

**11.22 Third State Finance Commission (SFC) -Recommendations on the devolution of resources from the State Government to Local Bodies**

Finance (Finance Commission – IV) Department

G.O. (Ms) No. 199

Dated : 25.05.2007

Read :

1. G.O. (Ms) No. 573/Finance (FC.IV) Department, Dated : 1.12.2004.
2. G.O. (Ms) No. 584/Finance (FC.IV) Department, Dated : 14.12.2004.
3. G.O. (Ms) No. 440/Finance (FC.I) Department, Dated : 13.12.2005.

**ORDER**

Based on 73<sup>rd</sup> and 74<sup>th</sup> amendments to the Constitution of India and the concomitant State Legislations, Third 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. In the Government Order second read above, the Terms of Reference to the Third State Finance Commission was issued. The Third State Finance Commission submitted its report to His Excellency the Governor of Tamil Nadu and Hon'ble Chief Minister on 30.9.2006.

2. The Government examined all the recommendations of the Third State Finance Commission including the recommendations on the devolution of resources from the State's Own Tax Revenue and transfer of Assigned Revenue. The decisions taken by the Government on the recommendations on the devolution of resources from the State Government to the local bodies were announced in the Budget speech on 23.3.2007. Moreover, the explanatory memorandum on the action taken by the State Government on the recommendations of the Third State Finance Commission was placed on the floor of the Assembly on 10.5.2007.

3. The Government have carefully examined the recommendations of the Third State Finance Commission and issue the following orders:

- i. Considering the buoyancy of State's Own Tax Revenue and the sizeable increase in the quantum of State Finance Commission devolution even by increasing 1% and State Government's commitments, **the Government have decided that the devolution of funds from state's Own Tax Revenue for the year 2007-2008 will be at 9%.** The devolution of funds for the remaining years of the aWard will be issued during the years to follow.
- ii. For arriving at the net State's Own Tax Revenue for the purpose of devolution of grants, Tamil Nadu Rural Road Development Fund, other surcharges including specific surcharges and collection charges for tax administration heads alone shall be deducted.
- iii. The recommendation of the Third State Finance Commission **to adopt the existing vertical sharing ratio of 58 : 42 between rural and urban local bodies shall be followed during the aWard period.**
- iv. The 58% share of rural local bodies in the devolution grant shall be distributed to **Village Panchayats, Panchayat Unions and District Panchayats in the ratio of 60:32:8 respectively as recommended by the Third State Finance Commission.**
- v. The Government shall **reserve 5% from out of 60% share of the Village Panchayats** from State Finance Commission devolution toWards infrastructure gap filling fund.
- vi. From out of the infrastructure gap filling fund, 50% shall be allocated toWards Anaithu Grama Anna Marumalarchi Thittam and out of the balance 50% of the fund, a part of the amount shall be allocated to the Director of Rural Development for providing basic amenities in the Districts and the rest shall be allocated to the Districts based on

## 11. STATE FINANCE COMMISSION

population and the District Collectors shall utilise the funds for the same purpose.

- vii. A minimum grant of Rs.3 lakhs to each Village Panchayat shall be provided as a measure of equalization, from out of the Village Panchayats share of 55%. The balance amount shall be distributed based on population.
- viii. As recommended by the Third State Finance Commission, the 42% share of urban local bodies in the devolution grant shall be distributed to Municipal Corporations, Municipalities and Town Panchayats in the ratio of 30:41:29 respectively. The Government shall set apart 3% toWards infrastructure gap filling fund and 2% for operation and Maintenance gap filling fund from out of the share of each tier.
- ix. A minimum State Finance Commission grant of Rs.10 lakhs shall be provided to each Town Panchayat as in the case of Village Panchayats and the balance grant shall be distributed based on population.
- x. From out of the devolution share of Chennai Corporation, 10% shall be distributed to Chennai Metropolitan Water Supply and Sewerage Board. The amount devolved to the Board shall be spent on development schemes only.
- xi. The devolution grant shall be distributed within each tier of rural and urban local bodies based on 2001 population.
- xii. 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.
- xiii. The 5% infrastructure gap filling fund for rural local bodies and 3% infrastructure gap filling fund and 2% Operation and Maintenance gap filling fund for urban local bodies shall be deducted from the devolution share of concerned tier of rural/urban local bodies. The balance devolution grant shall be released in 10 monthly installments (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 made available in the Budget of Director of Rural Development/Commissioner of Municipal Administration/Director of Town Panchayats. The Orders relating to this would be issued by Rural Development and Panchayat Raj Department, Municipal Administration and Water Supply Department in consultation with Finance Department. Based on Accounts, if any adjustments have to be made, the same would be adjusted in the first quarter of the following next year.
- xiv. Further, the arrears in devolution due to Urban Local Bodies shall be released In 3 annual installments and the excess devolution made to Rural Local Bodies shall also be deducted in 3 installments as on 1.4.2007.
- xv. The Pension commitment of local body pensioners shall be deducted from the devolution meant for the respective local bodies instead of respective tiers.
- xvi. The Government orders on the decision taken on the other recommendations of the Third State Finance Commission as given in the Action Taken Report will be issued separately by the respective departments in consultation with Finance Department.
- xvii. The Implementation of the decisions taken by the Government on the recommendations of the Commission and the follow up action taken shall be monitored by the High Level Committee headed by the Chief Secretary to the Government ordered in Government Order third read above, on half yearly basis.

4. The Orders issued in para 3 above shall take effect from 1.4.2007. The departments concerned are requested to take necessary follow up action based on the orders issued above.

(By order of the Governor)

**K.GNANADESIKAN**  
SECRETARY TO GOVERNMENT