

FISCAL FRAMEWORK FOR LOCAL GOVERNMENT GROWTH
Analysing State-Local Fiscal Transfers for
the 16th Finance Commission

Report

Study Sponsored by



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Indian Institute of Public Administration
New Delhi-110002

June 2025

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the 16th Finance Commission

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by

V. N. Alok

With research inputs from

Madhulika Jatoliya

Sanjana Narang

Ekta Yadav

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Preface

Prime Minister Narendra Modi, in his inaugural address to Parliament in 2014, proclaimed the belief of the government in ‘cooperative federalism’. His interpretation of the concept aligned closely with its application in federations such as Germany and the United States, where local and sub-national governments actively collaborate with the federal administration to achieve overarching national objectives. This approach is vital for ensuring effective administration in India.

Over the past eleven years, cooperative federalism has played a significant role in India’s governance. The recommendations of the 14th and the 15th Union Finance Commissions (UFCs) have been central to this process. The framework governing the allocation of funds to States has undergone a profound transformation, enabling state governments to expand their fiscal autonomy, which was previously constrained by the discretionary fiscal transfers from the Union particularly through the erstwhile Planning Commission. Additionally, both the UFCs advocated for strengthening State Finance Commissions (SFCs) to enhance State-local fiscal relations and streamline financial flows to local governments for the efficient delivery of public goods. The 15th UFC has advanced its approach by allocating conditional grants to States, ensuring the timely establishment of SFC and the prompt implementation of their recommendations.

However, these efforts have largely been incomplete, as SFCs and local governments remain fragile and require further support from both Union and State governments, including the 16th Finance Commission.

The 15th UFC has advanced its approach by allocating conditional grants to States, ensuring the timely establishment of State Finance Commissions (SFCs) and the prompt implementation of their recommendations. In alignment with the Constitutional mandate outlined in Article 280 (3) bb & C. The President of India has tasked the 16th Finance Commission, *inter alia*, to suggest “*the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State*”.

Against this backdrop, the author of this report expresses gratitude to the 16th Finance Commission for entrusting the Indian Institute of Public Administration (IIPA) with the study titled *Fiscal Framework for Local Governments Growth: Analysing State-local Fiscal Transfers for the 16th Finance Commission*. This research was conducted through a review of SFC reports and other relevant literature on theory and practice. The author is particularly appreciative of the Commission and its Chairperson, Prof Arvind Panagariya, for acknowledging the significance of this work and assigning it to the IIPA.

Sincere thanks are also extended to the Commission’s esteemed members - Shri A N Jha, Ms Annie George Mathew, Dr Manoj Panda, and Dr Soumya Kanti Ghosh as well as to Secretary Shri Ritvik Pandey, Joint Secretaries Shri Rahul Jain and Shri K K Mishra and Economic Advisor Dr Prashant Kumar Panda for their valuable insights during the author’s presentation before the Commission on April 1, 2025. These comments and observations had expanded the scope of our analysis.

An interim report was presented to the relevant division of the Commission on December 3, 2024. We sincerely appreciate the valuable feedback provided by Joint Secretary Shri Rahul Jain, Director Shri Krishnadevan Balaji and Deputy Director Shri Maanas Bajpai.

We are grateful for the outstanding support we received, whenever needed, from Director Shri Kumar Vivek, Deputy Director Shri Maanas Bajpai, OSD Shri Indermeet Singh, Assistant Director Shri Kuldeep Singh Meena and Private Secretary to Chairman Shri Ramagya Maurya. Our heartfelt thanks go to them and their colleagues for extending support.

The study greatly benefited from several conferences organized for the 16th Finance Commission. Notable among them was the national convention of all SFCs held at Vigyan Bhawan on November 14, 2024, and organized by the Ministry of Panchayati Raj. The insights and suggestions shared during this event provided invaluable contributions to our research. In addition, the national conference hosted by the Asian Development Bank on 'Urban Finances: Issues before the Sixteenth Finance Commission' provided valuable perspectives.

The successful execution of this study would not have been possible without the administrative support of the Institute. The author extends gratitude to colleagues in the Administration, particularly Registrar Shri Amitabh Ranjan and Deputy Registrar Shri Mithun Barua for their logistical support whenever required. The unwavering support of Librarian R.K.Yadav and his team at the IIPA Library was indispensable in facilitating research efforts. The author is also grateful to Ms Madhulika Jatoliya, Consultant, for her exemplary research support, which was pivotal, throughout the study, in compiling and finalizing the report. Additionally, appreciation is extended to Research Officer Ms Sanjana Narang for her contributions in legal matters during the initial part of the study. Ms Ekta Yadav who joined the team at the later stage provided useful research support. Ms Poonam Arora provided efficient typing assistance.

Lastly, the author would like to express his sincere gratitude to Shri Surendra Nath Tripathi, Director-General, IIPA for his encouragement in this study and valuable guidance.

V N Alok
Professor, IIPA

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ABBREVIATIONS

ADC	: Autonomous District Council
AP	: Anchalik Panchayats
AS	: Anchal Samitis
BAC	: Block Advisory Committees
BTAD	: Bodoland Territorial Area District
BTC	: Bodoland Territorial Council
BUMI	: Bihar Urban Management Institute
CAG	: Comptroller Auditor General
CC	: City Corporation
CFS	: Consolidated Fund of the State
CGF	: Capital Grant Fund
CMC	: City Municipal Council
CMWSSB	: Chennai Metropolitan Water Supply and Sewerage Board
CPI	: Consumer Price Index
DALF	: Director of Audit, Local Fund
DHAC	: Dima Hasao Autonomous Council
DLFA	: Directorate of Local Fund Audit
DP	: Divisible Pool
ERP	: Enterprise Resource Planning
FC&EAD	: Finance Commission & Economic Affairs Division
FD	: Finance Department
GCC	: Greater Chennai Corporation
GMC	: Guwahati Municipal Corporation
GMFB	: Gujarat Municipal Finance Board
GP	: Gram Panchayats
GWSSB	: Gujarat Water Supply and Sewerage Board
IEC	: Information, Education and Communication
IFMS	: Integrated Finance Management System
ILGUS	: Institute of Local Government and Urban Studies
ISGP	: Institutional Strengthening of Gram Panchayats
KAAC	: Karbi-Anglong Autonomous Council
KIIFB	: Kerala Infrastructure Investment Fund Board

KLGF	: Kerala Local Government Development Fund
KURDFC	: Kerala Urban and Rural Development Finance Corporation
MAG	: Minimum Assured Grant
MAHUD	: Municipal Administration, Housing and Urban Development
MJP	: Maharashtra Jeevan Pradhikaran
MoPR	: Ministry of Panchayati Raj
MSW	: Not explained
MSWM	: Manual of Solid Waste Management
MUINFRA	: Maharashtra Urban Infrastructure Fund
NAC	: Notified Area Council
NN	: Nagar Nigam
NP	: Nagar Panchayat
NPP	: Nagar Palika Parishad
NPS	: National Pension Scheme
O&MDGF	: Operation and Maintenance Deficit Grant Fund
O&MGFF	: Operation and Maintenance Gap Filling Fund
PAC	: Public Account Committee
P&RD	: Panchayat and Rural Development
PFMS	: Public Financial Management System
PIPFPA	: Punjab Institute of Public Finance and Policy Analysis
PMU	: Programme Management Unit
PPP	: Public Private Partnership
PRD	: Panchayati Raj Department
PRDD	: Panchayat and Rural Development Department
PS	: Panchayat Samitis
PWS	: Pumped Water Supply
SCBF	: State Capacity Building Fund
SCSP	: Scheduled Caste Sub Plan
SFC	: State Finance Commission
SIRD	: State Institute of Rural development
SONTR	: State Own Net Tax Revenue
SOTR	: State Own Tax Revenue
TMC	: Town Municipal Council

TNIUS	:	Tamil Nadu Institute of Urban Studies
TP	:	Taluk Panchayat/ Town Panchayat
TSP	:	Tribal Sub Plan
TTAADC	:	Tripura Tribal Area Autonomous District Council
TWAD Board	:	Tamil Nadu Water Supply and Drainage Board
UADD	:	Urban Administration and Development Department
UDD	:	Urban Development Department
UDHD	:	Urban Development and Housing Department
VC	:	Village Committees
VCDC	:	Village Council development Committee
VDC	:	Village Development Council
VLT	:	Vacant Land Tax
YASHADA	:	Yashwantrao Chavan Academy Of Development Administration
ZP	:	Zilla Parishads

CONTENTS

Preface

Abbreviations

Chapter 1	Introduction	1
Chapter 2	Genesis of Article 280 sub clause (3) bb & c	4
Chapter 3	Treatment to State Finance Commissions by the Successive Union Finance Commission	13
Chapter 4	Recommendations and Methodologies of Latest SFCs: A Comparative Analysis of Commonalities and Variances	23
a)	Global Sharing	24
b)	Allocation	26
c)	Individual Tax Sharing with Local government	27
d)	Assignment of Tax and Non-tax Handles to Local Governments	28
e)	Grants-in-aid	29
f)	Powers and Functions	34
g)	Other Measures	37
h)	Methodologies adopted by Latest SFCs: an Analysis	38
i)	Allocations for Operations and Maintenance Functions under Various SFCs	39
j)	Treatment of small Gram Panchayats and Peri-urban areas by SFCs	40
Chapter 5	Exploring State Finance Commission Approaches to Excluded Areas Under Parts IX and IXA of the Constitution	80
Chapter 6	Select Recommendations of SFCs: Relevant for the 16 th FC's Consideration	95
Chapter 7	Effective Practices and Issues in SFC Functioning, Including Term Extensions	109
Chapter 8	How to make State Finance Commission More Effective, Exogenous and Technical?	137
Chapter 9	Summary of Suggestions	146
	Annexes	158
	References	202

List of Tables

Table 2.1 Number of <i>Panchayats</i> in each State/ UT.....	9
Table 2.2 Number of Municipalities in each State/ UT	11
Table 3.1: Various UFCs recommendations on SFCs	17
Table 3.2: Status of Action Taken on 11 th UFC recommendation Submitted for the Award Period (2000-05) on SFC reports	20
Table 3.3: States attempted to follow the Template for SFC reports as suggested by 13 th UFC	22
Table 3.4: List of States Forming SFC after 15 th UFC Recommendation	22
Table 4.1: SFC Recommendations for Share in State Divisible Pool.....	43
Table 4.2 (a): Criteria for Horizontal Distribution of Allocations to <i>Panchayats</i> and Municipalities..	47
Table 4.2 (b): Indicators identified by States and their Attributes	50
Table 4.3: Individual Tax Sharing with Local Government	51
Table 4.4: Assignment of Tax and Non-Tax Handles to Local Governments by Various SFCs.....	54
Table 4.5: Types of Grants Recommended by SFCs	57
Table 4.6: Devolution of Functions & Functionaries by Latest SFCs to <i>Panchayats</i>	62
Table 4.7: Devolution of Functions & Functionaries by SFCs to Municipalities.....	68
Table 4.8: Other measures and policy suggestions	73
Table 4.9: Methodologies adopted by various State Finance Commissions.....	75
Table 4.10: Operation and Maintenance Funds given by Various SFC across States	79
Table 5.1: Jurisdictions exempted from the application of Parts IX and IX-A of the Constitution.....	81
Table 7.1: Status of SFC Constitution and Reasons for their Term Extensions	121
Table 7.2: Adherence to Qualifications and strength of SFC Chairman and Members as per State Acts/ Rules	127
Table 7.3: Functioning of SFCs, their Recommendations and Action Taken thereon.....	134

List of Exhibits

Exhibit 4.1	Classification of Functions Listed in the Eleventh Schedule	29
Exhibit 4.2	Classification of Functions Listed in the Twelfth Schedule	34
Exhibit 4.3	Types of Grants Recommended by Various SFCs	35

Chapter 1: Introduction

In pursuance of article 280 of the Constitution, the President of India constituted the 16th finance Commission on the 31st December, 2023 to make recommendations, inter alia, the following constitutional provisions covering a period of five years commencing 1st April 2026:

- i. The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
- ii. The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under article 275 of the Constitution for the purposes other than those specified in the provisos to clause (1) of that article; and
- iii. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Since the ToR (iii) mandates the Commission to augment the Consolidated Fund of a State for *Panchayat* and Municipal finances on “*the basis of the recommendations made by the Finance Commission of the State.*”, the Commission entrusted a study to the Indian Institute of Public Administration (IIPA) vide DO No. 71/3/2024 -LB/SFC dated 12 September 2024 with the following Terms of Reference:

- a) to make a summary and comparative analysis of the recommendations of latest about 25-30 reports of SFCs of all States¹ including the following areas emanating from articles 243 I and Y:
 - Resource Sharing
 - Assignment of Taxes
 - Allocations
 - Grants

¹ It may be noted that 76 reports and ATRs have already been analyzed in a book namely ‘Fiscal Decentralization in India: An Outcome Mapping of State Finance Commissions’ authored by the Principal Author of the study and published by Palgrave Macmillan. The proposed study covers the other SFC reports which are recent and not been analyzed in the book.

- Powers and Functions
 - Policy
- b) to highlight commonalities and variances of recent SFC recommendations.
 - c) to prepare the methodologies adopted by various SFCs for making the recommendation to the State governments.
 - d) To examine the issue of extension of SFCs across states and the underlying reasons for such extensions.
 - e) to analyze the implementation status of latest SFC recommendations by the state governments through the Action Taken Reports (ATR) passed in the State Legislatures.
 - f) to highlight best practices in this regard.

The study attempts to highlight the emerging trends and issues in fiscal decentralization.

The Method

Data for this study have been collected from the available secondary sources *viz.*, 27 SFC reports of various States and their action taken reports (ATRs). In this regard, the secretariat of the 16th Finance Commission extended full support to obtain reports from States. The reports of all these SFCs have been examined to fulfil the objectives of the study. The summaries of key SFC recommendations across States and the actions taken by the State Government in response to each recommendation have already been submitted to the 16th FC with the final draft report.

The draft final report of the study was submitted to the Commission on March 26, 2025, followed by a presentation to the Commission on April 1, 2025. Thereafter, the Commission sent their observations and additional areas of analysis. Some of these recommendations are incorporated in the report at the suitable places, while rest have been placed either at the footnote or at Annex.

Scheme of Presentation of the Report

The report contains nine chapters. Beside the first chapter which is introductory chapter 2 traces the genesis and rationale of article 280 (3) bb & c where the Union Finance Commission also has a role and responsibility to devolve resources to States for local governments. Chapter 3 highlights the status of the recommendations of various UFCs over the years for strengthening the functioning of SFCs. Chapter 4, as the title of the study indicates, examines the

methodologies and recommendations of the SFCs under various heads. Chapter 5 explores the SFCs approaches to excluded areas under Part IX and IXA of the Constitution. Chapter 6 presents the select recommendations of SFCs which are of relevance to 16th FC considerations. Chapter 7 discusses the challenges faced by both the State and the SFC in the latter's functioning, along with highlighting best practices. Chapter 8 suggests as to how SFC can be made more effective. The last chapter provides a conclusion and summary of suggestions for the consideration of 16th FC.

The scope of the examination is primarily constrained by the available information. The overview provided in the report may become outdated over time.

Chapter 2: Genesis of Article 280 sub clause (3) bb &c and the Conundrum

With the passage of the 73rd and the 74th Constitutional Amendments the *Panchayats* and Municipalities respectively got recognition in the book of statute as institutions of self-governments. This accelerated the process of decentralisation with greater devolution and delegation of powers to local governments. Consequently, Part IX and IXA have been inserted to the Constitution for *Panchayats* and Municipalities respectively and the State Legislature has been made responsible to identify roles of Panchayats and Municipalities in matters listed in the Eleventh and Twelfth Schedules.

The Legislature of a State is also expected to authorize the *Panchayats* and Municipalities to levy, collect and appropriate certain taxes, duties, tolls and fees, etc, and also assign to them the revenues of certain state level taxes subject to such conditions as are imposed by the state government. Further, grants-in-aid may also be provided to the *Panchayats* and Municipalities. Resulting from the CAA, the number of *Panchayats* stands at 2,62,193 of which 2,54,837 are village Panchayats 6693 are block Panchayats, and 663 are district Panchayats (Table 2.1). At the same time, the number of Municipalities stands at 4833 in all States (Table 2.2).

New fiscal arrangement necessitates every State under articles 243 (I& Y) to constitute, at regular interval of five years, a finance commission (SFC), and assign it the task of reviewing the financial position of *Panchayats* and Municipalities and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees etc and grants-in-aid to be given to the local governments from the Consolidated Fund of a State. The conformity Acts of the CAA provide for the composition of the commission, the qualifications for its members and the manner of their selection. Every recommendation of the commission together with an explanatory memorandum is to be laid before the legislature of the state.

Generally the functional responsibilities are closely linked with the financial powers delegated to the local government, in practice huge mismatch between these two leads to a severe fiscal stress at the local level. Own revenues of local governments are good enough to meet only a part of their operation & maintenance requirements; therefore they are dependent on the higher level of governments to finance even their recurring expenditure. Towards this end, devolution of resources from the Union to States and States to *Panchayats* and Municipalities was considered a necessary requirement and clause “*measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities*” was inserted in article 280 (3) of the Constitution by the 73rd and the 74th Constitution Amendment

Act, 1993 on the recommendations of the Joint Parliamentary Committee headed by KP Singh Deo, which went into the Constitution (Seventy-third Amendment) Bill, 1991. The Joint Committee of Parliament, among others, felt that

“amendment should be made in article 280 relating to constitution of Central Finance Commission so that the said Commission should make recommendations to the President as to the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State” (Ch 1, clause 3)

The need for this amendment was explained further in detail in chapter II of the Report which reads as follows: .

“Availability of resources should be both commensurate and elastic, keeping pace with their growing needs. Apart from augmenting internal sources, methods need to be devised for enlarging the area of assured devolution and the quantum of assistance that will flow from the Centre to States and States to the Municipalities. The Centre -State fiscal relations are governed by constitutional provisions. Unfortunately, there is no such constitutional mechanism at present which provides for a regular assessment of the fiscal resource gap that exists in municipalities on account of the increasing responsibilities thrust upon them for putting the devolution of resources to urban local bodies on a rational and firmer footing.” (Ch 2, Paras 2.28 and 2,29)

Subsequently, the provision for the same reasons was incorporated in the Constitution (Seventy-Second Amendment) Bill, 1991 meant for Panchayats. It may also be recollected what the then Minister for Rural Development said while moving the Constitution (Seventy-second Amendment) Bill, 1991

“Constitution (Seventy-third) Amendment cast a duty on the centre as well as the states to establish and nourish the village panchayats so as to make them effective self-governing institutions We feel that unless the panchayats are provided with adequate financial strength, it will be impossible for them to grow in stature”.

The insertion of sub-clauses (bb) and (c) in Article 280 through the 73rd and the 74th Constitutional Amendment Acts brought the following changes to India’s fiscal and governance framework:

- **Enhanced Role of the Finance Commission:** The Finance Commission’s scope was broadened to include the financial needs of *Panchayats* and Municipalities. This

empowered local self-governments by ensuring that they received adequate financial resources to carry out their duties.

- **Promoting Decentralized Governance:** The amendment aligned with the goals of decentralization by ensuring that resources were allocated to local governments, thereby enhancing the autonomy of Panchayats and Municipalities.
- **Strengthening Fiscal federalism:** The amendment strengthened the concept of multi order fiscal federalism by ensuring a fairer and more transparent distribution of resources between the Union, States, and local governments. It addressed disparities and promoted a balanced financial relationship between different levels of government.

It is to be noted that the provision regarding “*measures needed to augment the Consolidated Fund of a State*” is provided in article 280 and not in Part IX and IX A of the Constitution. The fact that the article 280 was amended to add clause (3)(bb& c) explains that just as the State government has the responsibility under article 243 (I&Y) to devolve resources to *Panchayats* and Municipalities, the Union government also has a corresponding role and responsibility. The clause was inserted to enable and provide a legal basis for the pass-through of central funds to the local governments, with which the Union has no direct relationship. The term “*measures needed to augment the Consolidated Fund of a State*” offers extensive scope for intervention by the Union Finance Commission (UFC). “Measures” obviously include legislative, administrative and financial ones and “financial measures” perceptibly mean direct flow of resources from the Union to local governments through States.

The Conundrum

The first part of the clause, *i.e.* “*the measures needed to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities in the State*” is clear and support the arguments mentioned above. However, the second part “*on the basis of the recommendations made by the Finance Commission of the State*” poses a challenge before the 16th Finance Commission for the following reasons:

- The award periods specified in the most recent State Finance Commission reports and their corresponding Action Taken Reports do not align with the 16th Finance Commission’s award period. Only a limited number of reports address the early years of the five-year award period *i.e.*, 2026-27 to 2030-31 as mentioned in the table under observation number 13. Only the 4th SFC of Chhattisgarh and the 6th SFC of Sikkim

cover the award period of the 16th FC. But, assessment cannot be generalized on the basis of reports of relatively two small States.

- The 16th Finance Commission, like the previous six UFCs, may not form its opinion in view of heterogeneity in approach and contents of the SFC reports.
- The predicament is so enormous that the 11th Finance Commission went to the extent to recommend an amendment to the Constitution for the deletion of the words “*on the basis of the recommendations made by the Finance Commission of the State*” appearing in sub-clauses (bb) and (c) of article 280(3).
- Though the 15th Finance Commission attempted to streamline the functioning of the SFCs by assigning incentive grants to States. The response from State Governments is reasonable but inadequate for the 16th Finance Commission to form its opinion only on this basis.

All the previous UFCs made several recommendations of different varieties and attempted to reform the finances of local governments – both Panchayats and Municipalities. Unfortunately, each successive commission did not follow the path set by the previous commission and made a new set of recommendations which adversely affected the continuity and created a trust deficit and uncertainty at the local level of governance. Many of the conditional grants recommended by successive UFCs could not achieve the desired objectives. For example, a) the nine conditionalities set by the 13th Finance Commission, b) disincentive to district and block Panchayats and keeping them out from the grant mechanism by the 14th Finance Commission, and c) setting property tax floor rates by the 15th Finance Commission.

Hence, the 16th Finance Commission may make its own assessment in a multi order federal framework and consider the trends in the State-local fiscal transfers including those emanating from the SFC recommendations.

It is time for the UFC to move away from ad hoc measures and integrate local governments into the revenue-sharing framework, as the arrangement for states stemmed from the 80th Amendment of the Constitution. Articles such as 243H, 243I, 243X, 243Y, 266, 268, 269, 270, 275, 279, and 280 do not restrict the UFC from earmarking a portion of central revenues for Panchayats and Municipalities. This allocation could be included in the Consolidated Fund of a state with the explicit purpose of supplementing the funds of local governments. Since there is no mandate that funds transferred to Panchayats and Municipalities must solely be in the form of grants, it is reasonable to advocate for their inclusion in the central divisible pool along

with states. This allocation would be in addition to the fiscal devolution recommended for states to address vertical imbalances.

The scheme offers several advantages:

- Strengthens the integration of local governments into the Indian federal framework alongside state and Union Governments.
- Ensures local governments benefit from the collective buoyancy of central taxes, particularly vital during inflationary phases.
- Aligns the Union, state, and local governments to share the impact of fluctuations in central tax revenues uniformly.
- Facilitates progress in tax reforms by expanding the tax-sharing framework, providing greater predictability of resource flows to local governments, and increasing flexibility in tax restructuring initiatives.

Table 2.1 Number of *Panchayats* in each State/ UT

Sl. No.	State/UTs	Number of <i>Panchayats</i>				Rural Population per Village <i>Panchayat</i>
		Village ^(a)	Block ^(b)	District ^(c)	Total	
General Category States						
1	Andhra Pradesh	13371	660	13	14044	2541
2	Bihar	8058	533	38	8629	13611
3	Chhattisgarh	11654	146	27	11827	1874
4	Goa	191		2	193	2073
5	Gujarat	14609	247	33	14889	2609
6	Haryana	6223	143	22	6388	2805
7	Jharkhand	4345	264	24	4633	6637
8	Karnataka	5654	238	31	5923	6671
9	Kerala	941	152	14	1107	10153
10	Madhya Pradesh	23012	313	52	23377	2644
11	Maharashtra	27893	351	34	28278	2326
12	Odisha	6798	314	30	7142	5503
13	Punjab	13242	153	22	13417	1350
14	Rajasthan	11251	352	33	11636	5238
15	Tamil Nadu	12525	388	36	12949	2861
16	Telangana	12769	539	32	13340	1569
17	Uttar Pradesh	58189	826	75	59090	3052
18	West Bengal	3339	345	21	3705	18791
North Eastern / Hilly Area States						
19	Arunachal Pradesh*	2108	NA	25	2133	NA
20	Assam	2197	185	27	2409	13617
21	Himachal Pradesh	3615	81	12	3708	1844
22	Manipur*	161	NA	6	167	NA
23	Meghalaya ^(d)	NA	NA	NA	NA	NA
24	Mizoram ^(d)	NA	NA	NA	NA	NA
25	Nagaland ^(d)	NA	NA	NA	NA	NA
26	Sikkim	199	NA	6	205	1828
27	Tripura	589	35	8	632	4319

28	Uttarakhand	7795	95	13	7903	954
Union Territories						
29	Andaman & Nicobar Islands	70	7	2	79	3243
30	Chandigarh ^(e)	NA	NA	NA	NA	NA
31	Dadra & Nagar Haveli and Daman & Diu*	38	NA	3	41	NA
32	Jammu and Kashmir	4291	285	20	4596	2194
33	Ladakh	193	31		224	1083
34	Lakshadweep*	NA	NA	NA	NA	NA
35	NCT of Delhi ^(e)	NA	NA	NA	NA	NA
36	Puducherry	108	10	NA	118	NA
	India	254837	6693	663	262193	4669

a. In almost all states it is known as the gram Panchayat.

b. The name of intermediate rung differs from one state to another. It is known as Mandal Parishad in Andhra Pradesh, Anchal Samiti in Arunachal Pradesh, Anchalik Panchayat in Assam, Janpad Panchayat in Chhattisgarh and Madhya Pradesh, Taluka Panchayat in Gujarat and Karnataka, Panchayat Union in Tamil Nadu, Block Panchayat in Uttar Pradesh, Uttarakhand and Kerala, and Panchayat Samiti in many states, including Bihar, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Odisha, Punjab and Rajasthan.

c. It is also known as Zilla Parishad (ZP)/Panchayat in many states.

d. For traditional village and autonomous district councils that exist in these states.

e. Panchayat is yet to be revived.

Note: NA: Data not available from given sources, n.a.: not applicable,

*: Data pertains to previous year.

Source: Status of Devolution to *Panchayats* in States: An Indicative Evidence Based Ranking, 2024 (Table 4.4, pg.36)

Table 2.2 Number of Municipalities in each State/ UT

Sl. No.	State/UTs	Number of Municipalities			Total
		Municipal Corporation	Municipal Council	Nagar Panchayat	
General Category States					
1	Andhra Pradesh	17	80	26	123
2	Bihar	12	61	189	262
3	Chhattisgarh	14	43	112	169
4	Goa	1	13		14
5	Gujarat	8	157	1	166
6	Haryana	11	59	19	89
7	Jharkhand	9	12	29	50
8	Karnataka	10	82	224	316
9	Kerala	6	88		94
10	Madhya Pradesh	15	112	291	418
11	Maharashtra	28	260	140	428
12	Odisha	5	47	63	115
13	Punjab	13	99	57	169
14	Rajasthan	11	185	19	215
15	Tamil Nadu	21	140	490	651
16	Telangana	13	114	16	143
17	Uttar Pradesh	17	212	546	775
18	West Bengal	6	119	3	128
North Eastern / Hilly Area States					
19	Arunachal Pradesh	1	11	19	31
20	Assam	1	42	61	104
21	Himachal Pradesh	5	35	26	66
22	Manipur	1	21	5	27
23	Meghalaya		7		7
24	Mizoram	1		1	2

Sl. No.	State/UTs	Number of Municipalities			Total
		Municipal Corporation	Municipal Council	Nagar Panchayat	
25	Nagaland		3	36	39
26	Sikkim	1	3	3	7
27	Tripura	1	13	6	20
28	Uttarakhand	8	48	55	111
Union Territories					
29	Andaman & Nicobar Islands		1		1
30	Chandigarh	1			1
31	Dadra & Nagar Haveli and Daman & Diu		2	1	3
32	Jammu and Kashmir	2	28	50	80
33	Ladakh		1	1	2
34	Lakshadweep				
35	NCT of Delhi	1	1		2
36	Puducherry		5		5
	India	240	2104	2489	4833

Source: Updated from Alok, V N (2021), *Fiscal Decentralization in India: An Outcome Mapping of State Finance Commissions*, Table 1.2 (Pg. 4)

Chapter 3: Treatment to State Finance Commission by the Successive Union Finance Commissions

Despite the constitutional requirement that the recommendations of the State Finance Commissions (SFCs) should serve as the foundation for the Union Finance Commissions (UFCs) in determining measures to augment the Consolidated Fund of States, previous UFCs had to make their recommendations without the input of SFCs. As a result, they developed their own criteria and conditions for the transfer of grants. However, across the UFCs, there is a clear recognition that SFCs play a vital role in ensuring fiscal decentralization in relation to local governments. Therefore, the recommendations of the UFCs have been consistent in emphasizing the need for effective functioning of SFCs, highlighting the need for timely constitution, adequate resources, and prompt action on their recommendations. In this context, Table 3.1 outlines the various recommendations made by the UFCs on the SFCs over the years. Some recommendations require actions from the Parliament while the other requires action from the State Government. The action taken so far on these recommendations have also been presented in the table. It can be seen that no action has been taken by the Parliament over the constitutional amendments suggested by the UFCs, however, the actions taken by state governments in response to these recommendations have been uneven and inconsistent. For instance, while some states have followed on specific recommendations such as constituting SFCs with experts from relevant fields, others have not acted on crucial provisions, like timely submission of reports and action taken reports (ATRs).

The 11th UFC, for example, recommended that SFC reports should contain detailed analyses of state and local government resources, the principles for the distribution of taxes and grants, and measures for improving the financial standing of local governments. While many states have adopted these recommendations and have included the contents suggested by the UFCs in SFC reports, there is a lack of uniformity in presentation of the report which makes them difficult to comprehend for comparative purposes. It can be observed from the Table 3.2 that almost all the SFCs which submitted their reports during 11th UFC award period have included the analysis on the principles for distribution between the State and the *Panchayats*/Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the States; their *interse* distribution among different tiers/levels of *Panchayats*/Municipalities and the grants-in-aid to be given by the State to the local governments, except Himachal Pradesh and Sikkim. Though, very few states have made a detailed analysis of resources of each tier of the *Panchayats* and each level of the Municipalities.

Delayed responses, especially in submitting ATRs, indicates that many states are still struggling with the procedural aspects of implementing these recommendations. Punjab (second SFC) is the only state which could place ATR within six months of report submission (Table 3.2).

Moreover, the UFC's call for synchronizing the timing of SFC reports with the Union Finance Commission's reports remains largely unaddressed, with the exception of states like Karnataka and Sikkim in the recent past.

A consistent theme across UFCs, especially the 12th and 13th, has been the emphasis on the need for states to follow a normative approach in estimating resources and ensuring that SFC recommendations are accepted without modification, similar to the approach followed at the national level. This has not been widely adopted probably due to unavailability of requisite data and knowledge deficit at the state level. However, the third SFC of Punjab attempted to follow a normative approach during the period. The creation of SFC cells within state finance departments, as recommended in the 12th UFC, has seen partial success, with some states taking steps in this direction to improve data collection and reporting mechanisms. The 12th SFC also recommended that the SFCs must clearly identify the issues which require action on the part of the central government to augment the consolidated fund of the state and list them out in a separate chapter for the consideration of the UFC. Only the second SFC of Goa and the second SFC Uttarakhand could follow.

The 11th and 12th UFCs also raised the issue that the SFCs must be constituted with the people of eminence and competence with qualifications and experience in the relevant fields. The States which have adhered to these recommendations and have by legislation ensure such qualification of Chairman and members are discussed in detail in Chapter 7 (Table 7.2).

Based on the recommendation of the 13th UFC, a task force was formed to create a template for a SFC report and SFCs were advised to adopt the same for the presentation of their reports. The Table 3.3 illustrates the states that have adhered to the template for SFC reports as recommended by the 13th UFC. The fourth, the fifth and the sixth SFCs of Assam and Rajasthan; the third, the fourth and the fifth SFCs of Odisha; and the fourth and the fifth SFC of Tamil Nadu have followed the template while preparing their SFC reports. Gujarat, Maharashtra and West Bengal too have tried to follow the SFC template in their recent reports. This adherence suggests that these states are sensitive to the demand of the UFC for standardisation and improvement in the structure and quality of SFC reports. In turn, these

states may be benefitted from relatively more consistent and transparent assessments of local government finances which could lead to better resource allocation and financial management.

Bihar followed the template only for its 5th SFC, Sikkim only adopted the template for the 4th SFC and Tamil Nadu followed it for the fifth but not beyond. These gaps suggest that while these states may have initially recognized the importance of standardized reporting, they have not consistently maintained this practice in subsequent SFCs. This lack of uniformity could potentially lead to discrepancies in comparability of their reports, hindering the effectiveness of decision-making for local governance.

The 14th FC acknowledged the vital role of SFCs in empowering local government and emphasized the necessity to strengthen them. The Commission examined and evaluated the SFCs' recommendations, incorporating them as a key element in its own recommendations for local government. However, the Commission faced challenges in fully utilizing the financial data from the SFC reports due to their coverage of different periods. In some cases, the data were nearly a decade old. The Commission observed considerable variation in how functions, funds, and functionaries are allocated across States and noted that SFCs are ideally placed to assess the specific needs of local governments within each State, as mandated by the Constitution. It also stressed the need for States to support the effective functioning of SFCs. Consequently, the Commission recommended that State Governments take steps to strengthen SFCs by ensuring their timely establishment, providing adequate administrative support, securing necessary resources for their smooth operation, and ensuring the prompt presentation of SFC reports, along with an action taken report, to the State legislatures. However, this remains an uphill task, resulting in delay in the constitution of SFCs, frequent changes in the composition, extension to SFCs, delay in submission of reports and delay in the presentation of ATRs.

Lastly, the 15th FC recommended that each State must constitute SFCs in timely manner, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024, (failing which the state should face withholding of grants after March 2024). While this was a significant push ensuring that states adhere to the legal framework surrounding SFCs, the actual impact depends on how strictly these conditions are followed.

The Table 3.4 provides a list of states that have either constituted or are in the process of constituting their State Finance Commissions (SFCs) after the 15th UFC recommendation.

Several states have taken steps to form their SFCs in recent years. However, the delayed submission of reports and ATRs indicates that many states are struggling to meet the expected timelines, potentially impacting the timely release of grants and its consequent adverse effect on the finances of local governments. Delay in submission of SFC reports is the trend in many States. Sometimes it is inordinate. For instance, the fifth SFC of Andhra Pradesh was constituted in March 2023, but have yet to submit its reports. Further, after the much delayed submission of first SFC report of Jharkhand and non-appointment of Chairman in subsequent SFCs, Jharkhand could form its fifth SFC in January, 2024. Karnataka, complying with the 15th UFC recommendation, formed the fifth SFC in October, 2023. The SFC submitted its first report for one year in February, 2024 and the ATR was presented in March, 2024 for the award in the year 2024-25. The report for the remaining period would be submitted in due course.

The 15th UFC recommendation explicitly states that after March 2024, no grants should be released to states that do not comply with the SFC provisions. This delay in meeting deadlines, envisaged in the Constitution. could result in financial challenges for local governments and disrupt fiscal decentralization, as timely SFC reports are essential for proper resource allocation to urban and rural local governments.

On the other hand, there are States like Haryana, Himachal Pradesh, Rajasthan, and Sikkim which are regular in forming the SFCs. Therefore, while some states are making progress, the overall pace of compliance is slow, and several states may face significant repercussions if they fail to meet the required obligations.

Considering the fact that the UFCs have been consistently taking cognizance of issues relating to strengthening of SFCs, non-adherence with these recommendations underscores a critical issue that despite the recommendations, the lack of action on the ground has hindered the full realization of the intended goals of decentralization and financial autonomy for local governments. The varying degrees of compliance, the slow pace of legislative changes, and the challenges in data collection and analysis continue to be the obstacles that need to be removed for the smooth functioning of SFCs across States.

Table 3.1: Various UFCs recommendations on SFCs

Union Finance Commission	Recommendations	Action Taken
11th UFC (2000-05)	1 The Commission recommended amending article 243I to enable a State to set up the SFC 'at the expiration of every fifth year or earlier,' akin to the provision that already exists under article 280 for constituting the Finance Commission. The synchronisation of availability of reports may also be ensured through either a Central legislation or an appropriate provision in the Constitution.	No Action Taken
	2 It would be immensely helpful if the SFC reports contain: (a) specific chapters narrating the approach adopted by it; (b) an analysis of the resources of the State Government; (c) an analysis of the resources of each tier of the <i>Panchayats</i> and each level of the Municipalities; (d) the principles for distribution between the State and the <i>panchayats</i> /municipalities of the net proceeds of the taxes, duties, tolls, and fees leviable by the State; (e) the principles on which these may be distributed among different tiers/levels of <i>Panchayats</i> /Municipalities; and (f) the grants-in-aid to be given by the State to the <i>panchayats</i> and the municipalities. (g) A separate chapter may also be devoted to specific measures that need to be taken for improving the financial position of these governments to make them institutions of self-government.	Some States have followed this (See Table 3.2)
	3 It is necessary to ensure that State Governments take their decisions on the recommendations of the SFC, especially in regard to matters relating to resource transfer, and place the ATRs on the floor of the State Legislature within six months from the date of submission of the report by the SFC. Amendments in the laws, if necessary, be made at the earliest.	Only Punjab could place ATR within 6 months of report submission (Table 3.2)
	4 It is recommended that the words 'on the basis of the recommendations made by the Finance Commission of the State' appearing in sub-clauses (bb) and (c) of article 280(3) of the Constitution be deleted.	No Action Taken
	5 It is recommended that States should, by legislation, ensure that the chairperson and members of the SFCs may be drawn from amongst experts in specific disciplines such as economics, law, public administration and public finance.	Table 7.2 gives an overview of the qualification criteria, state-wise adopted for constituting SFC
12th UFC (2005-10)	1. The states should avoid delays in the constitution of the SFCs, their constitution in phases, frequent reconstitution, and submission of reports and tabling of the ATR in the	No Action Taken

	legislature. It is desirable that SFCs are constituted at least two years before the required date of submission of their recommendations, and the deadline should be so decided as to allow the state government at least three months' time for tabling the ATR, preferably along with the budget for the ensuing financial year.	
	2. The SFC reports should be readily available to the central finance commission, when the latter is constituted so that an assessment of the state's need could be made by the central finance commission on the basis of uniform principles. This requires that these reports should not be too dated. As the periodicity of constitution of the central finance commission is predictable, the states should time the constitution of their SFCs suitably.	Except Karnataka and Sikkim, no SFC report was available for consideration of 13 th UFC for award period 2010-15.
	3 SFCs must be constituted with people of eminence and competence with qualification and experience in the relevant fields.	See Table 7.2
	4 The convention established at the national level of accepting the principal recommendations of the finance commission without modification, should be followed at the state level in respect of SFC reports.	No state could follow this. Item-wise details are in the report.
	5 The SFCs must clearly identify the issues which require action on the part of the central government to augment the consolidated fund of the state and list them out in a separate chapter for the consideration of the central finance commission.	Only Goa and Uttarakhand 2 nd SFC have followed this.
	6 It is desirable that the SFCs follow the procedure adopted by the central finance commission for transfer of resources from the centre to the states in respect of resource transfers from state governments to local governments. The SFC reports should contain an estimation and analysis of the finances of the state government as well as the local governments at the pre and post transfer stages along with a quantification of the revenues that could be generated additionally by the local governments by adopting the measures recommended therein. The gaps that may still remain would then constitute the basis for the measures to be recommended by the central finance commission.	No Action Taken
	7 While estimating the resources of the local governments, the SFCs should follow a normative approach in the assessment of revenues and expenditure rather than make forecasts based on historical trends.	The 3 rd SFC of Punjab attempted to follow normative approach.
	8 A permanent SFC cell may be created in the finance department of state governments as the collection and collation of data would need to be done constantly and data would need to be made available to the SFC as and when it is constituted.	Chhattisgarh, Kerala and Odisha have dedicated cell in Finance Department
13th UFC (2010-15)	1. Article 280 (3) (bb) & (c) of the Constitution should be amended such that the words 'on the basis of the recommendations of the Finance Commission of the State' are	No Action Taken

	changed to ‘after taking into consideration the recommendations of the Finance Commission of the State’.	
	2. Article 243-I of the Constitution should be amended to include the phrase ‘or earlier’ after the words ‘every fifth year’	No Action Taken
	3. State Governments should ensure that the recommendations of SFCs are implemented without delay and that the Action Taken Report is promptly placed before the legislature	No Action Taken
	4. The 13 th FC had constituted a task force to prepare a template for SFC reports and recommended that SFCs should consider adopting the template suggested by it as the basis for their reports.	Some States have followed this (Table 3.3)
	5. The commission recommended setting up of bodies similar to the SFC in states which are not covered by Part IX of the Constitution	As per the 73rd and 74th Constitutional Amendments Act, 1992, Mizoram, Nagaland and Meghalaya are exempted from forming their SFCs. However, Nagaland constituted its first SFC in August 2008 and has recently constituted 4 th SFC. Mizoram, on the other hand, constituted its first SFC in September 2011 and second SFC in April, 2021. Meghalaya has yet to constitute SFC, though it has notified The Meghalaya State Finance Commission Act, 2012 and The Meghalaya State Finance Commission Rules, 2013
14th UFC (2015-20)	1. The Commission recommended that the State Governments should strengthen SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and timely placement of the SFC report before State legislature, with action taken notes.	Item-wise details are there in report
15th UFC (2020-26)	1. The commission recommended that all States which have not constituted SFCs in timely manner, must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants should be released to a State that has not complied with the Constitutional provisions in respect of the SFC and these conditions. The MoPR will certify the compliance of all Constitutional provisions by a State in this respect before the release of their share of grants for 2024-25 and 2025-26.	The list of states forming SFC after 15 th UFC recommendation has been given in Table 3.4.

Source: Author’s compilation from successive UFC reports.

Table 3.2: Status of Action Taken on 11th UFC recommendation Submitted for the Award Period (2000-05) on SFC reports

State	SFC Reports Submitted during 11 th UFC Award Period	ATR submitted on	Conditions						
			1. Specific chapters narrating the approach adopted by it;	2. An analysis of the resources of the State Government	3. An analysis of the resources of each tier of the <i>Panchayats</i> and each level of the <i>Municipalities</i> ;	4. The principles for distribution between the State and the <i>Panchayats/Municipalities</i> of the net proceeds of the taxes, duties, tolls, and fees leviable by the State	5. The principles on which these may be distributed among different tiers/levels of <i>Panchayats/Municipalities</i> ;	6. The grants-in-aid to be given by the State to the <i>Panchayats</i> and the <i>Municipalities</i> .	7. A separate chapter may also be devoted to specific measures that need to be taken for improving the financial position of these governments to make them institutions of self-government.
Andhra Pradesh	Aug-02	Mar-03	✓	✓	✓	✓	✓	✓	✓
Assam	Aug -03	Feb-06	✓	✓	X (aggregate is given)	✓	✓	✓	✓ (but no separate Chapter)
Haryana	Sep-04	Dec-05	✓	✓	X (aggregate is given)	✓	✓	✓	✓ (but no separate Chapter)
Himachal Pradesh	Oct-02	Jun-03	✓	X (two separate reports for <i>Panchayats and Municipalities</i>)	X (aggregate is given)	X	✓	✓	✓ (but no separate Chapter)
Karnataka	Dec-02	Jun-06	✓	X	✓	✓	✓	✓	✓
Kerala	Jan-01	Jan-04	✓ (Separate Chapter)	✓	X (aggregate is given)	✓	✓	✓	✓ (but no separate Chapter)
Madhya Pradesh	Jul-03	Mar-05	✓	✓	X	✓	✓	✓	✓

Manipur	Nov-04	Dec-05	X	✓	X (aggregate is given)	✓	✓	✓	✓ (but no separate Chapter)
Punjab	Feb-02	Jun-02	✓	✓	✓	✓	✓	✓	✓
Rajasthan	Aug-01	Mar-02	X	✓		✓	✓	✓	✓ (but no separate Chapter)
Sikkim	Sep-04	Feb-06	X	X	X	X	✓	✓	✓ (but no separate Chapter)
Tamil Nadu	May-01	May-02	-	✓	-	✓	✓	✓	✓
Tripura	Apr-03	Jun-08	✓	✓	X	✓	✓	✓	✓ (but no separate Chapter)
Uttar Pradesh	Jun-02	Mar-04	X	✓	✓	✓	✓	✓	✓
West Bengal	Feb-02	Jul-05	✓	✓	✓	✓	✓	✓	✓ (but no separate Chapter)
Uttarakhand (1 st SFC)	Jun-02	Jul-04	✓	✓	✓	✓	✓	✓	✓

Source: Author's compilation from various SFC reports

Table 3.3: States attempted to follow the Template for SFC reports as suggested by 13th**UFC**

States	3 rd SFC	4 th SFC	5 th SFC	6 th SFC
Assam		✓	✓	✓
Bihar			✓	
Chhattisgarh	✓	✓		
Gujarat	✓			
Maharashtra		✓	✓	
Manipur		✓		
Odisha	✓	✓	✓	
Rajasthan		✓	✓	✓
Sikkim		✓		
Tamil Nadu		✓	✓	
West Bengal		✓	✓	

Source: Author's compilation from various SFC reports

Table 3.4: List of States Forming SFC after 15th UFC Recommendation

S.N.	State	SFC Constituted on	Report Submitted on	ATR Submission
1	Andhra Pradesh (5 th SFC)	March, 2023	Yet to be submitted	
2	Chhattisgarh (4 th SFC)	July, 2021	February, 2024	January, 2025
3	Jharkhand (5 th SFC)	January, 2024	Yet to be submitted	
4	Himachal Pradesh (7 th SFC)	March, 2024	Yet to be submitted	
5	Karnataka (5 th SFC)	October, 2023	February, 2024	March, 2024
6	Mizoram (2 nd SFC)	April, 2021	July, 2023	August, 2023
7	Rajasthan (6 th SFC)	April, 2021	September, 2023	February, 2024
8	Sikkim (6 th SFC)	June, 2022	February, 2024	August, 2024
9	Telangana (2 nd SFC)	February, 2024	Yet to be submitted	
10	Uttar Pradesh (6 th SFC)	January, 2024	Yet to be submitted	
11	Arunachal Pradesh (3 rd SFC)*	December, 2024		
12	Assam (7 th SFC)*	July, 2024		
13	Gujarat (4 th SFC)*	November, 2024		
14	Kerala (7 th SFC)*	September, 2024		
15	Nagaland (4 th SFC)*	October, 2024		
16	Odisha (6 th SFC)*	January, 2025		
17	Uttarakhand (6 th SFC)*	January, 2025		
18	West Bengal (6 th SFC)*	December, 2024		
19	Maharashtra (6 th SFC)	April, 2025		

Note *: These States have constituted SFCs after 31st March, 2024

Source: Author's compilation from various SFC reports

Chapter 4: Recommendations and Methodologies of Latest SFCs: A Comparative Analysis of Commonalities and Variances

The primary objective of the 73rd and 74th Constitutional Amendments was to empower rural and urban local governments with sufficient authority, functions, responsibilities, and resources, enabling them to operate as autonomous self-governing institutions. This empowerment implies that local governments are now expected to deliver essential civic services, improving both the coverage and quality of these services. Additionally, it required better alignment of local services with the specific needs and preferences of the community, while ensuring increased transparency and accountability. It is important to note that functional autonomy without financial autonomy is ineffective. Given the limited revenue-generating capacity of local governments, unless their resource base is enhanced through financial transfers from higher levels of government, they will struggle to provide the necessary public services, let alone ensure their quality. In reality, there is a massive gap between the assignment of expenditure accountabilities and revenue sources resulting in stark financial strain at the local level and they are dependent on the higher level of government to finance their activities.

In view of this, Article 243I and 243Y of the Constitution necessitates every State government to constitute, at regular interval of five years, a State Finance Commission, and assigns it the task of reviewing the financial positions of local governments and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees, etc. and grants-in-aid to be given to the local government from the consolidated fund of the State.

SFCs over the years and across the States, in general, have framed their recommendations on the basis of a review of the existing conditions at the state and local level. A glance over 27 latest SFC reports reveals that SFCs have examined some common issues including a) state finances b) state revenue c) state expenditure d) finances of Panchayats and Municipalities e) fiscal domain of local governments f) resource requirements g) accounts and audit h) administrative structure i) procedural matters etc. Following these, SFCs have made a number of recommendations. Despite vast inter-state variations in SFC reports, the main recommendations of the SFCs can be grouped into the following six major heads if we identify the commonalities:

Global Sharing

Allocations

Individual Tax Sharing with Local Government

Assignment of Tax and Non-tax Handles to Local Government

Grants-in-aid
Powers and Functions
Policy

Global Sharing

The primary function of State Finance Commissions (SFCs) is to determine fiscal transfers from the State to local governments in the form of revenue sharing and grants-in-aid. Since the 80th Amendment of the Constitution, following the recommendations of the 10th Finance Commission (1995-2000), a specified percentage of all Union taxes has been devolved to the States. Many SFCs have adopted similar approaches for several reasons. First, the system has a self-policy feature, where local governments automatically benefit from the buoyancy of state taxes and levies. Second, it offers transparency, objectivity, and certainty, as local governments can anticipate their share in the divisible pool at the beginning of each fiscal year. Third, it encourages local governments to understand the broader economy, which in turn motivates them to generate their own revenue and mobilize additional resources. Lastly, it allows State Governments to pursue tax reforms without worrying about whether a particular tax is shareable with local governments, ensuring flexibility in policy.

This leads to the issues related to the composition of the divisible pool. Table 4.1 reveals significant variations across states in defining the composition and the size of the divisible pool, and the principles of revenue sharing among *Panchayats* and Municipalities, reflecting the diversity in fiscal transfer structures at the state level. The composition has mainly consisted of (i) global sharing of State's own tax revenue including its share of Central taxes and non-tax revenue, (ii) global sharing of state's own tax and non-tax revenue, (ii) global sharing of State's own tax revenue collected by it. Such variation in defining a divisible pool across states have been explained in the following paragraph.

While the third SFC of Gujarat and the fourth SFC of Manipur have included the share of Union taxes in the state taxes and non-tax revenue, the first SFC of Telangana has included the GST compensation to it to form the divisible pool. On the other hand, the second SFC of Arunachal Pradesh and fifth SFC of Karnataka have included only the State tax and non-tax revenues (excluding the transfers from Union) to arrive at a divisible pool. Though Karnataka has deducted the cost of collection of taxes also and used, right from the beginning of its SFC, a new term, *viz.* "Non loan gross own revenue receipts" in defining the divisible pool. The sixth

SFC of Rajasthan has excluded the GST compensation in estimating the divisible pool whereas the sixth SFC of Sikkim and the fourth SFC of Chhattisgarh have included it.

A majority of SFCs have recommended that only the own net tax revenues of the State form the divisible pool, while a few have also taken gross own revenue. However, even within these a wide variation has been observed as SFCs have recommended sharing of only specific taxes. For example, for the sixth SFC of Sikkim, the Own Tax Revenue comprised the State GST, Taxes on sales, trade etc., State Excise Duties, Stamp Duty and Registration Fees, Motor Vehicle Tax, Land Revenue and Other taxes. Profession Tax was not considered for the purpose of sharing of taxes but some share of this tax was assigned to local governments. Similarly, for the purpose of calculation of devolution amount, the Tamil Nadu sixth SFC permitted the following deductions from gross SOTR: (i) Surcharge on Stamp Duty of local government, (ii) Cost of collection of State Goods and Services Taxes, State Excise, Stamp and Registration, Motor Vehicle Tax, Tax on Petroleum products, and other taxes, and (iii) Other Surcharges. The sixth SFC of Punjab and Sikkim have kept profession tax out of the pool for devolution and have also deducted the cost of tax collection.

Few other SFCs have adopted different approaches for lack of or inconsistency in data. The sixth SFC of Himachal Pradesh has recommended gap-filling grants whereas Maharashtra fifth SFC did not recommend a satisfactory and passable devolution formula. Rather, it concentrated on reforming regulatory procedures, simplification and overhauling of outdated procedures for good governance. Nevertheless, the compensatory and assigned grants given by the fifth SFC of Maharashtra to local governments forms around 11.41% of SOTR. Third SFC of Nagaland, on the other hand, could provide only 1% of State gross GST. To maintain different budget heads for development fund, maintenance fund and general purpose fund, sixth SFC of Kerala recommended percentage of SOTR for each fund except development fund for which share of state plan was recommended.

It can be understood from the above analysis that there are significant interstate differences in the revenue-sharing mechanisms, as each SFC has made its own set of recommendations keeping into account the unique fiscal, economic and social conditions of each state.

The Table 4.1 also outlines the percentage splits between *Panchayats* and Municipalities in each state. SFCs like Gujarat (third), Madhya Pradesh (fifth), Odisha (fifth), Karnataka (fifth), Sikkim (sixth) have larger shares for *Panchayats* (above 70%), the fifth SFCs of Maharashtra, Uttarakhand, and Uttar Pradesh, on the other hand, have given higher share to Municipalities.

While rest of the SFCs having a more balanced split between *Panchayats* and Municipalities, at say, 60%-40%, respectively.

Population is the main parameter for allocation of funds between *Panchayats* and Municipalities in most of the States. A few states have also considered the parameters like area, Backwardness, Illiteracy, Urbanization, SC/ST population, projected population, inverse of FC devolution, resource potential, etc.

Allocations

The divisible pool is first divided based on the rural-urban bifurcation, after which the respective portions are further allocated among *Panchayats* and Municipalities. Several factors, each assigned a certain weight, are used to distribute the resources within this determined pool. As shown in Table 4.2 (a), these factors typically include population size, density, area, SC/ST population, infrastructure deficiency index, fiscal capacity, tax effort, and other need-based criteria. It has been observed that population size is often the primary criterion for inter-se distribution between *Panchayats* and *Municipalities*. Fiscal need is the rationale behind this preference as resource requirements, growth and development are highly correlated with the population size of a region. This has been majorly followed by 'area' where the focus is on ensuring equitable allocation of financial resources based on the geographical size and spatial requirements of local governments.

The horizontal devolution formulas and weights proposed by various SFCs suggest that the recommended fund allocation to local governments aimed to achieve several objectives, including: (i) addressing vertical fiscal imbalances between the states and the local governments; (ii) promoting horizontal equity by allocating a larger share to poorer governments; (iii) equalizing the fiscal capacities of local government through revenue equalization; and (iv) accounting for cost differences among local government in providing essential public services to citizens (expenditure equalization).

States have identified a range of indicators reflecting various dimensions of fiscal capacity, effort, and disabilities (Table 4.2 (b)). Indicators such as tax effort, own revenue mobilization, and district domestic product are used to assess fiscal capacity and effort, highlighting a State's ability to generate revenue. On the other hand, measures like SC/ST population, deprivation index, socio-economic backwardness, and IMR reflect need and cost disabilities. Location of the local unit related aspects, including area, remoteness and environmental vulnerability,

capture cost disabilities, recognizing that certain geographic or environmental factors increase the cost of public service provision. Indicators such as per capita own revenue distance, and distance from highest per capita income span across all three dimensions, offering comprehensive view of disparities. This multi-faceted approach ensures a more equitable assessment of state needs and capacities in fiscal planning and resource allocation.

The second SFC of Mizoram and sixth SFCs of Rajasthan and Kerala have used deprivation index of Socio-Economic Caste Census (SECC), 2011 as one of the criteria for distribution. Additionally, per capita own revenue distance has been an important criterion used by many SFCs. To incentivize local governments to enhance revenue mobilization, several SFCs - including, sixth SFCs of Kerala and Rajasthan, second SFC of Mizoram, and fifth SFC of Uttarakhand - have included this criterion, encouraging local government to improve revenue realization and explore additional sources of revenue. Sixth SFC of Kerala has included environmental vulnerability as one of the indicators by giving equal weight to flood plain area, length of coast and disaster prone area.

Literacy has been given weight in the second SFC of Arunachal Pradesh and the fourth SFC of Manipur. Meanwhile, female literacy is a parameter in the fifth SFC of West Bengal, and girls' education has been a focus for the sixth SFC of Rajasthan. To ensure equity in distribution to GPs, the third SFC of Gujarat considered distribution to GPs on per capita basis, the fifth SFC of Maharashtra gave 100% weightage to population and the fifth SFC of Odisha recommended classifying GPs into different categories where population below 500 has also been considered. Furthermore, the sixth SFC of Punjab has exclusively allocated funds to GPs only.

Individual Tax Sharing with Local Government

Shared taxes are taxes which are collected by the upper (generally) level of government and the proceeds are shared between both the levels of governments. The criterion of the distribution of proceeds is mainly origin based which means the area from where the maximum tax is collected by the State government receives the maximum share. These taxes constitute a substantial proportion of the total revenue pool of local governments.

Table 4.3 presents an overview of the revenue assigned to local governments - both *Panchayats* and Municipalities- across various states in India, as recommended by different SFCs. It highlights the variations in the types of revenue shared, ranging from taxes, duties, and fees collected by the state government, to specific funds earmarked for local governments. The

revenue sources assigned to local governments include taxes on professions, stamp duty, motor vehicle tax, land revenue, and minor minerals, among others.

The allocation practices also differ significantly across states, with some assigning a fixed percentage of specific taxes and others relying on general grants or compensation for lost revenue. Though most of the states have specific assignments as a percentage of a particular revenue source, states like the fourth SFC of Andhra Pradesh and the sixth SFC of Kerala recommend compensating local governments for lost revenue due to changes in national taxation policies, such as GST, subsuming tax on advertisement. Though entertainment and amusement tax is also subsumed under GST but not when levied by the local governments. The third SFC of Gujarat prefers the provision of grants over shared taxes. The sixth SFC of Bihar does not assign any revenue to *Panchayats* but allocates 2% of stamp duty and 40% of profession tax to Municipalities. Some SFCs have also recommended the use of such assigned revenue, for example, the sixth SFC of Sikkim assigns 15% of profession tax to be used for the creation of Capital Investment Fund (CIF), while the fifth SFCs of Madhya Pradesh and Odisha assigned motor vehicle tax to local governments for maintenance of roads. Some States, like Assam, have not recommended any assignment of revenue to local governments as the base of these taxes is very narrow compared to the cost of collections.

Assignment of Tax and Non-tax Handles to Local Governments

The Table 4.4 represents the different types of new revenue handles which have been assigned to local governments or existing tax and non-tax handles which have been recommended to be transferred to local governments to enhance their revenue base. It has been observed by the many SFCs across states that bye-laws are yet to be put in place in States for the taxation powers that have been assigned, by law, to local governments, resulting in low revenue generation. Apart from the recommendations aimed at correcting the loopholes in the present system, the SFCs recommend new revenue sources that can be used for broadening the revenue base.

Different regions employ a wide range of revenue-generation mechanisms which reflect their unique economic landscape and administrative needs. While some taxes like property tax and professional tax² are common sources, non-tax sources like user fees for services like

² A brief overview on administration of professional tax across different states is placed at Annex 2.

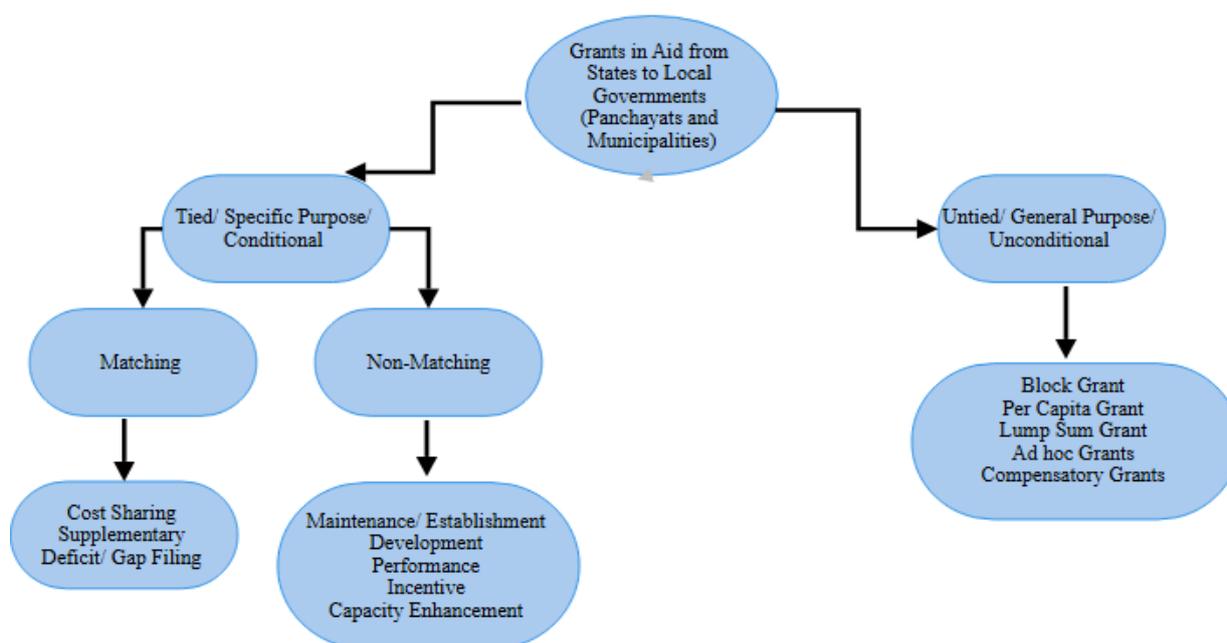
sanitation, street lighting and water supply, parking fees, petrol pumps, building fee, etc. are more localized in nature, demonstrating region-specific priorities.

Grants-in-aid

Grants-in-aid are also provided to local governments - both *Panchayats* and Municipalities - to promote balanced and sustainable development across regions and areas. It serves various purposes like correcting horizontal imbalances, meeting deficits, contributing a share towards meeting the cost of services of national importance. It enables local governments to meet, among others, the expenditure required for local public goods and cost of capital projects, etc.

Grants can be categorized into two types: (a) general purpose grants or block grants, which are based on specific criteria or formulas and are intended for additional resources with no conditions attached, and (b) conditional or specific purpose grants, such as those for specific schemes or projects³. As outlined in Exhibit 4.1, these grants can further be classified into matching or incentive grants and non-matching grants. Another way to categorize grants is as either statutory or non-statutory. Statutory grants are compulsory transfers, often replacing or compensating for the abolition of certain taxes, such as octroi. The grants recommended by SFCs in various states show considerable variation (Table 4.5).

Exhibit 4.1: Types of Grants Recommended by Various SFCs



³ The distribution of fiscal transfers between tied and untied grants across states is placed at Annex 3.

A. General Purpose / Unconditional / Untied Grants

General-purpose grants are provided as unrestricted financial support, with no conditions attached. These transfers are typically mandated by law, though in some cases, they may be *ad-hoc* or discretionary. The primary aim of such transfers is to preserve local autonomy and promote equity between different jurisdictions. The third SFC of Goa, and fifth SFC of Madhya Pradesh, Maharashtra, Odisha, Tripura and Uttarakhand, have transferred the entire amount of devolution in the form of untied grant only while the other States have kept this at varying percentage. For example, the sixth SFC of Sikkim, the fifth SFC of Uttar Pradesh and Odisha, and the first SFC of Telangana have kept more than 80% of the transfer as untied grants while it is about 50% for the fourth SFC of Andhra Pradesh and the fifth SFC of Karnataka. The third SFC of Gujarat and the fourth SFC of Chhattisgarh have kept the percentage at 10% and 30%, respectively.

It may be noted that the terminology of this grant varies from one state to another. The fourth SFC of Andhra Pradesh mentioned this as a resource filling grant whereas the sixth SFC of Sikkim and the sixth SFC of Himachal Pradesh called it a basic grant, while some other called it untied grants.

Compensatory Grants

Many grants such as grants for entertainment tax, non-agriculture and land revenue tax, and profession tax are compensatory in nature. These grants are given subsequent to withdrawal of respective taxation powers of the local governments. The fifth SFC of Maharashtra has provided compensatory and assigned grants, while the third SFC of Goa recommended an additional Rs.50 crore per year with an annual increase of 10% for local governments to compensate for the revenue forgone due to implementation of GST. The fourth SFC of Andhra Pradesh recommended compensation of profession tax after deducting the cost of collection to GPs, while Municipalities are to be fully compensated for the loss of advertisement and entertainment tax revenue sustained by them by providing adequate compensation.

Per Capita Grant

There are two types of per capita grants for general purposes⁴: uniform and non-uniform. A uniform per capita grant is the most basic form of general-purpose grant, where the funds are

⁴ Shoup C.S. (1969), Public Finance, London, Weidenfeld and Nicolson.

distributed on a per capita basis. In this system, the population of the receiving government is considered the primary indicator of need, with no account taken of the effort made by the jurisdiction to raise revenue. On the other hand, a non-uniform per capita grant places greater emphasis on distributive factors. This type of grant considers a jurisdiction's ability to generate revenue, allocating higher per capita grants to poorer jurisdictions in comparison to wealthier ones. The distribution is thus based on both relative resources and relative effort.

The third SFC of Gujarat has suggested per capita grants to GPs which are conditional, whereas the first SFC of Jharkhand recommended a per capita core municipal services provision grants. The fourth SFC of Andhra Pradesh proposed to enhance the per capita grant for *Panchayats* and Municipalities.

B. Special Purpose Grant

Special purpose grant is also implied as conditional or tied grant and is usually for the specific projects of infrastructure or for bridging the disparities in the level of development. The fifth SFC of Madhya Pradesh recommended specific purpose grants to local government for construction of tourist amenities, Narmada river bank maintenance and development, incentives for raising own resources, for O&M of assets constructed under Centre/ state schemes, and for fighting arrangements in rural areas. The third SFC of Gujarat has allocated 1% of state's total tax revenue per annum for special grants including need-based and incentive grants to be given to local governments. The sixth SFC of Tamil Nadu too has recommended special grants for specific purposes as capital grant fund (CGF) and operation and maintenance deficit grant fund (O&MDGF). The fifth SFCs of Odisha, Tripura and Uttar Pradesh recommended special dispensation for sector specific needs. Similarly, the sixth SFC of Assam suggested specific purpose grants both as direct grants and grants through line department.

Conditional Non-matching

Conditional non-matching transfers provide a given level of funds without local matching, as long the funds are spent for a particular purpose. In this category, the SFC reports include the following:

Incentive Grants

The third SFC of Gujarat, the second SFC of Mizoram, the fifth SFC of West Bengal and the sixth SFCs of Assam, Kerala and Rajasthan, recommended incentive grants for various purposes including improvement of service delivery, augmentation of internal revenue

mobilization, preparation of annual budget as per format prescribed by the CAG and maintenance of annual accounts in the prescribed format, utilization of funds, etc.

Maintenance /Establishment Grant

These grants are recommended to meet operation & maintenance and establishment costs of *Panchayats* and Municipalities.

The fourth SFC of Andhra Pradesh recommended an annual grant of Rs.250 crore to all levels of municipalities to meet the maintenance costs of different infrastructure and assets created. The sixth SFC of Assam has suggested grants for maintenance of rural roads, rural water supply. The sixth SFCs of Himachal Pradesh and Tamil Nadu, and the fifth SFC of Madhya Pradesh, Maharashtra, Odisha and Tripura SFC too have recommended grants for maintenance. The second SFC of Arunachal Pradesh has recommended 10% of devolution as maintenance grants for the upkeep of common properties. The more on O&M funds recommended by various SFCs across States have been discussed further later in the Chapter.

Development Grant

These grants relate to specific schemes of development in respect of which the state governments are expected to bear a proportion of cost. The fourth SFC of Andhra Pradesh has recommended 50% of whole devolution as grant to fill development gaps. The third SFC of Gujarat, the fifth SFC of Odisha, the fifth SFC of Madhya Pradesh, and the sixth SFCs of Kerala and Haryana too have recommended development grants/ funds for various purposes of growth and development in respective areas.

Capacity Building Grants

The capacity building grants aim to improve the administrative and organizational capabilities of both *Panchayats* and Municipalities. The goal of capacity enhancement grants is to empower these institutions, ensuring they are fully equipped to carry out mandated functions effectively. In this regard, the sixth SFC of Sikkim has recommended 0.5% of SONTR as State Capacity Building Fund (SCBF). Likewise, the sixth SFC of Bihar and Kerala have recommended funds for capacity building in their general funds.

Performance Grant

The new institutional economics approach argues that dysfunctional governance in the public sector results from opportunistic behaviour by public officials, as citizens are not empowered to hold public officials accountable for their noncompliance with their mandates or for corrupt

acts or face high transactions costs in doing so. To ensure accountability for results, conditional non-matching output-based transfers are preferable to other types of transfers⁵. Output-based or performance grant establish a link between the funds provided through grant and the performance associated with the conditions of the grant.

The sixth SFCs of Haryana and Sikkim have recommended a performance grant for improved OSR for both *Panchayats* and Municipalities (matching share of increased amount) and for sanitation, conservation & solid waste management. The sixth SFC of Himachal Pradesh has suggested 10% of gap filling grants as performance grants for *Panchayats* and 20% for Municipalities. In Punjab, the sixth SFC has recommended that 25% of grants-in-aid would be distributed amongst Municipalities on the basis of performance for which criteria for distribution of performance grant may be decided by the department of local government. The first SFC of Telangana, the second SFC of Arunachal Pradesh and the sixth SFC of Sikkim too have recommended performance grants for local government.

Conditional Matching Grants

Conditional matching grants require the recipient or local government to partially contribute or match the funds for specific purposes for which the grants have been approved. Under this category, the latest SFC reports included the following:

Cost sharing grants

The sixth SFC of Haryana recommended matching share for improved OSR for local government, while the sixth SFC of Rajasthan recommended that grants may be utilized by the *Panchayats* for gap funding /matching share, etc. The fifth SFC of Maharashtra recommended a matching grant for supporting ZPs which are at disadvantage in terms of stamp duty cess collection.

In addition to the above, the latest SFCs have also recommended the following grants:

Supplementary Grants

The third SFC of Goa provided an additional Rs.50 crore per year with an annual increase of 10% for local government to compensate for the revenue forgone due to implementation of GST.

⁵ Shah Anwar (2006), *A Practitioner's Guide to Intergovernmental Fiscal Transfers*, Journal of Economics and Statistics, XLIV, 128-186

Deficit Grant/Gap Filling

The sixth SFC of Himachal Pradesh have recommended gap filling grants as devolution. The fourth SFC of Andhra Pradesh has recommended a special gap fund of Rs. 260 crore for five years for 1719 GPs with population less than 1000. While the sixth SFC of Bihar and Haryana have recommended deficit grants for local governments. Likewise, the second SFC of Mizoram has also recommended deficit grants for ADCs.

Powers and Functions

Articles 243 G and 243 W stipulate every State to provide the *Panchayats* and Municipalities with powers and authority to enable them to function as institutions of self-government. For the purpose, States are required to enact laws which contain provisions for the devolution of powers and responsibilities upon *Panchayats* and Municipalities with respect to a) the preparation of plans for economic development and social justice; and b) the implementation of schemes for economic development and social justice including those in relation to the twenty-nine and eighteen matters listed in the Eleventh Schedule and Twelfth Schedule respectively (see Exhibits 4.2 and 4.3).

Exhibit 4.2 [Panchayats] Classification of Subjects Listed in the Eleventh Schedule

Core Subjects

- Drinking Water.
- Roads, culverts, bridges, ferries, waterways and other means of communication.
- Rural electrification, including distribution of electricity.
- Health and sanitation, including hospitals, primary health centres and dispensaries.
- Maintenance of community assets.

Welfare Subjects

- Rural housing.
- Non-conventional energy sources
- Poverty alleviation programme.
- Education, including primary and secondary schools.
- Technical training and vocational education.
- Adult and non-formal education.
- Libraries.
- Cultural activities.
- Family welfare.
- Women and child development.
- Social welfare, including welfare of the handicapped and mentally retarded.
- Welfare of the weaker sections, and in particular, of the Scheduled Caste and the

- Scheduled Tribes
- Public distribution system.

Agriculture and Allied

- Agriculture, including agricultural extension
- Land improvement, implementation of land reforms, land consolidation and soil conservation.
- Minor irrigation, water management and watershed development.
- Animal husbandry, dairying and poultry.
- Fisheries.
- Social forestry and farm forestry.
- Minor forest produce.
- Fuel and fodder.
- Markets and fairs.

Industries

- Small scale industries, including food processing industries.
- Khadi, village and cottage industries.

Exhibit 4.3 [Municipalities] Classification of Subjects Listed in the Twelfth Schedule

Core Subjects

- •Roads and Bridges
- •Water supply for domestic, industrial and commercial purpose
- •Public health, sanitation, conservancy and solid waste management
- •Burial and cremation grounds and electric crematoria
- •Public amenities including street lighting, parking lots, bus stops and public conveniences

Welfare Subjects

- •Safeguarding the interests of weaker sections of society, including the handicapped.
- •Slum improvement and up gradation
- •Urban poverty alleviation
- •Provision of urban amenities and facilities such as parks gardens, playgrounds
- •Promotion of cultural, educational and aesthetic aspects
- •Cattle pounds; prevention of cruelty to animals

Development Subjects

- Urban planning including town planning
- Regulation of land-use and construction of buildings
- Planning for economic and social development
- Fire services
- Urban forestry, protection of the environment and promotion of ecological aspects
- Vital statistics including registration of births and deaths.
- Regulation of slaughterhouses and tanneries.

However, this list is only illustrative and indicative. Unlike the clear demarcation of powers and functions between the Union and State, as outlined in the Union and State Lists of the 7th Schedule in the Constitution, no such explicit separation exists between the State and *Panchayats*/Municipalities. It is the responsibility of the State Legislature to enact laws that govern the devolution of powers and functions to the *Panchayats* and Municipalities.

Although nearly all states and union territories (UTs) claim to have transferred subjects to *Panchayats* and Municipalities to varying extents by enacting laws in line with the CAA, the functional domain of *Panchayats* and Municipalities in many states remains limited to traditional civic functions. In some states, the functional domain of *Panchayats* lacks adequate developmental responsibilities, particularly in regions where intermediate or district *Panchayats* were absent for extended periods. In states where these *Panchayats* have existed for a long time, the new laws largely replicate the provisions of previous statutes with only minor adjustments. Furthermore, many state governments have failed to implement the necessary rules or guidelines to support these changes. A few states, however, have recognized that transferring additional functions requires accompanying resources, including funds and personnel, to local governments, enabling them to fulfil their responsibilities. At the same time, local governments often remain unclear about the role they are expected to play within the multi order federal framework. In reality, most of the subjects listed in the Eleventh and Twelfth Schedules are State-concurrent, leading to duplication and overlap in functions.

One of the key challenges faced by State Governments is determining the appropriate allocation of activities across the three tiers of the *Panchayat* system. Traditionally, the lowest level *Panchayat*, the Village Panchayat (VP), has been the most active across almost all states. The VPs typically handle major functions, including core responsibilities, while intermediate and district *Panchayats* are often assigned supervisory roles or act primarily as implementing agencies for the state government.

There is a prevailing perception that *Panchayats*, Municipal Councils, and *Nagar Panchayats* are financially and technically under-equipped to perform even their core functions, let alone welfare and other economic functions. As a result, many core functions that were traditionally the responsibility of local governments - such as drinking water, rural roads, street lighting, sanitation, and primary health - have not been fully transferred in some states and are instead carried out by the line departments of state governments or parallel parastatal agencies.

Given this context, it is the responsibility of each SFC to recommend the devolution of specific functions, finances, and functionaries to *Panchayats* and Municipalities, ensuring that they are empowered to carry out their roles effectively. The Tables 4.6 and 4.7 contain recommendations of SFCs with respect to the devolution of functions and functionaries to *Panchayats* and Municipalities, respectively.

Other Measures

Many SFCs also suggested some changes in the legislative and administrative spheres to strengthen the local government institutions. Some of them require action even on the part of the Union Government. A few of these recommendations are listed in Table 4.8.

The SFCs across various states have recommended a range of measures to enhance the transparency, performance, and efficiency of local governments, ensuring that funds are used effectively for public service delivery. Several SFCs have emphasized the need for robust audit mechanisms, like the fifth SFC of Himachal Pradesh recommended audits of Municipal Corporation accounts by the Accountant General or professionals with necessary qualifications. The sixth SFC of Haryana recommended setting up District SDG Cells to support local governments in aligning their plans with sustainable development goals (SDGs), while the SFC of seven states have called for monitoring and evaluation systems to track the implementation of SFC recommendations. Other states, such as fifth SFC of Himachal Pradesh, have called for systems to reward better-performing Municipalities by providing them a greater share of grants, while many states have proposed social audit systems to ensure accountability.

Furthermore, the SFCs have recommended integration of digital tools to streamline operations and improve service delivery. The sixth SFC of Bihar, Himachal Pradesh, Punjab, Rajasthan and fifth SFC of Odisha have suggested the development of e-Municipality or e-Panchayat systems for efficient data collection and daily updates. Similarly, the sixth SFC of Haryana has recommended creating a well-designed website to publish the actions taken by the SFC, ensuring greater transparency. To enhance fiscal management further, the sixth SFC of Rajasthan has proposed linking the release and utilization of funds with the Integrated Financial Management System (IFMS) or Public Financial Management System (PFMS). Additionally, the third SFC of Gujarat has emphasized the need for customized software to assist local governments in tax collection and the development of manuals for asset maintenance. Other measures include the establishment of uniform standards for civic services, the introduction of minimum tax rates, and the mandatory preparation of annual budgets, maintenance of accounts

online and customised training programmes. These measures collectively aim to strengthen the financial and operational capacities of *Panchayats* and Municipalities, ensuring that they can deliver effective public services.

Methodologies adopted by Latest SFCs: An analysis

In order to serve the terms of reference with which a finance commission is formed in a state, various SFCs have adopted different methodologies. Many have attempted to estimate the resource gap in their own way, but the definition of this gap varies across reports, even within the same state. In some cases, unique methods are used to quantify the resource gap. Despite these efforts, most SFCs end up recommending lump-sum, *ad hoc* grants.

Successive Union Finance Commissions have highlighted that the resource requirements of local governments in states cannot be compared or aggregated at the national level due to the inconsistency and uniqueness of the methodologies each SFC uses to estimate the resource gap. Some SFCs have tried to estimate the gap on a normative basis, though these attempts have largely been unsuccessful due to the lack of systematic, nationwide work on developing expenditure norms for core services in different geographical terrains - such as hilly, coastal, desert, and plain areas.

The methodologies employed by various SFCs (Table 4.9) demonstrate a comprehensive and multi-pronged approach to data collection, analysis, and stakeholder engagement. SFCs typically began their work by gathering data from a wide array of sources, including government departments, local government, and specialized institutions. This involved conducting numerous meetings with key officials, elected representatives, and experts from organizations like the Finance, Rural Development, and Urban Development departments, as well as institutes specializing in public finance and decentralization. To enhance the quality of data, SFCs often used structured questionnaires tailored to specific local governments, such as *Panchayats* and Municipalities, covering aspects like financial management, revenue sources, expenditures, and administrative functions. In some cases, detailed secondary data have also been collected from government reports, budget documents, and previous SFC studies.

Field visits and consultations were central to the SFCs' methodologies. Many SFCs conducted visits across multiple districts, engaging directly with local functionaries, elected officials, and the public to understand the ground realities and challenges faced by local governments. Workshops and seminars were frequently organized to facilitate discussions on local finance,

fiscal decentralization, and governance. Public suggestions were solicited through advertisements and notices, ensuring broad participation. Additionally, the use of external studies and professional services for data analysis helped ensure the accuracy and reliability of the findings. Comparative studies of other states' SFCs were also undertaken, and some commissions launched dedicated websites for transparency. Through these varied approaches, the SFCs ensured a robust, inclusive, and data-driven process for formulating their recommendations.

Allocations for Operations and Maintenance Functions under Various SFCs

A crucial aspect of local government functioning is the operation and maintenance (O&M) of various assets created under developmental schemes for ensuring quality of services and sustainability. The O&M functions of local governments are affected by various factors like inadequacy of funds, lack of role clarity and low technical capacities. Adding to these problems is the low recovery of taxes and user charges by the local government. Compared to Municipalities, *Panchayats* have weaker capacity for maintenance of assets. There is a felt-need for better management of assets through O&M funds, which necessitates additional support from both the UFCs and SFCs. Various SFCs, on their parts, have been allocating funds for O&M of infrastructure and services within the local government⁶. Please see Table 4.10.

The allocation and distribution vary based on the local government's needs and the state's financial capacity. Some have suggested a percentage share in individual tax or non-tax sources to be used for maintenance of assets, like the fourth SFC of Andhra Pradesh, the fifth SFCs of Maharashtra, Odisha and Tripura. While some other have recommended grants for O&M of assets, for example, the second SFC of Arunachal Pradesh, the sixth SFC of Himachal Pradesh, the fifth SFCs of Madhya Pradesh (only for Municipalities), Odisha and Tripura. The sixth SFC of Tamil Nadu has recommended a special grant while the fifth SFC of Karnataka has earmarked fund for maintenance of infrastructure projects for optimal utilization.

There are SFCs which have recommended funds for O&M as percentage share in devolved amount. Examples of such SFCs are: the sixth SFC of Bihar (20% as maintenance fund), the fourth SFC of Chhattisgarh (30% as untied fund for maintenance of basic services), the third SFC of Gujarat (90% of untied funds to be used for O&M of exiting physical assets), the sixth SFC of Kerala (6.5% of SONTR as maintenance fund), etc. On one hand, such continued

⁶ The specific areas or assets for which these O&M expenditures were recommended by the SFCs are placed at Annex 4.

financial support for O&M of assets is essential to ensure the sustainability and effectiveness of rural infrastructure, realization of user charges and other sources of revenue is crucial for viability.

Treatment of small Gram Panchayats and Peri-urban areas by SFCs

The size of the average population per gram panchayat varies across states from more than 10,000 to between 500-2000. Thus, the size of the small GPs also varies. The smaller GPs often face severe financial challenges due to predominantly population-based devolutions from the UFCs and SFCs. When population size is used as the basis for devolution, GPs with smaller populations receive minimal funding. Such financial uncertainties affect the functioning of such GPs adversely in States. However, every institution, regardless of its size, needs some level of support to meet its constitutional responsibilities.

Few SFCs have made a mention of how they have treated small GPs in the State. For example, the fourth SFC of Andhra Pradesh has recommended a special fund of Rs.260 crore for five years for 1719 GPs with less than and upto 1000 population (census 2011) considering the inadequate revenue resources and geographical area-costs involved in the delivery of basic civic amenities.

Similarly, the fifth SFC of Odisha too has categorised GPs into four classes, *viz.* a) less than 5000 population, b) between 5000-7500 population, c) between 7500 – 10000 population, and d) more than 10000 population. Out of the total devolution to GPs, the commission allocated the share of 41% to GPs with population less than 5000 with 42% to class B, 15% to class C and 2% to class D. Further, to prioritize development needs and address the cost disadvantages of scheduled areas, the Commission had also allocated an additional 25% of funds to GPs located in these areas.

As some Municipalities, particularly in the hill regions have a small population, but still have to provide certain essential municipal services, the fifth SFC of Uttarakhand set a minimum population threshold of 10,000 for NPP, 5000 for NP and 500 for GPs.

The sixth SFC of Sikkim provided a MAG of Rs. 6 lakh and Rs.50 lakh per annum to each GP and Municipality, respectively as safety net to ensure a minimum financial support every year so that they are not financially stressed and can carry out necessary development activities in the region.

Peri-urban area is a transitional zone where urban and rural activities intersect, marked by rapid land use changes and the coexistence of urban and rural features. Despite their growing

significance, most SFCs have not clearly addressed or defined these areas in their reports. Tamil Nadu is the only state which has provided a definition, while few others have merely acknowledged their existence⁷.

For instance, the sixth SFC of Haryana mentioned that the plans of those GPs which are located near urban centers or peri-urban areas may be integrated spatially with these centres.

In Rajasthan, the provision of basic services in peripheral villages is a recurring issue. These villages are often not included in the jurisdiction of development authorities or Municipalities, nor are they part of GPs, leaving them without proper services. As a result, residents suffer, and municipalities face challenges in addressing their needs. The sixth SFC of Rajasthan suggested that better coordination between all agencies involved in planning and managing development activities is needed to resolve these problems.

The fifth SFC of Tamil Nadu defines the Peri-urban areas as the village panchayats which are situated within a radius of five KMs from the Municipalities and Municipal Corporations. It also recommended that the Tamil Nadu Panchayats Act 1994 be amended to classify peri-urban villages based on population and proximity to Municipalities and allow house tax collection at municipality rates. Though the State government accepted these recommendations, it could not be implemented due to circumstantial issues. The sixth SFC of Tamil Nadu reiterated these recommendations as follows:

- The Tamil Nadu Panchayat Act, 1994 should be suitably amended to permit classification as Peri-Urban Villages based on population and proximity to Municipalities. Additionally, the Act should be revised to permit the collection of property tax, at the rate similar to neighbouring Municipalities.
- Peri-Urban *Panchayats* should be empowered to levy Vacant Land Tax for houses excluding agricultural lands, based on plinth area, as is the case in Municipalities. The basis can be changed to area by amending the *Panchayat* act.
- Large village *panchayats* should be divided based on population size and the number of habitations to address some of the challenges faced by Peri-urban *Panchayats*.

⁷ No SFC has defined urban areas but most of the SFCs have taken the population figures from census 2011, where urban area is defined as: a place with a municipality, corporation, cantonment board, or notified town area committee, or a place that meets specific criteria including a minimum population of 5,000, at least 75% of the male working population engaged in non-agricultural pursuits, and a density of at least 400 persons per sq. km.

- Peri-urban village *panchayats* face specific challenges in liquid and solid waste management, with a pressing need for drainage infrastructure. The possibility of expanding the infrastructure capacity of nearby Municipalities to support these *Panchayats* should be considered.

The State Government has deferred the first two recommendations in this respect while remaining two has been accepted. Further to meet the additional needs of the peri urban panchayats, the Commission also recommended Rs.10 Lakh per peri-urban panchayats in addition to their regular lump sum amount. This too has been accepted by the State Government.

In Uttarakhand, the ToR of the fifth SFC mandated the SFC to make recommendations “*regarding the broad trend in urbanisation in State making an assessment of basic infrastructure in the urban, peri-urban areas and census towns identifying the gaps and suggesting measures for improvement*”. Recognizing the growth of peri-urban areas which would seek employment opportunities, and upward mobility of population, the Commission expressed the concern over the lack of a policy to address the needs and challenges of census towns and peri-urban areas. It suggested that there is a need for comprehensive urban planning and management in Uttarakhand’s peri-urban areas to address infrastructure deficits, environmental risks, and the challenges posed by rapid urbanization. It mentioned that continuing to classify these areas as GPs is counterproductive, as GPs lack the resources and capacity to manage the issues stemming from urbanization and urban growth. In this respect, the fourth SFC of Uttarakhand had also suggested the constitution of a high-level committee comprising political leaders, administrators, and domain experts to recommend policy and solution to the issues which the State Government had accepted.

The fourth SFC of West Bengal, taking account of the peri-urban areas in the state, took the population of peri-urban areas falling within the jurisdiction of GPs from the census 2011⁸ and thereafter added the population of GPs taken from Socio-economic census, 2011 in the concerned GPs for providing due weightage to the rapid urbanization in rural West Bengal.

⁸ Pls see Annex 5 for explanation as to how West Bengal used the population data from census 2011 and SECC 2011 to account for rapid urbanization.

Table 4.1: SFC Recommendations for Share in State Divisible Pool

SFC of	%	Acceptance	Share of <i>Panchayats</i> and Municipalities ⁹	Criteria for distribution among <i>Panchayats</i> and Municipalities
<u>Total Revenue of the State</u>				
Gujarat (III) ^a	6.25	No	77.45% and 22.55%	Population of census 2011 and geographical area
Manipur (IV) ^a	10	Yes as % of SOTR	<i>Panchayats</i> :Municipalities:ADCs in the ratio of 35.28:22.49:42.23	
Telangana (I) ^b	11	Yes	61% and 39%	Population as per Census 2011
<u>Own Revenue of the State</u>				
Arunachal Pradesh (II)	30	report not accepted	Not mentioned	Population, Area, Backwardness, Illiteracy, Transferred assets/infrastructure
<u>State Own Tax Revenue</u>				
Andhra Pradesh (IV)	6.5 for <i>Panchayats</i> & 3.6 for Municipalities	No	66.60% and 33.40%	Funds are given separately only as percent of SOTR.
Assam (VI) ^c	7.8	Yes		80% on the basis of population and 20% on population density of rural and urban areas.
Bihar (VI) ^d	10	yes	65% and 35%	not mentioned
Chhattisgarh (IV)	10	No	70% and 30%	Estimated Population 2025
Goa (III)	10	Yes	Not mentioned	-----
Haryana (VI) ^e	9 (7% as formula-based devolution and 2% as special grant)	Yes (7% has been accepted)	50% and 50% (modified to 55:45)	not mentioned
Madhya Pradesh (V)	10	Yes	77.5% and 22.5%	Population estimates of 2021
Maharashtra (V) ^f	11.41	Yes	5.26% and 94.74%	Not Mentioned
Mizoram (II)	42	Yes	pre-devolution revenue gap of <i>Panchayats</i> and Municipalities to be filled	Not mentioned

⁹ The further information on the percentage of devolution to local governments is also placed at Annex 1.

Odisha (V)	3	Yes	75% and 25%	
Punjab (VI) ^h	3.5	Yes	55% and 45%	Not mentioned, but due to increased urbanisation and financial requirements of Municipalities, the share of municipalities have been increased as compared to earlier SFCs.
Rajasthan (VI) ⁱ	7.25	Modified For the years 2020-24 it is 6.25% and for the year 2024-25 it is 7.25%	For the years 2020-24 it is 75.1% and 24.9%. for the year 2024-25 it is 73.2% and 26.8%	Population of Census 2011
Sikkim (VI) ^j	6	Yes, but in absolute terms as mentioned by SFC	75% and 25%	Population of census 2011
Tamil Nadu (VI) ^k	10	Yes	51% and 49%	Projected population 2021, Needs, Resource Potential, Inverse of CFC Devolution
Tripura (V)	6	Yes	50% and 50%	size of population, density of population, urbanization and existing devolution under 4th SFC.
Uttarakhand (V)	11	Modified to 10.50	40% and 60%	Population Census 2011
Uttar Pradesh (V)	15	modified to 12.5	40% and 60%	not mentioned
West Bengal (V) ^l	1.5 with an annual increase of 5%	Accepted for the years 2023-25	68% and 32%	Population census 2011
<i>Non- Loan Gross Own Revenue</i>				
Karnataka (V)	49	Modified to 48	71.43% and 28.57%	Not mentioned
<i>Different Approach</i>				
Jharkhand (I)	A per capita core Municipal services provision grant is recommended	ATR not Submitted	Recommended only for Municipalities	

Himachal Pradesh (VI)	Gap Filling Grants	ATR not available	Devolution has been assessed separately for <i>Panchayats</i> and Municipalities based on committed liabilities	
Nagaland (III)	1% of the gross State GST with annual 7% increase	Accepted	Part IX does not Apply here and therefore whole fund is devolved to Municipalities in the State	Population 2011 census
Kerala (VI)	(i) Development fund as 26% (in 1 st year and then progressive till reaches 30%) of State Plan (ii) Maintenance fund as 6.5% of SOTR (iii) General Purpose Fund as 4% of SOTR	(i) Accepted (ii) And (iii) modified as % of SONTR	A) Development Fund i) for General Sector – the ratio of distribution would be <i>Panchayats</i> :Municipalities:MCs as 76.35:13.89:9.76 ii) for SCSP - the ratio of distribution would be <i>Panchayats</i> :Municipalities:MCs as 83.25:10.25:6.50 iii) for TSP - the ratio of distribution would be <i>Panchayats</i> :Municipalities:MCs as 91.96:6.08:1.96. B) Maintenance Fund - The shares of each Local Government under Maintenance Fund (Roads) is given C) General Purpose Fund to be distributed among VP:Municipalities:MCs as 77.24:13.43:9.34	

a. State Total Tax revenue includes States' all taxes and State's share in central taxes

b. Includes revenue from all taxes, duties, tolls and fees and including GST compensation minus cost of collection @ 1%.

c. excludes the proceeds of State's share of Central taxes and non-tax revenue collected by the State and the cost collection of taxes.

d. Here SONTR of the previous year is considered. There is no assignment of revenue to *Panchayata* whereas 2% of Stamp Duty and 40% profession Tax is being assigned to the Municipalities.

e. Revenue from Panchayat Tax on electricity consumption and surcharge on stamp duty has been assigned to *Panchayats*, whereas revenue from Stamp duty, State excise duty, Surcharge on VAT, vehicle tax has been assigned to Municipalities.

f. The annual compensatory and assigned grants given by State Government to local governments forms around 11.41% of SOTR

h. State's Net Own Tax Revenue (t) = Gross Own Tax Revenue, including share in the IGST and Compensation for loss of revenue due to GST (t-1) – Actual Cost of Tax Collection (t-1) – Compensatory Payments to the Municipalities for the revenue loss on account of Abolition of Octroi (t-1).

State's own tax revenue means receipts from GST, Stamp Duty, Registration Fee, State Excise Duty, VAT/Sales Tax (POL), Vehicles Tax, Electricity Duty/Tax, Land Revenue and other taxes and duties (Entertainment Tax, Luxury Tax, Betting Tax etc.) imposed by the State.

Apart from this, there are taxes which are assigned to the local government in Punjab, these include: 100% of professional tax, 10% of stamp duty & registration fee, 16% of AED, 10% of auction money, and 2% of VAT on petroleum products (for GPS only).

i. Excludes GST Compensation.

j. SONTR excludes profession tax.

k. The 6th SFC had recommended 10% of gross SOTR, whereas the State Government has accepted the 10% of **net** of SOTR continuing with the existing practice with the following deductions: Surcharge on stamp duty of local government; cost of collection of state GST, state excise, stamp & registration, MVT, tax on petroleum products, and other taxes; and other surcharges.

l. 30% of professional tax and taxes on vehicles to be shared with *Panchayats* and Municipalities in the ratio of 68:32.

Source: Author's compilation from various SFC reports

Table 4.2 (a): Criteria for Horizontal Distribution of Allocations to *Panchayats* and Municipalities

S.N	State	SFC	Criteria											
			<i>Panchayats</i>						Municipalities					
			Population	SC/ST Population	Area	Literacy/Illiteracy	Deprivation Index	Other Measures	Population	SC/ST Population	Area	Literacy/Illiteracy	Other Measures	
1	Andhra Pradesh	(IV)	√	√	√				√					
2	Arunachal Pradesh	(II)	√		√	√		<ul style="list-style-type: none"> • Backwardness • Transferred assets/infrastructure 	√		√	√	<ul style="list-style-type: none"> • Backwardness • Transferred assets/infrastructure 	
3	Assam	(VI)	√		√			District Domestic Product	√		√		i) index of infrastructure ii) Per capita tax collection	
4	Bihar	(VI)	√		√				√		√			
5	Chhattisgarh	(IV)	√						√		√			
6	Goa	(III)	The devolution criteria of the Union Finance Commission to be followed.											
7	Gujarat	(III)	√		√			on per capita basis to GPs	√		√			
8	Haryana	(VI)	√					Per Capita Own revenue distance	√				Per Capita Own revenue distance	
9	Himachal Pradesh	(VI)	√		√			Manpower deployed in <i>Panchayats</i>	√		√		Manpower deployed in Municipalities	
10	Jharkhand	I	No recommendations for Panchayats											A per capita core Municipal services provision grant was recommended
11	Karnataka	(V)	√		√				√	√	√	√		
12	Kerala	(VI)	√	√	√		√	i) environmental vulnerability ii) distance from highest per capita	√	√	√		i) environmental vulnerability ii) deprivation index	

								income weighted with population iii) incentive for revenue mobilization					iii) distance from highest per capita income weighted with population iv) incentive for revenue mobilization	
13	Madhya Pradesh	V	√						√					
14	Maharashtra	V	√		√			100% weightage to population in case of GPs	√		√			
15	Manipur	IV	√		√	√		• Forest cover in ADCs	√		√	√	• Forest cover in ADCs	
16	Mizoram	II	√		√		√	• development distance • revenue efforts (for ADCs)	√		√		• Households below poverty line	
17	Nagaland	III	Part IX is not applicable							√		√		
18	Odisha	(V)	√					Number of units like GPs and PSs	√					
19	Punjab	(VI)	√	√	√			only for GPs	√		√			
20	Rajasthan	(VI)	√	√	√		√	i) Child-sex ratio ii) IMR iii) Decline in decadal population growth iv) Avg. own rev. mobilization	√		√		deviation of average per capita own income of Municipalities measured from the Municipality having highest average per capita income	
21	Sikkim	(VI)	√		√				√		√			
22	Tamil Nadu	(VI)	√	√	√				√	√	√			
23	Telangana	(I)	√						√					
24	Tripura	(V)	√					The Commission has considered the	√					

								number of GPs in each PS and number of PS in each ZP as basis for inter-se among <i>Panchayats</i> . Similarly, number of VCs in each BAC and number of BACs in each District as the basis inter-se <i>Panchayats</i> and VCs and BACs					
25	Uttarakhand	(V)	√		√			<ul style="list-style-type: none"> ● remoteness (distance from nearest railhead), ● tax effort (both per capita incidence and realization) 	√		√		<ul style="list-style-type: none"> ● remoteness (distance from nearest railhead), ● tax effort (both per capita incidence and realization)
26	Uttar Pradesh	(V)	√	√	√				√		√		
27	West Bengal	(V)	√ ^a		√			Backwardness	√ ^b		√		Backwardness

a. - For GP, population related data of SECC and for PS, ZP and for Municipalities data of Census 2011 have been used.

b.- For devolution to GPs / VCs

Source: Author's compilation from various SFC reports

Table 4.2 (b): Indicators identified by States and their Attributes

Indicator	Fiscal Capacity	Fiscal Effort	Need Disability	Cost Disability
Population			√	
Area				√
SC/ST population			√	√
Tax Effort	√	√		
Deprivation Index			√	
Fiscal Discipline				
Per Capita Own revenue distance	√	√	√	
Distance from Highest per Capita Income	√	√	√	
Own Revenue Mobilization	√	√		
Socio-Economic Backwardness			√	
District Domestic Product	√	√	√	
Environmental vulnerability				√
Deficit in services			√	
Recovery of tax and non-tax revenue		√		
Population without piped water				√
Population without electricity				√
Development Distance				√
Revenue efforts		√		
Child-sex ratio			√	
Infant Mortality Rate			√	
Decline in decadal population growth			√	
Remoteness				√
HHs below poverty line			√	√
Number of Agriculture Labour	√			
Inverse Primary Income				
Rural Connectivity	√			
Girl Education			√	
Educational Backwardness			√	
Infrastructure Maintenance			√	√

Source: Author's compilation from various SFC Reports

Table 4.3: Individual Tax Sharing with Local Government

State	SFC	Assigned revenue
Bihar	VI	<ul style="list-style-type: none"> not assigning any revenue to the Panchayats 2% of Stamp Duty and 40% of Profession Tax is being assigned to the Municipalities
Haryana	VI	<ul style="list-style-type: none"> Panchayat tax on electricity consumption and a surcharge on stamp duty, is collected by the respective departments and distributed among concerned GPs later on. Assigned revenues for Municipalities are from Stamp duty, State excise duty, Surcharge on VAT, vehicle tax. (The most important and consistent revenue source has been additional stamp duty only, while the rest has either been discontinued or has negligible revenue after introduction of GST in 2017).
Himachal Pradesh	VI	<p>For <i>Panchayats</i>:</p> <ul style="list-style-type: none"> Land revenue Liquor Cess Tax on extraction & export of sand, stone, bajri & slates. License for the fishing. Permit fee for minor forest produce Duty on mobile towers communications. <p>For Municipalities</p> <ul style="list-style-type: none"> Electricity Tax Cess on Liquor Grants in Lieu of Octroi <p>(All the local governments may start collecting all the assigned taxes and levies statutorily to them with periodic revisions while keeping in view the interest of the economically weaker sections.)</p>
Kerala	VI	<ul style="list-style-type: none"> The share of the Entertainment component of GST to be passed down to Village <i>Panchayats</i>/Municipalities/ Corporations, using the formula fixed for GPF. The advertisement component under GST to be passed down to local governments.
Punjab	VI	<ul style="list-style-type: none"> 100% of 'tax on professions, trades, calling and employment' to be distributed between <i>Panchayats</i> and Municipalities in the ratio of 55:45. 10% of proceeds of Stamp Duty and Registration Fee 2% share of VAT (excluding ID Cess) on the Petroleum Product (for GPs only)
Tamil Nadu	VI	<ul style="list-style-type: none"> revenue from minor minerals to be shared with local government
Sikkim	VI	<ul style="list-style-type: none"> 15% of Net Profession Tax to be shared with the local governments for creation of CIF. Construction fee to be collected by other local governments also apart from GMC
Madhya Pradesh	V	<ul style="list-style-type: none"> Taxes assigned to Municipalities: <ol style="list-style-type: none"> surcharge on stamp and registration fee entry tax Motor vehicle tax (for maintenance of roads). Taxes assigned to <i>Panchayats</i>: <ol style="list-style-type: none"> grant against additional stamp duty collection cess on land

		<ul style="list-style-type: none"> At least 1/3rd of the fines collected by the traffic police should be given to the municipalities.
Maharashtra	V	<ul style="list-style-type: none"> 1% of Stamp Duty between ZPs and GPs 25% of the Collection of Profession tax by GPs to be shared with PSs 25% of the auction income from Sand Mining and all minor minerals to GPs GPs to get share of the Development Charges Additional Stamp duty collected to be transferred to Municipalities
Odisha	V	<ul style="list-style-type: none"> 7.46% of net SGST revenue in lieu of Entry Tax, Advertisement Tax and Entertainment tax. 8.03% of net proceeds of MV tax for maintenance and improvement of road infrastructure
Punjab	V	<ul style="list-style-type: none"> 11% of Punjab VAT is to be credited in the Punjab Municipal Fund. Income from levy of octroi on electricity Share of Excise Duty and Auction Money
Tripura	V	<ul style="list-style-type: none"> share of proceeds of SGST has been assigned to Municipalities 8.02% of Motor Vehicle Tax has been assigned to both <i>Panchayats</i> and Municipalities
Uttar Pradesh	V	<ul style="list-style-type: none"> A fixed portion of income from forest wealth, ponds, land use, and various services like parking, professional activities, and private institutions be allocated to Municipalities. Municipalities have demanded an increase in their share (from 2%) and <i>Panchayats</i> have also demanded a certain share/percentage of stamp duty to be allocated to them. The Commission recommended 1% share in stamp duty for rural area.
West Bengal	V	<ul style="list-style-type: none"> The 30% of collection from Taxes on Professions, Trade, Callings and Employment and Taxes on Vehicles to be shared between the <i>Panchayats</i> and the Municipalities
Andhra Pradesh	IV	<ul style="list-style-type: none"> compensation of profession tax after deducting the cost of collection to GPs. transfer the prescribed proportion of surcharge on stamp duty to local government. Seigniorage fee assigned to / expected to be assigned to local government Municipalities are to fully compensated for the loss of advertisement and entertainment tax revenue sustained by them by providing adequate compensation. Revenue from Parking fees to be shared with <i>panchayats</i>.
Chhattisgarh	IV	<p>Presently full/part of the proceeds of following taxes transferred to the <i>Panchayats</i>:</p> <ul style="list-style-type: none"> Budget provision from Infrastructure development fund Grant from royalty of Minor minerals Grant from stamp and registration fee Grants from entertainment tax <p>Presently full/part of the proceeds of following taxes transferred to the Municipalities:</p> <ul style="list-style-type: none"> Entry tax grant Stamp and registration fees grant FL license fee grants Tax on vehicles grant Entertainment tax grant Excise duty surcharge grant

		<ul style="list-style-type: none"> ● Passenger tax compensation grant ● General purpose grant ● Minor mineral royalty grant
Manipur	IV	<ul style="list-style-type: none"> ● Stamp duty on transaction of immovable property within jurisdiction of the GPs and assigned this to the GPs at the rate decided by the State Govt. ● 10% of profession tax to the local govts. ● 5% of the stamp value on transfer of land to ZPs ● A share of income from royalties on minor minerals to GPs ● MAHUD to explore the possibility of assigning any new states taxes or duties to IMC.
Gujarat	III	Grants are given against assigned taxes
Nagaland	III	<ul style="list-style-type: none"> ● 1% of SGST is assigned to Municipalities as devolution from share in taxes.
Arunachal Pradesh	II	<p>Following revenues to be transferred to local government:</p> <ol style="list-style-type: none"> a) 50% of profession tax b) 25% of revenue from stamp duty c) 97% of the land revenue
Telangana	I	<p>95% of following taxes to be assigned to local government:</p> <ul style="list-style-type: none"> ● Profession tax ● Seigniorage Fee, and ● Transfer Duty

Source: Author's compilation from various SFC reports

Table 4.4: Assignment of Tax and Non-Tax Handles to Local Governments by Various SFCs

Assignment of Revenue Handles	I SFC of	II SFC of	III SFC of	IV SFC of	V SFC of	VI SFC of
Tax Revenue						
Agricultural land Tax	Telangana					
Professional Tax			Goa		Maharashtra	
House/ property Tax		Arunachal Pradesh, Mizoram (for VCs & Municipal property tax on vacant land)		Andhra Pradesh (5% as user fee of property tax)	Tripura (from Census towns), Odisha (from census towns), MP	Tamil Nadu (for peri-urban villages)
Mobile service tax						Punjab
Scavenging and sanitation tax				Manipur		Punjab
Building Tax					Maharashtra	Kerala
Motor Vehicle tax		Mizoram	Gujarat			
Theatre Tax/ Show tax/ entertainment tax		Arunachal Pradesh, Mizoram	Gujarat, Nagaland			
Advertisement Tax		Arunachal Pradesh	Nagaland	Manipur		Tamil Nadu
Vacant Land Tax				Andhra Pradesh	Odisha, MP	Tamil Nadu (for peri-urban villages)
Stamp Duty		Mizoram				
Animal Tax		Mizoram				
Tax on entry of goods into the market		Mizoram				
Service Tax		Arunachal Pradesh				
Non-Tax Revenue						
Minor Minerals					MP	
user fees for drinking water supply and irrigation		Arunachal Pradesh, Mizoram		Manipur	Uttar Pradesh	Bihar, Haryana, HP
user charge for Shamilat land						Haryana
User Fee for Sanitation/solid waste/ garbage collection/ drainage	Telangana	Mizoram	Goa, Nagaland		Odisha	Haryana, HP
User Fee for Street Lighting						Haryana

User Fee for Community Centres/Markets		Arunachal Pradesh, Mizoram	Nagaland	Manipur		Haryana
User Fee for Petrol pumps						Haryana
User Fee for Private schools and colleges						Haryana
Fee Hospitals & nursing homes						Haryana
Fee for Shops, factories, & commercial	Telangana		Nagaland	Manipur	Uttar Pradesh	
user charge or fee on Govt. establishments			Goa	Andhra Pradesh		Assam, Haryana, Kerala, Tamil Nadu
Building fee					Tripura	Sikkim
Mutation Fee on Property transfer						Punjab
Green fee, entry fee, parking fee/road tax	Telangana		Goa, Gujarat, Nagaland	Andhra Pradesh	Odisha, Uttar Pradesh, West Bengal,	Punjab
Hoarding Charges/ visual media		Arunachal Pradesh	Gujarat	Andhra Pradesh	Uttar Pradesh	
Betterment levy/ tax				Manipur	Uttarakhand	Tamil Nadu
sheds and toilets		Mizoram			Uttar Pradesh	
Fee for installing mobile and internet service, cable, DTH operators		Arunachal Pradesh			Uttar Pradesh	
Market/ slaughter houses fee			Nagaland			
Utility Services Charges		Arunachal Pradesh	Nagaland	Andhra Pradesh		
Fee on non-GST items			Nagaland			
Fee for issue of various certificates		Mizoram		Manipur		
Licence fee for advertisement						Kerala
License fee for fish and ponds		Arunachal Pradesh				
Tolls		Arunachal Pradesh				
Sand mining permit fee		Arunachal Pradesh				
Fines and registration fee		Arunachal Pradesh				
Encroachment Fee				Andhra Pradesh		

Trade License Fee				Andhra Pradesh		
Nuisance fee					Madhya Pradesh	
Donation received from Religious places					Madhya Pradesh	
Environment Management Fees					Maharashtra	

Source: Author's compilation from various SFC reports

Table 4.5: Types of Grants Recommended by SFCs

State	SFC	Type of Grant
Assam	VI	<p><i>Specific Purpose Grant</i></p> <p>a) Grants through Line Department</p> <ul style="list-style-type: none"> ● Maintenance of Rural Roads (PWD) ● Maintenance of Rural Water Supply (PHE) <p>b) Direct Grant</p> <p><i>Incentive Grant</i></p> <ul style="list-style-type: none"> ● improvement of service delivery, ● augmentation of internal revenue mobilization, ● preparation of annual budget as per format prescribed by CAG and ● maintenance of annual accounts in the prescribed format. <p><i>Grant for strengthening of SFC Cell</i></p>
Bihar	VI	Deficit Grant from Consolidated Fund of State
Haryana	VI	<p>Special development purpose grant</p> <p>a) Performance Grant</p> <ul style="list-style-type: none"> ● for improved OSR for both <i>Panchayats</i> and Municipalities (matching share of increased amt.) ● Sanitation, conservation & solid waste management <p>b) Deficit grant</p>
Himachal Pradesh	VI	<p>Whole devolution as Gap Filling Grants</p> <ul style="list-style-type: none"> ● A fixed grant of Rs. 24 crore to be disbursed from 2023-24 to 2025-26 for repair/ maintenance/ additions/ alteration of office buildings of all the three layers of <i>Panchayats</i>. ● A fixed grant of Rs.3 crore for establishment of platform for maintaining local government accounts. <p>a) 90% as Basic grant for <i>Panchayats</i> and 80% to Municipalities</p> <p>b) 10% as performance grant for <i>Panchayats</i> based on performance in:</p> <ul style="list-style-type: none"> ● all the houses with a toilet and the segregated solid waste /garbage ● For maintenance of accounts electronically, updating them on daily basis, sharing the audited annual accounts on the portal and have linkage with the Central IFMS and State PFMS. ● For Utilization of funds from 14th UFC, 15th UFC SFC grants and all central and state schemes <p>c) 20% as performance grant for Municipalities based on performance in:</p> <ul style="list-style-type: none"> ● levying property tax at the rates based on unit area method. ● For maintenance of accounts electronically, updating them on daily basis, sharing the audited annual accounts on the portal and have linkage with the Central IFMS and State PFMS. ● For Utilization of funds from 14th UFC, 15th UFC, SFC grants and all central and state schemes
Kerala	VI	<p>a) <i>Special Grant</i></p> <p>Rs. 15 lakh each is given as special grant to six Village <i>Panchayats</i> around Sabarimala from the share of GPF set apart for Village <i>Panchayats</i> and Rs.25 lakh to Guruvayoor Municipality from the share of GPF meant for Municipalities.</p> <p>b) <i>Incentive Grant</i></p> <p>As 15% of non-SCSP and TSP Development Fund</p>
Punjab	VI	<ul style="list-style-type: none"> ● 100% share of grants-in-aid to the <i>Panchayats</i> will be distributed amongst the Gram <i>Panchayats</i> that are 'financially weak'.

		<ul style="list-style-type: none"> ● In the case of Municipalities, 75% share of grants-in-aid will be distributed amongst the Municipalities that are ‘financially weak’ and the remaining 25% share will be distributed amongst the Municipalities on the basis of performance. ● The criteria for determining the weak <i>Panchayats</i> and weak Municipalities may be decided by the concerned administrative departments. ● Similarly, criterion for distribution of performance grant may be decided by the department of Local Government.
Rajasthan	VI	<p>Entire amount of devolution is to be transferred in the form of grants only</p> <ul style="list-style-type: none"> ● 2% of funds being earmarked for creating Enabling Ecosystem for Safety and Empowerment of Women ● 3 % out of the total grant as incentive for raising own income by <i>Panchayats</i> and Municipalities.
Sikkim	VI	<p>a) 80% as Basic Grants (unconditional) b) 20% as Performance Grant</p> <ul style="list-style-type: none"> ● regular audit, ● improvement in Own Source Revenue (OSR) mobilization prioritizing expenses for achieving the SDGs in their geographical jurisdictions.
Tamil Nadu	VI	<p>Special Grants for Specific purposes</p> <ul style="list-style-type: none"> ● Capital Grant Fund (CGF) ● Operation Maintenance Deficit Grant Fund (O&MDGF)
Karnataka	V	Devolution to be distributed in the ratio of Tied and untied grants as 50:50
Madhya Pradesh	V	<p>Special Grants for the following purposes:</p> <ol style="list-style-type: none"> 1.grants for construction of tourist amenities to 13 smaller Municipalities and 2 Zila Panchayat having major tourist centres. 2.grant to Municipalities/ municipal council situated on the bank of Narmada for river bank maintenance and development. 3.Incentives for raising own resources 4.grant to zila panchayat for supply of the fire fighting engines for fire fighting arrangements in rural areas. 5.grants to municipalities for operation and maintenance of assets constructed under Centre/ state schemes.
Maharashtra	V	<ul style="list-style-type: none"> ● Supporting local governments through compensatory grants and assigned grants ● A matching grant for supporting ZPs which are disadvantaged in terms of stamp duty cess collection. ● The maintenance grants to ZP roads to be increased. ● 5-10% of the capital grants for Municipalities that perform better.
Odisha	V	<p>Grants-in-aid has been recommended for selected sectors for both <i>Panchayats</i> and Municipalities.</p> <p>a) The identified sectors for releasing Grants-in-aid to <i>Panchayats</i>, include</p> <ol style="list-style-type: none"> (i) provision of drinking water in stressed pockets, (ii) all weather connectivity to unconnected villages/hamlets, (iii) provision of facility at GP headquarters (waiting shed with toilet, RO drinking water), (iv) provision of solar street light, (v) development of rural haats owned by GPs, (vi) maintenance of capital assets, (vii) maintenance of primary school buildings, (viii) preservation and development of water bodies, (ix) creation of capital assets for revenue generation, (x) creation of District data centers, and

		<p>(xi) creation of accommodation for banking facilities at GP headquarters. (xii) incentives</p> <p>b) For Municipalities, the focused sectors includes</p> <p>(i) sanitation and solid waste management, (ii) provision of safe drinking water, (iii) creation of capital assets for revenue generation, (iii) maintenance of capital assets, (iv) maintenance of primary school buildings (v) establishment of water testing labs at the district level, (vi) development of water bodies, (vii) electric crematorium, (viii) development of civic amenities, (ix) strengthening of drainage and sewerage system and (x) septage management (xi) Funds for Innovative Practices (xii) incentives</p>
Tripura	V	<p>Grant-in-Aid for Sector Specific Needs:</p> <p>a) For <i>Panchayats</i>:</p> <ul style="list-style-type: none"> ● Construction of office buildings for newly created GPs/ VCs buildings ● All weather connectivity to unconnected villages/halmets ● Maintenance of Primary schools ● Creation of Infrastructure for banking facility at GP/VC Headquarters ● Maintenance of Capital Assets ● Preservation and development of water bodies ● Creation of Capital assets for Revenue Generation ● Passenger Waiting Sheds ● Burial Grounds <p>b) For Municipalities</p> <ul style="list-style-type: none"> ● Sanitation and Solid Waste Management ● Drinking Water ● Drainage ● Construction of new roads ● Maintenance of Capital Assets ● Development of water bodies ● Septage Management ● Street Lighting ● E- Governance ● Electric Crematoria
Uttarakhand	V	<ul style="list-style-type: none"> ● Special dispensation to Municipalities (NPPs and NPs) ● Fixed annual grant to 3 non-elected <i>Panchayats</i> ● a grant of Rs.38.15 crore for clearance of arrears after due verification on the basis of audited accounts ● Special purpose Grant for the following purposes: <ul style="list-style-type: none"> - Preparation of GIS based master plans after detailed survey. - Annual grant to Uttarakhand Academy of Administration, Nainital for training of elected representatives and research purposes - Solid waste management project - For replacing existing streetlight by LED Lights and installation of solar based LED lights - setting up underground garbage bins

		<ul style="list-style-type: none"> • Untied grants but to the condition of floor rates of property tax an untied grant of Rs.100 crore for Municipalities, primarily for asset creation which may lead to increased income for Municipalities
Uttar Pradesh	V	<ul style="list-style-type: none"> • Special Grants were given to newly created Municipal Corporations and Gorakhpur Municipal Corporations
West Bengal	V	<ul style="list-style-type: none"> • Incentive fund at 2% of untied fund to kept for <i>Panchayats</i> (68%) and Municipalities (32%) and to be devolved on the basis of performance towards: <ul style="list-style-type: none"> (a) proper reflection of accounts in the audit report, and (b) better utilization of fund.
Andhra Pradesh	IV	<ul style="list-style-type: none"> • A special gap fund of Rs. 260 crore for 5 years for 1719 GPs with population less than 1000. • Municipalities with less than one lakh population including Nagar Panchayats to be provided a separate grant in line with AMRUT scheme. • Amount of Per Capita grant have been enhanced for Panchayats and Municipalities. • An annual grant of Rs.250/ crore is recommended to municipalities to meet maintenance costs of different infrastructure and assets created.
Chhattisgarh	IV	<ul style="list-style-type: none"> • Performance grant for local government for increase in OSR • 5% of devolution amount to GPs as convergence grant • Assistance grant to local government having religious, cultural and historical sites.
Manipur	IV	<ul style="list-style-type: none"> • Whole devolution is formula based grant • Development funds are given as tied and untied grants. • Rs.10 crore as one-time grant to IMC.
Goa	III	<ul style="list-style-type: none"> • An additional Rs.50 crore per year with an annual increase of 10% has been recommended for local government to compensate for the revenue forgone due to implementation of GST. • Climate change fund of Rs. 10 crore per year is recommended during the award period for the urban and rural local government • The Wage grants pattern of assistance for workers engaged in solid waste management in Municipal Administration to be extended for Village panchayat.
Gujarat	III	<p>1% of state's total tax revenue as need-based and incentive grants in the form of special grant for the following areas and purposes:</p> <ul style="list-style-type: none"> • Incentive Grant for revenue collection • Grants for developing talukas • Need-based grant for Agarias (Salt Workers) • Area-based grant for Kutch and Dangs • Need-based grants for creation of statistical cell • Innovation grant for service level benchmarking cell for <i>Panchayats</i> • Need-based grant for creation of GSDP Division in State Bureau of Economics and Statistics • Development grant for Outgrowth areas

Nagaland	III	Grant- in-Aid has been recommended to the Municipalities, Town Councils and Urban Station Committees with few certain conditionalities.
Arunachal Pradesh	II	<ul style="list-style-type: none"> ● 10% of devolution package as Grants-in-aid for Administrative expense ● 10% of devolution package as Maintenance grants for maintenance of common properties ● 10% of devolution package as General Purpose Grant to meet obligatory expenses ● Performance grant as 10% of the preceding year's allocation for top performing local government
Mizoram	II	<ul style="list-style-type: none"> ● Post devolution Deficit grants for ADCs ● performance grants for Panchayats and Municipalities for 2023-26 (subject to separate performance conditions for Panchayats and Municipalities)
Jharkhand	I	A per capita core Municipal services provision grant was recommended
Telangana	I	<p>Funds will be released to local government in two parts:</p> <p>a. General Component: 90% of eligible amount without any conditions</p> <p>b. Performance Component: 10% of eligible amount on:</p> <p>i. Completion of Audit of (t-2) year and</p> <p>ii. Achieving a minimum growth of 10% under Own Revenues in (t-1) year and</p> <p>iii. Computerisation of Cash Book (Discontinuance of Manual Cash Book) and</p> <p>iv. Computerisation of Own Assets. Where t year means current Financial Year and (t-1) or (t-2) year will be construed accordingly.</p>

Source: Author's compilation from various SFC reports

Table 4.6: Devolution of Functions & Functionaries by Latest SFCs to Panchayats

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:
	Parameters ↓						
I.	Subjects/Functions Transferred						
1	Agriculture, including agricultural extension						Assam, Bihar, Haryana, Rajasthan
2	Land improvement, implementation of land reforms, land consolidation and soil conservation	Telangana					Assam, Bihar
3	Minor irrigation, water management and watershed development						Assam, Bihar, Haryana
4	Animal husbandry, dairying and poultry						Assam, Bihar, Haryana, Punjab
5	Fisheries						Assam, Bihar
6	Social forestry and farm forestry						Assam, Bihar, Haryana
7	Minor forest produce						Assam, Bihar
8	Small scale industries, including food processing industries						Assam, Bihar
9	Khadi, village and cottage industries						Assam
10	Rural housing						Bihar, Punjab
11	Drinking water	Telangana			Chhattisgarh		Assam, Punjab
12	Fuel and fodder						Assam
13	Roads, culverts, bridges, ferries, waterways and other means of communication			Gujarat	Chhattisgarh		Assam, Bihar
14	Rural electrification, including distribution of electricity			Gujarat	Chhattisgarh		Assam, Bihar
15	Non-conventional energy sources						
16	Poverty alleviation programme						Assam

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:
	Parameters ↓						
17	Education, including primary and secondary schools			Gujarat	Chhattisgarh		Assam, Bihar, Punjab, Rajasthan
18	Technical training and vocational education						Bihar
19	Adult and non-formal education						Assam, Bihar
20	Libraries						Bihar, Punjab
21	Cultural activities						Bihar, Punjab
22	Markets and fairs						Punjab
23	Health and sanitation, including hospitals, primary health centres and dispensaries	Telangana		Gujarat			Assam, Bihar, Haryana, Punjab, Rajasthan
24	Family welfare						Assam, Bihar, Punjab
25	Women and child development						Assam, Haryana, Punjab, Rajasthan
26	Social welfare, including welfare of the handicapped and mentally retarded						Assam, Bihar, Haryana, Punjab, Rajasthan
27	Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes						Assam, Bihar, Haryana, Punjab
28	Public distribution system						Assam, Bihar
29	Maintenance of community assets						Punjab, Rajasthan
30	Registration/Issuance of Certificate of birth & death						Bihar
II.	Administration						
1	Regular Inspection by Senior Officials						
2	Assessment of Resources						

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:	
	Parameters ↓							
3	Transfer of Staffs							
4	Preparation of Annual Plans						Assam	
5	Maintenance of Statistics	Telangana					Bihar, Punjab, Rajasthan	
6	Maintenance of Infrastructures							
7	Execution & Implementation of Projects/Schemes						Bihar	
8	Human Resource Management Policy						Bihar, Punjab	
9	Creation of Ombudsman Institution				Manipur, Maharashtra			
10	Handling Disciplinary Matters							
11	Smart <i>Panchayats</i>						Rajasthan	
III.	Tax Administration							
1	Property Tax	Telangana					Punjab	
2	Water Tax							
3	Advertisement Tax						Kerala	
4	Building Tax						Kerala	
5	Service Tax							
6	Marriage Registration/Birth & Death Fee							
7	Collection of Tolls							
8	Collection of Cess						Kerala	
9	Collection of Revenues from different Sources						Bihar, Rajasthan	
10	Collection of Arrears							

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:	
	Parameters ↓							
11	Collection of User Charge						Bihar	
12	Assessment of Taxes							
13	Determination of Rate of Structure of Taxes & Fees/ revision						Assam	
14	Collection of Taxes should be Outsourced						Sikkim	
15	Tax Reforms	Telangana					Bihar, Punjab, Rajasthan	
IV.	Financial Administration							
1	Contributory Pension Scheme							
2	Enhancement in Rates of Honorarium							
3	Salary/Allowances of the Employees						Bihar	
4	Exercise of Financial Powers							
5	Prediction of Fund Flow							
V.	Audit & Accounts							
1	C & AG Prescribed Accounts Format						Assam, Rajasthan	
2	Single Account System							
3	Primary Auditor/ Principal Accountant General						Rajasthan	
4	Audit by Deputy BDO							
5	Separate Wing for Audit							
6	Finance & Account Wing							
7	Accounts Cadre							
8	Accrual Based Accounting System						Assam, Haryana	

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:
	Parameters ↓						
9	Mandatory Annual Audit						Bihar, Rajasthan
10	Social Audit						
VI.	Staffing & Recruitment						
1	Officer on Special Duty						
2	Recruitment for Database & Accounts						Haryana
3	Secretary as Permanent Staff						
4	Executive Officer						
5	Panchayati Raj Cadre						
6	Recruitment of Qualified, Skilled & Adequate Candidates						Assam
7	Regularised System of Recruitment						
8	Special Appointment for SFC functioning						Assam
9	Creation of Separate Service Cadres						
10	Authority to Abolish Vacant Posts/Create New Posts						Rajasthan
VII.	Training & Capacity Building						
1	Regularized System of Training						
2	Training for Candidates Newly Inducted						
3	Refreshers Training for Service Candidates						
4	Training for Officials						Kerala
5	Training for Elected Representatives						Assam, Haryana
6	Training for Women Representatives						Haryana
7	Strengthening/ Establishment of Institutes for Training Purpose						Bihar

S.N.	SFC →	I SFC of:	II SFC of:	III SFC of	IV SFC of:	V SFCs of:	VI SFCs of:	
	Parameters ↓							
8	Training by State Specific Institutes	Telangana			Chhattisgarh		Kerala	
9	Training of Accounting Officials							
10	Action Plan on Capacity Building prepared by State Institute							
11	Capacity Build of Accounting Staff							
VIII.	Committees/Expert Groups							
1	To fix Staffing Pattern							
2	Auditing Committee							
3	Human Resource Commission							
4	District Level Committee						Haryana	
5	Standing Committee							
6	Independent agencies/High Level Monitoring Committee						Rajasthan, Kerala	
7	Expert Group						Punjab	
8	Public Accounts Committee							
IX.	Others							
1	Outsourcing of Waste Disposal/Civic Facilities to Private Agencies							
2	Public Private Partnership					Uttar Pradesh, Uttarakhand	Kerala	
3	Collection of Taxes should be Outsourced							
4	Medical Assistance to Elected Members							
5	Parastatals to be accountable to Local Governments							

Source: Author's compilation from various SFC reports

Table 4.7: Devolution of Functions & Functionaries by SFCs to Municipalities

S.No.	SFC →	I SFCs	II SFCs	III SFCs	IV SFCs	V SFCs	VI SFCs
	Parameters ↓						
I.	Subjects/Functions Transferred						
1	Urban Planning including town planning	Telangana					Punjab ^a
2	Regulation of land use and construction of building	Telangana					Punjab
3	Planning for economic and social development	Telangana					Punjab ^b
4	Roads and bridges	Telangana					Punjab
5	Water supply for domestic, industrial and commercial purposes	Telangana		Gujarat			Punjab ^c
6	Public health, sanitation conservancy and solid waste management	Telangana		Gujarat			Punjab ^a
7	Fire services			Gujarat			Punjab
8	Urban forestry, protection of the environment and promotion of ecological aspects	Telangana					Punjab ^a
9	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded	Telangana					Punjab ^b
10	Slum improvement and up gradation	Telangana					Punjab
11	Urban poverty alleviation	Telangana					Punjab ^a
12	Provision of urban amenities and facilities such as parks, gardens, playgrounds	Telangana					Punjab
13	Promotion of cultural, educational and aesthetic aspects	Telangana		Gujarat			Punjab ^a
14	Burials and burial grounds; cremations, cremation grounds; and electric crematoriums	Telangana		Gujarat			Punjab
15	Cattle pounds; prevention of cruelty to animals	Telangana					Punjab
16	Vital statistics including registration of births and deaths	Telangana					Punjab
17	Public amenities including street lighting, parking lots, bus stops and public conveniences	Telangana		Gujarat			Punjab ^a

S.No.	SFC →	I SFCs	II SFCs	III SFCs	IV SFCs	V SFCs	VI SFCs	
	Parameters ↓							
18	Regulation of slaughter houses and tanneries	Telangana					Punjab	
19	Door-to-Door Garbage Collection	Telangana						
20	Small Scale Industries	Telangana						
21	Markets under Regulated Market Committees	Telangana		Gujarat				
II.	Administration							
1	Regular Inspection by Senior Officials							
2	Assessment of Resources							
3	Preparation of Annual Plans						Assam	
4	Maintenance of Statistics	Telangana					Punjab	
5	Maintenance of Infrastructures			Gujarat				
6	Human Resource Management Policy						Punjab	
7	Creation of Ombudsman Institution				Manipur, Maharashtra			
8	Co-ordination amongst all agencies							
III.	Tax Administration							
1	Property Tax	Telangana					Assam, Bihar, Haryana, Kerala	
2	Water Tax							
3	Advertisement Tax						Assam, Kerala	
4	Motor Vehicle Tax							
5	Building Tax						Kerala	

S.No.	SFC →	I SFCs	II SFCs	III SFCs	IV SFCs	V SFCs	VI SFCs	
	Parameters ↓							
6	Collection of Cess						Kerala, Rajasthan	
7	Collection of Taxes should be Outsourced						Sikkim	
8	Assessment of Taxes							
9	Determination of Rate of Structure of Taxes & Fees/ revision						Assam, Haryana, Punjab	
10	Collection of User Charge							
11	Tax Reforms	Telangana					Rajasthan	
12	Tax collection machinery to be strengthened						Assam	
IV.	Financial Administration							
1	VRS to be Prepared by State Government							
2	Exercise of Financial Powers							
3	Contributory Pension Scheme							
4	Salary/Allowances of the Employees							
5	Prediction of Fund Flow							
V.	Audit & Accounts							
1	C & AG Prescribed Accounts Format						Assam, Rajasthan	
2	Single Account System							
3	Audit by Deputy BDO							
4	Separate Wing for Audit							
5	Accounts Cadre							
6	Accrual Based Accounting System							

S.No.	SFC →	I SFCs	II SFCs	III SFCs	IV SFCs	V SFCs	VI SFCs
	Parameters ↓						
7	Uniform Budget Format & Appropriate Accounting Software						Himachal Pradesh, Haryana
8	Regular Audit						Rajasthan
9	Social Audit						Assam
VI.	Staffing & Recruitment						
1	Recruitment for Auditing /Database & Accounts						
2	Municipal Cadre						
3	Recruitment of Qualified, Skilled & Adequate Candidates						Assam
4	Regularised System of Recruitment						Himachal Pradesh
5	Directorate of Town & Country Planning at disposal of Municipalities						
6	Authority to Abolish Vacant Posts/Create New Posts						
7	Creation of Separate Service Cadres						
8	Special Appointment for SFC Functioning						Assam
VII.	Training & Capacity Building						
1	Regularized System of Training						
2	Training for Candidates Newly Inducted						Assam
3	Refreshers Training for Service Candidates						
4	Training for Officials						
5	Training for Elected Representatives						
6	Strengthening/ Establishment of Institutes for Training Purpose						
7	Training by State Specific Institutes	Telangana					Haryana
8	Budget Allocation for Capacity Building						
9	Action Plan on Capacity Building prepared by State Institute						
10	Capacity Build of Accounting Staff						
VIII.	Committees/Expert Groups						
1	Auditing Committee						

S.No.	SFC →	I SFCs	II SFCs	III SFCs	IV SFCs	V SFCs	VI SFCs
	Parameters ↓						
2	Expert Group						Punjab
3	Service Selection Commission						Assam
4	Ward Committees						
5	Public Accounts Committee						
IX.	Others						
1	Outsourcing of Waste Disposal/Civic Facilities to Private Agencies						
2	Public Private Partnership					Uttar Pradesh, Uttarakhand	Kerala
3	Infrastructural Support						Assam, Haryana, Punjab
4	Parastatals to be accountable to Local Governments						

a: Partially devolved

b: Implementing agencies

c: Municipalities with Parastatal bodies

Note: No update on devolution of Municipalities function in Rajasthan is available

Source: Author's compilation from various SFC reports

Table 4.8: Other measures and policy suggestions

Other Measures	III SFCs	IV SFCs	V SFCs	VI SFCs
Sixth Schedule Areas, the Autonomous Councils may draw up guidelines for better performance and transparency				Assam
Audit of Municipal Corporation accounts by Accountant General of the State or empanelment of professionals with necessary qualifications			Himachal Pradesh	
put in place a mechanism whereby better performing Municipalities are incentivized by providing proportionately greater share in the grants			Himachal Pradesh	
Synchronization of the period of SFC with the period of Union Finance Commission			Madhya Pradesh	
well in-built social audit system		Chhattisgarh	Karnataka	Haryana, Himachal Pradesh, Kerala, Sikkim
'District SDG Cell' may be constituted in each district to support SDG aligned plans of local government				Haryana
interactive and well-designed website must also be created, administered and maintained by the SFC Cell, to publish all recommendations and actions taken, associated with the previous and present Commissions.				Haryana
the Process of release, utilization of SFC grants and completion of works in respect of <i>Panchayats and Municipalities</i> should be integrated with the IFMS/PFMS				Rajasthan
A monitoring and evaluation/ Monitoring Committee/ system	Gujarat		Odisha, Tripura	Assam, Bihar, Himachal Pradesh, Rajasthan
monitor and review the action taken by various departments on the recommendations				Himachal Pradesh, Bihar
e-Municipality/ e- Panchayat to be developed as a comprehensive IT system to provide services to citizens and collection of data/daily updation of data			Odisha	Bihar, Himachal Pradesh, Punjab, Rajasthan
funds meant for ZPs, PSs and GKs or Municipalities should be transferred by PRD/ UDHD directly to their bank accounts by electronic bank transfer through CFMS				Bihar, Assam
If there is any delay in release of funds vis-à-vis the deadlines mentioned, release should be made to the LBs along with a Delay Compensation				Bihar
'Revenue Effort Bonus' system				Bihar
Some educational qualifications should be included for candidates as compulsory		Chhattisgarh		

qualification in <i>Panchayats</i> and Municipalities elections.				
LSGs should prepare their annual budget and maintain monthly accounts and put them online.				Sikkim
State government should decide about the uniformity of minimum standards of civic services to be given by local government (benchmark Service Standards)	Gujarat			Assam
Complete village-wise data on physical assets should be compiled and to be put online. Comprehensive manuals for maintenance of assets should be created.	Gujarat			Himachal Pradesh, Rajasthan, Tamil Nadu
Budget and account forms should be simplified and there should be complete uniformity all over the state in maintenance of accounts.	Gujarat			
Customized training programmes or regular training programme schedules should be prepared and organised by inducting professionals on assignment basis.	Gujarat		Tripura	Haryana, Kerala
Customized software should be prepared for all E Gram Centres to ensure that they start collecting taxes at their level.	Gujarat			
Minimum rates of taxes and user charges should be made compulsory to be imposed by all Municipal bodies and they should not be subject to passing a resolution by the Municipal Bodies. For this, if need be, act may be amended.	Gujarat			
Potential of property tax should be fully exploited in the areas of Municipal Corporations by appropriate tax rate policy; effective recovery system and full coverage of all residential and commercial properties.	Gujarat	Andhra Pradesh		

Source: Author's compilation from various SFC reports

Table 4.9: Methodologies adopted by various State Finance Commissions

State	Methodology Adopted by SFCs
The Fourth SFC of Andhra Pradesh	The Commission held initial meetings in July and August 2018 to finalize its approach and identify key departments and agencies for collaboration. It designed detailed questionnaires to collect data on the functions, finances, and functionaries of various departments, <i>Panchayats</i> , and Municipalities. Financial data for the period 2014-2020 was gathered through formats sent to sample <i>Panchayats</i> and Municipalities, with guidance from a Research Officer. The Commission conducted field visits to multiple districts for direct interactions with officials, elected representatives, and the public, and commissioned a study on local finances by CESS.
The Second SFC of Arunachal Pradesh	Questionnaires were prepared by the Commission and sent to MPs, MLAs, <i>Panchayats</i> , Municipal Council, Deputy Commissioners of 17 districts and Commissioners and Secretaries of Finance, Panchayati Raj, Town Planning and Urban Housing Departments. Since devolution had not taken place till the composition of this commission, there was no data available with <i>Panchayats</i> , though the institution of <i>Panchayats</i> was in existence in Arunachal Pradesh since 1968. The Commission held extensive meetings with the Department of Panchayati Raj, Town Planning, Urban & housing as well as <i>Panchayats</i> and Municipal Council. It also visited the States like Kerala and Karnataka to learn from other developed states.
The Sixth SFC of Assam	The Commission conducted field visits starting January 19, 2019, engaging with local leaders, officials, and departments across municipalities and <i>panchayats</i> in multiple districts. Meetings included ZP, AP, and GP Presidents, Municipalities, line departments, and autonomous councils. Discussions covered rural/urban development, public health, agriculture, and disaster management, enabling the Commission to gather data and understand regional needs for informed recommendations.
The Sixth SFC of Bihar	The Commission gathered data from budget documents, reports of previous SFCs and UFC15, and information from the Finance, Urban Development and Housing, and Panchayati Raj Departments. It requested memoranda from the PRD and UDHD, followed by extensive consultations due to deficiencies. Field visits were made to various districts, engaging with representatives and officials of <i>Panchayats</i> and Municipalities. The Commission also visited Kerala and Karnataka to study their successful local government practices, some of which are recommended for replication in Bihar.
The Fourth SFC of Chhattisgarh	The SFC followed a systematic approach to study the state's economic and development parameters, ensuring reliable results. This included a review of the state's economy, discussions with local government representatives and relevant departments, and gathering memoranda from them. The SFC also engaged expert organizations like UNICEF, NIPFP and NIDPR, participated in seminars, and examined the methodologies of other SFCs such as those of Madhya Pradesh, Maharashtra and Odisha. Public dialogues and the role of local governments in global developments were key elements of the process.
The Third SFC of Goa	The 3rd SFC Goa visited all local governments, conducted about 235 consultations with all the stakeholders and also interacted with the citizens. The Commission had studied the functions, functionaries and funds and also the resources of the local governments.
The Third SFC of Gujarat	The Commission adopted a multi-pronged approach, holding weekly internal meetings to discuss issues and review progress. It conducted state-level seminars with research institutions, undertook three research studies on <i>Gram Panchayats</i> , Municipalities, and State Finances, and gathered data with the help of the Development Commissioner and GMFB. The Commission visited various <i>Panchayats</i> , Municipal Corporations, and other SFCs, engaging with experts, economists, former bureaucrats, and elected representatives. Additionally, it launched the SFC website for transparency on March 22, 2013.
The Sixth SFC of Haryana	The Commission collected primary data through stakeholder consultations with elected representatives and officials, using comprehensive questionnaires on <i>Panchayats</i> and Municipalities' functions, finances, and staff. Secondary data were sourced from budget documents, reports on government schemes, previous SFC reports, and inputs from state and

	central departments, NITI Aayog, and other SFCs. Memorandums were also requested from Deputy Commissioners during divisional meetings to gather additional insights..
The Sixth SFC of Himachal Pradesh	The Commission collected data for its report using questionnaires from selected <i>Panchayats</i> and Municipalities. In Himachal Pradesh, data was gathered from all 12 Zila Parishads and 81 Panchayat Samitis, with a 10% sample (360 Gram <i>Panchayats</i>) selected. Data on expenditures and liabilities were verified through the Panchayati Raj Department and Urban Development Department for accuracy. Municipalities' data was collected from all 5 Municipal Corporations, 27 Nagar <i>Panchayats</i> , and 29 Municipal Councils to assess expenditures and liabilities.
The First SFC of Jharkhand	The public consultation were held with elected representatives, prominent citizens and officials. A study tour was conducted in Kerala and West Bengal to examine the functioning of local governments. prominent research institutes were visited for discussion with experts on UFCs and SFCs. Meetings were held with senior members of 13th UFC. Meetings with Jharkhand State's official provided financial data but the data requested from Municipalities was not received. The report focused on Municipalities in Jharkhand, which were dealing with issues of role of clarity, support and finances while Panchayats had not held elections yet.
The Fifth SFC of Karnataka	The Commission gathered insights through discussions with senior officers, local governments, and elected representatives, and visited institutions like ISEC, FPI, and ANSSIRD. Presentations from departments such as Finance and UDD helped understand their operations. It also explored the role of technology in governance through visits to KMDS and the Directorate of e-Governance. Detailed questionnaires were prepared to address financial, administrative, and institutional issues, particularly IT adoption. The Commission reviewed reports from the 14th and 15th Central Finance Commissions, Karnataka's 4th SFC, and other relevant studies to inform its recommendations.
The Sixth SFC of Kerala	The Commission adopted a structured methodology, adjusting for the Covid-19 pandemic while maintaining high standards. It identified focus areas, analyzed previous SFC reports, and conducted a literature review on fiscal decentralization. Data was collected on local government finances, social/economic factors, land use, and disaster vulnerability through questionnaires and public suggestions. Empirical studies with UNICEF and KILA assessed local government expenditure efficiency. Further field studies on own-source revenues are planned, along with two national consultations before submitting the next report.
The Fifth SFC of Madhya Pradesh	The Commission conducted a thorough information-gathering process, engaging with State and local governments, holding meetings, and visiting districts. It collaborated with various state departments, reviewed reports from previous finance commissions, state budgets, and economic surveys, and invited memoranda from key departments and stakeholders. suggestions were sought from MPs, MLAs, government officials, central ministries, expert institutions, and retired officials. The Commission analyzed all received input carefully and also launched a website to provide updates and gather further suggestions, becoming the first of its kind in the state to do so.
The Fifth SFC of Maharashtra	The Commission used a multi-pronged approach to collect and analyze data. It reviewed official reports and sent formal letters to Mayors, Zilla Parishad Presidents, and Municipal Council Presidents for suggestions. Detailed questionnaires were sent to Municipalities and <i>Panchayats</i> . Field visits were made across Maharashtra from October 2018 to January 2019. The Commission also met with key departmental officials and organized a technical workshop on accounts and finance issues in December 2018.
The Fourth SFC of Manipur	The Commission gathered both primary and secondary data from state departments, public records, audit reports, and other credible sources. It held public meetings, interviews, field visits, and discussions with officials to understand the issues in its ToR. Public suggestions were invited through a notice, and socio-economic data was collected using official sources and questionnaires sent to local governments. Meetings were organized to help local government complete the forms. In some cases, due to lack of reliable data, estimates were used. The Commission also visited local governments in both hill and valley districts to better understand their functioning and challenges.

The Second SFC of Mizoram	The Commission adopted a structured approach to assess the financial position of local governments in Mizoram by collecting detailed memoranda from key stakeholders such as the ADCs, Aizawl Municipal Corporation, Lunglei Municipal Council, and village councils. It also gathered input from various government departments and conducted consultations with local government representatives through meetings and field visits. To enhance its analysis, the Commission commissioned two study projects, held a workshop on state finances, and used statistical models like ARIMA and CAGR to project financial variables. The goal was to create a fair devolution scheme based on comprehensive data and analysis.
The Third SFC of Nagaland	The third SFC used the reports of the first and second SFC as basic working papers while starting its work.
The Fifth SFC of Odisha	The Commission adopted a comprehensive approach, holding meetings with key officials from various government departments and engaging with elected representatives and officials in districts and urban areas. It collaborated with organizations like SIRD & PR, consulted public representatives, experts, and academicians, and organized workshops. The Commission requested financial, functional, and revenue data from local governments using prescribed formats and sought forecasts for 2020-2025. It also gathered input from Finance Ministers, MPs, and grassroots leaders to understand local challenges, using this data to inform its recommendations.
The Sixth SFC of Punjab	The Commission gathered extensive data from state departments, national institutions, and publications like the Reserve Bank of India, using Nodal Officers and specific data formats. Data analysis employed simple statistical tools and was presented in tables and graphs. A structured questionnaire was designed for stakeholder feedback on fund devolution and resource mobilization, though responses were limited. Video consultations with experts were conducted due to Covid-19, and committees were formed for data bank creation and capacity building. The Commission also held meetings with state officials and conducted a research study on resource mobilization and service delivery.
The Sixth SFC of Rajasthan	The Commission developed comprehensive questionnaires for <i>Panchayats</i> and Municipalities, collecting data from over 11,000 institutions, though data quality was often poor. Secondary data was gathered from state departments, with field visits to assess conditions, audit status, and fund use. Reports from previous commissions and research institutes were reviewed, and public and expert suggestions were solicited. Meetings and visits with local government representatives were held to discuss financials and priorities. The Commission also studied Bihar's local governance system and emphasized grassroots participation in decision-making.
The Sixth SFC of Sikkim	The Commission studied the functional, financial, and enabling aspects of local self-governments in Sikkim, developing questionnaires and data formats for Gram Panchayats, Zilla Panchayats, Municipalities, and state departments. It consulted over nine stakeholder categories, including members of the 5th SFC, Municipality officials, elected representatives, line departments, SIRD, SICB, CSR corporate representatives, and self-help groups, to understand local and financial conditions.
The Sixth SFC of Tamil Nadu	The Commission used online data collected from local governments, validating it with other agencies like DLFA and HODs. A questionnaire was developed to gather data on income, expenditure, demographics, and capital spending. Data collection was facilitated through custom software and a server, with training for district officials and online meetings with representatives to discuss financial issues. Field visits were limited due to the pandemic. External agencies, including MIDS and UNICEF, were involved in data analysis, and an online seminar was held with NIPFP. Population data from the 2011 Census was used for SFC devolution calculations.
The First SFC of Telangana	The Commission adopted a comprehensive approach to assess the financial status and needs of local government by distributing detailed questionnaires to various local tiers like Gram Panchayats, Mandal Praja Parishads, Zilla Praja Parishads, Nagar Panchayats, Municipalities, and Municipal Corporations. A web portal facilitated data collection, and workshops were held to guide functionaries. Despite some challenges in data collection, information was

	successfully gathered from all ZPPs and 73 Municipalities. The Commission also engaged in extensive consultations with local government officials and elected representatives to discuss financial issues, staffing, and service delivery, while encouraging written suggestions. Additionally, detailed studies were commissioned to analyze the financial status and future needs of local governments. Field visits to other states like Karnataka, Maharashtra, Tamil Nadu, and West Bengal provided insights into best practices, and consultations with senior officials helped shape a deeper understanding of local government finances and development priorities.
The Fifth SFC of Tripura	The Commission gathered information through meetings with department Secretaries, TTAADC officials, and video conferences with local representatives like Zilla Parishad members and District Magistrates. It distributed questionnaires to all <i>Panchayats</i> and Municipalities to collect sector-specific data on finances, functions, revenues, and expenditures, including forecasts for 2021-2026. Despite COVID-19 challenges limiting field visits, the Commission analyzed the collected data and discussed decentralization and fund devolution with relevant officials.
The Fifth SFC of Uttarakhand	Due to COVID-19 restrictions, the Commission requested written memorandums and representations from Municipalities and <i>Panchayats</i> . It also collected data through questionnaires sent to local governments. Discussions were held with the Finance, Urban Development, Housing, and Panchayat Raj Departments, along with officials from the Directorate of Urban Development and audit organizations. The Commission also utilized studies by the 4th SFC on urbanization conducted by ISID, Delhi.
The Fifth SFC of Uttar Pradesh	To assess the financial status and needs of local governments, the 13th Central Finance Commission collected data through detailed information forms for various local governments (District Panchayats, Area Panchayats, Gram Panchayats, Municipal Corporations, Municipal Councils, and Nagar Panchayats). These forms, developed by the Commission, were made available online and physically, with training provided for data entry. The Urban Development and Panchayati Raj Departments submitted reports on financial status (2016-21), while the Finance Department provided data on the state's financial position. Meetings with elected representatives and administrative officers were organized for suggestions. Data from government websites on demographics, services, and finances was also reviewed.
The Fifth SFC of West Bengal	The Commission developed structured questionnaires for <i>Panchayats</i> and Municipalities (excluding those in Darjeeling Hill Rural Areas), with support from the Department of Panchayats and Rural Development and the Department of Urban Development and Municipal Affairs. The Institutional Strengthening of Gram Panchayat Programme (ISGPP) assisted Gram Panchayats in completing the questionnaires. The Centre for Studies in Social Sciences, Kolkata, processed the data submitted by the <i>Panchayats</i> and Municipalities. Additionally, the Indian Statistical Institute (ISI) and Centre for Studies in Social Sciences (CSSSC) were tasked with studying the functioning of these local governments and identifying resource gaps. The Commission also held meetings with various government departments to discuss ongoing programs, financial devolution, and fund utilization.

Source: Author's compilation from various SFC Reports

Table 4.10: Operation and Maintenance Funds given by Various SFC across States

	II SFC of	III SFC of	IV SFC of	V SFC of	VI SFC of
Andhra Pradesh			√		
Arunachal Pradesh	√				
Assam					√
Chhattisgarh			√		
Bihar					√
Goa		√			
Gujarat		√			
Haryana					√
Himachal Pradesh					√
Karnataka				√	
Kerala					√
Madhya Pradesh				√	
Maharashtra				√	
Odisha				√	
Rajasthan					√
Tamil Nadu					√
Tripura				√	

Source: Author's compilation from various SFC reports

Chapter 5: Exploring State Finance Commission Approaches to Excluded Areas Under Parts IX and IXA of the Constitution

Background

The Constitution aims to provide a uniform governing structure across the nation while also ensuring the protection of indigenous and tribal populations through special provisions. When drafting the Indian Constitution, its framers recognized the unique needs arising from the isolated and traditional lifestyles of these communities. To safeguard their interests and promote their socio-economic development, specific measures were incorporated.

Article 244 in Part X of the Constitution establishes a distinct system of administration for areas designated as “Scheduled Areas” and “Tribal Areas”. According to Article 244(1), the Fifth Schedule applies to the administration and governance of Scheduled Areas and Scheduled Tribes in all states except Assam, Meghalaya, Tripura, and Mizoram. Conversely, as per Article 244(2), the tribal-dominated areas in these four northeastern states fall under the Sixth Schedule, which outlines a separate system of administration. Under these provisions, areas designated as “Tribal Areas” differ technically from the “Scheduled Areas” covered by the Fifth Schedule.

The Autonomous Councils established for managing tribal areas under the Sixth Schedule of the Indian Constitution consist of both elected and nominated members. These Councils are empowered with legislative, executive, and judicial authority. Below are the Autonomous Councils/District Councils operational under the Sixth Schedule across four states¹⁰:

Assam

- Karbi Anglong Autonomous Council (KAAC)
- North Cachar Hills Autonomous Council (NCHAC)
- Bodoland Territorial Council (BTC)

Meghalaya

- Khasi Hills Autonomous District Council (KHADC)
- Jaintia Hills Autonomous District Council (JHADC)
- Garo Hills Autonomous District Council (GHADC)

¹⁰ The list of Municipalities in sixth schedule areas is the Annex 6.

Mizoram

- Lai Autonomous District Council (LADC)
- Mara Autonomous District Council (MADC)
- Chakma Autonomous District Council (CADC)

Tripura

- Tripura Tribal Areas Autonomous District Council (TTAADC)

In summary, the Fifth and Sixth Schedules of the Constitution provide distinct frameworks for the administration and management of Scheduled Areas and Tribal Areas respectively, reflecting their unique needs and circumstances.

Articles 243M(1) and 243ZC(1) of the Constitution specify that the provisions of the 73rd and 74th Amendments do not extend to areas covered under the Fifth and Sixth Schedules, where states have not enacted laws to establish elected Panchayats and Municipalities. Additionally, under Article 243(2), Part IX of the Constitution does not apply to the states of Nagaland, Mizoram, and Meghalaya, as well as the hill areas of Manipur governed by District Councils. Moreover, Articles 243(3)(a) and 243ZC(2) exempt the hill areas of Darjeeling district in West Bengal, which have their own District Council, from the applicability of Parts IX and X.

Following the enactment of the Panchayats (Extension to the Scheduled Areas) Act (PESA) in 1996, the provisions of Part-IX of the Constitution concerning *Panchayats* were extended to Fifth Schedule areas. However, tribal areas falling under the Sixth Schedule continue to remain beyond its scope. Additionally, certain specific regions also remain excluded, as outlined below:

Table 5.1: Jurisdictions exempted from the application of Parts IX and IX-A of the Constitution

State/Area within a State	Provisions under which exempt
Assam: Bodoland, North Cachar and Karbi Anglong districts	Covered by Sixth Schedule
Tripura	Only Tripura tribal district is covered by Sixth Schedule
Meghalaya	Article 243M and covered by Sixth Schedule, except selected areas of Shillong Municipal Areas

Mizoram	Article 243M, with two administrative districts Lawngtai and Saiha covered by Sixth Schedule.
Nagaland	Article 243M and not covered by Sixth Schedule
Manipur: Hill areas for which Districts Council exist	Article 243M and not covered by Sixth Schedule
West Bengal: The hill areas of the districts of Darjeeling, covered by the Darjeeling Gorkha Hill Council	Articles 243M (3)/ 243ZC (2) of the Constitution and not covered by Sixth Schedule.

Source: 15th Finance Commission Report, pg.176

In January 2019, the Constitution (125th Amendment) Bill, 2019 was introduced in the Rajya Sabha by the Union Home Minister to enhance the financial and executive powers of ten Autonomous District Councils located in the Sixth Schedule areas of the northeastern region.

The background of the 125th Amendment Bill 2019 can be traced from the Cabinet Committee on Political Affairs (CCPA) signing of two Memorandum of Settlements (MoSs) with two groups (known as separatists) in 2011 and 2012 aiming at enhancing autonomy of the existing Autonomous Councils set up under the Sixth Schedule to the Constitution of India and to provide special package for the speedier socio-economic development of the Council areas.

The two MoSs, inter alia, provided as under:

- Renaming existing Autonomous Councils;
- Change in the composition of Members in the Council;
- Conducting elections to the Autonomous Councils by State Election Commission and setting up of State Finance Commission.
- Transfer of an additional 30 subjects from State Government of Assam to the Autonomous Councils under paragraph 3A of the Sixth Schedule to the Constitution as agreed in the MoS devolving legislative and executive powers;
- Article 280 will provide for augmenting the Consolidated Fund of respective States to supplement resources of the Sixth Schedule Autonomous Councils.

In addition, the CCPA in 2014 had the third MoS with two other groups in which similar areas were agreed upon.

Representations were also received in the Ministry of Home Affairs requesting enhanced autonomy, central funding to Autonomous District Councils (ADCs), etc.

The 73rd and 74th Amendments to the Constitution, which do not apply to the Sixth Schedule Areas, brought in considerable devolution of powers to local governments (*Panchayats* and Municipalities) in the rest of the country.

A review of the provisions of the Sixth Schedule to the Constitution in the backdrop of provisions of the 73rd and 74th Constitution Amendments indicates certain deficiencies in provisions of the Sixth Schedule. These are as follows:-

- The establishment of elected Village Councils is based on universal adult suffrage and reservation for women are not mandatory in the Sixth Schedule areas;
- there is no provision for the recommendations of the Finance Commission set up under Article 280 of the Constitution to provide separate funds for the ADCs in Sixth Schedule areas on the pattern of Panchayati Raj Institutions resulting in inadequate socio-economic infrastructure in the ADCs areas.

Besides, ADCs are not getting adequate funds for meeting their non-plan requirements. The Councils have been demanding direct funding from Central Government to ADCs for centrally sponsored schemes. A separate budget for ADCs needs to be provided in the State Plan.

Moreover, the National Commission to Review the Working of Constitution (NCRWC) made certain recommendations including the following:

- (a) to devolve political powers with precautions to maintain traditional institutions in the Sixth Schedule areas. It also recommended entrustment of subjects enumerated in Eleventh Schedule, already given to Panchayati Raj Institutions, to the Councils set up under the Sixth Schedule to the Constitution for their administration, evolving a process of central funding to the Council directly, instead of routing all funds through the State Governments,
- (b) safeguards for minority and micro minority, protection of traditions, bringing in gender representation and adult franchise, etc.
- (c) Implementation of centrally funded projects from various Departments of the Union Government be entrusted to the Autonomous District Councils (ADCs) and revived Village Councils with a strict audit by the Comptroller and Auditor General of India.

Furthermore, the Second Administrative Reforms Commission (ARC) in its Seventh Report (February, 2008) entitled 'Capacity building for Conflict Resolution' has dealt with 'Conflicts in the North East (NE)'. The Commission has, *inter alia*, focused on Autonomous District

Councils. The recommendations made by the ARC include setting up of a State Finance Commission for distribution of funds between the State and the Council and also setting up of State Election Commission as provided in the Panchayati Raj System for conducting the election to the Councils.

In view of the above, it has been proposed, based on Inter-Ministerial discussions and consultations with the State Governments in 2018, to amend Article 280 and the Sixth Schedule to the Constitution of India for strengthening of democratic institutions at the grassroots level in the Sixth Schedule areas.

The Constitution (One Hundred and Twenty-Fifth Amendment) Bill, 2019 *inter-alia* seeks to achieve the following objectives:-

- (a) the establishment of Village and Municipal Councils in addition to District and Regional Councils.
- (b) to amend article 280 of the Constitution enabling the Union Finance Commission to recommend measures needed to augment the Consolidated Fund of the States, to supplement resources of the Sixth Schedule Autonomous Councils, Village Councils and Municipal Councils;
- (c) to rename the existing autonomous District Councils;
- (d) to increase the number of seats in the District Councils;
- (e) to provide for reservation of at least two seats for women in the District Councils;
- (f) to transfer additional subjects to Karbi Anglong and Dima Hasao Autonomous Territorial Councils;
- (g) to constitute the State Finance Commissions in the States having the Sixth Schedule areas;
- (h) to conduct elections to all Autonomous Councils by the State Election Commission;
- (i) for providing disqualification of elected members on account of defection.

The Bill was referred to the Parliamentary Standing Committee on Home Affairs on the 19th February 2019 for examination. The Committee approved the Bill in principle and presented its Report (223rd) to the Rajya Sabha on the 5th March 2020. On the same day, the report was laid on the table of Lok Sabha. Further action is awaited till the writing of this report.

State-wise analysis of Treatment of Excluded areas by SFCs

1. Assam

The Sixth Schedule Areas is composed of both hills and plains and its inhabited by people of diverse ethnicity. There are 461 *Panchayats* and 22 Municipalities in Excluded areas. A Village Development Council (VDC) is constituted with an average population of 7000.

Following the enactment of the North Eastern Areas (Reorganisation) Act, 1971, the Schedule VI areas of Assam stood reduced to two hill districts *viz.*, Karbi Anglong and North Cachar. The latter was subsequently renamed as Dima Hasao. Meanwhile, Karbi Anglong has been split into two districts *viz.*, West Karbi Anglong and Karbi Anglong. The composition of the Sixth Schedule areas of Assam remain confined to these three districts till the creation of Bodoland Territorial Council (BTC) in 2003.

In accordance with the Sixth Schedule to the Constitution of India (Amendment) Act, 2003, the BTC was created consisting of four administrative districts *viz.*, Kokrajhar, Udalguri, Chirang and Baksa. The Bodoland Territorial Areas District (BTAD) was carved out of existing eight plan districts of Assam *viz.*, Kokrajhar, Dhubri, Bongaigaon, Barpeta, Nalbari, Kamrup, Darrang and Sonitpur. Out of the four districts comprising BTAD, only Kokrajhar was an existing district head quarter, Udalguri a sub-division, whereas Baksa and Chirang were below sub-divisional level. As a result, physical infrastructure was not commensurate with that of a district head quarter. For the first time, the Sixth Schedule areas of Assam extended beyond the boundaries of hill districts. While the administrative unit is called BTC, the area covered under its jurisdiction is termed as BTAD.

With the creation of BTC the number of administrative districts in Sixth Schedule areas of Assam increased to six i.e. four districts in BTC, one in Karbi Anglong and one in Dima Hasao. Later with the creation of West Karbi Anglong district no. of administrative district rose to seven.

It may be mentioned that in the Sixth Schedule Areas of Dima Hasao & KAAC Assam, PRIs never existed. However, in Bodoland Territorial Area District (BTAD), PRIs existed before the creation of Bodoland Territorial Council (BTC). Along with the creation of BTC, these institutions were gradually dismantled. During the post-Amendment period, the Autonomous Councils (AC) in the Sixth Schedule Areas of Assam felt the necessity of having some grass-root level organization to carry forward the process decentralized administration. Accordingly,

BTC has constituted 415 Village Council Development Committee (VCDC) and Karbi-Anglong Autonomous Council (KAAC) has constituted 26 Village Development Council (VDC). Dima Hasao Autonomous Council (DHAC) is also contemplating to constitute 20 VDC. The Village Councils are analogous to the GPs in General Areas. As such, with the creation of Village Councils, the Sixth Schedule Areas of Assam are now having a single tier Panchayati Raj System. Moreover, all the ACs have expressed their willingness for the extension of 73rd Amendment to their respective areas.

In the pre-Amendment period, the Municipalities were functioning in the Sixth Schedule Areas in the same way as they did in general areas. The only difference being that the Assam Municipal Act, 1956 as Amended was not applicable to them. The municipal boards in Sixth Schedule Areas are governed by the Rules framed by the respective ACs from time to time. At present there are 22 municipal boards in the Sixth Schedule Areas, 9 in BTC, 9 in KAAC and 4 in DHAC.

Transfers to ADCs

The sixth SFC of Assam first bifurcated the size of the divisible pool between normal and excluded areas at the ratio of 80.54% and 19.46% respectively (as the same procedure is followed by the Government of Assam for allocation of plan outlay). Given the size of the divisible pool for excluded areas, rural urban bifurcation is considered at the next stage. It has been proposed to be allocated on the basis of population and area giving 80% weightage to population and 20% to area. Further, the allocation of Sixth Schedule Area was apportioned at the 62.64% to BTC, 26.16% to KAAC and 11.20% to DHAC. The share of apportionment is same for both *Panchayats* and Municipalities.

Grants-in-aid to ADCs

Specific purpose grant has been given to Municipalities in sixth Schedule area. Further, for incentive grant budgetary allocation of Rs.23.05 crore for VDCs and Rs.1.10 crore for Municipalities are to be made annually in the State budget subject to fulfilment of eligibility criteria relating to (i) improvement of service delivery, (ii) augmentation of internal revenue mobilization, (iii) preparation of annual budget as per format prescribed by CAG and (iv) maintenance of annual accounts in the prescribed format.

In addition to these, the commission has also recommended additional funds for *Panchayats* and Municipalities of sixth-schedule areas for spillover schemes recommended by the 5th SFC of Assam.

2. Tripura

The Tripura Tribal Areas Autonomous District Council (TTAADC) is a District Council established in 1979 by an act of Tripura State Legislative Assembly called TTAADC act, 1979. It was brought under sixth schedule of the constitution of India by 49th Amendment of the Constitution and with effect from 1st April, 1985.

The sixth schedule area in the State consists of 587 Village Committees (VCs), 40 Block Advisory Committees (BACs) and one Tripura Tribal Autonomous Area District Council. Village Committees are the basic units at the village level in sixth schedule area. At Block Level there is no elected body but VCs are administrated by BACs. All the sixth schedule areas are confined in eight Districts under TTAADC (Single District Council).

Share of Taxes and plan Grants for development of tribal areas is being provided for the last 35 years to TTAADC by the State Government through budgetary support (Tribal welfare Department). SFCs in the past have provided grants to TAAADC Head quarter, BACs and VCs. However, in reality only VCs and BAC have received devolution grants from SFCs on par with the three tier *Panchayats*.

The terms of Reference of the 5th SFC required the Commission to review the financial position of the local government and make recommendations regarding the principles of distribution of resources between the State and local government out of the proceeds of taxes, duties, tolls and fees levied by the State. Divide the share of local governments thus obtained amongst *Panchayats*, TTAADC, and Municipalities and *inter-se* allocate between different tiers of the *Panchayats*, village councils of TTAADC areas and Municipalities.

Transfers to TTAADC

After analyzing the state's projected revenue and the projected expenditure needs, requirement of funds for Municipalities, *Panchayats*, TTAADC, BACs, and VCs, the fifth SFC of Tripura worked out that the amount of funds for transfer should remain within 10% of state's total tax revenue projected during the award period.

The total amount to be devolved to local government, as decided by the Commission is estimated at Rs.947 Cr. during 2021-22 to 2025-26. The Commission recommends Rural – Urban sharing at ratio of 50:50, *i.e.* 50% of the amount to be devolved to rural local government (including VCs) and remaining 50% to Municipalities. Thus, the total amount of devolution

for rural local government (Including VCs) and Municipalities has been worked out to Rs. 473.5 crore and Rs. 473.5 crore respectively during 2021-26.

Inter se distribution

The 5th SFC of Tripura has taken into consideration number of village committees (VCs) in each BAC and number of BACs in each District as the basis for calculating the inter-se devolution of funds among PRIs and VCs and BACs. This brings the share of *Panchayats* to 57% and that of TTAADC to 43%.

Thus, the *Panchayats* allocation worked out to be Rs.270 crore and for TTAADC area allocation is Rs.203 crore. The total amount of devolution in favour Village Committees is Rs.183.15 crore (90%) during period 2021-26 for 587 Village Committees. The total amount of devolution in favour of Block Advisory Committees (BACs) stood at Rs.20.35 crore (10%) during the period 2021-26. No funds have been recommended for TTAADC Head Quarter as the District Council is in receipt of share of Taxes and plan grants through budgetary support from Tribal Welfare Department.

Grants-in-aid to TTAADC

From the equity point of view, primary focus should be on the inter area imbalances the tribal areas have on different counts of public services available with other areas and their removal to bring parity with other areas. Higher amount of public spending is thus necessary in remote tribal areas compared to other areas of the State, in order to address inadequate human and material resources, low level of access to basic services, burden of additional transportation cost and other limiting factors in delivering the services to the people. Therefore, the Commission recommended provision of additional allocation of grants-in-aid to the VCs in TTAADC areas in addition to devolution. These have been provided as sector-specific grants with *Panchayats*¹¹.

3. Meghalaya

Meghalaya has yet to constitute State Finance Commission in the State, though it has notified in the Meghalaya State Finance Commission Act, 2012 and The Meghalaya State Finance Commission Rules, 2013.

¹¹ Sector-specific grants to village committees have been provided for construction of building for newly created VCs, maintenance of primary school building, creation of infrastructure for banking facilities at VC Headquarters, maintenance of capital assets, preservation and development of water bodies, creation of capital assets for revenue generation, etc.

4. Mizoram

The State of Mizoram is exempted from the application of Part IX (Panchayats) and the tribal areas of Mizoram from the application of Part IX-A (Municipalities) of the Constitution. The State have three ADCs and 533 village councils. Village Councils serve as the rural local institutions in Mizoram.

Devolution to VCs and ADCs

The 2nd SFC of Mizoram recommended 42% of the net proceeds of the State's own tax revenue for the award period of 2021-22 to 2025-26 to the local government consisting of the village councils, urban local government, and autonomous district councils

In the 1st level of horizontal devolution, the Commission recommended to fill 100% of the pre-devolution revenue gap of the rural local government (VCs) and urban local government in aggregate from the divisible pool so devolved to the local government. The balance from the vertical devolution to be used to fill the pre-devolution revenue gap of the ADCs to the extent possible. The revenue deficit that still exists with the ADCs after tax devolution from the divisible pool is proposed to be filled up from post devolution revenue deficit grants for all the ADCs.

Of the total amount devolved to VCs, first the tax devolution is distributed across the 11 districts using a combination of three criteria: population (60%), area (30%), and deprivation index (10%) and then within each district, tax devolution is distributed among VCs based on population (needs) and development distance (equity).

The tax devolution is distributed among the three Autonomous District Councils based on four criteria: population (40%), area (30%), revenue efforts (15%), and deprivation index (15%).

Grants-in-aid to VCs and ADCs

The 2nd SFC of Mizoram recommended post devolution revenue deficit grants for ADCs to fill post devolution deficit by means of grants in aid (without any conditions). Whereas, the performance grants have been recommended for VCs subject to the fulfilment of certain performance conditions on the part of the village councils:

The performance conditions for rural local institutions to avail performance grants include the following:

- Non-tax revenue collection of previous to be at least 15 times the population of the village

- 2024-25 onwards, the growth in the non-tax revenue should at least be 6% annual
- Rural local institutions must collect property tax from at least 90% of taxable units in the village once the State Government frames the rules for property tax.
- 2024-25 onwards, the VCs must maintain the Asset Register and submit it to Local Administration Department by the end of each financial year
- From 2025-26, VCs must maintain accounts as prescribed by the State Government and submit updated accounts to the District Local Administration Officer to qualify for performance grants.

5. Nagaland

The State of Nagaland is neither covered by the Part IX of the constitution nor under the sixth schedule area. At present, there are 39 notified statutory towns – three Municipal Council and 36 Town Councils. The third SFC of Nagaland has devolved 1% of the Gross State GST to the Municipalities which is to be distributed among Municipalities taking into consideration the population and area with 80% and 20% weight, respectively.

The Commission has also recommended the following amount of Grant-in-aid to the Municipalities during the award period which includes grants-in-aid to 22 Urban Station Committees (USCs) for the last two years. The grant recommended is over and above the share in taxes recommended to the Municipalities.

Sl. no.	Year	Total Amount (Rs. Crore)
1	2023-24	2.20
2	2024-25	6.24
3	2025-26	4.94

Distribution of both Share-in-Taxes and Grant- in-Aid to the Municipalities, Town Councils and Urban Station Committees to be conditional of following:

1. Availability of audited Accounts: Municipalities and Town Councils must upload provisional accounts for the previous year and audited accounts for the year before the previous year on the official portal of the Municipal Affairs Department to receive their share in taxes and grants.
2. Tax Share Lapse: If the conditions in point 1 are not met, the tax share for the year will lapse, except for the 2023-24 allocation, which can be carried over to 2024-25.
3. Use of Share-in-Taxes: Share-in-taxes cannot be used for salaries and wages.

4. Purpose-Specific Grant-in-Aid: Grants are allocated for specific purposes and cannot be diverted. Shortfalls must be met from other resources.
5. Non-Lapsable Grant-in-Aid: Grant-in-Aid is non-lapsable and can be carried forward if not released in a given year, including due to non-compliance with point 1. As and when the Municipalities concerned comply with the condition no.1, the Grant-in-Aid as due can be released with arrears as the case may be.
6. Urban Station Committees (USCs): Grants for USCs are only applicable to those that have been constituted and are functional. The grant lapses if the USC is not formed and functional within the year.
7. Untied Grants for USCs: Grants for USCs can be used for their normal administrative expenses.
8. Office Building Design: Office buildings funded by grants should be multi-purpose, potentially serving as commercial complexes to generate additional revenue.

6. Manipur

The State of Manipur consists of two distinct geographical parts, the valley area and the hill area. The Valley area has been divided into four districts, namely, Imphal East, Imphal West, Bishnupur and Thoubal, while the hill areas comprises five districts namely, Senapati, Churachandpur, Ukhrul, Tamenglong and Chandel districts. The 73rd and 74th amendments of the Constitution are applicable only to the four valley districts of Manipur. The hill areas of Manipur are exempted from the applicability of 73rd Constitutional amendment as per Article 243M of the Constitution. There are six ADCs set up the Manipur (Hill Areas) District Councils Act, 1971 in the five hills districts. The State has around 1856 Village Authorities set up under the provision of the Manipur (Village Authorities in the Hill Areas), 1956. Very recently (in 2014), the State Government has issued an order which provides for the creation of “Village Development Committees (VDCs) in each village in the hill districts and that the functions of VDCs would be similar to the functions of the GPs in the valley districts. The establishment of VDCs is certainly a very significant step and will surely give impetus to the process of decentralization and should result in greater participation of the people at the grassroots level in taking up developmental activities and meeting their needs.

Further, there is only one notified urban area, namely Moreh Small Town Committee, in the hill districts of Manipur. The remaining urban centers including the district headquarters at Senapati, Churachandpur, Ukhrul, Tamenglong and Chandel districts are treated as rural

areas as they have not been notified as Municipalities for availing the benefits available under Part IXA of the Constitution.

In the TORs of the fourth SFC, the ADCs are included under *Panchayats*.

Devolution to ADCs

The fourth SFC of Manipur had recommended transfer of 10% of the State's own tax revenue, non-tax revenues and share in the central taxes every year for the *Panchayats* (including ADCs) and Municipalities which is to be distributed among different tier on the basis of population as per 2011 census as follows:

No.	Category	Population	Share (%)
1	Panchayats	1007041	35.28
2	Nagar Panchayats	196461	6.88
3	Municipal Councils	445560	15.61
4	ADCs	1205275	42.23
5	Manipur	2854337	100.00

The 42.23% share devolved to ADCs would be distributed amongst ADCs based on following parameters:

No.	Parameter	Weightage (%)
1	Population	85
2	Area	5
3	Illiterate Population	5
4	Forest cover as % of total area	5
	Total	100

The whole amount is meant for revenue and development expenditure with 50% share each and the ADCs can use the 40% of the allocated development fund as untied fund for activities related to times listed in the 11th schedule of the Constitution.

Other recommendations regarding ADCs by the fourth SFC of Manipur

- A proper activity map for devolution of intended powers to the ADCs be put in place before the end of the year 2022-23.
- A review of the current devolution of functions and taxation powers of ADCs is recommended, including the possibility of allowing them to levy taxes and advertisements, user charges for services, and various fees.

- A committee to be formed to select and monitor works funded by the UFC and SFC awards for ADCs to avoid duplication, ensure resource convergence, and promote transparency in project execution.
- The Commission suggested amending relevant Acts to establish democratically elected statutory government in hill villages, similar to village-level panchayats to enable ADCs to function like GPs in the valley and receive separate funds from the SFC and UFC.
- The state government to build capacity within ADCs to do financial monitoring and reviews and also extend the provision of social audit to ADCs just like *Panchayats*.

7. West Bengal

In the State of West Bengal there were 3339 Gram Panchayats, 345 Panchayat Samitis, 22 Zilla Parishads, one Mahakuma Parishad (this excludes two Zilla Parishads, Darjeeling and Kalimpong, nine Panchayat Samities and 112 Gram Panchayats which are non-functional for a long time). The districts of Darjeeling and Kalimpong come under the Gorkhaland Territorial Administration (GTA) in accordance with the Gorkhaland Territorial Administration Act great was enacted in 2011. Further, there are 128 Municipalities (of which there were three Notified Area Authorities, 118 Municipalities and Seven Municipal Corporations).

Allocation for Hill Area Rural Local Institutions

The fifth SFC of West Bengal have normatively indicated the share of entitlement for the rural local government in Darjeeling and Kalimpong Hill areas. It has left up to the State Government to decide as to how these grants would be released.

Conclusion

The provisions of Parts IX and IXA of the Indian Constitution are aimed at promoting democratic decentralization, ensuring local self-governance, and empowering communities at the grassroots level. However, the application of these provisions is not uniform across all regions of the country. The Constitution acknowledges the diversity of India's demographic, geographical, and cultural landscape by providing specific exceptions and modifications to these provisions. These exceptions primarily apply to areas with special cultural and administrative requirements, such as Scheduled Areas, Tribal Areas and regions governed by special constitutional provisions.

The challenge for State Finance Commission is to ensure that the exceptions to the provisions of Parts IX and IXA do not undermine the goal of empowering local communities while

respecting their distinct needs and characteristics. As seen in forgoing paragraphs, the SFCs in these states continues to evolve while balancing the unique requirements of local communities with the overarching framework of national unity.

Chapter 6: Select Recommendations of SFCs: Relevant for 16th FC's Consideration

Since the 16th Finance Commission has to make its own assessment of fiscal transfers to local governments, as mentioned in Chapter 2, in the absence of the SFC Recommendations of all states for the relevant award period; the analysis of for intergovernmental fiscal transfers (IGFT) may involve following attributes for optimal IGFT: - Fiscal needs, Fiscal capacity, Fiscal Effort and Disability Factor. Each attribute can be defined and explained as follows:

a) Fiscal needs refer to the financial resources required by the local governments to fulfil their expenditure responsibilities at a standard level of service delivery. There are several methods to assess these needs:

- Service Costing Approach - Estimates are based on the cost of delivering a standard package of local services. This method requires detailed data and clear procedures but may result in unaffordable estimates.
- Historical Expenditure Approach - uses past spending patterns, adjusted for inflation, to project current fiscal needs.
- Index-based approach - construct a composite index using indicators such as population, poverty levels, unemployment, and cost of living to estimate needs comparatively across regions.

b) Fiscal capacity refers to the ability of a local government to generate revenue and provide public services within its jurisdiction. Measuring fiscal capacity is often challenging. Common proxies include good revenue base of a jurisdiction, e.g. district GDP. However, accurately estimating potential revenue collection is difficult in many states due to data limitations, and reliable district-level GDP figures are also hard to obtain.

c) Fiscal effort refers to how effectively a local government makes use of its available revenue base. It is influenced by factors such as the strength of tax enforcement, the tax rates applied (where local discretion exists), and the extent of exemptions granted.

d) Disability factors refer to structural and contextual challenges beyond the control of local governments that affect their ability to deliver standard public services. These include need/use disabilities (e.g. higher service demand due to population characteristics) and cost disabilities (e.g. higher delivery costs in hilly, remote, or disaster-prone areas).

Some of these attributes are reflected in the SFC recommendations and have the potential to form the base for the 16th Finance Commission's approach to address Article 280 (3) bb &c.

These are given below under above mentioned heads. The actionable points, in this context, are in italics.

SFC recommendations reflecting Fiscal Needs:

1. Financial burden on the State Governments need to be partly covered for the creation and maintenance of the local infrastructure needed to increase productivity, provide greater employment opportunities and improve the quality of life of its citizens.
2. The State Government should ensure that there *is no delay in release of funds to the local government*. If there is any delay in release, the local government should receive “Delay Compensation”, as is also suggested by the 15th FC and the sixth SFC of Bihar and fifth SFC of Uttar Pradesh.

SFC recommendations reflecting Fiscal Capacity:

1. As India is experiencing rapid urban growth, regional planning has gained importance. However, it has been observed that the *provisions of Article 243ZD and 243ZE for Committee for District Planning and Committee for Metropolitan Planning have remained ineffective. These committees need to be made fully operational to enable integrated regional planning and to harness the benefits of agglomeration economies*. The outgrowth needs to be provided with legal definition and administrative framework for their proper planning and development. (Sixth SFC of Punjab).
2. There is a need to remove the imbalance in human resource management in the government structure, where resources are tied-up in old public sector entities, while essential services such healthcare, education, policing and justice face severe staff shortage. *The government structure at local level needs to take stock of the available staff and may constitute a pool of resources to assist weak and new local government in executing specific schemes* (sixth SFC of Assam and 4th SFC of West Bengal).
3. There is a need for comprehensive legislative framework to strengthen fiscal management at local level. Like Karnataka, other *States should also explore the idea of having Fiscal Responsibility Legislation Act for budgeting, accounting and auditing framework for local government*. Such an act should establish clear principles for sound financial management and promote transparency and accountability in fiscal practice and uphold fiscal discipline across local governments.
4. It is also important to look into the *timely revision of tax rates, fees and user charges and other charges to factor-in the inflation and other cost escalations*. There should be

a set timeframe for such revision from say 3 to 5 years. Also, efforts should be made to *simplify the outdated procedures and streamline processes for revenue generation*. There is a need to declutter many practices and procedures in Acts and Rules in the State. (The sixth SFC of Himachal Pradesh, Punjab and Tamil Nadu, fifth SFC of Maharashtra and Tripura, and first SFC of Telangana).

5. *Article 285* prevents State/ local governments from imposing property tax on Union Government properties. *It must allow the local governments to recover at least the costs of local services rendered for such properties*. The third SFC of Goa, the fourth SFC of Andhra Pradesh and the sixth SFC of Haryana and Tamil Nadu have made such suggestions.
6. Although local governments are legally empowered to levy certain taxes, many fail to exercise this authority effectively. Even when taxes are collected, the rates are often set well below their potential. OSR is weak due to political resistance to taxation and reliance on non-tax sources. Elected representatives may hesitate to enforce or increase taxes due to concerns about public opposition. To address this, *the State Government could consider establishing a tariff commission, as suggested by the third SFC of Gujarat. This Commission would be responsible for setting a minimum tax rates and ensuring they are upgraded regularly*. By issuing directives to enforce these mandatory rules, the State Government can ease the political pressure on local representatives, minimize public dissatisfaction, and ensure a stable and adequate flow of tax revenue. The fifth SFC of Maharashtra too suggested that the State Government should suggest minimum and maximum fess and fines to augment income.
7. Due to inadequate administrative infrastructure and manpower, especially in rural areas, the revenue generated is often minimal and the cost of collection frequently exceeds the revenue itself. To address this issue, the sixth SFCs of Kerala and Sikkim, the fifth SFC of Madhya Pradesh, and the third SFC of Chhattisgarh, have suggested *outsourcing tax and user charge collection to self-help groups (SHGs), third parties, or independent agencies on a commission basis*. The third SFC of Gujarat has also proposed integrating the collection of taxes and user charges with electricity bills to achieve full collection efficiency. It is recommended that the State Government explore and promote such methods for revenue collection.
8. Tax on professions, trades, callings and employment is an important source of revenue for state government which is shared with local governments as part of divisible pool.

However, there is no change in its rate since 1988 and is presently at a constitutionally prescribed limit of Rs.2500/- per annum since then.

The 14th Finance Commission recommended raising the ceiling from Rs.2500 to Rs.12,000 per annum and the 15th Finance Commission made an estimation by revising this ceiling by indexing it to the accumulated inflation over the intervening years using GDP deflator for each year. By this method, the upper ceiling of annual professions tax of Rs.2500 fixed at 1988 process works out to around Rs.18,000 at 2019-20 prices.

Various SFCs like, *the 6th SFC of Punjab, Sikkim, Tamil Nadu, have recommended increasing this ceiling.* It is now imperative that appropriate actions and legislative amendments are undertaken towards this end.

9. As per the 13th Finance Commission recommendations the states should establish a central valuation board on the lines of West Bengal's Central Valuation Board in order to standardise property assessment and valuation. Many SFCs, like fourth SFC of Andhra Pradesh, the sixth SFC of Bihar, the SFC of MP, Maharashtra, Odisha and Tripura) have *recommended establishment of State Property Tax Board to oversee assessment, valuation and rate revision in rate of taxation.*

SFC recommendations reflecting Fiscal Effort:

1. Urbanization and the growing demand for improved civic amenities are placing constant pressure on the finances of Municipalities. In this context, *the states should explore and prepare a holistic framework for 'Value Capture Finance' (VCF), where the idea is to capture a part of increment in value of private land and buildings due to public investments in infrastructure to fund urban infrastructure.* Some progressive states (like Andhra Pradesh, Haryana and Tamil Nadu) have effectively leveraged VCF as systematic tool for Municipalities to generate additional revenue. (The third SFC of Chhattisgarh and the sixth SFC of Punjab).
2. It has been observed that there have been huge arrears in collection of taxes, user charges and fees, etc in some states, and thus *vigorous efforts need to make for their collection for additional resource mobilization.* (The sixth SFC of Tamil Nadu, and the fifth SFC of Maharashtra, Odisha, Punjab, and West Bengal).
3. For monitoring of SFC and UFC recommendations and other follow-up actions, SFC cell should be created in each state. (the second SFC of Arunachal Pradesh and Mizoram, the third SFC of Gujarat, the fourth SFC of Andhra Pradesh, the fifth SFC of

Madhya Pradesh and Maharashtra, the sixth SFC of Assam, Haryana, Himachal Pradesh and Sikkim).

SFC Recommendations reflecting Other attributes

1. Like Kerala and Bihar, fiscal transfers should be *divided amongst General Purpose Fund, Development Fund and Maintenance Fund* for meaningful and dedicated use of available resources and funds.
2. Like Municipalities, the *Government should consider introducing service-level benchmarking for Panchayats also*. This has also been suggested by the sixth SFC of Rajasthan, fifth SFC of West Bengal, and fourth SFC of Chhattisgarh.
3. The issuance of Municipal Bonds – particularly green municipal bonds – has marked a transformative shift in India’s approach to financing urban infrastructure. These bonds provide an innovative, market-based mechanism for Municipalities to raise long-term capital for critical infrastructure projects without being entirely dependent on grants or traditional government funding.

A landmark development in this space was achieved by Ghaziabad Nagar Nigam, Uttar Pradesh, which became the first civic body in India to issue a certified Green Municipal Bond, raising Rs.150 crore for the establishment of a Tertiary Sewage Treatment Plant (TSTP). This initiative not only supports sustainable urban development but also promotes urban resilience and environmental responsibility.

Recognizing the potential of such instruments, various SFCs have endorsed the idea of *leveraging municipal bonds as a sustainable funding avenue*. The sixth SFC of Kerala recommended that the *credit ratings of the Municipal Corporations should be done to float green bonds*. The sixth SFC of Rajasthan, the fifth SFC of Madhya Pradesh, and fourth SFC of Manipur, too have recommended exploring the possibilities of issuing Municipal Bonds.

To scale this potential, *states must build capacity among Municipalities, support the process of credit rating, and create an enabling regulatory and financial ecosystem*. The success of Ghaziabad can serve as a model for other municipalities across the country to follow, ushering in a more financially self-reliant and environmentally responsible era in urban governance.

In addition, operational issues and suggestions were made on the 14th November 2024 during the Finance Commission Conclave- “Devolution to Development” held at Vigyan Bhawan,

New Delhi. These suggestions may also be considered with the above. Actionable points have been presented in italics.

- *There is need to increase convergence between Panchayats and Municipalities in addressing shared challenges, particularly in waste management and environmental issues. It can be done through integrated planning, collaborative service delivery and capacity building, while respecting the distinct roles of each institution.*
- *It is imperative to recognize the importance of Own Source Revenue (OSR) in strengthening local self-government, enhancing financial autonomy and promoting citizen participation.*

Chair, 16th FC

- *There are challenges in managing capital assets in rural areas, especially those created under flagship programs like Swachh Bharat Mission and Jal Jeevan Mission. While asset creation is funded by the Union Government, O&M responsibilities rest with Panchayats. Inadequate planning limited technical capacity and insufficient O&M funding compromise asset longevity and service quality. Therefore, it is needed to enhance capacity building, dedicated funding and community participation to ensure sustainable asset management at the grassroots level.*

DDWS

- The funds from the 15th FC are routed via Public Finance Management System (PFMS) linked to eGramswaraj, but State grants use Comprehensive Financial Management System (CFMS), which is not integrated to eGramswaraj. Moreover, OSR is managed manually, undermining transparency and accountability. It led to discrepancies between digital and manual accounts.
- Panchayats limit eGramswaraj use to 15th FC funds and State audits do not verify Panchayat accounts under the Model Accounting System instead relying on simplified statements.
- The digital illiteracy among Gram Panchayat officials and elected representatives hampers governance, necessitating *comprehensive, long-term capacity building in digital skills, financial management and auditing, potentially funded by the 16th FC or state matching grants.*

5th SFC, Andhra Pradesh

- *A noteworthy best practice is adopted by Himachal Pradesh by institutionalizing additional fund devolution via the Planning Department, allowing District Collectors to converge these funds with SFC grants for flexible local resource use.*
- *Moreover, a Vidhan Sabha Committee on Local Funds and Audit was also established by the Himachal State government to strengthen financial oversight and accountability in the Panchayati Raj system. This enhances transparency and fund management efficiency.*

Spl. Secy, Finance & UD, Himachal Pradesh

- Maharashtra's 'Aaple Seva Kendra' initiative has established Common Service Centres in 80-90% of GPs in 4-5 years, enhancing service delivery and reducing reliance on Rural Development manpower.
- There are about 50% of GPs collect Own Source Revenue, although property tax and water charges remain politically sensitive. *Despite significant asset creation in GPs, maintenance and operations pose ongoing challenges.*
- *The state is prioritizing the convergence of SFC and UFC funds but requires a stronger monitoring system to ensure effective fund utilization and expenditure tracking.*

Jt Commissioner State Tax, Maharashtra

- To offset the subsumption of Entry, Advertisement, and Entertainment Taxes under GST, 7.46% of State GST revenue is allocated to local government. Additionally, 8.03% of Motor Vehicle Tax proceeds supports road maintenance and infrastructure for Panchayats and Municipalities.
- The monitoring and oversight mechanisms in the state includes:
 - *A dedicated cells in PR&DW, H&UD and Finance Departments overseeing grant implementation and Utilization Certificate submissions, *
 - *A High-Level Monitoring Committee led by the Chief Secretary reviewing fund utilization and*
 - *District-Level Monitoring Committees chaired by Collectors monitor revenue and expenditure quarterly.*
 - *Legislative reporting requires an annual supplementary budget document detailing fund transfers to local government by March 31.*

JS, Finance, Odisha

- The local government, both rural and urban, varies widely in area, population, resources, and challenges. The urban areas are rapidly expanding while rural areas face stagnation and migration. Most local government remain financially dependent on Union and State Finance Commissions due to weak own-source revenue and limited infrastructure and service delivery capacity.

Tamil Nadu

- The previous SFCs faced challenges such as limited government support, political instability and frequent elections, affecting their effectiveness.
- *The rural areas struggle with OSR mobilization due to the absence of notifications and declining revenue from minor minerals, largely impacted by irregularities in sand mining auctions.*
- *Financing O&M of Panchayat assets remains a key concern in the state, necessitating continued support from the 16th FC through both tied and untied grants.*
- *While infrastructure development has progressed in Jharkhand with 90% of Panchayat Bhawans completed and equipped with Common Service Centres—there is a shortage of Panchayat Secretaries, and their qualifications are a concern. Capacity building, skill development, and strengthening training institutions are essential to bridge this gap.*

Jharkhand

- The 16th FC may consider allocating special funds to Manipur for strengthening infrastructure and manpower for reliable data collection on SFC and UFC grants.
- *There is a critical need for training officials at the GP level to enhance fund management and utilization. Ensuring adequate manpower and infrastructure is essential for transparency and accountability in Panchayat audit and accounting processes.*

4th SFC, Manipur

- The floating population in Uttarakhand is estimated to be four to five times larger than the resident population, raising concerns over fund allocation based solely on fixed population figures.
- Uttarakhand, an early adopter of the Uniform Civil Code, engaged Panchayati Raj Institutions in its implementation; however, many Panchayats lack adequate manpower

to meet local needs. *Effective O&M of drinking water and sanitation assets is essential for sustained service delivery.* It is recommended that the Union Finance Commission allocate additional funds to address these challenges.

- Moreover, user charges from the floating population remain minimal and insufficient for asset maintenance.

The following points were raised during the open discussions:

- *There is lack of reliable data as a major constraint. The Ministry of Panchayati Raj (MoPR) is prepared to identify key data sets to address this issue.*
- *To support coordination, MoPR is open to facilitating regular consultations, including an annual Conference of SFCs, with the first proposed in Gandhinagar, hosted by the Gujarat SFC Chairperson.*

MoPR

- The role of local governments should be strengthened, particularly in disaster-prone areas of Assam, through additional funding and capacity building, enabling them to act as first responders. *Tied funds should also be allocated for the rejuvenation of water bodies in Panchayats due to declining water sources.*

Chairperson, 7th SFC, Assam

- *The Union Finance Commission funds cover only 30%-40% of asset O&M budgets, posing challenges for Zila Parishads.*
- The rising electricity dues, often recovered by deducting from UFC allocations, require timely additional funding and promotion of solar systems. *The 16th FC may consider allocating funds for solar installations in suitable Panchayats.*
- Although property tax collection has improved in the state but Panchayats are frequently held accountable for the tasks primarily managed by the state government.

5th SFC, Andhra Pradesh

- The 2nd State Finance Commission recommended a dedicated maintenance fund for asset O&M, which has been increased by successive Commissions as asset transfers to Panchayats have grown. With many assets now created by the Central Government, the O&M burden on Panchayats has intensified, straining Kerala's fiscal space at both local and state levels.

- While tied grants remain essential for key sectors, untied grants are crucial for enabling Panchayats to address local priorities effectively.

7th SFC, Kerala

- Health infrastructure is more specialized than water and sanitation and devolution of functions and personnel greatly affects health grant utilization. Hence, localized capacity-building workshops and responsibility mapping are essential to enhance their effectiveness.

SFC Representative, Telangana

- Municipalities are facing significant challenges in treating wastewater and managing waste due to the high volume of waste generated.

Member Secretary, SFC, Andhra Pradesh

- *Tied funds should be expanded to support renewable energy initiatives, allowing Gram Panchayats to explore innovations like carbon credits. Additionally, effective measures are needed to address urban waste dumping in rural areas.*

NITI Aayog

- The limited utilization of health grants under the 15th Finance Commission, currently at 39%, requires attention. The Ministry of Health & Family Welfare has promoted effective healthcare through schemes like Ayushman Bharat. For the first time, these grants were allocated to specific categories, including sub-health centre construction and diagnostic infrastructure.

MoHFW

- *Due to inadequate basic health infrastructure in several districts, funding on a district-wise basis should be considered to enable effective State Government monitoring of implementation.*

MoHFW and Member, AN Jha, 16th FC

- The 15th FC health grants are a positive and necessary measure at the grassroots level. However, despite Central Government guidelines mandating Panchayat involvement, State Health Departments have largely excluded Panchayats, resulting in delayed utilization and non-compliance with the guidelines.

5th SFC Karnataka

- *Asset creation costs are higher in hilly regions, which necessitates grant indexation.*

- *There is a need to strengthen the role of Panchayats in disaster-prone areas.*
- Additionally, greater attention is needed on rural waste disposal due to rapid urbanization and rising non-biodegradable waste.

Dept. of Finance, Himachal Pradesh

- *A collaborative, whole-of-government approach to data collection is necessary involving Ministry of Panchayati Raj, Ministry of Housing and Urban Affairs, NITI Aayog, C&AG and RBI. The Office of the Comptroller and Auditor General (C&AG) has already taken steps in this direction.*

V N Alok, IIPA

- It is emphasized to consider asset type and utility in O&M.
- It is very important to conduct energy and water audits for drinking water sources.
- It is recommended to adopt a service delivery approach for healthcare, similar to water and sanitation, in the context of tied grants.
- Effective use of 15th FC grants through eGramSwaraj and development plans indicates the potential for similar IT tools in health infrastructure planning. Village-wise data from the Jal Jeevan Mission and Swachh Bharat Grameen Mission dashboards can support planning efforts.
- *Emphasis should be placed on prudent capital asset creation, effective utilization, realization of user charges and strengthening capacity building in Panchayats for improved sustainability and service delivery.*

DDWS

- *It is recommended to conduct regular training of officials and elected representatives for enhancing OSR. Increased budgetary support to State Training Institutes is necessary and the UFC should consider this while framing its recommendations.*

SFC, Goa

- *It is suggested to link Finance Commission grants to a proportion of the divisible pool. Furthermore, it is recommended to fund devolution based on population, with emphasis on the aged population.*
- There are key challenges including administrative reforms and OSR data collection.
- *The state should incentivize grants aligned with SDGs and the Devolution Index as a criterion for grant allocation can be used.*

7th SFC, Kerala

- *It is recommended to involve Self-Help Groups (SHGs) in tax collection and allocate 15% of professional tax collections to local governments as a capital investment fund.*
- There is a potential conflict of interest in appointing serving government officers as members or the Chairperson of the State Finance Commission.
- *It is suggested to leverage Corporate Social Responsibility (CSR) funds to augment local revenues.*

6th SFC, Sikkim

- A three-pronged resource mobilization strategy involving academic research, field visits and public engagement is adopted by Telangana.
- The state is focusing on strengthening smaller Panchayats with limited revenues. *It is proposed to use innovative sources such as solar power, local jatra enumeration, market taxation, CSR funds and waste management.*
- *Rationalization of property tax for local government should also be emphasized.*

2nd SFC, Telangana

- *There are governance challenges in Assam due to manpower shortages in Gram Panchayats, with a single secretary managing multiple Panchayats. Devolution of the three “Fs” is hindered by limited capacity.*
- OSR remains weak with overreliance on non-tax revenues and smaller Municipalities face revenue generation difficulties. *It is recommended to impose service charges on Union Government properties and establish a centralized data repository for fund devolution and resource gap analysis.*
- *It is also proposed to create permanent State Finance Commission Cells at both State and Central levels.*

7th SFC, Assam

- *It is recommended to establish a Federation of State Finance Commissions for experience sharing.*

5th SFC, Karnataka

- It is proposed to maintain a separate tax code for direct transfers to local government.
- *In the state, there are concerns raised over inefficiencies in property tax collection due to political pressures, lack of transparency in professional tax collections and the inability to tax State and Central Government buildings.*

- It is recommended to use 2010–2015 revenue data to evaluate GST-related revenue deficits.

5th SFC, Andhra Pradesh

- *It is proposed to link grants to a Devolution Index to encourage greater functional devolution by States.*
- Including disaster preparedness as a criterion for resource allocation is recommended to address both major and local events.
- Additionally, it is suggested to formalize SHGs into industry-specific clusters to boost economic growth and tax revenue.

Representative, SFC, Telangana

- The unsustainable rise in GP numbers without matching administrative capacity is cautionary, it is advised to limit new Panchayats to ensure efficient resource allocation.
- *Emphasizes should be given for training GP staff, including ITI graduates, for asset maintenance like LED streetlights, and recommended additional grants to support the long-term cost of employing trained staff for asset management.*

JS, Finance Odisha

- It is suggested to de-link property tax growth from GSDP for urban local government in states with major industries like IT, which don't directly contribute to state revenue. The uniform guidelines for State Finance Commissions to ensure consistency in their formation, tenure and implementation of recommendations is suggested.

5th SFC, Karnataka

- The devolution Index might be disadvantageous for less prosperous States therefore it is proposed to incorporate a Development Index for more equitable resource allocation. There is a decline in Assam's share of UFC grants over successive Commissions, hence adequate measures should be taken to address this imbalance.

7th SFC, Assam

- It is crucial to conduct a national study on renewable energy opportunities for GPs to enhance self-sufficiency and to document best practices, such as Tamil Nadu's renewable energy model, to inspire replication across States.
- *Moreover, it is required to maintain centralized data systems to improve fund tracking and utilization.*

NIRD&PR

- *The quality of education in village schools should be assessed and monitored by Gram Panchayats or local committees, rather than relying solely on officials stationed at block or district levels. This decentralized approach is essential for achieving inclusive and sustainable development.*
- *It is highly required to maintain high-quality accounts for measuring physical and financial growth accurately. It stressed that robust financial management depends on improving the quality of accounting practices.*

Secretary, DEA, Finance Ministry

- There is a critical development challenge revealed through 2011 census that many Indians live in small villages with limited industrial activities hindering sustainable development. However, there is a ray of optimism about India reaching a \$20 trillion economy by 2047, emphasizing the need to uplift rural living standards.

16th FC

Chapter 7: Effective Practices and Issues in SFC Functioning, including Term Extensions

“... As far as funds are concerned, the awards of State Finance Commissions should be fully honored. There are reports that State Finance Commissions are not constituted, of them not giving awards in time, and of these awards not honored when given, all of which erode Panchayati Raj.”- An extract from the speech of the Prime Minister on 29th May, 2004.

Unavailability of Local Fiscal Records

To achieve one of the primary objectives of the State Finance Commission (SFC) - formulating a devolution formula that addresses both horizontal and vertical fiscal disparities - the availability of precise and consistent financial data is essential. However, the challenge of obtaining reliable data appears to be a widespread issue across all States. This lack of dependable data hampers the SFC's ability to conduct realistic analyses of finances and resources based on actual figures, and to base its conclusions and recommendations solely on data-driven insights.

It has been observed that the local governments do maintain the required records and submit their annual accounts but the method followed for their accounting system is outdated and thus does not give the true picture of the financial health of the local government as the quality and accuracy of accounts leave much to be desired. Key areas such as internal revenue and expenditure data for *Panchayats* and Municipalities, funds transferred from higher levels of government in the form of devolution and grants, and information related to the assignment of functions and taxes from state governments remain elusive.

Many previous UFCs have highlighted the issue of lack of credible information on finances of the local government. The 14th UFC in this respect went on to say that “*we were, therefore, handicapped like the previous Finance Commission, in using the supplied data to determine the resource gap at the level of rural and urban local bodies*”. However, data on financial and operational performance of local governments continues to be of poor quality. What add to inconsistency is the non-availability of data on local government from key agencies such as the local government departments, the State Directorate for *Panchayats* and Municipalities, the local fund audit, the Accountant General's office, the Reserve Bank of India, the Central Statistical Organization, the Ministry of Panchayati Raj, the Ministry of Housing and Urban Affairs, or even NITI Aayog. SFCs in their reports have flagged the issue of setting up of an independent national agency for support of a common platform for exchange of information between SFCs.

Additionally, since a SFC's functioning discontinues after submission of the report, it becomes all the more difficult for the next SFC to have access to data generated or reviewed by the previous commissions leading them to start the work from the scratch or work with unreliable or incomplete data and resulting in one of the reasons for delay in submission of the reports. This has been highlighted by many SFCs in their reports and have recommended the constitution of permanent, dedicated SFC cell to address the issue. However, States have yet to show substantial interest in this.

State Governments' Neglect of SFC Reports

Under Articles 243I(4) and 243Y(2), state governments are obligated to submit all recommendations made by the respective State Finance Commissions (SFCs) to the State Legislature, along with an explanatory memorandum detailing the actions taken on those recommendations. This process mirrors Article 281, which governs the Union government's response to the recommendations of the Union Finance Commission (UFC). However, state governments approach SFC recommendations quite differently compared to the Union government's treatment of UFC recommendations. While the Union government generally implements key UFC recommendations within a specified timeframe without alterations and integrates other general recommendations into policy discussions, state governments often pay minimal attention even to the most significant recommendations from SFCs.

The study highlighted a significant gap between the submission of reports by State Finance Commissions (SFCs) and the corresponding Action Taken Reports (ATRs) by state governments. For instance, Andhra Pradesh took more than four years to present the ATR on the report of the fourth SFC, while State Government of Madhya Pradesh and Tripura took more than two years. Similarly, Haryana, Maharashtra, Manipur, and Uttar Pradesh required more than one year but less than two years. On average, the submission of ATRs takes approximately two years, which often results in changes to the award period.

Moreover, while submitting ATRs, state governments typically focus only on the financial recommendations of the SFCs, leaving other recommendations to be addressed later. In many cases, recommendations are either outright rejected or acknowledged in ATRs but not implemented due to the absence of formal government orders. Tracking follow-up actions after the submission of ATRs for previous commissions is challenging, as information is difficult to access. Even when government orders are issued, the necessary funds are often not released.

Such practices by state governments undermine the constitutional provisions and their intended purpose.

Misalignment with the Union Finance Commission's Timeline

As noted in Table 3.1, previous Union Finance Commissions (UFCs) have highlighted the importance of synchronizing the award periods of State Finance Commissions (SFCs) with their own. This alignment allows the UFCs to consider SFC reports when formulating recommendations, as required under Article 280(3)(bb) and (c) of the Constitution. To address this, the 11th Finance Commission proposed amending Article 280(3)(bb) and (c) by removing the phrase “*on the basis of the recommendations made by the Finance Commission of the State.*”

The 12th Finance Commission stressed the need for SFC reports to be available at the time of the UFC's constitution, making it easier to evaluate them uniformly. It also recommended that states align the timing of their SFCs with the predictable schedule of the UFCs. The 13th Finance Commission raised similar concerns about delays in establishing SFCs. The 14th Finance Commission emphasized timely SFC constitutions, ensuring administrative support, providing adequate resources for their effective functioning, and presenting their reports and action taken reports promptly before the State Legislature.

The 15th Finance Commission took a stronger stance, mandating that states which had not constituted SFCs on time must do so, act on their recommendations, and submit an explanatory memorandum regarding actions taken to the State Legislature by March 2024. Post this deadline, states failing to comply with these constitutional requirements would not receive grants (Table 3.4).

Several states, including Haryana, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Odisha, and Rajasthan, have made significant efforts to synchronize their SFC award periods with those of the UFC. The study reveals that states are actively working to address this gap.

Deferred creation of SFCs and frequent extensions to their tenure.

According to Article 243I of the Constitution, the SFC is to be established by the Governor within one year of the commencement of the 73rd Constitutional Amendment Act, 1992. Consequently, states to which this Act applies were required to constitute their first finance

commission by April 24, 1994. However, it was noted that about half of the states delayed forming their first SFCs beyond this date¹².

Article 243I also mandates that subsequent SFCs must be constituted “at the expiration of every fifth year.” This implies that an SFC can only be formed at the end of every five-year term, leading to delays as many states fail to establish an SFC even after this timeframe. In some cases, only the chairman and secretary are appointed initially, with other members and the terms of reference being decided much later. Certain states, such as Odisha, West Bengal, and Uttarakhand, have experienced prolonged delays in setting up their SFCs.

As the study covers the latest SFCs for which reports are available, it has been found that Goa’s second SFC was constituted in July 2006, while its third was formed only after a 15-year gap in December 2021. Similarly, Gujarat’s second SFC was established in November 2003, the third in February 2011, and the fourth in November 2024. Manipur also experienced delays, forming its second SFC in January 2003 and its third a decade later in February 2013. Conversely, some states have shown better timelines, forming SFCs about two years before the expiration of their predecessors - for example, the sixth SFCs of Bihar, Haryana, Kerala, Sikkim, and Tamil Nadu.

In this connection, the 11th Finance Commission recommended an amendment to Article 243I, allowing states to constitute an SFC either at the end of every five years or earlier, instead of strictly at the expiry of every fifth year

A recurring theme across many states is the necessity for extensions of the tenure of the SFCs. The Table 7.1 presents an overview of the establishment, award periods, report submission dates, etc. It also sheds light on the challenges faced by state-level commissions during their tenure leading to extension of it. The reasons for these extensions are varied but largely revolve around logistical challenges, delays in appointments, elections, and unprecedented events such as the COVID-19 pandemic or demise of certain member, etc. Few of the common challenges faced by the SFCs are outlined below:

Delay in Appointments of members and other staff is a significant cause for extensions, as these positions are critical for the functioning of the commissions. The second SFC of Arunachal Pradesh faced delay in staffing approvals, while sixth SFC of Himachal Pradesh had to seek permission of Government to hire other support staff on outsource basis which took

¹² Alok, V.N. (2021), “Fiscal Decentralization in India: An Outcome Mapping of State Finance Commissions”, Palgrave Macmillan, Table 4.3, (pg. 109).

some more time. The fourth SFC of Madhya Pradesh was initially constituted in 2012, however due to delay in appointment of Chairman and members it had to be reconstituted after the gap of almost two years in 2014. Similar was the case with the first SFC of Telangana. The fifth SFC of Madhya Pradesh had to work without the appointment of the second member throughout its tenure. The fourth SFC of Maharashtra worked with 45% of the sanctioned post, while fifth commission too worked without filling of sanctioned posts. These examples show that delay in forming a full Commission and provision of required staff necessitated extensions in the tenure of the commission and delay in submission of the report.

The third SFC of Gujarat and Goa faced delays in infrastructure development and data collection posed challenges for the timely submission of the Commission's report. The third SFC of Gujarat, for example, sought extensions twice due to problems with its formation and infrastructure readiness, highlighting the importance of proper administrative setup for the success of such commissions. Similarly, the term of the sixth SFC of Punjab was extended four times due to such administrative challenges.

Elections, whether Lok Sabha or state assembly, frequently delayed the work of SFCs. This is particularly evident during SFCs of Arunachal Pradesh (second), Himachal Pradesh (sixth), Madhya Pradesh (fifth), and Odisha (fifth), where elections disrupted data collection and stakeholder discussions, resulting in multiple extensions. These elections, along with the preparation and execution of related activities, tend to slow down or entirely halt the functioning of state commissions.

Unprecedented events like, COVID-19 pandemic led to the delay in submission of report or extension of recent commissions in the States. For example: The sixth SFC of Haryana, Himachal Pradesh and Punjab, and fifth Commission of Tripura and Uttarakhand faced significant delays due to Covid-related disruptions, particularly lockdowns, office closures, and restricted fieldwork. These delays were especially challenging as they hindered the Commission's ability to hold discussions with stakeholders and undertake necessary field visits.

It was also observed that there are few states in which the constitution of the SFC and issuance of its terms of reference (ToR) are notified separately after a long interval. Constituting the Commission without its mandate or purpose on the same notification signifies the casual approach on the part of State Governments. The practice is aggravated by reconstituting the commission several times, due to flimsy reasons. In service civil servants acting as

chairman/member/member secretary are transferred at frequent intervals hampers the seamless functioning of the SFC.

Variation in term of SFCs and Extensions in the Award Period

In most states, a SFC is established for a term of one to two years, which is considered an appropriate duration. However, in some states, the term is notably shorter, ranging from six to ten months. For instance, the fifth SFCs of Madhya Pradesh and Maharashtra were given a 10-month timeline to submit their reports, while the fifth SFCs of Odisha, Tripura and West Bengal were allotted only six months. The fourth SFC of Manipur was given just four months, and the sixth SFC of Sikkim had a tenure of eight months.

As mentioned in the above section, states operate under unique local challenges often leading to delays, resulting in extensions of the term of the Commission. This consequently causes change in the award period only. For example:

- The third SFC of Gujarat was constituted in February, 2011 to make recommendations for the period 2010-2015. However, its recommendations were considered for the award period 2013-18, and was further asked to make recommendations for the period 2018-20.
- Fourth SFC of Andhra Pradesh was constituted for the award period 2015-20, however, it was reconstituted in February, 2018 due to the demise of the Chairman leading to a delay in the submission of the report, and thus the award period was changed to 2020-25.
- Fifth SFC of Uttar Pradesh submitted its report in three years time, resulting in a change in the award period from 2016-20 to 2020-25.

As can be seen from Table 7.1, there are other States also where SFCs have been constituted to make recommendations regarding certain award periods but it ends up being applied to a different period. Such practices show the level of seriousness with which the State Government takes the constitution of SFCs and their recommendations.

Qualifications of SFC Members and Chairman

A State Finance Commission (SFC) handles various matters including legal, economic, financial, administrative, and issues related to decentralization. Therefore, it is crucial to carefully select the Chairman and members of the commission to effectively fulfill the objectives for which an SFC is established in a State.

As per clauses (1) of Articles 243-I and 243-Y of the Constitution, State Governments are mandated to constitute an SFC. These clauses state: “The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications required for appointment as members, and the manner of their selection.” States have incorporated these provisions into their respective Panchayat and Municipal Acts.

The 11th Finance Commission emphasized the need for States to legislate so that the chairpersons and members of SFCs are chosen from experts in fields such as economics, law, public administration, and public finance. Similarly, the 12th Finance Commission recommended that SFCs should comprise individuals of distinction and expertise with appropriate qualifications and experience in relevant areas.

In this respect, Table 7.2 exhibits an overview of the qualification criteria, state-wise, adopted for constituting an SFC as per legislation. It was observed during the study that out of 27 states, while ten states have framed such provisions in the respective Panchayat or Municipal Act itself, 17 states have separate Finance Commission rules or Act. Though Meghalaya has not been covered under Part-IX and SFC is yet to be constituted in the state, it has notified State Finance Commission Rules in 2013.

As illustrated in Table 7.2, the qualifications for commission members in the three states - Arunachal Pradesh, Jharkhand, and Uttarakhand - are determined on an ad hoc basis at the time of the commission’s formation.

In most of the States, the Chairperson of a commission is nominated as someone who is well versed in public affairs only; whereas in the States of Goa, Maharashtra, Odisha and Uttarakhand, a chairman can also be someone who has special experience and knowledge in financial matters and in administration; **or** has special knowledge of economics; **or** is (or has been) qualified to be appointed as a judge of a High Court **or** has special knowledge of *Panchayats* and Municipalities affairs. In Assam, the chairperson has to have experience in financial administration and economics in addition to experience in public affairs; Chairman in Kerala need not have experience in Public affairs but has to be from the field of financial administration and economics. In the State of Tripura, the experience of the Chairperson does not matter but it should not be below the rank of Secretary of the State Government, while in Bihar the Chairperson has to have experience of social activities.

In the appointment/nomination of members, most States select members with special knowledge of finances and accounts of government, **or** have experience in financial matters and administration or have knowledge of economics **or** having knowledge of *Panchayats* or

Municipal Affairs. A person having the qualification of a Judge of a High Court is another eligibility criterion adopted in the States of Assam, Chhattisgarh, Gujarat, Madhya Pradesh, Manipur and Sikkim. In Himachal Pradesh, a member is considered for selection amongst the officers of the State Government not below the rank of Secretary to the State Government or the Head of the Department.

As a matter of fact, the State government has the authority to establish or modify rules regarding the qualifications of the Chairperson and members of the SFCs. Although there are statutory provisions that outline the eligibility criteria for appointing individuals to these positions, it is observed that most chairpersons and members are either serving or retired civil servants or politicians. In many cases disgruntled politicians are appointed as chairman of the Commission only to placate the political interests. Similarly, retired civil servants, who have been loyal to the ruling political parties are also appointed as chairpersons/ members. This erodes the autonomy and technical character of the SFC as envisaged in the Constitution.

Composition of the SFCs

In most States, the relevant Act or Rules, either *Panchayat* or Municipal, prescribes the strength of its respective SFC. In these Acts, the number of members varies between two and four, whereas the State of Tamil Nadu prescribes five-member commission, as an exception.

While the rules are flexible, the practices are hilarious. Many times, the number of members appointed to the SFC are tweaked either out of wish or given certain circumstances where members could not be appointed. For example, while Haryana Finance Commission Rules, 1994 and Kerala Panchayati Raj Act, 1994 and Rules have the provision for the appointment of two members; the sixth SFC of Haryana did not appoint any member, instead took the services of Advisers drawn from the field of academia and people having substantial administrative experience. The Kerala, on the other hand, in addition to appointing two members (as per law), also appointed full-time advisers to the Commission. Odisha has the provision of appointing four members including one member secretary, but the fifth SFC of Odisha comprised of three members and two ex-officio members with one member secretary. By law, Punjab can appoint four members, though in practice, the sixth SFC of Punjab comprised of two members and one part-time member. The fifth SFC of Madhya Pradesh was constituted and completed its term without the appointment of one member.

The Maharashtra Finance Commission (Miscellaneous Provisions) Act, 1994 has the provision of the appointment of four members and in Arunachal Pradesh it is one or more members. In practice, the fifth SFC of Maharashtra comprised three part-time members while the second

SFC of Arunachal Pradesh comprised two ex-officio members. It has been observed that a number of States have the practice of appointing members as ex-officio, or part-time, or non-official members which questions the time and attention the member is able to give to the working of the SFC.

Despite the repeated requests by the Chairman of the first SFC of Jharkhand for the appointment of two members (as per the provision of Jharkhand Panchayat Raj Act, 2001), the Chairman had to work as one-man army with one assistant on deputation and one contractual data-cum-entry operator till the submission of the report. The second SFC of Mizoram too worked with a chairman and a member secretary without any appointment of members (though acts provide for appointment of minimum four members). Since the SFCs are temporary bodies and dedicated efforts are called for to discharge their functions within the time limit, as recommended by the 12th UFC, all members and Chairman should be full time.

Effective Practices of SFCs' Functioning

To assess the best practices amongst States in the working of SFCs, following parameters are considered:

- Qualifications of SFC Chairman and Members in the State Acts/ Rules
- Constitution of SFCs
- Gap in the Constitution of the last two SFCs
- Submission of report by the SFCs from the date of constitution
- ATR laid before the Legislature from the date of submission of report by SFC.
- Whether SFC have followed template for SFC report recommended by 13th UFC
- Percentage of recommendation accepted by state Government

Adherence to Qualifications and strength of SFC Chairman and Members as per State Acts/ Rules

As the common qualification for Chairman of SFC is having experience in public affairs, most of the State Governments have appointed a retired IAS or someone with significant public administrative experience, such as former Chief Secretary, Cabinet or State Minister or MLA, etc. Only states like Andhra Pradesh, Gujarat and West Bengal have appointed the Chairman with experience in economics and statistics.

More clarity is needed for many States regarding the exact qualifications and roles of members. Lack of clear member roles can lead to ambiguity. In this respect, a uniform approach to listing member titles and designations would be beneficial.

The only component which seems comparable is the strength of the SFC. It would be a good parameter to observe which all states have adhered to the mandated size of the Commission. As can be seen from Table 7.2 about 15 States have complied with the requirement with some variation in terms of members being appointed as being full -time, part-time or ex-officio.

Timely Constitution of SFCs

As per the Article 243 I&Y of the Constitution, *the Governor of a State Shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and Municipalities and make recommendations to the Governor.* This implies that seventh SFCs should have been constituted in all the states (except Chhattisgarh, Uttarakhand, Jharkhand and Telangana) by 2024 following the typical five-year cycle from the previous commissions' establishment. However, the reality is different. Only three states have been able to keep the track and have formed the seventh SFC, viz. Assam, Himachal Pradesh and Kerala. Recently, four states, viz. Odisha, Uttarakhand, Uttar Pradesh and West Bengal have constituted their sixth SFC and will take due time to submit their reports (Table 3.4). Merely nine states have been able to constitute a sixth SFC and submit their reports.

Chhattisgarh, Jharkhand and Uttarakhand acquired their statehood in the year 2000 and thus by 2024, their sixth SFC should have been constituted. However, Uttarakhand is the only State of these which has constituted the fifth SFC and submitted its report and as mentioned above have also constituted the sixth SFC recently. Chhattisgarh and Jharkhand have formed the fourth and fifth SFC in 2021 and 2024, respectively and are yet to submit their reports. Similarly, Telangana gained statehood in 2014 and should have formed the second SFC by 2024 which it has done in 2024 itself (Table 3.4). Thus, one can say that for the parameter “timely constitution of SFCs”, out of 27 states only six states are able to follow through the constitutional mandate consistently and there is a significant gap between the constitutional provisions for establishing SFCs and their actual implementation in practice.

Gap in the Constitution of Two SFCs

For considering the next parameter of gap in the constitution of two SFCs, latest two SFCs have been assessed. As per the constitution, the next SFC should be formed at the expiration of every fifth year of the last SFC constituted. This implies that constitutionally, a SFC cannot be formed before the five years get over. However, the gap varies from 15.05 years in case of

Goa, to around 3.10 years in Uttar Pradesh. The fifth SFC of Andhra Pradesh too was constituted almost after the gap of 13 years. States like Assam, Bihar, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Sikkim and Tamil Nadu, however, have maintained the conduct and have formed the next SFC after the expiration of fifth year but before the start of sixth year. States like Haryana, Kerala, Odisha, Punjab, Uttarakhand, and Uttar Pradesh on the other hand, have formed the SFC within the expiration of the period (Table 7.3).

Timely Submission of SFC Reports

In case of timely submission of the SFC reports, generally 18 months are considered appropriate time. The Table 7.3 shows that the time taken by SFCs to submit their reports ranges from less than five months to more than three years¹³. There are only three SFCs which submitted their reports in-time, viz. fourth SFC of Andhra Pradesh, sixth SFC of Kerala and third SFC of Nagaland; while rest of the States surpassed their mandated time period in ToR for the submission. The fifth SFC of Karnataka too submitted its interim report for a year in-time. This parameter puts the fourth SFC of Chhattisgarh, third SFC of Gujarat and sixth SFC of Punjab at the bottom as these SFCs took 2.06, 2.10 and 3.08 years, respectively to submit their reports, even when the mandated time period was about two years.

Submission of ATR from the Time of Submission of Report

The 12th UFC had recommended that ATR should be laid before the state legislature in at least three months time from the submission of the SFC report. This has been followed by the states like Goa and Mizoram which laid their ATR within three months of submission (Table 7.3). States like Bihar, Odisha, Rajasthan, Sikkim, Tamil Nadu and Uttarakhand have taken less than a year but more than three months. Andhra Pradesh, however, has taken more than four years while it is more than two years in states of Assam, Madhya Pradesh and Tripura.

Percentage of Recommendation accepted by the State Government

This parameter assesses how many of the SFC recommendations get accepted by the State Government. The more, the better. However, it is difficult to quantify this in percentage as in some of the states this bifurcation of total, accepted, rejected recommendations, etc. is not clearly mentioned. Some states have considered only financial recommendations while the rest are left to be considered either in due course or by respective departments or to be considered by a high-level committee to be constituted by the State Government (Table 7.3). Thus, for

¹³ The timeline for date of constitution of SFC, submission for SFC reports and ATR thereof across the states since the 1st SFC has been given in Annex 7.

assessment, the study has considered only those latest ATRs where clear bifurcation is given. As can be seen from Table 7.3, 100% of the recommendations made by the sixth SFC of Assam and the third SFC of Goa have been accepted. It is more than 90% in case of the third SFC of Nagaland, the sixth SFC of Sikkim and Tamil Nadu; and the fifth SFC of Uttarakhand while it is more than 70% in case of the fourth SFC of Andhra Pradesh and Chhattisgarh; and the fifth SFC of Maharashtra, Tripura and Uttar Pradesh. Only 57% and 42% of the recommendations of the third SFC of Gujarat and the fifth SFC of Madhya Pradesh, respectively were accepted.

SFC Following Template for SFC Report Suggested by 13th UFC

To improve the quality of SFC reports and to bring-in some uniformity in reports for further analysis by UFCs, the 13th UFC had recommended a template for SFC reports to be adopted by SFCs. However, so far SFCs of nine states only have attempted to do so, viz. Assam, Chhattisgarh, Gujarat, Maharashtra, Manipur, Odisha, Rajasthan, Uttar Pradesh and West Bengal (Table 7.3).

Table 7.1: Status of SFC Constitution and Reasons for their Term Extensions

S.N	SFC of	Constituted on	Original Deadline for submission of the report	Award Period in the Original TOR	Final Award period	Report Submission	ATR Submission	Reason for Extension
1	Andhra Pradesh (4 th)	Jan, 2015 (reconstituted on Feb., 2018)	for the reconstituted SFC, Chairman was asked to hold the charge for 3 years, though it was required to submit report by Oct., 2019	2015-20	2020-25	Oct., 2019	Feb., 2024	Transfer of subject matter of SFC to the Finance Department from PR&RD Department and the demise of the Chairman.
2	Arunachal Pradesh (2 nd)	Aug., 2012	Sept., 2013	2015-2020	2015-2020	June, 2014	Report not accepted	The Commission faced delays starting in August 2012, with the office ready only by December. Staffing approvals were delayed until August 2013, and the May 2013 elections slowed progress. Lack of data and additional duties for the member-secretary also caused setbacks. As a result, the Commission's tenure was extended until June 30, 2014.
3	Assam (6 th)	Nov., 2018	Oct., 2019	2020-25	2020-25	April, 2020	April, 2022	Keeping in view the extension of tenure of the 15 th FC by the GoI upto 30 th November, 2019 and also having regard to disruption in normal functioning due to NRC works, the Commission sought extension of tenure upto 31 st January, 2020. It was further extended for one month till 29 th February, 2020.
4	Bihar (6 th)	Feb., 2019	Jan., 2020	2021-25.	2021-26	April 2021	Aug., 2021	Following the extension of term of the 15 th FC, the State Government extended the tenure of SFC6 to December 31, 2020, thereafter to March 31, 2021 and finally up to April

								30, 2021.
5	Chhattisgarh (4 th)	July, 2021	July, 2023	2025-30	2026-31	February, 2024	January, 2025	Notification for Chairman, secretary and TOR at different dates. The tenure of the commission was extended twice but no reason is mentioned.
6	Goa (3 rd)	Initially the Commission was formed in Dec., 2016, then reconstituted in Dec., 2021	Dec., 2022	2024-29	2024-29	Jan., 2024	Feb., 2024	Initially the Commission was formed in Dec., 2016, but did not submit any report till Dec., 2021. The Commission was reconstituted in Dec., 2021. The term of the 3rd SFC Goa was initially for a period of one year, and subsequently, extended till 30.12.2024 or till the submission of the report whichever is earlier. The SFC faced some issues like office premises, vehicle, supporting staff, etc.
7	Gujarat (3 rd)	Feb., 2011	March, 2013	2010-15	2013-14 to 2017-18 (for main report) and 2018-19 to 2019-20 (Supplementary Report)	May-2014 (Main report) Feb-2015 (Supplementary Report)	Not mentioned	The GSTFC was expected to submit its report by 31st March 2013, However, in view of various constraints faced especially with regard to delay in formation of full Commission, provision of infrastructure, and delay/difficulties in data collection, the GSTFC had to seek extension of its period twice.
8	Haryana (6 th)	Sept., 2020	Sep., 2021	2021-26	2021-26	Dec., 2021	Feb., 2023	Due to constraints faced by the Commission during its tenure, including the fact that Commission itself could become operational effectively only from January 2021 and other delays caused due to the ongoing COVID-19 pandemic, the Commission sought an extension for submission of its report. On 1 September 2021 the state government extended the term of the Commission up to 31 December 2021 for the submission of its report.
9	Himachal Pradesh (6 th)	Aug., 2020	Dec., 2021	2022-2027	2022-2027	Oct., 2022	Not Available	The term of the Commission was extended upto 31st October, 2022 due to following reasons: 1. There was a delay in appointment of necessary staff support for performing its functions. The permission of the Government to hire other support staff on outsource basis

								took some more time. 2. Second-wave of Covid-19 3. By-elections in the month of October-November, 2021 as most of the staff of field offices was engaged in performing various election duties.
10	Jharkhand (1st)	Jan., 2004	Not mentioned	not known	2009-14	April, 2009	Not Submitted	Initially the Commission was constituted in January, 2004 and a Chairman was appointed, however, no other member was appointed. Time –to-time different Chairman held charge of the Commission, but no other member was appointed. Director, Panchayati Raj Department worked as ex-officio secretary of the Commission. On reversion from the GoI, new Chairman was appointed in November, 2008. The Chairman asked for further extension of 18 months in view of the fact that the Commission was not fully functional and also Panchayats elections have not held in the State. Despite repeated requests to the State Government neither the members nor the required staff was appointed. The Chairman had to continue working with one PA, one assistant on deputation and one contractual typist- cum- DEO.
11	Karnataka (5 th)	Oct., 2023	Submitted for a year (2024-25) in time	2024-25	2024-29	Interim report for the period of 2024-25 submitted on 28.02.2024. Final report to be submitted by 28.02.2025	March, 2024	SFC report the year 2024-25 was submitted in-time.
12	Kerala (6 th)	Oct., 2019	Dec., 2020	2021-26	2021-26	Dec., 2020	Not mentioned	No extension required.
13	Madhya Pradesh (5 th)	March, 2017	Jan., 2018	2020-25	recommendation to be implemented from 1st April, 2022	April, 2019	Feb., 2022	Extension to Commission was twice due to the following reasons: 1. the commission could be considered duly constituted only from Aug., 2017 2. The Commission's TOR was issued on Oct. 2017 3. The post of one Member remained vacant throughout the period of Commission.

								<p>4. Non-availability of information on actual receipts of GST for 2018-19</p> <p>5. Non-consultation with 15th FC</p> <p>6. Non-conduct of Commission's tours and meetings with local government departments due to assembly election in Nov., 2018</p> <p>7. difficulties faced due to impending lok sabha elections and implementation of model code of conduct in March, 2019.</p>
14	Maharashtra (5 th)	March, 2018	Jan., 2019	2019-24	2020-25	July, 2019	Dec., 2020	The initial tenure of the Commission was for a period of 10 months from the date of notification that is 28th March, 2018. Later, by a notification dated 17th January, 2019 the tenure of the Commission was extended upto 20th April, 2019 making the overall duration about 13 months. The staff positions were sanctioned in May, 2018 allowing the flexibility to hire from outsourced people, retired persons or people from equivalent positions. Even by the end of the term, not all positions could be filled.
15	Manipur (4 th)	Oct., 2019	Feb., 2020	2020-25	2021-26	July, 2021	March, 2023	The term was extended for the following reasons: <ol style="list-style-type: none"> 1. Closure and lockdown due to Covid-19 2. Poor quality of data maintained by local governments 3. Non-submission of complete and reliable data 4. Shortage of staff and other administrative constraints.
16	Mizoram (2 nd)	April, 2021	June, 2022	2021-26	from the year 2024-25 onwards	July, 2023	Aug., 2023	Delay in appointment of Chairman and members and also in view of the various hurdles it encountered during the process of preparation of the report, the Commission sought extension twice.
17	Nagaland (3 rd)	March, 2023	-	2023-26	2023-26	Feb., 2024	Feb., 2024	The Commission was constituted for 12 months and Report was submitted in-time.
18	Odisha (5 th)	May, 2018	Nov., 2018	2020-25	2020-26	Aug., 2019	Feb., 2020	The Commission was appointed initially for a period of six months and subsequently it was extended for another six months. Due to holding of General Elections to Lok Sabha and Legislative Assembly in the State, the Commission faced difficulties of getting information from the districts as well as the concerned Departments/ Organisations, apart from not being able to hold discussions with various stakeholders due to their preoccupation with conduct of elections. Considering the difficulties, the tenure of the

								Commission was further extended by another three months totalling a period of fifteen months.
19	Punjab (6 th)	July 2018	Dec., 2020	2021-26	2021-26	March 2022	March 2022	Due to the Administrative changes and covid-19 that occurred during the tenure of the Commission, the term of the commission was extended 4 times.
20	Rajasthan(6 th)	April 2021	Oct., 2022		2020-25	Sept., 2023	Feb., 2024	Demise of the Member Secretary
21	Sikkim(6 th)	June 2022	Feb., 2023	2025-30	2025-30	Feb., 2024	Aug., 2024	The tenure of the Commission was extended twice, firstly from 1 Feb to 31 July,23 and secondly from 1 August,23 to 31 October,2023. No reason for extension is mentioned.
22	Tamil Nadu (6 th)	March, 2020	July, 2021	2022-27	2022-27	March 2022	Jan., 2023	The term of the Commission was extended twice but no reason is given.
23	Telangana (1st)	March, 2015	As commission started functioning in Jan., 2018, it was asked to submit the report by Jan., 2020	2020-25	2020-25	March, 2020	February, 2024	Though the Commission was constituted in March, 2015 but due delay in appointment of chairman and members, the Commission started functioning in Jan., 2018 only.
24	Tripura (5 th)	June 2020	Dec., 2020	2021-26	2021-26	February, 2021	Jan., 2024	The term of the Commission was initially fixed for six months but was extended by three more months due to the demise of Member Secretary due to Covid.
25	Uttarakhand (5 th)	Nov., 2019	Nov., 2020	2021-26	2021-26	July, 2021	March, 2022	The initial term of the commission was for one year, which was subsequently extended first up to 31st January, and then up to 15 th March and subsequently up to 30th April 2021. The work of the Commission was hampered by the disruption caused by Covid Pandemic in terms of Lockdown, closure of office etc. The commission therefore could not undertake field visits to hold discussions with stake holders and was able to visit only two districts of Chamoli and Rudraprayag.
26	Uttar Pradesh (5 th)	Oct., 2015	not mentioned	2016-2021	2020-25	Oct., 2018	April, 2020	No Extension sought

27	West Bengal (5th)	May, 2022	Nov., 2022	2020-25	2020-25	Sept., 2023	Not mentioned	No Extension sought
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Source: Author's compilation from various SFC reports

Table 7.2: Adherence to Qualifications and strength of SFC Chairman and Members as per State Acts/ Rules

State	SF C of	Chairman			Members											Strength of the Commission	
		In State Act/ rules	In practice	In State Act/ rules					In practice						In State Act/ rules	In practice	
		Having Experience in Public Affairs		Qualification of a Judge of a High Court	(or) Special knowledge of the finances and accounts of government	(or) Wide experience in financial matters and in administration	(or) Special knowledge of economics	(or) Special knowledge of Panchayats or Municipal Affairs	Qualification of a Judge of a High Court	(or) Special knowledge of the finances and accounts of government	(or) Wide experience in financial matters and in administration	(or) Special knowledge of economics	(or) Special knowledge of Panchayats or Municipal Affairs	Other			
(A)		(B)	(C)	(D)	(E)	(F)											
1	Andhra Pradesh	4th	✓	Professor of economics		✓	✓	✓					two members are from economics	Member secretary is director (rtd.), Planning Department	Individual	Chairman and four other members including member secretary	✓
2	Arunachal Pradesh	2nd	Adhoc	IAS (Retd.)	Adhoc and decided at the time of Constitution						Special Secretary, Finance		Secretary, Panchayati Raj			One or more members whom one is the chairman	Chairman + two ex-officio members
3	Assam	6th	✓ + Col. (D+E)	IAS (Retd.), Former Chief Secretary	✓	✓	✓	✓			Member Secretary is Commissioner & Secretary, Finance Deptt.		One member is professor, department	one member is PS, P&RD and another		Chairman and four other members including member secretary	✓

													of Humanities	member is PS, UDD			
4	Bihar	6th	Have the experience of social activities	IAS (Rtd.)		✓	✓	✓	✓		One Member is Director, ADRI, (M.St ats., PHD)				Another member is IAS (Rtd.)	Chairman and two other members	✓
5	Chhattisgarh	4th	✓	Former Addl. Chief Secretary	✓	✓	✓	✓		Only Member Secretary (retd. State Finance Service officer) was appointed					Chairman and two other members	x (one chairman + one member secretary)	
6	Goa	3rd	✓ or col.(D)	IAS (Rtd.)		✓	✓		✓		One member is Ex-Director of Accounts	Member Secretary is Director of Planning, statistics and Evaluation				Chairman and two other members	x (one chairman + one member + one member secretary)
7	Gujarat	3rd	✓	An economist	✓	✓	✓	✓			one member is chartered accountant			One member is Ex-standing Committee Chairman of the Vadodara Municipal Corporation	Member Secretary is Senior IAS Officer	Chairman and four other members	x (one chairman + two members + one member secretary)
8	Haryana	6th	✓	IAS (Rtd.)		✓	✓	✓	✓						Member Secretary is an IAS Officer	Chairman and two other members	x (one chairman + one member + one member secretary)
9	Himachal Pradesh	6th	✓ + Col. (D or E or F)	Individual	Selection from amongst the officers of the State Government not below the rank of Secretary to									One Member is	Member Secretary is Ex-	Chairman and two	✓ (but both members are ex-officio)

					the State Government or the Head of the Department								Ex-officio PS (UDD)	officio Advisor (Planning); another member is Ex-officio (only name is given)	other members	
10	Jharkhand	1st	Adhoc	IAS	Adhoc and decided at the time of Constitution										Chairman and two other members	x (No member was appointed)
11	Karnataka	5th	Same as members	Ex-MP		✓	✓	✓	✓					One member is IAS (Retd.) and another member is Controller (Rdt.)	Chairman and two other members	✓
12	Kerala	6th	Col. (D) + (E)	Former Chief Secretary and former Secretary to GoI		✓	✓		✓			One member is IAS, Addl. Chief Secretary, Department of Finance; Secretary is Addl. Sec., deptt. of Finance	One member is IAS, PS Deptt. of LSG		Chairman and two other members	✓
13	Madhya Pradesh	5th	✓	Former Minister	✓	✓	✓	✓				Member Secretary is former Addl.	One Member is Principal		Chairman and two other members	✓ (but one member is ex-officio)

				of the State								Sec. in the State, Finance Deptt. & one member is Former Sec., GoI		Secretary, Ex-officio		other members	
14	Maharashtra	5th	✓ Or eminent serving or retired civil servant well versed in Administration and Finance	IAS (Rtd.)		✓	✓		✓			Member Secretary is IAS officer (Addl. Charge)	One member is professor (Part-time)	Two members are from rural and urban deptt. each (Part-time)		Chairman and four other members	x (Chairman + three members were appointed as part-time members)
15	Manipur	4th	✓	IAS (Rtd.) & Former chief Secretary, Govt. of Manipur	✓	✓	✓	✓							One Member secretary	Chairman and a maximum of three other members	x (Chairman + One member Secretary)
16	Mizoram	2nd	✓	Mizoram Finance & Accounts Services (Rtd.)		✓	✓	✓				Member Secretary is Former Secretary to the Government of Mizoram, Finance Department				Chairman and members not exceeding four	x (Chairman + No member was appointed)
17	Nagaland	3rd	Not Available														
18	Odisha	5th	✓ or col. (B or D or E)	IAS (Rtd.)		✓	✓	✓	✓			One member is Rtd. IAS and Member Secretary is Special Sec.	Two members are professors	Two members are ex-officio: Director,		Chairman and four other	x (3 members and 2 ex-officio members)

														PRD Deptt. and Member Sec. is Director RD Deptt.	Sikkim Information Centre	two other members	
22	Tamil Nadu	6th	✓ or Col. (B) or (D) or (E)	IAS (Rtd.)		✓	✓	✓				member Sec. is IAS (Rtd.)	One member is Commissioner, Town Panchayats, one is Director, Municipal Administration and one other is Director, RD.	One non-official member is MLA	Chairman and five other members* including member secretary	✓	
23	Telangana	1st	✓	Former MLA, Former minister of law & housing, former chairman zila parishad		✓	✓	✓					One member is CEO, Zila Parishad. Member Sec. is an IAS		Chairman and four other members including member secretary	x (only one member is appointed)	
24	Tripura	5th	Not below the rank of Secretary of the State Govt.	IAS (Rtd.), Administrator, TTAADC*	Col. (A) + not below the rank of joint secretary of the state govt.							One Member is JS, Finance Deptt., Govt. of Tripura	One member is Chief General Manager		One or more members whom	✓ (Chairman + two members)	

												(Rtd.), NABARD		one is the chairm an			
25	Uttarakha nd	5th	Adhoc	Former Chief Secretary	Adhoc and decided at the time of Constitution									One member is IAS (Rtd.) and Member Sec. is Addl. Sec. (Finance)		Chair man and two other memb ers	✓ (Chairman + one member + member Sec.)
26	Uttar Pradesh	5th	✓ or col. (D or F)	IAS (Rtd.)		✓ or Col. (A)		✓	✓					2 members appointed are Individuals	Chair man and two other memb ers	✓ (Chairman + two members)	
27	West Bengal	5th	✓ or col. (D)	Professor (Rtd.), ISI, kolkatta		✓	✓		✓					One member is IAS (Rtd.) & member Sec. is WBCS (Rtd.).	Individual	Chair man and four other memb ers	✓ (Chairman + 3 members + member Sec.)

Note: * TTAADC is Tripura Tribal Areas Autonomous District Council

Source: Author's compilation from various SFC reports, State Panchayat & Municipal Act, and State Finance Commission Rules, etc.

Table 7.3: Functioning of SFCs, their Recommendations and Action Taken thereon

	State	Followed 13th FC Template for SFC Report	Status of Recommendations by the SFCs				Constitution of SFC	Gap in the constitution of last two SFCs			Submission of report by the SFCs from the date of Constitution				ATR laid before the legislature from the date of submission of report by SFC	
			Total	Accepted	Not accepted/Rejected	Will be considered in due course		Last SFC constituted on	Recent SFC constituted on	Gap (in years)	Report Submitted on	Gap (in Years)	Mandated to submitted in years	Any Delay	ATR Submitted on	Gap (in Years)
1	Andhra Pradesh	No	91	69	16	6	4th	Dec., 2004	Feb., 2018*	13.02	Oct., 2019	1.06	1.06	No	Feb., 2024	4.04
2	Arunachal Pradesh	No	52	the SG did not accept the 2 nd SFC Report			2nd	Sept., 2005	Aug., 2012	6.11	June, 2014	1.10	1.01	yes	Not mentioned	
3	Assam	Yes	164	164			6th	March, 2013	Nov., 2018	5.08	April, 2020	1.05	1.01	yes	April, 2022	2.00
4	Bihar	No	No count of total recommendations, only financial recommendations have been considered, rest will be considered by SG in due course				6th	Dec., 2013	Feb., 2019	5.02	April, 2021	2.02	0.11	yes	Aug., 2021	0.04
5	Chhattisgarh	Yes	51	37	18		4th	Jan., 2016	July, 2021	5.06	Jan., 2024	2.06	2.00	yes	January, 2025	1.00
6	Goa	No	19	19			3rd	July, 2006	Dec., 2021 [#]	15.05	Jan., 2024	2.01	1.00	yes	Feb., 2024	0.01
7	Gujarat	Yes	111	63	48		3rd	Nov., 2003	Feb., 2011	7.03	Dec., 2013	2.10	2.00	yes	Not mentioned	
8	Haryana	No	No count of total recommendations, only financial recommendations have been considered, rest will be considered by SG in due course				6th	May, 2016	Sept., 2020	4.04	Dec., 2021	1.03	1.00	yes	Feb., 2023	1.02
9	Himachal Pradesh	No	No ATR				6th	Nov., 2014	Aug., 2020	5.09	Oct., 2022	2.02	1.04	yes	March, 2023	0.05

10	Jharkhand	No					1st		Nov., 2008@		April, 2009	0.05	not mentioned		Not mentioned	
11	Karnataka	No	No count of total recommendations, only financial recommendations have been considered, rest will be considered by SG in due course				5th	Dec., 2015	Oct., 2023	7.10	Feb., 2024	0.04	0.04	no	March, 2024	0.01
12	Kerala	No	50+81	41+68	8 + 11	1 + 2	6th	Dec., 2014	Oct., 2019	4.1	Dec., 2020	1.02	1.02	no	Not mentioned	
13	Madhya Pradesh	No	88	37	10	41	5th	Jan., 2012	March, 2017	5.02	April, 2019	2.01	0.10	Yes	Feb., 2022	2.10
14	Maharashtra	Yes	169	134	35		5th	Feb., 2011	March, 2018	7.01	July, 2019	1.04	0.10	Yes	Dec., 2020	1.05
15	Manipur	yes	No count of total recommendations, only financial recommendations have been considered, rest will be considered by SG in due course				4th	Feb., 2013	Oct., 2019	6.08	July, 2021	1.09	0.04	Yes	March, 2023	1.08
16	Mizoram	No	104	Financial recommendations have been considered; rest will be considered by SG in due course			2nd	Sept., 2011	April, 2021	9.07	July, 2023	2.03	1.02	yes	Aug., 2023	0.01
17	Nagaland	No	25	23	2		3rd	June, 2013	March, 2023	9.09	Feb., 2024	0.11	1.00	no	Feb., 2024	0
18	Odisha	Yes	36	Financial recommendations have been considered; rest will be considered by SG in due course			5th	Oct., 2013	May, 2018	4.07	Aug., 2019	1.03	0.06	yes	Feb., 2020	0.06
19	Punjab	No	No count of total recommendations, only financial recommendations have been considered, rest will be considered by SG in due course				6th	Sept., 2013	July, 2018	4.10	March, 2022	3.08	2.05	yes	March, 2022	0
20	Rajasthan	Yes	Of the 22 financial recommendations, 21 has been accepted, while rest of the non-financial recommendations will be considered by the respective department for action				6th	May, 2015	April, 2021	6.01	Sept., 2023	2.05	1.06	yes	Feb., 2024	0.05
21	Sikkim	No	29	27	2		6th	Aug., 2016	June, 2022	5.10	Feb., 2024	1.08	0.08	yes	Aug., 2024	0.06

22	Tamil Nadu	No	280	260	16	4	6th	Dec., 2014	March, 2020	5.03	March, 2022	2.00	1.04	yes	Jan., 2023	0.10
23	Telangana						1st									
24	Tripura	to an extent	77	61	12	4	5th	March, 2013	June, 2020	7.03	February, 2021	0.08	0.06	yes	Jan., 2024	2.11
25	Uttarakhand	no	43	42		1	5th	February, 2015	Nov., 2019	4.09	July, 2021	1.08	1.00	Yes	March, 2022	0.08
26	Uttar Pradesh	yes	64	55	5	3	5th	Dec., 2011	Oct., 2015	3.10	Oct., 2018	3.00	Not mentioned		April, 2020	1.06
27	West Bengal	yes	27	7	The SG to constitute a State level Committee to look into the other recommendations		5th	April, 2013	May, 2022	9.01	Sept., 2023	1.04	0.06	yes	Not mentioned	

Note: * The Commission was initially constituted in 2015

The Commission was initially constituted in 2016

@ The Commission was initially constituted in 2004

Source: Author's compilation from various SFC reports

Chapter 8: How to make State Finance Commission more effective, exogenous and technical?

The State Finance Commission (SFC) was proposed by the Joint Parliamentary Committee (1991) for the Constitution Seventy Third Constitution Amendment Bill, 1992. According to the Committee, the SFC should specifically consider the measures needed to improve the financial position of the *Panchayats* and Municipalities as the Union-State fiscal relations are governed by constitutional provisions, but no such constitutional mechanism existed, at that time for a regular assessment of the fiscal resources gap that exists in local governments.

Since such measures create stress on the state financial kitty, the Parliamentary Committee suggested to insert sub clause 280 (3) bb & c and mandated the Union Finance Commission to augment the Consolidated Fund of the State further by assistance from the Government of India so that the resources of the *Panchayat* and Municipalities could be supplemented.

The Joint Committee, in chapter II of its report, provided the following justifications, among others, for the above proposals:

1. Fiscal need of the *Panchayat* and the Municipalities is required to be addressed as a considerable gap between the need and the resources available to them exist.
2. The growth of local government revenue is considerably lower than the revenue of the Union and States.
3. Transfers of funds in the form of shared taxes play a much smaller role than grants-in-aid in the overall finance of local governments.
4. Since the local governments support the economic activities at the local level, it should be the responsibility of the Union and the States to dovetail creation and maintenance of local infrastructure with the overall economic development and to share in the financial burden for the creation and maintenance of the local infrastructure needed to increase productivity, provide greater employment opportunities and for improving the quality of life of its citizens. Towards the end, devolution of resources from the Union to States and States to local governments is a necessary requirement.
5. To lay down the mechanism for devolution of funds to local governments from the Consolidated Fund of the State; periodic review to consider inflation, population growth and other factors, linking growth to the resource mobilization efforts of the local government, regular flow of growth and equalization on the expenditure side.
6. The intergovernmental fiscal transfer mechanism should assign due weightage to the special problems of each local government and bridging of gap between service standards by extending capital funds for implementing projects and recurring nature grants for operational purposes.
7. Non-integration of local government plans with district and State plans also results in no regular devolution of resources.

As a result, the State Finance Commission (SFC) was constitutionally established under Part IX – The Panchayats and Part IX A – The Municipalities, as Articles 243 I and 243 Y,

respectively, following the 73rd and 74th Amendments of 1992, which came into effect in 1993. Over the past 32 years, approximately 120 SFC reports have been produced across various States and Union Territories, aimed at strengthening local public finances and improving state-local fiscal relations. However, their overall effectiveness has been constrained by multiple structural, operational, and political challenges. These challenges include: (a) irregular constitution and functioning; (b) frequent reconstitution and extensions of tenure; (c) insufficient technical expertise and resources; (d) non-binding recommendations; and (e) reports lacking thorough analysis. To enhance the autonomy and effectiveness of the SFC, the 16th Finance Commission could consider the following measures:

Prescribed timeframes for SFC reports and ATR submissions

The submission of SFC reports exhibits considerable variation, with only a few commissions adhering to the expected timeframe of approximately 18 months, while many exceeded it, taking over three years. Likewise, the submission of ATRs following SFC reports also varied significantly - some states complied with the six-month period, whereas others delayed the process for several years. Overall, there is a lack of consistency in meeting the prescribed timelines for both report submission and subsequent action.

To prevent such unnecessary delay in submission of reports and ATRs, the following can be suggested:

1. Mandate that State Finance Commissions (SFCs) submit their reports within 18 months of their establishment.
2. Require that explanatory memoranda detailing the actions taken be presented before the Legislative Assembly within six months from the submission of the SFC report to the Governor.
3. Ensure that the Commission is constituted in its entirety at the outset, incorporating all Terms of Reference.
4. Restrict the nomination of serving officers to the SFC, with the exception of the Member Secretary.
5. Ascertain that no more than one member, apart from the Member Secretary, is selected from individuals with a civil service background
6. Predefine and fully furnish the office space prior to the formal establishment of the Commission.
7. Appoint the Member Secretary as the Officer on Special Duty (OSD) for the SFC at least three months before its constitution to facilitate the early recruitment of secretarial staff.

8. Institutionalize a permanent SFC cell within the State's Finance Department to oversee continuous activities (when SFC is not in office), including data collection and periodic updates.

Prevent states from granting unwarranted extensions to the tenure of the SFCs

The tenure of State Finance Commissions (SFCs) is frequently extended across various states, primarily due to logistical and administrative challenges. Delays in appointing chairpersons, members, and support staff significantly impede the commissions' efficiency, while inadequate infrastructure and postponed data collection further exacerbate these issues. Electoral processes often disrupt SFC operations, causing additional setbacks. Moreover, unforeseen events such as the COVID-19 pandemic severely constrained the recent commissions' activities by restricting stakeholder engagement and fieldwork.

A lackadaisical approach by certain state governments, including delayed or fragmented issuance of the Terms of Reference (ToR) and repeated reconstitution of commissions, underscores broader systemic inefficiencies. Additionally, frequent transfers of in-service officials, who are nominated as members, within the commissions hinder continuity and effective functioning. These persistent disruptions often result in tenure extensions for SFCs, consequently delaying report submissions and altering the award period. The indifferent approach of state governments toward SFCs stems from the minimal impact that SFC recommendations have on the state budgeting process.

Constitutionally, the State Finance Commission (SFC) should play a crucial role in shaping fiscal policy and regulating state-local fiscal relations for the five-year cycle. Given the structural similarities between SFC and Union Finance Commission (UFC) provisions, state governments must define their respective five-year cycles accordingly. Ideally, the award period of the SFC should align with that of the UFC to ensure coherence in fiscal planning.

The 17th Union Finance Commission's award period is set to begin on April 1, 2031. To ensure seamless integration, it would be ideal for all States and Union Territories to establish their SFCs by December 2028. This timeline would enable the 17th Finance Commission to receive SFC reports by June 2030, providing six-month window for evaluation and incorporation into its assessments. Additionally, this synchronization would help all states effectively consider both UFC and SFC recommendations together for the upcoming five-year fiscal cycle beginning in April 2031.

The 16th Census is set to commence on March 1, 2027, with certain regions beginning earlier on October 1, 2026. The entire process is expected to span 18 months, with the final data

anticipated by the end of 2028. Notably, the Ministry of Home Affairs has instructed States to uphold the existing boundaries of administrative units - including Panchayats and Municipalities - until the next census is completed. This ensures that the delimitation of constituencies and administrative divisions remains unchanged through the end of 2028.

In the interregnum, the existing SFCs' award periods may be extended and the three-year time period could be utilized a) to create enabling legislation for local governments – both Panchayats and Municipalities for ease of living and business, and b) repeal archaic and obsolete state legislations as urged by the Prime Minister to all Chief Ministers on 24th May 2025 in the 10th NITI Aayog Governing Council Meeting. It was also recommended by the 5th SFC of Maharashtra to declutter practices and procedures in many State Acts and Rules, for Panchayats and Municipalities.

The 16th FC may go beyond the 15th FC recommendations and recommend attractive conditional grants for:

- (i) The enactment of enabling laws including SFC Act and Rules by March 2028;
- (ii) Following timelines in the constitution of the SFC as prescribed.
- (iii) Constitution of the SFC in all States/UTs as per the revised Rules by December, 2028
- (iv) Submission of all SFC reports with actionable recommendations to their respective Governors/Lt Governors by June 30, 2030
- (v) Placing the action taken report by the State government in the Assembly by December 2030.

To facilitate and monitor this arrangement, a National Council for Fiscal Decentralization at the national level may be constituted on the lines of GST Council by the middle of 2026. This Council may meet once in six months and take appropriate decisions with respect to the enactment of State laws for local governments with enabling provisions for investment, economic development and social justice as per the true spirit of the 73rd and the 74th Constitutional Amendments. These laws include the SFC Rules as prescribed. The Council may also ensure that the obsolete State laws/provisions for local governments are repealed. In order to provide technical support to this Council, a committee headed by the CEO, NITI Aayog be constituted in NITI Aayog, in which representatives (not below the rank of Joint Secretary to the Government of India) of the Law Ministry, Ministry of Panchayati Raj, Ministry of Housing and Urban Affairs, Department of Expenditure, Ministry of Statistics and Programme Implementation, C&AG and RBI and may be involved. This committee at NITI Aayog may meet quarterly and serve the Council.

This Council and the committee in NITI Aayog can also provide a centralized, coordinated framework to oversee and support the functioning, and timelines of SFCs. The Committee at NITI Aayog can maintain a real-time dashboard tracking the status of each SFC like constitution of date, appointments of members, infrastructure readiness, progress reports, date of submission of the report and the status of ATRs. States falling behind schedule could be required to submit explanations and recovery plans. The committee may also organize a conclave of all SFCs in every six months for experience sharing.

Monitoring and enforcement framework to ensure timely action on ATRs

It has been observed that many a times the recommendations of the SFCs are accepted or partly accepted by the State Government and explanatory memoranda on the action taken are presented in the assembly, but the actual operationalization remains poor. This calls for a robust monitoring and enforcement framework to ensure timely action on the action taken reports. In this context, the following can be considered:

1. Clear reporting process, where ATR by the State Government can be submitted to the legislative assembly in three parts listing:
 - Part I: recommendations which have been fully accepted and implemented.
 - Part II: recommendations which have been accepted but requires further time for implementation or have been deferred for further examination. This should reflect the clear timelines and milestones ensuring measurable accountability;
 - Part III: recommendation which have been rejected with reasons thereon.
2. A Committee of the Assembly on Local Funds may be created if does not already exist in the State Assembly and entrusted with the responsibility of monitoring the progress on the implementation of SFC recommendations. An Empowered Committee with the following may serve the Committee of the Assembly with quarterly progress report on the ATRs.

(i) Chief Secretary of the State	- Chairperson
(ii) Secretary in-charge of Urban Development	- Member
(iii) Secretary in-charge of Panchayat	- Member
(iv) Finance Secretary of the State	- Member
(v) Coordinator SFC Cell	-Secretary
3. The Empowered Committee would prepare detailed action plan with defined responsibilities and timeframes, monitor implementation progress regularly, and ensure inter-departmental coordination, remove bottlenecks and ensure that they are implemented. The SFC cell can function as the secretariat of the Empowered Committee.

Such framework ensures a transparent, accountable, and time-bound system for monitoring ATRs and institutionalizes continuous review and enforcement of the SFC's recommendations.

Minimum qualification criterion for the Chairman and Members of SFCs and a model structure for SFC composition

In case of Union Finance Commission, Article 280(2) provides that the “*Parliament may by law determine the qualifications which shall be requisite for appointment as members of the Commission and the manner in which they shall be selected*”. Accordingly, the Parliament enacted, the Finance Commission (Miscellaneous) Act, 1951 which prescribes the qualification for a person to be appointed as the Chairperson, or a member as follows:

The Chairman of the Commission shall be selected from among persons who have had experience in public affairs, and the four other members shall be selected from among persons who-

- are, or have been, or are qualified to be appointed as Judges of a High Court; or
- have special knowledge of the finances and accounts of Government; or
- have had wide experience in financial matters and in administration; or
- have special knowledge of economics.

In the similar manner, the Article 243I (2) of the Constitution requires that the “*legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected*”.

Under this constitutional provision, only 17 States have enacted legislation for the purpose (*as mentioned in the table*), others have incorporated such provisions in their existing Panchayat or Municipal Acts, few others have left it to the State Governments to exercise their discretion at the time of nominating members of the SFC, e.g. Jharkhand, Uttarakhand etc. The States which have enacted legislation have mainly reproduced the provision in the Finance Commission (Miscellaneous) Act, 1951 verbatim. Also, there is a diversity in the extent to which the states have adhered to such provisions. Table 7.2 summarises the overall picture across states about the adherence to qualifications and strength of SFC Chairman and members as per State Acts/ Rules.

It has been observed that although there are statutory provisions that outline the eligibility criteria for appointing individuals to these positions, most chairpersons appointed are retired civil servants who have been loyal to the ruling political parties. Moreover, in some states, for example, Arunachal Pradesh, Jharkhand, Uttarakhand, etc. appointments are *ad hoc* and decided at the time of the constitution. This erodes the autonomy and technical character of the SFC as envisaged in the Constitution. Also, several States have the practice of appointing serving officers as ex-officio members, or part-time members which questions the autonomy

in the working of the SFC. Further, many states do not comply with mandated size of the commission implying that the composition of the Commission is often minimal or incomplete. Many states have well-drafted rules under their Panchayats and Municipal Acts, but actual implementation lags due to bureaucratic delays, lack of political will and inadequate staffing and resources.

Thus, it is proposed that:

- a) as recommended by the 11th FC and 12th FC, all the states should enact legislation following the provisions of The Finance Commission (Miscellaneous Provisions) Act, 1951 prescribing clear qualifications for the chairperson and members of SFCs. Such legislation must ensure that the Chairperson and members are appointed from amongst the experts in specific disciplines such as economics, public administration, law, and public finance, thereby strengthening the independence, credibility, and effectiveness of the SFCs.
- b) States to make sure that such rules for SFC composition are adhered to.
- c) No part-time or ex-officio officers are appointed as members of the SFC.
- d) Total size of the commission can be of five members (including Chairperson and Member Secretary).
- e) Fixed term of 18 months with no reconstitution during the term.
- f) Selection of the commission should be through independent panel and be merit-based, non-political and legislatively backed.
- g) SFCs should be provided with dedicated budgets and staffs independent of State Government control, to ensure operational autonomy. The secretariate of the Commission may comprise about one-third state government employees on deputation and two-third technical experts.
- h) An advisory Committee involving experts from the field of industry, agriculture, E-governance, data analytics, political science, sociology, law, etc. having in-depth knowledge and experience in local affairs from industry, agriculture, civil society and academic institutions be constituted.
- i) SFC members may be protected from arbitrary removal, similar to UFC members to insulate them from political pressures. Only the Governor, on defined grounds, e.g. misconduct or incapacity, should have removal authority.

To enhance the effectiveness of State Finance Commissions (SFCs), it is essential to establish a robust framework for their composition and qualifications. Since the wordings of the constitutional provisions for the SFC enshrined in Article 243 I and Y are similar to Article 280 meant for Union Finance Commission, the Act and Rules for the appointment of SFC Chairperson and Members must be like the provisions provided in The Finance Commission (Miscellaneous Provisions) Act, 1951. Drawing from constitutional provisions, best practices, and previous UFC's recommendations, the following suggestions are proposed:

Chairperson of the State Finance Commission should be selected from among persons who have minimum 10 years' experience a) in public affairs b) and/or exposure in public policy making.

Three other members should be selected from among persons who:

- Have special knowledge of public finance and accounts of Government,
- Have had proven track record and wide experience in financial matters and in public administration,
- Have had special knowledge of Panchayat and Municipal finances

Member-Secretary should be a serving officer who has worked in the Finance Department and has attained the seniority to be appointed as Principal Secretary in the State Government.

These qualifications are aligned with the standards set by the Union Finance Commission, which mandates that its chairman should have experience in public affairs, and its members should possess specialized knowledge in public finance, economics, and administration.

Role of SFC and a Template for its Report

The Constitution allows the SFCs to determine their own approach towards the determination of the requirement of local government finances within the respective states. However, due to the significant socio-economic and geographic differences, as well as the varying recommendations made by SFCs, the report submitted by SFCs may not offer a consistent framework applicable to all states. This variability diminishes their applicability and limits their effectiveness as a uniform guide across States for UFCs. To address this, the 13th UFC constituted a task force to prepare a template for SFC reports and recommended that SFCs consider this for adoption. As seen in table 3.3, few states have attempted to follow this template. While the structure provided by the 13th UFC has served as a foundational guide for State Finance Commission, there is a growing need to revise the template to accommodate emerging governance challenges, climate imperatives, fiscal innovations and the evolving role of local government. In this context, the study has suggested few improvements in the existing template while retaining the core structure and guiding principles of the framework recommended by the 13th Finance Commission. The improved template is placed at Annex 8.

The SFC should conduct a comprehensive review of the financial situation of both State and local governments over the past five years. This review should encompass the structure of the State's economy, growth and development trends, and fiscal transfers from the Union at the State level. At the local government level, it should focus on the analysis of own tax revenues,

non-tax revenues, fiscal transfers from the Union and State, borrowings, and both revenue and capital expenditures.

Additionally, the SFC should assess the state of decentralized governance and devolution, covering functional devolution, responsibility mapping, financial devolution, and administrative devolution. The review should also address the debt positions and fiscal management of the State and local governments. The SFC is expected to recommend a more detailed approach to the inter-governmental distribution of grants suggested by the UFCs, as well as specific mechanisms for implementing other UFC recommendations. The report should clearly outline methodologies and approaches - whether positive or normative - that have been adopted by the State, including strategies for district-level planning and pertinent issues for consideration by the Union government.

Efforts should be made to evaluate the cost of providing essential civic services in different regions of the State, enabling the estimation of local government revenue expenditure requirements. The SFC should also assess the financial needs of local governments to manage common property resources and examine expenditures on Union and State government schemes assigned to local governments. Furthermore, the SFC should explore the borrowing potential of local governments.

As an autonomous body established every five years, the SFC functions as a hearing commission. To ensure effective communication, the SFC website should be made user-friendly, ideally offering multiple language options. Public suggestions regarding the mandates of the SFC should be actively solicited, and studies commissioned by the SFC, as well as basic data for the State, Panchayats and Municipalities, should be made available on the website to facilitate informed public discussions.

These efforts will contribute to the standardization and harmonization of various key aspects, including SFC reports, local government budget classifications, definitions of local taxes and expenditures, fiscal transfer mechanisms for local governments, and procedures for data collection. By aligning these components, it will be easier to create a more cohesive and transparent financial system, ensuring that all levels of government are better equipped to manage their resources and engage with the public in a more structured and consistent manner.

Chapter 9: Summary of Suggestions

Outcome overview

State Finance Commissions (SFCs) play a crucial role in fostering economic development and ensuring social justice at grassroots through local governance, encompassing both Panchayats and Municipalities as mandated by the Constitution. However, several challenges hinder their ability to provide precise recommendations to local governments. Enhancing the credibility and acceptance of these commissions is a responsibility that lies with State falls squarely on the shoulders of State governments, which must enact conformity Acts aligned with the Central Act while specifying the qualifications and composition of commission members.

A prevalent trend, as illustrated in Table 7.2 reveals that most SFC chairpersons and members are either serving or retired civil servants. For instance, the sixth SFC in states like Assam, Bihar, Haryana, Kerala, Odisha, Punjab, Uttarakhand, and Tamil Nadu, among others, have appointed the retired IAS officer as chairpersons. In certain instances, former minister have been selected as chairperson such as Karnataka, Madhya Pradesh, Rajasthan and Telangana. Furthermore, a significant proportion, of commission members are also drawn from the bureaucracy raising concerns about the commission's autonomy.

The composition of SFCs varies widely across States, with membership ranging from two to four including non-official or part-time members. Several States, despite having legal provisions for the composition of SFCs, often deviate in practice, compromising their effectiveness. For instance, Haryana and Odisha have legal provisions for the appointment of two and four members, respectively but the sixth SFC of Haryana did not appoint any member and took the services of two advisors instead; the fifth SFC of Odisha, on the other hand, comprised of three members and two -ex-officio members. The second SFC of Arunachal Pradesh and the fifth SFC of Maharashtra appointed part-time or ex-officio members instead of full-time experts. Such practices erode the technical rigor and commitment necessary for proficient functioning of SFC.

Moreover, SFCs often grapple with inconsistent, inaccurate, and unreliable data from local governments, coupled with an absence of clear norms for service delivery. These issues are compounded by frequent delays and extensions, which exacerbate the discrepancies in the award periods. In this context, the Table 7.1 sheds light on the common challenges faced by the SFCs during their tenure often leading to extensions of it. For example, the second SFC of Arunachal Pradesh faced delay in staffing approvals, while sixth SFC of Himachal Pradesh had

to seek permission of Government to hire other support staff on outsource basis which took some more time. The third SFC of Gujarat and Goa faced delays in infrastructure development and data collection posed challenges for the timely submission of the Commission's report. In the SFCs of Arunachal Pradesh (second), Himachal Pradesh (sixth), Madhya Pradesh (fifth), Odisha (fifth) and West Bengal (fourth), elections disrupted data collection and stakeholder discussions, resulting in multiple extensions.

A significant issue faced by SFCs is the lack of action by State governments on their reports. While the government forms these commissions, often appointing individuals with limited expertise in public finance, they frequently disregard the reports altogether. In most cases, only the financial recommendations are implemented, while other suggestions are either overlooked or deferred for future consideration by the respective departments. As can be seen in Table 7.3, the sixth SFC of Bihar, Haryana, Punjab and Rajasthan; the fifth SFC of Karnataka and Odisha; and the second SFC of Mizoram have considered only financial recommendations, while rest have been deferred to be considered later in due course by the State Government. Furthermore, even the accepted recommendations are occasionally not executed, with funds not being released for the notified measures. Many states delay or completely fail to implement critical recommendations, thereby undermining constitutional provisions and reducing the efficacy of SFCs.

Several SFCs have proposed implementing a combination of taxes, cesses, or surcharges on State taxes. However, given the challenges associated with local-level tax collection, such measures often lead to increased administrative expenses, as each additional tax demands a separate collection infrastructure. In some instances, the cost of collection might surpass the revenue it generates (for example Assam). To enhance the revenue base of local governments, SFCs could have prioritized optimizing tax administration to ensure better compliance with existing taxes, simplifying tax structures, and introducing appropriate user charges for cost recovery.

Actionable suggestions

Local governments, as the late addition to our federal framework, are provided with numerous constitutional provisions to establish them as self-governing entities. While they have undergone sizable evolution over more than three decades since their inception, challenges in fiscal decentralization remain a major hurdle in achieving their independence. Strengthening these institutions requires consistent and collaborative efforts from both the Union and State

governments. It is essential to strike a balance between resources and responsibilities, enabling local governments to effectively deliver the basic civic services entrusted to them.

The mandate of the 16th Finance Commission for the local governments emanates from the sub-clause 3 (bb & c) of Article 280. The first part of the clause, *i.e.* “*the measures needed to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities in the State*” is clear. However, the second part “*on the basis of the recommendations made by the Finance Commission of the State*” poses a challenge before the 16th Finance Commission as mentioned in chapter 2.

The award periods specified in the most recent State Finance Commission reports and their corresponding Action Taken Reports do not align with the 16th Finance Commission’s award period. Only a limited number of reports address the early years of the five-year award period *i.e.*, 2026-27 to 2030-31 as mentioned in the table under observation number 13. Only the 4th SFC of Chhattisgarh and the 6th SFC of Sikkim cover the award period of the 16th FC. But, assessment cannot be generalized on the basis of reports of relatively two small States.

All the previous UFCs made several recommendations of different varieties and attempted to reform the finances of local governments – both Panchayats and Municipalities. Unfortunately, each successive commission did not follow the path set by the previous commission and made a new set of recommendations which adversely affected the continuity and created a trust deficit and uncertainty at the local level of governance. Many of the conditional grants recommended by successive UFCs could not achieve the desired objectives. For example, a) the nine conditionalities set by the 13th Finance Commission, b) disincentive to district and block Panchayats and keeping them out from the grant mechanism by the 14th Finance Commission, and c) setting property tax floor rates by the 15th Finance Commission.

The 16th Finance Commission may move beyond temporary measures and formally integrate local governments into the revenue-sharing framework, following the arrangement for states set by the 80th Amendment of the Constitution. Articles such as 243H, 243I, 243X, 243Y, 266, 268, 269, 270, 275, 279, and 280 do not restrict the UFC from earmarking a portion of central revenues to Panchayats and Municipalities. This allocation could be placed within the Consolidated Fund of a State explicitly designated to enhance local government funding. Since there is no requirement that transfers to Panchayats and Municipalities must only take in the form of grants, it is reasonable to advocate for their inclusion in the central divisible pool alongside states.

Furthermore, calamity relief grants could be merged into the local government framework to strengthen the capacity of Panchayats and Municipalities, enabling them to respond effectively during the critical golden hour of a disaster. Many have advocated for the establishment of multi-purpose home guards at the local level to enhance civil defence efforts.

Such an allocation would be in addition to the fiscal devolution recommended for states, addressing vertical imbalances more effectively and politically more correctly.

The scheme offers several advantages:

- The scheme enhances the Union government's political advantage by increasing the States' share in global revenue distribution.
- Strengthens the integration of local governments into the Indian federal framework alongside state and Union Governments.
- Ensures local governments benefit from the collective buoyancy of central taxes, particularly vital during inflationary phases.
- Aligns the Union, state, and local governments to share the impact of fluctuations in central tax revenues uniformly.
- Facilitates progress in tax reforms by expanding the tax-sharing framework, providing greater predictability of resource flows to local governments, and increasing flexibility in tax restructuring initiatives.

Within the devolution, two parts could be considered on the lines of the previous UFCs particularly the 13th UFC, i.e. basic and conditional. The Commission may assign conditional grants apart from the basic grants to achieve the objectives enshrined in the Constitution. In this regard, the role of the Union and State Governments need to be spelled out:

We're aware that the 16th Census is set to commence on March 1, 2027, with certain regions beginning earlier on October 1, 2026. The entire process is expected to span 18 months, with the final data anticipated by the end of 2028. Notably, the Ministry of Home Affairs has instructed States to uphold the existing boundaries of administrative units - including Panchayats and Municipalities - until the next census is completed. This ensures that the delimitation of constituencies and administrative divisions remains unchanged through the end of 2028. The time could be effectively utilized for course correction and data management.

The 17th Union Finance Commission's award period is set to begin on April 1, 2031. To ensure seamless integration, it would be ideal for all States and Union Territories to establish their SFCs by December 2028. This timeline would enable the 17th Finance Commission to receive SFC reports by June 2030, providing six-month window for evaluation and incorporation into its assessments. Additionally, this synchronization would help all states effectively consider

both UFC and SFC recommendations together for the upcoming five-year fiscal cycle beginning in April 2031.

In the interregnum, the existing SFCs' award periods may be extended and the three-year time period could be utilized a) to create enabling legislation for local governments – both Panchayats and Municipalities for ease of living and business, and b) repeal archaic and obsolete state legislations as urged by the Prime Minister to all Chief Ministers on 24th May 2025 in the 10th NITI Aayog Governing Council Meeting. It was also recommended by the 5th SFC of Maharashtra to declutter practices and procedures in many State Acts and Rules, for Panchayats and Municipalities.

The 16th FC may go beyond the 15th FC recommendations and recommend attractive conditional grants for:

- (i) The enactment of enabling laws including SFC Act and Rules by March 2028;
- (ii) Following timelines in the constitution of the SFC as prescribed.
- (iii) Constitution of the SFC in all States/UTs as per the revised Rules by December, 2028
- (iv) Submission of all SFC reports with actionable recommendations to their respective Governors/Lt Governors by June 30, 2030
- (v) Placing the action taken report by the State government in the Assembly by December 2030.

To facilitate and monitor this arrangement, a National Council for Fiscal Decentralization at the national level may be constituted on the lines of GST Council by the middle of 2026.

Role of Union Government

The Union Government may consider the following amendments to the Constitution:

- The sub clause in Article 280 was proposed to be revised, in the 125th Amendment Bill to include areas under the Sixth Schedule of the Constitution.
- An amendment in Article 285 of the Constitution is also required as it prevents State/local governments to impose property tax on Union Government properties and allow the local governments to recover at least the costs of local services rendered for such properties. Many SFCs have proposed to levy service charge from Central Government properties, like the third SFC of Goa, the fourth SFC of Andhra Pradesh, and the sixth SFC of Haryana and Tamil Nadu.
- The Union government should consider the recommendations of the Commission on Centre-State Relations as outlined in para 8.6.01 of its report (GoI 2010, p.135). Specifically, it proposed the establishment of a commission to assess the “Status of

Local Government Devolution of Powers” across India, offering both a national overview and a state-wise comparative picture. To enable this, provisions similar to Articles 339 and 340 should be included in Parts IX and IX-A. For states not covered under Part IX, particularly those in the North-East region, the Union government should provide support to achieve capacity equalization.

- The 11th UFC proposed amending Articles 243I and 243Y to allow states to establish SFCs “at the expiration of every fifth year or earlier,” similar to the provision under Article 280 for constituting the UFC. Additionally, it recommended the removal of the phrase “on the basis of the recommendations made by the Finance Commission of the State” found in sub-clauses (bb) and (c) of Article 280(3).
- The 13th UFC further advised modifying this clause to read “after taking into consideration the recommendations of the Finance Commission of the State.” To empower SFCs and ensure that constitutional provisions are upheld in the states, the Union Government should introduce a bill to amend these articles, as proposed by various SFCs.
- Amendment in Article 276 (2) to entrust the authority to fix the ceiling of the Profession Tax to Parliament.
- In order to place the rightful role of the local governments in the fiscal architecture, Article 266 may be amended to incorporate Panchayats and Municipalities. Hence, “the Consolidated Fund of State” could be defined after deducting all statutory transfers to Panchayats and Municipalities the way “the Consolidated Fund of India” is defined.

Apart from above, a national minimum standard for the equalization of basic services should be integrated in the vertical schemes designed to meet these objectives. Efforts to enhance state capacities could include national and international programs, workshops, and conferences to facilitate the exchange of best practices. Additionally, the Union Government might consider establishing a Federation of State Finance Commissions to encourage experience sharing.

Proactively, the government may establish an SFC cell within a national institution under the Union Ministry of Panchayati Raj/the Ministry of Housing and Urban Affairs/the Ministry of Finance. This initiative could involve grants-in-aid that are complementary and non-overlapping. National grants provided by both Union Finance Commissions and relevant ministries to local governments must be systematically monitored and evaluated by the Union government through a NITI Aayog Committee with representations from various Ministries as outlined in chapter 8 of this report. Additionally, the Union government could consider issuing

guidelines to the State governments for timely actions on the recommendations of SFCs, akin to the practice followed for UFCs, and ensure timely implementation on the accepted recommendations. The need to adopt this approach was also highlighted by the 12th UFC.

The Government of India has introduced service-level benchmarks for monitoring certain civic services provided by municipalities. The 13th, the 14th, and the 15th UFCs have linked the disbursement of grants to the achievement of these benchmarks. However, no such requirement exists for Panchayats. Establishing similar benchmarks for basic services provided by Panchayats and linking part of the grant allocation to meeting these benchmarks is essential. Both the sixth SFC of Rajasthan and the fifth SFC of West Bengal have made similar recommendations.

Each scheme of the Government of India should contain guidelines for electronic tracking of CSS funds to the Panchayats through the States. In that case, utilization certificates will also be reverted to the ministry concerned with intimation to State Governments.

Role of State Governments

The State Government must ensure that an SFC is established with a tenure of 18 months and impose a strict deadline of three to six months for acting on its recommendations. It has been observed that States often lack enthusiasm in either accepting these recommendations or presenting the ATR before the State Legislature in a timely manner. Such delays tend to discourage SFCs from producing high-quality reports. Therefore, it is essential for the State Government to promptly present the ATRs to the legislature, issue government orders once the recommendations are approved, and ensure the timely transfer of funds to the accounts of Panchayats and Municipalities.

Additionally, the government should prioritize the notification and implementation of responsibility maps for all local government schemes and services. It must also adopt standardized accounting systems mandated by national agencies, such as PRIASoft (Panchayati Raj Institutions Accounting Software). This approach will ensure that the financial accounts of parallel structures, whether existing or newly created for functional efficiency, are properly integrated into the accounts of the respective local governments.

The Governor of the State should appoint commission members, including the chairman, with expertise in public affairs and public finance, similar to the structure of the UFC. To ensure efficiency, frequent changes in the composition of State Finance Commissions (SFCs) should be avoided, as they delay the process and hinder the timely submission of reports. The

Governor must establish the commission in one step, providing the necessary administrative and logistical support. Additionally, the SFC should operate with the Finance Department of the State rather than the Panchayat Department, as seen in certain states like Gujarat.

Although the recommendations from UFCs and successive SFCs have emphasized this, most States are yet to establish a permanent SFC Cell under their Finance Departments. State Governments should prioritize creating a permanent SFC Cell within the Finance Department, which would institutionalize arrangements for annual data collection, preferably workflow-based, and provide dedicated core staff for the SFCs. A specialized cell tasked with collecting comprehensive income and expenditure data and overseeing the implementation of SFC and UFC recommendations would significantly benefit future SFCs. In Karnataka, for instance, after an SFC completes its tenure, the State Government transitions it into a task force to monitor the implementation of its recommendations until the next SFC is formed.

Local governments are vested with the authority to levy and collect various tax and non-tax revenue sources. However, due to inadequate administrative infrastructure and manpower, especially in rural areas, the revenue generated is often minimal and the cost of collection frequently exceeds the revenue itself. To address this issue, several SFCs, such as the sixth SFCs of Kerala and Sikkim, the fifth SFC of Madhya Pradesh, and the third SFC of Chhattisgarh, have suggested outsourcing tax and user charge collection to self-help groups (SHGs), third parties, or independent agencies on a commission basis. The third SFC of Gujarat has also proposed integrating the collection of taxes and user charges with electricity bills to achieve full collection efficiency. It is recommended that the State Government explore and promote such methods for revenue collection.

Further, while local governments are legally authorized to impose certain taxes, many do not effectively enforce this authority. Even those that do collect taxes often do so at rates far below their full potential. Elected representatives may resist enforcing or raising taxes due to fears of public backlash. To overcome this challenge, the State Government could consider establishing Local Government Revenue Board or a Tariff Commission, as recommended by the third SFC of Gujarat, to determine minimum tax rates and ensure their regular revision. By issuing directives for mandatory tax rates, the State Government could reduce the burden on local representatives, prevent public discontent, and secure a consistent level of tax revenue.

The State Government should ensure that there is no delay in release of funds to the local government. If there is any delay in release, the local government should receive “Delay Compensation”, as suggested by the sixth SFC of Bihar and fifth SFC of Uttar Pradesh.

It was also observed by the sixth SFC of Sikkim that the local government members were not aware of the recommendations of the SFC and thus could not demand the implementation of those recommendations and the release of funds thereof. The commission thus recommended a one-time IEC (Information, education and communication) grant for printing and dissemination of ATRs among all *Panchayats* and Municipalities. The State Government should ensure that people are informed about the ATRs and the SFC reports and there is proper dissemination of information among the primary stakeholders.

The state government should standardize and notify the norms for basic services at local level and norms for staffing and salaries for local governments and incentivize performance through analysing levy and collection of taxes and user charges; economy in expenditure, people’s participation, database on local finances, etc.

The basis for assignment of assets, staff and budget allocations to local governments should be reviewed periodically and local government profiler, directory, assets register, PRIASoft etc. should be maintained.

Further, to enhance the effectiveness, autonomy, and technical rigor of SFCs, a robust institutional framework is essential. Drawing from Article 243I of the Constitution and the model provided by the UFC Article 280, all states should enact dedicated SFC legislation, mirroring the Finance Commission (Miscellaneous Provisions) Act, 1951. This legislation should mandate the appointment of the SFC chairperson from among the individuals with at least 10 years of experience in public affairs or public policy, and members with expertise in public finance, administration, and local government finances. The member secretary should be a senior serving finance department officer. SFCs should have five members (including chairperson and Secretary), be fully constituted for a fixed term of 18 months with no reconstitution and be staffed with a majority of technical experts to ensure operational autonomy. Selection must be merit-based, through an independent panel, and shield from political influence. Members should be safeguarded against arbitrary removal, and the SFC should be supported by a dedicated budget, independent staff, and an advisory body comprising experts from diverse fields to ensure its technical competence and maintain its non-partisan integrity.

Further, the State Government may take following steps to strengthen the local government:

- The State government may publish a supplement to the budget documents for Panchayats indicating details of transfers separately for all rungs of Panchayat under major heads to object head. This supplement may also include details of funds transferred to the Panchayats outside the State government budget. The Thirteenth Finance Commission has made this recommendation.
- State Budget head 3604 must clearly mention the ‘fiscal transfers to all rungs of Panchayats’.
- Every Gram Panchayat should be fully empowered and enabled to levy property tax to all types of residential and other properties of any kind. State and district administration have to extend all possible support in this regard. This would be a first step towards the self-sufficiency and fiscal autonomy of the local self-government. A Local Government Revenue Board may be constituted in all States to a) enumerate all properties; b) design property tax system including assessment and valuation of properties, and c) make provisions for periodic revisions.
- The use of Public Financial Management System (PFMS) should be mandatory for all utilization certificates, releases, and transactions of expenditure by the Panchayats. All the States should ensure that the fund flow to Gram Panchayats is made on PFMS. Therefore, clear fund flow mechanisms for all the categories of funds need to be developed by the State. This includes a defined period within which the funds would reach the Panchayats. The efforts should be made by the States for universal adoption of electronic fund management system (e-FMS) which will help in monitoring both the receipts and expenditure of funds by the Panchayats. The specific discretions for each category of fund flow need to be issued by the Empowered Committee (set up at State level, as prescribed under GPDP guidelines, to extend necessary support and issue clarifications sought by Panchayats) to streamline it.
- Manpower strength in Panchayats needs to be improved through multiple fundings such as UFC (16th FC), SFC, State government and own source revenue (OSR). It is observed that there is a lack of support staff and personnel in Panchayats, such as secretaries, assistant secretaries, accountants, engineers, computer operators, data entry operators etc. An attractive pay package and good working conditions may be offered to attract competent young professionals.

- The higher-level governments, particularly the state government, need to abide by its own rules and ensure timely release of funds without affixing ambiguous conditionalities to the fiscal transfers. Retaining unspent funds erodes the foundation of decentralized democracy.
- Numerous government departments implement developmental programs at the Gram Panchayat (GP) level, but they often work in isolation, leading to a lack of synergy and duplication of efforts. Guidelines for CSSs like MGNREGA, NRLM, SBM, and ICDS emphasize grassroots planning. However, the Gram Panchayat Development Plan (GPDP) should serve as a comprehensive document, offering a holistic view of the Panchayat across all dimensions. Plans from various line departments, including labor budgets, should originate from the GPDP, even though the execution of approved activities may remain with the respective departments. This integrated approach helps attract more funds from different sectors, enhances local resource mobilization, and improves service delivery. Converging all plans and schemes through the GPDP prevents duplication, reduces financial burdens, and speeds up the achievement of desired outcomes.
- At present, two constitutional bodies, ECI and SEC prepare electoral rolls. Electoral roll for elections to the Lok Sabha and assembly constituencies is prepared by the Election Commission of India and electoral roll for elections to the Panchayats and municipal bodies is prepared by SEC. The voter for each of these elections is, however, the same. Large sums of money are periodically spent by the ECI and the SECs in preparing these electoral rolls, manpower is withdrawn from schools and government departments for a long period to do this work at the cost of their regular work, resulting in both duplication and wasteful expenditure. The voter is also confused with two electoral rolls and at times there are cases where the voter's name is on one electoral roll but not on the other. Therefore, it is suggested to have a common electoral roll. For the reason, a special purpose vehicle needs to be created for the preparation and yearly updating of the electoral roll which can be provided to the ECI and SEC for their consideration.
- The State Government must activate the Metropolitan Planning Committees under Article 243 ZE and the District Planning Committees under Article 243 ZD to fulfil the constitutional mandate of decentralized and participatory planning. At present, such committees are not operational in any State.

In conclusion

Considering the significant responsibilities entrusted to local governments and their limited revenue generation capacity, their reliance on fiscal transfers from higher levels of government in India is notably high. Consequently, the State Finance Commissions (SFCs) play an essential role in establishing a fair and transparent financial devolution system, improving the fiscal health of local governments, and advancing the broader goals of fiscal decentralization. However, the effectiveness of SFCs is often hindered by various challenges, such as data constraints, political interference, issues with implementation, concerns regarding the composition and qualifications of members, partial or non-acceptance of recommendations, lack of interest from state governments, and administrative and logistical difficulties. Despite significant recommendations made by previous Union Finance Commissions (UFCs) and SFCs to ensure the smooth functioning of SFCs, both the Union and State governments must make concerted efforts to transform the SFC into a truly effective Constitutional institution, fulfilling the purpose of its establishment.

ANNEXES

ANNEX 1

Percentage of Devolution to Panchayats and Municipalities

S.N.	State	Type of divisible Pool	Latest SFC No.	Award Period	% Devolution recommended		% Devolution Accepted	
					Panchayats	Municipalities	Panchayats	Municipalities
1	Andhra Pradesh	State Own Tax Revenue	4 th	2020-25	66.60	33.40	Not Accepted	
2	Arunachal Pradesh	Own Revenue of the State	2 nd	2015-20	To distributed between Panchayats and Municipalities on basis of population (40%), area (20), backwardness (10%), illiteracy (10%), transferred assets (10%)		Report not accepted by State government	
3	Assam	State Own Tax Revenue	6 th	2020-25	To be distributed on the basis of population and density of population with the weight of 80:20 respectively		Accepted	
4	Bihar	State Own Tax Revenue	6 th	2021-26	65	35	Accepted	
5	Chhattisgarh	State Own Tax Revenue	4 th	2026-31	70	30	Accepted	
6	Goa	State Own Tax Revenue	3 rd	2024-29	To be distributed on the basis of population and area in the ratio of 90:10.		Accepted	
7	Gujarat	Total Revenue of the State	3 rd	2013-18	77.45	22.55	Not Accepted	
8	Haryana	State Own Tax Revenue	6 th	2021-26	50	50	55	45
9	Himachal Pradesh	Gap-filling grant	6 th	2022-27	Have recommended Gap-filling grants to local government		ATR not available	
10	Jharkhand	A per capita core Municipal services provision grant is recommended	1 st	2009-14		A per capita core Municipal services provision grant is recommended		Report not accepted
11	Karnataka	NLGOR	5 th	2024-29	71.43	26.53	72.92	27.08
12	Kerala	A) DF as % of State Plana B) MF and GPF as % of SOTR	6 th	2021-26	<p>A) Development Fund</p> <p>i) for General Sector – the ratio of distribution would be <i>Panchayats:Municipalities:MCs</i> as 77.24:13.42:9.34</p> <p>ii) for SCSP - the ratio of distribution would be <i>Panchayats:Municipalities:MCs</i> as 83.25:10.25:6.50</p> <p>iii) for TSP - the ratio of distribution would be <i>Panchayats:Municipalities:MCs</i> as 91.96:6.08:1.96.</p> <p>B) Maintenance Fund - The shares of each local government under Maintenance Fund (Roads) is given</p> <p>C) General Purpose Fund - The present system for Block and District Panchayat to be followed (see report), and the distribution</p>		<p>A) Development Fund</p> <p>i) for General Sector – the ratio of distribution modified to <i>Panchayats:Municipalities:MCs</i> as 76.35:13.89:9.76</p> <p>ii) The ratio of distribution of SCSP and TSP fund has been accepted.</p> <p>B) Maintenance Fund - Accepted</p> <p>C) General Purpose Fund – Accepted.</p>	

					among VP:Municipalities:MCs to be as 77.24:13.43:9.34		
13	Madhya Pradesh	State Own Tax Revenue	5 th	2022-26	77.5	22.5	Accepted
14	Maharashtra	State Own Tax Revenue	5 th	2020-25	5.26	94.74	Accepted
15	Manipur ^b	Total Revenue of the State	4 th	2013-20	35.28	22.49	Accepted
16	Mizoram	State Own Tax Revenue	2 nd	2021-26	100% Pre-devolution revenue gap to be filled through divisible pool		Accepted
17	Nagaland	1% of SGST	3 rd	2023-26	Part IX does not Apply here and therefore whole fund is devolved to Municipalities in the State and to be distributed among Municipalities on the basis of population and area in the ratio of 80:20.		Accepted
18	Odisha	State Own Tax Revenue	5 th	2021-26	75	25	Not mentioned in ATR
19	Punjab	State Own Tax Revenue	6 th	2021-26	55	45	Accepted
20	Rajasthan	State Own Tax Revenue	6 th	2020-25	75.1	24.9	For the years 2020-24 it is 75.1% and 24.9%. for the year 2024-25 it is 73.2% and 26.8%
21	Sikkim	State Own Tax Revenue	6 th	2025-30	75	25	Accepted
22	Tamil Nadu	State Own Tax Revenue	6 th	2022-27	49	51	51 49
23	Telangana	Total Revenue of the State	1 st	2020-25	61	39	Accepted
24	Tripura	State Own Tax Revenue	5 th	2021-26	50	50	Accepted
25	Uttarakhand	State Own Tax Revenue	5 th	2021-26	40	60	Accepted
26	Uttar Pradesh	State Own Tax Revenue	5 th	2020-25	45	55	40 60
27	West Bengal	State Own Tax Revenue	5 th	2020-25	68	32	Accepted

Note: a: recommendations have been made only for a year 2024-25 and 1% recommended for BBMP was not accepted.

b: 42.23% has been assigned to ADCs

DF = Development Fund; MF = Maintenance Fund, GPF = General Purpose Fund, NLGOR = Non-loan Gross Own Revenue

Annex 2

A brief overview of how professional tax is administered across different states, drawing insights from the reports of the State Finance Commissions.

Tax on professions, trades, callings and employments is levied under Article 276 of the Constitution of India. It is a direct tax imposed by State Governments and collected by the State or delegated to local governments, both Panchayats and Municipalities. It is a tax on the person, not on income and is payable by individuals engaged in any profession, trade, calling or employment. We may explain each term of this tax. Firstly, *profession* is an occupation requiring specialized knowledge and often long and intensive academic preparation. It typically includes services rendered by persons with qualifications in specific fields such as medicine, law, accountancy, engineering, architecture, etc. Supreme Court of India in *Devendrappa v. Karnataka (1998)*, stated that “Profession involves intellectual skill as opposed to skill for manual labour or the handling of commodities”. Ex: Doctor, Lawyer, Chartered Accountant, Architect, Company Secretary, etc.

Secondly, Trade involves the buying, selling or exchange of goods or services with the intention of earning profit. It is broader than a profession and includes any commercial activity that is not necessarily intellectual or academic. Thirdly, *calling* refers to a person's regular occupation or business, which may not necessarily fall under a “profession” or “trade” but still constitutes a systematic livelihood activity. It could involve personal service, skilled labour, or other occupations not requiring professional qualifications. Lastly, *Employment* refers to a contract of service where one party (the employee) works under the direction or control of another (the employer) in exchange for remuneration.

Profession Tax: Legal Provisions

The Article 276 of the Constitution states that

- (1) Notwithstanding anything in article 246, no law of the Legislature of a State relating to taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income.
- (2) The total amount payable in respect of anyone person to the State or to anyone municipality, district board, local board or other local authority in the State by way of taxes on professions,

trades, callings and employments shall not exceed [two thousand and five hundred rupees] per annum.

(3) The power of the Legislature of a State to make laws as aforesaid with respect to taxes on professions, trades, callings and employments shall not be construed as limiting in any way the power of Parliament to make laws with respect to taxes on income accruing from or arising out of professions, trades, callings and employments.

Notably, Article 276(2) of the Constitution of India originally prescribed an upper limit of Rs.250 per annum on the amount of tax that could be levied by a State or any local authority on professions, trades, callings and employments. This ceiling remained unchanged since the commencement of the Constitution in 1950. Recognizing the changing economic context and the need to enhance revenue collection at the State and local levels, the 60th Constitutional Amendment Act, 1988 amended Article 276(2) and increased the permissible limit from Rs.250 to Rs.2,500 per annum. This amendment provided States with broader fiscal space while retaining the constitutional safeguard against excessive taxation on professional income at the subnational level.

History of Professional Tax

Article 276 of the Constitution grants the States the power to levy profession tax on individuals engaged in professions, trades, callings and employments. The power of State Legislatures to impose a profession tax can be traced to Entry 60 of List II (State List) in the Seventh Schedule of the Constitution of India, as read in conjunction with clause (3) of Article 246. Entry 60 specifically addresses "taxes on professions, trades, callings and employments," thus granting States the authority to levy taxes in this regard. This is a crucial distinction, as it allows States to regulate and tax individuals engaged in various professions, trades and employments within their jurisdiction.

Moreover, the genesis of Article 276 can be traced back to Section 142-A of the Government of India Act, 1935 where the limit was initially set at Rupees Fifty per annum. Section 142-A was inserted in 1940 through Section 2 of the India and Burma (Miscellaneous Amendments) Act, 1939. Sub-sections (1) and (2) of Section 142-A are almost identical to clause (1) and (2) of Article 276 of the Constitution. Similar to the Constitution of India, the Government of India Act also vested the authority to levy taxes on income with the Federal Legislature, while the power to impose a tax on professions was assigned to the Provincial Legislatures.

Remarkably, the Government of India Act, as enacted in 1935 did not contain any limit on the amount of professional tax that could be levied by the Provincial Legislatures in exercise of their powers under sub-section (2) of Section 100 read with Entry 46 of List II of the Seventh Schedule. As pointed out by the Supreme Court in *Jadao Bahuji*, when doubts were raised as to whether the nature of the tax on the professions would not in fact be a tax on income, Section 142-A was introduced to clarify the position and curtail the Provinces' powers.

Subsequently, in the Constitution of India, this limit was raised to Rs.250/- per annum in 1950. While the Drafting Committee had initially recommended Rs. 150/-, this was ultimately raised to Rs. 250/-.

Notably, a Study Team on Panchayat Finances, chaired by K. Santhanam in 1963, observed that in certain States, Panchayats were empowered to levy a profession tax on companies or firms conducting business within a village for an aggregate period of not less than 60 days in a year. The tax was also applicable to individuals pursuing a profession, art or calling, conducting business, or holding any public or private appointment, provided they resided in the village for at least 60 days. Additionally, it applied to residents in Panchayat areas who received pensions. Generally, individuals with annual incomes below Rs.300/- were exempt from this tax.

The study team further noted that in many States, the prescribed maximum limit for such taxes was significantly below the ceiling of Rs.250 per annum established under Article 276 of the Constitution. The Committee questioned the rationale behind statutory restrictions preventing Panchayats from levying taxes up to the constitutional limit and emphasized that higher rates would only affect individuals with substantial incomes. Consequently, the Committee recommended the uniform imposition of professional tax across all States on the specified categories of individuals.

Subsequently, the question of raising the limits on professional tax was considered by the Sarkaria Commission on Centre-State Relations in its report and the Commission noted that the States were unwilling or unable to garner much revenue from professional taxes as a result of the low limits set therein. Hence, it was recommended that the then limit of Rs.250/- be increased and the limits be raised from time to time taking inflation into account, there needs to be periodic review of the limit. Therefore, the limit was raised to the present level of Rs.2500/- per annum by the Constitution (60th Amendment Act, 1988).

Professional Tax: Present Limit and Administration

At present, 21 States impose professional tax through various laws, all of them adhering to the limit of Rs. 2500/-.

The table given below outlines the authorities responsible for the collection of taxes on professions, trades, callings and employments as enshrined under Article 276 of the Constitution. It also highlights the role of SFCs in recommending the administration and distribution of such tax revenues among different tiers of government, particularly between the *Panchayats* and Municipalities.

Table: Authority responsible for the Collection of Profession, Trade, Calling and Employment Tax and SFC Recommendations on its administration

State	SFC No.	The authority to collect Professional tax			Sharing of between Panchayats and Municipalities	Recommendation by the Latest SFCs
		State Government	Local Government			
			Panchayat	Municipalities		
Andhra Pradesh	4 th	✓			95% of the collected professional tax assigned to Municipalities	
Assam	6 th	✓				
Bihar	6 th	✓			40% of the total collection to Municipalities	Professional tax should be assigned to Panchayats in a similar manner as it is done to Municipalities
Chhattisgarh	3 rd	No Information available from SFC reports				
Gujarat	3 rd					
Jharkhand	1 st					
Karnataka	5 th					
Kerala	6 th		✓	✓	100% retained by the local government	
Madhya Pradesh	4 th	✓				
Maharashtra	4 th	✓				50% to be devolved to the respective local government
Manipur	4 th	✓				10% to be devolved to the respective local government following necessary amendment in the Act.
Mizoram	2 nd	No Information available from SFC report				
Odisha	5 th	✓				

Punjab	6 th	✓				<ul style="list-style-type: none"> • 100% of the tax to be assigned in the ratio of 20:80 to the Panchayats and Municipalities respectively • There is need to amend Article 276(2) for increasing ceiling limit, as suggested by last three UFCs, from Rs. 2500 to Rs. 12000 per annum, and 20% rise every five years thereafter.
Sikkim	6 th	✓				<ul style="list-style-type: none"> • 15% of Net Profession Tax to be shared with the local governments and Capital Investment Fund (CIF) be funded by this share per year to boost infrastructure activities in the State. • Commission agreed with 15th Finance Commission recommendation for increasing the profession tax limit from Rs.2500 to 12000 per annum.
Tamil Nadu	6 th		✓	✓		<ul style="list-style-type: none"> • State Government to take up with the Government of India the early passage of the necessary constitutional amendments to increase the ceiling on Profession Tax and simplify the process of raising the limit in future as recommended by the 14th and 15th UFC. • Further, State Government should create exclusive institutional structure at State level to manage the database and assist local government in collection of Profession Tax. • State Government should create a comprehensive data base of all professional liable for payment of Profession Tax and provide list of staff / employees under their pay roll to the respective local government to enable more effective collection of Profession Tax.
Telangana	1 st	✓				<ul style="list-style-type: none"> • 95% of the Professional tax should be transferred to the local government and be divided into amounts collected in urban areas and rural areas. • The amounts collected in urban areas may be allocated to the Municipal Councils and Corporations on the basis of urban population. • Similarly, the amount collected in rural areas may be allocated to the Panchayat Raj Institutions on the basis of Rural population by amending the relevant provisions of the Act.
Tripura	5 th	✓			25% devolution of Professional Tax to ADCs	
West Bengal	5 th	✓				<ul style="list-style-type: none"> • 30% of the Professions, Trade, Callings and Employment to be shared between the Panchayats and the Municipalities in the ratio of 68:32.

Thus, one can comprehend from the table above that in most states, professional tax is collected by the State Government (through departments such as the Commercial Tax Department or the Taxation Department). However, Kerala and Tamil Nadu stand out as exceptions, where local governments directly collect this tax, thereby reinforcing local fiscal autonomy. The sharing of professional tax revenue with local governments - Panchayats, Municipalities, and Autonomous District Councils (ADCs) - varies widely across states. For instance, in Andhra Pradesh, 95% of the professional tax collected is assigned to municipalities. In Bihar, 40% is allocated to municipalities, and the state's 4th SFC has recommended a similar arrangement for Panchayats. Kerala allows local government to retain 100% of the professional tax collected, while in Tripura, 25% is earmarked for ADCs.

Profession Tax: Key Recommendations of Latest SFCs

Several SFCs have made key recommendations to improve the administration of professional tax. The 4th SFC of Manipur recommended to amend state laws assigning 10% of the professional tax to local government, while 4th SFC of Maharashtra suggested 50% of professional tax should be devolved to local government. Additionally, 6th SFC of Punjab, Sikkim and Tamil Nadu strongly supports increasing the constitutional ceiling under Article 276(2) from Rs.2,500 to Rs.12,000 per annum as recommended by the 14th and 15th UFCs.

The administration of professional tax across Indian states shows considerable diversity. While some states have effectively devolved this revenue source to strengthen local governments, others continue to centralize the collection. Many SFCs recommend enhancing the devolution, transparency and statutory framework of professional tax to empower local government and improve fiscal federalism. Increasing the constitutional limit under Article 276(2) remains a common recommendation for enabling states to raise more local revenues.

Recommendations made by successive FCs on Tax on Profession, Trades, Callings and Employment.

The 11th FC emphasized that States should either levy a professional tax to augment the financial resources of local governments or empower these local governments to do so. It further recommended a revision of the existing rates to align them more closely with the ceiling prescribed

under the Constitution. Additionally, the Commission proposed that the ceiling, originally fixed in 1988, be suitably enhanced and that Parliament be vested with the authority to revise this ceiling without necessitating a constitutional amendment each time. The 12th FC endorsed the recommendations of various State Finance Commissions advocating an upward revision of the profession tax ceiling. Subsequently, the 14th FC recommended increasing the ceiling from Rs.2,500 to Rs.12,000 per annum. It also proposed an amendment to Article 276(2) of the Constitution to effect this change and suggested that the authority to fix the ceiling be entrusted to Parliament, subject to adherence to the recommendations of the Finance Commission.

Moreover, 15th FC stated that the rationale for vesting Parliament with the authority to determine the ceiling on professions tax lies in the need to prevent States from exercising unrestricted powers to impose what could effectively amount to a second income tax under the guise of a profession tax. To ensure revenue buoyancy for the States while simultaneously safeguarding against excessive centralization of power in the Union Government regarding the fixation of such limits, the following amendment to the Constitution has been proposed by the 15th FC:

1. In clause (2) of Article 276, the words “two thousand and five hundred rupees per annum” shall be substituted with “such amount as Parliament may by law specify.”
2. After clause (2) of Article 276, the following provision shall be inserted:

“Provided that no Bill or amendment which imposes or varies the amount shall be introduced or moved in either House of Parliament except on the recommendation of the President, made in pursuance of a recommendation to this effect by the Finance Commission”.

“Provided further that nothing contained in clause (2) shall be construed to confer upon Parliament the authority to prescribe different ceilings on the amount payable as tax on professions, trades, callings, and employment for different States”.

Since the Finance Commission makes its recommendations to the President, it would be constitutionally appropriate that the recommendation to change the limit of professions tax is made by the Finance Commission to the President.

Furthermore, 15th FC advocated that the simplest method to revise this ceiling is to index it to the cumulative inflation since the ceiling was last fixed in 1988, thereby preserving its real value over time. This approach does not account for the actual growth in professional incomes during the intervening period but solely corrects for the erosion of value due to inflation. By focusing only on inflation adjustment and not on the rise in underlying incomes, this method also helps insulate

the professions tax from criticisms of being a parallel income tax. This indexation has been carried out by adjusting the original ceiling of Rs.2,500 annually for inflation using the implicit GDP deflator for each year. Based on this method, the professions tax ceiling of Rs.2,500 in 1988 equates to approximately Rs.18,000 at 2019–20 price levels.

This suggests that, with rationalisation of tax rates, Municipalities in States have the potential to increase their profession tax collections by more than sevenfold, even without expanding the base of assesses.

Conclusion

Article 276 of the Constitution imposes a cap on the amount of professional tax that states and local governments can levy. This cap, unchanged for several decades, does not reflect the current economic realities, including inflation, rising income levels and the growing need for state governments to finance public services. As states strive to meet the increasing demand for infrastructure, education, healthcare and digital governance, their dependence on central transfers remains high due to limited avenues for own-source revenue generation.

Amending Article 276 to revise the ceiling on professional tax would offer states a constitutionally sanctioned tool to enhance fiscal autonomy. It would enable better alignment between revenue generation and expenditure responsibilities, promoting a more balanced and responsive federal structure. Furthermore, professional tax is progressive in nature and administratively feasible, with relatively low compliance costs compared to other taxes. Ensuring an upward revision while maintaining fairness and affordability for taxpayers would not only help bridge state-level fiscal gaps but also reaffirm the principle of cooperative federalism envisioned in the Constitution.

Annex 3

Recommendations by Latest State Finance Commissions pertaining to Tied and Untied Grants

S.N.	SFC of	Edition	Untied	Tied Grant	Specific areas or sectors for tied grants	Acceptance of tied grants
1	Andhra Pradesh	4th	50%	50%	<ul style="list-style-type: none"> ● Investment in core infrastructure 	Accepted
2	Arunachal Pradesh	2nd	60%	40%	<ul style="list-style-type: none"> ● 10% for administrative expenses ● 10% as maintenance grant ● 10% general purpose grant ● 10% performance grant 	Report not accepted by the State Govt.
3	Assam	6th	36.31%	63.69%	<ul style="list-style-type: none"> ● For creation of physical assets. ● Incentive grant for <ul style="list-style-type: none"> - improvement of service delivery, - augmentation of internal revenue mobilization, - preparation of annual budget as per format prescribed by CAG and - maintenance of annual accounts in the prescribed format. ● Grant for strengthening of SFC Cell 	Accepted
4	Bihar	6th	<ul style="list-style-type: none"> ● 50% as General Purpose fund ● 40% of Dev Fund to be untied 	<ul style="list-style-type: none"> ● 30% as Development Fund ● 20% as Maintenance Fund 	<ul style="list-style-type: none"> ● Development Fund for the creation of assets ● Maintenance funds for maintenance of assets 	Accepted
5	Chhattisgarh	4th	30%	65%	<ul style="list-style-type: none"> ● For carrying out capital works ● to increase their own income 	Not accepted for Panchayats Accepted for Municipalities
6	Goa	3rd	100%			
7	Gujarat	3rd	10%	90%	<ul style="list-style-type: none"> ● O&M of the existing physical assets ● 1% of State's total tax revenue as need-based and incentive grant in the form of special grants for the following purposes: <ul style="list-style-type: none"> - Incentive grant for revenue collection - Grant for developing Talukas - Need based grant for Agarias (Salt Workers) - Area based grant to Kutch and Dangs - Need based grants for creation of statistical cells - Innovation grant for service level benchmarking cell for Panchayats 	Partially acceptable

					<ul style="list-style-type: none"> - Need based Grant for Creation of GSDP Division in State Bureau of Economics and Statistics - Development Grant for Outgrowth Areas 	
8	Haryana	6th	7%*	2%	<ul style="list-style-type: none"> ● Special need-based grant as one-time arrangement for local govt. ● Performance grant <ul style="list-style-type: none"> - Improved OSR collection (for Panchayats) - For Municipalities: a) meeting targets in Sanitation, conservancy & SWM b) Coverage and collection of OSR ● Post-devolution gap fund 	Deferred
9	Himachal Pradesh	6th	<ul style="list-style-type: none"> ● 90% for Panchayats ● 80% for Municipalities 	<ul style="list-style-type: none"> ● 10% for Panchayats ● 20% for Municipalities 	<ul style="list-style-type: none"> ● Criteria for Performance grant for Panchayats: <ul style="list-style-type: none"> - 20% with 100% household toilet coverage and waste collection with monthly fee. - 20% for maintaining daily-updated electronic accounts linked to Central and State financial systems - 20% for collecting all statutorily assigned taxes and levies. - 40% for utilizing at least 75% of available funds from various central and state grants by March 2023. ● Criteria for Performance grant for Municipalities: <ul style="list-style-type: none"> - 20% for levying property tax using the unit area method. - 20% for Municipalities with daily-updated electronic accounts linked to Central and State financial systems. - 20% for collecting sewerage fees and achieving at least 70% sewerage scheme capacity utilization. - 40% for utilizing at least 75% of total available funds from central and state sources by March 2023. 	ATR not available
10	Karnataka	5th	50%	● 50%	● For Development Activities	Accepted
11	Kerala	6th	4% of SOTR as General Purpose Fund	<ul style="list-style-type: none"> ● 26% of State plan as Development Fund ● 6.5% of SOTR Maintenance Fund 	<ul style="list-style-type: none"> ● Development Fund for the creation of assets ● Maintenance funds for maintenance of assets 	Accepted
12	Madhya Pradesh	5th	100%	Separate grants for specific purposes	Special grants for: <ul style="list-style-type: none"> ● Construction of tourist amenities ● Narmada river bank maintenance and development 	<ul style="list-style-type: none"> ● Accepted ● firefighting arrangements in rural areas has been deferred

					<ul style="list-style-type: none"> ● Incentives for raising own resources ● For O&M of assets constructed under Centre/ states schemes <p>For firefighting arrangements in rural areas</p>	0.25% of the divisible pool to be kept as incentive fund as per criteria set by the State Government.																														
13	Maharashtra	5th	100%	Matching grant	For supporting ZPs which are disadvantaged in terms of stamps duty cess collection.	Not Accepted																														
14	Manipur	4th	50% + 60% of Development fund	40% of development fund	<ul style="list-style-type: none"> ● Solid waste management ● Sanitation, ● Water conservation and rain harvesting ● Street lighting <p>Durable community assets</p>	Deferred																														
15	Mizoram	2nd	Pre and post devolution deficit grants to local government	Performance grants	<ul style="list-style-type: none"> ● To be utilized for creation of capital assets only. to incentivise ADCs to enhance their generation of own source revenues 	Deferred																														
16	Odisha	5th	100%	Sector-specific funds as Grants	<table border="1"> <thead> <tr> <th>For Panchayats</th> <th>For Municipalities</th> </tr> </thead> <tbody> <tr> <td>1. Drinking water (piped water supply)</td> <td>1. Sanitation and SWM</td> </tr> <tr> <td>2. Tubewell system (solar energy)</td> <td>2. Provision of safe drinking water</td> </tr> <tr> <td>3. All weather connectivity</td> <td>3. Creation of Capital assets for revenue generation</td> </tr> <tr> <td>4. Provision of facilities at GP Hqrs</td> <td>4. Maintenance of capital assets</td> </tr> <tr> <td>5. Provision of streetlight</td> <td>5. Maintenance of primary school buildings</td> </tr> <tr> <td>6. Development of rural health</td> <td>6. Establishment of water testing labs</td> </tr> <tr> <td>7. Maintenance of capital assets</td> <td>7. Development of water bodies</td> </tr> <tr> <td>8. Maintenance of primary school buildings</td> <td>8. Electric crematorium</td> </tr> <tr> <td>9. Preservation and development of water testing labs</td> <td>9. Development of civic amenities at Konark NAC</td> </tr> <tr> <td>10 Creation of capital assets for revenue generation</td> <td>10 Storm water drainage</td> </tr> <tr> <td>11 Funds for innovative practices</td> <td>11 New NACs Infrastructure</td> </tr> <tr> <td></td> <td>12 Septage management</td> </tr> <tr> <td></td> <td>13 Funds for innovative practices</td> </tr> <tr> <td></td> <td>14 incentives</td> </tr> </tbody> </table>	For Panchayats	For Municipalities	1. Drinking water (piped water supply)	1. Sanitation and SWM	2. Tubewell system (solar energy)	2. Provision of safe drinking water	3. All weather connectivity	3. Creation of Capital assets for revenue generation	4. Provision of facilities at GP Hqrs	4. Maintenance of capital assets	5. Provision of streetlight	5. Maintenance of primary school buildings	6. Development of rural health	6. Establishment of water testing labs	7. Maintenance of capital assets	7. Development of water bodies	8. Maintenance of primary school buildings	8. Electric crematorium	9. Preservation and development of water testing labs	9. Development of civic amenities at Konark NAC	10 Creation of capital assets for revenue generation	10 Storm water drainage	11 Funds for innovative practices	11 New NACs Infrastructure		12 Septage management		13 Funds for innovative practices		14 incentives	Accepted
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					12 Creation of district data centre at district level for local govt. 13 Creation of infrastructure for banking facilities at GP Hqrs. 14 Incentives			
17	Punjab	6th	50%	50%	For Water supply, sewerage, drainage, sanitation, and sewerage disposal treatment.		Accepted	
18	Rajasthan	6th	55% and 75% for basic & Development functions for Panchayats and Municipalities, respectively	45% and 25% for Panchayats and Municipalities, respectively		Panchayats	Municipalities	
					National/State priority schemes and other development activities	40%	20%	Accepted
					Gender friendly spaces	2%		Accepted with modifications
					Incentive for raising own income	3%		Accepted with modifications
19	Sikkim	6th	80%	20%	<ul style="list-style-type: none"> Criteria for performance grant: <ul style="list-style-type: none"> Performance in regular audits, Increase in own revenue Achievement in SDGs in their area. 1% of NOTR is also given for State Capacity Building Fund and as Enabling grant for office infrastructure and SFC cell. 	Accepted		
20	Tamil Nadu	6th	Formula based transfers	Fixed component transfers	<ul style="list-style-type: none"> To Panchayats for: Capital Grant fund and O&M deficit grant fund To non-metro cities for TWAD, CGF, URDF, OMGFF, Schools, Tourists towns, TNIUS, PDGF, GIS mapping, library cess, sanitary workers, welfare board and newly upgraded Municipalities 	Accepted		
21	Telangana	1st	90%	10%	<p>Performance grant criteria:</p> <ul style="list-style-type: none"> Completion of Audit of (t-2) year and Achieving a minimum growth of 10% under Own Revenues in (t-1) year and Computerisation of Cash Book (Discontinuance of Manual Cash Book) and Computerisation of Own Assets. Where t year means current Financial Year and (t-1) or (t-2) year will be construed accordingly. 	No Information		
22	Tripura	5th	100%		For Panchayats	For Municipalities		

				Separate Sector-specific funds as Grants	<ol style="list-style-type: none"> 1. construction of GP/VC buildings 2. all weather road connectivity 3. maintenance of JB schools 4. creation of banking facilities 5. maintenance of capital assets 6. preservation and development of water bodies in GPs/ VCs 7. construction of market stalls, rural haats, community halls 8. construction of passenger sheds 9. development of burial grounds 	<ol style="list-style-type: none"> 1. Sanitation and SWM 2. Provision of safe drinking water 3. Storm water drainage 4. Construction of roads 5. Maintenance of capital assets 6. Preservation and development of water bodies 7. Septage management 8. Street lighting 9. Provision of line services 10. Commissioning of electric crematoria 	Accepted
23	Uttarakhand	5th	100%	Separate Special purpose grants	<ul style="list-style-type: none"> ● Preparation of GIS based master plans ● Annual grant to Uttarakhand Academy of Administration, Nainital ● Solid waste management project ● Replacing existing streetlight by solar based LED lights ● Construction of underground garbage bins 		Accepted
24	Uttar Pradesh	5th	85%	15%	<p>Special Grant fund for:</p> <ul style="list-style-type: none"> ● Construction of office building of the newly created Municipal Corporation of Faziabad, Ayodhya, Mathura, Vrindavan ● Special provision for Municipal Corporation of Gorakhpur. 		Accepted with Modification
25	West Bengal	5th	98%	2%	<p>Incentive fund to be distributed between <i>Panchayats</i> and Municipalities in the ratio of 68:32 on the basis of their performance towards:</p> <ol style="list-style-type: none"> a) Proper reflection of accounts in their audit reports b) Better utilization of fund. 		Accepted

Note: * with the condition that the not more than 30% of the devolved funds is to be utilised on pavement of streets by the *Panchayats* and Municipalities.

Annex 4

Table 1: Types of Operation and Maintenance Funds Recommended by various SFCs across States

SFC of	Edition	Final Award Period	Types of O&M Funds recommended
Andhra Pradesh	IV	2020-25	<ul style="list-style-type: none"> • 10% surcharge on Marketing Committees to be used for maintenance of assets around the market yard. • User fee equivalent to 5% of the property tax to be utilized to support the O&M of SWM initiatives • Transfer of seigniorage fee to MPPs and ZPPs to be spent on laying and maintenance of roads leading to GPs from where minor minerals are transported to other places. • An annual grant of Rs.250/- crore (totalling to Rs.1384 crore for 5 years) is recommended to Municipalities to meet the maintenance cost (including cost of replacement) of different types of infrastructure and assets created. it is to be increased by 5% every year starting from the second year of the award period.
Arunachal Pradesh	II	2015-20	10% of the total devolution package to be provided as maintenance grant to be spent towards maintenance of common properties like schools, hospitals, veterinary hospitals, Anganwadi, hostels, parks, grazing groups, haats/ bazaars, cremation grounds, roads, ponds/wells, forests/orchards/tree plantations/ social forestry, public buildings, etc.
Assam	IV	2020-25	Tax devolution was also intended to cover maintenance and upkeep of community assets.
Bihar	VI	2021-26	<p>20% of the Panchayat's share has been kept as Maintenance Fund for meeting the maintenance expenditure of following assets to retain them in working condition:</p> <p>Buildings, furniture, machineries & equipment, computer & its peripherals including annual maintenance charge, electrical works including wiring and rewiring, plumbing works, drinking water pipeline & fittings, drains, village streets, solid/liquid waste disposal structures, streetlights, electricity bills for running drinking water schemes and solid/liquid waste facilities, etc.</p> <p>Maintenance fund to be shared among ZPs, PSs and GPs in the ratio 15:15:70 on the basis of population (90%) and area (10%).</p>
Chhattisgarh	IV	2026-31	30% of the devolution is untied and is for maintenance of basic services in local government.
Goa	III	2024-29	VPs and Municipalities to be provided with the grants for maintenance of local libraries
Gujarat	III	2013-18	90% of the untied devolved funds to be spent on O&M of the existing physical assets meant to provide civic services to citizens and for creation of new physical assets, which are required to provide better civic services.
Haryana	VI	2021-26	2% of the divisible pool can be used to meet the O&M expenses on establishment and provision and maintenance of core services by local government.
Himachal Pradesh	VI	2022-27	A fixed grant of Rs. 24 crore is recommended from 2023-24 to 2025-26 for repair/maintenance/ additions/ alteration of office buildings of all the three-tier of the <i>Panchayats</i> .

Karnataka	V	2024-25 (Interim Report) 2024-29 For the final report which is yet to be submitted.	<ul style="list-style-type: none"> ● 1% of the devolution share of local government to be given to the local governments of Coastal and Malnad districts (having vast geographical forest and hilly areas) as additional funds for infrastructural and maintenance facilities due to the challenging climatic conditions prevailing there. ● The Commission recommended to provide earmarked funds for maintenance of infrastructure projects for their optimum utilization.
Kerala	VI	2021-26	The SFC recommended 6.5% of SOTR as maintenance fund of which 4% road and 2.5% to be non-road maintenance fund. The road fund to be further divided into two categories on the basis of width: below three meters and three meters and above with weightage of 0.50 and 1 between them. Non-road maintenance fund to be used for meeting expenditure of the institutions like electricity, water, telephone changes POL of vehicle, AMC, etc*.
Madhya Pradesh	V	2022-26	<ul style="list-style-type: none"> ● special grants to municipalities for operation and maintenance of assets constructed under Centre/ state schemes. Rs. 50 crore p.a. to be given for the purpose. ● special grant to Municipalities/ municipal council situated on the bank of Narmada for riverbank maintenance and development.
Maharashtra	V	2020-25	2-5% of the local governments income to be dedicated to maintenance funds
Odisha	V	2021-26	<ul style="list-style-type: none"> ● 8.03% of net proceeds of Motor Vehicle Tax be assigned to <i>Panchayats</i> and Municipalities for maintenance and improvement of road infrastructure. ● Grant of Rs. 350 crore and Rs. 80 crore are recommended for maintenance of capital assets by <i>Panchayats</i> and Municipalities, respectively.
Rajasthan	VI	2020-25	Made a normative assessment of requirement of funds for O&M and capital works of following basic services in local government: Solid Waste Management, Wastewater management, Street lighting, Solar lighting, Cremation and Burial grounds, Community halls, Drinking water, public health, public toilets and public park.
Tamil Nadu	VI	2022-27	<ul style="list-style-type: none"> ● O&M deficit grant has been recommended both at state and district levels for <i>Panchayats</i> ● O&M gap filling fund has been recommended for Municipalities
Tripura	V	2021-26	<ul style="list-style-type: none"> ● Rs. 5 crore for maintenance of capital assets like market complexes, cremation grounds etc. in <i>Panchayats</i> ● Rs. 5 crore for maintenance of capital assets in Municipalities ● An amount of Rs. 26.42 crore is assigned out of the proceeds of MV tax towards maintenance and improvement of road infrastructure during the award period (2021-26) to local government.

Note: * The SFC has also recommended a negative list in use of non-road maintenance funds.

Source: Author's compilation from various SFC reports.

Table 2: Specific Areas or Assets for which O&M Expenditures were recommended

S.N.	Specific Area or Assets	SFC edition	State
1)	Roads and Transportation Infrastructure	VI	Assam, Himachal Pradesh, Kerala
		V	Madhya Pradesh, Odisha, and Tripura
		IV	Andhra Pradesh
2)	Public Utilities & Civic Services:	VI	Haryana
a)	Electricity, water supply, telephone and street lighting	VI	Bihar & Kerala
		II	Arunachal Pradesh
b)	Solid Liquid Waste Management (SWM)	VI	Bihar
		IV	Andhra Pradesh
c)	Market & Public Infrastructure	V	Tripura
		IV	Andhra Pradesh
3)	Buildings and Office Infrastructure	VI	Assam, Bihar, Himachal, Kerala
4)	Institutional and Administrative Expense	VI	Bihar and Kerala
		III	Chhattisgarh
5)	Environmental and Special Area Maintenance	V	Madhya Pradesh
		III	Goa

Source: Author's compilation from various SFC reports

Annex 5

How West Bengal used the population data from census 2011 and SECC 2011 to account for rapid urbanization?

To determine the *inter se* distribution of funds among different *Panchayats*, a horizontal devolution index was built using four indicators, each with a specific weight, *viz.* population (50%), Area (10%), backwardness (30%), proportion of urban population (10%).

In this regard, the population related for Zill Parishad and Panchayat Samiti has been taken from Census 2011, however, there are overlapping areas of revenue villages in many Gram Panchayats, census data becomes unsuitable for the Gram Panchayats. Due this limitation, the Socio-Economic Caste Census (SECC) 2011 was used as a supplementary source to estimate population of Gram panchayats.

Also, urbanization is included as a factor in the composite index. At one place the commission has mentioned that “*population of peri-urban areas falling within the jurisdiction of Gram Panchayats had to be taken from the Census-2011 and thereafter added with the population data of Gram Panchayats taken from Socio Economic Caste Census, 2011 in the concerned Gram Panchayats for providing due weightage to the rapid urbanization in rural West Bengal*”. At another place, it has mentioned that “*the extent of urbanisation has also been included in the composite index on the ground that a local body that has non-statutory towns (i.e., Census Towns) within its jurisdiction is likely to confront more varied problems in meeting the goals of service delivery compared to its counterpart which is entirely rural*”. Further at another place, it has stated that “*Census Towns in Rural areas with a trend of rapid urbanization has been observed in the Census Report 2011*”.

It seems that the fourth SFC of West Bengal has used the terms peri-urban area and census town interchangeably and thus has used the census town data from Census 2011 for factoring in urbanization in rural areas of West Bengal.

To conclude, the fourth SFC of West Bengal has taken the population figures for Gram Panchayat from SECC 2011 and the Census town data from Census 2011 (to account for rapid urbanization) and added both to arrive at the total population share of Gram Panchayat.

Annex 6**The list of Urban Local Bodies located in Sixth Schedule areas**

The sixth schedule areas are located in the following four northeastern States and are administered by Autonomous District Councils (ADCs):

1. Assam
2. Mizoram
3. Meghalaya, and
4. Tripura

Both Mizoram and Tripura do not have any municipalities within their sixth schedule areas.

Part IX of the constitution does not apply to the State of Meghalaya and the State has not yet formed SFC. Nevertheless, an e-mail was sent to the State Government of Meghalaya on 5th May, 2025) requesting details of any Municipalities located in the sixth schedule areas in the State.

A similar request has also been sent to the State Government of Assam for information on Municipalities in such areas.

A reminder email was also sent to both the state governments on May 19, 2025.

As per the information received from the State of Assam *via* email dated May 22, 2025, following is the list of Municipalities in sixth schedule areas of Assam:

S.N.	Name of MB	District
I	Bodoland Territorial Council	
1	Barama	Baksa
2	Goreswar	
3	Mushalpur	
4	Nasugaon	Chirang
5	Bijni	
6	Kajalgaon	
7	Fakiragram	Kokrajhar
8	Gossaigaon	
9	Kokrajhar	
10	Tangla	Udalguri
11	Udalguri	
12	Rowta	
13	Mazbat	
14	Kalaigaon	
15	Khoirabari	Tamulpur
16	Tamulpur	
II	Dima Hasao Autonomous Council	

17	Diyungbra	Dima Hasao
18	Haflong	
19	Harangajao	
20	Langting	
21	Mahur	
22	Maibang	
23	Umrangso	
III	Karbi Anglong Autonomous Council	
24	Diphu	Karbi Anglong
25	Bakalia	
26	Boithalangso	
27	Bokajan	
28	Borlangpher	
29	Chowkihola	
30	Deithor	
31	Dengaon	
32	Dhansiri	
33	Dokmoka	
34	Dolamara	
35	Donkamokam	
36	Hamren	
37	Howraghat	
38	Jengkha	
39	Jirikinding	
40	Langhin	
41	Manza	
42	Phuloni/ Centre	
43	Rongmongwe	
44	Samelangso	
45	Umlapher	

[Response from the State Government of Meghalaya is still awaited.]

Annex 7

Information about all the SFCs, including those which have not submitted the report, are given below:

S.N.	State	SFC of	Date of Constitution	Date of Submitting the report	Date of Submission of ATR	Final Award period
1	Andhra Pradesh	1st	Jun-94	May-97	Nov-97	1997-98 to 1999-2000
		2nd	Dec-98	Aug-02	Mar-03	2000-01 to 2004-05
		3rd	Dec-04	Jan-08	Jan-14	2005-06 to 2009-10
		4th	Jan., 2015 (reconstituted on Feb., 2018)	Oct., 2019	Feb., 2014	2020-21 to 2024-25
		5th	March-23	Yet to Submit	-	2025-26 to 2029-30
2	Arunachal Pradesh	1st	Sep-05	Apr-08	Report not accepted by State Govt.	Not Available
		2nd	Aug-12	Jun-14	Report not accepted by State Govt.	2015-16 to 2019-20
		3rd	Dec-24	Yet to Submit	-	Not Available
3	Assam	1st	Jun-95	Feb-96	Mar-96	1996-97 to 2000-01
		2nd	Apr-01	Aug-03	Feb-06	2001-02 to 2005-06
		3rd	Feb-06	Mar-08	Sep-09	2006-07 to 2010-11
		4th	Apr-10	Feb-12	Feb-14	2011-12 to 2015-16
		5th	Mar-13	Nov-16	June-17	2016-17 to 2019-20

		6th	Nov-18	April-20	April-22	2020-21 to 2024-25
		7th	July-24	Yet to submit	-	2025-26 to 2029-30
4	Bihar	1st	Apr-94	-	-	-
		2nd	Jun-99	-	-	1998-99 to 2002-03
		3rd	Jul-04	Nov-07	Mar-07	2003-04 to 2007-08
		4th	Jun-07	Jun-10	Aug-11	2010-11 to 2014-15
		5th	Dec-13	Jan-16	-	2015-16 to 2019-20
		6th	Feb-19	April-21	Dec-21	2021-22 to 2025-26
5	Chhattisgarh	1st	Aug-03	May-07	Jul-09	2005-06 to 2009-10
		2nd	July-11	Mar-13	-	2012-13 to 2016-17
		3rd	Jan-16	Sept-18	Oct-19	2020-21 to 2024-25
		4th	July-2021	Feb-24	Jan-25	2026-27 to 2030-31
6	Goa	1st	Apr-99	Jun-99	Nov-01	2000-01 to 2004-05
		2nd	July-06	Dec-07	-	2007-08 to 2011-12
		3rd	Dec-21	Jan-24	Feb-2024	2024-25 to 2028-29
7	Gujarat	1st	Sep-94	June-98 (For Panchayats) Oct-98 (For Municipalities)	Dec-98	1996-97 to 2000-01
		2nd	Nov-03	Jun-06	March-11	2005-06 to 2009-10
		3rd	Feb-11	May-2014	Not	2013-14 to

				(Main report) Feb-2015 (Supplementary Report)	Mentioned	2017-18 (for main report) and 2018-19 to 2019-20 (Supplementary Report)
		4th	Nov-24	Yet to submit	-	Not Available
8	Haryana	1st	May-94	Mar-97	Sep-00	1997-98 to 2000-01
		2nd	Sep-00	Sep-04	Dec-05	2001-02 to 2005-06
		3rd	Dec-05	Dec-08	Sep-10	2006-07 to 2010-11
		4th	Apr-10	Jun-14	March-15	2011-12 to 2015-16
		5th	May-2016	Sept-17	Sept.-18	2016-17 to 2020-21
		6th	Sept-20	Dec-21	Feb-23	2021-23 to 2025-26
9	Himachal Pradesh	1st	Apr-94	Nov-96	Apr-97	1996-97 to 2000-01
		2nd	May-99	Oct-02	Jun-03	2002-03 to 2006-07
		3rd	May-05	Nov-07	June-08	2007-08 to 2011-12
		4th	May-11	Jan-14	Feb-14	2012-13 to 2016-17
		5th	Nov-14	Jan-18	Report of 6th SFC was considered	2017-18 to 2021-22
		6th	Aug-20	Oct-22	Not Available	2022-23 to 2026-27
		7th	March-24	Yet to submit	-	2027-28 to 2031-32
10	Jharkhand	1st	Jan-04	April-09	Not Submitted	2009-10 to 2013-14

		2nd	Jan-09	-	-	2009-10 to 2013-14
		3rd	Apr-15	-	-	-
		4th				
		5th	Feb-24	Yet to submit	-	2024-25 to 2028-29
11	Karnataka	1st	Jun-94	Panchayats- July-96 Municipalities -Jan-96	Mar-97	1996-97 to 2000-01
		2nd	Oct-00	Dec-02	Jun-06	2005-06 to 2010-11
		3rd	Aug-06	Dec-08	Oct-09	2011-12 to 2015-16
		4th	Dec-15	May-18	Dec-18	2018-19 to 2022-23
		5th	Oct-23	Interim Report Submitted for 2024-25	March-24	2024-25 to 2028-29
12	Kerala	1st	Apr-94	Feb-96	Feb-97	1996-97 to 2000-01
		2nd	Jun-99	Jan-01	Jan-04	2001-02 to 2005-06
		3rd	Sep-04	Nov-05	Feb-06	2006-07 to 2010-11
		4th	Sep-09	Jan-11(Part 1) Mar-11 (Part 2)	Feb-11	2010-11 to 2015-16
		5th	Dec-14	Mar-16	Feb-18	2016-17 to 2020-21
		6th	Oct-19	Dec-19	Not Mentioned	2021-22 to 2025-26
		7th	Sept-24	Yet to Submit	-	2026-27 to 2030-31
13	Madhya Pradesh	1st	Feb-95	Jul-96	Mar-97	1996-97 to 2000-01

		2nd	Jun-99	Jul-03 (1st Report) Aug-03 (2nd Report) Dec-03 (3rd Report)	Mar-05	2001-02 to 2005-06
		3rd	Jul-05	Nov-08	Mar-09	2006-07 to 2010-11
		4th	Jan-12	Jan-17	July-17	2016-17 to 2019-20
		5th	March-17	April-19	Feb-22	2022-23 to 2025-26
14	Maharashtra	1st	Apr-94	Jan-97	Mar-99	1994-95 to 1996-97
		2nd	Jun-99	Mar-02	Mar-06	2001-02 to 2005-06
		3rd	Jan-05	Jun-06	Dec-13	2006-07 to 2010-11
		4th	Feb-11	July-15	March-18	2011-12 to 2015-16
		5th	March-18	July-19	Dec-20	2020-21 to 2024-25
		6th				
15	Manipur	1st	Apr-94	Dec-96	Jul-97	1996-97 to 2000-01
		2nd	Jan-03	Nov-04	Dec-05	2001-02 to 2005-06 (award period extended to 1.3.10)
		3rd	Feb-13	Dec-14	Dec-15	2013-14 to 2019-20
		4th	Oct.19	July-21	March-23	2023-24 to 2025-26
16	Mizoram	1st	Sept-11	Feb-15	Feb-16	2015-16 to 2019-20
		2nd	April-21	July-23	Aug-23	2024-25 to 2028-29

17	Nagaland	1st	Aug-08	Oct-09	Feb-2012	2010-11 to 2014-15
		2nd	June-13			
		3rd	March-23	Feb-24	Feb-24	2023-24 to 2025-26
		4th	Oct-24	Yet to submit	-	2026-27 to 2030-31
18	Odisha	1st	Nov-96/Aug-98	Dec-98	Jul-99	1997-98 to 2004-05
		2nd	Jun-03	Sep-04	Aug-06	2005-06 to 2009-10
		3rd	Sep-08	Jan-10	Feb-11	2010-11 to 2014-15
		4th	Oct-13	Sep-14	Feb-15	2015-16 to 2019-20
		5th	May-18	Aug-19	Feb-20	2021-22 to 2025-26
		6th	Jan-25	Yet to Submit		2026-27 to 2030-31
19	Punjab	1st	Apr-94	Dec-95	Sep-96	1996-97 to 2000-01
		2nd	Sep-00	Feb-02	Jun-02	2001-02 to 2005-06
		3rd	Sep-04	Dec-06	Jun-07	2006-07 to 2010-11
		4th	Nov-08	May-11	May-12	2011-12 to 2015-16
		5th	Sept-13	June-16	-	2016-17 to 2020-21
		6th	July-18	March-22	-	2021-22 to 2025-26
20	Rajasthan	1st	Apr-94	Dec-95	Mar-96	1995-96 to 1999-00
		2nd	May-99	Aug-01	Mar-02	2000-01 to 2004-05
		3rd	Sep-05	Feb-08	Mar-08	2005-06 to

						2009-10
		4th	Apr-11	Sep-2013	Feb-14	2010-11 to 2014-15
		5th	May-15	Nov.-18	July-19	2015-16 to 2019-20
		6th	April21	Sept-23	Feb-24	2020-21 to 2024-25
21	Sikkim	1st	Nov-95	Aug-99	Jun-00	2000-01 to 2004-05
		2nd	Jul-03	Sep-04	Feb-06	2005-06 to 2009-10
		3rd	Mar-09	Nov-09	Mar-10	2010-11 to 2014-15
		4th	June-12	May-13	Feb-15	2015-16 to 2019-20
		5th	Aug.-16	July-17	Mar-18	2020-21 to 2024-25
		6th	June-22	Feb-24	Aug-24	2025-26 to 2029-30
22	Tamil Nadu	1st	Apr-94	Nov-96	Apr-97	1997-98 to 2001-02
		2nd	Dec-99	May-01	May-02	2002-03 to 2006-07
		3rd	Dec-04	Sep-06	May-07	2007-08 to 2011-12
		4th	Dec-09	Sep-11	May-13	2012-13 to 2016-17
		5th	Dec.14	Dec.-16	Mar-17	2017-18 to 2022-23
		6th	March-20	March-22	Jan-23	2022-23 to 2026-27
23	Telangana	1st	March-15	March-20	Feb-24	2020-21 to 2024-25
		2nd	Feb-24	Yet to submit	-	2026-27-2030-31
24	Tripura	1st	RLBs- Apr 1994	Jan-96	Feb-97	1996-97 to

						2000-01
			ULBs- Nov 1998	Sep-99	Nov-00	1999-00 to 2003-04
		2nd	Oct-99	Apr-03	Jun-08	2003-04 to 2007-08
		3rd	Mar-08	Oct-2009	Mar-10	2005-06 to 2009-10
		4th	March-13			
		5th	June-20	Feb-21	Jan-24	2021-22 to 2025-26
25	Uttar Pradesh	1st	Oct-94	Dec-96	Jan-98	1996-97 to 2000-01
		2nd	Feb-00	Jun-02	Mar-04	2001-02 to 2005-06
		3rd	Dec-04	Aug-08	Feb-10	2006-07 to 2010-11
		4th	Dec-11	Dec-14	Mar-15	2011-12 to 2015-16
		5th	Oct-15	Oct-18	April-20	2020-21 to 2024-25
		6th	Jan-2024	Yet to Submit	-	Not Available
26	Uttarakhand	1st	Mar-01	Jun-02	Jul-04	2001-02 to 2005-06
		2nd	Apr-05	Jun-06	Oct-06	2006-07 to 2010-11
		3rd	Dec-09	June-11	May-12	2011-12 to 2015-16
		4th	Feb-15	May-16	March-17	2016-17 to 2020-21
		5th	Nov-19	June-21	March-22	2021-22 to 2025-26
		6th	Jan-25	Yet to submit	-	2026-27 to 2030-31
27	West Bengal	1st	May-94	Nov-95	Jul-96	1996-97 to 2000-01

		2nd	Jul-00	Feb-02	Jul-05	2001-02 to 2005-06
		3rd	Feb-06	Oct-08	Jul-09	2008-09 to 2012-13
		4th	Apr-13	Feb-16	June-22	2015-16 to 2019-20
		5th	May-22	Sept-23	Not Mentioned	2020-21 to 2024-25
		6th	Dec-24	Yet to submit	-	2025-26 to 2029-30

Annex 8

Improvement in the template suggested by 13th FC for SFC reports

The 13th Finance Commission provided a comprehensive template for the preparation of State Finance Commission reports. While the structure has served as a foundational guide for State Finance Commission, there is a growing need to revise the template to accommodate emerging governance challenges, climate imperatives, fiscal innovations and the evolving role of local government. Therefore, following improvements are suggested:

1. Review of Administrative Establishment in the state

A significant addition is the proposed chapter IV, which addresses the critical but often-overlooked interface between administrative capacity and fiscal decentralisation. This chapter may provide a detailed review of the composition and deployment of administrative personnel across various tiers. On this line, further analysis can be made on cadres including All India Services, State Services, and permanent and *ad hoc* employees at district and sub-district levels, blocks, Panchayats, and Municipalities. It may evaluate the financial cost of administrative establishment in the present and the future, considering trends in salaries, pensions and inflation-driven cost escalation in administrative costs.

2. Strengthen Outcome Orientation and Performance Metrics

The current template is largely input and output based (e.g. fund flows, tax collection, expenditure tracking). Therefore, it is suggested to introduce a new section on Outcome and Impact Assessment in service delivery by including performance benchmarks and Key Performance Indicators at local level.

3. Incorporate Climate Resilience and Sustainability

The growing vulnerabilities due to climate change call for proactive fiscal and service planning. Hence, it is proposed to add climate resilient infrastructure planning, green budgeting and sustainable revenue generation measures at local government level.

4. Use of Digital Tools and Real-time Data Systems

E-governance tools are being adopted, but not adequately captured in the template and SFC analysis. It is proposed to make evaluation of digital adoption in financial management, use of GIS, MIS and online portals for monitoring and delivery, data integration between local government and state finance departments.

5. Convergence with Centrally Sponsored Schemes (CSS)

States and local governments implement several centrally sponsored schemes that significantly impact local finances. Therefore, convergence analysis of union, state and local government funds should be investigated.

6. Enhanced Focus on Urban-Rural Continuum

The urban-rural migration, peri-urban growth and shared infrastructure needs are blurring boundaries. Consequently, there is need to introduce a cross-cutting analysis of inter-jurisdictional service delivery and recommendations should be made on inter-tier coordination mechanisms

7. Fiscal Risk and Contingent Liability Assessment

Increasing reliance on guarantees, annuity payments and public private partnership liabilities requires better risk management. Therefore, the assessment of contingent liabilities of local government and Risk scenarios becomes imperative.

8. Capacity Assessment of Local Government

The effective devolution depends on institutional readiness therefore it is suggested to include a dedicated sub-section under proposed Chapter XII, the technical capacity, training levels, staff capacity gaps in service delivery and strategic roadmaps for enhancing local government capacity.

The updated template retains the core structure and guiding principles of the framework recommended by the 13th Finance Commission, thereby preserving continuity and comparability across successive State Finance Commissions. However, in light of the spirit of 243 I and 243 Y emanated from the Joint Committee of the Parliament (1991) for the Seventy Third Amendment Bill (1991) and the emerging governance priorities, selective enhancements have been incorporated to improve policy making and contextual relevance.

Furthermore, the revised template adopts more constitutionally aligned terminology, replacing generic references such as “PRIs” with “Panchayats”, “Urban Local Bodies” with “Municipalities”, “Zilla Parishad” to “District Panchayats”, “local bodies” with “local governments” etc, thereby enhancing legal precision and institutional coherence.

The proposed template has been consciously designed to evolve into a dynamic and modular framework, enabling customisation by individual state based on their level of decentralisation,

urbanisation patterns and the institutional maturity of local governments. This adaptive approach ensures that the template remains relevant across diverse administrative and fiscal contexts. By incorporating these features, the revised template aspires to guide the next generation of State Finance Commission reports to be not only technically robust, but also vision-driven, data-informed and policy-enabling, thereby strengthening the overall architecture of fiscal decentralisation in the country as enshrined in the constitution.

The proposed updated template is presented below, incorporating refinements aimed at enhancing analytical depth, contextual relevance and alignment with contemporary governance priorities. This structure is intended to serve as a guiding framework for State Finance Commissions, allowing for both consistency and adaptability across varying state contexts.

Proposed Template for State Finance Commission Reports

Chapter I: Introduction

- a. Constitution of the Commission
- b. Terms of Reference
- c. Design and Structure of the Report
- d. Methodology and Stakeholder Consultations
- e. Alignment with National Priorities (e.g. Viksit Bharat Vision)

Chapter II: Approach and Key Issues

- a. Strategic Approach of the Commission
- b. Guiding Principles and Normative Framework
- c. Cross-Cutting Themes: Equity, Sustainability and Digital Transformation

Chapter III: Status of Implementation of Previous State Finance Commission Recommendations

- a. Action taken on recommendation relating to Devolution of Finances
- b. Action taken on other recommendations
- c. Key Take aways and Implementation Gaps

Chapter IV: Review of Public Administrative Establishment in the State

- a. Composition and Deployment of Administrative Functionaries (*Review of personnel strength and distribution across All India Services, State Administrative and Technical Cadres, District and Sub-District Levels, Blocks, Panchayats and Municipalities*)
- b. Fiscal Cost of Administrative Establishment (*Pay Grade, Trends in salaries, pensions and projected liabilities. Administrative Cost and Inflationary Trends*)

Chapter V: Overview of the State Economy and Finances (*review over a period of last five years*)

- a. Pattern of economic development in the State: Agriculture, Manufacturing and Service sector
- b. Pattern of Urbanisation & factors influencing the pace of growth
- c. Revenue Trends and Composition
- d. Expenditure Trends and Composition
- e. Fiscal Indicators (Deficit, Debt, Borrowing Constraints)
- f. Fiscal Transfers to Local governments by the State Government and line departments for Centrally Sponsored Schemes/State schemes, Nature and Size of Transfers.
- g. Contingent Liabilities and Fiscal Risks
- h. Fiscal Risk Management (PPP, Guarantees, Annuities)

Chapter VI: Review of the status of Decentralized Governance and Devolution: Panchayats and Municipalities

- a. Functional Devolution and Responsibility Mapping
(*Progress towards the devolution envisaged in Articles 243 G and 243 W: this may be assessed (a) in terms of formal notifications issued (b) linked to financial transfers as outlined in Section f of Chapter V*)
- b. Financial Accountability
(Quality of accounts maintained, whether technical guidance and supervision of C&AG has been availed, audit arrangements in place, status of audit of accounts and disposal of audit objections.)
- c. Administrative Issues
- d. Role and Accountability of State agencies at local level in managing matters listed in 11th and 12th schedules
- e. Assessment of the working of District Planning Committees (DPCs)
- f. Assessment of the working of Metropolitan Planning Committees (MPCs)
- g. Inter-tier Coordination in Rural-Urban Continuum

Chapter VII: Assessment of Physical and Social Services provided by local governments – Level of Services- Availability, Access, Coverage and Quality

- a. An Quantitative Estimate of Service Deficits with a Brief Account of the Reasons for the Deficit
- b. An Inventory of Assets; Current Use and Valuation
- c. Basic Services to Slum Settlements; Availability, Coverage, Access, Quality
- d. Assessment of the role of local governments in Disaster Management (*under State Disaster Management Plans (SDMPs) and District Disaster Management Authorities (DDMAs)*)
- e. Climate Resilience and Green Infrastructure
 - i. Vulnerability Mapping
 - ii. Local Climate Action Plans
 - iii. Renewable Energy and Sustainable Urban Planning

Chapter VIII: Assessment of Finances of Panchayats (*To be done for District Panchayats, Block Panchayats and Village Panchayats separately*) (*Analysis of all revenue sources in*

terms of trends, performance and efficiency as well as estimates of untapped tax potential to be provided)

a. Revenue

- i. Tax Revenue *(for each tax e.g., Taxes on Buildings and Land, Taxes on Non-motorized Vehicles, Taxes on Advertisements and Hoardings, Pilgrim Tax, Entertainment Tax, Others, Unrealised Revenue on accrual basis)*
- ii. Non-Tax Revenue *(for each item under non-tax revenue e.g. User Charges, Fees, Royalty on Minor Minerals, Dividend, Interest, Others)*

b. Transfers from State Government

(Trend analysis as well as a description of the nature of the transfers to be provided. Also criteria for estimating transfers including grants)

- i. Assigned Taxes
- ii. Share in State Taxes
- iii. General Purpose Grants
- iv. Special Purpose Grants
- v. Transfers for Agency Functions

c. Transfers from the Union Government

- i. Finance Commission Grants and impact - whether such flows were an additionality to State Government flows.
- ii. Agency Functions

d. Capital Account Receipts & Debt Status

e. Expenditure on Revenue Account

(Expenditure analysis; component of regulatory and enforcement expenditures, operations and maintenance costs, interest payments and expenditure on services in weaker section areas/slum settlement including area improvement/slum improvement and upgrading and adequacy of such expenditures)

- i. Administration
- ii. Civic Functions *(e.g. Water Supply, Street Lighting, Sanitation, Solid Waste Disposal)*
- iii. Expenditure on Maintenance of Community Assets
- iv. Expenditure on Schemes Assigned by the State Government
- v. Expenditure on Schemes Assigned by the Union Government
- vi. Expenditure of Interest.

f. Expenditure incurred directly by State Government on behalf of Local governments *(Salaries, Pensions and other liabilities wherever applicable)*

g. Deferred Expenditure - including unpaid bills, Annuity payments

h. Capital Expenditure

i. Net Budgetary Position

j. Review of Fiscal and Financial Management

Chapter IX: Assessment of Finances of Municipalities

(To be done for Municipal Corporation, Municipal Council and Nagar Panchayats separately) (Analysis of all revenue sources in terms of trends, performance and efficiency as well as estimates of untapped tax potential to be provided)

a. Revenue

- i. Tax Revenue *(for each tax e.g. Taxes on Buildings and land, Taxes on Non-motorized Vehicles, Taxes on Advertisements and Hoardings, Pilgrim Tax, Entertainment Tax, Any Other Tax, Unrealised Revenue on Accrual Basis)*

- (Receipts from all sources to be analysed with respect to trend, performance and efficiency. Estimates of untapped potential to be provided)*
- ii. Non-Tax Revenue *(for each item under non-tax revenue e.g. User Charges, Fees, Royalty on Minor Minerals, Dividend, Interest, Others)*
(Receipts from all sources to be analyzed with respect to trend, performance and efficiency. Estimates of untapped potential to be provided)
- b. Transfers from State Government
(Trend analysis as well as a description of the nature of the transfers to be provided. Also criteria for estimating transfers including grants)
 - i. Assigned Taxes
 - ii. Share in State Taxes
 - iii. General Purpose Grants
 - iv. Special Purpose Grants
 - v. Transfers for Agency Functions
 - c. Transfers from the Union Government
 - i. Finance Commission Grants and Impact - whether such flows were an additionality to State Government flows
 - ii. Agency Functions
 - d. Capital Account Receipts & Debt Status
 - i. Sources of Receipts *(e.g, Loans from State Government, Development Institutions, Market Borrowings, Schematic Transfers).*
 - ii. Trend of Such Receipts
 - iii. Purpose of Such Receipts
 - e. Expenditure on Revenue Account
(Expenditure analysis; component of regulatory and enforcement expenditures, operations and maintenance costs, interest payments and expenditure on services in weaker section areas/slum settlements including area improvement/slum improvement and upgrading and adequacy of such expenditures)
 - i. Administration
 - ii. Civic Functions *(e.g. Water Supply, Street Lighting, Sanitation, Solid Waste Disposal, etc.)*
 - iii. Expenditure on Maintenance of Community Assets
 - iv. Expenditure on Schemes Assigned by the State Government
 - v. Expenditure on Schemes Assigned by the Union Government
 - vi. Expenditure on Interest
 - vii. Expenditure Incurred Directly by State Government on Behalf of Municipalities
(Salaries, Pensions and Other Liabilities Wherever Applicable)
 - viii. Deferred Expenditure – Including Unpaid Bills, Annuity Payments,
 - ix. Capital Expenditure
 - x. Net Budgetary Position
 - xi. Review of Fiscal and Financial Management

Chapter X: Assessment of the Gap in Financial Resources and Scheme of Devolution

- a. Assessment of the Gap
(Normative adjustments made as well as assumptions for the same, population projections for the reference period, functional domain and norms for services, financial norms for services, volume of financial requirements for five years)
 - a. Panchayat
 - i. District Panchayats

- ii. Block Panchayats
 - iii. Village Panchayats
- b. Municipalities
 - i. Municipal Corporations
 - ii. Municipal Councils
 - iii. Nagar Panchayats
- b. Strategy for Bridging Normative Vertical Gap
 - i. Approach to tax and non-tax domain – how can tax and non-tax revenue collection efficiency be improved? What incentives should be put in place? How much more can be mobilised by better application of the existing tax domain?
 - ii. Other Approaches – Market; PPP etc
- c. Scheme of Devolution
 - a. Assignment of Taxes/Non-Taxes to Panchayats and Municipalities
 - b. Share in the divisible pool (*Divisible pool be defined e.g. Total Revenue, Own Revenue, Own Tax Revenue of the State*)
 - c. Share of the Panchayats in devolution and *Inter se* Distribution among rungs of Panchayats
 - d. Share of the Municipalities in devolution and *Inter se* Distribution among levels of Municipalities
 - e. Grants-in-aid: Specific Purpose and General Purpose; Timing; Conditionality

Chapter XI: Best Practices and Innovation

- a. Case Studies from District Panchayats, Block Panchayats and Village Panchayats
- b. Case Studies from Municipal Corporation, Municipal Councils and Nagar Panchayats
- c. Case Studies of urbanization in the state
- d. Green Budgeting and Climate-sensitive Planning
- e. Public-Private Partnerships and Innovations in Service Delivery
- f. Gender-Inclusive Governance Models
- g. Urban-Rural Synergy Models

Chapter XII: General Observations and Concluding Remarks

- a. Implementation Strategy
 - i. Improving Data Bases (Real Time data use for planning and Monitoring)
 - ii. Capacity Building and Training (*Training Infrastructure and Institutional Arrangements, Extent of training coverage and skill development, Strategic roadmap for enhancing local government capacity*)
 - iii. Level of digital literacy and readiness for e-governance (*Adoption of e-Governance Tools and Platforms*)
 - iv. Transparency and Citizen Engagement
 - v. Use of Key Performance Indicators to Track Services and Outcome Metrics
 - vi. Suggestions for Union Finance Commission

Chapter XIII: Monitoring, Evaluation and Impact Framework

(Whether local governments have in place a framework to monitor the levels of services provided by them in their jurisdiction in comparison to the minimum standard notified)

- a. Local M&E Systems and Benchmarking
- b. Tools for Outcome-based Monitoring

Chapter XIV: Summary of Recommendations

In conclusion, evolving the template into a dynamic and modular structure will provide the necessary flexibility for states to tailor their SFC reports in alignment with their unique governance contexts. By accommodating variations in the level of decentralization, urbanization patterns, and institutional maturity of local governments, the proposed approach ensures that future SFC reports are not only technically sound but also context-sensitive, forward-looking, and policy-enabling.

Annex 9

SFCs and Value Capture Fund

The third SFC of Chhattisgarh suggested that Municipalities should be given better access to land for building infrastructure and creating public assets. One way to raise funds for city development is by using land-based financing tools, such as charging fees for converting land use, collecting betterment or development charges, or allowing builders to pay for using more Floor Space Index (FSI) than normally permitted. However, since land is controlled by the State Government, local government need both legal backing and training to manage these tools effectively. In this context, the commission recommended that cities should first prepare a clear record of available land and then apply fair transparent systems to generate funds through land used, helping build better urban infrastructure. The State Government has accepted this recommendation.

This concept, where States/Municipalities recover a part of the increase in land value that results from public infrastructure investments, is called Value Capture Finance. In this regard, the Ministry of Housing and Urban Development came out with a Value Capture Finance (VCF) policy Framework in 2017. The key idea is that when the government builds roads, metro lines, or other infrastructure, nearby land values rise – and part of this unearned gain should be captured to fund further development. This aspect has also been explored by the following SFCs:

1. Sixth SFC of Tamil Nadu: In Tamil Nadu, there are already certain mechanisms in operation for Land Value Capture. For example, at present, the development charge is levied at the time of granting planning permission. These are designed to cover the administrative expenses of the development authority, or the local government, as the case may be, as also to partially cover the capital costs of providing the development infrastructure.

The betterment levies are another form to capture land value. There is an existing provision under the Tamil Nadu Highways Act, 2001 that any road, way or land to be declared as highway and acquired by the Government, the land benefited by the said project are levied with Betterment charges. The sixth SFC of Tamil Nadu has recommended that betterment levy should be incorporated in the tax regime for all urban infrastructure works undertaken by Municipalities to ensure more effective land value capture on a sustainable basis.

Action Taken: Not Accepted

2. The fifth SFC of Uttarakhand recommended that an important source of revenue for Municipalities could be by way of 'Value Capture Finance', as betterment charges, development charges by various urban development authorities, and part of these charges may be earmarked for the Municipalities and accordingly increased within reasonable limits.

Action Taken: Accepted

3. Fourth SFC of Andhra Pradesh: Municipal Bodies are empowered to levy building permission fee for construction of different categories of buildings. The main types of fees and charges include land use conversion charges, approval of layouts, betterment charges, external betterment, impact fee, city level infrastructure impact fee and development charges. The Commission noted that there has been no revision in fees and charges in every three years and in view of rising cost of civic amenities recommended revision of rates at least once in three years.

Action Taken: Accepted

It highlighted that an important cardinal principle for all municipalities should be to use the building fee collections for development of infrastructure and provision of civic amenities.

Action Taken: Accepted

Further, municipalities are allowed to charge a tax on non-agricultural vacant land at 0.2% of its market value each year, but many Municipalities are not using this valuable source of income. To start collecting this tax, municipalities need to create a database of all taxable properties using information from the Registration department. The Government can help by directing all Municipalities to begin imposing this tax in their areas.

Action Taken: Accepted.

4. The sixth SFC of Haryana has mentioned that as the State of Haryana is one of the rapidly urbanising states, land-based sources can prove to be source of additional revenue for Municipalities to meet the rising demand for provision of housing, transit infrastructure and other basic services. The infrastructural growth, in and around urban areas, has led to rise in land prices along the growth corridors and thus there is need to recoup these increments in land value. In this context, the SFC has made following suggestions:

- A 2% cess may be levied on each sale or purchase of agricultural land (upto 2 acres in depth) along newly constructed expressways, highways, and major district roads, until the land is converted to non-agricultural use – excluding land along access-controlled roads.
- For properties along access roads near interchanges of access-controlled expressways (within 2 KM), the same 2% cess applies. If such access roads are also new highways where cess is already levies, an additional 2% cess may be levied.
- In controlled areas declared under the Punjab Schedules Roads Act, a cess is applicable on transactions of land designated for residential, commercial, industrial, or institutional use as per the development plan, with an extra 2% cess for land up to 2 acres deep along proposed sector roads.
- For properties in Transit Oriented Development (TOD) zones, a 2% cess may apply on each transaction from the date of metro/rapid rail project approval until five years after completion.
- 1% annual cess on collector rate may be imposed on agricultural/ vacant land within urbanisable limits land use change has not been permitted.

Action Taken – Deferred.

5. The Fourth SFC of Manipur recommended that in areas where municipal initiatives have led to improved living standards – such as construction of approach roads or other local infrastructure – the government may identify these zones and permit municipalities to levy a betterment tax on residents. Additionally, in cases where specific infrastructure like roads, drains, or services benefits a small groups of households, the respective ward may be allowed to collect a maintenance charge from those beneficiaries to ensure upkeep going.

Action Taken: Deferred.

6. The fifth SFC of Odisha recommended that the government consider imposing a cess on the conversion of agricultural land to non-agricultural use. The revenue generated from this cess may be distributed between *Panchayats* and Municipalities in ratio of 75:25, respectively.

A tax on vacant land in urban areas can be examined by the Government to mobilise additional resources and at the same time fostering urban development.

Development charges may be levied on industrial units by the concerned local government under whose jurisdiction such industries are located. The rates of such development charges can be decided by the Government.

Action Taken: Deferred

7. The fifth SFC of Tripura recommended that the Government may consider sharing proceeds from conversion charges – levied on the conversion of agricultural land to non-agricultural use between Panchayats and Municipalities in the ratio of 75:25, respectively.

Action Taken: Deferred

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