



FINANCE (FINANCE COMMISSION-IV) DEPARTMENT

**G.O. No.84, Dated 31<sup>st</sup> March 2017**

(Thunmugi, Panguni – 18, Thiruvalluvar Aandu – 2048)

State Finance Commission – Recommendations of the Fifth State Finance Commission – Recommendations on the devolution of resources from the State Government to local bodies – Orders – Issued.

Read:

1. G.O. Ms. No.281, Finance (FC.IV) Department, dated: 01.12.2014.
2. G.O. Ms. No.164, Finance (FC.IV) Department, dated: 01.06.2016.
3. G.O. Ms. No.281, Finance (FC.IV) Department, dated: 01.11.2016

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ORDER:

Based on 73rd and 74th amendments to the Constitution of India and the concomitant State Legislations, Fifth State Finance Commission was constituted in the Government Order first read above to study the financial position of rural and urban local bodies and to make its recommendations to the Government. The Terms of Reference to the Fifth State Finance Commission was also issued in the said G.O. The Fifth State Finance Commission submitted its report to Hon'ble Governor of Tamil Nadu and the Hon'ble Chief Minister on 27.12.2016.

2. The Government examined all the recommendations of the Fifth State Finance Commission including the recommendations on the devolution of resources from the State's Own Tax Revenue and transfer of Assigned Revenue. The Explanatory Memorandum on the action taken by the State Government on the recommendations of the Fifth State Finance Commission along with the Report of the Fifth State Finance Commission were placed on the floor of the Legislative Assembly on 24.03.2017.

3. In the light of the decisions arrived at in the Cabinet meeting held on 03.03.2017, the Government have carefully examined the recommendations of the Fifth State Finance Commission and issues the following orders:

i) Considering the buoyancy in taxes and viable financial position of the local bodies, the Government has decided to continue the devolution of 10% of the net State's Own Tax Revenue during the award period commencing from 2017-2018.



ii) The following deductions shall be made from the gross SOTR so as to arrive net SOTR:

- a) Surcharge on Stamp Duty of RLBs/ULBs provided in the expenditure budget, if not already deducted under the receipt major head;
- b) Cost of collection for the major tax items – Commercial Taxes, State Excise, Stamps and Registration and Motor Vehicles Tax;
- c) Other Surcharges, if any.

iii) The vertical sharing ratio between rural and urban local bodies shall be 56:44.

iv) A Capital Grant Fund shall be established to replace the Infrastructure Gap Filling Fund, into which 20 per cent of the aggregate devolution intended for rural local bodies shall be paid. Of this Fund, 20 per cent shall be set apart for taking up projects which are deemed to be of importance at the State level. These works shall be identified and approved by a Committee comprising the Secretary, Rural Development and Panchayat Raj, Director of Rural Development, a representative of the Finance Department and Member Secretary, State Planning Commission. The balance 80 per cent shall be distributed district wise, based on the formula adopted for horizontal distribution amongst District Panchayats. The allocation of these funds project wise shall be decided by the District Planning Committee based on detailed guidelines to be issued by the RD & PR Department in consultation with Finance and Planning and Development Departments.

v) The following items shall be accorded priority in sanction from the Capital Grant Fund for RLBs :

- a) Improvement of 2500 km of local body roads to ODR standards shall be taken up as a priority by Panchayat Unions through the enhanced Infrastructure Gap Filling Fund/ Capital Grant Fund, with an allocation of Rs.100 crore per year for this purpose.
- b) An amount of Rs. 25 crores spread over the first two years of the Award period be set apart from the Capital Grant Fund to install bulk meters for all RLB bulk consumers to accurately measure the actual quantity of water supplied under the CWSS.
- c) An amount of Rs. 309 crores be set apart for revamping of old CWSSs which are not functioning to full capacity to provide additional water supply to rural areas.

vi) 10 per cent of the overall devolution intended for RLBs be credited into a Pooled Fund for deficit RLBs. 40 per cent of the amount available in this Fund, i.e. 4 per cent of the overall devolution intended for RLBs, shall be disbursed in the first three years of the award period by the DRD&PR only amongst those Panchayat Unions and Village Panchayats which have been in deficit for at least 3 of the last 5 years. The list of such 127 Panchayat Unions and 3921 Village Panchayats shall be provided separately to DRD&PR. The distribution amongst these deficit RLBs shall follow the vertical and horizontal distribution formulae indicated for Panchayat Unions and Village Panchayats. After the first three years of the Award period, the list of deficit RLBs shall be updated on the basis of the accounts for the subsequent



years and the distribution shall be done amongst those RLBs which are still found to be deficit. In case there are no deficit RLBs at that stage, the funds available in the Pooled Fund or if the total funds available in the Pooled Fund exceed 100 percent of the basic devolution including the minimum lump sum grant of the deficit RLBs, then such excess funds shall be transferred to the Capital Grant Fund.

vii) 40 per cent of the Pooled Fund for deficit RLBs, should be allocated with 20 per cent retained by the DRD&PR and 20 per cent distributed amongst District Collectors based on the horizontal District Panchayat wise share. These Funds shall be utilized by the DRD&PR/ District Collectors to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes.

viii) TWAD provides a basic service as an agent of RLBs / ULBs. It also incurs a huge deficit in the maintenance of CWSSs. 20% of the Pooled Fund for deficit RLBs i.e. 2% of the RLB devolution shall be provided to TWAD to meet the deficit on CWSSs in addition to the water charges levied and collected from RLBs.

ix) Since the Capital Grant Fund and Pooled Fund for deficit RLBs provide the necessary tools to address equity and flexibility concerns and to meet important requirements that may not be prioritized by individual RLBs, the practice of deducting funds from the devolution intended for RLBs must be scrupulously avoided.

x) The vertical sharing ratio among the tiers of RLBs shall be 8:37:55 for District Panchayats, Panchayat Unions and Village Panchayats.

xi) The Minimum Lumpsum Grant shall be increased from Rs.5 lakh to Rs.7 lakh per Village Panchayat per year. This amount shall be deducted from the balance share of State Finance Commission devolution intended for Village Panchayats and shall be deducted as the first charge and distributed to all Village Panchayats on monthly basis.

xii) The Minimum Lumpsum Grant to Panchayat Unions shall be increased to Rs. 40 lakhs per annum per Panchayat Union to be released on a monthly basis out of the 37 per cent share of Panchayat Unions in the SFC devolution. This amount shall be deducted from the balance share of State Finance Commission devolution intended for Panchayat Unions and shall be deducted as the first charge and distributed to all Panchayat Unions on monthly basis.

xiii) The horizontal distribution of the SFC devolution to Rural Local Bodies shall be done on the basis of the following formula:

a) Population as per 2011 Census	:	60%
b) Area	:	15%
c) Scheduled Caste / Tribe Population	:	15%
d) Per Capita Consumption Expenditure Distance	:	10%
	:	
Total		100%

xiv) Out of the aggregate devolution intended for ULBs, 5 per cent shall be set apart for the Incentive Fund. ULBs who have actually improved their Property Tax collection by more than 20 per cent shall be made eligible to receive the incentive



amount as a matching share of the collection in excess of 10 per cent growth rate. This incentive shall be paid out based on the audited tax collection figures provided by the Director of Local Fund Audit. In case, many ULBs qualify and the amount payable as incentive exceeds the size of the Fund, the incentive payable ULB wise shall be adjusted on a pro rata basis to fit within the size of the Fund available for that year. In case no ULBs qualify, the incentive amount shall be carried over into the next year. At the end of the award period, any undisbursed incentive amount shall be made available to the Head of the Department for his further use in subsequent years to carry out works relating to amenities and infrastructure.

xv) A special grant of Rs.25 crores shall be provided to TNIUS to be distributed in equal annual instalments over the award period out of the aggregate devolution for ULBs in Tamil Nadu. TNIUS should also open the regional centres in the first phase itself, if need be in rented premises or by co-locating with other Government training institutions, so that capacity building activities for ULB elected representatives and staff can be taken up without delay.

xvi) The following devolution formula may be adopted for both the vertical sharing between tiers and horizontal sharing within the tier for ULBs:

a)	Population as per 2011 Census	:	65%
b)	Area	:	15%
c)	Per Capita Consumption Expenditure Distance	:	10%
d)	Proportion of Slum Population	:	10%
	<b>Total</b>	:	<b>100%</b>

xvii) The Minimum Lump Sum Grant for Town Panchayats shall be enhanced from Rs 20 lakh to Rs 30 lakh.

xviii) A Capital Grant Fund shall be established to replace the Infrastructure Gap Filling Fund, into which 15 per cent of the aggregate devolution intended for ULBs tier wise shall be paid. This Fund, which shall have three parts corresponding to each tier of ULB, shall be utilized to support capital works linked to basic functions and services in the ULBs. Sanctions for works shall be accorded based on guidelines to be issued by Government and subject to approval of an Empowered Committee in order to minimize delays in according administrative sanction.

xix) Rs.35 crores may be allocated in equal instalments over the five year award period from out of the Capital Grant Fund for Town Panchayats as a special grant for completing GIS based mapping and field enumeration in all Town Panchayats for updating Property Tax Registers to enable centralized co-ordination.

xx) The outlived CWSSs shall be taken up as a priority work under the Capital Grant Fund for their revival and the share of the cost of ULBs is Rs.70.13 crores for Corporations, Rs.81.10 crores for Municipalities and Rs.129.15 crores for Town Panchayats and project is to be implemented under the respective Capital Grant Funds.

xi) The percentage of O&MGFF for each tier of ULBs shall be increased from 3% to 5%.



xxii) The following contributions shall be deducted from the devolution share of Rural / Urban Local Bodies:

**Rural Local Bodies**

- a) Capital Grant Fund
- b) Pooled Fund for deficit Rural Local Bodies

**Urban Local Bodies**

- a) Incentive Fund
- b) Special Grants to Tamil Nadu Institute of Urban Studies
- c) Capital Grant Fund from respective tiers of ULBs
- d) Operation & Maintenance Gap Filling Fund from respective tiers of ULBs

The balance devolution grant shall be released in 10 monthly instalments (from April to January) as per the existing procedure based on Budget Estimate provisions and the balance based on Revised Estimate provisions for State's Own Tax Revenue. Necessary funds shall be provided in the Budget of Commissioner of Municipal Administration, Director of Town Panchayats and Director of Rural Development & Panchayat Raj. The orders relating to this would be issued by Municipal Administration & Water Supply Department and Rural Development & Panchayat Raj Department in consultation with Finance Department. Based on the Accounts, if any adjustments are to be made, the same would be adjusted in the first quarter of the next year.

xxiii) The cumulative arrears of Rs.156.90 crore for RLBs and Rs.395.11 crore for ULBs shall be released to the respective local bodies in three equal instalments commencing from 2017-18.

xxiv) In the event there is a loss in State Tax collection due to the introduction of GST and the Government of India compensate States for loss in devolution from the Union divisible pool of taxes to the States on implementation of GST, in addition to the losses in State's tax revenue, then on a paripassu basis, the State should share 10 per cent of the compensation that it receives from the Centre for the shortfall in revenue collections of the State due to introduction of GST, with the Local Bodies.

xxv) The pension commitment of local body pensioners shall be deducted from the devolution meant for the respective local bodies instead of respective tiers.

xxvi) The Government Orders on the basis to be adopted for distribution of funds among various local bodies would be issued separately by the respective departments in consultation with Finance Department.

xxvii) The Government Orders on the decisions taken on the other recommendations of the 5<sup>th</sup> State Finance Commission as given in the Action Taken Report will be issued separately by the respective departments in consultation with Finance Department.

4. The orders issued in para 3 above shall take effect from 1.4.2017. The departments concerned are requested to take necessary follow up action based on the orders issued above.

(BY ORDER OF THE GOVERNOR)

**K. SHANMUGAM**  
**ADDITIONAL CHIEF SECRETARY TO GOVERNMENT**


To

Principal Secretary to Government,  
 Rural Development & Panchayat Raj Department, Chennai-9.  
 Secretary to Government,  
 Municipal Administration & Water Supply Department, Chennai - 9.  
 Commissioner of Municipal Administration, Chepak, Chennai - 5.  
 Director of Rural Development & Panchayat Raj, Panagal Buildings, Saidapet, Chennai-15.  
 Director of Town Panchayat, Chennai-108.  
 Director of Local Fund Audit, Chennai - 108.  
 The Principal Accountant General, Chennai - 18.  
 All District Collectors  
 All District Rural Development Agencies  
 All Assistant Directors of Panchayats  
 All Assistant Directors of Town Panchayats  
 All Regional Director of Municipal Administration  
 All Panchayat Unions  
 All District Panchayats  
 All Town Panchayats  
 All Municipalities  
 All Municipal Corporations  
 Finance (MA&WS/ RD/ FC.II/ LF/Resources/ W&M) Department. Chennai - 9.

Copy to:

Governor's Secretariat, Chennai-25.  
 Secretary to Chief Minister, Chennai-9.  
 P.A. to Minister (Finance), Chennai-9.  
 Director of Economics & Statistics, Chennai -6.  
 Director of Evaluation & Applied Research, Chennai -108.  
 SF/SC.

/ Forwarded by Order /

K. K. L.   
 21/3/17  
 SECTION OFFICER