



FINANCE (FC-IV) DEPARTMENT
G.O.No.194, Dated 10th June, 2013
(Vaikasi 27, Vijaya, Thiruvalluvar Aandu 2044)

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

Read:

G.O.Ms.No.549, Finance (FC.IV) Department, dated: 01.12.2009

ORDER:

Based on 73rd and 74th amendments to the Constitution of India and the concomitant State Legislations, Fourth State Finance Commission was constituted in the Government Order 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 Fourth State Finance Commission was also issued in the said G.O. The Fourth State Finance Commission submitted its report to His Excellency the Governor of Tamil Nadu and the Hon'ble Chief Minister on 30.09.2011.

2. The Government examined all the recommendations of the Fourth 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 21.03.2013. Moreover, the Explanatory Memorandum on the action taken by the State Government on the recommendations of the Fourth State Finance Commission along with the report of the Fourth State Finance Commission were placed on the floor of the Assembly on 14.05.2013.

3. In the light of the decisions arrived at in the Cabinet meeting held on 11.03.2013, the Government have carefully examined the recommendations of the Fourth 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 2012-2013.**

- ii) The following deductions shall be made from the gross SOTR so as to arrive net SOTR:
 - i) Share of E.T. / Surcharge on Stamp Duty of rural local bodies/ urban local bodies provided in the expenditure budget if not deducted under the receipt major head.
 - ii) Transfers to Tamil Nadu Rural Road Development Fund and all surcharges.
- iii) **A fund shall be created for solid waste management activities for all local bodies by pooling an amount of Rs.250.00 crores per annum during the award period.** An amount of Rs.150.00 crores per annum for rural local bodies and Rs.100.00 crores per annum for urban local bodies shall be earmarked for this purpose. **The earmarked sum of Rs.150.00 crores for rural local bodies shall be distributed to Village Panchayats and the sum of Rs.100.00 crores for urban local bodies shall be distributed among Corporations, Municipalities and Town Panchayats in the vertical sharing ratio of 40 : 31 : 29.**
- iv) The amount of **Rs.150.00 crores earmarked to rural local bodies and Rs.100.00 crores to urban local bodies towards Solid Waste Management activities for the year 2012-13 shall be released to the local bodies in 3 annual instalments commencing from 2013-14.**
- v) **The vertical sharing ratio between rural and urban local bodies shall be continued as 58:42.**
- vi) After taking into account the needs of the respective tiers of the Panchayat Raj Institutions, as recommended by the Fourth State Finance Commission, **the vertical sharing among the tiers of PRIs shall be continued in the ratio of 8 : 32 : 60 for District Panchayats, Panchayat Unions and Village Panchayats** respectively.
- vii) **10% of the devolution to rural local bodies shall be deducted from the share of Village Panchayats and allocated towards Infrastructure Gap Filling Fund for Village Panchayats.** It shall be utilized on project/ scheme basis only.
- viii) **From out of the Infrastructure Gap Filling Fund, 50% shall be allocated towards Tamil Nadu Village Habitations Improvement Scheme (THAI) and from the remaining 50% of the Fund,** a part of the amount shall be allocated to the Commissioner of Rural Development for providing basic amenities in the districts and the balance shall be allocated to the districts based on population and the District Collectors shall utilize the funds for the same purpose.

- ix) The **minimum lumpsum grant to Village Panchayats shall be increased from Rs.3.00 lakhs to Rs.5.00 lakhs per Village Panchayat**. 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. The balance amount from out of the share of Village Panchayats in the SFC devolution shall be distributed on the horizontal sharing ratio as below:

a)	Total population (2011 Census)	:	60%
b)	SC/ST population	:	20%
c)	Area	:	20%

- x) The **minimum lumpsum grant of Rs.30.00 lakhs per Panchayat Union shall be continued** for the award period.

- xi) The **vertical sharing ratio between the tiers of urban local bodies shall be 40 : 31 : 29 for Municipal Corporations, Municipalities and Town Panchayats** respectively.

- xii) After considering the pros and cons for including "Area" as one of the criteria and considering this as one of the criteria for devolution of grant, as it has its effect on the area to be covered by the local bodies, the following criteria and weightages shall be adopted for horizontal sharing of SFC devolution within each tier of urban local bodies:

a)	2011 census population	:	80%
b)	Area	:	15%
c)	Debt outstanding	:	5%

- xiii) The **percentage of IGFF for each tier of ULBs shall be increased from 3% to 7%**. Debt relief to 41 Municipalities and 3 Municipal Corporations shall also be met from this Fund.

- xiv) The **percentage of O&MGFF for each tier of ULBs shall be increased from 2% to 3%**.

- xv) The **minimum lumpsum grant for Town Panchayats shall be increased from Rs.10.00 lakhs to Rs.20.00 lakhs per Town Panchayat**.

- xvi) The contributions for 10% Infrastructure Gap Filling Fund for rural local bodies and 7% Infrastructure Gap Filling Fund and 3% 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 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 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 and 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.

- xvii) **The devolution arrears due to Corporations shall be released in 3 annual instalments and the excess devolution made to Municipalities shall also be deducted in 3 annual instalments commencing from 2013-14.**
- xviii) The minimum lumpsum grant to Village Panchayats and Town Panchayats has been increased for the award period of the Fourth State Finance Commission commencing from 1st April 2012. The arrears for the year 2012-13 arising out of the increase in the quantum of minimum lumpsum grant has to be adjusted. Since the financial year 2012-13 has already ended and the SFC grants inclusive of minimum lumpsum grant have also been released for the year 2012-13 in toto, **the increased quantum of minimum lumpsum grant to Village Panchayats and Town Panchayats shall be devolved to them from the year 2013-14 onwards.**
- xix) On the devolution arrears of Rs.129.30 crores for Panchayat Raj Institutions and Rs.222.82 crores for urban local bodies worked out based on the existing methodology, it has been decided to release arrears, if any, or to adjust the excess payment towards future release based on Finance Accounts.
- xx) The pension commitment of local body pensioners shall be deducted from the devolution meant for the respective local bodies instead of respective tiers.
- xxi) 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.
- xxii) The Government orders on the decision taken on the other recommendations of the Fourth 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 1.4.2012. The departments concerned are requested to take necessary follow up action based on the orders issued above.

(BY ORDER OF THE GOVERNOR)

**K. SHANMUGAM,
PRINCIPAL SECRETARY TO GOVERNMENT**

To

Principal Secretary to Government, Rural Development and Panchayat Raj
Department, Chennai-9.

Secretary to Government, Municipal Administration & Water Supply Department, Chennai-9.
Commissioner of Rural Development and Panchayat Raj, Panagal Buildings,
Saidapet, Chennai-15.

Commissioner of Municipal Administration, Chepauk, Chennai – 5.

Director of Town Panchayats, 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 Directors of Municipal Administration

All Panchayat Unions

All District Panchayats

All Town Panchayats

All Municipalities

All Municipal Corporations

Finance (RD) Department, Chennai – 600 009.

Finance (MA&WS) Department, Chennai – 600 009.

Finance (FC.I) Department, Chennai – 600 009.

Finance (LF) Department, Chennai – 600 009.

Finance (Resources) Department, Chennai – 600 009.

Finance (W & M) Department, Chennai – 600 009.

Copy to:

Governor's Secretariat, Chennai – 600 025.

Secretary to Chief Minister, Chennai – 600 009.

Joint Secretary to Minister for Finance, Chennai – 600 009.

Private Secretary to Chief Secretary, Chennai – 600 009.

Private Secretary to Finance Secretary, Chennai – 600 009

Director of Economics and Statistics, Chennai – 600 006.

Director of Evaluation and Applied Research, Chennai – 600 108.

SF/SC

/Forwarded/ By Order/

K. Shanmugam
SECTION OFFICER. 10/6/13