

State Finance Commission

Data Gaps and Policy Relevance

India Urban Conference, Mysore
November, 2011

Centre for Development Finance,
Institute for Financial Management and Research, Chennai

SFC: A constitutionally mandated body under Article 243 (1)

Scope and Functions of SFC:

- To review economic condition of local bodies in the state (Panchayati Raj Institutions and Urban Local Bodies)
- To take steps to help in boosting the financial condition of local Bodies in the state
- To allot funds to local bodies in the state from the Consolidated Fund of the State and to transfer funds that are granted by the central government to the state government
- To act as an arbiter between the central and the state governments with regard to issues that are of financial nature
- To distribute the total proceeds of taxes, fees, tolls, and duties that are charged by the state government between the state government and the local bodies and among local bodies in the state
- To determine the taxes, tolls, duties, and fees that may be levied by local bodies in the state

Tamil Nadu: The Urban Scenario

- Rate of Urbanisation
Tamil Nadu: 48.44% (most urbanised among Indian states)
India: 27.82% (Census 2011)
- Tamil Nadu has an urban population of 3.5 crores out of the total population of 7.2 crores (Census 2011)
- Urban Local Bodies in Tamil Nadu
10 Municipal Corporations
150 Municipalities
559 Town Panchayats

Tamil Nadu IVth SFC

A Study of Urban Local Bodies (Finances and Civic Services)

- Award Period of the IVth SFC, Go TN: 2012-13 TO 2016-17
- Financial and service level data of all ULBs available for: 2005-06 to 2010-11 (budget estimates)
- Review and analysis of the financial position of ULBs: revenue analysis, expenditure analysis, loans and advances, debt service and interest payments
- Financial component wise analysis: composition of own revenue (tax & non-tax), transfers (grants and assigned revenue), total revenue (transfers and own revenues) and expenditure (capital and revenue expenditure)
- Estimates on receipts and expenditures for 2011-12 and projections for award period of SFC
- Trend analysis over a five year period: growth trends and implications for future projections
- Assessment of gaps in physical level of service delivery and estimation of investment requirements (capital and O&M) across 6 major sectors: Water Supply, Sewerage and Sanitation, Solid Waste Management, Roads, Storm Water Drains and Street Lighting

The Role of Data

- Review past trends (fluctuations in growth rates)
- Compare and assess performance within and across ULBs – both to assess ULB performance as well as to understand policy impact (eg. 6th Pay Commission, Debt sustainability, Collection efficiencies, O&M coverage)
- Forecast trends, particularly relevant for devolution of funds
- Understand gaps in service provision – both physical and financial

Data gaps: what and why

- **Availability**

Property tax coverage, financial details of physical assets, estimate of city level incomes indicating the potential of the untapped resources of the city (unable to access the updated district level domestic products for Tamil Nadu)

- **Accuracy**

Inconsistencies in physical service data, data input errors

- **Reliability**

Periodic revision of data, unaudited data

- **Consistency/Comparability**

Uniformity in accounting and record-keeping, budget heads, inability to map income with corresponding expenditure

Data gaps: what and why...contd.

- Relevance of evaluation criteria
- Effectiveness of data collection efforts
- Multiplicity of agencies
- Staff skills

Impact on Policy

- Ineffective decision-making
- Inadequate inputs into policy review and policy formulation
- Misuse and misappropriation of public assets
- Lack of operational controls leading to lack of accountability
- Loss of revenue from own sources

Possible Next Steps

- Understand and address staffing needs – both training and compensation
- Upgrade management process, thrust on performance measurement and management, data driven decision-making, budget allocations
- Strengthen evaluation criteria, prioritization of data collection
- Streamline data collection efforts, uniformity of data (eg. Budget heads), eliminate duplicity
- Mapping of relevant data (user charges vs. O&M)
- Upgrade accounting processes and technology (GIS, accrual accounting)
- Stringent audit practices

Thank you

Centre for Development Finance,
Institute for Financial Management and Research, Chennai