



# Tamil Nadu Sixth State Finance Commission Report

Presentation to 16<sup>th</sup> Central Finance Commission

# Introduction

1. SFC in Tamil Nadu has been constituted very **regularly for the past 30 years**
2. The latest SFC was constituted before **Covid pandemic**.
3. **Online interactions** with stakeholders.
4. Data collected from around **13000 local bodies**.
5. **Specialized studies** by four institutions
6. Report submitted in March 2022. Advantage of **considering the latest Central Finance Commission** to adjust for the impact in its report
7. Implementation period – **April 2022 to March 2027**

# Salient features of Local Bodies

Rural Local Bodies	Urban Local Bodies			
	Metro City	Non-Metro Corporations	Municipalities	Town Panchayats
12528	1	20	138	490

- 1. Diversity** – Extremely diverse, Area, population, density, resources, challenges, vulnerabilities,
- 2. Urbanization** – Rapid, wide-spread, diverse, expansion of existing areas, creation of new ULBs
- 3. Rural Population** – Stagnant, Conversion of RLBs into Urban or semi-urban areas, migration
- 4. Finances** – Mostly weak, dependent on Central and State Finance-especially, huge arrears of pending liabilities
- 5. Service delivery** – inadequate capacity – Manpower, resources, skills
- 6. Infrastructure** – unable to cope with rapidly growing needs, heavy dependence on State Agencies

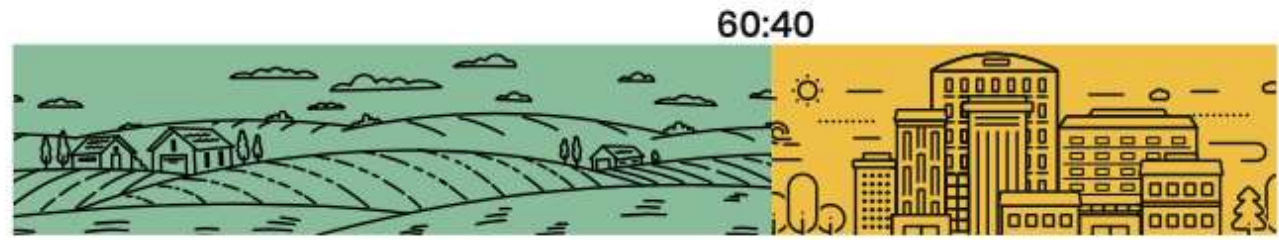
**SFC has taken a very nuanced view of the Local Bodies Finances accommodating for the features above**

# Key Changes

1. While **10%** share of States Own Tax Revenue to Local Bodies is retained sharing Ratio between Rural and Urban Local Bodies is to be **49:51**
2. The devolution to have **Fixed and Variable** components
3. **14 Fixed Special Grants** for Rural Local Bodies and **12 Fixed Special Grants** for Non-Metro Urban Local Bodies
4. Sharing of devolution based on **population, area, SC/ST population or slum population**
5. **Different Weightage for area and population** for horizontal distribution among sub-category of Local Bodies
6. Sharing ratio of **7:37:56** to District Panchayats, Block Panchayats and Village Panchayats.
7. Separate category for **Chennai**
8. Sharing ratio of **16:84** between Greater Chennai Corporation and the remaining ULBs (Non-Metro ULBs)
9. Sharing ratio of **31:36:33** among Municipal Corporations, Municipalities and Town Panchayats.
10. **Cantonment Boards** to get fixed amount for devolution as Municipalities.

- RLBs
- ULBs

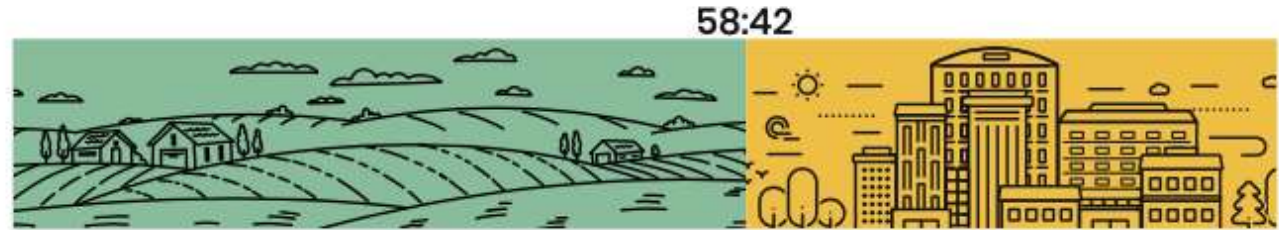
The First SFC Recommendation



The Second SFC Recommendation



The Third SFC Recommendation



The Fourth SFC Recommendation



The Fifth SFC Recommendation

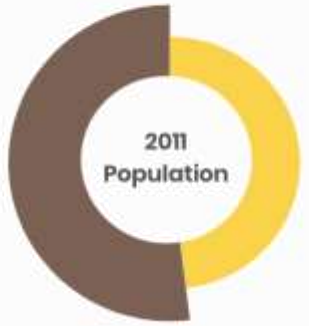


Why

change

the formula?

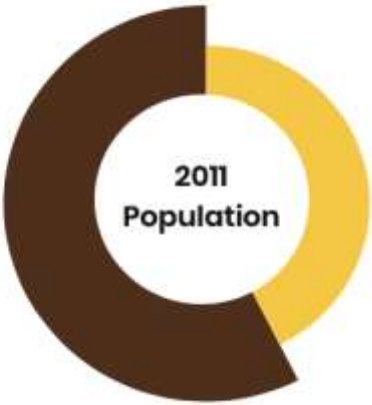
As per Census 2011



In Lakhs (2011)  
 Rural - 372.29  
 Urban - 349.17

■ Rural 52%  
 ■ Urban 48%

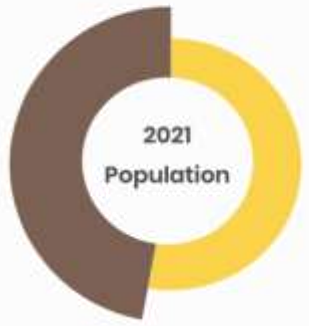
After adjusting for Census towns reclassified as RLBs



In Lakhs (2011)  
 Rural - 404.86  
 Urban - 316.31

■ Rural 56%  
 ■ Urban 44%

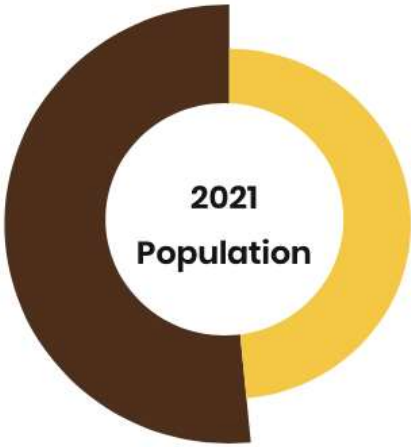
Projection for 2021



In Lakhs (2021)  
 Rural - 360.68  
 Urban - 403.34

■ Rural 47%  
 ■ Urban 53%

After adjusting for Census towns reclassified as RLBs and upgradation of ULBs



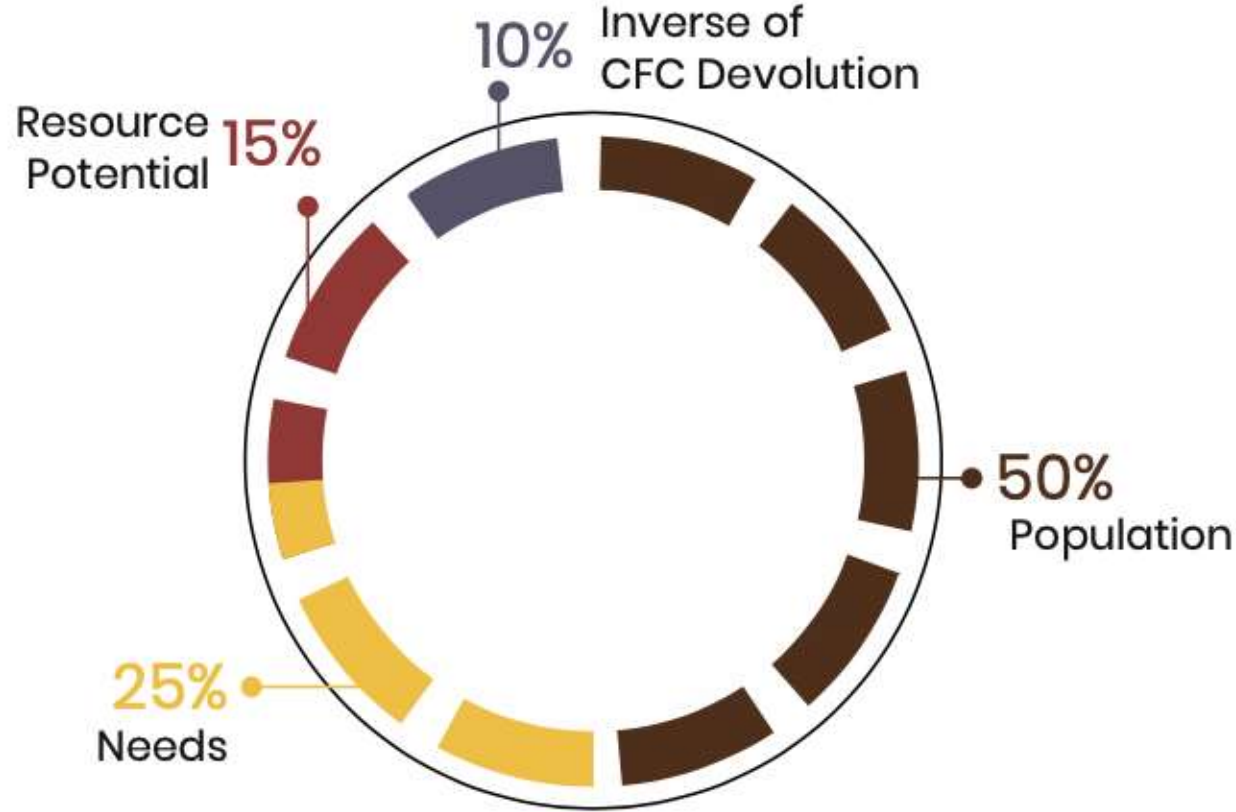
In Lakhs (2021)  
 Rural - 392.54  
 Urban - 371.48

■ Rural 51%  
 ■ Urban 49%

RLBs  
 ₹14,059  
 crore

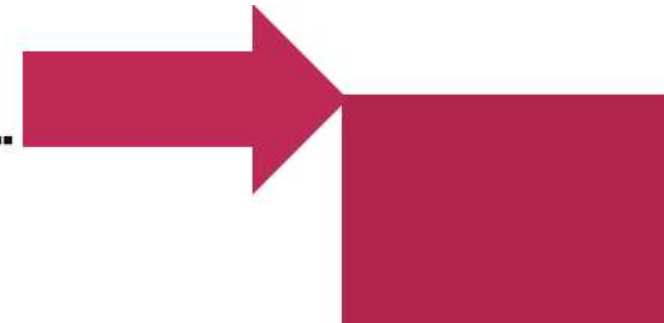
CFC

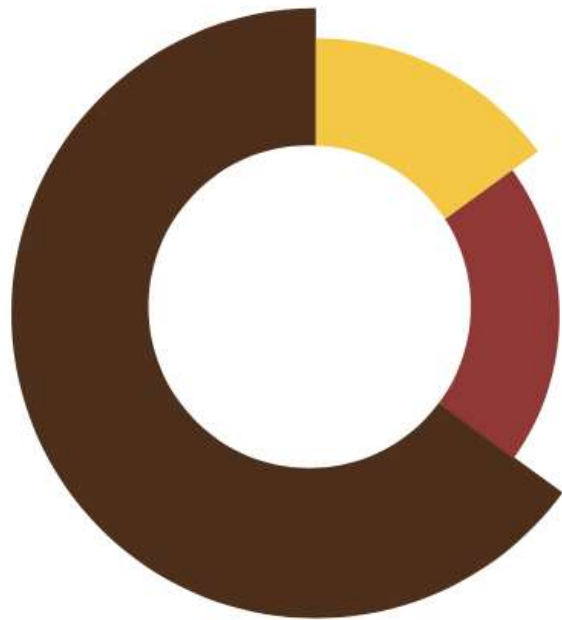
ULBs  
 ₹7,187  
 crore



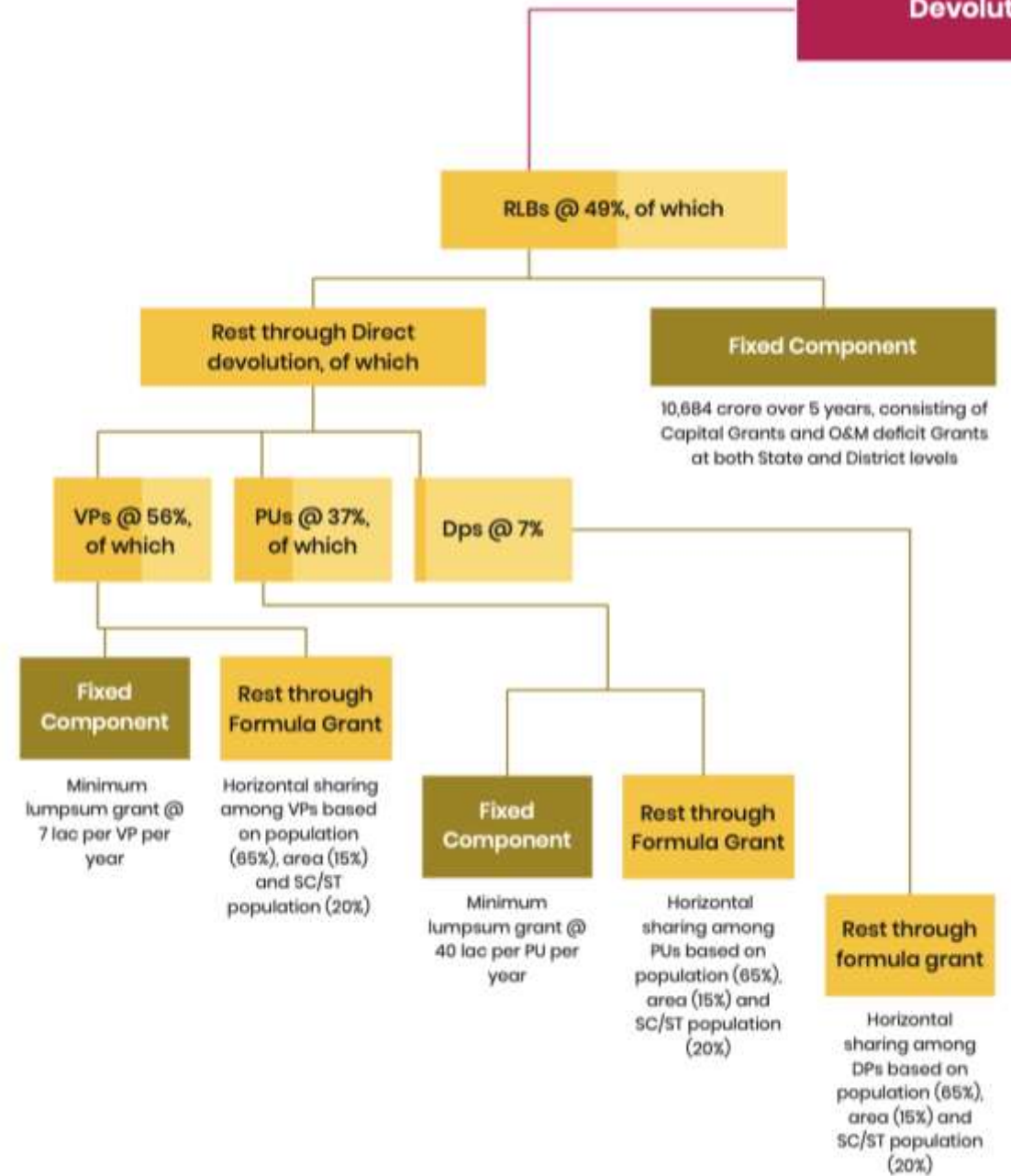
<b>i)</b>	<b>Projected Population 2021</b>	<b>50%</b>
<b>ii)</b>	<b>Needs</b>	<b>25%</b>
a)	O & M	10%
b)	Capital	10%
c)	Debt	5%
<b>iii)</b>	<b>Resource Potential</b>	<b>15%</b>
a)	Inverse of Property Tax	10%
b)	Inverse assigned revenue	5%
<b>iv)</b>	<b>Inverse of CFC devolution</b>	<b>10%</b>
	<b>Total</b>	<b>100%</b>

The Sixth SFC hence recommends a 49:51 sharing ratio between RLBs and ULBs...



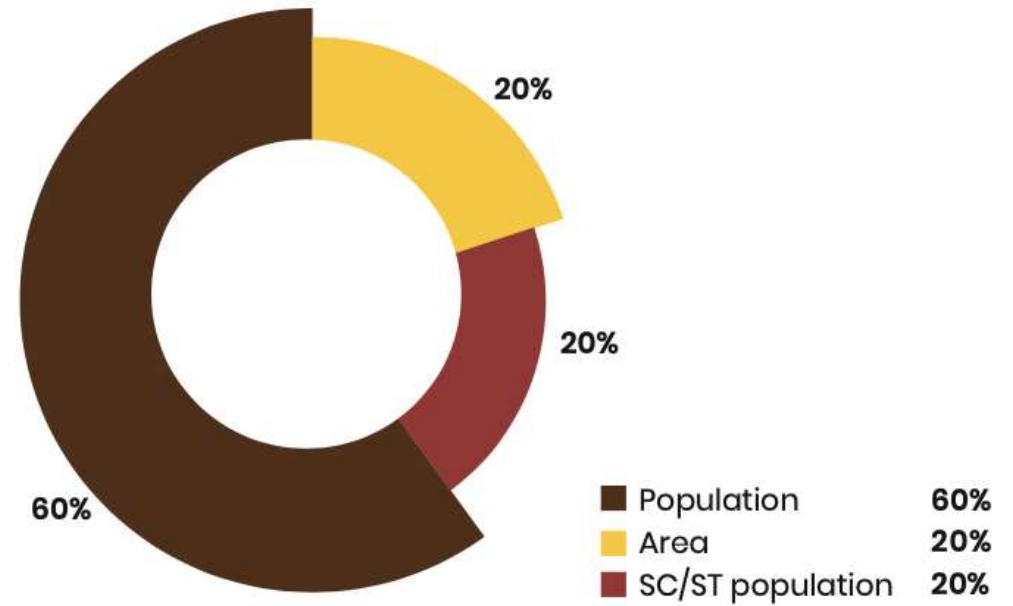
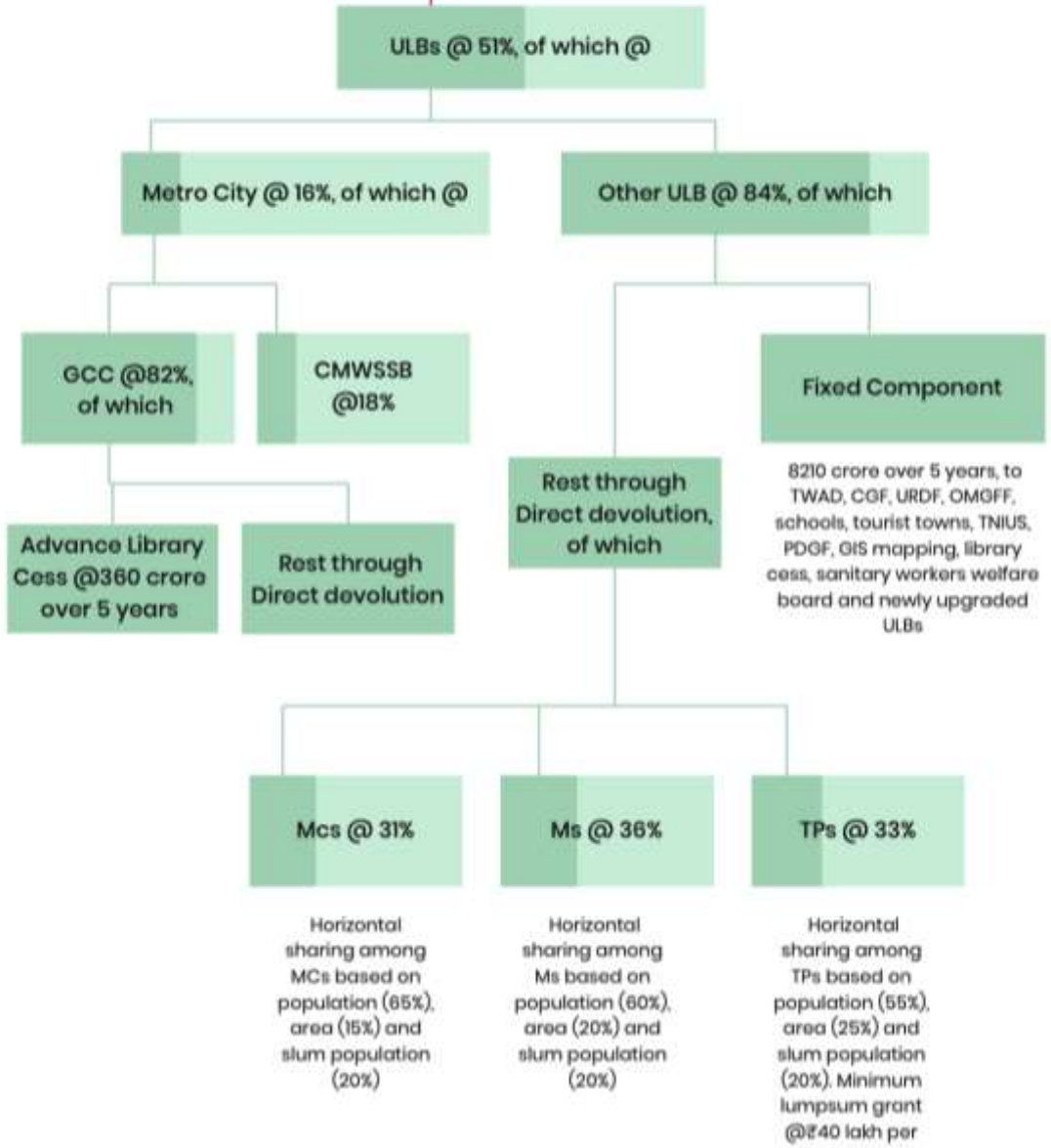


Population **65%**  
 Area **15%**  
 SC/ST population **20%**





10% of SoTR



<b>Special Grants for No-Metro ULBs</b>	<b>Total</b>	<b>22-23</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>
	<b>8210</b>	<b>1380</b>	<b>1507</b>	<b>1634</b>	<b>1781</b>	<b>1908</b>
<b>For funding deficit of TWAD</b>	720	120	132	144	156	168
<b>Capital Grant Fund</b>	3,000	500	550	600	650	700
<b>Urban Road Development Fund</b>	1,200	200	220	240	260	280
<b>Operations Maintenance Deficit Grant Fund</b>	1,200	200	220	240	260	280
<b>School Improvement</b>	960	160	176	192	208	224
<b>Grant for Tourist Towns</b>	100	20	20	20	20	20
<b>Grant to TNIUS for training needs</b>	25	5	5	5	5	5
<b>Grant for studies and documentation</b>	25	5	5	5	5	5
<b>Grant for GIS mapping</b>	50	10	10	10	10	10
<b>Advance Library Cess</b>	540	90	99	108	117	126
<b>Grants to Sanitary Workers Welfare Board</b>	50	10	10	10	10	10
<b>Grants to newly upgraded Local Bodies</b>	340	60	60	60	80	80

₹ in Crore

Special Grants for RLBs		Year	22-23	23-24	24-25	25-26	26-27
<b>Total</b>		<b>10684</b>	<b>1843</b>	<b>1990</b>	<b>2137</b>	<b>2284</b>	<b>2430</b>
<b>A</b>	<b>State Level Grants</b>	<b>9334</b>	<b>1573</b>	<b>1720</b>	<b>1867</b>	<b>2014</b>	<b>2160</b>
<b>a</b>	<b>Capital Grant Fund</b>	<b>5165</b>	<b>861</b>	<b>947</b>	<b>1033</b>	<b>1119</b>	<b>1205</b>
1	Rural Infrastructure	3600	600	660	720	780	840
2	ODR Conversion	720	120	132	144	156	168
3	Rural Regional Training Institute	5	1	1	1	1	1
4	Schools	840	140	154	168	182	196
<b>b</b>	<b>Operations Maintenance and Deficit Grant Fund</b>	<b>4169</b>	<b>712</b>	<b>773</b>	<b>834</b>	<b>895</b>	<b>955</b>
1	TWAD	600	100	110	120	130	140
2	Rural Regional Training Institute	3	0.6	0.6	0.6	0.6	0.6

S.No.

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3	Fund for Deficit RLBs	1680	280	308	336	364	392
4	TANGEDCO	1200	200	220	240	260	280
5	Advance Library Cess	168	28	31	34	36	39
6	Grants to Sanitary Worker Welfare Board	25	5	5	5	5	5
7	Peri-urban Panchayats	343	69	69	69	69	69
8	Hill area Panchayats	150	30	30	30	30	30
<b>A</b>	<b>District Level Grants</b>	<b>1350</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>a</b>	<b>Capital Grant Fund</b>	<b>1000</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>b</b>	<b>Operations Maintenance Gap Funding</b>	<b>350</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>
1	Schools	300	60	60	60	60	60
2	Reward for FRA implementation	50	10	10	10	10	10





**Un-intercepted**  
fund flow through  
**direct release**  
from State Treasury



Transparent  
provision of  
**multipliers**  
to every Local Body



Inflation linked  
quinquennial Property  
**Tax revision**



**Statutory  
provisions  
for ensuring  
fiscal discipline**  
among Municipal  
Corporations.

## Highlights



**Deprivation  
Index**  
for infrastructure  
shortfall among  
urban local bodies.



Templates for  
measuring  
**'Cost to Serve'**



**Transaction  
challan-based  
accounting**  
system



**Complementary  
Responsibility**  
to Village Panchayats



Periodic high level  
**review  
mechanism**



... along with well defined incentives and review mechanisms to ensure time bound adoption



Incentive of Rs 300 crore each for ULBs and RLBs (collectively) for timely implementation



Disincentive of loss of control over Rs 2,270 cr of Special Grants in case of non adoption by two years



High level committee for quarterly review, half yearly by Hon. FM and annual updates to the Assembly



Strong incentive structure

Reform Area	Rural	Urban
Slab system for house tax	✓	
ULB linked house tax rates for peri urban VPs	✓	
Empowering VPs on advertisement revenues	✓	✓
Additional items under surcharge on stamp duty	✓	✓
Accounting and transaction software	✓	
GIS mapping to expand assessment base		✓
Automatic, CPI linked quinquennial PT revision		✓
Minimum water charge rates and revision %	✓	✓
Online asset register for immovable properties	✓	✓
Collection targets for property/house taxes	✓	✓
Non interception of untied devolution	✓	✓



Thank you