

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". In spite 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, JVVVT, 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 JVVVT 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 Panchayat 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. Venkitaraman, 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.