

# **Status of Fund Release to Panchayat Raj Institutions**

## **Introduction**

The resource base of the rural local bodies in addition to their Own Tax/Non-Tax revenues consists of the following:

1. Devolution of funds by the State Government based on the recommendations of the State Finance Commissions.
2. Assigned/Shared Revenues.
3. Funds provided based on the recommendations of the Central Finance Commissions

Rural Local Bodies have the duties of providing basic amenities and civic services to around 3.6 Crore rural population. The Rural Local bodies are empowered to collect taxes to raise their own resources to perform their duties. However, the funds collected through their own revenues do not suffice. Therefore, the Government (Central and State) devolves part of their own tax revenues to the rural local bodies to meet their needs.

Article 243(I) and 243(Y) of the Constitution of India incorporated by 73<sup>rd</sup> and 74<sup>th</sup> Amendment Acts heralded a new era in the history of the Local Bodies by providing for the constitution of a State Finance Commission in all the States within one year from the commencement of the Constitution 73<sup>rd</sup> Amendment Act, 1992 initially and thereafter at the expiry of every five years to recommend devolution of funds to the Local Bodies.

The Central Government also asked the Central Finance Commissions to recommend the quantum of Central Government funds to be devolved to the local bodies from Tenth Central Finance Commission onwards.

The Assigned/Shared revenues are one which are collected by State Government but transferred/shared to/with local bodies. The major sources of assigned/shared revenues to the rural local bodies are Local Cess, Local Cess Surcharge, Surcharge on Stamp duty, Entertainment tax, seignior age fees and lease amount of mines and minerals, and sale proceeds of Social Forestry plantations.

## **1. State Finance Commission.**

### **1.1 First State Finance Commission:**

In Tamil Nadu, the First State Finance Commission was constituted in April, 1994. It gave its report in November 1996 covering the period from April, 1997 to March 2002.

Government vide G.O (Ms) No.225, Finance (Resources) Dept., dt: 2.5.1997, accepted the following recommendations of the First State Finance Commission:

- Devolution of 8% of State's own tax revenue (except Entertainment Tax) to rural and urban local bodies.
- Out of 8%, 85% to be released as devolution grant and 15% as equalization and incentive grant.
- The 85% devolution grant to be shared between rural and urban local bodies in the ratio of 55:45 respectively. The 15% equalization and incentive grant was apportioned to rural and urban local bodies in the ratio of 60:40 respectively.
- The 55% devolution grant to rural local bodies was distributed to Village Panchayats, Panchayat Unions and District Panchayats in the ratio of 45: 45: 10 respectively. The devolution grant was released based on 1991 population giving weightage to 2/3<sup>rd</sup> general population and 1/3<sup>rd</sup> SC/ST population. The equalization grant was released to Village Panchayats and Panchayat Unions towards drinking water supply, settlement of current consumption charges and to fill up the gaps in the provision of basic amenities and infrastructure facilities. The incentive grant was released to Village Panchayats to levy and improve the house tax collections.

<b>First State Finance Commission Grant</b>				
<b>Rs. in crores</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
1997-98	191.79	146.55	30.95	369.29
1998-99	240.19	180.01	33.52	453.72
1999-00	240.48	183.87	30.71	455.06
2001-01	307.34	231.69	38.76	577.79
2001-02	81.75	87.93	17.76	187.44
<b>Total</b>	<b>1061.55</b>	<b>830.05</b>	<b>151.70</b>	<b>2043.30</b>

## **1.2 Second State Finance Commission:**

The Second State Finance Commission was constituted on 1.12.1999, for the award period from 2002 - 03 to 2006 - 07 and it gave its report in May 2001.

Government vide G.O.Ms.No.284, Finance (FCIV) Department, dt:12.8.2002, accepted the following recommendations of the Second State Finance Commission:

- 8% of State's own tax revenue (except Entertainment Tax) was apportioned as devolution grant and reserve equalization and incentive fund in the ratio of 87:13 respectively.
- 87% allocation was apportioned to rural local bodies and urban local bodies in the ratio of 58:42 respectively.
- Devolution grant of 58% was shared between Village Panchayats, Panchayat Unions and District Panchayats in the ratio of 47:45:8 respectively. The devolution grant was apportioned based on 2001 census population giving weightage to total population 40%, women population 40% and SC/ST population 20%. The 13% grant was apportioned as Reserve Fund, Equalization Fund, and Incentive fund in the ratio of 2:6:5 respectively.

<b>Second State Finance Commission Grant(Rs. in crores)</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2002-03	416.25	278.73	47.11	742.09
2003-04	355.62	266.89	49.01	671.52
2004-05	398.26	400.43	64.15	862.84
2005-06	499.27	426.25	69.23	994.75
2006-07	614.71	524.81	85.24	1224.76
<b>Total</b>	<b>2284.11</b>	<b>1897.11</b>	<b>314.74</b>	<b>4495.96</b>

### **1.3 Third State Finance Commission:**

The Third State Finance Commission was constituted on 2.12.2004, for the award period of 2007- 08 to 2011-12. It gave its report on 30.9.2006.

The Government vide G.O.Ms.No.199, Finance (FC IV) Dept., dt: 25.5.2007 accepted the following recommendations of the Third State Finance Commission:

- To increase the devolution grant from existing 8% to 9% of the State's own tax revenue in 2007-08. The devolution grant is to be shared between the rural and urban local bodies in the ratio of 58:42.

- The 58% devolution grant to rural local bodies to be distributed among the Village Panchayats, Panchayat Unions and District Panchayats in the ratio of 60:32:8 from the year 2007-08.
- The allocation of State Finance Commission funds to the Village Panchayats based on the criteria adopted in the earlier years was not sufficient for many Panchayats to meet the minimum payment of electricity charges to TNEB and water charges to TWAD Board. Hence, the Government have ordered that the Village Panchayat's share will be raised to 60% of the Devolution grant allocated for Panchayat Raj Institutions to enable them to discharge their onerous duties of provision and maintenance of basic amenities such as drinking water supply, sanitation, roads and street lights.
- Out of 60% share of Village Panchayats, 5% reserved for Infrastructure Gap Filling Fund. From out of the Village Panchayats share of 55%, a minimum grant of Rs.3.00 lakhs per annum to each Village Panchayat is to be provided as a measure of equalization. The balance amount is to be released based on population.

<b>Third State Finance Commission Grant (Rs.in crores)</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2007-08	950.15	506.75	126.69	1583.59
2008-09	1029.86	549.26	137.32	1716.64
2009-10	1158.86	614.17	153.54	1926.57
2010-11	1688.93	900.76	225.19	2814.88
2011-12	1999.48	1066.39	266.60	3332.47
<b>Total</b>	<b>6827.28</b>	<b>3637.33</b>	<b>909.34</b>	<b>8041.48</b>

#### **1.4 Fourth State Finance Commission**

The Fourth State Finance Commission was constituted on 1.2.2009, for the award period of 2012-13 to 2016-17. It gave its report on 30.9.2011. The Government vide G.O.Ms.No.194, Finance (FC IV) Dept., dt: 10.6.2013 accepted the following recommendations of the Third State Finance Commission:

- The government has decided to continue the devolution grant as 10% of the State's own tax revenue during the award period of 2012-13 to 2016-17. The devolution grant is to be shared between the rural and urban local bodies in the ratio of 58:42.
- The 58% devolution grant to rural local bodies to be distributed among the Village Panchayats, Panchayat Unions and District Panchayats in the ratio of 60:32:8 from the year 2012-13 to 2016-17.

- The allocation of State Finance Commission funds to the Village Panchayats based on the criteria adopted in the earlier years was not sufficient for many Panchayats to meet the minimum payment of electricity charges to TNEB and water charges to TWAD -Board. Hence, the Government have ordered that the Village Panchayat's share will be raised to 60% of the Devolution grant allocated for Panchayat Raj Institutions to enable them to discharge their onerous duties of provision and maintenance of basic amenities such as drinking water supply, sanitation, roads and street lights.
- Out of 60% share of Village Panchayats, 10% reserved for Infrastructure Gap Filling Fund. From out of the Village Panchayats share of 60%, a minimum grant of Rs.5.00 lakhs per annum to each Village Panchayat is to be provided as a measure of equalization. The balance amount is to be released based on population.

<b>Fourth State Finance Commission Grant (Rs.in crores)</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2012-13	2440.88	1301.80	325.45	4068.13
2013-14	2732.62	1564.06	391.02	4687.70
2014-15	2564.30	1367.63	341.91	4273.84
2015-16	2599.78	1386.55	346.64	4332.97
2016-17	2077.56	1386.54	346.63	3810.73
<b>Total</b>	<b>10337.58</b>	<b>5620.04</b>	<b>1405.02</b>	<b>17362.64</b>

### 1.5 Fifth State Finance Commission

The Government vide G.O.Ms.NO.50, Finance (SFC-MC) Department dated 06.03.2020, have constituted Sixth State Finance Commission to review the financial position of the rural and urban Local Bodies Namely Village Panchayats, Panchayat Union Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations.

<b>Fifth State Finance Commission Grant (Rs.in crores)</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2017-18	1986.36	1336.28	288.92	3611.56
2018-19	2272.22	1528.58	330.50	4131.30
2019-20	2530.83	1702.56	368.12	4601.51
2020-21	2600.40	1749.36	378.24	4728.00
2021-22	2794.48	1879.92	406.46	5080.86
<b>Total</b>	<b>12184.29</b>	<b>8196.70</b>	<b>1772.24</b>	<b>22153.23</b>

### 1.5 Sixth State Finance Commission

The Government vide G.O.Ms.NO.281, Finance (Finance Commission-IV) Department dated 1.12.2014, have constituted Fifth State Finance

Commission to review the financial position of the rural and urban Local Bodies Namely Village Panchayats, Panchayat Union Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations.

<b>Fifth State Finance Commission Grant (Rs.in crores)</b>				
Year	Village Panchayats	Panchayat Unions	District Panchayats	Total
2022-23	2854.01	1867.90	370.26	5092.17
2023-24	3419.67	2424.86	373.05	6217.58
2024-25	3796.43	2692.01	414.15	6902.59

## 2. Assigned Revenues

### a. Local Cess and Local Cess Surcharge:

Section 167 of the Tamil Nadu Panchayats Act, 1994 provides for the levy of local cess at the rate of Re.1 on every rupee of land revenue realized in the State. The total amount realized from this source was distributed entirely to Village Panchayats. Similarly, Section 168 of the Act provides for the levy of local cess surcharge at such rate which may be considered suitable but not less than Rs.5 on every rupee of land revenue. The levy, collection and adjustment to Village Panchayats and Panchayat Unions is done by Revenue Department in the districts.

### Assigned Revenues: Local Cess and Local Cess Surcharge\*(Rs. in crores)

Year	Local cess	Local cess surcharge
1995-96	2.05	26.19
1996-97	2.13	24.26
1997-98	1.37	7.35
1998-99	2.81	14.20
1999-00	2.52	15.17
2000-01	5.94	29.96
2001-02	5.74	27.76
2002-03	5.10	26.03
2003-04	4.81	24.30
2004-05	1.42	7.07
2005-06 *	4.53	23.79
2006-07 *	3.41	18.33

\* Source: Second and Third State Finance Commission Reports\$ Source: District Collectors Reports

### b. Surcharge on Stamp duty on transfer of property

Under Section 175 of the Act, provision is made for crediting the proceeds under surcharge on Stamp duty to Village Panchayats. This is

adjusted in quarterly instalments by the Registration Department in the districts.

### **Assigned Revenues: Surcharge on Stamp Duty \***

<b>Year</b>	<b>Surcharge on Stamp duty(Rs. in crores)</b>
1995-96	48.85
1996-97	49.79
1997-98	39.23
1998-99	60.48
1999-00	66.67
2000-01	112.92
2001-02	128.57
2002-03	191.04
2003-04	122.91
2004-05	153.62
2005-06	146.24
2006-07	228.73
2007-08	277.61
2008-09	360.63
2009-10	296.44

\* Source: Second and Third State Finance Commissions Reports@ Source: District Collectors Report

### **c. Entertainment Tax**

90% of the Entertainment Tax collected in rural areas is assigned to rural local bodies. This is distributed between the Panchayat Unions and Village Panchayats in the ratio of 30:70 respectively by the Commercial Tax department in the districts.

### **Assigned Revenues: Entertainment Tax**

<b>Year</b>	<b>Entertainment tax(Rs. in crores)</b>
1995-96 *	7.71
1996-97 *	7.73
1997-98 *	5.73
1998-99 *	9.50
1999-00 *	10.32
2000-01 *	0
2001-02 *	0
2002-03 *	1.58
2003-04 *	2.44
2004-05 *	5.27
2005-06 @	0.59
2006-07 @	0.88

\* Source: Second State Finance Commission Report\$ Source: Third State Finance Commission Report@Source: District Collectors' Report

#### **d. Mines and Minerals.**

The quarry lease income from minor mineral is shared with local bodies. Previously, it was with Revenue Department but subsequently it was entrusted to a separate department called Geology and Mining. The department had issued instructions for adjusting the amount at the end of April every year which means after the closure of the financial year. From 2.10.2003, P.W.D. is operating the sand quarries and the income has gone to Government Account. However, the Seignorage fees have been apportioned to local bodies.

Assigned Revenues: Lease amount derived from Mines and minerals

<b>Year</b>	<b>Lease amount derived from Mines and Minerals(Rs. in crores)</b>
2000-01 *	31.22
2001-02 *	35.08
2002-03 *	40.71
2003-04 *	39.62
2004-05 *	33.25
2005-06 *	39.46
2006-07 *	52.52
2007-08 *	66.61
2008-09 *	86.49
2009-10 *	70.68

\$ Source: Third State Finance Commission Report

#### **e. Social Forestry Receipts**

There was no statutory obligation for sharing the Social Forestry receipts till 1992 but the 73<sup>rd</sup> Constitutional Amendment Act, had assigned the Social Forestry and Farm Forestry to rural local bodies under Schedule - XI of the Constitution of India. The proceeds of social forestry from 1997-98 to 1999-2000 have been ordered to transfer the same to Panchayats. The Third State Finance Commission recommended to share the social forestry receipts on 50:50 bases as per Government orders.

#### **Assigned Revenues: Social Forestry**

<b>Year</b>	<b>Social Forestry(Rs. in crores)</b>
1993-94 *	
1994-95 *	
1995-96 *	
1996-97 *	8.75
1997-98 *	6.92



1998-99 *	
1999-00 *	
2000-01 #	
2001-02 #	
2002-03 #	
2003-04 #	15.1643
2004-05	
2005-06 #	10.5887
2006-07	5.32
2007-08	4.69
2008-09	3.54

Source: \* G.O.Ms.No.33, Environment & Forests (Forests .6) Dept. Dt.15.2.2000

Source: \$ G.O.Ms.No.234, Environment & Forests (Forests .6) Dept. Dt.27.12.2005

Source: # G.O(2D). No.93, Environment & Forests (Forests .6) Dept. Dt.15.11.2007

## 2.1 Pooled Assigned Revenue from 2007-08

The Assigned Revenues of rural local bodies include the class of taxes and levies like Entertainment Tax, levied under Entertainment Tax Act, 1939, surcharge on Stamp duty levied under Tamil Nadu Panchayats Act, 1994 and Local Cess / Local Cess Surcharge on land revenue levied under the Tamil Nadu Panchayats Act, 1994 are traditionally collected by the concerned Government departments and adjusted directly to local bodies by the District Collectors.

The system of adjusting Assigned Revenues to various rural local bodies through adjustments leads to considerable delay in transferring the funds. To ensure quick transfer, the Government have issued orders in G.O.Ms.No. 168, Rural Development & Panchayat Raj Department (C4) Department dt. 4.10.2007 to pool the Assigned Revenues. i.e. Local Cess, Local Cess Surcharge, Surcharge on Stamp Duty and Entertainment Tax at State Level and to apportion the same to rural local bodies.

Accordingly, Government allocated Rs.270 Crores for Pooled Assigned Revenue for the year 2007-08. Out of this amount, Rs. 180 Crores had been released to all the Village Panchayats, Panchayat Unions and District Panchayats on population basis and Rs. 90 Crores released to districts for Priority Schemes.

During 2008-09, Government allocated Rs.541.77 Crores for Pooled Assigned Revenue out of this amount Rs.361.18 Crores has been released to all the Village Panchayats, Panchayat Unions and District Panchayats on population basis and Rs.180.59 Crores released to districts for Priority Schemes. During 2009-10, Government allocated Rs.359.49 Crores for Pooled Assigned Revenue out of this amount Rs.179.745 Crores has been released to all the Village Panchayats, Panchayats Unions and District

Panchayat on population basis and Rs.179.745 Crores has been released to districts for Priority Schemes.

Sl.No.	Tax	Rs. in Crores
1.	2007-08	180
2.	2008-09	361.18
3.	2009-10	179.745
4.	2010-11	362.92
5.	2011-12	354.95
6.	2012-13	445.05
7.	2013-14	626.45
8.	2014-15	577.36
9.	2015-16	712.33
10	2016-17	666.45
11	2017-18	505.88
12	2018-19	407.71
13	2019-20	1053.45
14	2020-21	618.43
15	2021-22	850.37
16	2022-23	1003.00
17	2023-24	1031.16
18	2024-25	
<b>Total</b>		<b>9936.435</b>

Source: G.O.Ms.No.168, RD & PR (C4) Department dated 4.10.2007

### 3. Central Finance Commissions:

#### 3.1 Tenth Central Finance Commission Grant

The Tenth Finance Commission recommended an adhoc grant of Rs.71.83 Crores annually from 1996-97 to 2000-01 for the rural local bodies in Tamil Nadu to take up capital works which was the first time when a central finance commission touched the local bodies. While releasing the amount the Government had stipulated that the local bodies could take up capital works from out of the Tenth Central Finance Commission's grant by suitable contribution from its general funds.

#### Tenth Central Finance Commission Grant

YEAR	(Rs in crores)			
	Village Panchayats	Panchayat Unions	District Panchayats	Total
1996-97 *	5.43	38.40	28.00	71.83
1997-98 *	19.13	38.70	14.00	71.83
1998-99 *	18.63	46.20	7.00	71.83
1999-00 *	33.78	32.32	5.75	71.85
<b>Total</b>	<b>76.97</b>	<b>155.62</b>	<b>54.75</b>	<b>287.34</b>

\*Source: Second State Finance Commission Report.

### 3.2 Eleventh Central Finance Commission Grants

The 11<sup>th</sup> central finance commission recommended grants to rural local bodies in Tamil Nadu for Rs. 9,322.36 lakhs per annum for five years from 2000-01 to 2004-05. Out of this grant, Rs.519.12 lakhs per annum had been earmarked for maintenance of accounts in rural local bodies. This grant was released for the maintenance of civic services to Village Panchayats and Panchayat Unions in the ratio of 55: 45 respectively based on the population which are having a primary responsibility in the maintenance of civic services by a suitable contribution from its general funds.

#### Eleventh Central Finance Commission Grant (Rs in crores)

YEAR	Panchayat Unions	Village Panchayats	Total
2000-01	38.68	47.28	85.96
2001-02	38.68	47.28	85.96
2002-03	38.68	47.28	85.96
2003-04	40.68	53.38	94.25
2004-05	66.71	47.27	113.99
<b>Total</b>	<b>223.63</b>	<b>242.49</b>	<b>466.12</b>

### 3.3 Twelveth Central Finance Commission Grant

A total sum of Rs. 870 crores have been allotted to Tamil Nadu for the period from 2005-06 to 2009-10 under 12th Finance Commission Grant to rural local bodies. A sum of Rs.174 crores was released to Village Panchayats and Panchayat Unions in the ratio of 80: 20 respectively in the year 2005-06 and the entire grant is released only to Village Panchayats from the second instalment of funds in the year 2006-07 onwards. This grant is to be utilized entirely for the O & M costs of water supply, street lighting and sanitation.

Twelveth Central Finance Commission Grant (Rs in crores)			
YEAR	Panchayat Unions	Village Panchayats	Total
2005-06	34.80	139.20	174.00
2006-07	17.40	156.60	174.00
2007-08	0.00	174.00	174.00
2008-09	0.00	174.00	174.00
2009-10	0.00	174.00	174.00
2010-11	0.00	287.10	287.10

### 3.4 Thirteenth Central Finance Commission Grant:

<b>Thirteenth Central Finance Commission Grant</b>		
<b>(Rs in crores)</b>		
YEAR	Village Panchayats	Total
2011-12	352.62	352.62
2012-13	416.11	416.11
2013-14	471.65	471.65
2014-15	515.52	515.52

### 3.5 Fourteenth Central Finance Commission Grant:

A sum of Rs. **8777.43 crore** had been allotted for 14<sup>th</sup> FC for Village Panchayats as follows:

**(Amount Rs. In Crore)**

<b>Fourteenth Central Finance Commission Grant</b>			
YEAR	Basic Grants	Performance Grants	Total
2015-16	947.65	-	947.65
2016-17	1312.19	172.12	1484.31
2017-18	1516.12	194.78	1710.90
2018-19	1753.87	221.20	1975.07
2019-20	2369.86	289.64	2659.50
<b>Total</b>	<b>7899.69</b>	<b>877.74</b>	<b>8777.43</b>

### 3.6 Fifteenth Central Finance Commission Grant:

- Fifteenth Finance Commission submitted its report during January 2020.
- It is submitted its report in two stages one for the year 2020-21 and another for the rest of the award period (i.e., 2021-22 to 2025-26).

A sum of Rs. 176666 Crore has been allotted for 15<sup>th</sup> FC for all 3 Tiers as follows:

<b>Fifteenth Central Finance Commission Grant</b>				
<b>(Rs in crores)</b>				
YEAR	Village Panchayats	Block Panchayat	District Panchayat	Total
2020-21	2885.60	541.05	180.35	3607.00
2021-22	2132.80	399.90	133.30	2666.00
2022-23	2208.80	414.15	138.05	2761.00
2023-24	2232.80	418.65	139.55	2791.00
2024-25	2365.60	443.55	147.85	2957.00
2025-26	2307.20	432.60	144.20	2884.00
<b>Total</b>	<b>14132.80</b>	<b>2649.90</b>	<b>883.20</b>	<b>17666.00</b>