revised by the Government.

The Commission therefore recommends, that

4.1.10 i) a minimum population of 2,500 may be adopted for the constitution of a Village Panchayat. This will be for the future and will not affect the existing Village Panchayats.

ii) when two or more Village Panchayats desire for merger, a suitable financial incentive may be allowed by the Government to such Village Panchayats.

iii) the existing 53 Village Panchayats having a population of less than 500 may be considered for amalgamation with the nearby Village Panchayats in due course.

iv) the Village Panchayats may be classified into 3 grades according to average annual income for the last 5 years (including non-statutory and development grants). The annual income range may be reviewed periodically and revised range may be fixed by the Government.

v) the Village Panchayats may be reconstituted once every 5 years before each ordinary election to Panchyats making minor alterations in the jurisdiction, ward divisions etc., if required.

B. PANCHAYAT UNIONS

Constitution/Reconstitution:

4.1.11 Section 15(1) of the Tamil Nadu Panchayats Act 1994 gives power to government, to declare through a notification, any Local area forming a development Block for the purpose of the National Extension Service Scheme of Community Development, to be a Panchayat Development Block and to constitute for every such Panchayat Development Block a Panchayat Union. At present there are 384 Panchayat Unions in the State encompassing 12584 Village Panchayats. Each Panchayat Union has in its jurisdiction an average of 33 Village Panchayats.

4.1.12 The Tamil Nadu Panchayats Act, 1994 has a major change as compared to the previous Tamil Nadu Panchayats Act 1958. Falling in line with the 74th Constitutional Amendment, the Town Panchayats have been excluded from the purview of the Tamil Nadu Panchayats Act 1994, whereby the areas of Town Panchayats are excluded from the jurisdiction of the Panchayat Unions. So much so, the average size of the Panchayat Union by population which was 95,780 under the repealed Panchayats Acts, 1958 came down to 84,635 as per the New Tamil Nadu Panchayats Act 1994. Wide variation is noticed in the size of Panchayat Union by number of Village Panchayats as well as by the area. While the small size of the Panchayat Unions in the hilly areas with less number of Village Panchayats is understandable because of accessibility, what is bafftling in the plains, is their varying sizes both in terms of population and number of Village Panchayats. Even in population there are wide variations. Of the 384 Panchayat Unions, the average population spread is as follows:

Table 4.3 Number of Panchayat Unions according to population range.

Population spread		No. of Panchayat Unions.
Over 1 Lakh	-	104
Between 75,000 and 1 Lakhs.	-	133
Between 50,000 and 75,000	-	104
Less than 50,000	-	43
Total	-	**384**

4.1.13 Though the formation of new Panchayat Unions may not be on the anvil now, yet the situation may warant amalgamation and bifurcation or trifurcation of Panchayat Unions at a later date for the following reasons:

i) When the Panchayats Act 1958 was framed,the National Extension Service Scheme of Community Development Blocks were already in existence . Panchayat Unions were formed for such development blocks without any alteration in boundaries, though the development blocks themselves were of contrasting size in terms of area, population and number of Village Panchayats. Therefore, there is a need to look into the size of the Panchayat Unions afresh and redraw their boundaries.

ii) The Districts in the State are bifurcated or trifurcated to achieve the objectives of compactness, effective management, administrative control and supervision, monitoring implementation of community development programmes, with Line agencies and Development departments. As a consequence, Revenue Divisions and Taluks were also bifurcated. This decentralisation process should also be extended to bifurcation of the unwieldy Panchayat Unions for the purposes of achieving compactness, better cohesion and accessibility to far-flung villages.

iii) As already indicated, Town Panchayats will no longer form part of the Panchayat Unions as they were brought under the purview of the Tamil Nadu District Municipalities Act (Amended 1994) and 8.78 million population living within Town Panchayat areas will no longer be under the jurisdiction of the Panchayat Unions. Consequently many of the existing Panchayat Unions would face a fairly high drop in population content. This will also necessitate redrawing and redefining the jurisdiction of the Panchayat Unions.

4.1.14 It is, therefore, felt that time has come to consider redefining the jurisdiction of the Panchayat Unions based on factors such as area, population, number of Village Panchayats and easy accessiblity from the point of view of administration. The largest number of Village Panchayats comprised in a Panchayat Union is 73 (Uthiramerur Panchayat Union in ANNA District) and the lowest number is 3 (Gudalur Panchayat Union in The Nilgiris District). The average number of Village Panchayats in a Panchayat Union is 33 and in terms of population it is around 84,635.

4.1.15 The Commission therefore recommends that

during bifurcation or trifurcation or reconstitution of Panchayat Unions, the population of the individual Panchayat Unions (as per latest census) must be between 60,000 and 75,000, subject to contiguity. The Commission also recommends that for the purpose of

administrative convenience, effective supervision, and monitoring the implementation of development programmes, the size of the Panchayat Unions in terms of the area should be compact for the easy coverage of all the villages in a shorter duration. The Panchayat Unions may be reconstituted once every 5 years making alterations in its jurisdiction wherever necessary.

Classification/Reclassification:

4.1.16 The execution of Community Development Programme was statutorily entrusted to the Panchayat Unions under Sec.66 of the Tamil Nadu Panchayats Act 1958 corresponding to Sec.113 of the Tamil Nadu Panchayats Act 1994. While attempt was made to develop all Panchayat Unions, it was recognised that the capacity to raise resources differed among the Panchayat Unions In course of years, though the areas of some Panchayat Unions have developed, some were lagging behind in the matter of development requiring relatively a higher State assistance to get themselves developed. Keeping this perspective in view, Government classified the Panchayat Unions into categories on a fiscal basis for the purpose of allowing Government Grants. The per capita Land Revenue formed the basis for such classification.

4.1.17 Initially all the Panchayat Unions in the State were arranged in order of magnitude of per capita Land revenue. Out of the total number of Panchayat Unions, the first 40% were located in this order from the highest and they were classified as category 'A'. The next 30% of Panchayat Unions were classified as category 'B'. The remaining 20% and 10% of Panchayat Unions were classified as category 'C' and category 'D' respectively. This fiscal classification was applied for allowing the government grant such as Local Cess Surcharge Matching Grant, Elementary Education Grant, Village Works Grants, etc; Higher categories of Panchayat Unions viz. A & B weare considered better categories and so lesser grants were allowed. For lower categories viz. C & D, higher were the government grant.

4.1.18 The Panchayat Educaion Finance Enquiry Committee 1969 which subsequently went into this issue, considered that the arrangement of fiscal classification into A,B,C and D categories was not in the best interest of the Panchayat Unions. The Committee considered that the Panchayat Unions shall be classified into 6 categories instead of 4, as per the per capita land revenue of the Panchayat Union as indicated below and that there need not be any limit as to the number of Panchayat Unions in each category. The Committee accordingly recommended that the Panchayat Unions in the State should be classified into 6 categaries (as shown below) which was accepted by the Government and implemented.

Table 4.4 Existing norms for the classification of Panchayat Unions.

Per Capita Land revenue	Category of the Panchayat Union
Above Rs.4	I
Between Rs.3 and Rs.4	II
Between Rs.2 and Rs.3	III
Between Re.1 and Rs.2	IV
BetweenRe.0.75and Re....1	V
Below Re.0.75	VI

4.1.19 The Official Committee constituted in 1977 studied the question of the classification of the Panchayat Unions in a detailed manner. The original classification was done with reference to 1961 population. The revised classification was proposed by the Official Committee with reference to 1971 census. The Committee examined the following alternatives before making its recommendations for reclassification.

(i) Land revenue of the area;

(ii) The stage of development of the area;

(iii) The number of villages and the area of the Panchayat Union;

(iv) Backwardness of the area;

4.1.20 After examining all these points, the Committee considered that the Land revenue of the area indicated the degree of prosperity, need of the population in the area and that classification of Panchayat Unions according to per capita Land revenue method is more suitable. Accordingly, adopting 1971 census population, the revised classification was suggested taking the average Land revenue for 3 years.

4.1.21 The Expert Committee headed by Thiru. A.R. Damodaran, which went into the financial position of the Panchayats and Panchayat Unions in 1990, while examining the classification of Panchayat Unions, came to the conclusion that the per capita Land revenue basis adopted all these years can continue as the major resources of the Panchayat Unions were still related to the quantum of Land revenue and as no firm indicator could be adopted to measure the backwardness of the area, the stage of development etc;

4.1.22 The Commission which went into this question in greater depth has also come to the conclusion that the per capita Land revenue may continue to be adopted for classification of Panchayat Unions as it has not only stood the test of time but no other workable alternative is available for such classification. The present six categories may also continue. Since the Town Panchayats have been taken away from the purview of the Panchayat Unions, the existing per capita land revenue of Panchayat Unions may undergo changes and the norms for per capita land revenue for the classification of Panchayat Unions would also require further examination. The information, the Commission, has received so far, from the Commissioner of Land Revenue for 13 districts have given a mixed picture of varying changes in those districts. The Commission therefore, feels that the matter would have to be pursued further by the Department of Rural Development in consultation with Collectors and the Commissionerate of Land Revenue after obtaining information in respect of the remaining Districts also to arrive at revised norms with a view to evolve a fresh set of classification of Panchayat Unions. The details analysing the position in the 13 districts are in Appendix 15 in which the rates of Local Cess Surcharge Matching Grant have been indicated.

4.1.23 The Commission recommends, that

i) the norms of per capita Land Revenue may be revised as given in para 4.1.22. The principle may continue to be adopted as the basis for the classification/ reclassification of Panchayat Unions.,

ii) the details of classification of each Panchayat Union into these six categories can be worked out in consultation with District Collectors/Director of Rural Development based on the norms given in para 4.1.22.

C. TOWN PANCHAYATS

Constitution/Reconstitution:

4.1.24 The Town Panchayat as an institution of Local Administration is unique to Tamil Nadu. The classification of Town Panchayat as seen in Tamil Nadu Panchayats Act 1958, contemplated urban character as one of the norms. In practice, when village panchayats were upgraded as Town panchayats, only the norms of population and minimum income were adopted. As per Sec. 3 of the Tamil Nadu Panchayats Act 1958(repealed) every local area comprising a revenue village or villages or any portion of revenue village or contiguous portions of two or more revenue villages and having a population estimated at not less than 5000 and an annual income of not less than Rs.10,000 (this has subsequently been revised as Rs.1 lakh) can be notified as a Town Panchayat by the Inspector viz. the Director of Town Panchayats. The main criterion that the area should be urban in character was seldom looked into while upgrading the Village Panchayats as Town Panchayats. There are 635 Town Panchayats and the analysis of existing position reveals that a majority of them are still predominantly rural in character though they have been upgraded as Town Panchayats mostly on administrative grounds that they satisfied the existing norms of population and minimum annual income viz. 5000 and Rs. 1 Lakh respectively. Neither their urban character nor their financial viability have been considered before upgradation.

4.1.25 The 74th constitutional Amendment has brought the Town Panchayats under the purview of the "Nagar Palika" and accordingly the administration of the Town Panchayats was brought under the jurisdiction of the Tamil Nadu District Municipalities (Amendment) Act 1994.

4.1.26 The Constitution (74th Amendment) Act 1992 defines a Nagar Panchayat or a Town Panchayat as a transitional area i.e. an area in transition from rural to urban . This definition implies or underscores that the Town Panchayat is not truly or completely urban in character, but is in the evolutionary stages of becoming one and should therefore be logically bracketed with rural institutions . One further fact to buttress this argument is that the census classifies all Municipal Towns as urban irrespective of the fact whether they satisfy the census norms for recognition as urban or not, whereas only those Town Panchayats which satisfied the census norms are classified as urban. This rather anomalous position of Town panchayats being bracketed with the Municipal Act stands out like a sore thumb, when it is found that out of 635 existing Town panchayats in the State representing a total population of 87.80 lakhs, 420 Town Panchayats or 66% of the Town Panchayats are rural in character.

4.1.27 The Town Panchayats would become ineligible for the assistance from Government of India under Rural Poverty Alleviation and other programmes for the reason that the Town Panchayats have been brought under the purview of the Nagar Palika Act.

4.1.28 The Constitution (74th Amendment) Act 1992 indicates the transitional area or Town Panchayat as such area as the Governor may, having regard to the population of the area and the density of population therein, the revenue generated by the Local Administration, the percentage of employment in the non-agricultural activities, the economic importance or such other factor as he may deem fit specify by public notification. This definition is largely drawn on the criteria adopted by Registrar General of Census of India for treating a place as urban. The census defines a place as urban on the following criteria.

a) A statutory town i.e, all places with a Municipality, Corporation, Cantonment Board or notified Town area Committee.

b) All other places which satisfy the following criteria:

i) A minimum population of 5000;

ii) At least 75% of the male working population engaged in non-agricultural pursuits; and

iii) A density of population of at least 400 persons per Sq.Km.

4.1.29 The Tamil Nadu District Municipalities (Amendment) Act 1994, while incorporating the above provisions under Sec.3B of chapter 1A, has also provided that a Town Panchayat may be constituted for a local area comprising of a revenue village or villages or any portion of a revenue village or contiguous portions of two or more revenue villages, having a population estimated at not less than 5000 and an annual income of not less than one lakh rupees. It may also be seen that besides population and income criteria, for the first time, an economic criteria has been included for the constitution of Town Panchayat.

4.1.30 All the 420 Town Panchayats which are rural in character do not satisfy the economic criteria has to face relegation as Village Panchayats as per the enabling provisions of the Tamil Nadu District Municipalities (Amendment) Act 1994. Even in respect of 235 urban Town Panchayats, now considered as urban for purposes like water supply schemes and the Town panchayats which satisfy the census criteria for being called as Urban area, only 98 of them form part of the Urban agglomeration, the remaining 117 are independent Urban Panchayats, mostly small trade or marketing centres serving the surrounding rural hinterlands.

4.1.31 The condition of Town Panchayats reveal that many do not have adequate financial resources and most of them are no better than Village Panchayats. The average annual revenue receipt based on last 3 years ending 31.3.94 of the Town Panchayats in the State is Rs.74.02 crores; annual revenue expenditure is Rs.64.97 crores. Percapita revenue receipt is Rs.84 as against the percapita revenue expenditure of Rs.74. This does not take into account their liabilities and commitments pending payment for want of funds. The income from local taxation based on 1993-94 comes to Rs.25.13 crores; per capita income is Rs.29/- . The income from assignments and grants comes to Rs.27.89 crores, i.e. per capita income of Rs.32. The expenditure on general administration including salary to staff accounts for Rs. 12.18 crores with a percapita expenditure

of Rs.14/-. It is seen that a large number of Town Panchayats depend on Assigned Revenues and grants for meeting their statutory obligations and their local taxation is not adequate for meeting the total administrative cost. A sizable number of Town Panchayats are found not able to meet the salary commitments and the expenditure on street lighting. The major cause for the present state of affairs is the indiscriminate upgradation of Village Panchayats as Town Panchayats without giving serious consideration about the sound economic base which only could sustain regular generation of internal resource through taxes.

4.1.32 The annual administrative cost of Town Panchayat grade wise (inclusive of staff deployed for services) is as given below: (as per 1993-94 figures)

i) Grade II - Rs. 2.25 lakhs;

ii) Grade I - Rs. 3.40 lakhs;

iii) Selection Grade - Rs. 8.23 lakhs

4.1.33 The Commission, considering the various aspects, recommends that the norms for upgradation of Village Panchayats into Town Panchayats may be fixed as indicated below:

i) Population not less than 15,000;

ii) Average annual income of not less than Rs.10 Lakhs (excluding loans, lapsed deposits, house tax matching grant, non-statutory and development grants);

iii) Reasonable percentage of employment in non-agricultural activities.

4.1.34 Out of 420 Town Panchayats rural in character as mentioned in para 4.1.26 which have a population of less than 10000 according to 1991 census, 92 have an annual income of less than Rs.5 Lakhs. Amongst 235 Town Panchayats, urban in character, 6 have an annual income of less than Rs. 5 lakhs. The Commission feels that these 98 Town Panchayats (92+6) may be specially considered for improving their finances, or they may be classified Village Panchayats duly consulting the Director of Town Panchayats. Otherwise special financial packages both for infrastructure development and maintenance will have to be provided for in these cases. (Appendix 103).

Classification/Reclassification

4.1.35 The existing Town panchayats have been classified into 4 grades. This classification would assist the government in deciding the staff and other infrastructure facilities to be allowed to them. The existing criteria are indicated below against each grade:-

Table 4.5 Existing norms for the classification of Town Panchayats.

GRADE	EXISTING CRITERIA Average Annual Income for the last 3 years (Rs.)
II	4 lakhs
I	8 lakhs
Selection Grade	10 lakhs

4.1.36 The Commission recommends, after considering the cost escalation, the level of basic services to be extended, and the minimum staff to be appointed, the following criteria of population and annual income may be followed for the gradation of Town Panchayats, while the existing institutions are allowed to continue in the respective grades:

Table 4.6 Norms proposed for the classification of Town Panchayats.

GRADE	PROPOSED CRITERIA	
	Population	Average Annual Income for the last 3 years.
II	Upto 10,000	Exceeding Rs.10 lakhs
I	Upto 15,000	Exceding Rs.15 lakhs
Selection Grade	Upto 20,000	Exceeding Rs.20 lakhs
Special Grade	Above 20,000	Exceeding Rs.50 lakhs.

N.B: loans, lapsed deposits, non-statutory and development grants shall be excluded in arriving at average annual income.

D. MUNICIPALITIES

Constitution/Reconstitution:

4.1.37 The Tamil Nadu District Municipalities Act, 1920 did not indicate any norms. However the Town Panchayats are being upgraded as Municipalities by the Government, if the population is not less than 20,000 and the annual income exceeds Rs.1 lakh (subsequently modified as Rs.3 lakhs)

4.1.38 The Constitution (74th Amendment) Act 1992 envisages that henceforth there will be 3 types of Municipalities, viz;

* Nagar Panchayat;
* Municipal Council and
* Municipal Corporation.

4.1.39. Sec.4 of the Tamil Nadu District Municipalities (Amendment) Act, 1994 provides the following factors for constituion of a municipality:

* Population of the area;
* Density of population therein;
* Revenue generated for Local Administration;
* Percentage of employment in non-agricultural activities.
* Economic importance or such other factors as the Governor may deem fit.

4.1.40 Regarding the upgradation of Town Panchayats as Municipalities the Director of Town Panchayats had expressed the view that only such of those Town Panchayats which satisfy the average annual income criteria of Rs.30 lakhs and above may be upgraded as

Municipalities. The Director of Municipal Administration had advocated that Town Panchayat whose average annual income exceeds Rs.20 lakhs and with a population of 20,000 may be considered for upgradation as a Municipality. The average annual Revenue receipt and Revenue expenditure of a Municipality based on last 3 years figures ending with 31.3.94 works out to Rs.135 lakhs and Rs.125 lakhs respectively; in terms of per capita Revenue receipt is Rs.194 and Revenue expenditure is Rs.180.

4.1.41 The Commission, after considering all the above aspects, recommends that the following minimum norms may be fixed for upgrading a Town Panchayat into Municipality and for the constitution of an area into Municipality:

i. Should be urban in character and should satisfy the census norms of density of population and that 75% of the male working force are engaged in non-agricultural activities;

ii. Minimum population of 30,000 and

iii. an average annual income (based on last 3 years) exceeding Rs.50 lakhs excluding non-statutory and development grants, loans, and lapsed deposits.

Classification/Reclassification:

4.1.42 In 1992 the Classification/reclassification of Municipalities was done on the basis of average annual income. Subsequently, the Government revised the norms several times in 1963, 1970, 1974 and in 1983.

4.1.43 Lastly in 1988, the need to revise the criteria for the reclassification of Municipalities was examined due to the increase in income and expenditure levels of Municipalities and the Government in G.O.Ms.No. 1078, Municipal Administration and Water Supply Dept., dated 15.12.88 have prescribed the following revised norms for the reclassification of Municipalities:

Table 4.7 Norms existing for the classification of Municipalities.

Grade of the Municipality	Average annual income under all accounts for the past 4 years(including income under electrical undertakings) (Rs.)
III	10 lakhs
II	20 lakhs
I	40 lakhs
Selection Grade	100 lakhs
Special Grade	200 lakhs

The Government have also indicated that while computing the overall income of the Municipalities for the last 4 years, loans, lapsed deposits, non-recurring grants (non-statutory) should not be taken into account.

4.1.44 During 1995, the Commissioner of Municipal Administration, Chennai suggested to revise the norms as indicated below for the reclassification of Municipalities:

Table 4.8 Norms proposed by the Commissioner of Municipal Administration for the classification of Municipalities.

Grade of Municipality	Norms proposed Average annual income for the past 4 years excluding loans,lapsed deposits, non-recurring grants (non-statutory) (Rs.)
Grade II	Exceeding 50 lakhs
Grade I	Exceeding 100 lakhs
Selection Grade	Exceeding 200 lakhs
Special Grade	Exceeding 400 lakhs

4.1.45 The Commission after considering all the above factors, recommends that the following may be the revised norms for the Classification/re-classification of Municipalities.

Table 4.9 Norms proposed by the State Finance Commission for the classification of Municipalites.

Municipality Grade	NORMS Average Annual Income based on last 3 years (Rs.)
II	Exceeding 50 Lakhs
I	Exceeding 100 Lakhs
Selection Grade	Exceeding 200 Lakhs
Special Grade	Exceeding 500 Lakhs

NB:- Loans, lapsed deposits, non-statutory and development grants shall be excluded for computing the average annual income.

4.1.46 The Commission has not made any recommendation regarding Constitution / classification of Grade III Municipalities in the light of the fact that many of the existing special grade town panchayats are already getting an annual income of more than Rs.30 lakhs and when they are likely to be considered for upgradation as Municipality, they may have an annual income nearing to Rs.50 lakhs and hence the norm for annual income for upgradation of Town Panchayat into Municipality has been suggested as Rs.50 lakhs and that they could be upgraded straightaway as Grade II Municipalities. The Commission is of the view that occasion for constituting a new Municipality of Grade III out of an existing urban (Town Panchayat) area are apparently not very bright and so Municipalities of Grade III have not been considered.

E. MUNICIPAL CORPORATION

Constitution/Reconconstitution:

4.1.47 The Acts do not provide any specific guidlines but gives powers to Government to declare any area as a Corporation. There are at present 6 Municipal Corporations in our State viz. Chennai, Madurai, Coimbatore, Tiruchirapalli, Salem and Tirunelveli. The recently constituted Municipal Corporations of Tiruchirapalli, Salem and Tirunelveli have a population of 7.11 Lakhs, 5.78 Lakhs, and 3.66 Lakhs respectively according to 1991 census. Coimbatore and Madurai cities had a population of around 6 lakhs and 7 lakhs respectively when they were upgraded as Municipal Corporations in the early seventies and eighties. The average annual Revenue receipts and Revenue expenditure of the Corporations based on the last 3 years ending 31.3.1994 are given below:

Table 4 .10 Average annual income and expenditure of all Corporations.

Name of the Corporation	Average annual revenue (Rupees in Crores)		Per capita (Rs.)	
	Receipt	Expenditure	Receipt	Expenditure
i) Chennai	164.77	103.44	428.93	269.27
ii) Madurai	19.55	21.48	207.79	228.29
iii) Coimbatore	32.04	19.56	392.52	239.59
iv) Tiruchirapalli	12.51	10.58	187.13	158.19
v) Salem	10.75	10.54	181.03	177.52
vi) Tirunelveli	5.24	2.08	140.04	55.45
Total	**244.86**	**167.68**	**338.43**	**255.07**

The other major agglomerations in the State viz., Vellore, Erode, Tiruppur and Tuticorin have a population of 3.10 lakhs, 3.57 lakhs, 3.05 lakhs and 2.84 lakhs respectively. The National Commission on Urbanisation in its recommendations to Government of India, have adopted the following classifications for the cities: The highest classification (C6) has a population of 100 lakhs and the lowest classification (C1) has a population of 5 lakhs. Taking into account the norms adopted for the constitution of Municipal Corporations for Madurai, Coimbatore, Salem, Tiruchirapalli and Tirunelveli and keeping in view the recommendations of the National Commission on urbanisation, the Commission felt that a minimum population of 10 lakhs may be fixed as a norm for the constitution of a Municipal Corporation or upgradation of a Municipality into a Municipal Corporation. As regards income criteria, the Commission recommends a minimum income of Rs.50 crores.

4.1.48 The Commission therefore recommends, that

the criteria for the constitution of a Municipal Corporation or upgrading a Municipality into a Municipal Corporation in future may be:

(i) Minimum population of 10 lakhs; and

(ii) Average annual income of Rs.50 crores.

F. TOWNSHIPS

4.1.49 Townships were constituted prior to the advent of the Tamil Nadu Panchayats Act 1958, under the Tamil Nadu District Municipalities Act 1920. They were called as Municipal Townships. After the introduction of the Tamil Nadu Panchayats Act 1958, a specific section viz. Sec.4 was provided to constitute townships for special areas comprising Educational, Industrial, Labour and Health resort. These townships were called Panchayat Townships. The members of the Township Committees, both official and non-official, were nominated by the Government. The Collector in the case of Municipal Township Committees, Collector/Revenue Divisional officer in the case of Panchayat Township Committees were appointed as the Chairman by the Government. At present there are 8 Municipal Township Committees, 5 of them constituted under the Tamil Nadu District Municipalities Act 1920 and the remaining 3 viz. Courtallam, Bhavanisagar and Mettur by Special Legislations. Subsequently as per the provisions of the Tamil Nadu Panchayats Act 1958, 17 Township Committees were constituted. For the Township Committees constituted under the Municipal Act, Municipal Commissioners were appointed as Executive Officers of the Township Committees. In the case of Panchayat Township Committees, Executive Officers of Town Panchayats were appointed as Executive officers.

4.1.50 The Director of Municipal Administration had submitted proposals to Government in 1973 indicating that Municipal Townships which were formed for predominantly industrial areas or places of Tourist attraction should be placed in charge of Municipal Commissioners with wide experience and that in classifying the Townships for purposes of appointment of Executive Officers, they should be treated as a distinct class. He had therefore recommended that the Municipal Townships may be classified into grades as indicated below:

Table 4.11 Norms existing for the classification of Municipal Town ships.

Grade of the Township	Norms for classification Annual Income under General Account- Ordinary (Rs.)
Grade II	5 lakhs and below
Grade I	Exceeding 5 lakhs but not exceeding 10 lakhs.
Selection Grade	Exceeding 10 lakhs

The Government have accepted the proposal and issued orders accordingly in G.O.Ms.No.380, Rural Development and Local Administration Department, Dated:6.3.1975. As far as Panchayat Townships are concerned, there are no classifications. Executive Officers of Town Panchayats were appointed by the Director of Town Panchayats as said earlier.

4.1.51 After the introduction of 74th constitutional amendment, both Municipal and Panchayat Townships were brought under the District Municipalities (Amendment) Act 1994 and called as Municipalities and Town Panchayats respectively as per sec.4 (B) of the Act.

4.1.52 According to the constitution (74th Amendment) Act 1992 and as per sec.4(A) of the District Municipalities (Amendment) Act 1994, provision has been made for the creation of new Townships for Industrial areas. The Governor may, having regard to the size of the area and the

Municipal service being provided or proposed to be provided by an Industrial Establishment in that area and such other factors as he may deem fit, declare by notification any Urban area comprised in any Municipality or in a specified area therein to be an Industrial Township, duly indicating for the Township the total number of members, manner in which they shall be chosen, Chairperson, the term of office, the procedure, the restrictions and conditions subject to which the Township Committee may perform its functions etc. This is essential in view of the fact that the abnormality in the per capita income of these institutions which were formed with specific criteria affects the norms for distribution of funds when they are equated with other Municipalities/ Town Panchayats.

CHAPTER 2

FUNCTIONS OF LOCAL BODIES

Rural Local Bodies:

4.2.01 The functions of the Rural Local Bodies viz the Village Panchayats, Panchayats Unions and the District Panchayats have clearly been indicated in various provisions of the Tamil Nadu Panchayats Act 1994. The functions in respect of Village Panchayats and Panchayat Unions are broadly classified as (i) obligatory (ii) Discretionary and (iii) Agency functions.

(A) Village Panchayats:

4.2.02 Under sec 110 of the Tamil Nadu Panchayats Act 1994, the **obligatory functions** of the Village Panchayat have been indicated as shown below:

(i) Construction, repair and maintenance of all Village Panchayat roads;

(ii) Lighting of Public roads and Public places in built up area;

(iii) Cleaning the streets, removal of rubbish heaps; provision and maintenance of Public latrines;

(iv) Opening and maintenance of burial and burning grounds;

(v) Provision and maintenance of water supply sources for washing and bathing purposes and

(vi) Such other duties as the Government may by notification impose.

4.2.03 Similarly, under sec 111 of the Act, the **discretionary functions** of the Village Panchayats have been spelt out. The functions are indicated below:

Subject to the provisions of the Act and the rules made there under, a Village Panchayat may also make such provisions as it thinks fit for carrying out the requirements of the Village in respect of the following matters, namely;

a) Planting and preservation of trees on the sides of all Public roads in the Panchayat area;

b) Lighting of Public roads and Public places in areas other than built up areas;

c) Opening and maintenance of Public markets (Panchayat markets);

d) Control of fairs and festivals classified as Panchayat's fairs and festivals.

e) Opening and maintenance of Public landing places, halting places, cart stands and Public cattle sheds;

f) Opening and maintenance of Public slaughter houses;

g) Opening and maintenance of Reading rooms;

h) Establishment and maintenance of wireless receiving sets, play grounds, parks, sports clubs and centres of physical culture;

i) Opening and maintenance of literacy centres and centres for imparting social education.

j) Construction of works of Public Utility and provisions of other facilities for the safety, health, comfort, convenience, culture or recreation of the inhabitants of the village.

Agency Functions:

4.2.04 Under sec.119 (2) of the Act, special provision has been made, subject to such rules as may be prescribed, that the Government, Commissioner of Land Administration, the Collector or Revenue Divisional Officer, the District Panchayat, the Panchayat Union Council or the Chief Executive Officer, the Commisioner or any person or body of persons may transfer to the Village Panchayat, with its consent, the management of any Institutuion or the execution or maintenance of any work or the exercise of any power or the discharge of any duty whether provided for in the Act or not.

4.2.05 Under Section 257 of the Act, the Government may by notification and subject to such conditions and restrictions as may be specified therein, entrust a Panchayat with such powers and responsibilities with respect to the preparation of plans for economic development and social justice including those in relation to the matters listed in Schedule IV of the Act. (11th Schedule of the Constitution).

(B) Panchayat Unions:

4.2.06 The obligatory functions of the Panchayat Unions are given in Sec.112 of the Act which are narrated below:

Subject to the provisions of this Act and the rules made there under, it shall be the duty of a Panchayat Union Council, within the limits of its funds, to make reasonable provision for carrying out the requirements of the Panchayat Union in respect of the following matters, namely:

a) Construction, repair and maintenance of all Panchayat Union roads;

b) Establishment and maintenance of dispensaries and the payment of subsidies to rural medical practitioners;

c) Establishment and maintenance of maternity and child welfare centres, including maintenance of THAI Service and offering advice and assistance to mothers in FAMILY PLANNING;

d) Construction and maintenance of poor houses, orphanages, shops, stalls, plinths, training and employment of vaccinators, removal of congestion of population and the provision of house sites;

e) Opening and maintenance and expansion of Elementary Schools including payment of grants to private managements in respect of elementary schools;

f) Preventive and remedial measures connected with epidemic or with malaria;

g) Control of Panchayat Union fairs and festivals;

h) Veterinary relief;

i) Extension of Village sites and the regulation of buildings;

j) Opening and maintenance of Public Markets which are classified as Panchayat Union Markets;

k) Maintenance of Statistics relating to births and deaths;

l) Establishment and maintenance choultries;

m) Improvement of Agriculture, Agricultural Stock and holding of Agricultural shows;

n) Promotion and encouragement of Cottage Industries;

o) such other duties as imposed by the Government.

4.2.07 Section 115 of the Act lays down the **discretionary functions** of the Panchayat Union within the limits of its funds, to carryout measures of public utility calculated to promote the safety, health, comfort or convenience of the inhabitants of the Panchayat Union.

4.2.08 The Agency functions of the Panchayat Union Council have been indicated under Section 113 and 114 of the Act. As per Section 113, the Government shall entrust the execution of all National Extension Service Scheme of Community Development including in particular, all measures relating to the development of Agriculture, Animal Husbandry and Village Industries. Similarly under Section 114 of the Act, the Government may entrust to the Panchayat Unions for execution all or any of the schemes, programmes and activities to be executed or implemented either by the Government or by any statutory body or agency. Similarly the Panchayat Union Council, if so notified by the Government, may review the schemes, programmes and other activities executed by the Government or by any statutoy body or Agency within the Panchayat Union under Section 114(2) of the Act.

4.2.09 Further, under Section 123 of the Act, subject to such rules as may be prescribed by the Government, the Commissioner of Land Administration, the Collector, or Revenue Divisional Officer or any person or body of persons may transfer to the Panchayat Union Council with its

consent, the management of any institution or the execution or maintenance of any work or the exercise of any power or the discharge of any duty whether within or without the Panchayat Union and whether provided for in this Act or not. Under Sec.257, the Government may entrust to a Panchayat Union with such powers and responsibilities with respect to the preparation of plans for economic development and social justice including those in relation to the matters listed in Schedule IV of the Act (Schedule XI of the Constitution).

(C) District Panchayats

4.2.10 The functions envisaged under the Act for the District Panchayat have been given in Section 163 of the Act. The State Finance Commission feels that the District Panchayat at the District lelvel may be an effective body for the purpose of planning, implementation, monitering and reviewing all Rural Development Programmes. Accordingly the Government may consider devolving functions to the District Panchayats.

(D) Town Panchayats and Municipalities

4.2.11 The functions of the Town Panchayats and the Municipalities are one and the same and are given in various sections of the Tamil Nadu District Municipalities (Amendment) Act 1994. The same are narrated below:

(i) Provision and maintenance of Water Supply (Section 125, 126 of the Act);

(ii) Provision and maintenance of Street Lights (Section 136);

(iii) Provision and maintenance of public drainages; (Section 137);

(iv) Provision and maintenance of Public Latrines (Section 145);

(v) Arranging for cleaning the streets and removal of sweepings (Section 153);

(vi) Provision and maintenance of Public Streets, roads (Section 162);

(vii) Plant and preserve trees on the sides of Public Street(Section 162-A);

(E) Municipal Corporations

4.2.12 The important functions are:

i) Provision and maintenance of Water Supply (In the case of Chennai Corporation, this function is being attended to by the Chennai Metropolitan Water Supply and Sewerage Board);

ii) Provision and maintenance of Street Lights;

iii) Provision and maintenance of Public Drains (in the case of Chennai Corporation, this function is being attended to by the Chennai Metropolitan Water Supply and Sewerage Board;

iv) Provision and maintenance of Public latrines;

v) Cleaning the Streets and removal of sweepings;

vi) Provision and maintenance of Public Streets, roads, etc.

4.2.13 Though the Commission feels that the above functions and the additional functions suggested for devolution to these Local Bodies may be by and large sufficient for the effective functioning of the Local Bodies, provision and maintenance of drinking water supply may be added

as an obligatory function of the Village Panchayat as was in the earlier Panchayats Acts, but not found in the present Act.

4.2.14 The Commission recommends that

the existing functions of Local Bodies including the functions proposed for devolution under IVth, Xth and XIth Schedules of the Tamilnadu Panchayats Act 1994, Tamil Nadu District Municipalities (Amendment) Act 1994 and the Tamilnadu City Municipal Corporation Acts respectively are by and large sufficient for the effective functioning of the Local Bodies. Provision and maintenance of drinking water supply sources may be added as an obligatory function of the Village Panchayats as was in the earlier Panchayat Acts.

CHAPTER 3

DEVOLUTION OF FUNCTIONS

Rural Local Bodies:

4.3.01 Article 40 of the Constitution of India in its Directive Principles of State Policy entrusted to the States the responsibility of organising Village Panchayats and endowing them with such powers and authority as may be necessary to enable them to function as Units of Self Government. The term 'State' according to the Constitution, includes both the Union and State Governments.

4.3.02 Panchayat Raj Institutions which were constituted in the late fifties and early sixties in various States with the aim of public participation in development programmes have unfortunately lost their pre-eminence for a number of reasons. Lack of uniform principles among the States, absence of periodic elections, meagre participation of the vulnerable sections of the rural population like SCs/STs and women in these democratic Institutions, inadequate administrative, technical and accounting infrastructural support to these institutions, weak financial base and above all, a dilution of the Political will on the part of the State to endow these institutions with adequate functions and powers have contributed to the ineffective functioning of the Panchayat Raj Institutions. The Government of India on its part, has been making an earnest endeavour since the advent of the planning era, to ensure creation and strengthening of units of Local Self Government in our country. This endeavour is manifest in the constitution of several expert bodies such as the Balwantrai Mehta Committee whose recommendations paved the way for the emergence of the existing pattern of Three Tier Panchayati Raj System in Rural Local Government. Study team on Panchayati Raj Finances headed by Thiru. K. Santhanam, Study Group on Budgeting and Accounting procedures of Panchayat Raj Institutions headed by Thiru M. Ramakrishnayya, study team on the Audit of Accounts of Panchayati Raj Bodies headed by Thiru. R.K. Khanna, Committee of Panchayati Raj Institutions headed by Thiru Ashok Mehta have made several significant recommendations which evoked a positive response from the State Governments. Besides these efforts, the Government of India have consistently been playing a promotional as well as a participatory role in strengthening the Panchayati Raj Institutions.

4.3.03 Against this back drop, the Government of India took the historical initiative of enacting the 73rd Amendment Act to the Indian Constitution and thus facilitated the emergence of vibrant, meaningful units of Rural Local Government. Article 243(G) of the Amended Constitution has spelt out the powers, authority and responsibilities of Panchayats as indicated below:

4.3.04 "Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of Self Government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to:

(a) the preparation of plans for economic development and social justice;

(b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the XI Schedule".

4.3.05 The amendment to the Constitution which confers Constitutional Status on the Panchayatiraj Institutions viz; District Panchayats at the District level, Panchayat Unions at the intermediate level and Village panchayats at the Village level is undoubtedly a land mark in the process of democratic decentralisation in decision making. 29 subjects have been assigned to the Panchayati Raj Institutions as per XI Schedule of the 73rd Constitution Amendment Act 1992.

4.3.06 In devolving specific or itemwise functional responsibilities and powers on each layer of Panchayati Raj it has been hoped that the State Governments would be guided mostly by the principle of "relative operational capability". Given a set of specific functional responsibilities transferable to Panchayatiraj sector, the relative capability of each layer in performing a given function may guide their vertical division. In this connection, the principle of "Subsidiarity" can also be kept in view. Also, it is necessary to ensure that the vertical division of responsibilities does not offer scope for overlapping or multiple jurisdictions.

4.3.07 The functional responsibilities of the Panchayati Raj Institutions can be divided into three broad categories, viz; civic, developmental and welfare functions, though these categories may not in practice be mutually exclusive in some cases. The Village Panchayats are ideally suited to perform the civic, developmental and welfare functions due to their direct and close proximity to the people, especially where people's initiative, support and participation would play a crucial role. The middle layer can perform functions relating to planning and implementing agency at the Block Level of development programmes and also take up civic functions which are common to villages. The District panchayat seems to be an ideal Unit for performing functions relating to Planning, Co-ordination, Supervision, review and monitoring of all programmes and take up common programmes involving more than one Panchayat Unions.

4.3.08 As narrated earlier, in the 73rd Constitutional Amendment 29 functions have been indicated under XI Schedule for the devolution to Panchayatiraj Institutions. Based on this, in Tamil Nadu through the new Tamil Nadu Panchayats Act, 1994, 29 items have been proposed for devolution to the Panchayats in three layers. (Schedule IV). In the District sittings conducted by the State Finance Commission, the representatives of people, viz; Ex-MLAs, Ex-M.Ps and Ex-Chairmen/ Presidents of Local Bodies have expressed their views in favour of devolution of

functions to Rural and Urban Local Bodies forthwith. The Collectors who have expressed their views in their District memorandums have also emphasised this.

4.3.09 The 29 items proposed for devolution are only illustrative and not exhaustive. More items can be devolved, depending on the capacity of the Panchayati raj Institutions to discharge them satisfactorily and serve the people better.

4.3.10 For any devolution of functions to be meaningful, it must be accompanied by the devolution of functionaries (staff) and funds. Therefore, the scheme or package of devolution must contain these three 'F's (Functions, Funds and Functionaries) together. Though t here are various facets of devolution viz; Planning, Review, Administrative Control, Funds Control, Execution etc, to be meaningful, the devolution should be total. But it may take some more time for total devolution. However, in cases where public participation is already available in different forms , like in Co-operatives, the devolution to Local Bodies may be limited to items like identification of needs, planning and review, and need not be overlapping.

4.3.11 Though the State have adopted the 29 items as proposed in the XI Schedule for devolution to Panchayati Raj Institutions through Tamil Nadu Panchayats Act 1994, the functional devolution have not yet been defined clearly for each tier. With a view to clearly demarcate the function to each tier, the State Finance Commission initiated action and held discussions with the concerned Secretaries to Administrative Departments in the Secretariat and also the Heads of Departments numbering 17. The functions to be devolved for each layer have been finalised on mutually accepted basis and the details furnished to the Secretaries to Government concerned for issue orders of Government early (Appendix No.104).

Urban Local Bodies:

4.3.12 Similarly, devolution of Functions to Urban Local Bodies viz: Town Panchayats, Municipalities and Municipal Corporations has been given in XII Schedule of the 74th Constitution (Amendment) Act 1992, and have been incorporated under concomitant amended Acts of the respective urban local bodies in the State.

4.3.13 Through the amended Tamil Nadu District Municipalities Act 1920, the Government have included 18 functions for devolution (Schedule X) to Town Panchayats and Municipalities. Similarly for Municipal Corporations, 18 functions have been included by the Government for devolution as per the Amendments to the respective City Municipal Corporation Acts. It is seen that out of these 18 functions included for Urban Local Bodies, 10 functions are already among the functions partly or fully discharged by the Urban Local Bodies themselves. For devolving the remaining functions, the State Finance Commission held discussions with the respective Secretaries to Government and the Heads of Departments and a consensus has been arrived at for the initial devolution. The package is furnished in Appendix No.105. The Secretaries to Government have been requested by the State Finance Commission to arrange for issue of orders of Government devolving the functions to the Urban Local Bodies early.

4.3.14 The Commission recommends that

though the 29 items and 18 items have been adopted in the concerned State Acts, for devolution to Panchayati Raj institutions and Municipal Bodies respectively, the items have not been defined clearly for each tier. With a view to clearly demarcate the items to each tier,

the State Finance Commission had initiated action and held discussions with the concerned Secretaries to Government of the State Government and their Heads of Departments. For devolution, items have been finalised on mutually agreed terms and a model package furnished to the Secretaries to Government concerned for issue of early Government orders. The consensus by and large was that devolution should be gradual and in phases. The devolution of functions should be accompanied with concomittant funds and functionaries. The details are given in Appendices no . 104 & 105. These packages may be adopted.

CHAPTER 4

STAFFING PATTERN

Village Panchayats, Panchayat Unions and Town Panchayats:

4.4.01 As the Extension Philosophy of the National Extension Service Scheme of Community Development initiated in the beginning has changed and as the people are now by and large aware of the benefits of Rural Development Programmes, there is need for restructuring the staff at Panchayat Union Level to face the challenges of intensive phase of Rural Development Programmes. Recogninising this, Government (Finance Department)have agreed to consitute a Task Force at the behest of Anna Institute of Management, Chennai. However, considering the sensitive nature of Recommendations in this regard, and the fact that this is being deliberated upon at the Government level, State Finance Commission has consciously decided to be silent on these recommendations of the Task Force, leaving it to the Government to pursue the report of the Task Force, if deemed necessary. However, a few suggestions are made below:

4.4.02 With regard to daily cores of street cleaning, scavenging etc., the Commission is of the view that the work may be left to privatization on lumpsum contracts and no separate staff need be posted, in Village Panchayats; and

4.4.03 In respect of combined water supply schemes, covering more than one local body viz., Village Panchayats, Town Panchayats and Municipalities, the maintenance may be left to the Tamil Nadu Water Supply and Drainage Board. In respect of water supply services , other than combined water supply schemes, the Commission is of the view the maintenance may be with the local body which can seek if required, the assistance of the local voluntary groups in each habitation, suitably trained for this purpose.

4.4.04 The Commission therefore recommends that

i)There is a need for the Re-organization of the structure in the local bodies, particularly Rural, since the present pattern was created only at the time of entrusting the Community Development programmes to the Panchayat Unions. Recogninising this, Government (Finance Department)have agreed to consitute aTask Force at the behest of Anna Institute of Management, Chennai. However, considering the sensitive nature of Recommendations in this regard, and the fact that this is being deliberated-upon at the Government level, State Finance Commission has consciously decided to be silent on these recommendations of the Task Force, leaving it to the Government to pursue the Task Force Report, if deemed necessary. Only few geneal suggestions are made.

ii) with regard to daily cores of street cleaning, scavenging etc., in Village Panchayats the work may be considered for privatization on lumpsum contracts and no separate staff need be posted, for the Village Panchayats.

iii) in respect of combined water supply schemes, covering a number of settlements, viz., Village Panchayats, Town Panchayats and Municipalities, the maintenance may be best left to the care of the Tamil Nadu Water Supply and Drainage Board. In respect of water supply schemes, other than combined water supply schmes, which are individually catering to each Village Panchayat, the maintenance may be left to the Village Panchayat who can seek if required the assistance of the local voluntary groups in each habitation, suitably trained for this purpose.

4.4.05 All Panchayat Union works are implemented with the assistance of a Union Engineer and Two Overseers. The value of such works ranges between Rs.80 lakhs to Rs.150 lakhs per annum. The yardstick for the sanction of engineering staff was lastly prescribed in G.O. Ms. No.1207, RD & LA, dated:11.10.80 is as indicated below:

i)	Estimate up to Rs.5 lakhs	-	1 Union Engineer and 1 Overseer
ii)	Estimate from Rs.5 lakhs to 8 lakhs	-	1 Union Engineer and 2 Overseers
iii)	Estimate from Rs.8 lakhs to 12 lakhs	-	2 Union Engineers and 2 Overseers.

4.4.06 At present the normal workload in a Panchayat Union has gone up and the works are spread over the entire habitations in the Panchayat Union, requiring constant monitoring at number of points, and there is urgent need for strengthening the Engineering staff at Panchayat Union Level. Orders passed by Government in the recent past sanctioning one additional Union Engineer for each Panchayat Union has not been given effect to till date. Mere addition of a Union Engineer to each Panchayat Union is not going to solve the problem, as the present out lay towards works is very heavy. This may even be a regular feature in the future. The Commission during its District sittings held discussions with some Union Engineers, Block Development Officers, Divisional Development Officers and a few District Collectors, and gained an impression that the present system of dual control of Union Engineers by the Highways and Rural Works Department on the one hand and the District Panchayat Administration on the other has created more difficulties. The Block Development Officers and the Divisional Developmental Officers have expressed that they are not able to make use of the services of the Union Engineers effectively, and the views of Block Development Officers and the Divisional Developmental Officers were supported by a few Collectors who also felt a sense of inadequacy in extracting work from technical staff. On the other hand, the Union Engineers have expressed grievance that they are being loaded with work ,three to four times more than the norms, consequently the pressure mounted on them to complete all the works before the end of the respective financial year, inevitably resulted in poor quality of work. The Commission concedes that both sides have valid points. There is no doubt that the load of work on the Union Engineer is heavy. Since a number of works are implemented

simultaneously in a geographically wider area the engineering cell in the Panchayat Union need to be strengthened. In Town Panchayats, the technical support for implementing works either on schemes entrusted or taken from its own funds is virtually non existent.

4.4.07 The Commission therefore recommends, that

i) with the increasing amount of works taken up in various local bodiesthrough special schemes or other wise, there is a growing need for the creation /strengthning the engineering cell particularly for the Panchayat Unions and Town Panchayats. The Government may examine the need with relation to the works taken up annually in the local bodies.

Municipalities and Municipal Corporations:

4.4.08 It will not be ideal to talk of effective urban local body management without addressing the management problems involved. Personnel management assumes greater importance since the municipal bodies deal with a gamut of functions and services which affect the day to day urban living and environment. Besides, in the Indian context, another important aspect is that Municipal administration is labour intensive.

4.4.09 The Commission which has gone into the recommendations of the norms committee, and the orders of the Government issued there on, recognises that the existing Government orders may be followed. For the implementation of schemes project staff may be required.

4.4.10 The Commission therefore recommends that

i) In respect of special schemes like Centrally assisted Integrated Development Programme of Small and Medium Towns, State aided Integrated Urban Development Project, Municipal Urban Development Fund, Water Supply Schemes, cost of project staff whether recruited temporarily or existing staff should be built into the project and form an integral part of the overall project cost.

CHAPTER 5

HUMAN RESOURCE DEVELOPMENT AND TRAINING

4.5.01 Grass root level governance has been entrusted to the Local Bodies squarely in respect of functions and the resource acquisition methods have also been broadly laid down. It therefore follows that these Local Governments have significant responsibility to plan and implement activities to bring about Economic Development and Social Justice. This aspect will place on the shoulders of Local Government a new pattern of responsibility and accountability. The democratic composition would naturally ensure accountabillty to the Local Public. The elected representatives of people and the administrative machinery under them have been entrusted with an onerous task of governance for the twin objectives of Economic Development and Social Justice.

4.5.02 In the past, there have been cases of failures in the Local Government performance failures attributable to maladministration. This shows the need for Training and Human Resources Development (HRD).

4.5.03 Successful and effective governance by local government cannot be realized if the people's representatives in the local governments and the officers and staff involved in the

activities of the local governments do not possess requisite apitude and skills needed. Otherwise there would be huge wastage of resources and the institutions of governance may swiftly degenerate into deceased organizations draining out precious public resources.

4.5.04 Unless such attitudinal changes and skill development are planned and achieved by a well conceived Training Plan, efflux of time can cause irreversible damage to the ideology of decentrailsation, thus challenging the very roots of local governments as a vehicle of empowering people.

4.5.05 A comprehensive Training plan to develop all those involved directly in civic administration, and in bringing about economic development and social justice in the different tiers of local governments, may cover

i) Non-Official Leaders.

ii) Officers and Staff of the Local Bodies.

iii) Officers in the Line Departments and in the Secretariat in Rural Development Department and Municipal Administration and Water Supply Departments who are closely connected with Local Body Administration.

4.5.06 Such personnel may be involved in enforcement, regulatory, inspectional or facilitating or catalytic role. In all these categories of people belonging to different levels of organisations, there are different hierarchial strata as follows:

a. Policy making
b. Top Management
c. Middle Management
d. First Level Management
e. Supervisory
f. Operational staff

4.5.07 Devolution of powers and functions to the Local Governments has to be followed with commensurate change in the mindset of the personnel in the departments and agencies having like relationships. Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply & Sewerage Board, Tamil Nadu Electricity Board, Highways, & Rural Works, Public Health, Medical etc., are some of the key departments/bodies whose personnel having relationships with Local Governments require attitudinal change for programmes as well as development.

4.5.08 Performance depends not only on the skills and capabilities of people but also on their attitudes towards the jobs. Attitude is a disposition or state of mind which makes people contribute to the objectives of the organisation with dedication and devotion. The requirement is therefore attitudinal change and skills development.

4.5.09 The enormity of the training can be visualized if the number of Local Body institutions is considered:

a. Village Panchayats	12,584
b. Panchayat Unions	384
c. District Panchayats	28
d. Town Panchayats	635
e. Municipalities and	104
f. Corporations	6
Total	**13,741**

4.5.10 The elected representatives, officers and staff of these organisations are included for training along with the people in the State Government Organisations who are involved in the activities of the Local Bodies.

4.5.11 The time frame available for completing the whole comprehensive Training Plan is very limited. While many key people in the local Governments have to be trained even before they get into operation, viz., the elected representatives, those who are already in service have to be trained in the course of 3 to 6 months. The infrastructure for imparting such a comprehensive Training will have to be identified and provided for immediately.

The Training Plan

4.5.12 Before training, it is necessary to assess the training needs such as Training Centres, duration, Syllabus, etc. in the same way as any other manpower Planning and Development exercise. Technical Education Directors, Local Government training Institutions both in the Urban and Rural Sectors, Non-governmental Institutions, Institutes of Management, Schools of Social Work besides training Institutes attached to the Line Agencies and Government Departments in the State can participate in this type of assessment as well as in the training programme in collaboration with the Local Bodies.

4.5.13 Considering the enormous number of personnel that need to be trained, the task could be approached by identifying suitable persons with aptitude and zeal, for training them as trainers, with special programmers for such training with suitable syllabus and material so that teams of trainers could be effectively utilized to train both non-officials and officials involved in local body administration.

4.5.14 While the Panchayat Union Centres can be the nucleus for organizing the training activities of village Panchayat Presidents and Vice Presidents, the Regional Training Centres like Rural Extension Training Centres, and the State Institute of Rural Development Chennai and the Institute of Urban Studies Coimbatore can be utilised for training Panchayat Union Chairmen/Vice Chairmen, and Presidents/Vice-Presidents of Town Panchayats and Chairmen/Vice Chairmen of Grade I, II and III Municipalities respectively. Chairmen of District Panchayats, Chairmen/Vice Chairmen of the Special Grade and Selection Grade Municipalities can undergo training alongwith Mayors and Deputy Mayors of Municipal Corporations, Heads of Departments and Line Agencies at the State and National Level Training Institutions.

4.5.15 Based on the needs assessed and the priorities, a Training Plan has to be formulated which inter-alia should cover Institutions to be selected, duration, syllabus, facilities required, outside faculty members required, funds required etc., The existing Training Centres viz 5 Rural Extension Training Centres, the State Institute of Rural Development (S.I.R.D.) Maraimalai Nagar and the Institute of Urban Studies at Coimbatore need to be strengthened with all facilities to meet the challenge. Further, the S.I.R.D. and the Institute of Urban Studies, Coimbatore shall also be institutions for Research & Development work in Rural and Urban Local Body affairs.

4.5.16 The Commission therefore recommends that

i) an integrated training package of inductional, functional and managerial training shall be imparted to officials and non-official elected representatives involved, on the functions and responsibilities of local bodies.

ii) the Anna Institute of Management, Chennai being an apex body having expertise in the field of Human Resource Development may be retained as a consultant to asses the training needs of various sectors, levels and functions involved in Local Government structure and in Line Department/ Agencies structures and to give a Comprehensive Training Plan.

iii) the Anna Institute of Management, the State Institute for Rural Development (S.I.R.D.), and the Institute of Urban Studies Coimbatore may take up training of trainers as well selectively, impart training to certain categories of officers from both Local Governments and Line Agencies/ Departments in the aspects of " Financial Management of Local Bodies" and "Management of Services by Local Bodies".

iv) it will be necessary to utilize the training modules already developed by the National Institute of Rural Development, Hyderabad to train the trainers in Panchayatiraj Systems and National Institute of Urban Affairs , New Delhi for Urban Local Bodies. As the whole exercise is people oriented, extensive utilization of Non-Governmental Agencies should be taken up. Agencies like Madras Institute of Development Studies, Chennai, UNICEF, Gandhigram Rural Institute (Deemed University), Institute for Financial Management and Research Chennai, Madras School of Economics Chennai, National Institute of Financial Management and Policy (N.I.P.F.F) New Delhi, All India Institute of Local Self Government, Mumbai, MYRADA, C.P.R. Environmental Education Centre, Chennai, Sathiamoorthy Foundation, Chennai can be sources of expert resource persons to disseminate concepts and to bring about attitudinal transformation and such opportunities should be tapped regularly and fully.

v) In as much as all departments and undertakings of government have already been directed by government in G.O.Ms.No.239 Personnel and Administrative reforms Department (Trg.III) dated 17.7.95 to allocate upto 0.5 percent of their expenditure on salaries annually as their training budget, local body institutions like Panchayat Unions, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations may be requested to contribute not less than 0.5 percent of their annual salary expenditure to a training fund to be set up for this purpose for strengthening the Rural and Urban training centres and for the training programmes, under the overall management of the Director of Rural Development, Director of Municipal Administration, Director of Town Panchayats respectively. Funds set apart for training components under JVVT, UBSP, NRY, Prime Ministers Self Employment Programme, besides assistance from UNICEF, MUDF TNUDF may also be accessed for funding the training programme.

vi) In all departments including line agencies who have functional relationship with the Local Bodies, a compact training cell shall be set up in the office of concerned Head of the Department at the state level by re-deploying the existing staff, where such a cell is not already functioning. This cell will take up this responsibility, assess the training needs, process the deputation of officers to various institutions, review the progress annually, and update the curriculum with special reference to the training needs of the department.

vii) Considering that the number to be trained may be around one lakh, a crash programme of training be initiated immediately, due precedence in the programme given to elected representatives; training programme for officials may also be commenced.

viii) The Training Cell to be set up for formulating the training programmes should bear in mind that the training format for non-officials is essentially one to expose them to their rights and

responsibilities in managing and administering the local self-government in the light of powers and functions devolved on them consequent on the constitutional amendments whereas the training format meant for officials, besides exposing them to the new role they may have to play in the revised set up where powers of Government vest with the elected representatives, could also comprise of inductional, functional and managerial programmes. The main theme for all the training programmes shall be development of skill and attitude for realization of local governance by people.

ix) The training given to junior assistants and new entrants, recruited through Tamil Nadu Public Service Commission and State level selection committees, in the Civil Services Training Institute, Bhavani Sagar, shall be a pre-service training and shall be before appointment, so that they join in their jobs, fully trained on the fundamentals of Governmental/local body administration.

x) The functional training to be imparted will cover both new entrants and those who are already in service, but who have not undergone such training programme earlier. While new entrants will join the regular package of functional training module conducted periodically, a one time assessment of all the personnel in service who have not undergone such training programme, shall be made and a crash programme be conducted to complete the training within a fixed time frame. Such functional training programme should have in its curriculum modules of administration and maintenance of accounts. Only when the staff are thorough with the provisions of the Acts, rules and regulations, utilization of funds will be proper, maintenance of accounts will be regular and benefit will reach the people fully on time.

xi) The infrastructure facilities in the existing Rural Extension Training Centres, State Institute of Rural Development, Maraimalai Nagar, and the Institute of Urban Studies, Coimbatore is to be strengthened for meeting the training needs. The S.I.R.D., Chennai and the Institute of Urban Studies, Coimbatore shall also undertake Research and Development work in Rural and Urban Local Body affairs respectively.

CHAPTER 6

COMMUNITY PARTICIPATION IN LOCAL ADMINISTRATION

4.6.01 An individual citizen is more directly affected by Local Government administration than by policies of the Union and State Governments. It is at this local level that services like road maintenance, street lighting, water supply, transport and communication and plethora of similar services are relevant to everyone. The attitudes towards public administration are general in nature and they are usually shaped by personal contacts. Since the citizens contact with the Local Government is closer and more frequent, public administration at the local level assumes critical importance. While working for improvement in the local administration, local authority must also endeavour to secure greater and better understanding from the citizens. It is only from such an understanding that we can expect greater reponsiveness and enthusiasm from the people.

4.6.02 The rights of the citizens relate to the basic needs of decent living . Citizenship is an obligation as well as a privilege. He is obliged to observe a code of conduct that reflects the interdependence of the citizens in matters of civic nature. Such a code of conduct is all the more

essential in a thickly populated and somewhat heterogeneous community. On one hand, the physical scene must be improved and on the other an education campaign undertaken with the object that the local community is enthused and mobilized with regard to the negative and positive aspects of civic behaviour. Among the instruments to be used, the most important is local leadership of both individuals and institutions. This must give rise to the birth of community development programme and every local administration must endeavour to provide a suitable machinery for undertaking such a programme. The problem is to devise ways of giving the individual an opportunity to play a more meaningful role in the Local Body Administration which are shaping the policies and programmes which affect his physical, aesthetic, occupational, recreational and environment at the local level.

4.6.03 As a result of citizens' involvement, the following gains may accrue to the Local Body:

i) Citizens' involvement may improve the quality of public decision by ensuring that such decisions are based on complete and accurate information. Obtaining citizen's views before final decisions are arrived at will enable the local authorities to know the potential alternatives.

ii) Citizen's involvement will provide to the local authorities information which will alert them, to the potential problems and pit falls that could inhibit the progress of implementation. Another advantage would be that if the employees learn that citizens are monitoring the quality and quantity of services, their motivation for better services will improve delivery.

iii) Citizen's involvement will also help in improving the finances of the Local Body to the extent that greater involvement in the making of Government decisions creates a positive incentive for citizens to work for stengthening the civic community's financial basis. This will increase citizen's willingness to pay for the progress and projects which they know are going to cater to the basic needs of community.

iv) The increased citizen's involvement in the solution of neighbourhood problems will motivate them to solve their problems. If for example, citizens become involved in the development and operation of programmes, designed to meet people's need for shelter, they may in the process, identify additional ways of solving housing problems which do not require Government involvement. In the long run, neighbourhood development depends primarily on the willingness and ability of the citizens to develop solution to their problems.

Role of Non-Governmental Organisations in Municipal Administration:

4.6.04 Urban Government has to work in the midst of a set of peculiarities of its own, namely, first, the concentration of a large population in geographically small areas creates congestion in the living pattern; slum life is intrinsically an urban phenomenon; secondly urban people are engaged in hetrogeneous occupations and professions; third, urban people are conscious of their rights and duties; fourth, urban life is atomized and marked by anonimity and aloofness, hence it is difficult to generate strong community feelings; fifth, urban life is heavily dependent on organized infrastructure of civic services.

4.6.05 Hence improvement in the standard of infrastructural services requires planning and would be aided by the involvement and participation of people in urban Government. It is not enough to elect the Government though democratic processes, it is necessary to devise institutional

mechanisms for community participation in urban planning and development. The success of urban development and civic services management depends on the cooperation and active participation of the people, especially the poorer sections.

4.6.06 Urban Community Development (UCD) will be a useful approach for providing community services with grassroot participation in identification, execution and maintenance of development projects. It is suitable for the decentralized delivery of selected community services at a relatively low cost and is replicable in other areas of urban planning and development. For some time now, urban community development projects have been undertaken in Delhi, Bombay, Calcutta, Madras, Baroda, Ahmedabad, Hyderabad, Kanpur and other cities by such agencies as the Central Social Welfare Board, Bharat sevak Samaj, American Friends Service, Ford Foundation, Swedish swallows, Lutheran Services, Exnora and others. In Chennai Municipal Corporation area, "Exnora Madras", a people's movement is doing yeoman service in the upkeep of the civic services by actively involving the people of the area.

4.6.07 Generally projects for community welfare have been started in deprived or backward areas and slums. A sense of patronage usually enters in service management and delivery, and the local people normally seek external assistance for ameliorating local environmental conditions. However, the local community needs to be awakened to its potentialities for self-organization, mutual cooperation and sharing of responsibility in managing urban development through the active participation of the NGOs. Project organization will not only have to be undertaken by the community itself but the Municipal and State Authorities would have to encourage and promote it by rendering active assistance and extending appropriate facilities so that people could come together and work for the improvement of their physical and social environment. The institutional support for the Municipal Authorities and the Government is part of the urban community development because the nature of urban living and its demands are too complex and gigantic to be tackled by voluntary community efforts alone through NGOs.

4.6.08 The possible areas where development projects can be organized with community participation include shelter building, health and family planning, special nutrition programmes, informal and pre-school education, training for imparting skills, economic support, programmes involving the giving of pattas of house sites, organizing development committees, Mahila Mandals, Welfare Councils, etc. and community oriented social and cultural activities.

4.6.09 Once the poor and disadvantaged sectors are effectively organized through NGOs participation, they can function as a check on the bureaucracy technology-contractor nexus in the development process. By exercising sufficient vigilance the organized community would also be in an advantageous position to fight against administrative corruptions. However, whether and how far these goals would be achieved depend on the extent of the functioning of the basic democratic institutions like the competitive political system, free press and independent judiciary.

4.6.10 Experience of urban community development through community participation suggest that such efforts constitute a useful process of training the poorer sections of the society in self help and mutual cooperation. The importance of basic linkages between voluntary efforts and environmental improvement, and between community initiative for development and financial institutions in the formal sector of the urban economy has been well demonstrated through the urban community Development and Urban Basic Services.

Role of Non-Governmental Organisations in Rural Development Administration:

4.6.11 Non-Governmental and community organizations have an equally important role to play in rural administration and development under the new dispensation of Panchayati Raj Institutions. Unfortunately in spite of the people's institutions like the Panchayati Raj, it has been pointed out time and again that people are not coming forward and involving themselves in the functions of the local institutions, except perhaps at the time of voting. People's participation either in the implementation of the programme or in developing plans for the improvement to a village, area or community is greatly dependent on them being ascribed roles in the community. If they occupy roles in a community which are vulnerable, the chances of their participation will be very much less. Whatever may be the ascribed position of an individual in a particular community, his position as an individual member of the community must be recognized regardless of his personal resources and until and unless this is done, the chances of people's involvement will remain bleak.

4.6.12 The process will also call for active involvement of grassroots activities and voluntary groups. The proposed restructuring of rural development programmes is not to be left to the Government alone, nor even to elected bodies. A substantial contribution will have to come from social action groups and organizations that are in constant touch with the people, particularly with the marginalised and deprived sections so that the relevant institutions remain accountable and responsible.

4.6.13 Potentially this arrangement can help increase the effectiveness of various programmes arrived at for women and children-such as maternal and child health services, integrated child health services, adult education and nutrition-by conveying these services through a responsive local agency.

4.6.14 Among the responsibilities of the Village Panchayats, the following items of work involve negligible amount of labour component.

Provision of drinking water.,

Provision of community Radios.,

Provision of Television sets.

These works involve only switching on and switching off the relative equipments which can be done at the wink of an eye or twist of fingers. Even for these services, the Panchayats have employed men on a paltry sum paid as honororium. The attention paid by these persons is naturally commensurate with the amount they receive. They also demand certain other benefits like bonus, weekly holidays, uniform cloth etc., which the Panchayats are not able to afford. The most suitable method to get this work done satisfactorily, is the entrustment of this work to Non-Governmental Organisations, or Organisations like Scout, N.S.S. Since there are more than 12,000 Panchayats, Non-Governmental organizations with a wider network covering the entire state will be ideal. The boys' scout, N.S.S. are also the organisations which are more suited for this purpose. It is learnt that the scout organisation has established itself very well in Maharashtra, West Bengal and Karnataka as the State Governments have put the organisation to the optimum use and also have offered substantial financial assistance. In Tamil Nadu every village has got an elementary school and a bigger village has got a High School or Higher Secondary School. If boy's scout is organised in all the schools it will be a force that can be reckoned with for the entrustment of this job. The

State Government may think of enhancing the grant-in-aid now given to scout organisation and entrust these jobs to them wherever possible. The boys' scout being a well trained organisation, their services can be utilised for purpose of cleaning the surroundings of drinking water sources, Panchayat bus stands, cart stands, public markets, etc., for which at present there is no arrangement existing in the Panchayats. In Schools and Colleges, in their curriculam, the need for proper maintenance of core civic services, the involvement of the students and the poeple in this affair must be included.

4.6.15 The Commission therefore recommends that

i) In all development programmes, the role of community is very crucial both for the success of the programme as well as for its sustainability, emphasizes that the community should not only participate in the planning, implementation, monitoring and evaluation of the programmes but to the extent possible should be partners in the cost sharing. The non-Governmental Organisations (NGOs) are better suited to organize the community and evolve suitable structures for such participation by the community; therefore recommends that NGOs should be involved not only in the task of community organization but also in policy formation and monitoring and evaluation.

ii) Non-Governmental organizations which are community based, non-political and are constituted by the marginalised people and have a close and effective rapport with the people they work, may be given their due recognition and effectively utilized in planning, implementation and management of programmes at grassroots level in both urban and rural areas.

iii) A catalogue enlisting all Non-Governmental and community organizations involved in Local Body Administration both in rural and urban areas be prepared immediately, for involving them in formulation of plans, implementation and monitoring local area programmes of action. Their representatives can participate in various committees that are constituted for formulation of the programmes and monitoring of its implementations.

iv) Adoption of a bottom up approach to plan for urban poverty alleviation may be resorted to for starting from the micro plans at the community level and developing them into the town/district/ metropolitan plans as envisaged in the 74th constitutional amendment, and also to develop a total city plan for the urban poor.

v) NGOs and wherever possible, Organisations like Scout and N.S.S. can be involved for the proper maintenance of community infrastructure like water supply, roads, street lighting etc.

vi)In Schools and Colleges, in their curriculam, the need for proper maintenance of core civic services, involvement of the students and the people in this affair, must be included.

PART - I

INTRODUCTION AND METHODOLOGY

CHAPTER 1

INTRODUCTION

1.1.1. Local self Government was central to the ideological framework of India's national movement. It was in this context Gandhiji had said,"True democracy cannot function by twenty men sitting at the centre. It has to be worked from below, by the people of every village".

1.1.2. Freedom was won but soon lost to centralization of power and authority. Huge investments made through capital intensive projects did not percolate down to the masses. It was not difficult to diagnose the malady, not at least for Nehru, who said, "To uplift lakhs of villages is not an ordinary task. This can be done only if people take up the responsibility. They are not merely to be consulted, the effective power has to be entrusted to the people".

A visionary like Perarignar Anna, former Chief Minister of Tamil Nadu, felt the same way, "Village Panchayats constituted the bed-rock of democracy and unless we strengthen them, our democracy cannot be strong and vibrant".

1.1.3. Converting the vision into reality was a daunting task. Particularly so, because India is a vast country with a surging population of multi-ethnic characteristics. Political and economic management of such a big nation from one particular location is difficult, inefficient and unprofessional. It was under this realization that the late Prime Minister, Rajiv Gandhi launched the Panchayat Raj Act, "It is a revolution that will bring democracy to the door steps of crores of Indians; it is a revolution that will open the doors of opportunity to millions of Scheduled Castes and Scheduled Tribes and at least to half of the population of our country, the women of India".

1.1.4. The 73rd and 74th Constitutional Amendments came into effect on April 24, 1993. This was a land mark of transition of political power to the grass root. This was also a big leap to achieve Gandhiji's `Village Swaraj'. Conformity legislations were soon passed in the States. It not only provided a constitutional status to the local bodies

but also laid down, without ambiguity, that legislature could, by law, endow them with such powers and authority that may be necessary to enable them to function as institutions of self - Government. Hopes were aroused. All over the country, there was excitement about strengthening the local self Government. It was expected to provide greater participation by the people in the affairs of local bodies, in planning and implementation of development programmes. The local bodies were, in turn, expected to provide more responsiveness to the needs and aspirations of the citizens.

CHAPTER - 2

HISTORICAL BACKGROUND

1.2.1. The system of local self-government, both urban and rural is not alien to Tamil Nadu. The inscriptions in Uthiramerur exhibit the existence of a similar system during Chola period in 10th and 11th centuries which was controlling the entire community life. The system of election was in existence even during those days. The British rule eclipsed the systems which were in vogue in Tamil Nadu as well as in India. However, the Imperial government later realised the necessity of local self-government and initiated many measures to create local bodies under various enactments.

A. URBAN LOCAL BODIES:

1.2.2. History reveals that the Municipal Administration in Madras, was first introduced in the year 1687, when a Corporation was set up to levy certain direct taxes and to provide certain amenities like education, cleaning the roads etc. Subsequently however, this Corporation was substituted by a Mayor's Court in 1726 to collect taxes for provision of local amenities. This was also established in Bombay and Calcutta, but lasted only till 1842. In 1850 a new Act, viz., Improvements in Towns Act, was passed by the Government of India extending the local self Government to the whole country and authorising a system of administration by Councillors in the matters of construction, repairs, cleanliness, lighting, maintenance etc. However in 1863, based on the report of the Royal Army Sanitary Commission, pinpointing the insanitary state of affairs in Indian towns, a series of Acts were passed, which led to the establishment of city municipalities through Lord Mayo's Resolution of 1870.

1.2.3. During the late 19th century, Lord Ripon undertook an evaluation study on the progress of the local self-Government since 1870, and the Lord Ripon's resolution of 1882 came into force, whereby the Government made attempts to divide the functions between the provincial Government and the Local Bodies in order to raise more income through local sources by the local bodies themselves. Subsequently, based on the recommendations of the Royal Commission on decentralization set up in the year 1907 and the Montague- Chelmsford Report of 1918, the Government of India Act 1919 was passed wherein, among other things, the system of 'Dyarchy' was introduced. The type of organization, powers and responsibilities of urban local bodies differed from State to State but there was a similarity in organizational structure of these urban local bodies.

1.2.4. For the smaller cities and towns, Municipalities were formed, while big cities were governed by Municipal Corporations. The Corporations were headed by a Mayor and the Municipality by a Chairman. In Tamil Nadu the Madras City Municipal Corporation Act 1919 was enacted and the Municipal Corporation started functioning with effect from 1919 in the very same building named after Lord Ripon.

1.2.5. The enactment of District Municipalities Act in 1920 enabled the formation of municipal councils to elect the local representatives and chairpersons with powers to frame their own budgets. The tax payers were allowed to vote and also stand as a representative to the councils. This Act also underwent changes from time to time to efficiently function, to suit the changing circumstances and also to overcome technical and legal deficiencies. These urban local bodies were having regular executives to carry on their day to day work based on the general principles and policy laid down by the councils.

1.2.6. The urban local body administration has also been reviewed by various commissions/enquiry committees appointed by the Central and State Governments for improving the resource generation and providing service responsibilities.

1.2.7. A significant difference between the Panchayat Raj and the Urban Local Bodies is: while the Panchayat Raj body has a linkage of organisations with a three tier system, the urban local bodies are independent and have no linkage either with the higher bodies or with the administrative machinery at the District level. They were mostly controlled directly by State Government and all the aids have been rendered direct from the State. However, an Inspector, who was also the inspector of other local bodies at the State level, was controlling the municipal bodies. Now a separate Director/Commissioner is looking after the Municipal Administration. The Corporations were however under the direct control of the Government until recently when they are placed under the administrative control of the Director General of Municipal Corporations. The organisation and powers of these bodies are dealt with in greater detail in the appropriate chapters in Part IV.

B.RURAL LOCAL BODIES:

1.2.8. The Panchayati Raj system on the other hand, was in vogue in India from time immemorial. History reveals that there was a well developed system of Village Panchayats in ancient India that had almost become defunct during the 17th and 18th century under the British rule. Gandhiji had remarked 'long ago, how long history does not record, the Indian genius worked out the "village and local panchayat" through which "the villagers' life has maintained its even tenor away from the din of battle and the rush of rising and falling empires". Inspite of its ancient origin the Panchayats or ancient republics as termed by Gandhiji, were broken under the British rule, by their ruthless method of revenue collection and it was only during the period of Lord Mayo in 1871, the rural bodies were revived, that too, at the District level and not at the village level.

1.2.9. The Local Funds Act of 1871 actually enabled the Governor- in- Council to declare any district or part of the district as a local fund circle to enable the local bodies created under that enactment to collect local taxes. Under the 1884 Act, a three tier system of local bodies was brought into force with a group of villages known as Panchayat taluk boards at taluk level and district boards at district level only to collect revenue. This was further modified and in 1920, the Madras Local Boards Act and the

Madras Village Panchayats Act were enacted replacing the Act of 1884, yet retaining the three tier structure of Union (Panchayats), Taluk Boards and District Boards and enforcing the demarcation and reservation of tax powers. Upto India's independence the Panchayats in Tamil Nadu and in India as a whole, were rocked with many amendments and new Acts. Finally District Boards Act 1920 was in force with amendments made from time to time. Yet the control of finances was from above, first for the centre and only thereafter for the provinces.

1.2.10. It was only after India's independence, Mahatma Gandhi revived the "little republic" by his moving words viz "India's independence must begin at the bottom. Thus every village will be a republic or a Panchayat having full powers. The greater the powers to the panchayats, the better for the people". As a result, Article 40 in Part IV of the Constitution of free India laid down the principle, " The State Government shall take steps to organize village panchayats and endow them, with such powers and authority as may be necessary to enable them to function as units of self-government."

1.2.11. Accordingly, after extensive studies by various Commissions and study team, the Village Panchayats Act 1950 was enacted in Tamil Nadu to look after the local needs of the people. The Village Panchayats were classified as Class I and Class II and were in charge of areas of civic functions, like roads, health, sanitation, lighting, drinking water supply through wells, etc. The District Boards were taking care of major works like roads between villages , health protection, education upto High Schools, Maternity, Dispensaries, hospitals, choultries, etc.

1.2.12. After the dawn of freedom the community development programme for development of rural areas was looked after through the community development blocks, constituted by the Government of India all over the country to cover rural population of about 75,000 in a Block. A situation arose, thereafter, where the local bodies were confined to civic functions while the government authorities took care of all developmental functions. The question of people's participation in developmental programmes was not envisaged in the system in vogue which was engaging the attention of the national government.

1.2.13. In the year 1952, a study team under the chairmanship of Shri Balwantrai Mehta was constituted to study these aspects. One of the major recommendations of the study team was that all developmental programmes undertaken in a local area should be channelised through elected bodies.The study team also recommended the creation of an inter-connected system of democratic institutions at village, block and district level which could undertake developmental activities with the people's participation. The team also recommended that the block level institution could be converted as a Panchayat Union/Samithi which should be the unit in charge of all development work since the unit at district level would be unviable and the panchayats at village level should undertake the provision of basic amenities in villages and also involve in the developmental activities formulated by the block level institution. The district level organisation, namely, Zilla Parishad was more to co-ordinate the activities of various samithis at district level.

1.2.14. The advent of Tamil Nadu Panchayats Act, 1958 incorporating the recommendations of Dr.Balwantrai Mehta Committee envisages a clear demarcation of duties and responsibilities between the institutions at block level and village level. It also provided for entrustment of the National Extension Service and CD programmes to the panchayat unions which were coterminous with the erstwhile blocks . The panchayats were classified as Village and Town Panchayats and were expected to attend to all the civic services while the panchayat unions were designed to attend to the common civic services of the entire local area and also infrastructure facilities in common to the area such as link roads, health protection, maintenance of dispensaries, maternity centres, elementary education, maintenance of irrigation tanks and other development functions under NES, CD schemes and also other schemes entrusted by the State and Central governments. While implementing these schemes, panchayats at the village level were utilised as agencies. The Government placed at the disposal of Panchayat Union Councils, the entire staff working in the former CD blocks free of cost and also a few additional ministerial staff for the functioning of the Panchayat Union Councils.

1.2.15. The Tamil Nadu Government considered to have only a two tier system. The District Boards were abolished and the Panchayat Unions assumed the role as successor body for the District Boards. In lieu of the District Board, the District Development Council was created by a separate enactment to review and monitor the various development programmes and the functioning of the Panchayats in the rural areas under the chairmanship of the Collector of the District.

1.2.16. The Panchayat Union was the fulcrum of all developmental functions where all extension services of different departments connected with the rural administration were made available to facilitate local people to have easy access for help and remedial action, especially in the case of Agriculture, Animal Husbandry, Public Health, Education, Family Welfare etc. The people's participation in development functions was ensured by formation of the elected councils in which the representatives of Village and Town Panchayats were members. In all the schemes under CD, a small contribution was being collected by the Block Administration from the local people. After the advent of Panchayat Union Councils, the Panchayat Unions were permitted to contribute from their own resources, the amount needed as people's contribution. This also ensured actual participation by the local public in the creation of infrastructure facilities in the local area. The system was established and the credentials of the Panchayat Unions were accepted for over two decades.

1.2.17. However, late eighties exhibited a definite change in the role of Panchayat Unions when various developmental functions like Agriculture, Animal Husbandry, Elementary Education, Public Health were taken over by the line departments of Government under one or the other pretext. The introduction of new employment oriented schemes by the centre, with full assistance shared by State and Centre without any contribution from the public or the Panchayat Union, has reduced the actual participation by the local public in these programmes. The entire style of functioning had become more or less of a Government department and in course of time, the Panchayat Unions

were reduced to the level of Government Departments, with main activities confined to massive employment oriented schemes like NREP, RLEGP, JVVT, IRDP, EAS etc. depending on full assistance from the Central and State Government. In course of time the statutory functions assigned under the Act have been given decreasing attention.

1.2.18. However, in the context of the successful implementation of economic programmes like IRDP and employment programmes like JVVT it was considered necessary to make panchayat unions once again the focal point of development works in rural areas without which, there cannot be any better performance to alleviate poverty and create infrastructure and community assets which have to be taken care of by the local bodies after their creation.

STUDIES ON THE LOCAL BODY FINANCES AFTER 1958

1.2.19. Shri Balwantrai Mehta Committee suggested the democratic decentralized system, for the planning and implementation of the community development programmes through a three-tier system and for a switch over to an institutionalized participative approach to rural development at local levels. In Tamil Nadu and other states concomitant Acts were passed. Only a few States had adopted its recommendations in full.

1.2.20. The Santhanam Committee 1963 which followed next, suggested various tax and non-tax resources that could be implemented by the P.R.Institutions after studying the resource mobilisation efforts taken in all the states. After formation of the three tier system consequent on Balwantrai Mehta Committee recommendations and the setting up of a Financial Corporation in the three tier institutions, a declining trend in the running of these institutions was observed.

1.2.21. The Central Government appointed a High Level Committee in the year 1977 under the chairmanship of eminent legislator Dr. Ashoka Mehta, to review the P.R. system and also to enquire into the causes of decline of the Panchayati Raj Institutions and to recommend appropriate measures to reform and rejuvenate them. This Committee submitted a number of recommendations for reform and revitalization of the Panchayati Raj based upon 'the central premise of linking institutions of democratic decentralization with socially motivated economic development' and emphasized the need for District Planning and mobilization of funds on their own, for the plan implementation.

1.2.22. Subsequently, in 1985 and 1986,the G.O.I. constituted two committees. The Sarkaria Commission recommended constitutional provision to secure elections to Local Bodies. The P.K.Thungan Committee recommended constitutional recognition for Local Bodies. The G.V.K.Rao Committee constituted in 1985 suggested, among other things, for the devolution of powers and authority to the village panchayats and the L.M. Singhvi Committee 1986 suggested for allotment of adequate resources by the Finance Commission appointed by the G.O.I. under the Constitution of India, for implementing various rural development and poverty alleviation programmes at the grass root levels.

1.2.23. Meanwhile in Tamil Nadu,the State Government also constituted a committee called the "Panchayat Education Finance Enquiry Committee" in 1969 to examine the strain on the resources and capacity of the Panchayat Unions in meeting the expenditure on elementary education.

1.2.24. In 1976, the Vasudevan Committee was constituted by the Tamil Nadu Government to study and examine the pattern of assistance to the Panchayat Unions. But no orders have been issued on the recommendations of this committee by the Government except on the revised classification of blocks suggested.

1.2.25. Under Section 143A introduced to the Tamil Nadu Panchayats Act 1958, in 1989, an expert committee had to be formed to review the financial position of the Panchayats and Panchayats Unions once in five years. As per this provision, an "Expert Committee" was constituted in the year 1990, under the chairmanship of Thiru A.R.Damodaran Ex.MLC to study the financial position of the Panchayat Union Councils and Village Panchayats and to suggest measures for the improvement and augmentation of the finances of the Panchayats and Panchayat Union Councils.

1.2.26. The Municipal Finance was also reviewed in Tamil Nadu from time to time. In the year 1972 the Government constituted a High Power Committee of officials under the chairmanship of Thiru S.Venkitaramanan, I.A.S., to go into the details of the ways and means position of the Corporations in Tamil Nadu and to suggest measures to tide over the financial crisis as well as to improve the financial position of the Corporations. Subsequently, the High Level Committee headed by Thiru A.N.Sattanathan went through the administration of Madras Corporation in the year 1978 and gave suggestions for improvement of finances of the Corporation among other administrative reforms needed. The Shanmuganathan Committee and later on the Municipal Finance Enquiry Committee headed by Thiru T.V.Vasudevan, I.A.S., during the year 1980 also conducted deep studies on the financial positions of the Corporations and made various recommendations for strengthening the finances and tax reforms. However, the Government of India, during the year 1992, took into consideration the suggestions and views expressed by the V.K.Rao Committee (1985) for devolution of powers to the Local Bodies and L.M.Singhvi Committee (1986) recommendations for allotment of adequate resources to the Local Bodies and sought to amend the Constitution of India Act 1992 by introducing the 73rd and 74th Amendments.

LATEST CONSTITUTIONAL AMENDMENTS

1.2.27. The institution of Local Bodies in India failed to acquire the status and dignity of viable units of self-government and a responsive people's body. Hence keeping in view the past experiences, the Government of India under the visionary leadership of the late Prime Minister Mr.Rajiv Gandhi, initiated efforts to provide constitutional status to local self-Government to impart " certainty, continuity and strength". Accordingly, the 73rd and 74th amendments to the Constitution of India were carried out in the year 1992.

1.2.28. The Tamil Nadu Panchayats Act 1958 was replaced by the new concomitant Tamil Nadu Panchayats Act 1994. With inclusion of the transitional areas viz. the Town Panchayats, the District Municipalities Act 1920, was suitably amended. Municipal Corporation Acts also underwent similar amendments to incorporate constitutional amendments.

1.2.29. The new Tamil Nadu Panchayats Act 1994 has a three-tier Panchayati Raj System on the rural side with a District Panchayat at the District level, Panchayat Union at the intermediary level and Village Panchayat at the grass root level.

1.2.30. The amended Municipality / Corporation Acts 1994 now have Corporations, Municipalities and Town Panchayats on the urban side.

1.2.31. The 73rd and 74th Constitutional amendments have further endowed, the local Governments with powers and functions to enable them to function effectively as self-governing institutions. The urban local bodies will hereafter be responsible, in addition to their usual functions of provision and maintenance of civic services, regulation of industry, trade and construction activities for such functions and implementations of the centrally sponsored and State level Socio Economic Schemes , prominent among them, being the Urban Basic Services for the Poor, Nehru Rozgar Yojana, Integrated Development of small and medium towns and improvement of slums. As many as 18 items have been listed in Schedule 12 of the Constitution in this respect.

1.2.32. The rural local bodies comprising of the three layers of the Panchayati Raj Institutions will be responsible for the same type of civic services as mentioned above, and in addition, for the execution and management of a large array of development schemes and works including the Jawahar Rozgar Yojana, Mid-day Meals Schemes and local planning for economic and social development. Twenty nine subjects have been illustrated in Schedule 11 of the Constitution in this connection. The Constitutional amendments (73rd and 74th Amendment Acts) also provide, among other things, the election of the members directly from the territorial constituencies of the area concerned with one third reservation of seats for women through the State Election Commission newly constituted. The rural self-government under the new three-tier Panchayati Raj system and the three layers of urban local Government are expected to function as vibrant and viable units of self-Government with adequate assistance from the State and Centre. In this context we can recall the democratic fervour with which Dr.Kalaignar M.Karunanithi, Hon'ble Chief Minister of Tamil Nadu in his inaugural address at Sathyamurthy Centre for Democratic Studies, Chennai said " The centre is like a Dam, the Panchyats are like the fields and the States are like the canals which link the two".

EMERGENCE OF THE STATE FINANCE COMMISSION

1.2.33. One of the salient features of the Constitution (73rd and 74th) Amendments Act 1992, was the constitution of a Finance Commission in all the States, within one year from the commencement of the Constitutional Amendment Act initially,

and there after for every fifth year, to review the finances of the Local Bodies and to recommend the principles on the basis of which the taxes are to be appropriated by or assigned to the Local bodies, as also grants-in-aid to the local bodies from the consolidated fund of the state. The recommendation of this Commission should be placed before the legislature of the State. The basic function of the State Finance Commission is to look into the finances of the local bodies, both urban and rural, and to devise a system of distribution of the Government revenues to the local bodies, its powers of taxation and its responsibilities for improving its local finances and services.

1.2.34. The Tenth Finance Commission also indicated in its report that in future, the recommendations of the State Finance Commissions will be taken into consideration while making financial allocations to the States.

1.2.35. In accordance with the above provisions contained in the Constitutional Amendments and the conformity legislations enacted by the State Governments, the Government of Tamil Nadu, in G.O. Ms. No.350, Finance (Resources) Department dated 23.4.1994, constituted the first State Finance Commission with the appointment of Member-Secretary and subsequently in G.O.Ms.No.161, RD, dated 6.9.94, the Chairman and other members were appointed as detailed below:-

1.	Thiru R.Arumugham, I.A.S.(Retired)	Chairman
2.	Thiru Kuzha Chelliah, Ex.M.L.A.	Non-Official Member
3.	The Director of Municipal Administration, Madras	Ex-Officio Member
4.	The Director of Rural Development	Ex-Officio Member
5.	Member Secretary, State Finance Commission	Member

1.2.36. In the first instance, the Commission was expected to review the financial position of the Panchayats alone and make its recommendations. Subsequently in G.O. Ms. No.971, Finance (Resources) Department, dated 6-12-1994, the Tamil Nadu Government enlarged the scope of the Commission to cover the urban local bodies as well. Being the first statutory Finance Commission set up under constitutional provisions, it took some months to secure all the administrative sanctions and clearances from the State Government. It also took some time to set up a new office and organise staff, drawn from three departments namely, Finance, Rural Development and Municipal Administration. After getting over all the preliminary administrative hurdles, the actual work of the SFC in Tamil Nadu commenced only with effect from March 1995, with the full complement of Staff and the required administrative infrastructure.

SCOPE OF THE STATE FINANCE COMMISSION

1.2.37. In the two notifications issued in G.O.Ms. No.350, Finance, dated 23.4.94, and G.O. Ms. No.971, Finance, Dated 6.12.1994 necessary terms of reference were issued to the Tamil Nadu State Finance Commission. Accordingly, the Commission should review the financial position of the different tiers of panchayats and the urban local bodies in the State and make recommendations as to—

(a) the principles which should govern—

i. the distribution between the State and panchayats/urban local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them, and allocation between the district panchayats, panchayat union councils and village panchayats / urban local bodies of their respective shares of such proceeds;

ii. the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the panchayats/urban local bodies

iii. the grants - in - aid to the panchayats/urban local bodies from the Consolidated fund of the State;

b) the measures needed to improve the financial position of the panchayats/ urban local bodies.

In reviewing the financial position of the panchayats/urban local bodies, the Commission should also:-

i. assess the financial position of the panchayat unions/urban local bodies as on 31st March 1994 with reference to revenue receipts and expenditure and the debt position;

ii. assess, as far as may be practicable, the financial position of the Village panchayats as on 31st March 1994 with reference to revenue receipts and expenditure.

Further in making its recommendations, the Commission should have due regard to the resources of the State Government, the demand thereon and the need to generate adequate surplus on revenue account for State's commitments on capital account. The Commission should also have regard to—

i. the existing level of devolution of resources to the Panchayats/urban local bodies and the adequacy of such devolution;

ii. the maintenance and upkeep of capital assets owned by, or entrusted to, panchayats/ urban local bodies;

iii. the tax efforts of the panchayats / urban local bodies and incentives to increase such tax efforts.

The Commission can suggest changes, if any, in the existing classification of panchayat unions/ Municipalities and Town Panchayats on the basis of their financial position and suggest measures to improve the financial management of panchayats/urban local bodies and to reduce unproductive expenditure in panchayats/urban local bodies. The report of the Commission should however cover the period of five years commencing from 1.4.1997.

1.2.38. The Tamil Nadu State Finance Commission constituted under Section 198 of the Tamil Nadu Panchayats Act 1994 in G.O.Ms.No.350 Finance (Resources) Department, dated 23.4.94 started functioning with Thiru M.A. Gowrishankar, I.A.S., and subsequently with Thiru K.Skandan, IAS. as Member-Secretary . Thiru Rameshram Mishra, I.A.S. was appointed as Member-Secretary, State Finance Commission in G.O. Ms.No.2001, Public (Special.A) Department, Dated 6.6.95. The above officers were assisted by Thiru R.Alakiri Raju, Joint Secretary in the rank of Additional Director of Rural Development, Thiru S.Ramachandran, Officer on Special Duty in the rank of Accounts Officer, Directorate of Rural Development and Thiru R.K.A.I.Angamuthu/Selvi Amelia G. Dare Deputy Secretaries drafted from Finance Department, Secretariat.

CHAPTER - 3

BASIC APPROACH

1.3.1. The Main objective of the State Finance Commission is to review the existing financial conditions of the Local Bodies and suggest improvements in the augmentation of resources to match their responsibilities and to improve the delivery system to the public. The Terms of Reference issued by the Government as well as the objectives of the State Finance Commissions envisaged in the Constitutional amendments indicate that State Finance Commission is distinct from the Central Finance Commission. The latter has only to suggest distribution of the funds between the Centre and the States while the former has to recommend the taxes of the State which could be assigned to the Local Bodies and also to indicate the principles of distribution of funds by the State Government to the Local Bodies and in the distribution of funds among the different tiers of Local Bodies besides inter se distribution . The Terms of Reference also indicate that the State Finance Commission has to ensure a sound financial management besides suggestions for avoiding unproductive expenditure. It also envisages the measures needed for upkeep of the assets created and maintained by the Local Bodies to ensure public utility.

1.3.2. The above objectives will definitely require the State Finance Commission to study the existing financial conditions and suggest improvements of the Local resource generation besides the revised distribution system and the taxes to be assigned by the State Government to ensure proper maintenance of services.

1.3.3. This will involve an in-depth study, not only on the Financial Resources, but also on the deficiencies in the delivery mechanism, and financial management for improvement of the levels of service. Introducing economy or possible privatisation of services which will reduce the burden of the Local Bodies will also have to be examined.

1.3.4. The efficiency in delivery system will also involve study of the manpower now available and redeployment if necessary, aiming at the same time, a better delivery mechanism. Similarly, for improvement of resources, if any deployment of man power is necessary commensurate with the additional resource generation, that also will form part of the recommendations. The level of Operation and Maintenance (O & M) of existing assets and services compared to the required normative level and the additional resources needed to achieve that level will also be a subject-matter to be examined.

1.3.5. The Government have required the projection of funds needed for a period of five years commencing from 1997-98 to 2002. This will necessitate the State Finance Commission to assess the funds needed for O & M during these years. This cannot exclude O & M needed for the possible improvements in the level of services based on standard norms. In that context, it will be necessary to assume the possible additional

O & M needs and the investments likely to be made to better the normative level of services during the next five years. In this context, the State Finance Commission will have to visualise also the investment needs. Such investments will depend upon the project financing by the Government over and above the surplus to be created by the Local Bodies from their revenue accounts. The investment need for improvement of the services at a minimum level during the next five years in a phased manner has been assumed for providing funds for O & M during the next five years.

1.3.6. In various National workshops in which the role of State Finance Commission was discussed, it was stressed that "Plan and Non-Plan" has no relevance to the local public with regard to the betterment of the services. The National Workshop initiated by NIPFP on various issues involved, suggested that the State Finance Commission will have to take into account the impact of the plan expenditure for the non-plan provision to be made for O & M during the next five years. In this context, the State Finance Commission has decided to adopt an integrated approach of all the issues vital for better "Financial Management" .

1.3.7. State Finance Commission accordingly has suggested the tax reforms needed for improvement of the local resources. While recommending reforms, the methods adopted in the neighbouring States, the suggestions made by the TIME Research Foundation Calcutta on property tax reforms, besides the reforms introduced in States like West Bengal, Bihar, Karnataka, Andhra Pradesh, Gujarat and Maharashtra, have been studied. Similarly, in the case of assignment of taxes, various types of assignment prevailing in other States have also been studied before making suitable recommendations.

1.3.8. On the sharing of the Government revenue, the principles adopted by some of the State Finance Commissions which have submitted their Reports have also been taken into consideration. Some have adopted the principles of general sharing out of the total tax revenue of the State and some have adopted the existing procedure of sharing individual taxes earmarked for the Local Bodies.

1.3.9. In Tamil Nadu also, both the options have been considered by State Finance Commission. Some of the taxes now levied by the State and passed on to the Local Bodies are found among the list of taxes earmarked for Local Bodies by the Local Taxation Inquiry Commission (1953). State Finance Commission is of the view that any sharing of revenue from the State should exclude these items which are already earmarked for Local Bodies but are collected by the State and passed on to the Local Bodies to have an efficient and better management of collection system. These revenues depend on local potential and yield will be substantial where better potential is available. The inclusion of these taxes in general sharing will be objected to by Local Bodies since it will lead to distribution by diverting the income from higher potential areas to lesser ones.

1.3.10. Accordingly, State Finance Commission has proposed to retain the existing method of devolution of revenues out of the taxes already earmarked for Local Bodies, either collected by them or by the Government. In some cases the State

Government have made additional levy on the same taxes for the benefit of the State Government. State Finance Commission has taken the view that the entire levy on these basic taxes should go to the Local Bodies in full. For instance in northern States, octroi is a major resource. But there is no octroi levied in Tamil Nadu. The Santhanam Committee which went into the working of Panchayat Raj Finance in 1963 suggested that the Local Bodies should be allowed to levy octroi. However, the National Level Taxation Committees indicated that the octroi should be abolished in stages and in lieu thereof, the States could permit the Local Bodies to levy Surcharge on Sales Tax. Similarly, the Local Bodies were levying tolls on the vehicles plying through their areas, before the enactment of the Motor Vehicles Taxation Act. But now the toll tax has been abolished and is substituted by Motor Vehicles Tax.

1.3.11. State Finance Commission has therefore recommended for sharing of this revenue of the State in which the Local Bodies have a legitimate claim, by taking it to a divisible pool and distributing it to all the Local Bodies on an equitable principle to be evolved by them. State Finance Commission has also studied the various other taxes levied by Tamil Nadu Government and have suggested for sharing of the taxes which have specific relevance to local bodies by taking them to the divisible pool.

1.3.12. Similarly, in the case of core civic services, the State Finance Commission has tried to assess the need for increasing the level of service and work out the cost involved for such improvements by way of capital investment. It has also tried to suggest methods for project financing for achieving the capital investments through pooling of surplus funds from Local Bodies, utilising Tenth Finance Commission award as a corpus fund, obtaining institutional finance, and creation of a financial institution exclusively for the Local Bodies for upgrading their level of services. Certain amount has been set-apart from the distribution for the post devolution inequality and to provide incentive for performance. Efforts have also been taken to identify the services which could be privatised or executed through BOT (Build, Operate and Transfer) by involving financial institutions, non-governmental organisations and also industries, wherever possible.

1.3.13. There have also been studies on enforcing economy, redeployment of existing man-power, liberalisation of powers to avoid delays, better control and accountability mechanism needed and organisational re-structuring to ensure viability. Similarly, avoidance of duplicity of institutions has also been looked into wherever necessary and feasible. State Finance Commission has also given due consideration to the financial constraints of the State in their resources position and has ascertained the projection of revenues as well as expenditure commitments of the State for the five-year period covered by State Finance Commission.

1.3.14. The devolution of functions indicated in Schedules 11 and 12 of 73rd and 74th Amendments to the Constitution has got a vital bearing on the functioning of the Local Bodies in the socio-economic field. State Finance Commission has tried to find out the nature of devolution likely to be made for making suitable recommendations for devolution of finance and functionaries needed for implementing such functions by the

various tiers of Local Bodies. Though a model package has been drafted by State Finance Commission in consultation with various departmental representatives of the State Government, the final decision of the Government has not been made available to State Finance Commission. Hence this aspect has not been fully gone into by the Commission for making suitable recommendations. It is hoped that when the Government issues necessary orders for the devolution of functions, it will also correspondingly provide necessary devolution of funds already earmarked and functionaries who are already attending to such functions in the line departments.

1.3.15. To facilitate the process of decision making, various methodologies have been adopted by State Finance Commission in gathering data and views from various levels as discussed in the ensuing chapter.

CHAPTER - 4

METHODOLOGY

Information through Questionnaire

1.4.1. Being the first Commission, the SFC evolved its own Procedures and Methodology. As a first step, the Commission collected data through computer compatible and user friendly formats or questionnaires to facilitate processing through appropriate application of software with the aid of computers. These questionnaires were exhaustive, seeking information in great detail on the resources and expenditure of the rural local bodies for a period of five years and that of the urban local bodies for a period of three years ending 31.3.94. This included service levels, infrastructure maintenance, staff pattern, resource mobilisation, liabilities undischarged and suggestions from the Local Bodies for improvements. They were field tested in Tirunelveli, Chidambaranar, Madurai, Pasumpon Muthuramlinga Thevar and Chengalpattu Districts. Expert comments from Tvl. S.Guhan, Fellow Emeritus, MIDS, Madras and Dr. D.N.Basu of Planning Commission, New Delhi, and from other state level officers, were obtained before adoption by the State Finance Commission.

1.4.2. The printed questionnaires were despatched to the various local bodies as follows with guidelines in Tamil to fill them up.

			Numbers
1.	Village Panchayats	-	12,584
2.	Panchayat Unions	-	384
3.	District Panchayats	-	28
4.	Town Panchayats	-	635
5.	Municipalities	-	104
6.	Municipal Corporations	-	6

1.4.3. In addition, the officers of the State Finance Commission were deputed to all the districts to conduct detailed instruction classes to the concerned at the District level. After filling up of the questionnaires by the Local Bodies, a super check was conducted by the Assistant Directors of Town Panchayats, Regional Directors of Municipal Administration and Divisional Development Officers and Personal Assistants (PD) to Collectors of the districts concerned with regard to institutions under their control. The staff of the State Finance Commission conducted a random check of the filled-in questionnaires before they could be despatched back to the Commission, to ensure accuracy. Simultaneously, a separate set of questionnaires were sent to the Tahsildars

and District Collectors for obtaining the details of the demand and collection of land revenue, local cess, local cess surcharge, adjustment of local cess and local cess surcharge, waiver of land revenue, compensation, if any, paid to local bodies etc.

1.4.4. About 25,000 copies of various types of questionnaires intended for VIPs, Experts, NGOs and Public were also sent to the District Collectors/Local Bodies for distribution to the public, VIPs, Experts, NGOs and other eminent persons to elicit their views and suggestions for revamping the local body system. While the availability of the questionnaires intended for the public was published in the local dailies for response by those interested , the questionnaires pertaining to VIPs, experts and NGOs were either posted or sent through special messengers along with a comprehensive brochure for their remarks.

In-depth Studies

1.4.5. The State Finance Commission, Tamil Nadu conducted a study of tax-payers and beneficiaries of Local Bodies by approaching them through NGOs, by means of an In-depth sample study . This is mainly due to the fact that the information sought earlier through the questionnaires was from the officials, scholars and other eminent persons and not from the common people. In consultation with Dr.Raja J.Chelliah, an eminent economist, Dr.Palanidurai, Full-time Member, State Planning Commission,Chennai and Dr.Shankar, Director, Madras School of Economics, eight Districts were identified in which ten Municipalities, twenty five Town Panchayats and twenty five Panchayat Unions as detailed in Appendix No.3 were selected for sample study. The following are the parameters adopted for selection of Districts:-

1. Urban concentration and industrialization
2. Agricultural prosperity
3. Dry Districts
4. Trading/Commercial Activities
5. Hilly areas.

1.4 .6. The work of conducting the indepth study was entrusted to the District Collectors by utilizing the services of the (1) Madras School of Social Work, (2) Assistant Director of Statistics Coimbatore and Dharmapuri, (3) Rural Development Organisation, Nilgiris, (4) Bharathidasan University, Department of Economics, Tiruchi, (5) Alagappa University, Karaikudi, (6) Nehru Yuva Kendra, Nagai Quaid-e-Milleth District an (7) YMCA Marthandam, Kanyakumari . The above agencies were invited for one day training programme at the State Finance Commission office, and were given a specially designed questionnaire suitable to the various tiers of local bodies, prepared with the help of the Madras School of Economics. The Government had also made a liberal sanction to take care of the expenses incurred by the agencies towards the conduct of these studies. About 2500 samples (or households) were taken up for study giving weightage to occupational patterns, like agriculture, land ownership, self-employed tax payers and non-tax payers as detailed below:-

1.	For 25 Panchayat Unions (4 Village Panchayats with 10 samples each)	-	1000 samples
2.	For 25 Town Panchayats (20 samples each)	-	500 samples
3.	For 10 Municipalities (50 samples each)	-	500 samples
4.	For 3 Corporations (Madras 300 and other 2 @ 100 each)	-	500 Samples
	Total in 8 Districts	=	2500 Samples

The study was carried out by the agencies through questionnaire and by eliciting views by interviewing the local people.

1.4.7. The work of these agencies was reviewed by the Tamil Nadu State Finance Commission from time to time till its completion on 21.3.96.

Data Entry and Tabulation Scheme:

1.4.8. The filled in questionnaires, containing the data and views expressed by the Local Bodies, General Public, VIPs, NGOs, Tax payers and beneficiaries under in-depth study were received at the Tamil Nadu State Finance Commission office, sorted out and indexed with necessary code numbers to identify their respective levels. They were then sent to the Government Data Centre, Madras for computerisation and storage provided thereat. The Government in G.O. Rt. No.768, Finance (Resources) Department, dated 8.11.95 sanctioned a special honorarium for each of the Data Entry operators at Government Data Centre, Madras to attend to the input data entry work of the replies furnished in the questionnaires, considering the volume of data involved. However due to preoccupation in other items of work in the Government Data Centre, Madras, the data entry work for the village panchayats relating to 19 Districts was done through a private agency after obtaining necessary government permission.

1.4.9. The interpretation of data and correlation of various parameters were entrusted to Madras School of Economics headed by Dr.Raja J.Chelliah; Government in G.O.Rt. No.694, Finance (Resources) Department, Dated 27.9.95, sanctioned the funds needed and the entrustment of the work to them. The suitable format for the in-depth study in Districts and tabulation formats for the outputs needed for interpretation of data, were also designed by the Madras School of Economics.

The draft tabulation scheme was prepared by select officers and adopted by the Commission after scrutiny by a special team consisting of experts. The details of the officers and special team involved are given in Appendix No. 4.

1.4.10. The tabulation schemes were adopted on the dates indicated below:-

1.	28.09.95	-	The rural sector
2.	09.10.95	-	The urban sector
3.	12.10.95	-	The VIP, Public and other NGOs questionnaires.

1.4.11. The tabulation schemes were then handed over to the Government Data Centre, Chennai for report generation for interpretation and analysis. They were subsequently retrieved and handed over to State Finance Commission and Madras School of Economics. These outputs formed the basis for the various findings of the SFC.

Constitution of the Task Forces:

1.4.12. To enable the State Finance Commission to have an integrated approach, detailed studies on the resource generation, normative level of service and cost involvement thereon and the delivery mechanism needed to absorb the additional responsibilities involved, were done on the following:-

1. Maintenance of the existing obligatory Core Civic functions/services
2. Standard norms for minimum level of services.
3. Normative level for O&M of existing services and also for additional investments.
4. Augmentation of Resources
5. A good delivery system, organised structure with adequate powers.

1.4.13. Special studies were therefore undertaken to work out the norms for Core Civic services, augmentation of resources and evolving of equitable distribution system, organisation of the entire structure of the local body along with adequate powers and procedures, accountability etc. Three specialised agencies were appointed as below for constituting theTask Forces with the approval of the Government:-

	Name of the Task Force and	**Subject dealt with -**
1.	Anna Institute of Management, Chennai	Organization and Powers of Local Bodies
2.	M/s Kirlosker Consultants Limited,Chennai	Norms for core civic service and their O&M, Cost involvement and projection of the needs for five years and possible areas of privatisation.
3.	Institute for Financial Management and Research, Chennai	Augmentation of Tax and non - tax Resources , projection of resource generation for five years evolving principles for equitable distribution to local bodies.

1.4.14. The members of the Task Forces were constantly in touch with the officials of the Tamil Nadu State Finance Commission and took part in most of the meetings, conferences, etc. organised by it. They had access to all the data retrieved from the various questionnaires floated by this Commission. The status reports furnished by these Task Forces were reviewed by the Tamil Nadu State Finance Commission from time to time and in areas where expert advice was required the Heads of Departments/ representatives of the respective Corporations, Boards and institutions were called to meet and interact with the members of the Task Force in the presence of the State Finance Commission officials. The final reports of these three Task Forces were received and reviewed by the SFC and the salient features of such of their recommendations that were acceptable to the SFC were absorbed and incorporated in the report of the Tamil Nadu State Finance Commission.

Visits to other States/Institutions:

1.4.15. The Government in G.O.Ms.No.73, Finance (Resources) Department, dated 1.2.1995 permitted the members of the Tamil Nadu State Finance Commission to undertake tours within and outside the State of Tamil Nadu. The members and select officers of the Tamil Nadu State Finance Commission therefore made selective tours in and out of Tamil Nadu State as a team and also individually, to interact with various officials/executives of the Local Body institutions, and members/officers of those State Finance Commissions. The areas covered by the team/part thereof outside the State of Tamil Nadu were as follows:

1. Karnataka,
2. Andhra Pradesh
3. Kerala
4. Maharashtra
5. West Bengal
6. Orissa
7. Delhi

1.4.16. The State Finance Commission's team from Tamil Nadu were met by their counterparts in the above mentioned States. They had organised meetings, conferences and visits and enlightened the Tamil Nadu State Finance Commission's team on the various issues pertaining to democratic decentralisation in their States.

1.4.17. The Tamil Nadu State Finance Commission was greatly enriched by these visits, by gaining an insight into the functioning of Local Bodies in other States. The experiences gained through these visits have also been recorded in this report.

Participation in National Level Forums:

1.4.18. Chairman and Member Secretary, State Finance Commission participated in the National level meetings of SFCs organised by Planning Commission in New Delhi on 28.10.94 and 29.10.94 and also the National level Workshops held at Hyderabad on March 19 -1995 and at Mussourie on 3.7.95. The Chairman Thiru R.Arumugham, I.A.S., and the Member Secretary Thiru Rameshram Mishra, I.A.S., of the Tamil Nadu State Finance Commission also had the privilege of being co-opted as members in two of the Working Groups that presented their final recommendations during the fourth National Workshop at New Delhi on the 3rd and 4th November 1995. The above working groups (5 nos.) were actually the off-shoot of the decision taken during the third National workshop held at Mussourie on 3.7.1995 to study the following aspects:

1. Local Finance data base
2. Functional domain of Local Bodies with reference to plan and non-plan activities.
3. Expenditure norms
4. Augmentation of resources
5. Transfers to Local Bodies

1.4.19. Thiru Rameshram Mishra, I.A.S., Member Secretary, State Finance Commission, Tamil Nadu, also took part in the first meeting of the Committee constituted by the Government of India to suggest guidelines and proper mechanism for utilisation of local bodies grant recommended by the Tenth Finance Commission, on 24.6.1996 at New Delhi.

1.4.20. The participation of the senior officers of the Tamil Nadu State Finance Commission in these national forums encouraged the Commission to have similar brain storming sessions with the field officers of the Tamil Nadu Local Body institutions before framing its recommendations.

Conduct of Conferences and Seminars:

1.4.21 . The local body institutions in Tamil Nadu are covered by three prominent Heads of Departments viz. Director of Municipal Administration, Director of Rural Development and Director of Town Panchayats, Chennai. With the advent of the new Constitutional amendments (73rd and 74th Amendments) the efficiency of the staff working in these departments has to be toned up to make the local self Governments in Tamil Nadu as viable and vibrant institutions. It was therefore decided to meet them and to draw from their 'vast store-house of experiences' through discussions, the pros and cons of the various issues, involved in the development of Local Body system in Tamil Nadu as per the constitutional amendments. The Tamil Nadu State Finance Commission invited these three Heads of Departments to conduct conferences and seminars with select representatives from each Local Bodies, not exceeding 100 in number.

1.4.22. The first conference was convened for the Executive Officers of Town Panchayats and was held at the Conference Hall of Panagal Building, Chennai-15 on 15.2.96 and 16.2.96.There were six sessions spread over two days. The details of subjects discussed in each technical session and of Chairpersons, who are senior Government functionaries are indicated in Appendix-8. The final recommendations were compiled and handed over to State Finance Commission in the form of a memorandum by the Commissioner of Town Panchayats, Chennai.

1.4.23. The second conference was organised by the Commissioner of Municipal Administration, Chennai for nearly all the Commissioners of Corporations and Municipalities jointly, at Madras on 26.2.1996 and 27.2.96 There were six sessions in this conference also, spread over the two day period. The details of technical sessions chaired by the various officers are indicated in Appendix No.9. The final recommendations of the above six technical sessions were presented in the form of a memorandum, to the SFC.

National Level Conference:

1.4.24. In order to reap a richer and wider experience through 'meeting of minds' from different parts of the country, the Tamil Nadu State Finance Commission, in collaboration with the M.S.Swaminathan Research Foundation and Madras School of Economics, organised a National Conference on Local Body Finance during 14th and 15th of March 1996 at Chennai. Eminent persons, scholars, experts and Senior Administrators from many of the States, were invited to "promote cross fertilisation of ideas" and ascertain the 'trend of thinking across the country on the Local Body Finance'. In this conference , there were five technical sessions covering two days viz., 14th and 15th March 1996. The guests of honour among others during this function were Dr.Raja J.Chelliah, Chairman, Madras School of Economics and Chairman, National Institute for Public Finances and Policies, New Delhi, Dr.M.S.Swaminathan, Founder Director, M.S.Swaminathan Research Foundation, Thiru V.Karthikeyan, retired Chief Secretary to Government of Tamil Nadu, Thiru N.Haribhaskar, I.A.S., Chief Secretary, Government of Tamil Nadu. The eminent persons who chaired and presented papers in each technical sessions and the list of participants are furnished in Appendix No.10.

1.4.25. The final recommendations of the technical sessions were presented by the concerned Chairpersons during the valedictory function. The views that emerged were printed in a book form along with the papers presented by the participants concerned. The National Conference was really beneficial to the State Finance Commission in gaining new ideas, suggestions for improvement and a vision for developing a successful local body system in Tamil Nadu.

Meetings with the Secretaries to Government:

1.4.26. The Constitution (73rd and 74th Amendment) Act 1992 brought in its wake, certain functions, listed under the 11th/12th schedule of the amendments, to be devolved to the Local Bodies. The State Government have incorporated 29 items under the 4th schedule for rural local bodies and 18 items for urban local bodies under 10th and 11th schedule for devolution.

1.4.27. The devolution of these functions to the local bodies would necessitate amendments to certain acts, rules or executive instructions. In the light of this, extensive meetings were organised with the concerned Secretaries to Government of Tamil Nadu, to enlist their views and also for arriving at decisions on transfer of funds by Tamil Nadu State Finance Commission to the respective Local Bodies. Therefore, the transfer of functions has a vital bearing on the recommendation of **SFC .**

Dates of the Meetings with Secretaries to Government:

1.	07.12.1995	-	Thiru M.Ahmed, IAS, Secretary to Government, Animal Husbandry and Fisheries Department and others.
2.	08.12.1995	-	Tmt. C.K. Gariyali, IAS, Secretary to Government, Social Welfare and Nutritious Meal Programme Department and others.
3.	12.12.1995	-	Thiru T.R.Srinivasan, IAS, Secretary to Government, Co-operation, Food and Consumer Protection Department and others.
4.	21.12.1995	-	Thiru R.Sellamuthu, IAS, Secretary to Government, Handlooms, Handicrafts, Textiles and Khadi Department and others.
5.	22.12.1995	-	Tmt. Susan Mathew, IAS,Secretary to Government, Energy Department and others.
6.	28.12.1995	-	Thiru R.Poornalingam, IAS, Secretary to Government, Health & Family Welfare Department and others.
7.	03.01.1996	-	Thiru Debendranath Sarangi, IAS, Secretary toGovernment, Housing & Urban Development Department and others.
8.	05.01.1996	-	Thiru P.Natesan, IAS, Secretary to Government, Adi-Dravidar and Tribal Welfare Department and others.

9.	09.01.1996	-	Thiru H.M. Pande, IAS, Secretary to Government, Labour & Employment Department and others.
10.	10.01.1996	-	Thiru P.Baskaradoss, IAS, Secretary to Government, Public Works Department and others.
11.	07.02.1996	-	Thiru S.Meikantadevan, IAS Secretary to Government, Revenue Department and others.
12.	07.02.1996	-	Thiru N.Athimoolam, IAS, Secretary to Government, Small Industries Department and others.
13.	09.02.1996	-	Thiru V.Manivannan, IAS, Secretary to Government, Environment & Forest Department and others.
14.	12.02.1996	-	Tmt.Girija Vaidyanathan, IAS, Additional Secretary to Government, Education, Science & Technology Department and others.
15.	20.02.1996	-	Thiru R.C.Panda, IAS, Secretary to Government, Agriculture Department and others.
16.	22.02.1996	-	Dr. S.Narayan, IAS, Secretary to Government, Rural Development Department and others.

1.4.28. The salient features of the discussion held with these Secretaries to Government of Tamil Nadu were later on communicated to them and they were asked to take follow up meetings with all the Heads of Departments at their level and issue necessary Government orders on the devolution of functions, funds and staff to Local Bodies, for their respective Departments. The Food and Consumer Protection Department alone has issued orders in G.O. Ms. No.84 CF&CP, dated 4.4.1996 till date.

Meetings with Fund raising and Funds utilising Departments:

1.4.29. To explore possibility of raising resources and plugging leakage to verify the unit cost of various prices adopted, the existing service levels and the feasibility of achieving the normative level, the cost implication, SFC held meetings with the following, Fund Raising Departments:

1. Commissioner for Commercial Taxes Department
2. Inspector General of Registration
3. Commissioner of Transport
4. Commissioner for Land Revenue
5. Commissioner of Geology and Mines

6. Chief Engineer, Tamil Nadu Electricity Board
7. Tamil Nadu Water Supply and Drainage Board
8. Chief Engineer, Public Works Department
9. Chief Engineer, Highways and Rural Works
10. Director of Public Health & Family Welfare
11. Madras Metropolitan Development Authority
12. Director of Town and Country Planning

1.4.30. The simplification of procedure, receipt of revenue collected by the Government for the local bodies, its distribution, the standards and norms of service levels, staff, managerial difficulties in implementing schemes, etc. were discussed in great depth during these meetings, along with the three Task Forces constituted for the State Finance Commission.

1.4.31. The Heads of Local Bodies Departments viz. Director of Municipal Administration, Director of Town Panchayats and Director of Rural Development were also requested to present their Memorandum to the Tamil Nadu State Finance Commission with their recommendations for the effective functioning, fund raising and fund utilising methods to be adopted in Local Bodies, for the consideration of the State Finance Commission.

Meetings with Nodal Departments:

1.4.32. In its quest to find measures needed for improvement of the financial position of the Local Bodies and to formulate principles to govern the distribution of the funds receivable from the State Government to the Local Bodies, the Tamil Nadu State Finance Commission also held detailed discussions with the Nodal Departments viz. Finance Department, Rural Development Department and Municipal Administration and Water Supply Department. The Resource Allocation Mechanism (RAM) for the urban and rural local bodies has been designed by the Tamil Nadu State Finance Commission keeping the above discussion in mind.

1.4.33. This (RAM) was discussed in depth with the Secretaries to Government Rural Development and Municipal Administration and Water Supply Departments viz., Dr. S.Narayan, IAS and Ms. Malathi, IAS respectively on two separate dates viz. 18.6.96 and 23.7.96. Their views were elicited and they were requested to give Memoranda to indicate the total requirement of funds needed for the Local Bodies under their control for consideration by the Tamil Nadu State Finance Commission.

1.4.34. The SFC meetings with Secretary to Government, Finance Department were also held in four different spells, viz., on 18.4.96 and 8.10.96 with Thiru P.V.Rajaraman, I.A.S., and on 29.5.96 and 15.7.96 with Dr.S.Gurumurthi, I.A.S. The fund flow from State to Local Bodies was discussed with them at great length. The Finance Department was also requested to give a memorandum indicating the financial

commitments and constraints of the State Government and the additional amount that could be made available to the local bodies by the Finance Department, for examination by the Tamil Nadu State Finance Commission. Based on the projection of State Finance for the next five years so received, the principles for allocation and distribution of funds from Government to the various tiers of urban/rural local bodies have been evolved by SFC.

Meetings with Service Associations and Pensioners:

1.4.35. It is a well known fact that decision making in the affairs of any local body today has become " a specialised field of Public Administration" as it provokes criticism/ appreciation especially when new situations arise out of changes in legal provisions or development programmes. The process of revamping the financial and social status of the local bodies in Tamil Nadu may lead to a spate of criticisms/appreciations. To overcome this, the Tamil Nadu State Finance Commission organised special meetings at headquarters and at zonal levels with the general public, VIPs, experts, to elicit their views on the Constitutional (73rd and 74th) amendments. The service associations of Municipalities and Town Panchayats also met the Chairman, State Finance Commission and submitted their memoranda on 14.5.96. The retired rural and urban local body staff and officials also met the Tamil Nadu State Finance Commission for a round of discussions and presented their memoranda at Trichy on 1.7.1996. The Chairman, Tamil Nadu State Finance Commission along with a few officials, launched a programme of meeting the representatives of the general public in different District headquarters and received many valuable suggestions and recommendations, through their interaction and the memoranda presented by them. As Gandhiji said " start all economic reasoning from the genuine needs of the public and help the poor to help themselves out of poverty", the Tamil Nadu State Finance Commission was really able to decipher the genuine needs of the people through these sessions and to adopt most of their recommendations in this report, to help them come out of their backwardness and also to rejuvenate the grass root level Institutions.

District Sittings:

1.4.36. District sittings were held in the following districts to elicit the views of ex-local body representatives, ex-legislators, sitting MLAs and MPs, officials and non-government officials as to how the services rendered by the local bodies could be improved, and their resources strengthened and on empowering them on the lines of 73/74th Constitutional Amendments.

27.06.1996	-	South Arcot Vallalar District
02.07.1996	-	Tiruchirapalli
03.07.1996	-	Madurai
09.07.1996	-	Ramanathapuram
11.07.1996	-	Kamarajar

12.07.1996	-	Chidambaranar
16.07.1996	-	Chengai - M.G.R.(Now Anna and MGR)
17.07.1996	-	Thiruvannamalai Sambuvarayar
24.07.1996	-	Coimbatore
25.07.1996	-	Periyar

1.4.37. Many N.G.Os, scholars, retired officials and general public attended these District sittings along with the sitting MLAs/MPs of that area and had a lively interaction with the State Finance Commission. The Collectors also presented Memoranda reflecting the views of the Local Bodies with reference to their needs and resources.

1.4.38. In the Districts not covered by the Tamil Nadu State Finance Commission as a team, the Member Secretary, State Finance Commission undertook tours and collected the Memoranda after discussions with the District Collectors, Project Officers, District Rural Development Agencies, Regional Directors of Municipal Administration and Assistant Directors of Town Panchayats concerned on the following dates:-

10.7.1996	-	Kanniyakumari
11.7.1997	-	Tirunelveli
17.7.1996	-	Perambalur and Karur
18.7.1996	-	Dindugul
25.7.1996	-	Dharmapuri & Salem

1.4.39. The memoranda so collected from the general public, VIPs, experts, NGOs, MLAs, MPs, ex-MLA, Ex-MPs etc. were grouped according to the District concerned and all the important suggestions, views and recommendations were culled out and taken into consideration, while, framing this Report.

Meetings of State Finance Commission :

1.4.40. The State Finance Commission constituted by this Government in G.O. Ms. No.350, Finance (Resources) Department, dated 23.4.1994 always worked as a team to achieve its goal. The activities and progress of the work done in the Commission were reviewed by the five member team from time to time and policy guidelines laid. The Members of the State Finance Commission met nearly every second month to review the status of the work done so far and to interlock their minds as to the future course of action to be undertaken for establishment of a sound Local Body Finance based on the lines of 73rd and 74th Constitutional Amendment Act. The State Finance Commission had nine sittings as indicated below, and reviewed the progress and discussed on the view points and methodologies to be adopted during each sitting before implementing them.

1.	First Sitting	-	20.10.1994
2.	Second Sitting	-	17.03.1995
3.	Third Sitting	-	14.07.1995
4.	Fourth Sitting	-	12.10.1995
5.	Fifth Sitting	-	23.02.1996
6.	Sixth Sitting	-	31.05.1996
7.	Seventh Sitting	-	27.08.1996
8.	Eighth Sitting	-	27.09.1996
9.	Ninth Sitting	-	11.11.1996 & 12.11.1996

1.4.44. In its final sitting on 12.11.1996 the draft Report of the State Finance Commission was placed and adopted.

Part I

INTRODUCTION AND METHODOLOGY

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The Seventy third and Seventy fourth Constitution Amendments Acts (1992), heralded a new era, in the chapter of the Local bodies by providing, among other things, the constitution of a State Finance Commission in all the states within one year from the commencement of the Constitutional Amendment Act initially and thereafter for every fifth year. Accordingly, the Government of Tamil Nadu issued two notifications covering Rural and Urban Local bodies in G.O.Ms.No.350, Finance, Dated 23.4.94 and G.O.Ms.No.971, Finance, Dated 6.12.94, constituting the State Finance Commission and specifying the necessary terms of references .

The State Finance Commission of Tamil Nadu effectively started functioning only with effect from March 1995 with the following members:-

–	1.	Thiru R.Arumugham, IAS (Rtd)	-	Chairman
	2.	Thiru Kuzha Chelliah Ex-M.L.A.	-	Non-official Member
	3.	The Commissioner of Municipal Administration, Chennai	-	Ex-officio Member
	4.	Director of Rural Development	-	Ex-Officio Member
	5.	Member Secretary State Finance Commission	-	Member

State Finance Commision was to review the financial position of the panchayats and the urban local bodies, in the State and make recommendations for augmenting their resources for the period covering five years from 1.4.97.

The Tamil Nadu State Finance Commission therefore launched its programme by adopting the following methodology:

1. Questionnaire : Prepared in consultation with the National and State Planning Commissions, field tested and then sent (a) to all the local bodies in the State, (b) to select VIPs like MPs, MLAs, experts , eminent persons and persons who are interested in Local Body Administration (c) to interested public and (d) to all the District

Collectors and Tashildars for obtaining data; their views and suggestions.

2. **Indepth Study** : Taken up for tax payers and beneficiaries in all the categories of Rural and Urban Local Bodies in eight districts by a few non - governmental organisations to elicit their views through questionnaires prepared by Madras School of Economics.

3. **Data Entry** : Entered the data generated by the filled in questionnaries into computers at the Government Data Centre, Chennai and retrieved.

4. **Data Interpretation** : The data entered from the various questionnaires were interpreted with the help of Dr.Raja Chelliah, Chairman, Madras School of Economics.

5. **Task Forces** : Constituted to study specialised subjects in a professional manner to aid and advise the Commission viz.:-

a) Institute for Financial Management Research, Chennai.	- Augmentation of Resources in Local Bodies
b) Kirloskar Consultants, Chennai.	- Norms for Core Civic Services & O&M Cost- Possible Areas of Privatisation.
c) Anna Institute of Management, Chennai.	- Organisation and Powers of the Local Bodies.

6. **Visits to Other States** : Visited State of Karnataka, Andhra Pradesh, Maharashtra, West Bengal, Orissa and New Delhi to study their systems and obtained their views.

7.	**Visits to Other Institutions**	:	Visited the All India Institute for local self-government, Bombay and National Institute of Rural Development, Hyderabad, National Institute of Public Finance and Policy, New Delhi and held discussions to know their views to augment the resources and improve the service levels in Local Bodies.
8.	**National level forums**	:	Attended National level conferences at Hyderabad, Mussourie and New Delhi to gain national perspective and insight into other states' functioning of Local Bodies.
9.	**State Level Conferences**	:	Held for the Commissioners of Corporations and Municipalities and the Executive Officers of select Town Panchayats to understand the field level problems better.
10.	**National Conference at Tamil Nadu**	:	Held jointly with M.S.Swaminathan Research Foundation and Madras School of Economics to interact with National level policy makers, administrators, experts and field executives.
11.	**Interaction with Secretaries to Government of Tamil Nadu**		Held detailed discussions with 17 Secretaries to Government, Tamil Nadu along with their Heads of Departments, and gathered details for the devolution of funds, functions and functionaries to Local Bodies in accordance with 11/12 schedules of 73/74 Constitutional Amendments.
12.	**Interaction with line agencies**	:	Held detailed discussions with funds raising and funds utilising departments to discuss about mobilisation of more resources and to project the unit cost of various items upto 2002.
13.	**Interaction with nodal departments**	:	Held detailed discussions with Secretaries to Government and Heads of Department of Rural Development, Municipal Administration and Water Supply and

			Finance Dedpartment to obtain their views on allocation of resources and on various other problems facing the Local Bodies.
14.	**Interaction with retired employees of Local Bodies**	:	Held detailed discussions with Pensioners' Association and Examiner of Local Fund Audit to find out ways and means to set right the problems faced by them.
15.	**Field visits**	:	Visited a few Local Bodies in the field to assess the problems faced by them in maintenance of assets, improvement of civic services etc.
16.	**District sittings**	:	Held District sittings in select districts and had interaction with MPs, MLAs, Ex-legislators, Ex-Presidents of Local Bodies and obtained their views through memoranda.
17.	**Sittings with Collectors & Other Senior Officials**	:	Held discussions with District Collectors and senior Officials of seven districts to obtain their views on the problems confronting the Local Bodies.
18.	**Sittings of the Commission**	:	Had nine sittings to review the progress and approved decisions that finally emerged and incorporated in the report.

PART - II

AUGMENTATION OF RESOURCES

CHAPTER - 1

REVENUE SOURCES OF LOCAL BODIES

2.1.1. The general principles to guide the assignment of revenue sources among the three different levels of government in a federation is the a Congruence principle, namely, the less mobile a tax base and stronger the spatial concentration of the tax base and ownership, the lower should be the level of government to which those taxes should be assigned. Using the criteria of equity and efficiency, Musgrave (1984) suggested the following broad principles of revenue assignment:

1. Taxes suitable for economic stabilisation should be central;
2. Progressive redistributive taxes should be assigned to central governments;
3. Tax bases distributed highly unequally between jurisdictions should be centralised;
4. Taxes on mobile factors of production are best handled centrally;
5. Residence - based taxes such as sales of consumption goods to consumers or excises are suited to States;
6. Taxes on completely immobile factors of production are best suited for local levels;
7. Taxes of lower levels of government should be cyclically stable;
8. Benefit taxes and user charges are to be used appropriately at all levels;
9. Resource taxes and Value - added Tax (VAT) are appropriate for sharing between governments.

2.1.2. The local bodies under different tiers have been vested with powers for local taxation (which have been) devolved over the years under various circumstances and spheres. The local bodies enjoyed such powers even before the advent of British rule. During the British rule, the entire system underwent changes and the system of local government was given effect to under various stages with limited devolution of powers and finances. They could be seen from the reports of the various Committees constituted during the British rule like Royal Commission on Devolution (1906) and Indian

Taxation Enquiry Committee (1924). The pre-Independent situation more or less continues even after Independence. The powers of local Taxation have been examined by various Committees/ Commissions and also different Enquiry Commissions from time to time, and several recommendations were made to Government of India. The significant of these commissions are Local Finance Enquiry Committee (1950), Taxation Enquiry Commission (1953-54) and Santhanam Committee (1963) in respect of rural bodies and Zakaria Committee (1963) in respect of Urban bodies, and Rural-Urban Relationship Committee (1966).

2.1.3. The Local Finance Enquiry Committee(1950) recommended as many as 12 items of revenues out of the State and Central lists for making available the net proceeds of the revenues exclusively to the local bodies.

2.1.4. The principle to devolve taxation powers to local body should envisage the taxes over which the local governments should have full control in terms of determination of tax rate, assessment, collection and appropriation of the proceeds. It should depend on the suitability to meet the civic obligations, since the local governments provide many essential services. Their tax resources should be such that they ensure the smooth discharge of local functions.

2.1.5. The following guidelines are indicated for the choice of local taxes by (Vide Working Group Reports on Municipal Finance)

1. The tax base should be immobile, to allow the local authorities some freedom to vary the tax rates without the tax base vanishing.

2. The tax yield should be adequate to meet local needs and be sufficiently buoyant (i.e.expanding, at least, as fast as expenditure over a period of time);

3. The tax yield should be stable and predictable and it should not be susceptible to cyclical fluctuations;

4. The tax should be perceived to be reasonably fair (in terms of progressivity) by taxpayers;

5. The tax should be easy to administer efficiently (at minimum resource costs) and effectively;

6. It should not be possible to export much if any, of the tax burden to non-residents;

7. The tax base should be visible, to ensure accountability on the part of Local government.

2.1.6. The Taxation Enquiry Commission (1953-54) considered it desirable and necessary that out of the various recommendations made by the Local Finance Enquiry Committee (1950), certain items of Resources should be reserved for being utilised solely by/or/for the local bodies. It also indicated that these taxes should be allowed to be developed only by the local bodies, or for them; where the State Governments are utilising any of the taxes for the purpose of the State revenues, the State Government should gradually withdraw from the field and meanwhile allot the proceeds from these taxes to the local bodies. The items recommended by the Taxation Enquiry Commission (1953-54) to be earmarked for Local Taxation are:

i. Taxes on lands and buildings, (Property/House/Vacant land Tax)

ii. Taxes on the entry of goods into the area of a local authority for consumption, use or sale therein, popularly known as octroi,

iii. Taxes on vehicles other than those mechanically propelled.

iv. Taxes on animals and boats.

v. Taxes on professions, trades, callings and employment, (Profession Tax) and

vi. Taxes on advertisements other than advertisements published in the newspaper.

The above recommendations mostly fall in line with the general principles of Local Body Finance indicated in the earlier paragraphs. Besides, the Taxation Enquiry Commission also suggested certain types of grant-in-aid in addition to tax assignments by the government to the local bodies, the details of which will be discussed at the appropriate context. The Santhanam Committee on Panchayat Raj Finance (1963) felt that the financial resources have to be adequate for the functions allotted to each Panchayat Raj institution and substantial assistance should come from the Government. At the same time, it should not detract the dignity and autonomy of a self-governing institution due to dependency on assistance from higher level. It is essential that for stability and growth of these institutions, they should have substantial and growing resources entirely within their power to exploit and to develop.

2.1.7. The Committee of Ministers of Local Administration (1963), in their report, indicated that making a few recommendations for augmenting the resources of local bodies will be futile without proper assessment of their actual needs. The Committee, therefore, recommended that the over-all needs in respect of basic minimum services should be assessed and resources found out to bridge the gap between the resources and needs. According to the recommendations of various Commissions and Committees, adequate assistance has been suggested to the local bodies for discharging the obligatory and

discretionary functions. However it is found, in practice difficult to assess the level of needs and services and also the levels in the stages of development in each of the various local bodies and quantify and classify them into various categories for the purpose of financial assistance. This has resulted in adoption of ad-hoc measures for financial assistance.

2.1.8. The present Constitutional requirement (73rd & 74th Amendments) for a three tier system of Panchayat Raj and a uniform three types of urban local bodies and the suggested devolution of additional functions to these local bodies involve corresponding additional financial responsibilities for the local bodies which have to be taken care of by the Centre and State. The need for a State Finance Commission to review the finances of the local bodies has therefore arisen as exhibited under 243.I of 73rd Constitutional Amendment Act(1992). It is also found necessary that the State Finance Commission's recommendations will have to precede those of the Union Finance Commission so that the requirements of Local bodies could be considered by Union Finance Commission.

2.1.9. The District Planning Committees and Metropolitan Committees envisaged under the Constitutional Amendments devolve the Constitutional responsibility to consolidate the plans prepared by the DPCs for all the local bodies which ought to be taken care of by the State Planning Commissions to adequately provide financial resources for the various functions now allocated to each of the tier of the local bodies. Mere transfer of power or transfer of funds may not achieve the objective of the Constitutional amendments made. It is necessary to adopt an integrated approach of functions, finance and functionaries, while making recommendations for augmentation of resources as well as for assistance from the various levels of Government. The resources of Local bodies can be generally grouped under four broad heads, viz.,

1. Own Resources
2. Assigned/Shared Revenues
3. Grants and
4. Loans.

2.1.10. Own Resources consist principally of own taxes, fees and other non-tax revenues. The own taxes comprise generally Property/House Tax, Profession Tax, Vehicle Tax, Tax on agricultural land, Pilgrim Tax, Tax on animals, in all the local bodies. In Tamil Nadu, only in the case of Madras Corporation, a few more taxes are levied, namely, Tax on Companies, Tax on Timber, and Tax on Advertisements. Tax on Advertisement is levied by Municipalities in Kanyakumari District also.

2.1.11. Assigned Revenues as on date contain two parts, (1) Taxes levied, collected and passed on to local bodies by State Government (2) Taxes levied, collected and shared by the State government with the local bodies.

2.1.12. So far as the Grants are concerned, there is no specific system of grant-in-aid and there is no general purpose grant such as per capita Grant for

Establishment as envisaged by the Taxation Enquiry Commission (1953-54). The grants are given either as incentive for tax efforts or for matching the efforts in maintenance of services. Mostly, the grant-in-aid is discretionary and unpredictable and no specific provision has been made in the statute to make them compulsory, except in a few cases. Loans are availed of for creating infrastructural facilities with the permission of the Government subject to the capability to discharge the debt service.

EXISTING RESOURCES OF LOCAL BODIES AND TAXES WHICH ARE COMMON IN NATURE.

2.1.13. In Tamil Nadu, the resources of local bodies are mainly derived from various sources, namely, taxes, non-taxes, assigned revenues and grants by the different tiers as indicated below:

1. Municipal Corporation

Own taxes	Assigned revenues	Grants	Other revenues
1.Property Tax	1.Entertainment tax	----	Non tax
	2.Stamp duty surcharge	Centrally	Revenues likeincome
2.Vacant Land	3.Surcharge on Sales Tax	sponsored	from properties like
Tax	4.Income from minor minerals	special	Shops, Bus stands,
3.Profession Tax		schemes	Guest house etc.
4.Vehicle Tax			
5.Tax on animals			2. Licence fees on
6.Tax on Timber			D & O Trade
7.Tax on Companies			3. Licence fees on
8.Tax on advertisement			building regulations
* Applicable only for			4. User charges;
Chennai city			5. Misc.Revenues.
Corporation.			

2. Municipalities

Items 1 to 5 as in Municipal Corporation	- Do -	Grants for Specific schemes & for other services like Maternity Centres on ad -hoc basis	- Do -

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3.Town Panchayats

Own taxes	Assigned revenues	Grants	Other revenues
1. House Tax	- Do -	1. Road Maintenacne and improvement grant.	-Do-
2. Profession Tax			
3. Vehicle Tax		2.Lighting grant (Both on ad hoc basis)	
4.Tax on Agricultural land for specific purpose.		3. Other grants for Agency functions.	

4.Village Panchayats

-do-	1.Local Cess	1.House Tax matching grant	-do-
	2.Entertainment Tax	2.Water Supply grant	
	3.Stamp duty surcharge	3.Lighting grant	
	4.Surcharge on Sales Tax	4. Rural Development Programmes grant	
	5.Minor Minerals	(1. statutory 2-3Adhoc)	

5.Panchayat Unions

Local cess surcharge on Land Revenue	1.Local Cess	1.Local Cess surcharge matching grant.	Income from properties & Misc Revenues
	2.Entertainment tax	2. Local Roads grant.	
		3.Discretionary grants for entrusted functions like Dispensary, Maternity Centres, Minor Irrigation. (All on ad hoc basis.)	
		4. Agency Function grants.	

6.District Panchayats

(Not yet specified)

2.1.14. It may be seen from the above that the tax on property, tax on profession, trades, calling and employment (Profession Tax), and Vehicle Tax are common in nature in both urban and rural local bodies. In respect of non-tax items, almost all the items, namely, user charges like water charges, licence fees on D & O trade, licence fees on buildings and income from properties and income through remunerative enterprises are common in respect of all the civic bodies. The perceptible difference in the tax and non-tax structure is found only in respect of intermediary Panchayat Raj bodies, namely, Panchayat Unions (Samithis).

2.1.15. As far as Tamil Nadu is concerned, the District level tier viz. District Panchayat has been newly constituted and its powers for taxation as well as for other Resources have not yet been defined. Similarly, the functions envisaged for the local bodies are mostly common in respect of Municipal Corporations, Municipalities, Town Panchayats and Village Panchayats, though they may differ in area coverage and degree of operation. In respect of Panchayat Unions and District Panchayats, the obligatory as well as discretionary functions vary from those of the other local bodies. These bodies are mainly intended to monitor the developmental activities viz. Agency functions. The Village Panchayats are given limited responsibility on the civic functions like maintenance of panchayat roads, provision of sanitation, garbage clearance, street-lighting and water-supply. The major aspects like health protection, provision of medical facilities, provision of primary education and the maintenance of roads linking the villages have been vested with the Panchayat Unions. While the entire ranges of civic functions of providing civic amenities including Public health, medical care and Education are looked after by the urban local bodies themselves, in the rural set-up, the functions have been segregated and entrusted to the grass-root level body, namely, Village Panchayat and the intermediary body, namely,Panchayat Union, depending on the capability and the infrastructural facilities available at the village and Panchayat Union level.

2.1.16. In the case of Town Panchayats, they have all along been under the Rural set up and only after 74th Amendment, they have been brought under District Municipalities Act 1920. Though they have been included under urban Local bodies most of the characteristics are still of rural nature and they still continue to adopt the provision of Tamil Nadu Panchayats Act 1994 relating to Taxation powers of village panchayats as a transitional arrangement. These details need to be explained, since augmentation of resources of the various tiers has to be clearly defined, taking into account the responsibilities entrusted to them. The functional domain has been briefly indicated even though they are dealt with in detail in different Chapters. Any effort for augmentation of resources in isolation of the duties and responsibilities identified for the local bodies may prove futile. Considering these aspects, the various avenues and resources available to local bodies, both urban and rural, have been discussed in detail in the succeeding Chapters, institution-wise to facilitate better understanding of the over-all position of the resources of each of the institutions. Wherever the principles of taxation, assessment, collection and appropriation of proceeds are common in nature they have been discussed in detail under one tier of local body, and the distinct differences in respect of the other local bodies alone have been dealt with under the respective appropriate local bodies.

CHAPTER - 2

RESOURCES OF URBAN LOCAL BODIES

MUNICIPAL CORPORATIONS

Property tax:

2.2.1. The own tax revenues of the Municipal Corporations are detailed in the earlier chapter, and of them Property Tax is the major source of Revenue. The Property Tax belongs to the class of general benefit tax. In Tamil Nadu, Municipal Corporations are given powers to levy property tax under the respective City Municipal Corporation Acts.

2.2.2. The Property Tax yields the major income. The average income from this source accounts for one-third of the total revenue and 90% of the total tax revenues and Rs.106 per capita out of the total per capita income of Rs.338/-. There are about 9.03 lakhs assessees in all these Corporations as below:

Table 2.1. Property Tax - Details of Assessees - Municipal Corporations

	No. (In Lakhs)	No. %	Demand Yield Rs. in Crores	%
Residential	7.21	79.84	59.37	58.00
Non-Residential	1.76	19.50	38.37	37.48
State Govt.	0.04	0.44	3.69	3.60
Central Govt.	0.02	0.22	0.94	0.92
Total	9.03	100.00	102.37	100.00

2.2.3. This is a buoyant tax for these Local Bodies. But the inter se variation among the Corporations is very wide. While the per capita income from Property Tax in Coimbatore is Rs.281 in 1993-94, it is Rs.57.91 in Tirunelveli. These variations are likely to be due to reasons like adoption of different rates or difference in basis or pattern or method of assessment. If a common pattern of assessment is ensured, there is adequate scope for improvement. Another aspect for improvement relates to the tax performance which is dealt with separately. It is interesting to note that about 80% of the total assessees are residential and 19.50% commercial (non-residential). State and Central Government assessees form only 0.66% of total assessees. The residential assessees (80%) contribute about 60% of the total demand while non-residential (commercial) (19.50%) contribute 38% of the total demand. The contribution from Government properties is

insignificant. The average tax per assessee in absolute figures realised from non-residential assessees, is more than 2.65 times over the contribution from residential assessees. This indicates that efforts to enforce higher level of taxation from non residential assessees are already available.

2.2.4. The collection performance of the demand contributes for the variation in the income among the local bodies.

Table . 2.2 PROPERTY TAX : DEMAND AND COLLECTION (1991/92 TO 1993/94)

(Rs.in lakhs)

Corporation	1991/92		1992/93		1993/94	
	Demand	Collection	Demand	Collection	Demand	Collection
Coimbatore	1409.64	751.67	1655.10	928.08	2542.64	1188.31
		(53.32)		(56.07)		(46.74)
Chennai	5957.89	3700.32	6401.86	3940.54	6545.98	4908.65
		(62.11)		(61.55)		(74.99)
Madurai	2788.12	695.82	3016.92	1258.06	3053.66	949.02
		(24.96)		(41.70)		(31.08)
Salem	934.58	415.19	886.33	321.05	1076.69	460.36
		(44.43)		(36.22)		(42.76)
Trichy	812.17	343.30	906.69	431.89	1102.99	554.18
		(42.27)		(47.63)		(50.24)
Tirunelveli	288.40	166.60	349.03	192.03	40.16	20.99
		(57.77)		(55.02)		(52.27)
All Corporations.	12190.79	6072.90	13215.93	7071.66	14362.11	8081.52
		(49.82)		(53.51)		(56.27)

(Figures in the parantheses indicate percentage collection in demand)

Note: Demand includes current demand and arrears in the previous year.

2.2.5. It is noticed that the collection performance in all the Corporations except Chennai needs substantial improvement. Even in Chennai, the collection performance is ranging between 60 and 75 per cent. With full fledged tax collection administrative machinery available in these higher level Local Bodies, collection percentage should be very high. It evidently indicates that system and procedure for collection need reorientation with modern techniques. The Property Tax is definitely a most promising source to those local bodies and an in-depth study will provide for better systems to increase the income substantially.

2.2.6. The Property Tax is accompanied by a number of service taxes, viz, water supply, drainage, lighting, education, scavenging etc. at different rates as decided by the respective Local Body. The details in percentage to Property Tax are given below:

Table 2.3. COMPONENTS OF PROPERTY TAX (in Percentage) (1991-92)

Components of Property Tax	Coim-batore	Chennai	Madurai	Salem	Trichy	T.veli	All Corpns
General Purpose Tax	15.78	59.27	37.47	12.79	17.29	31.08	41.77
Drainage Tax	24.99	0	19.77	10.77	20.17	0	9.18
Education Tax	6.58	22.18	18.43	14.85	14.41	18.23	17.42
Library cess	2.24	3.71	3.65	4.74	7.78	6.63	3.73
Lighting tax	0	14.83	0	8.93	11.53	9.20	9.38
Scavenging tax	0	0	7.49	7.38	8.65	9.20	1.90
Water tax	50.43	0	13.18	40.53	20.17	25.66	16.64
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 2.4. COMPONENTS OF PROPERTY TAX (in Percentage)
(Average for1991-92 to 1993-94)

Components of Property Tax	Coim-batore	Chennai	Madurai	Salem	Trichy	T.veli	All Corpns
General Purpose Tax	24.30	58.98	36.99	12.89	17.29	30.35	43.20
Drainage tax	19.57	0.00	20.06	10.48	20.17	0.00	8.46
Education Tax	7.07	22.44	18.34	14.59	14.41	18.10	17.55
Library Cess	2.51	3.76	3.82	6.46	7.78	7.11	3.93
Lighting Tax	0.00	14.83	0.00	8.76	11.53	9.48	9.09
Scavenging Tax	0.00	0.00	7.41	7.23	8.65	9.48	1.98
Water Tax	46.55	0.00	13.38	39.58	20.17	25.47	15.79
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Water and Sewerage Tax in Chennai is levied and collected by Chennai Metropolitan Water Supply and Sewerage Board.

2.2.7. The rationale in fixing the percentages for the components also needs further study as the income derived from the respective component should have a match to cover these services. Since the existing rates are being adopted for several decades depending on the conditions and priority of services obtained in earlier days, they need a fresh look. Since these service taxes are treated as components of property tax, they also get waived while tax concessions/exemptions are considered. There is no justification for including these service taxes while giving exemption/concession. This aspect also

needs a de novo examination especially when the principle of cost recovery is thought of through taxes and user charges. The deficiencies in the existing pattern of assessment are discussed below to evolve a better, simpler and a more acceptable common pattern.

2.2.8. The levy of property tax is based on the gross annual rental value of the property, obtaining in a free market. Due to the operation of Rent Control legislation in Cities, the free market rent has almost ceased to exist and the Municipal authorities are expected to value the property for tax purposes on the basis of fair rent as prescribed in the Rent Control legislation, supplemented by various judicial pronouncements. This situation has virtually resulted in freezing the property tax base. In order to get away from this, various alternative bases have been suggested in different studies and forums namely, capital value, site value, area measurement value. However, the capital value base also assumes free market rate as in the case of rental value. The adoption of site value system except in the cases of developed areas or new creations is fraught with difficulties. The adoption of area measurement method has also the possibility of introducing a large element of subjectivity in its impact. In the absence of a suitable and effective alternative valuation base, there is need for not applying rent control legislation against the concept of notional rental value for taxation purposes. The freezing of rent under Rent Control Act has caused heavy revenue loss to the local authorities.

2.2.9. In Tamil Nadu, the Municipal Corporations adopt the annual rental value basis for the purpose of arriving at their tax assessment. In Chennai and Coimbatore Municipal Corporations, a system of area-linked rental unit value system based on the plinth area of the building, with provision for addition in taxes for the type, nature age and location of the property. The method of adopting ARV in common to all the areas was subject to serious objections and criticisms, since the value of the properties throughout the City is not equal, so also the rental value. The developments in all the areas are also not equal. The properties located in places of affluence and other commercial areas fetch more price and rental than those in other residential areas. Applying the same standard for properties in different localities within a city has created a lot of difficulties in implementing tax provisions. Further the concept of adopting notional rental value has also given scope for many disparities and deficiencies even within the same locality due to discretion of the tax levying authorities. The adoption of the new method viz., adopting the rental value with reference to plinth area, nature, type age and location of the property has given a better fairness and transparency in assessment and more acceptability from the public, yielding better income from property tax.

2.2.10. The Chennai corporation has divided its area into zones. Depending upon the geographical location, availability of various civic amenities, accessibility to market, shopping complex,schools and colleges, hospitals and transport facilities, the rent for the building in these areas differs from place to place. A pilot survey was conducted street by street in each area. As a result of such study, a basic rateable value per square foot was arrived at for each street in each area,keeping in mind the provisions of the Tamil Nadu Buildings (Lease and Rent Control) Act. Two different types of basic rates were arrived at depending upon the usage of the building, namely, residential or non

residential. The basic rate for non - residential ranged from Rs.2 to Rs.6 per square foot,while the basic rate for residential ranged from 40 P. to Rs.1.60 per square foot. The corporation prepared a directory of such basic rates street by street in each area and the rates finally prescribed were adopted while revising the tax The Chennai Corporation did the quinquennial revision,in a cyclical way by taking a Zone consisting of one fifth of the total divisions each year. This has helped them to arrange for an intensive door to door survey, test check, and also super check by the higher officials. The revised rate per square foot was indicated in a Directory and published and objections heard. The property owners/occupiers were requested to file a Property Tax Return and it is stated that about 75 % of the property owners had responded to the notification promptly and only the remaining 25% were defaulters, in respect of whom the assessors have made spot verification and filed the returns based on such verification.

2.2.11. In respect of Cinema Theatres, Hotels, Lodges, Kalyana Mandapams, Nursing Homes and Hostels different methods of assessment were followed.

2.2.12. The revised procedure based on accepted principles ensured more transparency and fetched three times more than the earlier level of tax income. The revision had good impact and exhibited an increase of property tax of more than Rs.10 crores between 1992-93 and 1993-94.

2.2.13. The Corporation of Coimbatore has also adopted a plinth area based square foot rate and the plinth area basic rate fixed is as detailed below:

1. Residential houses and Educational Institutions.Rs.2.50 per s.ft.
2. Industrial sheds.Rs.4.00 per s.ft.
3. Hospitals, Marriage Halls etc. Rs.5.00 per s.ft.
4. Offices, Restaurants, Cinema Theatres Rs.6.00 per s.ft.
5. Star Hotels Rs.8.00 per s.ft.

Unlike the Chennai Corporation, where rebates were given on the basic rate, Coimbatore Corporation added further surcharges to the basic rates fixed for the location, nature and age of the building. No concessions were given for owner occupation. It is learnt that in the method adopted by Coimbatore Corporation some deficiencies leading to the disproportionate assessment between areas and among the different types of the usage have been noticed by the Corporation. The revised method adopted by the Coimbatore Corporation has yielded a substantial increase in the per capita income of property tax from Rs.190 in 1992-93 to Rs.281 in 1993-94 In Chennai Corporation, the increase in the per capita income was from Rs.98 to Rs.122.

2.2.14. It is understood that the Madurai Corporation is also implementing a similar system.

2.2.15. The principles followed by the Corporations more or less fall in line with those recommended in the composite area linked system for property tax reform suggested by the Times Research Foundation, Urban Studies Centre,Calcutta and also adopted and tested in Andhra Pradesh, Bihar and Calcutta.The system is now being suggested in Karnataka State also. Immediate action is required for tax mapping of the buildings in the entire area to ensure that all the properties within the area are brought under the tax map. This kind of area linked system appears to be closer to real life situations, besides enhancing the tax yields and ensures greater equity for distribution of tax burdens among different individuals, areas and uses and less disputes. Since the three Corporations have already got experience by introducing the new "Area wise unit value system" and have succeeded in achieving transparency, public acceptability and better yield, a similar system can be introduced in other Corporations and other tiers of local bodies also.

2.2.16. However, in order to ensure a common approach instead of each one following their own method of assessment, a regulation can be made by the Government by introducing suitable amendments to the relevant Acts as well as to the Rules made thereunder. The system is likely to have more acceptability because distinctions have been made between areas and buildings coming under residential and non-residential, and even in this concept, the type, nature and amenities available are also taken into consideration and suitable rebate / concessions are allowed. Besides, the publication of the rates adopted for the areas will ensure transparency among the public and even at the early stage, objections, if any, could be heard and finalised before going in for actual taxation instead of making the assessee to take recourse to individual tax revision petitions. It is also suggested that in all these cases of assessments, a Central Valuation Cell may be formed with people qualified in making such survey and assessment, so that there will be uniformity in all the areas. There is no need for review of the assessment by the Executive every time, since the general objections on method of fees are settled even at the time of settling rates in the various locations.

2.2.17. Appeal to Tax Appeal Committee should be allowed to remove defects, if any, noticed in such assessment by the Appeal Committee.

2.2.18. Wherever the residents want to appeal further, instead of filing suit in civil courts, a Municipal Assessment Tribunal can be proposed to deal with such appeals to ensure uniformity in decisions and also to see that the cases are disposed of quickly. If a separate Special Tribunal cannot be appointed immediately, the judicial authority at the district level can be made as the Tribunal for taxation matters in the initial stages and based on the experience this could be developed later by a separate Assessment Tribunal for the local bodies as a whole and if necessary the cost of tribunal can be met in common by all local bodies in the area.

2.2.19. While classifying the areas, the Calcutta Municipal Corporation Act 1980 has proposed a system whereby all the streets in Calcutta are required to be classified in terms of arterial roads, sub arterial roads, collector roads, local roads and

pedestrian pathways. The types of roads are also taken as one of the parameters for deciding the location of the area and also the category of the street in the respective area.

2.2.20. The Task Force on Augmentation of Resources appointed by the State Finance Commission has also made suggestions for similar classification of the entire local body into six categories,as under:

1. Affluent Area with all amenities.
2. Affluent area without one or more amenities.
3. Middle income area with all amenities.
4. Middle income area without one or more amenities.
5. Low income area with all amenities.
6. Low income area without one or more amenities.

To decide the category of the area it was suggested that the width of the road, namely arterial, sub-arterial or interior roads may be taken as one of the parameters. The basic rateable value per sq.ft. for all the six categories as indicated above in respect of Chennai and other Corporations and additional rateable value to be added to the basic rateable value depending upon the type, use and age of the building were also suggested.

2.2.21. As against the existing range of tax in the Chennai Corporation of 6.25% to 11.5% per half year, a fixed rate of 8.33% per year which is equal to one month's rent was also suggested to the State Finance Commission. The principle indicated here is a little different from the one adopted by the Chennai Corporation where the question of dividing the area into six categories has not been followed. But a sample survey has been done in each location, street by street, and the unit value for the rental for each street in an area has been arrived at, taking into account the real value obtaining in that locality. Though a survey is needed, it will have more acceptability than the adoption of uniform unit value for all the categories in all the areas. A detailed study will therefore have to be made, before arriving at the final method to be adopted.

2.2.22. However, the switching over from the present annual value system to the area linked unit value system may be recommended by the State Finance Commission to ensure better acceptability to the people and more revenue yield for the local body.

2.2.23. A revised tax structure is recommended by State Finance Commission after taking into account the various rates and methods adopted in the three Municipal Corporations and also the recommendations made by the Task Force. The details are found in Appendix No.11.

2.2.24. Service Tax Component:

On a perusal of the components of the service tax accompanying the property tax, different rates are levied by different local bodies. In Chennai Water tax and sewerage tax are levied by Metro Water Board. As has been observed earlier. the rates as well as the priorities were fixed several years before, depending upon the conditions then prevailing. The provision of protected water to all people, the provision of street lights for all the areas - minimum of tube lights and sodium vapour lamps for important areas - has become a policy compelled from higher level Governments and also on account of the aspirations of Public. There are cases where components for drainage and scavenging have been included. The scavenging tax was intended, according to the Act, to provide private scavenging from individual houses. This system has been mostly abolished even in Municipal areas on introduction of septic tanks and low cost sanitation schemes. New houses constructed are generally provided with septic tanks or are connected to the drainage system of the local body concerned. Regarding Chennai Corporation the water and sewerage taxes have been separated from the local body's purview and they are being collected by the Chennai Metropolitan Water Supply and Sewerage Board and the entire scheme of provision of infrastructural facilities as well as maintenance and supply of water is maintained by the Chennai Metropolitan Water Supply and Sewerage Board. In other Corporations, the entire facilities are looked after by the Municipal Corporations concerned. Study of the amount realised by way of general purpose tax and service tax component, indicates that about 47% of the tax goes towards the service tax. In short, Components of general purpose tax and the service tax almost share equally the amount collected by way of Property tax. On a further study of the actual amount realised in the five Corporations by way of various service taxes and the expenditure connected with those services in the revenue account, they are not uniform and there are variations among the various service expenditure concerned. In certain cases the expenditure is much more than the tax component and in certain other cases, the expenditure is below the level of taxation. Instead of dividing the service tax separately for each item, the total property tax may be divided into two parts, one for general purpose and the other for service purposes, with flexibility for utilising the income realised from the service tax to the service which has got more priority in the area. This type of dividing the tax into two parts will also enable the local body to exempt the buildings which are now coming under the exemption category from the payment of general purpose tax alone and to collect the portion of service tax. There can be no objection to this course even from the presently exempted assessees including the Government of India. This will also enable the local body to collect and earn service tax from all the assesseès.

2.2.25. The user charges will be related to only the quantum of special service done to individuals like water supply or other benefits directly delivered to those individuals who need such services at their doorsteps for which it is necessary to have enabling provision in the Act to ensure cost recovery of Services provided and maintained. This is necessary in the context of inadequacy of the component taxes to take care of both Provision and maintenance of the services as envisaged in the provisions of the Act.

2.2.26. Exemptions: At present, exemptions are granted under the provisions of the Acts and Rules in relation to specific types of buildings. The exempted properties are:

1. Properties having annual rental value below Rs.180.
2. Buildings belonging to charitable and religious institutions.
3. Buildings belonging to educational institutions (only for schools) and not for hostels.
4. Buildings classified as monuments of attraction.
5. Buildings belonging to Central Government. (They are levied service charges)

The properties of the State Government are levied property tax on a par with non-residential properties in the area. The details of exemption in Municipal Corporations are as below:

Table 2.5 Property Tax - Exempted Properties and Expected Demand as on 31.3.94.

Corporation	Details	ARV Below Rs.180	Charity & Relig.	Educat. Inst.	Monument	Total
Coimbatore	Assessees	4787	45	153	0	4985
	Exp.Demand	1.36	18.57	94.96	0	114.89
Chennai	Assessees	n.a.	702	1899	n.a	n.a
	Exp.Demand	n.a	n.a	n.a	n.a	n.a
Madurai	Assessees	n.a	45	369	2	416
	Exp.Demand	n.a	0.16	10.13	n.a	10.29
Salem	Assessees	12716	152	43	0	12911
	Exp.Demand	2.79	n.a.	n.a.	n.a.	n.a.
Trichy	Assessees	2595	6	73	2	2676
	Exp.Demand	0.28	n.a.	n.a.	n.a.	n.a.
Tirunelveli	Assessees	n.a.	25	83	43	151
	Exp.Demand	n.a.	0.15	19.52	0.35	20.01

Note: n.a. means not available; Exp.: means expected demand in rupees.)

There have been objections to the grant of exemptions to various types of buildings which are classified as belonging to charitable and religious institutions or to educational institutions. The Hospitals or dispensaries which are run by some institutions classified as charitable institutions are now levying fees and they should not be allowed any such concessions or exemption from paying property tax due to the local bodies. Similarly, in the case of educational institutions also, there have been representations from the local body that the schools which levy fees and also the nursery and kindergarten schools which have a mushroom growth and collect hefty fees and donations from the students should not be allowed any concessions. The original purpose of giving such concessions and exemptions to educational institutions should have been mainly with the intention of involving private individuals and institutions in the field of promoting education in view of the difficulties faced by the Government to open schools for meeting the requirement of people from its own funds. To encourage private enterprise to enter the field of education,these concessions were made available. Even today it cannot be said that the Government is in a position to cater to the entire need of the people by opening schools or colleges to the extent necessary. So the private participation is very much necessary and unless some concessions are made available, there may not be much response from that segment. However, the total exemption from taxation is not equitable since these institutions avail all the civic facilities made available by local bodies like roads,lighting, water supply etc. The service tax component of the property tax should not be exempted even if general purpose tax is exempted. As a preliminary step, instead of total exemption, concession may be given from the levy of general purpose tax and restrict the levy to service component of the tax alone .

2.2.27. In the case of Industrial Estates concession on Taxation is now being given. This concession should be available only for a specific period of 5 years on par with the moratorium period for taxes. Thereafter concession on service tax component can be given but not on the general purpose tax.

2.2.28. In the case of Central Government properties also, the principle is 'not to levy' property tax. The Government of India have no objection for meeting the service charges for the facilities provided by the local bodies. The mere levy of water charges for the supply of water will not be adequate since the local body has to incur heavy expenditure on providing the infrastructural facilities and only thereafter, supply charges arise. Service Tax component is intended to cover the cost of provision of infrastructural facilities in the area in common to all the localities. There is no justification for exempting this claim in respect of Central Government buildings as in the case of educational and other charitable institutions indicated earlier. Hence these buildings may also be subjected to the levy of service tax, even if the general purpose tax is exempted from being levied on them. It is seen from the statistics gathered that the loss of tax revenue from the educational institutions is roughly Rs.1.25 crores in the six Corporations alone. In the case of charitable institutions, it is about Rs.19 lakhs per year in the Corporation area. At least 50% of the amount can be realised if the total exemption is converted into a concession in respect of general purpose component of the property tax.

2.2.29. The Public Sector Undertakings of the Government of India are also claiming exemption from levy of property tax in respect of the buildings owned by them on the ground that their buildings would also fall under the category of Central Government properties. Recently the Apex Court has decided this issue in the case of International Airport Authority of India and has held that the exemption given in the Constitution of India will be applicable only to the buildings belonging to the various departments of the Government of India and will not be applicable to the public sector undertakings or other commercial ventures of the Government of India. The local bodies will have to take action for the collection of the property tax from this category of assessees. While doing so, there is also another claim that these organisations have own provision for services within their areas, and hence they are not liable for taxation by the local body. The question of internal services alone will not be a criterion, since the location and the area in which these properties are situated are provided with common basic amenities and facilities by the local body concerned and any approach road or way to the buildings of the public sector undertakings will have to pass through the normal infrastructural facilities provided by the local bodies. At best, the public sector undertakings may request for non-levy of user charges, but cannot avoid the levy of property tax. The Government of India in the Ministry of Urban Affairs and Employment has constituted a Working Group on taxation of Government properties in India under the Central and State Governments. The views obtained from various sources support the view that there should be no exemption for the Government of India buildings and such buildings should also be taxed treating them on a par with other types of properties which are liable for taxation by the respective local bodies, since similar taxes are levied already on the properties of the State Government. In the above circumstances, the State Finance Commission recommends the taxation of properties of the Government of India as a matter of principle even though the tax derived out of this will not be very significant. There have also been suggestions that the exploitation of the sub-soil should also be taxed under property tax. Such exploitation is made in laying cables for lighting, telephones, laying of pipes and transportation networks etc. This has also been suggested in one of the points raised by the Time Research Foundation, Urban Studies Centre,Calcutta. There is a divergence of opinion in this regard. One seems to be that the local body should frame bye-laws for the licensing of any works involving excavations of sub-soil and that there need not be any levy of tax. Another view is that land includes sub-soil and surface and that all exploitation of sub-soil for transportation network,electricity supply, telephone connections or other telecommunication facilities, pipe lines, water-supply, sewerage, drainage, shopping plazas, warehousing facilities, railways and ports should also be subjected to local taxation on the value of structures and appliances. There are other views that in all these cases, instead of tax, surcharge can be levied. Taking all these different views into consideration, it does not seem proper to levy tax on these items equivalent to property tax but there is a good case for levying surcharges or licence fees in all these cases.

2.2.30. The rules prescribe that a General Revision of value of properties should be done once in five years by the Executive Authority in respect of all properties and the tax due on such revaluation can be claimed after following the procedure for assessment

like issue of notice, hearing of objection etc. In Tamil Nadu the General revision which is a mandatory one has been postponed for more than two decades by Government on the grounds of non-availability of elected local body. This is only an executive work not connected with the local body. The revision of rate of taxation will alone fall within the ambit of local body. The postponement has caused non-revision of values for more than 2 decades. Adoption of the current value for general revision now permitted has led to steep increase in tax amount even more than 5 times. The Government also has laid condition that the increase in the revised amount should not exceed certain limits as indicated by Government for residential, non residential and commercial properties. Thus the Government have fettered the freedom of the local body not only to revise the valuation periodically, but also restricted the legitimate levy based on the existing situation. The Local Body has been affected in both ways. This was done with the populist view to appease the public. On the other hand, tax-payers feel that they were not against any regular periodical revision and the Local body would also have been benefitted if done periodically and any steep rise at a time is not acceptable to them. Ultimately the Local Body has lost considerable income.

2.2.31. In Chennai Corporation the revision has been made after 1970 only in the year 1993. No compensation for such loss of income could also be claimed from the Government. While the property tax is the only source available for a substantial taxation, restrictions from higher level in implementing the taxation in the normal course has virtually destabilised the resource position. In other States, no such interference has occurred in the local taxation from higher level Government. While the State Government expects the local body to realise the due share of income by local taxation to meet their statutory responsibility and not to depend on Government for day to day administration, it should also be the policy of Government not to unilaterally enforce restrictions, concessions or abolition or write off of the sources available / earmarked to local bodies. If, in the interest of public cause, such policies are to be adopted by State Government a simultaneous compensation for Loss of Revenue should be made available to Local Bodies. The State Finance Commission considers that this should have a statutory backing also to avoid arbitrary decisions. The SFC has also suggested to adopt the inflation rate for revising the value of properties during General revision of values based on Comsumer Price Index.

2.2.32. The suggestion is made with the intention that local body should take advantage of inflationary trends to correct the deficiencies in income realisation. In practice, the value of properties assessed based on inflationary trend will affect the property owners who have them for their own Residential purpose. The inflation added value will only be theoretical and notional and will be helpful only to those who convert their liquid assets for more value by way of business. For those who have been living in these buildings, for a number of years, it would only affect them adversely, since they will have to pay higher tax based on notional increase without relative benefit out of such increase in value. This will have wider resistence. This could of course apply to non residential and commercial or rental properties but not to those on own occupation. Taxation Enquiry Commission(1950) has also indicated that a theoretical pursuit of progression will imply a great burden on those whose main form of possession or source

of income is immovable property as distinguished from other type of possessions or investments. The tax payer should have sufficient income to pay the tax levied and in this context the suggestion will not be workable to a part of tax-payers.

2.2.33. Further when revision of value is taken segment-wise or zone wise, any increase in rate every year will be impractical. Any revision in value or rate should be periodical and the period of three years appears to be reasonable. However to have a regular flow of funds and also to deploy staff in systematic manner without resorting to additional seasonal employment, the general revision alone can be arranged zone-wise or for group of Divisions/wards every year by dividing the entire area in three zones/ Divisions. The revision of rate of levy may be left to Local Bodies. A minimum and maximum rate of levy on ARV may be prescribed to avoid low taxation.

Collection Procedure:

2.2.34. The other area requiring improvement for a better financial yield is the procedure for collection of taxes. At present, in Chennai Corporation, tax payers are permitted to pay the taxes through certain designated banks of course based on the tax demand to be received from Corporation authorities. The system of serving demand is available only in respect of local body taxation. In the case of taxes payable to the Government, the responsibility to file returns and disclose the income or turn-over in business etc., lies on the taxpayer and the payment of tax has to be made at the counters prescribed by the Government. Even in respect of Electricity charges, the payments are done in counters opened. The non-payment of such taxes like income-tax or sales tax or Electricity Consumption charges will invite the use of penal provisions in the relevant legislations and this prompts the tax-payers to pay the taxes within the time stipulated and the major portion of the tax-payers will normally pay the taxes within that time. The serving of demand notices in the case of local body taxes came to vogue in earlier days when the property tax assessees were only a very few in number. Particularly with the advent of flat system and the construction of multi-storeyed complexes, this system is not practicable due to the heavy manual work involved besides the requirement of more infrastructural facilities needed by way of staff and other equipment. Even with the introduction of computers the serving of notice of demand on the tax-payers numbering about 9.03 lakhs in all the Corporations is a stupendous task. It is likely to involve delay and other incidental lapses like non-receipt of demand notices etc. Further the collection of money from such assessees directly by the staff of the local body will also be impracticable. A new system has to be found out, whereby the responsibility of paying tax will be devolved on the tax-payer while the local body will retain its power to pursue only the defaulters whose number will not be much. This will reduce the scriptory work and the man-power required for such work. The non-availability of sufficient personnel at the required norms is one of the reasons attributed by the local bodies for the low rate of performance in collection.

2.2.35. The new system for collection may be as follows: Whenever the first assessment is made and whenever a general revision is done, a pass book or a card may be issued to the assessees. The said pass book or card will contain the amount of tax fixed, the due date for payment, the grace time allowed for payment, and the penalty to be added for making payment after the expiry of grace time separately for each half year for a period of, say,the next five years or up to the period of next general revision envisaged under the rules. Unless the tax is revised in the meantime for any property for any reason whatever, the amount of tax indicated in the card or the pass book will be final and the responsibility will lie on the tax- payer for payment of the tax at the appropriate counters in the zones fixed by the local body or at the branches of the specified nationalised banks to be declared by the local body as the collecting agency. The amount of tax can be produced along with the pass book or the card and necessary entries for payment will be made therein and the said pass book or card with the entries will stand as proof for payment of the tax by the tax-payer. This will reduce a lot of unnecessary clerical work now involved in the collection and will minimise the deployment of personnel for the said purpose and also scope for misuse and misapplication. The initial task of furnishing pass book or card to each tax-payer will involve a large quantum of work but the work which was otherwise required will get reduced at the time of next General revision. This will also create a situation where the local body will have to pursue only such of those tax-payers who have not paid the taxes within the grace time allowed and the local body also will be able to effectively resort to penal proceedings for collection from such defaulters.

2.2.36. In the same manner, the local body can also think of introducing a system whereby a rebate of 2% could be given to those who make payment of the taxes before the expiry of the due dates and also additional concessions to those who make advance payments at 5% for more than a year i.e. more than two half years. This rebate could also be specifically indicated in the pass book or card itself, so that the collecting agency will automatically give effect to the payment of rebate at the time of collection of taxes. This is also likely to infuse enthusiasm in the tax-payers to be prompt in payment of the taxes. In respect of those who are paying the taxes in advance they will have a proper receipt available in their pass book or card and the safety needed for proper accounting is achieved. The present reluctance to pay taxes in advance is due to the fact that the local body takes the advance payment into their deposit account but fail to give proper credit at the time of issuing demand notices for the successive periods and very often the tax payers have to make protracted correspondence with the local body involving delay in tracing out the credit entries in the deposit account books. All these will get eliminated in the system of issue of pass book or card and of making entries therein as and when payment was made and the said pass book or card will be a document of acknowledgment for the tax-payer.

2.2.37. In the case of defaulters, penalty of 5% may be added for each half year concerned and collected.

2.2.38. The above reforms in the levy, assessment and collection procedure will lead to better tax mapping efforts and collection performance. Even if it is considered that the change in procedure could not be immediately given effect to in all the Local bodies at one stroke, some of the local bodies can be taken up for pilot study of collection procedure and the changed system may be introduced in the other areas based on the experience of such study. The reform will also help reducing administrative cost in collection. Provision of Computer will also further add to the efficiency in performance.

2.2.39. The following further reforms are needed in the property tax administration to ensure more yield as well as better administration:

1. A minimum and maximum rate of taxation should be fixed so that the local bodies will not resort to very low level of taxation.

2. The Valuation Cell may be appointed at state level in the Regional Centres consisting of technically qualified people like Engineers, Town Planners and Revenue Officers.

3. The special notice of assessment issued should indicate the basis of taxation.

4. A Tax Squad under the Valuation Cell may be created for making surprise checks to avoid evasion of tax mapping. They may be given independent power to assess or reassess a building wherever omissions are found.

5. The fixation of annual rental value should be freed from the restrictions in the Rent Control Act, since even for fixing the Plinth area Unit Rental value, the local bodies have been taking care of the provisions of Rent Control Act. This can be achieved if the Local Bodies Acts contain provision for method of calculation or enabling provision to prescribe suitable rules applicable under Local Bodies Act.

6. A standard percentage of collection should be fixed for ensuring better performance of tax collection; and if necessary, Government assistance in full or in part may be denied for poor performance. Action may also be taken against the concerned machinery of the Local Body for poor performance on tax mapping wherever remedial action has not been taken even after direction from the inspecting authorities.

7. Vacancy remission should be given for the actual vacancy for a continuous period of 90 days instead of 30 days now provided for, since it causes difficulty in working out the rebate or concession.

8. The present Taxation Rules provide for a Revision every half year and the Tax-payer avails it on the ground that there is reduction in value during the course of the half-year. Instead of that, revision petition can be allowed only twice during the period of five years after the general revision to avoid frequent petitions and unnecessary correspondence over that.

9. Write-off of the arrears can be allowed only after exhausting all the provisions for collection including the filing of a suit to avoid indiscreet write-off. Any such indiscreet write-off should be made questionable.

10. The tax collection machinery may be given a bonus for higher collection of the arrears of tax involved.

11. The local body which shows best performance in tax collection could be awarded special assistance from the Government as a form of recognition.

12. Distraint against immovable property will enable improvement in collection.

13. Instead of civil suit, appeal on all Tax matters could be made to a Tribunal to enable easy disposal and uniform decisions, which may be initially attached to the District court in each District. Separate Tribunal can be formed based on the need and experience. With the reforms proposed it is hoped that income from property tax may yield at least twice the existing level.

The Property Tax litigations pending in courts and the amount involved are as follows:

Table 2.6. Property Tax : Details of Litigations

	Cases	Rs.(crores)
Municipal Corporation	12063	18.50
Municipalities	56850	12.19
Town Panchayats	32012	1.80

The above facts indicate that there is need for some change in procedure to avoid cases being taken to the court resulting in abnormal delay. The new procedure for assessment of Property Tax is likely to reduce the number of cases going to court as against the assessment, in view of the transparency and publicity of the rates levied in each area and the amount payable by the individuals. At present the local bodies have got the power to initiate distraint proceedings for the attachment of movables besides

filing civil suits against the defaulters. There should be some rigid procedure for distraint against immovable properties also by which the assessees are made to pay the amount without resorting to court. The application of Revenue Recovery Act will improve the situation in collection. In the case of arrears which are not covered by court stay also review has to be made on procedures and special efforts to settle the matters may produce better results in the collection. Anyway, the local bodies have to concentrate on the collection of arrears which account for more than a year's tax proceeds. If the assessees resort to legal cases or make the Local body resort to Legal action for collection, a special provision has to be made in the enactment to make the assessees deposit at least 50% of the tax assessed in the case of new assessments, and deposit the old tax and 50% of increase in new tax in the case of general revision. This has also been the view of high courts in many cases where writ petitions have been filed against enhancement in the general revision. In the case of regular defaults distraint proceedings should be resorted to instead of filing suits.

2.2.40. Therecommendations of the Commission under Property Tax Administration are as below:

1. Switching over from the present Annual value system to the area linked unit value system which ensures better acceptability to the people and more revenue yield for the Local Bodies is recommended.

2. Basic Ratable plinth area monthly rental value with ranges proposed by SFC are given in the Schedule in Appendix No. 11. The rates applicable to all urban bodies are furnished in the schedule.

3.i. As an immediate step, a revision may be carried out. General revision may be done thereafter once in three years for administrative ease.

ii. ARV may be revised once in three years based on inflation rate with reference to consumer price index. If the average rate of inflation goes down then the revision rate should be based on that index. On the other hand, if it goes up, the revision rate should also go up on the same proportion. Such a revision to adjust for inflation should be made known to the tax payers in advance.

iii. For example, the average inflation rate is 10% and so at the end of 3 years the ARV will have to be revised upwards by about $(1.1)^3-1 = 33\%$. Allowing for the 10% depreciation (=3.3%) the net ARV increase eligible for taxation will be 29.7%.

iv. If such inflation indexing is done, then the revision will lead to growth in the real revenues from the property tax and also avoid indiscriminate increase in the tax payable by the taxpayers.

v. General revision is proposed once in three years to have effective implementation without deployment of additional staff. General revision can be done by dividing the area into Zones and revision made zone-wise or for a group of divisions/wards every year.

4. Computerization: The average number of property tax assessees per corporation are 1,37,968, per municipality are 21,981 and per town panchayat are 3,184. Since a large number of records have to be maintained in order to administer this tax efficiently. SFC recommends that the urban local bodies may computerize their property tax records and their property tax systems. Computerization is desirable in the case of Town Panchayats also.

5. Service Tax Component: The total property tax may be divided into two parts, one as general purpose tax and the other as service tax on 50:50 basis. Purposes in common like water supply, lighting, scavenging, and drainage may be met from Service tax with flexibility for utilising the income realised from service tax to the components with reference to top priority in the area. However, out of the service component tax of 50 %, the Local Body should uniformly set apart at least half the amount towards water supply and sewerage/drainage.

6. A directory of property tax may be printed and made available to the tax payers indicating the rate of taxation adopted areawise with all exemptions/ concessions and incentives and penal provisions. This should be reprinted whenever a general revision is done. This will go a long way to fetch transparency and reduce litigation.

7. A preliminary analysis of the revised structure reveals that it will lead to an additional revenue generation by a minimum of 30-40% for the Corporations, (for Chennai alone, it is likely to be more than 50%), 25-35% for the municipalities and 35-45% for the Town Panchayats.

Exemptions:

8. Total exemption for all educational institutions from taxation is not equitable since the institutions avail all the civic facilities like roads, lighting, water supply etc. Instead of total exemption, concession may be given in the levy of general purpose tax by restricting the levy to service tax alone.

9. In the case of Industrial Estates, the tax concession should not be available for more than a period of 5 years. Thereafter, concession on service tax can be given proportionate to services locally provided but not on general purpose tax.

10. The taxation of properties of the Central Government is recommended as a matter of principle even though the tax derived may not be appreciable.

11. In the case of Central Government buildings as also in the case of educational institutions and other charitable institutions, service tax may be levied in addition to the user charges now collected.

12. Public sector undertakings which have their own provision for services within their areas may be levied general purpose property tax in full and service tax in proportion to the service provided by local body from its funds in its locality.

13. **General Revision:** There should be no restrictions,concessions, abolition or write-off of tax or other revenue sources available/ earmarked to Local Bodies by Government without consulting the LBs.

14. If such intervention is found necessary by the Government in the interest of public cause, compensation for loss of revenue should be simultaneously made available to the Local Bodies by the Government.

15. **Collection Procedure:** The SFC recommends that the responsibility of paying tax should devolve legally on tax payers.by suitable provisions in the enactments.

16. The new system for collection may be as under:
At the time of first assessment/General Revision a pass book or a card may be issued to the assessees. The pass book/card will contain particulars about tax levied, due date of payment, grace time allowed for payment, penalty for delayed payment separately for each half year for the next 3 years i.e. upto the next general revision. The amount of tax indicated will be final, unless the tax had to be revised in the meantime for any reason.

17. It is the responsibility of the tax payer to pay the tax at the appropriate counters in the Zones or in the specified branches of nationalised banks declared as the collecting agency. At the time of payment, entries will be made in the pass book or card and such entries will stand as proof for payment of tax.

18. A rebate of 2% may be allowed for prompt payment and 5% for advance payment of tax. These rebate rates may be indicated in the Pass Book/Card itself, so that the collecting agency can accept the tax allowing the rebate at the time of collection of tax.

19. In the case of defaulters a penalty of 5 % of tax may be added for each half year concerned and collected.

Further Reforms Recommended in Property Tax Administration

20. A Minimum and maximum rate of Tax (consisting of General Purpose and Service Tax) may be fixed, to avoid low level of taxation as below:

Table 2.7. Property Tax: Proposed Rates of levy

	Minimum	Maximum
Municipal Corporations	20%	40%
Municipalities	15%	35%
Town Panchayats	15%	30%

21. A Tariff and Valuation Cell consisting of technically qualified people like Engineers, Town Planners and Revenue Officers may be created at State Level/with Regional Centres to help local bodies, in the valuation of properties and assist in any determination of cost of services for user charges.

22. A Tax Squad under the Valuation Cell may be created at Headquarters for making surprise checks to avoid evasion of tax mapping. The Squad may be given powers to direct assessment by the Local Body in cases of omission.

23. Application of the Rent Control Act to rental value adopted by local bodies should be eliminated by laying down guidelines for the procedure for valuation in the respective Local Acts.

24. A minimum performance of tax collection should be ensured, Government assistance to Local Body should be related to Tax performance. Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.

25. Tax collection machinery may be given incentive for higher collection of tax involved.

26. Permitting distraint against immovable properties will enable improvement in collection.

27. Reduction in Tax for vacancy remission may be given for vacancy for a continuous period of 90 days, instead of 30 days now adopted.

28. The present Rules provide for request from assessee for revision of tax every half year. This provision should be limited to only twice within 3-year period after the initial assessment/ general revision, to avoid frequent requests

29. Write-off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.

30. Instead of suit, in civil courts, all tax matters could be dealt with by a Special Tax Tribunal to avoid delay in disposal and to ensure uniformity in decisions. Initially District Courts may be the Tribunals. Based on the need and experience, Special Tribunals may be created.\

31. **General for all Local Bodies:** If the assessees/Lessees resort to legal proceedings, or if the Local Body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned whereby the assessees may have to deposit 50 % of the tax assessed in case of new assessments or to deposit the old tax and 50% of increase in new tax in the case of general revision, and the Lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceedings should be resorted to instead of filing suits.

Profession Tax

2.2.41. The Profession Tax is another important revenue of the local bodies, especially for the upper tiers namely Corporations and Municipalities. Under the respective Acts of the Corporations, powers have been given to levy profession tax on all professions, trade, and calling in the area of the local body concerned. Prior to 1st April 1992, the profession tax was based on the provisions available in the respective legislations governing the Corporations or other local bodies. The maximum and minimum tax leviable based on the income of the individuals/ Establishments was indicated in the Act itself and the local bodies were given the freedom to levy the tax at the rates of their own choice in between the maximum and minimum and enforce it in their areas through the personnel of the local bodies concerned. Since the profession tax was levied mainly on the basis of income of the persons, tax in respect of self-employed professionals like doctors, lawyers, traders, and others could not be assessed correctly, as their income is normally not ascertainable by the local body staff. Only in the case of salaried employees the assessment was made through the returns to be filed by the employers and proper levy was made.Here also it was made compulsory on the part of the employers to deduct the amount of profession tax from the salary of the employee concerned in two instalments as prescribed by the Act and pass it on to the local body. Prior to the compulsion made through amendment to the provisions of the Act, the collection of profession tax even from the salaried class was not significant. With a view to improving the resources of the local bodies a new consolidated Act namely the Tamil Nadu Tax on Professions, Trades,Callings and Employment Act 1992 was enacted to levy the tax based on the profession calling etc. with the maximum limit of Rs.1250 per half year (Rs.2500 per year) as allowed in Article 276 of the Constitution of India. Prior to the revision of rate, the rates which were in force were maximum of Rs.125 per half year and Rs.250 per year (Maximum limit).

2.2.42. According to the new Act, dealers registered under the General Sales Tax Act 1959 were liable to pay profession tax based on their annual gross turn-over as indicated below:

Table 2.8. Profession Tax on Traders as per new Act 1992

	Annual turn-over	Half-yearly tax Minimum Rs.	Maximum Rs.
i)	Less than Rs.50,000	200	750
ii)	Rs.50,000 - Rs. 1 lakh	300	750
iii)	Rs.1 lakh -Rs.2 lakhs	500	1000
iv)	Rs. 2 lakhs or above	1000	1250

In respect of the employees, various slabs have been prescribed based on their half-yearly income and the rates to be adopted for the slabs have also been indicated in the Act. Regarding the professionals, various parameters have been adopted like the period of service in the connected profession and the assumed gross income in the profession and the tax for half year or full year has been prescribed at a flat rate depending on their period of service etc.

2.2.43. Anyhow several representations have been made by the Traders' Association and many Writ Petitions have been filed in the High Court against the new Act and also against the rates of tax levied thereunder, on the ground that the tax on the traders should be based on their income as was done in the earlier Act and should not be based on the turn-over and also on the plea that the new rates of tax are very high. The Government exempted the levy of tax on those traders whose annual turn-over was less than Rs.75000/-; but, still the Association was not satisfied.

2.2.44. Based on subsequent discussions, the Government announced some more concessions in 1993-94. It is understood that the matter was further discussed by the end of 1993-94 and the rates of tax for the dealers were again revised based on the annual turn-over as follows:-

Table 2.9. PROFESSION TAX ON TRADERS FROM 1.4.1992.

	Category All registered dealers with turn-over up-to	Half-yearly Tax Minimum Rs.	Maximum Rs.
1.	Rs. 1 lakh	60	90
2.	Rs.1 lakh - 2 lakhs	90	120
3.	Rs.2 lakhs - 3 lakhs	120	240
4.	Rs.3 lakhs - 5 lakhs	240	300
5.	Rs.5 lakhs - 7.5 lakhs	300	360
6.	Rs.7.5 lakhs - 10 lakhs	360	600
7.	Rs.10 lakhs - 15 lakhs	600	720
8.	Rs.15 lakhs - 20 lakhs	720	840
9.	Rs.20 lakhs and above	840	1020

Similarly in the case of Companies, the rates were revised for levy of tax on the directors, dividing them as part-time and full-time. The revised rates were given retrospective effect from 1-4-92, with a clause to waive the penalty due for the delay, if the reduced taxes were paid before 30-4-94.

2.2.45. On a further agitation from the Traders' Association, the tax rates were further revised with effect from 1-4-95 as below, which are now in force.

Table 2.10 Profession Tax on Traders Revised from 1.4.95.

		Order from 1.4.92 rate of tax per half year		Revised rate of tax per half year	
		Min. Rs.	Max. Rs.	Min. Rs.	Max. Rs.
Dealers registered under the TNGST Act 1959 (TN Act I of 1959) and whose annual gross turnover of all sales or all purchases is					
1.	Less than Rs.1 lakh	60	90	30	60
2.	Rs.1 lakh or more but less than Rs.2 lakhs	90	120	60	120
3.	Rs.2 lakhs or more but less than Rs.3 lakhs	120	240	120	240
4.	Rs.3 lakhs or more but less than Rs.5 lakhs	240	300	240	300
5.	Rs.5 lakhs or more but less than Rs.7.50 lakhs	300	360	300	360
6.	Rs.7.50 lakhs or more but less than Rs.10 lakhs	360	600	360	540
7.	Rs.10 lakhs or more but less than Rs.15 lakhs	600	720	540	600
8.	Rs.15 lakhs or more but less than Rs.20 lakhs	720	840	600	690
9.	Rs. 20 lakhs or more	840	1020	690	720

2.2.46. The following professions / trades have not been specifically mentioned in the enactment and may be notified under the item "others":

1. Computer/Typewriting, shorthand, accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods Manufacturers and Exporters.
4. Beauty Parlours and Beauticians
5. Legal Consultants other than Legal Practitioners
6. Non-Bank Financial Services Companies.
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially organised Music parties.
15. Lending Libraries
16. Dry Cleaners

The Government will have to issue a special notification under the proviso to section 3(3) of the Act. This measure is estimated as capable of increasing the yield on an average by 25 to 30 % for larger Municipal Corporations and 15 to 20 % for Municipalities and 10 to 15 % for Town Panchayats. It was also suggested to SFC to increase the slab rates every year to include the incidence of inflation. A minimum and maximum has been prescribed with reference to the Constitution and increase of rates over and above the ceiling cannot be resorted to. The litigation in relation to Profession Tax was mainly because of the steep increase in the level of taxation due to the new enactment. Any suggestion for increase in the rate every year based on inflation may not be now advisable and perhaps this could be considered later. The proper implementation of the present Act is expected to ensure a higher level of income compared to the revenue derived in previous years. Since the Government have negotiated and finalised the various rates, the SFC feels that the present rates may be in force for the next five years and any revision can be considered later. Similarly all petty traders who are not covered under turn over system may also be included under "others" for a flat rate Tax.

2.2.47. The following table indicates the income from profession tax in Municipal Corporations:-

Table 2.11. Corporations : Income from Profession Tax (Rs. in Lakhs)

	1991-92	1992-93	1993-94	Average
Chennai	253.18	473.81	1143.73	623.57
Coimbatore	45.92	48.31	117.88	70.70
Madurai	28.04	27.93	120.99	58.99
Salem	23.25	7.97	66.80	32.67
Trichy	39.56	29.62	109.31	59.50
Tirunelveli	16.91	20.92	61.31	33.05
Total	406.86	608.56	1620.02	878.48

2.2.48. Though the yield from this tax is not very substantial in Town Panchayats and Village Panchayats, still it forms one of the major revenue in those areas also. The tax realisation under Profession Tax in 1993-94 is Rs.22 per capita in all the Corporations put together as against Rs.8 in the year 1992-93. With the various amendments made and concessions allowed, it is hoped, the income is likely to increase further. The enforcement of collection on the traders and professionals is a major difficulty experienced by the local bodies. Though powers have been given for penal action for non-registering by the professionals and traders under the new Act of 1992, there has not been much of a response from this section of people.

2.2.49. The study indicates that about Rs.8.77 crores are realised from salaried class in all the Corporations put together under the Profession Tax. The shops and establishments have contributed about Rs.2.23 crores while the Companies have contributed about Rs.72 lakhs. Banks have contributed Rs.2.57 crores. The income from the professionals like consultants, contractors, commission agents, legal practitioners, and medical practitioners is comparably very low as may be seen from the table below:

Table 2.12. Corporations: Profession Tax: Assesees Nos. and Demand

ASSESSEES	NO.	DEMAND (Rs. in lakhs)
Salaried	2,38,881	877.56
Shop & Estt.	1,21,731	223.16
Companies	54,417	72.45
Banks	60,877	257.34
Consultants	40,498	28.53
Contractors	2,182	26.69
Commssn.Agents	1,393	31.34
Legal Practitioner	17,698	52.99
Medical Practnr.	7,825	56.05
Others	17,268	62.61
Total	5,62,770	1688.71

This is because the particular class or category have not responded so far for payment of tax under the Act in view of the negotiations that were going on with the Government and the Writ Petitions filed in the High Court against the implementation of the Act against them.

2.2.50. Now that it has been settled and the Government have given final concessions on the rates to be levied, the enforcement machinery has to be strengthened and the rates finally approved by Government may be continued. Local Body should take immediate steps to make tax mapping of all assessees liable under the Act through their staff and issue notices to them for non-enrolment and registration and also initiate penal action at least in a few cases which will compel all the assessees to resort to voluntary enrolment and registration under the Act.

2.2.51. In this context, it may be pointed out that in Maharashtra State and Andhra Pradesh State the levy has been taken away from the hands of the local bodies and has been entrusted to the Government Department, namely, Commercial Taxes Department. The Commercial Taxes Department deals mostly with the traders and other business people and it will be easier for them to finalise the tax based on their annual turn-over furnished in the annual returns to be filed by the traders before them. In the case of professionals, the department has no hold over them to compel them to file any return. However, it is understood from the Andhra Pradesh and Maharashtra States that the department has been able to implement the provisions of the Act in relation to these professionals also. During the visits of the Commission to these two States it was informed that the total income under this head has increased manifold compared to the income realised by the local bodies, when the tax collection was enforced by them. The taxes collected are distributed to the concerned local body after retaining some percentage as collection charges by the Government.

2.2.52. This system was being supported by some of the departmental representatives and also some representatives of the public, V.I.Ps. etc. while a survey was conducted to know their views in this regard. The only pertinent question, however, that arises is that the local bodies are enforcing only a few taxes on their own, of which profession tax is one and whether the Profession Tax should also be handed over to the Government for collection.

RECOMMENDATIONS:

2.2.53. SFC RECOMMENDS THE FOLLOWING:

1. Local Body should take immediate steps for tax mapping of all kinds of assessees. Notices may be issued to those who have not registered Penal action may be initiated at least in a few cases which will make others to seek voluntary registration and enrolment.

2. The following professions / trades have not been specifically mentioned in the enactment

1. Computer/Typewriting,Shorthand. Accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods manufac-turers and Exporters.
4. Beauty Parlours and Beauticians.
5. Legal Consultants other than Legal Practitioners.
6. Non-Bank Financial Service Companies
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially Organised Music Parties
15. Lending Libraries
16. Dry Cleaners
17. Petty traders (not covered by turn over system)

The Government may issue a special notification under the proviso to section 3(3) of the new Profession Act 1992 to include them under "Others" and also to make the provision applicable to all Local Bodies both Urban and Rural.

3. The present rates finally notified by Government after negotiations may be in force for the next five years and any revision can be considered later.

4. After careful examination SFC considers that the profession tax may be continued to be collected by Local bodies. The C.T.Department may be made responsible to furnish the list of traders and their turn over to the Local Body concerned to enable them to adopt the turn over as finalised by the Commercial Tax Department. When assessment of a year is still under process of finalisation the turn over of earlier year can be adopted initially and arrears collected later. With the revised rates coupled with better collection experience the yield is likely to increase thrice of the existing level.

Vehicles Tax:

2.2.54. The local bodies have been given power to levy a tax on vehicles which are non-motorised like carts, bicycles and rickshaws. Recently the Government have announced the abolition of this vehicles tax in toto. Local bodies have also been representing that this tax may be abolished in view of the meagre amount realised and the high expenditure involved in the collection of this tax. Originally all the vehicles which are not coming within the purview of the Motor Vehicles Taxation Act, were brought under this taxation. Now there are vehicles which are energised with motors but not coming within the limit of taxation under the Motor Vehicles Taxation Act. There are also certain two-wheelers which are levied life-time tax by the Motor Vehicles Department. Not only in Cities but also in villages, two wheelers have come to play a vital role in transportation, and the carts, bullock carts or hackney carriages have almost dis-appeared from the scene. Bicycles being the common man's vehicle were already exempted from the levy of any tax. Instead of totally abolishing the vehicles tax, the local bodies could be allowed to levy a tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act. and also on Tractors for which exemptions are obtained.

2.2.55. There are about 11.26 lakhs vehicles in the category of Mopeds and Two Wheelers and Tractors in the State.

The following rates are proposed:

Table 2.13. Vehicle Tax - Rate of Levy

1. Bicycles and carts	Exempted	
2. Two Wheelers	Rs.10-50	per year
3. Tractors	Rs.15-30	per year

The number of such vehicles will be sizeable in urban areas like Municipalities and Corporations. Though their number may be less in Town Panchayats and Village Panchayats, it will also be not difficult to identify them because they are being registered in the Motor Vehicles Department for numbering. The income that can be expected from this is estimated at about Rs.2.00 crores for the state if a minimum levy is collected.

Recommendations

2.2.56. The following are the recommendations of SFC.

Tax on carts and bicycles has been abolished. Instead of totally deleting the provision of Vehicles Tax, Local Bodies may be allowed to levy tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act and also on other two wheelers and tractors.

The rate of levy may be as below:

	Vehicle Type	Tax (Rs.) per year
1.	Bicycles and Carts	Exempted
2.	Two Wheelers	10-50
3.	Tractors	15-30

Tax on animals and carriages

2.2.57. The tax amount realised under this head is very meagre. Therefore, instead of levying taxes on animals, a uniform pattern and system of licensing of animals like dogs. pigs and other domestic animals can be introduced.

2.2.58. Recommendations

SFC recommends that tax on animals may be abolished. A uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced,

2.2.59. In Chennai Corporation, there are three other taxes in existence, viz., tax on companies, tax on timber, and tax on advertisements as indicated below:

Tax on Timber :

2.2.60. Timber tax has been in existence in Chennai Corporation for a very long time right from the inception of the Act. The trade in timber carried on in the Buckingham Canal was impressive in those days. The tax seems to have been prescribed in city since timber of all kinds were being imported from Kerala and other states and also from outside countries and the transport took place by road as well as sea. The High Level Committee on Chennai Corporation Administration 1978 has pointed out that this tax is one which can be easily collected since the trade is concentrated only in select localities in the city. But the income under this tax has been very low in all the three years(1991-92 to 1993-94) and no effort seems to have been made for improving the revenue under this item. This has been pointed out by the 1978 Committee and it suggested that the Corporation may prepare an upto date list of all wholesale dealers in timber with the estimated value of transaction carried on by them during the last 3 years which could be counter checked with Commercial Tax Department since the assessments for several years have not been made and demands issued. This tax was considered likely to yield a substantial income to the Corporation taking into account the very high price of timber prevailing. Though the existing rate of tax is not available it is presumed that a certain percentage of the value of the timber transacted seems to have been levied and collected. The High Level Committee also suggested even in 1978 to raise the level of taxation at least to 5% of the value of the timber.

It is stated that a similar tax was available in Bombay but the introduction of Octroi has made that tax redundant. With the high price of timber now being sold, there could be a reasonable expectation of high yield of revenue to the Corporation even if the tax is levied at the current rate. This tax is not levied in other Corporations and only the Chennai City Municipal Corporation Act contains provisions for this. The position of taxation for timber under the Sales Tax Act was verified. It is noted that tax at 8% on the sale of timber has been prescribed and is being collected by the Tamil Nadu Government. This tax may amount to double levy on the same commodity. However this tax is available only to Chennai Corporation which is the oldest Corporation. Perhaps Sales Tax came into effect and later on when new Corporations were formed, this provision has not been extended. Being peculiar to Chennai, this may be continued. The need for this tax in other Corporations may also be examined and extended to them.

2.2.61. Recommendations.

The tax now collected in Chennai Corporation may be continued and extended to other Corporations after due examination .

2.2.62. Company Tax :

The Chennai City Municipal Corporation Act empowers taxation on the companies based on the paid-up capital of the company if its head office or principal office is situated in the city of Chennai. The logic of this taxation is not known. It is understood that the companies were divided into 7 categories and the minimum tax is Rs.60 per year and the maximum is Rs.2000 per year. In respect of companies whose Head or principal office is not in the city, but whose branches are in the city, the taxes based on the gross income received or derived in the city in the year immediately preceding is to be taken for taxation. The levy varies from Rs.100/- per year to Rs.2000/- per year. Though the income was ranging from Rs.8 to 10 lakhs between 1972-73 to 1976-77 as furnished by the High Level Committee on Chennai Corporation Administration, it is found that only Rs.5 lakhs is now being collected as seen from the particulars obtained by the State Finance Commission.

2.2.63. The High Level Committee on Administration of Chennai Corporation found that the percentage of collection was fairly high at that time and the cost of collection was also negligible. The Committee recommended for stepping up the rates of this tax and expected the yield to progressively go up to Rs.20 lakhs in the next few years commencing from 1977 - 78. The yield has practically fallen down. It is not known why the Corporation has not made any efforts to improve the tax efforts under this item especially when the number of companies in Chennai has sufficiently increased. Companies registered under Cooperative Societies Act are exempted from levy and all other companies are liable for taxation. Since the details and number of companies are not available, it is not possible to estimate the probable income that can be derived by the Corporation from this source. However, there is lack of efforts to improve

the income from both timber tax and the companies tax which were specifically allocated for Chennai City Municipal Corporation only under the enactment. State Finance Commission considers that while new tax domains are not very much, why the existing tax provisions could not be availed of and fully exploited needs to be examined especially when the revenues under these items are likely to be substantial in view of the formation of more companies under the Companies Act in Chennai City.

2.2.64. Recommendations:

This tax now available for Chennai Corporation may be continued and extended to other Corporations, after due examination.

2.2.65. Tax on Advertisements stands on a different footing. From this tax, more income can be realised in view of the momentum gained in the manner of advertisement and the usage of this weapon by most of the firms and companies for the purpose of improving their level of business. Further it is seen that in big cities there should be some regulatory mechanism to control the advertisements which are at present made through posters, lamp posts, walls of buildings and compounds and cut-outs. In view of this, tax on advertisement may be suitably modified and the urban local bodies can be permitted to levy this tax so that the nature and types of advertisements could be regulated besides having a sizeable yield of revenue to the local bodies under this head. The advertisements on the Highways are being controlled by a Committee in the case of Madras City, and by the Highways and Rural Works Department in other cases. Even though regulation and control are exercised by a Committee or by a Government Department, the income realised on that account should be made available to the particular local body within whose area such advertisements are made either on the Highways or on any other roads. In the case of advertisements made in private buildings, the control should be exercised only by the local body. The Chennai Corporation has levied Advertisement tax. This subject has been further dealt with under New Tax domain in paragraph 2.2.111 to 114.

Vacant Land Tax:

2.2.66. International experiences indicate that vacant land tax can be a major source of revenue for the urban local bodies. It is known that in many developing countries like Latin America, vacant land is taxed at a higher rate when compared to built-up property. This is done with the intention of curbing speculation on land on the one hand and to promote housing on the other, both of which are needed in urban areas. This source is under-exploited in our country, though provisions are available to levy tax on vacant lands in the urban areas like Corporations and Municipalities. In view of the fast development that is taking place, new housing lay-outs are coming up in more numbers and the promoters are plotting out the lands and selling the vacant plots to those who are desirousof purchasing them. In fact, many have taken this form as a source of investment with the

hope of getting speculative increases in value of the land at a later date. The real estate business is one of the thriving businesses nowadays throughout the State and it is also represented that the real estate people are making huge profits and at the same time, do not contribute much to the local bodies' revenues out of their huge profits.

2.2.67. In fact it is also brought to notice that in many cases un-authorised lay-outs are drawn and the vacant plots are sold away to the unwary individuals without proper approval.

Table 2.14. Municipal Corporations Unapproved Layouts (as on 31.3.94)

Corporation	Unapproved Layouts (in Nos.)
Coimbatore	150
Madras	1137
Madurai	58
Salem	n.a
Trichy	363
Tirunelveli	74

In such cases, people who have their own money are able to put up constructions and even start living in the houses so put up, seeking all facilities from the local bodies concerned. Though there are rules and regulations for the purpose of regulating and planning the lay-outs through the Chennai Metropolitan Development Authority and the Directorate of Town and Country Planning, the unauthorised lay-outs are also coming into existence. The cost of plots in the approved lay-outs is going up abnormally because of the activities of the real estate promoters. With all this, the concerned local body has not realised any benefit while the local body has to face the responsibility of providing basic facilities to those new-comers in their areas.

2.2.68. To obviate this situation, a system of levy on vacant land at the rate of 1 to 2 % of the capital value following a life cycle vacant land tax system was considered by SFC. Under this system, the tax for 10 years is to be collected at one go at the time of the transfer of the vacant land as such from the purchaser. After implementation, during the next transfer, the buyer will have to pay 10 years' vacant land tax deducting the tax which has already been paid calculating from the date of previous purchase to the date of subsequent sale out of the tax collected for the first ten years. The value determined at the Registrar's office can be used for determining the value and the collection of this tax can be made as a component of the registration fees collected by the Registration Department. The amount so collected may be passed on to the local body concerned by the Registration Department. It was also suggested that 1/10th of the realisation of the

tax should be set apart as capital reserve and should be made available only for capital works in the area concerned. It was also considered whether a Tariff and Valuation Cell proposed at the State Level can guide the local bodies in the adoption of the valuation of properties wherever necessary.

2.2.69. There is one important point which needs to be considered in this regard. Middle class people who are desirous of owning a house and who are in pursuit of a suitable plot of lands are not able to own it as it would happen in the case of affluent people. So they would first go in for purchase of a vacant plot with the available funds and will keep the plot vacant expecting sanction of loan or other facilities for the purpose of construction. Even for purchasing a plot they would have to mobilise all their savings. Levying a tax on them as a penalty for keeping the land vacant for some years will be detrimental to their interests and will dampen their urge to own a property.

2.2.70. The real person who is benefited on account of the rise in value of the land is not the purchaser but the real estate people who sell the plot of land at a high cost which includes also their profit and in some cases, even without following the rules and regulations for the formation of a lay-out,to provide minimum facilities of roads, open space reservation etc.

2.2.71. Instead of levying the vacant land tax on the purchaser, wherever new lay-outs are promoted, a one-time tax for a specific period (for five years) can be levied against the lay out promoter at the time when they get approval for their lay outs from the planning authorities. It will be difficult to enforce collection of vacant land tax subsequently from the purchasers in view of the difficulty in identification of the buyers from time to time. It is also considered that the burden of this vacant land tax should not be mulcted upon the buyer, since the benefit of inflation and cost escalation is availed only by the seller and not the buyer. The subsequent tax etc. on vacant land can be collected from sellers when they sell their property as detailed in the recommendations hereunder.

2.2.72. Recommendations:

SFC recommends the following:

1. The levy of Vacant Land Tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided in the location for the existing inhanitants at high cost.

2. The burden of Vacant Land Tax should not be mulcted upon the buyer, since the incremental benefits of price are mainly availed of only by the seller and not the buyer.

3. A one-time vacant land tax may be levied for a specific period, namely, ten years on the promoter of a lay out at the time when the

promoter gets approval from the planning authorities and passed on to Local Body concerned.

4. A tax rate of 0.5 to 1% of the capital value is considered to be a normal rate on vacant urban land.

5. The following life-cycle vacant land tax system may be adopted in the case of subsequent sellers of vacant land. Under this system, the tax for 10 years may be collected at one go in the following manner. Any vacant urban land, at the time of transfer should have paid up one time tax for 10 years. During the first round of transfer, the seller should pay 10 years' taxes on the vacant land and this can be collected on the basis of present value computation at the range of rates indicated, depending on the resolution of the Local Body concerned. The value determined for land and property as per guidelines of Registration Department can be used for determining the amount due. The Registrar can collect this tax and pass it on directly to the local body concerned.

Example: If the land is assessed to have a capital value of Rs.10000, the present value of the taxes at 0.5 % for the next 10 years, discounted will be Rs.337.90.

Pilgrim Tax:

2.2.73. At present, pilgrim tax is collected in certain areas on the basis of the levy made by the local bodies. These places are to be notified as places of importance due to religious functions or festivals or some such reason. In certain cases. the levy is made throughout the year in the area where the people come for pilgrimage. In certain places, the levy is restricted to a particular period of the year when big festivals take place and large crowds assemble. In all these cases, pilgrim tax is levied as an addition to the railway ticket and is collected by the Railway authorities and passed on to the State Government which in turn would pass it on to the local body concerned. There are not many such Centres in Tamil Nadu which are levying this tax. Among the Corporations, Madurai falls under this category, collecting pilgrim tax. The rates of pilgrim tax are in force for many decades and no revision has been made.

2.2.74. Due to activities for promotion of tourism and due to the publicity about the famous temples and places of pilgrimage, tourism and pilgrimage have increased substantially over a period of ten years. In Tamil Nadu alone, the season at Courtallam, Kodaikanal, Ootacamund and Yercaud has attracted a large number of people during a particular part of every year. The local bodies of such places of tourist importance are naturally expected to make provision of civic facilities not only for the local public but also for the floating population which at times far outnumber the local population. They have to make additional facilities and also have to increase the existing facilities to meet the

needs of the tourists during the seasons. Similarly in the case of temple towns also, the number of pilgrims has substantially increased. During the season when the pilgrims go to Sabarimala and return, they visit almost all the temple towns in the southern part of Tamil Nadu, because they ordinarily engage tourist buses and visit all places of importance in the State. This increases the floating population of those places and the local bodies have to make provision for the civic facilities of large number of pilgrims by way of addition to the existing facilities. The roads of these local bodies are put to heavy usage during this period of pilgrimage and additional responsibility is cast on the local bodies to maintain the roads in proper condition. The supply of drinking water to the pilgrims and floating population is also a task faced by the local body concerned.

2.2.75. In order to make the local bodies realise additional revenue, it could be recommended that the following types of places can be allowed to impose pilgrim /or similiar type of tax:

1. Places of holiday resorts and seasonal specialities;
2. Temple towns;
3. Places of geological or archaeological importance;

2.2.76. One way of realising this levy is to expand the scope of the tax which may be modified and given some other nomenclature instead of its present pilgrim/Tourist tax and the levy may also be made on the bus passengers by way of an addition to the bus tickets. The tax on the bus passengers can be collected at the place of pilgrimage or the place of importance on their return journey. A stamp on the back of the ticket or a printed token accompanying the ticket may be issued, in token of the collection of the pilgrim tax. This particular stamp or the tokens may be made available to the Transport Corporations or the private bus owners every month or as and when the need arises periodically. The amount of pilgrim/Tourist tax may be collected in a lump sum from the Transport Corporations or the fleet owners once a month based on the capacity of the buses and number of trips per day at Rs.100 - 150 per trip. This will relieve the local body of the task of identifying the individual pilgrims or tourists. The rate can be fixed after taking into account the average number of visitors making visit to the particular place.

2.2.77. In the alternative, a flat rate can be levied per bus per trip to the area based on the seating capacity of the bus, and the amount collected from the Transport Corporation or the fleet owners, allowing them to collect the pilgrim tax from the passengers. It may be seen that barring these Transport Corporation buses and private buses, people throng to the places of pilgrimage and other importance in vans, lorries and also by engaging private vehicles like vans and cars etc. The local bodies may make their own arrangements to collect the pilgrim/Tourist tax from those who visit the place in such vehicles at the entry point of the local body or town concerned.

Table 2.15. Pilgrim Tax:Rate proposed for Private Vehicles.

VEHICLE TYPE	TAX
Bicycles and Two wheelers	Exempted
Private Cars and Taxi Cabs	Rs.10 - Rs. 25
Vans, lorries etc., carrying people	Rs.25 - Rs. 50
Private Tourist Buses	Rs.100 - Rs.200

2.2.78. Recommendations

SFC recommends the following:

1. Pilgrim tax or a similar tax may be levied in respect of
(1)places of holiday resorts and seasonal specialities
(2) temple towns
(3)places of geological or archaelogical importance.

2. Scope of the tax may be modified by giving some other nomenclature.

3. Identification of the areas falling within the three categories should be notified by Government with identification of seasons when these centres attract pilgrims/tourists.

4. Tax may be levied for the seasonal period at higher rates or can be uniformly levied at a lesser rate throughout the year. The scope of collection of Pilgrim Tax to cover both railway and bus passengers may be notified. In the case of bus and railways, notification of rates can be made.

5. Such tax on bus passengers may be levied as on addition to bus fares. It may be collected at the place of pilgrimage/tourism on their return journey. A stamp on the back side of the ticket or the issue of separate tokens will ensure collection of tax. The stamp or the tokens may be made available to the Transport Corporations or private bus owners periodically or as and when necessary.

6. The amount of Pilgrim/Tourist Tax may be collected in a lump sum from Transport Corporations or fleet owners once in a month based on the capacity of the buses and the number of daily trips at Rs.100-150 per trip (i.e.

Rs.2-3 per passenger on an average). This will relieve the Local Body of the task of identifying individual pilgrims and tourists. The rate can be fixed after taking into account the average number of visitors to the place.

Or in the alternative:

7. A flat rate can be levied per bus per trip based on the seating capacity of the bus and the amount can be collected from the Transport Corporations or the fleet owners, allowing them to collect pilgrim tax from the passengers.

8. Regarding people visiting the tourist or pilgrim centres in vans, lorries and private vehicles, cars etc., the Local Bodies may make their own arrangements to collect the tax.

9. Rates recommended for private vehicles are as follows:-

Bicycles and Two wheelers	No tax
Private cars and taxi cabs	Rs. 10 to Rs.25 per trip
Vans, lorries etc.	Rs. 25 to Rs.50 per trip
Private Tourist Buses	Rs.100 to Rs.200 per trip

Assigned Taxes and Revenues:

2.2.79. The assigned revenues are derived in two parts; one from taxes or duties assigned to local bodies for levy but collected by the Government and passed on to the local bodies after deduction of collection charges; and the other from taxes or duties levied by the Government and collected by the Government and the proceeds shared between the local bodies and the Government. The following are the assigned revenues available to the Municipal Corporations:

1. Surcharge on duties on transfers of property;
2. Entertainments Tax;
3. Surcharge on Sales Tax;
4. Lease of minor minerals.
5. Toll Compensation

2.2.80. The details of Revenue on the above in 1993-94 are given below:

Table No.2.16 Municipal Corporations - Details of Assigned Revenues by sources

	Coimbatore		Chennai		Madurai		Salem		Trichy		Tirunelveli		All Corporations	
	Amount	Percap	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.	Amount	Percap.
Surchar. Stampduty	3.71	45.39	25.34	65.96	1.63	17.34	1.27	21.35	1.88	28.15	0.55	14.57	34.37	47.51
%	46.87		42.27		25.51		33.36		40.26		31.87		40.71	
Adl.Sur.on Saletax	0	0.00	22.80	59.35	1.83	19.45	0	0.00	0	0.00	0	0.00	24.63	34.04
%	0.00		38.03		28.61		0.00		0.00		0.00		29.17	
Entertainment tax	4.20	51.44	11.77	30.64	2.94	31.19	2.52	42.48	2.78	41.64	1.16	31.00	25.37	35.07
%	53.13		19.63		45.88		66.37		59.55		67.80		30.05	
Toll Compensation	0	0.00	0.04	0.10	0	0.00	0.01	0.18	0.08	0.13	0.05	0.15	0.06	0.09
%	0.00		0.06		0.00		0.27		0.19		0.33		0.07	
Total	7.91	96.83	59.95	156.05	6.40	67.99	3.80	64.01	4.67	69.92	1.72	45.72	84.43	116.70
%	100.00		00.00		100.00		100.00		100.00		100.00		100.00	

(Amounts in Rs. Crores and per capita figures in rupees)

Surcharge on duty on transfers of property:

2.2.81. Under the enactments of the Chennai City Municipal Corporation Act and the other Municipal Corporation Acts, and also under District Municipalities Act 1920 and Tamil Nadu Panchayats Act 1994, a surcharge is levied on the duty on transfer of immovable property. Prior to 1-7-1976, the amount of consideration involved in the transaction was the basis for levy of stamp duty and the surcharge but it was replaced by market value thereafter. The amount realized as surcharge on market value of properties involved in the transfer is transferred to the respective local body after retaining a percentage as collection charges. This levy is limited to five types of instruments indicated in the Local Bodies Act. The rate of levy is fixed as not exceeding 5 per cent of the value specified in the instrument. The types of instruments and the amount on which duty is to be levied are extracted below:

1.	Sale of immovable property	The market value of the property as set forth inthe instrument and in a case where the market value is finally determined by any authority under section47A of the Indian Stamp Act1899 (Central Act II of 1899), the market value as so determined by such authority.

2.	Exchange of immovable property	The market value of the property of the greater value as set forth in the instrument and in a case where the market value is finally determined by any authority under Sec.47A of the Indian Stamp Act 1899, (Central Act II of 1899) the market value as so determined by such authority.
3.	Gift of immovable property	The market value of the property of the greater value as set forth in the instrument and in a case where the market value is finally determined by any authority under Sec.47A of the Indian Stamp Act 1899, (Central Act II of 1899) the market value as so determined by such authority.
4.	Mortgage with possession of immovable Property	The amount secured by the mortgage as set forth in the instrument.
5.	Lease in perpetuity of immovable property	An amount equal to one-sixth of the whole amount or value of the rents which would be paid or delivered in respect of the first fifty years of the lease as set forth in the instrument.

2.2.82. The levy is effected by the Registration Department along with the stamp duty and credited to Government funds. In Tamil Nadu, in Chennai Municipal Corporation area, a stamp duty of 8 per cent and surcharge of 5 per cent are being collected in respect of the above mentioned types of instruments. The Government retains the stamp duty of 8 per cent and distributes the amount of surcharge viz., 5 per cent after deducting collection charges. The amount payable to the Chennai Corporation is straight-away passed on by the Inspector General of Registration to the Corporation in quarterly intervals. In the case of other Corporations and other Local Bodies the stamp duty is 7 per cent while the surcharge is 5 per cent. Here also the Government retains the stamp duty of 7 per cent and distributes the remaining surcharge of 5 per cent after deducting collection charges to the local body concerned through the Collector of the District. The District Registrar intimates the amounts due, to the Collector and the Collector sanctions, draw and adjust the money to the concerned local body.

2.2.83. This source of income accounts for about 12 per cent of the total income of all the Corporations and works out to Rs.47.5 per capita in 1993-94. The average income from this source among the Corporations ranges from Rs.13 per capita in Tirunelveli to Rs.51 per capita in Chennai.

2.2.84. During the discussion with the department it was informed that the market value is fixed based on the guideline value of the property adopted from time to time in the local Register's Office. It is also understood that this guideline value is being up dated every year. Wherever it is necessary for verification of the value fixed according to the guidelines, it is being done by the higher level officers of the department and it is duly communicated to the Registrar concerned. But it was also made known that so far no statutory backing is available for the adoption of such guideline value which has been prescribed as the proper indication of the market value of the property to avoid the evasion of duty by under-valuation of the instruments. It was also pointed out that if the system is statutorily authorized, there will be legal backing for enforcing these guideline values. When that is done, the guideline value can also be taken for adoption by the local bodies whenever they have to resort to valuation on capital value basis for fixing the annual rental value of the properties or for arriving at the rental value. A closely co-ordinated effort between the local body and the Registration Department would help eliminating discretion likely to arise even in the fixation of guideline value within the local body area. The local body has more interest in this matter since the local body is the direct beneficiary of the surcharge levied on the value of the property.

2.2.85. The income from stamp duty and surcharge is stated to have reached Rs.700 crores during 1995-96. It is stated that there is still scope for further substantial increase, if proper safeguards are taken in the fixation of value and for prohibiting the flight of documents to the neighbouring States to avoid payment of higher duty in Tamil Nadu. The Government may consider rationalising the rate of levy by widening the base to prohibit flight of documents.

2.2.86. Another important point raised during the discussion was about the high-rise buildings where proper valuation of the flats could not be enforced. Most of the real estate promoters adopt the value for the undivided share of land and register the documents of sale in respect of such land to the purchasers and the cost of the building is completely avoided from the ambit of duty. The flats are sold only after completion of construction and after provision of all basic facilities by the promoter. Taking advantage of the loopholes in the legal provisions, the promoters treat the construction as a separate component and register the undivided share of the land only in favour of the purchaser of the flat. Similar problem which arose in Karnataka State was amicably settled and duty is being collected on the cost of the building as well as the land in Karnataka State. This is stated to have yielded a considerable increase in the duty payable to the Government. There was a similar problem in Maharashtra State also but the Tamil Nadu Registration Department has pointed out that the system adopted in Maharashtra State may not be suitable to the conditions prevailing in Tamil Nadu. Therefore, the stamp duty on transfer of such high-rise buildings can be fixed by adopting the Karnataka pattern. Thereby there will be a sizeable increase in the duty and surcharge collected.

2.2.87. It was also indicated that there should be some kind of restrictions in providing facilities like water supply, electricity, and drainage connections only on the basis of registered documents relating to the buildings and not on the basis of the

documents in respect of the land. But these points need to be studied in detail before arriving at a conclusion on the legal provisions needed for enforcing the suggestions. Anyway, the State Finance Commission would like to bring to the notice of the Government the huge evasion of stamp duty and surcharge in the case of transfers of the above high-rise buildings so that the Government may think of bringing in proper legislative enactments and rules thereunder to curb the evasion.

2.2.88. In this context, it will be pertinent to point out that it is the real estate promoter who is benefited by the high price and who also paves the way for evasion of payment of stamp duty on documents by the buyers. Some method has to be found out to ensure that the promoters are properly taxed, without affecting the buyers who have to make large investments for purchase of the property and at the same time, have to pay heavy stamp duty and surcharge. It may also be suggested that in the cases where undivided share of a land is sought to be transferred, the departmental representative of the Registration Department and the local body should make an inspection of the property to find out whether any construction has been put up in the land by the date of such transfer and registration of the document. In cases where the buildings have been put up, the Registration Department should be empowered to include the cost or market value of the building also in the transfer document for the purpose of collection of stamp duty and surcharge. There may be a genuine objection to the effect that the buyer of mere house site should not be charged with stamp duty for the building he is going to construct or he has constructed after the purchase of the house site. This is quite acceptable in the case of an individual purchaser of a house site and the construction of the building started after the buying of the land. In reality, the real estate promoters do not give possession of the land, be it the whole or be it an undivided share of the land, but give possession of only the flat after completing the construction and hence there is vast difference between the construction put up by a single owner and the construction put up by a flat promoter. In this context, the State Finance Commission recommends a study of the existing pattern in Karnataka State and its acceptance, with suitable modifications or amendments to the provisions of law.

Flight of documents:

2.2.89. One of the methods of evasion of stamp duty is to register the documents in the neighboring States where either the rate of duty is less or where the Registering Officer takes into account only the value as stated in the document for the purpose of levy of stamp duty. In all these cases of registration outside the State, the normal procedure to be adopted is that a copy of the document should be sent to the concerned Registering authority in Tamil Nadu for the purpose of indexing. But this procedure is not followed and the indexing takes place very rarely. On the other hand, the indexing is done along with some other transaction over that property by way of a mortgage and its subsequent discharge. By this method, the Registering Officer is compelled to have the indexing done along with the subsequent transactions over the same property. It was suggested by the Registration Department that any document so registered outside the State and not received within the stipulated date for the purpose of indexing should face

annulment and this will compel the production of document or the receipt of information within the stipulated time for the purpose of indexing. In all such cases, re-registration of the document after collecting the difference in stamp duty and surcharge as applicable in Tamil Nadu may be suggested. Even if the document is not produced in time for indexing or re-registration, the Registering Officer should be given powers to collect the difference in stamp duty and surcharge whenever the document comes before him, treating it as an insufficiently stamped instrument. Such a procedure is adopted by the Courts when an unstamped or insufficiently stamped document is sought to be produced in Court and stamp duty and penalty are collected before admitting such a document in evidence. It was also pointed out that because of the flight of documents to the neighbouring States, both the State Government and the Local Bodies lose substantial revenue. This problem is being faced for a number of years and is being discussed in many a forum and a solution should necessarily be found. The re-registration may be made compulsory for the value as per guidelines. The Tamil Nadu Government have recently brought legislation to this effect.

2.2.90. In some States, the total stamp duty collected is made available to the local bodies but a perusal of the rates prevailing in some of the States shows that they are far below the rates of Tamil Nadu. Further in Tamil Nadu there is a levy of surcharge in addition to the stamp duty and the income from Stamp Duty and Surcharge are separately earmarked for the State and the Local Bodies respectively. In such circumstances, the State Finance Commission does not feel it necessary to pass on the income from stamp duty also to the local bodies. This source of revenue is a major contributor to local body finance and there is much scope for increasing the revenue under this head by plugging the loopholes and by checking evasions. The suggestions made in the earlier paragraphs need consideration urgently.

Procedure for adjustment:

2.2.91. As explained earlier, except in the Chennai Corporation, the money due to the local bodies is worked out by the District Registrar concerned, local body-wise,and passed on to the Collector for adjustment to the respective local bodies. In this, the Collector has no part to play except to draw and forward the amount to the respective local body,which involves a time-lag of minimum one or two months. During the discussion with the representatives of the local bodies and also during the consultation with the department, it was agreed that there is no need for routing the amount through the Collector In the case of Entertainments Tax the Commercial Tax Officer concerned distributes the amount to the local bodies directly and the local body concerned takes credit for the money in the treasury on the basis of the distribution order of the Commercial Tax Officer by presenting necessary bills. A similar procedure can be followed for adjustment of the surcharge on stamp duty also requiring the District Registrar to indicate the distribution for the various local bodies in the order with permission to the local bodies to get credit to their accounts in the treasuries by presenting necessary bills. This will expedite the adjustment procedure and avoid unnecessary delay.

2.2.92. Recommendations:

SFC recommends the following:

1. The Government may consider giving legal backing for issue of periodical guidelines, on value of properties to be adopted for registration (now being followed by deciding regular common principle).

2. It is brought to notice of the Government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. The Government may consider bringing in a proper legislation to curb this evasion.

3. A study of the pattern adopted in Karnataka State to levy stamp duty on built-up area in high-rise buildings for adoption with suitable modifications. Amendments to the provisions of law are needed in this regard.

4. Regarding flight of documents to neighbouring States for registration, the re-registration of the documents may be made compulsory as per the value of land obtaining in Tamil Nadu with reference to the guidelines. (Government of Tamil Nadu have already initiated action) The Government may also consider rationalising the rate of levy by widening the base to avoid flight of documents to nearby States.

5. There is much scope for increasing revenue by plugging the loopholes and by checking evasions.

6. The procedure similar to the one adopted in the case of Entertainments Tax may be adopted for adjustment of the revenue to local bodies.

7. The District Registrar may indicate the distribution for the various local bodies as is done now and authorise the local body concerned to get credit in their accounts in the Treasuries by drawing necessary bills. This will expedite early adjustments and avoid unnecessary delay. The system of routing adjustment through the Collector may be dispensed with.

Entertainment Tax:

2.2.93. The Tamil Nadu Entertainment Tax Act 1939 and the Tamil Nadu Local Authorities Finance Act 1961 regulate the levy of Entertainments Tax on entertainment like cinema, horse races,etc. The basic tax and additional surcharge are levied under the 1939 Act while the surcharge is levied under the 1961 Act. Till 30.6.89 the entertainment tax ranged from 25 to 40 % of the payment for admission and the surcharge on Entertainment Tax was 100 % of the tax payable on the ticket. The additional surcharge ranged from 5 paise to 50 paise depending on the total payment for admission, tax and surcharge put together. Show tax was imposed in 1949 and up to 30.6.89 this was Rs.5 per show for theatres located in Corporation areas and Rs.2 in other areas. The surcharge on Show Tax was 150 % of the Show Tax. The additional surcharge on Show Tax varied between Rs.27.50 per show and Rs.5 per show. The Tamil Nadu Local Authorities Finance Act 1961 was enacted to enable the local bodies to levy a surcharge on Entertainments Tax and Show Tax. Till 1.4.70 the surcharge on Show Tax was 300 %. The Tamil Nadu Entertainments Tax Act and the Tamil Nadu Local Authorities Finance Act were amended by Act 40 of 1989 which came into force from 1.7.89 and the taxation structure of entertainments , other than horse races, was completely revised. Section 13 of the Entertainments Tax Act 1989 dispensed with the provision of Tamil Nadu Local Authorities Finance Act 1961 and one consolidated levy of Entertainments Tax including the surcharge previously levied under the Local Authorities Finance Act 1961 was prescribed. The tax varied according to location and type of theatre. In the Municipal Corporation areas like Chennai, Madurai and Coimbatore the tax was 40 % of the gross payment for admission inclusive of the amount of tax. Under section 4 of the Act, this was made applicable to the cinemas situated in the peripheral areas of the Corporation within 5 KM. The tax in Corporation areas was thus based on actual collections. In Municipal and Panchayat areas,the tax was levied under two methods, one by gross collection capacity and the other by compounding method. Here also the method of taxation varied according to location, type of the local body and the nature of the theatre. and tax was expressed as a percentage of the gross collection capacity. It varied from 30% to 60% depending upon the nature of the theatres. This was further related to the number of shows. An option was given to the owners of the theatres to choose the taxation on compounding system which envisaged a certain number of presumptive shows per week and a compounded rate fixed per week. The compounded rate has to be paid irrespective of the actual number of shows exhibited. The percentages were calculated on the gross collection capacity and multiplied by the presumptive number of shows. Here also the rate of tax and number of shows varied depending upon the location and nature of the theatre. The variation was between 26% to 13%. The presumptive number of shows also varied from 23 to 12 for a week. The managements of the cinema theatres were given freedom to fix the rates of admission with effect from 28.10.1994.

2.2.94. The Entertainments Tax Act was amended by Tamil Nadu Act 37 of 1994 to enable the levy of tax on television exhibition through cable network. By Act 38 of 1994 the tax on dubbed films was also raised by 10%. In respect of television exhibitions the tax was 40% of the gross receipts which was made on the contribution, or subscription

or installation or connection charges or any other charges collected by the operators. This came into force from 1-9-94. Prior to 1-7-89, the revenue realised from Entertainments Tax was shared between the State and the local bodies at 90% and 10 % respectively. The proceeds from Show Tax and from the additional surcharge on Entertainments Tax and Show Tax were retained fully by the State. The entire collections from surcharge on Entertainments Tax and surcharge on Show Tax were passed on to local bodies. From 1.7.89 onwards, in view of the composite levy including the surcharge, the sharing pattern was revised as below:

2.2.95. Under Section 4, 30% goes to Government and 70% to Local Bodies (Municipal Corporation areas). Under Section 5A & 5B; the distribution to other Local Bodies is as below:

		Government	Municipalities & other Local Bodies
(i)	I Grade and Selection Grade Municipalities	35%	65%
(ii)	II Grade and III Grade Municipalities	35%	65%
(iii)	Panchayats	40%	
	Panchayat Union Councils		30%
	Panchayats		30%
(iv)	Panchayat Townships and Municipal Townships	35%	65%

Coming to the income realised, a study was made by the Tamil Nadu Institute of Urban Studies which has indicated the proportion of sharing between the local bodies, Government and the owner as discussed in ensuing paragraphs:

2.2.96. In respect of Special Grade Municipalities and Corporations the Entertainments Tax accrual to the local body was as below:

Table 2.17.Entertainment Tax accrual to Corporations & Special Grade Municipalities

	Before 1.7.89 % to actual gross collection capacity		From 1.7.89 % to actual gross collection capacity	
E.T.	18.22	36.44	49.60	28% Municipality
S.C.on E.T.	18.22			
A.S.C. E.T.	13.16			12% Government
Net to Theatre owner		50.40		60%

The share of Municipality came down from 36 to 28% (about 22% fall)

2.2.97. In respect of Municipalities in Selection Grade, I Grade, II Grade, III Grade and Township Committees also the position is similar since the introduction of compounding system:

Table 2.18. Entertainment Tax accrual to other Municipalities

	Before compounding system (% of actual gross Collection)	
	Before 1.7.89	From 1.7.89
Municipality:E.T.	18.22	
S.C.on E.T.	18.22	36.44
Government:A.S.C./E.T.	13.16	13.16
Total	49.60	49.60
Total taxes		49.60
Net to Theatre Owner		50.40

2.2.98. After the introduction of compounding system of tax the share of local bodies and Government is as follows:

Table 2. 19. Entertainment Tax accrual to Municipalities after Compounding

	Prior to Compounding	Per show basis		Per week basis	
Municipality	36.44%	16.2 to	21 %	13.2 to	18 %
Government	13.16%	10.8 to	14 %	8.8 to	12 %
	49.60 %	**27.0**	**35%**	**22.0**	**30%**
Theatre owner	50.40 %	65 to	73 %	70 to	78%

It may be seen that the share of the local body has fallen steeply by about 50%

2.2.99. It has thus been indicated in the said study that the share due to the Municipal Corporations and Special Grade Municipalities came down from 36 to 28 %. In the case of other local bodies, the share due to local bodies has fallen by about 50%.It has also been pointed out by the said study that the share of the local bodies from this source was declining gradually from 1948 (90%) and finally it was reduced to 60 % in 1989. Cinema theatres are not attracting much crowds at present because of the influence of TV, Video Cassettes, VCR, VCP and Cable TVs. This has affected the collection in cinema theatres and correspondingly the income from this source is further declining. In view of the amendment in 1994 there may be collection of some tax from the cable

operators and it is hoped that the loss of income due to reduction of collection in cinema theatres could be off-set at least to some extent. However, the fact remains that in the guise of compounding, the share of income enjoyed by the local bodies has got reduced. This tax was considered to be one of the buoyant taxes with the local bodies but the various concessions and changes in the tax structure have materially affected the income of the local bodies under this head. In many States the Entertainments Tax has been authorised to be levied by the local bodies themselves. However, with a view to achieving uniformity in the whole State in relation to method and levy, the levy is made by the State Government and this has to be retained. However as this happens to be one of the local taxes, the benefits derived from this taxation go to the local bodies in entirety subject to a deduction of only the collection charges. The State Finance Commission therefore recommends the assignment of 90 % of the realisations out of this tax to the local bodies.

2.2.100. Recommendations

SFC recommends the following:

1. This tax being earmarked as one of the local taxes, the benefits should go to the local bodies in entirety subject to deduction of only collection charges.

2. The assignment should be 90 % of the total realisations of this compounded Tax to the Local Bodies.

3. Any concessions/remissions in the tax affecting local bodies may be resorted to by Government after consulting the Local Bodies.

SURCHARGE ON SALES TAX

2.2.101. The present General Sales Tax Act 1959 was enacted replacing the earlier General Sales Tax Acts of 1939 and 1956. The surcharge on Sales Tax is regulated by the Tamil Nadu Sales Tax Surcharge Act 1971. The rates of surcharge have undergone changes from 1971 onwards depending upon the areas.Finally as per Act 20 of 1990, the rate of surcharge leviable from 1.4.91 was 15 % in Chennai Corporation, 12 % in other Corporations and Special Grade Municipalities and 10 % in other Municipal areas and 8 % in all other areas. The rate of surcharge was further revised on a uniform basis as per Tamil Nadu Act 36 of 1991 at 15 %. It is seen that the total surcharge so collected was proposed to be distributed as detailed below: 50 % of the realisations from Chennai Corporation area will go to Chennai Corporation. 20 % of the realisations will be allocated to Municipalities and Corporations of Madurai and Coimbatore on a sharing formula as below:

1. Directly on population basis 50%
2. On per capita own revenue realised basis 25%
3. As gap grant to bridge real deficit 25%

2.2.102. This formula had to be up-dated based on 1991 Census figures. For the year 1993-94, the Government sanctioned assignment of surcharge on sales tax on an ad hoc basis. The additional surcharge was also levied as a percentage on the general sales tax payable with effect from 1.7.89 at 4 %. This levy was modified as 5 % in Chennai and suburban areas from 10.6.1981 to 31.8.1989. The levy of additional surcharge at 5 % was extended to Coimbatore and Madurai and suburban areas for 16 KM. This levy of additional surcharge was abolished from 1.4.89 to 30.6.89. From 1.7.89 onwards the additional surcharge at 5 % was levied only in Chennai and up to 32 KMs. from the peripheral limits of Chennai. It was explained that this amount has been earmarked by the Government for meeting the project cost of the new water supply scheme from Krishna River . However it was not passed on to Metro Water but retained with the Government. Committee on Rural Urban relationship 1966 recommended that when the octroi is not levied, a surcharge not exceeding 25% on the Sales Tax may be levied, for distribution to Local Bodies.It is felt that instead of the levy of octroi which is in force in northern States like Maharashtra, U.P. & M.P the surcharge levied by Tamil Nadu Government could be an alternative tax to Local Bodies in Tamil Nadu. It was also noticed with reference to budget speech in 1989-90, that the proceeds out of this source was intended to be passed on to the local bodies. This was subsequently modified in the budget speech 1990-91 and partial apportionments were indicated. This has been further explained in later paragraphs.

2.2.103. The funds realised out of this surcharge for the last three years and the amounts distributed to the local bodies out of that, are indicated below:

Table 2. 20. Details of Surcharge on Sales Tax - Collection and Adjustment to Local Bodies

	1991-92	1992-93	1993-94
			(Rs. in crores)
Amount realised	189.88	221.66	215.03
Amount adjusted to Local body	—	110.50	38.21

2.2.104. It can be seen from the above that the amount passed on to local bodies is very low compared to the level of taxation. The local bodies have been making claims for a share in the Sales Tax since the local bodies have to contribute for the proper servicing in the market and other business areas which contribute to a great extent to the collection of a large volume of sales tax. Even if the portion of sales tax is not passed on, at least the surcharge levied and realised should be totally made available to the local bodies. In this context another important factor will have to be borne in mind. Due to lopsided economic development, most of the proceeds under Sales Tax are likely to accrue to larger cities where the spending power of the people is high and in fact Chennai

Corporation could claim the highest percentage. Another factor is that the headquarters of many Companies are located mostly in Chennai City and the origin of collection of sales tax on a large volume of goods and merchandise sold in the State as well as surcharge on it will be stated to be Chennai. Hence the principle of origin should not be applied as the major criterion for sharing the revenue.

2.2.105. Now the S.T.surcharge has been merged with Sales Tax and only single Tax is levied. The proportionate amount of Sales Tax equivalant to former surcharge i.e. 15% of the Sales Tax may be made available to Local Bodies.

Sharing pattern now available:

2.2.106. As indicated earlier, the sharing pattern adopted by the Government is as follows:

Chennai Corporation : 50 % of the realisations in Chennai City.

The balance is to be pooled and distributed between other Corporations and Municipalities: 20% of pool.

In this formula the contributions due to the **Town Panchayats and Rural local bodies** have been completely left out. However, from the Government Orders issued during 1995-96 it is seen that fixed ad hoc amount has been allocated to the Town Panchayats and the Village Panchayats.

2.2.107. The present system of sharing does not therefore appear to be on any equitable principle. The Task Force on Resources has suggested the division of surcharge as below:30 % of the surcharge on sales tax realised should be passed on to the local bodies of origin. 70 % of the surcharge should be brought under a divisible pool which should be subjected to the formula-based sharing with all other local bodies. They have also made a recommendation for passing on the additional surcharge on sales tax to Chennai City and area within 32 KMs. of Chennai. Since the additional surcharge was indicated for a specific purpose. SFC does not consider that portion for any distribution. The SFC considers that the total share may be taken to divisible pool. The general principle for distribution is discussed in Part V.

2.2.108. Recommendation:

SFC recommends that since the surcharge on Sales Tax levied has been merged with the compounded Sales Tax, 15% of the compounded tax (equivalent to the rate of surcharge previously levied) may be assigned to Local Bodies and taken to a divisible pool.

Toll Compensation:

2.2.109. Toll Compensation was paid in lieu of toll collected before introduction of Motor Vehicle Tax. This will depend on the decision regarding sharing of Motor Vehicle Tax dealt with in later paragraph.

Recommendation

SFC considers that since share of Motor Vehicles tax is being recommended for divisible pool, no separate toll compensation will be necessary after the pool is created.

New Tax domains:

2.2.110 A few items as new tax domains are suggested and they are : (i) Advertisement tax for hoardings; (ii) Cable TV Tax; They are discussed in ensuing paragraphs.

Advertisement Tax:

2.2.111. In Chennai Corporation and in Municipalities in Kanyakumari District Advertisement tax is already being levied. In other Corporations and Municipalities, advertisement charges are being collected in the form of licence fees at different rates for different types of advertisements. But there is no uniformity in the rates or methods of collection. Advertisements have gained a more important role in promoting and marketing of products and services. Advertisement through hoardings has increased and has generally, been accepted even in rural areas. Many advertising agencies have come to take hoardings on lease basis.

2.2.112. It has been indicated to SFC that a hoarding of the size of 20 feet x 20 feet is now fetching a minimum of Rs.12 per square foot and a maximum of Rs.15 per square foot for a period of one month. It has also been indicated that the rent to be realised roughly works out to Rs. 4800 to Rs.6000 per month. In such cases of leasing of hoardings, the painting of the message is free; and if it is otherwise, the cost of painting the message, at Rs.4.50 per sq.ft. is being deducted. The cost of the hoarding of the above size is estimated at Rs.67,000/-,(which consists of the income to lessor Rs.25,000/-, cost of fabrication and erection Rs.40,000/-, and the cost of painting of message Rs.2,000/-) On the basis of this yardstick, the following classifications and levy for advertisements through the hoardings are recommended. The following is the suggested classification and rate of levy of tax:

Table 2.21. Advertisement Tax : Suggested Classification and Rates of Levy

Classification			Basic rate of tax
(a) Size	(i)	Below 200 s.ft.	Rs.1.00 / s.ft.
	(ii)	Above 200 s.ft.	Rs.1.50 / s.ft.
(b) Location (increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) Type	(i)	High-rise	Rs.1000/-
	(ii)	Others	Rs.500/-
(d) Message	(i)	Social	Rs.100/-
	(ii)	Commerical	Rs.500/-

2.2.113. The hoarding is a fast growing and high revenue yielding industry in metropolitan cities and bigger towns. Even in smaller towns hoardings are used for advertisement but their number is small and it is only a matter of time that this industry picks up even in smaller towns. The levy of this Advertisement tax will not only yield revenue but will also help in the regulation of the hoardings in accordance with the social objectives and in restricting the spurt of indecent hoardings which are offensive to the society as a whole. The revenue implications from out of this source could not be clearly estimated for want of information about the existing number of such hoardings and their sizes. Within the jurisdiction of the Chennai Corporation, the hoardings are controlled by a Committee under the chairmanship of the Collector instead of by the Corporation. In all fairness, this should be under the control of the Corporation/Local Bodies and the revenue earned should go to the Local Body concerned. Similarly, all the hoardings in the Highways it is stated, are controlled by the Highways and Rural Works Department, and the revenue is also appropriated by that department. This type of licensing should be left to the Local Body within whose jurisdiction the hoardings are situated or located; and, if for any reason, for proper regulation, the Highways Department alone will have to do it, the yield must go only to the local body concerned after retaining collection charges. The local bodies may be required to take an inventory of all the hoardings within their limits, along with their sizes and types for ensuring a uniform method of levy. Though it may not be possible to adopt the same rate of levy both in Corporations/Municipalities/rural local bodies, the rates may be suitably prescribed by the local bodies concerned. The SFC recommends that the Government may prescribe a minimum and the maximum of the rates. Other types of advertisements through lamp posts and posters on wall and writing on walls, including compound walls through buses and vehicles also should be subjected to levy of Tax / Fee by the Local Body. Advertisement through slides in cinema houses was being levied by Government but has been discontinued. This should also be revived. Generally all types of Advertisement except through newspapers, and cut outs, should be brought under taxation.

2.2.114. Recommendations

The SFC recommends the following:

1. All the hoardings should be under the control of the concerned Local Bodies and the revenue earned should go to the Local Body concerned.

2. In the case of hoardings in Highways, the taxation may be permitted to be done by the Local Body within whose jurisdiction the hoardings are situated and provided for in the respective enactments.

3. If, in the interest of proper regulation, the Highways Department has to regulate the hoardings, the yield may be made available to the Local Body concerned, after retaining collection charges.

4. The Local Bodies may take an inventory of all the hoardings within their limits, with size and type for ensuring a uniform method of levy of tax.

5. The rates for different Local Bodies may be adopted within the minimum and the maximum suggested below.

Classification		Basic rate of tax	
(a) Size	(i)	Below 200 s.ft.	Rs.1.00 / s.ft.
	(ii)	Above 200 s.ft.	Rs.1.50 / s.ft.
(b) Location (increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) Type	(i)	High-rise	Rs.1000
	(ii)	Others	Rs. 500
(d) Message	(i)	Social	Rs. 100
	(ii)	Commercial	Rs. 500

Computing the fees liability based on the table :

Use the square foot rate to compute the base rate and to that add the charges pertaining to the locational parameters.

Example: A 20' X 20' highwise hoarding, in Chennai Corporation carrying a commercial message should yield Rs.3,000 per year.

6. Other types of advertisements through lamp posts and posters and writings on walls, including compound walls through buses and other vehicles, should also be subjected to levy of tax/fee by the Local Bodies.
7. Advertisement through slides in cinema houses was subjected to levy of Tax, but later on, it was discontinued. This levy may be revived.
8. All types of advertisements, except through newspapers and cut-outs, should be brought under taxation.

2.2.115. A few suggestions were made to SFC about the levy on the Cable TV operators since the demand for cable TV service is growing fast even in small towns. This activity can be taxed under three heads as detailed hereunder:

1. Licence fee of 2% on an investment of Rs.500000 for every 150 cable connections.
2. Leeway rights across and along local body roads for each connection at Rs.60 per year.
3. Cable TV Service to customers as Sales Tax for a charge of Rs.150 per cable connection.

2.2.116. However, it may be pointed out that the Tamil Nadu Government had already taken into account the Cable TV operators and by Act No.37 of 1994 had prescribed tax on television exhibition by cable system at 40% of the gross receipts which has been subsequently reduced to 20 % by an Act passed in 1995 with effect from 1st April 1995. This amount has been included in the Entertainments Tax which is shared by the Government with the local bodies. But the revenue now derived from the cable TV. when compared to rates suggested is likely to be very low. Though the Cable TV charges may be levied by the local body, since this has already been included as one of Components under the Entertainments Tax, this cannot now be separately levied by the local body. The Government may however permit Local Body to levy Leeway rights alone in all the roads in Local Body area for each connection at Rs.60/- per year from the operator. This levy also may be collected along with Entertainment Tax and the entire money passed on to the local body concerned, after retaining the collection charges, as in the case of Entertainments Tax.

2.2.117. **Recommendations**

1. Leeway rights roads on all in the local body area for each Cable T.V. connection at Rs.60 per year may be levied by Local Bodies.

2. The collection may be done by Government along with Entertainment tax. The entire money will be due to the Local Bodies, after retaining the collection charges.

New Assignments from state taxes:

2.2.118. Other sharable taxes from which the local bodies could claim reasonable share are as below:

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State excise Revenue
4. Motor vehicles Tax
5. Agricultural Income Tax
6. Sugarcane cess
7. Urban land Tax
8. Terminal Taxes on goods or passengers carried by railways, sea or air.

They are discussed in detail hereunder.

Tax on luxuries in hotels and lodging houses:

2.2.119. The Government are levying a tax on luxuries provided in hotels and lodging houses based on the accommodation charges per room per day. The rate of levy as on 1.4.89 is as follows:

Table 2.22. Rate of Levy of Tax on Luxuries as on 1.4.89.

	Where the accommodation charges for residence per room per day is	Percentage
1.	not less than Rs.50 but less than rupees 100	10
2.	not less than Rs.100 but less than Rs.200/-	15
3.	Rs.200 or more	20

2.2.120. The income derived by the Government under this head is Rs.45 crores. The Hotels and lodging houses are normally liable for local taxation and therefore the above revenue should accrue to the local body concerned. Now the local bodies are levying only property tax on such buildings. Though it may be the intention of the

Government that the levy should be made by the Government to have an effective regulation of these hotels and lodging houses, there is justification for at least a portion of the income accruing to the local body concerned and accordingly SFC recommends at least 25% of the tax may be assigned to the concerned Local body. There are no firm figures available to arrive at the share due to the different local bodies from this revenue. This may be included for pooling and distribution

2.2.121. Recommendation

The SFC recommends that 25% of the income may be allocated to the local body for inclusion in general divisible pool for distribution to all local bodies.

Betting Tax:

2.2.122. Under the Tamil Nadu Betting Tax Act 1935 the Government are collecting the betting tax and surcharge in the venue of bettings. As far as Tamil Nadu is concerned inter venue betting is available at Chennai and Uthagamandalam enabling the bookers to bid for the race meetings held not only at Chennai but also at Hydrabad, Bangalore, Bombay, Calcutta, Mysore and Pune. The revenue derived from this source is about Rs.5.48 crores per year. A share of at least 25% out of this should normally be assigned to the local body concerned namely Chennai Corporation and Udhagamandalam Municipality.

State Excise Revenue:

2.2.123. The State Government is levying excise duties under the Tamil Nadu Prohibition Act 1937 and the Tamil Nadu Medicinal and toilet preparation Excise Duties act 1955. This levy includes the levy on IMFS and country liquor and other alcoholic items. The local bodies have been making claims for a share in this income since the local bodies have to take care of the environment in the respective areas. The total revenue under this head has risen from Rs.12 crores in 1980 to Rs.564 crores in 1992-93. The income during 1994-95 is Rs.614 crores. It is not possible to fix any specific percentage of sharing to the different types of local bodies and hence 25% of this revenue is recommended to be assigned and taken for General distribution from divisible pool to all local bodies.

Motor Vehicles Tax:

2.2.124. The Motor vehicles Taxation Act was introduced in 1931 at a time when the local bodies were collecting tolls on such vehicles in the respective area of local bodies. In those earlier days the District Boards and the Municipal Authorities and the Chennai Corporation were collecting such tolls. On the introduction of the Motor Vehicles Tax, the toll collection by the local bodies was abolished and the amount of toll collected during that period was given as Toll Compensation to the respective local bodies. It

could be seen that the total toll compensation now-available to the local bodies is only about Rs.100 lakhs. On the other hand the amount collected by the Government as Motor Vehicles Tax has been steadily increasing and the present income during the year 1994-95 has come to about Rs.333.57 crores. During the discussion with the departmental officers it was indicated that about 7% of the Motor Vehicle Tax collected is set apart as Rural Road Development Fund, from which amounts are given for improvement of rural roads through Highways and Rural Works Department. About Rs.20 crores is being sanctioned as Local Roads grant for Panchayat Union Roads only. But roads are maintained not only by the High ways Department but also by the various types of local bodies. The lengths of Roads in Local Bodies are as follows:

Table 2.23 Details of Roads in Local Bodies

Local Body	Length of road KM.
Municipal Corporation	4643
Municipality	6052
Town Panchayats	13312
Panchayat Unions	45504
Village Panchayats	104621
Total	174132

2.2.125. Motor vehicles are plying through all the roads, whether they are State,National or Local Bodies. With the increase in the number of motor vehicles, particularly with the onslaught of two-wheelers, the roads in local bodies are put to heavy wear and tear. The number of vehicles as on 1.1.96 is as follows:

Table 2.24. Details of Motor Vehicles in Tamil Nadu as on 1.1.96.

Stage carriages:(Public and Private)	21219
Contract carriages	91250
(Autos, Taxi cabs & Omni buses)	
Private services vehicles	4480
Goods carriages, lorries etc.	1,57,661
Non Transport:	
Motor Cycle	5,16,233
Scooter	3,79,499
Moped	11,36,257
Motor car	2,90,700
Other Vehicles:	
Station wagon, jeep etc.	83,566
	26,80,865

2.2.126. There is therefore every justification for the claim made by the local bodies to a reasonable share out of the Motor Vehicles Tax to enable them to maintain their roads in a tolerably good condition. At present, no Road Maintenance Grant is given to the urban local bodies. In the case of Panchayat Unions, local road grant is being given by the Government for maintenance of roads linking the villages which is also not adequate for yearly maintenance. The interior roads of the local bodies (Village Panchayats) have to be maintained only by the local bodies out of their slender resources. The level of maintenance of the roads in urban local bodies like Municipalities and Corporations has to be equal to the standard of the Highways Department since in the roads in urban areas, more number of buses and heavy motor vehicles are plying. The local bodies have been claiming 50 % of the amount of collection under the Motor Vehicles Tax to be set apart for distribution among the local bodies.

2.2.127. The cost of maintenance of the Local Body Roads as per the norms prescribed by Highways and Rural Works Department and as computed by Task Force works out to Rs. Rs.216.32 crores at normative level for 95-96. The share from this tax will therefore help the local bodies in achieving at least to some extent the proper maintenance of the roads. The State Finance Commission, taking into consideration the higher responsibility of State Government in respect of the State Highways, recommends that at least 40% of the Motor Vehicles Tax collection should be set apart by the Government for sharing through divisible pool among the various types of local bodies. Suitable norms are being indicated by the State Finance Commission separately for distribution among local bodies. Toll compensation now available may be withdrawn after this allocation.

Agricultural Income Tax:

2.2.128. The Agricultural Income Tax is levied by the State Government under the provisions of the relevant Act of 1955. Initially the tax was confined to the agricultural income derived from the plantation crops. In 1958 the scope of tax was enlarged to enable the levy on non-plantation crops also. But from 1.4.92, the tax on non-plantation crops has been abolished. The levy is based on income or on compounding basis. The income from this source has increased substantially in 1991-92 and subsequently there is a decline. About Rs.17 crores is realised as revenue from this source per year.This tax is mostly collected from hilly areas where plantation crops are usually raised. The local bodies covering such hilly areas are in districts like the Nilgiris, Salem, Coimbatore, Madurai, Dindigul-Mannar Thirumalai . These local bodies have to spend heavy amounts for the maintenance of roads and for provision of lighting etc., and their income from the property tax, because of the hilly terrain, is not at all comparable to the property tax income in the plains. In view of the peculiar situation of these local bodies, the SFC recommends that Government may allocate a of 25% from this tax to the areas covered by plantations.

SUGAR CANE CESS

2.2.129. Under the Tamil Nadu Sugar Factories Control Act, 1949, a sugarcane cess is levied from the sugar mill owners. The realisation under this cess is to be utilised for road development, research and development and equity participation in the new sugar mills. The road development is a duty vested with the local bodies within the jurisdiction of which the sugar mill is located. It is understood that the Director of Sugar is holding this fund and spending on the development of road in the concerned area by undertaking the job through that department.

Recommendation

2.2.130. Since the local body is very much concerned with roads within its area, SFC considers it desirable that the money allocated for the purpose in the area should be passed on to the local bodies or IN THE ALTERNATIVE the local body and the Sugar Mill concerned should be made jointly responsible for the upkeep of roads of the local body concerned which lead to the area where the Mill is situated.

Urban Land Tax:

2.2.131. With a view to augment the resources of the state, to carry out slum clearance schemes and housing schemes for low income groups, to rationalise the scheme of taxation of land in urban areas put to non-agricultural use and to secure a return commensurate with the pronounced increase in the land value, the Urban Land Tax Act was enacted and it came into force in the City of Chennai from 1.7.1963. Though this Act was subsequently struck down by the High Court it was later on upheld by the Supreme Court and collections were resumed from 1969. It is stated that the Urban Land Tax is payable in lieu of :-

1. The Ryotwari assessment
2. The assessment levied under the Chennai Inams(Assessment) Act 1956 or under the Andhra Inams (Assessment) Act 1955
3. The ground rent
4. The quit rent
5. Any amount due under Chennai City Land Revenue Act, 1851.
6. Such other amount as the government may by special order specify, payable in respect of such land, but shall be in addition to any tax on such land payable under any other law for the time being in force.

2.2.132. This Act has been extended to the Municipal Towns of Coimbatore, Salem, Trichy and Madurai and also subsequently to belt areas lying within 16 KM from the outer limits of Chennai City. This Act was further extended to Tirunelveli and other peripheral areas of Coimbatore, Salem, Tiruchirapalli and Madurai. This Act was further extended to the following 21 special grade and selection grade Municipalities; viz. Erode, Thiruppur,

Thanjavur, Tuticorin,Uthagamandalam, Karur, Nagarkoil, Pollachi, Kumbakonam, Mayiladudhurai, Dindigul, Palani, Kanchipuram, Cuddalore, Vellore, Udumalaipettai, Villupuram, Pudukkottai, Karaikudi, Rajapalayam, Namakkal and to the two townships namely Mettur and Kodaikanal (Now Municipalities). The Tamil Nadu Urban Land Tax Act 1992 rationalised the levy of tax uniformly in these areas. Certain exemptions have also been granted from the levy by the Government. An amount of Rs.7 crores is being collected per year by the Government as will be seen from the budget for 1994-95. As may be seen from the objectives and purposes for which the levy was made and the reason for such levy indicated earlier, the local bodies who are now looking after the maintenance of the slum areas and also the housing colonies of low income groups are eligible for a share in this tax. It may also be seen that this levy is in lieu of ryotwari assessment, ground rent, quit rent and amount due under Chennai City Land Revenue Act. The Urban Local Bodies have not been given any share from the land revenue collected in their areas. Though the District Municipalities Act 1920 has an enabling provision to levy Tax on agricultural lands also, the levy is not being made in view of the instructions from the Government. Taking all these into consideration, the urban local bodies indicated above will be eligible to have a share from this source of income to enable them to carry out the function of maintenance of slum areas and housing colonies of low income groups. This income can be shared with the local bodies in whose areas the tax is levied. The State Finance Commission recommends a 50% share out of this revenue to urban local bodies concerned.

Terminal Tax on Passengers and Goods carried by rail:

2.2.133. Local Finance Enquiry Committee, 1950 and Taxation Enquiry Commission, 1953-54 and Zakharia Committee, 1963 have recommended that a levy on terminal tax on passengers and goods carried by rail should be enacted. It has to be done by Government of India. Zakharia Committee has further recommended that pending enactment, the railways should make a recurring annual grant to State Government for development of urban areas from where rail earnings mainly arise. This may be pursued by the State Government with the Government of India.

Surcharge on bus tickets on floating population:

2.2.134. To tax floating population who come to Metropolitan Cities and important Centres of trade and industry from a distance of 150 KM., a surcharge may be collected on busfares from persons travelling from a distance of 150 Kms to these areas and made available to Local Bodies.

Local Body Cess on passengers travelling by bus:

2.2.135. To ensure provision and proper maintenance of Bus stands/shelters and to provide passenger facilities it is suggested that surcharge on the bus tickets may be collected on behalf of Local Bodies. It is ascertained that the number of passengers travelling through Transport Corporation buses per day is more than in the order of about 150 lakhs through Town Bus, mofussil short distance buses and long distance buses.

A levy of 5 paise on Local Town buses, 25 paise on Moffusil buses and 50 paise on Long distance buses in addition to ticket fare is likely to yield good income. This could be pooled and distributed on need basis to various Local bodies.

NON TAX REVENUES

2.2.136. The non tax revenues can be broadly classified into four categories and they are:

1. User charges,
2. Licence, fees and other charges,
3. Income from properties,
4. Income from special services.

They are discussed in detail below:

User charges:

2.2.137. Almost in all the forums, it has been stressed that the most unexploited source of revenue of the local bodies is the User charges. The user charges have been mostly subsidised even when there is affordability and without considering need for recovery of cost of service. This has caused resistance while claiming reasonable rates to cover at least a portion of cost recovery. The concept of user charges though talked often in higher level forums, has not become acceptable among the local public. Even the elite people question the wisdom of collection of user charges in view of the Property tax levy which consists some of the components for services. The Tax Component is only to help the local bodies to provide necessary infrastructure service for the entire area for the benefit of the community as a whole. The user charges is for the special service made available to the consumers. Public awareness is mainly needed to understand the distinction of the tax and user charges and the need for the local body to claim such user charges.

User charges can be defined as the charges levied for access to and the use of a given service. It is possible to recover user charges only in cases where the principle of exclusion, namely, excluding those who do not pay, can be applied. In the case of urban local bodies, the scope for levying user charges is very wide. The user charges are normally confined only to water supply.

2.2.138. The contribution of water charges is furnished below:

Table 2.25. Municipal Corporations Income from user charges for Water supply 1993-94

	In terms of % to Non Tax	In terms of % of Total Income
Coimbatore	56.52	9
Madurai	33.97	6
Salem	58.82	9 - 12
Tiruchi	34.61	6 - 7
Tirunelveli	12.05	12 - 13

2.2.139. There are other items of services such as sewerage/drainage/garbage and solid waste collection, and communication facilities like roads. for which also the cost of service has considerably increased User charges will be an additional source of revenue to meet inadequacy in maintenance of these services. An awareness must be created among the local citizens that they should willingly pay and get the service they want in better manner. The user charges will contribute to the improvement of the infrastructure facility already existing. Statutorily the responsibility of providing basic amenities like roads, lighting, sanitary arrangement and water supply has been earmarked to the local bodies from the inception of such bodies, and they were also looking after these facilities in a modest way on a minimal level subject to resource availability. Now, there is considerable change in the concept and growth in the aspirations of people. Policy makers have also interest in achieving certain State/National level standard norms for providing a minimum level of services in lighting, roads, water-supply etc. They are above the level of affordability of the respective local bodies and could be achieved only with the assistance of the Government to meet the resource gap of the Local Bodies. The provision of protected water supply with individual pipe connections costs very heavily in view of the fact that the water has to be taken from long distances by way of a combined water supply scheme etc. Even providing deep borewells and constructing over-head tanks with provision of taps, as public stand pipes, costs very high. Similarly, a minimum level of lighting viz. tube-lights has been aimed at and the norms of spacing of lamps are also adopted to ensure better service. In certain types of local bodies based on the necessity and also request from the public sodium vapour and mercury lamps and high-mast lamps are provided in important areas. The Electricity Board which has followed a policy of providing the equipments and lights at its own cost has changed its policy and is claiming cost for every light to be provided depending on the nature of light. This has also increased the expenditure on lighting. The Government will have to consider subsidising the Electricity charges in the case of Urban Local Bodies.

2.2.140. In the case of urban local bodies assistance is given only in the form of loan for creating infrastructures like water supply, roads etc. and other remunerative schemes. They are expected to meet the Debt servicing and maintenance besides

future extensions from their own funds. Unless user charges are collected to ensure cost recovery, it will be impossible to maintain these services and also to meet debt servicing.

2.2.141. The ability and willingness to pay of the different consumer groups,has to be assessed before levying user charges as the capacity differs in respect of different consumer groups. The economic pricing to achieve full cost recovery will be difficult in respect of cost and time over-run projects. The marginal cost linked prices are likely to be too high in relation to prevailing price level and it will be difficult to work out economic cost from the local body Accounts. The SFC recommends the following broad principles that can guide the pricing of publicly-provided goods and services.

1. Wherever the exclusion principle applies, charges may be levied for services provided. Charges should be levied on all those who are clearly identified as being the beneficiaries of the service, as in the case of water charges.
2. If beneficiaries can not be clearly identified, user charges are inappropriate. In such a case some specific benefit taxes can be levied on the entire local population. Street lighting is a case in point. The yield from the general benefit taxes such as the drainage tax, water tax etc. can be taken into account while fixing the user charges so that the charges cover the remaining part of the cost to be recovered. However, for the measure to work efficiently, proper earmarking of the benefit tax collections should be done. At present, though earmarking is required according to the existing rules, it is not carried out in practice.
3. The poor may be subsidised directly rather than through reduced prices.
4. Transfers from the State and Centre may be used to finance the services if and only if charges and benefit taxes are not adequate to fully fund the locally required quantities of services. In such a case, the local government will be accountable to the higher levels. Public Sector Activities are unlikely to be efficient unless financial accountability is clearly established.

2.2.142. The SFC suggests that affordability for the poor which is the most voiced concern can be overcome by levying the lowest rate for such section of people or if necessary they may be subsidised or exempted directly rather than through reduced prices. The SFC considers that progressive rates of charges for higher consumption blocks and higher commercial rates for commercial and institutional users can be adopted..

2.2.143. The service charges instead of being determined at State level, local autonomy in fixing the charges should be given to local bodies with guidelines for such fixation, making the State permission compulsory to decrease the charges.

2.2.144. The in-depth study conducted by the State Finance Commission and also the views received from the public, reveal that the local public are not unwilling to pay for the services if the services are provided properly and regularly.

2.2.145. The State Finance Commission therefore, recommends that the urban local bodies like Municipal Corporations which have got greater potential for claiming user charges can improve their services.The transparency in the conditions of service in the various localities can help claiming a reasonably higher charges at least 200% more than what is now being collected. The local body should prioritise the services depending upon the local needs and meet the cost involved therein from out of the user charges and also from out of the service tax component of the property tax. Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage. As far as possible, the local body should aim for full cost recovery of these services in corporation area by cross subsidy against affordable community.

2.2.146. In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage / drainage. For clearance of septic tanks and cess pools special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.In the case of lighting, the Government should come forward to meet the current consumption charges in full in the case of Rural Bodies and weaker Town Panchayats and subsidise the Current Consumption charges in Urban Local Bodies.

2.2.147. Recommendations

The SFC recommends the following:

1. After a careful situation- analysis it is considered that urban local bodies like Municipal Corporations and Municipalities of special and selection grade have scope for charging higher user charges under water supply at least 200 % more than what is collected at present.

2. SFC recommends the following steps to streamline the principles for user charges and to ensure higher level of income and service.

i. The local body should prioritise the services depending upon local needs and meet the cost involved from out of user charges and from out of service tax.

ii Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage.

iii. The Local Body should aim for full cost recovery of these services in the Corporations and Municipalities of special and selection grade area by cross subsidy against affordable community and by higher commercial and institutional rates.

iv. The community who cannot afford higher rates may be subsidised or totally exempted.

v. In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage/drainage/garbage not attended to by them.

vi. For clearance of septic tanks and cess pools, special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.

vii. Similar charges may be considered for other cases like Hotels, Lodges. Hospitals, Nursing Homes and Kalyana Mandapams and other public places for clearance.

2.2.148. Privatisation can also be aimed at by involving the local public or Non Governmental Organisations like Exnora International who are coming forward to take up even partial operations involved. The local bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies who are interested in taking up that work on a commercial basis. This has been dealt with in greater detail in Part.III.

2.2.149. The SFC suggests that in the case of user charges, a Tariff and Valuation Cell may be set up at the State/Regional level which can give all technical expertise and help the local bodies in identifying the right pricing policy for their services. Transparancy in the operation of the local bodies is expected to go a long way in creating public awareness, community participation, and necessary good will among the local public. This will lead to a better management of these services in the local area.

2.2.150. SFC also suggests that in the case of all Municipal Corporations, special and Ist grade Municipalities, a cost cell may be necessary as part of the administration for the preparation of balance sheets of the institution and providing reliable data base for efficiently pricing the services as per principles discussed earlier, and liaisoning with tariff and valuation cell at the state level wherever necessary in respect of pricing policies and also to prepare the assets and liabilities statement at the end of every year.

2.2.151. In view of the suggestion to have a tariff and valuation cell at the state level with Regional level branches, there does not appear any need for creation of a seperate cost cell at the local body level since the existing accounting mechinery itself can act as cost cell and have liaison with the tariff and valuation cell at the state/Regional level and arrive at proper conclusions.

2.2.152. The preparation of balance sheet and the assets and liabilities statement should be made as a part of the duty of the accounting side at the end of each year and also in respect of each service, if possible. This needs a change in system of budgeting and accounting by switching over to commercial type of accounting from the existing type of government accounting and also go in for computerising the accounts.

Recommendations

SFC recommends the following:

2.2.153. 1. Privatisation can be aimed at by involving the local public or by promoting or encouraging NGOs like Exnora International. Local Bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies. The experience of Coimbatore Corporation may be considered in this context.

2. The Tariff and Valuation cell proposed at the State level with regional level branches for Property Tax administration may be entrusted with the following role in respect of user charges:

i To prepare a pricing guidelines manual for circulation among all the local bodies.

ii To assist the local bodies in arriving at the right price/tax structure for their services in order to make them economically viable.

iii For already existing services, to work out economic charges and to review the pricing policy. If the hike in the charges is very high, then the hike can be imposed gradually over two to three years.

iv In the case of new schemes to workout the charges to cover O & M costs, debt service, and depreciation.

3. In the case of projects financed with loans, capital cost recovery should not normally be spread over periods exceeding 15 years.If, however, the annuity payable is found not affordable, it can be spread further up to 20 years.

4. Formation of Costing Cell in Local Bodies:

SFC considers that it must be made the duty of the Accounting side of Local Body to prepare Balance Sheet and statement of assets and liabilities at the end of each year and in respect of each service.

ii It should act as costing cell within the local body following the guidelines of Valuation and Tariff Cell at State level.

iii. There is need for change in the system of budgeting and accounting to commercial type instead of the present Governmental system of accounting and also for computerisation of Accounts to achieve the objectives.

Licence, fees and other charges:

2.2.154. The D & O Trade Licence fees constitute a major revenue source now contributing 5 to 6 % of Non Tax Revenue. The main draw back in this source is the lack of periodic revisions. Many local bodies have been adopting the rates fixed even three decades earlier. The rates now levied are nowhere near the present condition. No doubt the licence fee can be levied only to meet the cost involved in rendering these services. The cost of administration has very much gone up and the rates levied are on the very low side. Further the present procedure followed in issue of trade licences is found to be very cumbersome and it needs a thorough re-examination and simplification and responsibility of taking licence should be made compulsory on traders and deterrent penalty for default is needed to avoid evasion. It is also found difficult for local bodies to prepare a full list every year.

2.2.155. Immediate tax mapping based on sources may be done and a computerised list can be prepared. Changes can be recorded once in a year. The change in ownership of the trade also has to be compulsorily registered with local body as in the case of transfer of ownership in property tax. Issue of licences can also be decentralised at divisional or zonal levels of the Local Body instead of concentration at headquarters. Computerisation will enable quicker issue of certificates and time limit for application, enquiries and issue may be streamlined to suit present conditions.

2.2.156. Further there are many types of trades which have newly come to exist and they need inclusion in the list for purpose of licencing and control, while those which are found obsolete should be deleted from the list. An attempt has been made by the Damodaran Committee on Panchayat Finance in the year 1990 to rationalise the system and also the rates, prescribing a minimum and maximum for the various types of trades. Subsequent to that also, there might be a few new trades which have come up recently and they will have to be added in the list. The rates adopted by the Damodaran Committee were based on the rates which had been adopted by the Madurai Corporation at that time which were then found reasonable for adoption in respect of all local bodies.

2.2.157. While applying these rates, the rates for Municipal Corporations could be suitably enhanced. Based on the rates recommended by The Task Force and also the rates recommended by Damodaran Committee (1990), the revised rates are proposed in the Appendix No.12 & 17 for both Urban and Rural Local Bodies. If more than one trade is conducted in one premises,the higher rate that is applicable should be charged. A

minimum levy to be compulsorily collected has also been prescribed. The mapping of all the trades in the area should be done immediately and computerised and only additions and deletions should be carried out in future years. The procedure now in vogue for enforcing this trade licence is to get applications in the month of February for issue of licence / renewals for the period commencing from the first of April of the next financial year. If the licence is not renewed before the end of June, the local body has to initiate penal action for prosecuting the defaulters. In most of the cases, it is found that voluntary renewal or application for trade licence does not happen and only after inspection and detection, licences are being applied for. It has been brought to notice that the omissions are many in number. It is necessary to prescribe sufficiently higher penalty, equivalent to three or four times of the normal licence fee, when the omission is found out so that it will ensure the filing of applications at the appropriate time for obtaining licence/renewal. The local Body should also have power to recover through distraints against immoveable properties in the case of defaulters.

2.2.158. At the time of registration of dealers under the Sales-Tax Act, the authorities may be required to insist on production of the licence obtained from the local body and to quote Local Body Licence number in their application for licence. This will enable the licensing of all trades without omission.

2.2.159. The licence fees can be suitably updated once in three years based on inflationary rates. The local body may also issue a licence for a period up to 3 years on collection of the licence fees in advance with a rebate of 10%.

2.2.160. In the case of installation of machinery licence fee is now being collected with reference to the Horse Power of Motors. No licence fee is collected in respect of the subsidiary machinery installed and run with the aid of the prime Motor. For instance, in the case of power-looms, four to six power-looms can be ordinarily run with the help of one 5 HP Motor and the licence fee is collected only on the basis of the HP of the prime motor and not on the basis of the number of power-looms that are run. Similarly, in the case of a Printing Press also, one 3 HP Motor can run two or three litho or off-set presses. Hence the installation fees for machines may be fixed not only on the basis of the HP of the motor but also taking into consideration the minimum machinery that could be installed and run with the aid of the prime Motor, for which licence fee is levied. Similarly, changes in the Motors with higher capacities are not being intimated and though there are rules for penalty for violations, it is difficult to find out the changes and to locate the period of such changes. It should therefore be provided that the owner should be compelled to take permission while changing the motor with higher capacity and the penalty for failure to do so should be not less than three to four times the ordinary licence fee that could be levied. Deterrent action may also be provided for by prosecution of the offender.

2.2.161. Recommendations

SFC, after situation analysis, recommends the following:

1. D & O Trade. The local bodies will have to undertake tax mapping to prepare a computerised list based on immediate survey and the additions and deletions can be made once in a year. Computerisation will enable quicker issue of licences.

2. The time limit for application, enquiries and issue may be streamlined to suit the current situation and published through a common pamphlet in all local bodies and also published in common places.

3. The Revised Rates for the various trades, taking into consideration, the recommendations of the Damodaran Committee (1990) are proposed by the SFC for urban/rural bodies separately as Schedules in Appendix Nos. 12 & 17. Any industry or trade not covered in the list may be brought under 'Others' provided for in the schedule.

4. If more than one trade is conducted in one premises, the higher rate will be collected. Minimum levy has been prescribed for collection compulsorily.

5. The penalty for default may be three or four times the normal licence fee. A Grace time for renewal with penalty may be given for a period of 3 months from April to June Prosecution may be launched in July of every year. The local body should have power to recover through distraint. on immoveable properties in the case of defaulters in addition to prosecution powers.

6. At the time of registration of traders under the ST Act, the authorities concerned may be required to insist production of the licence issued by the local body and even insist on quoting the number of licence in the form of application itself.

7. The licence fee prescribed should be suitably updated once in three years based on inflationary rates, and on Consumer Price Index.

8. The local body may also issue a licence for a period of 3 years on collection of licence fee in advance for those willing with a rebate of 10%.

9. In the case of installation of machinery, in addition to the collection of licence fee on the basis of Horse Power of Motors, fee should be collected in respect of additional or subsidiary machinery run with the aid of the prime motor.

10. Changes in Motors with higher capacities are liable to be informed failing which heavy penalty equivalent to 3 or 4 times the normal fee should be levied and deterrent action by Prosecution should also be done. The owner should be compelled to take permission while changing the motor with higher capacity.

Income from properties:

2.2.162. The Municipal Corporations own properties like markets, bus stands, shopping complexes, guest houses and the return by way of rent collected from these properties is not commensurate with the prevailing market rent in the same locality for similar building collected by private property owners. In certain cases location of such assets contributes to "no demand" which lead to assets lying unused. This is an important source of revenue for the local body provided they are managed properly, especially in Municipal Corporations, where space is scarce for business community. The Municipal Corporations now earn 62% of income from Non Tax only under this source.The Corporations mostly construct these buildings on loan assistance from various funding authorities and they have to pay annuities from out of the earnings, besides meeting the cost of maintenance including the cost of staff concerned. The private entrepreneurs in the same locality adopt the procedure of selecting the tenants even before or at the initial stage of the construction and obtain huge amounts as advances, thereby reducing their financial liabilities. They also fix the rent based on the market rates and also raise the rent from time to time depending upon the local market conditions.

2.2.163. Though it may be difficult to adopt the principle and procedure adopted by private people in toto by the local bodies, a re-thinking should necessarily be made on the method of creating assets with a view to realising reasonable return at least to balance the project, if not to be more remunerative. There is good demand for the private buildings. There will be equal demand for the properties of the local bodies if they are situated in proper locations. In fact these ventures are thought of only to further the income of local body and hence fixing rent on P.W. rates which do not take care of remunerative aspects as well as refund of annuities besides proper maintenence should be dispensed with.

2.2.164. The local bodies also could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate. The local bodies should also be allowed to take reasonable advances from the intending allottees and this will substantially reduce the financial burden in the creation of assets. The local bodies should also have the freedom to create the assets by deploying their own departmental officials or local contractors and should not be compelled to give such projects only to the Government machinery like P.W.D. or other departmental agencies, which consume more time and also charge heavy centage charges resulting in high escalation in cost.

2.2.165. The completion of the project in time will avoid cost escalation and ensure early allotment of the property to the allottees in accordance with the agreements drawn up beforehand. In addition, the allottees should, even at the beginning, be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there was no default in payment of rent or lease amount or no violation of terms of lease.

2.2.166. In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid, if any, shall be forfeited or returned to the defaulter after adjusting the arrears if any due with cost of reauction and a penal fees for default. This method will ensure transparency in the transaction and also instil confidence in the minds of the bidders who seek allotment as in the case of private properties.

2.2.167. The change-over to the new method will definitely help the local bodies realising higher income and better management of the assets of the local bodies. This also will help avoiding intermediaries colluding to depress the lease amount and have a second lease with higher profit.

2.2.168. The Corporations can also adopt the method of Build, Operate and Transfer (BOT) in respect of the assets sought to be created. The privatisation of the maintenance of these commercial assets could also be tried with a view to devolve maintenance on contractors and at the same time to provide for a net return.

2.2.169. Recommendation

The SFC recommends the following for improvement of income from properties:

1. The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate.

2. The local bodies may take advances from intending allottees and this will reduce the financial burden substantially in the creation of assets.

3. The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised Government machinery.

4. The allottees should be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there is no default in payment of rent or lease amount or no violation of terms of lease.

5. In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost of re-auction with a penal fee for default.

6. The local body can also adopt the method of Build, Operate and Transfer (BOT) in respect of assets to be created.

7. The privatisation of the maintenance of these commercial assets on contract system can also be tried with a view to achieve economy in maintenance and to avoid deployment of special staff and to provide for a net return.

8. In all these types of transactions the Government may prescribe suitable buil t- in check to ensure accountability.

Income from Special Services:

2.2.170. The special services like private connections for water supply have been dealt with under user charges. The other main item under this category will be in relation to Town Planning where there is a high potential for collection of development charges. In the case of new Lay Outs coming up or in under-developed localities, there is much scope for defraying the cost of providing basic amenities like roads,lights and drainage through betterment/development charges. This can be tried in Corporations, especially in industrial areas and also in upper middle class and rich neighbourhoods. The charges can be fixed in accordance with the norms fixed by the Chennai Metropolitan Development Authority depending upon the width of the road and the frontage of the property and if the charges are considered to be high, it may be collected in easy instalments. The money collected should not be diverted for other purposes but should form a seperate development fund.

2.2.171. Another income through this source is building licence fees. The local bodies are collecting licence fees for construction/alteration of buildings within their area which has to be approved through plans prepared by the authorised authorities and presented to the local bodies. The charges are based on the rates prescribed by the Director of Town and Country Planning or by the Chennai Metropolitan Development Authority. This is done more for the regulation of the construction of buildings according to the planning system initiated by the planning authorities like CMDA and DTCP. The licence fees is appropriated by the local body concerned.

2.2.172. In the case of unapproved Lay Outs where the buildings are constructed without the approval of the lay out by the planning authorities and without presenting proper plan applications to the local bodies, according to the existing rules, property tax can be levied on the buildings so constructed. The local body will resort to the levy of property tax on such buildings. Once the property tax is collected the owners of the building expect all facilities to be provided by the local body concerned in their respective areas. However, the formation of roads and provision of lights are essential items to be provided by the Lay Out promoters according to the conditions of the Planning authorities.

2.2.173. In the case of unapproved lay outs, the local bodies find it difficult to provide these basic amenities in the absence of approval of the lay out, and the promoters escape after sale of the plots to individuals. At present they have powers to prosecute the persons who have constructed the buildings without proper plan approval and once the Court levies a penalty which is paid by the owner of the building, the local body has to satisfy itself by providing the civic amenities, even though the area continues to be an unapproved lay out. In the case of Chennai and other Corporations there are powers for demolition of buildings constructed without approval but such powers are not available to the other local bodies. Further the demolition process is also a difficult one and can not be normally resorted to due to various pressures and pulls. At the same time, the local body loses the money which could otherwise be collected as development charges in those areas.

2.2.174. The State Finance Commission would like to point out that the Planning authorities should look into this aspect and prescribe necessary and suitable safeguards for the avoidance of such unapproved lay outs, and also for regularisation with deterrent additional levies as penalties.

2.2.175. Even in the case of approved layouts, where the promoter is to provide the roads and lights and hand over the public places to Local bodies, the standard of road is often found bad and only the Local Bodies have to relay and develop the roads. It may also be considered whether the cost of laying roads as per standard norms of planning authorities can be required to be deposited by promoters with the local body at the time of approval of the layouts so that Local Body itself can take up the laying of roads to the standards prescribed.

2.2.176. The local bodies have often indicated that the planning authority like CMDA is collecting development charges through the local bodies while issuing planning permits but these amounts are not made available to the respective local bodies for the purpose of providing the basic amenities in the new developing areas. The CMDA has pointed out that these charges are collected for the use of the CMDA for maintaining the organisation, and also to help the local bodies in providing facilities like bus stands, markets and other common facilities needed in the area; and they would call for projects from the various local bodies and sanction them according to the availability of funds. They also admit that the money collected in a particular area is not earmarked for that area but the total amount collected is being utilised for the benefit of the local bodies who

come up with proposals for projects. The State Finance Commission considers that the responsibility of the local body to provide the initial basic amenities in the newly developed areas is very heavy and hence at least a portion of the development charges collected by the CMDA should be set apart for the concerned local body to meet at least a portion of its liability in creating infrastructure for developing these areas. The Planning authority should, however, make available their technical advice in all these projects to be taken up by the local bodies

2.2.177. It is also found that development charges are not collected by the DTCP in the cases covered by the DTCP while sanctioning plan permits. Local bodies may be empowered to collect development charges in the case of the newly formed lay outs at the time of sanction of the lay out, after permission is granted by the DTCP. The local bodies could utilise that amount for developing the particular area by earmarking the funds for that purpose. The DTCP may, however, prescribe the charges that may be collected by the local bodies as development charges for the purpose of ensuring uniformity, which should be commensurate with the cost of providing the facilities.

2.2.178. Wherever people of a particular locality need extension of certain services to their area from the available services like water supply, lighting, etc., it is found that they are also prepared to contribute a portion of the cost involved to local bodies. The local bodies may be permitted to collect contributions from the public who are willing. If willing, free labour offered also can be accepted.

2.2.179. Recommendations

The SFC recommends the following:

1. Under Town Planning, there is a high potential for collection of development charges.

2. In the case of new lay outs, the cost of providing basic amenities like roads, lights and drainage can be met through development/ betterment charges.

3. This can be tried in Corporations, in industrial areas and in upper middle class and rich neighbourhoods.

4. The charges can be fixed in accordance with the norms of the CMDA depending upon the width of the road and the frontage of the property.

5. If charges are considered high, it may be collected in instalments. The money collected should not be diverted for other purposes but should form a separate Development Fund.

6. Necessary and suitable safeguards may be provided for avoidance of unapproved lay outs in future with deterrent additional levy as penalties.

7. Even when the promoter hands over the lay out as per present regulations after laying roads etc., the standard of road is stated to be very bad and the Local Bodies are compelled to relay them. The cost of laying roads as per standard norms may be required to be deposited by the promoters at the time of approval of layouts, so that Local Body itself can take up the work of laying of roads.

8. SFC considers that the responsibility of Local Body to provide initial basic amenities in the newly developed areas is very heavy and therefore at least a portion of the development charges collected by CMDA should be set apart to the concerned Local Body to meet the cost of provision of basic infrastructure for new developing areas. The Planning authorities should make available their technical advice in the projects to be taken up by the Local Bodies.

9. Wherever people of a particular locality want extension of certain services and are also willing to contribute a portion of the cost, the local bodies may be permitted to collect such contributions from the public. This is likely to create local participation coupled with increased sense of liability on local public against misuse of the assets.

LAND USE:

2.2.180. The urban local bodies like Corporations and Municipalities have vacant lands belonging to them in their areas. It has been indicated during the conferences and also in the District Sittings that the porambokes as well as vacant lands in the local body area have been subjected to encroachment and this has affected the usage of the land by the local body for its betterment.

2.2.181. A survey of the local body may be arranged both in urban and rural areas and all the porambokes and vacant lands belonging to the local bodies may be identified and a list of such assets may be got prepared by each local body. The vacant lands can be put to proper use by opening shopping complexes, markets, bus stands or even slaughter houses wherever necessary.

2.2.182. In the case of layouts, open spaces are indicated for public purposes like schools, shops, Parks etc. Excepting the space indicated for parks, other places are not handed over to Local Body. It is understood that if such spaces allocated are not utilised for the purpose within a year the promoter could convert it as housing site and sell. In most cases, the allocation of spaces is not even known due to the fact that construction and development of the area take place in a phased manner. The places allocated are mostly got converted. To avoid this, the open spaces indicated for shops and schools should not be converted but should be left with local body for allocation for the specific purpose. This will enable the local body to have adequate space for its activities. This will bring income to the local body.

2.2.183. Removal of encroachment is a point on which the representatives of the local bodies have stressed very much during the sittings of the Commission in the Districts. It is stated that for removal of the encroachments, the help of the revenue authorities has to be sought and the local body has no power to evict the encroachers. It is felt that any encroachment within the area of a local body may be permitted to be removed by the local body itself and in the case of lands not entrusted to the local body, the revenue authorities may coordinate and help the local body to remove the encroachments. The road margins on highways which are normally encroached by private users for providing shops etc. should be cleared and the local body concerned should be given powers to use the road margins by having their own shops or by issuing licence to private people for a short term with powers to resume the space at any time when the road margins are required by the Highways Department. This will ensure proper regulation of the area and also augmentation of the income of the local body.

2.2.184. Recommendations

The SFC recommends the following:

1. Both in urban and rural Local Bodies, a survey should be made to list out all the porambokes and vacant lands and a list of such assets should be prepared.

2. Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands,slaughter houses etc.

3. In the new lay outs, open spaces are indicated for schools shops parks etc. Excepting the space indicated for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities.

4. Any encroachment within the local body area should be permitted to be removed by the local body itself.

5. In the case of lands not entrusted to local body, the revenue authorities may coordinate and help the local bodies to remove the encroachments.

6. The road margins on Highways should be cleared of all encroachments and the local bodies should have power to use the road margins to have their own shops or to issue licences to private people for short term leases, with powers to resume as and when required by Highways Department. This will ensure proper regulation of road margins and also augmentation of income for the local body.

LICENSING OF EXISTING MARKET SHOPPING COMPLEXES AND BUS STANDS.

2.2.185. According to the existing procedure, they are leased out in auction and the highest bidder is being allowed to occupy. He is also allowed to continue by paying a nominal increase in the lease amount, even after the lapse of the period. After the lease period of three years, the rules provide for a fresh auction but due to administrative instructions, fresh auction is not resorted to and the existing lessees are allowed to continue with some marginal increases in the lease amount. This procedure affects not only the right of the local body to conduct fresh auction according to the rules but also makes the income more unviable. No doubt it is true that the lessees who have occupied the shops etc., might have gained some amount of goodwill and it would be difficult for them to shift the place of business, after they had established the business at the particular place. But, on this account, the conduct of fresh auction should not be avoided but it should be conducted according to the rules. The present lessee may also be permitted to participate in the auction. During the finalisation of the lease for a fresh term, the existing lessee may be given option to pay the higher bid and his continuance may be considered favourably. One of the conditions for the continuance of the lease must be that he should not have defaulted in payment of the lease amount during the earlier tenure of lease and not violated the terms of lease.

2.2.186. It was also reported that the existing lessees are often becoming defaulters and the existing procedure for collection is cumbersome and the local body is forced to resort to filing of civil suits for collection of arrears, which naturally involve long delay in court proceedings. Even during the pendency of such proceedings, the local body is not in a position to vacate the defaulting lessee, because of administrative directions issued from time to time.

2.2.187. In the matter of lease or continuation of lease, or in the collection of arrears from the lessees, no outside interference should be allowed.

2.2.188. The procedure of Tender-cum-Auction may be adopted and the period of lease may be fixed as three years, with a gradual increase in lease amount or rent once in a year at a percentage to be determined even at the beginning of the lease. At the end of the three year period, of lease, a fresh auction should necessarily be conducted with an upset price suitable to the then market rates.

2.2.189. For the collection of lease amount and arrears, the local bodies should be vested with the powers of distraint not only in respect of moveables but also in respect of the immoveable properties of the lessee.

2.2.190. The procedure of tender-cum-auction will eliminate the chance for depression of bid amount during auction, by formation of a cartel among the bidders, and the likelihood of sub-leasing or sub-letting of the property at a higher rate. The auction and lease should be liable for cancellation by the local body at any time if it is proved or brought to the notice of the local body that there is sub-leasing or sub-letting of the property.

2.2.191. Recommendations:

The SFC recommends the following:-

1. In the matter of lease or extension of lease, there should be no outside interference.

2. Tender - cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage.

3. At the end of three years, fresh auction with an upset price according to prevailing market rates may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding.

4. For collection of lease amount and arrears, the Local Bodies should have the powers of distraint against moveables as well as the immoveable properties.

5. Tender cum auction will eliminate cartels and depression of lease amount in the auction and sub leasing or sub letting. (6) Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

FIXING OF FEES IN THE MARKET BUS STANDS ETC.,

2.2.192. It has been stated that the present provisions enabling the fixation of fees to be collected in markets, bus stands, parking spaces etc. need a re-thinking. It has been stressed that the fee should be reasonably comparable to the rates prevailing in the near vicinity so that the low rate of fee can be avoided. In the case of bus stands, fees are collected from each bus passing through the bus stand directly from the conductor of the bus concerned. Mostly the bus operators are Transport Corporations and only a very few buses are run by the private bus operators in the State. Instead of each local body appointing a person exclusively for the purpose of collecting the fees from each bus passing through the bus stand, it may be considered whether the Transport Corporation itself can be made to pay a lumpsum amount to each local body where the bus stand is situate at a rate to be agreed upon between the local bodies and the Transport Corporations depending on the trips. This will avoid the necessity for each local body to appoint a person for the collection at each bus stand and also avoid leakage of revenue to unconcerned persons. Similarly the private bus operators in the area may also be asked to pay a lumpsum amount to the local body of the area as in the case of transport corporations.

2.2.193. In big urban areas dormitories or lodges may be constructed by the local body in or near the bus stand itself to enable the travellers to stay overnight in case of necessities and this will fetch a sizable income to the local body concerned.

2.2.194. Recommendations

The SFC recommends the following:

1. For collection of bus stand fees from buses,the Transport Corporations may be made to pay a lumpsum to the local body at a rate to be agreed upon depending upon the trips which will avoid the necessity of each local body employing a person to collect the amount. and also avoid leakage. The private bus operators also can be asked to pay a lump sum amount to the local bodies concerned. The amount may be collected in two instalments in advance.

2. In big urban areas, dormitories or lodges may be constructed by the local body in or near the bus stand to enable the travellers to stay overnight and this will fetch a sizable income to the local body concerned.

PRIVATE MARKETS:

2.2.195. There are many private markets in the local body areas. In these cases the local bodies have been permitted to issue licence to such private markets on certain conditions for the operation of the market. Each market generates a sizable amount of income but the local body not only loses its right to open a market in the area because of the existence of the private market but also loses sizeable income. It is often represented that private markets should be acquired by the local body for its maintenance by suitable enactment. The Municipal Finance Enquiry Committee,1980 has also recommended that all these private markets can be acquired and made as public markets and to that extent the Municipal Act may be suitably amended. Due to legal difficulties this recommendation has not yet been followed up. However, in view of the need for regulating the markets, even if a share of the income from the market cannot be obtained, specific service charges may be permitted to be levied for garbage clearance etc. in cases where such special services are to be provided by the local body to the private markets.

2.2.196. The SFC recommends that in view of the need for regulating the markets, even if share of income from private markets could not be got, specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply etc. by the Local Body from the private markets.

2.2.197. **PARKING FEES:** In the case of urban areas where a number of motor vehicles like cars, lorries and two wheelers and also cycles are moving, there is a great

need for providing parking spaces. Such parking spaces may also be located near the railway stations, bus stands and markets. Now the railway authorities are leasing the rights for providing stands for cycles and other vehicles to private individuals. The local body can take up such parking spaces and run and thereby earn a sizeable income. This type of stands are now being operated by many private persons who make huge money out of it. This will not only help in the regulation of traffic but also enable the local body to earn income from this source.

RECOMMENDATION:

2.2.198. Local Body can take up the parking spaces in their areas and run them and earn sizeable income by maintaining cycle stands near the bus stand, railway station and other important places.

2.2.199. INCOME FROM MARKETING COMMITTEES

The SFC recommends the following:

Marketing Committees collect fees and retain them for maintaining their infrastructure. The maintenance of infrastructure of Local Body like roads, environmental sanitation around the market committees is with the Local Bodies. Hence SFC recommends that the fees may be increased and 50 % of the collections may be transferred to the concerned Local Body to compensate for the cost of maintenance of roads and other necessary infrastructure in and around the marketing committees. This may need necessary amendment of the relevant legislations.

GRANTS

2.2.200. The grant-in-aid to Municipal Corporations on revenue account is very meagre covering only 5 % of the total revenue receipts of the Municipal Corporations in 1991-92, 2.6% in 1992-93 and 3.21 % in 1993-94. In terms of per capita, the grant-in-aid works out to Rs.14,21 in 1991-92, Rs.10.53 in 1992-93 and Rs. 10.85 in 1993-94.

2.2.201. The general purpose grants are limited to a few Corporations in select years and the specific purpose grants constitute about 90 % of the total grants in all these three years viz., 1991-92 to 1993-94. Medical grants account for a higher percentage against the specific purpose grants given to the Corporations. The levels of grants vary among the Corporations. In 1991-92 Chennai Corporation has received 64% of the total grants and in 1992-93 and 1993-94 the percentage has exceeded more than 80 %. The variations imply that there are larger imbalances in sharing the grants. Correlation of co-efficient between per capita grant and per capita total revenue receipts has been indicated as 0.12, 0.77 and 0.81 (0.52 average for the three years). This also strengthens the case that the grant distribution policy is often ad hoc in nature. A regular grant made available to all the Corporations and other Local bodies is for Noon Meal Centres since the Centres are run with the government grants provided for the purpose.

2.2.202. In the case of Corporations, in view of the potential available for raising of resources, the grant-in-aid should be limited to the extent of dire necessity in respect of specific purposes. In principle the urban bodies have so far been made to raise resources for maintenance and the assistance from the Government was restricted to Capital Formation and that too mostly by way of loans.

2.2.203. However principles of distribution of funds from the State to the local bodies are being considered by SFC separately, by which, a reasonable share of Government funds will be made available to the Municipal Corporations, and other urban local bodies also though there was no such steady and regular devolution earlier. The need for further grant-in-aid can be studied after experimenting the system of distribution aiming equitable distribution.If there is still need to compensate any short-fall to any of the Corporations, equalisation grant will be necessary.However till the principle of devolution is accepted, the existing grants should be continued. The specific purpose and incentive and statutory grants will have to continue since they have been sanctioned based on certain criteria like reaching the level of services, mobilising more resources or guaranteed by the statute for specific purpose. This has been taken care of while the principle for distribution of general pool is recommended in Part V.

2.2.204. The services like maternity, dispensary, family welfare are based on National goals. They are now indicated in schedule 11 of 74th Amendment for entrustment to local bodies, though they are already dealt with by them. The intention of including these items as entrusted functions will imply the devolution of funds earmarked for the purpose by Central Government and State Government. Hence these activities should be supported with Government assistance by way of grant irrespective of normal devolutions for core civic services aimed at by SFC since these items have not been included in the core services.

2.2.205. There have been frequent representations that the local bodies are not able to contain the level of staff expenditure due to the policy of the Government in sanctioning increased Dearness Allowance based on cost of living index every half year on par with the Central Government employees. The rates paid to the Government servants are applied to the servants of the local bodies also but the local bodies do not have any elastic source of revenue to raise additional resources to bridge the gap arising out of such escalation in cost of establishment every year. In addition the local bodies have to bear the liability of pension for their employees on par with the Government servants. Except in the case of Chennai and Coimbatore Corporations, in all other Corporations and other local bodies there is difficulty in meeting the pensionary liability and in certain cases even the provident fund collections of the employees are frittered away due to deficit financing. When the pay of the local bodies staff was revised with reference to the second pay commission, it was agreed that the Government will subsidise the dearness allowance enhancement from time to time. Though this was adhered to in the early stages. the entire system of D.A. subsidy has not been implemented by the Government for a long time.It has been the request of the local bodies that the Government should compensate the local bodies for the cost involved in paying the increased D.A outside the General devolution.

2.2.206. In this context in States like Maharashtra, Andhra Pradesh and Karnataka, a general purpose grant is being sanctioned to the local bodies to meet a portion of their cost of establishment. There is every justification for sanctioning subsidy for the D.A. increase. Perhaps the percentage may vary between the different tiers of local bodies. The State Finance Commission recommends the reimbursement of D.A. increases to these local bodies.

2.2.207. Recommendations:

The SFC recommends the following:

1. The Specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.

2. Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to Rural Local Bodies)

3. Principles of distribution of funds from State to local bodies are being considered separately. After experimenting the system of distribution, the need for further grants in aid can be studied. If there is still need, Equalisation grants will be necessary. This has been recommended in the Part V "Resource Allocation Mechanism".

4. The reimbursement of D.A.increases may be sanctioned to the local bodies outside the general devolution. There is every justification in the claim, even though the percentage of requirement may vary among the local bodies.

2.2.208. Penalties and fines:

Penalties and fines to be levied for violations furnished in the schedules to enactments relating to each Corporation may be suitably amended with reference to rates proposed under the Tamil Nadu District Municipalities Act, 1920 in Appendix Nos.13 and 14

2.2.209. Transfer to Capital Account :

It was forcefully represented on behalf of the various Local Bodies that even if there was scope for improving the income through remunerative and entrepreneurial schemes, the Local Bodies did not have the required capital to invest. Taking this fact into consideration SFC recommends the creation of a Capital Account in each of the

Local Body as detailed below:

A Capital account may be created by transfer of contributions as under.

Corporations, S.G.& Spl. Grade Municipalities	15% of Total Revenue every year
Other Municipalities and S.G.& Spl.Grade TPs.	10% of Total Revenue every year

From out of the above Capital Fund, the Local Bodies can meet their future capital expenditure for taking up remunerative and entrepreneurial investments.

CHAPTER - 3

MUNICIPALITIES

PROPERTY TAX:

2.3.1. Section 81 of the District Municipalities Act 1920, empowers the Municipal Councils to levy Property Tax on all land and buildings within the Municipal limits except those specifically exempted under the Act. The tax comprises of general purpose tax, tax on water and drainage, lighting and scavenging. Education Tax as per the Elementary Education Act and Library cess as per the Local Library Authorities Act are also levied along with the above components. The Act and Rules made thereunder have not prescribed any maximum or minimum rate of tax, unlike in the case of Corporations and Town Panchayats. Chennai City Municipal Corporation Act prescribes the maximum and minimum at 30% and 19.5% and Madurai City Municipal Corporation Act prescribes the maximum and minimum at 35% and 15.5% In the absence of specific indication about the minimum or maximum, the rate of property tax now in vogue ranges widely from 12.5% to 40% of ARV per year including all component taxes. The general purpose tax alone ranges from 2% to 18%. The component of general benefit taxes collected and their ranges are as follows:

Table.2.26 Municipalities -Property Tax : Ranges of Components

	TAX	RANGE
1.	Water Tax	3% to 13%
2.	Drainage Tax	0% to 4.32%
3.	Lighting Tax	2% to 4%
4.	Scavenging Tax	2% to 3%
5.	Education Tax collected under) Elementary Education Act)	5%
6.	Library Cess collected at the rate of 10% of the total property tax on behalf of Local Library Authority.	

2.3.2. These rates are in vogue for decades. This clearly indicates that the Municipal Councils hesitate to revise the rates substantially and there is no compulsion to have a minimum level of taxation as in the case of other local bodies. This also exhibits that there is complete lack of uniformity in the property tax structure among the Municipalities. Though uniformity is not necessary, the wide disparity reveals that the potential is not fully exploited by the Municipalities. It is necessary that there should be a minimum level of efforts on the part of the Municipalities though the maximum can be left to their discretion depending upon inflationary trend, local need and conditions. This is especially needed when a rationalised system of distribution of Government funds to

weaker local bodies is to be introduced. All the local bodies should be made to exploit a minimum level of taxation and they cannot be allowed to earn more assistance as a weaker institution without proper tax efforts. The Commission therefore recommends that a minimum of 15% of ARV as Property Tax for a year (excluding the education tax and library cess which are chargeable under separate enactments) may be provided by means of suitable amendments to the Act and the rules.

2.3.3. The Shanmuga Sundaram Committee, which dealt with the finances of the Municipalities, recommended a progressive slab rate on the principle of ability to pay. The Taxation Enquiry Commission, 1953-54 has however opined that progressive taxation cannot be suitably introduced as a feature of property tax levied by local bodies. Even in Chennai Corporation where there was a progressive slab rate in vogue, with the switching over to plinth area rental value, the progressive slab rates have been given up.

2.3.4. The Property Tax yields major income to the Municipalities also, which accounts for one third of the total revenues and more than 85% of the total tax revenues. In terms of per capita it yielded Rs.273 against the total per capita income of Rs.799 of Municipalities in 1993-94.

Table 2.27 Municipality : Composition of Own Tax Revenues

Own Tax Sources	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
	(Rs. in crores)					
Property Tax (PT) : Tax on General Purposes	10.15	22.80	11.12	23.20	12.94	20.14
Scavenging Tax	4.54	10.19	4.95	10.33	5.80	9.02
Lighting Tax	4.78	10.74	5.29	11.04	6.37	9.91
Water Tax	10.62	23.85	12.23	25.55	15.28	23.78
Drainage Tax	2.82	6.34	3.06	6.39	3.58	5.58
Education Tax	6.41	14.39	6.99	14.59	8.50	13.23
Library Cess	0.54	1.21	1.14	2.38	1.42	2.21
Total P.T	39.87	89.52	44.78	93.48	53.90	83.88

There are about 22.76 lakhs assessees in all the Municipalities as detailed below:

Table 2.28 Municipality: Details of Property Tax Assessees.

	No. of Assesses in Lakhs	% of Nos.	Demand in Rs. Crores	% of Demand
Residential	16.53	72.63	47.57	65.46
Non-Residential	6.11	26.84	20.68	28.45
State Government	0.09	0.41	3.87	5.33
Central Government	0.03	0.12	0.55	0.76
Total	22.76	100.00	72.67	100.00

2.3.5. About 73 per cent of the total assessees are residential contributing Rs.47.57 crores accounting for 65.46 % of the property tax, while non-residentials consisting 26.84 per cent of the total assessees contribute only Rs.20.68 crores accounting for 28.45%. State and Central Government properties form only 0.53 per cent of the total assessees contributing Rs.4.42 crores accounting to about 6 % of the property tax income. Contribution from Government properties is also significant compared to the lesser number of assessees. The average tax per assessee in absolute figures realised from non-residential category is 1.18 times over the contribution from the residential assessees. This indicates that efforts to enforce higher level of taxation from non-residential assessees are not adequate. In view of the wide variation in the rates of taxation adopted by the Municipalities, there will be correspondingly wide variation in the per capita income among the Municipalities from out of the property tax. The variations are not only due to the different rates adopted but also due to the pattern or method of assessment adopted and collection performance. If a minimum level of taxation and a common pattern of assessment are ensured there is adequate scope for improvement of resources from this source. The overall collection performance of the Municipalities under Property Tax varies from 51% to 75%. With simplification of the procedure for collection and systematic and regular follow up of the defaulters, the collection performance should substantially increase.

2.3.6. A pendency of 56,850 cases involving Rs.12.19 crores of Property Tax due to litigation also contributes for the low collection. The balance of property tax collectible at the end of 93-94 is Rs.48 crores of which roughly about one fourth is pending on account of litigation. It is stated that this is mainly due to quinquennial revision done with effect from 1.10.93 (II Half year 1993-94) and large number of the litigation is due to this quinquennial revision cases. The remaining balance is huge and reflects the lack of performance on the part of the local bodies concerned to make an effective follow up. It is also not clear whether there is stay by the court in respect of the entire amount covered by litigation. The position evidently needs more detailed scrutiny. Better control and review by supervisory authorities at Regional level is likely to reduce the pendency of cases in courts as well as on other arrears.

2.3.7. The realization of income out of the components of property tax does not match the cost of services incurred and there is wide variation between the income and expenditure.

Table 2.29. Municipality - Income from Propety Tax Components with Corresponding Expenditure.

	Average Income (Rs. in Crores)	Average Expenditure (Rs. in Crores)
ScavengingTax	5.80	31.48
Lighting Tax	6.37	6.56
Water Tax	15.28	12.01
Drainage Tax	3.58	1.99
Total	31.03	52.04

2.3.8. Hence the property tax can be divided into two components, (1) General Purpose Tax and (2) Service tax, as has been referred to while dealing with the Corporations, with liberty to fix the components of service tax in proportion to total needs of the concerned Municipality and to appropriate the amount realised from service tax for the different services with priority according to local conditions. This kind of a combined levy of service tax can be imposed on those who claim exemption from payment of property tax. Detailed discussion has been already made under Municipal Corporations on this subject.

TAX REFORMS

2.3.9. The Municipalities also resort to annual rental value basis for the purpose of levying property tax. Instructions have been given by the Director of Municipal Administration in 1993 to adopt the basic value for different zones for the purpose of fixation of ARV. The basic value is to be based on rental yield per Sq.ft. per month in respect of residential properties. The Municipalities have been instructed to adopt the rent obtained per month for newly constructed RCC residential buildings measuring 1000 Sq.feet and to convert it to annual rental value per Sq.ft. This basic value will depend upon the property value in different locations in the zones. Over this value, discount for (i) age of the building, (ii) owner's occupation have also been indicated. Since the rental value has been fixed for RCC buildings, further discounts have been indicated with percentage of deduction to be made for the various types of buildings as detailed below:

1.	For Rcc Buildings	..	No allowance
2.	For tiled, AC sheet and GA sheet, etc., roof buildings	..	25%
3.	For thatched roof buildings	..	50%

2.3.10. Similarly instructions have been given to adopt incremental rates based on the use of the buildings, namely, (i) industrial use, (ii) commercial use, (iii) nursing homes, (iv) Kalyana Mandapam etc. At the same time instructions have also been given to limit the increase of absolute Tax amount during quinquennial revision as detailed below:

(i)	Residential Buildings (Owner occupied)	..	Enhancement should not exceed 50% of the pre-revision tax
(ii)	Residential buildings (Rented)	..	Enhancement should not exceed 100% of the pre-revision Tax.
(iii)	Industrial buildings	..	Enhancement should not exceed 150% of the pre-revision tax.
(iv)	Commercial buildings	..	Enhancement should not exceed 200% of the pre-revision tax.

(v) In no case revised tax should be less than the existing tax. The above instructions are specific only for the General Revision done from 1.10.93 and not made applicable to Regular assessments for which orders of Government prescribing guidelines are stated to be awaited.

2.3.11. System of filing of Returns by the assessees has also been introduced as per the circular in the Municipalities. It is understood that the majority of the assessees have not filed their returns and hence it was not possible to make assessments based on the returns. The officials of the Municipalities have been deputed to obtain returns and also to verify the particulars given in the returns wherever received since most of those who have filed the returns, have furnished incorrect particulars.

2.3.12. It appears that the system of filing return by assessees has become operative in Chennai, Coimbatore and Madurai Corporations, in view of transparency exhibited in fixing plinth area value by consultation and publication of Directory. The Municipalities should first make assessees aware of the tax reforms and publish the rates fixed location-wise and then call for the returns. It is likely that there will be more voluntary returns as found in Chennai. Fixing of ceiling for the quantum of increase in Tax during the quinquennial revision, was resorted, to avoid steep increase in tax likely to arise due to the postponement of quinquennial revision for many years and such steep increase was likely to create protests from the tax payers. When the local body has freedom to levy and collect tax it is not fair to fix any ceiling on the amount to be levied and collected by them. This will result as disincentive in mobilising additional resources.

2.3.13. The circular issued by the Director of Municipal Administration also aims at adopting plinth area rental value system suitable to locality. Since the system now introduced in the Corporation of Chennai, Coimbatore and Madurai has been successful

the relevant Acts and Rules may be suitably amended to enforce the method of assessment now followed in the Corporations, in Municipal Bodies also to avoid different methods. The Task Force have recommended various rates applicable to Chennai Corporation, other Corporations, Municipalities and also to Town Panchayats. The State Finance Commission has recommended rates to be adopted in the respective urban local bodies in Appendix No.

Collection:

2.3.14. The collection of Property Tax in Municipalities needs improvement as already stated earlier. The statement below indicates the collection performance for the three year from 1991-92 to 1993-94.

Table 2.30 Municipality - Details of Demand and Collection of Property Tax

(Rs.in Crores)

GRADE	1991/92		1992/93		1993/94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	23.42	14.29 (61.01)	26.85	15.97 (59.48)	35.58	18.53 (52.08)
Selection	16.14	9.28 (57.47)	16.60	8.87 (53.42)	22.29	11.89 (53.32)
First	20.38	10.41 (51.11)	21.14	12.00 (56.77)	27.08	20.17 (74.47)
Second	12.99	5.55 (42.72)	13.66	6.86 (50.23)	17.64	8.15 (46.20)
Third	2.12	1.30 (61.10)	2.54	1.43 (56.34)	3.34	1.73 (51.99)
Total	75.05	40.83 (54.40)	80.79	45.13 (55.86)	105.93	60.47 (57.08)

Note: Demand includes current demand and opening balance; figures in brackets give percentage of collection to total demand.

2.3.15. The various other issues and points connected with assessment, levy and collection and also exemption from tax, discussed under the Corporations, will apply equally to the Municipalities also.

2.3.16. The Municipal Bodies lose a substantial sum of about Rs.5.7 crores due to exemptions given to buildings of charitable and educational institutions in their areas.

2.3.17. The assessment, levy and collection of vacant land tax dealt with under Corporations will be applicable to Municipalities also.

2.3.18. In the case of appeals on assessment, the general views expressed by the representatives of the local bodies during the District sittings favour the creation of a tribunal exclusively for the disposal of local body cases within the proximity of the concerned local body. This has also been dealt with under Municipal Corporations and the recommendations will be applicable to the Municipalities also.

2.3.19. Recommendations:

The SFC recommends the following

1. A minimum of 15% and Maximum of 35% Tax on ARV a year (excluding education tax and library cess levied under suitable enactment may be prescribed by suitable amendments to the Tamil Nadu District Municipalities Act, 1920 and the Rules.

2. If a minimum level of taxation and a common pattern of assessment are ensured, there is adequate scope for improvement of resources.

3. The collection of Property Tax in Municipalities needs improvement. Better control and review by supervisory authorities at Regional level is necessary to reduce the pendency through court cases as well as arrears and to improve performance of collections.

4. Property tax can be divided into two components(1)General Purpose Tax (2) Service Tax, as recommended under Municipal Corporations.

5. The combined levy of service tax can be imposed on those who claim exemption from payment of property tax as recommended under Municipal Corporations.

6. Tax Reforms: The various rates recommended in Schedule in Appendix No.11 indicates the rates for Municipalities. They may be adopted by the Municipalities.

7. The method of assessment, levy and collection of Property Tax, Service component tax and vacant land tax recommended under Corporations will be applicable to Municipalities also.

8. All tax reforms recommended under Corporations shall apply to the Municipalities.

Profession Tax

Profession Tax

2.3.20. The details of this taxation have also been discussed elsewhere. The present Act applies to all local bodies uniformly and the rates indicated therein are also applicable to all the persons liable to pay Profession Tax under different categories. The yield from Profession Tax accounted for 6.6% of the aggregate revenue of all the Municipalities during the year 1993-94. In the year 1991-92 it was 3.7 % which fell down to 2.3% in 92-93. The income from Profession Tax accounted for 16.11% of Tax income in 1993-94. Since the new Act came into force from 1992 there was increase in the income during the year 1993-94. This contributed to Rs.53 per capita out of total income of Rs.799 per capita. As has already been explained under the Corporations, there is a lot of scope for further income from this source. The total demand with category of assessees in Municipalities is given below:

Table 2.31. Municipality - Profession Tax: Asseesses and Demand

Category of Assessees	Number (in lakhs)	Amount (in crores)
Salaried	2.94	4.44
Shops and Establishments	0.75	1.64
Companies	0.20	0.82
Banks	0.03	0.23
Professionals	0.05	0.23
Doctors & Legal practitioners		
Others	0.23	0.66
Total	4.20	8.02

2.3.21. As may be seen from the table above, the maximum income accrues only from salaried classes. The other categories, namely, companies, self-employed persons, professionals etc. have not been fully brought into the tax net perhaps due to litigations pending till 1993-94. The rate of Tax has since been modified by the Government as discussed in detail under Corporations. With the modification of slabs and reduction in rates, it is hoped that the assessees under the other categories could now be brought into the Profession Tax net. The income under this head will increase substantially if efforts are made to map the assessees in the area and steps taken to initiate penal action for non-compliance of enrolment and registration as required in the new enactment. Even mere issue of notices in a few cases is likely to motivate the assessees to apply for voluntary registration. All recommendations under Municipal Corporations will apply to Municipalities.

Tax on carriages, animals, carts etc.

2.3.22. The general opinion is that this tax can be abolished. The collection is not worth even the cost involved. The Government have already abolished the vehicles tax. In view of the difficulties encountered in the levy and collection and the high expenditure involved in mobilizing this tax resource, this tax may be abolished. However, as already explained, automobile vehicles which do not come under the purview of the Motor Vehicles Taxation Act, may be brought under the tax net.

2.3.23. The recommendations relating to taxes viz., Vehicle Tax, Tax on advertisements, Pilgrim/tourist tax and all other Taxes dealt with under "Municipal Corporations" will apply to the Municipal Bodies.

New Tax Domains:

2.3.24. Under the new tax domains, (i) Advertisement tax on hoardings, (ii) Cable T.V have been suggested and discussed in detail under the Corporations. The benefits of these sources are intended to apply to all the Local bodies. The detailed discussions have already been made under Municipal Corporations.

Additional Assignments of State Taxes:

2.3.25. Similarly the recommendations relating to assignment/sharing of revenue from the following State Taxes have also been discussed earlier under Municipal Corporations and the recommendations made therein will be extended to Municipalities also.

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State excise duties
4. Motor Vehicles Tax
5. Agricultural income tax
6. Sugarcane cess
7. Urban land tax
8. Terminal taxes on goods or passengers carried by railways, sea, or air.

Tax on Agricultural Lands:

2.3.26. There is Specific Provision under Sub Sec 4(a) of Sec 81 in the District Municipalities Act 1920 to levy tax on Agricultural lands. It is understood that this levy has been discontinued due to the Executive instructions from Government. The L.R. is collected by Government from all Lands irrespective of whether they come under Rural or Urban Local body. The Rural Local bodies have been assigned income from the Lands

by way of Local Cess and Local Cess surcharge. No provision for such cess or surcharge is available in the Acts relating to Urban Local bodies, perhaps on the presumption that these bodies have more of non agricultural population and the income from land will not be substantial. The present composition of Municipal and Corporations areas have sizeable cultivable lands. It is fair that this category of population should also contribute to the Local body finance. The Government may permit taxing on Agricultural Lands by the urban bodies or pass on the LR collected in the area to the Local Bodies viz; Municipalities and Municipal Corporations and Town Panchayats.

The SFC also recommends that Government may examine the levy of Local Cess and Local Cess Surcharge in these areas also by suitable amendment to Act and assign the revenue to Local Body concerned.

2.3.27. Recommendations

The SFC recommends the following:

1. The Government may permit the Municipalities to tax on the agricultural lands authorised under sub-section (4)(a) of section 81 of Tamil Nadu District Municipalities Act, 1920 or pass on the land revenue collected in the area to the Urban bodies concerned.

2. A Local Cess and surcharge as in the case of Rural bodies may be provided for in the District Municipalities Act 1920 and collected in Municipal /Town Panchayat areas and passed on to Municipalities/ Town Panchayats. Newly constituted Municipalities/Town Panchayats have sizeable agricultural lands within their areas.

Assigned / Shared Taxes: (Existing)

2.3.28. The assigned revenues now available to Municipalities are the same as available to the Municipal Corporations viz;

i. Entertainment Tax,
ii. Surcharge on Stamp Duty,
iii. Surcharge on Sales Tax and
iv. Income from minor minerals, and
v. Toll compensation.
vi. The portions relating to all the above items except item iv. have been dealt with in greater detail under Municipal Corporations and recommendations made therein will equally apply to the Municipalities. The income from minor minerals is being dealt with separately under the Panchayat Unions and the recommendations made therein will apply to all urban bodies including Municipalities. The income from existing Assigned/Shared Taxes is as follows.

Table 2.32 Municipality - Assigned Revenues according to Sources

(Rs. in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Surcharge on Stamp Duty	14.92	43.14	20.84	51.02	18.12	46.23
Surcharge on sale tax	3.19	9.23	2.54	6.23	0.74	1.88
Local Cess	0.00	0.00	0.00	0.00	0.00	0.00
Entertainment Tax	15.85	45.83	16.49	40.37	19.34	49.33
Toll Compensation	0.61	1.77	0.90	2.21	0.99	2.52
Lease on Mines &Minerals	0.01	0.03	0.07	0.17	0.02	0.04
Total Assigned Revenue	34.58	100.00	40.84	100.00	39.21	100.00

The Surcharge on Stamp Duty and Entertainment Tax contributed major income.

2.3.29. Recommendations:

The SFC recommends the following:

1. Recommendations made under Municipal Corporations regarding all assignments under Surcharge on Stamp Duty , Entertainment Tax, Sales Tax will apply to the Municipalities.

2. Regarding the income from minor minerals the recommendations made under the Panchayat Unions will apply to Municipalities.

Grants:

2.3.30. The details of grants available to Municipalities and income derived are given below:

Table 2.33. Municipality: Details of Grants From State Government(Rs.in Crores)

Details	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
For General Purpose	1.46	13.49	0.88	13.10	0.80	12.69
For Specific Purpose	0.49	4.54	1.61	24.05	1.82	28.75
Roads						
Public Health	0.46	4.24	0.43	6.27	0.49	7.69
Medical	0.29	2.69	0.48	7.11	0.65	10.27
Noon-Meal Centres	0.36	3.35	0.50	7.51	0.51	7.98
Education	7.28	67.01	1.57	23.49	1.95	30.75
Total for specific purposes	**8.88**	**81.83**	**4.59**	**68.53**	**5.42**	**85.44**
Incentive Grants						
Small Savings incentive	00	0.00	0.09	1.41	0.02	0.32
House Tax Matching Grant	00	0.00	0.24	3.72	0.01	0.20
Total	**00**	**0.00**	**0.33**	**5.13**	**0.03**	**0.52**
Compensation Grants	0.51	4.68	0.89	13.24	0.09	1.35
Total	10.85	100.00	6.69	100.00	6.34	100.00

2.3.31. The Grants have yielded Rs.11.12 per capita and contributed 5.73% of total income . House Tax Matching Grant relates to a few Town Panchayats recently upgraded as Municipalities. No such grant is available to Municipalities as such. The Municipalities are expected not only to maintain civic amenities like roads, water supply, lighting, public health, sanitation, solid waste management, garbage clearance, Public Health Protection, but also Maternity and child welfare Centres and dispensaries on medical side. The revenue derived from the available sources to Municipalities is very limited, inelastic and inadequate to meet the minimum level of civic amenities to be provided to the public. The basic policy governing fiscal relationship between the State Government and Municipalities had so far been to enable the municipalities to achieve self-sufficiency in finances on the revenue account through their own efforts, with support from State Government only for capital finance requirements. The State Government should therefore be willing to ensure that the revenue capacities of the Municipalities are enhanced by assignment of buoyant taxes. Inadequacy of resources and inelastic nature of this source of Municipalities are known factors. Even the property tax and profession tax which contribute major resources are inelastic and cannot be increased often. Besides the mobilisation of additional revenues from these two sources also has been subject to outside interference. The revision of property tax has not been done regularly for the last two decades, due to postponements ordered. Even when revision was done, ceiling for

quantum of increase was prescribed. Similarly, in the case of profession tax many of the assessees could not be brought under tax mapping due to resistance and frequent litigation on the very enactment itself.

2.3.32. While these are the constraints on resource mobilisation, Municipalities have to incur sizeable expenditure on establishment due to the policy of Government in extending all benefits applicable to the Government employees to Local Body employees. Provision of services like maternity centres is governed by population norms adopted by national and state Governments. So also, minimum norms for lighting and Water supply have also been aimed at. The above factors contributed to a higher level of expenditure on services at Municipalities. The aspirations and expectations of local public have also grown substantially. Unless Government is willing to ensure assignment of some more buoyant taxes indicated earlier to the Municipalities, it may not be possible for them to meet the entire revenue expenditure from out of their own resources.

2.3.33. It is necessary that the Municipalities have to be considered for a regular system of Revenue grants-in-aid from the State Government to enable them to keep at even keel as recommended under Corporations. To avoid any complacency on the part of Municipalities, the eligibility for grant-in-aid may be related to capacity as well as performance of the Municipality in the different grades.

2.3.34. A system for distribution of the allocations to be made by State to Local Bodies is being suggested by the State Finance Commission elsewhere and on that basis, a regular assistance for the Municipalities could be provided to help those which are really in need of help.

2.3.35. In this context, it is pertinent to point out that other States like Karnataka, Andhra Pradesh and Madhya Pradesh sanction general purpose grants to Municipalities to match a portion of their cost of establishment. In this context the need for aassistance for staff expenditure by way of D.A. Subsidy has been examined in detail and recommendations made under Corporations applicable to all Local bodies.

2.3.36. Recommendations:

The SFC recommends the following:

1. It is necessary that the Municipalities have to be considered for a regular system of Revenue grants from the State Government.

2. To avoid complacency on the part of Municipalities, the eligibility for grants-in-aid may be related to the fiscal capacity as well as performance of the Municipality in the different grades. A distribution system is being formulated by State Finance Commission.

3. All recommendations relating to D.A. Subsidy will apply to Municipalities also.

4. Specific Purpose and Incentive grants now available may be continued.

NON-TAX REVENUES:

2.3.37. The non-tax revenues of the Municipalities are the same as available to the Municipal Corporations. The details are given in the Table below:

Table 2.34. Municipality - Non-Tax Revenues According to Soruces(Rs.in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Licence Fees	3.66	10.65	4.32	10.78	4.85	10.22
Income from properties	16.41	47.77	18.09	45.17	19.53	41.13
Income from Spl.services	9.09	26.46	11.91	29.76	15.77	33.21
Other miscellaneous receipts	5.19	15.11	5.72	14.30	7.33	15.43
Total non-tax revenue	34.35	100.00	40.04	100.00	47.48	100.00

2.3.38. Non tax resources have been dealt with in detail and various suggestions have been made for improvement of the existing source of income by revision of rates, simplification of procedures and better enforcement. All these recommendations will equally apply to Municipalities and they are not dealt with separately. The income from this source has contributed 29.22% of total income and Rs.56.74 per capita.

2.3.39. Recommendations:

Recommendations for improvement of existing source of income by revision of rates, simplification of procedures and better enforcement in respect of all items of Non-Tax Revenues made under the Municipal Corporations will apply to the Municipalities also.

2.3.40 Penalties and Fines:

The revised rates for penalties and fines adopted in Schedules VII and VIII of Tamil Nadu District Municipalities Act, 1920 are indicated in Appendix No.13 and 14. This will apply to Town Panchayats also.

2.3.41 D & O Trade Licences:

The revised maximum rates proposed for D & O Trade Licence Fee are given in Appendix No.12 A minimum percentage of levy to be enforced has also been indicated therein:

CHAPTER - 4

TOWN PANCHAYATS

2.4.1. Town Panchayats were, for the first time constituted, under the Tamil Nadu Panchayats Act 1958. They were among the constituents of the Panchayat Union Councils. The entire community development schemes implemented in early 60s were executed Town Panchayats also. The origin of Town Panchayats and their relative position in the previous Acts and how this nomenclature has adversely affected the Town Panchayats as well as Tamil Nadu in the allocation of resources made available to panchayats by the Government of India under various Employment oriented schemes have been dealt with in greater detail under the Part IV relating to ' "Organisation and Powers". It has also been explained that most of the Town Panchayats now in existence do not statisfy the ingredients prescribed for the upgradation of Village Panchayats as Town Panchayats. Most of them still do not have the Urban characteristics barring a few, who are also very weak financially. Once they become Town Panchayats they lose the assistance available to a Village Panchayat and they are also saddled with higher establishment expenditure.

2.4.2. The revenue sources now available to the Town Panchayats are based on Tamil Nadu Panchayats Act 1994 as detailed below.

1. House Tax
2. Profession Tax
3. Vehicle Tax
4. Tax on agricultural land for specific purposes.

2.4.3. The income from these sources in the years 1991-92 to 1993-94 is given below:

Table 2.35. Town Panchayats - Composition of Own Tax Revenues

(Rs. in Crores)

Own Taxes	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
House Tax	15.67	72.89	15.92	79.80	16.82	49.58
Water Tax	1.48	6.90	1.56	7.82	1.74	5.12
Profession Tax	4.04	18.77	2.12	10.64	14.89	43.87
Tax on Carriages & Animals	0.01	0.06	0.01	0.04	0.15	0.43
Tax on Carts/ Vehicles	0.06	0.27	0.06	0.29	0.06	0.17
Tax Agricultural Land	0.07	0.32	0.07	0.34	0.10	0.29
Pilgrim Tax	0.17	0.79	0.21	1.07	0.18	0.52
Own Tax :Total	21.50	100.00	19.95	100.00	33.94	100.00

House Tax:

2.4.4. The Town Panchayats levy house tax while the other urban local bodies levy property tax. The distinction in the ingredients between the Property tax and house tax is that the House Tax is levied only on the building and property tax is levied on the building and also on the land appurtenant to that building. The Property tax has components for services while House Tax does not have such components. Though the Town Panchayats have been brought under the 74th Constitutional Amendment Act and included under the District Municipalities Act 1920 as transitory area, they are allowed to continue the same taxes levied under the Tamil Nadu Panchayats Act 1994 till they switch over to taxation under the District Municipalities Act.

2.4.5. During the course of District sittings and also in the conference of the Executive Officers of Town Panchayats, views in favour of switching over to the municipal taxation was stressed. Though these institutions are considered as a transitional area between the rural and urban, they may be allowed to switch over to the municipal taxation, so that, when they are upgraded as Municipalities, there may not be difficulty in following all the taxation policies.

2.4.6. At present the House Tax does not have any service components and only those who have protected water supply schemes, levy water tax in addition to House Tax under Public Health Act. Under the property tax, components for various services like scavenging, lighting, water and drainage are included. In the case of Town Panchayats no education tax could be levied since they have no responsibility on primary education. A General Purpose property tax and a service tax consisting of water, drainage, lighting and scavenging can be levied by the Town Panchayats on par with the other urban local bodies.

2.4.7. At present the house tax is levied at a maximum of 20% on the Annual Rental Value or at 1% of the capital value per year. Most of the Town Panchayats have resorted to levy based on ARV. The rate of levy ranges from 5 to 20 %. The details of income from House Tax is given below:

Table 2.36 Town Panchayats - House Tax - No. of Assessees

	Assessees Nos. (In lakhs)	%in Nos.	Demand yield (Rs.in Crores)	Per centage
Residential	18.26	83.01	12.60	71.28
Non-Residential	3.57	16.23	4.11	23.25
State Government	0.16	0.70	0.91	5.14
Central Govt.	0.01	0.06	0.06	0.33
TOTAL	22.00	100.00	17.68	100.00

Exempted cases		Demand
Education	:	Rs. 1.01Crores
Charities	:	Rs. 0.40 Crores

2.4.8. The income from House tax ranged from Rs.15.42 crores to Rs.16.53 crores in the years 1991-92, 1992-93 and 1993-94, and contributed about 19.24% of the total income. The percentage of income has fallen down during the years 1992-93, 1993-94 (From 24.4% in the year 1991-92 to 21.9% in 1992-93 and 19% in 1993-94.) In terms of per capita the income ranges between Rs.18 and Rs.19. The per capita income from this source is very low. The income per assessee was as below:

Table 2.37 Town Panchayats - House Tax - Income per Assessee

Residential	:	Rs. 69.00
Non-Residential	:	Rs.115.13
Ratio	:	1:1.47

The tax on non residential should contribute at least two to three times the tax on residential. Hence there is scope for tapping from non-residential. The collection performance under this tax is very low and varies widely in the different grades of Town Panchayats from 54% to 69%. The tax yield is static without any substantial growth.

2.4.9. The tax administration in the Town Panchayats needs revamping. The reason for low performance is attributed to the ban on general revision for two decades . Though the ban has been lifted in Municipalities the Town Panchayats are still awaiting instructions. Sizable amounts have been lost due to non-revision for two decades, namely, 4 general revisions. It will be difficult to enforce the general revision based on the current value of the properties since it will lead to steep rise in the tax amount which will be resisted by tax payers. The views expressed during District sittings,the replies received to the questionnaires from public, VIPs and NGOs and opinion gathered through in-depth study, reveal that the local public are not unwilling for increase in tax. They prefer general revisions regularly and in a systematic manner. They are averse to the steep increase consequent to non revision for several years. This aspect was discussed by Damodaran Committee in 1990. The loss of income to Town Panchayat is due to the policy of Government. That committee recommended compensation in cases where such postponements are ordered by higher authorities. The Acts and Rules should be suitably amended to prohibit postponements The law should also be specific to the effect that compensation should be paid to the local bodies whenever any tax or cess or other levies of the local bodies are either waived or postponed by Government.

2.4.10. The main reform needed in Town Panchayats is to introduce property tax.Other reforms on assessment, levy, appeal, collection and distraint under Municipal Corporations/ Municipalities should apply to the Town Panchayats.

Tax rates which may be adopted by Town Panchayats. The General revision of taxes zone wise during the course of 3 years, instead of undertaking revision at the end of the 3rd year, has also been suggested based on experience of the Municipal Corporations like Chennai, Coimbatore and Madurai This and the other suggestions relating to Tax Tribunal, dispensing with demand notices, introduction of pass book system, collection through counters and banks, follow up of the defaulters through bill collectors, awarding of incentives to the tax collection payers for prompt and advance payments, introduction of incentive to the tax collection machinery made under Municipal Corporations may be made applicable to Town Panchayats also.

2.4.12. The percentage of components under the service tax may be examined in detail by the department keeping in mind the priority of the service within the maximum ceiling prescribed for the property tax The Government have prescribed in the Tamil Nadu Panchayats Act, the minimum and maximum level for House Tax but no such ceiling is available for the municipal bodies. A minimum of 15% per year may be prescribed including components for Town Panchayats. Those who levy already higher than the minimum will continue at that level and any reduction of rate should have approval of 'Inspector'. This tax can be divided into two components viz. general purpose and service tax as recommended under Municipal Corporations.

2.4.13. Recommendations:

The SFC recommends the following:

1. The main reform needed is to introduce property tax in Town Panchayats by switching over from the House Tax now levied under Tamil Nadu Panchayats Act, 1994.

2. All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/ Municipalities will apply to Town Panchayats also.

3. The Property tax at plinth area monthly rental value specifically proposed for Town Panchayats for various locations and furnished in Schedule in Appendix No. 11 may be adopted by Town Panchayats.

4. The General Revision of Property Tax in Town Panchayats may be taken up every year dividing the total area zone-wise on a cyclic system in three years instead of undertaking revision at one time at the end of the final year.

5. All recommendations relating to formation of Tax Tribunal, dispensing with demand notices, introduction of Pass Book system, collection through counters and banks, follow-up of the defaulters through bill collectors, awarding of incentives to tax payers for prompt and

collectors, awarding of incentives to tax payers for prompt and advance payment, introduction of bonus to collection staff who achieves higher percentage of collection as indicated under Municipal Corporations will apply to Town Panchayats also .

6. The components falling under the service tax (viz., part of Property Tax) may be examined in detail and fixed keeping in mind the priority of service in the Town Panchayats subject to the maximum ceiling prescribed for the property tax. However, at least 50 % of service tax may be made available for water supply.

7. A minimum of 15 % and maximum of 30% per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

Profession Tax:

2.4.14. The details of Profession Tax assessees in Town Panchayats are given below:

Table 2.38. Town Panchayats - Profession Tax - Details of Assessees

	No. of Assessees (In Lakhs)	Demand (Rs. in crores)
Salaried	2.89	6.02
Shops and Establishment	0.68	1.23
Companies	0.17	0.78
Banks	0.03	0.27
Other Professionals Consultants Lawyers and Medical Practitioners	0.88	0.51
Total	4.65	8.81

2.4.15. Profession Tax is levied in Town Panchayats on the same basis as in other local bodies viz., Corporations and Municipalities since the present enactment is common to all the Local bodies. There are about 3.77 lakhs assessees under the salaried class and about 0.88 lakhs assessees under the non-salaried sector of which professionals like Doctors, legal practitioners, consultants etc. account for 2.27% Town Panchayats derive about Rs.8.30 crores from salaried classes and Rs.0.51 crores from others. In terms of per capita the income from this source accounted for Rs.5 in 1991-92, Rs.2 in 1992-93 and Rs.17 in 1993-94 and in terms of percentage this source contibuted 6.4 % in 1991-92, 3% in 1992-93 and 17.1% in 1993-94 of the total income. The jump in revenue in 93-94 was due to the implementation of the new enactment of 1992.

2.4.16. Recommendation:

The SFC recommend the following:

All the recommendations made under Municipal Corporations will apply to Town Panchayats also.

Vehicles Tax:

2.4.17. The Town Panchayats levy Vehicles Tax under the Tamil Nadu Panchayats Act, 1994. When they switch over to the Municipal Act, they will be eligible to levy Tax on Animals and Carriages and Tax on Carts as envisaged under the District Municipalities Act. The Vehicles Tax has since been abolished by Government. The recommendations made under other Municipal bodies will be applicable to the Town Panchayats.

2.4.18. Recommendation:

The SFC recommend the following:

Vehicles Tax has since been abolished by the Government. The recommendations made under Municipal Corporations to cover two wheelers will be applicable to Town Panchayats also.

Tax on Agricultural and for Specific purposes:

2.4.19. The Town Panchayats are eligible to levy tax on agricultural land for specific purposes under the Tamil Nadu Panchayats Act, 1994. This tax was available even under the Tamil Nadu Panchayats Act, 1958. During the last 40 years, negligible number of Panchayats utilised the provision. Even with a matching grant provision the Town Panchayats have not exploited this source, Damodaran Committee (1990) discussed this and recommended modification of the provision by necessary amendment to enable levy of development charges on all assessees in the locality without specific reference to agricultural land. When the Town Panchayats switch over to the taxation under Municipal Act they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

Pilgrim/Tourist Tax:

2.4.20. The recommendations made under 'Municipal Corporations' may be extended to Town Panchayats also.

Assigned/Shared Revenues:

2.4.21. The details of Assignments/Shared Taxes available to Town Panchayats are as below:

Table No.2.39 Town Panchayats - ASSIGNED/SHARED REVENUES BY SOURCES
(Rs. in Crores)

Sources	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Surcharge on Stamp Duty	17.68	83.54	23.43	84.83	22.47	83.82
Surcharge on Sales tax	0.27	1.29	0.68	2.46	0.33	1.23
Local Cess	0.26	1.25	0.37	1.35	0.39	1.44
Entertainment Tax	2.85	13.47	3.05	11.05	3.54	13.21
Toll Compensation	0.01	0.07	0.03	0.13	0.03	0.11
Lease:						
Mines & Minerals	0.08	0.39	0.05	0.18	0.05	0.20
Shared revenue : Total	21.15	100.00	27.61	100.00	26.81	100.00

2.4.22. The assigned revenues available to Town Panchayats are the same as those that are available to the Municipal Corporations and Municipalities, viz., Entertainments Tax, Surcharge on Stamp Duty, Surcharge on Sales Tax, Income from minor minerals. No Toll compensation is however available to Town Panchayats. These items have already been discussed and the recommendations made in earlier chapters will be applicable to the Town Panchayats also.

2.4.23. Local Cess and Local Cess Surcharge under T.N.P.Act 1958 was levied in the Town Panchayat areas. Since the Town Panchayats now come under the Municipalities Act 1920 the revenue cannot be collected in these areas. Since these taxes were already in force in these areas, they may be continued by suitable amendments to the Municipal Act as suggested earlierunder Municipalities and proceeds of both LC and LCS passed on to Town Panchayats.

2.4.24. Recommendations:

The recommendations made under Municipal Corporations and Municipalities will be applicable to Town Panchayats also.

Grants:

2.4.25. The income from various grants available to Town Panchayats is given below:

Table 2.40 Town Panchayats - Details of Grants From State Government

(Rs. in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
For General Purpose	1.01	46.73	1.34	45.90	1.17	39.24
For Specific Purpose						
Roads	0.50	23.03	0.65	22.18	0.60	19.93
Public Health	0.22	10.11	0.37	12.51	0.20	6.71
Medical	0.01	0.48	0.01	0.20	0.01	0.47
Noon-Meal Centres	0.00	0.06	0.00	0.14	0.00	0.13
Education	0.02	0.87	0.03	1.14	0.32	10.86
Total specific purpose	0.75	34.55	1.06	36.18	1.13	38.11
Incentive Grants						
Small Savings incentive	0.01	0.44	0.05	1.95	0.15	5.11
House Tax Matching Grant	0.29	13.59	0.31	10.43	0.33	10.96
Total Incentive	0.30	14.03	0.36	12.38	0.48	16.07
Compensation Grants	0.10	4.69	0.16	5.54	0.20	6.59
Grants : Total	2.16	100.00	2.92	100.00	2.98	100.00

House Tax Matching Grant:

2.4.26. The Tamil Nadu Panchayats Act provides for grant to match the house tax collection in Village Panchayats. The Town Panchayats transferred from Kerala State to Tamil Nadu, are allowed the benefit of Matching Grant. All the other Town Panchayats in the State are claiming matching grant for the house tax This issue was discussed by Damodaran Committee, (1990) and recommendations were made that Village Panchayats upgraded as Grade II Town Panchayats, may be continued to be given such assistance till they improve finances. Since more than two-thirds of the Town Panchayats are having rural characteristics even now, and many of them are even at the verge of being downgraded as Village Panchayats, the assistance to the Town Panchayats by means of matching grant is found necessary for the following reasons:-

1. When the Village Panchayats are upgraded, they lose matching grant which was equivalent to house tax collection which formed a substantial revenue before upgradation.
2. With upgradation as Town Panchayat, a minimum level of managerial staff with an Executive Officer and secretarial assistance have to be provided. which increases the cost of administration.

2.4.27. Even before initiating steps to augment resources, the withdrawal of matching grant very much affects the financial condition of the upgraded Town Panchayats. The upgraded Town panchayats could be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of 3 years, by which time they should improve the financial condition. The Town Panchayats should in the meanwhile switch over to property tax applicable to Municipal bodies. The Government could however ensure to equalise the loss involved through a special per capita grant for a specific period after the period even after the period of three years. This needs amendment to District Municipalities Act 1920.

2.4.28. Recommendation:

The SFC recommends the following:

The Village Panchayats upgraded as Town Panchayats may be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of three years by which time, they should improve their financial condition. In the meantime, the Town Panchayats should switch over to Property Tax applicable to Municipal Bodies. The Government could however ensure the equalisation of loss involved by means of a special grant for a specific period wherever found necessary even after the period of 3 years. In the case of transferred territories from Kerala State, the matching grant may be continued since they were allowed to avail the assistance given by Kerala Government at the time of transfer.

Half Grant for Dustless Surfacing and Road Grant for improvement:

2.4.29. The Government provides ad hoc grant every year for improvement of the roads and also a 50 % grant for dustless surfacing of the roads in Town Panchayats. The quantum of allocation is very small and it can be distributed only to a few Town Panchayats, on reimbursement basis. Only such of those Town Panchayats which can afford to incur the expenditure in advance can avail the grant. It does not really help the Town Panchayats which are in dire need of such assistance Town Panchayats which are finding it difficult even to meet the payment of salary to staff, cannot think of availing this grant.

2.4.30. The Town Panchayats have been claiming a regular road grant. Necessary steps have been taken for taking into account the length of the roads available in all the local bodies, for the purpose of distribution of the share of Motor Vehicle Tax to the local bodies The distribution principles proposed by the SFC will take care of the requirements of all the Town Panchayats, based on performance and need.

2.4.31. Improvement of the roads can be taken under special schemes extended to Town Panchayats. The capital investment in local bodies is being dealt with separately in Part III of the report.

2.4.32. Recommendation:

The SFC Recommends the following:

1. Recommendations have been made for taking into account the length of the roads available in all the local bodies for the purpose of allocation of the share out of Motor Vehicles Tax to the divisible pool. The distribution principles recommended by SFC are expected to take care of the requirements of the Town Panchayats, based on performance and need.

2. The State Finance Commission recommends that improvement to roads can be taken up under special schemes formulated for Town Panchayats. The maintenance of the roads should be from out of own Revenue and distribution of funds from Government under Revenue Account.

Lighting Grant:

2.4.33. Weaker Town Panchayats are given ad hoc grants for lighting to enable them to meet the cost of electricity consumption charges. The SFC considers that Town Panchayats should be given assistance from Government to meet the current consumption charges on par with Village Panchayats. Recommendations made under Village Panchayats may be applied to Town Panchayats also. However, till such time the said recommendations are examined and implemented the lighting grant now given may be continued .

2.4.34. Recommendation:

The SFC recommends the following:

Pending decision on the recommendation for general distribution of share of tax revenue of State to Local Bodies the existing lighting grant may be continued.

Drainage Grant:

2.4.35. A two third grant for construction of drainage is now being sanctioned to Town Panchayats. The provision in value is very small. In view of the need for encouraging the Town Panchayats to take up such work, at least all the Town Panchayats in special and selection grades may be assured of a regular yearly grant on a matching basis. This

need has been examined by the Task Force on Norms and level of service and included in the investment need for five years in part III of the report.

2.4.36. Recommendation:

The SFC recommends the following:

The grant now available is paltry and not adequate. All the Town panchayats in Special and Selection Grades may be initially assured of a regular yearly grant on a matching basis for taking up drainage schemes.

Non - Tax Revenue:

2.4.37. The source of non-tax revenues in Town Panchayats are the same as available to Municipal Corporations and Municipalities. Various Recommendations indicated under Municipal Corporations will apply to Town Panchayats also.

2.4.38. The details of Non Tax Revenue sources and income derived are given below:

Table 2.41 Town Panchayat Non-Tax Revenue by Soruces (Rs. in Crores)

	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
D&OTrade Licence Fees	0.70	3.78	0.77	3.65	0.79	3.37
Encroachments fees	0.05	0.25	0.06	0.29	0.05	0.20
Building Licence fees	1.19	6.46	1.27	5.95	1.32	5.69
Tourist Bus fees	0.15	0.83	0.16	0.74	0.22	0.96
Fees from other services	1.02	5.54	1.22	5.73	1.42	6.11
Fairs and festivals	0.22	1.18	0.24	1.12	0.28	1.18
Total	**3.33**	**18.04**	**3.72**	**17.48**	**4.08**	**17.52**
Income from properties Lands & Buildings Parks	0.51	2.76	0.52	2.47	0.63	2.70
Avenue Trees produce	0.48	2.58	0.62	2.94	0.49	2.09
Markets	2.33	12.59	2.79	13.11	2.87	12.34
Shops/Shopping Complex	1.12	6.05	1.32	6.23	1.69	7.26
Slaughter houses	0.16	0.89	0.18	0.82	0.21	0.91
Bus/Cart & Vehicle stands	1.36	7.36	1.62	7.61	1.66	7.11
Pay & Use latrines	0.11	0.59	0.17	0.80	0.15	0.64
Income from other properties	1.28	6.95	1.65	7.78	1.58	6.78
Total	**7.35**	**39.77**	**8.87**	**41.76**	**9.28**	**39.83**
Income from special services						
Lighting	0.12	0.65	0.07	0.35	0.07	0.28
WaterSupply& Drainage	4.23	22.87	4.87	22.91	6.04	25.95
Medical Institutions	0.05	0.25	0.09	0.40	0.10	0.43
Sewage Farms	0.07	0.37	0.08	0.39	0.12	0.53
Sale:Rubbish,grab.,manure	0.07	0.39	0.07	0.32	0.06	0.26
Town Planning	0.05	0.26	0.05	0.24	0.04	0.19
Income from other services	0.08	0.43	0.09	0.42	0.09	0.40
Total	**4.67**	**25.23**	**5.32**	**25.02**	**6.52**	**28.03**
Miscellaneous receipt						
Income from investments	1.06	5.76	1.10	5.20	1.08	4.64
Interest from L.F.Deposits	0.13	0.68	0.12	0.57	0.13	0.56
Lapsed Deposits	0.21	1.11	0.23	1.07	0.27	1.14
Recov.Charges for services	0.05	0.25	0.08	0.36	0.08	0.34
Any other Miscellaneous	1.69	9.17	1.82	8.54	1.85	7.93
Total	**3.14**	**16.96**	**3.35**	**15.74**	**3.41**	**14.61**
Non Tax : Total	**18.49**	**100.00**	**21.26**	**100.00**	**23.29**	**100.00**

2.4.39. Recommendation:

The SFC recommend the following:

All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayat also.

CHAPTER - 5

RESOURCES OF RURAL LOCAL BODIES

PANCHAYAT UNIONS

2.5.1. The structure and the duties and responsibilities allocated to the Panchayat Unions are dealt with in detail under Part IV "Streamlining the Delivery Mechanism". The revenues available to the Panchayat Unions can be broadly classified under

1. Own Taxes
2. Assigned/Shared revenues
3. Grants (Statutory and Non-statutory) and
4. Other Miscellaneous Revenues.

They are discussed in detail hereunder:

2.5.2. **1. Own Taxes:** The only source of Own Tax relevant to PUs is Local Cess Surcharge. Section 168 of the Tamil Nadu Panchayats Act, 1994 empowers the Panchayat Unions to levy LCS at a minimum of Rs.5 and a maximum of Rs.10 on every rupee of land revenue. This is in addition to the Local Cess levied by the Government under Section 167 of the said Act. Under the Tamil Nadu Panchayats Act, 1958, the maximum levy of LCS was Rs.2.50 and it was enhanced in 1992 to Rs.5 (minimum) and Rs.10/- (maximum) and all the Panchayat Unions have switched over to the minimum rate of Rs.5/- from the year 1992.

2.5.3. Damodaran Committee (1990) which examined the question of enhancement of LCS had recommended only a maximum of Rs.3.50. In view of the higher rates now adopted, the potential for levy under this taxation has increased. The following figures of realisation under this source will indicate the growth of revenue:

Table - 2.42 Panchayat Unions - Own Tax Revenues

Year	Income (Rs.in crores)	Per capita (in rupees)	Percentage to total income
1989-90	12.86	3.96	6.26
1990-91	15.18	4.67	6.08
1991-92	9.55	2.94	3.65
1992-93	15.46	4.76	5.21
1993-94	21.24	6.53	5.48

2.5.4. Though the rate has been revised from 1993-94, the impact has not been fully reflected in 1993-94. The per capita income was Rs.2.15 in 1988-89; it has increased to Rs.3.96 in 1989-90 and to Rs.6.53 in 1993-94. The average per capita income worked out to Rs.4.57. This income contributed roughly 5 to 6 % of the total income of Panchayat Unions. The income exhibited in the Panchayat Union accounts does not reflect the actual collection but only the adjustments made out of the collection. Though the levy is made by Panchayat Unions, the collection is done by the Revenue Department.

2.5.5. A system of provisional advance payment and final adjustment after the Jamabandhi is in vogue for this purpose. Considerable delay is noticed in adjustments as could be seen from the figures given below and this has been pointed out even by Damodaran Committee (1990).

Table 2.43 Panchayat Unions - Adjustment of LC and LCS

Year	Collection of Land Revenue as per Govt. Accounts	LC and LCS due for adjustment *	Amount actually adjusted as per Accounts
		(Rs. in crores)	
1990-91	24.83	18.54	4.28
1991-92	27.64	20.64	2.44
1992-93	25.41	18.97	12.03
1993-94	43.13	32.21	9.73
1994-95	36.68	27.93	12.76

(* Worked out on the basis of G.O.Ms.No.836,RD & LA, dated: 7.6.82.)

2.5.6. This could be avoided by simplifying the procedure which has been discussed in subsequent paragraphs. The per capita income derived out of this source by Panchayat Unions category-wise is given below:

Table 2.44 Panchayat Unions - Percapita Income from LCS - Categorywise

Category	Per capita income in Rupees
I	13.06
II	6.78
III	5.38
IV	4.02
V	4.05
VI	2.77

There is wide variation among the income derived in Category I and other categories. Panchayat Unions having more than Rs.4 per capita of land revenue are classified as Category I and they comprise mostly of wet lands.

2.5.7. There is also wide variation among the Panchayat Unions within the same Category also. The potential of Panchayat Unions varies and hence equal realisation out of this tax is not possible. This is evident from the figures given under Maximum and Minimum per capita realisation under each category indicated below:

Table 2.45 Panchayat Unions - Measures of Variations in Per Capita Own Tax: Category-wise (In Rupees)

Measures/Category	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per capita Own Tax Revenue:Mean	13.06	6.78	5.38	4.02	4.05	2.77
Standard Deviation	12.60	6.69	4.60	3.81	6.27	2.61
Minimum	0.16	-1.15	0.00	0.00	0.00	0.00
Maximum	60.40	30.85	24.77	35.63	38.88	13.65
Coef. of Variation	96.48	98.67	85.50	94.78	154.81	94.22
PU>= Average	11	17	25	52	12	24

2.5.8. The categorisation of PUs based on per capita land revenue was introduced right from the inception (initially with four Categories and later on, with six Categories) to equalise the imbalances through higher Government assistance to the PUs in the lower Categories. In this context a matching-cum-incentive grant was introduced to enable the Panchayat Unions to levy a higher rate between the minimum and the maximum rates prescribed, and realise additional income by way of matching grant. The percentage of matching grant was related to rate of levy and collection. This aspect is discussed in more detail under " Grants".

2.5.9. Suggestions to increase the minimum to Rs.10 and the maximum to Rs.20 under LCS were made to State Finance Commission. The impact of levy of cess and surcharge over the land revenue on the agriculturists has been discussed in earlier Reports and in a more detailed manner by Damodaran Committee (1990). The land revenue is unpredictable and the collection of basic Land Revenue remains at Rs.5 to 6 crores for many decades. The successive governments have not considered any revision of land revenue. The collection of land revenue is often affected due to adverse seasonal conditions. The acceptability for this increase is very remote, especially when the policy of the Government is to give more relief and aids to agriculturists even at the existing level of taxation by way of subsidies. The SFC recommends to continue the existing minimum and maximum prescribed in the TNP Act 1994.

Existing Procedure for adjustment:

2.5.10. Further, the term "Land Revenue" covers a wide variety of assessments on land and under this head, the Revenue Department collects basic Land Revenue, water charges, additional water charges, miscellaneous revenues like penalty, encroachment fees and other items classified by the department. But the LC and LCS could be levied only on the basic Land Revenue. The maintenance of accounts for the demand and collection of LC and LCS is subject to the classification of components liable for LC and LCS by Revenue Department from time to time. The demand raised against the assessee is for one lump sum consisting of various components explained above. The collection made against the lump sum demand will have to be proportionately accounted for against each of the components included therein. The figures of collection will again depend upon the figures to be furnished by the Revenue officials at the Village and Taluk levels, after settlement in Jamabandhi. Thus the present system involves reference to Village and Taluk level accounts to ascertain the figures. The local bodies are not aware of either demand or the collection relating to LC and LCS and they have to depend only on the adjustments effected by the Department at the appropriate time as prescribed under the rules and executive instructions. The delay in adjustment referred to earlier in para 2.5.5. can be attributed to the delay in administration in the finalisation of the accounts and arriving at the amounts realised under the various components. At the inception of Panchayat Unions, to ensure predictability of income, a system of advance payment based on the average settled land revenue based on previous three normal Faslis (years) was adopted. It was expected that the average demand will take care of vagaries of monsoon and other adverse seasonal conditions. Even to ascertain the average for a particular year, there was difficulty for Development Department due to non-availability of figures of basic Land Revenue

Revised Procedure for Adjustment:

2.5.11. Damodaran Committee (1990) collected the figures of land revenue from the Collectors of Districts but found them to vary very widely with the expected State figures of Basic Land Revenue between Rs. 5 and 6 crores. With the help of the Commissioner of Revenue Administration, the figures were reconciled and the figures of land revenue so arrived at were utilised for the re-classification of Panchayat Unions. Adjustments based on the figures to be ascertained from the Revenue officials have caused considerable administrative delay. The system needs simplification to ensure predictability and easy adjustment. As the basic land revenue has not undergone any perceptible change for many years, an average land revenue can be arrived at, once in five years, and the said average land revenue could be adopted as the basis for all assignments and grants released during the course of 5 years without any relation to demand and collection. The average land revenue now worked out by the State Finance Commission for the purpose of arriving at revised classification of the blocks can be the basis for adjustments for the next five years. Certain reductions can be allowed to cover the deficiencies in collection which is very much fluctuating among the Districts. The

Government can decide to release 85 or 90% on the basis of the above mentioned average demand, without any further need for adjustment based on actual collections every year. Such a system will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that the actual collections do not fall below 85 or 90%. Similar suggestions were made by Damodaran Committee also in 1990.

2.5.12. Whenever there is waiver of land revenue on account of adverse seasonal conditions the local bodies are being requested to waive LC and LCS. In principle the Government have agreed that Panchayat Unions will be given compensation for such losses. The system of compensation has so far helped one or two districts, and that too, not in all the years of waiver. No compensation appears to have been made regularly all these years. If this only source of tax available to Panchayat Unions is also linked with land revenue for waiver, it will create total financial imbalance. Though there is force in giving remission to agriculturists, in view of the peculiar position of the local bodies, the loss due to the waiver should not be passed on to the local bodies.

2.5.13. The LCS should be credited to general funds only as required in the Act Provisions. The executive instructions directing remittance to education fund account may be withdrawn since there is no need for a separate Education account as at present. The maintenance of school building could be made compulsory by allocating a minimum percentage of its general revenue towards that.

2.5.14. A regular systematic review of adjustment of Revenues to Panchayat Unions by higher authorities viz., collectors/CRA may also be adopted to minimise delays at lower levels.

Alternative for Linkage to Land Revenue:

2.5.15. Damodaran Committee (1990) examined the question whether the linkage of land revenue for levy of LC and LCS could be eliminated and whether the levy can be made on the land holding instead of as a cess on the land revenue. This could not be examined in detail because of the necessity to study the possible impact of the levy on the land holdings as well as on the local bodies. This will also have to depend only on the revenue officials at the village level for the particulars and to update it every year. However, it will be equally difficult as in the case of land revenue, in view of the fact that the levy will be based on the area of holdings and the nature of land covered without requiring calculation over the various components of Land Revenue. SFC considers that no other alternative for linkage is available except the one indicated above. This needs detailed study after the collection of data relating to Land holdings from Revenue Department. The SFC recommends for further study on this aspect.

2.5.16. **Recommendations**

The SFC recommends the following:

1. The continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.

2. Adoption of the following procedure for adjustment of the revenue to Panchayat Unions: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., the revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.

3. While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.

4. The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from the General Fund itself.

5. A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.

6. Alternative suggestion to link the levy to land holdings instead of on Land Revenue may be studied further.

Land Revenue Reform:

2.5.17. Some reforms on the basis of levy of land revenue were suggested to SFC. . This study is beyond the purview of the SFC. However, SFC considers that suggestion may be brought to notice of the Government. The suggestions are based on the presumptive levy on agricultural income at current day yield and basic floor rates for crops specific levy.

ASSIGNED / SHARED REVENUE

2.5.18. The following are available to Panchayat Unions as assigned/shared revenues:

1. Local cess under sec. 167 of the Tamil Nadu Panchayats Act.

2. Entertainment Tax levied under the Tamil Nadu Entertainments Tax Act.

3. Seigniorage fees collected by the Geology and Mines Department on minor minerals in the areas of the local bodies concerned.

The income from the above sources in the last 5 years as obtained by SFC is given hereunder.

Table 2.46 Panchayat Unions - Income from Assigned/Shared Revenues by Sources

(Amount Rs.in crores)

TAX YEAR	LOCAL CESS		ENTERTAIN-MENT TAX		MINES & MINERALS		TOTAL	
	Amount	%	Amount	%	Amount	%	Amount	Percapita (In Rs)
1989-90	1.87	28.48	4.50	68.73	0.18	2.79	6.55	2.02
1990-91	3.12	35.55	5.05	57.53	0.61	6.92	8.78	2.70
1991-92	1.71	24.36	4.67	66.68	0.63	8.96	7.01	2.16
1992-93	2.76	32.84	5.04	59.93	0.61	7.23	8.41	2.59
1993-94	3.74	38.59	5.36	55.20	0.60	6.20	9.70	2.99
5years Average	2.64	32.63	4.92	60.87	0.53	6.50	8.09	2.49

2.5.19. The per capita average income from Assigned / Shared Revenues category wise and the variation in realisation observed within each category could be seen below:

Table 2.47 Panchayat Unions - Measures of Variations in Per Capita shared Revenue Category wise 1993-94 (Per Capita in Rs.)

Measures	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per Capita Shared Revenue:Mean	4.98	3.12	2.96	1.96	2.29	3.10
Standard Deviation	6.90	2.48	2.38	1.67	3.54	3.61
Minimum	0.26	0.00	0.39	0.00	0.00	0.00
Maximum	36.72	12.73	10.38	12.40	24.54	21.66
Coef.of variation	138.55	79.49	80.41	85.20	154.59	116.45
PUs>=Average	9	14	21	51	10	20

2.5.20. The details of the revenues are examined below:

1. LOCAL CESS: Local Cess was levied at 45 Paise per rupee of land revenue under the Tamil Nadu Panchayats Act 1958. This levy was a combination of various cesses collected at the time of the abolition of the District Boards and the creation of Panchayat Unions. Since the rate was in force for decades, Damodaran Committee (1990) suggested an increase from 45 Paise to Re.1 per rupee of land revenue. The Government have amended the Tamil Nadu Panchayats Act 1958 suitably in 1992 and have increased the levy to Re.1/- per rupee of land revenue. The Tamil Nadu Panchayats Act, 1958 envisaged the distribution of 45 Paise collected as below:

i. 4/9th of local cess to Elementary Education account of PUs.

ii. 2/9th of local cess collected in Town Panchayat areas to the con cerned Town Panchayats.

iii. Not less than 20 Paise per capita to Village Panchayats.

iv. Balance to the General Fund of Panchayat Unions.

The amended Act 1992 and rules issued in G.O.Ms.No.106, R.D., Dated: 20.5.93 provided for a specific method of distribution as below:

i. 20% to Education Account
ii. 75% of proceeds in Village and Town Panchayats to the respective panchayats
iii. 5% to Panchayat Unions

2.5.21. However the new Act of 1994 has indicated an enabling provision to ensure that 20% of the proceeds to be transferred to Education account and the balance to be credited to Panchayat Unions. Under the enabling provision in section 169 of the Act, suitable rules have to be issued for adjustment of this amount to Village Panchayats, Panchayat Union Councils, and District Panchayats. No rules have been issued so far. No amount is collectable and transferable to Town Panchayats under the new Act of 1994 as they have been taken out of Panchayat Development area. The distribution to village panchayats and Education Account is continued on the basis of earlier amended enactment of 1992 pending issue of rules under the Tamil Nadu Panchayats Act 1994. Section 169 also contains an enabling provision for deduction of expenses incurred by the Government in the collection of the cess but no deduction has been given effect to. According to the rules, now in force the Panchayat Unions are eligible to retain 25% including the distribution to Elementary Education Account of 20%. This would mean that out of one rupee collected, Panchayat Unions will be eligible to keep 25 Paise including the education account while the Panchayats will get 75 Paise. The total income from this source to Panchayat Unions works out to less than about Re.0.50 per capita and average per Panchayat Union works out to about Rs.0.35.

2.5.22. The apportionment among the Panchayats and Panchayat Unions was previously prescribed based on proportion of cess levied by the then District Boards, Village Panchayats and by Government under Elementary Education Act. The Panchayat Unions were levying LCS only at 25 Paise then, which was later on raised with a ceiling of Rs.2.50. Now a minimum of Rs. 5 and a maximum of Rs.10 have been prescribed under LCS and all Panchayat Unions have levied the minimum of Rs.5. Thereby the income of Panchayat Unions has doubled. The LCS Matching Grant will also bring additional income. Except for maintenance of Elementary Education buildings, there is no other function necessitating the maintenance of a separate Education Fund with 20% distribution. This maintenance aspect could be taken care of by Panchayat Unions from their General Fund.

2.5.23. The SFC considers different options for adjustment of LC in future as below:

i. the entire LC could be passed on to Village Panchayats, in view of the sizable increase of income under LCS to Panchayat Unions.

ii. The apportionment of the 25% LC available to Panchayat Unions in each District to the District Panchayats concerned.

iii. 25% of LC available to Panchayat Unions may be pooled at State level for distribution to District Panchayats on a formula basis.

2.5.24. The difficulties relating to levy demand, collection and adjustment explained earlier in respect of LCS equally applys to Local Cess also, since the figures have to be obtained only from the Revenue officials. Suggestions made by SFC for easy

and regular adjustment of LCS based on average Land Revenue may be adopted for this levy also. Local Cess due to Village Panchayats may be directly credited to VPC fund instead of routing through Panchayat Union general fund to avoid delay in adjustment.

2.5.25. Recommendations

The SFC recommends the following options for apportionment of Local Cess:

1.i. The entire LCmay be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.

ii. Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.

iii. 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.

2. Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.

3. Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

Entertainments Tax:

2.5.26. i. The Government allocates 60% of Entertainment tax collection in Panchayat Union areas to the Panchayat Unions, of which 30% is to be adjusted to the concerned Village Panchayat where the theatre is located. Representations were made during Conferences and District Sittings that the share due to local bodies may be increased to 90%. At the same time, there was also a plea that the share of Village Panchayats should also be increased. In this context, the origin for the sharing has to be considered. Proceeds of Entertainments Tax was earmarked to Village Panchayats. The Panchayat Unions were permitted to levy Surcharge on Entertainments and Show Taxes under the Local Authorities Finances Act, 1961 and this portion of amount was due to Panchayat Unions. An additional surcharge on Entertainments Tax and Show Tax was levied by the Government to be retained by the Government. While compounding all the components, the share due to the various agencies was reported to have been fixed on the basis of the income then derived in the ratio of 40:30:30. This would mean that 40% of the collections went to the Government inclusive of 10% collection charges normally retained, while 30% went to Panchayats and another 30% went to Panchayat Unions. The legitimate claim of the Panchayat Unions for a share in the compounded tax is to spread the tax benefit to the entire area of Panchayat Unions. In the circumstances,

there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions in relation to this revenue especially when the Panchayat Unions do not have any other source to depend. This being a local taxation earmarked by Local Finance Taxation Enquiry Commission 1953-54, the retaining of a share to the Government may not be fair and the total revenue can be passed on to the local bodies, in which case the revenue can be divided between the Panchayat Unions and Panchayats in the ratio of 30:70.

Procedure for Adjustment:

ii. During the discussions with officials of the Commercial Taxes Department it was understood that delay in adjustment to local bodies was due to constraints in budget allocations since this apportionment is regulated by budget allocation under "Compensation and assignments". In the case of LCS, Surcharge on Stamp duty, Mines and minerals, the apportionment due to Local Bodies is exhibited as "Deduct Refunds" under the respective Revenue Head. Similary the apportionment due to Local bodies under this revenue may also be exhibied as "Deduct Refunds" under the revenue head relating to Entertainment Tax which will facilitate adjustment without budget allocation This being the revenue due to Local body it should not get into State Taxes. There can be no objection to this procedure, since similar procedure is already in vogue in respect of other assigned revenues payable to Local Bodies.

iii. The amount due to Village Panchayats/ Panchayat Unions can be credited direct to /V.P.C./Panchayat Union General funds separately instead of adjusting the total amount to General fund of Panchayat Unions to avoid delay in adjustment to Village Panchayats.

2.5.27. Recommendations

1. The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.

2. This tax has been earmarked as a local taxation by Local Finance axation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.

3. The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The

SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

Mines and Minerals:

2.5.28. Leasing of minor minerals is done by State Government, while the major minerals are controlled by the Central Government. In the case of minor minerals, leases are granted through tender/auction system by the officials of the Revenue Department. Minor minerals generally consist of sand, clay, quarries of metal jellies and black granite. The amount realised by tender/auction is earmarked for being entirely passed on to Panchayat Unions for sharing between Panchayat Unions and Panchayats at the ratio of 50:50.

2.5.29. During the discussion with the Department of Geology and Mines, it was undersood that annually about Rs.30 crores are collected for minor minerals, excluding granite and another sum of Rs.30 crores towards black granite. Collection from black granite has not yet been distributed to local bodies, pending determination of method of distribution benefiting place of origin and others. The other Rs.30 crores are stated to be distributed as per orders issued in G.O.Ms.No.170, RD & LA, Dated 6.3.89. But, on a perusal of the figures of adjustment made during the years 1991-92 to 1994-95 in the State Accounts and also with reference to figures furnished by local bodies, not more than Rs.2 crores have been adjusted in any one year as against the amount of Rs.30 crores due to the local bodies. This could be seen from the figures given below:

Table 2.48 Panchayat Unions - Mines and Minerals - Adjustment Details

(Rs. in Crores)

	Revenues as per Govt. Acts	Adjustment as per Govt. Acts
1990-91	66.62	2.00
1991-92	24.65	0.72
1992-93	62.82	0.65
1993-94	53.36	1.32
1994-95	63.12	0.55

2.5.30. Prior to 1989 there was difficulty in adjustment due to procedural changes indicated in G.O.Ms.No.834, RD & LA, dated 7.6.82 and it has already been sorted out in G.O.Ms.No.170, RD & LA Dated 6.3.89. Still there seems to be inordinate delay in adjustment of huge amounts. The amount has to be adjusted only at the District level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector concerned and there are no budget constraints. This income will form a major revenue to the local bodies. The arrears adjustable to local bodies will be on an average more than Rs. 25 crores per year which will amount to more than Rs.125 crores over the

period of last five years. The SFC considers that the arrears due could be adjusted immediately by District Officials. The simplification of procedure is needed to avoid such delays.

Simplefication of Procedure:

2.5.31. The Departmental Representatives have, during the discussion with SFC, have indicated that there will be no difficulty in adjusting the amount directly when the leases are finalised, normally in the month of June of every year. The Collectors should ensure adjustments of amounts in respect of all those cases where confirmation is ordered, immediately after such confirmation of leases. This could be achieved by including a condition in the orders to be issued confirming the leases, directing the party concerned to make simultaneous remittance of the amount in the local body (Panchayat Union Council) and produce receipts before issue of permission to quarry. The local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence / permit and bring to notice the excess exploitation, if any.

2.5.32. The adjustment of income from this source should be made available to LB concerned whether it is Rural or Urban. Regarding Granites there have been representations that though large money is realised by way of exports the local body is not benefited in any way. The revenue collected from Granite appears to be too low compared to its marketing potential and the Government may fix higher rates taking export potential. The amount may be distributed to local bodies of origin (whether Rural or Urban) at 50% and 50% may be retained at State as divisible incentive fund for Distribution on the principles evolved by SFC. In the case of major minerals, 25% of the Royalty received by the State Government may be assigned to the Local bodies. Of this, 50% may be adjusted to local body of origin and the balance taken to the incentive fund at State level for distribution.

2.5.33. Recommendations

The SFC recommends the following:

1. Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.

2. The following simplified procedure to ensure prompt adjustment to Local Bodies:

2.5.34. The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any. The revenue collected on granite appears to be very low compared to its export potentiality.. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to incentive fund for distribution on the principles evolved by SFC. The respective administrative Heads will distribute to the Local Bodies this amount. In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund as mentioned earlier.

Non Tax Revemies:

2.5.35. This source contributes 5 to 7% of the total income and it works out to Rs.5 to Rs.7 per capita. The details of item wise Receipt for five years are furnished hereunder.

Table 2.49 Panchayat Unions - Non-Tax Revenues (Amount Rs.in crores)

Per capita in Rs.

	1989-90		1990-91		1991-92		1992-93		1993-94	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1.Fees & fairs	3.68	24.55	3.86	23.47	4.38	23.92	4.88	24.21	5.65	25.39
2.Receipt from properties	3.20	21.32	4.41	26.82	3.92	21.37	5.66	28.09	5.16	23.19
3.Receipt from Special services	1.16	7.76	1.07	6.53	1.85	10.09	1.69	8.36	1.51	6.76
4.Other Misella-neous Revenues	6.96	46.37	7.10	43.18	8.17	44.62	7.94	39.34	9.94	44.66
Total	15.00	100.00	16.44	100.00	18.32	100.00	20.17	100.00	22.26	100.00
Percapita Total income	**4.62**		**5.06**		**5.64**		**6.21**		**6.85**	

Most of the Non-Tax revenues in Rural areas relate to the Panchayats and there appears no scope for Panchayat Unions to increase the revenue under this item, except under Social forestry ,and by opening of Panchayat Union markets and shandies or Kalyana Mandapams. The Panchayat Unions will be eligible only for a share in the income from Market/Shandy as the local panchayat in whose area the market is situated will be eligible for a share.

Grants - in Aid :

2.5.36. The Panchayat Unions were constituted mainly to be the implementing agencies for various development programmes,in the Panchayat Development Blocks, which were earlier implemented in Community Development Blocks through Government. They were requested also to take care of a few common programmes like Maternity centres, dispensaries, Elementary Education, Health protection which were earlier with the District Boards. These programmes were implemented in the entire area of Panchayat Union consisting of village and town panchayats. The very creation of Panchayat Union envisaged major Revenues by way of assignments and grants from the Government, allocated for the respective economic Development programmes under the plan and non-plan provisions of the State Government. The Panchayats were designed to look after civic amenities while the Panchayat Unions were expected to play a vital role and as a fulcrum to implement the socio-economic programmes formulated by Government. In fact the Panchayat Unions had extension officers from various Departments like Agriculture, Animal Husbandry, Co-operation, Industries, etc. It was only in late 80s that these schemes were slowly taken over by the line departments whereby the Panchayat Union was reduced to the level of a government department, ultimately acting as agency for employment oriented programmes now being implemented. It is therefore no wonder that the Panchayat Unions derived their income mostly from grants which are classified as statutory and non-statutory.

2.5.37. The details of Government grants for Revenue items for a period of five years from 1989-90 to 1993-94 are furnished in the statement at Appendix No.82.

2.5.38. The income (total and Per capita) from Grants for five years and the variations in minimum and maximum grant received, category -wise for both statutory and non-statutory grants are given in the Tables below:

Table 2.50 Panchayat Union - Grant-in-aid for 1989-90 to 1993-94

Year	Amount (Rs.in crores)	Percapita (In Rs.)	Percentage to total income
1989-90	170.02	52.31	82.78
1990-91	207.79	63.94	83.20
1991-92	225.91	69.51	86.33
1992-93	251.34	77.34	84.78
1993-94	327.60	108.80	84.58

Table 2.51 Panchayat Unions - Average Per Capita Income from Statutory and Non Statutory Grants with Minimum and Maximum

Category	Average- Statutory	Percapita Non statutory	Minimum Statutory	-Percapita Non statutory	Per capita in Rs. Maximum Statutory	-Percapita Non Statutory
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	21.92	64.93	2.34	28.68	115.43	166.40
II	13.10	64.29	—	24.04	37.24	193.14
III	11.36	72.96	3.09	25.64	59.59	161.50
IV	8.86	68.21	—	10.56	46.26	199.75
V	9.67	73.83	—	16.42	95.25	326.05
VI	7.40	64.82	—	5.25	33.40	163.64

Statutory Grants:

2.5.39. Section 180 of the Tamil Nadu Panchayats Act 1994 provides for statutory grants to match the collection of Local cess surcharge. Section 182 provides for a Local roads grant based partly on population and partly on the length of roads. These two statutory grants contributed Rs.7 to Rs.15 per capita and accounted for 11 to 14% of the total income.

Local Cess Surcharge Matching Grant:

2.5.40. Section 180 of Tamil Nadu Panchayats Act 1994 provides for sanction of local cess surcharge matching grant on the proceeds of LCS. For the purpose of sanctioning of such grants, the Panchayat Development Blocks are classified as they are to be reclassified once in five years as laid down in Section 181. This provision also permits sanction of grants at varying rates for the different classes of development blocks. This provision was adopted from 1958 Act.

2.5.41. A classification of blocks is available on the basis of per capita land revenue. Since LR is the basis for the own resources of Panchayat Unions, this has been adopted as basis. Reclassification of blocks has been examined in detail in the Part 4 on "Organisation and Powers". The SFC has recommended the continuance of the present basis and method of classification and that the classification of six categories already done will continue to be operative.

2.5.42. A statement arriving at the LCS Matching Grant now payable by Government for the different categories of blocks is given in table below. Though the latest figures of land revenue of the Panchayat Unions have been obtained from Taluk Officials , they needed reconciliation as the basic land revenue of the State as per these

figures amounted to Rs.9.97 crores a year. This appears to be high when compared to the basic LR reconciled by Damodaran Committee (1990). There is no scope for increase in basic LR. The present commitment on LCS Matching Grant given in the statement has therefore been based on Average basic LR adopted by Damodaran Committee pending reconciliation of figures now collected. Since revised rates for the grants for levy between Rs.5-10 have not been prescribed, the grant due for the maximum rate of Rs.2.50 which was in force, is now being adopted for release. So also the population figures are based on 1981 census inclusive of Town Panchayat area. A Statement of existing commitments to Government has been worked out and furnished in the Table No.2.52 at page 170.

2.5.43. The objective of higher assistance for lower categories and higher weightage to higher levy, envisaged by the formula, has not been achieved. This has also been commented by the Damodaran Committee. That Committee, found out that the formula has contributed for wide variation in the Government assistance to IcategoriesIV to VI . The per capita income of LCS itself varied from Rs.8.82 (for category I) to Rs.1.78 (for category VI.) Hence this variation could not be reduced since it was not practical to reduce rate of assistance already in existence to higher categories. The increase in ratio of assistance to lower categories enhanced the commitment of Government considerably. That Committee, therefore, suggested a special per capita grant to equalise the difference in per capita income arising out of the formula for categories IV to VI.

2.5.44. The amount payable adopting the formula admissible for levy of Rs.2.50, for the LCS realised at Rs.5 works out to Rs. 42.97 crores. If higher ratio is to be adopted, the commitment of the Government will increase considerably. The revised formula proposed for adoption as well as the commitment thereon to the Government is given in Appendix No.15.

The SFC emphasises the need for this grant since this will be an incentive for the Panchayat Unions to move to higher rate of Levy. While general principles for distribution of Government allocations are proposed, this has been taken care of by providing a separate reserve to meet equalisation of deficiencies on general devolution and also the incentive grants now available.

Local Roads Grant:

2.5.45. Local Roads Grant is also a statutory grant admissible to Panchayat Unions under Section 182 of the Tamil Nadu Panchayats Act 1994. The grant was originally paid at 40 paise per capita at the inception of the Panchayat Unions. This was in lieu of the toll collected by District Boards and abolished by the introduction of Motor Vehicles Taxation Act in 1931. From 1970-71, the basis was modified to cover population and also the length of roads.(at 18 paise per capita and at different rates per kilometre as worked out by the the Chief Engineer, Highways from time to time with special reference to the

terrain, namely, coastal, deltaic, hilly and ordinary) The existing rates for length of roads which are in force from 1981 have not been revised. The Government, however, sanctioned grant based on the norms and also additional ad-hoc grant on pro-rata basis. The Damodaran Committee (1990) examined the formula adopted and recommended the norms for maintenance based on the surface cadre of various types of roads in consulatation with Highways and Rural Works Department. The formula for LRG is even now based on Tracts (Terrain). This basis may be changed and the grant related to surface of the Roads. Highways Department has indicated the current rates for maintenance of the various types of roads in Village Panchayat and Panchayat Union area. The amount needed for maintenance of Panchayat Union roads on normative level has been arrived at with suitable addition for inflation. The amount has been worked out and projected for 1997-98 at Rs.103.30 Crores.

2.5.46. As against this the Government provides Rs.20 Crores a year.(from 1996-97). The sharing of Motor Vehicle Tax has been discussed under Municipal Corporations. An allocation of 40% of Motor Vehicles Tax has been suggested to be earmarked to local bodies considering the nature, type and level of maintenance of Government roads. The amount is included in the divisible pool for distribution among local bodies. There will be no separate LRG after such distribution is adopted . Till then the existing grant may continue.

2.5.47. Recommendations

The SFC recommends the following:

1. The SFC considers that decision will have to be taken on the revised formula for LCS Matching Grant applicable to the rates of levy of LCS from Rs. 5 to 10 as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption. The amount needed will be met out by the Equalisation and Incentive Fund indicated in Part V of the Report.

i. The formula for LRG is based on Tracts (Terrains). This may be changed and the rates related to surface of the roads as per the latest rates indicated by CE(HW&RW) to the State Finance Commission. The LRG may be continued on the existing principle of population and length of roads. The rate for length of roads may be adopted at the revised rates indicated by CE (HW&RW).

ii. The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways and Rural Works Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.

iii. Since the share on MVT is proposed to be taken to the divisible pool for distribution, no separate Local Roads Grant may be made thereafter. Till then the grant may continue.

Non-Statutory Grants:

2.5.48. Panchayat Unions are in receipt of various Non Statutory Grants as below:-

1. Grants for Maternity Centres
2. Grants for maintenance of Dispensaries
3. Development Grants like Village Work Grants (Rural water supply, Link roads and school buildings)

2.5.49. There are other types of grants, namely, Women and Children Welfare Grant, and Social Education Grant. In addition, they are now sanctioned various plan grants under Centrally Sponsored Schemes namely:

1. Jawahar Velai Vaippu Thittam
2. I.J.V.V.T. (Intensive Jawahar Velai Vaippu Thittam)
3. Employment Assurance Scheme
4. MP Local Area Development Scheme
5. Central Rural Sanitation Scheme
6. Decentralised District Plan

They are dealt with hereunder:

Grants for Maintenance of Maternity Centres:

2.5.50. The Panchayat Unions have been entrusted statutorily with the duties of opening and maintenance of Maternity Centres and also Dispensaries. The opening of Maternity Centres is linked with the national policy of population criteria for providing multi-purpose centres. This aspect is now under the control of Health and Family Welfare Department. The Government have taken over the Maternity Centres maintained by Panchayat Unions. However, the Panchayat Unions have been required to meet the payment of salary of Ayahs. Panchayat Unions do not have any other role in the functioning of the Maternity Centres. Under the 73rd Amendment to the Constitution, the maintenance of Maternity Centres and other health programmes have to be entrusted to the Rural Local Bodies and the matter is separately dealt with. If any transfer is to be made to the Local Body, the funds as well as the functionaries will be placed at the disposal of the appropriate level of local body. The question of meeting the salary of Ayahs alone (who form a diminishing category) has been objected to by representatives of Local bodies. 2/3rd assistance by way of Grant is given from the Government for this purpose (Rs.2.60 crores a year). The commitment of Government on the remaining 1/3rd will be only Rs. 1.30 crores. In view of the practical difficulties involved in absorbing these staff,

they are allowed to be under Panchayat Unions. The Government could reimburse the entire cost of the Ayas to Panchayat Unions as grant and continue them as Panchayat Union Staff till they retire, pending decision on the subject to be covered by devolution of functions.

2.5.51. Recommendation:

The SFC recommends the following:

Grant for maintenance of Maternity Centres: The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service,or until the subject is decided under devolution of functions.

Grant for Maintenance of Dispensaries:

2.5.52. The dispensaries maintained by the District Boards were handed over to the Panchayat Unions as successor body. At the initial stages the Panchayat Unions were also encouraged to open dispensaries in their area in addition to the Primary Health Centres located in their areas. The Government assured in sixties a 50% grant for the maintenance of one dispensary in a Panchayat Union, but however limited the maximum of grant to between Rs.5000 and Rs.5400. This limit was based on the level of expenditure in the year 1960. The ceiling is still in existence. This grant is available only to a few Panchayat Unions. Now the Panchayat Unions are not allowed to open new dispensaries Many of the Panchayat Unions having dispensaries are finding it difficult to maintain them. Apart from the non-availability of doctor or para-medical staff, non availability of adequate medicine contributes to the ineffective working of dispensaries. The implementation of this programme is also related to the entrustment based on 11th Schedule to the 73rd Amendment of the Constitution, and pending decision, the existing dispensaries could be continued by the Panchayat Unions with grant for meeting the full cost of maintenance. Similarly, there are Rural dispensaries functioning on contract basis in which the Doctors/ paramedical staff are paid subsidy. The subsidy fixed is stated to be inadequate and the dispensaries are therefore not functioning regularly The Government may consider the need for continuance of such Rural dispensaries which were formed in the days of District Board when there were no medical facilities in rural areas. This could be privatised by permitting the local Doctors who are willing, to use the building. The working of the dispensaries in Panchayat Unions needs examination.

2.5.53. Recommendation :

The SFC recommends the following:

Grant for maintenance of dispensaries:

1. The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.

2. The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas

3. Rural Dispensaries could be privatised by permitting local willing doctors to use the building.

4. The working of the dispensaries in PUs needs examination.

Irrigation Grant:

2.5.54. The minor irrigation tanks with less than 100 acres of ayacut have been transferred to the control of Panchayat Unions. The Government agreed to provide a grant equivalent to annual requirement of maintenance based on the allocations to be worked out by the Collector following a five year cycle system. Due to paucity of funds, meagre allocations are made in the State budget. However with the allocations available under various Employment Programmes and also in drought relief schemes, standardisation as well as major repairs to the tanks are being attended to by Government. The Panchayat Union is not expected to meet any expenditure from its funds. The maintenance will depend on the availability of grant from Government. Since this comes under discretionary and non-statutory functions which depends on Government grant, the Panchayat Unions are not able to predict and plan the works. A regular system of repairs has to be ensured with a predictable level of yearly maintenance grant for a period of five years.

2.5.55. Recommendation:

The SFC recommends the following:

A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

Development Grants:

2.5.56. The Village Works Grant (viz. link roads, water supply and school buildings) and grant for Animal Husbandry Fisheries envisaged under community development programmes are not now in force. Ad hoc grants for specific schemes are given and there is no regular flow of funds. Special schemes for Rural Water Supply are being taken up through aided schemes of State and Centre through TWAD Board with full assistance in Village Panchayats, Ad hoc yearly grant is given for the maintenance of hand pumps and power pumps in villages through Panchayat Unions to meet the cost of repairs. A re-look of entire water supply programmes may be taken up and a regular system for making good deficiency in water supply with powers to appropriate authorities may be evolved.

Centrally Sponsored Employment Programmes:

2.5.57. There are about six different programmes with Central aid with dual objectives viz., area development and rural employment. But each scheme has its own norms and guidelines. The infrastructure to be created is also indicated in guidelines. They do not cover all the infrastructure comprised in the civic services. A few, like roads and water supply, drainage are covered under this scheme. This is more a capital investment programme with 100% assistance by Centre/ State implemented through Panchayat Unions. The role of State Finance Commission is limited to maintenance of the assets created and handed over to the local body. The development grants are in the nature of discretionary ones and they can neither be predicted nor insisted.

2.5.58. Two more non-statutory Grants, viz. Women and Children Welfare Grant and Social Welfare Grant, Noon Meals grant are sanctioned to Panchayat Unions and the allocation is very negligible. These programmes which are in vogue are based on certain model programmes indicated by the concerned administrative departments. These schemes may be re-examined as a part of devolution.

2.5.59. Recommendations

The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

Table . 2.52 (para 2.5.42 at page 164)

Statement showing the category wise land Revenue, Local cess and Local cess surcharge and Local cess surcharge Matching Grant Admissible for LCS at Rs.250 and Rs.5 at the existing pattern of Assistance

(Amout and Population in Lakhs) **(Per capita in Rupees)**

Existing Category	Population	Land Revenue		Local cess		LCS @ Rs.5/-		LCS @ Rs.2.50		% of LCSMG.	LCSMG at existing rate for levy of Rs.5		LCSMG for levy of Rs.2.50	
		Amt	Per capita	Amt	Per capita	Amt	Per capita	Amt	Per capita		Amt	per capita	Amt	per capita
I	34.75	130.54	3.76	130.54	3.76	652.70	18.80	326.35	9.39	(125)	815.88	23.48	407.94	11.74
II	30.93	72.40	2.34	72.40	2.34	362.00	11.70	181.00	5.85	(140)	506.80	16.39	253.40	8.19
III	52.74	99.86	1.89	99.86	1.89	499.30	9.45	249.65	4.73	(155)	773.92	14.67	386.96	7.34
IV	116.83	151.76	1.29	151.76	1.29	758.80	6.45	379.40	3.24	(170)	1289.96	11.04	644.98	5.52
V	37.61	47.28	1.26	47.28	1.26	236.40	6.30	118.20	3.14	(185)	437.34	11.63	218.67	5.81
VI	52.14	47.39	0.91	47.39	0.91	236.95	4.55	118.48	4.22	(200)	473.90	9.09	236.96	4.54
*	**325.00**	**549.23**	**1.68**	**549.23**	**1.68**	**2746.15**	**8.45**	**1373.08**	**4.22**		**4296.80**	**13.22**	**2148.91**	**6.61**

Notes:

1. Population according to Damodaran Committee is 366.30 lakhs - Since Town Panchayats have been taken to Municipalities Act, Rural Population is reduced.

2. Land Revenue figures adopted, are based on land revenue compiled by Damodaran Committe which includes landrevenue pertinent to Town Panchayat area, pending reconciliation of latest land revenue figures of panchayat unions (Excluding Town Panchayat Area)

CHAPTER - 6

VILLAGE PANCHAYATS

2.6.1. The following are the resources by way of taxes to the Village Panchayats:

(a) House Tax
(b) Profession Tax
(c) Vehicle Tax
(d) Tax on Agricultural Land for specific purpose
(e) Pilgrim Tax
(f) Water Tax

2.6.2. The composition of Own Tax Revenues for a period of five years from 1989-90 to 1993-94 is furnished hereunder.

Table 2.53. Village Panchayats - Composition of Own Tax Revenues

(Rs. in crores)

	1989-90	1990-91	1991-92	1992-93	1993-94	AVG.
House Tax	6.35	7.11	7.15	7.82	8.62	7.42
	(74.08)	(75.55)	(76.53)	(74.59)	(50.89)	(67.67)
Library Cess	0.58	0.33	0.33	0.58	0.68	0.50
	(6.82)	(3.48)	(3.50)	(5.54)	(4.02)	(4.57)
Water Tax	0.32	0.67	0.63	0.60	0.74	0.59
	(3.72)	(7.09)	(6.77)	(5.74)	(4.38)	(5.41)
Profession Tax	0.82	0.90	0.83	1.03	6.54	2.02
	(9.55)	(9.54)	(8.94)	(9.83)	(38.62)	(18.49)
Vehicle Tax	0.39	0.36	0.34	0.39	0.28	0.35
	(4.50)	(3.87)	(3.67)	(3.67)	(1.64)	(3.21)
Tax on Agri. Land	0.09	0.02	0.02	0.03	0.03	0.04
	(1.04)	(0.25)	(0.19)	(0.28)	(0.19)	(0.35)
Pilgrims Tax	0.03	0.02	0.04	0.04	0.04	0.03
	(0.29)	(0.22)	(0.41)	(0.35)	(0.26)	(0.30)
Total	8.57	9.42	9.34	10.49	16.94	10.95
	(100.00)	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**	**(100.00)**

(Figures in the parantheses indicate percentage in totals.) Figures rounded to Crores.

2.6.3. The mean per capita income from Own Resource (including non tax) is Rs.6.68. There are 9176 panchayats below the mean and 3407 above the mean.

2.6.4. The mean on per capita income on Own Taxes varies from 2.70 to 4.35 for the category of Panchayats based on population ranges. Panchayats having more than 5000 population have more average per capita income with lesser standard deviation as may be seen hereunder:

Table 2.54 Village Panchayats - Own Tax Revenue - Per Capita Variations on Population Ranges (Per Capita in Rs.)

Population	Mean	standard Deviation	Minimum	Maximum	Coef.of variation	VPS>= AVG	No.of VPS	Popula-tion
Own Tax Revenue:								
Upto 1000	3.29	10.42	0.00	240.38	315.80	272	1400	1233611
1001 - 2000	2.76	10.01	0.00	590.45	362.81	1297	4782	7188736
2001 - 3000	2.70	4.44	0.00	113.58	164.43	830	2781	6830630
3000 - 4000	3.09	4.88	0.00	90.02	157.82	335	1566	5405785
4000 - 5000	3.33	5.57	0.00	105.10	167.21	221	876	3906021
ABOVE 5000	4.35	7.25	0.00	133.36	166.42	285	1178	7934883

House Tax:

2.6.5. House Tax in Panchayat is levied under Section 172 of the Tamil Nadu Panchayats Act, 1994. The tax is levied on the owners of the houses. The distinction between the property tax levied in urban local bodies and the house tax levied in rural local bodies has already been explained while dealing with the tax resources of the Town Panchayats. In Village Panchayats, house tax is levied only on the building. The Tamil Nadu Panchayats Act, 1994 indicates that the house tax can be levied at the rates and on the basis which were in force prior to the commencement of 1994 Act or on the classified plinth area at the rates specified in Schedule I to the Act. Prior to the commencement of 1994 Act, the Panchayats were given the option to levy on the basis of (i)capital value (ii) ARV or (iii) plinth area basis at the minimum and maximum rates suggested by the 1958 Act. The provision now made indicates that the Village Panchayats would have the option to continue the basis adopted at the commencement of the Act or switch over to the rate fixed for plinth area in Schedule I to the new Act. The tax based on the capital or rental value will have buoyancy since there is provision for quinquennial revision of the value by the Executive Authority. Plinth area basis indicated in Schedule I to the Act prescribes the rate of tax for the different types of buildings with a minimum and maximum and a surcharge for usage of the building as indicated therein. The fixation of the rate of tax for the plinth area will make the tax yield static, unless the tax rate is revised between the minimum and the maximum or additions or new constructions of buildings take place. There will be no buoyancy as in the cases related to capital or ARV basis.

2.6.6. The number of assessees as on 31.3.94 are as below:

Table 2.55 - Village Panchayat House Tax - Details of Assessees

Residential	77,34,200
Non-residential	4,28,900
Total	**81,63,100**
Exempted properties	2,16,260
Total Average demand per Assessee	Rs. 8.65

2.6.7. The collection performance including arrear demands ranges from 41 to 46% as against 60% in 1990 indicated by Damodaran Committee.

2.6.8. Tax exemptions in village panchayats, accounts for Rs.1.25 crores.

2.6.9. The incremental benefit due to the increase in valuation will not be available to the Village Panchayat if it resorted to tax related to Plinth area as per existing schedule and it will affect adversely the income generation from this taxation which is the only major tax resource available for the Village Panchayats. As in the case of other local bodies, plinth area rental value can be prescribed instead of the tax directly to plinth area indicated in the schedule to the Act.This will give flexibility in revising the value and earning more yield by way of general revision. As per information available 12321 Panchayats are adopting Capital value basis while 58 Panchayats adopt ARV basis and 114 Panchayats adopt Plinth area basis. The revised tax structure related to plinth area ARV with minimum and maximum for different types of buildings are indicated and recommended by the SFC in Appendix No.20. It was brought to the notice of the SFC by DRD that the Village Panchayats found it difficult to meet the cost of maintenance of the Radio/Television sets supplied to them from out of their slender resources. DRD suggested that a surcharge on House Tax might be levied for the purpose of meeting the said cost. Though it is doubtful whether such an additional surcharge will yield any substantial income to the Village Panchayats, SFC recommends that like library cess an additional surcharge on House tax may be levied at the rate to be decided by the Government, for the purpose of meeting the cost of provision and maintenance of Radio/ Television sets supplied to the Village Panchayats and has included this in the revised structure furnished in the above Appendix.

2.6.10. The house tax in the villages is now levied yearly. There are deficiencies in the levy and collection due to non-availability of personnel to take such responsibilities in the Panchayats. The President was the Executive Authority of the Village Panchayat and he has to levy the tax and collect it through the Group clerks. The Village Panchayats are ill-equipped in the machinery needed for collection and for looking after the civic services. The collection is very low. Action is needed for strengthening the machinery at

the village level to enable proper collection of resources and maintenance of civic services. It is hoped that with the appointment of a suitable machinery to look after the affairs of the Village Panchayats, tax collection can be streamlined to increase the yield from this source.

2.6.11. By revising the tax based on plinth area rental basis, Executive Authority will be able to assess and fix the levy on the houses in the Village Panchayats immediately. Due to fluctuations in prices and inflation in the economy, the period of general revision fixed as once in 5 years appears to be too long and it is recommended that the revision can be done once in three years as recommended for urban bodies, so that there will not be any steep increase to the tax payers and at the same time, the Local Body will also have the incremental benefit of prices for the purpose of taxation, without waiting for a long period of 5 years.

2.6.12. The collection of tax is a major issue in the Village Panchayats and it is noted that the collection is far below the expectations due to want of efficient collection machinery in the villages as already pointed out. It has been even represented by non officials during the District Sittings that the collection percentage was high during the period when the V.A.Os. were collecting the house tax and it has fallen down due to want of supervision and effective machinery for collection. In this context it may be pointed out that the per capita income from house tax worked out by Damodaran Committee (1990) was Rs.1.77 in 1988-89. The per capita income from house tax now worked out to Rs.2 in all the years from 1989-90 to 1992-93 and it was Rs.3 in the year 1993-94. There has only been a marginal increase in the per capita income from house tax. This evidently indicates that the tax collection machinery has to be strengthened.

2.6.13. It has been suggested under urban local bodies that a system of passbooks can be introduced to avoid the issue of demand notice every time. Similar attempt can be made in the case of Village Panchayats also so that the scriptory work and the deployment of personnel for that purpose can be avoided. The Passbooks will contain information about the tax fixed for the period up to the time of next revision and any further changes in course of time. This could be done through computers proposed for Panchayat Unions. As pointed out earlier in Urban Bodies, the information about due date for payment, concession for prompt payment, rebate for advance payment, penalty for late or non-payment etc. can also be recorded in the passbook. In the case of Village Panchayats, it is easier to fix the dates for particular wards for collection and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection. In the case of defaulters, the Executive Authority who will be a local man may contact the defaulters and arrange for early collection. This procedure may perhaps help those who are ready to volunteer payment. The number of persons to be directly contacted is likely to be considerably reduced. The publication of the assessment list can also be resorted to so that the appeal and revision cases can be reduced to the minimum.

2.6.14. The people in the Panchayats villages should also be educated about the

2.6.14. The people in the Panchayats villages should also be educated about the need for prompt payment of taxes and the benefits derived out of such taxation to the local body. With the regular devolution of funds from Government under the new distribution system proposed, the Village Panchayats can also instill confidence in the local people on the betterment of the civic services. If provisions for distraint proceedings against immovable properties and recovery through Revenue Recovery Act are made available, it will help the realisation of tax arrears from cantankerous persons who are prone to resort to legal remedies often.

2.6.15. The existing procedure for revision and appeal can continue in respect of house tax in Village Panchayats. There is scope for improvement if the collection machinery is strengthened. The higher incidence of tax collection will itself double the existing income.with corresponding matching grant.

2.6.16. Recommendations

The SFC recommends the following:

1. A revised rate based on the plinth area rental value may be adopted since the existing tax structure di rectly related to plinth area will be static and no future revisions based on value could be done. The revised rates are indicated in the scheduled in Appendix No.20. In addition, as in the case of Library Cess, an additional surcharge at the rate to be decided by Government may be levied for meeting the cost of provision and maintenance of Radio/Television sets of the Village Panchayats.

2. The general revision once in five years now adopted may be revised as once in three years, so that there will not be any steep increase of taxation on the tax payers in villages and at the same time the Village Panchayats will also have the benefit of incremental increase in prices for the purpose of taxation.

3. The House Tax payer in Village Panchayats may be given the same types of concession allowed to tax payers in urban local bodies for prompt/advance payment of taxes.

4. The system of Passbook proposed to be introduced to urban Local Bodies to avoid the issue of demand notice every time may be adopted in Village Panchayats. The Local Public may be educated about the change of system and also the benefits of rebate for prompt and advance payments. This will reduce scriptory work and avoid the deployment of additional personnel for that purpose. If necessary, the system may be implemented after a pilot study in select panchayats.

5. In Village Panchayats it will not be difficult to fix the dates for collection centres consisting of specific wards and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection.

6. Only in the case of defaulters, the Officers of Village Panchayats will have to contact assessees and arrange for early collection.

7. All the procedures indicated under Municipal Corporations and also the publication of the assessment list in the Village Panchayat may be resorted to, so that appeal and revision cases can be reduced to the minimum.

8. An enabling provision for distraint proceedings against immovable properties and recovery through Revenue Recovery Act may help clearance of arrears in VPs also.

9. The existing procedure for revision and appeal of House Tax may continue in Village Panchayats.

Profession Tax:

2.6.17. This tax is being levied under the new Profession Tax Act about which a detailed discussion has been made under the Urban Local Bodies. This tax which was yielding Rs.0.82 crores in a 1989-90 has steeply increased to Rs.6.54 crores in 1993-94 due to enforcement of new enactment of 1992. The income in subsequent years would have increased due to the new enactment. The recommendations made under Madras Corporation will apply to the Village Panchayats also.

2.6.18. Recommendation

The SFC recommends the following:

The recommendations made in respect of Municipal Corporations and Town Panchayats will apply to VPs also.

Vehicles Tax:

2.6.19. The Village Panchayats had been levying tax on carts, bicycles etc. so far. The Government have abolished the Vehicles Tax recently. In view of the difficulties experienced in the levy and collection and also the high cost of collection involved, this tax was recommended to be abolished even by Damodaran Committee (1990) and also by various earlier Committees. The quantum of collection under this tax was very minimal and it contributed only 0.2 to 0.4 per cent of the total income. This tax has since been

abolished by Government. But the total abolition of Vehicles Tax will affect the source and the revenue of the local body and hence suggestions have been made for converting the levy as one against automobile vehicles which are not now attracting the provisions of the Motor Vehicles Taxation Act under Municipal Corporations. Recommendations made thereunder will apply to village Panchayats also.

2.6.20. Recommendation

The SFC recommends the following:

The Vehicle tax has already bene discontinued. All power driven vehicles like tractors, and two wheelers may be made liable for vehicles tax at different ranges of rates proposed, under Municipal Corporations.

Pilgrim/Tourist Tax:

2.6.21. This has been dealt with under Urban Local Bodies and all the recommendations made therein may be applicable to the rural local bodies also.

Tax on Agricultural Land for Specific Purposes:

2.6.22. This tax is leviable under Section 171(3) of the Act which is optional and is linked with specific purpose. This may be considered as a tax for betterment of the area with any specific item and this levy could be made only for a specific period with the sanction of the Inspector. The agriculturists in the area are subjected to land revenue, local cess,local cess surcharge and all these are based on the agricultural lands. The provisions to levy an additional tax for specific purpose on agricultural land has not created any impact all these years. This provision in the Statute has not at all been utilised. The development of the village is not related only to the agriculturists alone, but it also covers non-agricultural section of the people in the village . Except the house tax,the property holders do not contribute anything for the development purposes though few may own both lands houses . In fact the levy for the development of civic services should comprise the property holders also and not the agriculturists alone. Damodharan Committee (1990) which has also examined this aspect has recommended for suitable modification of the provision to enable levy of betterment charges on the property holders for provision or extension of any civic services in the area. This will supplement a portion of the cost involved in the provision of the schemes like water supply/ street lighting/ sanitation etc. The levy on agriculturists will involve dependency on the revenue authorities and also subjected to complicated procedures. On the other hand, the levy of betterment charges on all the properties can be done by the Panchayat, since the Panchayat is the authority to levy and collect wherever necessary. The owners of vacant lands also should be liable for this levy of betterment charges. This provision in the Act may be suitably amended.

2.6.23. Reommendation

The SFC recommends the following:

Instead of this tax, an enabling provision for levy of betterment charges can be made on all the properties in the area. The Panchayats can levy and collect whenever funds are needed. The owners of vacant lands also may be made liable for this levy of betterment charges. The Tamil Nadu Panchayats Act, 1994 may be suitably amended..

Water Tax:

2.6.24. In Urban Bodies, water tax is a component of the property tax and in Village Panchayats, water tax is levied only in places where piped water supply is made available. Under the Tamil Nadu Panchayats Act, 1994, the responsibility for provision of drinking water has not been vested with the Village Panchayat. However, the supply of water has been one of the major civic functions of the Panchayat and the omission in the Act has to be rectified. The amendments made to Tamil Nadu Panchayat Act, while enacting the formation of TWAD Board , has deleted therelevent provision in the Tamil Nadu Panchayats Act. In practice, the TWAD Board creates the assets and passes them on to the local bodies for maintenance and supply. The local bodies also create drinking water wells, overhead tanks, ground level reservoirs, etc and also provide stand pipes out of their own sources. The maintenance and provision of piped water supply costs very heavily. The system of user charges for full recovery of the cost could not be applied to Village Panchayats. The water supply which costs very heavily cannot also be made entirely free of cost.

2.6.25. A suitable provision may be made in the Tamil Nadu Panchayats Act 1994 enabling the levy of water tax as an addition to the house tax compulsorily in all village panchayats where water supply has been made available either through protected water supply scheme or through overhead tanks and pipe lines, or by provision of hand pumps and power pumps. In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

2.6.26. It has been represented during the District Sittings that house connections in village panchayats have been prohibited by the higher authorities even in places where house connections will yield revenue to the village panchayts. The Government may permit the house connections wherever adequate water is available for supply.

2.6.27. Recommendations

The SFC recommends the following:

1. A suitable provision may be made in the Tamil Nadu Panchayats Act, 1994 enabling the compulsory levy of water tax as an addition to house tax in village panchayats.

2. In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

3. The Government may permit the house connections in village panchayats where adequate water is available for supply, so that there will be more yield in revenue.

Assigned/Shared Revenues:

2.6.28. The following are the Assigned/Shared revenues:

1. Local Cess
2. Surcharge on Stamp Duty
3. Entertainments Tax
4. Mines and Minerals.

The income of Village Panchayats from the above sources is furnished below:

Table 2.56 Village Panchayats - Details of Income from Assigned/Shared Revenues

(Rs. in crores)

Details	1989/90	1990/91	1991/92	1992/93	1993/94	Average
Surcharge on Stamp duty	32.06 (93.60)	35.00 (93.14)	36.35 (95.38)	47.11 (95.35)	49.46 (95.28)	40.00 (94.66)
Local Cess	0.89 (2.63)	0.68 (1.80)	0.40 (1.05)	0.53 (1.07)	0.71 (1.36)	0.64 (1.52)
Entertainment Tax	1.25 (3.65)	1.68 (4.49)	1.22 (3.20)	1.43 (2.89)	1.45 (2.79)	1.41 (3.33)
Mines & Minerals	0.04 (0.12)	0.22 (0.58)	0.14 (0.36)	0.34 (0.69)	0.30 (0.57)	0.21 (0.49)
Total : Assigned/Shared Revenues	34.25 (100.00)	37.58 (100.00)	38.11 (100.00)	49.41 (100.00)	51.91 (100.00)	42.26 (100.00)

(Figures in the brackets indicate the percentages to total)

2.6.29. Items 2, 3 and 4 have been examined in detail, including the sharing between Panchayat Union and Village Panchayats under chapter V "Panchayat Unions" with suitable recommendations. Hence they are not examined again under this head. Item 1 has also been discussed under "Municipal Corporations". However distribution of item 1 to Village Panchayat has been discussed in para 2.6.31.

2.6.30. The percapita Assigned /Shared Taxes in Village Panchayats ranges between Rs.3.49 - 4.50. Higher per capita was found in the lowest population group i.e. Village Panchayats with population up to 1000. Standard deviation was very high which showed wide variation among the Panchayats in this group as may be seen in the statement below:

Table 2.57 Village Panchayats - Shared Revenue - Variations with reference to Population (Per Capita in Rs.)

Population	Mean	standard Deviation	Minimum	Maximum	Coef.of variation	VPS>= AVG	No.of VPS	Popula-tion
Upto 1000	4.50	24.08	0.00	849.69	534.72	285	1391	1213921
1001 - 2000	3.44	6.66	0.00	105.10	193.18	1212	4786	7193364
2001 - 3000	3.61	6.65	0.00	98.03	184.19	733	2783	6835881
3000 - 4000	3.60	6.56	0.00	120.67	181.98	446	1569	5415596
4000 - 5000	3.49	5.45	0.00	55.25	156.14	253	876	3906021
ABOVE 5000	3.56	4.72	0.00	52.82	132.53	360	1178	7934883

Surcharge on Stamp Duty:

2.6.31. The Surcharge on Stamp Duty is levied at 5 % of the value of the property. The recommendations made for Urban Local Bodies are applicable to Village Panchayats also. However, the Tamil Nadu Panchayats Act indicates that the amount collected in the Panchayat Development Block shall be pooled every year for the entire Block and then distributed among all the village panchayats in the Block in proportion to the land revenue collection of the panchayat. This provision has been made to ensure that all the Panchayats in the Panchayat Development area get a portion of the income under this surcharge. In the case of other local bodies, the surcharge collected in their area is passed on to the respective local body after deduction of collection charges.

2.6.32. Suggestions were made for distribution at 30% on origin basis and 70% on population basis for Village Panchayats. Damodaran Committee (1990) also examined the change of method of distribution in view of the difficulties experienced in ascertaining the land revenue collections from the revenue department and consequent delay in adjustment to the panchayats. The distribution based on population of the village panchayats was examined and it was found that it affected panchayats which were in receipt of sizable amounts under the present system (on land revenue basis.) Even now

the position is found to be the same on examining some cases in a division. The land revenue based system has perhaps been adopted considering the fact that the transactions in the villages will be mostly based on the agricultural lands unlike in urban areas where the predominant transactions will be based on properties, other than agricultural lands. Any change in the existing procedure will require amendment of the Act and it is also likely to affect adversely the amount realised by the various Panchayats. There will be difficulty in working out the payment origin wise in Village Panchayats.

2.6.33. To avoid the delay, Damodaran Committee (1990) recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge, instead of waiting for the receipt of collection figures every year. The average demand can be modified once in five years when the classification of blocks is made on the basis of average land revenue. This will eliminate the delay in adjustment. This can be linked to Land holdings if a system of levy of Local cess/Local Cess surcharge is to be linked to Land holdings, which has been suggested in paragraph 2.5.15. and 2.5.16.

2.6.34. The amount sanctioned is now initially credited to the Panchayat Union Funds and then the Panchayat Union Commissioner transfers the amount to the Village Panchayat account, after working out the amount due to the various Panchayats. In this process there has been considerable delay and in certain cases Panchayat Unions which are not financially sound have diverted the funds for their use. Ultimately the amount due to Panchayats has not been adjusted for years. This may, therefore be directly credited to the Village Panchayat Account in the Panchayat Union by the District Registrar of Assurances and the Panchayat Union Commissioner can give credit for the amount due to the various Village Panchayats on the basis indicated above. The procedure for adjustment has already been dealt with in chapter 2 "Municipal Corporations

2.6.35. Recommendations:

The SFC recommends the following:

1. Assignment of Local Cess, Surcharge on Stamp Duty, Entertainment Tax and Mines and Minerals have been discussed in detail under "Panchayat Unions" and recommendations made there under will apply to VPs.

2. Any change in the procedure for distribution of surcharge on stamp duty to VPs will require amendment of the Tamil Nadu Panchayats Act 1994. It is also likely to affect adversely the amount realised by the various Panchayats at present, if distribution is based on population. Hence the existing procedure based on LR may be continued.

3. To avoid delay, Damodaran Committee recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge instead of waiting for the receipt of collection figures every year. These figures may be collected Panchayatwise and kept at Panchayat Union level. This can be linked to Land holdings if a system of levy of Local cess/Local Cess surcharge is to be linked to Land holdings, which has been suggested in paragraph 2.5.15. and 2.5.16.

4. The amount sanctioned is now initially credited to Panchayat Union funds and then the Panchayat Union Commissioner transfers the amount to Village Panchayat account after working out the amount due to various Village Panchayats. This revenue may be directly adjusted to the account of VPs and the Panchayat Union Council can work out the amounts due to each VP and give credit to individual Panchayats.

Income from Fees and Charges:

2.6.36. The source of income under this category is similar to those available under the Urban Local Bodies, like D & O Trade Licence, Building Licence, Encroachment fees, income from markets and shandies etc. The specific items which need separate examination under the village panchayats are discussed below:

Income from Social Forestry:

2.6.37. This is a source by which the Village Panchayats can improve their income substantially. The income has gradually increased from Rs.1.99 crores in 1989-90 to Rs.3.27 Crores in 1992-93. The income represents 18 to 28% of Non Tax which is really substantial.During the District Sittings, in Districts like Ramanathapuram, and Chidambaranar where the income from other sources is very negligible, representations were made that there is much scope for realising substantial income from social forestry. It was also represented that the Panchayats may be permitted to raise forestry in all poramboke lands and the tank bunds irrespective of ownership. The right for auctioning should be left to the local bodies and regular system of tender cum action should be prescribed to enable realisation of maximum possible income. It was pointed out that the present system of auctioning is not transparent and it leads to the depression of the bid amount by vested interests and enables a second lease by those lessees for a sizable higher amount. The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

2.6.38. A special study on the planting and rearing of the trees under this scheme is needed to ensure simplification of procedure and reasonable freedom to the local body in the matter of incuring expenditure for rearing with purpose of having better survival ratios. The expert opinion could be obtained from the Departmental Officers available at District Level instead of seeking sanction and permission from outside Departments.

2.6.39. Recommendations:

The SFC recommends the following:

1. Social Forestry is a rich potential to Village Panchayats. The Panchayats may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. The right of auctioning should be left to the local bodies and a regular system of tender cum auction should be prescribed to enable realisation of real income.

2. The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightaway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

3. This Scheme needs study on simplification of procedure with reasonable freedom to Local body on expenditure relating to planting and rearing. Expert opinon may be confined to Officers in the District.

Fishery Rental:

2.6.40. The right for auctioning fisheries in respect of panchayat union vested tanks is exercised by the Revenue department. Similarly in tanks owned by PWD and in system canals the auctions are done by Fisheries Department or by the Fishery Development Corporation. The auction amount relating to panchayat union vested tanks is due to the village panchayats concerned. The Government favoured the lease in favour of Fish Farmers' Cooperative Societies in the area. The local bodies actually do not have any role in realising the income by their own methods. It was pointed out even during the Damodaran Committee (1990) that fake societies are formed and in collusion, the auction amount is kept at low level while higher profits are realised by the lessee and out of that, a certain portion is paid to the local community for their public purposes and the balance is appropriated by the people connected with those fake societies. Even the paltry sum collected is not regularly passed on to the village panchayats concerned. The power of auction is required by the local body so that there will be a possibility of augmenting the resources of the local body. SFC considers that the societies also can compete along with the other bidders and but there should be no monopoly condition to lease it to the society alone. The SFC would like to stress that the power of auctioning

such local body assets should be only with the concerned local body and if necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation and with powers to Collectors to interfere where the implementation is not properly done.

2.6.41. Regarding the PWD tanks also the share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease, so that the exploitation over and above lease amount, could be watched and brought to notice, at least for future leases. In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

2.6.42. Recommendations

The SFC recommends the following:

1. The power of auctioning local body assets should be only with the concerned local body. If necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation. Collectors may be given powers to interfere where the implementation is not properly done. Fish Farmers' Development Co-operative Agencies should also be a bidder along with others and no monopoly should be given to them.

2. Regarding PWD tanks also, a share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease so that over exploitation could be watched and brought to notice to avoid future leases.

3. In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a Committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

2C.Patta Trees.

2.6.43. The Chief Engineer, Highways has stated that in respect of avenue trees, the income from usufructs is given to the local body and the income for each of the trees is fixed after ascertaining the market price likely to fetch for the usufructs for a period of three years. The Panchayats will have to remit the lease amount to the Government and then enjoy the usufruct by auctioning it to any lessee by adopting usual procedure. No lease of the avenue trees should be granted for more than three years at a time. The

Panchayat Unions are eligible to auction the trees standing on the tanks transferred to the control of the Panchayat Unions. In respect of trees standing on the tank bunds vested with the Panchayat Unions and in respect of Public Works Department tanks which are not covered by system area, auction is done by Revenue Department and the proceeds are adjusted to the Panchayats concerned. There were representations that such auctioning is not done properly and the local Presidents do not have any knowledge of the auction and in the result, the auction is finalised for a very low amount. People who have vested interest join together and depress the auction price. It was therefore suggested that such auctions relating to the trees should be done by a Committee consisting of representatives of the Panchayat Union Council, representative of the Panchayat, the Panchayat Union Commissioner and the Revenue Officials concerned. The auction should be decided by the Committee and this will ensure better price in the auctioning.

2.6.44. The auction amount could also be remitted to the Panchayat Union Council concerned for credit in the Village Panchayat funds. In respect of Town Panchayats the amount can be directly credited to the Town Panchayat funds. There were also representations that there should be control over the dead trees that fall down and if it is not given, the removal by the people in scandalous methods, cannot be avoided. If the Panchayats are given powers to report the dead trees and initiate action to remove them from the roads and sell them, it may be possible to dispose of the trees quickly and realise better revenues.

2.6.45. Recommendations

The SFC recommends the following:

1. Wind fallen trees should be auctioned by a committee consisting of representatives of PU Council, Panchayat, PU Commissioner and Revenue official concerned. The auction should be decided by the Committee, to ensure better price.

2. The auction amount may be remitted to the PU Council Treasury for credit to the Village Panchayat funds.

3. In respect of Town Panchayats, the amount may be directly credited to Town Panchayat Funds.

4. In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realisation of better revenues.

Fairs and Festivals:

2.6.46. The Panchayats have been given powers under Section 111 of the Tamil Nadu Panchayats Act 1994 to control the fairs and festivals declared as Panchayat Festivals. In case of such festivals the Panchayat are obliged to make provision of sanitary arrangements and water supply to public who attend such fairs and festivals which are normally notified by the Collector. They attract more number of pilgrims and others from the nearby areas. There is provision for fixing the share of expenditure to be made by the Temple authority by the Collector after consultation with them. It is now understood that the Temple Authorities have been exempted from paying their shares. Most of the Temples have represented that they do not have adequate resources and that the expenditure has been incurred by the Panchayat without prior consultation with the Temple Authorities. There are many temples which attract the pilgrims throughout the year in large numbers which naturally involve additional expenditure to the local body concerned. In this context the levy of Pilgrim or Tourist Tax on such floating population has been discussed under "Urban Bodies".

2.6.47. In view of the difficulties experienced in getting a share from the temples, it may be considered as an alternative, whether the temples having sizable income throughout the year through pilgrims may be required to share or contribute to the expenditure on civic amenities to be provided by the local bodies concerned. For instance, the temple at Thiruchendur has been contributing from its own fund for laying of roads etc. A Similar attempt can be made in respect of other big temples in Tamil Nadu. The Temples may collect addition fee along with entrance fee and pass on to Local body.

2.6.48. Recommendations

The SFC recommends the following:

1. Levy of Pilgrim/Tourist Tax has been discussed under Urban Local Bodies. They may be applied to Village Panchayats also.

2. In view of the difficulty in getting a share on Expenditure on festivals from the temples, as an alternative, the temples having a sizable income throughout the year through pilgrims may be required to share or contribute to the expenditure on civic amenities to be provided by the local bodies concerned. The Temple at Tiruchendur has been contributing from its own funds for laying of roads etc. and a similar attempt can be made in respect of other big temples in Tamil Nadu. OR The temple may collect an additional fees along with the entrance tickets and pass on that money to concerned Local Body.

Penalties and Fines:

2.6.49. Sections 243 to 247 of the Tamil Nadu Panchayats Act 1994 deal with Penalties and fines that can be made for violations of the provisions of the Tamil Nadu Panchayats Act. The Penalties and fines indicated in schedules II & III of the 1994 Act are the same as those indicated in the 1958 Act. Damodaran Committee (1990) suggested revised rates of penalties and fines since they were fixed a long time back and needed revision. It is necessary that the rates should be revised to suit the present day conditions and be deterent to curb the tendency to violate the provisions. Higher punishment is likely to have a deterrent effect on the commission of such violations and offences.

2.6.50. SFC recommends that the rates now proposed taking into account the rates indicated by Damodaran Committee (1990) for schedules II & III of the Tamil Nadu Panchayats Act furnished in Appendix Nos.(18 & 19) may be adopted with suitable amendment to Act.

2.6.51. Recommendation

The SFC recommends the following:

The revised rates proposed by Damodaran Committee (1990) in lieu of rates indicated in Schedules II and III of the Tamil Nadu Panchayats Act, 1994 and suitably revised by SFC may be adopted and the Act amended suitably. (vide Appendix Nos. 18 & 19)

Grants:

2.6.52. The income from the Grants-in-aid to Village Panchayats may be seen from the statement below:

Table 2.58 - Village Panchayat DETAILS OF GRANTS-IN-AID FROM HIGHER LEVEL GOVERNMENTS (Rs. in Lakhs)

DETAILS	1989/90		1990/91		1991/92		1992/93		1993/94		5 Yr.Avg.	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Statutory Grants:												
House Tax Matching Grant	485.00	9.70	659.03	14.39	815.40	19.72	855.23	18.58	867.48	14.15	736.43	15.06
Small Savings Grant	25.63	0.51	33.42	0.73	14.29	0.35	28.65	0.62	196.08	3.20	59.61	1.22
Statutory Grants	510.63	10.21	692.45	15.12	829.69	20.06	883.88	19.20	1063.56	17.35	796.04	16.28
Non Statutory Grants:												
Water Supply Grant	82.03	1.64	73.34	1.60	33.59	0.81	36.56	0.79	112.99	1.84	67.70	1.38
Street Light Grant	12.68	0.25	11.41	0.25	80.72	1.95	53.28	1.16	202.06	3.30	72.03	1.47
Funeral rites Grant	55.10	1.10	47.70	1.04	51.68	1.25	57.43	1.25	108.32	1.77	64.05	1.31
Development Grants												
Jawahar Velai vaippu	4085.51	81.72	3539.13	77.27	2950.49	71.34	3329.66	72.33	4280.37	69.84	3637.03	74.38
Intensified J.V.V.T.	135.66	2.71	118.47	2.59	129.99	3.14	169.93	3.69	230.57	3.76	156.92	3.21
Employment Assurance	44.13	0.88	47.22	1.03	30.38	0.73	39.53	0.86	64.00	1.04	45.05	0.92
Prog. of Assured Empl.	8.66	0.17	15.67	0.34	12.70	0.31	8.51	0.18	23.94	0.39	13.90	0.28
Others	65 30	1.31	34.90	0.76	16.58	0.40	24.35	0.53	42.90	0.70	36.81	0.75
Development Grant: Total	4339.26	86.79	3755.39	81.99	3140.14	75.93	3571.98	77.60	4641.78	75.74	3889.71	79.55
Non-Stat.Grants: Total	4489.07	89.79	3887.84	84.88	3306.13	79.94	3719.25	80.80	5065.15	82.65	4094.39	83.72
Total Grants	**4999.70**	**100.00**	**4580.29**	**100.00**	**4135.82**	**100.00**	**4603.13**	**100.00**	**6128.71**	**100.00**	**4889.53**	**100.00**

Table 2.59. - Village Panchayat - In come from Grants - Percapita According to Population Ranges and Variations

Population	Mean	Standard deviation	Minimum	Maximum	Coef.of Variation	VPS>= Avg.	No.of VPS.	Popula-tion
GRANT REVENUE:								
UPTO 1000	28.18	43.13	0.00	509.80	153.06	382	1396	1221908
1001 - 2000	21.68	28.22	0.00	398.17	130.14	1473	4783	7190164
2001 - 3000	17.89	21.21	0.00	208.98	118.57	863	2782	6833172
3000 - 4000	15.37	17.75	0.00	145.85	115.45	510	1566	5404112
4000 - 5000	15.50	18.01	0.00	151.51	116.18	292	877	3910224
ABOVE 5000	**14.79**	**15.87**	**0.00**	**122.07**	**107.25**	**398**	**1179**	**7940081**

the Village Panchayat, an equal amount is payable by the Government which is called House Tax Matching Grant. This grant is an incentive for the Village Panchayats to realise more collections so that they will have an equal amount of contribution from the Government. However, it has been observed during the last 30 years that this grant has not actually created enthusiasm for increasing the rate or for improving the performance of collections. The Village Panchayats have very meagre income under House Tax, though it is considered to be a major revenue (The per capita income is only Rs.2/- and the percentage to total revenue is only between 5 & 6). The matching grant can be modified to infuse involvement for realising more income from House Tax by linking it to the rate of levy and percentage of collection. But the system will need care in working out the entitlement. The new system of distribution of funds allocated by the Government will take into account the tax performance as one of criteria for devolution of funds. This may perhaps serve as an incentive for Village Panchayats to have a better tax performance. The existing system of matching grant can also be linked to collection performance.

2.6.54. During the District Sittings and also in the memoranda received from the officials there is a demand for increasing the matching grant from 100% to 300%. Now the Panchayats are also sought to be categorised with reference to their income . The grant is now given on equal basis to all Panchayats irrespective of their financial viability. Based on the categories evolved the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. SFC recommends that the rates indicated in Appendix No.20 may be adopted.

2.6.55. Recommendations

The SFC recommends the following:

1. The new system of devolution of funds other than statutory grants takes into account the tax performance as one of the criteria for devolution of funds.

2. The existing system of House Tax matching grant can also be linked to collection performance instead of providing equal amount.

3. Based on the categories of village panchayats now suggested, the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. Specific recommendations given in Appendix No. 20 may be adopted.

Grants for Water Supply and Street Lighting: (Discretionary)

2.6.56. The Village Panchayats are now given assistance by the Government to enable them to meet the electricity consumption charges on public lighting and for meeting the repairs on hand pumps and power pumps under the Water Supply Schemes. These grants are made on an ad hoc basis and not based on any regular formula. The question of creation of divisible pool for the devolution from State Taxes and principles for horizontal distribution to Village Panchayats have been dealt with in detail in Part V of the Report. In such a case,there may not be any need for special grants for the above purposes. However till the Government takes a decision on devolution of funds the present method of assistance by way of grant for street lighting and for water supply will have to be continued by the Government on a regular basis. The consumption charges in Public lighting and the repair of water sources may be met in full by Government.

2.6.57. Recommendation:

The SFC recommed the following:

Till a decision is taken on the recommendation on divisible pool, the present method of assistance by way of grant for street lighting and for water supply will have to continue on a regular basis. The consumption charges in public lighting and also the repair charges for water sources, may be met by Government in full.

Development Grants:

2.6.58. All Development grants like JVVT, are routed through the Panchayat Unions based on the criteria and guidelines fixed by the Government of India for distribution of funds to the Panchayats on Population basis. These grants will continue as long as the Central and State assistance are made available. Hence no specific suggestions or recommendations are required, except that the grants intended for Village Panchayats may be directly adjusted to the Panchayat funds by the District authorities to avoid delay in routing it through the Panchayat Unions. The guidelines indicate the purpose for which the moneys can be spent. If freedom is given to the local bodies, they may utilise the funds for priority items in the area rather than the purpose indicated for the grant. This is a policy decision to be taken at the higher levels of government financing.

2.6.59. Recommendations

The SFC recommends the following:

1. Thegrants intended for Village Panchayats may be directly adjusted to the Panchayat Funds by the District authorities to avoid delay in routing through the Panchayat Unions.

2. If freedom is given to the local bodies, they may utilise the funds under Employment schemes for priority items in the area rather than sticking to the purpose indicated for the grant. This will be a major policy decision to be taken at the higher levels of government.

Remunerative Schemes:

2.6.60. In Village Panchayats where higher population/income is now available the remunerative shemes like shops, markets, bus stands stalls and community centres can be encouraged with assistance from Government. The assistance from Government cannot be entirely Loan as in the case of urban local bodies. A percentage Grant-cum-loan system can be adopted. The freedom to implement these schemes should be left to the Panchayats except for technical guidelines and supervision. These aspects have been dealt with under urban local bodies. They may be extended to Village Panchayats also, However, the Panchayat Union Commissioner may be the liason as well as supervisory authority for implementation, auction and other related matters.

2.6.61. Recommendations

The SFC recommends the following:

1. In village panchayats with higher population/income, remunerative schemes like shops, markets, bus stands and stalls and community centres may be encouraged with assistance from Government.

2. The assistance should not be entirely on loan basis as in Urban Bodies but should be on the basis of Grant-cum-Loan.

3. The freedom to implement the schemes should be left to the Panchayats except for technical guidelines and supervision. These aspects have been dealt with under "Municipal Corporations". They may be extended to Village Panchayats also. The Panchayat Union Commissioner may be the liason as well as supervisory authority for implementation, auction and other related matters in respect of "Remunerative Enterprises".

Projection of Resource Generation:

2.6.62. Projected position of the expected resource generation under Own Tax and non-tax sources of the different tiers of Local bodies during the periods from 1997-98 to 2001-02 are given in Tables 2.60 to 2.64 below. These figures do not however take into account the possible additional revenue generation from new tax domains, general sharing from State Taxes and the possible improvement of overall finances of Local bodies from non-tax resources, pending acceptance of the various recommendations for streamlining the methods and procedures made by the SFC.

Table. 2.60

Municipal Corporation Detailed Projection of Own Revenues

(Rupees in Crores)

	1997 - 98	1998 - 99	1999-2000	2000 - 01	2001-02	Total
A. Taxes						
(a) Property Tax	135.05	145.10	190.35	209.56	230.69	910.75
(b) Profession Tax	16.14	16.95	19.49	21.43	23.58	97.59
Total	151.19	162.05	209.84	230.99	254.27	1008.34
B. Non Tax:						
(a) Fees, Fines etc.	10.69	11.98	14.37	15.81	17.39	70.24
(b) Income from Propety	40.41	48.49	58.19	69.82	83.79	300.70
(c) Income from Miscellaneous	7.81	8.00	8.21	8.42	8.62	41.06
(d) Income from Special services	3.88	4.11	4.36	4.63	4.91	21.89
Total	62.79	72.58	85.13	98.68	114.71	433.89
Total (A+B)	213.98	234.63	294.97	329.67	368.98	1442.23

Table 2.61

Municipalities

Detailed Projection of Own Resources (Rupees in crores)

	1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A. Taxes						
(a) Property Tax	67.13	70.48	84.58	97.59	105.13	424.91
(b) Profession Tax	10.42	10.63	12.33	12.77	13.23	59.38
Total	**77.55**	**81.11**	**96.91**	**110.36**	**118.36**	**484.29**
B. Non Taxes						
(a) Income from fees, fines, charges	7.00	7.52	8.85	9.97	11.24	44.58
(b) Income from Properties	23.91	25.72	27.67	29.80	32.10	139.20
(c) Income from Special Services	28.08	32.02	36.53	41.68	47.57	185.88
(d) Income from Miscellaneous Receipts	8.77	8.99	9.21	9.44	9.68	46.09
Total	**67.76**	**74.25**	**82.26**	**90.89**	**100.59**	**415.75**
Total (A+B)	**145.31**	**155.36**	**179.17**	**201.25**	**218.95**	**900.04**

Table 2.62

Town Panchayats - Detailed Prjections of Own Revenues

(Rs in crores)

		1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A.	House Tax	20.19	20.59	27.80	29.75	31.83	130.16
	Profession Tax	15.73	16.52	18.17	19.98	21.98	92.38
	Other Taxes	2.59	2.72	2.85	3.00	3.15	14.31
	Total	**38.51**	**39.83**	**48.82**	**52.73**	**56.96**	**236.85**
B.	Fees Fines charges	5.00	5.50	6.05	6.65	7.32	30.52
	Income from Properties	13.98	15.38	16.92	18.61	20.47	85.36
	Income from Special Services	8.73	9.34	10.00	10.70	11.45	50.22
	Income from Miscellaneous Receipts	3.89	3.97	4.05	4.13	4.21	20.25
	Total	**31.60**	**34.19**	**37.02**	**40.09**	**43.45**	**186.35**
	Total (A+B)	**70.11**	**74.02**	**85.84**	**92.82**	**100.41**	**423.20**

Table 2.63

Panchayat Unions Detailed Projections of Own Revenues

(Rs in crores)

		1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A.	Own taxes (LCS)	37.00	37.00	37.00	37.00	37.00	185.00
B.	Income from fees, fines and charges	5.95	6.54	7.19	7.91	8.70	36.29
	Income from properties	5.94	6.53	7.18	7.90	8.69	36.24
	Income from Special Services	1.93	2.12	2.34	2.57	2.83	11.79
	Income from Miscellaneous Revenues	5.88	6.47	7.12	7.83	8.61	35.91
	Total - B	**19.70**	**21.66**	**23.83**	**26.21**	**28.83**	**120.23**
	Total (A+B)	**56.70**	**58.66**	**60.83**	**63.21**	**65.83**	**305.23**

Table 2.64

Village Panchayats Detailed - Projections of Own Revenues

(Rs. in Crores)

	1997 - 98	1998 - 99	1999 - 2000	2000 - 01	2001 - 02	Total
A. Own Taxes						
(a) House Tax	8.62	9.05	9.50	12.00	18.00	57.17
(b) Profession Tax	7.95	8.35	8.76	9.20	9.66	43.92
(c) Water Tax	0.90	0.94	0.99	1.04	1.09	4.96
(d) Vehicle Tax	0.50	0.50	0.50	0.50	0.50	2.50
Total (A)	17.97	18.84	19.75	22.74	29.25	108.55
B.Fees Fines etc.	13.98	14.68	15.41	16.18	17.00	77.25
Total (A+B)	31.95	33.52	35.16	38.92	46.25	185.80

2.6.63. The increase in revenue under taxes and non taxes of the various tiers of local bodies has been indicated in the earlier paragraphs. The projection for the Assigned revenue has not been made in this part since, instead of tax based devolutions, a general sharing pattern out of the total pool of revenue of the State is recommended in Part-V. The tax based devolutions will arise only when, for any reason, the general sharing pattern is not accepted by the Government.

2.6.64. The recommendations made in this part, mainly, were related to the Augmentation of Resources under different types of revenues either from local sources or from assignments from higher bodies. There are a few suggestions which could help augmenting the local resources for providing the infrastructure needs in the respective areas. They are indicated below for further detailed study:

1. Development, sponsored through institutions, who can either adopt a village or a portion of village or take up specific item of development in the area. This may need some concessions to such sponsors by way of tax benefits. A recent incident can be recalled in which a multi-national company venturing in Automobile manufacture in Marai Malai Nagar has come forward to construct a Health Centre for the benefit of the local people. Such events would multiply in good number, provided Government extends encouragement.

2. People's participation through `Shramdan' (contributary labour) by agreeing to take up development in their area with allocation of funds by the Government. This will arise in places where people come forward to take up a particular project or a work, contributing either labour or matching money contribution, expecting aid from the State and Centre. It is suggested if people take the initiative for contributing 1/3rd of the cost of the project, the balance 2/3rd could come from State and the Centre on equal sharing basis. Such matching contributions from the State and the Centre are over and above the normal allocations, due from the higher Governments to the Local bodies. Such a programme, reflecting the spirit of ancient schemes like Kudimaramath, would help to inject considerable impetus to the spirit of self-help and self-respect among the people and their Local bodies. Such projects can cover the long felt needs in the field of education, health, irrigation and other common amenities. The Government can encourage such voluntary contributions and provide funds which will help creation of assets with the public participation and also ensure a proper maintenance later.

3. Consequent on the policies of economic liberalisation, corporate institutions are coming up in large number, besides existing institutions and business houses. There are many industrialists living abroad as NRIs. It may be possible to persuade such NRIs or the Industry or business houses to either donate liberally to a common development fund or take up specific schemes in the areas of their choice. This may need some incentive by way of exemption from or concession in tax benefits. Such a scheme was available for rural development some years earlier and this could help developing infrastructure in the local bodies. Consequently, the strain on the Government and local body finance could be reduced, and money thus saved could be utilized for maintenance.

4. The local bodies should be educated to take advantage of specific, purpose-oriented central schemes like non-conventional sources of energy, rain harvesting schemes etc. and promote development in their area in the respective fields. Efforts should be taken to ensure that allocation for such schemes are neither left under-utilised or unutilised.

CHAPTER - 7

DISTRICT PANCHAYATS

2.7.1 Section 24 of the Tamil Nadu Panchayats Act, 1994 contemplates the constitution of District Panchayat for each district having jurisdiction over Panchayat Unions and Village Panchayats. This is the first highest tier of the Rural Local Bodies as envisaged in the 73rd Amendment to the Constitution of India. Accordingly, the Tamil Nadu Government have constituted District Panchayats in all the districts in their G.O. Ms. No.100, Rural Development Department, dated 13-4-1995. The Collectors have been appointed as Special Officers and the Project Officer, DRDA is now holding the post of Chief Executive Officer. The Government have transferred the employment-oriented programmes which were being executed through DRDA to the District Panchayats, and the related funds have also been placed at the disposal of District Panchayats. The role of the District Panchayats, as envisaged in the Act is only advisory in character and watching the progress of the schemes in the Panchayat Unions and Panchayats. and also to advise on matters on which the Government need advice from the District Panchayats. The G.O. has however entrusted the monitoring of employment-oriented schemes to the District Panchayats and also placed at the disposal of DPs the officers and staff working under the control of DRDA and also some of the officers from the Collectorate. Paragraph 12 of the G.O. indicates that all expenditure relating to implementation of programmes and expenditure on staff shall be debited to the DP General Fund and that further additions to DP General Fund shall be based on the recommendations of SFC.

2.7.2. The role of District Panchayat and the activities earmarked among DP, PU and VP in respect of the 29 items indicated in Schedule 11 to 73rd Amendment to the Constitution, duly incorporated in the new Tamil Nadu Panchayats Act, 1994, have not yet been finalised. The existing scenario is that, DPs will operate the employment-oriented schemes like JVVT etc. transferred as per the above G.O. In respect of these programmes, provisions have already been made in the Budget for the schemes as well as for the cost of staff involved. The entire money will therefore be flowing to the General Fund of DPs as per the district allocation now being made by the Government. As far as the additions to DP General Fund are concerned, SFC has taken the view that out of the total allocations to be made by State Government to the Local Bodies, after dividing such allocation between Urban and Rural as per the norms proposed by SFC, the amount needed for the actual expenditure of the DPs will be retained out of Rural allocation and the balance will be distributed to PUs and VPs. on principles proposed by SFC. The amount retained for DPs will be distributed as Block Grant. In this context, the probable expenditure needed for a DP has to be evolved which will again depend on the role of DP to be decided by the Government. However the DRD has given some indications of the

requirements of the staff. This has been projected for the year 1997-98 and indicated as Rs.21 lakhs. Projection for subsequent years upto 2001-2002 has also been furnished. It appears that the staff covered by and JVVT and other employment programmes have been included in this estimate but, for them provision is already available in respective budget of the government and they have been distributed to DPs already. The amount needed over and above that for the new set up has not been clearly indicated. However, recently Government have distributed funds to District Panchayats to an extent of Rs.1 crore each for 1996-97. Taking this as guidelines, devolution of block grant to District Panchayats is discussed in Part V of the Report. The suggestion for assignment of Local cess to DPs and block grants to meet actual needs could be the recommendations of the SFC for the time being. When Devolution of functions and the new setup of the DPs office is known the amount further required can be reappropriated from the total pool intended for Rural.

2.7.3. Recommendations:

The SFC recommended the following:

The suggestion for assignment of Local cess to DPs and block grants taking the distribution made for 1996-97 to District Panchayats by Government at Rs.1 crore each as guidelines to meet actual needs could be the recommendations of the SFC for the time being. When devolution of functions and the new set up of the DPs office is known the amount further required can be reappropriated from the total pool intended for Rural.

CHAPTER - 8

DEBT SERVICING AND LIABILITIES

2.8.1. The analysis of revenue receipts and expenditure shows that there is a marginal surplus in most of the local bodies but as a matter of fact, the surplus found is not a real one.

2.8.2. The expenditure is limited to the available funds and does not reflect the provision actually needed. In view of the deficit in finances, the deficiency in provision of funds relating to debt servicing and contribution payable to Pension Fund is found very common.

2.8.3. The debt servicing is a major issue which needs better understanding of fiscal conditions to ensure sound financing of the local bodies. Efforts taken to improve the resources will not be really useful if the accumulated liabilities are allowed to continue. At the same time, if the increase in revenue realised is diverted towards discharge of liabilities, it will hamper the improvement in core services of the local bodies. The debt position today is an accumulated one over years. The position of Debts accumulated in the various urban local bodies as on 31.3.94 is shown below in the tables:

Table 2.65 I. Loans of Local Bodies (Rs. in crores)

Name of Institution	Annuity overdue		Penal Int.	Current Annuity pending	Total
	Prl.	Int.			
Corpns.	127.86	25.89	0.02	8.10	161.87
Municipalities	38.89	53.82	1.16	20.64	114.51
Town Pts.	20.96	23.39	0.26	3.30	47.91
Total	187.71	103.10	1.44	32.04	324.29

Table 2.66 II. Ways and Means Advances: (Rs.in crores)

Institution	Amount overdue		Current due	Total
	Prl.	Int.		
Corpns.	0.38	0.37	—	0.75
Municipts.	5.77	4.33	3.19	13.29
Town Pts.	3.96	4.65	0.53	9.14
Total	10.11	9.35	3.72	23.18

2.8.4. Debt position mostly relates to Loan for Water Supply Schemes. The loans are normally repayable over a period of 15 years and the annuity is accordingly fixed. It could be seen from the tables above. Interest liability is more than the principal.

2.8.5. The following factors contributed for the accumulation.

i. No proper estimation of the schemes seems to have been done in many cases which is evident by cost over run, much more than inflation due to time over run. The Local Bodies have no say either in original or Revised Estimates prepared by the Technocrats.

ii. The time over-run has been considerable. (even to the extent of six to seven years) The Local Bodies have no effective control or say on this aspect.

iii. While moratorium is allowed for repayment of the principal, the interest liabilitystarts from the date of sanction, to be paidfrom the local body's funds even before the benefits of the schemes accrue to local body. The principal is drawn by the implementing body directly from Government and the local body had no chance of even earning interest on the principal. The non-payment of interest on due dates, which is not wilful, entails levy of penal interest which is an addition to the already accumulated interest liability.

iv. The User charges could not be fixed to meet full cost recovery in view of affordability. Even the rates now in force could not be fully realised in view of deficiency in supply of water. The realisation of user charges takes considerable time after handing over of the scheme which contributed to further delay in payments. (v) In the case of Remunerative works, the rent rates indicated by P.W.D. were very low and even for that, the interference at higher level combined with collusion at lower level depressed the lease amount.

2.8.6. Water Supply is a Core Service on which attention is paid at National level to achieve a minimum level of supply to each individual as per targeted norms adopted by Governments. The Local Bodies, whether Urban or Rural cannot bear the entire burden of the Schemes which involve huge investments. Rural Water Supply is taken care of by Government in full. In the case of Urban bodies also the lower grades of Municipalities and Town Panchayats need assistance from Government not only by way of Loan but also through Grants.

2.8.7. In the case of schemes already completed, with huge cost and low returns, unless special assistance is given, it may not be possible for the local bodies to repay the amount. The following are the recommendations made for ensuring regular payments.

1. The payment schedule may be revised with more number of instalments.

2. Interest rate may be subsidised by the Government to lower level of tiers of urban bodies.

3. Clause for penal interest may not be insisted upon in view of the slender financial resources of the local bodies, and the default in payment not being wilful.

4. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out, to avoid high overhead cost included therein.

5. The local bodies may be allowed to clear the arrears by paying current annuity with one instalment of arrears without additional instalment on outstandings.

2.8.8. It has been brought notice that assistance assured to compensate certain expenses incurred by the local bodies consequent to policy decision of the Government, such as"D.A. subsidy" has not been released for several years (which was assured to the local bodies for compensating the additional expenditure incurred by the local bodies for payment of enhanced D.A. from time to time). The Directorate of Municipal Administration has estimated this arrears till 31.3.95 at Rs.45 crores in its letter to Government dt. 1.2.95 Similarly such payments are stated to be due to Town Panchayats, Panchayat Unions and also Municipal Corporations for a number of years. The quantum of arrears is not readily available with the Commission. The SFC recommends that such arrears not paid by Government could be sanctioned and adjusted towards the debts due from the local bodies.

2.8.9. Similarly it has also been noticed by SFC and also indicated in earlier chapters that the assignments of revenues due to local bodies from out of surcharge on Sales Tax, Local Cess and Local Cess Surcharge, Mines and Minerals has not been adjusted for quite number of years. The amount not released has accumulated in Government account. The SFC recommends that these amounts can also be sanctioned and adjusted by the Government wherever possible to the Local Body concerned against the loan payments due.

2.8.10. If timely adjustment of all these revenues is ensured by special direction from Government in future years, compulsory repayment of the current annuities along with one instalment of annuity over-due can be insisted upon from the Local Bodies.

2.8.11. The Directorate of Municipal Administration has stressed the necessity for payment of compensation for the loss in property tax administration due to the

postponement of quinquennial revision during the years 1975-76, 1980-81, and 1985-86 and also because of the ceiling fixed for the revision to be made by the local bodies. The hands of the local bodies are stated to have been fettered to exploit the taxation powers in full. The loss has been estimated at Rs.81 crores for the three general revisions which have not taken place in Municipalities. In addition, the DMA has also indicated a loss of Rs.19.76 crores towards the amount due from school buildings which have been exempted from payment of property tax due to the policy of the Government. The same position exists in other local bodies also. The loss of revenue due to the concession to school buildings works to about Rs. 5 crores in Municipalities per year and Rs.1.25 crores in Corporations and about Rs. 1 crore in Town Panchayats.

2.8.12. The SFC feels that there is no provision to compensate the loss so far incurred. The SFC has already taken a stand that in future, if the Government interferes with the taxation power of the local bodies, or grant any exemption in any of the levies ultimately due to the local bodies, the local bodies should be compensated to the extent of the loss suffered by them. In this context, the SFC would like to indicate that the Government may consider the scaling down of the loan commitment of the local bodies or the re-scheduling of the loan repayments suitably after adjusting the dues from the Government to Local Bodies and also giving rebate on interest elements including waiver of the penal interest levied.

2.8.13. In the case of Debts created for Remunerative Schemes, the Government should give liberty to fix rentals by the Local Bodies suitable to market conditions (as already dealt with in earlier chapters) to enable them to discharge the liability.

2.8.14. The repayment of existing debts on these items may be rescheduled with more instalments.

2.8.15. The Government also should make the technical agencies who implement the schemes responsible for sharing the escalation by prescribing a time limit for completing the work and the local body should have a say whenever the works are not done within the time limit.

Other Liabilities:

2.8.16. The local bodies have huge liabilities under two heads, namely, (1) payment of pension/pensionary contributions (2) remittance of provident fund amounts collected from the employees but not deposited in the accounts of the Government.

Pension Liabilities:

2.8.17. Local body employees have been declared eligible for all pensionary benefits that accrue to the Government servants. The Government formed a separate fund for this purpose administered by the Examiner of Local Fund Accounts (now the Director of Local Fund Accounts) and the local bodies have been directed to pay a

contribution of 8.33 % as pension contribution on the maximum of the pay scale of the employees per year. This was subsequently modified as 10 % and finally increased to 20% (in 1993). The information furnished by the Director of LF Accounts indicates that an annual contribution of about Rs. 6 crores is payable by the local bodies to that fund. The total outgo from that fund every year towards pension, increased DA to the pensioners, gratuity for the people retiring during the year comes to about Rs. 19 crores as may be seen from the table below:

Table 2.67 Pension Contribution Demand and the Commitment on Payment of Pension and Other Benefits (As in 1995-96)

Name of Local body	Pension contribution Demand for 95-96.	Expre. on pension.	Deficit
		(Rs. in crores)	
1. Municipalities	2.30	6.71	4.41
2. Panchayat Unions	2.29	8.31	6.02
3. Town Panchayats	1.72	4.81	3.09
Total	6.31	19.83	13.52

2.8.18. Even the normal contribution of Rs.6 crores is not being remitted regularly by many of the local bodies for want of funds. A table showing the payment pending with the local bodies on this account, as on 31.3.94 is furnished below (as obtained from Director of Local Fund Audit Tamil Nadu)

Table 2.68 Details of Pension Contribution payabale by the Local Bodies

Local Body	Pension arrears (payable by Local Bodies)	Contri-bution to LF Pending	Contri-bution to Govt. Pending	Total
		(Rupees in lakhs)		
Corporations.	1.53	1.28	—	2.8
Muncipalities.	96.78	28.07	41.23	166.08
Town Pts. 45.07	176.14	1.20	222.4	
Panchayat Unions		262.87	35.55	298.42
Total	**143.38**	**468.36**	**77.98**	**689.72**

2.8.19. As on 31/3/94, the arrears to be paid by the local bodies to Local Fund Department on account of pension contribution is about Rs.4.68 crores. The Government have adjusted arrears payable by the Municipalities and Town Panchayats from out of the Surcharge on Sales Tax and also from the arrears of Profession Tax payable to these bodies on behalf of B, C and D Group of employees from the Government.

2.8.20. The Director of LF Accounts has pointed out to SFC that in spite of the adjustments made from these assigned revenues and even after withdrawing some amount from the corpus fund created for this purpose, he has not been able to pay the pension due to the local body employees in full and still there are arrears payable towards the enhanced D.A. and other benefits granted by the Government in certain local bodies. He has also pointed out that even if the entire pension contribution is collected from the local bodies, there will be a regular gap of about Rs.12 to 13 crores per year at the present level, which will be increasing year after year in view of the enhanced D.A. payment and the additional pensionary benefits likely to accrue consequent on the revision of pension whenever Pay Commission recommendations are implemented.

2.8.21. The main issue is about the authority Which will meet the gap between the contribution collected and the actual pension payment. Since Local Bodies have been required to pay 20% contribution it does not appear correct to ask them to meet the balance also. This will amount to the total pension being paid by the local bodies themselves. This was not visualised, when the pension scheme was introduced. This will not also be practical since the Local Bodies find it difficult even to pay the salary of staff and pension contribution. In fact, they find it difficult to raise additional resource needed for the enhanced D.A. and the pay revisions from out of their inelastic resources.

2.8.22. This situation warrants that the Government alone will have to bear the commitment. Creation of a separate Fund, administered by the Director of Local Fund Accounts and Audit for this purpose will not be viable unless the Government contributes to the fund from time to time to cover deficit. Instead the contributions of the Local Bodies may be adjusted against the releases to be made by the Government or got remitted to Government account by compulsion and the entire pensionary payments could be taken over by the Government with direct payment through the Treasuries.

2.8.23. The Director of LF accounts may, perhaps, continue to be the authority sanctioning pensionary benefits for the employees of the local bodies, since the transfer of this work to the Accountant General may not be acceptable to him without additional staff deployment. SFC feels that the retired employees of the Local Bodies should not be made to continue in unpredictable position in getting their monthly pension. Since the Government have extended the pensionary benefits to the employees of the Local Bodies on par with the Government employees with a Social objective, it is but fair that the Government comes to the rescue of the Local Bodies in this respect.

2.8.24. SFC therefore recommends that the Government should accept the gap in commitment of pensionary benefits to the employees of local bodies.

Provident Fund:

2.8.25. The employees of the Local Bodies are eligible for the Provident Fund scheme. The Fund is administered by the Local Bodies themselves. The Local Bodies deduct the subscriptions from salary but do not remit the amount so collected into the Deposit Account of the Government. Interest earned out of the PF deposit will be utilised for payment of interest to the employees. Due to paucity of funds, most of the Local Bodies while drawing pay bills show the recovery particulars for the PF but do not remit it. Only the net amount required for payment to staff as salary is drawn and the recoveries are taken credit in the respective Deposit Accounts. The procedure is that the money kept in the Deposit Account should be drawn and remitted to the Government account in the Treasury under the head "Deposits bearing interest". The interest accruing on these deposits is not normally adequate to meet the interest commitment on the subscriptions. As on 31-3-94, the subscriptions not remitted by the Urban Local Bodies works out to Rs.15.06 crores (Corporations, Municipalities and Town Panchayats all put together) as given in the table below:

Table 2.69 Provident Fund amount pending remittance

	Provident Fund not remitted	Fifth Pay Commission arrears to be credited to PF not remitted (Rupees in lakhs)
Corporations	622.59	444.23
Municipalities	691.68	462.79
Town Panchayats	191.63	80.78
Panchayat Unions	n.a	n.a
Total	**1505.90**	**987.80**

2.8.26. In addition,the arrears of Fifth Pay Commission, ordered to be credited to the Provident Fund account of the employees have not also been adjusted by these Local Bodies to the credit of the PF account of the employees and as on 31-3-94 the arrears in these three local bodies amount to Rs.9.88 crores.

2.8.27. Since there has been no earnings on PF deposits, the amount to be met from the Local Body funds, as interest payable to subscribers will also be sizeable. Ultimately when an employee of Local Body retires from service he will face difficulties in realising terminal benefits out of Provident Fund.

2.8.28. The SFC considers and recommends that the entire Provident Fund administration may be taken out of the control of the concerned Local Bodies and may be centralised, as in the case of Government servants which is done by the Accountant General. This can be entrusted to Director of Local Fund Accounts for administration as par with A.G. The total Provident Fund deduction by the Local Bodies may be worked out at least once in a half-year and the amount got compulsorily remitted to the authority concerned. If necessary, in the case of defaulters, adjustment from the Government assistance to be released by the Government to the Local Bodies may be resorted to.

2.8.29. Unless some such drastic step is taken, the appropriation of this fund by the Local Bodies can not be prevented which caused difficulties to the employees retiring after a long period of service.

2.8.30.. Recommendations:

In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

i. The payment schedule may be revised with more number of instalments.

ii. Interest rate may be subsidised by the Government to the LBs in the lower level grades.

iii. Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.

iv. The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.

v. The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.

vi. It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.

vii. It is brought to the notice of SFC that the assignments of revenues due to LBs from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.

viii. If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.

ix. **The SFC recommends** to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local Bodies. Rebates on interest element including waiver of penal interest may also be given.

x. In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.

xi. The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The LBs should have a say in cases of time over-runs.

2.8.31. Pension Contribution and Commitment on Payment of Pension

i. **The SFC considers** that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the LBs. are not in a position to meet even the monthly salary payments and the pension contribution.

ii. The SFC, therefore, considers that the Government may to bear the commitment

iii. SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted

against releases to be made by Govt. or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.

iv. The Director of LF Accounts may continue to be the authority to sanction pensionary benefits.

Provident Fund

2.8.32. The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local bodies cannot be controlled.

CHAPTER - 9

DEVOLUTION OF FINANCE CONSEQUENT TO DEVOLUTION ENVISAGED UNDER 73RD AND 74TH AMENDMENTS TO THE CONSTITUTION

2.9.1. Under the 73rd Amendment to the Constitution, 29 items have been indicated in 11th Schedule as those to be administered through Rural Local Bodies. The 74th Amendment to the Constitution indicates 18 items in Schedule 12 to be administered through Urban Local Bodies. It has also been indicated that the list is only illustrative and not exhaustive and the State Government can entrust any other item which they deem fit for being implemented through Urban or Rural Local Bodies.

2.9.2. out of the 18 items in Schedule 12 to be transferred to Urban Local Bodies. 9 items are already administered by the Urban Local Bodies either from their own funds or with the assistance of the State Government. Only 9 items now remain to be decided for transfer to the control of Urban Local Bodies. There are no tiers as in the case of Rural Local Bodies and each Urban Local Body is a separate entity. SFC had held elaborate discussions with the Heads of Departments and Secretaries to Government and had also worked out a model package for devolution at the appropriate tiers and if necessary, in a phased manner. The orders of the Government are still awaited. These aspects have been dealt with in greater detail in the Part IV relating to "Streamlining the delivery System".

2.9.3. Pending issue of orders on devolution of functions by the Government, SFC is not in a position to examine the financial impact arising out of these devolutions to the Rural and Urban Local Bodies. Hence, no specific recommendations have now been proposed. However, SFC expects that with the orders of devolution of functions, the funds and functionaries already existing will also be devolved to appropriate Local Body. Any marginal adjustments needed on the financial impact could be examined only after completion of devolution of functions.

CHAPTER 8

POSSIBLE AREAS OF PRIVATIZATION IN CIVIC SERVICES

3.8.1. Privatization of infrastructure is a product of poor performance of public systems and drying up of traditional source of funds for such schemes. This process is gaining support from the Government, having innovations in the financial markets and designs such of schemes and programmes, which focus on outright privatization to gradual disinvestments.

3.8.2. Although privatization has received much attention over the past few years, the concept is neither new nor unique. In western countries, even inherent Government functions such as tax collection, mail delivery etc. were performed by private contractors. Even in India, private sector has come in a large way in providing shelter and other services. But it is wrong to presume and expect that all public services can be privatized. In fact, evaluation of the services that have been already privatized indicate that many of the eulogised advantages are yet to materialize. A factor crucial to privatization is the fixation of tariff and the willingness to pay for the services. In fact the need for privatization in itself would not have arisen, had the Government revised the rates regularly.

3.8.3. The concepts in vogue in Privatization of infrastructure are BOT, BOO & BOOT. These are forms of concessions usually referring to new projects where the private party leases assets from a public authority for the provision of a service. BOT: Build, Operate and Transfer is a concession wherein a private party agrees to finance, construct, operate and maintain a facility for a certain period and transfer the same to the Government after an agreed period. BOO, on the otherhand, enables the operator to Build Own and Operate and a similar form of concession is BOOT - Build, Own, Operate and Transfer.

3.8.4. Private mobilization of resources for infrastructure is possible provided they are structured to meet the investor's needs. Such private investments can provide better and efficient service. This is because private institutions achieve their results using standard instruments (equity, bonds, internally generated cost etc.), risk assessments (foreign exchange regulation, political interference) and cost mechanisms. Debt for such projects, apart from private entities

(with Government guarantee) and commercial lenders, come from external funding only through intermediary routes. In countries wherein privatization has been accepted, there has been a parallel growth between infrastructure financing and the capital market.

3.8.5. The potential advantages of private agencies over the Government organizations include, their:

* Ability to operate in competitive market to offer lower production and delivery costs
* Greater efficiency in service delivery
* Better access to current technology
* Greater capacity to obtain and maintain capital equipment
* Wider choice and more flexibility in service provision
* More efficient decision making
* Reduced financial burdens on government for wages,operating costs, debt servicing and investment
* Fewer restrictions in work and hiring practices and
* More flexibility in adjusting the types and levels of services to changing needs.

3.8.6. The experiences of CIDCO (City and Industrial Development Corporation), Bombay in privatization of water supply, of MMWSSB (Madras Metro Water Supply and Sewerage Board) in Pump House maintenance and privatization of Solid Waste Collection by Chennai and Bombay Corporations are fairly successful examples. It is difficult to replicate them but the principles of privatization emanated are understandable and clear. Some of the possibilities of privatization of infrastructure facilities are as follows:

Maintenance of Water Supply Systems, Sewerage Treatment Plants and Pump Houses:

3.8.7. Maintenance of Water supply system is a potential area for privatization. The Local bodies can be responsible for development of water resources and conveying them to storage reservoirs. Beyond that, the supply to households can be taken up by the private agencies. All the maintenance functions like repairs and maintenance of pipe lines, pump houses, chlorinators, preparation of water charges bills etc. has been entrusted to private contractors in the case of CIDCO. CIDCO buys water in bulk from MWSSB and the delivery of water supply is directly done by them. But the O&M and collection has been privatized. CIDCO has also privatized repairs and maintenance, O&M of Pump Houses, billing and recovery. It has been assessed that the effective savings are in the range of 25 to 30%. In case of Madras Metropolitan Water Supply and Sewerage Board, they have privatized O&M of 22 head works, 22 wells at Anna Nagar. For the O&M of bore wells the cost of MMWSSB works out approximately to Rs.22 lakhs whereas private bids were received 22 to 40% less. Similar to the lines of water supply, pipeline maintenance, yearly contracts have been awarded to the lowest bidders to maintain the sewerage treatment plant and pump houses. CIDCO, Bombay and Metro Water, Madras have privatized these activities. Apart from the better delivery of services, there has been a reduction in cost by 40%.

Collection and disposal of Solid Waste:

3.8.8. The major maintenance functions like street sweeping, debris removal, garbage collection and cleaning of markets and shopping complexes etc. can be entrusted to the private sector. If the disposal mechanism involves simple land filling even this can be contracted out. The total town can be divided into a few sectors and roughly a sector with 25,000 population can be entrusted to a single contractor who can arrange to lift 10 to 15 tones of garbage collected per day from 25 to 30 points and clean about 8 to 10 kms. of road per day. However, the work done by the contractor should be maintained on record and a sanitary inspector or some other authority responsible for the disposal of solid waste should periodically supervise the operations of the Contractor. The experience of Chennai Corporation in collection of solid waste shows that the role played by the private organization will even attract public participation and that could dramatically improve the collection performance. Chennai in fact is known for EXNORA clubs which for a fee of Rs.20/- per month organizes primary collection. These are in turn dumped at the Corporation transfer points. Similarly, the CIDCO, experience in Bombay shows that expenditure to the organization will be much less than what would have been the expenditure if they had maintained the system on their own.

Collection of Service Charges:

3.8.9. It has been a moot question whether collection of service charges and taxes should be privatized. Experience in Bombay Corporation shows that though there are initial increase in collection performance, it subsequently led to public harassment. However, this showed some improvements when CIDCO entrusted the same task to prominent NGOs and Social organizations like the Senior Citizens Club, Lions Club etc. by permitting them to retain one percent in addition to providing office space. This resulted in improved collection performances apart from giving flexibility of timings for the people to pay their dues. It has also been experienced that CIDCO would have spent 2.5% less of the total collection even at a higher level of collection performance.

Development and Maintenance of Parks and Gardens:

3.8.10. It has been the practice of the administration to entrust maintenance of Parks, Gardens, Traffic Islands and other green spaces around the city to industrial houses and NGOs in lieu of advertisement rights given to them. CIDCO's experience of further streamlining this system has been by inviting open tenders to maintain parks and gardens by fixing the reasonable level of maintenance by the fixed number of labourers and the items of work to be performed being laid down. In return, the contractor can be permitted to lease out the space for advertisement.

Maintenance of Streetlights and Roads:

3.8.11. In this, the small local contractors who are likely to respond better to the local public are encouraged to maintain 1000 to 1200 streetlights at a cost generally not exceeding 2.1/2 % to 3% of the value of the assets. The contracts include operation, maintenance and minor repairs of the lights. Generally, a condition is put that at any point of time not more than 5% of the streetlights in the area should be under repair in which case a penalty is levied. It may also be

noted that O&M operation on roads is possible on bus route roads in Town Panchayats, Municipalities and Corporations provided the advertisement rights are with the private operators.

3.8.12. Despite the evidence that private participation has distinct advantages in provision of various services, opposition remains strong in many ways. The most dominant feeling is that these social services ought to be provided by Government and there should be no commercial bidding. Labour Unions fear loss of Government jobs and organized consumer groups apprehend large increase in the cost of subsidized services. Notwithstanding this position, CIDCO's experience show that the overhead routinely levied at 15 to 22% has tremendously come down somewhere between 1.5 to 2% for the service management. Besides, it leads to increased vigilance and public participation in the management of various operations for efficient and better services. Our consultant who were associated with the preparation of the Tiruppur Area Development Project consisting of water supply, sewerage and drainage facilities, industrial effluent system and to improve intra-city roads have estimated a project cost of Rs.589 crores which would be implemented on BOT basis and managed by the New Tiruppur Area Development Company Limited (NTADCL). This project will be funded through a debt of Rs.426 crores and equity of Rs.163 crores. It is proposed to levy composite tax to recover the cost of investment.

3.8.13. Basing on the experience and success in some places, State Finance Commission recommends the following select areas where privatization could be attempted:

* Primary collection and deposition at bins - by community groups in all large urban centers like Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur.

* Regional waste management agency for disposal facility - in Chennai Metropolitan Area and Large Urban Agglomerations.

* Road and street light maintenance on major arteries by providing advertising rights on poles in larger urban and commercial centers like, Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur or Using contracting mechanism for maintaining street lighting.

* Maintenance of pumping Station and Transmission Systems by Private contractors. Chennai has already privatized pumping activities in Sewage Station. This could be extended to integrated schemes.

* Privatization of Sewage Treatment facilities, wherever it could be linked to reuse of treated waste water - (MRL, SPIC Projects).

* Among rural communities, maintenance of Common Resources could be initiated, the Urban Basic Services Programme (UBSP) has succeeded in forming neighborhood committees responsible for certain developmental planning activities. The same need to be extended to the rural communities. In special programmes, UNICEF has trained local communities in O&M of hand pumps. These efforts need to be strengthened.

PART III

IMPROVING CIVIC SERVICES

CHAPTER 1

INTRODUCTION

3.1.1. Providing Civic services for the well being of its citizens is an obligatory function of the local bodies. This has been further reinforced by the 73rd/74th Constitutional Amendment Acts 1992. In common parlance, core Civic service would mean water supply, roads, streetlights, sewerage and sanitation, storm water drain and solid waste management. Some include primary health, primary education and environmental hygiene as equally important civic services to be discharged by the local body towards its citizens. However, these additional services are not proposed to be covered in this Chapter.

CHAPTER 2

PREVIOUS STUDIES

3.2.1. Being a major determinant of quality of life of the people, the levels of Civic services in the local bodies have engaged the attention of many experts and committees. It has been commonly held by them that fixing norms for basic services is an extremely complex task as it depends on a number of variables such as the fiscal capacity of the local bodies and users, topography and geology of the area, technology opted for use and various other factors. Therefore, a given set of norms is at best a guideline and cannot be used in all situations.

3.2.2. There have been several studies by the Expert Groups but they are mostly in urban areas. Foremost among them is the Zakaria Committee (ZC) in 1963 in which an attempt was made to evolve the physical standards, the possible cost implication including O&M cost in water supply, sewerage, storm water drain and roads in small, medium and large towns. The National Institute of Urban Affairs (NIUA) studies in 1986, 1987, 1992, and 1995 on water supply, sewerage,sanitation and solid waste collection and disposal focused on O&M. The National Master Plan (NMP) India, International water supply decade, 1983, the 8th Five Year Plan (1992-97) study by the Government of Gujarat, 1989, Report on Rural Sanitation 1993-94 and Working Group (III) on Expenditure norms, Ministry of Urban Affairs and Employment, November 1995 headed by noted economist Dr.Raja Chelliah did highlight the service levels in Rural areas. Comparative levels of supply suggested by these studies for Water-supply, sewerage sanitation and solid waste management is given in Tables 3.1, 3.2, and 3.3 below:

Table 3.1 Norms and Standards for Water Supply

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
a. Zakaria Committee on Augmentation of Financial Resources of Urban local Bodies,1963	Urban: SmallTowns:45 lpcd Medium Towns:67.5-112.5 lpcd Large Towns:157.5-202.0 lpcd Super Metropolitan: 270 lpcd Rural: Not Suggested	Urban: Small Towns:Rs.227.34 Medium Towns:Rs.277.86-378.90 Large Towns:Rs.492.57-593.61 Super Metropolitan:Rs.820.95 Rural: Not Suggested	Urban: Small Towns:Rs.93.71 MediumTowns:Rs.95.48-109.12 Large Towns:Rs.123.77-128.83 Super metropolitan:Rs.136.40 Rural: Not Suggested
b. Committee on Plan Projects for Industrial Townships (COPP), 1973	Urban: 180 - 225 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
c. Report on Norms and Space Standards for Planning Public Sector Project ToSws,TCPO,Min. of Works and Housing,Govt. of India, 1974	Urban: 180 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
d. National Master Plan (NMP), India, Inter-national Water Supply and Sanitation Decade, 1981-90 Ministry of Urban Development, 1983	Urban: House Connection: 70-250 lpcd with average of 140 lpcd Public Stand posts: 25-70 lpcd with average of 40 lpcd Rural: Piped supply:25-70 lpcd with average of 40 lpcd Spot Source Supply: 40 lpcd	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
e. Planning Commission (PC) Task force on Housing and Urban Development(Financing Urban Development), 1983 High:Rs.1042.00	Urban: Not Suggested Rural: Not Suggested	Urban: Surface System Low: Rs.850.15 High:Rs.1214.50 Groundwater:Low: Rs.694.00 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
f. NIUA: Maintaining Gujarat Municipal Services - A Long Range Perspective, 1987	Urban:SmallTowns:95.125 lpcd MediumTowns: with industrial-base - 150 lpcd Problem areas: 90 lpcd; Average: 80-150 lpcd Large Towns: with Industrial base - 170-210 lpcd Problem areas: 120-125 lpcd Average 115-210 lpcd Rural: Not suggested	Urban: Problem Areas Rs.1254-1463 Average:Rs.627-731.50 Rural: Not Suggested	Urban: Small Towns: Rs.22.99 Medium Towns:Rs.25.08 Large Towns:Rs.45.98-60.61 Rural: Not Suggested
g. Operation Research Group (ORG), Delivery and Financing of Urban Services, 1989	Urban: Small Towns: 80 lpcd MediumTowns: 80-150 lpcd Large Towns: 180 lpcd Rural: Not Suggested.	Urban: Small Towns:Rs.603.15 Medium Towns:Rs.319.03 - 680.28 Large Towns:Rs.804.26 - 1108.09 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
h. Government of Gujarat (GOG) 2005 (papers on Perspective Plan), 1989	Urban:Small Towns: 100 lpcd Medium & Large Towns: 140 lpcd Scarcity Season: 13 lpcd Rural: 40 lpcd	Urban: HouseConnections: Rs.825 Problem areas:Rs.1072.50 Augmentation/Extension: Rs.412.50 Rural: Simple Well: Rs.288.75 Handpump:Rs.99.00 House Connection: Rs.412.50 - 495.00 Regional Water Supply: Rs.495.00 - 990.00	Urban: Not Suggested Rural: @ 3% of Capital Cost
i. Manual on Water supply and Treatment, CPHEEO, Ministry of Urban Development, Government of India, 1991.	Urban:Small Towns:70-100 lpcd Medium Towns: 100 - 150 lpcd Large Towns: 150-200 lpcd Public Standposts: 40 lpcd Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
j. 8th Five Year Plan, Government of India, 1992-97.	Urban: With Sewerage 125 lpcd Without Sewerage: 70 lpcd Public Stand posts: 40 lpcd Rural: 40 lpcd.	Urban: Not Suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita/annum at 1994-95 prices)	Cost of O&M (Rs.per capita /annum at 1994-95 prices)
k. NIUA: Costs of Urban Infrastructure, 1995 (Based on DWSSDU, HUDCO & CIDCO estimates)	Urban: Not Suggested Rural: Not Suggested	Urban:Small Towns:Rs.485.76 Medium Towns:Rs.390-403.97 Large Towns:Rs.569.98 Metropolitan:Rs.203.48 Rural: Not suggested.	Urban: Small Towns:Rs.141.24 Medium Towns:Rs.108.42-119.55 Large Towns:Rs.172.64 Metro: 76.41 Rural: Not Suggested

Table 3.2 Norms and Standards for Sewerage/Sanitation

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
a. Zakaria Committee, 1963	Urban: Small Towns: Low cost sanitation methods Medium Towns: Public sewers with partial coverage by septic tanks, and partial treatment to sewerage. Large Towns: Full coverage by sewerage with proper treatment facilities. Super Metro: Same as above. Rural: Not suggested.	Urban:Small Towns:Rs.353.64 Medium Towns:Rs.429.42-568.35 Large Towns:Rs.694.65 - 820.95 Super Metro:Rs.947.25 Rural: Not Suggested.	Urban:Small Towns:Rs.103.37 Medium Towns:Rs.109.88-117.46 Large Towns:Rs.136.40 - 150.30 Super Metro:Rs.154.09 Rural: Not Suggested.
b. The Manual on Sewerage and Sewage Treatment, CPHEEO, 1980.	Urban: Not suggested in terms of population/area coverage, type of system, etc. However, it said that sewers should be designed for a minimum of 150 lpcd water supply level. Rural: Not suggested.	Urban: Not suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
c. National Master Plan, India, 1983	Urban: 100% population coverage by sewerage system with treatment facilities in class I cities, and low cost sanitation for other urban centers. Rural: Low cost sanitation	Urban: Not suggested Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
d. Planning Commission, Task Force on Housing and Urban Development, 1983.	Urban: Not Suggested Rural: Not Suggested	Urban: Water borne system with treatment: Low:Rs.1214.50 High:Rs.1735.00 Septic tank: Low: 694.00 High:Rs.780.75 Pit Latrines: Low:Rs.416.40 High:Rs.520.50 Rural: Not Suggested.	Urban: Not Suggested Rural: Not Suggested
e. NIUA (1987)	Urban: 100% coverage by Sewerage excluding slums in class I urban centers and cities already have sewerage system. Low cost sanitation methods for other urban centers. Rural: Not Suggested.	Urban: Sewerage: 836.00 - 940.50 Low cost sanitation: 627.00 - 731.50 Rural: Not Suggested.	Urban: Medium Towns: 12.54 - 20.90 Large Towns: 37.62 - 39.71 Rural: Not Suggested.
f. ORG, 1989	Urban: 100% population coverage by sanitation services by using different technological options. Rural: Not suggested.	Urban: Small Towns: 934.99 Medium Towns: 383.41-857.64 Large Towns: 604.27 Metro: 587.45 Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested
g. Govt. of Gujarat, 1989.	Urban: 100% coverage by sewerage with treatment facilities in class I cities and cities already having sewerage systems. Low cost sanitation methods for other urban centers. Rural: Low Cost Sanitation.	Urban: Average:Rs.825.00 Problem areas:Rs.990.00-1155.00 For extension of service Rs.495.00 - 577.50 Low cost sanitation as per design standard of UNDP/ World Bank:Rs.4455.00	Urban: Not Suggested Rural: Not Suggested

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95)
h. Report on Rural Sanitation (1993-94)	Urban: Not suggested Rural: Low cost sanitary methods as pef the models given below: a. Rural concrete plate (without lining) b. Square concrete plate (without lining) c. Single pit (Brick lined) d. Single pit (with provision of double pit in future) e. As above f. As above (with concrete lined and brick flooring) g. Double pit - brick lined (without super structure) h. Double pit - concrete ring - lined (without super structure) i. Single pit (with provision for double pit in future) j. Single pit - concrete lined with honey comb (with provision for double pit in future) k. Double pit - brick lined (with super structure) l. Double pit - concrete lined (with super structure) Average: Rs.2500/latrine	Urban: Not suggested Rural: a. Rs.321 b. Rs.357 c. Rs.714 d. Rs.881 e. Rs.1309 f. Rs.1607 g. Rs.1785 h. Rs.2321 i. Rs.2678 j. Rs.2975 k. Rs.3094 l. Rs.3630	Urban: Not suggested Rural: Not suggested
i. NIUA (1995)	Urban: Not suggested Rural: Not suggested	Urban: Small Towns:Rs.149.98 Medium Towns:Rs.207.82 -442.35 Large Towns:Rs.117.36 Metro:Rs.124.99 Rural: Not suggested	Urban: Small Towns:Rs.25.95 Medium Towns:Rs.35.37 - 35.75.85 Large Towns:Rs.20.12 Metro:Rs.21.43 Rural: Not Suggested

Table 3.3 Norms and Standards of Solid Waste Collection and Disposal

Expert Group	Physical Standard	Cost of provision (Rs.per capita at 1994-95 prices)	Cost of O&M (Rs.per Capita/annum at 1994-95 prices)
a. TCPO, 1970	Urban: Suggested basic guidelines for provision of dustbins, collection centers, disposal of solid waste, etc. Rural: Not suggested	Urban: Not Suggested Rural: Not Suggested	Urban: Not suggested Rural: Not Suggested
b. Planning Commission, 1983	Urban: Not Suggested Rural: Not Suggested	Urban: Rs.87-139, depending upon the standards and size of cities. Rural: Not Suggested	Urban: Not Suggested Rural: Not Suggested.
c. ORG, 1989	Urban: Suggested average waste generation level 380 grams/capita per day Rural: Not Suggested	Urban: For waste collection: Rs.33-100, depending upon the quantity of waste collected For transportation Rs.90 Rural: Not suggested	Urban: Not Suggested Rural: Not Suggested
d. NIUA (1986 & 1992)	Urban: Suggested waste generation level in the range of 250-450 grams/capita per day, depending upon the size of cities, their functions etc. Recommended 100% collection of generated waste in a city. Staff norms: i. 62.78 scavengers per 10,000 population as per UP Health Manual ii. 2.8 sanitary workers per 1000 population as per report of the committee on 'urban wastes', 1973. Rural: Not suggested.	Urban: Not suggested Rural: Not suggested	Urban: Not Suggested. However report mentioned that on an average, 80% of the total revenue expenditure spent on account of salaries and wages of sanitation staff. Rural: Not suggested.

3.2.3. On the lines of decision at the National Workshop of State Finance Commissions in July 1995 at Mussorie, five Working Groups were constituted. Group III, under the Chairmanship of Dr.Raja J.Chelliah, was entrusted to evolve the 'working guidelines' for setting out the minimum norms of expenditure and suggest method of adjusting these norms to specific state or region. The Working Group presented its report in November 1995. It considered Primary education and Primary health also as core functions of the local bodies in addition to water supply, sanitation,sewerage, solid waste collection and disposal. However, for the purpose of this study SFC will confine itself to the last three and the findings are given below in Table 3.4.

Table 3.4 Minimum Physical Standards of Services

Service	Sector	Minimum levels of services to be obtained in next 5 years		Remarks
		Population/Area target	Service level target	
I Water Supply	Urban	100% population to be covered	Piped water supply with sewerage - 150 lpcd Piped water supply without sewerage 70* lpcd (*including wastage of water - roughly 20%)	Public stand posts in the low income settlements. One source for 20 families within a sources/stand posts walkingdistance of 100 meters.
	Rural	100% population to be covered including 'No Source' hard core problem villages in some states.	40 lpcd safe drinking water Additional 30 lpcd in DDP/DPAP areas for cattle needs.	One hand pump/spot source for 250 persons in a walking distance of 1.6 km. or elevation difference of 100 mt. in hilly areas.
II.Sanitation/ Sewerage	Urban	100% city area to be covered by sewerage system with treatment facilities in large urban centers.	Large city: full coverage by sewerage with treatment. Medium town: Public sewers with partial coverage by septic tanks. Small town: Low cost sanitation methods.	In low income areas of large cities community latrines may be provided.
	Rural	All households to be provided access to safe sanitation. Elimination of manual scavenging by using low cost sanitary methods.	Low cost sanitary methods of disposal:- Sanitary latrines of different models may be used such as round concrete plate with lining (single pit)	

Service	Sector	Minimum levels of services to be obtained in next 5 years		Remarks
		Population/Area target	Service level target	
			square brick/concrete plate with/without lining (single pit with provision of double pit), etc.	
III. Solid Waste Collection Disposal	Urban	All the solid waste generated should be collected and disposed	100% collection of generated waste with its proper disposal. Hazardous wastes such as hospital wastes must be incinerated in all cases. Whereas mechanized composting and incinerated is recommended for large urban centers, sanitary land fill method of disposal may be used in small and medium towns.	Keeping in view the refuse generation level and its composition, each local body should determine the requirements of collection bins/ collection centers, kind of transport vehicles to be used, staff deployment for various activities, type of treatment to be given to the collected wastes, etc.

3.2.4. The Damodaran Committee constituted by Government of Tamilnadu in 1990, to look into the finances of Panchayats and Panchayat Unions suggested transfer of resources to achieve minimum normative levels of service. For Road maintenance, it suggested transfer of 20% of Motor Vehicle tax proceeds. The O&M costs were worked out as follows:

Table 3.5 O&M Norms for Roads as per Damodaran Committee

Road surface	O&M Cost/km in Rs.
Mud	9733
Gravel	14724
Metalled/WBM	15369

3.2.5. Similarly, this Committee increased the maintenance cost by nearly three times to Rs.1000/- per year per hand pump and Rs.2000/- per year per power pump. It also suggested replacement of tubelights by the Panchayats twice a year, with a lineman to be deputed at Government cost from the Electricity Board.

3.2.6. The Sector Policy Study (SPS), 1994 commissioned by TWAD Board with support of the World Bank, covered both Rural and Urban areas and broadly looked into long term goals in sources development, project financing, cost recovery, quality and issues in O&M.

Table 3.6 Water Demand Estimation*

Year	Population in lakhs			Water Demand in Million cubic milli liters		
	Urban	Rural	Total	Urban	Rural	Total
1991	192	367	559	1033	759	1792
1996	231	364	595	1136	797	1933
2011	346	546	892	1703	1196	2899

*Source: Sector Policy Study, 1994, TWAD.

3.2.7. All the above studies have made an attempt to arrive at a desired level of civic service by taking into account the capital investment and annual O&M needed. The cost varied with technology options, regional variation and different methods adopted for costing. It is felt not advisable to dilute these norms. However, if there are constraints of resources, it has been suggested to phase out the investments over a number of years. For better life of assets and sustained levels of service, regular O&M must be taken up.

CHAPTER - 3

EXISTING SITUATION ANALYSIS

3.3.1. The State Finance Commission had evolved service Norms and Operation & Maintenance levels for core civic services and possible areas of privatisation of these services in local bodies. The details are as follows:

Sample Methodology:

3.3.2. A few samples of local bodies were taken on the guidelines given by the State Planning Commission wherein the districts were grouped under the following 5 major heads depending on economic character or geographical features viz. urban concentration and industrial, agricultural prosperity, trading and commercial, dry and hilly regions. Of the total 22 districts at the time of sampling, 12 were selected in this process for the study. Further, under each district various categories of local bodies i.e. Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions had been selected at random so as to have a proportionate distribution of all the categories. The districts and the number of local bodies selected under each category are given in Table 3.7.

Table 3.7 Sample Districts and Number of Local bodies

District/ Class	Corporation	Municipalities	Town Panayats	Panchayat Unions	Village Panchchayat	Total
Coimbatore		1	5	4	16	26
The Nilgiris		1	2	2	8	13
Madurai	1					1
Tiruchirapalli	1	1	3	7	14	26
Nagapattinam Quaide Milleth		2	2	6	17	27
PM Thevar		1	2	4	8	15
Chennai	1					1
Chengai MGR		2	4	8	16	30
Kanyakumari		1	5	2	6	14
Dharmapuri		1	2	3	9	15
Salem	1					1
North Arcot Ambedkar				2	6	8
Total Selected	**4**	**10**	**25**	**38**	**100**	**177**
Total Existing	**6**	**104**	**635**	**384**	**12583**	**13712**
Sample %	**66**	**10**	**4**	**10**	**0.79**	**1.29**

Note: Data was collected for 35 Panchayat Unions (covering about 1200 Village Panchayats) and 90 Village Panchayats individually.

3.3.3. The list of local bodies selected is given in the Appendices 95 and 96. Primary information was obtained through a structured questionnaire dealing with basic information, operation and maintenance, staffing and service levels, which was mailed to all the sample local bodies. Field visits were made and informal discussion were held with the officials of local bodies and local citizens to capture their perceptions of existing levels of services and their expectations. To substantiate primary data collected through questionnaire and visits, secondary information on various aspects were cross checked at the Directorate of Municipal Administration, Directorate of Town Panchayats, Directorate of Rural Development, TWAD Board, Tamilnadu Electricity Board, Highways and Rural Works Department and other funds utilizing departments. The shortage and nonconformity of data were made good through the SFC questionnaire and through estimation made from out of the existing service levels based on the relative parameters available.

3.3.4. Based on the information analyzed from the local bodies, certain service level indicators were generated with regard to physical performance, operation and maintenance for all the categories. These indicators are used as the basis for assessing the existing situation and for recommending norms for various service sectors. The sample analysis for each service is given below:

WATER SUPPLY:

i) Average per capita supply per day:

3.3.5. This has been calculated for 1995 population for the sample categories of local bodies. The average per capita supply per day varies with different categories of local bodies. Among Corporations, it is 45 LPCD in Salem and 99 LPCD in Madurai with an average supply of 74 LPCD. In the sample Municipalities, it varies between 47 LPCD and 79 LPCD with an average of 69 LPCD. In Town Panchayats, the minimum per capita supply is 30 liters and the maximum is 66 liters with an average of 42 liters whereas in case of Village Panchayats, it ranges between 6 to 29 liters with an average of 22 LPCD. The average supply level indicated above within each category of local body can be considered as an indicator of the existing supply level. In this context, it may be noted that as per the TWAD Board Standards, the minimum water supply levels should be 70 to 135 LPCD in Urban areas and 40 LPCD in rural areas.

ii) Mode of Supply:

3.3.6. The general mode of water supply are by way of House Service Connection (HSC - metered or unmetered) public stand post, public hand pump and occasionally through lorry tankers. Water supply through HSC and public stand post constitutes the protected water supply. Though 100% HSC coverage is desirable both for levels of service to the public and for recovery of user charge fees, it is not possible on account of lack of adequate source and for want of strong distribution net work. In fact, Government have restrained in some cases giving additional HSCs to minimize water supply consumption. In such cases, the local bodies should provide public fountains/ stand posts and hand pumps in adequate number at the appropriate locations. The Government of Tamilnadu has prescribed norms of about 150 persons per hand pump. The dependency ratio is elaborated in the Table 3.8.

Table 3.8 Dependancy ratio for Water Supply

Category	Population dependent on House Service Connection %			Persons per Standpost/Hand pump		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	59	36	78	127	54	227
Municipalities	32	18	41	184	99	216
Town Panchayats	16	8	29	164	99	221
Village Panchayats	2	1	4	136	93	183

iii) **Storage Capacity Adequacy:**

3.3.7. Table 3.9 given below helps to determine the number of times the tank/reservoir has to be filled in to meet the water demand and to time staggered supply to enable maximum and

equitable supply to the entire town. This also indicates the stand by capacity available in cases of emergency and also helps to estimate pumping machinery and power equipments. It may be noted that Central Public Health and Environmental Engineering Organization (CPHEEO) has prescribed a minimum of 15% Storage Capacity Adequacy ratio.

Table 3.9 Storage adequacy and Distribution Network

Category	Storage capacity to Quantity of water produced - %			Distribution Network Coverage %		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	90	42	199	77	74	79
Municipalities	21	6	37	47	19	87
Town Panchayats	47	7	102	53	34	75
Village Panchayats	43	22	62	14	0	42

(Distribution / Road Length *100)

iv) Distribution Network Density:

3.3.8. The Table 3.9 given above expressed in percentage, is a ratio of the total distribution net work length to the total road length within the local body limits. Though this is an indicator of the extent of physical coverage of the water supply distribution system, it does not give any indication as to which part of the town is poorly connected.

v) Establishment - O&M Expenditure - per capita and per MLD

3.3.9. Please see Table below 3.10. It may be noted that higher O&M expenditure per capita does not necessarily imply higher service levels, as for example, in case of Anna and MGR Districts, the average per capita supply is 32 LPCD and cost of provision of service is Rs.13.69 per capita per annum whereas for 31 LPCD in Coimbatore district the cost per capita is only Rs.3.05 per annum. In contrast, the reduced O&M expenditure per MLD water supplied definitely reveals the efficiency levels. These figures could be utilized in water pricing on quantity basis.

Table 3.10 Water Supply Maintenance

Category	O & M Expenditure per Capita - Rs.			O & M Expenditure per MLD of Water Supplied - Rs.Lakhs		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporation	41	23	57	6.42	2.97	11.69
Municipalities	53	28	77	7.57	5.93	10.12
Town Panchayat	17	9	33	3.75	2.45	4.98
Village Panchayat	10	5	16	1.90	1.10	2.41

(The average normative O&M expenditure per capita per annum on water supply work is around Rs.12/- in rural areas and Rs.40-70 in urban areas.)

(The average normative O&M Expenditure per MLD of water supply per annum is around 5.90 lakhs in rural areas and Rs.10 lakhs in urban areas)

3.3.10. Besides the above statistical interpretation, the isues that emerged during the course of discussion in the field were of the inability of the local body to supply water regularly and of fixed quantity due to erratic power supply and low voltage. In most of the Town Panchayats and Panchayat Unions, regular maintenance staff is not available, casual staff engaged at meager salary are not reliable. Added to this are the inadequacy of sufficient public standpost, ban on house service connection, poor distribution network and shortage of water quantity.

SEWERAGE AND SANITATION:

i) Households covered with a safe disposal system:

3.3.11. Households having access to either Under Ground Drainage (UGD), Septic Tank, Low Cost Sanitation (LCS) or to public convenience are considered to have access to a Safe Disposal System. A sample indication is given in the table below:

Table 3.11 Coverage with Safe disposal system

Category	Average	Minimum	Maximum
% House Holds (HHs) Covered by safe disposal system			
Corporation	44	28	84
Municipalities	23	8	56
Town Panchayat	41	18	73
Village Panchayats	3	1	5
% House Holds (HHs) Covered by UGD			
Corporation	26	0.00	78
Municipalities	3	0.00	11
Town Panchayat	0	0.00	0
Village Panchayats	0	0.00	0
% HHs Covered by Septic tanks			
Corporation	16	2	32
Municipalities	13	4	35
Town Panchayat	24	14	43
Village Panchayats	0.14	0	0.48
% HHs Covered by LCS			
Corporation	2	0	4
Municipalities	2	1	3
Town Panchayat	13	0.35	27
Village Panchayats	0.07	0	0.15

ii) **Operation and Maintenance expenditure per capita per annum:**

3.3.12. This indicator of the cost of providing service to a population can be taken to arrive at the user price to be charged, which could be in the form of a surcharge on water tax or a separate component of property tax. In few of the local bodies, a separate head of account for this sector is not provided. Hence the per capita expenditure as assessed for the sample local bodies given below (Table 3.12) may not be indicative of the actual costs. For Maintenance, the average staff per 10000 population in the categories of technical, skilled and unskilled for various types of local bodies is given in Table 3.12.

Table 3.12 Maintenance Cost for Sewerage and Sanitation

Category	Expenditure per capita per annum - Rs.			Average Staff per 10,000 population		
	Average	Minimum	Maximum	Technical	Skilled	Unskilled
Corporations	40	15	77	0.86	1.60	11.02
Municipalities	48	3	161	0.21	0.28	0.44
Town Panchayats	15	6	28	0.20	0.25	2.13
Village Panchayats	0.20	0	0.30	0.01	NA	0.57

3.3.13. Other issues and observation that emerged during the course of field visits and discussion are the fact that low cost sanitation is yet to improve in design, construction and acceptability; individual septic tanks are the major mode of disposal for most urban local bodies and underground facilities is available, as per TWAD Board information, only in 19 towns and even there, the coverage is limited.

SOLID WASTE MANAGEMENT

3.3.14. In this case, the service level has been assessed by the collection performance of waste, availability of dustbins, vehicle fleet and conservancy staff.

i) Per capita Waste Generation

3.3.15. The quantity of solid waste generated varies among local bodies depending upon the character of the town, whether it is say, tourist, pilgrim centre, market, industrial etc. The sources of waste are generally the household kitchens, hotels, kalyana mandapams, markets, hospitals and industries.

3.3.16. Per capita is the total waste generated divided by the population. But except for weighment in corporations (that too, not regularly) in no other local body, it is weighed at all. In case of rural local bodies, it is mostly the household waste burnt or used as a cattle field. However, for assessing the minimum garbage collection facility, the Task force has assumed an average of 50 gms. per capita per day.

Table 3.13 Per Capita Waste Generation and Collection Performance

Category	Per capita waste generated per day (gms)			Collection performance (%)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	447	333	687	83	74	90
Municipalities	365	223	650	66	62	69
Town Panchayats	163	120	194	38	16	61
Village Panchayats	50	50	50	1	0	3

ii) Collection Performance

3.3.17. It is the ratio of total waste collected and disposed to the total waste generated per day in the local area. Since in most cases, the waste is not weighed, it is estimated by the number of trips made daily between the collection points and disposal yards and the capacity of vehicles. Ideally 80% collection performance is desirable.

iii) Dustbin Spacing:

3.3.18 Availability of dustbins at appropriate locations saves time of the collecting staff and helps in efficient use of vehicles. Table below presents the average distance between two dustbins, and if it is very high then it results in the dumping of waste outside house and street corners resulting in unhygenic environment and also makes the collection tedious and time consuming. In urban areas, the average dustbin spacing should not be more than 100 meters. In rural areas as they exist, they are either absent or negligible.

Table 3.14 Dustbin Spacing and Vehicle Adequacy

Category	Distance between Dustbins (meters)			Vehicle Capacity Adequacy Ratio (%)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	816	230	2151	31	11	68
Municipality	407	172	656	34	21	58
Town Panchayat	2649	368	8638	24	0	56
Village Panchayat	-	-	-	0	0	0

iv) Vehicle Capacity Adequacy

3.3.19. Not merely availability of vehicles, but their efficient use and proper maintenance are the parameters on which collection performance depends. Most of the smaller local bodies employ animal or hand drawn vehicles. In the table above, the hand drawn vehicles have not been included. Vehicle Capacity Adequacy Ratio (%) is the total vehicle capacity available to total waste generated per day.

Table 3.15 Road length per conservancy staff

Category	Road length per Conservancy staff (Meters)			Conservancy Staff per 1000 Population (No.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	280	145	364	0.53	0.43	0.59
Municipalities	423	369	533	0.45	0.35	0.61
Town Panchayats	11445	1322	34550	9.42	0.97	24.82
Village Panchayats	22231	14887	29576	0.02	0	0.05

3.3.20. Efficiency in street cleaning primarily depends on the number of conservancy staff. Public Health Department prescribes the norm of 400-600 meters of road length per sweeper depending on the density of population.

3.3.21. Also given here below are some additional information or indicators like Expenditure per Ton of Waste Collected and O&M Expenditure per capita:

Table 3.16 Some Expenditure on Solid Waste Management

Category	Expenditure per Ton Waste collected (Rs. in lakhs)			O&M Expenditure per Capita (Rs.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	1.63	0.18	4.24	39.09	8.37	91.56
Municipalities	2.92	1.33	4.71	68.31	21.49	129.46
Town Panchayats	2.66	0.24	5.00	18.27	1.70	40.24
Village Panchayats	1.03	1.03	1.03	0.16	0.16	0.16

ROADS AND STORM WATER DRAINS:

i) Extent and Category of Roads

3.3.22. Roads as a necessary infrastructure for economic development and for traffic movement is beyond doubt. The condition of roads depend on its regular maintenance and presence of storm water drain. During the field visits, it was assessed that 30 to 50% of the BT/Concrete surfaced roads are in fair to poor condition. In Town Panchayats and Panchayat Unions, most of the roads are either mud or WBM and suffer from lack of any maintenance. The extent and grade of road in various categories of local bodies is given in the table below:

Table 3.17 Average % of BT/Concrete surface, WBM and others

Category	BT/Concrete	WBM	Others
Corporations	81	12	7
Municipalities	76	18	6
Town Panchayats	25	31	44
Village Panchayats	19	44	37
Panchayat Unions	19	36	35

ii) Staff and O&M Expenditure per km. of Road length

3.3.23. The minimum number of staff required for maintenance of roads as per Highways and Rural Works Department standards is 3 persons per 10 km. The mix of staff would be Technical staff - 1 per 100 km; skilled - 1 per 25 km; and unskilled - 2 per 8 km. The amount spent annually on maintenance of one km. of road is as follows:

Table 3.18 O&M on Roads

Category	Staff per km. of Road Length (Nos.)			O&M Expenditure per km. of Road length (Rs. lakhs)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	0.58	0.05	1.12	0.36	0.07	0.70
Municipalities	0.11	0.03	0.27	0.15	0.06	0.33
Town Panchayats	0.01	0	0.04	0.03	0.02	0.06
Village Panchayats	0.04	0.01	0.10	0.22	0.11	0.32
Panchayat Unions	0.04	-	-	0.037	-	-

STORM WATER DRAINAGE NETWORK

3.3.24. Storm Water Drains are required for channelisation of storm water. Failing this, there will be water stagnation which in turn would pose problems of water borne disease, inconvenience to traffic and pedestrian movements, besides reducing the life of the road. Atleast the main roads should be provided with drains and the minor arterial roads should be given proper gradient to enable the water flow into the drains:

Table 3.19 Network and Types of Drains

Category	Storm Water Drainage Network (%)			Percentage of Pucca Drains		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	38	11	72	98	91	100
Municipalities	38	10	74	44	23	59
Town Panchayats	42	1	84	71	32	100
Village Panchayat s	5	0	17	-	-	-

ii) O & M Expenditure per km. of Drain length

3.3.25. The major O&M expenditure is in the form of cleaning, de-siltation and minor repair every year before the monsoon. The expenditure depends upon the availability of funds apart from the physical and climatic conditions.

Table 3.20 O & M Expenditure on Drains

Category	O&M Expenditure per km. of Storm Water Drains (Rs.)		
	Average	Minimum	Maximum
Corporations	9685	7617	11752
Municipalities	2655	0	7596
Town Panchayats	4002	1037	9453
Village Panchayats	-	-	-

STREET LIGHTING:

It is like a road furniture to enable better visibility at nights.

i) Types of Streetlights and Spacing:

3.3.26. Minimum spacing required between successive lamp posts is dependent on road width, traffic volume, the use (commercial/residential or industrial) and ofcourse on the availability of funds. For a normal two lane road, preferred spacing is 30 meters.

Table 3.21 Spacing and Types of Streetlights

Category	Types of Streetlights (%)			Streetlight spacing (meters)		
	Sodium vapor lamps	Tube lights	Others	Average	Minimum	Maximum
Corporation	13	77	10	28	23	35
Municipality	12	87	1	39	28	49
Town Panchayat	4	91	5	55	44	63
Village Panchayat	1	89	10	59	37	109

ii) Length per staff and O & M Expenditure per light:

3.3.27. Quality of maintenance depends upon the capacity of staff and the lights per staff is an indicator of their work load. In Town Panchayat and Panchayat Union, the maintenance is done by the State Electricity Board on pehalf of the local body. On discussion with Electricity Board staff it was ascertained that the desired norm should be 90 fixtures per person (Technical staff - 1 and Helpers - 10 per 1000 fixtures). The O&M Expenditure on streetlighting is mainly current charges and replacement of spares. The average life of a tube light is 4 months and that of sodium vapor lamp is four years, under normal power supply conditions. The average annual O&M expenditure on streetlighting varies between Rs.450/- to Rs.950/- depending on the type of fixtures, including Rs.18 to Rs.39 towards the establishment.

Table 3.22 O & M Expenditure in Streetlights

Category	Lights per staff (nos)			O&M Expenditure per light (Rs.)		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Corporations	571	70	1541	599	272	998
Municipalities	236	62	323	645	514	918
Town Panchayats	1758	699	3475	297	192	375
Panchayat Unions	3006	95	8185	68	23	127
Village Panchayats	NA	-	-	103	86	122

3.3.28. The Existing Situation Analysis of Core Civic Services in local bodies is completely based on the sample survey. However scientifically the samples may have been chosen and not withstanding all efforts to reflect the reality, this methodology suffers from the lacunae of over-generalization. Therefore, in the following pages, universal figures have been adapted wherever available and the inferances drawn from the sample study have been moderated by interacting and cross-checking with the line departments/agencies. It remains a fact undisputed, that perhaps for the first time an exhaustive attempt has been made to analyse all relevant socio, economic and environmental parameters related to Civic Services.

CHAPTER 4

POPULATION FORECAST

3.4.1. Forecast of population is essential to assess the levels of services and the requirement of funds. Here it is limited to the period of implementation of the State Finance Commission's Report i.e. Five years commencing from April 1997 (1997-98 to 2001-2002). While analyzing the population, it may be noted that Urban and Rural population have been worked out on the basis of census definition. The same is reflected in table 3.23. However, from the points of local bodies, Town Panchayats are now (after bringing them under District Municipalities Act, Amendment 1994) deemed as urban despite the fact that about 421 Town Panchayats representing a population of nearly 59.36 lakhs are still rural in character.

Table 3.23 Population Trends in Tamilnadu and India

	Population in lakhs			Decadal Growth Rate %		
TAMILNADU	**1971**	**1981**	**1991**	**1961-71**	**1971-81**	**1981-91**
Urban	125	160	192	38.63	27.94	19.38
Rural	287	324	367	16.20	13.24	12.92
Total Tamilnadu	412	484	559	28.75	17.50	15.39
Household size Urban	5.10	4.93	4.65			
Household size Rural	4.70	4.64	4.38			
Total Tamilnadu	**4.79**	**4.74**	**4.46**			
INDIA						
Urban	1091	1595	2176	37.90	46.50	36.45
Rural	4390	5257	6287	21.67	19.91	19.60
Total India	5481	6852	8463	24.58	25.10	23.51
Household size Urban	5.23	5.52	5.51			
Household size Rural	5.53	5.44	5.63			
Total India	**5.46**	**5.46**	**5.60**			

3.4.2. As per census figure in comparison to total population of the country, Tamilnadu population has grown at a lower rate in the last two decades. Growth trends for both urban and rural areas indicate decline from 28.75% in 1961-71 to 15.39% in 1981-91. The average household size has reduced too. In forecasting for 2002, the decreasing rate of growth has been used. The annual compounding growth during the same period declined from 2.56% (1961-71) to 1.63% (1971-81) and then to 1.44% (1981-91). It is estimated to go down further to 1.28% by 2001-2002. While computing the population in various categories of local bodies, the change in its proportion to the total population of the State over the last two decades has been used as a yardstick. The forecast is given in Table 3.24.

Table 3.24 Summary of Population Forecast: ** (in Lakhs)

Local Body	1991	1996	1997	1998	1999	2000	2001	2002
Chennai Corporation	38.41	41.58	42.11	42.65	43.19	43.75	44.31	44.87
All Corporations	70.30	75.34	76.30	77.28	78.27	79.27	80.28	81.31
Municipalities	71.86	76.89	77.88	78.87	79.88	80.90	81.94	82.99
Town Panchayats	87.29	92.51	93.69	94.89	96.10	97.33	98.58	99.84
Total Urban	**229.45**	**244.74**	**247.87**	**251.04**	**254.25**	**257.5**	**260.8**	**264.14**
Panchayat Unions & Village Panchayats (Rural)	329.14	350.51	354.99	359.53	364.13	368.79	373.51	378.28
Total	**558.59**	**595.24**	**602.86**	**610.57**	**618.38**	**626.29**	**634.30**	**642.42**

****Note:** The Rural and Urban Break-up in this table do not tally with previous table i.e. Table No.3.23. This is because it defers from census definition of Urban and includes all urban local bodies like Corporations/ Municipalities and Town panchayats.

CHAPTER 5

NORMS FOR CORE CIVIC SERVICES

3.5.1. Fixing up of norms for civic services has been an extremely sensitive issue. Several studies in the past have fixed-up a National Minimum, not withstanding the fact that some States have already crossed this level and that should not act as a disincentive in further improving the services. Any effort to arrive at the norm should take into account the existing levels of services. In Chapter 3, SFC has already analyzed the existing situation as have emerged from the sample study through the questionnaire and through the Indepth study. In fact, in certain cases, the universal data pertaining to the existing service level is available, for example, in cases of water supply (except in Village Panchayats), Roads, Storm Water Drains (except in Village Panchayats) and Street lighting. In all these cases, they have been utilized to arrive at service gaps and investments. In other cases like sanitation, solid waste management, water supply and storm water drain for the Village Panchayats, the sample data have been universalized. Norms have been fixed for 2002 bearing in mind the existing service levels, what is achievable within the constraints of resources and technology and ofcourse a desirable level as assessed by various studies. Based on the norms and forecast of population by year 2002, the quantum of service required has been estimated. Then comparing with the existing level, the service gap has been assessed. Depending on the technology used, the related unit cost has been arrived at and by multiplying the same with gaps in services, the investment requirements have been assessed.

(A) WATER SUPPLY:

i) Existing situation:

3.5.2. While assessing the existing situation, the per capita supply as suggested by the Sector Policy Study of TWAD Board has been taken into account and not the sample survey except for the Village Panchayats. Similarly for mode of supply, persons per standpost and source dependency, the samples have been expanded to universe. The existing position is given below.

Table 3.25 Existing situation for Water Supply

	Source Dependency		Mode of Supply			Persons per	Weighted	Total	
	Surface/ Infilter-ation Wells	Ground Water	HSC	Stand post	Hand pumps	Standpost/ Handpump	Average percapita supply	Population in 1995	Exist-ing supply (1995)
	% of Total Supply		% Population Covered			Nos.	Litres	Lakhs	MLD
Chennai Corporation	99	1	78	10	12	54	73	41.05	298
Corporations	82	18	57	25	18	143	73	74.39	570
Municipalities	83	17	32	44	24	184	48	75.92	364
Town Panchayats	72	28	16	56	28	164	34	91.34	311
Village Panchayats	20	80	2	62	36	170	22	346.08	761

Note:

i. Mode of Supply : Sample expanded to Universe

ii. Per capita Supply: For Corporations, Municipalities and Town Panchayats: Universal figures, in case of Village Panchayats: Sample expanded to Universe.

iii. Persons per standpost: Sample expanded to Universe

iv. Source Dependency: Sample expanded to Universe

ii) Norms:

3.5.3. The norms have been set taking into consideration the availability of source and the possibility of achieving the same in the medium term period i.e. from 1997-2002. While fixing the norms and the unit cost, detailed discussions were held with the officials of Metro Water and TWAD Boards. The supply level indicated below includes domestic, non-domestic and industrial requirements including distribution losses. HSC is suggested as a convenient mode for supply of for cost recovery.

Table3.26 Working Sheet for Water Supply Norms

	Source Dependency			Mode of Supply			Persons per		Total per capita Supply	Estimated Population by 2002	Total Supply Excluding Hand pumps
	Surface	Infiltration	Ground Water	HSC	Stand post	Hand pump	Stamd post	Hand pump			
	% of Total Supply			% Population Covered			Nos.		Litres	Lakhs	MLD
Chennai Corporation	100	0	0	80	10	10	30	100	90	44.87	363
Other Corporations	50	30	20	80	10	10	30	100	90	81.31	659
Municipalities	40	25	35	70	20	10	30	100	70	82.99	526
Town Panchayats	40	25	35	30	50	20	30	125	55	99.84	437
Village Panchayats	40	20	40	5	50	45	30	125	40	378.28	832

Note: Source Allocation is based on discussions with TWAD Board officials.

iii) Gaps, Unit cost and the Capital Investments required

3.5.4. The demand supply gaps in water supply are estimated in terms of quantity of water, number of public standposts and handpumps to be installed to meet the demand of the additional population by 2002.

3.5.5. The unit cost for various sources has been arrived based on costs of some of the recent projects implemented by the TWAD Board. In case of corporations, it has been presumed that augmentation from the existing local sources has been exhausted and therefore successive augmentation will cost Rs.4 crores per MLD. Investment required is arrived by the product of gap and the unit cost.

Table 3.27 Gaps for Water Supply and Additional Requirement by 2002

	Additional Quantity by source			Total quantity	Stand posts	Hand-pump	Source Development Cost			Hand-pumps cost/ unit	Capital investment
	Surface	Infil-tration	Ground				Surface	Infil-tration	Ground		
	MLD			MLD		Nos.	Rs.lakhs/MLD				Rs.Lakhs
Chennai Corporation	66	0	0	66	7165	0	-	-	-	0	26335.73
Corporations	73	30	4	107	12085	832	400	400	112	0.20	41623.43
Municipalities	65	40	56	161	37144	0	94	111	112	0.20	16877.53
Town Panchayats	51	32	44	127	135230	525	94	111	112	0.20	13338.87
Village Panchayats	28	14	28	70	504866	62060	94	111	112	0.20	19823.84
TOTAL	**217**	**116**	**132**	**465**	**689325**	**63417**					**91663.7**

SEWERAGE AND SANITATION:

i) Existing Situations:

3.5.6. Considering its size and requirements, the norms for the Chennai Corporation have been worked out separately. Except for that, the public systems are virtually non-existant and needs immediate action. The existing coverage as has been universalized from sample is given below:

Table 3.28 Existing Coverage in Public System %

Category	UGD	LCS	Public Toilets	SepticTanks/ Private	Uncovered
	Percentage of Population dependent on each system				
Chennai Corporation	85	4	3	2	6
Other Corporations	9	1	0.1	20	69.9
Municipalities	3	2	5.0	13.0	77
Town Panchayats	0	13	4	24	59
Village Panchayats	0	0.10	2	0.1	97.8

ii) Norms:

3.5.7. Norms have been fixed for population to be covered by different safe disposal systems like underground drainage network, septic tanks, low cost sanitation and public conveniences. Except for UGD network, all other systems are built and maintained at the individual household levels. But, with enhanced water supply levels, such systems are not technically and

environmentally viable. UGD system has been recommended for Municipalities having more than 70 LPCD water supply. Basing on these technicalities and what is achievable, norms have been fixed as follows:

Table 3.29 Normative Coverage

Percentage of Population

Category	UGD	LCS	Public convenience	Private or/ Uncovered
Chennai Corporation	90	5	5	0
Other Corporations	30	10	10	50
Municipalities	25	10	15	50
Town Panchayats	0	25	10	65
Village Panchayats	0	10	10	80

Gaps:

3.5.8. Gaps in sanitation have been estimated by deducting from the total population to be covered by 2002, the existing population covered by respective disposal system.

Table 3.30 Gaps in Services:

Category	Additional Population to be covered-lakhs UGD	LCS	Public Convenience
Chennai Corporation	5.6	0.7	2.2
Other Corporations	15.1	3.2	1.8
Municipalities	18.6	6.5	8.8
Town Panchayats	0.0	13.0	6.8
Village Panchayats	0.0	35.8	29.3

Table 3.31 Unit Cost

Rs. Per Capita

Category	UGD	LCS	Public Convenience
Chennai Corporation	2500	800	1500
Other Corporations	2500	800	1500
Municipalities	2500	800	1500
Town Panchayats	-	800	1000
Village Panchayats	-	800	1000

Table 3.32 Capital Investment

Rs. in crores

Category	Amount
Chennai Corporation	156.82
Other Corporations	540.44
Municipalities	414.74
Town Panchayats	100.97
Village Panchayats	257.46
Total	**1470.43**

SOLID WASTE MANAGEMENT

i) Existing Situation

3.5.9. The samples taken during the survey have been universalized to arrive at the existing position.

Table 3.33 Existing Position in Solid Waste Management

Local body	Waste generated per capita Grams	Collection ** Performance %	Vehicle capacity to waste %	Households per dust-bin No.
Chennai Corporation	695	85	68	84
Other Corporations	366	82	41	271
Municipalities	365	70	39	102
Town Panchayats	153	46	27	363
Village Panchayats	NA	0	0	3568

** Note: Aparently the Collection Performance is very high. This is under suspect as revealed by the field position and may be on account of small and unrepresentative samples.

ii) Norms:

3.5.10. In the target year (2002), the total waste generated per day in local bodies is assumed to be 20 to 25% higher than the existing level due to changing consumption pattern. In Corporation and Municipalities, the collection will be done every day except for the internal roads, where it has to be done every alternate days. In Town Panchayats, there will be alternate day of collection and in Village Panchayats, once a week. Similarly, number of households per dustbin is arrived on the assumption that there are 50 houses on a 100 metre stretch of road and the vehicles are assumed to be making 2 to 3 trips a day, carrying 50% of its normal capacity.

$$\text{Capacity of Dust bin} = \frac{\text{(Waste generated per capita x HH size(5) x No. of Hhs/dustbin)}}{\text{Collection frequency in days}}$$

Table 3.34 Normative Level

Local body	Waste generated per capita **Grams**	Collection Performance **%**	House holds per dustbin **Nos.**	Capacity of dustbin **Kgs.**	No. of trips per vehicle **Nos.**
Chennai Corporation	750	90	50	200	3
Other Corporations	500	90	50	100	3
Municipalities	450	90	50	100	3
Town Panchayats	200	50	50	50	2
Village Panchayats	100	15	50	25	2

iii) Gaps:

3.5.11. For Panchayats, atleast one vehicle per Panchayat Union is recommended. In Corporations and Municipalities, it is expected to make 3 trips a day and in Town and Village Panchayats 2 trips per vehicle a day.

Table 3.35 Additional Requirements

Local body	Dustbins required	Vehicle capacity	Nos. of vehicles		
			5 tonne capacity	3 tonne capacity	1.5 tonne Tractor
	Nos.	Tonnes			
Chennai Corporation	8258	1045	146	105	0
Other Corporations	12119	926	130	93	0
Municipalities	18322	1699	170	283	0
Town Panchayats	34911	794	0	132	265
Village Panchayats	149372	567	0	0	384

iv) Unit Cost:

3.5.12. The unit cost of dustbins have been arrived at on current market rates evolved in consultation with officials of Chennai Corporation. The vehicle costs are actual market prices as in 1995-96.

Table 3.36 Unit Cost

Dustbin		Vehicles	
Capacity-kgs	Unit Cost-Rs.	Capacity-Tonnes	Unit Cost-Rs.lakhs
25	600	5	6.00
50	1200	3	4.00
100	2400	1.5 tractor	3.50
200	6000		

v) Capital Investments:

3.5.13. The investment suggested is for collection and disposal only. In addition, the sanitary land fill system would cost Rs.120 per tonne. Other methods of disposal are discussed later.

Table 3.37 Capital Investment

Rs. Crores

Category	Amount
Chennai Corporation	17.91
Other Corporations	14.39
Municipalities	25.91
Town Panchayats	18.75
Village Panchayats	22.40
Total	**99.36**

5. ROADS AND STORM WATER DRAINS:

Storm Water Drains play an important role in maintaining the condition of Roads. Hence they are taken together.

i) Existing Situation:

3.5.14. Existing situation of roads has been analysed in terms of percentage of existing BT/WBM/other surfaces. Existing BT roads have not been taken into account in estimation of capital investments required as the improvements and maintenance forms part of revenue expenditure. It may be noted that the Road length and surface types are universal figures and in case of Village Panchayats, for Storm Water Drains, samples have been expanded to universe.

Table 3.38 Existing Situation of Roads & Storm Water Drains

Category	Road length	BT	WBM	Metal/ Others	Drain Length	% Road covered	Kutcha	Pucca open	Pucca closed
	Km.	% of Total Road Length			Km.		% of Roads Coverage		
Chennai Corporation	2159	99	0.1	1	628	29	0	0	100
Other Corporations	2484	65	17	18	636	23	11	89	0
Municipalities	6052	69	16	15	4760	53	33	67	0
Town Panchayats	13312	29	24	47	5152	23	41	59	0
Panchayat Unions	45504	19	45	35	-	-	-	-	-
Village Panchayats	105252	15	16	69	2175	2	0	100	0

Note: Kutcha Drains are not considered in calculating % roads covered.

ii) Norms:

3.5.15. All roads have to be upgraded to BT in stages i.e. Earthen to WBM and WBM to BT. Similarly for Storm Water Drains, covered or open Pucca drains, are recommended basing on hierarchy of the road. In bus route roads, which carry major portion of traffic, pucca covered drains are recommended. In case of Town and Village Panchayats, open pucca drains are suggested for a portion and other roads do not really need drains.

Table 3.39 Roads and Drainage Coverage Recommended

Category	Roads			Drains	
	BT	WBM	Gravel/Other	Pucca Open	Pucca Covered
	% of total Road Length				
Chennai Corporation	100	0	0	20	40
Other Corporations	100	0	0	40	10
Municipalities	100	0	0	70	10
Town Panchayats	40	40	20	40	0
Village Panchayats	20	25	55	10	0
Panchayat Unions	30	40	30	-	-

Note: In Municipalities existing situation in drains is better, hence norms set to maintain the existing levels. In-case of certain Municipalities with a very low service level, at least main roads are to be provided with drains.

iii) Gaps:

3.5.16. Gaps in roads and storm water drains have been estimated based on the existing situation and the levels to be achieved as per the norms given below:

Table 3.40 Upgradation

	Road to be upgraded		Km.	Drainage Works		Km.
	WBM to BT	Earthen to BT	Metal to WBM	Kutcha to Pucca Open	New Pucca Open	New Pucca Covered
Chennai Corporation	3	25	0	0	432	236
Other Corporations	423	437	0	70	358	497
Municipalities	375	0	555	1564	0	303
Town Panchayats	1479	0	2139	945	0	0
Village Panchayats	5119	-	9293	3684	0	0
Panchayat Unions	2361	2493	0	-	-	-

iv) Unit Cost:

3.5.17. The roads may be assumed to fall into 3 categories of width - single lane (4 metres), intermediate lane (5.5 metres) and two lane (7 metres). The unit cost for each category has been worked out basing on designs. The same has also been discussed with H&RW/PWD officials to ensure that they reflect existing schedule of rates. Presuming that higher width roads are in greater proportion in higher grade of local bodies and that their upgradation cost is higher, the weighted cost of upgradation has been worked out as follows:

Table 3.41 Cost of Upgradation (Rs. in lakhs)

	Weighted Cost of Upgradation per Km. of Road			Capital Cost/Km. of Storm Water Drain		
	WBM to BT	Metal to WBM	Earthen to BT	Kutcha to Pucca Open	New Pucca Open	New Pucca covered
Chennai Corporation	9.30	10.0	25	9.30	10.0	25
Corporations	4.05	6.98	8.49	9.30	10.0	25
Municipalities	3.88	6.70	8.98	9.30	10.0	20
Town Panchayats	3.00	5.10	7.61	5.20	6.0	-
Rural Areas	2.95	5.04	7.85	5.20	6.0	-

v) Total Investment:

3.5.18. The total capital investment required for upgradation of roads is estimated at Rs.1858.17 crores and for the storm water drain, it is estimated at Rs.666.51 crores in the next five years as given below:

Table3.42 Capital Investment required for roads and storm water drains

Rs. Crores

Category	Roads	Drains
Chennai Corporation	174.99	102.08
Other Corporations	54.23	166.47
Municipalities	99.43	157.28
Town Panchayats	153.34	49.12
Village Panchayats	619.39	191.56
Panchayat Unions	756.79	---
Total	**1858.17**	**666.51**

5. STREET LIGHTING

i) Existing Situation:

3.5.19. Street light forms another important infrastructure associated with roads. The levels of service of the street lights depends on the spacing between lamp posts and type of lamps. It also depends on the road hierarchy. Narrow spacing and Sodium Vapour lamps are required on primary network, while distanced spacing and other regular bulbs may be sufficient in teritiary roads. The existing situation as obtained from universal figures is given below:

Table 3.43 Existing Scenario in Street Lights

	Road	Total No. of lights	Average Distance between posts	Distribution of Lights %		
				Tube lights	Sodium Vapour/ Mercury	Ordinary
	Kms.	Nos.	Metres			
Chennai Corporation	2159	78990	27	66	34	0
Other Corporations	2484	79006	31	83	15	3
Municipalities	6052	177874	34	89	10	1
Town Panchayats	13312	214069	62	92	4	4
Village Panchayats	105252	869980	121	94	1	5

ii) Norms:

3.5.20 It will depend on the importance of the road and density of population. Hence, in case of Corporations and Municipalities, the norms will be on higher side. In Corporations, 15-20% of the roads are bus-route roads, 15 meter wide, where lights are to be provided on both sides. It is also recommended to replace ordinary lamps atleast by tube-lights wherever they exist.

Table 3.44 Normative Spacing in Street Lights

Category of Local body	Spacing Metres	Distribution of lights %	
		SodiumVapour	Tube lights
Chennai Corporation	25	40	60
Other Corporations	25	30	70
Municipalities	30	20	80
Town Panchayats	40	10	90
Village Panchayats	80	2	98

iii) Gaps:

3.5.21. Additional number of lights required to be installed is estimated as the difference between the requirements as per the norms and the existing number of lights as given below:

Table 3.45 Additional Requirements

Category of Local body	Additional lights needed - Nos.	
	Sodium Vapour	Tube Lights
Chennai Corporation	8004	0
Other Corporations	18151	4289
Municipalities	21687	3607
Town Panchayats	23839	103065
Village Panchayats	13232	153513

iv) Unit Cost:

3.5.22. SFC has arrived at the unit cost of lights based on the discussion with Chennai Corporation and Tamilnadu Electricity Board Officials. In case of Town Panchayats and Village Panchayats, the costs are based on the charges levied by Tamilnadu Electricity Board per tube-light The weighted cost per lamp has been worked out basing on the use of 70 watts or 150 watts.

Table 3.46 Unit Cost

Category of Local body	Rs. Unit Cost of lights - Weighted	
	Sodium Vapour	Tube lights
Chennai Corporation	7340	4100
Other Corporations	7340	4100
Municipalities	7075	4100
Town Panchayats	5800	3500
Village Panchayats	5800	3000

Capital Investment:

3.5.23. The total capital investment required for street lighting is estimated at Rs.238.20 crores as shown below:

Table 3.47 Capital Investment

Category	Rs. Crores
Chennai Corporation	5.87
Other Corporations	15.08
Municipalities	16.82
Town Panchayats	49.90
Village Panchayats	150.52
Total	**238.19**

3.5.24. The capital investment for all the six core civic services to be delivered at the desired (normative) level in the local bodies has been worked out at Rs.5249.32 Crores for 1995-96. Providing for 12% escalation annually, it is Rs.6584.73 crores at 1997-98 price level. It may be noted that the Corporations and Municipalities which are primarily urban in character, corner nearly 48% of the proposed investments. However, the percentage of increase over the existing level is much higher in the local bodies where infrastructure are not adequate at the moment.

Table 3.48 SUMMARY OF TOTAL COST

(Rs. Crores)

	Service Sector	Chennai Corpo-ration	Other Corpo-rations	Munici-palities	Town Panchayats	Village Panchayats	Panchayat Unions	Total (Base year 1995-96)
i.	Water Supply	263.36	152.87	168.78	133.39	198.24		916.64
ii.	Sewerage and Sanitation	156.82	540.44	414.74	100.97	257.46		1470.43
iii.	Solid Waste Management	17.91	14.39	25.91	18.75	22.40		99.37
iv.	Roads	174.99	54.23	99.43	153.34	619.39	756.79	1858.17
v.	Storm Water Drains	102.08	166.47	157.28	49.12	191.56		666.51
vi.	Street Lighting	5.87	15.08	16.82	49.90	150.52		238.20
	Total	**721.03**	**943.48**	**882.96**	**505.46**	**1439.57**	**756.79**	**5249.32**
Recommended per Capita expenditure per year - Rs.								
A	For 1997 Population	342	552	227	108	81	43	
B	For 2002 Population	321	518	213	101	76	40	
Expenditure Required - Rs. Crores								
C	Per Local Body (5 years)	721.04	188.70	8.49	0.80	0.11	1.97	
D	Per Local Body (per year)	144.21	37.74	1.70	0.16	0.02	0.39	
E	Existing Expenditure (per year)	99.5	23.05	0.56	0.04	NA	NA	
F	% Increase over Existing	45	64	204	298			

3.5.25. Since the investment has to be made over a period of 5 years, it has been phased over 1997-2002 providing for 20% every year with 12% price escalation annually as given below:

Table 3.49 Phasing of Capital Investment

Investment Phasing	Capital Cost 1997-98 Price level	1997/98 20%	1998/99 20%	1999/2000 20%	2000/01 20%	2001/02 20%	Total Capital Cost 100%
i. Water Supply	1149.83	230.0	257.6	288.5	323.1	361.9	1460.94
ii. Sewerage and Sanitation	1844.51	368.9	413.2	462.7	518.3	580.5	2343.57
iii. Solid Waste Management	124.65	24.9	27.9	31.3	35.0	39.2	158.38
iv. Roads	2330.88	466.2	522.1	584.8	655.0	733.6	2961.70
v. Storm Water Drains	836.06	167.2	187.3	209.8	234.9	263.1	1062.28
vi. Street Lighting	298.80	59.8	66.9	75.0	84.0	94.0	379.64
Total	**6584.73**	**1317.0**	**1475.0**	**1652.1**	**1850.3**	**2072.3**	**8366.51**

Note: Price Escalation Factor 12% Annually

3.5.26. The capital investment of Rs.8366.51 Crores is necessary if the service-levels have to be increased in the local bodies as suggested. In fact on this, depends the quality of life of the citizens. At this point of time, the moot question is whether it is within the scope of the SFC to look into the capital investments or confine itself only to Revenue expenditure of O&M. If gone by the words of the G.O. constituting and defining the scope of SFC, only the Revenue expenditures are to be looked into. However, there have been scores of conferences and workshops at the National level and in various other forums, where the Role of SFC has been discussed. All of them have gone on record, that the work of SFC will remain incomplete if it does not look into the levels of civic services and provide ways to improve them. Therefore assessing capital investment needs is an inseparable part. The Project Finances to raise this capital has been dealt with separately.

CHAPTER 6

PROJECT FINANCE

i) Available Windows:

3.6.1. The capital investment needs of the local bodies, especially for water-supply and sanitation is supplemented by way of loans from LIC and Government. These loans are raised on behalf of the local bodies by TWAD, on Government guarantees. Besides, the Urban local bodies are supported by a mixture of loans and grants from the Municipal Urban Development Fund (MUDF). Under the scheme, the Fund provides a performance and need based capital grants, which in case of a deserving local body could be as high as 75% of the capital cost of a service scheme. In this, a Financial Operating Plan is prepared covering five years of past financial history of the local body and it presents a five year forecast of the situation under alternative assumptions of revenue collection, rate revision measures and capital investment decisions. This fund is coming to a close by September, 1996 and it is proposed to upgrade MUDF into a Financial Institution called the Tamilnadu Urban Development Fund. This will have two streams - the loan funds and the grant funds. The grant fund will be targeted towards local bodies with a weak resource base and service levels. These Funds will be managed by an Assets Management Company, with participation from Infrastructure Leasing at Financial Service (ILFS), Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC), apart from equity from the Government of Tamilnadu. In case of small Municipalities and the Town Panchayats, loan based assistance is available from the centrally sponsored Integrated Development of Small and Medium Towns (IDSMT) Programme. Similarly, TUFIDCO, an institution created under the Companies Act in 1989, supports investments in programmes targeted towards lower income areas. It has a share capital of Rs.10 crores and the Government of Tamilnadu has an equity of 51% and the rest are with some local bodies and Housing and Urban Development Corporation (HUDCO). Currently the programmes financed are Low Cost Sanitation, Urban Poverty Alleviation Programme, NRY and associated sub-components. This agency channelises HUDCO loans for these projects. In case of local bodies within the Chennai Metropolitan Area, Metropolitan Infrastructure Development Corporation (MIDC), has been created in 1996, to provide financial support in implementing projects under the Mega City Project. It provides finances to the extent of 50% of the project cost, and offers a 10% subsidy for any service scheme. MIDC is planning to support the entire cost of the project and having been created under the Companies Act, there is no restriction on this agency from borrowing from the capital markets.

ii) Power to raise Resources:

3.6.2. The Central and State borrowings are governed by the Public Debt Act of 1944 and Public Debt Rules of 1946. At the local levels, the borrowings are governed by the Local Authorities Loan Rules, 1937, amended to date. Chennai Corporation is empowered by Chennai City Municipal Corporation (CCMC) Act 1919, to raise resources, by way of debenture or otherwise on security of all or any of the taxes, duties, fees and dues, any sums of money required for construction works, land acquisition, to pay off Government dues or to repay loans previously

raised. But the essential condition is that the previous sanction of the State Government is necessary, particularly the terms and conditions, date of flotation , time and method of repayments needs to be approved by the State. Similarly, the Metro Water Board (Section 32 of Madras Metropolitan Watersupply and Sewerage (MMWS) Act, 1978) and Tamilnadu Watersupply and Drainage (TWAD) Board (Section 34 of TWAD Act) have the power to borrow and raise funds from the Institutions as well as markets with the guarantee by Government.

iii) Guarantee Procedures:

3.6.3. Guarantees are provided for activities related to public interest i.e. for approved public developmental purposes when borrowed from Financial Institutions, Banks or from the Public, mostly for the capital expenses. The proposals of guarantee amounts to a contingent liability and are normally reviewed at the same level as loan. In view of the increasing contingent liability and for the fact that they have been evoked in the past for small sums, G.O.Ms.No.552, Finance Department dated 6-7-1994 stipulates that Government guarantee need not be given in cases, where the activity is purely on a commercial or self-sustaining basis, and also opines that to the extent possible, loan or credit should be against the assets created by the project; the question of guarantees arise only if this is not feasible. In case an organization is financially sound, the Government indicates that the agency could credit rate itself so that need for the Government guarantee is minimized.

3.6.4. The Finance Accounts 1993-94, Government of Tamilnadu below reveals the amount guaranteed and the outstanding principal. These statements have to be necessarily placed before the legislature during the budget session.

Table: 3.50 Government Guarantee and Principal Outstanding

Rs. in Crores

	Agency	Amount Guaranteed	Outstanding Principal
1.	Total	6303.23	3537.70
2.	Chennai Corporation	36.00	36.00
3.	MMWSSB	54.58	12.42
4.	TWAD:		
	a) from LIC,	300.13	240.30
	b) from HUDCO	37.30	27.35
5.	MMDA	4.05	0.60
6.	Coimbatore Corporation	11.68	10.54

3.6.5. Any development proposal for credit or loan generally involves revision of tariffs and rates, and some may even involve levy of new taxes or rates. In the case of Property tax, which is the most important source of revenue for the Urban local bodies, as per the existing rules, it will have to be revised once in every five years; it is another matter that the revision is not being done so. Similarly, in case of environmental services, local authorities can frame bye-laws to levy or raise the user charges. For example, one of the convenants of the World Bank aided TNWSSP was in terms of revision of Water Rates in the project towns. In lines with the agreement, the rates were revised in the project towns of Madurai, Coimbatore and Salem. Whenever a project is sent to finance for guarantees on line with the appraisal methodology, any commitment in terms of revision of tariff and rates is generally accorded priority, as non-commitment would add to the burden of the State in terms of guarantees.

Table 3.51 Financing of Projects (Capital Investment for achieving normative Core Civic Services (at 1995-96 price level)

(Rs. in Crores)

Sector	Corporations	Municipalities	Town Panchayats	Panchayat Unions	Village Panchayats	Total
Water Supply	416.23	168.78	133.39	—	198.24	916.64
Sewerage and Sanitation	697.26	414.74	100.97	—	257.46	1470.43
Solid Waste Management	32.31	25.91	18.75	—	22.40	99.37
Roads	229.23	99.43	153.34	756.79	1376.18	1858.17
Storm Drains	268.55	157.28	49.12	—	191.56	666.51
Street Lighting	20.96	16.82	49.90	—	150.52	238.20
Total	1664.54	882.96	505.47	756.79	2196.36	5249.32

3.6.6. The above table indicates the capital needs for the core civic services. In earlier pages we have rephased this investment over a period of five years (1997-2002) providing for inflation. In case of Corporations, which are mostly viable, we can go for Public Issues of Equity or Bonds or go for Institutional finance. This is also true for the Municipalities that are well off. Depending on the financial position, the Corporations and the Municipalities can go for a mix of Remunerative and Service projects. In case of not so well off Municipalities and the Town Panchayats, we can suggest a mix of loan which can be repaid over a period and grants from the Government. Village Panchayats, whose repayment capacity is poor, will have to depend to a greater extent on Government assistance. In all those, cost recovery by way of user charges atleast towards O&M, can be tried and privatization wherever possible can be taken-up. These concepts and the need for a Capital Fund have been dealt with separately.

CHAPTER 7

NORMS FOR O & M AND STAFFING

3.7.1. In the past, emphasis has always been on capital expenditure, neglecting totally the O&M aspects. This has led to inefficient management and premature aging of the assets. The constraint was mainly resources. Therefore, the thrust is now on closing the gaps to the extent possible by investment in operation and maintenance of service. In this Part III, SFC has subscribed to the view that for better level of operation and maintenance of services, additional manpower for the civic services is indispensable.

Approach:

3.7.2. Now, the issue involved is estimation of Manpower-cost and operation and maintenance cost on a normative basis vis-a-vis the existing position. The existing staff position has been taken by universalizing the sample. The norms for staff have been arrived at for the water supply by considering CPHEEO norms, for public health on the basis of Norms Committee of Government of Tamilnadu and for Roads on the basis of Highways and Rural Works department's norms. For sewerage and sanitation, the staff requirements in term of numbers have been clubbed with O&M and not segregated and for the storm water drains, manpower has been suggested on a temporary basis only for the period before and after the monsoons. The norms on manpower have been finalized after a detailed discussion with the officials of the line departments. For existing expenditure on establishments, the universal figures as computed by the Government Data Centre out of the detailed questionnaires, have been taken and for the normative establishment expenditure, it has been derived from the proposed staff strength except for Corporations where the levels were found reasonable and have been assumed to remain the same. For the O&M, the existing cost has been taken from the universal figures as computed by Government Data Centre except for Storm Water Drains, where no figures were available. The normative O&M cost have been derived from the universal figures except for water-supply, where the norms were fixed after due deliberations with TWAD/Metro Water officials.

Water Supply

3.7.3. Man power norms for water-supply operation is based on Central Public Health Engineering and Environmental Organization (CPHEEO) norms. These norms have been adopted for all local bodies except for Chennai Corporation. In case of Chennai Corporation, the Metro Water Board (MMWSSB) caters to the water supply requirements, and the existing manpower is taken as the normative level.

3.7.4. Operation and Maintenance expenditure has been estimated for all categories based on the source of water; Corporations will need a source of surface water in the range of 75 to 150 MLD, Municipalities in 5 to 25 MLD, Town and Village Panchayats in the order of less than 5 MLD. It is assumed that 30% of water requirements

in Town Panchayats and 80% in Village Panchayats is not met from ground water. For Man-power, it is assumed that each Village Panchayat will have more than 10 wells. The O&M expenditure per unit quantity of water produced is arrived at on the basis of TWAD Board projects, which works out to Rs.3.20 lakh per MLD (1993-94 prices). The estimation of Man-power cost and O&M cost by 1995-96 on a Normative basis vis-a-vis the existing position is given below:

Table 3.52 Water Supply

A.Estimation of Manpower and Establishment Cost

Local body category	Quantity of water supplied MLD	Distribution Length Km.	Total Existing Manpower Nos.			Total Manpower required for Existing level of Services (Normative) - Nos.				Additional Manpower required (Nos.)			Establishment Expenditure Rs. Lakhs		
			Technical	Skilled	Semi skilled	Technical	Skilled	Semi Skilled General	Semi Skilled Distribution	Technical	Skilled	Semi skilled	Existing 1993-94	Existing 1995-96	Normative 1995-96
Chennai (MMWSSB)	298	1598	507	1192	1699	-	-	-	-	-	-	-	1400.00	1694.00	1694.00
Other Corporations	272	1938	54	218	797	25	135	165	2422	0	0	1790	392.84	475.34	800.38
Municipalities	364	2844	146	437	728	104	936	728	1244	0	499	1244	1042.56	1261.50	1365.28
Town Panchayats	311	6310	168	311	795	635	1013	1013	2761	467	702	2978	419.96	508.15	1014.92
Village Pants. (PU)	761	6371	381	989	20014	384	3465	1925	2787	3	2476	0	269.56	326.17	1638.49
Total	**2006**	**19061**	**1256**	**3147**	**24033**	**1148**	**5549**	**3831**	**9214**	**470**	**3677**	**6012**	**3524.92**	**4265.16**	**6513.07**

B. Estimation of Operation Maintenance Expenditure

(Amount - Rs. in lakhs)

Local body Category	Quantity of Water Supplied MLD	Annnual Establishment Expenditure per MLD 1995-96		Annual Operation and Maintenance Expenditure per MLD 1995-96		Total Expenditure including Establishment Expenditure		
		Existing	Normative	Existing	Normative	Existing	Normative	Additional
Chennai Corporation	298	5.7	5.7	3.5	3.5	2736.40	2736.40	0.00
Other Corporations	272	1.7	2.9	2.7	4.3	1206.40	1961.82	755.42
Municipalities	364	4.2	3.8	5.0	4.3	3342.00	2915.92	0.00
Town Panchayats	311	2.1	3.3	4.3	4.0	1988.00	2267.89	279.89
Village Panchayats	761	0.4	2.2	3.3	3.7	2838.70	4428.33	1589.63
Total	2006					**12111.50**	**14310.36**	**2624.94**

Note: i) Existing Manpower sample expanded to universe.

ii) Technical AEE/AE Supervisor, Skilled Operators, Helpers, Electricians, Mechanics; Semi-skilled - unskilled Watchman etc.

iii) Existing Expenditure (1993-94 level) inflated to 1995-96 level by 10%;

iv) O&M for Madras (MMWSSB) is taken at the existing levels and manpower is adequate;

v) For other local bodies, it is assumed based on few projects of TWAD Board which works out to be 3.2 lakhs per MLD at 1993-94 prices;

vi) In case of Village Panchayats, Panchayat Union is taken as entity for estimation of Manpower;

vii) Wherever normative number of staff is less than existing staff, there existing staff is considered for estimating establishment cost;

viii) Existing establishment is based on data computed by Government Data Centre.

Sewerage & Sanitation

3.7.5. The expenditure requirements to operate and maintain Sewerage and Sanitation systems are dependent on the types of systems adopted. In the absence of these information, the expenditure norms have been assumed at 25% more than the existing level. In case of Chennai Corporation, the expenditure includes both Corporation and Metro Water Board. The expenditure for other Corporations has been derived based on the Chennai Corporation expenditure but related to the coverage through different systems. The level of expenditure in the Village Panchayats is assumed to be same as that in Town Panchayats. The estimates of Manpower cost and O&M costs are given below.

Table 3.53 O&M Costs for Sewerage and Sanitation (1995-96) (including the Manpower Cost)

	Annual O&M Expenditure		1995 Poulation	Existing Per Capita	Normative 1995-96	Annual O&M Expenditure
	1993-94	1995/96		1995-96		
	Rs. Lakhs		Lakhs	Rs.		Rs. Lakhs
Chennai Corporation	2562.6	3100.7	41.1	75.5	94	3875.9
Other Corporations	236.0	285.6	33.3	8.6	57	1888.2
Municipalities	1436.6	1737.6	75.9	22.9	29	2172.0
Town Panchayats	470.0	568.7	91.3	6.2	8	710.9
Village Panchayats	625.0	756.3	346.1	2.2	8	2693.4
Total	**5329.56**	6448.77				**11340.32**

Note:

i. Based on actual expenditure incurred during 1993/94
ii. 10% escalation over Normative
iii. Chennai expenditure includes both Corporation and Metro Water iv. Other Corporation 60% of Chennai, Based on existing coverage with reference to Chennai.
v. Village Panchayats norms were considered equal to Town Panchayats
vi. In absence of Normative expenditure, Normative was assumed 25% excess of existing.

Technologies :

3.7.6. Insanitary land disposal of solid waste could lead to the emission of pollutants like leachate and land fill gas containing various gasses like CO, methane, etc. Hence any land disposal option should aim at reducing this potential pollution hazards. Various technologies have been developed for effective disposal of waste, which include one or more of the following processes:

- Homogenisation
- Composting
- Vermi Composting
- Material Separation
- Anaerobic Digestion
- Mass Burn Incineration
- Fluidised Bed Combustion
- Waste Derived Fuel
- Aggregate Production
- Containment Engineering
- Dilution and Dispersal
- Ocean Dumping

All the above methods may not be directly applicable in the present context, due to various constraints ranging from the nature of waste to financial constraints to socio-cultural aspects. However, these technologies need to be explored and experimented with so as to adopt them to local conditions.

Suitability of the Technologies:

3.7.7. The suitability of the above discussed technologies depends upon various factors like

- Waste Composition
- Waste Characteristics
- Total Waste available
- Unit costs of the Technology

Implementation of any of the above technologies requires an in-depth analysis of the above factors in relation to the local conditions. The following table gives the general prerequisites of some of these technologies, which are prevalent in India and their unit costs.

Table 3.54 Comparative Evaluation of Solid Waste Treatement Technologies

Technology	Main Features	Land Requirements	Min.Waste Qty	Cost/Tone
1. Santary Landfill	▪ Use of soil cover to minimise infiltration of rain water. ▪ Compaction of deposits to minimise voids. ▪ Engineering designs to minimise the surface ground water entry. ▪ Control of leachate and gas emissions through suitable mitigitive measures.	1.25 cu.m/tone	No requirement	Minimum Rs.1 - 1.25 lakhs (for 100 tonnes per day)
2. Organic Manure (Composting)	▪ Treatment of garbage with biological innoculum. ▪ Organic manure is use full for agriculture and horticulture purposes ▪ Rejected waste free from pollutants due to sanitisation treatment.	30,000 sft.	150 tonnes per day	Capital - Rs.0.8 - 1 lakh O&M - Rs.1200-1250 Manure Price-Rs.2100
3. Pelletisation (Refuse Derived Technology)	▪ Segregation of recyclables and natural comostable materials. ▪ Heating system helps in Sterlisation of waste, avoiding health hazard. ▪ Process time is 30 min.	40,000 sft (Indoor & Outdoor requirements)	100 tonnes per day	Capital Rs.31500 O&M Rs.35000 Pellets price - Rs.1200

Technology	Main Features	Land Requirements	Min.Waste Qty	Cost/Tone
4. Incineration	▪ Segregation of combustible and non-combustable materials. ▪ Burning the combustibles throughincineration ▪ 90% of waste volume is reduced. ▪ High capital investment & demands skilled labour.	Negligible	100 tonnes per day	Rs.1-2 lakhs
5. Power Generation	5 - 10 MW power generation		500-600 tonnes per day	Rs.2 - 2.5 lakhs

3.7.8. Norms for manpower requirement for Solid Waste Management are in terms of road length per conservancy staff and number of drivers per vehicle. In case of Corporations and Municipalities, the manpower Norms are as adopted by local bodies and in Town Panchayats and Village Panchayats, recommendations of the Norms Committee (Government of Tamilnadu) have been adopted after adjustments for reduced collection frequency and lower population densities. The total number of supervisory staff is assumed at 10 per cent of the conservancy staff. O&M expenditure from collection to disposal stage has been arrived at, based on the average distance and tonnage carried by a vehicle per trip. In addition to fuel cost and repairs, a 10% provision is made for other accessories such as maintenance of dustbins, and equipments for collection.

Table 3.55 Solid Waste Management 1995-96

A.Estimation of Manpower and Establishment Cost

Local body category	Road Length	Existing Vehicles	Total Existing Staff		Norms		Total Staff required			Additional Staff		Normative Annual Estt Cost	
			Conservancy staff	Drivers	Road length per Conservancy staff	Drivers per Vehicle	Conservancy staff	Drivers	Supervisory	Conservancy staff	Drivers	Total	Per tonne
	Km.	Nos.	Nos.		Nos.		Nos.			Nos.		Rs. Lakhs	
Chennai Corporation	2228	429	7305	687	300	1.25	7427	537	743	122	0	2746.02	0.96
Other Corporations	2484	110	7437	167	300	1.25	8280	138	828	843	0	2881.90	2.36
Municipalities	6052	329	14307	359	400	1.25	15130	411	1513	823	53	5207.03	1.88
Town Panchayats	13312	974	1163	497	1600	1.25	8320	1218	832	7157	721	1317.40	0.88
Village Panchayats	45504	0	2047	0	5600	1.25	8126	0	813	6079	0	1072.59	0.56

B. Estimation of O & M Cost (1995-96)

(Rs. in lakhs)

Local Body Category	Waste Generated	Establishment cost per tonne per annum		Only O & M per tonne per annum		Total Annual Cost		
	Tons/day	Existing	Normative	Existing	Normative	Existing	Normative	Additional
Chennai Corporation	2852	0.71	0.96	0.08	0.09	4069.60	3016.86	0.00
Other Corporations	1222	1.12	2.36	0.05	0.09	1564.20	2997.95	1433.75
Municipalities	2771	1.08	1.88	0.06	0.06	3229.50	5381.18	2151.68
Town Panchayats	1489	0.48	0.88	0.13	0.05	1197.90	1388.24	190.34
Village Panchayats	1925	NA	0.56	NA	0.05	NA	1164.18	1164.18

Note: Sample expanded to Universe Supervisory staff assumed 10% of Conservancy Staff.

Roads:

3.7.9. Norms for manpower requirement for regular and periodic maintenance of roads have been assumed as those followed by the Highways and Rural Works Department, Government of Tamilnadu. O&M expenditure includes bi-annual maintenance (Patch Works) and periodic maintenance of BT roads i.e. resurfacing once in six years. Normative expenditure per KM. of road is estimated based on the distribution of roads by width for different categories of local bodies. This is arrived at based on the existing widths in Madras and Tiruppur. O&M expenditure is very high in comparison to that of the norm. This is because as per present practice, local bodies account the periodic renewals and replacements as part of Revenue expenditure.

Table 3.56 Roads

A. Estimation of Manpower requirement: (1995-96)

Local body category	Road Length	Total Existing staff			Norms for staff per Km. (Highways norms)			Total Staff Required			Additional Required			Total Establi-shment cost	Per Km.
		Tech-nical	Skilled	Un-Skilled	Tech-nical	Skilled	Un-Skilled	Tech-nical	Skilled	Un-skilled	Tech-nical	skilled	Un-skilled		
	Km.		Nos.		@ 1/100	@ 1/25	@ 2/8		Nos.			Nos.		Rs. Lakhs	
Chennai Corporation	2159	281	151	0	-	-	-	281	151	0	0	0	0	290.17	0.13
Other Corporations	2484	389	199	115	0.01	0.04	0.25	25	99	621	0	0	506	547.47	0.22
Municipalities	6052	182	182	303	0.01	0.04	0.25	104	242	1513	0	61	1210	312.28	0.05
Town Panchayats	13312	266	266	133	0.01	0.04	0.25	635	532	3328	369	266	3195	815.98	0.06
Village Panchayats	105252	1053	2105	1053	0.01	0.04	0.25	1053	4210	26313	0	2105	25260	5052.10	0.05
Panchayat Unions	45504	455	910	455	0.01	0.04	0.25	455	1820	11376	0	910	10921	2184.19	0.05

B. Estimation of O&M Expenditure (1995-96) (Rs. in Lakhs)

Local body category	Existing Road Length Km.			Total Road Lemgth	Existing Annual Maintenance Cost (Including Establishment Cost)		Normative Bi-annual Maintenance Cost (Patch Works)/Km.			Normative Total Annually (Patch Works)	Normative Periodic BT Maintenance 6 yearly Per km.	Normative Total Annually	Normative Total Patch Works and Periodic Maintenance	Per Km.
	BT	WBM	Others	Km.	Existing/ Km.	Total	BT	WBM	Gravel					
Chennai Corporation	2131	3	25	2159	0.55	1074.6	0.92	0.29	0.20	652.71	3.23	1147.19	1799.90	0.83
Other Corporations	1624	423	437	2484	0.30	1233.7	0.92	0.29	0.20	565.77	3.23	874.25	1440.02	0.58
Municipalities	4164	958	930	6052	0.15	2197.4	0.87	0.28	0.19	1352.58	2.90	2009.13	3361.71	0.56
Town Panchayats	3846	3186	6280	13312	0.21	2035.2	0.41	0.15	0.09	879.32	1.36	874.32	1753.64	0.13
Village Panchayats	15931	17020	72301	105252	0.01	1130.1	0.41	0.15	0.09	5248.78	1.36	3621.65	8870.43	0.08
Panchayat Unions	8797	20563	16144	45504	0.04	1678.3	0.41	0.15	0.09	2716.97	1.15	1689.02	4406.00	0.16

Note:

i. Manpower expanded to Universe

ii. Existing manpower in Panchayat Union is assumed as in Village Panchayats.

iii.In case Technical Staff requirement is less than 1 per local body, minimum 1 per one local body is considered.

Storm Water Drains:

3.7.10. Cleaning of drains before and after monsoon and minor repairs are the major maintenance expenditures. At present local bodies book this expenditure as part of Public works, hence the details of existing expenditure levels is not available. SFC recommends no permanent staff for storm water drains as this is an annual activity, which can be carried out by temporary workers (NMR). It is recommended that drains should be cleaned twice in a year, i.e. before and after the monsoon. It is assumed that a worker can clean 200m of drain per day. At the daily wage of Rs.60/- annual maintenance expenditure in case of open drain works out to 1% of the capital costs.

Table 3.57 O & M Costs for Storm Water Drains (1995-96)

Local body category	Drain Length		Existing Annual Maintenance Cost (including labour)		Normative Annual Maintenance Cost (including labour)	
	Open Km.	Closed	Existing/ Km.	Total	O&M/Km.	Total (Rupees in lakhs)
Chennai Corporation	0	628	NA	NA	0.26	80.38
Other Corporations	636	0	NA	NA	0.07	20.99
Municipalities	4760	0	NA	NA	0.07	157.08
Town Panchayats	5152	0	NA	NA	0.07	170.02
Village Panchayats	5263	0	NA	NA	0.07	173.67
Total	**15811**	**628**				**602.14**

Note:

i. Manpower to be on Temporary basis.
ii. O&M Expenditure towards drains is for Cleaning and Repairs
iii. Cleaning twice a year (Before and after Monsoon)
iv. Cleaning per Km. Rs.300 for 200m of Drains per manday
v. Maintenance of Open Drains - Rs.3000 per km./year
vi. Maintenance Closed Drains - Rs.12500 per km/once.

Street Lighting:

3.7.11. Manpower requirements for operation and maintenance of street lighting have been worked out based on the field observations. In case of Town and Village Panchayats, the street light maintenance is currently being done by the Electricity Department. In calculating the total manpower requirements, these two categories of local bodies are assumed to have their own manpower for street lighting operations. The O&M expenditure for street lights has been calculated separately for Corporations, Municipalities and Town Panchayats and Village Panchayats.

Table 3.58 Street Lighting

A. Estimation of Manpower (1995-96)

Local body Category	Total Existing Staff		Norms for 1000 Lights		Total Requirement		Gap		Total Estt. cost	Estt. Cost per light
	Technical	Helper	Technical @ 1/1000	Helper @ 1/100	Technical	Helper	Technical	Helper	Rs.Lakhs	Rs./nnum
Chennai Corporation	100	1022	1	10	79	790	0	0	47.91	61
Other Corporations	43	482	1	10	79	790	36	308	22.32	28
Municipalities	201	1348	1	10	178	1779	0	430	54.52	31
Town Panchayats	0	0	1	10	635	2141	635	2141	51.16	24
Village Panchayats	0	0	1	10	870	8700	870	8700	156.60	18

B. Estimation of O&M Cost (1995-96)

Local body category	Street Lighting				Existing Annual Maintenance Cost		Normative Cost per light				Annual Expenditure including Estt. (Normative)	
	SV lamps	Tubelights	Others	Total	Per light Rs.	Total Rs.lakhs	Etablishment Rs.	SV Lamps	Tubelights	Others	Total Rs.Lakhs	Per Light Rs.
Chennai Corporation	26540	52450	0	78990	1872	1479.00	61	2027	469	559	832.12	1053
Other Corporations	11657	65263	2086	79006	319	252.00	28	2027	469	559	576.57	730
Municipalities	18660	157780	1434	177874	494	878.50	31	1943	469	559	1165.52	655
Town Panchayats	9441	196455	8173	214069	379	811.90	24	1640	440	515	1113.17	520
Village Panchayats	11976	815322	42682	869980	304	2648.70	18	1640	440	515	4163.20	479

Note:

Manpower: Sample expanded to universe

At present in Town Panchayats and Village Panchayats TNEB staff maintains them and Establishment cost is paid by TNEB.

Table 3.59 Existing and Normative O&M Expenditure for all Core Civic Services as by 1995-96

(Rs. in lakhs)

Local body category	Water Supply		Sewerage & Sanitation		Solid Waste Management		Roads		Stormwater Drains		Street lighting		Total	
	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative	Existing	Normative
Chennai Corpn.	2736.4	2736.4	3100.7	3875.9	4069.6	3016.9	1074.6	1799.9	--	80.4	1479.0	832.1	12460.3	12341.6
Other Corpns.	1206.4	1961.8	285.6	1888.2	1564.2	2998.0	1233.7	1440.0	--	21.0	252.0	576.6	4541.8	8885.6
Municipalities .	3342.0	2915.6	1737.6	2172.0	3229.5	5381.2	2197.4	3361.7	--	157.1	878.5	1165.5	11384.9	15153.1
T. Panchayats	1988.0	2267.9	568.7	710.9	1197.9	1388.2	2035.2	1753.6	--	170.0	811.9	1113.2	6601.8	7403.7
P.Unions	-	-	-	-	-	-	1678.3	8870.4	--	-	-	-	1678.3	8870.4
V.Panchayats	2838.7	4428.3	756.3	2693.4	-	1164.2	1130.1	4406.0	--	173.7	2648.7	4163.2	7373.7	17028.7
Total	**12111.5**	**14310.0**	**6448.9**	**11340.4**	**10061.2**	**13948.5**	**9349.3**	**21631.6**	**--**	**602.2**	**6070.1**	**7850.6**	**44040.8**	**69683.1**
Rs. Per Capita	**20**	**24**	**11**	**19**	**17**	**23**	**16**	**36**	**--**	**1**	**10**	**13**	**74**	**122**

Note: For year wara break-up from 1997-98 to 2001-2002, add 10% per year.

Table 3.60 Total O&M Expenditure for Core Civic Services at the Existing level of Investment

(Rs. in lakhs)

Local body Category	Existing	Normative	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Chennai Corporation	12460.3	12341.6	13575.7	14933.3	16426.6	18069.3	19876.2	21863.8
Other Corporations	4541.9	8885.5	9774.1	10751.5	11826.6	13009.3	14310.2	15741.2
Municipalities	11385.0	15153.4	16668.7	18335.6	20169.1	22186.0	24404.6	26845.1
Town Panchayats	6601.7	7403.8	8144.2	8958.6	9854.5	10839.9	11923.9	13116.3
Village Panchayats	7373.8	21493.2	23642.6	26006.8	28607.5	31468.3	34615.1	38076.6
Panchayat Unions	1678.3	4406.0	4846.6	5331.3	5864.4	6450.8	7095.9	7805.5
Total	**44041.0**	**69683.5**	**76651.9**	**84317.1**	**92748.7**	**102023.6**	**112225.9**	**123448.5**
Rs. Per Capita	**75**	**119**	**129**	**140**	**151**	**165**	**179**	**195**

Note: Rate of Inflation 10.0 %

Table 3.61 O & M For Additional Investment

Local body Category	Services	Sectorwise Allotment 1995-96	Normative 1995-96	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	Water Supply	14310.4	2141.5	570.1	1254.1	1881.2	2508.3
Other Corporations	Sewerage & Sanitation	11340.3	5284.9	1406.8	3095.1	4642.6	6190.1
Municipalities	Solid Waste Management	13948.4	6475.5	1723.8	3792.3	5688.4	7584.6
Town Panchayats	Roads	21631.7	2926.1	778.9	1713.7	2570.5	3427.3
Village Panchayats	Storm Water Drain	602.1	6269.7	1669.0	3671.8	5507.7	7343.6
Panchayat Unions	Street Lights	7850.6	1004.4	267.4	588.2	882.4	1176.5
Total		**69683.5**	**24102.1**	**6416.0**	**14115.2**	**21172.8**	**28230.4**
Rs.Per Capita		**119**	**41**	**10**	**23**	**34**	**45**

O&M Normative 1995-96 for Additional Services is if full investment is made.

1996-97 & 1997-98 will have no need for Operation and Maintenance as the infrastructure are new and investment phased out.

Table 3.62 A. Total O&M Expenditure for Core Civic Services

A. Water Supply: (Rs. in lakhs)

Local body category	Existing	Normative 1995-96	1996/97	1997/98 1995-96	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	2736.4	2736.4	3010.0	3311.0	3642.2	4006.4	4407.0	4847.7	72
Other Corporations	1206.4	1961.8	2158.0	2373.8	2611.2	2872.3	3159.5	3475.5	64
Municipalities	3342.0	2915.9	3207.5	3528.3	3881.1	4269.2	4696.1	5165.7	42
Town Panchayats	1988.0	2267.9	2494.7	2744.1	3018.6	3320.4	3652.5	4017.7	27
Village Panchayats	2838.7	4428.3	4871.2	5358.3	5894.1	6483.5	7131.9	7845.1	14
Total	**12111.5**	**14310.3**	**15741.4**	**17315.5**	**19047.2**	**20951.8**	**23047.0**	**25351.7**	**26**
Rs. Per Capita	**21**	**24**	**26**	**29**	**31**	**34**	**37**	**40**	

B. Sewerage and Sanitation: (Rs. in lakhs)

Local body category	Existing	Normative	1996/97	1997/98	1998/99	1999/2000 1995-96	2000/01 1995-96	2001/02 1996-97	Rs. per capita
Chennai Corporation	3100.7	3875.9	4263.5	4689.8	5158.8	5674.7	6242.1	6866.3	103
Other Corporations	285.6	1888.2	2077.0	2284.7	2513.2	2764.5	3040.9	3345.0	62
Municipalities	1737.6	2172.0	2389.1	2628.1	2890.9	3180.0	3497.9	3847.7	31
Town Panchayats	568.7	710.9	782.0	860.2	946.2	1040.8	1144.9	1259.4	8
Village Panchayats	756.3	2693.4	2962.8	3259.1	3585.0	3943.5	4337.8	4771.6	8
Total	**6448.9**	**11340.4**	**12474.4**	**13721.9**	**15094.1**	**16603.5**	**18263.6**	**20090.0**	**21**
Rs. Per Capita	**11**	**19**	**21**	**23**	**25**	**27**	**29**	**32**	

C. Solid Waste Management:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	4069.6	3016.9	3318.6	3650.4	4015.4	4417.0	4858.7	5344.6	80
Other Corporations	1564.2	2998.0	3297.7	3627.5	3990.3	4389.3	4828.2	5311.1	98
Municipalities	3229.5	5381.2	5919.3	6511.2	7162.3	7878.6	8666.4	9533.1	77
Town Panchayats	1197.9	1388.2	1527.1	1679.8	1847.7	2032.5	2235.8	2459.3	17
Village Panchayats		1164.2	1280.6	1408.7	1549.5	1704.5	1874.9	2062.4	4
Total	**10061.2**	**13948.5**	**15343.3**	**16877.6**	**18565.2**	**20421.9**	**22464.0**	**24710.5**	**26**
Rs. Per Capita	**17**	**24**	**26**	**28**	**30**	**33**	**36**	**39**	

D. Roads:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	1074.6	1799.9	1979.9	2177.9	2395.7	2635.2	2898.8	3188.6	48
Other Corporations	1233.7	1440.0	1584.0	1742.4	1916.7	2108.3	2319.2	2551.1	47
Municipalities	2197.4	3361.7	3697.9	4067.7	4474.4	4921.9	5414.1	5955.5	48
Town Panchayats	2035.2	1753.6	1929.0	2121.9	2334.1	2567.5	2824.3	3106.7	21
Village Panchayats	1130.1	8870.4	9757.5	10733.2	11806.5	12987.2	14285.9	15714.5	28
Panchayat Unions	1678.3	4406.0	4846.6	5331.3	5864.4	6450.8	7095.9	7805.5	14
Total	**9349.3**	**21631.6**	**23794.9**	**26174.4**	**28791.9**	**31670.9**	**34838.1**	**38321.9**	**40**
Rs. Per Capita	**16**	**37**	**40**	**43**	**47**	**51**	**56**	**60**	

E. Storm Water Drains

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation		80.4	88.4	97.3	107.0	117.7	129.5	142.4	2
Other Corporations		21.0	23.1	25.4	27.9	30.7	33.8	37.2	1
Municipalities		157.1	172.8	190.1	209.1	230.0	253.0	278.3	2
Town Panchayats		170.0	187.0	205.7	226.3	248.9	273.8	301.2	2
Village Panchayats		173.7	191.0	210.1	231.1	254.3	279.7	307.7	1
Total		**602.2**	**662.3**	**728.6**	**801.4**	**881.6**	**969.8**	**1066.8**	**1**
Rs. Per Capita		**1**	**1**	**1**	**1**	**1**	**2**	**2**	

F. Street Lighting:

(Rs. in lakhs)

Local body category	Existing 1995-96	Normative 1995-96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	Rs. per capita 1996-97
Chennai Corporation	1479.0	832.1	915.3	1006.9	1107.6	1218.3	1340.1	1474.2	22
Other Corporations	252.0	576.6	634.2	697.6	767.4	844.2	928.6	1021.4	19
Municipalities	878.5	1165.5	1282.1	1410.3	1551.3	1706.4	1877.1	2064.8	17
Town Panchayats	811.9	1113.2	1224.5	1346.9	1481.6	1629.8	1792.8	1972.0	13
Village Panchayats	2648.7	4163.2	4579.5	5037.5	5541.2	6095.3	6704.9	7375.4	13
Total	**6070.1**	**7850.6**	**8635.6**	**9499.2**	**10449.1**	**11494.0**	**12643.5**	**13907.8**	**15**
Rs. Per Capita	**10**	**13**	**15**	**16**	**17**	**19**	**20**	22	

Table 3.63 O&M Expenditure for Core Civic Services for Additional Investment

A. Water Suply: (Rs. in Lakhs)

Local body Category	Water Quantity **MLD**	Total O&M Per MLD **Rs. Lakhs**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	66.0	9.2	606.0	-	-	161.3	354.9	532.4	709.86
Other Corporations	41.0	7.2	295.7	-	-	78.7	173.2	259.8	346.40
Municipalities	161.0	8.0	1289.7	-	-	343.3	755.3	1133.0	1510.66
Town Panchayats	128.0	7.3	934.2	-	-	248.7	547.1	820.7	1094.00
Village Panchayats	71.0	5.8	413.2	-	-	110.0	242.0	362.9	483.86
Total	**467.0**	**37.5**	**3538.8**	**-**	**-**	**942.1**	**2072.5**	**3108.8**	**4144.78**

B. Sewerage and Sanitation: (Rs. in lakhs)

Local body Category	Additional Investment **Rs.Lakhs**	O&M Per Capita **Rs.**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	15681.7	100.0	724.0	-	-	192.7	424.0	636.0	848.00
Other Corporations	54044.1	100.0	2578.0	-	-	686.3	1509.8	2264.7	3019.59
Municipalities	41474.3	100.0	2550.0	-	-	678.8	1493.4	2240.1	2986.78
Town Panchayats	10096.7	12.0	179.9	-	-	47.9	105.3	158.0	210.66
Village Panchayats	25746.2	12.0	579.6	-	-	154.3	339.4	509.2	678.93
Total	**147043.0**	**-**	**6611.5**	**-**	**-**	**1760.0**	**3871.9**	**5808.0**	**7743.96**

C. Solid Waste Management:

(Rs. in lakhs)

Local body Category	Additional Waste tobe Collected **Tonnes**	O&M Per tonne **Rs. Lakhs**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	513	1.1	542.65	-	-	144.5	317.8	476.7	635.59
Other Corporations	600	2.5	1471.99	-	-	391.8	862.1	1293.1	1724.13
Municipalities	964	1.9	1872.05	-	-	498.3	1096.3	1644.5	2192.66
Town Panchayats	508	0.9	473.62	-	-	126.1	277.4	416.1	554.80
Village Panchayats	1858	0.6	1123.66	-	-	299.1	658.1	987.1	1316.13
Total	**4443**		**5483.97**	**-**	**-**	**1459.8**	**3211.7**	**4817.5**	**6423.31**

D. Roads:

(Rs. in lakhs)

Local body Category	New BT Road **Km.**	Annual Total **Rs. Lakhs**	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Chennai Corporation	3	12.8	-	-	3.4	7.5	11.3	15.07
Other Corporations	423	394.0	-	-	104.9	230.7	346.1	461.47
Municipalities	375	240.1	-	-	63.9	140.6	210.9	281.20
Town Panchayats	1479	463.3	-	-	123.3	271.4	407.0	542.66
Village Panchayats	5119	1743.0	-	-	464.0	1020.8	1531.2	2041.59
Panchayat Unions	2361	1004.4	-	-	267.4	588.2	882.4	1176.53
Total	**9760**	**3857.6**	**-**	**-**	**1026.9**	**2259.2**	**3388.9**	**4518.52**

Includes only Patch Works Resourcing will be incurred only in year 2002/2003.

E. Storm Water Drains:

(Rs. in lakhs)

Local body Category	Additional Drains Open	Closed	Annual Total	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	Nos.		**Rs. Lakhs**						
Chennai Corporation	432	236	88.8	-	-	23.6	52.0	78.0	104.00
Other Corporations	358	497	150.8	-	-	40.1	88.3	132.5	176.67
Municipalities	0	303	77.5	-	-	20.6	45.4	68.1	90.80
Town Panchayats	0	0	0.0	-	-	0.0	0.0	0.0	-
Village Panchayats	0	0	0.0	-	-	0.0	0.0	0.0	-
Total	**790**	**1036**	**317.1**	**-**	**-**	**84.3**	**185.7**	**278.6**	**371.47**

F. Street Lighting:

(Rs. in lakhs)

Local body Category	Additional Lights	Annual Total	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	Nos.	**Rs. Lakhs**						
Chennai Corporation	8004	167.1	-	-	44.5	97.9	146.8	195.73
Other Corporations	22440	394.5	-	-	105.0	231.0	346.5	462.00
Municipalities	25293	446.1	-	-	118.7	261.2	391.9	522.53
Town Panchayats	126904	875.0	-	-	232.9	512.5	768.7	1024.92
Village Panchayats	488352	2410.3	-	-	641.6	1411.6	2117.4	2823.19
Total	**670993**	**4293.0**	**-**	**-**	**1142.7**	**2514.2**	**3771.3**	**5028.37**

Note: Since these are new assets, the maintenance cost has been provided from second year onwards.

3.7.12. To what extent the O&M requirements at a normative level for the existing assets of Core Civic Services can be met out of Own Resources (Tax and Non-tax) of the local bodies and further how the gaps can be breached with the state assistance by way of Assignments or grants-in-aid, has been dealt exhaustively in Part I and V. Now the additional O&M requirements of Rs.242.03 crores at 1995-96 price level has to be met. We have not made any provision for this, as we expect that we should be able to recover a return of atleast 4.64% on the capital investment for the O&M. This should definitely be possible by increase use of cost recovery through user charges and by Privatization of Civic Services wherever feasible. This is dealt at length in the following pages.

Part II

AUGMENTATION OF RESOURCES

CHAPTER 2 : MUNICIPAL CORPORATIONS

PROPERTY TAX: (Paragraph 2.2.40)

1. SFC recommends switching over from the **present Annual value system to the area linked unit value system** which ensures better acceptability by people and more revenue yield for Local Body.

2. Basic Ratable plinth area monthly rental value with ranges proposed by SFC is given in the Schedule in Appendix No.11 The rates applicable to all urban bodies are furnished in the schedule.

3. SFC recommends:

(1) As an immediate step, a revision may be carried out. General revision may be done thereafter once in three years for administrative ease.

(2) ARV may be revised once in three years based on inflation rate with reference to consumer price index. If the average rate of inflation goes down then the revision rate should be based on that index. On the other hand, if it goes up, the revision rate should also go up in the same proportion. Such a revision to adjust for inflation should be made known to the tax payers in advance.

(3) For example, the average inflation rate is 10% and so at the end of 3 years the ARV will have to be revised upwards by about $(1.1)^3$-1 = 33%. Allowing for the 10% depreciation (=3.3%) the net ARV increase eligible for taxation will be 29.7% .

(4) If such **inflation indexing** is done, then the revision will lead to growth in the real revenues from the property tax and also avoid indiscriminate increase in the tax payable by the taxpayers.

(5) General revision is proposed once in three years to have effective implementation without deployment of additional staff. General revision can be done by dividing the area into Zones and revision made zone-wise or for a group of divisions/wards every year.

COMPUTERIZATION:

4. The average number of property tax assessees per corporation are 1,37,968, per municipality are 21,981 and per town panchayat are 3,184. Since a large number of records have to be maintained in order to administer this tax efficiently, SFC recommends that the urban local bodies may computerize their property tax records and their property tax systems. Computerization is desirable in the case of Town Panchayats also.

5. **Service Tax Component:** The total property tax may be divided into two parts, one as general purpose tax and the other as service tax on 50:50 basis. Purposes in common like water supply, lighting, scavenging, and drainage may be met from Service tax with flexibility for utilising the income realised from service tax to the components with reference to top priority in the area. However, out of the service component tax of 50 %, the Local Body should uniformly set apart at least half the amount towards water supply and sewerage/drainage.

6. A directory of property tax may be printed and made available to tax payers indicating the rate of taxation adopted areawise with all exemptions/ concessions and incentives and penal provisions. This should be reprinted whenever a general revision is done. This will go a long way to fetch transparency and reduce litigation.

7. A preliminary analysis of the revised structure reveals that it will lead to an additional revenue generation by a minimum of 30-40% for the Corporations, (for Madras alone, it is likely to be more than 50%), 25-35% for the municipalities and 35-45% for the Town Panchayats.

EXEMPTIONS:

8. Total exemption for all educational institutions from taxation is not equitable since the institutions avail all the civic facilities like roads, lighting, water supply etc. Instead of total exemption, concession may be given in the levy of general purpose tax by restricting the levy to service tax alone.

9. In the case of Industrial Estates, the tax concession should not be available for more than a period of 5 years. Thereafter, concession on service tax can be given proportionate to services locally provided but not on general purpose tax.

10. The taxation of properties of the Central Government is recommended as a matter of principle even though the tax derived may not be appreciable.

11. In the case of Central Government buildings as also in the case of educational institutions and other charitable institutions, service tax may be levied in addition to the user charges now collected.

12. Public sector undertakings which have their own provision for services within their areas may be levied general purpose property tax in full and service tax in proportion to the service provided by local body from its funds in its locality.

GENERAL REVISION:

13. There should be no restrictions,concessions, abolition or write-off of tax or other revenue sources availabie/ earmarked to Local Bodies by Government without consulting the LBs.

14. If such intervention is found necessary by Government in the interest of public cause, compensation for loss of revenue should be simultaneously made available to Local Bodies by Government.

COLLECTION PROCEDURE:

15. The SFC recommends that the responsibility of paying tax should devolve legally on tax payers, by suitable provisions in the enactments.

16. The new system for collection may be as under:

At the time of first assessment/General Revision a pass book or a card may be issued to the assessees. The pass book/card will contain particulars about tax levied, due date of payment, grace time allowed for payment, penalty for delayed payment separately for each half year for the next 3 years i.e. upto the next general revision. The amount of tax indicated will be final, unless the tax had to be revised in the meantime for any reason.

17. It is the responsibility of the tax payer to pay the tax at the appropriate counters in the Zones or in the specified branches of nationalised banks declared as the collecting agency. At the time of payment, entries will be made in the pass book or card and such entries will stand as proof for payment of tax.

18. A rebate of 2% may be allowed for prompt payment before the expiry of the due date and 5% for advance payment of tax for more than a year. These rebate rates may be indicated in the Pass Book/Card itself, so that the collecting agency can accept the tax allowing the rebate at the time of collection of tax.

19. In the case of defaulters a penalty of 5 % of tax may be added for each half year concerned and collected.

FURTHER REFORMS RECOMMENDED IN PROPERTY TAX ADMINISTRATION

20. A Minimum and maximum rate of Tax (consisting of General Purpose and Service Tax) may be fixed, to avoid low level of taxation as below:

	Minimum	Maximum
Municipal Corporations	20%	40%
Municipalities	15%	35%
Town Panchayats	15%	30%

21. A Tariff and Valuation Cell consisting of technically qualified people like Engineers, Town Planners and Revenue Officers may be created at State Level/with Regional Centres to help local bodies, in the valuation of properties and assist in any determination of cost of services for user charges.

22. A Tax Squad under the Valuation Cell may be created at Headquarters for making surprise checks to avoid evasion of tax mapping. The Squad may be given powers to direct assessment by the Local Body in cases of omission.

23. Application of the Rent Control Act to rental value adopted by local bodies should be eliminated by laying down guidelines for the procedure for valuation in the respective Local Body Acts.

24. A minimum performance of tax collection should be ensured. Government assistance to Local Body should be related to Tax performance. Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.

25. Tax collection machinery may be given incentive for higher collection of tax involved.

26. Permitting distraint against immovable properties will enable improvement in collection.

27. Reduction in Tax for vacancy remission may be given for vacancy for a continuous period of 90 days, instead of 30 days now adopted.

28. The present Rules provide for request from assessee for revision of tax every half year. This provision should be limited to only twice within 3-year period after the initial assessment/ general revision, to avoid frequent requests.

29. Write - off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.

30. Instead of suit, in civil courts, all tax matters could be dealt with by a Special Tax Tribunal to avoid delay in disposal and to ensure uniformity in decisions. Initially District Courts may be the Tribunals. Based on the need and experience, Special Tribunals may be created.

31. If the assessees/Lessees resort to legal proceedings, or if the Local Body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned whereby the assessees may have to deposit 50 % of the tax assessed in case of new assessments or to deposit the old tax and 50% of increase in new tax in the case of general revision, and the Lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceedings against immoveables should be resorted to instead of filing suits. Recovery under Revenue Recovery Act may also be allowed for collection of arrears.

PROFESSION TAX : (Para 2.2.53)

32. Local Body should take immediate steps for tax mapping of all kinds of assessees. Notices may be issued to those who have not registered. Penal action may be initiated at least in a few cases which will make others to seek voluntary registration and enrolment.

33. The following professionals who have not been specifically mentioned in the enactment need to be notified under the item "Others"

1. Computer/Typewriting,Shorthand. Accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods manufacturers and Exporters.
4. Beauty Parlours and Beauticians.
5. Legal Consultants other than Legal Practitioners.
6. Non-Bank Financial Service Companies
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially Organised Music Parties
15. Lending Libraries
16. Dry Cleaners
17. Petty traders (not covered by turn over system)

34. The Government may issue a special notification under the proviso to section 3(3) of the new Profession Act 1992 to include them under "Others" and also to make the provision applicable to all Local Bodies both Urban and Rural.

35. The present rates finally notified by Government after negotiations may be in force for the next five years and any revision can be considered later.

VEHICLES TAX: (Para 2.2.56)

36. Tax on carts and bicycles has been abolished. Instead of totally deleting the provision of Vehicles Tax, Local Bodies may be allowed to levy tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act and also on other two wheelers and tractors. The rate for levy may be as below:

Vehicle Type	**Tax (Rs.)**
Bicycles and Carts	Exempted
Two Wheelers	10 - 50
Tractors	15 - 30

TAX ON ANIMALS AND CARRIAGES: (Para 2.2.58)

37. Tax on animals may be abolished. A uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced,

TAX ON TIMBER: (Para 2.2.61)

38. This Tax now collected in Chennai Corporation may be continued and extended to other Corporations also by Government.

COMPANY TAX: (Para 2.2.64)

39. This tax available to Chennai Corporation may be continued and extended to other Corporations.

VACANT LAND TAX: (Para 2.2.72)

40. The levy of Vacant Land Tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided in the location for the existing inhabitants at high cost.

41. The burden of Vacant Land Tax should not be mulcted upon the buyer, since the incremental benefits of price are mainly availed of only by the seller and not the buyer.

42. A one-time vacant land tax may be levied for a specific period namely, ten years on the promoter of a lay out at the time when the promoter gets approval from the planning authorities.

43. A tax rate of 0.5 to 1% of the capital value is considered to be a normal rate on vacant urban land.

44. The following life-cycle vacant land tax system may be adopted in the case of subsequent sellers of vacant land. Under this system, the tax for 10 years may be collected at one go in the following manner. Any vacant urban land, at the time of transfer should have paid up one time tax for 10 years. During the first round of transfer, the seller should pay 10 years' taxes on the vacant land and this can be collected on the basis of present value computation at the range of rates indicated, depending on the resolution of the Local Body concerned. The value determined for land and property as per guidelines of Registration Department can be used for determining the amount due. The Registrar can collect this tax and pass it on directly to the local body concerned.

EXAMPLE: If the land is assessed to have a capital value of Rs.10000, the present value of the taxes at 0.5 % for the next 10 years, discounted will be Rs.337.90.

PILGRIM TAX: (Para 2.2.78)

45. Pilgrim tax or a similar tax may be levied in respect of (1)places of holiday resorts and seasonal specialities (2) temple towns (3)places of geological or archaelogical importance.

46. Scope of the tax may be modified by giving some other nomenclature.

47. Identification of the areas falling within the three categories should be notified by Government with identification of seasons when these centres attract pilgrims/ tourists.

48. Tax may be levied for the seasonal period at higher rates or can be uniformly levied at a lesser rate throughout the year. The scope of collection of Pilgrim Tax to cover both railway and bus passengers may be notified. In the case of bus and railways, notification of rates can also be made.

49. Such tax on bus passengers may be levied as an addition to bus fares. It may be collected at the place of pilgrimage/tourism on their return journey. A stamp on the back side of the ticket or the issue of separate tokens will ensure collection of tax. The stamp or the tokens may be made available to the Transport Corporations or private bus owners periodically or as and when necessary.

50. The amount of Pilgrim/Tourist Tax may be collected in a lump sum from Transport Corporations or fleet owners once in a month based on the capacity of the buses and the number of daily trips at Rs.100-150 per trip (i.e. Rs.2-3 per passenger on an average). This will relieve the Local Body of the task of identifying individual pilgrims and tourists. The rate can be fixed after taking into account the average number of visitors to the place.

OR IN THE ALTERNATIVE:

51. A flat rate can be levied per bus per trip based on the seating capacity of the bus and the amount can be collected from the Transport Corporations or the fleet owners, allowing them to collect pilgrim tax from the passengers.

52. Regarding people visiting the tourist or pilgrim centres in vans, lorries and private vehicles, cars etc., the Local Bodies may make their own arrangements to collect the tax.

53. Rates recommended for private vehicles are as follows:-

Bicycles and Two wheelers	No tax
Private cars and taxi cabs	Rs. 10 to Rs.25 per trip
Vans, lorries etc.	Rs. 25 to Rs.50 per trip
Private Tourist Buses	Rs.100 to Rs.200 per trip

ASSIGNED TAXES AND REVENUES:

SURCHARGE ON DUTIES ON TRANSFERS OF PROPERTY: (Para 2.2.92)

54. The Government may consider giving legal backing for issue of periodical guidelines, on value of properties to be adopted for registration now being followed.

55. It is brought to notice of the Government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. The Government may consider bringing in a proper legislation to curb this evasion. SFC also recommends a study of the pattern adopted in Karnataka State to levy stamp duty on built-up area in high-rise buildings for adoption with suitable modifications. Amendments to the provisions of law are needed in this regard.

56. Regarding flight of documents to neighbouring States for registration, the re-registration of the documents may be made compulsory as per the value of land obtaining in Tamil Nadu with reference to the guidelines. (Government of Tamil Nadu have already initiated action). The Government may also consider rationalising the rate of levy by widening the base to avoid flight of documents to nearby States.

57. The SFC feels that there is much scope for increasing revenue by plugging the loopholes and by checking evasions.

58. The procedure similar to the one adopted in the case of Entertainments Tax may be adopted for adjustment of the revenue to local bodies.

59. The District Registrar may indicate the distribution for the various local bodies as is done now and authorise, the local body concerned to get credit in their accounts in the Treasuries by drawing necessary bills. This will expedite early adjustments and avoid unnecessary delay. The system of routing adjustment through the Collector may be dispensed with.

ENTERTAINMENTS TAX: (Para 2.2.100)

60. SFC considers that this tax being earmarked as one of the local taxes, the benefits should go to the local bodies in entirety subject to deduction of only collection charges.

61. SFC recommends the assignment of 90 % of the total realisations of this compounded Tax to the Local Bodies.

62. SFC considers that any concessions/remissions in the tax affecting local bodies may be resorted to by Government after consulting the Local Bodies.

SURCHARGE ON SALES TAX: (Para 2.2.108)

63. Since the surcharge on Sales Tax levied has been merged with the compounded Sales Tax, 15% of the compounded tax (equivalent to the rate of surcharge previously levied) may be assigned to Local Bodies and taken to a divisible pool.

TOLL COMPENSATION : (Para 2.2.109)

64. Since share of Motor Vehicles tax is being recommended for divisible pool, no separate toll compensation will be necessary.

NEW TAX DOMAINS

ADVERTISEMENT TAX: (Para 2.2.114)

65. All the hoardings should be under the control of the concerned Local Bodies and the revenue earned should go to the Local Body concerned.

66. In the case of hoardings in Highways, the taxation may be permitted to be done by the Local Body within whose jurisdiction the hoardings are situated and provided for in the respective enactments.

67. If, in the interest of proper regulation, the Highways Department has to regulate the hoardings, the yield may be made available to the Local Body concerned, after retaining collection charges.

68. The Local Bodies may take an inventory of all the hoardings within their limits, with size and type for ensuring a uniform method of levy of tax.

69. The rates for different Local Bodies may be adopted as suggested below in No.70.

70. The following is the suggested classification and rate of levy of tax:

Classification			Basic Rate of Tax
(a) SIZE	(i)	below200 sq.ft.	Rs.1.00/sq.ft.
	(ii)	above 200 sq.ft.	Rs.1.50/sq.ft.
(b) LOCATION (Increase)	(i)	Chennai & Coimbatore Corporations	250%
	(ii)	Other Corporations	200%
	(iii)	Municipalities	175%
	(iv)	Town Panchayats	150%
(c) TYPE	(i)	High - rise	Rs.1000
	(ii)	Others	Rs. 500
(d) MESSAGE	(i)	Social	Rs. 100
	(ii)	Commercial	Rs. 500

71. Computing the fees liability:

Use the square foot rate to compute the base rate and to that add the charges pertaining to the locational parameters.

Example: A 20' X 20' hazardous hoarding, in Chennai Corporation carrying a commercial message should yield Rs.3,000 per year.

72. Other types of advertisements on lamp posts and posters and writings on walls should also be subjected to levy of tax/fee by Local Bodies.

73. Advertisement through slides in cinema houses was subjected to levy but later on it was discontinued. This levy may be revived.

74. All types of advertisements, except through newspapers and cut-outs, should be brought under taxation.

CABLE TV : (Para 2.2.117)

75. Leeway rights in all Roads in Local body area for each Cable T.V. connection at Rs.60 per year may be levied by LBs.

76. The collection may be done by Government along with Entertainment tax. The entire money will be due to the Local Bodies, after retaining the collection charges.

TAX ON LUXURIES IN HOTELS AND LODGING HOUSES: (Para 2.2.121)

77. The SFC recommends that 25% of the income accrued may be assigned to the local body.

BETTING TAX: (Para 2.2.122)

78. A share of at least 25% out of this tax revenue may be distributed to Chennai Corporation and Udhagamandalam Municipality.

STATE EXCISE REVENUE: (Para 2.2.123)

79. The SFC considers that the local bodies may be allocated a share on this revenue. It is not possible to fix any specific percentage of sharing to different types of local bodies.Hence 25 % of this revenue may be allocated for inclusion in general divisible pool for distribution to all local bodies.

MOTOR VEHICLES TAX: (Para 2.2.127)

80. 40 % of the Motor Vehicles Tax collection is recommended to be set

apart by the Government for sharing through divisible pool between the various types of local bodies. Norms are indicated separately for distribution.

81. The toll compensation now available may be withdrawn after this allocation.

AGRICULTURAL INCOME TAX : (Para 2.2.128)

82. A share of 25 % of this tax may be allocated to the areas covered by Plantations.

SUGAR CANE CESS : (Para 2.2.130)

83. Since the local body is very much concerned with roads within its area, SFC considers, it desirable that the money allocated for the purpose in the area should be passed on to the local bodies or IN THE ALTERNATIVE the local body and the Sugar Mill concerned should be made jointly responsible for the upkeep of roads of the local body concerned which lead to the area where the Mill is situated.

URBAN LAND TAX : (Para 2.2.132)

84. A share of 50 % out of this revenue may be allocated to concerned urban local bodies.

TERMINAL TAX ON PASSENGERS AND GOODS: (Para 2.2.133)

85. The State Government may pursue with the Government of India for getting a recurring annual grant from the Railways on account of Terminal Tax as suggested by Taxation Enquiry Commission, 1953-54 and Zakaria Committee, 1963.

SURCHARGE ON BUS TICKETS: (Para 2.2.134)

86. The SFC considers that to meet the problems involved due to floating population in specific areas a surcharge may be collected on bus fare from persons travelling from a distance of 150 KM to Metropolitan Cities/important centres of trade and industry and made available to the concerned local body.

LOCAL BODY CESS ON PASSENGERS TRAVELLING BY BUS: (Para 2.2.135)

87. A levy of 5 paise on Local Town buses, 25 paise on Mofussil buses and 50 paise on long distance buses in addition to ticket fare is likely to yield good income. This could be pooled and distributed on need basis to various local bodies.

NON TAX REVENUES :

USER CHARGES : (Para 2.2.147 & 153)

88. After a careful situation-analysis it is considered that urban local bodies like Municipal Corporations and Municipalities of special and selection grade have scope for charging higher user charges under water supply at least 200 % more than what is ollected at present.

89. SFC recommends the following steps to streamline the principles for user charges to ensure higher level of income and service:

(1) The local body should prioritise the services depending upon local needs and meet the cost involved from out of user charges and from out of service tax.

(2) Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage.

(3) The Local Body should aim for full cost recovery of these services in the Corporations and Municipalities of special and selection grade area by cross subsidy against affordable community and by higher commercial and institutional rates.

(4) The community who cannot afford higher rates may be subsidised or totally exempted.

(5) In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage/drainage/garbage not attended to by them.

(6) For clearance of septic tanks and cess pools, special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.

(7) Similar charges may be levied for hotels, lodges, hospitals, nursing homes and Kalyana Mandapams and other public places for clearance.

90. Privatisation can be aimed at by involving the local public or by forming NGOs like Exnora International. Local Bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies. The experience of Coimbatore Corporation may be considered in this context.

91. The Tariff and Valuation cell proposed at the State level with regional level branches for Property Tax administration may be entrusted with the following role in respect of user charges:

(1) To prepare a pricing guidelines manual for circulation among all the local bodies.

(2) To assist the local bodies in arriving at the right price/tax structure for their services in order to make them economically viable.

(3) For already existing services, to work out economic charges and to review the pricing policy. If the hike in the charges is very high, then the hike can be imposed gradually over two to three years.

(4) In the case of new schemes to work out the charges to cover O & M costs, debt service, and depreciation.

92. In the case of projects financed with loans, capital cost recovery should not normally be spread over periods exceeding 15 years. If, however, the annuity payable is found not affordable, it can be spread further up to 20 years.

93. Formation of Costing Cell in Local Bodies:

(1) SFC considers that it must be made the duty of the Accounting side of Local Body to prepare Balance Sheet and statement of assets and liabilities at the end of each year and in respect of each service.

(2) It should act as costing cell within the local body following the guidelines of Valuation and Tariff Cell at State level.

(3) There is a need for change in the system of budgeting and accounting to commercial type instead of the present Governmental system of accounting and also for computerisation of Accounts to achieve the objective.

LICENCE FEES AND OTHER CHARGES

D & O TRADE: (Para 2.2.161)

94. The local bodies will have to undertake tax mapping to prepare a computerised list based on immediate survey and the additions and deletions can be made once a year. Computerisation will enable quicker issue of licences.

95. The time limit for application, enquiries and issue may be streamlined to suit the current situation and published through a common pamphlet in all local bodies and also published in common places.

96. The Revised Rates for the various trades, taking into consideration, the recommendations of the Damodaran Committee (1990) are proposed by the SFC for urban/rural bodies separately as Schedules in Appendix Nos.(12 & 17). Any industry or trade not covered in the list may be brought under 'Others' provided for in the schedule.

97. If more than one trade is conducted in one premise, the higher rate will be collected. Minimum levy has been prescribed for collection compulsorily.

98. The penalty for default may be three or four times the normal licence fee. A grace time for renewal with penalty may be given for a period 3 months from April to June. Prosecution may be launched in July of every year. The local body should have power to recover through distraint. on immoveable properties in the case of defaulters in addition to prosecution powers.

99. At the time of registration of traders under the ST Act, the authorities concerned may be required to insist production of the licence issued by the local body and even insist on quoting the number of licence in the form of application itself.

100. The licence fee prescribed should be suitably updated once in three years based on inflationary rates, based on Consumer Price Index.

101. The local body may also issue a licence for a period of 3 years on collection of licence fee in advance for those willing with a rebate of 10%.

102. In the case of installation of machinery, in addition to the collection of licence fee on the basis of Horse Power of Motors, fee should be collected in respect of additional or subsidiary machinery run with the aid of the prime motor.

103. Changes in Motors with higher capacities are liable to be informed failing which heavy penalty equivalent to 3 or 4 times the normal fee should be levied and deterrent action by prosecution should also be taken. The owner should be compelled to take permission while changing the motor with higher capacity.

INCOME FROM PROPERTIES: (Para 2.2.169)

104. The SFC recommends the following for improvement of income from properties:

(1) The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate.

(2) The local bodies may take advances from intending allottees and this will reduce the financial burden substantially in the creation of assets.

(3) The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised Government machinery.

(4) The allottees should be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there is no default in payment of rent or lease amount or no violation of terms of lease.

(5) In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost of re-auction with a penal fee for default.

(6) The local body can also adopt the method of Build, Operate and Transfer (BOT) in respect of assets to be created.

(7) The privatisation of the maintenance of these commercial assets on contract system , can also be tried with a view to have economy in maintenance and to avoid deployment of special staff and to provide fora net return.

(8) In all these types of transactions, the Government may prescribe suitable built-in check to ensure accountability.

INCOME FROM SPECIAL SERVICES : (Para 2.2.179)

105. (1) The SFC considers that under Town Planning, there is a high potential for collection of development charges.

(2) In the case of new lay outs, the cost of providing basic amenities like roads, lights and drainage can be met through development/betterment charges.

(3) This can be tried in Corporations, in industrial areas and in upper middle class and rich neighbourhoods.

(4) The charges can be fixed in accordance with the norms of the CMDA depending upon the width of the road and the frontage of the property.

(5) If charges are considered high, it may be collected in instalments. The money collected should not be diverted for other purposes but should form a separate Development Fund.

BUILDING LICENCE FEE/UNAPPROVED LAYOUTS: (Para 2.2.179)

106 (1) SFC suggests that necessary and suitable safeguards may be provided for avoidance of unapproved lay outs in future with deterrent additional levy as penalties.

(2) Even when the promoter hands over the lay out as per present regulations after laying roads etc., the standard of road is stated to be very bad and the Local Bodies are compelled to relay them. The cost of laying roads as per standard norms may be required to be deposited by the promoters at the time of approval of layouts, so that Local Body itself can take up the work of laying of roads.

(3) SFC considers that the responsibility of Local Body to provide initial basic amenities in the newly developed areas is very heavy and therefore at least a portion of the development charges collected by CMDA should be set apart to the concerned Local Body to meet the cost of provision of basic infrastructure for new developing areas. The Planning authorities should make available their technical advice in the projects to be taken up by the Local Bodies.

(4) Wherever people of a particular locality want extension of certain services and are also willing to contribute a portion of the cost, the local bodies may be permitted to collect such contributions from the public. This is likely to create local participation coupled with increased sense of responsibilities on local public against misuse of the assets.

LAND USE: (Para 2.2.184)

107. (1) Both in urban and rural Local Bodies, a survey should be made to list out all the porambokes and vacant lands of Local Bodies and a list of such assets should be prepared.

(2) Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands,slaughter houses etc.

(3) In the new lay outs, open spaces are indicated for schools, shops, parks etc. Excepting the space indicated for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities.

(4) Any encroachment within the local body area should be permitted to be removed by the local body itself.

(5) In the case of lands not entrusted to local body, the revenue authorities may coordinate and help the local bodies to remove the encroachments.

(6) The road margins on Highways should be cleared of all encroachments and the local bodies should have power to use the road margins to have their own shops or to issue licences to private people for short term leases, with powers to resume as and when required by Highways Department. This will ensure proper regulation of road margins and also augmentation of income for the local body.

LICENSING OF EXISTING MARKETS AND SHOPPING COMPLEXES AND BUS STANDS: (Para 2.2.191)

108. The SFC recommends the following:-

(1) In the matter of lease or extension of lease, there should be no outside interference.

(2) Tender-cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage.

(3) At the end of three years, fresh auction with an upset price according to prevailing market rates may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding.

(4) For collection of lease amount and arrears, the Local Bodies should have the powers of distraint against moveables as well as the immoveable properties.

(5) Tender cum auction will eliminate cartels and depression of lease amount in the auction and sub leasing or sub letting.

(6) Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

FIXING OF FEES IN THE BUS STANDS: (Para 2.2.194)

109. For collection of bus stand fees from buses,the Transport Corporations may be made to pay a lumpsum to the local body at a rate to be agreed upon depending upon the trips which will avoid the necessity of each local body employing a person to collect the amount. and also avoid leakage. The private bus operators also can be asked to pay a lump sum amount to the local bodies concerned. The amount may be collected in two instalments in advance.

110. In big urban areas, dormitories or lodges may be constructed by the local body in or near the bus stand to enable the travellers to stay overnight and this will fetch a sizable income to the local body concerned.

PRIVATE MARKETS: (Para 2.2.196)

111. The SFC recommends that in view of the need for regulating the markets, even if share of income from private markets could not be got, specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply etc. by the Local Body from the private markets.

PARKING FEES: (Para 2.2.198)

112. Local Body can take up the parking spaces in their areas and run them and earn sizable income by maintaining cycle stands near the bus stand, railway station and other important places.

INCOME FROM MARKETING COMMITTEES : (Para 2.2.199)

113. Marketing Committees collect fees and retain them for maintaining their infrastructure The maintenance of infrastructure of Local Body like roads, environmental sanitation around the market committees is with the Local Bodies. Hence SFC recommends that the fees may be increased by 50 % and the collections may be transferred to the concerned Local Body to compensate for the cost of maintenance of roads and other necessary infrastructure in and around the marketing committees. This may need necessary amendment of the relevant legislations.

GRANTS: (Para 2.2.207)

114. SFC recommends that specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.

115. Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to Rural Local Bodies)

116. Principles of distribution of funds from State to local bodies are being recommended separately. After experimenting the system of distribution, the need for further grants in aid can be studied. If there is still need, Equalisation grants will be necessary. This has been recommended in the Chapter "Resource Allocation Mechanism".

117. SFC recommends the reimbursement of D.A. increases to the local bodies outside the General Devolution. There is every justification in the claim, even though the percentages may vary among the local bodies.

PENALTIES AND FINES: (Para 2.2.208)

118. Penalties and fines to be levied for violations furnished in the schedules to enactments relating to each Corporation may be suitably amended with reference to rates proposed under the Tamil Nadu District Municipalities Act, 1920.

CAPITAL FUND: (Para 2.2.209)

119. A Capital Fund may be created by transfer of contributions as under:

Corporations,S.G.&Spl. Grade Municipalities	15% of Total Revenue every year
Other Municipalities and S.G.&Spl.Grade TPs.	10% of Total Revenue every year

From out of the above Capital Fund, the LBs can meet their future capital expenditure for taking up remunerative and entrepreneurial investments.

CHAPTER 3 : MUNICIPALITIES

PROPERTY TAX: (Para 2.3.19)

120. (1) A minimum of 15% Tax on ARV a year (excluding education tax and library cess levied under separate enactments) may be prescribed by suitable amendments to the Tamil Nadu District Municipalities Act, 1920 and the Rules.

(2) If a minimum level of taxation and a common pattern of assessment are ensured, there is adequate scope for improvement of resources.

(3) The collection of Property Tax in Municipalities needs improvement. Better control and review by supervisory authorities at Regional level is necessary to reduce the pendency through court cases as well as arrears and to improve performance of collections.

(4) Property tax can be divided into two components (1) General Purpose Tax (2) Service Tax, as recommended under Municipal Corporations.

(5) The levy of service tax can be imposed on those who claim exemption from payment of property tax as recommended under Municipal Corporations.

(6) The various rates recommended in Schedule in Appendix No.11 may be adopted by the Municipalities.

(7) The method of assessment, levy and collection of Property Tax, Service component tax and vacant land tax recommended under Corporations will be applicable to Municipalities also.

(8) All tax reforms recommended under Corporations shall apply to the Municipalities.

PROFESSION TAX: (Para 2.3.21)

121. The income under this head is likely to increase substantially if efforts are made to bring all the assessees in the area into the Tax net and initiate penal action for non-compliance of enrolment and registration as required in the new enactment. Issue of notices and enforcing penal provision in a few cases are likely to make all the assessees apply for registration. All recommendations under Municipal Corporations will apply to Municipalities.

122. Recommendations relating to Tax on carriages, animals, carts etc. under Municipal Corporations will apply to Municipalities.

123. All the recommendations relating to vehicles tax, tax on advertisements, pilgrim/tourist tax and other taxes recommended under Corporations shall be applied to the Municipalities also.

NEW TAX ASSIGNMENTS: (Para 2.3.25)

124. All the recommendations relating to sharing of revenue from the following State Taxes indicated under Municipal Corporations will be extended to Municipalities also:

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State Excise Revenues
4. Motor Vehicles Tax
5. Agricultural Income Tax
6. Sugarcane Cess
7. Urban Land Tax
8. Terminal Taxes on goods or passengers carried by railways.

TAX ON AGRICULTURAL LANDS: (Para 2.3.27)

125. The State Finance Commission recommends that the Government may permit the Municipalities/ Town Panchayats to tax on the agricultural lands authorised under sub-section (4)(a) of section 81 of Tamil Nadu District Municipalities Act, 1920 or pass on the land revenue collected in the area to the Urban bodies concerned.

126. The State Finance Commission recommends that a Local Cess and surcharge as in the case of Rural bodies may be provided for in the District Municipalities Act 1920 and collected in Municipal /TPs areas and passed on to Municipalities/Town Panchayats. Newly constituted Municipalities/Town Panchayats have sizeable agricultural lands within their areas.

ASSIGNED / SHARED TAXES: (Para 2.3.29)

127. Recommendations made under Municipal Corporations regarding all assignments under Surcharge on Stamp Duty , Entertainment Tax, Sales Tax will apply to the Municipalities.

128. Regarding the income from Minor Minerals the recommendations made under the Panchayat Unions will apply to Municipalities.

GRANTS: (Para 2.3.36)

129. The State Finance Commission considers it necessary that the Municipalities have to be considered for a regular system of Revenue grants from the State Government.

130. To avoid complacency on the part of Municipalities, the eligibility for grant-in-aid may be related to the fiscal capacity as well as performance of the Municipality in the different grades. A distribution system has been formulated by State Finance Commission.

131. The recommendations relating to D.A. Subsidy under Municipal Corporation will apply to Municipalities also.

132. Specific Purpose and Incentive grants now available may be continued.

NON TAX REVENUES: (Para 2.3.39)

133. Various suggestions and recommendations for improvement of existing source of income by revision of rates, simplification of procedures and better enforcement in respect of all items of Non-Tax Revenues made under the Municipal Corporations will apply to the Municipalities also.

PENALTIES AND FINES: (Para 2.3.40)

134. The revised rates for penalties and fines adopted in Schedules VII and VIII of Tamil Nadu District Municipalities Act, 1920 are indicated in Appendix Nos. 13 & 14. This will apply to Town Panchayats also.

D & O TRADE: (Para 2.3.41)

135. Recommendations made under Municipal Corporations will apply to Municipalities and Town Panchayats also.

CHAPTER 4 : TOWN PANCHAYATS

HOUSE TAX: (Para 2.4.13)

136. The main reform needed is to introduce property tax in Town Panchayats by switching over from the House Tax now levied under Tamil Nadu Panchayats Act, 1994.

137. All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/Municipalities will apply to Town Panchayats also.

138. The Property tax at plinth area monthly rental value specifically proposed for Town Panchayats for various locations and furnished in Schedule in Appendix No.11 may be adopted by Town Panchayats.

139. The General Revision of Property Tax in Town Panchayats may be taken up every year dividing the total area zone-wise on a cyclic system in three years instead of undertaking revision at one time at the end of the final year.

140. All recommendations relating to formation of Tax Tribunal, dispensing with demand notices, introduction of Pass Book system, collection through counters and banks, follow-up of the defaulters through bill collectors, awarding of incentives to tax payers for prompt and advance payment, introduction of bonus to collection staff who achieves higher percentage of collection as indicated under Municipal Corporations will apply to Town Panchayats.

141. The components falling under the service tax (viz., part of Property Tax) may be examined in detail and fixed keeping in mind the priority of service in the Town Panchayats subject to the maximum ceiling prescribed for the property tax. However, at least 50 % of service tax may be made available for water supply.

142. A minimum of 15 % per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

PROFESSION TAX: (Para 2.4.16)

143. All the recommendations made under Municipal Corporations will apply to Town Panchayats.

VEHICLES TAX : (Para 2.4.18)

144. Vehicles Tax has since been abolished by the Government. The recommendations made under Municipal Corporations to cover two wheelers and Tractors will be applicable to Town Panchayats also.

TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES: (Para 2.4.19)

145. This provision is now available to Town Panchayats under the Tamil Nadu Panchayats Act 1994. When the Town Panchayats switch over to taxation under the District Municipalities Act 1920 they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

PILGRIM/TOURIST TAX: (Para 2.4.20)

146. All the recommendations made under Municipal Corporations shall be extended to Town Panchayats.

ASSIGNMENTS/SHARED TAXES: (Para 2.4.24)

147. The recommendations made under Municipal Corporations and Municipalities will be applicable to Town Panchayats also.

GRANTS

HOUSE TAX MATCHING GRANT: (Para 2.4.28)

148. The Village Panchayats upgraded as Town Panchayats may be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of three years by which time, they should improve their financial condition. In the meantime, the Town Panchayats should switch over to Property Tax applicable to Municipal Bodies. The Government could however ensure the equalisation of loss involved by means of a special grant for a specific period wherever found necessary even after the period of 3 years. In the case of transferred territories from Kerala State, the matching grant may be continued since they were allowed to continue the assistance given by Kerala Government at the time of transfer.

HALFGRANT FOR DUSTLESS SURFACING AND ROAD GRANT FOR IMPROVEMENT
(Para 2.4.32)

149. Recommendations have been made for taking into account the length of the roads available in all the local bodies for the purpose of allocation of the share out of Motor Vehicles Tax to the divisible pool. The distribution principles recommended by SFC are expected to take care of the requirements of the Town Panchayats, based on performance and need.

150. The State Finance Commission recommends that improvement to roads can be taken under special schemes formulated for Town Panchayats. The maintenance of the roads should be from out of own Revenue and distribution of funds from Government under Revenue Account.

LIGHTING GRANT: (Para 2.4.34)

151. Pending decision on the recommendation for general distribution of share of tax revenue of State to Local Bodies, the existing lighting grant may be continued.

DRAINAGE GRANT: (Para 2.4.36)

152. The grant now available is paltry and not adequate. All the Town panchayats in Special and Selection Grades may be initially assured of a regular yearly grant on a matching basis for taking up drainage schemes .

NON TAX REVENUE: (Para 2.4.39)

153. All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayats.

CHAPTER 5 : PANCHAYAT UNIONS

OWN TAXES: (Para 2.5.16)

154. Local Cess Surcharge

(1) The SFC recommends the continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.

(2) The SFC recommends adoption of the following procedure for adjustment of the revenue to Panchayat Union: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., a revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however

be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.

155. While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.

156. The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from General Fund itself.

157. A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.

158. Alternative suggestion to link the levy to Land holdings instead of on Land Revenue may be studied further.

ASSIGNED/SHARED REVENUE

LOCAL CESS: (Para 2.5.25)

159. The SFC recommends the following options for apportionment of Local Cess:

(1) The entire LC may be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.

(2) Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.

(3) 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.

160. Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.

161. Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

ENTERTAINMENTS TAX: (Para 2.5.27)

162. The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.

163. This tax has been earmarked as a local taxation by Local Finance Taxation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.

164. The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

MINES AND MINERALS: (Para 2.5.33 & 34)

165. Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.

166. The SFC recommends the following simplified procedure to ensure prompt adjustment to Local Bodies:

The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted

to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any.

167. The revenue collected on granite appears to be very low compared to its export potentiality. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to an "Incentive Fund" to be created. The respective administrative head will distribute to the Local Bodies the amount allocated to the Department.

168. In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund mentioned in earlier paragraph.

GRANTS-IN-AID

LOCAL CESS SURCHARGE MATCHING GRANT: (Para 2.5.47)

169. The SFC considers that decision will have to be taken on the revised formula applicable to the rates of Levy of LCS (from Rs. 5 to 10) as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption.

LOCAL ROADS GRANT: (L.R.G.) (Para 2.5.47)

170. (1) The formula for LRG is based on Tracts (Terrains). This may be changed and the rates may be related to surface of the roads as per the latest rates indicated by CE(HW) to the State Finance Commission. The LRG may be on the existing principle of population and length of roads The rate for length of roads may be adopted at the revised rates indicated by CE (HW).

(2) The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.

(3) Since the share on MVT is proposed to be taken to the divisible pool for distribution no separate Roads grant may be made thereafter. Till then the grant may continue.

NON STATUTORY GRANTS

GRANT FOR MAINTENANCE OF MATERNITY CENTRES: (Para 2.5.51)

171. The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service, till the subject is decided under devolution of functions.

GRANT FOR MAINTENANCE OF DISPENSARIES: (Para 2.5.53)

172. (1)The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.

(2) The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas

(3) Rural Dispensaries could be privatised by permitting local willing doctors to use the building.

(4) The working of the dispensaries in PUs needs detailed examination.

IRRIGATION GRANT : (Para 2.5.55)

173. A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

DEVELOPMENT GRANTS

CENTRALLY SPONSORED EMPLOYMENT PROGRAMMES (Para 2.5.59)

174. The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

CHAPTER 6 : VILLAGE PANCHAYATS

HOUSE TAX: (Para 2.6.16)

175. The SFC recommends the following:

(1) A revised rate based on the plinth area rental value (Appendix No.16) may be adopted since the existing tax structure based on plinth area will be static and no future revisions based on value could be done. In addition, as in the case of Library Cess, an additional Surcharge at the rate to be decided by Government, may be levied for meeting the cost of provision and maintenance of Radio/Television sets of the Panchayats.

(2) The general revision once in five years now adopted may be revised as once in three years. There will not be any steep increase of taxation on the tax payers in villages and at the same time the Village Panchayats will also have the benefit of incremental increase in prices for the purpose of taxation.

(3) The House Tax payer in Village Panchayats may be given the same types of concession allowed to Tax payers in urban local bodies for prompt/advance payment of Taxes.

(4) The SFC recommends that the system of Passbook proposed to be introduced to urban Local Bodies to avoid the issue of demand notice every time may be adopted in Village Panchayats. The Local Public may be educated about the change of system and also the benefits of rebate for prompt and advance payments. This will reduce scriptory work and avoid the deployment of additional personnel for that purpose. If necessary the system may be implemented after a pilot study in select panchayats.

(5) The SFC considers that in village panchayats it will not be difficult to fix the dates for collection centres consisting of specific wards and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection.

(6) Only in the case of defaulters, the Officers of Village Panchayats will have to contact assessees and arrange for early collection.

(7) The SFC recommends that all the procedures indicated under Municipal Corporations and also the publication of the assessment list in the village panchayat may be resorted to, so that the appeal and revision cases can be reduced to the minimum.

(8) The enabling provisions for distraint proceedings against immovable properties may help clearance of arrears in VPs also.

(9) The existing procedure for revision and appeal of House Tax may continue in Village Panchayats.

PROFESSION TAX: (Para 2.6.18)

176. The recommendations made in respect of Municipal Corporations and Town Panchayats will apply to VPs also.

VEHICLES TAX: (Para 2.6.20)

177. The Vehicle tax has already been discontinued.

All power driven vehicles like tractors, and two wheelers may be made liable for vehicles tax at different ranges of rates proposed, under Municipal Corporations.

PILGRIM/TOURIST TAX : (Para 2.6.21)

178. All the recommendations made under Municipalities may be made applicable to the VPs also.

TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES: (Para 2.6.23)

179. The SFC considers that instead of this tax, an enabling provision for levy of betterment charges can be made on all the properties in the area. The Panchayats can levy and collect whenever funds are needed. The owners of vacant lands also may be made liable for this levy of betterment charges. The Tamil Nadu Panchayats Act, 1994 may be suitably amended.

WATER TAX : (Para 2.6.27)

180. (1) A suitable provision may be made in the Tamil Nadu Panchayats Act, 1994 enabling the compulsory levy of water tax as an addition to house tax in village panchayats.

(2) In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.

(3) The Government may permit the house connections in village panchayats where adequate water is available for supply, so that there will be more yield in revenue.

ASSIGNED/SHARED REVENUES: (Para 2.6.35)

181. Assignment of Local Cess, Surcharge on Stamp Duty, Entertainment Tax and Mines and Minerals have been discussed in detail under "Panchayat Unions"

and recommendations made there under will apply to VPs.

SURCHARGE ON STAMP DUTY: (Para 2.6.36)

182. (1) The SFC considers that any change in the procedure for distribution of surcharge on stamp duty will require amendment of the Tamil Nadu Panchayats Act 1994. It is also likely to affect adversely the amount realised by the various Panchayats at present, if distribution is based on population. Hence the existing procedure based on LR may be continued.

(2) To avoid delay, Damodaran Committee recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge instead of waiting for the receipt of collection figures every year. These figures may be collected Panchayatwise and kept at Panchayat Union level. This can be linked to the number of land holdings if a system of levy of LC/LCS is to land holdings as suggested in para 2.5.15 & 2.5.16.

(3) The amount sanctioned is now initially credited to the Panchayat Union Funds and then the Panchayat Union Commissioner transfers the amount to the Village Panchayat account after working out the amount due to the various Panchayats. This revenue may be directly adjusted to the account of VPs and the Panchayat Union Council can work out the amounts due to each VP and give credit to individual Panchayats.

INCOME FROM FEES AND CHARGES: (Para 2.6.39)

INCOME FROM SOCIAL FORESTRY:

183. (1)The SFC considers that Social Forestry is a rich potential to Village Panchayats. The Panchayats may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. The right of auctioning should be left to the local bodies and a regular system of tender cum auction should be prescribed to enable realisation of real income.

(2) The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightaway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.

(3) This scheme needs study on simplification of procedure with reason able freedom to Local Bodies on expenditure relating to planting and rearing. Expert opinion may be confined to officers in the District.

(4) These recommendations may also be made applicable to urban Local bodies where urban Forestry schemes are implemented.

FISHERY RENTAL : (Para 2.6.42)

184. (1) The power of auctioning local body assets should be only with the concerned local body. If necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation. Collectors may be given powers to interfere where the implementation is not properly done. Fish Farmers' Development Co-operative Agencies should also be a bidder along with others and no monopoly should be given to them.

(2) Regarding PWD tanks also, a share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease so that over exploitation could be watched and brought to notice to avoid future leases.

(3) In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a Committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.

(4) The above recommendations may be extended to urban Local bodies wherever the fishing operations are in existence.

2-C PATTA TREES: (Para 2.6.45)

185. (1) Wind fallen trees should be auctioned by a committee consisting of representatives of PU Council, Panchayat, PU Commissioner and Revenue official concerned. The auction should be decided by the Committee, to ensure better price.

(2) The auction amount may be remitted to the PU Council Treasury for credit to the Village Panchayat funds.

(3) In respect of Town Panchayats, the amount may be directly credited to Town Panchayat Funds.

(4) In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realisation of better revenues.

FAIRS AND FESTIVALS: (Para 2.6.48)

186. (1) Levy of Pilgrim/Tourist Tax has been discussed under Municipal Corporations. They may be applied to Village Panchayats also.

(2) In view of the difficulty in getting a share on expenditure during festivals from the temples, as an alternative, the temples having a sizable income throughout the year through pilgrims may be required to share orcontribute to the expenditure on civic amenities to be provided by the local bodies concerned. The Temple at Tiruchendur has been contributing from its own funds for laying of roads etc. and a similar attempt can be made in respect of other big temples in Tamil Nadu. OR The temple may collect an additional fees along with their entrance tickets for the Local Body and pass on that money to concerned Local Body.

PENALTIES AND FINES: (Para 2.6.51)

187. The revised rates proposed by Damodaran Committee (1990) in lieu of rates indicated in Schedules II and III of the Tamil Nadu Panchayats Act, 1994 and suitably revised by SFC may be adopted and the Act amended suitably. (vide Appendix Nos.18 &19)

GRANTS:

HOUSE TAX MATCHING GRANT (STATUTORY): (Para 2.6.55)

188. (1) The new system of devolution of funds other than statutory grants takes into account the tax performance as one of the criteria for devolution of funds.

(2) The existing system of House Tax matching grant can also be linked to collection performance instead of providing equal amount.

(3) Based on the categories of village panchayats now evolved, the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. Specific recommendations given in Appendix No.20 may be adopted.

GRANTS FOR WATER SUPPLY AND STREET LIGHTING (DISCRETIONARY): (Para 2.6.57)

189. Till a decision is taken on the recommendation on divisible pool the present method of assistance by way of grant for street lighting and for water supply will have to continue on a regular basis. **The consumption charges in public lighting and**

also the repair charges for water sources, may be met by Government in full.

DEVELOPMENT GRANTS : (Para 2.6.59)

190. (1) The grants intended for Village Panchayats may be directly adjusted to the Panchayat Funds by the District authorities to avoid delay in routing through the Panchayat Unions.

(2) If freedom is given to the local bodies, they may utilise the funds under Employment schemes for priority items in the area rather than sticking to the purpose indicated for the grant. This will be a major policy decision to be taken at the higher levels of government.

REMUNERATIVE ENTERPRISES: (Para 2.6.61)

191. (1) In village panchayats with higher population/income, remunerative schemes like shops, markets, bus stands and stalls and community centres may be encouraged with assistance from Government.

(2) The Assistance should not be entirely on loan basis as in Urban bodies but should be on the basis of Grant-cum-Loan.

(3) The freedom to implement the schemes should be left to the Panchayats except for technical guidelines and suupervision. These aspects have been dealt with under "Municipal Corporations". They may be extended to Village Panchayats also. The Panchayat Union Commissioner may be the liasion as well as supervisory authority for implementation, auction and other related matters in respect of "Remunerative Enterprises".

CHAPTER 7 : DISTRICT PANCHAYATS (Para 2.7.3)

192. The SFC has taken the view that out of the total allocations to be made by State Government to the LBs and to be divided between Urban and Rural as per the norms proposed by SFC, the amount needed for actual expenditure of the DPs will be retained out of the Rural allocation and the balance will be distributed to PUs and VPs on principles proposed by SFC. The amount retained for DPs will be distributed as Block Grant, In addition devolution of a share on Local Cess has also been recommended. The Government have recently distributed funds to District Panchayats to an extent of Rs.1 crore for 1996-97. Taking this as guidelines, devolution of block grant to District Panchayats is discussed in Part V Resource Allocation Mechanism of the report.

CHAPTER 8 : DEBT SERVICING AND LIABILITIES: (Para 2.8.7) (2.8.15)

193. In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

(i) The payment schedule may be revised with more number of instalments.

(ii) Interest rate may be subsidised by the Government to the LBs in the lower level grades.

(iii) Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.

(iv) The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.

(v) The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.

(vi) It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.

(vii) It is brought to the notice of SFC that the assignments of revenues due to Local Bodies from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.

(viii) If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.

(ix) The SFC recommends to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local

Bodies. Rebates on interest element including waiver of penal interest may also be given.

(x) In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.

(xi) The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The Local Bodies should have a say in cases of time over-runs.

PENSION CONTRIBUTION AND COMMITMENT ON PAYMENT OF PENSION: (Para 2.8.31)

194. (i) The SFC considers that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the Local Bodies. are not in a position to meet even the monthly salary payments and the pension contribution.

ii) The SFC, therefore, considers that the Government may have to bear the commitment

iii) SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted against releases to be made by Government. or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.

(iv) The Director of LF Accounts may continue to be the authority to sanc tion pensionary benefits.

PROVIDENT FUND : (Para 2.8.32)

195. The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the

authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local Bodies cannot be avoided. This may be given to Director of Local Fund Accounts and Audit.

CHAPTER 6

COMMUNITY PARTICIPATION IN LOCAL ADMINISTRATION

4.6.01 An individual citizen is more directly affected by Local Government administration than by policies of the Union and State Governments. It is at this local level that services like road maintenance, street lighting, water supply, transport and communication and plethora of similar services are relevant to everyone. The attitudes towards public administration are general in nature and they are usually shaped by personal contacts. Since the citizens contact with the Local Government is closer and more frequent, public administration at the local level assumes critical importance. While working for improvement in the local administration, local authority must also endeavour to secure greater and better understanding from the citizens. It is only from such an understanding that we can expect greater reponsiveness and enthusiasm from the people.

4.6.02 The rights of the citizens relate to the basic needs of decent living . Citizenship is an obligation as well as a privilege. He is obliged to observe a code of conduct that reflects the interdependence of the citizens in matters of civic nature. Such a code of conduct is all the more

essential in a thickly populated and somewhat heterogeneous community. On one hand, the physical scene must be improved and on the other an education campaign undertaken with the object that the local community is enthused and mobilized with regard to the negative and positive aspects of civic behaviour. Among the instruments to be used, the most important is local leadership of both individuals and institutions. This must give rise to the birth of community development programme and every local administration must endeavour to provide a suitable machinery for undertaking such a programme. The problem is to devise ways of giving the individual an opportunity to play a more meaningful role in the Local Body Administration which are shaping the policies and programmes which affect his physical, aesthetic, occupational, recreational and environment at the local level.

4.6.03 As a result of citizens' involvement, the following gains may accrue to the Local Body:

i) Citizens' involvement may improve the quality of public decision by ensuring that such decisions are based on complete and accurate information. Obtaining citizen's views before final decisions are arrived at will enable the local authorities to know the potential alternatives.

ii) Citizen's involvement will provide to the local authorities information which will alert them, to the potential problems and pit falls that could inhibit the progress of implementation. Another advantage would be that if the employees learn that citizens are monitoring the quality and quantity of services, their motivation for better services will improve delivery.

iii) Citizen's involvement will also help in improving the finances of the Local Body to the extent that greater involvement in the making of Government decisions creates a positive incentive for citizens to work for stengthening the civic community's financial basis. This will increase citizen's willingness to pay for the progress and projects which they know are going to cater to the basic needs of community.

iv) The increased citizen's involvement in the solution of neighbourhood problems will motivate them to solve their problems. If for example, citizens become involved in the development and operation of programmes, designed to meet people's need for shelter, they may in the process, identify additional ways of solving housing problems which do not require Government involvement. In the long run, neighbourhood development depends primarily on the willingness and ability of the citizens to develop solution to their problems.

Role of Non-Governmental Organisations in Municipal Administration:

4.6.04 Urban Government has to work in the midst of a set of peculiarities of its own, namely, first, the concentration of a large population in geographically small areas creates congestion in the living pattern; slum life is intrinsically an urban phenomenon; secondly urban people are engaged in hetrogeneous occupations and professions; third, urban people are conscious of their rights and duties; fourth, urban life is atomized and marked by anonimity and aloofness, hence it is difficult to generate strong community feelings; fifth, urban life is heavily dependent on organized infrastructure of civic services.

4.6.05 Hence improvement in the standard of infrastructural services requires planning and would be aided by the involvement and participation of people in urban Government. It is not enough to elect the Government though democratic processes, it is necessary to devise institutional

mechanisms for community participation in urban planning and development. The success of urban development and civic services management depends on the cooperation and active participation of the people, especially the poorer sections.

4.6.06 Urban Community Development (UCD) will be a useful approach for providing community services with grassroot participation in identification, execution and maintenance of development projects. It is suitable for the decentralized delivery of selected community services at a relatively low cost and is replicable in other areas of urban planning and development. For some time now, urban community development projects have been undertaken in Delhi, Bombay, Calcutta, Madras, Baroda, Ahmedabad, Hyderabad, Kanpur and other cities by such agencies as the Central Social Welfare Board, Bharat sevak Samaj, American Friends Service, Ford Foundation, Swedish swallows, Lutheran Services, Exnora and others. In Chennai Municipal Corporation area, "Exnora Madras", a people's movement is doing yeoman service in the upkeep of the civic services by actively involving the people of the area.

4.6.07 Generally projects for community welfare have been started in deprived or backward areas and slums. A sense of patronage usually enters in service management and delivery, and the local people normally seek external assistance for ameliorating local environmental conditions. However, the local community needs to be awakened to its potentialities for self-organization, mutual cooperation and sharing of responsibility in managing urban development through the active participation of the NGOs. Project organization will not only have to be undertaken by the community itself but the Municipal and State Authorities would have to encourage and promote it by rendering active assistance and extending appropriate facilities so that people could come together and work for the improvement of their physical and social environment. The institutional support for the Municipal Authorities and the Government is part of the urban community development because the nature of urban living and its demands are too complex and gigantic to be tackled by voluntary community efforts alone through NGOs.

4.6.08 The possible areas where development projects can be organized with community participation include shelter building, health and family planning, special nutrition programmes, informal and pre-school education, training for imparting skills, economic support, programmes involving the giving of pattas of house sites, organizing development committees, Mahila Mandals, Welfare Councils, etc. and community oriented social and cultural activities.

4.6.09 Once the poor and disadvantaged sectors are effectively organized through NGOs participation, they can function as a check on the bureaucracy technology-contractor nexus in the development process. By exercising sufficient vigilance the organized community would also be in an advantageous position to fight against administrative corruptions. However, whether and how far these goals would be achieved depend on the extent of the functioning of the basic democratic institutions like the competitive political system, free press and independent judiciary.

4.6.10 Experience of urban community development through community participation suggest that such efforts constitute a useful process of training the poorer sections of the society in self help and mutual cooperation. The importance of basic linkages between voluntary efforts and environmental improvement, and between community initiative for development and financial institutions in the formal sector of the urban economy has been well demonstrated through the urban community Development and Urban Basic Services.

Role of Non-Governmental Organisations in Rural Development Administration:

4.6.11 Non-Governmental and community organizations have an equally important role to play in rural administration and development under the new dispensation of Panchayati Raj Institutions. Unfortunately in spite of the people's institutions like the Panchayati Raj, it has been pointed out time and again that people are not coming forward and involving themselves in the functions of the local institutions, except perhaps at the time of voting. People's participation either in the implementation of the programme or in developing plans for the improvement to a village, area or community is greatly dependent on them being ascribed roles in the community. If they occupy roles in a community which are vulnerable, the chances of their participation will be very much less. Whatever may be the ascribed position of an individual in a particular community, his position as an individual member of the community must be recognized regardless of his personal resources and until and unless this is done, the chances of people's involvement will remain bleak.

4.6.12 The process will also call for active involvement of grassroots activities and voluntary groups. The proposed restructuring of rural development programmes is not to be left to the Government alone, nor even to elected bodies. A substantial contribution will have to come from social action groups and organizations that are in constant touch with the people, particularly with the marginalised and deprived sections so that the relevant institutions remain accountable and responsible.

4.6.13 Potentially this arrangement can help increase the effectiveness of various programmes arrived at for women and children-such as maternal and child health services, integrated child health services, adult education and nutrition-by conveying these services through a responsive local agency.

4.6.14 Among the responsibilities of the Village Panchayats, the following items of work involve negligible amount of labour component.

Provision of drinking water.,

Provision of community Radios.,

Provision of Television sets.

These works involve only switching on and switching off the relative equipments which can be done at the wink of an eye or twist of fingers. Even for these services, the Panchayats have employed men on a paltry sum paid as honororium. The attention paid by these persons is naturally commensurate with the amount they receive. They also demand certain other benefits like bonus, weekly holidays, uniform cloth etc., which the Panchayats are not able to afford. The most suitable method to get this work done satisfactorily, is the entrustment of this work to Non-Governmental Organisations, or Organisations like Scout, N.S.S. Since there are more than 12,000 Panchayats, Non-Governmental organizations with a wider network covering the entire state will be ideal. The boys' scout, N.S.S. are also the organisations which are more suited for this purpose. It is learnt that the scout organisation has established itself very well in Maharashtra, West Bengal and Karnataka as the State Governments have put the organisation to the optimum use and also have offered substantial financial assistance. In Tamil Nadu every village has got an elementary school and a bigger village has got a High School or Higher Secondary School. If boy's scout is organised in all the schools it will be a force that can be reckoned with for the entrustment of this job. The

State Government may think of enhancing the grant-in-aid now given to scout organisation and entrust these jobs to them wherever possible. The boys' scout being a well trained organisation, their services can be utilised for purpose of cleaning the surroundings of drinking water sources, Panchayat bus stands, cart stands, public markets, etc., for which at present there is no arrangement existing in the Panchayats. In Schools and Colleges, in their curriculam, the need for proper maintenance of core civic services, the involvement of the students and the poeple in this affair must be included.

4.6.15 The Commission therefore recommends that

i) In all development programmes, the role of community is very crucial both for the success of the programme as well as for its sustainability, emphasizes that the community should not only participate in the planning, implementation, monitoring and evaluation of the programmes but to the extent possible should be partners in the cost sharing. The non-Governmental Organisations (NGOs) are better suited to organize the community and evolve suitable structures for such participation by the community; therefore recommends that NGOs should be involved not only in the task of community organization but also in policy formation and monitoring and evaluation.

ii) Non-Governmental organizations which are community based, non-political and are constituted by the marginalised people and have a close and effective rapport with the people they work, may be given their due recognition and effectively utilized in planning, implementation and management of programmes at grassroots level in both urban and rural areas.

iii) A catalogue enlisting all Non-Governmental and community organizations involved in Local Body Administration both in rural and urban areas be prepared immediately, for involving them in formulation of plans, implementation and monitoring local area programmes of action. Their representatives can participate in various committees that are constituted for formulation of the programmes and monitoring of its implementations.

iv) Adoption of a bottom up approach to plan for urban poverty alleviation may be resorted to for starting from the micro plans at the community level and developing them into the town/district/ metropolitan plans as envisaged in the 74th constitutional amendment, and also to develop a total city plan for the urban poor.

v) NGOs and wherever possible, Organisations like Scout and N.S.S. can be involved for the proper maintenance of community infrastructure like water supply, roads, street lighting etc.

vi)In Schools and Colleges, in their curriculam, the need for proper maintenance of core civic services, involvement of the students and the people in this affair, must be included.

PART IV

STREAMLINING THE DELIVERY SYSTEM

CHAPTER 1

ORGANISATION

4.1.01 The details of Rural and Urban Local Bodies now in existence institutionwise are as given below:

Rural Local Bodies:

i) Village Panchayats		12,584
ii) Panchayat Unions		384
iii) District Panchayats		28
	Total :	**12,996**

Urban Local Bodies:

iv) Town Panchayats		635
v) Municipalities		104
vi) Municipal Corporations		6
	Total :	**745**
	Grand Total :	**13,741**

Out of the total population in the State, Rural Local Bodies cover 58% and the Urban Local Bodies 42%.

CONSTITUTION / RE-CONSTITUTION:

A. Village Panchayats

4.1.02 Village Panchayats have been constituted as per Section 3 of the Tamil Nadu Panchayats Act, 1958 and Sec.4 of the Tamil Nadu Panchayats Act 1994, for every local area comprising of a revenue village or villages or any portion of a revenue village or contiguous portions of two or more revenue villages with a population estimated at not less than 500. The average population of a Village Panchayat is 2583.

4.1.03 While under Local Boards Act 1920, the panchayats were classified as Major and Minor Panchayats, as per the provisions of Madras Village Panchayats Act 1950, they were classified as Class I and Class II. The Tamil Nadu Panchayat Act, 1958, however, classified the

panchayats as Village/Town Panchayats. The Major/Class I Panchayats are equal to the present Town Panchayats and Minor/Class II Panchayats are equal to the Village Panchayats. As per the existing provisions, for constituting a Village Panchayat, a minimum population of 500 will be adequate and no financial limit is necessary. The average receipt and expenditure of a Village Panchayat excluding Development and Non-Statutory Grants based on 5 years average (1989-90 to 1993-94) is Rs.57,768/- and Rs.52,000/- respectively. Though the state average annual receipt and expenditure of a Village Panchayat appear to match, the financial position of majority of Village Panchayats is found to be very poor, they are unviable to maintain the core basic services like drinking water supply and street lights in their area. There, per capita total receipt is Rs.35 as against the per capita total expenditure of Rs.32. The per capita own revenue is Rs.7. Per capita assigned revenue is Rs.13 of which per capita surcharge on Stamp Duty alone accounts for Rs.12. Of the percapita total expenditure, the administrative cost accounts only Re.1 per capita. This low level expenditure is due to staff in the Village Panchayats not being fully deployed. Details of number of panchayats with annual receipts and charges according to population and per capita ranges, are given in Appendices 89 & 90. To perform the obligatory functions statutorily vested with the Panchayats as per Sec.110 of the Tamil Nadu Panchayats Act 1994, viz., roads, street lighting, public health arrangements, water supply etc. minimum level of income is required, though the level will vary among the panchayats based on geographical area.

4.1.04 It is necessary to have a democratic institution at the grass root level. Though the Tamil Nadu Panchayats Act 1958 was repealed and replaced by the Tamil Nadu Panchayats Act 1994, the norms for population prescribed for the constitution of Village Panchayats remained the same as adopted in 1958 Act. Of the 12,584 Village Panchayats, only 53 have a population upto 500. The maximum number of Village Panchayats are in the population rages of 1001 - 3000 (7629 Nos). The number of Village Panchayats and ranges of population (1991 Population) are as given below:

Table 4.1 Number of Village Panchayats according to population range.

Range of Population	Number of Village Panchayats
up to 500	53
501 - 1000	1,258
1001 - 2000	4,811
2001 - 3000	2,818
3001 - 4000	1,583
4001 - 5000	884
Exceeding 5000	1,177
Total	**12,584**

4.1.05 Since the average population of a Village Panchayat works out to 2583, keeping the population norm as 500 for the constitution of a Village Panchayat is likely to lead to fragmentation

of villages, making the units unviable both from the point of view of management and provision of minimum level of basic services like roads, street lights, public health, water supply etc,.

4.1.06 The former Chief Secretary to Government of Tamil Nadu, Thiru. R.A. Gopalsamy, I.C.S. in his introductory note on the background of the Tamil Nadu Panchayats Act, 1958 has indicated that though there is a flexible provision that a Village Panchayat may have a population of 500, as a matter of administrative policy, no Village Panchayat is to be delimited with a population lesser than 1000 unless it is shown to the satisfaction of the Government that such a delimitation is unavoidable. Though no income limit could be prescribed for the initial constitution, the revision of population norms may create near financial stability so as to provide the required level of physical and social infrastructure.

4.1.07 The Commission after detailed examination considers that a minimum population of 2500 may be prescribed for the constitution of Village Panchayats in future. The proposed norm may not affect the existing Village Panchayats. Whenever two or more Village Panchayats desire for merger, the Government may encourage such proposals, as this would result in consolidation of settlements, leading to the formation of good and viable units for better administration and for provision and maintenance of civic services to the people in the area. A suitable financial incentive may also be allowed by the Government to such Village Panchayats which agree for the merger. The existing 53 Village panchayats with population up to 500 may be considered for amalgamation with the nearby Panchayats in due course.

Classification of Village Panchayats:

4.1.08 Neither the Tamil Nadu Panchayats Act 1958 nor the new Tamil Nadu Panchayats Act 1994 has any provision for classifying Village Panchayats into grades. From the point of administrative convenience it is felt desirable to classify the Village Panchayats into grades. The normal criterion adopted for such a classification in the case of other local bodies like Town Panchayats and Municipalities is based on average annual income. For classifying the Village Panchayats, various **criterion** such as total population, backwardness of the area and average annual income of the Village Panchayats were examined. The work load generally is considered with reference to financial transactions. After detailed deliberations, the commission felt that the criterion based on the average annual income (including non-statutory and Development grants) will be appropriate and hence the same is considered. It is further decided that the Village Panchayats may be classified into 3 grades.

4.1.09 **Accordingly, for the 3 grades the classifications are given below:**

Table 4.2. **Norms for the classification of Village Panchayats into - 3 grades.**

Grade	Range of average annual income (including Non-Statutory and Development grants) for the last 5 years ending 31.3.94	No.of Village Panchayats
III	Up to Rs.50,000	5,297
II	Rs.50,001 to Rs.1 Lakh	3,597
I	Above Rs. 1 Lakh	3,690
	Total :	**12,584**

Note: This range of annual income may be reviewed periodically and suitably revised by the Government.

The Commission therefore recommends, that

4.1.10 i) a minimum population of 2,500 may be adopted for the constitution of a Village Panchayat. This will be for the future and will not affect the existing Village Panchayats.

ii) when two or more Village Panchayats desire for merger, a suitable financial incentive may be allowed by the Government to such Village Panchayats.

iii) the existing 53 Village Panchayats having a population of less than 500 may be considered for amalgamation with the nearby Village Panchayats in due course.

iv) the Village Panchayats may be classified into 3 grades according to average annual income for the last 5 years (including non-statutory and development grants). The annual income range may be reviewed periodically and revised range may be fixed by the Government.

v) the Village Panchayats may be reconstituted once every 5 years before each ordinary election to Panchyats making minor alterations in the jurisdiction, ward divisions etc., if required.

B. PANCHAYAT UNIONS

Constitution/Reconstitution:

4.1.11 Section 15(1) of the Tamil Nadu Panchayats Act 1994 gives power to government, to declare through a notification, any Local area forming a development Block for the purpose of the National Extension Service Scheme of Community Development, to be a Panchayat Development Block and to constitute for every such Panchayat Development Block a Panchayat Union. At present there are 384 Panchayat Unions in the State encompassing 12584 Village Panchayats. Each Panchayat Union has in its jurisdiction an average of 33 Village Panchayats.

4.1.12 The Tamil Nadu Panchayats Act, 1994 has a major change as compared to the previous Tamil Nadu Panchayats Act 1958. Falling in line with the 74th Constitutional Amendment, the Town Panchayats have been excluded from the purview of the Tamil Nadu Panchayats Act 1994, whereby the areas of Town Panchayats are excluded from the jurisdiction of the Panchayat Unions. So much so, the average size of the Panchayat Union by population which was 95,780 under the repealed Panchayats Acts, 1958 came down to 84,635 as per the New Tamil Nadu Panchayats Act 1994. Wide variation is noticed in the size of Panchayat Union by number of Village Panchayats as well as by the area. While the small size of the Panchayat Unions in the hilly areas with less number of Village Panchayats is understandable because of accessibility, what is bafftling in the plains, is their varying sizes both in terms of population and number of Village Panchayats. Even in population there are wide variations. Of the 384 Panchayat Unions, the average population spread is as follows:

Table 4.3 Number of Panchayat Unions according to population range.

Population spread		No. of Panchayat Unions.
Over 1 Lakh	-	104
Between 75,000 and 1 Lakhs.	-	133
Between 50,000 and 75,000	-	104
Less than 50,000	-	43
Total	-	**384**

4.1.13 Though the formation of new Panchayat Unions may not be on the anvil now, yet the situation may warant amalgamation and bifurcation or trifurcation of Panchayat Unions at a later date for the following reasons:

i) When the Panchayats Act 1958 was framed,the National Extension Service Scheme of Community Development Blocks were already in existence . Panchayat Unions were formed for such development blocks without any alteration in boundaries, though the development blocks themselves were of contrasting size in terms of area, population and number of Village Panchayats. Therefore, there is a need to look into the size of the Panchayat Unions afresh and redraw their boundaries.

ii) The Districts in the State are bifurcated or trifurcated to achieve the objectives of compactness, effective management, administrative control and supervision, monitoring implementation of community development programmes, with Line agencies and Development departments. As a consequence, Revenue Divisions and Taluks were also bifurcated. This decentralisation process should also be extended to bifurcation of the unwieldy Panchayat Unions for the purposes of achieving compactness, better cohesion and accessibility to far-flung villages.

iii) As already indicated, Town Panchayats will no longer form part of the Panchayat Unions as they were brought under the purview of the Tamil Nadu District Municipalities Act (Amended 1994) and 8.78 million population living within Town Panchayat areas will no longer be under the jurisdiction of the Panchayat Unions. Consequently many of the existing Panchayat Unions would face a fairly high drop in population content. This will also necessitate redrawing and redefining the jurisdiction of the Panchayat Unions.

4.1.14 It is, therefore, felt that time has come to consider redefining the jurisdiction of the Panchayat Unions based on factors such as area, population, number of Village Panchayats and easy accessiblity from the point of view of administration. The largest number of Village Panchayats comprised in a Panchayat Union is 73 (Uthiramerur Panchayat Union in ANNA District) and the lowest number is 3 (Gudalur Panchayat Union in The Nilgiris District). The average number of Village Panchayats in a Panchayat Union is 33 and in terms of population it is around 84,635.

4.1.15 The Commission therefore recommends that

during bifurcation or trifurcation or reconstitution of Panchayat Unions, the population of the individual Panchayat Unions (as per latest census) must be between 60,000 and 75,000, subject to contiguity. The Commission also recommends that for the purpose of

administrative convenience, effective supervision, and monitoring the implementation of development programmes, the size of the Panchayat Unions in terms of the area should be compact for the easy coverage of all the villages in a shorter duration. The Panchayat Unions may be reconstituted once every 5 years making alterations in its jurisdiction wherever necessary.

Classification/Reclassification:

4.1.16 The execution of Community Development Programme was statutorily entrusted to the Panchayat Unions under Sec.66 of the Tamil Nadu Panchayats Act 1958 corresponding to Sec.113 of the Tamil Nadu Panchayats Act 1994. While attempt was made to develop all Panchayat Unions, it was recognised that the capacity to raise resources differed among the Panchayat Unions In course of years, though the areas of some Panchayat Unions have developed, some were lagging behind in the matter of development requiring relatively a higher State assistance to get themselves developed. Keeping this perspective in view, Government classified the Panchayat Unions into categories on a fiscal basis for the purpose of allowing Government Grants. The per capita Land Revenue formed the basis for such classification.

4.1.17 Initially all the Panchayat Unions in the State were arranged in order of magnitude of per capita Land revenue. Out of the total number of Panchayat Unions, the first 40% were located in this order from the highest and they were classified as category 'A'. The next 30% of Panchayat Unions were classified as category 'B'. The remaining 20% and 10% of Panchayat Unions were classified as category 'C' and category 'D' respectively. This fiscal classification was applied for allowing the government grant such as Local Cess Surcharge Matching Grant, Elementary Education Grant, Village Works Grants, etc; Higher categories of Panchayat Unions viz. A & B weare considered better categories and so lesser grants were allowed. For lower categories viz. C & D, higher were the government grant.

4.1.18 The Panchayat Educaion Finance Enquiry Committee 1969 which subsequently went into this issue, considered that the arrangement of fiscal classification into A,B,C and D categories was not in the best interest of the Panchayat Unions. The Committee considered that the Panchayat Unions shall be classified into 6 categories instead of 4, as per the per capita land revenue of the Panchayat Union as indicated below and that there need not be any limit as to the number of Panchayat Unions in each category. The Committee accordingly recommended that the Panchayat Unions in the State should be classified into 6 categaries (as shown below) which was accepted by the Government and implemented.

Table 4.4 Existing norms for the classification of Panchayat Unions.

Per Capita Land revenue	Category of the Panchayat Union
Above Rs.4	I
Between Rs.3 and Rs.4	II
Between Rs.2 and Rs.3	III
Between Re.1 and Rs.2	IV
BetweenRe.0.75and Re....1	V
Below Re.0.75	VI

4.1.19 The Official Committee constituted in 1977 studied the question of the classification of the Panchayat Unions in a detailed manner. The original classification was done with reference to 1961 population. The revised classification was proposed by the Official Committee with reference to 1971 census. The Committee examined the following alternatives before making its recommendations for reclassification.

(i) Land revenue of the area;

(ii) The stage of development of the area;

(iii) The number of villages and the area of the Panchayat Union;

(iv) Backwardness of the area;

4.1.20 After examining all these points, the Committee considered that the Land revenue of the area indicated the degree of prosperity, need of the population in the area and that classification of Panchayat Unions according to per capita Land revenue method is more suitable. Accordingly, adopting 1971 census population, the revised classification was suggested taking the average Land revenue for 3 years.

4.1.21 The Expert Committee headed by Thiru. A.R. Damodaran, which went into the financial position of the Panchayats and Panchayat Unions in 1990, while examining the classification of Panchayat Unions, came to the conclusion that the per capita Land revenue basis adopted all these years can continue as the major resources of the Panchayat Unions were still related to the quantum of Land revenue and as no firm indicator could be adopted to measure the backwardness of the area, the stage of development etc;

4.1.22 The Commission which went into this question in greater depth has also come to the conclusion that the per capita Land revenue may continue to be adopted for classification of Panchayat Unions as it has not only stood the test of time but no other workable alternative is available for such classification. The present six categories may also continue. Since the Town Panchayats have been taken away from the purview of the Panchayat Unions, the existing per capita land revenue of Panchayat Unions may undergo changes and the norms for per capita land revenue for the classification of Panchayat Unions would also require further examination. The information, the Commission, has received so far, from the Commissioner of Land Revenue for 13 districts have given a mixed picture of varying changes in those districts. The Commission therefore, feels that the matter would have to be pursued further by the Department of Rural Development in consultation with Collectors and the Commissionerate of Land Revenue after obtaining information in respect of the remaining Districts also to arrive at revised norms with a view to evolve a fresh set of classification of Panchayat Unions. The details analysing the position in the 13 districts are in Appendix 15 in which the rates of Local Cess Surcharge Matching Grant have been indicated.

4.1.23 The Commission recommends, that

i) the norms of per capita Land Revenue may be revised as given in para 4.1.22. The principle may continue to be adopted as the basis for the classification/ reclassification of Panchayat Unions.,

ii) the details of classification of each Panchayat Union into these six categories can be worked out in consultation with District Collectors/Director of Rural Development based on the norms given in para 4.1.22.

C. TOWN PANCHAYATS

Constitution/Reconstitution:

4.1.24 The Town Panchayat as an institution of Local Administration is unique to Tamil Nadu. The classification of Town Panchayat as seen in Tamil Nadu Panchayats Act 1958, contemplated urban character as one of the norms. In practice, when village panchayats were upgraded as Town panchayats, only the norms of population and minimum income were adopted. As per Sec. 3 of the Tamil Nadu Panchayats Act 1958(repealed) every local area comprising a revenue village or villages or any portion of revenue village or contiguous portions of two or more revenue villages and having a population estimated at not less than 5000 and an annual income of not less than Rs.10,000 (this has subsequently been revised as Rs.1 lakh) can be notified as a Town Panchayat by the Inspector viz. the Director of Town Panchayats. The main criterion that the area should be urban in character was seldom looked into while upgrading the Village Panchayats as Town Panchayats. There are 635 Town Panchayats and the analysis of existing position reveals that a majority of them are still predominantly rural in character though they have been upgraded as Town Panchayats mostly on administrative grounds that they satisfied the existing norms of population and minimum annual income viz. 5000 and Rs. 1 Lakh respectively. Neither their urban character nor their financial viability have been considered before upgradation.

4.1.25 The 74th constitutional Amendment has brought the Town Panchayats under the purview of the "Nagar Palika" and accordingly the administration of the Town Panchayats was brought under the jurisdiction of the Tamil Nadu District Municipalities (Amendment) Act 1994.

4.1.26 The Constitution (74th Amendment) Act 1992 defines a Nagar Panchayat or a Town Panchayat as a transitional area i.e. an area in transition from rural to urban . This definition implies or underscores that the Town Panchayat is not truly or completely urban in character, but is in the evolutionary stages of becoming one and should therefore be logically bracketed with rural institutions . One further fact to buttress this argument is that the census classifies all Municipal Towns as urban irrespective of the fact whether they satisfy the census norms for recognition as urban or not, whereas only those Town Panchayats which satisfied the census norms are classified as urban. This rather anomalous position of Town panchayats being bracketed with the Municipal Act stands out like a sore thumb, when it is found that out of 635 existing Town panchayats in the State representing a total population of 87.80 lakhs, 420 Town Panchayats or 66% of the Town Panchayats are rural in character.

4.1.27 The Town Panchayats would become ineligible for the assistance from Government of India under Rural Poverty Alleviation and other programmes for the reason that the Town Panchayats have been brought under the purview of the Nagar Palika Act.

4.1.28 The Constitution (74th Amendment) Act 1992 indicates the transitional area or Town Panchayat as such area as the Governor may, having regard to the population of the area and the density of population therein, the revenue generated by the Local Administration, the percentage of employment in the non-agricultural activities, the economic importance or such other factor as he may deem fit specify by public notification. This definition is largely drawn on the criteria adopted by Registrar General of Census of India for treating a place as urban. The census defines a place as urban on the following criteria.

a) A statutory town i.e, all places with a Municipality, Corporation, Cantonment Board or notified Town area Committee.

b) All other places which satisfy the following criteria:

i) A minimum population of 5000;

ii) At least 75% of the male working population engaged in non-agricultural pursuits; and

iii) A density of population of at least 400 persons per Sq.Km.

4.1.29 The Tamil Nadu District Municipalities (Amendment) Act 1994, while incorporating the above provisions under Sec.3B of chapter 1A, has also provided that a Town Panchayat may be constituted for a local area comprising of a revenue village or villages or any portion of a revenue village or contiguous portions of two or more revenue villages, having a population estimated at not less than 5000 and an annual income of not less than one lakh rupees. It may also be seen that besides population and income criteria, for the first time, an economic criteria has been included for the constitution of Town Panchayat.

4.1.30 All the 420 Town Panchayats which are rural in character do not satisfy the economic criteria has to face relegation as Village Panchayats as per the enabling provisions of the Tamil Nadu District Municipalities (Amendment) Act 1994. Even in respect of 235 urban Town Panchayats, now considered as urban for purposes like water supply schemes and the Town panchayats which satisfy the census criteria for being called as Urban area, only 98 of them form part of the Urban agglomeration, the remaining 117 are independent Urban Panchayats, mostly small trade or marketing centres serving the surrounding rural hinterlands.

4.1.31 The condition of Town Panchayats reveal that many do not have adequate financial resources and most of them are no better than Village Panchayats. The average annual revenue receipt based on last 3 years ending 31.3.94 of the Town Panchayats in the State is Rs.74.02 crores; annual revenue expenditure is Rs.64.97 crores. Percapita revenue receipt is Rs.84 as against the percapita revenue expenditure of Rs.74. This does not take into account their liabilities and commitments pending payment for want of funds. The income from local taxation based on 1993-94 comes to Rs.25.13 crores; per capita income is Rs.29/- . The income from assignments and grants comes to Rs.27.89 crores, i.e. per capita income of Rs.32. The expenditure on general administration including salary to staff accounts for Rs. 12.18 crores with a percapita expenditure

of Rs.14/-. It is seen that a large number of Town Panchayats depend on Assigned Revenues and grants for meeting their statutory obligations and their local taxation is not adequate for meeting the total administrative cost. A sizable number of Town Panchayats are found not able to meet the salary commitments and the expenditure on street lighting. The major cause for the present state of affairs is the indiscriminate upgradation of Village Panchayats as Town Panchayats without giving serious consideration about the sound economic base which only could sustain regular generation of internal resource through taxes.

4.1.32 The annual administrative cost of Town Panchayat grade wise (inclusive of staff deployed for services) is as given below: (as per 1993-94 figures)

i) Grade II - Rs. 2.25 lakhs;

ii) Grade I - Rs. 3.40 lakhs;

iii) Selection Grade - Rs. 8.23 lakhs

4.1.33 The Commission, considering the various aspects, recommends that the norms for upgradation of Village Panchayats into Town Panchayats may be fixed as indicated below:

i) Population not less than 15,000;

ii) Average annual income of not less than Rs.10 Lakhs (excluding loans, lapsed deposits, house tax matching grant, non-statutory and development grants);

iii) Reasonable percentage of employment in non-agricultural activities.

4.1.34 Out of 420 Town Panchayats rural in character as mentioned in para 4.1.26 which have a population of less than 10000 according to 1991 census, 92 have an annual income of less than Rs.5 Lakhs. Amongst 235 Town Panchayats, urban in character, 6 have an annual income of less than Rs. 5 lakhs. The Commission feels that these 98 Town Panchayats (92+6) may be specially considered for improving their finances, or they may be classified Village Panchayats duly consulting the Director of Town Panchayats. Otherwise special financial packages both for infrastructure development and maintenance will have to be provided for in these cases. (Appendix 103).

Classification/Reclassification

4.1.35 The existing Town panchayats have been classified into 4 grades. This classification would assist the government in deciding the staff and other infrastructure facilities to be allowed to them. The existing criteria are indicated below against each grade:-

Table 4.5 Existing norms for the classification of Town Panchayats.

GRADE	EXISTING CRITERIA Average Annual Income for the last 3 years (Rs.)
II	4 lakhs
I	8 lakhs
Selection Grade	10 lakhs

4.1.36 The Commission recommends, after considering the cost escalation, the level of basic services to be extended, and the minimum staff to be appointed, the following criteria of population and annual income may be followed for the gradation of Town Panchayats, while the existing institutions are allowed to continue in the respective grades:

Table 4.6 Norms proposed for the classification of Town Panchayats.

GRADE	PROPOSED CRITERIA	
	Population	Average Annual Income for the last 3 years.
II	Upto 10,000	Exceeding Rs.10 lakhs
I	Upto 15,000	Exceding Rs.15 lakhs
Selection Grade	Upto 20,000	Exceeding Rs.20 lakhs
Special Grade	Above 20,000	Exceeding Rs.50 lakhs.

N.B: loans, lapsed deposits, non-statutory and development grants shall be excluded in arriving at average annual income.

D. MUNICIPALITIES

Constitution/Reconstitution:

4.1.37 The Tamil Nadu District Municipalities Act, 1920 did not indicate any norms. However the Town Panchayats are being upgraded as Municipalities by the Government, if the population is not less than 20,000 and the annual income exceeds Rs.1 lakh (subsequently modified as Rs.3 lakhs)

4.1.38 The Constitution (74th Amendment) Act 1992 envisages that henceforth there will be 3 types of Municipalities, viz;

* Nagar Panchayat;
* Municipal Council and
* Municipal Corporation.

4.1.39. Sec.4 of the Tamil Nadu District Municipalities (Amendment) Act, 1994 provides the following factors for constituion of a municipality:

* Population of the area;
* Density of population therein;
* Revenue generated for Local Administration;
* Percentage of employment in non-agricultural activities.
* Economic importance or such other factors as the Governor may deem fit.

4.1.40 Regarding the upgradation of Town Panchayats as Municipalities the Director of Town Panchayats had expressed the view that only such of those Town Panchayats which satisfy the average annual income criteria of Rs.30 lakhs and above may be upgraded as

Municipalities. The Director of Municipal Administration had advocated that Town Panchayat whose average annual income exceeds Rs.20 lakhs and with a population of 20,000 may be considered for upgradation as a Municipality. The average annual Revenue receipt and Revenue expenditure of a Municipality based on last 3 years figures ending with 31.3.94 works out to Rs.135 lakhs and Rs.125 lakhs respectively; in terms of per capita Revenue receipt is Rs.194 and Revenue expenditure is Rs.180.

4.1.41 The Commission, after considering all the above aspects, recommends that the following minimum norms may be fixed for upgrading a Town Panchayat into Municipality and for the constitution of an area into Municipality:

i. Should be urban in character and should satisfy the census norms of density of population and that 75% of the male working force are engaged in non-agricultural activities;

ii. Minimum population of 30,000 and

iii. an average annual income (based on last 3 years) exceeding Rs.50 lakhs excluding non-statutory and development grants, loans, and lapsed deposits.

Classification/Reclassification:

4.1.42 In 1992 the Classification/reclassification of Municipalities was done on the basis of average annual income. Subsequently, the Government revised the norms several times in 1963, 1970, 1974 and in 1983.

4.1.43 Lastly in 1988, the need to revise the criteria for the reclassification of Municipalities was examined due to the increase in income and expenditure levels of Municipalities and the Government in G.O.Ms.No. 1078, Municipal Administration and Water Supply Dept., dated 15.12.88 have prescribed the following revised norms for the reclassification of Municipalities:

Table 4.7 Norms existing for the classification of Municipalities.

Grade of the Municipality	Average annual income under all accounts for the past 4 years(including income under electrical undertakings) (Rs.)
III	10 lakhs
II	20 lakhs
I	40 lakhs
Selection Grade	100 lakhs
Special Grade	200 lakhs

The Government have also indicated that while computing the overall income of the Municipalities for the last 4 years, loans, lapsed deposits, non-recurring grants (non-statutory) should not be taken into account.

4.1.44 During 1995, the Commissioner of Municipal Administration, Chennai suggested to revise the norms as indicated below for the reclassification of Municipalities:

Table 4.8 Norms proposed by the Commissioner of Municipal Administration for the classification of Municipalities.

Grade of Municipality	Norms proposed Average annual income for the past 4 years excluding loans,lapsed deposits, non-recurring grants (non-statutory) (Rs.)
Grade II	Exceeding 50 lakhs
Grade I	Exceeding 100 lakhs
Selection Grade	Exceeding 200 lakhs
Special Grade	Exceeding 400 lakhs

4.1.45 The Commission after considering all the above factors, recommends that the following may be the revised norms for the Classification/re-classification of Municipalities.

Table 4.9 Norms proposed by the State Finance Commission for the classification of Municipalites.

Municipality Grade	NORMS Average Annual Income based on last 3 years (Rs.)
II	Exceeding 50 Lakhs
I	Exceeding 100 Lakhs
Selection Grade	Exceeding 200 Lakhs
Special Grade	Exceeding 500 Lakhs

NB:- Loans, lapsed deposits, non-statutory and development grants shall be excluded for computing the average annual income.

4.1.46 The Commission has not made any recommendation regarding Constitution / classification of Grade III Municipalities in the light of the fact that many of the existing special grade town panchayats are already getting an annual income of more than Rs.30 lakhs and when they are likely to be considered for upgradation as Municipality, they may have an annual income nearing to Rs.50 lakhs and hence the norm for annual income for upgradation of Town Panchayat into Municipality has been suggested as Rs.50 lakhs and that they could be upgraded straightaway as Grade II Municipalities. The Commission is of the view that occasion for constituting a new Municipality of Grade III out of an existing urban (Town Panchayat) area are apparently not very bright and so Municipalities of Grade III have not been considered.

E. MUNICIPAL CORPORATION

Constitution/Reconconstitution:

4.1.47 The Acts do not provide any specific guidlines but gives powers to Government to declare any area as a Corporation. There are at present 6 Municipal Corporations in our State viz. Chennai, Madurai, Coimbatore, Tiruchirapalli, Salem and Tirunelveli. The recently constituted Municipal Corporations of Tiruchirapalli, Salem and Tirunelveli have a population of 7.11 Lakhs, 5.78 Lakhs, and 3.66 Lakhs respectively according to 1991 census. Coimbatore and Madurai cities had a population of around 6 lakhs and 7 lakhs respectively when they were upgraded as Municipal Corporations in the early seventies and eighties. The average annual Revenue receipts and Revenue expenditure of the Corporations based on the last 3 years ending 31.3.1994 are given below:

Table 4 .10 Average annual income and expenditure of all Corporations.

Name of the Corporation	Average annual revenue (Rupees in Crores)		Per capita (Rs.)	
	Receipt	Expenditure	Receipt	Expenditure
i) Chennai	164.77	103.44	428.93	269.27
ii) Madurai	19.55	21.48	207.79	228.29
iii) Coimbatore	32.04	19.56	392.52	239.59
iv) Tiruchirapalli	12.51	10.58	187.13	158.19
v) Salem	10.75	10.54	181.03	177.52
vi) Tirunelveli	5.24	2.08	140.04	55.45
Total	**244.86**	**167.68**	**338.43**	**255.07**

The other major agglomerations in the State viz., Vellore, Erode, Tiruppur and Tuticorin have a population of 3.10 lakhs, 3.57 lakhs, 3.05 lakhs and 2.84 lakhs respectively. The National Commission on Urbanisation in its recommendations to Government of India, have adopted the following classifications for the cities: The highest classification (C6) has a population of 100 lakhs and the lowest classification (C1) has a population of 5 lakhs. Taking into account the norms adopted for the constitution of Municipal Corporations for Madurai, Coimbatore, Salem, Tiruchirapalli and Tirunelveli and keeping in view the recommendations of the National Commission on urbanisation, the Commission felt that a minimum population of 10 lakhs may be fixed as a norm for the constitution of a Municipal Corporation or upgradation of a Municipality into a Municipal Corporation. As regards income criteria, the Commission recommends a minimum income of Rs.50 crores.

4.1.48 The Commission therefore recommends, that

the criteria for the constitution of a Municipal Corporation or upgrading a Municipality into a Municipal Corporation in future may be:

(i) Minimum population of 10 lakhs; and

(ii) Average annual income of Rs.50 crores.

F. TOWNSHIPS

4.1.49 Townships were constituted prior to the advent of the Tamil Nadu Panchayats Act 1958, under the Tamil Nadu District Municipalities Act 1920. They were called as Municipal Townships. After the introduction of the Tamil Nadu Panchayats Act 1958, a specific section viz. Sec.4 was provided to constitute townships for special areas comprising Educational, Industrial, Labour and Health resort. These townships were called Panchayat Townships. The members of the Township Committees, both official and non-official, were nominated by the Government. The Collector in the case of Municipal Township Committees, Collector/Revenue Divisional officer in the case of Panchayat Township Committees were appointed as the Chairman by the Government. At present there are 8 Municipal Township Committees, 5 of them constituted under the Tamil Nadu District Municipalities Act 1920 and the remaining 3 viz. Courtallam, Bhavanisagar and Mettur by Special Legislations. Subsequently as per the provisions of the Tamil Nadu Panchayats Act 1958, 17 Township Committees were constituted. For the Township Committees constituted under the Municipal Act, Municipal Commissioners were appointed as Executive Officers of the Township Committees. In the case of Panchayat Township Committees, Executive Officers of Town Panchayats were appointed as Executive officers.

4.1.50 The Director of Municipal Administration had submitted proposals to Government in 1973 indicating that Municipal Townships which were formed for predominantly industrial areas or places of Tourist attraction should be placed in charge of Municipal Commissioners with wide experience and that in classifying the Townships for purposes of appointment of Executive Officers, they should be treated as a distinct class. He had therefore recommended that the Municipal Townships may be classified into grades as indicated below:

Table 4.11 Norms existing for the classification of Municipal Town ships.

Grade of the Township	Norms for classification Annual Income under General Account- Ordinary (Rs.)
Grade II	5 lakhs and below
Grade I	Exceeding 5 lakhs but not exceeding 10 lakhs.
Selection Grade	Exceeding 10 lakhs

The Government have accepted the proposal and issued orders accordingly in G.O.Ms.No.380, Rural Development and Local Administration Department, Dated:6.3.1975. As far as Panchayat Townships are concerned, there are no classifications. Executive Officers of Town Panchayats were appointed by the Director of Town Panchayats as said earlier.

4.1.51 After the introduction of 74th constitutional amendment, both Municipal and Panchayat Townships were brought under the District Municipalities (Amendment) Act 1994 and called as Municipalities and Town Panchayats respectively as per sec.4 (B) of the Act.

4.1.52 According to the constitution (74th Amendment) Act 1992 and as per sec.4(A) of the District Municipalities (Amendment) Act 1994, provision has been made for the creation of new Townships for Industrial areas. The Governor may, having regard to the size of the area and the

Municipal service being provided or proposed to be provided by an Industrial Establishment in that area and such other factors as he may deem fit, declare by notification any Urban area comprised in any Municipality or in a specified area therein to be an Industrial Township, duly indicating for the Township the total number of members, manner in which they shall be chosen, Chairperson, the term of office, the procedure, the restrictions and conditions subject to which the Township Committee may perform its functions etc. This is essential in view of the fact that the abnormality in the per capita income of these institutions which were formed with specific criteria affects the norms for distribution of funds when they are equated with other Municipalities/ Town Panchayats.

CHAPTER 2

FUNCTIONS OF LOCAL BODIES

Rural Local Bodies:

4.2.01 The functions of the Rural Local Bodies viz the Village Panchayats, Panchayats Unions and the District Panchayats have clearly been indicated in various provisions of the Tamil Nadu Panchayats Act 1994. The functions in respect of Village Panchayats and Panchayat Unions are broadly classified as (i) obligatory (ii) Discretionary and (iii) Agency functions.

(A) Village Panchayats:

4.2.02 Under sec 110 of the Tamil Nadu Panchayats Act 1994, the **obligatory functions** of the Village Panchayat have been indicated as shown below:

(i) Construction, repair and maintenance of all Village Panchayat roads;

(ii) Lighting of Public roads and Public places in built up area;

(iii) Cleaning the streets, removal of rubbish heaps; provision and maintenance of Public latrines;

(iv) Opening and maintenance of burial and burning grounds;

(v) Provision and maintenance of water supply sources for washing and bathing purposes and

(vi) Such other duties as the Government may by notification impose.

4.2.03 Similarly, under sec 111 of the Act, the **discretionary functions** of the Village Panchayats have been spelt out. The functions are indicated below:

Subject to the provisions of the Act and the rules made there under, a Village Panchayat may also make such provisions as it thinks fit for carrying out the requirements of the Village in respect of the following matters, namely;

a) Planting and preservation of trees on the sides of all Public roads in the Panchayat area;

b) Lighting of Public roads and Public places in areas other than built up areas;

c) Opening and maintenance of Public markets (Panchayat markets);

d) Control of fairs and festivals classified as Panchayat's fairs and festivals.

e) Opening and maintenance of Public landing places, halting places, cart stands and Public cattle sheds;

f) Opening and maintenance of Public slaughter houses;

g) Opening and maintenance of Reading rooms;

h) Establishment and maintenance of wireless receiving sets, play grounds, parks, sports clubs and centres of physical culture;

i) Opening and maintenance of literacy centres and centres for imparting social education.

j) Construction of works of Public Utility and provisions of other facilities for the safety, health, comfort, convenience, culture or recreation of the inhabitants of the village.

Agency Functions:

4.2.04 Under sec.119 (2) of the Act, special provision has been made, subject to such rules as may be prescribed, that the Government, Commissioner of Land Administration, the Collector or Revenue Divisional Officer, the District Panchayat, the Panchayat Union Council or the Chief Executive Officer, the Commisioner or any person or body of persons may transfer to the Village Panchayat, with its consent, the management of any Institutuion or the execution or maintenance of any work or the exercise of any power or the discharge of any duty whether provided for in the Act or not.

4.2.05 Under Section 257 of the Act, the Government may by notification and subject to such conditions and restrictions as may be specified therein, entrust a Panchayat with such powers and responsibilities with respect to the preparation of plans for economic development and social justice including those in relation to the matters listed in Schedule IV of the Act. (11th Schedule of the Constitution).

(B) Panchayat Unions:

4.2.06 The obligatory functions of the Panchayat Unions are given in Sec.112 of the Act which are narrated below:

Subject to the provisions of this Act and the rules made there under, it shall be the duty of a Panchayat Union Council, within the limits of its funds, to make reasonable provision for carrying out the requirements of the Panchayat Union in respect of the following matters, namely:

a) Construction, repair and maintenance of all Panchayat Union roads;

b) Establishment and maintenance of dispensaries and the payment of subsidies to rural medical practitioners;

c) Establishment and maintenance of maternity and child welfare centres, including maintenance of THAI Service and offering advice and assistance to mothers in FAMILY PLANNING;

d) Construction and maintenance of poor houses, orphanages, shops, stalls, plinths, training and employment of vaccinators, removal of congestion of population and the provision of house sites;

e) Opening and maintenance and expansion of Elementary Schools including payment of grants to private managements in respect of elementary schools;

f) Preventive and remedial measures connected with epidemic or with malaria;

g) Control of Panchayat Union fairs and festivals;

h) Veterinary relief;

i) Extension of Village sites and the regulation of buildings;

j) Opening and maintenance of Public Markets which are classified as Panchayat Union Markets;

k) Maintenance of Statistics relating to births and deaths;

l) Establishment and maintenance choultries;

m) Improvement of Agriculture, Agricultural Stock and holding of Agricultural shows;

n) Promotion and encouragement of Cottage Industries;

o) such other duties as imposed by the Government.

4.2.07 Section 115 of the Act lays down the **discretionary functions** of the Panchayat Union within the limits of its funds, to carryout measures of public utility calculated to promote the safety, health, comfort or convenience of the inhabitants of the Panchayat Union.

4.2.08 The Agency functions of the Panchayat Union Council have been indicated under Section 113 and 114 of the Act. As per Section 113, the Government shall entrust the execution of all National Extension Service Scheme of Community Development including in particular, all measures relating to the development of Agriculture, Animal Husbandry and Village Industries. Similarly under Section 114 of the Act, the Government may entrust to the Panchayat Unions for execution all or any of the schemes, programmes and activities to be executed or implemented either by the Government or by any statutory body or agency. Similarly the Panchayat Union Council, if so notified by the Government, may review the schemes, programmes and other activities executed by the Government or by any statutoy body or Agency within the Panchayat Union under Section 114(2) of the Act.

4.2.09 Further, under Section 123 of the Act, subject to such rules as may be prescribed by the Government, the Commissioner of Land Administration, the Collector, or Revenue Divisional Officer or any person or body of persons may transfer to the Panchayat Union Council with its

consent, the management of any institution or the execution or maintenance of any work or the exercise of any power or the discharge of any duty whether within or without the Panchayat Union and whether provided for in this Act or not. Under Sec.257, the Government may entrust to a Panchayat Union with such powers and responsibilities with respect to the preparation of plans for economic development and social justice including those in relation to the matters listed in Schedule IV of the Act (Schedule XI of the Constitution).

(C) District Panchayats

4.2.10 The functions envisaged under the Act for the District Panchayat have been given in Section 163 of the Act. The State Finance Commission feels that the District Panchayat at the District lelvel may be an effective body for the purpose of planning, implementation, monitering and reviewing all Rural Development Programmes. Accordingly the Government may consider devolving functions to the District Panchayats.

(D) Town Panchayats and Municipalities

4.2.11 The functions of the Town Panchayats and the Municipalities are one and the same and are given in various sections of the Tamil Nadu District Municipalities (Amendment) Act 1994. The same are narrated below:

(i) Provision and maintenance of Water Supply (Section 125, 126 of the Act);

(ii) Provision and maintenance of Street Lights (Section 136);

(iii) Provision and maintenance of public drainages; (Section 137);

(iv) Provision and maintenance of Public Latrines (Section 145);

(v) Arranging for cleaning the streets and removal of sweepings (Section 153);

(vi) Provision and maintenance of Public Streets, roads (Section 162);

(vii) Plant and preserve trees on the sides of Public Street(Section 162-A);

(E) Municipal Corporations

4.2.12 The important functions are:

i) Provision and maintenance of Water Supply (In the case of Chennai Corporation, this function is being attended to by the Chennai Metropolitan Water Supply and Sewerage Board);

ii) Provision and maintenance of Street Lights;

iii) Provision and maintenance of Public Drains (in the case of Chennai Corporation, this function is being attended to by the Chennai Metropolitan Water Supply and Sewerage Board;

iv) Provision and maintenance of Public latrines;

v) Cleaning the Streets and removal of sweepings;

vi) Provision and maintenance of Public Streets, roads, etc.

4.2.13 Though the Commission feels that the above functions and the additional functions suggested for devolution to these Local Bodies may be by and large sufficient for the effective functioning of the Local Bodies, provision and maintenance of drinking water supply may be added

as an obligatory function of the Village Panchayat as was in the earlier Panchayats Acts, but not found in the present Act.

4.2.14 The Commission recommends that

the existing functions of Local Bodies including the functions proposed for devolution under IVth, Xth and XIth Schedules of the Tamilnadu Panchayats Act 1994, Tamil Nadu District Municipalities (Amendment) Act 1994 and the Tamilnadu City Municipal Corporation Acts respectively are by and large sufficient for the effective functioning of the Local Bodies. Provision and maintenance of drinking water supply sources may be added as an obligatory function of the Village Panchayats as was in the earlier Panchayat Acts.

CHAPTER 3

DEVOLUTION OF FUNCTIONS

Rural Local Bodies:

4.3.01 Article 40 of the Constitution of India in its Directive Principles of State Policy entrusted to the States the responsibility of organising Village Panchayats and endowing them with such powers and authority as may be necessary to enable them to function as Units of Self Government. The term 'State' according to the Constitution, includes both the Union and State Governments.

4.3.02 Panchayat Raj Institutions which were constituted in the late fifties and early sixties in various States with the aim of public participation in development programmes have unfortunately lost their pre-eminence for a number of reasons. Lack of uniform principles among the States, absence of periodic elections, meagre participation of the vulnerable sections of the rural population like SCs/STs and women in these democratic Institutions, inadequate administrative, technical and accounting infrastructural support to these institutions, weak financial base and above all, a dilution of the Political will on the part of the State to endow these institutions with adequate functions and powers have contributed to the ineffective functioning of the Panchayat Raj Institutions. The Government of India on its part, has been making an earnest endeavour since the advent of the planning era, to ensure creation and strengthening of units of Local Self Government in our country. This endeavour is manifest in the constitution of several expert bodies such as the Balwantrai Mehta Committee whose recommendations paved the way for the emergence of the existing pattern of Three Tier Panchayati Raj System in Rural Local Government. Study team on Panchayati Raj Finances headed by Thiru. K. Santhanam, Study Group on Budgeting and Accounting procedures of Panchayat Raj Institutions headed by Thiru M. Ramakrishnayya, study team on the Audit of Accounts of Panchayati Raj Bodies headed by Thiru. R.K. Khanna, Committee of Panchayati Raj Institutions headed by Thiru Ashok Mehta have made several significant recommendations which evoked a positive response from the State Governments. Besides these efforts, the Government of India have consistently been playing a promotional as well as a participatory role in strengthening the Panchayati Raj Institutions.

4.3.03 Against this back drop, the Government of India took the historical initiative of enacting the 73rd Amendment Act to the Indian Constitution and thus facilitated the emergence of vibrant, meaningful units of Rural Local Government. Article 243(G) of the Amended Constitution has spelt out the powers, authority and responsibilities of Panchayats as indicated below:

4.3.04 "Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of Self Government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to:

(a) the preparation of plans for economic development and social justice;

(b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the XI Schedule".

4.3.05 The amendment to the Constitution which confers Constitutional Status on the Panchayatiraj Institutions viz; District Panchayats at the District level, Panchayat Unions at the intermediate level and Village panchayats at the Village level is undoubtedly a land mark in the process of democratic decentralisation in decision making. 29 subjects have been assigned to the Panchayati Raj Institutions as per XI Schedule of the 73rd Constitution Amendment Act 1992.

4.3.06 In devolving specific or itemwise functional responsibilities and powers on each layer of Panchayati Raj it has been hoped that the State Governments would be guided mostly by the principle of "relative operational capability". Given a set of specific functional responsibilities transferable to Panchayatiraj sector, the relative capability of each layer in performing a given function may guide their vertical division. In this connection, the principle of "Subsidiarity" can also be kept in view. Also, it is necessary to ensure that the vertical division of responsibilities does not offer scope for overlapping or multiple jurisdictions.

4.3.07 The functional responsibilities of the Panchayati Raj Institutions can be divided into three broad categories, viz; civic, developmental and welfare functions, though these categories may not in practice be mutually exclusive in some cases. The Village Panchayats are ideally suited to perform the civic, developmental and welfare functions due to their direct and close proximity to the people, especially where people's initiative, support and participation would play a crucial role. The middle layer can perform functions relating to planning and implementing agency at the Block Level of development programmes and also take up civic functions which are common to villages. The District panchayat seems to be an ideal Unit for performing functions relating to Planning, Co-ordination, Supervision, review and monitoring of all programmes and take up common programmes involving more than one Panchayat Unions.

4.3.08 As narrated earlier, in the 73rd Constitutional Amendment 29 functions have been indicated under XI Schedule for the devolution to Panchayatiraj Institutions. Based on this, in Tamil Nadu through the new Tamil Nadu Panchayats Act, 1994, 29 items have been proposed for devolution to the Panchayats in three layers. (Schedule IV). In the District sittings conducted by the State Finance Commission, the representatives of people, viz; Ex-MLAs, Ex-M.Ps and Ex-Chairmen/ Presidents of Local Bodies have expressed their views in favour of devolution of

functions to Rural and Urban Local Bodies forthwith. The Collectors who have expressed their views in their District memorandums have also emphasised this.

4.3.09 The 29 items proposed for devolution are only illustrative and not exhaustive. More items can be devolved, depending on the capacity of the Panchayati raj Institutions to discharge them satisfactorily and serve the people better.

4.3.10 For any devolution of functions to be meaningful, it must be accompanied by the devolution of functionaries (staff) and funds. Therefore, the scheme or package of devolution must contain these three 'F's (Functions, Funds and Functionaries) together. Though t here are various facets of devolution viz; Planning, Review, Administrative Control, Funds Control, Execution etc, to be meaningful, the devolution should be total. But it may take some more time for total devolution. However, in cases where public participation is already available in different forms , like in Co-operatives, the devolution to Local Bodies may be limited to items like identification of needs, planning and review, and need not be overlapping.

4.3.11 Though the State have adopted the 29 items as proposed in the XI Schedule for devolution to Panchayati Raj Institutions through Tamil Nadu Panchayats Act 1994, the functional devolution have not yet been defined clearly for each tier. With a view to clearly demarcate the function to each tier, the State Finance Commission initiated action and held discussions with the concerned Secretaries to Administrative Departments in the Secretariat and also the Heads of Departments numbering 17. The functions to be devolved for each layer have been finalised on mutually accepted basis and the details furnished to the Secretaries to Government concerned for issue orders of Government early (Appendix No.104).

Urban Local Bodies:

4.3.12 Similarly, devolution of Functions to Urban Local Bodies viz: Town Panchayats, Municipalities and Municipal Corporations has been given in XII Schedule of the 74th Constitution (Amendment) Act 1992, and have been incorporated under concomitant amended Acts of the respective urban local bodies in the State.

4.3.13 Through the amended Tamil Nadu District Municipalities Act 1920, the Government have included 18 functions for devolution (Schedule X) to Town Panchayats and Municipalities. Similarly for Municipal Corporations, 18 functions have been included by the Government for devolution as per the Amendments to the respective City Municipal Corporation Acts. It is seen that out of these 18 functions included for Urban Local Bodies, 10 functions are already among the functions partly or fully discharged by the Urban Local Bodies themselves. For devolving the remaining functions, the State Finance Commission held discussions with the respective Secretaries to Government and the Heads of Departments and a consensus has been arrived at for the initial devolution. The package is furnished in Appendix No.105. The Secretaries to Government have been requested by the State Finance Commission to arrange for issue of orders of Government devolving the functions to the Urban Local Bodies early.

4.3.14 The Commission recommends that

though the 29 items and 18 items have been adopted in the concerned State Acts, for devolution to Panchayati Raj institutions and Municipal Bodies respectively, the items have not been defined clearly for each tier. With a view to clearly demarcate the items to each tier,

the State Finance Commission had initiated action and held discussions with the concerned Secretaries to Government of the State Government and their Heads of Departments. For devolution, items have been finalised on mutually agreed terms and a model package furnished to the Secretaries to Government concerned for issue of early Government orders. The consensus by and large was that devolution should be gradual and in phases. The devolution of functions should be accompanied with concomittant funds and functionaries. The details are given in Appendices no . 104 & 105. These packages may be adopted.

CHAPTER 4

STAFFING PATTERN

Village Panchayats, Panchayat Unions and Town Panchayats:

4.4.01 As the Extension Philosophy of the National Extension Service Scheme of Community Development initiated in the beginning has changed and as the people are now by and large aware of the benefits of Rural Development Programmes, there is need for restructuring the staff at Panchayat Union Level to face the challenges of intensive phase of Rural Development Programmes. Recogninising this, Government (Finance Department)have agreed to consitute a Task Force at the behest of Anna Institute of Management, Chennai. However, considering the sensitive nature of Recommendations in this regard, and the fact that this is being deliberated upon at the Government level, State Finance Commission has consciously decided to be silent on these recommendations of the Task Force, leaving it to the Government to pursue the report of the Task Force, if deemed necessary. However, a few suggestions are made below:

4.4.02 With regard to daily cores of street cleaning, scavenging etc., the Commission is of the view that the work may be left to privatization on lumpsum contracts and no separate staff need be posted, in Village Panchayats; and

4.4.03 In respect of combined water supply schemes, covering more than one local body viz., Village Panchayats, Town Panchayats and Municipalities, the maintenance may be left to the Tamil Nadu Water Supply and Drainage Board. In respect of water supply services , other than combined water supply schemes, the Commission is of the view the maintenance may be with the local body which can seek if required, the assistance of the local voluntary groups in each habitation, suitably trained for this purpose.

4.4.04 The Commission therefore recommends that

i)There is a need for the Re-organization of the structure in the local bodies, particularly Rural, since the present pattern was created only at the time of entrusting the Community Development programmes to the Panchayat Unions. Recogninising this, Government (Finance Department)have agreed to consitute aTask Force at the behest of Anna Institute of Management, Chennai. However, considering the sensitive nature of Recommendations in this regard, and the fact that this is being deliberated-upon at the Government level, State Finance Commission has consciously decided to be silent on these recommendations of the Task Force, leaving it to the Government to pursue the Task Force Report, if deemed necessary. Only few geneal suggestions are made.

ii) with regard to daily cores of street cleaning, scavenging etc., in Village Panchayats the work may be considered for privatization on lumpsum contracts and no separate staff need be posted, for the Village Panchayats.

iii) in respect of combined water supply schemes, covering a number of settlements, viz., Village Panchayats, Town Panchayats and Municipalities, the maintenance may be best left to the care of the Tamil Nadu Water Supply and Drainage Board. In respect of water supply schemes, other than combined water supply schmes, which are individually catering to each Village Panchayat, the maintenance may be left to the Village Panchayat who can seek if required the assistance of the local voluntary groups in each habitation, suitably trained for this purpose.

4.4.05 All Panchayat Union works are implemented with the assistance of a Union Engineer and Two Overseers. The value of such works ranges between Rs.80 lakhs to Rs.150 lakhs per annum. The yardstick for the sanction of engineering staff was lastly prescribed in G.O. Ms. No.1207, RD & LA, dated:11.10.80 is as indicated below:

i)	Estimate up to Rs.5 lakhs	-	1 Union Engineer and 1 Overseer
ii)	Estimate from Rs.5 lakhs to 8 lakhs	-	1 Union Engineer and 2 Overseers
iii)	Estimate from Rs.8 lakhs to 12 lakhs	-	2 Union Engineers and 2 Overseers.

4.4.06 At present the normal workload in a Panchayat Union has gone up and the works are spread over the entire habitations in the Panchayat Union, requiring constant monitoring at number of points, and there is urgent need for strengthening the Engineering staff at Panchayat Union Level. Orders passed by Government in the recent past sanctioning one additional Union Engineer for each Panchayat Union has not been given effect to till date. Mere addition of a Union Engineer to each Panchayat Union is not going to solve the problem, as the present out lay towards works is very heavy. This may even be a regular feature in the future. The Commission during its District sittings held discussions with some Union Engineers, Block Development Officers, Divisional Development Officers and a few District Collectors, and gained an impression that the present system of dual control of Union Engineers by the Highways and Rural Works Department on the one hand and the District Panchayat Administration on the other has created more difficulties. The Block Development Officers and the Divisional Developmental Officers have expressed that they are not able to make use of the services of the Union Engineers effectively, and the views of Block Development Officers and the Divisional Developmental Officers were supported by a few Collectors who also felt a sense of inadequacy in extracting work from technical staff. On the other hand, the Union Engineers have expressed grievance that they are being loaded with work ,three to four times more than the norms, consequently the pressure mounted on them to complete all the works before the end of the respective financial year, inevitably resulted in poor quality of work. The Commission concedes that both sides have valid points. There is no doubt that the load of work on the Union Engineer is heavy. Since a number of works are implemented

simultaneously in a geographically wider area the engineering cell in the Panchayat Union need to be strengthened. In Town Panchayats, the technical support for implementing works either on schemes entrusted or taken from its own funds is virtually non existent.

4.4.07 The Commission therefore recommends, that

i) with the increasing amount of works taken up in various local bodiesthrough special schemes or other wise, there is a growing need for the creation /strengthning the engineering cell particularly for the Panchayat Unions and Town Panchayats. The Government may examine the need with relation to the works taken up annually in the local bodies.

Municipalities and Municipal Corporations:

4.4.08 It will not be ideal to talk of effective urban local body management without addressing the management problems involved. Personnel management assumes greater importance since the municipal bodies deal with a gamut of functions and services which affect the day to day urban living and environment. Besides, in the Indian context, another important aspect is that Municipal administration is labour intensive.

4.4.09 The Commission which has gone into the recommendations of the norms committee, and the orders of the Government issued there on, recognises that the existing Government orders may be followed. For the implementation of schemes project staff may be required.

4.4.10 The Commission therefore recommends that

i) In respect of special schemes like Centrally assisted Integrated Development Programme of Small and Medium Towns, State aided Integrated Urban Development Project, Municipal Urban Development Fund, Water Supply Schemes, cost of project staff whether recruited temporarily or existing staff should be built into the project and form an integral part of the overall project cost.

CHAPTER 5

HUMAN RESOURCE DEVELOPMENT AND TRAINING

4.5.01 Grass root level governance has been entrusted to the Local Bodies squarely in respect of functions and the resource acquisition methods have also been broadly laid down. It therefore follows that these Local Governments have significant responsibility to plan and implement activities to bring about Economic Development and Social Justice. This aspect will place on the shoulders of Local Government a new pattern of responsibility and accountability. The democratic composition would naturally ensure accountabillty to the Local Public. The elected representatives of people and the administrative machinery under them have been entrusted with an onerous task of governance for the twin objectives of Economic Development and Social Justice.

4.5.02 In the past, there have been cases of failures in the Local Government performance failures attributable to maladministration. This shows the need for Training and Human Resources Development (HRD).

4.5.03 Successful and effective governance by local government cannot be realized if the people's representatives in the local governments and the officers and staff involved in the

activities of the local governments do not possess requisite apitude and skills needed. Otherwise there would be huge wastage of resources and the institutions of governance may swiftly degenerate into deceased organizations draining out precious public resources.

4.5.04 Unless such attitudinal changes and skill development are planned and achieved by a well conceived Training Plan, efflux of time can cause irreversible damage to the ideology of decentrailsation, thus challenging the very roots of local governments as a vehicle of empowering people.

4.5.05 A comprehensive Training plan to develop all those involved directly in civic administration, and in bringing about economic development and social justice in the different tiers of local governments, may cover

i) Non-Official Leaders.

ii) Officers and Staff of the Local Bodies.

iii) Officers in the Line Departments and in the Secretariat in Rural Development Department and Municipal Administration and Water Supply Departments who are closely connected with Local Body Administration.

4.5.06 Such personnel may be involved in enforcement, regulatory, inspectional or facilitating or catalytic role. In all these categories of people belonging to different levels of organisations, there are different hierarchial strata as follows:

a. Policy making
b. Top Management
c. Middle Management
d. First Level Management
e. Supervisory
f. Operational staff

4.5.07 Devolution of powers and functions to the Local Governments has to be followed with commensurate change in the mindset of the personnel in the departments and agencies having like relationships. Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply & Sewerage Board, Tamil Nadu Electricity Board, Highways, & Rural Works, Public Health, Medical etc., are some of the key departments/bodies whose personnel having relationships with Local Governments require attitudinal change for programmes as well as development.

4.5.08 Performance depends not only on the skills and capabilities of people but also on their attitudes towards the jobs. Attitude is a disposition or state of mind which makes people contribute to the objectives of the organisation with dedication and devotion. The requirement is therefore attitudinal change and skills development.

4.5.09 The enormity of the training can be visualized if the number of Local Body institutions is considered:

a. Village Panchayats	12,584
b. Panchayat Unions	384
c. District Panchayats	28
d. Town Panchayats	635
e. Municipalities and	104
f. Corporations	6
Total	**13,741**

4.5.10 The elected representatives, officers and staff of these organisations are included for training along with the people in the State Government Organisations who are involved in the activities of the Local Bodies.

4.5.11 The time frame available for completing the whole comprehensive Training Plan is very limited. While many key people in the local Governments have to be trained even before they get into operation, viz., the elected representatives, those who are already in service have to be trained in the course of 3 to 6 months. The infrastructure for imparting such a comprehensive Training will have to be identified and provided for immediately.

The Training Plan

4.5.12 Before training, it is necessary to assess the training needs such as Training Centres, duration, Syllabus, etc. in the same way as any other manpower Planning and Development exercise. Technical Education Directors, Local Government training Institutions both in the Urban and Rural Sectors, Non-governmental Institutions, Institutes of Management, Schools of Social Work besides training Institutes attached to the Line Agencies and Government Departments in the State can participate in this type of assessment as well as in the training programme in collaboration with the Local Bodies.

4.5.13 Considering the enormous number of personnel that need to be trained, the task could be approached by identifying suitable persons with aptitude and zeal, for training them as trainers, with special programmers for such training with suitable syllabus and material so that teams of trainers could be effectively utilized to train both non-officials and officials involved in local body administration.

4.5.14 While the Panchayat Union Centres can be the nucleus for organizing the training activities of village Panchayat Presidents and Vice Presidents, the Regional Training Centres like Rural Extension Training Centres, and the State Institute of Rural Development Chennai and the Institute of Urban Studies Coimbatore can be utilised for training Panchayat Union Chairmen/Vice Chairmen, and Presidents/Vice-Presidents of Town Panchayats and Chairmen/Vice Chairmen of Grade I, II and III Municipalities respectively. Chairmen of District Panchayats, Chairmen/Vice Chairmen of the Special Grade and Selection Grade Municipalities can undergo training alongwith Mayors and Deputy Mayors of Municipal Corporations, Heads of Departments and Line Agencies at the State and National Level Training Institutions.

4.5.15 Based on the needs assessed and the priorities, a Training Plan has to be formulated which inter-alia should cover Institutions to be selected, duration, syllabus, facilities required, outside faculty members required, funds required etc., The existing Training Centres viz 5 Rural Extension Training Centres, the State Institute of Rural Development (S.I.R.D.) Maraimalai Nagar and the Institute of Urban Studies at Coimbatore need to be strengthened with all facilities to meet the challenge. Further, the S.I.R.D. and the Institute of Urban Studies, Coimbatore shall also be institutions for Research & Development work in Rural and Urban Local Body affairs.

4.5.16 The Commission therefore recommends that

i) an integrated training package of inductional, functional and managerial training shall be imparted to officials and non-official elected representatives involved, on the functions and responsibilities of local bodies.

ii) the Anna Institute of Management, Chennai being an apex body having expertise in the field of Human Resource Development may be retained as a consultant to asses the training needs of various sectors, levels and functions involved in Local Government structure and in Line Department/ Agencies structures and to give a Comprehensive Training Plan.

iii) the Anna Institute of Management, the State Institute for Rural Development (S.I.R.D.), and the Institute of Urban Studies Coimbatore may take up training of trainers as well selectively, impart training to certain categories of officers from both Local Governments and Line Agencies/ Departments in the aspects of " Financial Management of Local Bodies" and "Management of Services by Local Bodies".

iv) it will be necessary to utilize the training modules already developed by the National Institute of Rural Development, Hyderabad to train the trainers in Panchayatiraj Systems and National Institute of Urban Affairs , New Delhi for Urban Local Bodies. As the whole exercise is people oriented, extensive utilization of Non-Governmental Agencies should be taken up. Agencies like Madras Institute of Development Studies, Chennai, UNICEF, Gandhigram Rural Institute (Deemed University), Institute for Financial Management and Research Chennai, Madras School of Economics Chennai, National Institute of Financial Management and Policy (N.I.P.F.F) New Delhi, All India Institute of Local Self Government, Mumbai, MYRADA, C.P.R. Environmental Education Centre, Chennai, Sathiamoorthy Foundation, Chennai can be sources of expert resource persons to disseminate concepts and to bring about attitudinal transformation and such opportunities should be tapped regularly and fully.

v) In as much as all departments and undertakings of government have already been directed by government in G.O.Ms.No.239 Personnel and Administrative reforms Department (Trg.III) dated 17.7.95 to allocate upto 0.5 percent of their expenditure on salaries annually as their training budget, local body institutions like Panchayat Unions, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations may be requested to contribute not less than 0.5 percent of their annual salary expenditure to a training fund to be set up for this purpose for strengthening the Rural and Urban training centres and for the training programmes, under the overall management of the Director of Rural Development, Director of Municipal Administration, Director of Town Panchayats respectively. Funds set apart for training components under JVVT, UBSP, NRY, Prime Ministers Self Employment Programme, besides assistance from UNICEF, MUDF TNUDF may also be accessed for funding the training programme.

vi) In all departments including line agencies who have functional relationship with the Local Bodies, a compact training cell shall be set up in the office of concerned Head of the Department at the state level by re-deploying the existing staff, where such a cell is not already functioning. This cell will take up this responsibility, assess the training needs, process the deputation of officers to various institutions, review the progress annually, and update the curriculum with special reference to the training needs of the department.

vii) Considering that the number to be trained may be around one lakh, a crash programme of training be initiated immediately, due precedence in the programme given to elected representatives; training programme for officials may also be commenced.

viii) The Training Cell to be set up for formulating the training programmes should bear in mind that the training format for non-officials is essentially one to expose them to their rights and

responsibilities in managing and administering the local self-government in the light of powers and functions devolved on them consequent on the constitutional amendments whereas the training format meant for officials, besides exposing them to the new role they may have to play in the revised set up where powers of Government vest with the elected representatives, could also comprise of inductional, functional and managerial programmes. The main theme for all the training programmes shall be development of skill and attitude for realization of local governance by people.

ix) The training given to junior assistants and new entrants, recruited through Tamil Nadu Public Service Commission and State level selection committees, in the Civil Services Training Institute, Bhavani Sagar, shall be a pre-service training and shall be before appointment, so that they join in their jobs, fully trained on the fundamentals of Governmental/local body administration.

x) The functional training to be imparted will cover both new entrants and those who are already in service, but who have not undergone such training programme earlier. While new entrants will join the regular package of functional training module conducted periodically, a one time assessment of all the personnel in service who have not undergone such training programme, shall be made and a crash programme be conducted to complete the training within a fixed time frame. Such functional training programme should have in its curriculum modules of administration and maintenance of accounts. Only when the staff are thorough with the provisions of the Acts, rules and regulations, utilization of funds will be proper, maintenance of accounts will be regular and benefit will reach the people fully on time.

xi) The infrastructure facilities in the existing Rural Extension Training Centres, State Institute of Rural Development, Maraimalai Nagar, and the Institute of Urban Studies, Coimbatore is to be strengthened for meeting the training needs. The S.I.R.D., Chennai and the Institute of Urban Studies, Coimbatore shall also undertake Research and Development work in Rural and Urban Local Body affairs respectively.

CHAPTER 7

ADEQUACY OF POWERS OF LOCAL BODIES AND STREAMLINING THE PROCEDURES

4.7.01 Considering the magnitude of development works taken up each year by Local Bodies, both in rural and urban, wide variation is found with respect to powers of sanction between the Rural Local Bodies and Urban Local Bodies. While Village Panchayats and Panchayat Unions enjoy adequate powers with regard to administrative sanction for schemes and works, irrespective of the fact, whether such expenditure is to be incurred from their own funds or funds provided externally, viz through State and Central assistance, the Urban Local Bodies have certain limitations. The ceiling for sanctioning powers in respect of Corporation of Chennai was Rs.7.00 lakhs and that of Madurai, Coimbatore Corporations Rs.3.00 lakhs; while that of Municipal Councils ranges from Rs.0.50 lakhs in respect of III Grade Municipalities to Rs.4.00 lakhs in respect of Special and Selection Grade Municipalities. In between come I Grade and II Grade Municipalities with sanction powers of Rs.2.0 lakhs and Rs.1.00 lakh respectively. Only in 1994, Government enhanced the powers of the Chennai Corporation from Rs.7.00 lakhs to Rs.50.00 lakhs and that of Madurai and Coimbatore Corporations to Rs.25.00 lakhs from Rs.3.00 lakhs. The recently upgraded Corporations of Salem, Tiruchirapalli and Tirunelveli are still bracketed with other Municipal Councils in this respect.

4.7.02 After detailed discussion, it is generally agreed that there is need for greater decentralisation and delgation of financial powers to the Local Bodies. However, Government may also build sufficient mechanism to safeguard the public interest and the properties of the Local Bodies with special reference to Revenue expenditure, Capital expenditure and receipts from Lease/ Auction.

4.7.03 At present, works roughly to the tune of one crore of rupees is being executed in a Panchayat Union, mostly through funds made available under the Centrally sponsored schemes. These works have to be completed within the time frame of one year, viz. atleast before the end of the financial year. This would require that the Technical Officers, at the District Level and at Panchayat Union Level are adequately empowered with technical sanction for timely completion of works. The situation in respect of Municipal works is also similar in nature. The Commission, during its discussions with the District and Panchayat Union officials, and Municipal officials, during the Departmental Seminars and District sittings, gained an impression that the present powers of technical sanction vested with various levels of technical officers are not adequate both from the point of view of escalating cost of materials and labour and the need to adhere to the given time schedule for their completion. The technical officers also indicated to the commission that considerable time could be saved by avoidance of sending estimates to higher authorities for financial sanction, through enhancement of such powers at every level. The same impression was sought to be conveyed to the Commission by the Chief Engineer of P.W.D., Highways and Rural Works Department and Municipal Administration Department. The Commission is of the unanimous view that technical powers of sanction for works, should undergo an upward revision atleast at the District and Panchayat Union levels, which are the cutting edges of administration and scheme implementation. This would involve enhancement of such powers from the level of Executive Engineers/Divisional Engineers down the line, and include Assistant Executive Engineers/

Assistant Divisional Engineers and Junior Engineers. The commission therefore recommends that powers of the aforesaid officers, particularly those dealing with Rural and Urban Local Bodies, may be enhanced as indicated in Appendix-106

Tender System:

4.7.04 All Panchayat, Panchayat Union works except those relating to Rural Development and employment generation programmes, and all the Municipal works are carried out by adopting the standard procedure of tender system. Rules and regulations governing tender procedures are well established based on PWD works code, which has stood the test of time very well, meeting the demands of promoting healthy competion between bidders, ensuring quality of works, and completion of works on time, through introduction of stiff penalty clauses against defaulters. However, the commission noted with deep concern, the creeping in of certain unhealthy practices, entirely out of tune with the well established tender procedures. These mainly relate to restrictions sought to be imposed on the issue of tender schedules, and awarding of work contracts, on limited tenders often single tender. While the former restricts the field of competion, the latter kills competion effectively. Either way, public funds and people are poorer to the extent of sufferance in quality of work and cost escalation and time escalation emerging out of protracted decision making procedure. Tender procedures should not only be transparent but should also appear to be transparent for promoting healthy competion, and a keenness to strive for an excellence in quality. Though the works codes have been conceived to aim at this objective, in practice, this is met more in breach than in adherence. No single circumstance or factor is responsible for the present state of affairs; a nebulous combination of bureaucratic apathy, prevailing social and political ethos and an apparent lack of commitment to probity in public affairs, and a permissive atmosphere, constiute the root cause for present state of affairs.

4.7.05 The Commission, firmly believes that the present practice of getting works executed by the Local Body, in respect of employment oriented and poverty alleviation programmes, as per the Guidelines issued by the Government shall be continued, so as to ensure that the targeted group of unemployed locals are fully benefitted. However, in order to ensure accountability, the Commission suggests that execution of such employment generation programmes shall vest with the Village Panchayats, who shall be made fully responsible for every paise spent on the works. The Commission also recommends adoption of same procedure in respect of similar works undertaken by Urban Local Bodies.

4.7.06 The schedule of rates mainly deal with cost of labour, which varies from District to District, cost of lead, viz. hauling of materials like sand, bricks from its sources and cost of materials of cement, steel, etc. All these items have variable cost, depending how the market mechanism behaves; often times, rates decided by the schedule of Rates Conference appear to be deliberately depressed, vis-a-vis market rates, resulting in tender rates being quoted with premiums, considered abnormally high. The Commission therefore is of the view that Schedule of Rates Conference, should display more transparency, berefit of secrecy and must reflect market rates atleast to reasonably close levels.

4.7.07 The Commission also stresses forcefully that for enabling every qualified person to take part in sealed tender floated by the Local Bodies, along with tender notice, tender schedules should also be published with refernece to type design (already prepared and made available) with

instructions to type the schedule, filling the rates and submit the (sealed) tender within the time limit prescribed; this will obviate the present difficulties of obtaining tender schedules on time in the office of the Local Bodies. Alternatively, abstract of estimates could be published along with tender notices, so as to achieve the purpose of transparency. The Commission also recommends that as the cost of tender schedule fixed by the Local Body is nominal, the cost can be dispensed with, considering the benefit of enabling all tenderers to take part in the tender. the commission also recommends that a "Works Committee" be constituted in each Local Body except the Village Panchayat (which itself can deal with this) and the power of making recommendations to the Council on the tender may be entrusted to the Works Committee. Any complaint about the lapses in calling for tenders, may be entrusted to the Works Commitee which may be empowered to look into the issues and settle them. The Commission, is also of the firm view that if any tenderer after having obtained the tender schedules, has not responded to the tender, shall be dealt with very severely. Recurring defaulters shall have their registration revoked, either temporarily or for an indefinite period, depending upon the seriousness of such default or its frequency of occurrence. The Commission also went into the issue of sanction powers for works which are quoted excess over estimates. The present system of decision making, at graded levels, starting from the lower levels of technical functionaries, upto the Government, passing through in the process Executive Engineer / Divisional Engineer, Superintending Engineer and Chief Engineer, is mainly responsible for the protracted delay, often leading to cost escalation through revision of estimates and calling for retenders, all of which have a cascading effect. At today's level, the funds handled by the Rural and Urban Local Bodies annually, is of the order of Rs.800.00 to 900.00 crores. To gauge the time spent in obtaining sanction for excess over estimates, it would be suffice to indicate that all excess estimates not more than 25 percent of the amount of the original estimates of works sanctioned by Chief Engineer or by a lower authority upto limit of Rs.2,00,000 only, on any rural work, can be sanctioned by the Chief Engineer. In respect of urban Local Bodies, council has sanction powers upto 5 percent above estimate rates in respect of own funds and at estimate rates in respect of Government funds. The Chief Engineer attached to Director of Municipal Administration, has powers to accept excess of 10 percent above estimates if the value of work is less than Rs.10.00 lakhs and 5 percent, if the value is between Rs.10.00 lakhs and Rs.25.00 lakhs.

4.7.08 The Commission therefore recommends that

i) where as it is generally agreed that there is need for greater decentralisation and delegation of financial powers to the Local Bodies, Government may in consultation with Heads of departments concerned build sufficient mechanism to safe-guard the public interest and the properties of the Local Bodies with special reference to Revenue Expenditure, Capital Expenditure and Receipts from Lease/Auction.

ii) the technical sanction power for works may be suitably enhanced, in respect of technical officers of the Rural and Urban Local Bodies, at various levels as given in para 4.7.03 for ensuring quality and adhering to the stipulated time frame for their completion.

iii) all employment generation schemes be carried out as per procedure prevalent at present and the responsiblities may vest with the Panchayats who will be fully responsible for proper and timely execution of works. Similar powers may vest with Town Panchayats and Municipal Councils

in respect of Employment generation programmes in the Town Panchayat and Municipal areas and they may be made fully accountable for them.

iv) tender procedures should not only be transparent for promoting healthy competition but should also aim at excellence in quality of works. In respect of works, where tender procedure is adopted, along with tender notice, tender schedules may also be published with reference to type design (already prepared and made available) with instructions to type the schedule filling the rates and submit the sealed tender to overcome the difficulty at present experienced in obtaining tender schedules from the Local Body Offices.

v) supplying tender documents on cost be dispensed with, as the cost involved is very nominal.

vi) schedule of rates finalised by technical departments should display more transparency rather than secrecy must reflect market rates to a reasonable extent.

vii) a "Works Committee" be constituted in each Local Body except Village Panchayats with powers to recommend to the Council for deciding tenders and also to look into complaints about lapses in dealing with tenders and settle them. In the case of Village Panchayats, they themselves can attend to this work. This committee can also look into quality of implementation.

viii) Local Body Council be vested with powers to accept tenders in excess of estimate rates with the recommendation of the works committee instead of passing them up for sanction through various levels as is prevalent now, with a view to decide the tenders quickly and start the works early.

i) Budget of Local Bodies:

4.8.01 The various Corporation Acts, the District Municipalities(Amendment) Act 1994 and the Tamil Nadu Panchayats Act 1994 contain provisions for the preparation, presentation and sanction of budgets by the respective local bodies. It is contemplated that the Local Bodies should prepare the Budget well before the commencement of the year and get the sanction by the respective councils with modifications if any suggested. It is also said that these budgets can be revised as and when necessary when it is anticipated that the actual expenditure will exceed the allotment. This leaves that the budget devoid of the sanctity which it is supposed to possess as an instrument of control. Budget actually is a mould and the expenditure should be designed to suit the mould. Changing the mould quite frequently might change the very design itself. Now that the local bodies have gained constitutional recognition, their funds should be operated as methodically as the consolidated fund of the State and budgetary control should also be similar.

4.8.02 The Commission therefore recommends that

the control mechanism with the aid of budget as a tool, should be tightened to the optimum level and for this purpose the local bodies should have the plans for the ensuing year prepared well in time by getting the details of schemes to be implemented (Central schemes, State schemes and local body works) in the next year well before the year commences. Not more than two revisions ie., Revised Estimate in August and Final Modified Appropriation in next January can

be done, so as to accommodate the deviations and take corrective action. The Government may prepare detailed guide lines in this regard and send them to the Local Bodies.

ii). Maintenance of Accounts:

A. Village Panchayats:

4.8.03 The Village Panchayat is the basic unit of the Panchayati Raj Administration. Its income as well as expenditure being not much, it maintains Cash Book, Minutes Book, Tax Demand/ Arrear Demand Registers, Register of Roads, Registers of Water Supply Sources, Street lights besides Measurement books for works. There has been no ministerial assistance hitherto except One part time Panchayat Assistant. It is felt that the number of registers in the Panchayats is adequate and it will be enough if the maintenance is gradually improved upon, in due course after strengthening the staff for ministerial work in the Panchayat.

B. Panchayat Unions:

4.8.04 The various items of revenues of the Panchayat Unions, are detailed below:

Own Tax:	Local Cess Surcharge
Non Tax Revenue:	Income from Shops, Markets, Fairs and Festivals,rent on Lands, Avenue Receipts, Fishery rentals, magisterial fines, Encroachment fees etc.,
Assigned Revenue:	Local cess, Entertainment tax, income from Minor Minerals (lease amount).
Statutory Grant:	Local Cess Surcharge Matching grant, Local Roads grant.
Non Statutory Grant:	Maternity grant, Dispensary grant, Maternity & Child Welfare grant etc.,
Development Grants:	Funds alloted under Jawahar Rozgar Yojana (JRY), Employment Assurance Scheme (EAS), M.P's Local area Development Scheme etc.,

4.8.05 The Panchayat Unions have opened deposit accounts with the nearest treasury for operating various funds in the Panchayat Union at the Panchayat Union Level: (Para 4.4.16)

4.8.06 In the year 1990 the Government of India issued instructions that the funds released from the centre should be deposited in the Nationalised Banks or Post Offices and not in the Treasury forming part of the Public Account [Local Fund Deposit Account]. These instructions have been carried out and the JRY funds allotted to the Panchayat Union are kept in Postal Savings Bank Account.

4.8.07 It is felt that the continuance of Education Fund serves no purpose at present since there is not much expenditure under education except for the payment of salaries to few Ayas and repair to school buildings. The Commission have expressed elsewhere its views against the retention of Ayahs under the Panchayat Union establishment. Even if Primary Education comes under the purview of the Panchayat Union, the teachers' salary is going to be met from

Government Head. Therefore only the repair expenditures to the school building will remain with the Panchayat Union. As this is a general work and repair to other buildings belonging to Panchayat Union will also be its responsibility, the Commission feels that the education account can be merged with the General Fund Account. This is not merely with a view to reduce the number of accounts but also to avoid the maintenance of separate sets of registers relating to this account, which will result in considerable reduction of work. There are more than 100 registers mentioned in the Manual of Instructions for the maintenance of accounts in the Panchayat Union. Since different sets of registers are to be maintained for different fund accounts, the number of registers will get multiplied.

4.8.08 The Commission recommends that

there is scope and need to reduce the scriptory work in the Panchayat Unions by cutting down the number of unnecessary registers and thereby improve effiency in office work. It was informed that necessary proposal in this regard had already been sent after a detailed study to the Government from the Director of Rural Development, with the concurrence of the Director of Local Fund Accounts. The Commission urges the Government to consider the proposal favourably. Computarisation is also suggested at Panchayat Union Level in Chapter 10.

4.8.09 notwithstanding the suggestion to minimise the registers, the need for opening the following registers in the Panchayat Unions is stressed.

a) A master Register for grants-in-aid received and expenditure incurred there from;

b) Register of Endowment Properties detailing the nature of assets endowed, the object of expenditure met out of it.

In addition the following publications are also felt necessary.

c) Hand Book of Instructions and Audit Points to be looked into before passing different kinds of bills.

d) Job chart of Engineering Staff consequent on the devolution of additional powers and responsibilities to the Local Bodies.

C. District Panchayats:

4.8.10 Since the District Panchayats are yet to be shaped in the design contemplated in the Act, comments on maintenance of accounts of these bodies may be taken up later.

D. Town Panchayats:

4.8.11 The forms and registers maintained in the Town Panchayats are also too many and these need to be simplified. Now that the Town Panchayats have been included in the Urban Local Bodies, steps may be taken to re-organise the accounting system in tune with the Municipalities including simplification of registers and forms by the Director of Town Panchayats, Madras.

E. Municipalities, Municipal Corporations:

4.8.12 The Municipal Finance Enquiry Committee (1980) in its report had observed that the present Municipal Accounting system is very complicated involving a number of registers and forms resulting in long delays in the complition of accounts. They had therefore suggested

simplification of accounts and the use of single form of receipt book instead of different forms for different classes of revenue. This suggestion has become much more relavant due to the poposed introduction of computers.

4.8.13 The Commission recommends that

the forms and registers maintained in the Town Panchayats and Municipalities are too many and may be examined by the Director of Town Panchayats and Director of Municipal Administration respectively and steps may be taken for simplification in consultation with Director of LF Accounts expeditiously. In respect of Municipal Corporations, the Government in Municipal Administration and Water Supply Department may initiate steps and arrange for issue of orders.

(iii) Audit

4.8.14 As far as the Local Body institutions such as Municipal Corporations, Municipalities, Town panchayats and Panchayat Unions are concerned the Government have appointed the Director of Local Fund Accounts as the Auditor of accounts under the provisions of respective Corporations Acts, Section 122 of the District Municipalities (Amendment) Act of 1994 and Section 193 of the Tamil Nadu Panchayats Act 1994. This appointment has been made by the Government by virtue of the control exercised by the Government over these bodies and in the capacity of the Government as the grantor, since all these bodies are Grants-in-aid Institutions receiving substantial aids from the Government for various programmes. For Village Panchayats, the Extension Officer (Panchayats) is auditing the accounts except JVVT accounts which are being audited by the Director of Local Fund Account. Thus it is seen that dual audit system is prevailing at Village Panchayat Leveli.

4.8.15 The Comptroller and Auditor General of India (CAG) who is the Constitutional authority for the Audit and Accounts in the Government, conducts the audit of accounts of the State including the local bodies. The Legislature regards the audit of the CAG as the audit proper and the opinion expressed in his report is taken as the basis for the acceptance or otherwise by the Legislature of the expenditure incurred by any department. In the case of Local Bodies, however, the CAG takes up only a special test check of Grantees' account, when the grant exceeds a certain prescribed limit.

4.8.16 The Commission analysed the functions and responsibilities of the Director of Local Fund Accounts vis-a-vis his status in relation to the administrator of the fund. The revenues of the local bodies consists of Tax and non-tax items generated by these bodies and grants-in-aid received from the Central and State Governments. As the Director of Local Fund Accounts (DLFA) is the nominee of the Government, his audit with regard to grants-in-aid amounts to an internal audit and it is followed by the audit by the Accountant General which is a statutory audit. The Accountant General, in his audit, scrutinises the expenditure out of the grants with reference to the conditions attached to the utilisation of grant, object specified for the grant and the time within which the grant should be expended.

4.8.17 With regard to the revenues generated by the Local Bodies, the DLFA who is the nominee of the State Government happens to be the sole auditor. Due to historical reasons, the audit of receipts has not been so pervasive as audit of expenditure. Now that the Local Bodies are becoming Self Governments, following the constitutional amendments, the Commission pondered over whether a mechanism to safeguard the interests of the tax payers through an audit, by a

statutory authority is necessary. The Commission during the District Sittings, have called for the views of the participants who generally expressed that the existing Audit may continue.

4.8.18 The essence of propriety audit aims at utmost economy and prudence in the use of funds. With the changes in the nature and functions of the State and also of the Local Bodies (both Rural and Urban) the role of audit gets expanded from propriety audit to efficiency-cum-performance audit. With hundreds of crores of rupees being pumped into the Panchayat Unions for development activities, the nature of audit has to get widened further from propriety, to efficiency and performance audit. This audit has its origin in Canada and is the intention of Auditor General of that country.

4.8.19 Creation of a forum similar to the Public Accounts Committee (PAC) to scrutinise the appropriation of the accounts and the report of the auditor thereon, in order to ensure(a) that the money shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been charged (b) the expenditure conforms to the authority which grants it and (c) to examine the statement of accounts showing the Income and Expenditure of these bodies, was engaging the attention of the Commission. As regards the State Accounts, the report of the Comptroller and Auditor General is placed before the State legislature which in turn refers the report to the Public Accounts Committee consisting of select members of the Legislature belonging to various political parties. As regards the Local Bodies, the three tier system of Panchayat Raj introduced in respect of Rural Local Bodies has the District Panchayat as the apex body. Such a collective forum is not available in respect of Urban Local Bodies. The Commission is of the view that such audit reports in respect of District Panchayats, Panchayat Unions, Municipalities and Town Panchayats may be placed before a Special Committee at the District Level constituted for this purpose with elected members of the State Legislature and members of both houses of Parliament representing the District.

4.8.20 While this arrangement satisfies the requirements of all the district and the State,the position of Chennai which is a District and State Capital happens to be different. The entire city is covered by one Urban Local Body (i.e.) the Corporation of Chennai. Since the jurisdiction of the District of Chennai is co-terminous with the jurisdiction of Chennai Corporation, the question of any Rural Local Body existing within its limits does not arise. Therefore, a forum consisting of persons representing the tax payers has to be created. The Commission suggests that a forum consisting of the M.L.As of the Constituencies lying within Chennai City and the M.Ps representing the 3 Lok Sabha constituencies and the members of the Rajya Sabha residing in Chennai may be formed. With this arrangement, all the Districts in the State including Madras city will be covered by statutory forums to examine the report of the Statutory auditor.

4.8.21 The functions of this Chennai Audit Forum and the District units may be confined respectively to Municipal Corporations, Municipalities, Town Panchayats and the Panchayat Union Council. With regard to Village Panchayats, there is a need for Government to examine, in consultation with the Director of Rural Development, the avoidance of dual audit now in vogue.

4.8.22 The objections not cleared before the end of the succeeding year should be placed before the forums in the 2nd succeeding year. The Audit Officer himself can attend the meetings of the committee referred to above, in Chennai City and in other places he may attend the meetings according to his convenience and the nature of objections coming up before the committee. He

should nominate a permanent representative for each District to represent him in the meetings. The meeting should be organised once in 6 months with a view to settle all objections positively at the end of the second succeeding year. Every sitting should be held in such a way that all the Local Bodies situated in the District are covered.

4.8.23 The Commission examined the audit system in vogue, with particular reference to clearance of audit objections. A few audit reports were pursued in the local body institutions visited. It is seen that though the audit has been conducted to the minutest details in most cases, the cardinal principle to be followed in the presentation of report has not been followed. The report does not detail the actual loss but only the amount involved in the objection. For example when a work file is not produced, the entire expenditure is held as a loss. When an annuity is not paid due to paucity of funds, the arrears of annuity have been included in the loss statement. This procedure magnifies the loss and present an untrue and distorted picture of the financial administration. An irregularity without a loss and a loss without an irregularity cannot be held as an audit objection but can be only an audit observation. In many cases this has not been done and as a result the audit reports have become unwieldy and unrectifiable, thereby affecting the retirement benefits of the Executive Authorities of the Local Bodies.

4.8.24 The Commission also feels that the scrutiny of accounts, by the audit should undergo change in view of the fact that most of the construction work undertaken by the Local Bodies are community assets executed in most urgent situation and left to the care of General Public. The houses constructed under the Indira Awaas Yojana are donated to the beneficiaries and as such the type of records to be maintained in respect of these assets need not necessarily be on a par with the records relating to assets belonging to the Local Bodies which are expected to be maintained by the Local Bodies. This needs to be examined by the audit as well as the Highways & Rural Works Department.

4.8.25 The system of maintenance of records should change. The philosophy of "handling over of records" should give way to "taking over of records," i.e. not washing of one's hands but taking over responsibility. The record keeper and the managers should be made responsibile to take over all the files and records related to audit within three months from the end of the financial year and report compliance. They should be made responsible squarely for the production of records to audit. This will put an end to the question of non production of records.

4.8.26 The Commission therefore recommends that

i) The Director of Local Fund Accounts is at the moment carrying out the audit of Municiapl Corporations, Municipalities, Town Panchayats and Panchayat Unions. For J.V.V.T. implemented in Village Panchayats, the Director of Local Fund Accounts is carrying out the audit, and for other items at the Village Panchayat level, the audit is tekan up by the Extension Officer (Panchayats). It was generally agreed that this dual audit at the Village Panchayat level could be avoided and Government could examine the possibility of having single audit system for the Village Panchayats.

ii) creation of forums similar to Public Accounts Committee in all the Districts including Chennai City, to discharge the functions which the PAC does in the case of State Accounts; this will monitor audit observations relating to Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions however maintaining status-quo regarding Village Panchayats;

iii) instituting a system of take over of records for audit must be started as against the present practice of handing over of records which has resulted in shifting the responsibility. Record Keeper and the Manager / Head Asst. of the Local Body shall be made responsible for upkeep and production of records to audit.

CHAPTER 9

MECHANISM FOR PERFORMANCE AND ACCOUNTABILITY

4.9.01 In the present environment most officials of Urban and Rural Local Body Administration do not view Local Government Service as a viable career or as an end. In part, this is due to an inadequate monetary structure and in part to the perception that local governments are merely administrative agents for implementing decisions taken at higher levels of Government. As long as State Government makes key decisions and also determines the reward strucutre, the incentives are likely to remain insufficient to attract and retain competent local officials.

4.9.02. With the revised local body strucutre on the anvil, the elected representatives, responsible for decision making, and a significant role in deciding development strategies and authroity to mobilize resources to implement those strategies, it is hoped that the local body personnel will perceive local government employment as a prestigious and rewarding career for itself, and not merely as a spring board to a more valued career at higher levels. A sound system of personnel management requires that efficient and honest employees should be properly motivated, through rewards and promotions. Similarly the dishonest should be punished. Unless the system of incentives and disincentives to motivate local body personnel is evolved, it would not be possible to deliver civic services at the most efficient cost. Most of the citizens think of Central or State Governments as the most important influence on their lives. By and large, this is an accurate perception, the agenices that affect daily lives in Urban and Rural areas still are largely controlled by State. Aside form the presence or absence of a service, there are very few visible indications of the quality, quantity and cost of services. Even to those who manage basic urban and rural service including State and Central Governments, there are very few indications of quality, quantity and cost available. For the sucessful functioning of Local Government institutions, under the revised dispensation, local residents must be willing to support in most cases higher charges for services and higher general taxes, if they feel assured of a better performance and better quality of services. The evidence seems to be overwhelming that significant increase in local revenue mobilization are possible, mainly on the strength of new enforcement and new sense of local Government as belonging to local residents. However, there is also evidence that this is achievable for only a short time if residents do not see a visible improvement in the quality and quantity of services that matches demand for service.

4.9.03 While the presence or absence of a service particularly severe poor quality, are visible without any effort to publicize, more subtle results of local decisions to change the quality and quantity will not be visible unless there is systematic communication of local Government's performance. Since local officials are accustomed in serving their reporting relationship upward to their officials in the hierarchy, rather than downward to citizens or residents, overt communication strategies will be necessary to make local Government's performance visible to citizens. An example

in this direction would be the preparation of an "Annual Performance Report", that describes in language and charts accessible to most citizens/residents the basic features of revenues and expenditure services for those budget items, measure of the quality and quantity of services provided by the local Government, comparisons with previous years and comparisons with other similiar Local Governments.

4.9.04 We have spoken earlier on the issue of incentives for local officials for efficient management of Local Body institutions so as to enhance its overall contribution to the local citizens as well as to National development. Focussing only on this will not ensure efficient and effective systems. Specific mechanisms also must be established by which officials and elected representatives can be held accountable for the performance. Mechanism can be both administrative and political.

4.9.05 Administrative mechanisms involve establishing clear management responsibility assignments. Clear assignments would emanate from the organization structure. The organisation's financial management system should make it clear who is responsible for the specific services and financial performance indicators of specific departments or sub-departments. Further, administrative accountability mechanisms involve operational statements of the quality and quantity of output expected of those departments and sub-departments and hence of their managers. These mechanisms involve accounting records to enable evaluation of the cost per unit of quantity and quality of service. Communication of performance results is a necessary component of administrative accountability mechanisms.(AAM)

4.9.06 Political mechanisms typically focus on the means of holding elected representatives, who are also public officials accountable through selection and removal. Electoral systems reprsent the ultimate democratic means of holding public officials to account, but depend on an interested and informed electorate. The capability of citizens to change Government leadership when dissatisfied with performance is the crux of political accountability and electoral systems can accomplish that. However, they are only a means. Even in the absence of electoral systems, if local Government officials repsond to citizens' demands and preferences, then they are accountable. Community Groups and non Governmental Organisations have proved capable of changing public officilals, and they are most effective when targeting their pressure on local government officials.

4.9.07 The Commission examined the structure of Accountability of elected representatives in the local bodies. The degree of Accountability of the elected representatives varies very much between the Central and State Governments and between the state Government and the local self Governments; this is obviously because of the size of the Administrative machinery at the disposal of the respective Governments and the proximity of the people to the elected representative who is at the helm of affairs. In this context, introduction of Lok Pal Type of Institution OMBUDSMAN for Local Bodies may be considered.

4.9.08 Human mentality is like a sand dune. It moves without others noticing the movement. With the newspapers publishing and highlighting misuse of public funds, the public have since become more literate and vigilant. The public confidence could be restored with the setting up of an organisation like Lok Pal type to ensure the accountability. The Commission therefore, recommends that an Ombudsman which will be outside the hierarchy of the Local Body and the State Government, may be set up to serve as a guardian of public interst to monitor the

accountability of the elected representatives. This body could have as its members persons with proven integrity, with a Chairman who may be a retired High Court Judge.

4.9.09 The Commission therefore recommends that

i) (a) A reward system for good work by incentive (cash award and certificate) and disincentives for poor/badwork should be evolved to motivate local body personnel, to give out their best;

(b) A system of incentive by way of cash award and certificates to the elected representatives, viz., the Presidents/Chairmen/Mayors and to the best Local Bodies is considered necessary.

ii) A systematic communication of local Government's performance should be evolved so as to make them visible to the citizens or residents; local officials should also cultivate the habit of reporting their performance to citizens periodically so as to make their performance visible. Preparation and publication of annual performance report that describes, in simple terms, the performance of the Local Body in terms of achievements against the goal set, basic features of revenue and expenditure sources for the budget and measures of the quantity and quality of services provided by the local government, giving comparison with previous years and with other similar local governments;

iii) Establishment of clear management responsibilities is necessary making it visible as to who is responsible for the services and financial performance of specific departments, operational statements indicating quality and quantity of output expected, and accounting records sufficient to enable evaluation of the cost for the unit of quality and quantity of service and performance of individuals and departments;

iv) Creation of Lok Pal or Lok Ayukta type of institution or OMBUDSMAN is necessary to monitor the accountability of elected representative of the Local Bodies.

CHAPTER 10

DATA BASE FOR LOCAL BODIES

4.10.01. The Constitution, 73rd and 74th Amendment Acts, 1992, lays down the foundation for a much more strengthened local-self Governments at various levels in rural and urban areas, opening up a new vista for decentralised decision making, participatory development and efficient organisation of essential services at local level. For efficient working of the local bodies as well as for continuing assessment of financial needs and potentialities of these bodies by the State Governments and State Finance Commissions, existence of a reliable, systematic and regular database with a minimum level of essential information is necessary. At present there exists no standard format for data maintenance at the level of Panchayats and Municipalities even within the State.

4.10.02 It is a common knowledge that research on fiscal aspects of the local Government institutions is seriously hampered by the non-availability of a national or even a state-wide database. In many cases, data are available only at the aggregate level-with serious obstacles to combining data sets in a way that would make them representative for the country as a whole. In others, local

finance data exist, but are not available due to policies prohibiting access because of data protection concerns and confidentiality. Furthermore, much of the local finance data available are gathered for administrative and budgetary purposes and in their orginal form, can only be put to scientific use with great difficulty. The result is that there is no way of finding out what is spent on the services provided by the local bodies and how is each service financed. The need for standardised and comparable local finance data has also been stressed during the three meetings of the State Finance Commissions held at Delhi, Hyderabad and Mausoorie in 1995, organised by the National Institute of Urban Affairs with the support from Ministry of Urban Affairs and Employment, Government of India. Creation of an automated data base, in a Municipal Organisation giving details of property and profession tax assessments, Water Charges, fees and other demands, would enable the revenue collection work in the Urban Local Bodies much easier, more efficient and less monotonous and at the same time ensure foolproof collection mechanism. Such a database would also make tasks of project implementation, project monitoring, necessary schedules on loans more simpler and more easier.

4.10.03 Thus, there is a need (a) for creating a standardised, systematic and regular database within the local bodies, and (b) a regular flow of a minimum essential data from these bodies to State Level and National Level data banks accessible to authorities, academic institutions and the public.

4.10.04. (i) The rationale for creating a National network for local finance database lies in the fact that such a database would provide strong support for understanding the problems of local Governments in the country. It would also permit the understanding of fiscal phenomenon which are permanent and/or periodic, temporary or episodic, random or isolated; or assist in the ability to ascertain whether the units under observation react in a similar or dissimilar way to changes in their environment or in the set of conditions in which they function. Such information is vital for understanding capabilities and viabilities of local Governments in the State/Country. The creation of National and State-Level local finance database would serve, among others, the following purposes:

a) It would strengthen support for policy making at the local level;

b) It would provide a data bank to enhance the technical and analytical capabilities of subsequent State Finance Commoissions;

c) It would permit comparative study of local finances and assist in identifying strengths and weakness of local governments;

d) It would provide rich information to State Governments to assist them in designing policies for local governments; and

e) It would enhance the future research capabilities of individuals and institutions ao as to enable them to provide technical and analytical support to subsequent State Finance Commissions and State Governments to assist the Local Bodies.

ii) It is viewed that in creating local finance database, it is a high priority to achieve comparability between data which are generally not produced and with standardization in mind. To achieve this objective deliberations were held on the following four important aspects of local finance database.

a) What should be the minimum level of data that should be maintained by the local bodies?

b) In what format should local finance data be maintained?

c) What mechanism should be adopted for centralization and computerization of local finance database? and

d) What procedures can be adopted for public access to local finance database?

iii) It is agreed that a minimum level of data should be maintained by the Panchayats and the Municipalities. This should include data on income, expenditure and the levels of services provided in the local area. It is also suggested that the database should include information on indicators of capacity, revenue effort and indicators that could be used by the State Governments to bring about equalization in the finances of local Governments. It is also suggested that some data on the general characteristics of Municipalities and Panchayats should also be maintained in the databank. Such general information could include, among others, the total population, SC/ST population, area, level of literacy, number of health centres, and number of schools. In the case of Panchayats it is suggested to include information on total cultivated area and total irrigated area in the data bank.

iv) The Commission agreed on the following minimum level of data to be maintained by the local bodies which will then serve as the basis for the National local finance database in the country:

a) Receipts and expenditures under major heads as indicated in the National Institute of Public Finance and Policy (NIPFP) formats and deficit/surplus balance. In our state, State Finance Commission had adopted it in the Questionnaire itself.

b) Details of demand, collection and balance in respect of various tax and non-tax revenues of local bodies.

c) Basis of taxation, rates, duties and tolls.

d) Assets created during each year.

e) Details of services provided yearwise and expenditure thereon.

f) Liabilities of the local bodies on loans, on payment due but not paid, on staff payments including P.F. and pension, on deposits and advances, and

g) Grants/arrear revenues paid by Government and balance due from Government on assigned taxes and other revenues of State.

v) The minimum level of data as listed above should be maintained by the local bodies in few detailed registers. At present the information as outlined above is contained in hundreds of registers maintained by the local bodies. The Commission is of the view that the local bodies should maintain the essential registers needed for furnishing data for storage and for use.

vi) The Commission felt that local bodies should maintain data on the basis of functional classification. This would require that Municipalities and Panchayats maintain data by type of functions they perform. The Commission also suggests that data formats for Zilla Parishads and the Panchayat Samities should also be based on the functional classification.

4.10.05 The Directorate of Town and country planning, Government of Tamil Nadu, during the early 1980's undertook a pilot study on formulating an urban information system (URBIS) for Chengalpattu Municipality under financial assistance from Government of India. It is seen that, systematic follow up action was not taken on the efforts of the Directorate of Town and Country Planning, to create similar Data Base for other Municipal Towns in our State. This should be followed up for Muncipalities. For Corporations and District Panchayats Data Base shall be at the respective levels. Similar Data Base must be created. For Town Panchayats Data Base may be at District level/Region Level. In the case of Village Panchayats & Panchayat Unions, this shall be at the Panchayat Union Level.

4.10.06 The Commission therefore recommends that

i) creation of an Urban Information System (URBIS) for the Data Base for every urban local body viz. Town Panchayat, Municipality and Corporation should be an integral part of improving its managerial efficiency. Efforts put forth for creation of a Database for Chengalpattu Municipal Town, may be followed up for the creation of Data Base for other Municipal Towns as well. In the case of Town Panchayats, data base can be created at the District Level/Regional Level with reference to the jurisdictions of the Assistant Directors of Town Panchayats. In the case of Corporations, data base can be created at Corporation Level.

ii) a steering group may be constituted in the Directorate of Municipal Administration/ Direcotrate of Town Panchayats with experts in the field and users to give necessary technical advise and guidance and to monitor the progress.

iii) setting up of Rural Information System (RURIS) for rural Local Bodies, similar to urban information system (URBIS) is necessary. Management Information System by introducing computers at Panchayat Union level and district level for aggregation of data available at the level of Village Panchayats and at the Panchayat Union Level is necessary.

iv) data already available at the District level through NICNET may be utilised for developmental planning.

v) a steering group may be constituted in the Directorate of Rural Development with experts in the field, users etc., to give necessary technical guidance periodically and to monitor the progress.

vi) the Government must assist initially for the capital expenditure towards computerisation at Panchayat Union Level, District Panchayat Level, Municipal Level and District/ Regional Level in respect of Town Panchayats as a one time grant which will be maintained by the respective Local Bodies. In the case of Town Panchayats, the maintenance cost should be shared by the Town Panchayats in the District/Region.

Part III

IMPROVING CIVIC SERVICES

IMPROVING CIVIC SERVICES

Providing Civic Services for the well being of its citizens is an obligatory function of the Local bodies. The core Civic Service are water supply, roads, streetlights, sewerage and sanitation, storm water drains and solid waste management. Fixing norms for the above services is a complex task as it depends on variables like the fiscal capacity of the local bodies, topography of the area, technology opted for etc; therefore, a given set of norms is at best a good guideline. Various studies have been undertaken as early as 1963 by Zakaria Committee until the recent one made by Working Group III on Expenditure norms, sponsored by the Ministry of Urban Affairs and Employment, Government of India during November '95 headed by the noted economist Dr.Raja Chelliah. Previous studies have mostly concentrated in urban areas though some of them did highlight the service levels in the rural areas too; some provided physical standards, others worked out the financial implications, both for capital expenditure and Operation and Maintenance. It may be pertinant to note that Damodaran Committee, constituted by Government of Tamilnadu in 1990, did look into the maintenance of roads, hand-pumps and the replacement of tubelights for the rural local bodies. Besides, the Sector Policy Study commissioned by TWAD Board in 1994 did look into the long term goals in source development, project financing, cost recoveries and issues of Operation and Maintenance.

The SFC had arranged to take sample local bodies basing on certain economic characters and geographical features over 12 districts covering 4 Corporations, 10 Municipalities, 25 Town Panchayats, 38 Panchayat Unions and 100 Village Panchayats. The methodology adopted were structured questionnaires, field visits and informal discussions with the officials and the local citizens. The service level indicators generated through this study were compared with the universal figures available with various line agencies on services such as water supply (except village panchayats) roads, storm water drains (except in village panchayats) and streetlighting. Based on the norms and forecast of population by the year 2002, the quantum of service required had been estimated. Comparing with the existing levels, the service gaps have been assessed. Depending on the technology used, the unit cost were arrived and by multiplying the same with the gaps in services, the investment requirements have been worked out. In doing so, various assumptions have also been made, for example in Corporation and Municipalities, the solid waste collection will be done everyday except for the internal roads where it has to be done every alternate days. Similarly, the patch work maintenance of roads will be done once in two years and re-surfacing once in every six years. Based on the sample study of the task force, universal figures available, past studies of the expert groups with regard to expenditure norms, the following conclusions have been drawn for **a period of five years upto 2002, at the existing (1995-96) price level:**

VILLAGE PANCHAYATS:

1. The existing **(1995-96) Population** of Village Panchayat of 350.51 lakhs is expected to go up to 378.28 lakhs by 2002. The civic service needs have been assessed accordingly. [Table 3.24]

2. In **Water Supply**, the per-capita supply would increase from the existing level of 22 litres to 40 litres per person per day. [Tables 3.25/26]

3. 5% of the population would be covered through House Service Connection, 50% through Stand-posts and the remaining 45% through Hand-pumps. [Table 3.26]

4. For providing the above service levels, a capital investment of Rs.198.24 crores over a period of 5 years will be needed. [Table 3.27]

5. The O&M needs for the existing assets in Water Supply would be Rs.78.45 crores per year by 2002. [Table 3.62]

6. Under **Sewerage and Sanitation**, the coverage will increase from the existing 3% to 20% by 2002. This would include population covered with underground drainage, low cost sanitation and public convenience. [Tables 3.28/29]

7. For the above, a Capital Investment of Rs.257.46 crores will be needed by 2002. [Table 3.32]

8. The O&M needs for the existing assets will be Rs.47.72 crores per year by 2002. [Table 3.62]

9. Under **Solid Waste Management**, the collection performance to waste generated would be increased from 0% to 15%. [Table 3.33/34]

10. To improve the above service level, a capital investment of Rs.22.40 crores will be required over a period of five years. [Table 3.37]

11. The O&M needs for the maintenance of the assets existing for the Solid Waste Management in the Village Panchayats would be in the tune of Rs.20.62 crores a year by 2002. [Table 3.62]

12. Among the Village **Roads**, 20% would be covered with BT and another 25% through WBM in the next five years. The existing levels are 15% and 16% respectively. [Table 3.38/39]

13. This would need a Capital Investment of Rs.619.39 crores by 2002. [Table 3.42]

14. The O&M needs for the existing assets would be Rs.157.15 crores per year at the end of the 5th year. [Table 3.62]

15. Under **Storm Water Drains**, percentage of length of Road to be covered with Pucca Open Drains would be increased from 1.5% to 10%. [Table 3.38/39]

16. For the above, the Capital Investment required would be Rs.191.56 crores over a period of 5 years. [Table 3.42]

17. The O&M needs for the existing assets under Storm Water Drain would be Rs.3.08 crores per year by 2002. [Table 3.62]

18. Under **Streetlighting**, the distance between 2 posts would be reduced from 121 to 80 metres. The coverage of tubelights would be around 98%. [Tables 3.43/44]

19. The Capital Investment to achieve the above level of service by the year 2002 would be Rs.150.52 crores. [Table 3.47]

20. The O&M needs for the existing assets per year at the end of 5th year would be Rs.73.75 crores. [Table 3.62]

21. The **Total Capital Investment** for the above six core civic service would be Rs.1439.57 crores over a period of 5 years. This works out to Rs.76.10 **per-capita** per year. [Table 3.48]

22. The **Total O&M requirements for the existing assets** to be maintained at a normative level would be Rs.380.77 crores by the end of 2002. It would mean a **per-capita** maintenance of Rs.100.66. [Table 3.60]

PANCHAYAT UNIONS:

23. The present **Population** of 350.51 lakhs is likely to go up to 378.28 lakhs in the 384 Panchayat Unions of the State by 2002. [Table 3.24]

24. Of the existing **Roads** of the Panchayat Unions, 19% is covered with BT. This is proposed to be raised to 30% by 2002. [Tables 3.38/39]

25. For the above, a Capital Investment of Rs.756.79 crores would be needed over a period of 5 years. That would work out to per-capita of Rs.40/- per year. [Table 3.42]

26. The O&M needs for the existing Roads will be Rs.78.06 crores per year by 2002. This would work out to Rs.20.64 per-capita per year. [Table 3.62]

TOWN PANCHAYATS:

27. The **Population** covered would increase from the existing level of 92.51 lakhs to 99.84 lakhs by 2002. [Table 3.24]

28. In case of **Water supply**, the supply level would improve to 55 Litres Per capita per day from the existing 34 Litres Per capita per day. [Tables 3.25/26]

29. 30% of the Population would be covered through House Service Connection, another 50% through Stand-post and remaining 20% through Hand-pumps. [Table 3.26]

30. For reaching the above service level, the Capital Investment required will be Rs.133.39 crores over a period of five years. [Table 3.27]

31. The O&M needs for the existing assets at 2002 would be Rs.40.17 crores per year. [Table 3.62]

32. Under **Sewerage and Sanitation**, the coverage of population will go up from 17% to 30%; 20% under low cost sanitation and 10% under public convenience. [Table 3.28/29]

33. For this, the Capital Investment required will be Rs.100.97 crores over a period of 5 years. [Table 3.32]

34. The O&M needs for the existing assets will be Rs.12.59 crores per year by 2002. [Table 3.62]

35. Under **Solid Waste Management**, the Collection Performance would go up from 46% to 50%. [Table 3.33/34]

36. For this, the Capital Investment required would be Rs.18.75 crores. [Table 3.37]

37. The O&M needs for the existing assets by 2002 would be Rs.24.59 crores. [Table 3.62]

38. Under **Roads**, 40% would be covered with BT and another 40% with WBM by the year 2002. [Table 3.39]

39. For the above, a Capital Investment of Rs.153.34 crores will be required for the next five years. [Table 3.42]

40. The O&M needs for the maintenance of existing Roads at a normative level would be Rs.31.07 crores per year by 2002. [Table 3.62]

41. Under **Storm Water Drains**, 40% of the length would be pucca open. The existing level is around 23% [Table 3.38/39]

42. For the above, the Capital Investment required upto 2002 is Rs.49.12 crores. [Table 3.42]

43. The O&M needs for the existing assets at a normative level by 2002 would be Rs.3.01 crores a year. [Table 3.62]

44. Under **Streetlighting**, the distance between the posts would be reduced from 62 metres to 40 metres by 2002. [Tables 3.43/44]

45. For this, the Capital Investment required would be Rs.49.90 crores over a period of 5 years. [Table 3.47]

46. The O&M needs for the maintenance of existing assets will be Rs.19.72 crores per year at the end of 5th year. [Table 3.62]

47. The **Total Capital Investment** for the above services will be Rs.505.46 crores over a period of 5 years. That would work out to Rs.101.25 **per-capita** per year. [Table 3.48]

48. The **Total O&M requirements for the maintenance of existing assets** in all the core civic services would be Rs.131.57 crores a year at the end of 2002. That would mean Rs.131.36 **per-capita**. [Table 3.60]

MUNICIPALITIES:

49. All the 103 Municipalities in the State cover a **Population** of 76.89 lakhs at the moment. This is likely to increase to nearly 83 lakhs by 2002. [Table 3.24]

50. The present **Water Supply** level is 48 litres per capita per day. This will increase to 70 Liters per capita per day. [Tables 3.25/26]

51. From the present level of 32% to nearly 70% of the population are likely to be covered through House Service Connection. [Tables 3.25/26]

52. To reach the above service level, a Capital Investment of Rs.168.78 crores is required over a period of 5 years. [Table 3.27]

53. The annual cost of Operation and Maintenance for the existing assets of Water Supply at a normative level would be Rs.51.66 crores a year by 2002. [Table 3.62]

54. Under **Sewerage and Sanitation**, the present coverage is 23%. It is expected to increase to 50% by 2002 either with underground drainage, low cost sanitation and through public convenience. [Tables 3.28/29]

55. To achieve the above service level, a capital investment of Rs.414.74 crores will be required over a period of five years. [Table 3.32]

56. The Operation and Maintenance Cost for the existing assets at the normative level will be Rs.38.48 crores a year by 2002. [Table 3.62]

57. Under **Solid Waste Management**, the Collection Performance would be improved from the present level of 70% to 90% by 2002. [Tables 3.33/34]

58. For the above, a capital investment of Rs.25.91 crores would needed over a period of five years. [Table 3.37]

59. The Operation and Maintenance cost for the existing assets by 2002 would be Rs.95.33 crores a year. [Table 3.62]

60. For the total **Road** length in the Municipalities, 69% are to be covered with BT. This will be improved to 100% by 2002. [Tables 3.38/39]

61. For the above, a capital investment of Rs.99.43 crores will be required over a period of 5 years. [Table 3.42]

62. The O&M needs for the existing assets will be Rs.59.56 crores per year by 2002. [Table 3.62]

63. Of the **Storm Water Drains**, 70% would be pucca open and 10% pucca closed by 2002. The existing level is around 53% pucca open only. [Tables 3.38/39]

64. For the above, a capital investment of Rs.157.28 crores will be required over five years and the Operation and Maintenance needs for the existing assets would be Rs.2.78 crores per year by 2002. [Tables 3.42/62]

65. Under **Streetlighting**, the distance between posts would be reduced from 34 to 30 metres. Better quality of lights will be fixed. [Tables 3.43/44]

66. For the above, a Capital Investment of Rs.16.82 crores will be needed by 2002. [Table 3.47]

67. The O&M needs for the existing assets by the end of 5th year would be Rs.20.65 crores per year. [Table 3.62]

68. The **Total Capital Investment** for the period of 5 years for the above core civic services for all the Municipalities in the State would be Rs.882.96 crores. It works out to Rs.212.45 **per capita** per year. [Table 3.48]

69. **Total O&M Requirements for the Existing Assets** by 2002 would be in the tune of Rs.268.45 crores. In terms of **per-capita**, it would be Rs.323.45 per person per year. [Table 3.60]

OTHER CORPORATIONS:

70. The total **Population** covered by other Corporations by 2002 is likely to be increased to 36.44 lakhs from the existing coverage of 33.76 lakhs. [Table 3.24]

71. Under **Water Supply**, the per-capita supply would go up from 73 to 90 Litres per capita per day. [Tables 3.25/26]

72. The House Service Connection would cover 80% of the population. The balance 20% would be covered equally by stand post and hand pumps. [Table 3.26]

73. The Capital Investment required to reach the above level of service is Rs. 152.87 crores over a period of 5 years. [Table 3.27]

74. The O&M needs for the existing assets under Water Supply at a normative level would be around Rs.34.76 crores. [Table 3.62]

75. Under **Sewerage and Sanitation**, the coverage will go up from 22% to 50%. Of this, 30% of the population would be covered through underground drainage and 10% each with Low Cost Sanitation and Public Convenience. [Table 3.28/29]

76. The Capital Investment required to reach the above level of service would be Rs.540.44 crores over a period of 5 years. [Table 3.32]

77. The O&M needs for the existing assets per year by 2002 would be Rs.33.45 crores. [Table 3.62]

78. Under **Solid Waste Management**, the Collection Performance would go up to 90% of the waste generated. [Tables 3.34]

79. This would need a Capital Investment of Rs.14.39 crores by 2002. [Table 3.37]

80. The O&M Needs for maintenance of existing assets at a normative level would be Rs.53.11 crores a year by 2002. [Table 3.62]

81. Under **Roads**, 100% would be covered through BT. The existing coverage is 65%. [Tables 3.38/39]

82. This will need a Capital Investment of Rs.54.23 crores over a period of 5 years. [Table 3.42]

83. The O&M needs for the maintenance of existing assets at a normative level would work out to Rs.25.51 crores per year by 2002. [Table 3.62]

84. Under **Storm Water Drains**, the percentage of length to be covered with Pucca Open Drain would be 40% and Closed drains would be 10%. The existing level is around 23% pucca open drains only. [Tables 3.38/39]

85. This would entail a Capital Investment of Rs.166.47 crores over a period of 5 years. [Table 3.42]

86. The O&M needs for Maintenance of Existing Assets at a normative level by 2002 would be Rs.0.37 crores a year. [Table 3.62]

87. Under **Streetlighting**, the distance between the posts would be reduced to 25 metres from the existing distance of 31 metres. [Table 3.43/44]

88. The Capital Investment required for the above level of service for streetlight would be Rs.15.08 crores over a period of 5 years. [Table 3.47]

89. The O&M needs for the existing assets would be Rs.10.21 crores per year by 2002. [Table 3.62]

90. The **Total Capital Investment** for the above level of services by 2002 for a period of 5 years would be Rs.943.48 crores. That would work out to Rs.517.85 **per-capita** per year. [Table 3.48]

91. The **Total O&M requirements for the maintenance of above assets** would be Rs.157.41 crores a year. The **per-capita** would be Rs.466.26. [Table 3.60]

CHENNAI CORPORATION:

92. The existing **Population** of 41.58 lakhs is like to go up to 44.87 lakhs by 2002. [Table 3.24]

93. In **Water Supply**, the per capita would go up from 73 to 90 Litres per capita per day by 2002. [Table 3.25/26]

94. House Service connection would go up from 78 to 80%. The balance 20% would be covered equally by stand posts and hand pumps. [Table 3.26]

95. For the above service levels in water supply, the Total Capital Investment that would be required is Rs.263.36 crores over a period of 5 years. [Table 3.27]

96. The O&M requirements for maintenance of the existing assets would be Rs.48.48 crores a year at the end 2002. [Table 3.62]

97. Under **Sewerage and Sanitation**, the coverage would go up from 92% to 100%. Of this, 90% would be through underground drainage. [Table 3.28/29]

98. This would entail a Capital Investment of Rs.156.82 crores over a period of 5 years. The O&M needs for the existing assets under the Sewerage and Sanitation would be Rs.68.66 crores per year at the end of the 5th year. [Tables 3.32/62]

99. Under **Solid Waste Management**, the collection performance would go up from 85% to 90% of the total waste generated. [Table 3.33/34]

100. This would entail a Capital Investment of Rs.17.91 crores over a period of 5 years. [Table 3.37]

101. The O&M needs for the maintenance of existing assets would be Rs.53.45 crores per year by 2002. [Table 3.62]

102. Under **Roads**, 100% will be upgraded to BT. The existing coverage is 99%. [Table 3.38/39]

103. For this, the Capital Investment Required will be Rs.174.99 crores over five years. [Table 3.42]

104. The O&M needs for the maintenance of existing roads, would be Rs.31.89 crores per year by the end of 2002. [Table 3.56]

105. Under **Storm Water Drains**, 20% of the length would be covered by Pucca Open and another 40% through Pucca closed. The existing coverage is 29% pucca closed drains only. [Table 3.38/39]

106. This would entail a Capital Investment of Rs.102.08 crores over a period of 5 years. [Table 3.42]

107. The O&M needs for the existing assets would be Rs.1.42 crores per year by the end of 5th year. [Table 3.57]

108. Under **Streetlighting**, the distance between the posts would be reduced to 25 metres and 40% of the lights would be Sodium Vapor Lamps. [Table 3.44]

109. This would need a Capital Investment of Rs.5.87 crores. [Table 3.47]

110. For Operation and Maintenance of the existing assets, Rs.14.74 crores would be needed per year at the end of 2002. [Table 3.62]

111. The **Total Capital Investment required** for the above civic services would be Rs.721.03 crores over a period of 5 years. This would mean **per-capita** investment of Rs.321.40 a year. [Table 3.48]

112. The **Total O&M Requirement for maintenance of the existing assets** at a normative service level would be Rs.218.64 crores. That would mean **per-capita** of Rs.487.27 per year. [Table 3.60]

GENERAL:

113. For **all the six - core civic services**, a **total Capital Investment** of Rs.5249.32 crores (at the **price-level of 1995-96)** is required by 2002 to achieve the improved levels of services as discussed. This would work out **per capita** of Rs.176.40 a year. [Table 3.48]

114. Since the above capital investment is to be made over a period of five years, it has been **phased** over 1997-2002 providing for **20% every year** with **12% escalation** in a year. The **total Capital Cost** over the period, after phasing and escalation, would work out to Rs.8366.51 crores. This would work out **per capita** of Rs.281.15 a year. [Table 3.49]

115. A question has arisen at this point as to whether the SFC should look into Capital Investment or should confine itself to Revenue expenditure needed for O&M only. In as much as

the quality of life of a common man depends upon improved level of civic services, and in as much as the various Conferences held at the national level have emphasized the need to identify the capital needs, the SFC has decided to indicate the Capital requirements as well. As to, how to raise resources for investing in Capital works has been suggested partly under Project finance and more elaborately in Part V under Capital fund with Tenth Finance Commission award.

116. For the **additional investment** indicated above, **an O&M** of Rs.241.02 crores would be required in a year from third year onwards at 1995-96 price level. This works out to 4.59% of the capital investment. State Finance Commission suggests that this O&M amount should be raised with the increased use of cost recovery through the user charges and by privatization of civic services wherever possible. [Table 3.61]

117. For the **O&M of the existing assets under all the six core civic services**, an amount of Rs.1234.49 crores would be required in a year (at 1995-96 price level) by 2002. In that case, the **per capita** O&M would go up from Rs.74/- to Rs.195/-. [Table 3.60]

118. The **O&M** costs for the existing assets would escalate at the rate of 10% in a year for 5 years, upto the year 2002.

PROJECT FINANCE:

119. The available windows are loans from **LIC** and Government for Water Supply which is raised by TWAD Board on behalf of the local bodies on Government guarantees. [Para 3.6.01]

120. **MUDF** provides a mixture of loans and grants basing on the performance and needs. However, this is coming to a close by September '96. **TNUDF** is likely to replace this. It will be managed by an Assets Management Company with the participation of ILFS, ICICI, HDFC and Government of Tamilnadu. [Para 3.6.01]

121. In small Municipalities and Town Panchayats, loan based assistance is available under **IDSMT.** [Para 3.6.01]

122. **TUFIDCO** operates investment in infrastructure in lower income areas like low cost sanitation, Prime Ministers' Urban Poverty Alleviation Programme, NRY etc. [Para 3.6.01]

123. Within the Madras Metropolitan Area, **MIDC** provides financial support in implementing projects under mega city project by providing upto 50% of the project cost and 10% subsidy. [Para 3.6.01]

124. The Public Debt Act 1944 and Local Authorities Loan Rules 1937, permit the Centre, the State and the Local bodies to **raise resources.** In case of Madras Corporation, it is permitted under Madras City Municipal Corporation Act 1919. Similar provisions are made to raise resources under Section 32 of the Metro Act 1978 and Section 34 of the TWAD Act 1971. [Para 3.6.02]

125. The State Government provides **guarantees** for approved public developmental purposes. However, the guarantees are generally not provided in the activities taken up on a commercial basis. By March '94, the amount guaranteed by Government of Tamilnadu is Rs.6303 crores. Of this, nearly Rs.3538 crores towards principal is still outstanding. A major portion of the outstanding (Rs.240 Crores) is the loan taken by TWAD Board from LIC. Most of the loan guaranteed involves revision of tariff and levy of new taxes or rates. But in practice, this is not done leading to the violation of the guarantee conditions and to the subsequent sickness of the local bodies. [Para 3.6.03]

126. It is suggested that for **capital investment**, the **Corporations** can go for public issues of equity or bonds or approach the institutional finance on its own credit worthiness. In case of **Municipalities** and even well off Town Panchayats they could go for a mix of remunerative and service projects with loans and grants. [Para 3.6.06]

PRIVATIZATION:

127. The reasons for privatization is poor performance of the public systems and drying up of traditional source of funds. This is neither new nor unique. It is wrong to expect all public services can be privatized. A factor crucial to privatization is the fixation of tariff and the willingness to pay for the services. [Paras 3.8.1/2]

128. In case of privatization of infrastructure the method generally followed are **BOT, BOO** and **BOOT.** [Para 3.8.03]

129. The advantages of privatization is better efficiency and better access to current technology. Besides it reduces the financial burden on the Government for wages and operating cost on servicing.

130. The maintenance of water supply systems, sewerage treatment and pump houses should be privatized. The experience by CIDCO and MMWSSB proves that savings are in the range of 25 to30%. Solid Waste Management, Street sweeping, debris removal, garbage collection and cleaning of markets can be entrusted to private parties. **Exnora** is a model of public participation in primary collection of garbage. [Para 3.8.07]

131. Collection of service charges can be entrusted to NGOs and Social Organizations. [Para 3.8.09]

132. Similarly, development and maintenance of parks and gardens, streetlights can be taken up by the private sector. [Para 3.8.10]

PART V

RESOURCE ALLOCATION MECHANISM (RAM)

CHAPTER 1

INTRODUCTION

5.1.1. Our country has a multi-level system of planning and financing. With its vast size and varied geo-physical characteristics, management of the country from one central point has been witnessing severe impediments. It is inescapable that the country's administrative apparatus should be disaggregated into smaller units. The micro-level organizations, viz., Village Panchayats and other Urban Local Bodies should be strengthened in terms of finance and administration to achieve satisfactory delivery of services to the people.

5.1.2. The basic facilities and amenities needed in the villages and urban centres have still not been provided in full measure. In spite of large investments on infrastructure through successive Five Year Plans, many villages are still languishing for want of basic amenities. Sanitary conditions are worsening, because of increasing population and due to neglect of sanitary duties by the local bodies for a variety of reasons.

5.1.3. Paucity of finance is quoted as the major handicap for the low service level. The basic needs of citizens in villages and towns would cost a heavy amount of expenditure in total. But, still it will be lesser than the investment made in major schemes and public sector undertakings. For example, it may involve huge money to put up a fertiliser project or a steel complex. With a long gestation period it would cost much more with time and cost overruns for these projects to come to fruition. Fertiliser and steel are certainly important. They are needed to move the wheels of the economy. But equally important and urgent are

Drinking Water

Street Lighting

Environmental hygiene

Public Health and Sanitation

They are essential for quality of life of every citizen.

5.1.4. Right from the independence of our country, huge sums had been invested in building basic infrastructure such as schools, roads, water supply, street lighting, Primary Health Centres etc. However, it is regrettable to record that sufficient attention has not been paid to the maintenance of these assets to facilitate utilisation by public to their fullest satisfaction.

5.1.5. The Commission considers that a fundamental change is called for, in the budgetary process. The basic needs are to be identified on the basis of long felt needs of the area and the expectation of the people which would emerge out of the changes in socio economic environment. Priority in allocating resources in the budget will have to be made, not only for creation of basic amenities, but also for maintenance of the Assets. There is an imperative need to redesign the Centrally-sponsored schemes like JVVT, Employment Guarantee Scheme etc., providing for discretion to the State Government to make allocations in such a manner that basic amenities and felt needs of the area are met on priority basis. This change in approach itself would increase availability of funds for meeting basic needs.

5.1.6. In the context of Federal Finance in India, the most productive and elastic tax resources are with Government of India (e.g.) Income tax, Customs and Excise Duty etc. Equally productive and elastic taxes are with State Government (e.g) Sales Tax. What are left to the local bodies are inelastic and less productive. Further the administrative machinery for collecting local taxes is ill-equipped in terms of adequacy of staff, competence, effective systems of levy and collection etc. The financial structure of our country is like that of a strong man with strong hands, strong body standing on extremely weak legs.

5.1.7. The current scenario is that the metropolis and urban conglomerates are developing and expanding due to increase in population. The rural areas face paucity of facilities of basic nature, hindering the achievement of minimum standard of living, despite huge investment for infrastructure developments. Even in urban centres which are considered as developed areas, the quality of life is nothing to be proud of, in view of the congestion of population and the need for better infrastructure facilities, considering the population explosion.

5.1.8. All the natural resources—the land, mines and minerals are mainly in the rural areas. All agricultural production which is most indispensable for sustenance are from the villages. Similarly all industrial and commercial activities have been taking place in urban areas. The following questions are often addressed:

1) Whether the local areas get adequately compensated in terms of financial and other assistance for their basic civic amenities?
2) How would the Panchayati Raj institutions and Urban Local Bodies achieve the objectives enunciated in the 73rd and 74th Constitutional Amendments and State legislation, in the context of inadequate resource position?

5.1.9. The inter-Government transfer of funds has come to stay as a permanent feature in federal finance. The micro level units of administration -many of them being anaemic—have necessarily to look up to the State and Central Governments for financial succour for carrying out their obligations. But this is nothing new. Sharing of resources by the Central/ State Government with Local Administration is a universal phenomenon.

5.1.10. The answer to the question therefore indicates that dependency on higher tiers of Government for financial assistance is inevitable for a long time to come though the concept of Self-Government with a large degree of autonomy is the ultimate goal to be reached.

5.1.11. Every citizen contributes some revenue either through tax or some levy to atleast one of the three bodies viz., Central Government, State Government or Local Bodies. Being close to the people, Local Bodies feel shy of enhancing taxes or increasing levies. They even welcome stiff instructions or orders from the distant Government so that no harm occurs to their popularity. This attitude needs change, since they become a part of self Government and are responsible not only to deliver the services but also to enhance their resources to the extent possible in the local area. This is just to indicate that chances for augmenting the own resources in Local Bodies by direct taxes or levies are some what limited in scope., since they are hedged in by several socio-economic and psychological factors. Hence, taxes/levies mobilised by higher levels of Government, and Resource allocation by these Governments to the Local Bodies has come to acquire a long term significance and has to be acknowledged as a major component of the financial strategy for Local Body Finance. In other words, allocation of resources by the higher level Government, to Local Bodies has emerged as a major factor in Financial Federalism. The Local Bodies legitimately expect adequate financial assistance from the State and Central Governments in view of their limited and inelastic fiscal domain. The State and Central Governments have a duty, solemnised by the Constitution and conformity Acts, to extend maximum help and financial assistance to the Local Governments, commensurate with the functions devolved on them.

CHAPTER 2

THE STATUS OF STATE FINANCES

5.2.1. An analysis of the fiscal position of Tamil Nadu Government is an essential step to assess the dimensions of devolving finance to Local Bodies.

5.2.2. A study of the State's budgetary transactions over the period 1988-89 to 1994-95, (Appendix Nos.107 to 114) shows a mixed trend of surplus for three years and deficits for four years. However, revenue receipts have fallen short of revenue expenditure over the entire period, with the deficit rising from Rs.274 crores in 1988-89 to a peak of Rs.1,904 crores in 1991-92, before falling to Rs.416 crores in 1994-95, despite concerted efforts by the State Government to augment their resources substantially. The capital account, on the other hand, has been in surplus since 1990-91. This, together with the surplus generated on the public account over the entire period, has either contained the overall deficit, or generated a surplus, thus mitigating the effect of the revenue deficit.

Revenue Receipts

5.2.3. State revenue comes from tax and non-tax revenues and grants-in-aid from the Central Government. Tax revenues are predominantly from indirect taxes, which are levied on commodities and services like State Excise, Sales Tax, Motor Vehicles Tax, etc. and include the State's share in Union Excise Duties. Direct taxes are levied on income, property and capital transactions, and include the State's share of income tax, agricultural income, land revenue, stamp duty and registration fees, urban land tax etc. Over the seven-year review period, direct taxes accounted for around 15% and indirect taxes for 85% of tax revenue, on an average. The sales tax is the single largest revenue earner for the State - Rs.3,914 crores in 1994-95. The State's own non-tax revenue has grown from Rs.335 crores to Rs.773 crores - with interest receipts contributing around 37%, general services around 16% and social services around 13%, while grants from the Centre have increased from Rs.437 crores to Rs.878 crores.

Revenue Expenditure

5.2.4. Expenditure on the revenue account has grown from Rs.3,763 crores in 1988-89 to Rs.9,635 crores in 1994-95, i.e. an increase of over 2.5 times, indicating an average annual growth rate of around 26%. The compensation and assignment to local bodies exhibited among the expenditure of the State refers to assistance given to all Local Bodies viz. Village Panchayats, Panchayat Unions, Town Panchayats, Municipalities and Corporations. This has grown from around Rs.78 crores to Rs.133 crores over the period of analysis, and accounted for around 2% of the State's revenue expenditure. In addition, the Government has been giving tied and untied revenue grants

to Local Bodies, besides passing on the revenue collection from the Taxes earmarked for Local Bodies.

5.2.5. Revenue expenditure over the period 1988-89 to 1994-95 worked out to 22% of the NSDP, on the average. Per capita revenue expenditure has increased from Rs.674 in 1988-89 to Rs.1,725 in 1994-95 - an average annual growth of 26% approximately

5.2.6. The State's resource gap has been met by (i) State's share in Central taxes, (ii) grants-in-aid from the Centre, (iii) capital receipts and (iv) ways and means advances. During the period 1988-89 to 1993-94, on average, capital receipts have contributed 86%, State's share in Central taxes 9% and grants 5% towards bridging the basic resource gap.

5.2.7. The fiscal picture of the state is indeed not comfortable. In this context, the State Finance Commission is expected to make its recommendations covering devolutions for the period 1997-2002, as per the terms of reference. On the request of State Finance Commission, the Finance Department of the State Government has furnished a forecast of Revenue Generation Plan for the period 1997-2002 as given below:-

Table 5.1 Forecast of Revenue Generation Plan (Rupees in Lakhs)

Tax Revenue	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Taxes on Agricultural Land	1936.88	2033.72	2135.41	2242.18	2354.29
Land Revenue	4082.61	4286.74	4501.07	4726.13	4962.44
Stamps and Registration	63828.25	68934.51	74449.27	78171.73	82080.32
Taxes on Immovable Property other than Agricultural Land	1237.05	1298.90	1363.85	1432.04	1503.64
State Excise	81808.77	89989.65	98988.61	103938.04	109134.94
Sales Tax	549866.26	615850.21	689752.23	724239.84	760451.84
Taxes on Vehicles	41895.06	43570.87	45313.70	47579.39	49958.36
Taxes on Goods and Passengers	12736.95	13373.80	14042.49	14744.62	15481.85
Taxes & Duties on Electricity	13244.69	13906.92	14602.27	15332.38	16099.00
Other Taxes and Duties on Commodities and Services	16093.57	16898.25	17743.16	18630.32	19561.83
Total State own Tax Revenue	786730.09	870143.56	962892.07	1011036.67	1061588.50
Total Tax Revenue and Receipts from GOI	1110608.50	1218899.74	1338515.33	1415682.21	1497591.74
Total Revenue Account Expenditure	1465355.53	1685158.86	1937932.69	2228622.60	2562915.99
Surplus/Deficit	- 354747.03	-466259.13	-599417.36	-812940.39	-1065324.24

5.2.8. This forecast reveals an uncomfortable position in terms of financial health. The deficit, as indicated in the forecast, would be increasing year after year. In other words, the portion of the cake of financial resources to be shared would be shrinking over the next five years. It will be useful to gain an insight into the nature of assumptions made by the State Government. It has been indicated to us by the State Government that the latest actual and the optimum growth rates suggested by 10th Finance Commission have been adopted in working out the forecast of revenue generation.

5.2.9. However, having granted the status of an autonomous institution by the fiat of Constitutional amendments with an expanded list of functions and responsibilities, it is imperative on the part of Central and State Governments to explore ways and means to meet the Resource Gap of Local Bodies.

CHAPTER 3

LOCAL BODY FINANCE - EXISTING SCENARIO

5.3.1. The Existing Scenario of Local Body Finance as derived from the analysis of data is discussed hereunder in respect of each tier of the Local Body.

A. Municipal Corporations

5.3.2. The total revenue receipts and expenditure and the surplus/deficit of the Corporations are indicated in the Appendix No.22. The net financial position as in the year 1993-94 and the commitments pending discharge are indicated in the statement below:

Table 5.2 Statement showing Fiscal Conditions of Corporations as on 31.3.94 (Including the Debt and Liabilities Position) (Rs. in Lakhs)

	Revenue Surplus/ Deficit	Capital Surplus/ Deficit	Net	Loan	Ways & Means Advance	Pen-sion	P.F.	Total	Net Position
Coimbatore	224.64	165.05	389.69	—	—	—	—	—	+389.69
Chennai	86.58	-311.92	-225.34	15305.38	—	4.93	382.90	15693.21	-15918.55
Madurai	-46.32	41.18	5.14	Nil	—	—	447.00	447.00	-441.86
Salem	40.74	-15.85	24.89	49.51	—	—	81.36	130.87	-105.98
Tiruchirapalli	35.78	-12.83	22.95	145.08	—	1.59	94.81	241.48	- 218.53
Tirunelveli	113.57	-6.17	107.40	688.15	75.11	—	60.75	824.01	- 716.61

(-) Indicates 'Nil'

Review of Resources and Outlays

5.3.3. The per capita income exceeded Rs.200 in all the Municipal Corporations, except Tirunelveli. The per capita expenditure of Rs.55 in Tirunelveli and Rs.270 in Chennai indicates the wide variation among the Municipal Corporations in income and expenditure levels. The revenue budget had shown surplus in all Corporations except Madurai in the year 1993-94. Similar surpluses had been shown in the earlier years also.

5.3.4. In terms of per capita, the Capital receipt ranged between Rs.44 and Rs.46 during the three years commencing from 1991-92 to 1993-94. The Capital receipts and Outlays mainly depend upon the special schemes and the availability of loans/ special grants from the Government. The revenue surplus generated was not adequate for Capital funding. The aggregate revenue receipts of Municipal Corporations increased from Rs.193.99 crores in 1991-92 to Rs.243.85 crores in 1993-94. recording an increase of 25.7 %. In terms of per capita, it went up from Rs.268.13 in 1991-92 to Rs.337.03 in 1993-94.

Own Revenue

5.3.5. Of the revenue receipts, own tax accounted for 37.6 % in 1991-92 which has slightly fallen down in 1992-93 to 28.12 % but has recovered in 1993-94 to 45.2 %. There were wide variations in the per capita own tax i.e. Rs. 63.54 in Tirunelveli and Rs.27.76 in Coimbatore which was 2.5 times more.

5.3.6. Of the own taxes, property tax contributed the maximum percentage. For all Corporations put together, it worked out to 94 % in 1991-92, 92.24% in 1992-93 and 85.13 % in 1993-94. In terms of per capita there had been real rise of 16%.Regarding individual Corporations, it ranged between 86 % to 96 % based on three years' average income. Tax reforms proposed are likely to generate sizeable income in coming years.

5.3.7. The next major contributory of own taxes was Profession Tax which contributed on an average 5.5 per cent, increased to 14.70 % in 1993-94. The increase was due to the implementation of provisions of the new enactment in 1992. Proper Tax administration, with tax mapping is likely to yield good returns in future.

5.3.8. The non-tax revenues have risen from Rs.23.38 crores in 1991-92 to Rs.41.33 crores in 1993-94, recording an increase of about 76.8 %. This constituted 12 % of the total revenue in 1991-92 and increased to 17 % in 1993-94. The per capita income was Rs.32.31 in 1991-92 and increased to Rs. 57.13 in 1993-94. However, the average income is below the State average in all the Corporations except Coimbatore and Chennai in 1993-94. The percapita non-tax revenue varied between Rs.35 in Salem to Rs.67 in Coimbatore. These variations reflect the differences in user charges and administrative efficiency in collection of non-tax revenues among the Corporations.

5.3.9. Of the non-tax revenues, income from properties contributed a major share, namely, 45 % in 1993-94. User charges contributed 20 % over these years, of which water charges contributed 90 % of that revenue. The other non-tax revenues like building licence fees etc. contributed only a meagre income, namely, 8 % in 1993-94. The revenue gap measured as a shortfall of own revenues as percentage to total outlays was 28. The revenue gaps in Chennai, Madurai and Tiruchirappalli were high, while in Coimbatore and Tirunelveli the own revenues were in excess of total Revenue outlay. The reforms suggested for auctioning for leasing of properties and for working out user charges through a tariff cell, proposed, could generate considerable additional income.

Assigned/Shared Taxes

5.3.10. The assigned/shared revenue from the Government increased from Rs.87.37 crores in 1991-92 to Rs.174.30 crores in 1992-93 but has fallen down to Rs.84.22 crores in 1993-94. The increase/decrease relates to the adjustment of Surcharge on Sales Tax to the Corporations in the respective years. In terms of per capita, the assigned revenues contributed Rs.120.76 in 1991-92, Rs.240.91 in 1992-93 and Rs.116.70 in 1993-94. The share of this revenue has been high in Chennai ranging from 40 to 69 % while it was 30 to 45 % in Salem and Tiruchirappalli and between 20 and 30 % in other Corporations. This clearly indicates the in-built imbalances in the system of assigned/shared taxes among the Corporations and that the design of the present system of distribution of Government Taxes needs correction. The components consist of Surcharge on Sales Tax which was the major source and the next was Stamp Duty Surcharge and the third was Entertainment Tax. The imbalances of the last two are inherent since they are local taxation which depend on local potential and are distributed on derivation basis. Revised norms for sharing and equitable distribution method of Government taxes like on Sales Tax, Motor Vehicle Tax etc., now being proposed, are expected to ensure decrease in the imbalances among the local bodies.

Grants-in-aid

5.3.11. Grants-in-aid covered only 5% of the aggregate revenue receipts in 1991-92 but has fallen down to 3.2 % in 1993-94. Of these grants, specific purpose grants constituted 90 %. Chennai Corporation received the maximum grant of 64 % in 1991-92 which exceeded 80 % in 1992-93 and 1993-94. There were larger deficiencies in the system of grants which exhibited the ad hoc nature of the grant which is bound to increase imbalances. The grant system is found unpredictable and no specific pattern is in force except in respect of specific purpose grants. The grants distribution policy of the State Government needs revision. The suggestions of the State Finance Commission in this direction will be more helpful.

General Observation

5.3.12. The expenditure on revenue side went up from Rs.149.72 crores in 1991-92 to Rs. 187.56 crores in 1993-94, exhibiting an increase of 25 %. In terms of per capita, the expenditure rose from Rs.206.93 to Rs.259.22. The highest expenditure was on obligatory services accounting for 48 % in all the years. In terms of per capita, this showed an increase from Rs.96.31 in 1991-92 to Rs.129.29 in 1993-94, registering an increase of 34% during these years. The expenditure of the total staff including those covered on services increased from Rs.87.30 crores in 1991-92 to Rs.107.31 crores in 1993-94. The expenditure level does not however reflect the adequacy of service levels. The minimum service levels indicated by the State Finance Commission and the cost needed therefor combined with additional devolution of funds may push the expenditure to a higher level with better service.

5.3.13. The fiscal condition in revenue account in 1993-94 revealed that there was revenue surplus in all the Corporations except Madurai, while the Capital account, exhibited deficit in all the Corporations except Coimbatore and Madurai. However, these revenue/capital surplus or deficit did not take into account the commitments on debt servicing consisting of loan annuities and the pension and provident fund liabilities in the respective Local Body as already explained in Chapter on "Debt Servicing" in Part II. If these overdue liabilities are taken into account, except in the case of Coimbatore Corporation where the loan particulars are shown as 'nil' in the information furnished to State Finance Commission, all other Corporations have huge deficit in their accounts. Of these, Chennai Corporation recorded the maximum deficit of Rs.159.19 crores, since the overdue liability on loans contributes to Rs. 153.05 crores as on 31-3-94. The next largest deficit is in Tirunelveli Corporation where the overdue loan liability accounted for Rs 6.88 crores. All the Corporations except Coimbatore have appropriated huge amounts collected by way of provident fund subscriptions and it is a matter of concern how these amounts are going to be made available to the subscribers with interest commitment on that amount. It may thus be seen that the finances of all the Corporations are very weak and the deficits are very huge when their liabilities are taken into consideration, though the revenue account shows surplus. However there is scope for meeting current liabilities alone in the respective years in the Corporations.

B. Municipalities

Aggregate Fiscal Condition

5.3.14. The statement showing the consolidated revenue/capital receipts and revenue/capital expenditure for 3 years from 1991-92 to 1993-94 is given below:

Table 5.3 Consolidated Budgets of Municipalities

(Amount Rs. in lakhs) (Per Capita in Rs.)

Details	1991-92		1992-93		1993-94	
	Amount	Per capita	Amount	Per capita	Amount	Per capita
Revenue Receipts	12432.87	173.64	13548.77	189.23	15727.50	219.66
Revenue Expenditure	11405.98	159.30	13047.77	182.23	14245.76	198.96
Revenue Surplus:	1026.89	14.34	501.00	7.00	1481.73	20.69
Capital Receipts	5178.98	72.33	5948.93	83.09	5923.73	82.73
Capital Expenditure	5300.33	74.03	6072.27	84.81	6099.61	85.19
Capital Deficit	-121.34	- 1.69	-123.34	-1.72	-175.88	-2.46
Total Receipts	17611.85	245.976	19497.69	272.315	21651.23	302.393
Total Expenditure	16706.30	233.329	19120.03	267.040	20345.37	284.154
Surplus	905.5470	12.647	377.6677	5.27471	1305.85	18.238

5.3.15. The aggregate revenue receipts show an increase from Rs.124.33 crores in 1991-92 to Rs.157.28 crores in 1993-94. The revenue expenditure has also recorded corresponding increase from Rs.114.06 crores to Rs.142.46 crores in 1993-94. In terms of per capita, the revenue receipts had increased from Rs.173.64 to Rs.219.66. The revenue expenditure has also recorded an increase from Rs.159.30 to Rs.198.96. The surplus under Revenue Account has been marginal from Rs.10 to 15 crores, accounting for a per capita of Rs.20.69 in 1993-94. The capital receipts as well as capital expenditure have also recorded an increase from 1991-92 to 1993-94, but it has finally exhibited a deficit of Rs.1.21 crores in 1991-92 and Rs.1.76 crores in 1993-94. The net surplus increased from Rs.9.0 crores in 1991-92 to Rs.13.06 crores in 1993-94 but this net surplus has not taken into account the following liabilities:-

1. Loans and ways and means advances - Rs.137.80 crores
2. Pension commitment - Rs.1.66 crores
3. Provident Fund commitment - Rs.11.54 crores.

If these commitments are taken into account, the Municipal Finance will indicate a net deficit of Rs.137.94 crores in the year 1993-94. The ranges of Revenue Receipts and Expenditure, Revenue Surplus and Deficit with reference to grades and also population are furnished below for information. The position indicates that though there was marginal surplus in aggregate position, there were 28 Municipalities (27%) with deficit in their revenue account and 28 with marginal surplus, 47 with sizeable surplus. This further confirms that the aggregate surplus/deficit cannot be the criteria for gap filling as resources of one Municipality cannot be diverted to other deficit institution. Further, even the Municipality showing surplus may slide down to deficit if the liabilities are taken into account.

Table 5.4 Distribution of Municipalities according to Revenue Receipts and Expenditure

Amount (In Rs.)	Revenue Receipts			Revenue Expenditure		
	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Upto 25 Lakhs	8	4	3	7	5	5
25 - 50 Lakhs	5	15	13	19	16	13
50 - 100 Lakhs	32	33	28	35	32	28
1 - 1.5 Crores	22	20	23	23	24	27
1.5 - 2 Crores	10	12	13	6	10	11
Above 2 Crores	16	19	23	13	16	19
Total	103	103	103	103	103	103

Table 5.5 Distribution of Municipalities according to Revenue Surplus and Deficit

Amount (In Rs.)	1991-92		1992-93		1993-94	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
Upto 5 Lakhs	15	20	12	12	14	10
5 to 10 Lakhs	11	9	17	11	14	7
10 to 15 Lakhs	6	2	3	6	8	6
15 to 20 Lakhs	8	4	7	6	8	1
Above 20 Lakhs	22	6	19	10	31	4
Total	62	41	58	45	75	28

Own Revenues

5.3.16. Own Revenue comprises of Own Taxes and Non-Taxes which accounted for 63.5 % of total revenue in 1991-92 and has recorded an increase of 71% in 1993-94. In terms of per capita revenue from own sources, it went up from Rs.110.18 in 1991-92 to Rs.156.07 in 1993-94. Of these own sources, own taxes are the major revenue sources which have contributed to 41% of over-all revenue receipts in 1993-94 recording an increase from 36 % in 1991-92. Of the own taxes, property tax alone went up from 90 % of total tax revenues in 1991-92 to 93.5 % in 1992-93 but has declined to 84 % in 1993-94. This decline in percentage was due to the larger contribution through Profession Tax in 1993-94 which has recorded an increase of 35 % from 1991-92 to 1993-94. In terms of per capita, the property tax contributed to Rs.75.28 in 1993-94 which has risen from Rs.55.68 in 1991-92. This was out of the total per capita income of Rs.219.66 in 1993-94, as against Rs.173.66 in 1991-92. The uniform method of

taxation with fixation of minimum and maximum rate of levy combined with tax reforms on plinth area rental value suggested by State Finance Commission, is likely to contribute sizeable additional revenue from the taxes.

5.3.17. Out of the non-tax revenues, which are the second major component of total revenue receipts, the per capita income rose from Rs.47.98 in 1991-92 to Rs.66.31 in 1993-94. The major portion out of this source was from 'Income from Properties' which was followed by "User Charges under water supply. But the income from the properties has been erratic. However, the User Charges recorded 26.5 % of the non-tax revenue in 1991-92 which rose to 33 % in 1993-94. Of the User Charges, water charges accounted for 90 %. The licence fees etc. contributed only 4% of revenue. There is scope for augmentation from these sources, if the recommendations on the leasing of properties, and restructuring user charges are implemented.

Assigned/Shared Taxes

5.3.18. The assigned/shared revenues which contributed 30 % in 1992-93 declined to 25 % in 1993-94, though in absolute terms there was increase in the revenue from Rs.34.57 crores in 1991-92 to Rs.39.21 crores in 1993-94. The assigned revenues accounted for about Rs.54.76 per capita in 1993-94, rising from Rs.48.29 in 1991-92. There was wide variation in this source among different grades namely Rs.33.09 per capita in third grade and Rs.77.89 per capita in special grade.

5.3.19. In the case of Municipalities, Entertainment Tax accounted for the major income from the assigned revenues while the Surcharge on Stamp Duty was the second major component representing 43 % in 1991-92 and 46 % in 1993-94. Surcharge on Sales Tax exhibited a declining trend from 9.2 % in 1991-92 to 2 % in 1993-94. The suggestions for streamlining the assigned revenues with higher shares and also creation of divisible pool for assignments from taxes of State Government other than local taxes will certainly create a better equitable system and sizeable additional revenue.

Grants-in-aid

5.3.20. The Grant-in-Aid to Municipalities accounted for an average of 5.7 % of total revenue. Of these, specific grants constituted 82 % in 1991-92 which declined to 69 % in 1992-93 and picked up to 85 % in 1993-94. Education Grant accounted for the major income from these specific purpose grants, accounting for 67 % in 1991-92 declining to 31% in 1993-94. This was perhaps due to take over of Education by Government. Road grants recorded a steep increase from 4.5 % to 29 %. The distribution of per capita grant revenue varied widely across the groups namely Rs.6.44 in third grade and Rs.12.21 in special grade. This implies higher level of grants being available for higher groups in violation of the general principle of assisting lower groups.

General Observations

5.3.21. The aggregate revenue expenditure increased from Rs.114.0 crores in 1991-92 to Rs.142.6 crores in 1993-94, recording a rise of 25%. In terms of per capita, the revenue expenditure rose from Rs.159.30 in 1991/92 to Rs.198.96 in 1993-94. The highest expenditure under this category was on obligatory services, as pointed out earlier, accounting for nearly 46 %. In terms of per capita, this worked out to Rs.91.81 in 1993-94. The capital receipts also rose from Rs.51.79 crores to Rs.59.24 crores with a corresponding increase in the expenditure from Rs.53 crores to Rs. 61 crores. In terms of per capita, it accounted for Rs.72.33 to Rs.82.73 under receipts and Rs.74.23 to Rs.85.19 under expenditure. The distribution of per capita expenditure grade-wise indicated inter-class and intra-class variations. Third grade Municipalities had an outlay of Rs.128.26 while the outlay in special grade was nearly double i.e. Rs.246.16. In second and third grades, per capita expenditure was below the state average of Rs.180.17.

5.3.22. This clearly indicates the imbalances among the Municipalities in various grades which is mainly due to constraints on revenue earning capacity and performance. The Staff expenditure including those which are accounted against core services rose from Rs.68.55 crores in 1991-92 to Rs.85.14 crores in 1993-94. The capital receipts and expenditure were mostly based on the assistance from the centrally sponsored schemes.

5.3.23. The existing classification of Municipalities, according to Grades (using revenues) is found not valid and the figures compiled indicate that the level of services, if measured in terms of money, vary in different Municipalities which imply the existence of horizontal imbalances. The varying number of Municipalities registering revenue deficits in the three years indicate vertical imbalances and the need for maintaining a balance between the expanding roles entrusted to Municipalities and their financial resources. It is necessary to analyse the differences in distribution of revenues and expenditure within and between the identical groups of Municipalities. The inter-class and intra-class differences in the distribution of per capita total revenue grade-wise could be seen from the statement in Appendix No.115. The per capita income in III Grade was Rs.134.20 while it was Rs.271.65 in Special Grade. The variations are observed between the Municipalities with varying population. Similar variations are noticed in respect of Special and III Grade Municipalities having below 25,000 and between 75,000 and one lakh population. Similarly, the inter-class and intra-class variations that exist in distribution of per capita expenditure, within different grades of Municipalities are available in the Statement in Appendix No.115. Wide variations are noticed within each class and especially the variations are found to be too high in II Grade Municipalities. If this per capita expenditure is taken as an indicator for the level of services provided, it can be opined that the service levels vary drastically among the Municipalities. The fiscal performance of the Municipalities under different grades and with different population size is given below:

Table 5.6 Fiscal Performance

Grade	Per capita Own Revenue (In Rs.)	Population Size	Per capita Own Revenue (In Rs.)
Special	159.38	0 to 25000	115.01
Selection	129.19	25000 to 50000	144.05
First	128.30	50000 to 75000	119.88
Second	101.54	75000 to 100000	151.53
Third	90.02	Above 1 Lakh	124.60
All Grades together	129.69	For Total Population	129.69

Table 5.7 Percentage of own revenue in Total Receipts and Expenditure

A. According to grades of Municpalities

Grade	Percentage of own revenue in grade	
	Receipts	Expenditure
Special	66.03	73.25
Selection	68.51	75.47
First	66.64	72.31
Second	65.86	64.77
Third	69.36	72.56
All Grades together	66.79	71.99

Table 5.8 B. According to Population Size of Municipalities

Population Size	Percentage of Own Revenue in	
	Receipts	Expenditure
0 - 25000	76.25	79.83
25000 - 50000	69.74	72.20
50000 - 75000	66.19	68.11
75000 - 1 Lakh	67.65	72.29
Above 1 Lakh	65.07	74.13
For Total Population	66.79	71.99

5.3.24. The interpretations further exhibit the deficiency in allocation of grants. It is found that 27 Municipalities which have below average per capita own revenue have received above average grants and 17 Municipalities which have above average per capita own revenue have received below average grants from the State Government. But 40 Municipalities having below average own revenue have been given below average

grant. Similarly, 19 Municipalities having above average per capita own revenue have been given above average grant. This shows that the Municipalities having below average own revenue are being penalised and the general principle of grant distribution is violated. This clearly indicates the ad hoc nature of grant distribution policy of the State Government. The interpretation also reveals that the performance in tax collection has been very poor. The components of water tax widely vary while the water tax was the major component in all grades except in II and III Grades where general purpose tax was the main component. The shares of different components also widely vary and this indicates that the rates are optional.

C. Town Panchayats

5.3.25. The consolidated receipts and expenditure on revenue account and receipts and expenditure on capital account of the Town Panchayats are furnished below:

Table 5.9 Consolidated Budgets of Town Panchayats

Details	1991-92		1992-93		1993-94		3 Year Average	
	Amount Rs.lakh	Percap in Rs.	Amount Rs.lakh	Percap in Rs.	Amount Rs.lakh	Percap in Rs.	Amount Rs.lakh	Percap. in Rs.
Revenue Account:								
Receipts	6330.35	72.10	7124.61	81.71	8700.80	99.10	7401.92	84.30
Expenditure	5426.06	61.80	6359.77	72.43	7705.31	87.76	6497.05	74.00
Surplus	904.28	10.30	814.84	9.28	995.49	11.34	904.87	10.31
Capital Account:								
Receipts	1772.32	20.19	2527.85	28.79	2793.75	31.82	2364.64	26.93
Expenditure	1891.05	21.54	2407.16	27.42	3198.03	36.42	2498.75	28.46
Suplus/Deficit	-118.74	-1.35	120.69	1.37	-404.28	-4.60	-134.11	-1.53
Total:								
Receipts	8102.67	92.28	9702.46	110.51	11494.56	130. 92	9766.56	111.24
Expenditure	7317.12	83.34	8766.93	99.85	10903.34	124.18	8995.80	102.46
Surplus	785.55	8.95	935.53	10.66	591.21	6.73	770.76	8.78

5.3.26. The consolidated position indicates surplus of Rs.9.95 crores in the revenue account in 1993-94. the average surplus for three years being Rs.9.05 crores. The capital account closed with a deficit of Rs.4.04 crores in 1993-94 and except for the year 1992-93, there have been deficits in the capital account. The average deficit in capital account was Rs.1.34 crores but the net surplus generated during 1993-94 was Rs.5.91 crores. This did not take into account the debt servicing which was overdue and also other liabilities like Pension Contribution and Provident Fund Deposits appropriated. The liabilities are shown below, as they existed at the end of 1993-94:

Liabilities	Rs in Crores
Loan overdue with interest	47.92
Ways and Means Advance	9.15
Pension Contributions	2.22
Provident Fund Subscription appropriated	1.92
V Pay Commission Arrears to be remitted to PF Account	0.81
Total	62.02

	Rs. in Lakhs	
Revenue Surplus	995.49	
Capital Deficit	(-) 404.28	
Net Surplus	591.21	(or) (+) 5.91
Fiscal Position		(-) 56.11

5.3.27. The total liabilities work out to about Rs.62 crores and this results in a total deficit of Rs.56.11 crores in the consolidated position of the Town Panchayats. The number of Town Panchayats according to revenue surplus and deficit and according to revenue receipts and expenditure are furnished below.-

Table 5.10 Distribution of Town Panchayats according to Revenue Surlpus and Deficit

Amount in Rs	1991-92		1992-93		1993-94	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
Upto 50000	114	146	110	143	78	98
50000 - 1 Lakh	51	59	44	61	55	54
1 Lakh - 2 Lakhs	57	63	53	38	83	51
2 Lakhs - 3 Lakhs	43	10	33	20	43	20
Above 3 Lakhs	76	17	101	33	117	37
Total	341	295	341	295	376	260

The postion of the Town Panchayats shown under Surplus may also turn out to be deficit if the liabilities are taken into account.

Table 5.11 Distribution of Town Panchayats according to Revenue Receipts and Expenditure

Amount (in Rs.)	199-/92		1992-93		1993-94		3Yr. Avg.	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Revenue Receipts:								
Upto 5 Lakhs	247	39	202	32	115	18	180	28
5 Lakhs - 10 Lakhs	193	30	204	32	236	37	220	35
10 Lakhs - 15 Lakhs	79	12	87	14	98	15	89	14
15 Lakhs - 20 Lakhs	53	8	54	8	64	10	50	8
20 Lakhs - 25 Lakhs	19	3	39	6	45	7	42	7
Above 25 Lakhs	45	7	50	8	78	12	55	9
Total	636	100	636	100	636	100	636	100
Revenue Expenditure :								
Up to 5 lakhs	247	39	225	35	145	23	199	31
5 Lakhs - 10 Lakhs	214	34	201	32	229	36	219	34
10 Lakhs - 15 Lakhs	87	14	83	13	93	15	88	14
15 Lakhs - 20 Lakhs	47	7	64	10	61	10	60	9
20 Lakhs - 25 Lakhs	13	2	26	4	47	7	30	5
Above 25 Lakhs	28	4	37	6	61	10	40	6
Total	636	100	636	100	636	100	636	100

5.3.28. This indicates that about 376 Town Panchayats (TPs) exhibited surplus ranging up to Rs.3 lakhs, while 260 TPs exhibited deficit. Of them, 78 TPs have shown only marginal surplus up to Rs. 50,000, while 162 TPs have shown deficit of more than Rs.50,000. This implies that though a surplus in the over-all account of TPs at State level is seen, nearly about 25% of the TPs has deficit in their accounts. While evaluating per capita performance, 12 TPs which were formerly Townships have been excluded for analysis purposes, since their per capita income was abnormal due to their lesser population. These Townships had been created on different criteria, namely, industrial labour, educational and other special features.

5.3.29. The total revenue receipts were found more in the higher categories and less in lower categories. The per capita income in Grade II was Rs.50.31 while in Special grade it was Rs.193.95, which was about four times the income of the smaller TPs. It is seen that TPs with varying populations had extreme variations and that the inter-class difference in the per capita revenue receipts was found very high in TPs with population below 10,000 and TPs in Grade I.

5.3.30. Of the total revenue, own tax revenue was found to increase steadily with the Grade. While II Grade TPs have recorded Rs. 16.41 per capita own tax, Special

Grade TPs have recorded Rs.73.87 which was nearly 4.5 times more than the smaller TPs. In Special and Selection Grades, the per capita income from own tax had been more than theState average. This indicates that smaller TPs had a comparative disadvantage in tapping their tax revenue potential adequately. Similarly, while looking at TPs on population criteria, the groups with population between 5000 and 10000 had an income below the State average. The sharp differences explained above indicate the different forms of horizontal imbalances. It is seen that application of identical set of factors as well as rates can generate different levels of income, depending upon the tax base of TPs. Similarly extreme variations were found within the grades.

5.3.31. Of the tax revenues, house tax has contributed about 73 % in 1991-92, 80 % in 1992-93 and 50 % in 1993-94. In terms of absolute figures, the realisation was Rs.15.69 crores in 1991-92, which rose to Rs.16.82 crores in 1993-94. The reduction in percentage in 1993-94 was due to higher performance under the Profession Tax during 1993-94 under the new Enactment of 1992.

5.3.32. The next major tax revenue was from Profession Tax which was 18.77% in 1991-92, rising to 43.87% in 1993-94. The other Own Taxes have recorded very small percentages except Water Tax which, on an average, contributed 5 to 6%.

5.3.33. The performance, both under House Tax and under Profession Tax, in respect of each grade of TPs is given below:

Table 5.12 Tax Collection Performance of Town Panchayats

A. House Tax (Rs. in Crores)

Grade	1991-92		1992-93		1993-94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	5.15	2.83	4.70	2.61	5.09	3.01
		(55.01)		(55.59)		(59.15)
Selection	16.62	9.30	17.30	11.67	16.91	9.96
		(55.93)		(67.42)		(58.92)
First	4.34	3.12	4.59	2.99	4.78	3.21
		(72.03)		(65.22)		(67.19)
Second	1.12	0.59	1.06	0.59	1.01	0.59
		(52.88)		(55.62)		(57.82)
All Grades together	27.23	16.85	27.66	17.86	27.80	16.78
		(58.20)		(64.59)		(60.34)

Table 5.13 B. Profession Tax (Rs. in Crores)

Grade	1991-92		1992-93		1993-94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	2.16	0.53 (24.42)	2.20	0.36 (16.40)	3.03	1.69 (55.62)
Selection	8.71	1.89 (21.68)	9.10	1.38 (15.20)	12.72	9.14 (71.85)
First	2.80	0.50 (17.62)	3.59	0.36 (9.92)	5.09	3.69 (72.50)
Second	0.58	0.10 (17.62)	0.75	0.07 (9.68)	1.08	0.84 (77.89)
All Grades together	14.25	3.02 (21.22)	15.64	2.17 (13.89)	21.92	15.36 (70.05)

Note: Demand includes current demand and arrears in the previous year.Figures in brackets indicate percentage of collection in demand.

Own Revenue

5.3.34. It will be seen from the above statement that in Special Grade TPs, the percentage of collection increased from 55 in 1991-92 to 59 in 1993-94. Similarly, in Selection Grade TPs, the percentage rose from 56 to 67 in 1992-93 but declined to 59 in 1993-94. The performance in I Grade TPs was very good in 1991-92 with 72% but declined to 65 % in 1992-93 and had picked up to 67.19 % in 1993-94. In II Grade TPs, the collection performance was 53% in 1991-92, but increased to 58% in 1993-94. On an average, the performance of all the Grades put together, worked out between 58% and 64% in 1992-93 and 60% in 1993-94. This indicates that the low rate of revenue in TPs was not due to low level of taxation alone and that the intra-class variations were due to very low level of collection performance also. It is seen from the above that every year about 40% of the revenue remained uncollected and sizeable amount was allowed to accumulate as arrears. The remedy by way of collection will definitely increase the per capita income rate in TPs even before resorting to tax reforms for raising additional resources. It is also clear that without gearing up the administration, any effort to raise additional resources will not yield better results.

5.3.35. In the case of Profession Tax also, it is found that the total collection in 1991-92 was only 21% which has considerably increased to 70% in 1993-94. Here also the need for organising the administrative structure to bestow their attention on collection performance has to be stressed.

Non-Tax

5.3.36. The non-tax revenue contributed about 26.75% in 1993-94 which accounted for Rs.26.51 per capita. Of the non-tax revenues, the income from properties, contributed between 39% and 41% on an average. The next was User Charges which contributed between 25% and 28%. If it is analysed grade-wise, the average income was more in higher categories, namely, 60.2% in Special grade and 10.46% in II grade. The figures of standard deviation and CV indicate that intra and inter-class variations were very high and the income was found more when the grade is higher. These variations reflect the differences in User Charges and deficiency in the administrative machinery.

Assigned/Shared Taxes

5.3.37. The Assigned/Shared revenues contributed on an average about 34% of the total income with average per capita of Rs.28.70. Here also the income from this source varied very widely between the groups, namely, Rs.19.42 in II Grade and Rs.46.56 in Special grade. The standard deviation and CV indicate inter-class and intra-class differences under this item also. Of the shared revenues, Surcharge on Stamp Duty contributed between 83 and 84% in all these years. The next was the Entertainments Tax which contributed about 13%. The other taxes have been meagre. The income from Surcharge on Sales Tax contributed 1.29% in 1991-92, 2.46 % in 1992-93 and 1.23% in 1993-94, which showed the declining trend of sharing under this revenue. These variations are interpreted to indicate that the design of present system of sharing has only increased the imbalances instead of correcting them.

Grants

5.3.38. Grants-in-Aid contributed only about 3 to 4%, with the per capita income ranging from Rs.2.47 to Rs.3.41. Of the Grants, the General Purpose Grant and Road Grant have contributed higher percentages. Similarly, the incentive grants available to a few TPs have also contributed about 10.96% of the total grants. On an analysis of the grants position, grade-wise, the average per capita was Rs.4.03 in Grade II while it was Rs.4.65 in Special grade. While it was analysed with reference to population basis, large variations were noticed. The system of grants has not actually helped the lower categories with necessary funds to equalise their capacity in realising resources. On an analysis of the expenditure, it was indicated that fiscal performance measured in terms of per capita, showed wide variations within each class. If these indicators were taken as showing the level of service, the service levels varied drastically among the TPs. The various parameters indicated above have clearly indicated that the per capita revenue of TPs was very low for adequate provision of services which also varied drastically among TPs. The full exploitation of revenue potential was lacking. With the reforms proposed on tax and non-tax revenues and with the re-distribution of shared revenues in a scientific system of transfer proposed, there is scope for TPs to improve

their fiscal conditions. However, it is essential that the administration of TPs has to be streamlined on priority basis before implementing the reforms to enable the realisation of benefits with full exploitation.

D. Panchayat Unions

5.3.39. The consolidated revenue receipts/expenditure and capital receipts/ expenditure are shown in the Table below:-

Table 5.14 Consolidated Budgets of Panchayat Unions, 1989-90 to 1993-94

(Amount Rs. in lakhs: Per capita in Rs.)

Details	1989-90	1990-91	1991-92	1992-93	1993-94
Revenue Receipts					
Amount	20538.04	24975.61	26169.04	29644.82	38731.59
Per capita	63.19	76.85	80.52	91.22	119.18
Revenue Expenditure					
Amount	19979.56	23014.36	22548.93	24894.02	32508.81
Per capita	61.48	70.81	69.38	76.60	100.03
Revenue Surplus Amount	558.48	1961.25	3620.11	4750.80	6222.78
Per capita	1.72	6.03	11.14	14.62	19.15
Capital Account Receipts					
Amount	783.61	1247.14	1126.03	1177.43	1107.60
Per capita	2.41	3.84	3.46	3.62	3.41
Capital Expenditure					
Amount	1274.51	1505.91	1824.53	1972.23	2157.92
Per capita	3.92	4.63	5.61	6.07	6.64
Capital Surplus/Deficit					
Amount	490.90	258.77	698.50	794.80	1050.32
Per capita	1.51	0.80	2.15	2.45	3.23
Total Receipts					
Amount	21321.65	26222.75	27295.07	30822.25	39839.19
Per capita	65.61	80.69	83.99	94.84	122.58
Expenditure					
Amount	21254.07	24520.27	24373.46	26866.25	34666.73
Per capita	65.40	75.45	75.00	82.67	106.67
Net Surplus	67.58	1702.48	2921.61	3956.00	5172.46
Per capita	0.21	5.24	8.99	12.17	15.92

5.3.40. The results indicate that there was a surplus of Rs.62.22 crores at the end of 1993-94 with a per capita surplus of Rs.19.15 under revenue account. The capital account exhibited a deficit of Rs.10.50 crores with a per capita of (-) Rs.3.23.

5.3.41. The net over-all position indicated a surplus of Rs.51.72 crores with Rs.15.92 per capita. However, the distribution of PUs according to revenue surplus and deficit is furnished hereunder. The surplus is mainly due to users indicated in para 5.3.47

Table 5.15 Distribution of Panchayat Unions according to Revenue Receipts and Expenditure

Amount (Rs. in lakhs)	Revenue Receipts					Revenue Expenditures				
	89-90	90-91	91-92	92-93	93-94	89-90	90-91	91-92	92-93	93-94
Upto 25	47	25	18	12	7	59	35	29	19	13
25-50	137	94	99	75	28	144	112	134	114	46
50-75	128	148	131	124	77	118	147	137	132	104
75-100	55	75	85	92	107	46	59	51	80	111
Above100	17	42	51	81	165	17	31	33	39	110
Total	384	384	384	384	384	384	384	384	384	384

Table 5.16 Distribution of Panchayat Unions according to Revenue Surplus and Deficit

Amount (Rs.lakhs)	1989-90		1990-91		1991-92		1992-93		1993-94	
	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.
0 - 2	46	34	36	27	24	22	13	16	13	8
2 - 4	42	33	35	23	31	22	28	10	14	17
4 - 6	25	27	35	14	17	13	30	9	22	11
6 - 8	29	21	19	13	23	12	19	10	17	8
8 - 10	22	14	14	9	13	7	15	12	14	3
Above 10	58	33	113	46	163	37	185	37	212	45
Total	222	162	252	132	271	113	290	94	292	92

5.3.42. The above statements indicate that there are 292 PUs having surplus in 1993-94, while 92 PUs have deficit. Of them, 212 PUs have surplus over Rs. 10 lakhs and 45 PUs have deficit of over Rs.10 lakhs. There are 13 PUs having surplus up to 2 lakhs and 8 PUs having deficit up to Rs. 2 lakhs. The liabilities pending discharge have not been taken into account in the over-all position at the State level. Normally in PUs the loan liabilities are comparatively very much less than the urban bodies.

5.3.43. The total revenue receipts have increased from Rs.205.38 crores in 1989-90 to Rs.387.32 crores in 1993-94, which accounted for nearly an increase of 88 %.

This recorded a per capita revenue rise from Rs.63.19 to Rs.119.18. However, it is felt that this per capita receipt is too low to meet adequate provision of services in PUs.

5.3.44. Of the total revenue of PUs. 85 % was contributed by grants. In terms of per capita, this was Rs.52.31 in 1989-90 and it has more or less doubled in 1993-94 to Rs.100.81. Of these grants, 77% accounted for development grants which includes 64% from JVVT alone.

5.3.45. Non-tax revenues have been very low accounting for only 6.58%. Own tax and shared revenues were also contributing very low amounts, namely, 5.3% and 2.91% respectively. The income from these sources varied widely among the categories.

5.3.46. Own tax contributed about 5.3% on an average with per capita of Rs.4.57 in the year 1989-90 and Rs.6.53 in the year 1993-94. The only source available to PUs by way of own revenue was Local Cess Surcharge. While looking into the absolute figures, the income increased from Rs.15.45 crores in 1992-93 to Rs.21.24 crores in 1993-94. This was because of increase in rate of minimum to Rs.5/- in the enactment which was given effect to from late 1993. The full impact has not yet been reflected. There is scope for much more income from this source which will be exhibited from the subsequent years. Along with corresponding matching assistance, there is more scope for sizeable income to PUs.

5.3.47. It is pertinent to indicate that only one Tax Revenue, Local Cess Surcharge (LCS) yielding sizeable amount is credited to Education Account where by the money needed for statutory functions under General Fund was blocked. These factors contributed to the overall surplus shown. PUs are mainly attending to only agency functions for which assistance is made available by the Government. The statutory core functions are not in the limelight in view of the fact that most of these schemes have been withdrawn by the Line Departments. The major work attended to on "Obligatory Functions" was the maintenance of roads linking villages. This accounted for about 42 % of total expenditure. The next was on "Health and Welfare", namely, maintenance of dispensaries which accounted for 37.25 %. The maintenance of assets like school buildings contributed to about 20 %. One notable feature was that there were no wide variations in per capita expenditure as among the different categories.

E. Village Panchayats

5.3.48. The consolidated revenue receipts / expenditure and capital receipts/ expenditure is given below. There is no separate capital account for Village Panchayats. The figures include all grants received including those relating to Centrally Sponsored Schemes.

Table 5.17 **Aggregate Budget of Village Panchayats**

(Amount Rs. in Lakhs) (Per Capita in Rs.)

	Receipts		Expenditure		Net Surplus/Deficit	
Year	Amount	Per capita	Amount	Per capita	Amount	Per capita
1989-90	10366.11	31.90	9510.97	29.26	855.14	2.63
1990-91	10587.86	32.58	10948.83	33.69	- 360.97	- 1.11
1991-92	9883.03	30.41	8334.60	25.65	10548.43	4.76
1992-93	11769.04	36.21	10193.24	31.36	1575.80	4.85
1993-94	14206.12	43.71	12357.02	38.02	1849.10	5.69
5Yrs. Avg.	11362.43	34.96	10268.93	31.60	1093.50	3.36
Net Surplus					5467.50	16.82

5.3.49. The aggregate receipts rose from Rs.103.66 crores in 1989-90 to Rs.142.06 crores in 1993-94. The per capita increase was from Rs.31.90 to Rs.43.71. The increase accounted for 37% over these years. However, the per capita figure was too low to make adequate provision for services.

5.3.50. Own Tax revenue of VPs which was 8.3% in 1989-90 went up to 11.9% in 1993-94 taking the per capita increase from Rs.2.64 to Rs.5.21. Of the Own Taxes, house tax accounted for 67.7% and Profession Tax 18.5%. The other taxes were only nominal.

5.3.51. Obligatory expenses accounted for Rs.16.91 per capita. It is evident that the VPs were unable to meet their obligatory expenses from out of their own taxes. Even including the resources from non-tax which remained at an average of 10.1% of total receipts, it will not be possible for VPs to meet their obligatory expenses from their total own revenue. It is seen that the grants have recorded a major share of the total resources. On a comparison with the position in 1989-90, the percentage of grants has fallen down from 50.21 in 1989-90 to 43.1 in 1993-94. But, in absolute terms, the income has increased from Rs.50 crores in 1989-90 to Rs.61.29 crores in 1993-94. Of these grants, statutory grants have accounted for 16% and the balance for development grants. The shared taxes have on an average contributed nearly 37.21% of the total receipts. Of them, Surcharge on Stamp Duty alone contributed 95% of the shared taxes while the Entertainment Tax contributed only 3.3%. The above position indicates that VPs were not very much benefited out of the Entertainment Tax when compared to urban bodies.

5.3.52. The number of Village Panchayats distributed according to surplus and deficit with population-wise category and the Village Panchayats distributed according to total revenue and expenditure are given below:

Table 5.18 Distribution of Village Panchayats according to Revenue

	1989-90		1990-91		1991-92		1992-93		1993-94	
Amount (in Rs.)	Surp.	Def.	Surp.	Def.	Surp.	Def.	Surp.	Def.	Surp.	Def.
0 - 5000	2781	1684	2712	1704	2923	1442	2442	1422	2195	1272
5001 - 25000	3077	1969	2247	2723	3394	1646	3205	1761	3042	1779
25001 - 50000	1031	494	595	940	1015	418	1162	495	1291	491
50001 - 1 Lakh	636	295	380	596	642	273	785	296	940	349
Above 1 Lakh	386	230	313	373	616	214	677	338	828	396
Total	7911	4672	6247	6336	8590	3993	8271	4312	8296	4287

Table 5.19 Distribution of Village Panchayats according to Total Receipts and Expenditure

Amount (in Rs.)	1989-90	1990-91	1991-92	1992-93	1993-94	5Yr.Avg
Revenue Receipts:						
0 - 5000	323	289	204	200	138	90
5001 - 25000	2684	2853	3524	2678	1946	1905
25001 - 50000	3264	3253	3579	3329	3261	3301
50001 - 1 Lakh	3251	3124	2666	3008	3254	3597
Above 1 Lakh	3061	3064	2610	3368	4084	3690
Total	12583	12583	12583	12583	12583	12583
Revenue Expenditure						
0 - 5000	433	355	359	290	230	132
5001 - 25000	2956	2723	4068	3309	2523	2275
25001 - 50000	3306	3083	3514	3374	3382	4313
50001 - 1 Lakh	3187	3103	2548	2819	3028	3569
Above 1 Lakh	2701	3319	2094	2791	3420	3194
Total	12583	12583	12583	12583	12583	12583

NB: Total number of Village Panchayats as on date is 12,584, of which one was constituted before Panchayat Elections 1996. Data gathered and analysed are only in respect of 12,583 Village Panchayats.

5.3.53. About 37% of Village Panchayats have registered deficit in 1989-90, while 34% were in deficit in 1993-94. Similarly, in 50% of Village Panchayats, total receipts exceeded Rs. 50 lakhs in 1989-90 while 58% Village Panchayats had total receipts of more than Rs.50 lakhs in 1993-94 including allocation for various Employment

Programmes. The State level aggregate does not reflect the real position of the individual Panchayats. The disaggregated analysis of individual Village Panchayats has taken the grouping according to (1) income per capita range (2) population and (3) percentage of SC/ST. They have indicated that the per capita outlays exceeded per capita receipts in smaller income groups and there were wide variations in per capita total receipts and expenditure among different groups. The inter-class and intra-class differences reflect the differences in fiscal domain in the tax rates, user charges and administrative efficiency in performance. It is also pointed out that Village Panchayats in larger income group were getting more grants and therefore the present system of transfer has increased the imbalances instead of correcting them. Out of 12583 Village Panchayats, 6528 Village Panchayats with below average per capita own revenue received below average per capita grants. On the other hand, 1193 Village Panchayats having above average per capita own revenue got above average per capita grants. This exhibited the violation of the general principles of distribution of grants on equitable basis. The revenue gap measured as a shortfall of own revenues as percentage of total expenditure was 47.2%. This shortfall was higher in Village Panchayats with lower population. Transfers are however justified as tax capacity varied from one to another. Some who enjoyed a higher taxable capacity had a relatively low level of need. They were fiscally strong as measured by the ratio of capacity to meet. Others were in reverse position. It is suggested that in this situation, the transfer mechanism should be made useful to equalise fiscal position among the Village Panchayats.

5.3.54. The State Finance Commission has suggested certain steps to correct imbalances and to provide equal and adequate services to people in different Local Bodies. As a first step, it has recommended the estimation of revenue potential of the Local Bodies, i.e., an index of ability to raise own resources. Then the cost of services proposed to be provided by the Local Body should be worked out. The question will then arise - What would be the level and standard of services to be provided? Fixing standards and levels of different services is a difficult task. However, the expenditure norms and standards for at least key services should be worked out and then the revenue gap or requirement should also be calculated. Once the requirement is known, then it should be financed through proper transfer mechanisms.

5.3.55. In this regard, the State Finance Commission considered the following aspects:

(1) Full exploitation of revenue potential, proper assessment of property, easy procedure for appeal, revision of rates on both residential and commercial properties and the components of property tax, enforcement of good collection, thorough review of exempted cases from property tax net, revision of rates of other Local Body taxes and optimum adoption of user charges will strengthen the mobilisation of internal resources.

(2) Assignment of additional taxes subject to the efficiency of Local Body to collect those taxes and piggy-backing on certain elastic

resources such as excise duty, sales tax and motor vehicles tax etc., will improve the taxing powers of the Local Bodies.

(3) The sharing might be through a formula based on factors such as collection performance, population and expenditure needs. Grant distribution policy should satisfy the principle of equalisation of expenditure, i.e., the transfer should be made in such a way as to reduce the imbalances and equalise the financial status and service levels of the Local Body.

(4) The feasibility of privatising those services where Non Governmental Organisations (NGOs) can provide the services at competitive cost depending on the nature and type of service should be explored.

CHAPTER 4

LOCAL BODY FINANCE - FISCAL PROJECTION AND RESOURCE GAP

5.4.1. In this chapter, we endeavour to present a picture about the financial status of the local bodies for three years ending with 1993-94. We also present a projection on revenue growth and expenditure upto 2002 of all the three types of Urban Local Bodies i.e. Municipal Corporations, Municipalities and Town Panchayats and of Rural Bodies i.e. Panchayat Unions and Village Panchayats.

Revenue Position:

5.4.2. A study of the per capita revenues of the urban local bodies reveals a wide disparity among them. The highest for the Municipalities is Rs.1629.41 and the lowest is Rs.79.23. In the case of Town Panchayats the spread is even more wide with the highest reporting a percapita revenue of Rs.3044.34 and the lowest reporting a per capita revenue of Rs.0.78.

5.4.3. The following Table gives details:

Table 5.20 Per Capita Revenues of Urban Local Bodies (Per Capita in Rs.)

Revenue	MCs	MPs	TPs
Highest	455.46	1,629.41	3,044.34
Lowest	152.01	79.23	0.78
Median	219.87	197.23	80.03
Mean	272.34	226.50	308.80
Standard Deviation	111.18	166.11	378.25

5.4.4. The Town Panchayats have the widest spread with the maximum standard deviation of Rs.378.25, which is four and a half times the size of the mean. Out of the rest, the Municipalities show a larger spread than the Corporations. The most startling finding is that the lowest for the Town Panchayats is Rs.0.78.

5.4.5. The total number of urban local bodies getting less than Rs.100 percapita revenues is 430, out of which 5 are Municipalities and 425 are Town Panchayats.

Rural

5.4.6. The per capita revenues of Rural Local Bodies also reveals a wide disparity among the various categories. They are indicated below:-

Table 5.21 Per Capita Revenue Receipts - Panchayat Unions

Measures/Category	Catgry.1	Catgry.2	Catgry.3	Catgry.4	Catgry.5	Catgry.6
Per Capita Revenue Receipts:						
Mean	119.07	95.52	99.53	88.14	96.83	83.71
Standard Deviation	72.21	39.23	35.15	37.73	77.93	38.04
Minimum	56.80	35.54	49.56	18.91	32.86	18.44
Maximum	436.30	197.69	223.96	254.41	536.88	212.65
Coef. of Variation	60.64	41.07	35.32	42.81	80.48	45.44
PUs >= Average	12	14	29	47	13	28.00

Note: Mean, Standard Deviation, Minimum and Maximum Values are in Rs.

5.4.7. Similarly, the variation in Revenue receipts among the Village Panchayats may be seen in the Table below:

Table 5.22 Per Capita Revenue Receipts - Village Panchayats

Population Range	Mean	Standard Deviation	Mini-mum	Maxi-mum	Co.of Variation	VPs>= Avg.	Population
Upto 1000	53.88	58.99	0	926	109.49	431	1310
1001 - 2000	41.32	39.1	0	822	94.63	1645	4811
2001 - 3000	35.46	26.92	0	277	81.57	982	2818
3001 - 4000	32.21	25.74	0	200	79.94	570	1583
4001 - 5000	31.33	25.16	0	205	80.3	309	884
Above 5000	30.63	23.97	0	237	78.28	425	1177

Note: Mean, Standard Deviation, Minimum and Maximum Values are in Rs.

Tables (5.20, 5.21 and 5.22) reveal, wide inter se disparity on account of variations in population, resource endowment,tax capacity and tax effort. Any sound system of resource transfer from higher tier to the Local Body will have to take into consideration the inter institutional disparity.

Fiscal Gap

5.4.8. Fiscal Gap of a local body is usually defined as the gap between its 'fiscal needs' and revenue availability. Fiscal needs in actual expenditure terms should reflect the expenditure needed for providing 'normative levels' of service. Therefore, in quantitative terms, the gap is equal to the cost of filling the gap in the actual physical levels of services provided and the normative levels of services needed. Efforts have been made to workout normative levels and the resource needed for the period of recommendations and gap in resources expected. The low percapita expenditure levels indicate that the fiscal gap is likely to be very large.

5.4.9. With the actual total revenue and expenditure figures, we can define a 'Perceived Fiscal Gap' as follows (the actual gap of units is likely to be much larger):

Perceived Fiscal Gap	=	**Total Expenditure - Total Own Revenues**
Total Expenditure	=	**Total Revenue Expenditure + Total Capital Expenditure (excluding expenditure on central schemes and special state schemes)**
Total Own Revenues	=	**Own Tax Revenues (excluding assigned & shared Taxes and Grants) + Own Non-Tax Revenues**

5.4.10. The Perceived Fiscal gaps of the Municipal Corporations, Municipalities, Town Panchayats, Panchayat Unions and the Village Panchayats are presented below.

Table 5.23 Perceived Fiscal Gap+ (Rs. Crores)

Local Body	1991-92	1992-93	1993-94
Urban			
Municipal Corporations	-72.71	-79.47	-124.07
Municipalities	-62.03	-64.57	- 55.42
Town Panchayats	-16.72	-13.98	- 9.85
Total	-151.46	-158.02	-189.34
Rural			
Panchayat Unions	-54.87	-53.65	-53.66
Village Panchayats	-24.90	-8.04	+7.77

Note+: Figures under Rural, exclude Centrally Sponsored Schemes.

5.4.11. It is clear from the table given above that the total fiscal gap of all the ULBs put together is very large and is growing. The total fiscal gap in 1993-94 works out to 71% of the total own tax and non-tax revenues of all the ULBs put together. The gap is partially filled with devolution of funds from the State in the form of assigned taxes, shared taxes, grants on the revenue and capital accounts and loans.

5.4.12. The influence of urbanization and increasing population continues to place greater demands on the local government's budget and under these circumstances, any existing fiscal gap will tend to widen. A World Bank Study estimates that for the rest of this century, the rate of urban population growth in developing countries will be 3.5%, which is three times that projected for the growth of rural population (Bahl and Linn, 1992).

5.4.13. The demand and cost factors also increase local public expenditure, both actual and required, for urban services. Public expenditure requirements at the local level increase with urbanization in absolute terms and very likely in per capita terms as well.

5.4.14. On the revenue side, the growth in the population and percapita income lead to an enlarging revenue capacity. But, the enlarging capacity should be tapped adequately so that the actual revenue position improve.

5.4.15. In the Rural Local Bodies, the Fiscal Gap in Panchayat Unions needs greater devolution since the local resource generation is a limited phenomenon. Village Panchayats have on the other hand, scope to bridge the gap with revenue generation combined with devolutions.

Perceived Revenue Gap

5.4.16. Analogous to the Perceived Fiscal Gap, we can define a Perceived Revenue Gap. In this case, it is the revenue deficit that is actually reported as opposed to the revenue deficit that might have arisen if maintenance expenditure was based on norms. Again, as in the case of the Fiscal gap, the Perceived Revenue Gap is likely to be smaller than the actual in individual units.

Perceived Revenue Gap = Total Revenue Expenditure - Total Own Revenues Perceived

Table 5.24 Revenue Gap (Rs. Crores)

Local Body	1991-92	1992-93	1993-94
Urban			
Municipal Corporations	-86.89	-37.27	-19.04
Municipalities	-39.23	-42.81	-31.48
Town Panchayats	-10.51	- 6.22	- 1.11
Sub Total	-136.63	-86.30	-51.63
Rural			
Panchayat Unions	-39.98	-38.50	-35.17
Village Panchayats	-24 90	-8.04	+7.77
Sub Total	-64 88	-46.54	-27.40

Note: Figures exclude receipts and expenditure on Centrally Sponsored Schemes.
(-) Negatives Indicate deficits

5.4.17. Contrary to the fiscal gap, the revenue gaps, though large have shown a declining trend. In 1993-94, the revenue gap as a percentage of the total own revenues in urban was 18% while it was 68.5% in 1991-92. The impressive decline in the revenue gap is an indication of increased own revenue collections in the intervening two years. But the persistence of the gap to the tune of Rs.52 crores indicates that the local bodies need devolved revenues to meet their basic revenue needs. However, the scope for Own Resources in Panchayat Unions is limited in view of the non availability of sources.

5.4.18. In the past, revenue growth has been hampered by a combination of three factors

i) insufficient taxing authority,
ii) lack in revenue efforts and
iii) restrictins on revision of tax rates, especially property tax rates, periodically. These factors have contributed to a stagnation in the real revenues of the local bodies.

5.4.19. While the revenues stagnated, expenditure has grown steadily, both in real and nominal terms. For example, the salary bill which accounts for a major share in the revenue expenditure increases by an average of 25% every year due to the D.A. payments and other increments, according to the State rules. Similarly, inflation has also led to escalation of costs without a corresponding growth in the revenues because none of the taxes and non-tax revenues are indexed to inflation.

5.4.20. Since assistance from the State Government has also been insufficient, the provision of services has suffered as a direct consequence. Several Town Panchayats

are struggling to meet even their establishment costs and they have very little revenues left to spend on maintenance of the assets and other obligatory services.

5.4.21. The task before the local bodies is therefore two-fold:

(1) to improve the service levels up to acceptable standards and
(2) to maintain and enhance the acceptable standards in the future for a larger population.

Addressing the Fiscal Gap:

5.4.22. The problem of urban fiscal gap can be addressed, in principle, in four different ways.

a) increased local revenue effort;
b) increased local revenue authority;
c) increased transfers from higher levels of Government; and,
d) reduced local expenditure authority;

5.4.23. Of the four options listed above, the one that deserves most attention is that of higher locally raised resources viz. item(a). There is scope to improve the financial position through a combination of revision of bases and rates, revision of charges on locally provided services, introducing new taxes into the local tax domain etc. Secondly, increased devolution of State Taxes should also be considered since in the past the States have been very reluctant to share their taxation powers with the local bodies. Still the local bodies would need additional funds in the form of grants, to effectively perform the functions that they have been assigned under the State Conformity Acts, and this is also to be addressed.

5.4.24. A detailed analysis of the fiscal trends of revenue generation for the time frame 1997-2002 and the needs of each of the tiers, both urban and rural are discussed in the ensuing paragraphs. Statements showing the existing level of revenue and expenditure with reference to 1993-94 and projected revenues and expenditure for the period 1997-2002 are given below in Tables 5.25 to 5.31. In these, projected resource generation from own revenue is given. The resources needed for O & M at normative level for core services besides the need for other discretionary functions and administrative expenditure, debt services for a period of five years (1997-2002) are also included in these tables.

Table 5.25 1993-94 (Actuals)

(Rupees in Crores)

LOCAL BODY	Revenue Income				O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
	OR *	AR**	GRANT	TOTAL	WATER SUPPLY	SANI-TATION	SOLID WATER	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
URBAN													
Corporations	171.86	113.62	7.85	293.33	36.13	37.35	46.56	19.28	..	14.31	95.08	248.71	44.62
Municipalities	111.63	39.19	6.33	157.15	27.62	14.36	26.69	18.16	..	7.26	48.37	142.46	14.69
Town Panchayats	57.22	26.81	2.20	86.23	16.43	4.70	9.90	16.82	..	6.71	22.49	77.05	9.18
Total	340.71	179.62	16.38	536.71	80.18	56.41	83.15	54.26	..	28.28	165.94	468.22	68.49
RURAL													
Panchayat Unions	43.50	9.10	71.58	124.18	..	..	..	13.87	..	..	85.97	99.84	24.34
Village Panchayats	28.11	51.92	12.90	92.93	23.46	6.25	..	9.34	..	21.89	10.96	71.90	21.03
Total	71.61	61.02	84.48	217.11	23.46	6.25	..	23.21	..	21.89	96.93	171.74	45.37
Grand Total	**412.32**	**240.64**	**100.86**	**753.82**	**103.64**	**62.66**	**83.15**	**77.47**	**..**	**50.17**	**262.87**	**639.96**	**113.86**

* Own Revenue
** Assigned Revenue

Table 5.26 1997-98 (Rupees in Crores)

LOCAL BODY	Revenue Income OWN REVENUE	O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
		WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
URBAN										
Corporations	213.98	56.85	69.75	72.78	39.20	1.23	17.05	276.08	532.94	318.96
Municipalities	145.31	35.28	26.28	65.11	40.68	1.90	14.10	178.39	361.74	216.43
Town Panchayats	70.11	27.44	8.60	16.80	21.22	2.06	13.47	32.93	122.52	92.41
Total	429.40	119.57	104.63	154.69	101.10	5.19	44.62	487.40	1017.20	587.80
RURAL										
Panchayat Unions	56.70	..	..	..	53.31	..	..	125.87	179.18	122.48
VillagePanchayats	31.95	53.58	32.59	14.09	107.33	2.10	50.38	16.05	276.12	844.17
Total	88.65	53.58	32.59	14.09	160.64	2.10	50.38	141.92	455.30	366.65
Grand Total	**518.05**	**173.15**	**137.22**	**168.78**	**261.74**	**7.29**	**95.00**	**629.32**	**1472.50**	**954.45**

Table 5.27 1998-99 (Rupees in Crores)

LOCAL BODY	Revenue Income	O & M Expenditure								
	OWN REVENUE	WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	(+)SURPLUS/ (-)DEFICIT
URBAN										
Corporations	234.63	62.53	76.72	80.06	43.12	1.35	18.75	303.70	586.23	-351.60
Municipalities	155.36	38.81	28.91	71.62	44.74	2.09	15.51	196.23	397.91	-1242.55
Town Panchayats	74.02	30.18	9.46	18.48	23.34	2.26	14.82	36.22	134.76	-60.74
Total	464.01	131.52	115.09	170.16	111.20	5.70	49.08	536.15	1118.90	654.89
RURAL										
Panchayat Unions	58.66	..	..	..	58.64	..	..	138.46	197.10	138.44
Village Panchayats	33.52	58.94	35.85	15.50	118.07	2.31	55.41	17.66	303.74	-270.22
Total	92.18	58.94	35.85	15.50	176.71	2.31	55.41	156.12	500.84	-408.66
Grand Total	**556.19**	**190.46**	**150.94**	**185.66**	**287.91**	**8.01**	**104.49**	**692.27**	**1619.74**	**-1063.55**

Table 5.28 1999-2000 (Rupees in Crores)

LOCAL BODY	Revenue Income OWN REVENUE	O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
		WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING LOCAL	OTHERS	TOTAL	
URBAN										
Corporations	294.97	68.78	84.39	88.06	47.44	1.48	20.63	334.07	644.85	349.88
Municipalities	179.17	42.69	31.80	78.79	49.22	2.30	17.06	215.85	437.71	258.14
Town Panchayats	85.84	33.20	10.41	20.33	25.68	2.49	16.30	39.84	148.25	-62.41
Total	559.98	144.67	126.60	187.18	122.34	6.27	53.99	589.76	1230.81	-670.83
RURAL										
Panchayat Unions	60.83	..	..	..	64.51	..	..	152.31	216.82	155.99
Village Panchayats	35.16	64.83	39.04	17.05	129.87	2.54	60.95	19.43	333.71	298.55
Total	95.99	64.83	39.04	17.05	194.38	2.54	60.95	171.74	550.53	454.54
Grand Total	**655.97**	**209.50**	**165.64**	**204.23**	**316.72**	**8.81**	**114.94**	**761.50**	**1781.34**	**-1125.37**

Table 5.29 2000-01 (Rupees in Crores)

LOCAL BODY	Revenue Income OWN REVENUE	O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
		WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
RURAL										
Corporations	329.67	75.67	92.83	96.87	52.18	1.63	22.69	367.48	709.35	379.68
Municipalities	201.25	46.96	34.98	86.66	54.14	2.53	18.77	237.44	481.48	280.23
Town Panchayats	92.82	36.52	11.45	22.36	28.24	2.74	17.93	43.82	163.06	70.24
Total	623.74	159.15	139.26	205.89	134.56	6.90	59.39	648.74	1353.89	730.15
RURAL										
Panchayat Unions	61.21	..	..	..	70.96	..	..	167.54	238.50	169.29
Village Panchayat	38.92	71.32	43.38	18.75	142.86	2.80	67.05	21.37	367.53	-328.61
Total	100.13	71.32	43.38	18.75	213.82	2.80	67.05	188.91	606.03	-505.90
Grand Total	**723.87**	**230.47**	**182.64**	**224.64**	**348.38**	**9.70**	**126.44**	**837.65**	**1959.92**	**1236.05**

Table 5.30 2001-02 (Rupees in Crores)

LOCAL BODY	REVENUE INCOME	O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
	OWN REVENUE	WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
URBAN										
Corporations	368.98	83.24	102.11	106.56	57.40	1.80	24.96	404.23	780.30	411.32
Municipalities	218.95	51.65	38.48	95.33	59.56	2.78	20.65	261.38	529.83	310.88
Town Panchayats	100.41	40.17	12.59	24.59	31.06	3.01	19.72	48.20	179.34	78.93
Total	688.34	175.06	153.18	226.48	148.02	7.59	65.33	713.81	1489.47	811.13
RURAL										
Panchayat Unions	65.83	..	..	..	78.06	..	..	184.29	262.35	196.52
Village Panchayats	46.25	78.45	47.72	20.62	157.15	3.08	73.75	23.51	404.28	358.03
Total	112.08	78.45	47.72	20.62	235.21	3.08	73.75	207.80	666.63	554.55
Grand Total	**800.42**	**253.51**	**200.90**	**247.10**	**383.23**	**10.67**	**139.08**	**921.61**	**2156.10**	**1355.68**

Table 5.31 Statement showing Expenditure on Core Services and others at 1993-94 Level and 1997-98 Proposed Level

(Rs. in Crores)

	WATER SUPPLY		SANITATION SEWERAGE		SOLID WASTE MANAGEMENT		ROAD		STORM WATER DRAINS		LIGHTING		OTHERS		TOTAL	
	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98
URBAN																
CORPORATIONS	36.13	6.85	37.35	69.75	46.56	72.78	19.28	39.20	..	1.23	14.31	17.05	95.08	276.08	248.71	532.94
MUNICIPALITIES	27.62	35.28	14.36	26.28	26.69	65.11	18.16	40.68	..	1.90	7.26	14.10	48.37	178.39	142.46	361.74
TOWN PANCHAYATS	16.43	27.44	4.70	8.60	9.90	16.80	16.82	21.22	..	2.06	6.71	13.47	22.49	32.93	77.05	122.52
TOTAL	80.18	119.57	56.41	104.63	83.15	154.69	54.26	101.10	..	5.19	28.28	44.62	165.94	487.40	468.22	1017.20
RURAL																
PANCHAYAT UNIONS	..	..	..	..	..	..	13.87	53.31	..	..	..	..	85.97	125.87	99.84	179.18
VILLAGE PANCHAYATS	23.46	53.58	6.25	32.59	..	14.09	9.34	107.33	..	2.10	21.89	50.38	10.96	16.05	71.90	276.12
TOTAL	23.46	53.58	6.25	32.59	..	14.09	23.21	160.64	..	2.10	21.89	50.38	96.93	141.92	171.74	455.30
GRAND TOTAL	**103.64**	**173.15**	**62.66**	**137.22**	**83.15**	**168.78**	**77.47**	**261.74**	..	**7.29**	**50.17**	**95.00**	**262.87**	**629.32**	**639.96**	**1472.50**

@ FIGURE EXCLUDES CHENNAI MUNICIPAL CORPORATION
* FIGURE INCLUDES CHENNAI MUNICIPAL CORPORATION

5.4.25. The various measures for augmenting resources by way of tax and non tax revenue, new tax domain and additional sharing from State Taxes have been recommended in Part II of the Report. Similarly in Part III, the following subjects have been recommended.

i) the need for a minimum level of service of core civic services;
ii) the capital resources needed for delivering that level;
iii) the resources needed for O & M of existing services at normative level in respect of these core services; and
iv) the additional O & M expenditure needed on the additional services to be provided for improving levels of service.

The stategy for gap filling is discussed in the ensuing Chapters

CHAPTER 5

FISCAL DEVOLUTION FROM GOVERNMENT

5.5.1. The resource gap for each of the tiers of LBs for the five years covering 1997-2002 indicated in the Tables 5.26 to 5.30 in Chapter 4 does not, however, take into account the additional resources likely to be generated from the new taxes proposed and the over-all improvements expected from non-tax revenues based on the recommendations of the SFC, since they will depend on their acceptance by the Government.

5.5.2. The resource gap indicated could be covered only through the following:

(i) Additional resource generation in LBs from their revenue resources;
(ii) Increase in assignment by way of additional tax assignment or increase in the share of revenues of the State;
(iii) Grants from Central and State Governments.

5.5.3. It may thus be seen that there is need for a well-worked out and comprehensive scheme of transfer of resources to LBs from the higher tier, namely, Government to reduce the imbalances.

5.5.4. Such devolution should have a sound design for Resource Allocation Mechanism (RAM) to ensure the following objectives:

* Efficiency;
* Equity;
* Growth; and
* Autonomy.

5.5.5. While achieving the above mentioned objectives, the design for RAM should also be based on the following principles, namely,

* Simplicity;
* Transparency;
* Dynamism:
* Pragmatism;
* Predictability; and
* Authenticity

Existing Method of Assistance

5.5.6. Before examining a revised system of devolution, the existing method are discussed below:

The Local Bodies, both Urban and Rural are assigned revenue from the taxes of local base earmarked for them which are colleceted by the Government. In addition, assignments of revenue from some of the State taxes are also passed on to the Local Bodies like Sales Tax Surcharge. In the latter case, the entire distribution is on an adhoc basis, and no regular system of devolution has been prescribed.

5.5.7. The rural Local Bodies mainly depend on sizeable grants from State Government, mainly purpose oriented and as development grants, while the Urban Local Bodies had very little grants. The assignment of grants to the urban local bodies, by the State has been adhoc and arbitrary. This is clear from the fact that the total grants extended to the three types of local bodies under urban, both under the capital account and the revenue account, have exhibited wide fluctuations during the three years. One of the fundamental requirements of a good local body finance system is predictability. The existing system is anything but this. Effective expenditure planning at the local level suffers as a consequence. The level of assistance to Urban Bodies are as given below:

Revenue Grants

5.5.8. At present, the revenue grants extended to the urban local bodies account for 3.58% of the total revenues of Corporations, 4.24% of the total revenues of Municipalities and 2.52% of the total revenue of the Town Panchayats. The level of grants has undergone very marginal changes over a period even in absolute terms.

Capital Grants

5.5.9. In 1993-94, the Corporations received Rs.4.42 crores as grants, not including the grants given for specific State Schemes. This amounted to 11% of their total receipts. During the same year, all the Municipalities received a total of Rs.3.18 crores which made up 5.45% of their total capital receipts and the Town Panchayats received Rs.4.79 crores totally which added upto 15.87% of their total capital receipts.

Loans

5.5.10. Loans constitute an important form of capital assistance to the LBs. Loans amounted to 75 6 %, 22.5 % and 17.19% of the capital receipts of the Corporations, Municipalities and the Town Panchayats respectively.

Concept of Global Sharing

5.5.11. Keeping the principles and objectives indicated in paragraphs 5.5.4 and 5.5.5 in mind, the SFC has considered a three level model for devolution of financial resources in the ensuing paragraphs. In this context, the concept of global sharing of tax revenue by the Centre to the States has also been studied. Pooling of all the tax resources or select tax resources would lead to emergence of a divisible pool. The TFC has recommended 29% of resources to be handed over to the States from a central divisible pool. This concept of global sharing has its merits as well as demerits.

5.5.12. The claimant from the Central Government divisible pool would be one category viz. States. In the case of divisible pool of resources at the State level, there are six claimants viz. Municipal Corporations, Municipalities, Town Panchayats on the urban side, District Panchayats, Panchayat Unions and Village Panchayats in the rural sector with more number of individual units in each sector. These Local Bodies are also not on equal footing. Therefore, the task of distribution of resources at the State level to all Local Bodies is more elaborate and complicated.

5.5.13. The various recommendations in Part II "Augmentation of Resources" aim at higher assignments from the various sources of State revenues besides improving local resource generation. The assignments from State revenues are related to individual tax bases which have a local bearing. However, a devolution based on a percentage of total State tax revenues is considered in relation to the quantum of assistance anticipated under the recommendations in Part II. In this context, the recommendations based on individual tax base will be relevant only if the Government are not agreeable to a pattern of general devolution.

5.5.14. The devolution from the State on the basis that a percentage of total tax revenues should be allocated to various tiers of Urban/Rural LBs based on the principles of allocation recommended by the SFC is discussed in the ensuing chapters. Similarly, the horizontal distribution among the different units of LBs can be made on the guidelines indicated by the SFC for such devolutions. The SFC has devised RAM after considering the deficiencies of the existing system and also the resource requirements of the Local Bodiess to cover the gap indicated in the Tables given in the earlier Chapter.

5.5.15. State Finance Commission also examined the options of sharing tax-wise and general sharing out of total tax revenue. Some of the taxes levied by the State are identified and earmarked as taxes for local bodies viz. Local Cess, Local Cess Surcharge, Stamp Duty Surcharge and Entertainment Tax indicated in Pool A in the

ensuing paragraphs, but collection is being done by the Government for the sake of efficiency and better management. This being dependent on the local potential, the yield will also vary. The inclusion of these taxes in general sharing is not advisable and may not also be acceptable to Local Bodies. This type of distribution will not only affect adversely the existing resources but will also lead to improper distribution by diverting the income from one local body with a good potential to another local body which does not possess this capacity. Hence, State Finance Commission has decided to retain the existing method of devolution of revenue, in respect of taxes already earmarked for the Local Bodies, either collected by them or by the Government.

5.5.16. The sharing of the State Tax Revenue has been indicated in Pool B in the ensuing Chapter which includes all taxes except Entertainment Tax on the basis of projected estimates given by the State - Finance Department.

5.5.17. Since there is a possibility that too much of assignments to local bodies may curb the incentive to raise adequate own resources, assignments should generally supplement revenues, and not replace them. In order to ensure this, a clear line of accountability has to be established.

5.5.18. However, for having a percentage of general sharing from the State Taxes, the recommendations in Part II have been taken as basis, as indicated in Pool A and B below.

I. **Pool A.** This contains taxes which rightly belong to the local bodies but collected by the Government - The items included the projection of income for 1997-98 are as below. This is not included in the total tax revenue projections furnished by Government except for Entertainment Tax. This is to be distributed among the Local Bodies concerned, as is being done now.

		Projection for 1997-98 (Rs. in Crores)
a)	Surcharge on stamp duty (figures arrived at based on actuals for 1995-96 indicated by the Registration Department during evidence)	230.00
b)	Local Cess and Local Cess Surcharge (Due as per the basic Land Revenue computed by Damodaran Committee, 1990 - at Rs.5.30 crores)	30.00
c)	Entertainment Tax	120.00
	Total	380.00

II. **Pool - B**: This forms the nucleus for general devolution from net tax revenue of the State to the Local Bodies. This quantum and percentage has been computed by adding the shares recommended by the State Finance Commission on certain Levies indicated in Part II and also from other State Taxes as projected for 1997-98.

			Rs. in Crores
a)	Sales Tax	}	
b)	Motor Vehicle Tax	}	620.00
c)	State Excise Revenue	}	
d)	All others	}	
	Total		620.00

Total Tax Revenue of the State projected for 1997-98 7867.00

Deducting Entertainment Tax included in Pool A, the net State Tax will be **Rs.7747 Crores. Percentage of Pool B works out to 8% on the net**.

5.5.19. The need for filling up the gap over and above the additional tax and non-tax revenues of the local bodies have been considered with reference to the fiscal gap of individual units. As already pointed out, the overall aggregate deficit indicated in the tables 5.25 to 5.31 in the report does not really reflect the position of individual units. However, examining samples of a few of these units with reference to real deficit, the State Finance Commission has arrived at the quantum of devolution needed from the net tax revenue of the State for the 5 years covering 1997 to 2002.

Distribution

5.5.20. Quantum of devolution from the net tax revenue of the State has been proposed after considering what would be feasible after duly considering the constraints on State Fiscal Conditions. It is also a point whether the Local Bodies would have built the capability to absorb any sudden jump in devolution in the very first year itself, because they will have to get properly equipped to manage and utilize the funds provided. In this context, the State Finance Commission considered whether the devolution can be in a phased manner to reach the target percentages atleast during the last year i.e. 2001-2002. Accordingly, the State Finance Commission fixed the overall percentage for devolution in a phased manner. The percentage of devolution proposed for each year with gradual increase is as below:-

1997-1998	-	8%
1998-1999	-	9%
1999-2000	-	10%
2000-2001	-	11%
2001-2002	-	12%

Special Reserve from Global Sharing

5.5.21. The State Finance Commission recommends that the quantum of general allocation based on 8, 9, 10, 11, and 12 percentages for the respective year from the Divisible Pool B can be distributed after 15% of that is set apart as Reserve to meet the post devolution conditions:

> **Equalisation and incentive fund**: (1) to correct the deficiencies arising in the implementation of principle of distribition newly suggested and (2) **Incentive fund** to continue the incentive grants now made available for improvement of local tax collection efforts and the resources in the rural local bodies, viz., House Tax Matching Grant and Local Cess Surcharge Matching Grant. A part of it can be utilized for rewarding performance in tax collection in the Urban Local Bodies as well. A portion of the Incentive Fund can be utilised for rewarding the best Institution, best elected Leader and Employee also. on the basis of a detailed Scheme to be worked out by the Government.

5.5.22. Out of the total net allocation available for general distribution under the Divisible Pool B, as stated in earlier paras, 15% had been earmarked for Equalisation and Incentive Fund. The remaining 85% may be made available for distribution on the formula proposed by the State Finance Commission for sharing between Urban and Rural Local Bodies and for inter se distribution among the various tiers. This special reserve fund may be kept at the State level.

5.5.23. In this context, it may be noted that the Equalisation Fund is proposed considering the fact that the distribution under the new formula is being made for the first time and that there may be genuine cases where the new system may not work in its true spirit. The quantum needed cannot be decided at this stage and hence an adhoc provision has been suggested. With the experience gained during the first year of distribution, the reserve for the future years can be suitably modified. If any sum is left undisbursed out of the Equalisation Fund, it can be redistributed to all the Local Bodies on the principles as formulated for general distribution. The question of surrendering the reserve may not, therefore arise

CHAPTER 6

RESOURCE ALLOCATION MECHANISM (RAM)

5.6.1. Allocation of shared taxes and grants by the State to Local Bodies plays a crucial role in the functioning of Local Governments, and constitute an important component of the total revenues of the Local Bodies. The available data reveals that Village Panchayats depend almost to the extent of 43% of their expenditure needs on grants from Government. In the case of Panchayat Unions, the dependency on the Government is 85%. While examining the Urban Local Bodies, it is seen that the dependency of Town Panchayats, Municipalities and Municipal Corporations, though shared taxes and grants is 38%, 33% and 50% respectively. In general, shared taxes fail to take into account the needs of Local Bodies. Grants seem to be too unsystematic to bring about fiscal corrections needed for a strong local finance base.

5.6.2. The purpose of transfers from State to Local Bodies is to permit them to provide a satisfactory level of service to the community. However, the evidence points to the inability of Local Bodies to meet this objective. Further, the system of transfers in its present form, is said to have undermined the initiative of the Local Bodies. This has also created a situation of dependency of Local Bodies on State Government as there is no provision of automatic transfer of resources. Several recent studies point out the fact that there is no coherent system of state transfer to Local Bodies. There is confusion of responsibility and lack of accountability. In concluding, it is fair to say that the present system of transfers has contributed little towards solving the fiscal problems of the distressed Local Bodies and is no longer in tune with the evolving needs of Local Governments.

5.6.3. In this light, it is felt that as a general principle, transfers must be governed by the twin objectives of efficiency and equity. Further, the system of State transfer, be it the sharing of State taxes or the grants, should be designed in such a way that they lead to a transparent and predictable system of inter governmental finance in which all levels of government understand the rules of revenue sharing and grants and the entitlements under the system.

5.6.4. The existing fiscal gap on normative levels of services in Local Bodies is large enough to warrant either additional tax assignments or a revised system of transfers which will make available more resources to the Local Bodies. The objective of a new transfer mechanism should include among other things:

(i) Closing the vertical and horizontal gaps in the finances of Local Bodies

(ii) Provision for some upgradation of services in the existing levels of Local Bodies; and

(iii) Provision for some additional services to be performed by the Local Bodies.

5.6.5. The transfer of functions and responsibilities as listed in 11th and 12th schedules of the 73rd and 74th Constitutional Amendments, would have to be accompanied by appropriate matching funds to the Local Bodies. This would also imply that the state will have to make adjustments so as to bring about a balance in the existing fiscal powers by providing greater flexibility to Local Bodies in matters of determining the tax rates, user charges and fees. The State Finance Commission considers it necessary to lay down principles that should enable the Local Bodies to perform at least the obligatory functions of providing the basic civic needs of the people in their areas at a satisfactory level. This objective should be taken as the starting point for determining transfers from the state to the Local Bodies. The sharing of tax revenues should play a dominant role in the transfer schemes to Local Bodies, while grants in any form should have only a secondary role and be designed to equalise the imbalances in the finances of Local Bodies.

5.6.6. The terms of reference for the State Finance Commission include the need to recommend the principles which should govern the distribution of resources between the State and the Local Bodies. While doing so, the following aspects are to be borne in mind:

(i) the transfer of resources is on revenue account only i.e. for operation and maintenance (O & M).

(ii) the resources should be utilised for core civic services by the Local Bodies.

(iii) the financial position of the Local Bodies should be assessed upto 31.3.94 and the allocation is to be recommended for application for a period of 5 years commencing from April 1997 onwards.

Vertical and Horizontal Distribution

5.6.7. Considering the various aspects covered by the above terms of reference, the State Finance Commission has considered and recommended a regular devolution from the State net tax revenue to Local Bodies.

5.6.8. This allocation of resources from state to Local Bodies involves the following two vertical levels and the third, horizontal level of distribution and they are recommended as below.

LEVEL I: (Vertical) — Allocation of funds earmarked by the State for transfer to Local Bodies, between the

(i) Rural Local Bodies and
(ii) Urban Local Bodies

LEVEL II (Vertical) — Distribution of allocations earmarked to Rural/Urban Local Bodies in Level I to the respective tiers of District Panchayats, Panchayat Unions, Village Panchayats under Rural and Town Panchayats, Municipalities and Municipal Corporations under Urban.

LEVEL III: (Horizontal) — Inter se distribution allocated in Level II to the respective tiers viz. allocation among Village Panchayats/Panchayat Unions/District Panchayats and Town Panchayats/ Municipalities/Municipal Corporations.

5.6.9. To decide these transfers to appropriate levels as explained above, the principles should be:

(i) Simple and clear
(ii) Based on data which are available and authentic:
(iii) Just and equitable.

5.6.10. While the principles for transfers to Rural and Urban Local Bodies were evolved by the State Finance Commission, the views of the concerned Secretaries to Government in Rural Development Department and Municipal Administration and Water Supply Department and the respective Heads of Departments were also ascertained.

5.6.11. The Principles so formulated for the transfer of funds from State to Rural and Urban Local Bodies are given below:

Level-I: From State to Rural and Urban Local Bodies: (Vertical)

5.6.12. The population formula is generally accepted as a good basis for allocation of funds to Local Bodies both from the point of view of volume of services to be delivered and from the point of equity. The transfer of funds from State to Rural and Urban Local Bodies will therefore be based on population as per the last census. The ratio for the distribution of funds between the Rural and the Urban Local Bodies would be 60:40.

Level-II: Rural (Vertical)

5.6.13. Distribution from out of the funds allotted to the Rural Local Bodies to different tiers viz.:

(i) District Panchayats,
(ii) Panchayat Unions and
(iii) Village Panchayats

will be as below:

(i) **District Panchayats:** The District Panchayat is a new phenomenon and its structure and functions are yet to be spelt out clearly. Hence, only a lumpsum grant (Block grant) is now suggested to meet its actual needs out of the total allocation for the Rural Pool. This is fixed tentatively at 14% out of the total Rural allocation.

(ii) **Panchayat Unions/Village Panchayats**: Considering the number of Institutions involved, their respective sphere of activities, nature and level of civic services and the staff deployed to carry out such services, the ratio between the Panchayat Unions and Village Panchayats has been suggested on 50:50 basis, of the balance remaining after distribution to District Panchayats.

Leve IIII: (A) Interse Distribution - Panchayat Unions:

(i)	Weightage on total population (last census) of the Panchayat Union	50%
(ii)	Weightage on SC/ST Population	25%
(iii)	Weightage for financial viability of Panchayat Unions (based on average Per Capita Land Revenue)	25%
	Total	00%

5.6.14. In view of the fact, that the population in the Panchayat Unions is the dominant factor that derives benefits from the expenditure of the unions, a larger weightage in the allocation process is given to the above factor. The weightage suggested is 50%. The balance of 50% is assigned to the other base, viz. 25% on SC/ ST Population and the remaining 25% allocated for financial viability which can be based on the average per capita land revenue of the Panchayat Unions concerned. The distribution on financial viability means an inverse proportion for weightage viz. the higher the per capita land revenue the lesser the weightage to be given and lower the per capita, higher the weightage. (The formula for sample Panchayat Unions has been demonstrated in Appendix No.124

5.6.15. Since the categorisation of the Panchayat Unions has been done on the basis of their average per capita land revenue earnings, this financial parameter acts as a proxy for the financial strength of the local bodies. The lower category can be assigned a higher weight, so that the local bodies under this category can be compensated for their lower earnings, while the higher category of Panchayat Unions can get relatively lower weights, with the highest category getting the least weight.

5.6.16. The horizontal distribution of funds allotted to Village Panchayats will be as below:

Level III (B): Inter se Distribution - Village Panchayats

(i)	Weightage on Total population (last census)	-	50%
(ii)	Weightage on SC/ST population (last census)	-	15%
	Sub Total		65%
(iii)	Per capita House Tax Collection	-	15%
(iv)	Core Civic Services infrastructure maintenance deficiency (with reference to physical assets available in the Village Panchayat area)	-	20%
	Total		100

NB: For sample Village Panchayats, the formula has been demonstrated in Appendix No.123.

5.6.17. The principles of distribution of URBAN allocations are as below:

Urban Local Bodies (Vertical)

Level I Distribution of funds from the state to the Rural and Urban Local Bodies based on ratio of population of Rural and Urban Local Bodies i.e. 60:40 basis. (As already indicated under Rural)

Level II (Vertical) Distribution of funds from the Urban allocation to different tiers

(i) Town Panchayats
(ii) Municipalities. and
(iii) Corporations

5.6.18. The above distribution is based on the ratio of the total population of respective tiers viz. Town Panchayats, Municipalities and Municipal Corporations based on last census figures (1991).

The current ratio will be:

		Percentage
(i)	Town Panchayats	38
(ii)	Municipalities.	31
(iii)	Municipal Corporations	31

Level III (Horozontal) Distribution of funds inter se the institutions viz. Town Panchayats, Municipalities and Municipal Corporations.

5.6.19. The following principle of weightage will be adopted for inter se distribution from out of the urban allocation to the respective tier of Local Body.

		Town Panchayats	Municipalities	Corporations
(i)	Total Population (1991)	45%	45%	40%
(ii)	Total SC/ST Population (1991)	20%	10%	10%
	Sub Total	65%	55%	50%
(iii)	Financial indicator Per Capita receipt under own resources (Average of both Tax and Non-Tax resources for the last 3 years ending with 31.3.94)	15%	15%	15%
(iv)	Service indicator (existing Per Capita expenditure on core civic services) (for the last 3 years ending with 31.3.94)	20	30	35
	Total	100	100	100

5.6.20. The formula for distribution for the sample Town Panchayats and Municipalities have been worked out and given in Appendix Nos.121 and 122.

5.6.21. Operative Portion of the Report

Pool A: This contains taxes which belong to Local bodies but collected by the Government. However, this does not form part of State tax revenue except for Entertainment Tax. This is to be distributed among the Local bodies concerned.

		Projection for 1997-98 (Rupees in Crores)
a)	Surcharge on Stamp Duty	230.00
b)	Local Cess and Local Cess Surcharge	30.00
c)	Entertainment Tax	120.00
	Total	380.00

Pool B: This is the divisible pool containing all State taxes excluding Entertainment Tax.

			Projection for 1997-98 (Rupees in Crores)
a)	Sales Tax	}	620
b)	Motor Vehicle Tax	}	(This constitutes nearly
c)	State Excise Revenue	}	8 percent of the Divisible
d)	All Others	}	Pool*)

*** DIVISIBLE POOL:** Total tax revenue of the State projected for 1997-98 = Rs.7867 crores - Entertainment Tax of Rs.120 crores = Rs.7747 crores.

Progressive Devolution: Pool B

1997-98	8% of the total tax revenue of the State
1998-99	9% -do-
1999-2000	10% -do-
2000-01	11% -do-
2001-02	12% -do-

Principles of Distribution: Only out of Pool B

Total	100%
State Reserve (15% towards Equalization Fund and Incentive Fund)	15%
Divisible Pool	85%

		Out of 85	Out of 100
Rural Local bodies		**51**	**60**
District Panchayat	-	7	14
Panchayat Union	-	22	43
Village Panchayat	-	22	43
Urban Local bodies	-	**34**	**40**
Corporation	-	10.5	31
Municipalities	-	10.5	31
Town Panchayats	-	13	38

Note: Of the 100% for devolution, 60% is earmarked to Rural Local Bodies and 40% to Urban Local Bodies. The percentage of distribution within the earmarked Pool has been indicated taking each Pool as 100%.

Mode of Release

Funds will be released by the State Government to the local bodies in three instalments as follows:

1st Instalment - April - May	-	25% of provision
2nd Instalment - August - September	-	50% of provision
3rd Instalment - January-February	-	25% of balance

The difference with actuals will be adjusted during the release of Ist Instalment of the following year

5.6.22. Additional Devolution by the State

1993-94	-	Actuals - Devolutin to Local Bodies	-	Rs.341.5 Crores
1996-97	-	R.E. - Provision for Local Bodies	-	Rs.556.90 Crores
1997-98	-	SFC's Recommendation for devolution	-	Rs.1000 Crores
Percentage of increase over the previous year			-	80%

The impact of devolution proposed for the period from 1997-98 to 2001-02 is given.

Once the principles of devolution on the above basis are given effect to, the assistance to be based on individual taxes and tied and un-tied grants for maintenance purposes will not arise. However, it needs to be explained, that these recommendations are related to the existing levels of service. Any further devolutions of functions and additional infrastructure creation in future years will have to be taken care of separately outside the scope of the devolution now proposed, since the yearwise devolutions are designed to take into account of inflationary trends of existing assets only.

Table 5.32 **Statement Showing the Devolution to Local Bodies** (Rs. in Crores)

Year	Own resource	Local based Taxes Pool A	Divisible Pool B (85% for Local Bodies)	Equalization & incentive Fund (15% of Pool B) State Reserve	Total	Total Expenditure Proposed	Net Position
1997-1998	518.05	380.00	527.00	93.00	1518.05	1472.50	45.55
1998-1999	556.19	410.40	655.68	115.71	1737.98	1619.74	118.24
1999-2000	655.97	448.23	805.56	142.34	2053.10	1781.34	271.76
2000-2001	723.87	478.69	931.17	164.32	2298.05	1959.92	338.13
2001-2002	800.48	516.99	1066.21	188.15	2571.77	2156.10	415.67

CHAPTER 7

PRINCIPLES FOR DISTRIBUTION OF ALLOCATION MADE BY THE TENTH FINANCE COMMISSION

5.7.1. The Tenth Finance Commission (TFC) has, in the light of 73rd and 74th Constitutional Amendments, recommended ad hoc grants for augmenting the resources of Urban and Rural local bodies. The TFC followed two different principles while making the recommendations for the period 1995 to 2000, one for distribution to Rural bodies and the other for distribution to Urban bodies. The principles are given below:

(1) Rs.100 per capita of rural population as per 1971 census for Rural local bodies;

(2) For Urban local bodies, the assistance has been on the basis of inter se ratio of the slum population derived from the urban population figures as per 1971 census.

5.7.2. Accordingly, allocations have been made by the TFC to various States, and the allocations for Tamil Nadu are as follows:

Table 5.33 Allocations of Tenth Finance Commission (Rupees in Crores)

	1995-96	1996-97	1997-98	1998-99	1999-00	Total
Rural	—	71 83	71.83	71.84	71.84	287.31
Urban	—	28.88	28.88	28.88	28.88	115.52
Total	—	100.71	100.71	100.72	100.72	402.83

5.7.3. The following stipulations have been made by the TFC for utilisation of the above ad hoc grants:

(1) It should be an additionality over and above the amounts flowing to the lcoal bodies from the State Government.

(2) The State should draw suitable schemes with detailed guidelines for utilisation of the above grants.

(3) The lcoal bodies should provide suitable matching contributions by raising resources.

(4) The grant is not intended for expenditure on salaries and wages.

5.7.4. The Government of India, while accepting the recommendation of the TFC, laid down the following conditions:

i) The grants would be treated as part of the plan fund of the State Government earmarked to be transferred to the local bodies.

ii) Proper mechanism should be evolved to ensure that these grants are properly and fully utilised by the State only for which they are meant within a given time frame-work.

5.7.5. Based on the stipulations of the TFC and conditions laid down by the Government of India indicated above, the following issues came up for discussion before a Committee appointed by the Government of India for suggesting guidelines and proper mechanism for utilisation of the local body grants recommended by the TFC. The meeting of the Committee was held in New Delhi on 24th June 1996 and was chaired by the Joint Secretary, FCD, New Delhi. The following decisions were taken on the issues as indicated hereunder:

1) It was decided that except for the stipulations made by the TFC and Government of India, no other guidelines will be provided by Government of India to the States. However, the Ministries of Urban Affairs and Employment and Rural Affairs and Employment, Government of India can suggest the schemes which should or should not be taken up out of these grants. It will be left to the States to issue guidelines taking into account the recommendation of the SFC particularly with regard to inter se distribution among various categories of urban and rural local bodies.

2) If the State so decides, it can route these funds through State level financial intermediaries in the pattern of Municipal Urban Development Funds or through infrastructure finance corporations as is being done in Tamil Nadu, Karnataka and Andhra Pradesh. This approach is being adopted by World Bank for accessing their funds for development of urban infrastructure. These financial intermediaries can provide technical assistance, examine the feasibility of projects and even prepare FOPs on a suitable mix of remunerative, user charge based and non-remunerative social service oriented schemes, in securing loans and in preparing recovery schedules. They can work as a facilitator and leverage for these funds by availing institutional finance at reasonably low rates of interest from HUDCO, LIC, HDFC, ICICI and Banks.

3) As to the question whether these ad hoc grants are capital in nature for creation of assets or they could be utilised for operation and maintenance, it was felt by the Committee that keeping in mind the nature of Finance Commission reports which are generally meant for operation and maintenance, it could be left to the States concerned to utilise it either for creation of assets or for the oepration and maintenance. To the extent the Government of India has laid down the condition that they will form part of the State Plan, the utilisation of these grants for salary and wages as component of new schemes cannot be ruled out.

4) The capabilities of the local bodies, particularly the rural ones, to contribute matching grant for accessing these funds as stipulated by the TFC was very much in doubt. In as much as this was a pre-condition of the TFC and accepted by the Government of India, it was felt that the States could decide the proportion of the matching contribution and also whether it can be raised only from well-off local bodies, the remainder being paid by the State Government. The matter was left to the best wisdom of the State as to how much contribution should be paid and by which categories of local bodies and whether the State or the local bodies should pay themselves.

5.7.6. The above decisions clearly indicate the flexibility in the manner of utilisation of the grants either for capital budget or for improving the maintenance of assets for better utilisation in the local bodies. These allocations will have to be matched by the local bodies and it is an additionality to the funds provided by the State to the various local bodies.

5.7.7. The Government of Tamil Nadu requested for the suggestions of the SFC for distribution of funds allocated for 1996-97. The SFC indicated that the principles of distribution will be indicated in its report for the period covering from 1997-1998 to 1999-2000 and that for the year 1996-97, the Government may consider keeping the allocation as a corpus fund for improvement of capital assets or may distribute it to the various local bodies on the basis of the existing principles of distribution, adopted by the Government.

5.7.8. In the light of these earlier background the SFC has now to suggest the principles for distribution of this allocation for the next four years commencing from 1997-98. SFC has already indicated the principles in 'Resource Allocation Mechanism' for increasing the levels of O & M to a normative level as proposed by the SFC.

5.7.9. The amount needed for O & M for the years 1997-98 to 2001-02 for the core services has also been worked out and the gap to be filled in has also been arrived at. A detailed discussion relating to this could be seen in Chapter 6 of this part.

5.7.10. Inasmuch as the maintenance aspects of core civic services have been taken care of and a corresponding devolution from the State funds has been recommended. SFC considers that this allocation made by the TFC can be earmarked for upgrading the level of services of capital nature.

5.7.11. This amount can be kept as a corpus and to be matched by the State. The Local Bodies will hold shares. over this market borrowing could be done for **Capital Fund**. The local bodies could access the funds through a matching contribution as required by the TFC.

5.7.12. The matching contribution from local bodies can be emphasised in the case of urban local bodies. since the capabililties of the Rural local bodies to make a matching contribution will be very much in doubt.

5.7.13. It has to be remenbered that during the implementation of Comunity Development (C.D.) Schemes. contribution from the public or from the Rural local body, namely. Panchayat Union was a condition precedent for the allocations under the schemes dealt with there under. A similar contribution can be prescribed to be paid by Panchayat Unions but not by Village Panchayats.

5.7.14. Since the Panchayat Unions are taking up the development programmes spread over the Village Panchayat areas. it is but reasonable to expect them to contribute the matching assistance needed. Further. the maintenance of civic services has been entirely devolved upon the VPs. and the PUs are mostly required to attend to development programmes. A system of contribution with reference to the category of the Panchayat Union was in existence. the category being an indicator for the financial capability of the respective Panchayat Union.

5.7.15. Since the re-classification of Panchayat Unions is also recommended by the SFC for financial assistance. the matching contribution based on the category can be insisted upon the higher the category higher the matching and the lower the category lower the matching contribution.

5.7.16. In the case of urban local bodies. assistance can be matched compulsorily by their contribution. The contribution can be as indicated below depending on the grades.

Ranges of Contribution

MCS	-	25%	-	50%
MPs	-	20%	-	30%
TPs	-	15%	-	25%

5.7.16. Contribution from PUs adopted during CD schems and the contribution now suggested are as follows:

PUs Category	PU contribution during CD	Now proposed %
I	60	25
II	50	25
III	40	15
IV	30	15
V	15	10
VI	5	5

The details can however be worked out by the Government.

Part IV

STREAMLINING THE DELIVERY SYSTEM

CHAPTER 1 : ORGANISATION

The State Finance Commission recommends that:

1. a minimum population of 2,500 may be adopted for the constitution of a Village Panchayat. This will be for the future and will not affect the existing Village Panchayats. [para 4.1.10]

2. when Two or more Village Panchayats desire for merger, a suitable financial incentive may be allowed by the Government to such Village Panchayats. [para 4.1.10]

3. the existing 53 Village Panchayats having a population of less than 500 may be considered for amalgamation with the nearby Village Panchayats in due course. [para 4.1.10]

4. the Village Panchayats may be classified into the following 3 grades according to average annual income for the last 5 years (including non-statutory and development grants).

i) Grade III	-	"	upto Rs.50,000/-
ii) Grade II	-	"	From Rs. 50,001/- to Rs.1,00,000/-
iii) Grade I	-	"	Above Rs.1,00,000/-.

The annual income range may be reviewed periodically and revised range may be fixed by the Government. [para 4.1.10]

5. the Village Panchayats may be reconstituted once every five years before each ordinary election to Panchayats making minor alterations in the jurisdiction, ward divisions etc., if required. [para 4.1.10]

6. during bifurcation or trifurcation or reconstitution of Panchayat Unions, the population of the individual Panchayat Unions (as per latest census) must be between 60,000 and 75,000 subject to contiguity. The Commission also recommends that for the purpose of administrative convenience, effective supervision and monitoring the implementation of development programmes, the size of the Panchayat Unions in terms of the area should be compact for the easy coverage of all the villages in a shorter period. The Panchayat Unions may be reconstituted once every 5 years making alterations in its jurisdiction wherever necessary. [para 4.1.15]

7. the norms of per capita Land Revenue may be revised as given in para 4.1.22. The principle may continue to be adopted as the basis for the classification/reclassification of Panchayat Unions. [para 4.1.23]

8. the details of classification of each Panchayat Union into any of these 6 categories can be worked out in consultation with District Collectors/Director of Rural Development based on the norms given in para 4.1.22. [Para 4.1.23]

9. the norms for upgradation of Village Panchayats into Town Panchayats may be fixed as indicated below: [para 4.1.33]

i. Population not less than 15,000;

ii. Average annual income of not less than Rs.10 Lakhs (excluding loans, lapsed deposits, house tax matching grant, non-statutory and development grants.)

iii. Reasonable percentage of employment in non-agricultural activities.

10. out of 420 Town Panchayats rural in character as mentioned in para 4.1.26 which have a population of less than 10,000 according to 1991 census, 92 have an annual income of less than Rs.5 Lakhs. Amongst 235 Town Panchayats, urban in character, 6 have an annual income of less than 5 lakhs. The Commission feels that these 98 Town Panchayats (92+6) may be specially considered for improving their finances; or they may be classified into Village Panchayats duly consulting the Director of Town Panchayats. Otherwise, special financial packages both for improving basic services and for maintenance will have to be provided for in these cases. (Appendix No.103) [para 4.1.34]

11. after considering the cost escalation, the level of basic services to be extended and the minimum staff to be appointed, the following criteria of population and annual income may be followed for the gradation of Town Panchayats, while the existing institutions are allowed to continue in the respective grades: [para 4.1.36]

GRADE	PROPOSED CRITERIA	
	Population	Average annual Income for the last 3 years
II	Upto 10,000	Exceeding Rs.10 lakhs
I	Exceeding 10,000 & below 15,000	Exceeding Rs.15 lakhs
Selection Grade	Exceeding 15,000 & below 20,000	Exceeding Rs.20 lakhs
Special Grade	20,000 and above	Exceeding Rs.50 lakhs

NB: Loans, lapsed deposits, non-statutory and development grants shall be excluded in arriving at the average annual income.

12. the following minimum norms may be fixed for upgrading a Town Panchayat into Municipality/constitution of an area into Municipality. [para 4.1.41]

(i) should be urban in character and should satisfy the census norms of density of population and that 75% of the male working force are engaged in non-agricultural activities;

(ii) minimum Population of 30,000; and

(iii) an average annual income (based on last 3 years) exceeding Rs.50 Lakhs, excluding non statutory and development grants, loans and lapsed deposits.

13. the following may be the revised norms for the classification/re-classification of Municipalities (loans, lapsed deposits non-statutory and development grants be excluded for computing the average annual income.) [para 4.1.45]

MUNICIPALITY GRADE	**NORMS Average Annual Income based on last 3 years Rs.**
II	Exceeding 50 Lakhs
I	Exceeding 100 Lakhs
Selection Grade	Exceeding 200 Lakhs
Special Grade	Exceeding 500 Lakhs

N.B.: Occasions for constituting a new Municipality of Grade III out of an existing urban area are apparently not very bright and so Municipalities of Grade III have not been considered.

14. the criteria for the constitution of a Municipal Corporation or upgrading a Municipality into a Municipal Corporation in future may be: [para 4.1.48]

(i) Minimum population of 10 lakhs; and

(ii) Average annual income of Rs.50 crores.

CHAPTER 2 : FUNCTIONS OF LOCAL BODIES

15. the existing functions of Local Bodies including the functions proposed for devolution under IVth, X th and XI th Schedules of the Tamil Nadu Panchayats Act 1994, Tamil Nadu District Municipalities (Amendment) Act 1994 and City Municipal Corporations Acts respectively, are by and large sufficient for the effecitve functioning of the Local Bodies. Provision and maintenance of drinking water supply sources may be added as an obligatory function of the Village Panchayats as was in the earlier Panchayat Acts. [para 4.2.14]

CHAPTER 3 : DEVOLUTION OF FUNCTIONS

16. though the 29 items and 18 items have been adopted in the State Acts for devolution to Panchayati Raj Institutions and Municipal Bodies respectively the items have not been defined clearly for each tier. With a view to clearly demarcate the items to each tier, the State Finance Commission has initiated action and held discussions with the concerned 17 State Government Departments' Secretaries and their Heads of Departments. For initial devolution, items have

been finalised on mutually agreed terms and a model package furnished to the Secretaries to Government concerned for issue of early Government orders. The consensus by and large was that devolution should be gradual and in phases. The devolution of functions should be accompanied with concomitant funds and functionaries. The details are given in Appendices No.104 & 105. These packages may be adopted. [para 4.3.14]

CHAPTER 4 : STAFFING PATTERN

17. There is a need for the Re-organization of the structure in the local bodies, particularly Rural, since the present pattern was created at the time of entrusting the CD programmes to the Panchayat Unions. Recognising this, Government have agreed to constitute a Task Force at the behest of Anna Institute of Management, Chennai. However, considering the sensitive nature of recommendations in this regard and the fact that this is being deliberated-upon at the Government level, State Finance Commission has consiously decided to be silent on these recommendations of the Task Force, leaving it to the Government to pursue the Task Force Report, if deemed necessary. [Para 4.4.04]

18. with regard to daily cores of street cleaning, scavenging etc., in Village Panchayats the work may be considered for privatization on lumpsum contracts and no separate staff need be posted, for the Village Panchayats. [Para 4.4.04]

19. In respect of combined water supply schemes, covering a number of settlements, viz., Village Panchayats, Town Panchayats and Municipalities, the maintenance may be best left to the care of the Tamil Nadu Water Supply and Drainage Board. In respect of water supply schemes, other than combined water supply schemes, which are individually catering to each Village Panchayat, the maintenance may best be left to the Village Panchayat who can seek if required the assistance of the local voluntary groups in each habitation, suitably trained for this purpose. I [para 4.4.04]

20. with the increasing amount of works taken up in various Local Bodies' schemes or otherwise, there is a growing need for the creation/strenghtening the engineering cell particularly for the Panchayat Unions and for the Town Panchayats. The Government may examine the need with relation to the works taken up annually in the Local Bodies. [Para 4.4.07]

21. in respect of special schemes like Centrally assisted Integrated Development Programme of Small and Medium Towns, State aided Integrated Urban Development Project, Municipal Urban Development Fund, Water Supply Schemes, cost of project staff, whether recruited temporarily or existing staff should be built into the project and form an integral part of the overall project cost. [para 4.4.10]

CHAPTER 5 : HUMAN RESOURCE DEVELOPMENT AND TRAINING

22. an integrated training package of inductional, functional and managerial training shall be imparted to officials and non-official elected representatives involved with functions and responsibilities of local bodies. [para 4.5.16]

23. the Anna Institute of Management, Chennai being an apex body having expertise in the field of Human Resource Development will be retained as a consultant to asses the training needs of various sectors, levels and functions involved in Local Government Structure and in Line Department/Agencies structures and to give a Comprehensive Training Plan. [para 4.5.16]

24. the Anna Institute of Management and the State Institute of Rural Development (SIRD) and the Institute of Urban studies, Coimbatore will take up training of trainers as well as selectively, impart training to certain categories of officers from both Local Governments and Line Agencies/ Departments in the aspects of "Financial Management of Local Bodies" and " Management of Services by Local Bodies". [para 4.5.16]

25. it will be necessary to utilize the training modules already developed by the National Institute of Rural Development, Hyderabad to train trainers in Panchayati Raj Systems and National Institute of Urban Affairs, New Delhi for Urban Local Bodies. As the whole exercise is people oriented, extensive utilization of Non-Governmental Agencies should be taken up. Agencies like Madras Institute of Development Studies, Chennai, UNICEF, Gandhigram Rural Institute (Deemed University), Institute for Financial Management and Research, Chennai, Madras School of Economics, Chennai, N.I.P.F.P., New Delhi, All India Institute of Local self Government, Mumbai, MYRADA, C.P.R. Environmental Education Centre, Chennai, Sathiamoorthy Foundation Chennai, can be sources of expert resource persons to disseminate concepts and to bring about attitudinal transformation and such opportunities should be tapped regularly and fully. [para 4.5.16]

26. in as much as all departments and undertakings of government have already been directed by government in G.O.Ms.No.239 Personnel and Administrative reforms Department (Trg.III) dated 17.7.95 to allocate upto 0.5 percent of their salaries expenditure annually as their training budget, local body institutions like Panchayat Unions, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations may be requested to contribute not less than 0.5 percent of their annual salary expenditure to a training fund to be set up for this purpose for strengthening the Rural and Urban training centres and for the training programmes, under the overall management of the Director of Rural Development/Director of Municipal Administration/ Director of Town Panchayats. Funds set apart for training components under JVVT, UBSP, NRY, Prime Ministers Self Employment Programme, besides assistance from UNICEF, MUDF, TNUDF may also be accessed for funding the training programme. [para 4.5.16]

27. in all Departments including line agencies who have functional relationship with the Local Bodies, a compact training cell shall be set up in the office of the concerned Head of the Department at the state level by re-deploying the existing staff, where such a cell is not already functioning. This cell will take up this responsibility, assess the training needs, processing of deputation of officers to various institutions, review the progress, annualy updating the curriculum with special reference to the training needs of the departments. [para 4.5.16]

28. considering that the number to be trained may be around one lakh, a crash programme of training be initiated immediately, due precedence in the programme be given to elected representatives; training programme for officials may also be commenced. [para 4.5.16]

29. the Training Cell to be set up for formulating the training programmes, should bear in mind that the training format for non-officials is essentially one so as to expose them to their rights and responsibilities in managing and administering the local self-government, in the light of powers and functions devolved on them consequent on the constitutional amendments. whereas the training format meant for officials besides exposing them to the new role they may have to play in the revised set up, where powers of Government vest with the elected representatives, could also comprise of inductional, functional and managerial programmes. **The main theme for all the training programmes shall be development of skills and attitudes for realization of local governance by people.** [para 4.5.16]

30. the training given to junior assistants and new entrants recruited through Tamil Nadu Public Service Commission and State Level selection Committees, in the Civil Services Training Institute, Bhavani Sagar, shall be a pre-service training and shall be before appointment, so that they join in their jobs, fully trained on the fundamentals of Governmental/local body administration. [para 4.5.16]

31. the functional training to be imparted will cover both new entrants and those who are already in service, but who have not undergone such training programme earlier, while new entrants will join the regular package of functional training module conducted periodically, a one time assessment of all the personnel in service who have not undergone such training programme shall be made and a crash programme be conducted to complete the training within a fixed time frame. Such functional training programme should have in its curriculum modules of administration and maintenance of accounts. Only when the staff are thorough with the provisions of the Acts, rules and regulations, utilization of funds will be proper, maintenance of accounts will be regular and benefit will reach the people fully on time. [para 4.5.16]

32. the infrastructure facilities in the existing Rural Extension Training Centres, State Institute of Rural Development, Marai Malai Nagar and the Institute of Urban Studies, Coimbatore are to be strengthened for meeting the training needs. The State Institute of Rural Development, and the Institute of Urban Studies, Coimbatore shall also undertake Research and Development (R & D) work in Rural and Urban Local Body affairs respectively. [para 4.5.16]

CHAPTER 6 : COMMUNITY PARTICIPATION IN LOCAL ADMINISTRATION

33. in all development programmes, the role of community is very crucial both for the success of the programme as well as for its sustainability, emphasizes that the community should not only participate in the planning, implementation, monitoring and evaluation of the programmes but to the extent possible should be partners in the cost sharing. The Non-Governmental Organisations (NGOs) are better suited to organize the community and evolve suitable structures for such participation by the community; therefore recommended that NGOs should be involved not only in the task of community organization but also in policy formation, monitoring and evaluation. [para 4.6.15]

34. Non-Governmental organizations which are community based, non-political and are constituted by the marginalised people and have a close and effective rapport with the people they work, may be given their due recognition and effectively utilized in planning, implementation and management of programmes at grassroots level in both urban and rural areas. [para 4.6.15]

35. a catalogue enlisting all Non-Governmental and community organizations involved in Local Body Administration, both in rural and urban areas, be prepared immediately for involving them in formulation of plans, implementation and monitoring local area programmes of action. Their representatives can participate in various committees that are constituted for formulation of the programmes and monitoring of its implementations. [para 4.6.15]

36. adoption of a bottom up approach to plan for urban poverty alleviation may be resorted for starting from the micro plans at the community level and develop them into the town/ district/metropolitan plans as envisaged in the 74th constitutional amendment, and also develop a total city plan for the urban poor. [para 4.6.15]

37. NGOs and wherever possible, Organisations like Scout, N.S.S. can be involved for the proper maintenance of community infrastructure like water supply, roads, street lighting etc. [para 4.6.15]

38. in Schools and Colleges, in their curriculam, the need for proper maintenance of core civic services, involvement of the students and the people in this affair must be included. [para 4.6.15]

CHAPTER 7 : ADEQUACY OF POWERS OF LOCAL BODIES AND STREAM LINING THE PROCEDURES

39. where as it is generally agreed that there is need for greater decentralisation and delegation of financial powers to the Local Bodies, Government may in consultation with Heads of departments concerned build sufficient mechanism to safe-guard the public interest and the properties of the Local Bodies with special reference to Revenue Expenditure, Capital Expenditure and Receipts from Lease/Auction. [para 4.7.08]

40. the technical sanction power for works may be suitably enhanced, in respect of technical officers of the Rural and Urban Local Bodies, at various levels as given in Para 4.7.03 for ensuring quality and adhering to the stipulated time frame for their completion. [para 4.7.08]

41. all employment generation schemes be carried out as per procedure prevalent at present and the responsiblities may vest with the Panchayats who will be fully responsible for proper and timely execution of works. Similar powers may vest with Town Panchayats and Municipal Councils in respect of Employment generation programmes in the Town Panchayats and Municipal areas and they may be made fully accountable for them. [para 4.7.08]

42. tender procedures should not only be transparent for promoting healthy competition but should also aim at excellence in quality of works. In respect of works, where tender procedure

is adopted, along with tender notice, tender schedules may also be published with reference to type design (already prepared and made available) with instructions to type the schedule filling the rates and submit the sealed tender to overcome the difficulty at present experienced in obtaining tender schedules from the Local Body Offices. [para 4.7.08]

43. supplying tender documents on cost be dispensed with, as the cost involved is very nominal. [para 4.7.08]

44. Schedule of rates finalised by technical departments should display more transparency rather than secrecy and must reflect market rates to a reasonable extent. [para 4.7.08]

45. a "Works Committee" be constituted in each Local Body except Village Panchayats with powers to recommend to the Council for deciding tenders and also to look into complaints about lapses in dealing with tenders and settle them. In the case of Village Panchayats, they themselves can attend to this work. This Committee can also look into quality of implementation. [para 4.7.08]

46. Local Body Council be vested with powers to accept tenders in excess of estimate rates with the recommendation of the works committee instead of passing them up for sanction through various levels as is prevalent now, with a view to decide the tenders quickly and start the works early. [para 4.7.08]

CHAPTER 8 : CONTROL SYSTEMS

47. the control mechanism with the aid of budget as a tool, should be tightened to the optimum level and for this purpose the local bodies should have the plans for the ensuing year prepared well in time by getting the details of schemes to be implemented (Central schemes, State schemes and local body works) in the next year well before the year commences. Not more than two revisions ie., Revised Estimate in August and Final Modified Appropriation in next January can be done, so as to accommodate the deviations and take corrective action. The Government may prepare detailed guide lines in this regard and send them to the Local Bodies. [para 4.8.02]

48. there is scope and need to reduce the scriptory work in the Panchayat Unions by cutting down the number of unnecessary registers and thereby improve efficiency in office work. It was informed that necessary proposal in this regard had already been sent after a detailed study, to the Government from the Director of Rural Development with the concurrence of the Director of Local Fund Accounts. The Commission urges the Government to consider the proposal favourably. Computerisation is also suggested at Panchayat Union Level. [para 4.8.08]

49. notwithstanding the suggestion to minimise the registers, the need for opening the following registers in the Panchayat Unions is stressed. [para 4.8.09]

a) A master Register for grants-in-aid received and expenditure incurred there from;

b) Register of Endowment Properties detailing the nature of assets endowed, the object of expenditure met out of it.

In addition the following publications are also felt necessary.

c) Hand Book of Instructions and Audit Points to be looked into before passing different kinds of bills.

d) Job chart of Engineering Staff consequent on the devolution of additional powers and responsibilities to the Local Bodies

50. the forms and registers maintained in the Town Panchayats and Municipalities are too many and may be examined by the Director of Town Panchayats and Director of Municipal Administration respectively and steps may be taken for simplification in consultation with Director of Local Fund Accounts expeditiously. In respect of Municipal Corportions, the Government in Municipal Administration and Water Supply Department may initiate steps and arrange for issue of orders. [para 4.8.13]

51. the Director of Local Fund Accounts is at the moment carrying out the audit of Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions. For J.V.V.T. implemented in Village Panchayats the Director of Local Fund Accounts is carrying out the audit, and for other items at the Village Panchayat level, the audit is taken up by the Extension Officer (Panchayats). It was generally agreed that this duel audit at the Village Panchayat level could be avoided and Government could examine the possibility of having single audit system for the Village Panchayats. [para 4.8.26]

52. creation of forums similar to Public Accounts Committee in all the Districts including Chennai City, to discharge the functions which the PAC does in the case of State Accounts; this will monitor audit observations relating to Municipal Corporations, Municipalities, Town Panchayats and Panchayat Unions, however maintaining status-quo regarding Village Panchayats; [para 4.8.26]

53. instituting a system of take over of records for audit must be started as against the present practice of handing over of records which has resulted in shifting the responsibility. Record Keeper and the Manager/Head Asst. of the Local Body shall be made responsible for upkeep and production of records to audit. [para 4.8.26]

CHAPTER 9 : MECHANISM FOR PERFORMANCE AND ACCOUNTABILITY

54 (a). A reward system for good work by incentive (cash award and certificate) and disincentives for poor/bad work should be evolved to motivate local body personnel to give out their best; [para 4.9.09]

(b) a system of incentive by way of cash award and certificates to the best elected representatives viz. the Presidents/Chairmen/ Mayors and to the best Local Bodies is considered necessary. [para 4.9.09]

55. a systematic communication of local Government's performance should be evolved so as to make them visible to the citizens or residents. Local officials should also cultivate the habit

of reporting their performance to citizens periodically so as to make their performance visible. Preparation and publication of annual performance report that describes, in simple terms, the performance of the Local Body in terms of achievements against the goal set, basic features of revenue and expenditure sources for the budget and measures of the quantity and quality of services provided by the local Government, giving comparison with previous years and with other similar local governments; [para 4.9.09]

56. establishment of clear management responsibilities is necessary, making it clear as to who is responsible for the services and financial performance of specific departments, operational statements indicating quality and quantity of output expected, and accounting records sufficient to enable evaluation of the cost for the unit of quality and quantity of service and performance of individuals and departments; [para 4.9.09]

57. creation of Lok Pal or Lok Ayukta type of institution or OMBUDSMAN is necessary to monitor the accountability of elected representatives of the Local Bodies. [para 4.9.09]

CHAPTER 10 : DATA BASE FOR LOCAL BODIES

58. creation of an Urban Information System (URBIS) for the creation of Data Base for every urban local body viz. Town Panchayat, Municipality and Corporation should be an integral part of improving its managerial efficiency. Efforts put forth for creation of a Database for Chengalpattu Municipal Town, may be followed up for the creation of Data Base for other Municipal Towns as well. In the case of Town Panchayats data base can be created at the District Level/ Regional Level with reference to the jurisdictions of the Assistant Directors of Town Panchayats. In the case of Corporations, data base can be created at Corporation Level. [para 4.10.06]

59. a steering group may be constituted in the Directorate of Municipal Administration/ Directorate of Town Panchayats with experts in the field and users to give necessary technical advise and guidance and to monitor the progress. [para 4 10 06]

60. setting up of Rural Information system (RURIS) for rural Local Bodies, similar to urban information system (URBIS) is necessary. Management Information System by introducing Computers at Panchayat Union level and district level for aggregation of data available at the level of Village Panchayats and at the Panchayat Union level is necessary. [para 4.10.06]

61. Data already available at the District Level through NICNET may be utilised for developmental planning. [para 4.10.06]

62. a steering group may be constituted in the Directorate of Rural Development with experts in the field, users etc., to give necessary technical guidance periodically and to monitor the progress. [para 4.10.06]

63. the Government must assist initially for the capital expenditure towards computerisation at Panchayat Union Level, District Panchayat Level, Municipal Level and District/Regional Level in respect of Town Panchayats as a one time grant, which will be maintained by the respective local bodies. In the case of Town Panchayats, the maintenance cost should be shared by the Town Panchayats in the District/Region. [para 4.10.06]

Part V

RESOURCE ALLOCATION MECHANISM

CHAPTER 1 : INTRODUCTION

1. With regard to the Resource Allocation Mechanism (RAM), the Commission has highlighted certain important aspects of the present financial position of the Local Bodies and the State Government as well. Micro level organisations like Village Panchayats and other Local Bodies should be strengthened in terms of finance and administration to achieve satisfactory delivery of services.

The Commission has proceeded from the **needs angle** -- needs currently being attended to and the emerging needs in the coming years on account of the growing aspirations of the people. A detailed study has been made of the norms and standards for the six core services as detailed below:

i) Drinking Water,
ii) Roads,
iii) Street Lighting,
iv) Sanitation/Sewerage,
v) Solid Waste Management,
vi) Storm Water Drains.

The financial implications of the operation and maintenance expenditure relating to these six core civic services have also been worked out and the financial gap has been arrived at.This resource gap will have to be filled up from three sources.

i) Own resources of the Local Bodies;
ii) Allocation of funds by the State Government in the form of assignments and grants.
iii) Financial assistance from the Central Government.

2. It is inescapable that the State and the Central Governments will have to come forward to bridge the need gap with necessary financial assistance in the form of grants and share of revenues to help the Local Bodies carry out their functions. The Local Bodies, hereafter, will constitute a new Government below the State. In other words, Local Bodies are now endowed with Constitutional status and statutory responsibilities to fulfil the needs of the people. Hence, there should **be a well worked out and comprehensive scheme of transfer of resources to Local Bodies** from the higher tiers.

In this regard, the State Finance Commission considered the following aspects:

(i) Full exploitation of revenue potential, proper assessment of property, easy procedure for appeal, revision of rates on both residential and commercial properties and the components of property tax, enforcement of good collection, thorough review of exempted cases from property

tax net, revision of rates of other Local Body taxes and optimum adoption of user charges will strengthen the mobilisation of internal resources.

(ii) Assignment of additional taxes, subject to the efficiency of Local Body to collect those taxes, and piggy-backing on certain elastic resources such as excise duty, sales tax and motor vehicles tax etc., will improve revenues of the Local Bodies.

(iii) The sharing might be through a formula based on factors such as Revenue collection efficiency, population and expenditure needs. Grant distribution policy should satisfy the principle of equalisation of expenditure, i.e., the transfer should be made in such a way as to reduce the imbalances and equalise the financial status and service levels of the Local Bodies.

(iv) The feasibility of privatising those services where NGOs can provide efficient services at competitive cost depending on the nature and type of service should be explored.

The problem of fiscal gap can be addressed, in principle, in four different ways:

a) increased local revenue effort;
b) increased local revenue authority;
c) increased transfers from higher levels of Government; and,
d) reduced local expenditure authority;

CHAPTER 2 deals with the status of State's finances. It contains a forecast of Revenue Generation for 5 years commencing from 1997-98 to 2001-2002, as furnished by the State Government.

CHAPTER 3 describes the existing scenario of the local body finance with reference to different types of local bodies, both rural as well as urban.

CHAPTER 4 furnishes a detailed picture about fiscal projections and resources gap, in relation to local body finance. The resource gap has been worked out on the basis of normative levels of services and the consequent financial implications relating to operation and maintenance expenditure.

CHAPTER 5 : FISCAL DEVOLUTION FROM GOVERNMENT

3. A sound design for Resource Allocation Mechanism has to meet the following objectives: (Para 5.5.4)

* Efficiency;
* Equity;
* Growth; and
* Autonomy.

Deducting Entertainment Tax included in Pool A, the net State Tax will be **Rs.7747 Crores. Percentage of Pool B works out to 8% on the net**. (Para 5.5.18)

6. The need for filling up the Gap over and above the additional tax and non-tax revenues of the local bodies have been considered with reference to the fiscal gap of individual units. As already pointed out, the overall aggregate deficit indicated in the tables 5.25 to 5.31 in the Report does not really reflect the position of individual units. However, examining samples of a few of these units with reference to real deficit, the State Finance Commission has arrived at the quantum of devolution needed from the net tax revenue of the State for the 5 years covering 1997 to 2002. (Para 5.5.19)

DISTRIBUTION: (Para 5.5.21)

7. Quantum of devolution from the net tax revenue of the State has been proposed after considering the devolution that would be feasible due to constraints on State Fiscal Conditions. It is also a point whether the Local Bodies would have built the capability to absorb any sudden jump in devolution in the very first year itself, because they will have to get properly equipped to manage the funds provided. In this context, the State Finance Commission considered whether the devolution can be in a phased manner to reach the target percentages atleast during the last year i.e. 2001-2002. Accordingly, State Finance Commission fixed the overall percentage for devolution in a phased manner. The percentage of devolution proposed for each year with gradual increase is as below:-

1997-98	-	8%
1998-99	-	9%
1999-2000	-	10%
2000-01	-	11%
2001-02	-	12%

SPECIAL RESERVE FROM GLOBAL SHARING: (Para 5.5.22)

8. The State Finance Commission recommends that the quantum of general allocation based on 8, 9, 10, 11, and 12 percentages for the respective year from the Divisible Pool B can be distributed after 15% of that is set apart as Reserve to meet the post devolution conditions:

> **Equalisation and incentive fund**: (1) to correct deficiencies arising in the implementation of principle of distribition newly suggested and (2) **Incentive fund** to continue the incentive grants now made available for improvement of local tax collection efforts and the resources in the rural local bodies, viz., House Tax Matching Grant and Local Cess Surcharge Matching Grant. A part of it can be utilized for rewarding performance in tax collection in the Urban Local Bodies as well. A portion of the Incentive Fund can be utilised for rewarding the best Institution, Leader and Employee also, on the basis of a detailed Scheme to be worked out by the Government.

4. In order to achieve the above mentioned objectives, the design for RAM should be based on the following principles: (Para 5.5.5)

* Simplicity;
* Transparency;
* Dynamism;
* Pragmatism; and
* Predictability.

5. The suggestions incorporated in Part II of the Report aim at devolution from various sources of State revenues. They will form the basis for recommendations of State Finance Commission for financial devolution. Those recommendations aim at assistance on indivudual tax base. However, for having a percentage of general sharing from the State Taxes, they have been taken as basis, as indicated in the Pool A and B below. If a general sharing is not accepted, the sharing of individual taxes will arise. (Para 5.5.18)

I. **Pool A**:This contains taxes which rightly belong to the local bodies but collected by the Government - The items included and projection of income for 1997-98 are as below. This is not included in the Total Tax Revenue Projections furnished by Government except for Entertainment Tax. This is to be distributed among the Local Bodies concerned.

	Projection for 1997-98 Rs. in Crores
a) Surcharge on stamp duty (Figures arrived at based on actuals for 1995-96 indicated by the Registration Department during evidence)	230.00
b) Local Cess and Local Cess Surcharge (Due as per the basic L.R. computed by Damodaran Committee, 1990 - at Rs.5.30 crores)	30.00
c) Entertainment Tax	120.00
Total	**380.00**

II. **Pool B**: This forms the nucleus for General Devolution from Net Tax Revenue of the State to the Local Bodies. This quantum and percentage has been computed by adding the shares recommended by State Finance Commission on certain Levies in Part II and also from other State Taxes and projected for 1997-98.

		Rs. in Crores	
a)	Sales Tax }		
b)	Motor Vehicle Tax }	620.00	
c)	State Excise Revenue }		
d)	All others }		
	Total		**620.00**
	Total Tax Revenue of the State projected for 1997-98		**7867.00**

9. In this context, it may be noted that the Equalisation Fund proposed considering the fact that the distribution under the new formula is being made for the first time and that there may be genuine cases where the new system may not work in its true spirit. The quantum needed cannot be decided at this stage and hence an ad hoc provision has been suggested. With the experience gained during the first year of distribution, the reserve for the future years can be suitably modified. If any sum is left undisbursed out of the Equalisation Fund, it can be redistributed to all the Local Bodies on the principles as formulated for general distribution. The question of surrendering the reserve may not, therefore arise.

10. Out of the total net allocation available for general distribution under the Divisible Pool B, as stated in earlier paras, 15% had been earmarked for Equalisation and Incentive Fund. The remaining 85% may be made available for distribution on the formula proposed by the State Finance Commission for sharing between Urban and Rural Local Bodies and for inter se distribution among the various tiers. This special reserve Fund may be kept at the State level.

11. The 85% of net allocation available for general distribution indicated in earlier paragraphs, will be allocated for vertical and horizontal distribution as per the principles discussed hereafter. These principles have emerged after detailed discussions with Line departments and the State Planning Commission.

CHAPTER 6 : RESOURCE ALLOCATION MECHANISM (Para 5.6.6)

12. According to the terms of reference, the State Finance Commission is to recommend the principles which should govern the distribution of resources between the State and the Local Bodies. While doing so, the following aspects are borne in mind: (5.6.6)

(i) the transfer of resources is on revenue account only i.e. for operation and maintenance (O & M),

(ii) the resources should be utilised for core civic services by the Local Bodies,

(iii) the financial position of the Local Bodies should be assessed upto 31.3.94 and the allocation is to be recommended for application for a period of 5 years commencing from April 1997 onwards.

VERTICAL AND HORIZONTAL DISTRIBUTION: (Para 5.6.8)

13. This allocation available for general distribution from State to Local Bodies involves the following two vertical levels and the third, horizontal level of distribution and the recommendations are as below.

LEVEL I: (Vertical) Allocation of funds earmarked by the State for transfer to Local Bodies

(i) Rural Local Bodies and

(ii) Urban Local Bodies

LEVEL II: (Vertical) Distribution of allocations earmarked to Rural/Urban Local Bodies in Level I to the respective tiers of District Panchayats, Panchayat Unions, Village Panchayats under Rural and Town Panchayats,Municipalities and Municipal Corporations under Urban.

LEVEL III: (Horizontal) Inter se distribution of funds allocated to the respective tiers viz. allocation among Village Panchayats/Panchayat Unions/ District Panchayats and Town Panchayats /Municipalities/ Municipal Corporations.

14. To decide these transfers to appropriate levels as explained above, the principles followed should be:

(i) Simple and clear
(ii) Based on data which are available and authentic;
(iii) Just and equitable.

The methodology recommended by the State Finance Commission for the transfer of funds from State to Rural and Urban Local Bodies are given below:(Para 5.6.9, 5.6.11)

Level-I : From State to Rural and Urban Local Bodies: (Vertical) (Para5.6.12)

The population formula is generally accepted as a good basis for allocation of funds to Local Bodies both from the point of view of volume of services to be delivered and from the point of equity. The transfer of funds from State to Rural and Urban Local Bodies will therefore be based on population as per the last census. The ratio for the distribution of funds between the Rural and the Urban Local Bodies would be 60:40.

Level-II : Rural (Vertical) (5.6.13)

Distribution from out of the funds allotted to the **Rural Pool** to different tiers viz.:

(i) District Panchayats
(ii) Panchayat Unions
(iii) Village Panchayats will be as follows:

(i) **District Panchayats**: The District Panchayat is a new phenomenon and its structure and functions are yet to be spelt out clearly. Hence, only a lumpsum grant (Block grant) is now suggested to meet its actual needs out of the total allocation for the Rural Pool. Tentatively, this is fixed at 14% of the total Rural Pool.

(ii)**Panchayat Unions/Village Panchayats**: Considering the number of Institutions involved, their respective sphere of activities, nature and level of civic services and the staff deployed to carry out such services, the ratio between the Panchayat Unions and Village Panchayats has been recommended on 50:50 basis, out of the balance remaining, after distribution to District Panchayats under (i) above.

Leve III : (A) Interse Distribution - Panchayat Unions:

(i)	Weightage on total population (last census) of the Panchayat Union	50%
(ii)	Weightage on SC & ST Population	25%
(iii)	Weightage for financial viability of Panchayat Unions (Average Per Capita Land Revenue)	25%
	Total :	**100%**

15. Since the categorisation of the Panchayat Unions has been done on the basis of their average per capita land revenue earnings, this parameter acts as a proxy for the financial strength of the local bodies. The lower category can be assigned a higher weightage, so that the local bodies under this category can be compensated for their lower earnings, while the higher category of Panchayat Unions can get relatively lower weightage, with the highest category getting the least weight. (Para 5.6.14)

16. In view of the fact, that the population in the Panchayat Unions is the dominant factor that derives benefits from the expenditure of the Unions, a larger weightage in the allocation process is given to the above factor. The weightage suggested is 50%. The balance of 50% is assigned to the other bases viz. 25% Weightage on SC & ST population and - 25% allocated for financial viability. This financial indicator means an inverse proportion for weightage viz. the higher the per capita land revenue the lesser the weightage to be given and lower the per capita, higher the weightage. The formula for the Panchayat Unions has been demonstrated in the sample furnished in Appendix (Para 5.6.15)

17. The horizontal distribution of funds allotted to Village Panchayats will be as below:- (Para 5.6.16)

Level III (B): Inter se Distribution - Village Panchayats

(i)	Weightage on Total population (Last Census i.e. 1991)	-	50%
(ii)	Weightage on SC/ST population (Last Census i.e. 1991)	-	15%
	Sub Total		**65%**
(iii)	Per capita House Tax Collection Performance	-	15%
(iv)	Core Civic Services infrastructure maintenance deficiency (with reference to physical assets available in the Village Panchayat area)	-	20%
	Total		**100**

NB: For sample Village Panchayats, the formula has been demonstrated in Appendix.

18. The Principles of distribution recommended by the State Finance Commission of **urban** allocations are as below:- (Para 5.6.17)

Urban Local Bodies (Vertical)

Level I (Vertical) Distribution of funds from the state to the Rural and Urban Local Bodies based on the ratio of population of Rural and Urban Local Bodies i.e. 60:40 basis. (As already indicated under Rural)

Level II (Vertical) Distribution of funds from the **Urban pool** to different tiers

(i) Town Panchayats
(ii) Municipalities. and
(iii) Corporations

19. The above distribution is based on the ratio of the total population of respective tiers viz. Town Panchayats, Municipalities and Corporations based on - 1991 census figures. (Para 5.6.18)

The current ratio will be:

		Percentage
(i)	Town Panchayats	38
(ii)	Municipalities.	31
(iii)	Municipal Corporations	31

Level III (Horizontal) Distribution of funds inter se the institutions viz. Town Panchayats, Municipalities and Municipal Corporations

20. The following principle of weightage will be adopted for inter se distribution from out of the divisible pool of the respective tier of Local Body. (Para 5.6.19)

	Town Panchayats	Municipalities	Corporations
(i)Total Population (1991)	45%	45%	40%
(ii)Total SC/ST Population (1991)	20%	10%	10%
Sub Total	**65%**	**55%**	**50%**
(iii) **Financial indicator** Per Capita receipt under own resources (Average of both Tax and Non-Taxresources for the last 3 years ending with 31.3.94)	15%	15%	15%
(iv) **Service indicator** (Existing Per Capita Expenditure on core civic services for the last 3 years ending with 31.3.94.)	20	30	35
Total	**100**	**100**	**100**

21. OPERATIVE PORTION OF THE REPORT: (Para 5.6.21)

Pool A: This contains taxes which belong to Local bodies but collected by the Government. However, this does not form part of State taxes except for Entertainment Tax. This is to be distributed among the Local bodies concerned.

		Projection for 1997-98 (Rupees in Crores)
a)	Surcharge on Stamp Duty	230.00
b)	Local Cess and Local Cess Surcharge	30.00
c)	Entertainment Tax	120.00
	Total:	**380.00**

Pool B: This is the divisable pool containing all State taxes excluding Entertainment Tax in Pool A.

			Projection for 1997-98 (Rupees in Crores)
a)	Sales Tax	}	620
b)	Motor Vehicle Tax	}	(This constitutes nearly
c)	State Excise Revenue	}	8 percent of the Divisible
d)	All Others	}	Pool*)

*** DIVISIBLE POOL:** Total tax revenue of the State projected for 1997-98 = Rs.7867 crores - Entertainment Tax of Rs.120 crores = Rs.7747 crores.

Progressive Devolution: Pool B

1997-98	8%	of the total tax revenue of the State
1998-99	9%	-do-
1999-2000	10%	-do-
2000-01	11%	-do-
2001-02	12%	-do-

Principles of Distribution: Only out of Pool B

Total	100%
State Reserve (15% towards Equalization Fund and Incentive Fund)	15%
Divisible Pool	85%

		Out of 85	Out of 100
Rural Local bodies	-	**51**	**60**
District Panchayat	-	7	8
Panchayat Union	-	22	26
Village Panchayat	-	22	26
Urban Local bodies	-	**34**	**40**
Corporation	-	10.5	12.5
Municipalities	-	10.5	12.5
Town Panchayats	-	13	15

Mode of Release:

Funds will be released by the State Government to the local bodies in three instalments as follows:

1st Instalment - April - May	-	25% of provision
2nd Instalment - August - September	-	50% of provision
3rd Instalment - January-February	-	25% of balance

The difference with actuals will be adjusted during the release of Ist Instalment of the following years.

22. ADDITIONAL DEVOLUTION BY THE STATE: (Para 5.6.21)

1993-94 (Actuals)	-	Rs.341.5 Crores
1996-97 (R.E.)	-	Rs.556.90 Crores
1997-98 (SFC's Recommendation)	-	Rs.1000 Crores
Percentage of increase over the previous year	-	80%

The impact of devolution proposed for the period from 1997-98 to 2001-02 is attached.

Once the principles of devolution on the above basis are given effect to, the assistance to be based on individual taxes and tied and un-tied grants for maintenance purposes will not arise. However, it needs to be explained, that these recommendations are related to the existing levels of service. Any further devolutions of functions and additional infrastructure creation in future years will have to be taken care of separately outside the scope of the devolution now proposed, since the yearwise devolutions are designed to take into account the inflationary trends of existing assets only.

CHAPTER 7 : PRINCIPLES FOR DISTRIBUTION OF ALLOCATION MADE BY THE TENTH FINANCE COMMISSION

23. CAPITAL FUND: (Para 5.7.11 to 5.7.16)

The TFC award along with investment by surplus local bodies will constitute a Corpus fund, in which Local Body will hold shares and State Government will give matching contribution. Over this market borrowing could be done for the Capital Fund. It could be accessed through matching contribution by the local bodies.

Statement Showing the Devolution to Local Bodies

(Rs. in Crores)

	O.R.	Local Base Tax Pool A	Divisible Pool B (85% for Local Bodies)	Equalization & incentive Fund (15% of the Pool B) State Reserve	Total	Total Expenditure Proposed	Net Position
1997-1998	518.05	380.00	527.00	93.00	1518.05	1472.50	45.55
1998-1999	556.19	410.40	655.68	115.71	1737.98	1619.74	118.24
1999-2000	655.97	448.23	805.56	142.34	2053.10	1781.34	271.76
2000-2001	723.87	478.69	931.17	164.32	2298.05	1959.92	338.13
2001-2002	800.48	516.99	1066.21	188.15	2571.77	2156.10	415.67

ABBREVIATIONS USED

PART I

MLA	-	Member of Legislative Assembly
MP	-	Member of Parliament
O&M	-	Operation and Maintenance
VIP	-	Very Important Person

PART II

SFC	-	State Finance Commission
ARV	-	Annual Rental Value
TV	-	Television
ISD	-	International Subscriber Dialing
STD	-	Subscriber Trunk Dialing
LBs	-	Local Bodies
NGOs	-	Non-Governmental Organisations
EXNORA	-	Excellence Novel Radical
ST Act	-	Sales Tax Act
LCs	-	Local Cess Surcharge
D.A.	-	Dearness Allowance
S.G.	-	Selection Grade
Spl.Gr.	-	Special Grade
TPs.	-	Town Panchayats
LC	-	Local Cess
LR	-	Land Revenue
PUs	-	Panchayat Unions
VPC Fund	-	Village Panchayat Consolidated Fund
ET	-	Entertainment Tax
VPs	-	Village Panchayats
CE (HW)	-	Chief Engineer Highways
MVT	-	Motor Vehicle Tax
PWD	-	Public Works Department
DPs	-	District Panchayats
TWAD	-	Tamil Nadu Water Supply & Drainage Board
LF AUDIT	-	Local Fund Audit
PF	-	Provident Fund
D&O Trade	-	Dangerous and Offensive Trade

PART III

BOO	-	Build, Operate and Own
BOOT	-	Build, Operate, Own and Transfer
BOT	-	Build, Operate and Transfer
BT	-	Black Top
CIDCO	-	City and Industrial Development Corporation
HDFC	-	Housing Development Finance Corporation
ICICI	-	Industrial Credit and Investment Corporation of India
IDSMT	-	Integrated Development of Small and Medium Towns
ILFS	-	Industrial Leasing Finance Corporation

LIC	-	Life Insurance Corporation
MIDC	-	Metropolitan Infrastructure Development Corporation
MMWSSB	-	Madras Metro Water Supply and Sewerage Board
MUDF	-	Municipal Urban Development Fund
NRY	-	Nehru Rojgar Yojna
TNUDF	-	Tamilnadu Urban Development Fund
TUFIDCO	-	Tamilnadu Urban Finance and Infrastructure Development Corporation
WBM	-	Water Bound Mecadum

PART IV

JVVT	-	Jawahar Velai vaippu Thittam
PAC	-	Public Accounts Committee
MYRADA	-	A non Governmental organization
NICNET	-	National Informatics Centre
NIPFP	-	National Institute of Public Finance and Policy
NSS	-	National Service Scheme
NRY	-	Nehru Rozgar Yojana
UBSP	-	Urban Basic Service Programme
UNICEF	-	United Nations International Children Emergency Fund

PART V

RE	-	Revised Estimate
OR	-	Own Revenue
TFC	-	Tenth Finance Commission

ABBREVIATIONS

AG	-	Accountant General
AR	-	Assigned Revenue
ARV	-	Annual Rental Value
ASC	-	Additional Surcharge
BOO	-	Build, Operate and Own
BOOT	-	Build, Operate, Own and Transfer
BOT	-	Build, Operate and Transfer
BT	-	Black Top
CE	-	Chief Engineer
CD	-	Community Development
CIDCO	-	City and Industrial Development Corporation
CMDA	-	Chennai Metropolitian Development Authority
COPP	-	Committee on Plan Projects
CO	-	Carbon Monoxide
CPHEEO	-	Central Public Health and Environmental Engineering Organisation
CT	-	Commercial Taxes
CV	-	Coefficient of Variation
DA	-	Dearness Allowance
DMA	-	Director of Municipal Administration
D&O Trade	-	Dangerous and Offensive Trade
DP	-	District Panchayats
DPC	-	District Planning Committee
DRDA	-	District Rural Development Agency
DTCP	-	Director of Town and Country Planning
EAS	-	Employment Assurance Scheme
ET	-	Entertainment Tax
EXNORA	-	Excellence Novel Radical
GOG	-	Government of Gujarat
GOI	-	Government of India
HDFC	-	Housing Development and Finance Corporation
HH	-	House-holds
HP	-	Hand Pump
HP	-	Horse Power
H&RW	-	Highways and Rural Works
HSC	-	House Service Connection
HUDCO	-	Housing and Urban Development Corporation
ICICI	-	Industrial Credit and Investment Corporation of India
IDSMT	-	Integrated Development of Small and Medium Towns
IJVVT	-	Intensive Jawahar Velai Vaippu Thittam
ILFS	-	Industrial Leasing Finance Corporation
IMFS	-	Indian Made Foreign Spirit
IRDP	-	Integrated Rural Development Programme

JVVT	-	Jawahar Velai Vaippu Thittam
Km.	-	Kilometre
LBs	-	Local Bodies
LC	-	Local Cess
LCS	-	Local Cess Surcharge
LCS	-	Low Cost Sanitation
LF	-	Local Fund
LIC	-	Life Insurance Corporation
LPCD	-	Litre Per Capita per Day
LR	-	Land Revenue
LRG	-	Local Roads Grant
MC	-	Municipal Corporations
MIDC	-	Metropolitan Infrastructure Development Corporation
MLA	-	Member of Legislative Assembly
MMDA	-	Madras Metropolitan Development Authority
MMWSSB	-	Madras Metropolitan Water Supply and Sewerage Board
MP	-	Member of Parliament
MRL	-	Madras Refineries Limited
MUDF	-	Municipal Urban Development Fund
MVT	-	Motor Vehicle Tax
MYRADA	-	A Non-Governmental Organisation
NA	-	Not Available
NES	-	National Extension Service
NGO	-	Non-Governmental Organisation
NICNET	-	National Informatics Centre Network
NIPFP	-	National Institute of Public Finance & Policy
NIUA	-	National Institute of Urban Affairs
NMP	-	National Master Plan
NREP	-	National Rural Employment Programme
NRY	-	Nehru Rojgar Yojna
NSDP	-	Net State Domestic Product
NSS	-	National Service Scheme
NTADCL	-	New Tiruppur Area Development Company Limited
O&M	-	Operation and Maintenance
OR	-	Own Revenue
ORG	-	Operation Research Group
PAC	-	Public Accounts Committee
PC	-	Planning Commission
PD	-	Panchayat Development
PF	-	Provident Fund
PRI	-	Panchayat Raj Institutions
PUC	-	Panchayat Union Council
PUs	-	Panchayat Unions
PWD	-	Public Works Department
RAM	-	Resource Allocation Mechanism

RCC	-	Reinforced Cement Concrete
RE	-	Revised Estimate
RLEGP	-	Rural Landless Employment Guarantee Programme
SC	-	Surcharge
SFC	-	State Finance Commission
SP	-	Stand Post
SPIC	-	Southern Petro-chemical Industries Corporation Limited
SPS	-	Sector Policy Study
ST	-	Sales Tax
SVL	-	Sodium Vapour Lamps
TCPO	-	Town and Country Planning Organization
ToSWs	-	Task Force on Sanitation and Water Supply
TN Act	-	Tamil Nadu Act
TNGST Act	-	Tamil Nadu General Sales Tax Act
TNP Act	-	Tamil Nadu Panchayats Act
TNSFC	-	Tamil Nadu State Finance Commission
TNUDF	-	Tamil Nadu Urban Development Fund
TNWSSP	-	Tamil Nadu Water Supply and Sewerage Project
TPs	-	Town Panchayats
TUFIDCO	-	Tamil Nadu Urban Finance and Infrastructure Development Corporation
TWAD	-	Tamil Nadu Water-supply and Drainage Board
UBSP	-	Urban Basic Service Programme
UGD	-	Under Ground Drainage
UNICEF	-	United Nations International Children Emergency Fund
VAT	-	Value Added Tax
VIP	-	Very Important Person
VPC Fund	-	Village Panchayat Consolidated Fund
VPs	-	Village Panchayats
WBM	-	Water Bound Macadum
ZC	-	Zakaria Committee

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The Commission wishes to thank the Commissioners of Data Centre and their team of officers in general and Thiru P.Masilamani and Thiru L.Gnanasambandam in particular, for their deep involvement in helping the Commission to enter the voluminous data collected into the compupters and providing the various tabulation statements needed for interpretation of the data. The Commission also is very much grateful to the Commissioner of Statistics who has helped in preparing various charts needed to be appended to its reports. The Commission is thankful to the Director, Tamil Translation for sending a team of staff under the leadership of Thiru T.Muthuraj for exact translation and reproduction of the Report in Tamil. The Commission is deeply obliged to the Commissioner and Joint Commissioner for Revenue Administration for the special efforts taken in obtaining the figures of land revenue demand from the districts which are of essential in classifying the Local bodies.

The Commission desires to place on record its gratitude for the valuable contribution made by Thiru P.V.Rajaraman, I.A.S., Thiru N.Narayanan, I.A.S., Thiru S.Gurumurthi, I.A.S., and Secretaries to Government, Finance Department from the inception of the Commission and also for their readiness to share their views on critical aspects of Local Body Finance with the Commission.

The Commission also wishes to place on record the help rendered by Dr. S.Narayan, I.A.S., Secretary to Government, Rural Development Department, Tmt.Malathi, I.A.S., Secretary to Government, Municipal Administration and Water Supply Department, Thiru K. Ashok Vardhan Shetty, I.A.S., Director of Rural Development, Thiru M. Devaraj I.A.S., and Thiru Sanwatram, I.A.S., Directors of Municipal Administration and Thiru Machendranathan, I.A.S., and Thiru R. Bhaskaran, I.A.S., Directors of Town Panchayat and their team of officials for their willing cooperation to render any assistance and also to part with any information needed for the Commission besides arranging for the various conferences and workshops with the officials of the respective departments. The Commission wishes to thank Thiru K.Skandan, I.A.S., the former Member Secretary who set the tone to the functioning of SFC and formulated various questionnaire for eliciting information from officials and non-officials.

The Commission wishes to thank Dr.M.S.Swaminathan of M.S.Swaminathan Foundation and Research Institute and Dr.Raja Chelliah, Chairman, NIPFP and Chairman, Madras School of Economics for all help and guidance in arranging the National workshop

at Chennai which was of immense use in studying the issues involved on all India basis. It is also the Commission's pleasant duty to profusely thank the Ministry of Urban Affairs and Employment and the Ministry of Rural Affairs and Employment, Government of India, for their liberal financial assistance in organising the National Conference on Local Body Finance at Chennai. The Commission also thanks Thiru C. Ramachandran, I.A.S., Secretary, Ministry of Urban Affairs and Employment and Tmt. Sushma Singh, I.A.S., Joint Secretary, Ministry of Rural Affairs and Employment, for their participation and encouragement given to the SFC in all its affiars.

But for the support received from Tmt. Sheela Balakrishnan, I.A.S., Commissioner of Stationery and Printing and the willing cooperation of the officers and staff at the Government Press, the Report of the Commission could not have been printed within the incredible short time. The Commission would fail in its duty if it did not thank them for this commendable effort.

The Commission also wishes to thank its counter-parts in other states to where the Commission visited for rendering all the help to study the systems in their respective states.

The Commission would like to place on record its gratitude and sincere appreciation of the dedicated, untiring and sustained efforts taken by Thiru R. Alakiriraju, Joint Secretary, Selvi Amelia G. Dare, Deputy Secretary and Thiru S. Ramachandran, Officer on Special Duty, the officers of the SFC and the members and staff in all cadre in the stupendous task of the Commission and help rendered for submitting the Report on time.

Since it is not possible to mention individually all those who have assisted the Commission in its deliberations, the Commission finally thanks one and all such individuals for their help and assistance on time.

* * *

STATE FINANCE COMMISSION

The State Finance Commission in its Ninth Meeting held on 11/12th November 1996. Resolves to accept and adopt the final Report for presentation to the Governor/Government of Tamil Nadu.

R. ARUMUGAM,
Chairman.

KUZHA CHELLIAH,
Member.

SANWAT RAM,
Member.

RAMESHRAM MISHRA,
Member Secretary.

ASHOK VARDHAN SHETTY,
Member.

Appendix No.78

PANCHAYAT UNIONS – AGGREGATE REVENUE RECEIPTS & EXPENDITURE FROM 1989/90 TO 1993/94

Details	1989/90	1990/91	1991/92	1992/93	1993/94	5 yr.avg
Revenue Receipts :			(Rs. in thousand)			
Own tax	128552	151844	95523	154561	212353	148567
Shared revenue	65542	87848	70039	84052	97011	80899
Non tax	149995	164380	183151	201665	222573	184352
Grants-in-aid	1700220	2077894	2259084	2513408	3276021	2365325
investments realised	9495	15595	9107	10796	65201	22039
Total :	**2053804**	**2497561**	**2616904**	**2964482**	**3873159**	**2801182**
Revenue Expenditure :						
On Management	261227	268202	282395	317899	364318	298808
Obligatory Services	230178	288182	253287	253246	293617	263703
Discretionary Services	55618	65484	54630	63400	85283	64883
Agency Services	71161	63146	87254	87538	108634	83546
Water Supply	67325	58703	76681	75357	92741	74161
Street Light	3836	4443	10573	12181	15893	9385
Development Grants	1379772	1616422	1577327	1767319	2399029	1747974
Total :	**1997956**	**2301436**	**2254893**	**2489402**	**3250881**	**2458914**
Revenue Receipts :			**(Per capita in Rs.)**			
Own tax	3.96	4.67	2.94	4.76	6.53	4.57
Shared revenue	2.02	2.70	2.16	2.59	2.98	2.49
Non tax	4.62	5.06	5.64	6.21	6.85	5.67
Grants-in-aid	52.31	63.94	69.51	77.34	100.80	72.78
investments realised	0.29	0.48	0.28	0.33	2.01	0.68
Total :	**63.19**	**76.85**	**80.52**	**91.22**	**119.18**	**86.19**
Revenue Expenditure :						
On Management	8.04	8.25	8.69	9.78	11.21	9.19
Obligatory Services	7.08	8.87	7.79	7.79	9.03	8.11
Discretionary Services	1.71	2.01	1.68	1.95	2.62	2.00
Agency Services	2.19	1.94	2.68	2.69	3.34	2.57
Water Supply	2.07	1.81	2.36	2.32	2.85	2.28
Street Light	0.12	0.14	0.33	0.37	0.49	0.29
Development Grants	42.45	49.74	48.53	54.38	73.82	53.78
Total :	**61.48**	**70.81**	**69.38**	**76.60**	**100.03**	**75.66**
Revenue Receipts :			**(percentages)**			
Own tax	6.26	6.08	3.65	5.21	5.48	5.30
Shared revenue	3.19	3.52	2.68	2.84	2.50	2.89
Non tax	7.30	6.58	7.00	6.80	5.75	6.58
Grants-in-aid	82.78	83.20	86.33	84.78	84.58	84.44
investments realised	0.46	0.62	0.35	0.36	1.68	0.79
Total :	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Revenue Expenditure :						
On Management	13.07	11.65	12.52	12.77	11.21	12.15
Obligatory Services	11.52	12.52	11.23	10.17	9.03	10.72
Discretionary Services	2.78	2.85	2.42	2.55	2.62	2.64
Agency Services	3.56	2.74	3.87	3.52	3.34	3.40
Water Supply	3.37	2.55	3.40	3.03	2.85	3.02
Street Light	0.19	0.19	0.47	0.49	0.49	0.38
Development Grants	69.06	70.24	69.95	70.99	73.80	71.09
Total :	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

APPENDIX 79

DETAILS OF POPULATION, CATEGORY WISE AND PERCENTAGE - PANCHAYAT UNIONS.

Category	*SC/ST*	*% to total*	*Male*	*% to total*	*Female*	*% to total*	*Total Pop.*	*% to total*	*No. of VP*	*% to total*	*Area (Sq.Km)*	*% to total*
I	9,53,711	27.4	17,49,547	50.3	17,25,233	49.7	34,74,780	100.0	1,484	11.8	10,144	8.7
II	8,47,012	27.4	15,56,010	50.3	15,37,455	49.7	30,93,465	100.0	1,238	9.8	10,218	8.7
III	12,50,432	23.7	26,39,863	50.1	26,33,335	49.9	52,73,198	100.0	2,118	16.8	22,114	18.9
IV	30,60,651	26.2	58,97,085	50.5	57,86,333	49.5	116,83,418	100.0	4,862	38.6	40,077	34.2
V	8,67,752	23.1	19,06,878	50.7	18,54,134	49.3	37,61,012	100.0	1,361	10.8	14,137	12.1
VI	11,52,349	22.1	26,52,257	50.9	25,61,536	49.1	52,13,793	100.0	1,520	12.1	20,537	17.5
TOTAL	81,31,907	25.0	164,01,640	50.5	160,98,026	49.5	324,99,666	100.0	*12,583	100.0	1,17,227	100.0

*

NB: VP=Village Panchayat. Before Panchayat elections one more Village Panchayat added. So total no.of Village Panchayat now is 12,584.

APPENDIX 80

REVENUE RECEIPTS AND EXPENDITURES CATEGORY WISE WITH RANGES - PANCHAYAT UNIONS

year of a/c	category	Revenue Receipts (In rupees)						Revenue Expenditure (In rupees)					
		up to 25lakh	lakhs 25-50	lakhs 50-75	lakhs 75-100	100 lakhs & above	total	up to 25lakhs	lakhs 25-50	lakhs 50-75	lakhs 75-100	100 lakhs & above	total
89 - 90	I	1	16	15	5	3	40	4	19	11	5	1	40
89 - 90	II	6	13	9	9		37	9	11	12	5		37
89 - 90	III	7	25	18	9	5	64	7	25	17	8	7	64
89 - 90	IV	14	36	58	19	4	131	16	42	54	13	6	131
89 - 90	V	6	20	14	5	2	47	7	21	12	7		47
89 - 90	VI	13	27	14	8	3	65	16	26	12	8	3	65
89 - 90	**Total :**	**47**	**137**	**128**	**55**	**17**	**384**	**59**	**144**	**118**	**46**	**17**	**384**
90 - 91	I	1	6	12	10	11	40	1	11	17	6	5	40
90 - 91	II	2	11	10	7	7	37	2	13	11	6	5	37
90 - 91	III	3	11	25	18	7	64	5	14	25	13	7	64
90 - 91	IV	7	35	55	24	10	131	12	35	53	24	7	131
90 - 91	V	4	11	22	6	4	47	4	14	21	5	3	47
90 - 91	VI	8	20	24	10	3	65	11	25	20	5	4	65
90 - 91	**Total :**	**25**	**94**	**148**	**75**	**42**	**384**	**35**	**112**	**147**	**59**	**31**	**384**
91 - 92	I		4	11	16	9	40	3	9	18	5	5	40
91 - 92	II		10	10	10	7	37	2	15	10	7	3	37
91 - 92	III	2	14	23	15	10	64	3	17	22	13	9	64
91 - 92	IV	6	40	45	20	20	131	5	47	50	17	12	131
91 - 92	V	2	15	16	10	4	47	5	17	16	6	3	47
91 - 92	VI	8	16	26	14	1	65	11	29	21	3	1	65
91 - 92	**Total :**	**18**	**99**	**131**	**85**	**51**	**384**	**29**	**134**	**137**	**51**	**33**	**384**

APPENDIX 80—*cont.*

REVENUE RECEIPTS AND EXPENDITURES CATEGORY WISE WITH RANGES - PANCHAYAT UNIONS

year of a/c	category	Revenue Receipts (In rupees)						Revenue Expenditure (In rupees)					
		up to 25lakh	lakhs 25-50	lakhs 50-75	lakhs 75-100	100 lakhs & above	total	up to 25lakhs	lakhs 25-50	lakhs 50-75	lakhs 75-100	100 lakhs & above	total
92 - 93	I	1	3	10	8	18	40	1	7	17	13	2	40
92 - 93	II		8	8	12	9	37	2	11	12	5	7	37
92 - 93	III	1	10	21	16	16	64	1	19	19	12	13	64
92 - 93	IV	3	28	44	31	25	131	6	35	49	32	9	131
92 - 93	V	2	16	10	15	4	47	4	18	13	10	2	47
92 - 93	VI	5	10	31	10	9	65	5	24	22	8	6	65
92 - 93	**Total :**	**12**	**75**	**124**	**92**	**81**	**384**	**19**	**114**	**132**	**80**	**39**	**384**
93 - 94	I			4	5	31	40		2	11	17	10	40
93 - 94	II		4	11	10	12	37	2	5	11	11	8	37
93 - 94	III		1	12	23	28	64	2	4	16	20	22	64
93 - 94	IV	1	11	22	35	62	131	1	18	27	35	50	131
93 - 94	V	1	5	10	17	14	47	3	5	15	15	9	47
93 - 94	VI	5	7	18	17	18	65	5	12	24	13	11	65
93 - 94	**Total :**	**7**	**28**	**77**	**107**	**165**	**384**	**13**	**46**	**104**	**111**	**110**	**384**
5 YEAR AVERAGE I			1	12	15	12	40		6	22	9	3	40
5 YEAR AVERAGE II			9	10	11	7	37	2	9	15	7	4	37
5 YEAR AVERAGE III			5	29	16	14	64	1	13	26	15	9	64
5 YEAR AVERAGE IV		2	18	53	45	13	131	3	31	52	36	9	131
5 YEAR AVERAGE V		2	12	20	9	4	47	2	15	22	6	2	47
5 YEAR AVERAGE VI		4	11	32	15	3	65	3	28	23	8	3	65
5 YEAR AVERAGE Total :		**8**	**56**	**156**	**111**	**53**	**384**	**11**	**102**	**160**	**81**	**30**	**384**

APPENDIX 81

REVENUE SURPLUS / DEFICIT CATEGORY WISE WITH RANGES - PANCHAYAT UNIONS.

year of A/c	category	Revenue Surplus / Deficit (Rs. in Lakhs)												
		Below -10	-8 To -10	-6 To -8	-4 To -6	-2 To -4	0 To -2	2 To 4	0 To 2	4 To 6	6 To 8	8 To 10	Above 10	total
89 - 90	I	5	3	1	2	2	2	3	3	1	2	5	11	40
89 - 90	II	3		4	3	2	1	3	4	4	3	3	7	37
89 - 90	III	8	4	2	3	8	5	6	6	6	6	2	8	64
89 - 90	IV	7	5	8	12	11	15	18	14	5	11	5	20	131
89 - 90	V	4	1	2	3	4	5	6	4	7	2	3	6	47
89 - 90	VI	6	1	4	4	6	6	10	11	2	5	4	6	65
89 - 90	**Total :**	**33**	**14**	**21**	**27**	**33**	**34**	**46**	**42**	**25**	**29**	**22**	**5**	**384**
90 - 91	I	2		1	1				4	6	5	1	20	40
90 - 91	II	5	1	3	3	5	1	4	3	2			10	37
90 - 91	III	9	1		3	2	2	6	5	12	3	2	19	64
90 - 91	IV	16	5	5	5	6	16	15	10	9	5	4	35	131
90 - 91	V	7	2	1	1	6	3	3	6	3	2	3	10	47
90 - 91	VI	7		3	1	4	5	8	7	3	4	4	19	65
90 - 91	**Total :**	**46**	**9**	**13**	**14**	**23**	**27**	**36**	**35**	**35**	**19**	**14**	**11**	**384**
91 - 92	I	2			1	3	2		4				28	40
91 - 92	II	4			2	2	2	2		2	3	2	18	37
91 - 92	III	6	1	4	4	2	2	5	3	4	5	4	24	64
91 - 92	IV	14	4	6	5	11	9	8	14	5	9	3	43	131
91 - 92	V	6		1	1	4	3	4	4	2	3	2	17	47
91 - 92	VI	5	2	1			4	5	6	4	3	2	33	65
91 - 92	**Total :**	**37**	**7**	**12**	**13**	**22**	**22**	**24**	**31**	**17**	**23**	**13**	**16**	**384**

APPENDIX 81—*cont.*

REVENUE SURPLUS / DEFICIT CATEGORY WISE WITH RANGES - PANCHAYAT UNIONS.

year of A/c	category	Revenue Surplus / Deficit (Rs. in Lakhs)												
		Below -10	-8 To -10	-6 To -8	-4 To -6	-2 To -4	0 To -2	2 To 4	0 To 2	4 To 6	6 To 8	8 To 10	Above 10	total
92 - 93	I	1		1	1	1				3	1	2	30	40
92 - 93	II	6		1			3	1	2	3	1	3	17	37
92 - 93	III	9	1	2	1	3	4	3	4	7		1	29	64
92 - 93	IV	12	7	3	3	4	6	3	11	7	7	7	61	131
92 - 93	V	4	1		2	1		3	5	6	6		19	47
92 - 93	VI	5	3	3	2	1	3	3	6	4	4	2	29	65
92 - 93	**Total :**	**37**	**12**	**10**	**9**	**10**	**16**	**13**	**28**	**30**	**19**	**15**	**18**	**384**
93 - 94	I	2	1	1	1					1	1		33	40
93 - 94	II	7	1					2		3	1	5	18	37
93 - 94	III	9	1		1	4	3	2	3	3		3	35	64
93 - 94	IV	14		3	4	8	2	4	5	8	11	2	70	131
93 - 94	V	4		2	2	2	2	3	3	1	3	2	23	47
93 - 94	VI	9		2	3	3	1	2	3	6	1	2	33	65
93 - 94	**Total :**	**45**	**3**	**8**	**11**	**17**	**8**	**13**	**14**	**22**	**17**	**14**	**21**	**384**
5 YEAR AVERAGE	I	1					2		4	1	4	1	27	40
5 YEAR AVERAGE	II		1				7	2	3	2	2	2	18	37
5 YEAR AVERAGE	III	5		1	1		2	3	11	6	7	7	21	64
5 YEAR AVERAGE	IV	4	1	3	2	1	10	13	14	19	12	13	39	131
5 YEAR AVERAGE	V	2			3		2	6	6	6	5	8	9	47
5 YEAR AVERAGE	VI	2	2		1		5	6	4	9	7	5	24	65
5 YEAR AVERAGE	**Total :**	**14**	**4**	**4**	**7**	**1**	**28**	**30**	**42**	**43**	**37**	**36**	**13**	**384**

STATE FINANCE COMMISION

PANCHAYAT UNIONS

ANNEXURE 82

REVENUE RECEIPTS FOR ALL PANCHAYAT UNIONS

Revenue Receipts	*Actual for the year in thousands*						*Percentage to Total*						*Percapita in rupees*					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
REVENUE RECEIPTS																		
OWN TAX REVENUE																		
Local Cess Surcharge	128552	151844	95523	154561	212353	148567	6.3	5.8	3.7	5.2	5.5	5.3	4	5	3	5	7	5
Total	**128552**	**151844**	**95523**	**154561**	**212353**	**148567**	**4**	**5**	**3**	**5**	**7**	**5**						
ASSIGNED REVENUE																		
Local Cess	18668	31226	17063	27601	37440	26400	0.9	1.2	0.7	0.9	1.0	0.9	1	1	1	1	1	1
Entertainment Tax	45047	50539	46701	50375	53553	49243	2.2	1.9	1.8	1.7	1.4	1.8	1	2	1	2	2	2
Mines and Minerals	1827	6083	6275	6076	6018	5256	0.1	0.2	0.2	0.2	0.2	0.2						
Total	**65542**	**87848**	**70039**	**84052**	**97011**	**80899**	**2**	**3**	**2**	**3**	**3**	**2**						
NON TAX REVENUE																		
Fees under Public resort act	173	113	158	114	138	139												
Licence fees under D&O Trade	5833	6871	7363	7791	7451	7062	0.3	0.3	0.3	0.3	0.2	0.3						
Building Licences	5904	6809	7960	8769	8807	7650	0.3	0.3	0.3	0.3	0.2	0.3						
Encroachment fees	21			7	3	6												
Market/Shandy fees	10013	9945	10874	10283	12547	10732	0.5	0.4	0.4	0.3	0.3	0.4						
Advertisement Fees	96	98	65	257	66	116												
Fairs and Festivals	611	817	1029	1884	994	1067				0.1								
Fees on Remunerative Schemes	13028	12632	15244	18460	25035	16880	0.6	0.5	0.6	0.6	0.6	0.6				1	1	1
Ferry Service	635	863	847	869	951	833												
Fines & Penalties	507	434	252	389	521	421												
Rent on Lands & Buildings	539	435	418	391	441	445												
Rent on Rest House	133	97	98	113	116	111												
Rent on Stadium/Play ground	1		1	1	114	23												
Rent on shops/shopping	498	549	701	921	983	730												
Rent on Kalyana Mandapam	386	298	339	388	600	402												
Hire Charges of Plant & Machinery	3187	2920	3603	5338	6075	4225	0.2	0.1	0.1	0.2	0.2	0.2						

ANNEXURE 82—*cont.*

REVENUE RECEIPTS FOR ALL PANCHAYAT UNIONS

Revenue Receipts	*Actual for the year in thousands*						*Percentage to Total*						*Percapita in rupees*					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
Avenue Trees	865	820	745	751	1245	885												
Social Forestry	12478	14162	12625	24744	19151	16632	0.6	0.5	0.5	0.8	0.5	0.6				1	1	1
Fishery Rental	684	1324	868	966	1020	972		0.1										
Others	13207	23485	19750	23032	21869	20269	0.6	0.9	0.8	0.8	0.6	0.7		1	1	1	1	1
Receipt from Special services	11640	10728	18484	16858	15039	14550	0.6	0.4	0.7	0.6	0.4	0.5			1	1		
Income from investments	332	258	357	242	2589	756					0.1							
Interest amount	20674	20295	22295	23051	25703	22404	1.0	0.8	0.9	0.8	0.7	0.8	1	1	1	1	1	1
Lapsed deposit	8330	7703	11044	12116	8902	9619	0.4	0.3	0.4	0.4	0.2	0.3						
Contributions received	3478	3571	3052	3785	2220	3221	0.2	0.1	0.1	0.1	0.1	0.1						
Others	36742	39153	44979	40145	59993	44202	1.8	1.5	1.7	1.4	1.5	1.6	1	1	1	1	2	1
Total	**149995**	**164380**	**183151**	**201665**	**222573**	**184352**							**5**	**5**	**6**	**6**	**7**	**6**
GOVT. GRANTS FOR REVENUE ITEMS																		
Local Cess Surcharge	190433	211311	344764	328016	473622	309629	9.3	8.1	13.2	11.1	12.2	11.1	6	7	11	10	15	10
Small Savings Grant	602	607	2495	5289	8797	3558			0.1	0.2	0.2	0.1						
Total	**191035**	**211918**	**347259**	**333305**	**482419**	**313187**							**6**	**7**	**11**	**10**	**15**	**10**
NON STATUTORY GRANTS																		
Local Roads Grant	42045	52486	84253	112232	151058	88415	2.0	2.0	3.2	3.8	3.9	3.2	1	2	3	3	5	3
Minor Irrigation Grant	6060	7750	5098	4624	5392	5785	0.3	0.3	0.2	0.2	0.1	0.2						
Local Irrigation Grant	3961	6585	4878	5495	6629	5510	0.2	0.3	0.2	0.2	0.2	0.2						
Dispensary Grant	1688	1956	9618	3104	2293	3732	0.1	0.1	0.4	0.1	0.1	0.1						
Maternity Grant	22386	24156	26551	27506	29158	25951	1.1	0.9	1.0	0.9	0.8	0.9	1	1	1	1	1	1
Others	23304	39695	28486	39493	30779	32351	1.1	1.5	1.1	1.3	0.8	1.2	1	1	1	1	1	1
Water Supply	25329	45637	40002	57045	58330	45269	1.2	1.7	1.5	1.9	1.5	1.6	1	1	1	2	2	1
Street lights	216	266	5116	4099	7745	3488			0.2	0.1	0.2	0.1						
Others	14407	22175	19212	29306	12895	19599	0.7	0.8	0.7	1.0	0.3	0.7		1	1	1		1
Women & Child Welfare Grant	5552	5573	5530	5614	5676	5589	0.3	0.2	0.2	0.2	0.1	0.2						
Social Education Grant	2081	5001	2185	3047	2431	2949	0.1	0.2	0.1	0.1	0.1	0.1						

Jawahar Velai Vaippu Thittam	1157198	1433172	1440909	1509695	2075878	1523370	56.3	54.8	55.1	50.9	53.6	54.4	36	44	44	46	64	47
Intensified JVVT	3084	2381	4480	26025	79402	23074	0.2	0.1	0.2	0.9	2.1	0.8				1	2	1
Employment Assurance Scheme	67459	57167	30043	19837	29723	40846	3.3	2.2	1.1	0.7	0.8	1.5	2	2	1	1	1	1
Prog. of Assured Employment	19257	23572	16826	13673	50089	24683	0.9	0.9	0.6	0.5	1.3	0.9	1	1	1		2	1
M.P's Local Area Devp. Prog.	8			10	5026	1009					0.1							
Central Rural Sanitation Prog.	10131	10192	6897	1470	18002	9338	0.5	0.4	0.3		0.5	0.3					1	
Decentralised District Plan	176	1177	591	935	69954	14567					1.8	0.5					2	
Drought Relief Programme	49192	28003	27483	30088	37788	34511	2.4	1.1	1.1	1.0	1.0	1.2	2	1	1	1	1	1
Flood Relief Programme	1508	3606	14598	112446	42626	34957	0.1	0.1	0.6	3.8	1.1	1.2				3	1	1
Other grants	54143	95426	139069	174359	72728	107145	2.6	3.6	5.3	5.9	1.9	3.8	2	3	4	5	2	3
Total	**1509185**	**1865976**	**19118252**	**1801032**	**79360**	**22052138**							**46**	**57**	**59**	**67**	**86**	**63**
investments realised	9495	15595	9107	10796	65201	22039	0.5	0.6	0.3	0.4	1.7	0.8					2	1
Total	**9495**	**15595**	**9107**	**10796**	**65201**	**22039**							**0**	**0**	**0**	**0**	**2**	**1**
Total :	**2053804**	**2497561**	**2616904**	**296448**	**23873159**	**2801182**							**63**	**77**	**81**	**91**	**119**	**86**

STATE FINANCE COMMISION

PANCHAYAT UNIONS

ANNEXURE 83

CAPITAL RECEIPTS FOR ALL PANCHAYAT UNIONS

Capital Receipts.	*Actual for the year in thousands*						*Percentage to Total*						*Percapita in rupees*					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
Grants Received	61156	99874	85063	95548	77459	83820	78.0	88.7	75.5	81.1	69.9	77.0	2	3	3	3	2	3
Total	**61156**	**99874**	**85063**	**95548**	**77459**	**83820**							**2**	**3**	**3**	**3**	**2**	**3**
Contributions received	2216	4737	3486	6521	2390	3870	2.8	4.2	3.1	5.5	2.2	3.6						
Total	**2216**	**4737**	**3486**	**6521**	**2390**	**3870**							**0**	**0**	**0**	**0**	**0**	**0**
Income from sale proceeds	4013	4661	5388	7356	10468	6377	5.1	4.1	4.8	6.2	9.5	5.9						
Total	**4013**	**4661**	**5388**	**7356**	**10468**	**6377**							**0**	**0**	**0**	**0**	**0**	**0**
Transfer from General Funds	10976	15442	18666	8318	20443	14769	14.0	13.7	16.6	7.1	18.5	13.6			1		1	
Total	**10976**	**15442**	**18666**	**8318**	**20443**	**14769**							**0**	**0**	**1**	**0**	**1**	**0**
Total :	**78361**	**124714**	**112603**	**117743**	**110760**	**108836**							**2**	**4**	**3**	**4**	**3**	**3**

STATE FINANCE COMMISION

PANCHAYAT UNIONS

ANNEXURE 84

REVENUE EXPENDITURE FOR ALL PANCHAYAT UNIONS

Revenue Expenditure	Actual for the year in thousands						Percentage to Total						Percapita in rupees					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
ON MANAGEMENT																		
EXPENDITURE ON ADMIN CHARGES																		
Pay of Staff	76427	84577	86807	87029	85071	83982	3.8	3.8	3.8	3.5	2.6	3.4	2	3	3	3	3	3
Dearness Allowance	24174	34714	47092	63286	77296	49312	1.2	1.5	2.1	2.5	2.4	2.0	1	1	1	2	2	2
All other Allowances	47662	47176	51739	59948	69003	55106	2.4	2.1	2.3	2.4	2.1	2.2	1	1	2	2	2	2
Other Office Expenditure	112964	101735	96757	107636	132948	110408	5.7	4.5	4.3	4.3	4.1	4.5	3	3	3	3	4	3
Total	**261227**	**268202**	**282395**	**317899**	**364318**	**298808**							**8**	**8**	**9**	**10**	**11**	**9**
OBLIGATORY SERVICES																		
Salary inclusive of all	60485	72187	82576	91626	100281	81431	3.0	3.2	3.7	3.7	3.1	3.3	2	2	3	3	3	3
Contingencies	1832	1991	1119	974	1227	1429	0.1	0.1				0.1						
Road Maintenance	33608	26609	20416	24437	37226	28459	1.7	1.2	0.9	1.0	1.1	1.2	1	1	1	1	1	1
Regular Dispensaries -	59794	65288	66434	75345	75263	68425	3.0	2.9	2.9	3.0	2.3	2.8	2	2	2	2	2	2
Cost of Medicines	4282	2872	2381	3162	3209	3181	0.2	0.1	0.1	0.1	0.1	0.1						
Contingencies	7558	5914	6499	7128	18876	9195	0.4	0.3	0.3	0.3	0.6	0.4					1	
Honororium to Rural Medical Practitioners	3114	2541	2472	2392	2510	2606	0.2	0.1	0.1	0.1	0.1	0.1						
Contributions to be paid	3861	8643	5221	5130	5153	5602	0.2	0.4	0.2	0.2	0.2	0.2						
Expenditure connected with Epidermic or Malaria	4000	5008	5660	7112	8430	6042	0.2	0.2	0.3	0.3	0.3	0.2						
Fairs and Festivals	2099	2245	5651	2811	3107	3183	0.1	0.1	0.3	0.1	0.1	0.1						
Maintenance of PU School Buildings	36482	81465	37733	21350	22117	39829	1.8	3.6	1.7	0.9	0.7	1.6	1	3	1	1	1	1
Maintenance of PU Assets	4967	6952	5853	6072	8417	6452	0.2	0.3	0.3	0.2	0.3	0.3						
Maint. of Minor Irrigation	8096	6467	11272	5707	7801	7869	0.4	0.3	0.5	0.2	0.2	0.3						
Total	**230178**	**288182**	**253287**	**253246**	**293617**	**263703**							**7**	**9**	**8**	**8**	**9**	**8**

ANNEXURE 84—*cont.*

REVENUE EXPENDITURE FOR ALL PANCHAYAT UNIONS

Revenue Expenditure	*Actual for the year in thousands*						*Percentage to Total*						*Percapita in rupees*					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
DISCRETIONARY SERVICES																		
Maintenance of Market	1338	1401	2118	1496	2866	1844	0.1	0.1	0.1	0.1	0.1	0.1						
Shares to pu out of pu Market Receipts	1300	1722	1217	1560	1582	1476	0.1	0.1	0.1	0.1		0.1						
Tree Planting	30565	29184	22416	29447	29973	28317	1.5	1.3	1.0	1.2	0.9	1.2	1	1	1	1	1	1
Ferry Service	352	558	206	925	1421	692												
Maint. of PU Carpentry Unit	22063	32619	28673	29972	49441	32554	1.1	1.4	1.3	1.2	1.5	1.3	1	1	1	1	2	1
Total	55618	65484	54630	63400	85283	64883							2	2	2	2	3	2
AGENCY SERVICES																		
Water Supply	67325	58703	76681	75357	92741	74161	3.4	2.6	3.4	3.0	2.9	3.0	2	2	2	2	3	2
Street Light	3836	4443	10573	12181	15893	9385	0.2	0.2	0.5	0.5	0.5	0.4						
Total	**71161**	**63146**	**87254**	**87538**	**108634**	**83546**							**2**	**2**	**3**	**3**	**3**	**3**
DEVPELOPMENT GRANTS																		
Women & Child Welfare Grant	8170	8569	9551	9049	8988	8865	0.4	0.4	0.4	0.4	0.3	0.4						
Social Education Grant	1960	1857	1050	894	974	1347	0.1	0.1				0.1						
Jawahar Velai Vaippu Thittam	1085344	1361590	1280886	1389119	1928111	1409010	54.3	60.4	56.8	55.8	59.3	57.3	33	42	39	43	59	43
Intensified JVVT	10896	6252	11899	19725	48157	19386	0.5	0.3	0.5	0.8	1.5	0.8				1	1	1
Employment Assurance Scheme	65534	41713	35350	23129	20698	37285	3.3	1.8	1.6	0.9	0.6	1.5	2	1	1	1	1	1
Programme of Assured Employment	27783	21238	19398	15796	53394	27522	1.4	0.9	0.9	0.6	1.6	1.1	1	1	1		2	1
M.P's Local Area Devp. prog.	70	90	119	100	1772	430					0.1							
Central Rural Sanitation Prog.	12305	9100	14550	6746	6161	9772	0.6	0.4	0.6	0.3	0.2	0.4						
Decentralised Dist.Plan	856	570	1767	11224	35083	9900			0.1	0.5	1.1	0.4					1	
Drought Relief Programme	58779	22938	44194	43500	56217	45126	2.9	1.0	2.0	1.7	1.7	1.8	2	1	1	1	2	1
Flood Relief Programme	606	3154	3296	42393	93920	28674		0.1	0.1	1.7	2.9	1.2				1	3	1
Other grants	107469	139351	155267	205644	145554	150657	5.4	6.2	6.9	8.3	4.5	6.1	3	4	5	6	4	5
Total	**1379772**	**1616422**	**1577327**	**1767319**	**2399029**	**1747974**							**42**	**50**	**49**	**54**	**74**	**54**
Total :	**1997956**	**2301436**	**2254893**	**2489402**	**3250881**	**2458914**							**61**	**71**	**69**	**77**	**100**	**76**

ANNEXURE 85

CAPITAL EXPENDITURE FOR ALL PANCHAYAT UNIONS

Captial Expenditure	*Actual for the year in thousands*						*Percentage to Total*						*Percapita in rupees*					
	89-90	90-91	91-92	92-93	93-94	5Yr. Avg.	89-90	90-91	91-92	92-93	93-94	5Yr Avg.	89-90	90-91	91-92	92-93	93-94	5 Yr. Avg.
OBLIGATORY SERVICES																		
Constrn. of culverts,bridges	30659	44356	54800	49196	59344	47671	24.1	24.3	30.0	24.9	27.5	27.3	1	1	2	2	2	1
Constrn. Buildings to pu	12008	23704	22830	31043	39440	25805	9.4	13.0	12.5	15.7	18.3	14.8		1	1	1	1	1
Constrn. Buildings for PTMGR. NMC.	3377	7657	10269	19516	17180	11600	2.6	4.2	5.6	9.9	8.0	6.6				1	1	
Other	65636	54948	66873	73420	69315	66038	51.5	30.1	36.7	37.2	32.1	37.8	2	2	2	2	2	2
Total	**111680**	**130665**	**154772**	**173175**	**185279**	**151114**							**3**	**4**	**5**	**5**	**6**	**5**
DISCRETIONARY SERVICES																		
Constn. of Buildings in the Market	1212	977	1878	1452	362	1176	1.0	0.5	1.0	0.7	0.2	0.7						
Others	14559	18949	25803	22596	30151	22412	11.4	10.4	14.1	11.5	14.0	12.8		1	1	1	1	1
Total	**15771**	**19926**	**27681**	**24048**	**30513**	**23588**							**0**	**1**	**1**	**1**	**1**	**1**
Total:	**127451**	**150591**	**182453**	**197223**	**215792**	**174702**							**4**	**5**	**6**	**6**	**7**	**5**

APPENDIX 86

SUMMARY OF RECEIPTS AND EXPENDITURE - REVENUE AND CAPITAL - PANCHAYAT UNIONS

Receipts / Expenditure	89 - 90	90 - 91	91 - 92	92 - 93	93 - 94	5 YR AVG
REVENUE RECEIPTS						
OWN TAX REVENUE	12,85,51,586	15,18,44,440	9,55,23,008	15,45,60,963	21,23,53,334	14,85,66,666
PERCENTAGE	6.2	6.08	3.65	5.21	5.48	5.30
PERCAPITA	4	5	3	5	7	5
ASSIGNED REVENUE	6,55,42,084	8,78,48,408	7,00,39,425	8,40,52,621	9,70,09,959	8,08,98,499
PERCENTAGE	3.1	3.52	2.68	2.84	2.50	2.89
PERCAPITA	2	3	2	3	3	2
NON TAX REVENUE	14,99,94,262	16,43,79,894	18,31,51,680	20,16,65,765	22,25,72,598	18,43,52,840
PERCENTAGE	7.3	6.58	7.00	6.80	5.75	6.58
PERCAPITA	5	5	6	6	7	6
STATUTORY GRANTS	19,10,34,573	21,19,17,681	34,72,58,319	33,33,05,722	48,24,19,110	31,31,87,081
PERCENTAGE	9.3	8.48	13.27	11.24	12.46	11.18
PERCAPITA	6	7	11	10	15	10
NON STATUTORY GRANTS	150,91,86,275	186,59,76,321	191,18,25,052	218,01,03,264	279,36,02,133	205,21,38,609
PERCENTAGE	73.4	74.71	73.06	73.54	72.13	73.26
PERCAPITA	46	57	59	67	86	63
INVESTMENTS REALISED	94,95,137	1,55,94,805	91,07,231	1,07,96,274	6,52,01,277	2,20,38,945
PERCENTAGE	0.4	0.62	0.35	0.36	1.68	0.79
PERCAPITA	0	0	0	0	2	1
REVENUE RECEIPTS TOTAL :	205,38,03,917	249,75,61,549	261,69,04,715	296,44,84,609	387,31,58,411	280,11,82,640
PERCAPITA	63	77	81	91	119	86
CAPITAL RECEIPTS						
GRANTS RECEIVED	6,11,55,897	9,98,74,103	8,50,62,975	9,55,47,809	7,74,59,111	8,38,19,979
PERCENTAGE	78.0	80.08	75.54	81.15	69.93	77.01
PERCAPITA	2	3	3	3	2	3

CONTRIBUTIONS RECEIVED	22,15,685	47,37,433	34,85,832	65,21,152	23,89,890	38,69,998
PERCENTAGE	2.8	3.80	3.10	5.54	2.16	3.56
PERCAPITA	0	0	0	0	0	0
INCOME FROM SALE PROCEEDS	40,13,259	46,61,340	53,87,930	73,56,276	1,04,67,891	63,77,339
PERCENTAGE	5.1	3.74	4.78	6.25	9.45	5.86
PERCAPITA	0	0	0	0	0	0
TRANSFER FROM GENERAL FUNDS	1,09,76,184	1,54,42,252	1,86,66,139	83,17,843	2,04,42,912	1,47,69,066
PERCENTAGE	14.0	12.38	16.58	7.06	18.46	13.57
PERCAPITA	0	0	1	0	1	0
CAPITAL RECEIPTS TOTAL :	7,83,61,025	12,47,15,128	11,26,02,876	11,77,43,080	11,07,59,804	10,88,36,382
PERCAPITA	2	4	3	4	3	3
EXPENDITURE						
REVENUE EXPENDITURE						
ON MANAGEMENT	26,12,27,504	26,82,01,909	28,23,95,186	31,78,98,555	36,43,17,091	29,88,08,049
PERCENTAGE	13.0	11.65	12.52	12.77	11.21	12.15
PERCAPITA	8	8	9	10	11	9
OBLIGATORY SERVICES	23,01,79,559	28,81,84,011	25,32,86,649	25,32,45,861	29,36,17,749	26,37,02,766
PERCENTAGE	11.5	12.52	11.23	10.17	9.03	10.72
PERCAPITA	7	9	8	8	9	8
DISCRETIONARY SERVICES	5,56,18,935	6,54,83,328	5,46,30,880	6,33,98,695	8,52,83,634	6,48,83,094
PERCENTAGE	2.7	2.85	2.42	2.55	2.62	2.64
PERCAPITA	2	2	2	2	3	2
AGENCY SERVICES	7,11,60,874	6,31,46,745	8,72,53,871	8,75,38,214	10,86,33,916	8,35,46,724
PERCENTAGE	3.5	2.74	3.87	3.52	3.34	3.40
PERCAPITA	2	2	3	3	3	3

APPENDIX 86—*cont.*

SUMMARY OF RECEIPTS AND EXPENDITURE - REVENUE AND CAPITAL - PANCHAYAT UNIONS

Receipts / Expenditure	89 - 90	90 - 91	91 - 92	92 - 93	93 - 94	5 YR AVG
DEVELOPMENT GRANTS	137,97,70,237	161,64,20,284	157,73,28,855	176,73,21,329	239,90,28,025	174,79,73,746
PERCENTAGE	69.0	70.24	69.95	70.99	73.80	71.09
PERCAPITA	42	50	49	54	74	54
REVENUE EXPENDITURE TOTAL :	199,79,57,109	230,14,36,277	225,48,95,441	248,94,02,654	325,08,80,415	245,89,14,379
PERCAPITA	61	71	69	77	100	76
CAPITAL EXPENDITURE						
OBLIGATORY SERVICES	11,16,79,734	13,06,64,809	15,47,71,859	17,31,74,486	18,52,78,976	15,11,13,973
PERCENTAGE	87.6	86.77	84.83	87.81	85.86	86.50
PERCAPITA	3	4	5	5	6	5
DISCRETIONARY SERVICES	1,57,71,182	1,99,26,066	2,76,81,206	2,40,47,415	3,05,13,654	2,35,87,905
PERCENTAGE	12.3	13.23	15.17	12.19	14.14	13.50
PERCAPITA	0	1	1	1	1	1
CAPITAL EXPENDITURE TOTAL :	12,74,50,916	15,05,90,875	18,24,53,065	19,72,21,901	21,57,92,630	17,47,01,878
PERCAPITA	4	5	6	6	7	5
TOTAL :	212,54,08,025	245,20,27,152	243,73,48,506	268,66,24,555	346,66,73,045	263,36,16,257
PERCAPITA	65	75	75	83	107	81

Appendix No.1

G.O.Ms.No.350, Finance (Resources) Department, Dated 23rd April 1994

(Chithirai 10, Bhava, Thiruvalluvar Aandu 2025)

COMMISSION - Finance Commission - To study the financial position of panchayats - Constitution of Finance Commission - Tamil Nadu Panchayats Act 1994 (Tamil Nadu act 21 of 1994) - Orders - Issued.

Order-No.350, **Finance (Resources) department, dated 23rd April 1994.**

The appended Notification will be published in an Extra Ordinary issue of Tamil Nadu Government Gazette, dated the 23rd April 1994.

(BY ORDER OF THE GOVERNOR)

T.V. VENKATARAMAN,
CHIEF SECRETARY TO GOVERNMENT

NOTIFICATION

In exercise o;f the powers conferred bythe sub-section(1) of Section 198 of the Tamil Nadu Panchayats Act, 1994 (Tamil Nadu Act 21 of 1994), the Governor of Tamil Nadu hereby constitutes a Finance Commission referred to in Article 243-I of the Constitution, with a Chairman and four other Members. Thiru M.A.Gowrishankar, I.A.S. is appointed as a Member who will be the Member-Secretary of the Commission.

2. The Chairman and other members of the Commission shall hold office from the date on which they respectively assume office upto the 31st day of October 1995.

3. The Commission shall review the financial position of the panchayats and make recommendations as to:-

(a) the principles which should govern,-

(i) the distribution between the State and panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them, and allocation between the district panchayats panchayat union councils and village panchayats of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the panchayats;

(iii) the grants-in-aid to the panchayats, from the Consolidated Fund of the State;

(b) the measures needed to improve the financial position of the Panchayats.

4. In reviewing the financial position of the panchayats, the Commission shall,-

(i) assess the financial position of the Panchayat unions as on 31st March1994 with reference to revenue receipts and expenditure and the debt position;

(ii) assess, as far as may be practicable, the financial position of the villagepanchayats as on 31st March 1994 with reference to revenue receipts and expenditure.

5. In making its recommendations, the Commission shall have regard, to the resources of the State Government, the demand thereon and the need to generate adequate surplus on revenue account for State's commitments on capital account.

6. The Commission shall also have regard to:-

(i) the existing level of devolution of resources to the Panchayats and the adequacy of such devolution;

(ii) the maintenance and upkeep of capital assets owned by, or entrusted to, the panchayats;

(iii) the tax efforts of the panchayats and incentives to increase such tax efforts.

7. The Commission may suggest changes, if any, in the existing classification of panchayat unions on the basis of their financial position.

8. The Commission may suggest measure to improve financial management of panchayats and to reduce unproductive expenditure in Panchayats.

9. The Commission shall make its report available by 31st October 1995, covering the period of five years commencing on 1st April 1997.

T.V. VENKATARAMAN,
Chief Secretary to Government

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Appendix No.2

GOVERNMENT OF TAMIL NADU

ABSTRACT

CONSTITUTION of the State Finance Commission - Appointment of Chairman and other Members - Notification issued.

RURAL DEVELOPMENT (C.II) DEPARTMENT

G.O. (Ms) No.161 Dated: 06-09-1994

Read:

G.O.(Ms) No. 350, Finance, dated 23-4-1994.

ORDER:

In G.O.Ms.No.350, Finance, dated 23rd April, 1994, the Government have constituted a Finance Commission with Thiru M.A.Gowri Shankar, I.A.S., as Member Secretary of the Commission.

2. The appended notification will be published in the extra-ordinary issue of the Tamil Nadu Government Gazette dated the 7th September, 1994.

(BY ORDER OF THE GOVERNOR)

J.T.ACHARYULU
SECRETARY TO GOVERNMENT

NOTIFICATION-I

In exercise of the powers conferred by sub-Section (1) of Section 198 of the Tamil Panchayats Act, 1994 (Tamil Nadu Act 21 of 1994), the Governor of Tamil Nadu hereby appoints the following persons as Chairman and other members of the Finance Commission constituted and published in Finance Department notification No.II(1)/FIN/38(C)/94, dated the 23rd April 1994, at pages 1-2 of Part II-Section 1 of the Tamil Nadu Government Gazette Extraordinary, dated the 23rd April 1994:-

1.	Thiru R.Arumugham, I.A.S., (Retired)	..	Chairman
2.	The Director of Municipal Administration, Madras	..	Ex-Officio Member
3.	The Director of Rural Development, Madras	..	Ex-Officio Member
4.	Thiru Kuzha Chelliah, Ex-M.L.A.	..	Non-Official Member

J.T. ACHARYULU,
SECRETARY TO GOVERNMENT

/ True Copy /

Appendix No.3

LIST OF DISTRICTS SELECTED FOR INDEPTH STUDY

Sl. No.	Name of the District	Names of Institutions selected		
		Panchayat Unions	Town Panchayats	Municipalities
I.	Chengalpattu MGR	1. Minjur 2. Achirapakkam 3. Gummidipoondi 4. Villivakkam	1. Thiruthani 2. Chinnasekkadu 3. Potturpettai 4. Pallikkaranai	1. Kanchipuram 2. Pallavapuram
II.	Coimbatore	5. Pollachi (South) 6. Palladam 7. Annur 8. Thiruppur	5. Valaparai 6. Avinashi 7. Komaralingam 8. Veerakeralam 9. Thirumalayanpalayam	3. Thiruppur
III.	Pasumpon Muthuramalinga Thevar	9. Sivaganga 10. Thirubuvanam 11. Kallal	10. Thiruppathur 11. Pallathur	4. Karaikudi
IV.	Tiruchirapalli	12. Thiruverumbur 13. Manaparai 14. Ariyalur 15. Krishnarangapuram 16. Perambalur	12. P.Pugalur 13. Ariyalur 14. Thiruverambur	5. Manapparai
V.	The Nilgiris	17. Kothakiri	15. Gudalur 16. Bikketti	6. Udagamandalam
VI.	Dharmapuri	18. Palacode 19. Thalli 20. Bargur	17. Bargur 18. Mallapuram	7. Dharmapuri
VII.	Nagapattinam Quid-e-Milleth	21. Nagapattinam 22. Sembanarkoil 23. Mannargudi	19. Velanganni 20. Koradacheri	8. Thiruvarur 9. Thiruthurai-poondi
VIII.	Kaniyakumari	24. Thuckalay 25. Agastheeswaram	21. Kilkulam 22. Thiruvattur 23. Vellimalai 24. Agastheeswaram 25. Thingalnagar	10. Kuzhithurai

Appendix No.4

LIST OF OFFICERS INVOLVED IN THE TABULATION SCHEMES

1)	Thiru. R. Alakiri Raju Joint Secretary	State Finance Commission
2)	Thiru. S .Ramachandran Officer on Special Duty	State Finance Commission
3)	Thiru. S. Venkataraman Joint Director	Government Data Centre
4)	Dr. Shanmugam	Madras School of Economics

Approval of Tabulation Schemes by Dr. Raja J. Chelliah, Chairman, Madras School of Economics, Chennai.They had several sittings during September and October 1995 and prepared the draft tabulation scheme.

This was scrutinized and adopted by a special team consisting of the following

1)	Thiru. R.Arumugham, IAS. Chairman	State Finance Commission
2)	Dr. Palanidurai Full-Time Member	State Planning Commission
3)	Dr. Shankar Director	Madras School of Economics
4)	Thiru. Rameshram Mishra , IAS., Member Secretary	State Finance Commission

Appendix No. 5

DETAILS OF THE STUDY BY THE THREE TASK FORCES

I. Anna Institute of Management - Organisation and Powers

1)	Thiru. Sukavaneshvar, I.A.S. Director, Anna Institute of Management	Chairman
2)	Thiru. J.V. Chandrasekaran, I.A.S. Joint Secretary (Rtd.), Municipal Administration & Water Supply Dept.,	Convenor
3)	Tmt. Dr. Nandhitha Krishnan, Director, C.P.R.Environmental Education Centre, Chennai-18.	Member
4)	Thiru. C.Andrew Mariados Pakiaraj Faculty Member, Anna Institute of Management.	Member
5)	Thiru. V.Balasubramaniam Additional Director of Municipal Administration.	Member
6)	Thiru. K.Vallinayagam Additional Director of Rural Development. (Rtd.)	Member
7)	Thiru. M.Sankarapandian Pay and Accounts officer (Rtd.)	Member
8)	Thiru. R.Alakiri R aju Joint Secretary, State Finance Commission.	Member Secretary

The terms of reference issued to this Task Force were as follows:-

1. a. Reconstitution of Village Panchayats Town Panchayats, Municipalities and Corporations - Fixing norms based on population, area etc.

b. Classification, re-classification of Village Panchayats, Panchayat Union Councils, Town Panchayats, Municipalities, Municipal Corporations for the purpose of Government assistance/administrative convenience.

c. Review of the staff strength sanctioned to the Local Bodies including recruitment procedure redeployment, fixing norms for creation with reference to the devolution of powers to the Rural and Urban Local Bodies contemplated in the 11th and 12th Schedule of the Constitution and Schedule (iv) of the Tamil Nadu Panchayats Act 1994 and Schedule 10 of the District Municipalities Act 1920 and Schedule of the Municipal Corporation Act and also the workload position upto 2002. Periodical training of staff in the proper maintenance of accounts and in administration.

d. Review of the Technical staff sanctioned to Local Bodies with reference to the workload, Administrative and Technical control, measures to strengthen the system including periodical training to the staff. Training local residents (select) with the help of N.G.Os. for effective maintenance of core civic services.

e. Review of adequacy of powers of Local Bodies for effective implementation of schemes viz., Schemes of their own and also State and Centrally sponsored and externally aided. Need for liberalisation and delegation of powers.

f. (a) Review of the works procedure, rules for calling tenders, Technical and Administrative sanction powers for works, sanction of powers for excess over estimates etc.

(b) Accountability of the Executing Agencies to the Local Bodies.

g. Review of the Financial and Accounting procedure in Local Bodies for incurring expenditures, control mechanism, review of the accounts and registers maintained in the Local Bodies and suggest measures for simplification and improvement.

h. Review of the present system of Audit of the accounts of the Local Bodies and suggesting ways and means for improvement and audit mechanism for Village Panchayats. Fixing joint responsibilities for officials and non-officials for omissions, commissions and mis-use of powers.

i. Data Base for Local Bodies - Computerisation - for Civic Services, Administration and for accounts.

Government in G.O. Rt. No.692, Finance (Resources) Department, Dated 27.9.95, sanctioned the required amount to the above Institute. Mid-term reviews were held on 5.11.95, 21.12.95, 23.2.96 and 5.3.96. The final report of this Task Force was submitted to the State Finance Commission on 8.5.1996.

II. M/s Kirloskar Consultants Limited - Norms for Core Civic Services

The task force constituted to examine the norms for core civic services and possible areas of privatisation, started to function with effect from 28.9.1995. The following members on the Government side were identified by the above consultants headed by Thiru K.Mukundan, Accociate Vice-President as experts for the proposed study.

1)	Thiru. P. Dorairaj	Additonal Director of Rural Development (Rtd.)
2)	Thiru. Ramalingam	Additional Director of Municipal Administration (Rtd.)

Prominent among the Kirloskar Consultants was also Thiru. Brij Gopal Lada who liaisoned with the Tamil Nadu State Finance Commission along with Thiru. K.Mukundan and brought out valuable indices in respect of all Local Bodies. Thiru. S.Ramachandran, Officer on Special Duty, State Finance Commission assisted them with all the information and help required, from time to time

The objectives of their study were as follows:-

1. To arrive at norms for the minimum acceptable level for the core services in the various types of Local Bodies both in urban and rural.

2. Norms for Operation and Maintenance, for existing services and minimum level of expenditure needed.

3. Projection of need for services for the period upto the year 2002.

4. The resources needed for providing the minimum level of services and for the Operation and Maintenance on a reasonable level.

5. Possibility of induction of private agencies for services and for effective management and economy.

The above institute was also provided with the required finance by the Government. The said Task Force for nor ms for Core Civic Services and Possible area of Privatisation was subjected to mid term review on 23.11.95, 8.1.96, 23.2.96 and 24.5.96. It submitted its final report on 30.7. 1996.

III. Institute for Financial Management and Research, Madras - Augmentation of Resources

This institute constituted the task force on 'Tax and non-tax resources of the Local Bodies in Tamil Nadu' and launched its programme with effect from 10.10.1995. The members who handled this task force were as follows:-

1)	Dr. P.S. Iyer	Director	Institutefor Financial Management and Research
2)	Prof. D.S. Hanumantha Rao	Faculty Member	Institute for Financial Management and Research
3)	M/s. Shanthi and Malathi	Faculty Member	Institue for Financial Management and Research
4)	Dr. C.B. Padmanabhan	Economist	

Thiru. . S. Ramachandran, Officer on Special Duty, State Finance Commission, assisted them on behalf of the State Finance Commission, and provided them with all the help and materials required. For this institution the Government had sanctioned the required amount towards travel, stay, consultant charges, charges for data collection, research assistance and for printing reports.

The scope of their study was as follows:-

1. To study the existing tax and non-tax structure, rates, basis, procedure for levy and collection.

2. Strategy for mobilization of additional resources through existing tax and non-tax sources and the base for rationalization of procedure and plugging loop-holes in collection.

3 New tax domains, additional assignment of taxes of the State and widening of tax base through new taxes.

4. Adequacy of existing assignment and to suggest additional assignment of taxes of the state to the Local Bodies to determine the principle to govern assignments.

5. Principles to govern grants-in-aid.

Mid-term review were held on 24.11.95, 31.1.96 and 30.4.96

The above Task Force submitted its report on - -1996.

Appendix No. 6

DETAILS OF VISITS OF TAMIL NADU STATE FINANCE COMMISSION TO OTHER STATES

Karnataka State

1) Dr. G.Thimmiah, Chairman State Finance Commission
2) Dr. Abdul Aziz, Member State Finance Commission
3) Representatives of Rural Development and Urban Development Department
4) Tmt.Mangamma Munusamy, Chairperson, Kolar District Commissioner — **29.10.95**
5) Deputy Commissioner and Chief Accounts Officer of Bangalore Municipality and others. — **& 30.10.95**

West Bengal

1) Mr.Satyabrata Sen, Chairman, State Finance Commission
2) Dr.Nripan Banerjee, Member, State Finance Commission
3) Mr.Roy, I.A.S., Secretary State Finance Commission and — **17.11.95 & 18.11.95**
4) Mr. Debasis, Provincial Deputy Collector and Assistant Secretary State Finance Commission and others

New Delhi

1) Mr.Purushotham Lal, officer handling State Finance Commission in the Ministry
2) Mrs. Sushma Singh, Joint Secretary, Ministry of Rural Development — **22.1.96 &**
3) Mr. P.K.Mohanti, Director, Urban Development and others — **23.1.96**

Orissa:-

1) Mr.R.M.Senapathy, IAS, Principal Secretary, Panchayat Raj
2) Mr.Srinivas S.Ratha, IAS, Secretary, Transport and Commerce
3) Mr.Karunakar Patnaik, IAS, Director Panchayat Raj,
4) The Deputy Secretary and Financial Advisor of Panchayat Raj and
5) The Administrator and Financial Controller of Municipal Corporation, Bhuvaneswar

Maharashtra

1) Mr.Suresh P.Prabu, Chairman, State Finance Commission
2) Mr.P.P. Mahaana, IAS, Member Secretary, State Finance Commission
3) Tmt.Maitreyi Das, IAS, Chief Executive Officer, Zilla Parishad, Thane District — **29.1.96 to 30.1.96**
4) Mr. K.R.Khanolkar, Director General of All India Institute of Local Self Government,Anderi (West) and others

Andhra Pradesh

1) Mr.Arjun Rao, IAS, Principal Secretary to Government, Urban Development Department
2) Mr. Chengappa, IAS, Commissioner and Secretary to Government - Andhra Pradesh,
3) Mr.A.V.S.Reddy, IAS, Principal Secretary to Government, Panchayat Raj Department, Andhra Pradesh **28.2.96 & 29.2.96**
4) Mr. G. Laxmansamy, Chairman, State Finance Commission
5) Mr. I.K.Pichaiya, Member Secretary, State Finance Commission
6) Mr.Y.Rama Rao, Chief Executive Officer, Zilla Parishad, Medak District, Andhra Pradesh
7) Mr.Rosaiah, IAS., District Collector and others

The State Finance Commission also visited the National Institute of Rural Development, Hyderabad and had discussions with the Director General, Deputy Director General, Director Panchayat Raj Finance and other experts.

Kerala

Member Secretary Thiru. K.Skandan, IAS., participated in the state level seminar at Kerala on **27.5.1995**.

Appendix No.7

DETAILS OF VISITS OF OTHER STATE FINANCE COMMISSIONS TO THE FINANCE COMMISSION OF TAMIL NADU

1)	State Finance Commission Madhya Pradesh	Dr.Sawai Singh Sisodia Chairman and M.S. Raghavan, IAS., State Finance Commission on 15.5.1995 and 17.9.1996
2)	State Finance Commission Haryana	Mr.Rajinder Singh Bisla, Chairman, State Finance Commission on 28.2.1995
3)	State Finance Commission Karnataka	Mr. G.Thimmaiah Chairman, State Finance Commission Mr. A.P.Agarwal, Member Secretary, State Finance Commission Mr.Abdul Aziz, Member, State Finance Commissionon 24.8.95 to 26.8.1995
4)	State Finance Commission New Delhi	Mr. Virendra Prakash, Chairman, State Finance Commission on 4.10.96.

Appendix No.8

DETAILS OF THE CONFERENCE OF EXECUTIVE OFFICERS OF TOWN PANCHAYATS

1)	**Technical Session I**	**Local Resource Generation**
	Chairperson	Thiru. B. Anandan, I.A.S., Deputy Commissioner of Commercial Taxes, Chennai.
2)	**Technical Session II**	**Devolution of Resources**
	Chairperson	Thiru. C.Chandramouli, I.A.S., Joint Chief Electoral Officer and Joint Secretary to Government, Public (Election) Department, Chennai..9.
3)	**Technical Session III**	**Betterment of Civic Services and cost to achieve norms operation and maintenance**
	Chairperson	Thiru. T.V. Somanathan, I.A.S., Executive Director, Madras Metrowater and Sewerage Board, Chennai.
4)	**Technical Session IV**	**Devolution of Function**
	Chaiperson	Thiru. L. Krishnan, I.A.S., Managing Director, Madras Industrial Park Ltd., Chennai.
5)	**Technical Session V**	**Management Development**
	Chairperson	Thiru. Swaran Singh, I.A.S., Special Officer, Metro Infrastructural Development Corporation, Chennai.
6)	**Technical Session VI**	**Control Mechanism and Accountability**
	Chairperson	Thiru. Sundaradevan, I.A.S., Member Secretary, State Election Commission, Chennai.

Appendix No.9

DETAILS OF THE CONFERENCE OF COMMISSIONERS OF MUNICIPALITIES AND MUNICIPAL CORPORATIONS

1)	Taxation and Local Resource Generation	Thiru. Vibhu Nayar, I.A.S. Deputy Commissioner (Finance) Chennai Corporation.
2)	External Resources improvement and Devolution of Resources	Thiru. Vishwanath Shegaonkar, I.A.S. Commissioner, Coimbatore Corporation, Coimbatore.
3)	Improving the level of civic services, fixing norms of services and funding.	Dr. Niranjan Mardi, I.A.S. Joint Secretary to Government, Prohibition & Excise Department.
4)	Urban Planning and Devolution of functions	Thiru. Jatindranath Swain, I.A.S. Additional Director, Industries and Commerce Department, Chennai-5.
5)	Management Development	Thiru. C.Chandramouli, I.A.S. Joint Secretary to Government and Joint Electoral Officer, Public (Election) Department, Chennai-9.
6)	Control Mechanism	Thiru. P .Sonai, I.A.S. Commissioner, Corporation of Madurai, Madurai.

Appendix No.10

DETAILS OF NATIONAL CONFERENCE OF LOCAL BODY FINANCE

Details of Technical Session & Participants:

Technical Session I : Transfer of Power to Local Bodies

Chairperson : **Mr. D M. Sukthankar**
President,
National Institute of Urban Affairs Governing Council, Mumbai.

Paper Presenters :

1. **Prof. Susheela Kaushik,**
Head of Department,
Department of Political Science,
University of Delhi.

2. **Dr. George Mathews,**
Director, Institute of Social Science,
New Delhi.

Technical Session II : Strengthening Local Body Finance

Chair Person : **Mr. C. Ramachandran, IAS.,**
Ministry of Urban Development,
Government of India,
New Delhi.

Paper Presenters :

1. **Dr. G. Palanithurai,**
Head of Department,
Department of Political Science and Administration, Gandhigram University,
Dindigul.

2. **Dr. S. Guhan**
Emeritus Fellow,
Madras Institute of Development Studies,
Chennai.

Technical Session III : Improving Civic Services in Local Bodies

Chair Person : **Mrs. Jayanthi, I.A.S.,**
Vice Chair Person,
Madras Metropolitan Development Authority,
Chennai.

Paper Presenters :

1. **Thiru. K. Mukundan,**
   Kirloskar Consultancy Limited, Anna Nagar, Chennai.

2. **Dr. Dinesh Mehta**
   National Institute of Urban affairs, New Delhi.

Technical Session IV : Financial Assistance to Local Bodies

Chair Person :

Mrs. Sushma Singh, IAS,
Joint Secretary to Govt. of India,
Department of Rural Areas and Employment,
New Delhi.

Paper Presenters :

1. **Prof. Abijit Datta,**
   Senior Fellow,
   Institute of Social Science, New Delhi.

2. **Dr. A. Bagchi,**
   Professor Emeritus,
   National Institute of Public Finance and Policy,
   New Delhi.

Technical Session V : Management Control and Accountability

Chair Person :

Mr. J.T. Acharyulu, IAS,
Secretary to Government,
Municipal Administration & Water Supply Department.

Paper Presenters :

1. **Dr. V. Ramachandran,**
   Director,
   Rajiv Gandhi Foundation,
   New Delhi.

2. **Mr. K.C. Sivaramakrishnan,**
   Visiting Professor,
   Centre for Policy Research,
   New Delhi.

APPENDIX NO. 95

LIST OF LOCAL-BODIES WHERE SAMPLE SURVEY WAS UNDERTAKEN

CORPORATIONS

1. Madras
2. Madurai
3. Salem
4. Tiruchirapalli

MUNICIPALITIES

1. Dharmapuri
2. Kancheepuram
3. Karaikudi
4. Kuzhithurai
5. Manapparai
6. Pallavapuram
7. Thiruthuraipoondi
8. Tiruppur
9. Udagamandalam

TOWN PANCHAYATS

1. Agastheeswaram
2. Ariyalur
3. Avinashi
4. Bargur
5. Gudular
6. Kallal
7. Kilkulam
8. Komaralingam
9. Koradacheri
10. Mallapuram
11. Pallathur
12. Pallikaranai
13. Pikketti
14. Potturpettai
15. Pugalur
16. Tiruthani
17. Thingalnagar
18. Thirumalayampalayam
19. Thirupathur
20. Thiruvattarau
21. Thiruverumbur
22. Valparai
23. Veerakerlam
24. Velankanni
25. Villimalai

PANCHAYAT UNIONS

1. Achirapakkam
2. Annur
3. Agastheeswaram
4. Ariyalur
5. Bargur
6. Chinnasekadu
7. Devakottai
8. Gudalur
9. Gummidipoondi
10. Jawadhu Hills
11. Jolarpet
12. Kadaladi
13. Kanchipuram
14. Karur
15. Kothagiri
16. Krishnarayapuram
17. Kulithalai
18. Kamuthi
19. Maduranthagam
20. Manaparai
21. Mannargudi
22. Minjur
23. Nagapattinam
24. Nannilam
25. Palladam
26. Palacode
27. Perambalur
28. Pollachi-South
29. Sembanarkoil
30. Sholingar
31. Sivagangai
32. Sriperumpudur
33. Thackalai
34. Thirubuvanam
35. Tiruppur
36. Thiruvarur
37. Thiruverambur
38. Thovalai

Though 38 Panchayat Unions were selected, only 35 were taken up for the survey excluding Jawadu Hills, Perambalur and Sembanrkoil Panchayat Unions. Under each Panchayat Union, 3 to 4 Village Panchayats were studied. The details of Panchayats are given in Appendix - 96.

APPENDIX NO. 96

LIST OF VILLAGE PANCHAYATS WHERE SAMPLE SURVEY WAS UNDERTAKEN

VILLAGE PANCHAYATS

Agastheswaram P.U.
Ramapuram
Panchilingapuram
Leepuram

Sivagangai P.U.
Sankkandhi
Edayamalur

Thirubhuvanam P.U.
Madappuram
Peramanoor
Manaloor

Kallal P.U.
Kundrakudi
Alampattu
Koviloor

Devakottai P.U.
Pudukurichi
Theneervayal
Selugai

Kadaladi P.U.
Kielachelvanur
Ervadi
Elanjamboor

Kamudi P.U.
Kovilangulam
K.Nedumgulam
Narayanapuram
Aanayur

Palladam P.U.
K.Ayyampalayam
Echipatti
Karaipudur

Tiruppur P.U.
Perumanallur
Mudalipalayam
Muthanapalayam

Pollachi South P.U.
S.Nallur
Komangalampudur
Sinjuvadi

Annur P.U.
Pasur
Narayanapuram
Kattampatti

Kothagiri P.U.
Kunjappunai
Naduhatti
Kodanadu

Gudalur P.U.
Mudumalai
Masinangudi
Srimadurai

Minjur P.U.
Vellivoyalchavadi
Periakarambur
Avurivakkam

Achirapakkam P.U.
Anandamangalam
Vedanthangal
Orathi

Gummudipoondi P.U.
Mukkarampakkam
Kilmudalambedu
Erukuvai

Kancheepuram P.U.
Srikaveripakkam
Muthuvedu
Nathapettai

Sriperumpudur P.U.
Kunnam
Thandalam
Kannanthangal

Maduranthagam P.U.
Vettur
Kattudevathur
Thonnadu

Sholingar P.U.
Pullevalam
Pandiyanallur
Somasamudram

Jolarpet P.U.
Pethakallupalli
Ponneri
Kathandapatti

Krishnarayapuram P.U.
Manavasi
Karupathur
Mayanur

Ariyalur P.U.
Kadugur
Subrayapuram
Edeyathangudi

Nagapattinam P.U.
Sembianmadevi
Chikkal
Theythi

Mannargudi P.U.
Ullikottai
Vettaithidal
Vadagovanuram

Thiruvarur P.U.
Aamur
Thirukkaravasal
Adiakkamangalam

Nannilam P.U.
Kaduvankudi
Pannangudi
Senganur

Thackalay P.U.
Maruthurkurichi
Sadayamangalam
Atthivenai

Bargur P.U.
Pochampalli
Kondappnayanapalli
Orappam

Palacode P.U.
Chettihalli
Jertlav
Dandukanahalli

APPENDIX NO. 97

VILLAGE PANCHAYATS

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	350.51	378.28
II.	**Water Supply:**			
i)	Per-capita supply	Ltrs.	22	40
ii)	Population covered with House service connection	%	2	5
iii)	Covered with Standpost	%	62	50
iv)	Covered with Handpumps	%	36	45
v)	Persons per standpost	Nos.	170	30
vi)	Persons per handpump	Nos.	-	125
vii)	Capital Investment Required	Crore Rs.	Nil	198.24
viii)	O&M requirement for above	Crore Rs.	Nil	4.84
ix)	Staff Requirement	Nos.		
	a) Technical		381	384
	b) Skilled		989	2476
	c) Semi-skilled		20014	4712
x)	O&M needs for existing assets	Crore Rs.	28.54	78.45
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%	0	0
ii)	Covered with low cost sanitation	%	0.1	10
iii)	Public convenience	%	2.2	10
iv)	Uncovered	%	97	80
v)	Capital Investment Required	Crore Rs.	Nil	257.46
vi)	O&M requirements for above	Crore Rs.	Nil	6.79
vii)	O&M needs for Existing Assets	Crore Rs.	32.03	47.72
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%	0	15
ii)	Households per dustbin	Nos.	3568	50
iii)	Capital Investment Required	Crore Rs.	Nil	22.40
iv)	O&M Requirements for above	Crore Rs.	Nil	13.16
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff		2047	8939
	b) Drivers		0	0
vi)	O&M needs for existing assets	Crore Rs.	NA	20.62

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
V.	**Roads**			
i)	% of length covered with BT	%	15	20
ii)	Length covered with WBM	%	16	25
iii)	Length covered with Metal/ Gravel	%	69	30
iv)	Capital Investment Required	Crore Rs.	Nil	619.39
v)	O&M Requirements for above	Crore Rs.	Nil	11.77
vi)	Staff Requirements:	Nos.		
	a) Technical		1053	1053
	b) Skilled		2105	4210
	c) Unskilled		1053	26313
vii)	O&M needs for the existing assets	Crore Rs.	8.14	157.15
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%	1.5	10
ii)	% of length Pucca closed drains	%	0	0
iii)	Capital Investment Required	Crore Rs.	Nil	191.56
iv)	O&M Requirements for above	Crore Rs.	Nil	Nil
v)	O&M needs for existing assets	Crore Rs.	NA	3.08
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres	121	80
ii)	Tube-lights coverage	%	94	98
iii)	Sodium vapor lamp	%	1	2
iv)	Capital Investment Required	Crore Rs.	Nil	150.52
v)	O&M Requirements for above	Crore Rs.	Nil	28.23
vi)	Staff Requirements:	Nos.		
	a) Technical		0	8
	b) Helper		0	8700
vii)	O&M Needs for existing assets	Crore Rs.	21.17	73.75
VIII)	**i) Total Capital Investment**	Crore Rs.	Nil	1439.57
	ii) Per-capita per year	Rs.	Nil	76.10
IX)	**i) Total O&M per year for above**	Crore Rs.	Nil	73.43
	ii) Per-capita	Rs.	Nil	19.41
X)	**Total staff requirement**	Nos.		
	a) Technical		1434	2301
	b) Skilled/Drivers		3094	6686
	c) Semi-skilled		20014	4712
	d) Unskilled/Helper/ Conservancy staff		3100	43952
XI)	i) **Total O&M requirements for the existing Assets**	Crore Rs.	89.87	380.76
	ii) **Per-capita**	Rs.	25.65	100.65

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX NO. 98

PANCHAYAT UNION

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	350.51	378.28
II.	**Water Supply:**			
i)	Per-capita supply	Ltrs.		
ii)	Population covered with House service connection	%		
iii)	Covered with Standpost	%		
iv)	Covered with Handpumps	%		
v)	Persons per standpost	No.		
vi)	Persons per handpump	No.		
vii)	Capital Investment Required	Crore Rs.		
viii)	O&M requirement for above	Crore Rs.		
ix)	Staff Requirement	Nos.		
	a) Technical			
	b) Skilled			
	c) Semi-skilled			
x)	O&M needs for existing assets	Crore Rs.		
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%		
ii)	Covered with low cost sanitation	%		
iii)	Public convenience	%		
iv)	Uncovered	%		
v)	Capital Investment Required	Crore Rs.		
vi)	O&M requirements for above	Crore Rs.		
vi)	O&M needs for Existing Assets	Crore Rs.		
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%		
ii)	Households per dustbin	Nos.		
iii)	Capital Investment Required	Crore Rs.		
iv)	O&M Requirements for above	Crore Rs.		
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff			
	b) Drivers			
vi)	O&M needs for existing assets	Crore Rs.		

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
V.	**Roads:**			
i)	% of length covered with BT	%	19	30
ii)	Length covered with WBM	%	45	40
iii)	Length covered with Metal/ Gravel	%	35	30
iv)	Capital Investment Required	Crore Rs.	Nil	756.79
v)	O&M Requirements for above	Crore Rs.	Nil	11.77
vi)	Staff Requirements:	Nos.		
	a) Technical		455	455
	b) Skilled		910	1820
	c) Unskilled		455	11376
vii)	O&M needs for the existing assets	Crore Rs.	14.00	78.06
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%		
ii)	% of length Pucca closed drains	%		
iii)	Capital Investment Required	Crore Rs.		
iv)	O&M Requirements for above	Crore Rs.		
v)	O&M needs for existing assets	Crore Rs.		
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres		
ii)	Tube-lights coverage	%		
iii)	Sodium vapor lamp	%		
iv)	Capital Investment Required	Crore Rs.		
v)	O&M Requirements for above	Crore Rs.		
vi)	Staff Requirements:	Nos.		
	a) Technical			
	b) Helper			
vii)	O&M Needs for existing assets	Crore Rs.		
VIII i)	**Total Capital Investment**	Crore Rs.	Nil	756.79
ii)	**Per-capita per year**	Rs.	Nil	40
IX) i)	**Total O&M per year for above**	Crore Rs.	Nil	11.77
ii)	**Per-capita**	Rs.	Nil	3.11
X)	**Total staff requirement**	Nos.		
	a) Technical		455	455
	b) Skilled/Drivers		910	1820
	c) Semi-skilled		-	-
	d) Unskilled/Helper/ Conservancy staff		455	11376
XI i)	**Total O&M requirements for the existing Assets**	Crore Rs.	14.00	78.06
ii)	**Per-capita**	Rs.	4	20.63

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX NO. 99

TOWN PANCHAYATS

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	92.51	99.84
II.	**Water Supply:**			
i)	Per-capita supply	Ltrs.	34	55
ii)	Population covered with House service connection	%	16	30
iii)	Covered with Standpost	%	56	50
iv)	Covered with Handpumps	%	28	20
v)	Persons per standpost	Nos.	164	30
vi)	Persons per handpump	Nos.	-	125
vii)	Capital Investment Required	Crore Rs.	Nil	133.39
viii)	O&M requirement for above	Crore Rs.	Nil	10.94
ix)	Staff Requirement	Nos.		
	a) Technical		168	635
	b) Skilled		311	1013
	c) Semi-skilled		795	3774
x)	O&M needs for existing assets	Crore Rs.	15.17	40.18
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%	0	0
ii)	Covered with low cost sanitation	%	13	20
iii)	Public convenience	%	4	10
iv)	Uncovered	%	83	70
v)	Capital Investment Required	Crore Rs.	Nil	100.97
vi)	O&M requirements for above	Crore Rs.	Nil	2.11
vii)	O&M needs for Existing Assets	Crore Rs.	8.45	12.59
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%	46	50
ii)	Households per dustbin	Nos.	363	50
iii)	Capital Investment Required	Crore Rs.	Nil	18.75
iv)	O&M Requirements for above	Crore Rs.	Nil	5.55
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff		1163	9152
	b) Drivers		497	1218
vi)	O&M needs for existing assets	Crore Rs.	9.08	24.59

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
V.	**Roads:**			
i)	% of length covered with BT	%	29	40
ii)	Length covered with WBM	%	24	40
iii)	Length covered with Metal/ Gravel	%	47	20
iv)	Capital Investment Required	Crore Rs.	Nil	153.34
v)	O&M Requirements for above	Crore Rs.	Nil	5.43
vi)	Staff Requirements:	Nos.		
	a) Technical		266	635
	b) Skilled		266	532
	c) Unskilled		133	3328
vii)	O&M needs for the existing assets	Crore Rs.	27.96	31.06
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%	22.91	40
ii)	% of length Pucca closed drains	%	0	0
iii)	Capital Investment Required	Crore Rs.	Nil	49.12
iv)	O&M Requirements for above	Crore Rs.	Nil	Nil
v)	O&M needs for existing assets	Crore Rs.	NA	3.01
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres	62	40
ii)	Tube-lights coverage	%	92	90
iii)	Sodium vapor lamp	%	4	10
iv)	Capital Investment Required	Crore Rs.	Nil	49.90
v)	O&M Requirements for above	Crore Rs.	Nil	10.25
vi)	Staff Requirements:	Nos.		
	a) Technical		0	635
	b) Helper		0	2141
vii)	O&M Needs for existing assets	Crore Rs.	6.52	19.72
VIII)	**i) Total Capital Investment**	Crore Rs.	Nil	505.46
	ii) Per-capita per year	Rs.	Nil	101.25
IX)	**i) Total O&M per year for above**	Crore Rs.	Nil	34.27
	ii) Per-capita	Rs.	Nil	34.32
X)	**Total staff requirement**	Nos.		
	a) Technical		434	1905
	b) Skilled/Drivers		1074	2763
	c) Semi-skilled		795	3774
	d) Unskilled/Helper/ Conservancy Staff		1296	14621
XI)	**i) Total O&M requirements for the existing Assets**	Crore Rs.	67.18	131.16
	ii) Per-capita	Rs.	72.60	131.37

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX NO. 100

MUNICIPALITIES

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	76.89	83
II.	**Water Supply**			
i)	Per-capita supply	Ltrs	48	70
ii)	Population covered with House service connection	%	32	70
iii)	Covered with Standpost	%	44	20
iv)	Covered with Handpumps	%	24	10
v)	Persons per standpost	No.	NA	30
vi)	Persons per handpump	No.	184	100
vii)	Capital Investment Required	Crore Rs.	-	168.78
viii)	O&M requirement for above	Crore Rs.	Nil	15.11
ix)	Staff Requirements	Nos.		
	a) Technical		146	104
	b) Skilled		437	936
	c) Semi-skilled		728	1972
x)	O&M needs for existing assets	Crore Rs.	27.79	51.66
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%	2.8	2
ii)	Covered with low cost sanitation	%	2.4	10
iii)	Public convenience	%	5	15
iv)	Uncovered	%	77	50
v)	Capital Investment Required	Crore Rs.	-	414.74
vi)	O&M requirements for above	Crore Rs.	Nil	29.87
vii)	O&M needs for Existing Assets	Crore Rs.	17.42	38.48
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%	70	90
ii)	Households per dustbin	Nos.	102	50
iii)	Capital Investment Required	Crore Rs.	-	25.91
iv)	O&M Requirements for above	Crore Rs.	Nil	21.92
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff		14307	16643
	b) Drivers		359	411
vi)	O&M needs for existing assets	Crore Rs.	31.49	95.33

APPENDIX NO. 100-*cont.*

Items	Parameters of Service	Unit	Present Status by 2002 (1995-96)	Position
V.	**Roads:**			
i)	% of length covered with BT	%	69	75
ii)	Length covered with WBM	%	16	25
iii)	Length covered with Metal/Granel	%	15	0
iv)	Capital Investment Required	Crore Rs.	-	99.43
v)	O&M Requirements for above	Crore Rs.	Nil	2.81
vi)	Staff Requirements:	Nos.		
	a) Technical		182	104
	b) Skilled		182	242
	c) Unskilled		303	1513
vii)	O&M needs for the existing assets	Crore Rs.	9.08	59.56
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%	52.81	70
ii)	% of length Pucca closed drains	%	0	10
iii)	Capital Investment Required	Crore Rs.	-	157.28
iv)	O&M Requirements for above	Crore Rs.	Nil	0.91
v)	O&M needs for existing assets	Crore Rs.	NA	2.78
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres	34	30
ii)	Tube-lights coverage	%	89	80
iii)	Sodium vapor lamp	%	10	20
iv)	Capital Investment Required	Crore Rs.	-	16.82
v)	O&M Requirements for above	Crore Rs.	-	5.23
vi)	Staff Requirements:	Nos.		
	a) Technical		201	178
	b) Helper		1348	1779
vii)	O&M Needs for existing assets	Crore Rs.	7.29	20.65
VIII i)	**Total Capital Investment**	Crore Rs.	-	882.96
ii)	**Per-capita per year**	Rs.	Nil	212.45
IX) i)	**Total O&M per year for above**	Crore Rs.	Nil	75.85
ii)	**Per-capita**	Rs.	Nil	91.39
X)	**Total staff requirement**	Nos.		
	a) Technical		529	386
	b) Skilled/Drivers		978	1589
	c) Semi-skilled		1031	3485
	d) Unskilled/Helper/ Conservancy staff		15655	18422
XI i)	**Total O&M requirements for the existing Assets**	Crore Rs.	93.07	268.45
ii)	**Per-capita**	Rs.	21	323.43

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX NO. 101

OTHER CORPORATIONS

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	33.76	36.44
II.	**Water Supply:**			
i)	Per-capita supply	Ltrs.	73	90
ii)	Population covered with House service connection	%	57	80
iii)	Covered with Standpost	%	25	10
iv)	Covered with Handpumps	%	18	10
v)	Persons per standpost	No.	143	30
vi)	Persons per handpump	No.	-	100
vii)	Capital Investment Required	Crore Rs.	Nil	152.87
viii)	O&M requirement for above	Crore Rs.	Nil	3.46
ix)	Staff Requirement	Nos.		
	a) Technical		54	25
	b) Skilled		218	135
	c) Semi-skilled		797	2587
x)	O&M needs for existing assets	Crore Rs.	17.24	34.76
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%	9	30
ii)	Covered with low cost sanitation	%	1	10
iii)	Public convenience	%	12	10
iv)	Uncovered	%	70	50
v)	Capital Investment Required	Crore Rs.	Nil	540.44
vi)	O&M requirements for above	Crore Rs.	Nil	30.20
vii)	O&M needs for Existing Assets	Crore Rs.	15.11	33.45
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%	82	90
ii)	Households per dustbin	Nos.	271	50
iii)	Capital Investment Required	Crore Rs.	-	14.39
iv)	O&M Requirements for above	Crore Rs.	Nil	17.24
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff		7437	9108
	b) Drivers		167	138
vi)	O&M needs for existing assets	Crore Rs.	14.32	53.11

APPENDIX NO. 101-*cont.*

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
V.	**Roads:**			
i)	% of length covered with BT	%	65	100
ii)	Length covered with WBM	%	17	0
iii)	Length covered with Metal/ Gravel	%	18	0
iv)	Capital Investment Required	Crore Rs.	Nil	54.23
v)	O&M Requirements for above	Crore Rs.	Nil	4.62
vi)	Staff Requirements:	Nos.		
	a) Technical		389	25
	b) Skilled		199	99
	c) Unskilled		115	621
vii)	O&M needs for the existing assets	Crore Rs.	7.37	25.51
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%	22.8	40
ii)	% of length Pucca closed drains	%	0	10
iii)	Capital Investment Required	Crore Rs.	Nil	166.47
iv)	O&M Requirements for above	Crore Rs.	Nil	1.77
v)	O&M needs for existing assets	Crore Rs.	NA	3.72
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres	83	70
ii)	Tube-lights coverage	%	15	30
iv)	Capital Investment Required	Crore Rs.	Nil	15.08
v)	O&M Requirements for above	Crore Rs.	Nil	4.62
vi)	Staff Requirements:	Nos.		
	a) Technical		43	79
	b) Helper		482	790
vii)	O&M Needs for existing assets	Crore Rs.	3.90	10.21
VIII)	**i) Total Capital Investment**	Crore Rs.	Nil	943.49
	ii) Per-capita per year	Rs.	Nil	517.85
IX)	**Total O&M per year for above**	Crore Rs.	Nil	61.90
	Per-capita	Rs.	Nil	169.86
X)	**Total staff requirement**	Nos.		
	a) Technical		486	129
	b) Skilled/Drivers		584	372
	c) Semi-skilled		912	3208
	d) Unskilled/Helper/ Conservancy Staff		7919	9898
XI)	i) **Total O&M requirements for the existing Assets**	Crore Rs.	57.94	157.41
	ii) **Per-capita**	Rs.	76.90	431.95

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX NO. 102

CHENNAI CORPORATION

Presenet (1995-96) levels of service, proposal for 2002 in Core Civic Services and Operation and Maintenance

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
I.	**Population**	Lakhs	41.58	44.87
II.	**Water Supply:**			
i)	Per-capita supply	Ltrs.	73	90
ii)	Population covered with House service connection	%	78	80
iii)	Covered with Standpost	%	10	10
iv)	Covered with Handpumps	%	12	10
v)	Persons per standpost	No.	54	30
vi)	Persons per handpump	No.	Nil	100
vii)	Capital Investment Required	Crore Rs.	Nil	263.36
viii)	O&M requirement for above	Crore Rs.	Nil	7.1
ix)	Staff Requirement	Nos.		
	a) Technical (MMWSSB)		507	507
	b) Skilled		1192	1192
	c) Semi-skilled		1699	1699
x)	O&M needs for existing assets	Crore Rs.	27.36	48.48
III.	**Sewerage & Sanitation:**			
i)	Population covered with underground drainage	%	85	90
ii)	Covered with low cost sanitation	%	4	5
iii)	Public convenience	%	3	5
iv)	Uncovered	%	8	0
v)	Capital Investment Required	Crore Rs.	Nil	156.82
vi)	O&M requirements for above	Crore Rs.	Nil	8.48
vii)	O&M needs for Existing Assets	Crore Rs	31.01	68.66
IV.	**Solid Waste Management**			
i)	Collection performance to waste generated	%	85	90
ii)	Households per dustbin	Nos.	84	50
iii)	Capital Investment Required	Crore Rs.	Nil	17.91
iv)	O&M Requirements for above	Crore Rs.	Nil	6.36
v)	Staff Requirements:	Nos.		
	a) Conservancy Staff		7305	8170
	b) Drivers		687	537
vi)	O&M needs for existing assets	Crore Rs.	22.67	53.45

APPENDIX NO. 102-*cont.*

Items	Parameters of Service	Unit	Present Status (1995-96)	Position by 2002
V.	**Roads:**			
i)	% of length covered with BT	%	99	100
ii)	Length covered with WBM	%	0.1	0
iii)	Length covered with Metal/Gravel	%	1	0
iv)	Capital Investment Required	Crore Rs.	Nil	174.99
v)	O&M Requirements for above	Crore Rs	Nil	0.15
vi)	Staff Requirements:	Nos.		
	a) Technical		281	281
	b) Skilled		151	151
	c) Unskilled		0	0
vii)	O&M needs for the existing assets	Crore Rs.	11.88	31.89
VI.	**Storm Water Drains:**			
i)	% of length Pucca open drains	%	0	20
ii)	% of length Pucca closed drains	%	29	40
iii)	Capital Investment Required	Crore Rs.	Nil	102.08
iv)	O&M Requirements for above	Crore Rs.	Nil	1.04
v)	O&M needs for existing assets	Crore Rs.	NA	1.42
VII.	**Street Lighting:**			
i)	Spacing distance between posts	Metres	27	25
ii)	Tube-lights coverage	%	66	60
iii)	Sodium vapor lamp	%	34	40
iv)	Capital Investment Required	Crore Rs.	Nil	5.87
v)	O&M Requirements for above	Crore Rs.	Nil	1.96
vi)	Staff Requirements:	No.		
	a) Technical		100	79
	b) Helper		1022	790
vii)	O&M Needs for existing assets	Crore Rs.	9.17	14.74
VIII)	**i) Total Capital Investment**	Crore Rs.	Nil	721.04
	ii) Per Capita per year	Rs.	Nil	321.40
IX)	**i) Total O&M per year for above**	Crore Rs.	Nil	25.08
	ii) Per-capita	Rs.	Nil	55.90
X)	**Total staff requirement**	Nos.		
	a) Technical		888	867
	b) Skilled/Drivers		2030	1880
	c) Semi-skilled		1699	1699
	d) Unskilled/Helper/ Conservancy staff		8327	8960
XI) i)	Total O&M requirements for the existing Assets	Crore Rs.	102.08	218.64
ii)	Per-capita	Rs.	245.58	487.25

Note: The cost indicated is at 1995-96 price level. Increase 12% per year in case of Capital Investment and 10% in case of O&M.

APPENDIX No.103.

LIST OF TOWN PANCHAYATS WHOSE ANNUAL INCOME IS LESS THAN RS. 5 LAKHS.

(Para 4.1.34)

Name of the Town Panchayat

NORTH ARCOT AMBEDKAR DISTRICT

1. Pennathur

THIRUVANNAMALAI SAMBUVARAYAR DISTRICT

2. Thesur

VILLUPURAM RAMASAMY PADAYACHIAR DISTRICT

3. Aragandanallur
4. Manalurpet
5. Ananthapuram

SOUTH ARCOT VALLALAR DISTRICT

6. Melpattampakkam
7. Thorapadi
8. Killai

SALEM DISTRICT

9. Gopalasamudram
10. Kiripatti
11. Thedavur
12. Kadayampatti
13. Vanavasi
14. Arasiramani
15. R. Pudhupatti

PERIYAR DISTRICT

16. Siruvallur
17. Vengampudur
18. Pallipalayam
19. Kasipalayam (K)
20. Nallampatti
21. Kalinghayam
22. Pulinjipatti

23. Velottamparappu
24. Kumbanaikkanpalayam
25. Ruthiravathy
26. Olagadam
27. Ammapet
28. Chinnakapalayam
29. Kilmapadi
30. Vadugapatti
31. Pathaampalayam
32. Elangur
33. Unjalur

COIMBATORE DISTRICT

34. Kaniyur
35. Thenkarai
36. Alandurai
37. Idikarai
38. Ettimadi

THE NILGIRIS DISTRICT

39. Huligal
40. Ithalar

THANJAVUR DISTRICT

41. Melattur
42. Veppathur
43. Perumangalur
44. Melathirupanthuruthi

NAGAPATTINAM QUAID-E-MILLETH DISTRICT

45. Keevalur

THIRUCHIRAPPALI P.M. DISTRICT

46. Marudhur
47. Palayajeyankonda Cholapuram

PUDUKKOTTAI DISTRICT

48. Arimalam

MADURAI DISTRICT

49. A. Vellalapatti

DINDIGUL MANNAR THIRUMALAI DISTRICT

50. Kannivadi
51. Ayyalur
52. Kiranur
53. Eriodu

PASUMPON MUTHURAMALINGA THEVAR DISTRICT

54. Nattarasankottai
55. Pallathur
56. Kandhanur
57. Kanadukathan
58. Nerkuppai

TIRUNELVELI KATTABOMMAN DISTRICT

59. Panbozhi
60. Thiruvengadam
61. Melacheval
62. Nangunerl
63. Rayagiri
64. Thirukarungudi

CHIDAMBARANAR DISTRICT

65. V. Pudur
66. Karungulam
67. Kannaur
68. Thenthiruperai

KANNIYAKUMARI DISTRICT

69. Anjugramam
70. Thenthamaraikulam
71. Thearur

72. Rajakamangalam
73. Puthalam
74. Vellichendrai
75. Eranial
76. Kudhainallur
77. Mulagumudu
78. Nollivilai
79. Thiruvithancodu
80. Kappiarai
81. Taikinkodu
82. Aathur
83. Petchiparai
84. Vilathurai
85. Palapallam

ANNA DISTRICT

86. Sembakkam

RAJAJI DISTRICT

87. Vermanthur

PERAMBALUR THIRUVALLUVAR DISTRICT

88. Uppiliyapuram
89. Balakrishnapatti
90. Varadarajampatti

V.A. VAIGAI DISTRICT

91. Highwavis
92. Pannaipuram
93. Anumanthanpatti
94. Oddaipatti
95. Kuchanur
96. B. Meenakshipuram
97. Margayankotti
98. Melachookkanathapuram

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APPENDIX NO. 104

DEVOLUTION OF POWERS TO RURAL LOCAL BODIES

[Para 4.3.11]

Statement showing the gist of the discussion with the Secretaries to Government & Heads of Departments.

Sl. iNo.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local Bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
	1.ANIMAL HUSBANDRY AND FISHERIES DEPARTMENT			
	73rd Amendment	**Animal Husbandry:**		
4)	Animal Husbandry Dairying & Poultry,	(i) Identification of beneficiariesunder Animal Husbandry Schemes.	(i) Management of Animal Husbandry Sub-Centres.	(i) Management of Animal Husbandry dispensaries.
5)	Fisheries	**Dairying:**		
		(ii) Identification of beneficiaries under dairy scheme	(ii) Consulting in deciding Milk routes	(ii) Deciding about Milk routes (iii) Identification for Location of Chilling Plants etc.
		(iii) Suggestion for local Milk Sales		
		(iv) Settling Consumer grivences.		
		Poultry:		(iv) Association with Tapco Activities (No funds with TAPCO)
		Fisheries:		
			(iii) Provision of Housing to Fishermen in coastal areas	(v) All Welfare Schemes of Fishermen.
	2. SOCIAL WELFARE DEPARTMENT			
	73rd Amendment			
25)	Women & Child Development	(i) Identification of beneficiaries for all Social Welfare Schemes	(i) Construction and maintenance of in-frastructure facilities under Social Welfare Programmes	(i) Administrative control over the Social Welfare Programmes.

Sl. iNo	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
26)Social Welfare including Welfare of the Handicapped & Mentally retarded		(ii) Distribution of tools, etc. (iii) Selection of location for infrastructure (iv) Construction of small buildings under Social Welfare Programmes.	(ii) Disbursement of money (iii) Supervision & Inspection Social Welfare Centres, Nutritious Meal Programme Centres.	(ii) Monitring and reviewing all Social Welfare Programmes.

At village level there might be Vigilance Committees.Entrustment of funds from UNICEF etc., to any designated body could be made provided the funds were utilised only forthe purpose for which they were intended.

3. CO-OPERATION, FOOD & CONSUMER PROTECTION DEPARTMENT:

73rd amendment

28)Public Distribution System	(i) Assessing the need for the Essential Commodities in the P.D.S. (ii) Inspecting the P.D.S. to see the attendance of Staff, proper distribution of commodities etc. (iii) Assist in the redressal of consumers' grievances. (iv) Associate in the Village Level Vigilance Committee.	(i) Creation of Infrastructure facilities	(i) Associate for the proper functioning of P.D.S. in the District.

4. HANDLOOMS, HANDICRAFTS, TEXTILES & KHADI DEPARTMENT

73rd Amendment

9. Khadhi , Village & Cottage Industries.	(i) Selection of beneficiaries for all schemes. (ii) Assist in Small Cottage and Village Industries.		

Sl. No.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
	5. ENERGY DEPARTMENT			
	73rd Amendment			
14)	Rural Electrification including Distribution of Electricity	(i) Maintenance of Street Lights (ii) Assist in the implementation of	(i) Implement Non-Conventional Energy schemes	(i) Oversee the maintenance of Street Lights in the Dist.
15)	Non conventional energy sources	Non-Conventional Energy schemes		(ii) Generation upto 100 KV through Bio-Gas, Bio Mass, Solar or Wind Mill (Non-Conventional Energy Source)
	6. HEALTH AND FAMILY WELFARE DEPARTMENT:			
	73rd Amendment			
23)	Health and Sanitation, including Hospitals, Primary Health Centres and Dispensaries.	(i) Control of epidemic and malaria	(i) Running of PHCs and sub-centres (ii) Control of epidemic and Malaria.	(i) Supervise the working of Taluk and other Hospitals
24)	Family Welfare.			
	7. HOUSING AND URBAN DEVELOPMENT DEPARTMENT			
	73rd Amendment			
	Co-operative Housing Schemes:			
10)	Rural Housing	(i) Selection of beneficieries for Co-op. Housing Schemes. (ii) P.U. Chairman to be Co-opted as a Member of Taluk Co-op. Housing Society.	(i) Plan and Monitor the Co-op. Housing Schemes..	

Sl. iNo.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
	8. ADI-DRAVIDAR AND TRIBAL WELFARE DEPARTMENT			
	73rd Amendment **Adi-Dravidar and Tribal Welfare Schemes:**			
	27)Welfare of the Weaker Sections and in particular of the S.Cs and the S.Ts.	(i) Provision of basic amenities in Adi-Dravidar Colonies (ii) Assistant in identification of beneficiaries	(i) Identification and Selection of beneficiaries (ii) Distribution of Assistance (iii)Provision of basic amenities. (iv) Payment of Assistnace for marriages etc.to S.Cs. / S.Ts. (v)Implementation of colonisation schemes for SCs/STs. (vi) Payment of discretionary grants. (vii) Payment ofScholarship to Children of those engaged in unclean occupation.	(i) Plan ,Monitor and review the progress of all the S.C./S.T.Schemes
		(iii) Assist in the identification of THADCO Schemes beneficiaries.	(viii)Implementing Health Schemes for the colony dwellers **THADCO Schemes:** (ix)Identification and Selection of beneficiaries. (x) Assist in the recovery of Bank Loan (xi) Watch the retention of assets.	
	9. LABOUR AND EMPLOYMENT DEPARTMENT			
	73rd Amendment			
	18)Technical Training and Vocational Education	(i) Referring the violation of Minimum WagesAct, Weights and Measures Act,Bonded Labourers Act, etc. to the concerned authorites.		(i) Control of ITIs at the District Level.

Sl. iNo	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Govemment and Heads of Departments for Rural Local Bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)

10. PUBLIC WORKS DEPARTMENT

73rd Amendment

3) Minor Irrigation (M.I. Tanks, Ayacut more than 100 Acres.)	(i) Operation and Maintenancewill be with Farmers Associaton.Allcases relating to this		(i) Planning, Monitoring and dispute resolution
13) Roads, Culverts, Bridges, Water Ways and other means of Communications.	coming to the Local Bodies will be fowarded to the Farmers' Association.		

11. REVENUE DEPARTMENT

73 rd Amendment
Land Celing Measures:

2)Implementation of Land Reforms and Land Consolidation	(i) Assist in Identification of Potential surplus land owners	(i) Assist the Legal Authorities in conducting their proceedings like publication of notice etc.	(i)Coordinating with Legal Authorities in all stages of work and rendering all assistance.
	(ii) Assist the Legal Authorities in the conduct of Legal Proceedings	(ii) Coordination of work among the Village Panchayats	(ii)Creation of Public opinion to facilitate the
	(iii) Assist in the identification of families/individuals, requiring the allotment of lands.		(iii) Periodic Monitoring the work.
	(iv) Assist in Organising Land Development & productivity rising measures for individual allottees/group.		
Implementaion of Tenency Measures:			
	(v) Assist in identification of Tenency.	(iii) Assist the Legal Authorities in its work.	(iv)Coordinate with the Legal Authorities in its work.

Sl. No.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departmentsfor Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
		(vi) Assist the legal authorities in its task of securing as well as regulating tenancy rights/conferring ownership rights.		
		(vii) Towards this end creation of public opinion.		
Land Consolidation:				
		(viii) Giving wide publicity about the scheme	(iv) Giving wide publicity about the scheme.	
		(ix) Identification of Encroachments and reporting to the concerned authorities for further action.		
		12. SMALL INDUSTRIES DEPARTMENT		
73rd Amendment				
I) Industrial Resource Potential Survey and Project formulation:				
8) Small Scale Industries including Ifood processing Industries		(i) Assist in survey and project formulation	(i) Assistance in industrial resource potential survey.	(i) Assistance in formulation of SSI projects by the DIC.
II. Development of Infrastructure:				
		(ii) Assist in Identification of location for Rural Industries.	(ii) Identification of specific projects specifing the industries and area including Growth Centres	(ii)Identification of of locations for small Industries estates and provision of necessary infrastructure facili-ties for development of small industries including food processing industry.

Sl. No.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local Bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
III. Entrepreneur Development:				
		(iii) Assist in identification of Rural entrepreneurs	(iii) Association in the selection of entrepreneurs, for EDP Prime-Minister's Rozgar Yojana and other programmes in consultation with G.M.DIC.	(iii) Selection of entrepreneurs in consultation with G.M.DIC (iv) Identification of Training needs and Training Programme.
IV. Credit and Financial Assistance from Government Departments/Agencies:				
			(iv) Assist in providing financial and other help to Small Industries.	(v) Providing Information about credit facilities and other financial incentives (vi) Co-ordinating credit support activities of various Financial institutions.
		13. ENVIRONMENT AND FORESTS		
73rd Amendment				
6. Social Forestry and Farm Forestry		(i) Selection of sites for afforestation in consultation with Forest Officials	(i) Approve Village Panchayat Annual Action Plan. work.	(i) Supervise an review the Social Forestry
7. Minor Forest Produce		(ii) Passing necessary Pt. resolutions	(ii) Supervise the work in Village Panchayat area	(ii) Send periodical reports to state Level Offiers.
8. Fuel & Fodder		(iii) Decision about species to be used in consultation with Forest Officials	(iii) Send periodical reports to the District Panchayat	(iii) DFO Social Forestry to be Secretary of Social Forestry Committee at the District Level
		(iv) Formation of Village Forest Protection Committee.	(iv) Enquire the complaints given by the Block / Forest Staff.	

Sl. No.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries toGovernment and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
			(v) Identification of beneficiaries for raising Nursaries/for Farm Forestry/for sharing the intermediate and final benefits from Farm Forestry/Social Forestry Plantation.	
			(vi) To Plan, implement and supervise all Social Forestry Schemes with the technical approval of Forest Officers.	

14. EDUCATION, SCIENCE AND TECHNOLOGY DEPARTMENT

73rd Amendment

17.	Education including Primary and Secondary Schools	(i)Attending to Adult and Non-Formal Education	(i) Administrative and Managerial aspects except recruitment of Teachers, disc-action against Teachers in respect of Elementary Education subject to allowing the present teachers and benefits enjoyed by them (Salary payment shall be very prompt) could be considered.	(i)Arranging for the disbursement of Salary of Primary School Teachers.
				(ii) Visit and Supervision of Secondary Schools by Representatives of District Panchayats
19.	Adult and Non Formal Education		(ii) Attending adult and Non Formal Education.	(iii)Revieweing the Adult and Non-Formal Education.

15. AGRICULTURE DEPARTMENT:

1.	Agriculture including Agriculture Extension	(i) Assist in motivation and identification of suitable beneficiaries for Waste Land	(i) Planning implementation and Monitering of Agriculture Schemes, Schemes relating	(i) Co-ordination and monitering of the implementation of all Agricultureal Schemes relating to Waste Land Development,

Sl. iNo.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Govemment and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Counci	DistrictPanchayat
(1)	(2)	(3)	(4)	(5)
		Development Schemes, all Agricultural Schemes, Soil Conservation, Scheme. (ii) Assist in selecting the sites for percolation ponds (iii) Assist in selecting area for Watershed development	to Waste Land Development, Soil conservation, percolation ponds Watershed development Schemes, Farm Forestry Schemes	Soil conservation, Percolation ponds, Watershed Development, Farm forestry (ii) Planning for all the Agricultural Schemes at the District Level
2. 3. 6.	Land improvement (implementation of Land reforms, Land Consolidation) and Soil Conservation Minor irrigation, (Management) and Watershed development (Social Forestry) and Farm Forestry	(iv) Construction Operation and maintenance of godowns v) Selection of beneficiaries under Farm Forestry vi) Prepare Village plan for all the said schemes	(ii) Control the Agricultural Depots at the Panchayat Union Level	

16.RURAL DEVELOPMENT DEPARTMENT

73rd Amendment

1.	Drinking Water	(i) Execution of Centrally Sponsored Schemes (ii) Creation of awarness of CM's 15 Points Programme (iii) SC/ST Welfare Programmes (iv) Management of Drinking Water in the Village Panchayat area	(i) Management of all Centrally Sponsored Programmes (ii) Implementation of CM's 15 Point Programme (iii) Creation of awarness of Family Welfare Programme (iv) Protection of Civil Rights	CM's 15 point Programme

Sl. iNo.	Functions Suggested in the Constitutional Amendment	Functions proposed during the discussion with the Secretaries to Government and Heads of Departments for Rural Local bodies.		
		Village Panchayat	Panchayat Union Council	District Panchayat
(1)	(2)	(3)	(4)	(5)
		(v) Protection of Civil Rights (vi) Social Forestry Work	(v) Social Forestry Work (vi) All other schemes that could not be managed in Village Panchayat	
16.	Poverty Alleviation Programme	(vii) Such other schemes that could be managed		
20.	Maintenance of Community Assets	(viii) Plan for the Village Development		

APPENDIX No.105

DEVOLUTION OF POWERS TO URBAN LOCAL BODIES
(Para 4.3.13)
Statement showintg the Gist of the Discussion with Secretaries to Government and Heads of Departments:

Sl. No	Functions suggested in Constitutional Amendment	Functions proposed during the discussions with the Secretaries to Government and Heads of Departments for Urban Local Bodies
(1)	(2)	(3)
	1. SOCIAL WELFARE DEPARTMENT:	
25.	Women and Child Welfare Development	(i) Identification of beneficiaries for all SocialWelfare Schemes.
26.	Social Welfare including Welfare of the Handicapped and Mentally retarded.	(ii) Distribution of Tools: (iii) Selection of Location for infrastructure. (iv) Constitution of Small Buildings under Social Welfare Programmes. (v) Construction and maintenance of infrastructure facilities under social Welfare Programmes. (vi) Disbursement of money. (vii) Supervision and Inspection of Social Welfare Centres, Nutritious Meal Programme Centres, etc.
	2. CO-OPERATION, FOOD AND CONSUMER PROTECTION DEPARTMENT:	
28.	Public Distribution System	(i) Assessing the need for the essential Commodities in the P.D.S.
	3. ENERGY DEPARTMENT:	
17.	Public Amenities including Street Lighting,Parking lot, Bus Stop & Public conveniences.	(i) Maintenance of Street Lights. (ii) Assist in the implementation of Non-Conventional Energy.
	4. HEALTH AND FAMILY WELFARE DEPARTMENT:	
	74th Amendment:	
6.	Public Health,Sanitation, Conservancy and Solid waste managment	(i) Control of Epidemic and Malaria. (ii) Running of Primary Health Centres and Sub-Centres.

Sl. No.	Functions suggested in Constitutional Amendment	Functions proposed during the discussions with the Secretaries to Government and Heads of Departments for Urban Local Bodies
(1)	(2)	(3)
	5. HOUSING AND URBAN DEVELOPMENT DEPARTMENT:	
	74th Amendment:	
	10. Slum Clerance Board Schemes:	
	Slum Improvement, Upgradation	(i) Selection of beneficiaries (ii) Maintenance of assets created (No funds available with SLUM CLEARANCE BOARD for maintenance)
	6. ADI-DRAVIDAR AND TRIBAL WELFARE DEPARTMENT:	
	Adi-Dravidar and Tribal Welfare Schemes:	
	Welfare of the Weaker Sections and in particular of the S.Cs. and the S.Ts.	(i) Plan, Monitor and review the progress of all SC/ST Schemes
	7. ENVIRONMENT AND FORESTS:	
	74th Amendment:	
8	Urban Forestry, Protection of the Environment and Promotion of Ecological Aspects.	May be with Urban Local Bodies.
	8. EDUCATION, SCIENCE AND TECHNOLOGY DEPARTMENT:	
	74th Amendment:	
	Promotion of Educational aspects	(i) Administrative and Managerial aspects of Elementary Education. (ii) Visit and Supervision of Secondary Schools. (iii) Attending adult and Non-Formal Education.

APPENDIX NO.106
(Para 4.7.08)

EXISTING TECHNICAL SANCTION POWERS AND PROPOSED POWERS OF ENGINEERS OF LOCAL BODIES

Designation of Officers	Present Powers (Rs.)					Proposed Powers (Rs.)				
	Technical Sanction					Technical Sanction				
	Original Work	Maintenance Work	Electriical Work	Measure-ment	Check Measure-ment	Original Work	Maintenance Work	Electrical Work	Measure-ment	Check Measurement
Union Overseers	3,000	-	-	-	3,000	5,000		-	-	5,000
Union Engineers	30,000	10,000	-	No Limit	30,000	50,000	10,000	-	No limit	50,000
Asst.Divl.Engineers	2,00,00	50,000	10,000	-	No Limit	3,00,000	75,000	15,000	-	No Limit
Divl.Engineer	5,00,000	1,00,000	25,000	-	-	10,00,000	1,50,000	30,000	-	-
Supdt.Engineer	10,00,000	No I imit	50,000	-	-	20,00,000	No limit	1,00,000	-	-
Chief Engineer(*)	Full Powers	Full Powers	Full Powers	-	-	Full Powers	Full Powers	Full Powers	-	-
	Other than water supply and Draiange	Water supply & Drainage Works	Electrical Work	Measure ment	Check Measure ment	Other than water supply and Draiange	Water supply & Drainage Works	Electrical Work	Measure ment	Check Measure ment
Municipal Engr.Grade I	20,000	20,000	5,000			50,000	50,000	50,000		
Municipal Engr.Grade II	50,000	50,000	10,000			3,00,00	3,00,00	3,00,00		
Municipal Engir.Grade I	2,00,000	2,00,000	25,000			10,00,000	10,00,000	10,00,000		
Regional Exe.Engineer	2,00,000	2,00,000	25,000			10,00,000	10,00,000	10,00,000		
Chief Engr.in DMA'S Office	FullPowers	FullPowers	FullPowers			FullPowers	FullPowers	FullPowers		

Note : In respect of Officers vide serial Number 7 to 11, Powers with reference to Maintenance work are the same as that of original work and it is proposed to retain the same. In respect of Powers of Measurement and Check Measurement Government have issued orders in G.O. MS NO 121 MA & WS dated 6/2/90 to Municipal Engineers which is proposed to be retained. See Annexure.

(*) In the event of the Office of Director of Rural Development, is being provided with a Superintending Engineer to head the Proposed Rural Engineering wing, he shall be vested with powers of Chief Engineer.