

**FISCAL FRAMEWORK FOR LOCAL GOVERNMENT GROWTH**  
**Analysing State-Local Fiscal Transfers for**  
**the 16<sup>th</sup> Finance Commission**

**Summaries of Latest SFC Reports**

*Study Sponsored by*



**16th Finance Commission**

*Commissioned to*



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## SUMMARIES OF LATEST SFC REPORTS

### Sixth SFC Summary of:

Assam	1
Bihar	9
Haryana	15
Himachal Pradesh	20
Kerala	25
Punjab	33
Rajasthan	39
Sikkim	46
Tamil Nadu	52

### Fifth SFC Summary of:

Karnataka	62
Madhya Pradesh	68
Maharashtra	77
Odisha	87
Tripura	92
Uttarakhand	101
Uttar Pradesh	110
West Bengal	122

### Fourth SFC Summary of:

Andhra Pradesh	127
Chhattisgarh	135
Manipur	141

### Third SFC Summary of

Goa	148
Gujarat	152
Nagaland	161

### Second SFC Summary of:

Arunachal Pradesh	166
Mizoram	173

### First SFC Summary of

Jharkhand	181
Telangana	184

## Assam Sixth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: November 2018  
Report Submission: April 2020  
ATR Submission: April, 2022

### Composition

Smt. T.Y. Das, IAS (Retd.), Former Chief Secretary, Assam	Chairman
Dr. J.B. Ekka IAS, Principal Secretary, P&R Department,	Member
Sh. Niraj Verma IAS, Principal Secretary UD Department,	Member
Dr. Mrinal Kanti Dutta Professor, Department of Humanities, IIT, Guwahati	Member
Sh. Shyam Jagannathan IAS, Commissioner & Secretary, Finance Department	Member Secretary

### Terms of Reference

The Commission was required to make recommendations as to the following:

1. The principles, which should govern,
  - a) the distribution between the State of Assam and the *Panchayats* and Municipalities of the net proceeds of the taxes and duties, levied and collected by the State,
  - b) the determination of the taxes, duties, tolls and fees, which may be assigned to, or appropriated by, the *Panchayats* and Municipalities,
  - c) the grants-in-aid to the *Panchayats* and Municipalities from the Consolidated Fund of the State.
2. The measures needed to improve the financial position of the *Panchayats* and Municipalities with special reference to the feasibility of raising funds by the Local Governments from financial institutions and markets, proper up-keep of assets owned by the local government, rationalisation of taxes and revenues including user charges with innovative methods providing incentives for higher mobilisation of own resources, improving the quality of service delivery, economy and efficiency in expenditure with better monitoring of physical performance and creation of urban infrastructure by the Municipalities through Public Private Partnership (PPP).
3. The Commission was also asked to make recommendations for devolution and grants-in-aid to the local government of three Autonomous Councils under Sixth Schedule Areas.

### Methodology

The Commission undertook extensive field visits to gain insights into ground realities and engage with local communities and officials. Beginning on January 19, 2019, the visits included various Municipalities and *Panchayats* across multiple districts, enabling direct interaction with elected representatives and functionaries. The methodology involved a series

of meetings with local leaders, including the Presidents of Zilla Panchayats (ZPs), Anchalik Panchayats (APs), and Gaon Panchayats (GPs), as well as officials from Municipalities and line departments. The Commission also engaged with autonomous councils and conducted discussions with departmental heads across key areas such as rural and urban development, public health, agriculture, and disaster management. A set of questionnaires was prepared for the *Panchayats* and Municipalities separately and for the General and Sixth Schedule Areas and circulated to all concerned. This comprehensive approach allowed the Commission to gather relevant data and understand the specific needs and challenges faced by different regions, informing their recommendations and decisions.

## Recommendations

### Global Sharing

- The Divisible Pool (DP) is 7.8% of the net proceeds of State taxes<sup>1</sup>.

[Accepted]

- The DP has been created out of the net proceeds of State taxes amounting to Rs.9875.48 crore during the five year period 2020-25.

(Rs. crore)

Year	Projected Net Proceeds of State Taxes	D.P.	DP as % of State Taxes
2020-21	19818	1684.53	8.5
2021-22	22236	1890.06	8.5
2022-23	24957	1996.56	8.0
2023-24	28020	2101.50	7.5
2024-25	31469	2202.83	7.0
2020-25	126500	9875.48	7.8

Of the Rs.9875.48 crore, Rs. 6290.12 crore is grant element whereas balance Rs. 3585.36 crore to be apportioned between General and Sixth Schedule Areas at the ratio of 80.54% and 19.46% respectively (same procedure is followed by the Govt. of Assam for allocation of plan outlay).

[Accepted]

### Horizontal Distribution

The amount allocated to General areas and excluded areas to be apportioned between the *Panchayats* and Municipalities on the basis of population and density of population as per 2011 census, at the ratio of 80% weightage to population and 20% weightage to population density.

[Accepted]

Share of *Panchayats* (General Areas)

<sup>1</sup> The Commission has excluded the proceeds of State's share of Central taxes and non-tax revenue collected by the State from the DP. Further, the net proceeds of State's own and duties taxes have been determined by deducting the cost of collection from the gross proceeds.

Firstly, the rural part of funds was allocated among the 26 districts in General Areas on the basis of the weighted average of three factors given below:

Parameter	Weightage
Population	50%
population density	25%
per capita district domestic product at current prices of primary sector net of mining and quarrying	25%

[Accepted]

Secondly, the district- wise allocation is to be apportioned among the three tier of *Panchayats*. In this regard, the inter-tier ratio is to be 30:30:40 for the District *Panchayat*, i.e. *Zila Parishad* (ZP), Block *Panchayat*, i.e. *Anchalik Panchayat* (AP) and Village *Panchayat*, i.e. *Gaon Panchayat* (GP) respectively.

[Accepted]

The share of each AP and GP has been determined on the basis of their respective population as per 2011 census.

[Accepted]

#### Share of Municipalities (General Areas)

In case of Municipalities, the urban part of devolution to be allocated between the Municipal Corporation and the Municipal Boards on the basis of weighted average of a composite index of four parameters that are given below:

Parameter	Weightage
Population	50%
Geographical Area	25%
Index of Infrastructure	12.5%
Per capita tax collection	12.5%

The index of infrastructure is constructed by applying three indicators viz., (i) length of surface roads, (ii) length of pucca drains and (iii) number of street lights, giving equal weightage to such factors.

[Accepted]

#### Share of *Panchayats* (Sixth Schedule Areas)

The rural share of the DP allocated to Sixth Schedule Areas amounting to Rs.507.38 crore is to be distributed among the Village Development Councils (VDCs) after retaining 20% for the

Council. The inter-se distribution among VDCs shall be in proportion to their respective population as per 2011 census. The amount is to be allocated among the three Autonomous Councils at the ratio of 62.64% to Bodoland Territorial Council (BTC), 26.16% to Karbi-Anglong Autonomous Council (KAAC) and 11.20% to Dima Hasao Autonomous Council (DHAC).

[Accepted]

#### Share of Municipalities (Sixth Schedule Areas)

The urban part of the DP for Excluded area is to be allocated among BTC, KAAC and DHAC at the ratio of 62.64% for BTC, 26.16% for KAAC and 11.20% for DHAC. Further, the share of each Municipal Boards to be determined on the basis criteria adopted for the General Areas.

In case of Municipal Boards in KAAC and DHAC, the allocated amount does not cover their revenue gap and therefore Rs.48.14 crore has been recommended as **deficit grant** in addition to the share in DP.

[Accepted]

#### Individual Tax Sharing with Local governments

Assignment of taxes and duties levied and collected by the State Government to the Local Government has not been recommended by the Commission.

[Accepted]

#### Grants to Local Governments

##### A. Specific Purpose Grant

Grants to *Panchayats*: The recommended specific purpose grant to *Panchayats* in General Areas is Rs.2869.36 crore<sup>2</sup>. It consists of direct grant to *Panchayats* amounting Rs.1799.16 crore and grant routed through line departments amounting to Rs.1070.20 crore.

[Accepted]

Grants to Municipalities: Specific purpose grant recommended for the Municipalities is Rs.1226.91 crore for the Municipal Boards and Rs.184.23 crore for Guwahati Municipal Corporation (GMC). The share of Municipal Boards consists of Rs.453.91 crore as direct grant and Rs.773.00 crore as grant routed through line departments. Grant to GMC consists of Rs.159.23 crore as direct grant and Rs.25.00 crore as grant routed through line departments.

[Accepted]

Grants to Sixth Schedule Areas: A grant of Rs.1112.54 crore during 2020-25 is recommended VDCs of BTC, KAAC and DHAC. while it is Rs. 282.71 crore for Municipalities.

[Accepted]

##### B. Incentive Grant

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<sup>2</sup> Year-wise and purpose-wise details are given in the report (pg.152)

An annual incentive grant to *Panchayats* and Municipalities of Rs. 120.40 crore and Rs.4.05 crore, respectively has been recommended subject to their performance 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. Similarly, an annual allocation of Rs.23.05 crore for VDCs and Rs.1.10 crore for Municipalities in Sixth schedules areas is recommended subject to similar fulfilment of same conditions.

[Accepted]

### C. *Strengthening of SFC Cell*

An amount of Rs.20.00 crore at the rate of Rs.4.00 crore per year to be earmarked for strengthening of SFC Cell.

[Accepted]

### Additional Funds

The Commission also recommended additional funds for *Panchayats* and Municipalities of both general areas and sixth-schedule areas for spillover schemes of 5th ASFC.

[Accepted]

### Functions and Functionaries

- The Municipalities in Assam have only been exercising functions of the eight traditional subjects included in Schedule XII.
- Although the Government of Assam devolved 22 subjects out of 29 listed in Schedule 11, the Activity Mapping of 7 subjects out of 29 listed in Schedule 11 is yet to be done.
- The State Government should take urgent steps within a set time frame for transfer of the '3F's i.e. Funds, Functionaries and Functions to enable local governments in Assam to function as vibrant instruments of the third tier of Government as envisaged under Article 243(G) of the Constitution.

[Accepted]

- The office of the Director of Audit Local Funds is to be strengthened immediately with :- (a) Adequate manpower by filling all vacant posts in the DALF on priority basis. (b) Regular training and capacity building of the auditors of DALF with access to modern technology. (c) Proper infrastructure support including building for Circle Offices and Camp Offices is to be provided. (d) Automation of the audit process in DALF.

[Accepted]

- Government to make provision for internal audit in the P&RD Department and UDD *Panchayats* & Municipalities.

[Accepted]

- All Local government should maintain accounts on accrual basis instead of cash basis.

[Accepted]

- It is recommended that AG should audit all Municipalities besides all ZPs and APs and the Central Government should be requested to enhance the Staff strength of auditors to execute the same. Moreover, setting up of Regional branch offices of AG may be considered to facilitate higher coverage of audit by the auditors of AG.

[Accepted]

- regular basic training courses must be imparted to the accounts personnel and elected representatives holding the executive positions of different committees.

[Accepted]

- Budgeting and Accounting needs to be done in the format prescribed by the CAG. Online facilities for budgeting may be ensured to the local government so as to ensure compliance.

[Accepted]

- Audit Reports need to be submitted every year to Govt. by DALF. The Finance Department also needs to forward the same to State Assembly for review immediately after receipt of the Report from DALF.

[Accepted]

- Filling up of all vacant posts in the Directorate of Audit (LF) with special focus on 42 Audit Officers and 56 Assistant Audit Officers. State Government to take urgent steps to construct Circle Offices in a phased manner.

[Accepted]

- Government to take necessary steps for providing adequate manpower for both Municipalities and *Panchayats* as per recommendations of earlier Commissions.

[Accepted]

- An amount of Rs.269.60 crore is recommended for construction of buildings for ZPs and APs and selected buildings of GPs. The earlier Commissions recommended funds for construction of buildings for some *Panchayats*. Funds need not be allotted to these *Panchayats* again. Further, an amount of Rs.148.20 crore is recommended for upgradation, repair and upkeep of buildings of ZPs, APs and GPs.

[Accepted]

- the GPs having no land or sufficient land for office buildings should immediately move the Sub Divisional Land Advisory Committee (SLAC) for allotment of Govt. land measuring 3-4 bighas. Zilla Parishads to monitor and assist in timely submission of proposals to respective SLACs.

[Accepted]

- For training of personnel in the rural sector, the Commission has recommended a grant of Rs.8.00 crore.

[Accepted]

- For urban sector training, the allocation of Rs.50.00 lakh to DALF is recommended.

[Accepted]

- The District Level Monitoring Committee needs to be constituted to coordinate, review and examine recommendations made at Municipal Board level and in the Zilla Parishads. The Committee should include representatives from independent agencies besides Municipalities and *Panchayats*. The proceedings of the meeting with views and recommendations should be submitted to the State Level State Committee for monitoring the activities of LGs.

[Accepted]

- A sum of Rs.20 crore is earmarked for a creation of permanent SFC Cell equipped with a comprehensive MIS in the Finance Department and integrated with the Panchayat and Rural Development, GDD and Urban Development departments and with staffing pattern recommended by the 4th SFC.

[Accepted]

### Other Measures

- Bye Laws to be framed by GP, AP and ZP, and P&RD to take initiative to initiate and assist *Panchayats*.

[Accepted]

- Wages of casual employees, which are not covered under the regularization scheme, to be met by the respective ZPs from the devolution fund.

[Accepted]

- The Autonomous Councils in Sixth Schedule Areas to draw up guidelines for better performance and transparency.

[Accepted]

- Technical persons from existing in-house resources in DMA and P&RD as well as from technical departments on deputation basis may constitute the pool resource to assist weak and new Municipalities as well as GPs in executing specific schemes specially out of tied funds from UFC and SFC.

[Accepted]

- All Municipalities and *Panchayats* should have provision of electronic transfer of collection taxes, duties etc. and the expenditure in this context should be met from devolution fund.

[Accepted]

- As the process of benchmarking of service standards is required to be continued on a calibrated and sustained basis, an independent third party assessment of the standards of service delivery should be put in place. An internalized system of evaluation of performance is also recommended.

[Accepted]

- As a general principle, the minimum population of a GP should conform to the prescribed norm of 6000 population.

[Accepted]

## Bihar Sixth State Finance Commission

Award Period: 2021-22 to 2024-25

Constitution: February, 2019

Interim report for: 2020-21

Report Submission: April, 2021

ATR Submission: December, 2021

### Composition

Sh. Navin Kumar IAS (Retd.)	Chairman
Dr Prabhat Prasad Ghosh Director, ADRI (M. Statistics, Ph.D.)	Member
Sh. Navin Chandra Jha IAS (Retd.)	Member

### Terms of reference

The Commission was required to make recommendations as to the following:

- a. the principles which should govern -
  - i. The distribution between the State, Panchayats and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Panchayats at all levels and the Municipalities of their respective shares of such proceeds;
  - ii. The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats and the Municipalities;
  - iii. The grants-in-aid to the Panchayats and the Municipalities from the Consolidated Fund of the State; IAS
- b. The measures needed to improve the financial position of the Panchayats and Municipalities;
- c. The Commission shall make available a report on projection of receipts and expenditure of Panchayats and Municipalities.

### Methodology

To obtain data for the report, the Commission used, *inter alia*, budget documents, reports of earlier SFCs, report of UFC15, data and information furnished by the Finance Department (FD), the Urban Development and Housing Department (UDHD) and the Panchayati Raj Department (PRD). The Commission requested PRD and UDHD to make available a memorandum covering varied topics and seeking their assistance to the Commission in framing its recommendations. As the Memoranda of both Departments were deficient in many respects, extensive consultations were held with them to elicit the desired information.

The Commission made field visits to various districts and had face-to-face interactions with the elected representatives and officials of Zila Parishads, Panchayat Samitis and Gram

Panchayats in the *Panchayats* sphere and with those of Nagar Nigams, Nagar Parishads and Nagar Panchayats in the Municipalities domain. This exposure has enabled the Commission to understand and appreciate the ground realities of the local government. The Commission undertook visits to two states, namely Kerala and Karnataka, that are known for well-developed local body functioning. This allowed the Commission to have first-hand idea of their innovative methods and good practices and some of these are being recommended for replication in Bihar.

## **Recommendations**

### **Global Sharing**

10% of the SONTR (deducting the cost of collection from SOTR) of the previous year in each year of the award period has been recommended as devolution.

[Accepted]

The Commission recommended fiscal transfer to local governments in three separate compartments (following Kerala practice) – (a) Development Fund for creation of new assets; (b) Maintenance Fund for maintenance of assets and (c) General Fund for performance of civic services, capacity building, payment of salary and remuneration and meeting other administrative and miscellaneous expenses.

### **Grants-in-aid**

The uncovered gap (expenditure - revenue gap after devolution) to be met fully with Grant from the Consolidated Fund of the State and the amount of annual Grant during the period 2021-25 to be calculated at the rate of 2.5% of CFS or previous year.

[Accepted]

### **Horizontal Distribution**

Commission recommended for distribution of composite amount of Devolution and Grant, *i.e.* Total SFC Transfer to the local government<sup>3</sup>.

[Accepted]

The amount of Total SFC Transfer is recommended to be distributed between *Panchayats* and Municipalities in the ratio 65:35.

[Accepted]

Each Share is to be apportioned in three heads as follows:

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<sup>3</sup> For the first time, a minimum threshold of Devolution and Grant has been recommended. If the calculated value of Devolution and Grant as per recommendations of this Commission falls below the Minimum threshold, the State Government should transfer at least the Minimum Threshold amount to the local governments.

- (1) Development Fund<sup>4</sup>: 30%
- (2) Maintenance Fund: 20%
- (3) General Fund: 50%

[Accepted]

These funds be used to fully meet the requirement of the following expenditure items:

- i) Expenditure items under Development Fund
  - a) Untied funds for local schemes
- ii) Expenditure items under Maintenance Fund<sup>5</sup>
  - a) Maintenance of assets,
  - b) Electricity Bills in connection with providing civic services
- iii) Expenditure items under General Fund<sup>6</sup>
  - a) Establishment expenditure covering salary/ remuneration/ wages of employees; office expenses and other administrative expenses, etc,
  - b) Expenditure over capacity building covering training, IT enablement, provision of office space, etc,
  - c) Operational expenditure for providing civic services,

The balance of SFC transfer after meeting the above items of expenditure could be used for implementing State Sponsored Schemes/ Centrally Sponsored Schemes.

#### ***A. Distribution of Panchayats Share of Total SFC Transfer***

Each fund under *Panchayats* share to be distributed amongst ZPs, PSs and GPs in the ratio 15:15:70 on the basis of population and area with the following weights:

- (i) Population: 90%
- (ii) Area: 10%

[Accepted]

#### ***B. Distribution of Municipalities' Share of Total SFC Transfer***

- (i) Distribution of Development Fund
  - (a) Special Package for Patna Nagar Nigam shall be funded from Development Fund

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<sup>4</sup> At least 40% of the Development Fund to be untied and local government is required to use these untied funds for local level development schemes under the subjects enshrined in the 11th and 12th Schedule of the Constitution respectively, subject to the overall guideline of the State Government.

<sup>5</sup> Details are given in report

<sup>6</sup> Details are given in report

[Accepted]

(b) the balance amount in Development Fund is recommended to be shared among Nagar Nigams (including Patna Nagar Nigam), Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90%

(ii) Area: 10%

[Accepted]

(ii) Distribution of Maintenance Fund

Maintenance Fund is to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90%

(ii) Area: 10%

[Accepted]

(iii) Distribution of General Fund

(a) Funds allocated for civic services in General Fund are recommended to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90%

(ii) Area: 10%

[Accepted]

(b) the remaining General Fund, other than civic services, are recommended to be distributed as indicated below:

a) Salary/ remuneration/ wages of employees: Funds to be released to each Municipality on the basis of employees in position.

b) Office expenses and other administrative expenses: Funds will be released to Municipalities as per requirement assessed by UDHD.

c) One Time Allocation to New Municipalities: UDHD to allocate funds to the new Municipalities as per requirement.

d) PMU: UDHD to use funds to defray expenditure on PMU located in the Department.

e) IT Enablement: UDHD to allocate funds as per requirement.

f) Training: UDHD to allocate fund for BUMI building as per sanctioned estimates; training fund to be allocated to training institutions as per need assessed by UDHD.

g) Office buildings and residential quarters: UDHD to allocate funds for construction of office buildings in 2021-22 and residential quarters in subsequent years to respective Municipalities as per sanctioned estimates.

### **Individual Tax Sharing with Local Government**

There is no assignment of revenue to *Panchayats* whereas 2% of Stamp Duty and 40% profession Tax is being assigned to the Municipalities. Thus it was recommended that as in the case of Municipalities, the State Government should consider assignment of taxes to *Panchayats* as well.

### **Assignment of Tax and Non-Tax Handles to Local Government**

- GPs to start collecting user fees for drinking water supply, which has begun in most GPs after successful implementation of Mukhya Mantri Nal Jal Yojna.

### **Functions and Functionaries**

- In reality, the exercise of activity mapping has been far from effective. Devolution of funds for transferred functions has not happened and the departments concerned have continued to receive budgetary allocations in respect of transferred functions.
- It was observed that, PRD has transferred a substantial number of functions, but such transfers are more in the form of ‘delegation’, rather than ‘devolution’ and no substantial responsibility and resources have been given to these institutions.
- A comprehensive e-Municipality IT system for all Municipalities and *Panchayats* to be implemented to enhance services, management, and monitoring.
- A sound IT system to be set up to monitor schemes, expenditure and revenues of the *Panchayats* and put in place a mechanism for regular periodic monitoring of these aspects. PRD to also compile data of revenue generation by *Panchayats*.
- Finance Department to set up a mechanism for regular collection of data, monitoring and review of expenditure of *Panchayats*.
- PRD to (a) make arrangements for regular audit of accounts of each *Panchayats* and (b) set up a mechanism for review of the ATRs prepared by the *Panchayats* on each audit report.
- expenditure for civic services needs to go up substantially and necessary resources in the form of untied funds must be provided to the Municipalities for this purpose during the award period.
- expenditure over salary, wages and office running expenses of the Municipalities should be fully met out of the SFC Transfers.
- Funds meant for ZPs, PSs and GKs should be transferred by PRD directly to their bank accounts by electronic bank transfer through CFMS. Similarly, money for remuneration of EAs working in GPs should be remitted directly to bank accounts of GPs by electronic bank transfer through CFMS.

- UDHD should explore the possibility of remitting funds to Municipalities' bank accounts directly by electronic bank transfer through CFMS.

### **Other Measures**

- State Government should notify Bihar Panchayat (Gram Panchayat Accounts, Audit and Taxation) Rules at the earliest.
- State Government to issue clarification and circulate a model Bye-law to enable the *Panchayats* to collect non-tax revenue and user fees against services provided.
- Revise property tax in tune with 15th UFC recommendations.
- Implement Bihar Municipal Property Tax (Assessment, Collection and Recovery) Rules 2013 in letter and spirit.
- Constitute Property Tax Board in accordance with provisions of Bihar Property Tax Board Rules 2013.
- Universalise online property tax filing and online payment of property tax. Coverage should be complete - all Municipalities from Nagar Nigams, Nagar Parishads and Nagar Panchayats should be fully covered including the newly created 111 Municipalities.
- Undertake GIS mapping for property tax purposes as well as for asset management.
- The Panchayats to mobilize revenue by (i) creating economic assets like market, shops, community hall etc. (ii) developing natural assets like horticulture, social forestry, fishery etc. on their own community land, which may be given on lease.
- Exploit fully all own sources such as parking fee, trade license, road cutting charges, mobile transmission tower fees, etc.
- Harness User Charges fully, aiming to meet O&M expenses .
- Monetize land, buildings and shops for which nominal rent is being charged and that too not recovered fully.
- The Commission recommended a restructured SFC Transfer system to ensure provision of dedicated funds for maintenance of assets.
- The UDHD suggests that if fund release is delayed, local governments should receive Delay Compensation equal to interest based on the previous year's market borrowing or State Development Loan rates.
- In order to incentivise the local governments to improve their own revenue generation, the Commission recommended the introduction of 'Revenue Effort Bonus' system.

**[Rest of the recommendations to be considered by the State Government in due course]**

## Haryana Sixth State Finance Commission

Award Period: 2021-22 to 2025-26.

Constitution: September 2020

Report Submission: December 2021

ATR Submission: February, 2023

### Composition

Sh. P. Raghavendra Rao IAS (Retd.)	Chairman
Sh. Vikas Gupta IAS	Member Secretary

### Terms of Reference

The Commission had to make recommendations relating to the following matters:

the principles, which should govern -

- (i) the distribution between the State and Zila Parishads, Panchayat Samitis and Gram Panchayats, of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under part XI of the Constitution of India and the allocation between the Zila Parishads, Panchayat Samitis and Gram Panchayats at all levels of their respective shares of such proceeds;
- (ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Gram Panchayats, Panchayat Samitis and Zila Parishads;
- (iii) the grants-in-aid to Zila Parishad, Panchayat Samitis and Gram Panchayats from the consolidated fund of the State.
- (iv) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads.
- (v) the distribution between the State and the Municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the state, which may be divided between them under part IX A of the Constitution of India, and the allocation between the Municipalities at all levels of their respective share of such proceeds;
- (vi) the determination of the taxes, duties, tolls and fees, which may be assigned to or appropriated by the Municipalities;
- (vii) the grant-in-aid to the Municipalities from the Consolidated Fund of the State.
- (viii) the measures needed to improve the financial position of the Municipalities.

In making its recommendations, the Commission was mandated to have regard, among other considerations, to:

- (i) the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;
- (ii) the resources of the State Government and demands thereon, particularly in respect of expenditure on Civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State; and
- (iii) the requirements of the Panchayati Raj Institutions and the Municipalities, and their potential for raising resources and for reducing expenditure.

### **Methodology**

Primary as well as secondary data were collected on various aspects of local finance of the *Panchayats and Municipalities*. For the purpose of primary data collection, stakeholder consultations were conducted with elected representatives and officials of *Panchayats and Municipalities*. Secondary data sources included budget documents, progress of centrally sponsored schemes and state sponsored schemes, previous reports of SFCs, etc. In order to collect primary data from the Development and Panchayats Department, Department of Urban Local Bodies and other line departments, the Commission prepared comprehensive questionnaires/schedules for each department, in accordance with their responsibilities towards the *Panchayats and Municipalities*, mainly related to functions, functionaries and finances. The Commission also prepared a brief questionnaire to seek the views of the elected representatives and officials of the local government in regional meetings, particularly regarding the devolution of funds, nature of grants, both tied and untied, own sources revenue, performance grants, accounts and audit etc. The Commission also sought memorandum from the DCs of all of the districts during the divisional level meetings with the officers. In these meetings, officers made presentations on various aspects of local governance, which were useful in writing the Report. However, in some cases, the information supplied was not comprehensive and usable.

Secondary data was collected from the Development and Panchayats Department, Department of Urban Local Bodies, Department of Economic and Statistical Analysis, Government of Haryana; Ministry of Finance, Ministry of Panchayati Raj, Government of India; NITI Aayog and reports of previous SFCs of the state and SFCs of the other states. Numerous reports, documents, studies and records have also been consulted to cull out relevant data and information in drafting the Report.

### **Recommendations**

#### **Global Sharing**

9% of the net State's Own Tax revenue as divisible pool has been recommended with the bifurcation of 7% as formula-based devolution (unconditional, untied, general transfers), and the remaining 2% as special development purpose grants. The other budgetary transfers, performance grants and post-devolution gap funds are also to be assimilated in this divisible pool of 2%.

[Financial devolution of 7 percent of the net SOTR on actual basis accepted]

- Not more than 30% of the devolved funds is to be utilised on pavement of streets by the *Panchayats* and Municipalities.

[Accepted]

### Horizontal Distribution

The amount of devolution to be distributed between *Panchayats* and Municipalities in the ratio of 50:50.

**[The State Government changed this ratio to 55:45 for *Panchayats*: Municipalities]**

- The relative shares of the divisible pool for *Panchayats* to be released to GPs, PSs, and ZPs in the ratio of 70:15:15 based on parameters and weights in Table given below. The Commission did not consider the step to compute horizontal distribution of Municipalities, which was present for *Panchayats*.

	Population (as per census 2011 or updated data)	Per capita own revenue distance <sup>7</sup>
ZP	100%	-
PS	100%	-
GP	75%	25%
Municipalities	75%	25%

[The ratio of distribution has been changed to 75:15:10 for GP:PS:ZPs. Further, Distribution criteria for Gram Panchayats and Municipalities based on weightage of 80 percent to Population (as per data of population on Parivar Pehchan Patra Portal, as on 31st December each year) and 20 percent to Area. ]

- As the revenue mobilisation capacity of some of the Municipalities from their own sources is very low, the commission recommended the post-devolution gap funds.
- Commission recommended that, the budget estimates of actual revenue from own sources (including tax and non-tax sources), must reflect accuracy equal to a minimum of 85% (that is, actual revenue must be minimum 85% of the budgeted revenue) in audited accounts of the previous year (t-1), failing which, the non-compliant Municipalities will face a 20% cut from recommended share from the SFC grant, due to those Municipalities, in the current year (t).

[Accepted]

### Individual Tax Sharing with Local Government

<sup>7</sup> The per capita on revenue distance to be calculated from the highest per capita revenue of GP within each district, whereas for Municipalities it is to be calculated from the highest per capita revenue of Municipality within each sub-category of municipal corporations, municipal councils and municipal committees.

- Panchayat tax on electricity consumption and a surcharge on stamp duty, which is being collected by the respective departments and distributed among concerned GPs later on.
- Assigned revenues for Municipalities<sup>8</sup> are from Stamp duty, State excise duty, Surcharge on VAT, vehicle tax.

### **Assignment of Tax and Non-Tax Handles to Local Government**

- Imposing user charges for the use of shamilat lands (other than through leasing) to boost revenue streams in *Panchayats*. Shamilat lands must be leased out, wherever feasible, through transparent auctioning mechanisms and in the presence of elected representatives of *Panchayats*
- GPs to fix user charges for services such as piped water, sanitation, street lighting, and community centres to enhance their financial resources.
- the State government to empower *Panchayats* to charge fee or impose taxes on petrol stations, private schools, and colleges, hospitals and nursing homes, shop, factories, commercial establishments, buildings of line departments located within the jurisdiction of the GPs.

### **Grants-in-aid**

- Performance grant to be paid to the eligible *Panchayats* which to be met from the devolution of 2% to local government<sup>9</sup> to reward the better performing local governments in revenue collection, delivery of services and other economic and social objectives.
- The Department of Development and Panchayats to constitute a dedicated wing or cell to look after the release of performance grant.
- The Commission suggested gap funding from the 2% of the divisible pool to both the *Panchayats* and Municipalities which report shortage of funds even after devolution.

### **Functions and Functionaries**

- the Development and Panchayats Department and the Department of Urban Local Bodies to carry out activity mapping of all the enlisted and devolved functions in order to get a clear picture as to how many functionaries, followed by requirement of finances is necessary.
- Elected representatives and officials of Panchayats and Municipalities to be educated about SFCs, their role, and government schemes through induction training and regular workshops.
- Establish a District SDG Cell in each district to support SDG-aligned plans at local government levels and strengthening Gram Sachivalayas to aid SDG implementation at the grassroots.
- Constituting and operationalising subcommittees dealing with different subjects at three tiers of *Panchayats* to be done on priority basis to enable people to know SDGs and to work for them.

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<sup>8</sup> 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.

<sup>9</sup> performance criterion is mentioned in the report.

- Training programs should be held for woman representatives to help them understand their roles and make decisions independently, without family influence. These programs should cover topics like financial and digital literacy, health, nutrition, and sanitation. Additionally, interactive sessions with women representatives from nearby areas should be organized for knowledge sharing and support.

[Decision not mentioned in ATR]

### **Other Measures**

- District SDG Cell in every district is recommended to be set up to help with SDG plans at the local government level and to strengthen Gram Sachivalayas for implementing SDGs at the community level.
- The State Finance Commission should collect and prepare comprehensive data on local finances, including income and expenditure of all Panchayat and Municipality tiers for the past five years and projections for the next five years.
- An interactive and well-designed website must also be created, administered and maintained by the SFC Cell, to publish all relevant data recommendations and actions taken, associated with the previous and present Commissions.
- The management and development of shamilat lands should be included in PRI training modules, with mass campaigns conducted to raise awareness about their importance and protection.
- A strong social audit system should be set up in every GP, using Gram Sabhas and Ward Sabhas. This will help ensure that local government works fairly and prevents favoritism and corruption.
- The Gram Sabha to be empowered to check public records, review accounts and audit reports, and ask questions about decisions, activities, programs, and financial matters from the agencies in charge.
- It was recommended that the GP be reorganised so that each has a population of around 5000 with some flexibility for hilly and sparsely populated areas.

[Necessary action for the amendments of relevant Acts/Rules introduction of Legislative measures, wherever necessary, for the implementation of the recommendations of the Commission will be taken up by the concerned department.]

## Himachal Pradesh Sixth State Finance Commission

Award Period: 2022-23 to 2026-27

Constitution: August 2020

Interim report: 2022-23

Report Submission: October, 2022

ATR Submission: March, 2023

### Composition

Sh. Satpal Singh Satti	Chairman
Dr. Rajneesh, Pr. Secretary (Urban Development)	Member (Ex-officio)
Sh. Devesh Kumar	Member (Ex-officio)
Dr. Basu Sood Advisor (Planning)	Member Secretary (Ex-officio)

### Terms of Reference

The Commission was required to make recommendations to the Government as to:-

a) The principles, which should govern: -

- i) The distribution between the State, Panchayats and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and allocation between all levels of Panchayats/ Municipalities of their respective shares of such proceeds.
- ii) The grant-in-aid to Panchayats/ Municipalities from the Consolidated Fund of the State.

b) To suggest measures needed to improve the financial position of Panchayats/Municipalities.

c) The Commission should make an assessment of needs based on the actual devolution of functions to each tier of the *Panchayats* and an assessment of potential fiscal capacity based on the tax and non-tax resources available to *Panchayats* in making any recommendations on devolving untied grants or share of State taxes to these bodies.

d) The Commission should make an assessment of recurring grants for specific schemes of the State Government relating to support for honorarium and expenses of elected body representatives and employees of *Panchayats* and suggest improvements in these schemes in order to promote the exercise of fiscal autonomy and responsibility by the *Panchayats*.

e) The Commission should suggest appropriate ways to take forward the process of devolution of functions, funds and functionaries to the financial capacity of the State Government. It may make specific suggestions with regard to:-

- Support for pilots to hand over responsibilities for delivery of primary education, primary health, water and sanitation and rural roads to appropriate levels of *Panchayats*.

- Changes in legislation and procedures necessary to enhance the tax and non-tax capacity of the *Panchayats* consistent with accepted principles of taxation at the local level,
- Strengthening of administrative capacity of *Panchayats* by placing under their control relevant categories of employees either by way of recruitment at the level of relevant tiers of the *Panchayats* or by seconding of existing State Government staff to them.

f) Any other matter referred to the Sixth Himachal Pradesh State Finance Commission by the Government in the interest of sound finances of the *Panchayats/ Municipalities*.

Suggest measures to reduce revenue deficit of the local government by drawing a monitorable Fiscal Reforms Programme. The Reforms Programme should clearly suggest a mechanism for incentives to local government within the devolution framework linked to achievement of well-defined milestones to exploit the available and the potential sources of the revenue in addition to the State Finance Commission and Central Finance Commission grants.

Suggest measures to ensure accountability in utilizing resources raised or received from the State and Central Governments and other agencies and also the maintenance of local body accounts and database based on the recommendations of Central Finance Commission, for effective operation of these recommendations and linking a part of the grants with the performance.

### **Methodology**

The finalization of the report of the Commission required data from different sources including data on questionnaires from selected *Panchayats and Municipalities*. There are 12 Zila Parishads, 81 Panchayat Samitis and 3615 Gram Panchayats in Himachal Pradesh. The data on devised questionnaires were solicited from all the Zila Parishads and Panchayat Samitis. However, for getting data on devised questionnaires from Gram Panchayats, around 10% sample (360 Gram Panchayats) had been drawn and 360 Gram Panchayats were selected by following systematic sampling method. The data on expenditure and committed liabilities of *Panchayats* for existing and projected award periods of the Commission was also collected from the Panchayati Raj Department to compare the data collected on questionnaires and to assess accuracy of collected information.

There are 5 Municipal Corporations, 27 Nagar Panchayats and 29 Municipal Councils in Himachal Pradesh. The data on devised questionnaires were sought from all the Municipalities. The data on expenditure and committed liabilities of Municipalities for existing and projected award period of the Commission were also collected from the Urban Development Department to authenticate the data collected on questionnaires and to assess accuracy of collected information.

## **Recommendations**

### **Global Sharing**

The Commission recommended devolution as the gap filling grants, separately for *Panchayats* and Municipalities, rather than specifying any share in the State's own revenues. These grants are based on committed liabilities<sup>10</sup> of ZPs, PSs, and GPs and Municipalities with 5% annual hike.

The state government to provide extra funds through supplementary grants whenever honorarium rate for elected representatives/ members or salary of staff is revised.

### **Inter se Distribution of share to *Panchayats***

The recommended devolution to *Panchayats* was Rs.1945.02 crore. This also includes 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 *Panchayats*.

The grants to be devolved to the *Panchayats* by giving a weight of 90% to population and 10% to the area or as per the actual requirement of a local body based on the manpower deployed in it as may be considered fit by the PRD.

The entire amount recommended for the *Panchayats* by the Commission is to be divided into 90% as Basic Grants and 10% as Performance Grants.

### **Inter se Distribution of share to Municipalities**

The entire amount recommended for the Municipalities to be divided into 80% as Basic Grants and 20% as Performance Grants.

The UDD to determine the basis for disbursing these recommended grants to Municipal Corporations, Municipal Councils and Nagar Panchayats depending on the manpower deployed or as is deemed fit by it.

### **Individual Tax sharing with Local Government**

No revenue is assigned to local government.

### **Assignment of Tax and Non-tax Handles to Local Government**

The Commission recommended collection of following taxes and cesses by the local government:

The *Panchayats* to collect the following taxes, fees and levies:

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<sup>10</sup> The committed liabilities are in the form of honorarium to the elected representatives and the remuneration and salaries to be paid to their staff.

- a) 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.
- b) The tariff on drinking water and the water used for irrigation to be collected and retained by the local government.
- c) The marriage registration fee and fee for birth and death registration to be increased periodically with the provision of concessional fees to the BPL/EWS. The delay in registration to be penalized appropriately.
- d) Educational institution funds should be used for development in consultation with school management, PTA, and members of local government. The local government may oversee the execution and maintenance of works.
- e) The mandatory monthly fees for segregated household solid waste/garbage collection may be fixed by the local government in such a manner that the entire operation is self-sustained in the long run.

Municipalities to be strengthened in the following manner:

- a.) differential taxation of urban properties by different Municipalities based on geographical location. The defaulter house owners may be penalized by charging penal interest on the tax due combined with making them ineligible for availing civic amenities within the jurisdiction of the local government.
- b.) The tariff on drinking water to be indexed with the inflation rate in such a manner that the tariff is revised every year in urban municipalities.

### **Grants-in-Aid**

Apart from the total devolution as grant recommended by the Commission, it also recommended a grant of Rs. 3 crore to set up a platform and secretariat for ensuring that local government accounts are maintained using PRIYASOFT/e-SWARAJ and linked with IFMS and PFMS.

### **Functions and functionaries**

- The Commission noted resistance from Government Departments in transferring funds and functionaries to local governments and officials' reluctance to report to elected local representatives.
- Establishment of a permanent mechanism which can periodically review the progress made in actual transfer of funds, functions and functionaries to the local government.
- To fully implement the Activity Mapping, the State Government should form a High-Powered Committee of Secretaries from relevant departments, chaired by the Chief Secretary, to oversee and suggest improvements for the devolution process.
- The Department of Panchayati Raj to make necessary diversion of funds in the eventuality of redeployment of staff from one PRI to another. The department shall also

determine the actual requirement of funds to meet the expenditure needs of a *Panchayat* based on actual deployment of manpower.

### **Other Measures**

- *Panchayats* should put a list of all the assets owned by it, monetized or non-monetized in the public domain by the end of March, 2024.
- Full automation of accounts and their daily updation by all the *Panchayats* and Municipalities.
- Social audits should be a regular part of local government functions, with the existing State-level Social Audit Unit strengthened through empanelled consultants without adding government staff.
- Establish a permanent institutional mechanism within the Planning Department to support the SFC, monitor departmental actions on SFC and UFC recommendations, act as a link between local governments and Finance Commissions, and ensure real-time access to local government financial data and analysis.

## Kerala Sixth State Finance Commission

Award Period: 2021-22 to 2025-26

Constitution: 31<sup>st</sup> October, 2019

Report Submission: first report: December, 2020

Second Report: December, 2021

ATR Submission: Date not mentioned

### Composition

Sh. S.M. Vijayanand Former Chief Secretary to Govt. of Kerala and former Secretary to GoI in the Ministry of Panchayati Raj	Chairman
Sh. Rajesh Kumar Singh IAS, Additional Chief Secretary, Department of Finance	Member
Smt.Sarada Muraleedharan IAS, Principal Secretary, Department of Local Self Government,	Member
Sh. A.Shibu Additional Secretary in the Department of Finance	Secretary

### Terms of Reference

The Commission was required to make recommendations as to the following:

(a) The principles which should govern,-

- i. The distribution between the State, *Panchayats* and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part IX and Part IX-A of the Constitution and the allocation between the *Panchayats* at all levels and the Municipalities of their respective shares of such proceeds;
- ii. the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by, the *Panchayats* and the Municipalities;
- iii. the grants-in-aid to the *Panchayats* and the Municipalities from the Consolidated Fund of the State;

(b) The measures needed to improve the financial position of the *Panchayats* and the Municipalities with reference to:-

- i. enhancing the resource raising capacity through taxes and non-tax revenues, both by broadening the base and by improving assessment and collection and preventing evasion;
- ii. enabling them to raise funds from financial institutions and the market, suggesting a framework for achieving this potential;
- iii. mobilizing additional resources through contributions in cash and kind, sponsorships, Corporate Social Responsibility funds, etc.;
- iv. providing incentives for higher own resource mobilization;

- v. achieving proper convergence of resource across programmes and schemes to improve outcomes;
  - vi. improving financial management and achieving economy and efficiency in expenditure, and achieving fiscal responsibility.
2. The Finance Commission was required make recommendations to:
- a) streamline flow of funds including carryover of funds;
  - b) ensure settlement of claims and dues of local governments vis-à-vis Government and Governmental agencies;
  - c) improve the processes and systems with respect to budgeting, accounting and auditing;
  - d) create a database for local level planning including spatial and fiscal aspects and its systematic use;
  - e) improve the quality of planning by local governments including regular upkeep of assets;
  - f) enhance the quality of assets created by local governments including the use of appropriate construction technologies;
  - g) improve efficiency of governance including e-governance in local governments especially in managing the institutions of service delivery, using social enter *Panchayats* in providing affordable services, etc.;
  - h) enable local governments to contribute effectively to disaster management;
  - i) enhance accountability including social accountability of local governments;
  - j) improve the monitoring of performance of local governments;
  - k) strengthen the performance accountability mechanism of institutions supporting local governments like Information Kerala Mission, Suchitwa Mission, Kerala Institute of Local Administration, State Poverty Eradication Mission etc.

The recommendations of the last five SFCs were to be reviewed and appropriate suggestions were to be given fully operationalizing them. Further, the overall performance of local governments was to be assessed and suggestions was to be given for enhancing their efficiency.

### **Methodology**

The Commission decided to follow a methodology combining data collection and analysis with elaborate consultations with wide ranging stakeholders, supplemented by research studies on specific relevant themes. However, due the Covid-19, the Commission had to make changes to its intended plan of action. At the same time, it decided not to compromise on the depth and quality of its work. Therefore, the commission submitted its report in more than one volume.

The Commission had the benefit of the methodologies adopted by its predecessors and it decided to adopt the following for its first Report:

- (i) Identification of the focus areas while translating the Terms of Reference into recommendations.
- (ii) Brainstorming with selected experts known for their long involvement in decentralization and their knowledge of issues related to it.
- (iii) Detailed analysis of the Reports of the earlier five State Finance Commissions of Kerala.
- (iv) Survey of literature with focus on fiscal decentralization.
- (v) Consultations with key officials of the departments transferred to local governments and related institutions.
- (vi) Collection and analysis of the following data:
  - Receipts and Expenditure of local governments from Information Kerala Mission.

- Social Economic Caste Census of the Ministry of Rural Development, Government of India.
  - SC/ST Survey carried out by the SC/ST Development Department with the help of KILA.
  - Land use and vulnerability to disasters from Kerala State Land Use Board.
- (vii) Collection of opinions and additional data from all the local governments through questionnaires.
- (viii) Collection and analysis of data from all the transferred institutions.
- (ix) Seeking suggestions from the public.

Further, the SFC conducted empirical studies with the support of UNICEF and KILA to understanding the efficiency of expenditure, challenges and impact of local governments interventions in Scheduled Caste Sub Plan (SCSP), Tribal Sub Plan (TSP), Anti-Poverty Sub Plan, Women Component Plan (WCP), Palliative Care and Plan for Special Groups, viz., children, elderly and persons with disabilities.

## Recommendations

### Global Sharing

General purpose fund (GPF) as 4% of SOTR

Maintenance fund (MF) as 6.5% of SOTR of which Road Maintenance Fund would be 4% and non-road Maintenance Fund would be 2.5%<sup>11</sup>.

Development fund (DF) to be 26% of plan size in 2021-22 and then increase by 0.5% every year till it touches 30%.

[Accepted]

The Commission recommended reversal to the old practice of gross SoTR for devolution of GPF and MF.

[Rejected. *GPF and MF will be shared based on net SoTR as the Article 243*]

### Horizontal Distribution<sup>12</sup>

#### 1. Development Fund –General

- (a) The total Funds under General Sector to be divided among *Panchayats*, Municipalities and Municipal Corporations in the ratio of 77.24: 13.42: 9.34, which reflects the non-SC/ST population (as per 2011 census) living in rural areas, Municipalities and Municipal Corporations.

[Accepted with modification. *The ratio of non SC/ST population as per 2011 census is 76.35:13.89:9.76. Hence, the distribution will be made as per that ratio*].

- (b) The ratio of allocation fund among Village *Panchayats*, Block *Panchayats* and District *Panchayats* to be as 70: 15: 15.

[Accepted]

<sup>11</sup> It was recommended that (*t-2*) system be retained in respect of GPF and MF, but the amounts under GPF and MF for a year should not come down from the amounts of the previous year, even if (*t-2*) SoTR comes down. This has been partially accepted by the State Government.

<sup>12</sup> The devolution formulae proposed are intended only for the first year. With the availability of more data – especially regarding the functioning of transferred institutions, establishment costs, and on revenue-raising potential – along with the Union Finance Commission’s recommendations for the following four years, the formulae would be reviewed and adjusted as needed.

(c) For the general sector of the development fund including the Union Finance Commission grant the formula for inter se distribution for all the five categories of local governments to be as follows:

Sl. no.	Indicator	Village panchayat	Block panchayat	District Panchayat	Municipality	Municipal Corporation
1.	Non SC ST Population (As per 2011 census)	40	50	50	40	40
2.	Area (in sq km)	10	10	10	10	10
3.	Environmental Vulnerability 1. Flood plain area (in Ha) 2. Coastal line length (km) 3. High Hazard Zone (In Ha)	10	10	10	10	10
4.	Deprivation Index ● Households without LPG Connection ● Houses without electricity ● Houses without water connection ● Antyodaya Anna Yojana and priority households ● Distance from per capita own revenue weighted with population	25	30*	30*	25	25
5.	Incentive for revenue mobilisation	15	-	-	15	15
	Total	100	100	100	100	100

Note: \*Does not include distance from highest per capita own revenue

[Accepted with modification: In the case of General Sector fund excluding UFC grant for Village Panchayats and Municipalities, the maximum of decrease is limited to 15% and maximum of increase to 75% over the year 2020-21.]

## 2. Development Fund –SCSP/TSP

**(i) Scheduled Caste Sub Plan (SCSP)** - SCSP funds to be divided among *Panchayats*, Municipalities and Municipal Corporations as per the ratio of Scheduled Cast population in the rural areas, Municipalities and Municipal Corporations (i.e, 83.25 : 10.25 : 6.50 as per 2011 census). The share for the *Panchayats* to be apportioned in the ratio of 60:20:20 among Village, Block and District *Panchayats*.

[Accepted]

### **(ii) Inter-se distribution of SCSP**

The SCSP Funds to be distributed giving weightage to population and deprivation index in the ratio of 60:40 for all tiers of Local Governments. Deprivation Index has been calculated giving equal weightage to the following indicators based on the SC Survey completed in 2011.

- (1) Landlessness and Houseless households.
- (2) Housing status – dilapidated, single room.
- (3) Housing amenities – access to electricity.
- (4) Unemployment of population in the age group of 15-59.

- (5) Population with education below Std. X.  
 (6) Population in habitats.

[Accepted with modification: *In the case of SCSP funds for Village Panchayats (excluding those in Thalikkulam Block Panchayat) and Municipalities, the maximum of decrease is limited to 15% and maximum of increase to 40% over the year 2020-21*].

(i) **Tribal Sub Plan (TSP)** - TSP funds to be divided among *Panchayat*, Municipalities and Municipal Corporations as per the ratio of Scheduled Tribe population in rural areas, Municipalities and Municipal Corporations (i.e, 91.96 : 6.08 : 1.96). The share for the *Panchayats* to again be apportioned in the ratio of 60: 20: 20 among Village, Block and District *Panchayats*.

[Accepted]

(ii) **Inter -se distribution of TSP** Funds for all tiers of local governments to be done as per the weightages given below:

Population -60%

Index of Deprivation -40%

The deprivation index is constructed using the following indicators based on the ST Survey.

1. Landless and houseless households
2. Housing status-dilapidated houses
3. Houses without electricity
4. Population with education below Std.X

[Accepted]

### 3. Maintenance Funds (both road and non-road)

(i) The weightage to be given to each category of road would be as follows:

(a)	Tarred road (non-BM&BC)	1
(b)	Gravel/ Metal road	1
(c)	Earthen road	0.25
(d)	Other roads -BM&BC, Concrete, inter locked pavement	0.05

The Commission further recommended that the roads would be divided into two categories on the basis of width, below three metres and above three metres with weightages of 0.5 and 1 between them. Area should not be considered now.

[Accepted]

(ii) The Non-Road Maintenance Fund for the first four months to be the same as in the previous year. The Commission suggested the following negative list in use of non-road Maintenance Funds.

(a) Air-conditioning of offices.

(b) Expenditures in the own offices of Village Panchayats, Municipalities and Municipal Corporations.

- (c) Maintenance of assets related to solid and liquid waste management.
- (d) Maintenance of shopping complexes, bus stands, bus bay, etc.
- (e) Maintenance of water supply schemes run by the Local Governments.
- (f) Maintenance of street lights.

[Accepted]

#### 4. General Purpose Fund

The GPF to be divided as follows:

For Block *Panchayats* and District *Panchayats*, the present system<sup>13</sup> to be continued during 2021-22.

For the Village *Panchayats*, Municipalities and Municipal Corporations, the shares to be apportioned in the ratio of population of 77.24:13.43: 9.34,

The *inter se* distribution to be governed by a formula giving equal weightage to population and distance from highest per capita own income weighted with population.

Rs.10 crore may be set apart as gap fund from the share of Village *Panchayats*. If there is no demand for this in the first six months, the unspent amount to be distributed as per the formula.

[The recommendation in respect of Block and District *Panchayats* has been accepted. The *inter se* distribution of GPF to Village *Panchayats*, Municipalities and Municipal Corporations will be made based on population only as is done presently. A Special Grant at the rate of Rs. 15 Lakh each will be given to six Village *Panchayats*, viz., Erumeli, Chittar, Ranni-Perunad, Vadasserikkara, Seethathodu and Naranamoozhy around Sabarimala and Rs. 25 Lakh to Guruvayur Municipality from the GPF. This amount will be adjusted in the last installment of GPF].

#### Individual Tax Sharing with Local Governments

- (i) The share of the Entertainment component of GST received by the State Government should be passed down to Village *Panchayats*/Municipalities/Corporations, using the formula fixed for GPF. [Rejected]
- (ii) The advertisement component under GST to be passed down to local governments. [Rejected]
- (iii) The minimum rate of Service Cess to be fixed at 15% of the property tax. [Accepted with modification that rate is 10%]

#### Assignment of Tax and Non-tax Handles to Local Governments

- (i) Local government to be authorised to levy licence fee for advertisements erected in the form of boards in public and private places by the side of the roads

<sup>13</sup> A fixed amount is given to Block Panchayat and District Panchayat (Rs.50.32 lakh each to Block Panchayat and Rs.384.13 lakh each to District Panchayat and 12 % increase is given in each year over the previous year's share).

[Accepted with the modification that only commercial advertisement boards erected shall be brought under Licence fee]

- (ii) Building Tax be made a Local Government tax through necessary amendments with effect from 01-04-2021.

[Rejected]

### Functions and Functionaries

- The ATR to the Assembly should be in two parts, one listing the recommendations accepted and operationalized and the second a list of recommendations accepted but requiring time for taking them to the logical conclusion. In the case of the latter, time-limits should be indicated.

[Rejected]

- Government to request the Speaker of the Assembly to consider entrusting monitoring of action taken on State Finance Commission recommendations to the Assembly Committee on Local Fund Accounts.

[Rejected]

- For the recommendations which would take time to operationalize fully, an Empowered Committee to be set up for the purpose which would be serviced by the SFC cell till the recommendations are operationalized.

[Accepted]

- A Special Capacity Building Programme should be designed by KILA to train Local Governments which intend to take up PPP projects.

[Accepted]

- Kerala State Audit Department should conduct tax audit, which will focus on efficiency of resource mobilisation.

[Accepted]

### Other Measures

- All Local Governments should prepare a GIS map indicating the revenue bases and make it a public document.

[Accepted]

- Facilities for e-payment of all dues to local governments should be provided.

[Accepted]

- Kudumbashree units to be assigned the task of collecting dues.

[to be decided by the local government whether the service of Kudumbashree units be made use of or not]

- KURDFC should be restructured as an Asset Management Company to operationalize the KLGDF and should be mentored by KIIFB.

[Accepted]

- Credit ratings of the six Municipal Corporations should be done to float Green Bonds. Further, Local Governments which are able to float revenue bonds should be suitably incentivized for which LSGD to come out with a programme.

[Accepted]

- Details of all the borrowings of local governments, directly from the banks or through the Kerala Local Government Development Fund should be in the public domain including details of repayments.

[Accepted]

- Property tax to be linked to their fair value.

[Deferred]

- The Sanchaya Software needs to be overhauled to improve revenue mobilisation. [Accepted]
- Technical Support Agencies to be identified to facilitate PPP projects related to local governments. [Accepted]
- Local government Revenue Board to be constituted for local governments. [Rejected]
- Slabs of the profession tax to be re-fixed. [Accepted]
- Entertainment Tax Act may be amended to broaden the scope of entertainment. [Accepted]
- All Central Government properties and companies should be assessed for service charge and tax, respectively, for which a survey may be done by local governments. [Accepted with modification that assessment be made only for service charge]
- Surcharge on property tax to be renamed as “Benefit Charge”. [Accepted]
- To reduce the cascading effect of entertainment tax under GST, the Commission recommended 10% as the rate [Accepted]

## Punjab Sixth State Finance Commission

Award Period: 2021-22 to 2025-26

Constitution: July, 2018  
Report Submission: March, 2022  
ATR Submission: March, 2022

### Composition:

Sh. K. R. Lakhanpal IAS(Retd.), Former Chief Secretary, Punjab.	Chairman
Sh. Rahul Bhandari	Member
Sh. A.K. Sinha	Member
Dr. B.S. Ghuman Former Vice Chancellor, Punjabi University, Patiala	Expert Member (part-time)
Sh. G Vajralingam IAS (Retd.)	Member Secretary

### Terms of reference

Commission made recommendations relating to the following matters:

- a. The principles which should govern: -
  - i) the distribution between the State and the *Panchayats*/Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them and the allocation between the *Panchayats*/ Municipalities at all levels of their respective shares of such proceeds;
  - ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the *Panchayats*/Municipalities; and
  - iii) the grants-in-aid to the *Panchayats*/Municipalities from the Consolidated Fund of the State.
- b. the measures needed to improve the financial position of the *Panchayats*/ Municipalities.
- c. the measures to reduce unproductive revenue expenditure and steps to improve the quality of administration and technical support for efficient and effective use of capital resources, and
- d. any other matter referred to the Finance Commission by the Governor in the interest of sound finances of the *Panchayats*/Municipalities.

### Methodology

The Commission undertook a comprehensive task of gathering and compiling extensive data from various state departments, including Finance, Planning, and Local Government. This involved appointing Nodal Officers and preparing specific data formats to facilitate the

collection of information. Data was sourced from multiple publications and databases, including the Statistical Abstract and Economic Survey of Punjab, as well as national-level institutions like the Reserve Bank of India. Simple statistical tools were employed to analyze the data, which was presented in various formats such as tables and graphs. Additionally, the Commission reviewed literature and previous reports to better understand and address key issues.

To enhance stakeholder engagement, the Commission designed a structured questionnaire to gather feedback on the devolution of funds and resource mobilization. Despite reaching out to a wide range of stakeholders, including politicians, university vice-chancellors, and local government officials, the response was lukewarm. The Commission also conducted video consultations with experts due to the Covid-19 pandemic and formed committees to focus on data bank creation and capacity building for local government. They held multiple meetings with state officials, including the Chief Minister and various ministers, to seek guidance and incorporate their inputs into the report, which was further informed by a research study on internal resource mobilization and service delivery.

## **Recommendations**

### **Global Sharing**

The Commission recommended 3.5% of SONTR<sup>14</sup> to be devolved to the *Panchayats* and Municipalities for the period of 2021-22 to 2025-26.

[Accepted]

### **Horizontal Distribution**

3.5% of state's net own tax revenues to be devolved to the *Panchayats* and Municipalities in the ratio 55:45 for the period 2021-22 to 2025-26.

[Accepted]

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<sup>14</sup> The composition of the Divisible Pool include all the three elements *viz* (i) sharing of own tax revenues; (ii) assigning to or appropriation of the state's own tax revenues, by the local government and (iii) grants-in-aid to the local government.

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.

(t) stands for current year (e.g., 2021-22) and t-1 stands for previous year (e.g., 2020-21).

*Inter-se distribution to GPs<sup>15</sup>*

Tax Devolution (criterion with weightage)		
	Criterion	weights (%)
i	Population	80
ii	Area	10
iii	SC Population	10
Distribution Criteria of Tax Devolution		
50% share	tied	For Water Supply, sewerage, drainage, sanitation, and sewage disposal treatment
50% share	untied	For any legitimate purpose, not for payment of salaries and establishment expenses

[Accepted]

*Inter-se Distribution to Municipalities*

Tax Devolution (criterion with weightage)		
	Criterion	weights (%)
i	Population	90
ii	Area	10
Distribution Criteria of Tax Devolution		
50% share	tied	For Water Supply, sewerage, drainage, sanitation, and sewage disposal treatment
50% share	untied	For any legitimate purpose, not for payment of salaries and establishment expenses

[Accepted]

**Individual Tax Sharing with Local Government**

- The entire proceeds of ‘tax on professions, trades, calling and employments’ in T-1 to be assigned to the local governments and to be shared between the *Panchayats* and Municipalities in the ratio of 20: 80, respectively.

[Accepted]

- 10% of proceeds of Stamp Duty and Registration Fee in T-1 to be assigned to the local government based on actual revenue collected in their areas. If the Department

<sup>15</sup> Due to the substantial grants to the ZPs and PSs by the 15th FC, the recommended devolution is for inter se distribution for the GPs only.

of Finance does not have separate rural-urban data, a 55: 45 ratio to be used to distribute funds between the *Panchayats* and Municipalities, respectively.

[Rejected]

- 2% share of VAT (excluding ID Cess) on the Petroleum Product on the basis of its realisation in the rural areas be appropriated to the GPs only.

[Rejected]

- 16% of Additional Excise Duty and 10% of Auction Money to be distributed among *Panchayats* and Municipalities on lines given by line department.

[Accepted]

- *Inter-se* distribution of Assigned revenue to be on above lines as given tax for devolution.

[Accepted for professional tax, AED and auction money]

### **Assignment of Tax and Non-tax Handles to Local Government**

- The State Government to allow local governments to impose a local tax on mobile services, including mobile towers, lines and connections in rural areas.
- levy of scavenging and sanitation tax by Municipalities in Punjab
- Mutation fee to be levied by Municipalities at the time of registration of immovable property.
- It is recommended to levy fair fees on polluters and congestion sources, such as green fee, entry fee, and parking fees, starting with large, high-pollution, and high congestion cities/town.

### **Grants-in-aid**

A grant of Rs. 1830 crore has been recommended from the Consolidated Fund of State during the award period which is to be distributed between *Panchayats* and Municipalities in the ratio of 55:45, respectively after deducting a share for PIPFPA.

100% share of *Panchayats* to be distributed amongst financially weak GPs and 75% for financially weak Municipalities, with the remaining 25% to be distributed based on performance. The criteria for identifying the financially weak local government to be set by the relevant administrative departments. Similarly, criterion for distribution of performance grant to be decided by the department of Local Government.

[Rejected, State Government already releases substantial funds to local government in various schemes and discretionary grants etc every year. so no separate action is required in this regard]

### **Functions and functionaries**

- The Government of Punjab transferred 13 subjects/functions (7 key departments) to Panchayats with partial or limited control since October 16, 2003.
- The Commission observed a mismatch in government resources, with outdated institutions and public sector entities locking up valuable resources, while essential services suffer from severe understaffing in areas like education, healthcare, law enforcement and management. Immediate action is needed to address this imbalance.
- Due to weak devolution of funds and functionaries, many of the functions which were devolved to the local governments were reverted back to their parent departments. This shows that Punjab's track-record in functional devolution is not only weak but also regressive in nature.
- It was also observed by the Commission that many of the functions that have been assigned to Municipalities are performed by the parastatal bodies or agencies as they are better positioned in terms of funds, infrastructure, manpower and expertise to perform these functions.
- Many of the provisions which are there in the Act, are missing at the implementation level. Thus, it was recommended that the relevant laws, notifications, and orders related to the devolution of functions to local government be updated to match the constitutional requirements. These should also consider the size, needs, resources, and capacity of the different local governments.
- The State Government to set standards for coverage, quality, and cost of assigned functions to be reviewed every five years.
- The Commission strongly recommended forming an expert group led by a person with strong qualifications in this area, to create a new legal and administrative framework for local governments, including the recommendations mentioned earlier.
- A model HRD Plan to be created for each local government, based on their size, functions and resources. this plan should emphasize professionalism, technical expertise, and autonomy, with state government handling managerial staff and local government managing worker staff. The plan to be reviewed every five years to stay updated.

### **Other Measures**

- Delayed or no payments have been observed in the payments of additional excise duty on liquor and share of auction money. In the absence of any legal backup, the local governments have not been able to claim this. It is, therefore, recommended that payments be made legally mandatory for any future payments.
- The rent from shamlat land can increase significantly if GPs are given priority access to electricity connections for tubewells. This is recommended to the state government.
- House tax/ property tax be enhanced in rural areas.
- the state government to consider the possibility of imposing a local tax on cable networks and other new forms of entertainment, such as internet cafe, pubs, gaming facilities and amusement parks.

- Profession tax limit to be increased to 12000 per annum as suggested by 15th FC.
- The Commission observed that around 1% of the income from ‘Shamlat Land’ of GPs is taken by the Department and 15-20% by the block level authorities. Similar is the case with Municipal Committees where 1% of the income is appropriated by the state government. Such practice of reverse devolution should be repealed.
- Electricity used in drinking water and sewage treatment schemes to be charged at domestic tariff rates instead of at commercial rates.
- A new law should be enacted, similar to the Maharashtra GST (Compensation to Local Authorities) Act, 2017 or the Punjab Municipal Fund Act, 2006 be amended to restore compensation for Municipalities revenue loss due to the abolition of Octroi.
- User charges for services like water supply, sewage, and solid waste management to be revised gradually.
- The Commission recommended mapping the administrative and regulatory services provided by the Municipalities, setting new charges, and allowing for revisions every three years.
- A data bank to be created for local government for storing important information about their functioning in real time.
- State Government to make a strong policy framework for incentivizing the own revenue mobilization and penalizing the disappointing performance by the local government.
- State government to make an assessment of existing infrastructure as to its functionality or dysfunctionality.
- Fresh physical and social infrastructure creation to be need based, equitable and outcome-focused, for better service to people and huge savings to the government.
- The starting point for integrated socio-economic and spatial planning should be regional planning.
- Integrate land use with transportation in the Master Planning models to take advantage of agglomeration economies and minimize congestion diseconomies.
- The planning of the city and its defined periphery should be an integral function of Municipalities (at least the large ones).
- Re-zoning, replanning, renewal and redevelopment of urban areas for improved civic amenities and infrastructure.

**[Rest of the recommendations are to be examined by the concerned department and to take necessary action]**

## Rajasthan Sixth State Finance Commission

Award Period: 2020-2025

Constitution: April, 2021

Interim Report Submission: June, 2021

Award period of interim report: 2020-22

Final Report Submission: September, 2023

ATR Submission: February, 2024

### Composition

Capt. Pradyumn Singh Former Cabinet Minister and Minister in the State Govt.	Chairman
Dr. Lakshman Singh Rawat Former member of Rajasthan Legislative Assembly and Founder President of 'All India Rawat Rajput Mahasabha'	Member
Dr. Ashok Lahoti Member of the Rajasthan Legislative Assembly from Sanganer (Jaipur) constituency.	Member
Sh. S.C. Derashri IAS (Retd.), Former Member Secretary to 2 <sup>nd</sup> & 5 <sup>th</sup> SFC	Member Secretary

### Terms of Reference of the Commission

- I. The Commission was required to review the financial position of the local government at all levels and make recommendations as to:
  - a) the principles which should govern:
    - (i) the distribution between the State and *Panchayats* and Municipalities at all levels of net proceeds of taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part-IX and IX A of the Constitution and allocation between *Panchayats* and Municipalities at all levels of their respective shares of such proceeds;
    - (ii) the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the *Panchayats* and Municipalities at all levels; and
    - (iii) the grants-in-aid to the *Panchayats* and Municipalities at all levels from the Consolidated Fund of the State.
  - b) the measures needed to improve the financial position of the *Panchayats* and Municipalities
- II. The Commission was also required to suggest measures needed to strengthen the financial position of the Local Governments [Panchayats (at all three levels) and Municipalities] with special reference to:
  - (i) scope for better fiscal management consistent with the need for speed, efficiency and cost-effectiveness in the delivery of services;

- (ii) upgradation of information technology systems in the running of affairs and delivery of services by Local Governments;
  - (iii) maintaining of online Accounting System and a proper fiscal database linkage with Integrated Financial Management System (IFMS) relating to Local Governments;
  - (iv) achieving economy and efficiency in expenditure by the Local Governments;
  - (v) improving the financial position of the Local Governments with special emphasis on rationalization of taxes and revenues and user charges, collected by Local Governments with innovative methods;
  - (vi) possible new avenues for tapping resources in *Panchayats* and Municipalities keeping in mind the local body tax structure in other states;
  - (vii) improving the quality of upkeep of assets owned by the local governments as well as those transferred to the local governments;
  - (viii) improving monitoring of the fiscal performance of the local governments; and
  - (ix) examine the feasibility and make recommendations on the creation of infrastructure and other civic amenities by the local governments through PPP.
- III. In making its recommendations, the Commission were to have regard, among other considerations, to:
- (i) financial resources of the State and demands thereon, on account of expenditure on Civil Administration, Police and Judicial Administration, Education, Maintenance of Capital Assets, Social Welfare, Debt Servicing and other committed expenditure or liabilities of the State Government and need to generate an adequate surplus on revenue account for State's commitments on capital account and other commitments of the State Government;
  - (ii) adjustment of grants available to the Local Governments under the recommendations of the 15th Finance Commission in their resources;
  - (iii) revenue of the resources of the Local Governments for five years commencing from 01.04.2020 on the basis of the level of collection made during the preceding five years' taxes and revenues, and user charges, levied by the Local Governments;
  - (iv) fiscal transfers from the State Government to Local Governments based on net own tax receipts of the State in place of share in individual taxes; and
  - (v) a normative approach in the assessment of expenditure rather than making forecasts based on historical trends.

II items (iii to ix) of the ToR had been incorporated for the first time keeping in view the present-day requirements.

### **Methodology**

The Commission developed a detailed questionnaire for Panchayats and Municipalities, collecting data from over 11,000 institutions, and corrected it online, though facing issues with poor data quality and lack of item-wise receipt and expenditure information. It also gathered secondary data from state departments, visited Gram Panchayats and Municipal Bodies to assess work and spending, and obtained information on audits, fund utilization, and public participation through Gram Sabhas. To inform its work, the Commission consulted various reports, including annual administrative reports of departments, budget documents,

recommendations from previous Union Finance Commissions, the Economic Survey, and publications from research institutes. Additionally, suggestions were solicited from the public, associations, and experts through a public notice in newspapers to improve the financial conditions and service delivery of local governments. The Commission held various field visits to interact with local government functionaries, especially focusing on their financial status, staffing, fund utilization, core function performance, and transfer of subjects. It also visited Bihar State to study the functioning of Panchayats and Municipalities. Furthermore, the Commission participated in and conducted various conferences, workshops, and studies, emphasizing the involvement of people at the grassroots level in the decision-making process.

## Recommendations

### Global Sharing

- 7.25% of state's own net tax revenue (excluding GST compensation) for transfer to the local governments both *Panchayats* and Municipalities as grants.

[As per ATR, for the years 2020-21 to 2023-24, the state government accepted the 6.75% of SONTR (as recommended in interim report) and for the year 2024-25, the State Government has accepted 7% of SONTR]

### Horizontal distribution

- The ratio of distribution of funds between *Panchayats* and Municipalities to be kept at 75.1% and 24.9% respectively based on rural and urban population of Census-2011.

[For the years 2020-21 to 2023-24, the Government has accepted the ratio (as also suggested by interim report). However, due to the formation of new Municipalities this ratio has been changed to 73.2 and 26.8 for the year 2024-25].

- The parameters and weights for district-wise distribution of funds among *Panchayats*

Sr. No	Parameter	Weight
1.	Population	40%
2.	Geographical Area	25%
3.	SC Population	5%
4.	ST Population	5%
5.	Girls' education (up to class 8)	5%
6.	Deprivation on 7 criteria as per SECC-2011	10%
7.	Average own revenue mobilization (2015-20)	10%
4	Total	100%

[The Commission removed parameters on child sex ratio, population change, and IMR, and added “average own revenue mobilization (2015-20)” while increasing the weight of geographical area from 15% taken in the Interim Report to 25% in the final report.]

[The State Government has accepted the parameters given in the interim report for the years 2020-21 to 2023-24 and for the years 2024-25, it has accepted the parameters given in the final report]

If data for new districts is unavailable, funds should be distributed among existing and new districts based on population (75%) and area (25%), or solely by population if area data is lacking.

Further distribution among the three-tier *Panchayats* to be made at 5% for ZPs, 20% for PSs and 75% GPs.

[Accepted]

For Municipalities, 70% of funds to be distributed based on population (55%) and area (15%), with the remaining 30% allocated to Municipalities<sup>16</sup> based on population (20%) and deviation in per capita income (10%).

[Accepted]

#### Utilization of Funds

The Commission has recommended the following for the distribution of funds by *Panchayats* and Municipalities.

S. no	Institutions	Basic and development functions	National/State priority schemes and other development activities	Gender friendly spaces	Incentive for raising own income
1.	Panchayats	55%	40%	2%	3%
2.	Municipalities	75%	20%	2%	3%

The *Panchayats* may be paid incentives equal to the additional amount of own income raised as compared to average of preceding three year’s own income. The Municipalities may be paid 50%, Municipal Councils 25% and the Municipal Corporations 10% amount.

#### Individual Tax sharing with Local Government

No revenue is assigned to local government

#### Assignment of Tax and Non-tax Handles to Local Government

<sup>16</sup> Third category of Municipalities in Rajasthan is called Municipality.

no new revenue source recommended for local government.

### Grants-in-aid

As the entire amount of devolution is to be transferred in the form of grants only, therefore, the Commission did not recommend any grant-in-aid to *Panchayats and Municipalities* separately.

### Functions and Functionaries

- The State Government should fill up vacant posts of Village Development Officers (Secretary Gram Panchayat) and Clerks on a priority basis within a time frame to make the functioning of Gram Panchayats effective.
- The Panchayati Raj Department should ensure the implementation of guidelines strictly for the cleaning of village streets, roads and community toilets on daily basis and its status should be reviewed and monitored at regular intervals.
- The Commission recommended creating a permanent Secretariat for monitoring SFC recommendations and related tasks, or strengthening the existing FC&EAD Cell for the same.
- The State Government to ensure proper implementation of orders related to the five transferred subjects/ departments to the *Panchayats*, so that *Panchayats* can effectively carry out the activities transferred to them.
- Benchmarking of basic civic services like cleaning, sanitation, and garbage disposal should be implemented in gram panchayats, with the Panchayati Raj Department incorporating these into the “Gramin Karya Nirdeshika” for regular maintenance.
- State Finance Commission to be set up well in advance in such a manner that its recommendations could be available at the beginning of the award period and the Central Finance Commission can also see its recommendations.

### Other Measures

- The gram panchayats to provide separate toilet facilities for girls in schools and Aangan Bari Centers on a priority basis. [Accepted]
- LED lights on streets to be provided as proposed by the Panchayati Raj Department where required. [Accepted]
- Expenditure on PRIA Soft PFMS interface (PPI), e-Gram Swaraj Portal, to be met from SFC grants. The hiring of computer operator with machine wherever necessary to be allowed. [Accepted]
- Funds for camps and campaigns @Rs. 1 lakh per Gram Panchayat, Rs. 2 lakh per Panchayat Samiti and Rs. 3 lakh per Zila Parishad in a year may be met from SFC grants. [Accepted]

- Construction of buildings for newly created *Panchayats* and also repair of *Panchayat* buildings to be undertaken from SFC grants wherever necessary. Newly created *Panchayats* may also be provided necessary logistic support. [Accepted]
- Grants may be utilized by the *Panchayats* for gap funding /matching share, etc. [Accepted]
- Grants may be utilized towards the conservation of heritage properties not covered by Tourism/Archeology Departments. [Accepted]
- Repair and maintenance of Municipal buildings may be carried out and gap funding may be done out of SFC grants. [Accepted]
- Construction of office buildings for newly created Municipalities/ upgraded Municipal Councils may be carried out from SFC grants. Payment of salary & allowances to sanitation workers may also be made out of SFC grants. [Accepted]
- No funds should be spent on personal needs/requirements of any elected representative/ official, or purchase of a vehicle unless specifically authorized by the State Government. [Accepted]
- The Panchayati Raj set up in the State of Bihar has Village Courts called “Gram Kachahari” for settlement of petty disputes. The State Government in Panchayati Raj Department to examine this system for appropriate action.
- The State Government to take necessary steps to strengthen Ward Sabhas and Gram Sabhas.
- Timely audit is a precondition to transparency and audit of local governments needs to be done on regular basis, the State Government is enjoined upon to make proper arrangements for timely audit of these institutions.
- Gram Panchayats to be equipped with IT enabled system to become *SMART* institutions of local governance.
- The State Government to take necessary measures to strengthen the *Panchayats* & Municipalities and the Local Fund Audit Department to implement the suggestions of the Principal Accountant General and ensure their compliance.
- The release, utilization, and completion of SFC grants for *Panchayats* and Municipalities to be made transparent, integrated with IFMS/PFMS, and follow CFC grant procedures, with accounts maintained as per CAG guidelines. [Accepted]
- The State Government to evolve a suitable mechanism for asset evaluation, reporting and impact assessment of funds utilized under various schemes and programs. Such reports should also be published for information of all concerned.

- The use of garbage for electricity generation in Jaipur and Jodhpur is a successful initiative that should be adopted by other municipal corporations and large municipalities.
- Top-performing Sarpanchs and municipal Chairpersons may receive Appreciation/Merit Certificates on national holidays, with the scheme extended to higher-level elected representatives for state-level awards.
- Independent agencies should be assigned monitoring and impact assessment of the funds' utilization by *Panchayats* and Municipalities and could also be made responsible for giving feedback and suggestions to the respective authorities.
- The *Panchayats* particularly the *gram panchayats* should levy and recover taxes, fees and surcharges as laid down under the provisions of the Panchayati Raj Act/Rules to become self-sufficient to some extent.
- All properties and establishments covered under the Notification dated 24.08.2016 should be surveyed and UD tax be recovered from eligible properties strictly. Recovery of UD Tax to be made through electricity bills to ensure recoveries.
- UD Tax to be made applicable to residential properties having an area of 100 sq. yards and above and commercial properties with an area of 50 sq. yards and above.
- UD tax to be renamed as Property Tax to facilitate its recoveries.
- Fire Cess must be recovered from all eligible multistorey and high-rise buildings.
- A sizeable amount of tax and non-tax revenues of Municipalities are outstanding. Serious efforts should be made to recover the dues within a time-bound manner.
- Possibilities of issuing Municipal Bonds should be explored by some Municipalities.

**[For the remaining recommendations by the SFC, the final report would be forwarded to the related administrative department for consideration and further necessary action].**

## Sikkim Sixth State Finance Commission

Award Period: 2025-26 to 2029-30

Constitution: June, 2022

Report Submission: February, 2024

ATR Submission: August, 2024

### Composition

Smt. Tashi Cho Cho Secretary, Home Department	Chairman
Smt. Roshni Rai Secretary, Sikkim Information Commission	Member
Sh. Tenzing D Denzongpa Director, Panchayat Rural Development Deptt.	Member
Sh. Raj Narayan Pradhan Director (F&A), Rural Development Deptt.	Member Secretary

### Terms of Reference

The 6th State Finance Commission was mandated to make recommendations regarding the following:

- a) The principles which should govern: -
  - i. The distribution of fund between the State and local government, namely, Zilla Panchayat, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats, of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them under part IX and IX A of the Constitution of India and the allocation between the Zilla Panchayats, Gram Panchayats and Municipalities at all levels of their respective shares of such proceeds.
  - ii. The determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Zilla Panchayats, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats from the Consolidated fund of the State.
  - iii. The Grants-in-Aid to the Zilla Panchayats, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats from the Consolidated fund of the State
- b) The measures needed to improve the financial position of the Zilla Panchayats, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats.

2. The Commission was also required to: -

- i. Examine and make suggestions the extent to which and the manner in which the resource available to local governments could best be utilized for meeting the expenditure of the local government.
- ii. Make a detailed analysis of the repayment of loans and advances, if any, extended by the Government from time to time to the local government and make suitable recommendations for repayment of Government dues and make possibility of adjusting these dues against future devolution of revenues from Government to these bodies.
- iii. Examine the resources of the local governments for the five years commencing on 1<sup>st</sup> April 2025, on the basis of the existing and proposed level of taxation and nontax revenues reached/likely to be reached by the end of the fiscal year 2029-30. Any new taxes and duties leviable during the award period may be taken into consideration

3. In making its recommendations, the Commission was to have regard to, among other things:
  - (i) The resources of the State Government and the demands thereon on account of expenditure on civil administration, debt servicing, development and other committed expenditure of the local governments.
  - (ii) Suggest improving the quality of public expenditure to obtain better outputs and outcomes.
  - (iii) Examine the component of maintenance and upkeep of capital assets created by the local governments or transferred by the Government to the local governments.
4. In making its recommendations on various matters, the Commission was to take the base of population figure as of 2011, in all such cases where population is a factor for determination of devolution of taxes, duties, and grants-in-aids.
5. The Commission was to indicate the basis on which it had arrived at its findings and make available the estimate of receipts and expenditure of each tier of local governments within the State.
6. The Commission was required to submit its recommendations to the Governor by 31<sup>st</sup> December, 2022, covering the period of five years commencing of the 1<sup>st</sup> day of April, 2025.

### **Methodology**

The Commission used both statistical and participatory methods to collect relevant data. The SFC developed questionnaires and data formats to gather financial and functional information from Gram Panchayats, Zilla Panchayats, Municipalities, and State Government departments. To gain a deeper understanding of the current field and financial situations, the SFC organized consultations with over nine categories of stakeholders. These included interactions with members of the 5th SFC, officials from Municipalities, officers of Zilla and Gram Panchayats, line department officials, elected representatives of Gram Panchayats, Zilla Panchayats, and Municipalities, as well as discussions with the SIRD, SICB, corporate representatives for CSR support, and Self-Help Groups.

### **Recommendations**

#### **Global Sharing**

6% of the Net Own Tax Revenue<sup>17</sup> is recommended for the local government in Sikkim to be given as grant as follows:

- A. Grants to the local government: Out of the recommended devolution of 6% of the NOTR, 5% to be devolved directly to the *Panchayats* and the Municipalities as Grants.
- B. Grants to Nodal Departments to enable the local government: The remaining 1% of the NOTR to be allocated to different state level initiatives to strengthen the functioning of local government in Sikkim. Out of this 1% of NOTR,
  - (i) 0.5% to be devolved to the State Capacity Building Fund (SCBF) for providing appropriate capacity building support to the *Panchayats* and Municipalities, and
  - (ii) 0.5% to be devolved as the Enabling Grant which has following two components:
    - (a) Office Infrastructure Grant to enable appropriate functioning of offices of the local government, and

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<sup>17</sup> The 6th SFC considered the Net Own Tax Revenue as the divisible pool of resources at the State Level which comprises the State GST, Taxes on sales, trade etc., State Excise Duties, Stamp Duty and Registration Fees, Motor Vehicle Tax, Land Revenue and Other taxes. It excludes the Profession Tax.

- (b) the Lumpsum yearly grant (Rs.60 Lakhs per annum) for establishment and functioning of a permanent SFC cell to oversee the effective implementation of the SFC recommendations.

**[Accepted. The devolution of grants would be on absolute figures as recommended by the 6th State Finance Commission]**

**Minimum Assured Grant to the GPs and the Municipalities:** The 6<sup>th</sup> SFC recommended that every Gram Panchayat and every Municipalities in Sikkim should receive the Minimum Assured Grant (MAG) every year during 2025-30.

- i. Each GP of Sikkim should receive Rs. 6 Lakhs per annum as MAG, and
- ii. Each Municipality should receive MAG at the rate of Rs. 50 Lakhs per annum.

[Accepted]

**Divisible Pool for Devolution to the *Panchayats* and the Municipalities:** The MAG to be secured first. The divisible pool for devolution to *Panchayats* and the Municipalities will be derived after subtracting the Total of MAGs from the recommended Total Devolution to the *Panchayats* and the Municipalities.

Total MAGs during a year = 6x199 (for GPs) + 50X7 (for Municipalities) = Rs.1544 Lakhs

Yearly Divisible Pool for Local Government = 5% of the NOTR of the year minus Rs.1544 Lakhs

[Accepted]

### Horizontal Distribution

The Divisible Pool to be distributed between the *Panchayats* and the Municipalities in ratio of 75% to 25% on the basis of proportion of rural and urban population in Sikkim.

[Accepted]

### *Inter-se distribution*

Sharing between Tiers of the *Panchayats*: Out of the total devolution to the *Panchayats*, 70% to be allocated to the GPs and 30% to the ZPs.

[Accepted]

Weighted allocations to Individual Local Governments: The Commission recommended the following weights for the distribution devolution GP, ZP and municipalities:

Parameter	Weightage (%)
Population (Census 2011)	90
Geographical Area	10

[Accepted]

Distribution of SCBF: There are no specific training institutes in Sikkim for the Municipalities. The Ministry of Panchayati Raj has been providing regular training support for the *Panchayats*, however, Municipalities have not received similar support from the Central Ministries. Considering this, the Commission suggested that 60% and 40% of the SCBF should be allocated for *Panchayats* and Municipalities, respectively.

[Accepted]

As mentioned above, enabling grants have two components:

- (a) The Infrastructure Grant to be distributed between *Panchayats* and Municipalities in a ratio of 75% to 25%. The respective departments must ensure that 75% of the Infrastructure Grant is allocated as the 'Digitization Grant' for IT infrastructure (hardware and software) and 25% for other office infrastructure, including the office furniture. Under Digitisation Grant, procurement of software and database creation shall be prioritized over hardware procurement.

[Accepted]

- (b) Lumpsum grant for establishment of SFC Cell: The Commission recommended a lumpsum amount of Rs. 60 Lakhs per year for salaries of contractual manpower (if required) and operational/administrative cost for the establishment of the SFC Cell in the Finance Department of Sikkim to monitor and support the implementation of accepted recommendations of the SFCs.

[Accepted. The Finance Commission Division shall continue to function as the State Finance Commission Cell].

### Grants-in-aid

- Basic and Performance Grants: The entire amount after deducting MAG devolved to the individual GPs, the ZPs and the Municipalities to be divided into 80% as Basic Grants (without any conditions for 2025-26 and thereafter submission of utilization certificate) and 20% as the Performance Grant. Local governments receive performance grants based on performance in regular audits, increase their own revenue, and focus their spending on achieving the SDGs in their areas.
- The existing provision of Grants-in-Aid from the Government of Sikkim to the *Panchayats* and the Municipalities to support their recurring expenses such as salaries to be continued.

[Accepted]

[Accepted]

### Individual Tax Sharing with Local Government

- 15% of net Profession Tax to be shared with local governments for creation of Capital Investment Fund (CIF) to give boost to infrastructure development activities in local areas.

[Not Accepted]

### Assignment of Tax and Non-tax Handles to Local Government

- Currently, only Gangtok Municipal Corporation is collecting the construction fee which should gradually be given to other local governments as they build their capacity.

[Accepted]

## Functions and functionaries

- The activity mapping based devolution of functions to be completed by RDD and UDD by 31st March 2026, and for this purpose, funds from the SCBF can be used  
[Accepted]
- A detailed list to be prepared of all staff working at the GP, ZP, and Municipalities levels, including their roles, responsibilities and salaries. The responsible departments should review this data and, if necessary, re-assign some staff. The information should be made available on the department's website.  
[Accepted]
- As the majority of local governments were not aware of the recommendations of the previous Commissions and thus could not demand the implementation of those recommendations, the present commission recommended to provide a lump-sum one time IEC-grant for printing and dissemination of the copies of ATR among all GPUs, ZPs, Municipalities, SIRD and NGOs.  
[Accepted]
- Directorate of Local Fund Audit to ensure the statutory audit of all local governments in Sikkim and to put their accounts online. Additionally, audits conducted by the CAG and DLFA on the same local government should be integrated and published for public access.  
[Accepted]
- All local government to voluntarily undertake the social audit of expenses incurred by them during a financial year.  
[Accepted]

## Other measures

- Honorarium of elected representatives to be increased fairly to match growing responsibilities.  
[Accepted]
- Rates of taxes, fees, and levies assigned to the GPs, the ZPs and the Municipalities must be revised by the nodal departments before 30th June 2025. The Secretaries of Rural Development and Urban Development department to ensure compliance.  
[Accepted]
- Contractual relations between the willing SHGs and the willing local governments should be facilitated for collection of taxes, fees, and levies, for which SHGs should be paid mutually agreed collection charges. The nodal department to prepare a Standard Operating Procedure (SOP) for tax collections in this regard.  
[Accepted]
- As recommended by the 15th FC, the profession tax limit to be increased from Rs.2500 to Rs. 18000 per annum.  
[Accepted]
- The Commercial Tax Department in coordination with RDD and UDD to develop updated databank for commercial enterprises in their areas.  
[Accepted]

- Like in case of urban areas, Building Bye Laws to be prepared by RDD to regulate construction activities in rural areas and for this purpose, the fund under SCBF could be utilized subject to a maximum of Rs. 7.50 lakhs per year.

[Accepted]

- A state level and district level nodal committee should be formed for CSR coordination activities (for financial and/or technical support from corporate professionals) with the Commerce and Industries Department.

[Accepted]

## Tamil Nadu Sixth State Finance Commission

Award Period: 2022-23 to 2026-27

Constitution: March 2020  
Report Submission: March, 2022  
ATR Submission: January, 2023

### Composition

Sh. Mohan Pyare I.A.S. (Retd.)	Chairperson
Sh. Katharbatcha Muthuramalingam, Member of Legislative Assembly, Ramanathapuram Constituency	Non-official member
Dr. R Selvaraj, Commissioner of Town Panchayats	Member
Sh. P Ponniah, Director of Municipal Administration	Member
Sh. Praveen P Nair, Director of Rural Development and Panchayat Raj	Member
Sh. Prashant M Wadnere IAS	Member Secretary (From 31.07.2021 to 28.02.2022)

### Terms of Reference

The Commission was required to review the financial position of the *Panchayats* and Municipalities, viz. Village Panchayats, Panchayat Unions Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations and make recommendations as to:

- a. The principles which should govern the distribution between the State and the said local governments of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the said local government of their respective shares of such proceeds;
  - the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the local government;
  - the grants-in-aid to the local governments from the Consolidated Fund of the State.
- b. The measures needed to improve the financial position of the local governments and identifying new avenues for resources mobilisation in *Panchayats* and Municipalities keeping in mind the local government tax structure in other States.
- c. Suggesting ways to avoid mounting of unpaid bills of electricity charges to Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and water charges to Tamil Nadu Water Supply & Drainage Board (TWAD)/ Chennai Metropolitan Water Supply and Sewerage

Board (CMWSSB) and other bulk water providers and to ensure prompt and timely settlement of charges to these utilities.

d. Suggesting ways for strengthening the service delivery capacities of local government administration to enable them to effectively discharge the roles and responsibilities entrusted to them in the Constitution of India and the State Legislations,

e. Examining the possibility of providing devolution to Cantonment Boards from out of the Consolidated Fund of the State.

### **Methodology**

The Commission analyzed the online data collected, noting improvements in data reliability but also identifying issues with accuracy. To address this, the data was validated with information from other agencies such as DLFA and various HODs. A questionnaire was prepared considering the pandemic situation, requesting local governments to share online data on income, expenditure, demographic area, and capital expenditure. The Commission set up its own server system for data collection, with in-house software developed to collect data in SQL formats, enabling quick compilation by the Commission Secretariat. Guidelines for filling out the questionnaires were hosted on the server, and training sessions were conducted for end users to access the server, upload data, and clarify doubts via online meetings and designated phone numbers.

The Commission also conducted online meetings with elected representatives, such as Panchayat Presidents, Union Chairpersons, and District Panchayat Presidents, discussing resource augmentation, local government finance analysis, and self-sustainability. Separate online meetings were held with district officials, Collectors, Municipal Commissioners, Town Panchayat Executive Officers, and Assistant Director Panchayats to gather their views. Public suggestions were also invited through post and the Commission's website. During the pandemic, the Sixth SFC toured and inspected local body offices in districts like Kanchipuram, Tiruvallur, Madurai, Salem, and Thiruvannamalai to directly interact with elected representatives and understand local government functioning. To gain external perspectives, the Commission engaged four agencies - Madras Institute of Development Studies (MIDS), Madras School of Economics (MSE), Centre for Effective Governance of Indian States (CEGIS), and UNICEF - to analyze the data collected from local governments. A total of 30 questionnaires were issued, and a half-day online seminar on "Issues before the Tamil Nadu Sixth State Finance Commission" was held in association with NIPFP, New Delhi, attended by experts from various fields. Population was the key criterion for the distribution of SFC devolution, with the Fifth SFC considering the 2011 Census population for Panchayats and Municipalities in determining vertical and horizontal ratios.

## Recommendations

### Global Sharing

The Commission recommended to devolve 10% of the State's Own Tax Revenue to the local governments<sup>18</sup>.

[Accepted with a modification that the existing practice of devolving 10% of the Net State's Own Tax Revenue shall be continued]

### Horizontal Distribution

Total devolution amount to be devolved between *Panchayats* and Municipalities in the ratio of 49:51 based on the following criteria:

[Ratio modified to 51:49]

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

The amount given directly to local governments to be calculated by deducting any special grants from the total share the *Panchayats* receive according to the devolution formula.

Sharing ratio among *Panchayats* of the direct devolution to be of 7:37:56 to District Panchayats, Block Panchayats and Village Panchayats respectively.

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<sup>18</sup> The net SOTR for the purpose of calculation of devolution amount should be determined by permitting the following deductions from gross SOTR:

- i. Surcharge on Stamp Duty of local governments should be deducted under the Receipt major head. In case it is not done, the same should be provided through separate expenditure heads of account.
- ii. For collection of State Goods and Services Taxes, State Excise, Stamp and Registration, Motor Vehicle Tax, Tax on Petroleum products, and other taxes, the cost of collection should be deducted. This recommendation has been accepted by the State Government.
- iii. Other Surcharges

[Accepted with a modification that the vertical sharing ratio among *Panchayats* be 6:39:55, *i.e.* 6% to District Panchayats, 39% to Panchayat Unions and 55% to Village Panchayats]

There is no minimum lump-sum grant given to District Panchayats. All the grants should be devolved based on the following weightage formula for distribution between District Panchayats.

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

[Accepted]

After retaining a minimum lump sum grant for *Panchayat* Union (Rs. 40 lakh) and village *panchayats* (Rs.7 lakh to each village panchayat), the remaining amount to be distributed based on the above-mentioned weights.

[Accepted]

The basic minimum grant given to village panchayat to be divided in two shares for settling the charges due to the water supply and electricity in the ratio of 30:70.

[Accepted]

Finance Commissions have traditionally grouped the Municipalities in three categories *i.e.*, Municipal Corporations, Municipalities and Town Panchayats. The sixth SFC, however, recommended that a new category of Municipality, named 'Metropolitan City' should be introduced for the purpose of devolution grants to accommodate the special nature of Greater Chennai Corporation (GCC).

[Accepted with the modification that instead of "metropolitan city" it maybe called as GCC]

The total devolution grants for Municipalities thus be divided into two broad categories *i.e.*, the only Metropolitan city in the State *i.e.*, Chennai and the non-metro Municipalities. The distribution between Metro and Non-Metro Municipalities to be shared in the Ratio of 16:84 based on the following weights:

Population	60%
Area	20%
SC/ST population	20%

[Accepted]

Of the 16% given to metro city, 82% is for GCC and 18% is for CMWSSB. Of the 82% of GCC, Rs.360 crore is for Department of public library as Advance Library Cess over 5 years, while the rest is direct devolution.

[Accepted]

Of the 84% for non-metro cities, Rs. 8210 crore over 5 years is fixed component for TWAD, CGF, URDF, OMGFF, schools, Tourists towns, TNIUS, PDGF, GIS mapping, library cess, sanitary workers, welfare board and newly upgraded Municipalities. The rest is through direct devolution and to be distributed among Municipal Corporations, Municipalities and Town Panchayats in the ratio of 31:36:33.

[Accepted]

The respective share of Municipal Corporations, Municipalities and Town Panchayats (after deducting Rs.40 lakh as minimum lump-sum grant to each town panchayat) are to be distributed based on following weights:

	<b>Municipal Corporations</b>	<b>Municipalities</b>	<b>Town Panchayats</b>
Population	65%	60%	55%
Area	15%	20%	25%
Slum Population	20%	20%	20%

[Accepted]

### **Grants-in-Aid**

Out of the Rural share of devolution, Special Grants have been recommended for specific purposes. The Special Grants should be further divided into State-level grants and district level grants and at both the levels, the fund is to be further divided for two purposes and allotted as Capital Grant Fund (CGF) and Operation and Maintenance Deficit Grant Fund (O&MDGF).

The fixed component grant has also been given to non-metro cities TWAD, CGF, URDF, OMGFF, schools, Tourists towns, TNIUS, PDGF, GIS mapping, library cess, sanitary workers, welfare board and newly upgraded Municipalities

[Accepted]

15 Special Grants to *Panchayats*. 12 Special Grants for non metro Municipalities.

Rs.1.5 crore to be allocated to St. thomas Mount Cum Pallavaram Cantonment Board and Rs.50 Lakh to Wellington Cantonment Board each year from the CGF.

[Accepted]

## Individual Tax Sharing with Local Government<sup>19</sup>

- The Commission recommended to do away with the use of assigned revenue for priority schemes at the State level.  
[Not accepted as it is necessary to provide infrastructure to local governments through schemes of the State government.]
- It was recommended that 75% of the assigned revenue should go to the local government where it is generated and the remaining portion should be used to help weaker local governments.  
[Accepted with modification that funds will be given to local governments, if any left, after the provision of State government priority schemes]
- The proportion of revenue from minor minerals to be shared with local governments to be fixed at 75%.  
[Accepted]
- 25% of the revenue from sand quarrying to be given to local governments, where 75% will be shared with local government where the quarry is located and 25% with the nearby local government that are adversely affected by the quarrying.  
[Accepted]
- The release mechanism for Village Panchayats should be centralised, with 75% of the entitlement based on the previous year's collection released in advance adjustable against actual collection subsequently.  
[Accepted]

## Assignment of Tax and Non-tax handles to Local Government

- *Panchayats* to be allowed to collect tax for all types of advertisement including, wall paintings,/ writing/ posters, banners and flex boards.  
[Accepted]
- Peri-urban *Panchayats* to be permitted to collect house tax and be empowered to levy Vacant Land Tax (VLT) for house sites other than agricultural land based on plinth area.  
[Deferred and will be examined separately]
- Betterment levy to be incorporated into the tax regime for all urban infrastructure projects carried out by Municipalities.  
[Not Accepted]

## Functions and Functionaries

- More functions need to be delegated to village Panchayats, especially maintenance of assets and on social sector programmes.  
[Accepted]

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<sup>19</sup> The taxes, duties, cesses and surcharges collected by the State Government on behalf of local government and assigned to them are called Assigned Revenue. This category includes Entertainment Tax and Surcharge on Stamp Duty. Earlier, local cess and local cess surcharge on land revenue were also an important source of revenue for Panchayats which are no longer available.

- A qualifying entrance test should be made mandatory for the post of Panchayat Secretary.

[Deferred and will be examined separately]

- Guidelines for integrating HR cadres in newly added areas should address sufficiency of staff across levels, role-based training needs, resourcing for bridging staff gaps, and norms for cadre integration with specified timelines.

[Accepted]

- Job charts should be revised for improved clarity on roles and responsibility and guidelines and templates should be provided for definition of Key Performance Indicators (KPIs) and performance measurement/ validation protocols across designations.

[Accepted]

- A statewide policy and program for capacity building and training to be developed with adequate funding for Municipalities and *Panchayats*. Training should also be provided to elected local government representatives to equip them with the knowledge and skills needed for their roles. Post-training assessments to be conducted for all the trainings.

[Accepted]

- An Administrative Reform Commission should be set up to study and suggest ways to improve governance in local government. It should also review the organizational structure and service rules to ensure a balance between autonomy and accountability at the grassroots level.

[Accepted]

- Adequate and frequent training should be provided to staff handling accounting. Strengthening the capacities of the concerned staff to shift their day-to-day operations online needs to be undertaken. This is to be done through Tamil Nadu Institute of Urban Studies (TIUS) and the Regional Institute of Rural Development (RIRD). Local Fund Audit officials may be engaged as faculties in training programmes to impart training.

[Accepted]

- Social auditing should be made compulsory for the works to be undertaken by local governments. The present system of social auditing in *Panchayats* should be strengthened through active participation from higher level government officials. In Municipalities as well, social auditing should be experimented at ward level first and then be extended to all wards in Municipalities based on experience.

[Accepted]

- Vacant posts at Local Fund Audit Wing should be filled immediately.

[Accepted]

### Other Measures

- 'House tax' to be renamed to generic title 'property tax' in Tamil Nadu Panchayats Act, 1994.

[Not Accepted]

- Properties for levying tax should be categorised as Residential, Commercial and industrial for *Panchayats*, as in case of Municipalities. Also, building of all central and state government organizations, educational institutions should be brought under property tax net.

[Accepted]

- windmills, land and buildings on which cell towers are erected to be taxed at the rate at which commercial buildings are taxed.

[Accepted]

- House Tax collection to be linked with cost of service delivery and that residents should be sensitised that swift tax payment is linked to better service delivery.

[Accepted]

- The state government to take up the issue of raising the ceiling on profession tax with the Central government for necessary amendments.

[Accepted]

- Central and State Government to provide a list of all staff and employees under their payroll to local government to enable effective collection of profession Tax.

[Accepted]

- Physical assets (properties) which have been identified and are not repaired or renovated should be done so and be rented out or leased out through public auction.

[Accepted]

- The Government should levy Surcharge on Stamp Duty on documents relating to:

(i) Agreement (ii) Power of Attorney (iii) Release of benami right (iv) Release of right in favour of partners and (v) settlement, to augment revenue to the local governments.

[Accepted]

- Village *Panchayat* to increase the water charges<sup>20</sup> regularly and minimum should be Rs.80/- per month. Similarly, for Municipalities it is recommended to at least double the water charges and minimum should be Rs.100 per month, per dwelling.

[Not Accepted]

- Bus Stand fees to be increased at least by 100% from the existing rate.

[Not Accepted]

- Tamil Nadu Panchayat Act, 1994 to be amended for classification as peri-urban villages.

[Deferred and will be examined separately]

- Village level Citizen's charter should be prepared and displayed in front of a permanent Public Office.

[Accepted]

- Issue of necessary amendments in article 285 to be taken with Central Government to bring union government buildings under property tax net.

[Accepted]

- Municipalities to adopt an area based valuation method for assessing property tax in place of present system of annual rental value-based assessment.

[Accepted]

- The quinquennial revision of property tax rate in Municipalities has been due for a long and should not be postponed any longer. For any further delay in revision, the Municipalities and CMWSSB should be compensated for the same. Also the revision should at least reflect the cumulative CPI change since the last revision.

[Accepted with modification that no compensation will be paid for loss of revenue]

- VLT by Municipalities should be collected regulatory and annually in place of collecting only at the time of seeking/giving planning permissions. payment of arrears should be made mandatory before registration of property or land.

[Accepted]

- Delayed payment of VLT to be collected at the penalty of 12% p.a. Also, the basis and rate of VLT should be revised immediately at the rate not less than thrice the present rate.

[Decided to continue with present practice]

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<sup>20</sup> Enhancement of chargers is one of the parameters for allocation of capital grant fund/ pooled fund for deficit *Panchayats*.

- The authority to grant advertisement permission should be delegated to local government and should also be empowered to take legal action and levy penalty against anyone not abiding with rules. Further, the advertisement tax rate revision should be annual with atleast 5% annual increase.

[Accepted]

- Municipalities should be allowed to issue bonds and other debt instruments for capital projects. Government to make necessary changes in conditions for the same.

[Accepted]

- Comprehensive manuals for maintenance of assets should be created. Local governments should prioritize of utilizing their own revenue receipts for maintenance of assets and ensuring uninterrupted service delivery.

[Accepted]

- State government to undertake service level benchmarking for all Municipalities on an annual basis with the help of third party agencies. Better performing municipalities can be rewarded with additional resource allocation.

[Accepted]

- A state-level cell should be established under the Commissioner of Land Administration to assist local government with property mapping, value capture options, reviewing contracts and support auction processes. while maintaining a repository of successful monetization projects for reference.

[Accepted]

- Analytical support should be provided by the State Level Cell to local governments to help them forecast their committed liabilities over time, and in comparison, with expected revenues for better longer term planning.

[Accepted]

- SFC with minimum required staff to be continued for monitoring the implementation of accepted recommendations. Further, a high-level committee, chaired by Chief Secretary, to be constituted to undertake quarterly review of status of accepted recommendations. A mid-year status to be submitted to the Hon'ble Finance Minister for review.

[Monitoring will be done by the section in Finance (FC) wing and hence the recommendation is not accepted. Rest Accepted].

## Karnataka Fifth State Finance Commission

Award Period: 2024-25

Constitution: October 2023  
Report Submission: February, 2024  
ATR Submission: March, 2024

### Composition

Sh. C.Narayanaswamy Ex-MP	Chairman
Sh. Mohamed Sanaulla IAS (Retd.)	Member
Sh. R.S.Phonde Controller (Retd.)	Member

### Terms of Reference

The Commission was required make recommendations to Governor as to:

**(a) Determination of principles, which should govern:**

- i. The distribution between the State Government and Zilla Panchayats, Taluk Panchayats, Grama Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and allocation between Zilla Panchayats, Taluk Panchayats, Grama Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats to their respective shares of such proceeds.
- ii. The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by Zilla Panchayats, Taluk Panchayats, Grama Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats.
- iii. The Grant-in-aid to the Zilla Panchayats, Taluk Panchayats, Grama Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats from the consolidated fund of the State.

(b) The measures needed to improve the financial position of the Zilla Panchayats, Taluk Panchayats, Grama Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats.

(c) The Commission was also to:

- i. Examine and make suggestion on the extent to which and the manner in which the resources available to the local governments could best be utilized for meeting the expenditure of these governments; and
  - ii. Make a detailed analysis on repayment of loans and advances extended by Government from time to time to the local governments to make suitable recommendation for repayment of Government dues and the possibility of adjusting these dues against future devolution of revenues from Government to these bodies.
- (d) In making its recommendations the Commission was to have regard to among other things to the resources of the State Government and the demands thereon on account of expenditure of civil administration, debt servicing, development and other committed expenditure.

### **Methodology**

- The Government of Karnataka constituted 5th State Finance Commission with a mandate to the Commission to furnish its Report to the Governor by 28th February, 2024. Hence, the Commission had about four months time to submit its Report.
- The Commission had the advantage of discussions with the senior officers of the various organizations and local government as well as some elected representatives of both *Panchayats and Municipalities*.
- The Commission also visited some reputed Institutions such as ISEC, FPI, ANSSIRD, SIUD etc., and had discussions with the Directors and other Senior Faculty Members. The Commission had the advantage of discussions with the experts who had vast experience and held prominent positions in the local governments and Finance Department.
- The presentations made by Finance Department, RD & PR, UDD, DMA etc. gave an insight into the functioning of the Departments and the action taken by them on the recommendations of the previous State Finance Commissions.
- The visit of the Commission to KMDS, Directorate of e-Governance, RD & PR provided information on the scope of the technology adopted in the functioning of the Departments.
- Detailed Questionnaires have been prepared covering Financial, Administrative and Institutional issues. While designing the Questionnaire, various aspects including adoption of information technology for better financial control, timely and qualitative

service delivery and effective and citizen friendly measures adopted, have been include

- The Commission has gone through the earlier reports of Central and State Finance Commissions, in particular the 14th and 15th Central Finance Commission Reports, 4th State Finance Commission Report of Karnataka, and State Finance Commission Reports of few other States.
- Also several related reports and studies undertaken by different Commissions were referred to for preparation of the Report of the Commission.

### Recommendations

#### Global Sharing

49% of the Non Loan Net Own Revenue Receipts (NLNORR) was recommended to be transferred to local government with an additional 1% to Bruhat Bengaluru Mahanagara Palike (BBMP).

[Modified to 48% of NLNORR with no additional share to BBMP]

#### Horizontal Sharing

Out of the 49% for local government, 35% to *Panchayats* and 13% to all Municipalities.

[Accepted]

The ratio of Untied to Tied Grants to local government to be 50:50 respectively.

[Accepted]

Allocation of untied grant to *Panchayats*

(Rs. Lakh)

Allocation of untied grant to each	Zila Parishad	Taluk Panchayat	Gram Panchayat
Minimum	500	300	20
Maximum	1000	400	60

[This has been modified by the State Government to:

Allocation of untied grant to each	Zila Parishad	Taluk Panchayat	Gram Panchayat
Minimum	400	200	12
Maximum	800	300	35

### Inter se Distribution

The devolution among the *Panchayats* to be in the ratio 38.61:56.64:7.76 to GP:TP:ZP on the basis of average funds released to each tier during the five preceding years of the award period.

For Municipalities, the devolution among themselves is to be based on four parameters:

Parameter	Weight (%)
Population	40
Area	20
Level of Illiteracy	20
SC/ST population	20

[Rejected]

### Grants-in-aid

- devolution of Tied and Untied grants to all *Panchayats* and Municipalities at the ratio of 50:50.

[Accepted]

- The Commission recommended the continuation of the Establishment Grant for the newly formed local governments as follows:

(Rs. Lakh)

<i>Panchayats</i>		Municipalities	
ZP	100	CC	200
TP	25	CMC	100
GP	5	TMC	50
		TP	25
		NAC	10

- An additional 1% of the overall allocation of funds to the *Panchayats* and Municipalities under SFC Grants every year to all the *Panchayats* and Municipalities of the areas of coastal and Malnad districts.

- The Commission recommended to provide earmarked funds for maintenance of infrastructure projects for their optimum utilization.

### **Functions and Functionaries**

- There is urgent need to fill up essential vacant positions at the earliest in the *Panchayats* and Municipalities .
- All such Schemes which have been mentioned in IX schedule and have been shifted to State Sector and are implemented by parastatal agencies, need to be restored to the respective *Panchayats*. Responsibility Mapping of Activities of *Panchayats* should be implemented as prescribed in the Act and the Rules.
- The Government to provide financial support to the Parishad for Training Programmes of Members/Officials of *Panchayats* and for other activities.
- the Government to formulate a specific ‘Training Policy’ for their periodic training and provide sufficient funds.
- The budget link documents for the TPs and the GPs should also be prepared on the same lines as is prepared for the ZPs.

[Would be considered based on practical and technical feasibility of the same]

- The Commission recommended that a separate Link Document relating to budget allocations in respect of all State Sector Schemes implemented by the State Line Departments should be included as a part of the State Budget Document, so that overlapping and duplication of works implemented in the areas coming under the jurisdiction of *Panchayats and Municipalities* are avoided.

### **Other Measures**

- The State Government should include requirements of *Panchayats* and Municipalities as recommended by this Commission in its memorandum to the 16th Central Finance Commission.
- The Government to consider extension of Gram Thana areas in all the villages of GPs and also take steps to regularise the house constructions and other developmental activities that have come up in non Gram Thana areas of the villages. This will not only enable regularisation of the construction and developmental activities, but also bring additional revenues to the GPs.
- District Planning Committees (DPCs) be made functional and effective to consolidate the plans prepared by the *Panchayats* and the Municipalities in the District and to

prepare a “draft development plan” for the district as a whole as mandated in the Constitution. It was further recommended that the Taluk Planning and Development Committees (TPDCs) should also be made functional and effective.

- A High Level Committee (HLC), headed by the Chief Secretary to be constituted to periodically review the action taken to ensure implementation of the recommendations of the CFCs and SFCs.
- It is observed that in Karnataka State, ZPs and TPs have not been duly constituted since about three years, same is the case with BBMP, resulting in withholding of release of CFC Grants. If Elections are held within the award period of 15th CFC (2025-26) to duly constitute these local government, there is provision to obtain withheld grants (about Rs. 2,100/- crores), and therefore the Commission recommended that the State Election Commission/Government should take necessary action to duly constitute the above mentioned local government without delay.
- Draft Karnataka State Audit Act which would ensure financial discipline, accountability and satisfactory service delivery to the citizens, to be approved and implemented by the State government.
- The Government to frame the Rules under the The Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003 at the earliest.
- All the Municipalities should levy, revise and collect the Property Tax based on the guidance value revised periodically, to improve the Own Source Revenue.
- The Gram Panchayats highlighted the issue of unreasonable power consumption billing by ESCOMs. It is thus recommended that all the electrical installations of GPs should be metered and the present arrears of power consumption charges be settled with ESCOMs through intervention of the Government.

**[Regarding strengthening measures of *Panchayats* and Municipalities, action would be taken to implement in phased manner]**

## Madhya Pradesh Fifth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: March 2017

Report Submission: April, 2019

ATR Submission: February, 2022

### Composition

Sh. Himmat Kothari Former Minister of State Government	Chairman
Sh. K.M. Acharya Former Secretary, GoI	Member
Sh. Mohammed Suleman	Ex-officio Member
Sh. Milind Waikar Former Addl. Secretary, Finance Department, Govt. of Madhya Pradesh	member-secretary

### Terms of reference

The Commission was expected to make recommendations on the following matters:

The Commission will review the financial situation of Panchayats and Municipalities, including:

(a) (i) The distribution of revenues from taxes, fees, tolls, and charges raised by the State between the State, Panchayats, and Municipalities as per Part IX and IXA of the Constitution of India, and the allocation of these revenues to Panchayats and Municipalities at all levels;  
(ii) The concept of taxes, fees, tolls, and charges that can be allocated or levied by Panchayats and Municipalities.

(b) The principles governing grants-in-aid from the State's consolidated fund to Panchayats and Municipalities.

(c) Recommendations on measures to improve the financial status of Panchayats and Municipalities, which will be forwarded to the Governor.

In the interest of strengthening the finances of Panchayats and Municipalities, the Commission will also consider the following additional matters while making its recommendations:

(i) The revenues from land taxes and stamp duties on land transactions for local governments and Gram Panchayats;

(ii) Revenues from the sale of petroleum products for local urban bodies and Gram Panchayats;

(iii) Revenues from Goods and Services Tax (GST) for local urban bodies and Gram Panchayats;

(iii) Any other subject specified by the Governor for consideration by the State Finance Commission.

### Methodology

The Commission conducted a comprehensive process to gather and analyze relevant information for its work. This included engaging with local government at the state level to obtain basic information, suggestions, and holding division-level meetings and district visits. It also facilitated discussions with various state government departments and studied relevant material such as reports from previous state and Central Finance Commissions, state budgets, economic surveys and departmental annual reports. Memoranda were invited from key departments including Finance, Panchayat and Rural Development, and Urban Development, while suggestions were sought from MPs, MLAs, government officials, central ministries, expert institutions, and retired officials. The information and suggestions received were thoroughly analyzed and considered in the decision making process. The Commission also launched a website to provide updated information about the commission and also to seek suggestions. This Commission is the first Commission in the state to do so.

## **Recommendations**

### **Global Sharing**

10% of the divisible pool, which is “net revenue”<sup>21</sup> as per Article 279 of the Constitution, to be allocated to local government for the period 2020-25.

[Accepted]

### **Horizontal Distribution**

Based on the population estimates for the year 2021 and the per capita income of the local government, the divisible pool to be distributed between *Panchayats* and Municipalities as 7.75% and 2.25%, respectively.

- [(i). Considering the financial situation of the state, the allocation of the divisible pool share to local government will be phased gradually over the next four years, from the financial year 2022-23 to 2025-26, as follows: 6.25%, 7.50%, 8.75%, and 10%, respectively.
- (ii). 0.25% of the divisible pool to be kept as incentive fund for eligible local governments as per the criterion set by the state government.
- (iii). Divisible pool to be estimated from the nearest previous year for which financial accounts are available.]

### *Inter-se* Distribution

The distribution of this share should be as per the provisional figures of population for the year 2021<sup>22</sup> for Gram Panchayats and Municipalities (for both scheduled and other areas). For Janpad panchayat, it is Rs. 25 Lakh to each janpad panchayat in the scheduled areas (total 89 in nos.) and Rs. 20 Lakh per janpad panchayat in other areas (total 224 in nos.). For Zila Panchayat, the basic grant to be Rs.20 lakh per ZP, and then Rs. 6 lakh per tribal janpad panchayat and Rs.4 lakh per non-tribal janpad panchayat.

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<sup>21</sup> “Net Revenue” for the year 2020-25 should be calculated as per Article 279 of the Constitution of India, and till such time as this is possible, “net revenue” should be calculated after deducting 10% of collection expenses from the total revenue as before.

<sup>22</sup> Till provisional figures for population of 2021 are made available, population figures for 2011 to be used.

[Accepted]

Local government located in the scheduled areas to be given 30% more grants per capita

[Accepted]

The amount so distributed, to be used for operation and maintenance of the services prescribed in the law to be provided by the local governments.

[Accepted]

### **Individual Tax Sharing with the Local Government**

As per the law following taxes are to be assigned to Municipalities:

1. surcharge on stamp and registration fee
2. entry tax
3. Motor vehicle tax (for maintenance of roads).

Taxes which have been assigned to *Panchayats* are:

1. grant against additional stamp duty collection
2. cess on land

Except for entry tax, the commission recommended the continuation of the sharing of the revenue as it is. As the entry tax has been abolished in 2017 and has been an important source of revenue for Municipalities, the Commission recommended that the Municipalities should be compensated on the budget provision of year 2018-19 with annual increase of 14% till 2024-25.

[The State Government decided to maintain the entry tax support at the 2020-21 level for Municipalities.]

The Commission also recommended combining the amounts for passenger tax and export tax, increasing the VAT allocation by 30% over the 2018-19 budget estimate for 2020-21, and applying a 15% annual increase in VAT allocations until 2024-25.

[The State Government decided to maintain the support for passenger, export, and pilgrim taxes at the 2020-21 level.]

- Atleast 1/3rd of the fines collected by the traffic police should be given to the municipalities.

[Accepted]

### **Assignment of Tax and Non-tax Handles to Local Government**

- Private educational institutions and hospitals to be brought under the purview of property tax.

[Deferred]

- GPs, Municipal Council and smaller municipalities to ensure imposition and collection of property tax on industries, hotels, showrooms, warehouses, resorts, function venues etc, set up within their areas and likewise the collection consumer charges from them.

[Deferred]

- Government's vacant land within the local government area, should be handed over to the respective government. Long-term leasing should be considered to allow for public use of such land.

[Not Accepted]]

- A part of donation received from religious places which are managed by committees or organizations constituted under the Act, to be given to concerned Municipality/ GP.

[Deferred]

- The amount received from minor minerals should also be given to janpad and zila panchayats apart from GPs.

[Accepted]

- There should be recovery of interference or nuisance fee from the house owners during construction/ repair of the building.

[Not Accepted]]

### Grants in aid

Apart from the divisible pool, the Commission recommended the following special grants:

1. grants for construction of tourist amenities to 13 smaller Municipalities and 2 Zila Panchayat having major tourist centres. Rs.1 crore p.a. has been recommended for smaller municipalities, while Rs.50 lakh p.a. has been recommended for each zila panchayat of Bhimbetka and Tamia .
2. grant to Municipalities/ municipal council situated on the bank of Narmada for river bank maintenance and development. - Rs 50 crore grant during award period.
3. Incentives for raising own resources - Rs.20 crore p.a. for *Panchayats* and Rs.10 crore p.a. for Municipalities. Performance parameters to be decided by the State government with elected representatives and other experts.
4. 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.

[Accepted]

5. grant to zila panchayat for supply of the fire fighting engines for fire fighting arrangements in rural areas. Rs. 40 lakh to each janpad, and 62 janpad panchayat (out of total 313) to be covered each year.

[Deferred]

### Functions and Functionaries

- The first orientation of the elected office bearers to be held in stipulated time period and should be evaluated for their effectiveness, thereafter refresher training to be

conducted every year for at least key functionaries. Those elected for the first time, women and SC/ST to be given priority training.

[Accepted]

- New executive staff appointed through direct recruitment to be given independent charge only after completing well-prescribed training, while those in-service be given regular training through institutional and distance modes. Training capacity of training institutes to be increased to the required extent for speedy training of such executives.

[Accepted]

- The shortage of technical staff in local government to be covered as far as possible

[Deferred]

- The State Government to review and take appropriate action to enhance the training infrastructure available for Municipalities.

[Not Accepted]

- The P&RDD to allocate necessary funds, technical support and guidelines to Zila/Janpad Panchayats to create and maintain their website, while Municipalities without website develop one and those with existing sites keep them updated.

[Accepted]

- State Government to consider setting up a separate Committee of the Legislative Assembly to look into the non-financial issues of the local governments, like progress of implementation of 73rd and 74th Amendments of the Constitution and other related functions.

[Deferred]

- A trained accountant capable of maintaining accounts on computer to be appointed in every GP. If not immediately possible, then a trained accountant can be appointed for 2-3 GPs together, whose salary to be borne by the state government.

[Not Accepted]

- Meeting of the permanent committees of the *Panchayats* to be held regularly in the presence of senior most government officials.

[Accepted]

- The State Government should continue providing separate grant to cover honorariums and allowances for elected officials and salaries for employees of zila/janpad/GPs, atleast to the current extent. Also, the State should consider revising the rates for honorarium and allowances once in 5 years.

[Deferred]

- Budget estimates of the local government should be close to reality and should have an approval of competent authority.

[Accepted]

- For maintaining accounts of the local government, a standard software should be developed. Also a computer based double entry accounting system should be developed and implemented in all Municipalities.

[Accepted]

- The Finance Department with both the administrative departments should resolve the pending audit clauses (about 13 lakh) and implement it.

[Accepted]

- Model Accounting System prepared by CAG and MoPR for *Panchayats* should be implemented without any further delay.

[Deferred]

### Other Measures

- Whenever there is a delimitation of Gram Panchayats in future, the minimum population should be 2000-2500 for other areas and 1500-2000 for scheduled areas.

[Deferred]

- While the MP Municipal Corporation Act, 1956 includes a provision for the formation of a Municipal Accounts Committee, a similar provision is missing in MP Municipality Act, 1961. This needs to be addressed.

[Deferred]

- The MP Municipality Act, 1961 provides for the recovery of losses due to misuse of property or funds or negligence by a councillor. However, a parallel provision in MP Corporation Act, 1956 is not there. This also needs to be addressed.

[Deferred]

- Municipalities to be established as per the population criteria set in December, 2011. These criterias can be revised if deemed necessary but if fixed once, not to be relaxed without adequate justification.

[Deferred]

- A special grant to be provided to the Municipality located at the headquarters of a newly formed division or district.

[Deferred]

- Additional financial assistance recommended for newly formed, upgraded and area expanded municipalities as follows:

<b>S.N.</b>	<b>nature of the case</b>	<b>Population on the basis of which additional assistance will be given</b>	<b>Recommended scale of special assistance for five years (per person/per year)</b>
1	Formation of an entirely new municipal body	total population	Rs. 100/-
2	upgradation of urban body	total population	Rs.50/-
3	Area expansion of municipal body	additional population added to the area	Rs. 100/-

[Deferred]

- The administrative department of P&RDD and UDHD to strengthen its capacity in terms of computer skilled staff to collect the statistical information from local governments.

[Deferred]

- Rules made under MP Panchayati Raj and Gram Swaraj Act, 1993, MP Municipal Corporations Act, 1956 and MP Municipal Act, 1961 to be comprehensively reviewed regarding rates and assessment, and necessary amendments be made in maximum of two years, thereafter the process to be followed in every 5 years.

[Deferred]

- The State Government to provide necessary funds required for extensive usage of information technology and other modern technology (e.g. GPS, Distance learning method, etc.) to the local government.

[Deferred]

- The UA&DD to ensure the implementation of the approved official structure of April, 2020 for municipalities.

[Deferred]

- The State Government to review the statutory provisions relating to taxation powers of GPs to bring them in conformity with Article 243H of the constitution. Janpad and ZP are also to be empowered to mobilize adequate resources of their own.

[Deferred]

- The State Government to fix the norms for establishment expenditure for local government and ensure their compliance.

[Accepted]

- Property Tax Board established by UA&DD in November, 2011 to be made active and effective to review and suggest changes in the property tax assessment. such a board should also be set up for *Panchayats* and if not possible, to have a common board for both the governments.

[Deferred]

- Property tax, other taxes and consumer charges to be revised at least once in 5 years. The rates of consumer charges should at least be able to cover the O&M expenses of the facility being provided.

[Deferred]

- Municipalities to survey properties through GPS or other suitable technology and bring them under the purview of property tax.

[Accepted]

- The State Government should consider giving agency commission (of say 3%) of plan amount to the local government in which their schemes are running and the local government acts as an agency for implementing those schemes. This would not only enable the local government to hire additional staff for the purpose but would also not affect the discharge for their basic responsibilities.

[Deferred]

- The State Government should consider allowing selected municipalities leasing out tax collection through public auction or private contract.

[Deferred]

- Municipalities should classify defaulters into categories of A, B, and C based on amount owed and property tax rates. Special efforts should be made to recover taxes from Category A defaulters, with their names and dues publicly published for accountability.

[Deferred]

- Municipalities with more than one lakh population should get their credit rating done to make them eligible for raising loan from financial market and to issue municipal bonds.

[Accepted]

- To ensure full enforcement of Municipal Act, mobile court on weekly basis should be set up for quick disposal of court cases. Big cities can have full-time courts. Also, police assistance should be given to Municipalities to deal with extortion and encroachment cases.

[Deferred]

## Maharashtra Fifth State Finance Commission

Award Period: 2019-20 to 2023-24

Constitution: March 2018  
Report Submission: July 2019  
ATR Submission: December 2020

### Composition

Sh. Vishwanath Giriraj IAS (Retd.)	Chairman
Dr. Nidhi Pandey IAS	Member Secretary (Addl. Charge)
Principal Secretary, UDD	Part-time Member
Principal Secretary, RDD	Part-time member
Prof. Abhay Pethe Economist, Mumbai School of Economics and Public Policy, University of Mumbai	Part-time member

### Terms of reference

The Commission was required to review the financial position of the *Panchayat* and the Municipalities and make recommendations to the Governor as to:

- (a) The principles which should govern
  - i. The distribution between the state, the *Panchayat* and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part IX and Part IX-A of the Constitution and the allocation between the *Panchayats* and the Municipalities at all levels of their respective shares of such proceeds.
  - ii. The determination of the taxes, duties, tolls, and fees which may be assigned to or appropriated by the *Panchayats* and the Municipalities.
  - iii. The grants-in-aid to the *Panchayats* and Municipalities from the consolidated fund of the State.
- (b) The measures needed to improve the financial position of local government.

In making its recommendations the Commission was to have regard, among other considerations, to-

- a) The projected gap between the revenue receipts and revenue expenditure of the *Panchayats* and Municipalities in the state for five years from 1st April 2019, on the basis of their levels of taxation.

- b) The measures and the extent to which the *Panchayats* and Municipalities have exploited the available and the potential sources of their revenue.
- c) The resources of the State Government and the demands thereon, in particular, on account of expenditure on Civil Administration, Police, Social and Economic Services, and all other committed expenditure or liabilities and Non-Plan revenue expenditure.
- d) The maintenance and upkeep of the capital assets of the *Panchayats* and the Municipalities and work out the norms for the adequate maintenance.

The commission was also to make recommendations relating to the following matters:

- a) Performance grants and incentive grants to local government
- b) Better management of fund management in local government
- c) Other related matters related to prudent financial management of local Government

### **Methodology**

The commission adopted a multi pronged strategy to collect the required information and make its analysis. Each method complemented the other. The commission started its work by collecting and studying various official reports, which had undertaken the same 'journey' of collecting data relating to local government. The commission sent formal letters to all Mayors of Municipal Corporations, President of Municipal Councils and the president of Zilla Parishads inviting their representations and suggestions for the SFC in the early months (August 2018). The commission prepared a very elaborate questionnaire and sent to the Municipalities (separate questionnaire for Municipal Corporations, Municipal Councils and Nagar Panchayats) and to the *Panchayats* (Separate questionnaire for Zilla Parishad and Gram Panchayat). The commission visited various parts of Maharashtra covering all the regions between October 2018 to January 2019. The commission invited a number of Heads of Departments or their representatives to its office. Key officials include director of Municipal Administration, Director of Local Funds Audit, Chief executive officer of Maharashtra Jeevan Pradhikaran, Chief Engineer of MSEDCL, the Joint/ Deputy Secretaries of UDD, RDD, Revenue and others. The commission also organised a technical workshop on Accounts and Finance related issues.

### **Recommendations**

#### **Global Sharing**

Due to lack of data and governance issues, the Commission chose not to recommend devolution formula. Instead, it focused on improving regulatory processes, simplifying outdated procedures and fostering an environment for good governance. This included creating policies, streamlined processes and building capacity to make better decision with reliable data.

The Commission also recognised that different *Panchayats* and Municipalities have distinct needs. As a result, its recommendations are customized to the specific needs of each category, rather than adopting a one-size-fits all approach.

## Transfers to Local Governments

The State Government has been supporting local governments through compensatory grants and assigned grants than formula based devolution route. The 5th SFC did not recommend any change in this approach. The total united transfers to local government forms around 11.41% of the States' own tax revenue.

[Accepted]

## Horizontal Distribution

Of the 11.41%, 10.81% has been allocated to Municipalities while 0.60% has been allocated to *Panchayats*.

Following criteria to be used for interse allocation:

S.N.	Category	Weightage for Population <sup>23</sup>	Weightage for Area
1	Municipalities	90%	10%
2	ZP & PS	90%	10%
3	GPs	100%	-

[Accepted]

## Individual Tax Sharing with Local Governments

- No budgetary cuts to be made for the assigned taxes.

[Rejected]

- Irrigation Cess to be increased from 20% to 40% to augment the income of ZPs.

[Partially Accepted]

- A backlog of Rs.509 crore collected as 1% ZP stamp duty cess to be cleared by State Government.

[Accepted]

- Sharing of 1% of stamp duty cess between ZPs and GPs as 50% each recommended to be changed to 25% each to ZPs, PSs, GPs and state level pooling for distribution among all GPs.

[Accepted]

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<sup>23</sup> Presently population for 2011 to be used and when the 2021 census population data is available, that can be used.

- 25% of the collection of Profession tax by GPs to be shared with PSs.

[Rejected]

- GPs to get a share 25% of the total auction income from sand mining and all minor minerals.

[Action already taken]

- GPs to get a share of the Development charges levied under Section 124 (k) of the Maharashtra and Regional Town Planning Act, 2015.

[Partially Accepted]

- Arrears of additional stamp duty, entertainment tax, minor minerals and land revenue to be paid to Municipalities immediately.

[Partially Accepted]

- Shift hand pump, power pump income and maintenance to PSs.

[Accepted]

- The collected additional stamp duty to be transferred directly to Municipalities without routing it through state treasury.

[Rejected]

### **Assignment of Tax and Non-tax handles to Local Governments**

- ZPs to impose a special tax on land and buildings. RDD to take necessary steps to ensure this.

[Accepted]

- 2% management fees (in lieu of current agency charges) for implementing government schemes to be introduced for ZPs. This is to be shared between ZP and PS equally, *i.e.* 1% each.

[Partially Accepted]

- The tourists places villages which have substantial visitors to consider levying tourist fee/tax in the name of 'Environment Management Fees'.

[Partially Accepted]

- Professional tax collection in rural areas to be given to GPs and be shared between GPs and PSs in the ratio of 75% and 25%, respectively.

[Rejected]

- The item 'agreement of sale' to be included in the section 149A of the Maharashtra Municipal Corporation Act and section 147A of the Maharashtra Municipal Act.

[Action already taken]

- Professional tax from private sector in urban areas to be given to Municipalities.

[Rejected]

- The fixed 2% collection charges for collecting Education and employment Gaurantee Cess to be increased to 10% for Nagar Panchayats and C Class Nagar Palika, and to 5% for D Class Municipal Corporation and A and B Class Nagar Palikas.

[Accepted]

### Grants-in Aid

- A matching grant of Rs.33.79 crore is recommended for supporting ZPs which are disadvantaged in terms of stamp duty cess collection.

[Rejected]

- Forest grants to be discontinued for districts where grants are less than Rs.2 lakhs, as clerical cost is more than the benefit.

[Accepted]

- The maintenance grants to ZP roads to be increased.

[Rejected]

- The capital grants to Municipalities to be made based on formula and discretionary grants to be reduced. An extra 5-10% of the capital grants to be kept for Municipalities that perform better.

[Accepted]

### Functions and Functionaries

- Two posts per ZP to be created to manage the income side of the ZP, viz. a ZP and PS revenue officer - to be filled by a MDS Class II officer and an AAO or Dy. Accountant from ZP cadre to assist him and be paid from ZP funds only for 3 years. Thereafter, the ZP can review and decide further action.

[Rejected]

- Honorarium of the ZP and PS non-official members to be reviewed and revised on part with prevalent costs.

[Partially Accepted]

- PRIASoft and State registers to be made fully aligned.

[Accepted]

- As PRIASoft is in english, a marathi-english user friendly guide would help the *Gram Sewaks*.

[Accepted]

- Higher level officials in GPs be given intensive training to make them tech savvy for computing village records.

[Accepted]

- Local Fund Audit Department be oriented to audit electronic records.

[Accepted]

- As e-record keeping is very uneven in the State, the Commission recommended that one PS (per District) may first be made online with effective and sustained training and then other PSs can follow one after another.

[Accepted]

- Meeting attendance allowance to GP members to be increased from Rs.200 to Rs.400 per day and also the honorarium to Sarpanch be increased from present reimbursement.

[Action already taken]

- The Government to allow two levels of staffing patterns at GPs, one which are to be reimbursed by the Government and second which GP can take at their level from the available resources.

[Accepted]

- Given the high volume of work in the GPs and the limited manpower at Local Fund Audit, it was recommended that audit functions and related functions must be given to professional CA firms after suitably training them.

[Accepted]

- The entire training and capacity building efforts at GPs need to be thoroughly reviewed and updated to align with current needs.

[Accepted]

- Staff cadre for Municipal Corporations to be developed.

[Partially Accepted]

- The Commission recommended a separate Training and Research Coordination Cell for Municipalities. Considering the population size of Maharashtra and increasing demand for urban development, it also recommended a State Institute of Urban Management.

[Accepted]

- Municipalities to shift to double entry and ERP based system of account keeping.

[Accepted]

- Municipalities Financial Reports and Accounts Improvement Mission should be started by UDD for a period of at least 5 years.

[Accepted]

### Other Measures

- More transparency is required on information on how much ZP has got and on what basis as water cess.

[Accepted]

- No deductions should be made by the Irrigation Department for water supplied to GPs.

[Partially Accepted]

- Paltry compensation to selected ZPs in lieu of Professional taxes and vehicle tax abolition to be abolished. Similarly, old compensation grants to GPs to be closed.

[Partially Accepted]

- Expenditure on electricity for long distance pumping cost in ZP-PWS to be met by Government

[Rejected]

- 2% of the income of the ZP and Municipalities compulsorily transferred to maintenance fund.

[Partially Accepted]

- Separate Management unit for Panchayat Raj on a permanent basis to be created by shifting some sections from Mantralaya without creating any new posts.

[Accepted]

- There is a need for an institutional grievance redressal mechanism for the *Panchayats* for getting their dues as per Act and Government decisions.

[Accepted]

- Maharashtra Zilla Parishad District Services - Conduct Rules, 1967 needs to be updated. Additionally, an expert committee should thoroughly examine the status of ZP staff from the perspective of Labour law, alongwith related issues.

[Accepted]

- The RDD to look into the issues relating to the introduction of NPS in ZP system and to make a time bound action plan for the same.

[Accepted]

- State Government to look into the BOT or other suitable model for developing properties of ZP.

[Accepted]

- Separate vehicle for the PS chairman and BDO to be provided by State government from the ZP Depreciation Fund.

[Partially Accepted]

- State Government to consider examining the size of the GPs as smaller GP size affects administrative feasibility.

[Accepted]

- The terminology 'Betterment Tax' to be changed to Development charges to have more income to the GPs.

[Accepted]

- The RDD to notify the maximum and minimum rates for various types of levies under Section 124 of Maharashtra Village Panchayats Taxes and Fees Rules, 1960 and also to modify the list of levies under it.

[Accepted]

- At present the State Government is meeting the electricity bill relating to street lighting to GPs. However, the Government is only able to pay 25% of the bill leading to arrears running in crores. It was, therefore, recommended by the Commission that though the scheme should be continued, the GPs should be made more accountable for managing their streetlight bills and in the long run shifting to solar energy should be facilitated.

[Rejected]

- The Commission suggested a proper sample evaluation of the investments made from the UFC grants in last few years by an independent agency with the required social audit. The evaluation of the MGNREGS in selected GPS was also recommended.

[Accepted]

- Publicity and awareness to be created for District Village Development Fund (DVDF) and the list of activities which funds to be used for should be made more contemporary.

[Accepted]

- 2%-5% of the GPs income to be dedicated to Maintenance Funds.

[Accepted]

- The commission strongly recommended that except additional stamp duty, rest of the assigned taxes be abolished and instead an additional amount equal to the loss must be added to the Assisted grants and be given to Municipal Council.

[Rejected]

- State Government to suggest minimum and maximum fees and fines and direct Municipalities to update their byelaws to augment income.

[Accepted]

- Salaries of the State level municipal cadre posts and chief Officers of all classes of Municipal Council must be met from State Budgets. It was also recommended to increase the rates of State Government reimbursement of teacher's salaries.

[Rejected]

- Property Tax Board to be activated as the Maharashtra Municipal Property Tax Board act, 2011 has already been passed.

[Accepted]

- D class Municipal Corporation and all categories of Municipal Council and Nagar Panchayats have to be reimbursed a part of the electricity pumping costs.

[Accepted]

- Government to reimburse the Maharashtra Jeevan Pradhikaran (MJP) for writing-off amount due to it by Municipalities.

[Accepted]

- Government to meet the cost of land acquisition for infrastructural projects for B and C Class Municipalities and Nagar Panchayats.

[Partially Accepted]

- Government to meet the election expenditure of smaller Municipalities as RDD is doing for *Panchayats*.

[Action already taken]

- Maharashtra Urban Infrastructure Fund (MUINFRA) to be strengthened further by exploring funding from LIC, studying the pattern of other developed states who have similar fund. Also a separate 'Technical Support Agency' to be created as a facilitating agency.

[Accepted]

- UDD through suitable firm or consultant to provide handholding support to Municipalities for transition to NPS.

[Accepted]

- A permanent SFC Cell to be established to manage follow-up issues relating to Union and SFC.

[Rejected]

- To ensure synchronicity between the period of the Union and State Finance Commission, the SFC to be constituted two years in advance of next UFC.

[Accepted]

- In coming years, as the system stabilizes. GST to be aligned with formulaic devolution.

[Accepted]

## Odisha Fifth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: May, 2018  
Report Submission: August 2019  
ATR Submission: February 2020

### Composition

Sh. Rabi Narayan Senapati, IAS (Retd.)	Chairman
Prof. Asit Ranjan Mohanty, Professor, Centre for Fiscal Policy & Taxation, Xavier University, Bhubaneswar	Member
Prof. Samson Moharana, Retd. Professor & Head of Commerce & Master in Finance Control, Utkal University	Member
Sh. Sanjib Kumar Mishra, OAS (Retd.),	Member
Sh. Pratap Chandra Dash, Director, Panchayati Raj	Ex-Officio Member
Sh. Sangramjit Nayak, Director, Municipal Administration	Ex-officio Member
Sh. Rabi Narayan Mohanty, OFS, Special Secretary to Government, Finance Department	Member Secretary

### Terms of Reference

The 5th State Finance Commission was mandated to recommend -

(i) The principles that should govern -

(a) the distribution between State and Panchayati Raj Institutions and the Municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part-XI and Part-IXA of the Constitution and the allocation between the Panchayats at all levels and the Municipalities of their respective shares of such proceeds;

(b) the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by *Grama Panchayats (Village Panchayats)*, *Panchayat Samitis (Block Panchayats)* and *Zilla Parishads (District Panchayats)* or, as the case may be, Municipalities; and

(c) the Grants-in-aid to the Grama Panchayats, Panchayat Samitis, Zilla Parishads or, as the case may be, Municipalities from the Consolidated Fund of the State;

(ii) the measures needed to improve the financial position of the Grama Panchayats, Panchayat Samitis, Zilla Parishads and Municipalities.

(iii) any other matters, which the Governor may refer to the Commission in the interest of sound finance of Grama Panchayats, Panchayat Samitis, Zilla Parishads and Municipalities.

### Methodology

The Commission decided to hold discussions with various organisations, departments of Government, eminent persons, academicians and experts as well as to undertake visits to different districts and discuss with elected representatives as well as officials of Government. During the course of working, the Commission informed the public through newspaper advertisements regarding the constitution of the Commission and also invited memorandum from organisations, *Panchayats*, Municipalities and other individuals incorporating views and suggestions relating to the task assigned to the Commission. It was felt necessary by the Commission that meetings with the elected representatives and officials of Municipalities should be organised at the level of Revenue Divisions as it might not be possible to cover each and every municipality and discuss with them separately. SIRD & PR was entrusted to undertake a study on “Utilisation of funds on recommendation of 4th SFC and 14th FC received by three tier *Panchayats*”. Similarly, All India Institute of Local Self Government (AIILSG), Mumbai was also entrusted with a study on “Revenue enhancement study for Municipalities”. Both the reports have been quite useful for the Commission to develop a deep insight into the relevant aspects studied by the two organisations. Information on tax and non-tax revenues alongwith expenditure was also sought from local government.

### Recommendations

#### Global Sharing

Total Transfer of funds to be within the limit of 10% of State’s Own Net Tax revenue.

[Accepted]

#### Horizontal Distribution

3% of the net own tax revenue is to be devolved and distributed between *Panchayats* and Municipalities in the ratio of 75:25 on the basis of following criteria:

Criteria	Weight (%)
Density of population (Per Sq Km)	35
Size of Population (%)	35
%age of Population below poverty line	22
%age of SC/ST population	8
Total	100

To accord priority to the development needs and to take care of cost disadvantage of the scheduled areas, the Commission recommended devolution of additional 25% of funds in favour of GPs situated in scheduled areas.

#### *Inter-se* Distribution

Inter-se distribution amongst three tiers *Panchayats* to be on the basis of population, category and number of units like GPs, PSs etc. and in the ratio of 70:20:10 respectively for GP, PS and ZP.

[Not accepted, the ratio would be 60:30:10]

Inter-se allocation among the Municipalities to be on the basis of population of each Municipality.

#### **Individual Tax Sharing with Local Government**

- 7.46% SGST revenue to be assigned to local government in lieu of Entry Tax, Advertisement Tax and Entertainment Tax.
- 8.03% of net proceeds of Motor Vehicle Tax be assigned to *Panchayats* and Municipalities for maintenance and improvement of road infrastructure.

#### **Assignment of Tax and Non-tax handles to Local Government**

- Government to consider imposing property tax in census towns.
- Tax vacant land in urban areas to be explored by Government.
- A tax on deficit parking space.
- levy of surcharge on sewage and solid waste disposal by Municipalities.

#### **Grants in Aid**

The Commission has recommended Grants-in-aid to meet the requirement of fund partly or fully for selected sectors for both *Panchayats* and Municipalities<sup>24</sup>.

[Accepted]

#### **Functions and Functionaries**

- In order to improve the capacity for utilisation of funds and fund management, the Commission has recommended engagement of at least one Accountant-cum- Data Entry Operator for two GPs and one GPTA for every two GPs. Therefore, the Commission recommends creation of 3399 posts of Accountant-cum-DEO and 947 no. of posts of GPTA.

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<sup>24</sup> A detailed list is given in the report.

- One state level institute to be set-up with professional experts so as to impart training regularly to the manpower and elected representatives engaged in urban administration.
- The PEOs and the GPEOs along with the proposed Accountant-cum-DEO should also undergo capacity building training at Madhusudan Das Regional Academy of Financial Management (MDRAFM), Bhubaneswar to get the practical knowledge of accounting and reporting requirement of GPs.
- All the Municipalities to be directed to prepare the accounts under the double entry system of book keeping, maintain the asset register in a systematic manner, undertake annual stock taking and upload the assets record in the National Asset Directory on a regular basis.
- Municipalities need to develop Integrated Urban Accessibility Planning (IUAP) which must include: (i) Data Collection and Mapping, (ii) Analysing the magnitude of the problems and (iii) type of intervention required.
- The Government need to expedite the process of creating and maintaining a data base of local government finances.
- The State can increase the number of e-services to be provided to citizens while building the capacity of GP officials and providing necessary ICT infrastructure.
- Public disclosure of essential financial information as prescribed under rules to be ensured by all the GPs.
- An integrated module of Accounting and Budgeting should be developed, as per OMC Act and Odisha Municipal Accounting Manual which will be useful for monitoring of receipts and expenditures of Municipalities.

### **Other Measures**

- Vigorous efforts should be made for collection of arrear demand along with current dues relating to tax and non-tax revenues along with measures for pursuing cases locked up in litigation.
- User charges and fees should be levied and collected by Municipal bodies wherever services provided are user specific and identifiable. It should aim at achieving improved accountability, reduction of wasteful use and the principles of social equity.
- The Municipalities can explore to develop such water bodies as Eco-park with recreation facilities which can be a source of revenue for the Municipalities.
- The Odisha Municipal (Amendment) Act, 2015 introducing property tax with “Unit Area Method” of assessment is yet to be made effective in the State. Moreover, the “Valuation Board” contemplated in the Act has not yet been made operational. Steps need to be taken expeditiously by the Government in this regard.
- All market yards managed on revenue sharing basis by RMCs to be transferred to the control of the Gram Panchayats and the Municipalities in whose jurisdiction such market yards function.

- By converging funds available under different schemes, income generating assets can be maintained efficiently to yield higher revenues for GPs. Same approach can be adopted for Municipalities.
- The Commission has recommended that a District Level Monitoring Committee (DLMC) under the Chairmanship of the Collector and DM may be constituted at the district level which should meet on quarterly basis.
- GPs should take the ownership of roads lying within the jurisdiction of Gram Panchayats and monitor constantly their improvement and maintenance.
- Land transfer by Revenue & Disaster Management Department to Municipalities for creation of capital assets, public service utilities, development of landfill sites and other ancillary activities need to be simplified. A land transfer policy for Municipalities needs to be formulated

[Recommendations and suggestions pertaining to strengthening human resources, institutional strengthening, measures needed to augment own sources of revenue of local governments, other financial and accounting measures and general issues as recommended by the Commission are being examined by the State Government in detail. The respective Departments would examine such recommendations and suggestions on merit and take appropriate follow up action within a stipulated time period in consultation with the High Level Monitoring Committee.]

## Tripura Fifth State Finance Commission

Award Period: 2021-22 to 2025-26

Constitution: June, 2020

Report Submission: February, 2021

ATR Submission (Panchayat): January, 2024

ATR Submission (Municipalities): February 2024

### Composition

Sh. G.K. Rao IAS(Retd.), Administrator, TTAADC	Chairman
Sh. Rajat Kanti Deb Barman Chief General Manager (Retd.), NABARD	Member
Sh. Akinchan Sarkar TCS, Joint Secretary, Finance Department, Govt. of Tripura.	Member

### Terms of Reference

The Terms of Reference (TOR) of the Commission were as follows:

(a) To make recommendations to the State Government regarding the principles which should govern:

i) The distribution between the State and Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;

ii) The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;

iii) The grants-in-aid to Panchayats from the Consolidated fund of the State;

(b) The measures needed to improve the financial position of the Panchayats;

(c) Any other matter referred to the Finance Commission by the Governor in the interest of sound finances of the Panchayats.

The Finance Commission had to review the Financial position of the Municipalities and make recommendations to the Governor in respect of the following:

a) i. The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees which may be levied by the State, be further divided between them under this part and the allocation between the Municipalities at all levels of their respective share of such proceeds;

a) ii. The determination of taxes, duties, tolls, and fees which may be assigned to, or appropriated by, the Municipalities;

- a) iii. The grants-in-aid to the Municipalities from the consolidated Fund of the State;
- b. The measures needed to improve the financial position of the Municipalities;
- c. Any other matter referred to the Finance Commission by Governor in the interest of sound finances of Municipalities.

### **Methodology**

A series of meetings were held by the Commission with the Secretaries of RD(Panchayat) Department, Urban Development Department, CE(DWS), CE(PMGSY), Secretary, Finance Department, CEO and officials of TTAADC, Director RD(Panchayat) Department, Director Urban Development Department. The Commission also held Video Conferences with all the Zilla Parishad, Sabhadhipatis, DMs, DPOs, Chairmen, Block Advisory Committees, Chairmen, Panchayat Samitis and BDOs on different dates.

In order to get the requirement of funds for the next 5 years by RD (Panchayat) Department and Urban Development Department under Fifth SFC, questionnaire together with formats for submission of sector specific requirements were given to all the *Panchayats* (3-tier) and Municipalities. The Secretary, RD (Panchayat) Department and Secretary, Urban Development were asked to submit memorandum for allotment of grants –in –aid for identified thrust areas. Due to Covid-19 pandemic, the Commission could not make field visits. Particular care was taken by the Commission in inviting views and suggestions from various *Panchayats and Municipalities*. In this connection a letter was issued by Member Secretary to all Sabhadhipatis of Zilla Parishads, Chairpersons of Panchayat Samitis. Further the Commission prescribed some formats seeking information about finance and functions of Municipalities and *Panchayats*. RD (Panchayat) Department and Urban Development Department could collect relevant information on tax and non-tax revenues along with expenditure made by the local governments. The Commission also sought forecast of receipts and expenditure from all these local governments during the period commencing from 1.4.2021 to 31.03.2026. Information received from the departments and the local governments have been duly analyzed by the Commission. The status of decentralization and devolution of funds in favor of local governments was discussed with officials of RD (Panchayat) Department and Urban Development Department.

### **Recommendations**

#### **Global Sharing**

The Commission had recommended to devolve 6% of the State's own Tax Revenue for devolution in favour of local governments.

[Accepted]

### **Horizontal Distribution**

- Devolution of funds between *Panchayats* and Municipalities is based on criterion such as size of population, density of population, urbanization and existing devolution under 4th SFC.
- Based on the criteria cited above, devolution of funds is to be distributed between *Panchayats* and Municipalities in the ratio of 50:50.
- Devolution of funds to *Panchayats* and Municipalities are Rs. 473.50 crore each out of total devolution amount of Rs. 947 crore.
- The devolution amount is to be untied in nature.

[Accepted]

### **Inter-se allocation of Devolution of funds among *Panchayats***

- The devolution of fund between *Panchayats* and sixth schedules areas is in the ratio of 57:43.
- Inter-se distribution among GPs, PSs and ZPs works out approximately in the ratio of 85%, 10% and 5% respectively. Amount of devolution to GPs / VCs is recommended based on population.
- While allocating funds for PSs, number of GPs in a block has been taken as criteria and the amount of devolution in favour of PSs is Rs 27 crore during the period 2021-26.

[Accepted]

### **Devolution of Funds among Sixth Scheduled Areas**

The inter-se distribution between VCs and BACs is in the ratio of 90:10. 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.

[modified to 85:10:5 for VCs:BACs:TTAADC-HQ]

### **Devolution of funds among Municipalities**

Utilization of funds by Municipalities to be decided by them taking into account the prioritized local needs. However, the allocated funds should not be utilized for donation or charity to any organization or any religious activity. The Share of 20 Municipalities is Rs.473.50 crore to be distributed on the basis of population size of each Municipality.

[Accepted]

### **Individual Tax Sharing with the Local Government**

- An allocation of Rs. 26.42 crore towards maintenance and improvement of road infrastructure in rural areas out of MV tax during the awarded period (2021-26) has been recommended.

[Accepted subject to the condition that “Grants to pump operators” should not be provided separately to *Panchayats*]

- 3.49% of the revenues from State GST (SGST) be assigned to Municipalities towards salary and establishment cost<sup>25</sup>.
- 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 Municipalities.

[85% of recommended amount for assignment of taxes may be provided to Municipalities during 2024-25 to 2025-26]

### Assignment of Tax and Non-tax Handles

- The RD (Panchayat) to give *Panchayats* the authority to approve building plans and collect fees for scrutiny fee, infrastructure development and sanctions fee.

[Not Accepted]

- Property tax also be collected from Census Towns.

[Accepted]

### Grants in aid

Grant- in- aid to *Panchayats*

- Rs. 27.72 crore for construction of 126 GP/VC buildings.
  - Rs. 10 lakh per Km. and a total of Rs. 30 crore for all weather road connectivity to 320 habitations.
  - Rs. 22.73 crore for maintenance of 2273 JB Schools.
  - Rs 10 crore for creation of banking facilities @ Rs. 10 lakh per banking facility at 100 GP headquarters.
  - Rs. 5 crore for maintenance of capital assets like market complexes, cremation grounds etc.
  - Rs. 3.1 crore for preservation and development of water bodies in GPs/ VCs.
  - Rs. 20.25 crore construction of 100 market stalls, 75 rural haats, and 50 community halls towards creation of capital assets for revenue generation.
  - Rs. 2 crore for construction of 100 passenger sheds.
  - Rs. 4.5 crore for development of 75 burial grounds / cremation grounds.
- Grand Total: 125.30 Crores

[Accepted]

### Grants – in – aid to Municipalities

- Rs. 30 crore for sanitation and solid waste management.
- Rs 20 crore for provision of safe drinking water.
- Rs. 20 crore for storm water drainage of Municipalities.

<sup>25</sup> Unlike Panchayats, salaries of official and staff of Municipalities are not paid by the State Government.

- Rs 20 crore for construction of an aggregated length of 200 kms.Roads.
- Rs. 5 crore for maintenance of capital assets.
- Rs 5 crore for preservation and development of water bodies.
- Rs. 5 crore for septage management.
- Rs. 5 crore for street lighting in newly created ward/ Nagar Panchayats.
- Rs. 5 crore towards providing on line services by Municipalities
- Rs 5 crore for commissioning of electric crematoria.

Grand Total: 120 Crores

[Accepted]

### Functions and Functionaries

- The level of manpower with the Municipal Bodies are not aligned with the spending capacity of the Municipal Bodies and the requirement of providing minimum level of basic services in view of this, Government needs to strengthen the human resources of Municipalities for speedy utilization of funds and for delivery of minimum level of basic services.

[Accepted]

- The commission recommended for setting up of one State Level Institute with professional experts so as to impart training on regular basis to the manpower and elected representatives engaged in urban administration.

[Not Accepted]

- State Panchayat Raj Training Institute, AD Nagar to be converted into “State Level Training Institute for Local Governments”. This institute should be strengthened with adequate manpower, infrastructure, quality resource persons, IT Professionals etc.

[Accepted]

- Framework for guidelines relating to the functioning of line agencies like Tripura Urban Development Agency, Town and Country Planning Organisation, Drinking water and Sanitation Department/ the Tripura Jal Board, Municipalities, Director, Urban Development Department etc.

[Accepted]

- Additional manpower support such as Account cum Data Entry Operators.

[Not Accepted]

- Elected representatives of *Panchayats* need to be properly trained on various aspects of developmental, welfare schemes of Government and GPDP preparation and implementation thereof.

[*Panchayats* are involved in the capacity building of elected representatives and functionaries]

- Deployment of at least one Data Entry Operator for every two GPs/VCs in order to maintain records properly.

[Accepted]

- The Administrative Department should take steps for training of the Accounting personnel. The BDOs and Panchayat Secretaries alongwith accountant cum DEO should also undergo capacity building training at SIPARD.

[Implemented]

- The present rate of Honorarium for Elected Members of PRIs has been revised recently by Governments while Sitting fees and DA as per prevailing rate recommended by other SFC e.g. 5th SFC of Odisha may be considered and hence recommend a similar hike.

[Deferred]]

- Particular emphasis has to be given on E- Governance in delivery of basic services while conducting training programmes. Special focus to be given on application of ICT in programme implementation and monitoring.

[Accepted]

- Special training to be organized for women representatives and elected representatives of *Panchayats* & Municipalities.

[Accepted]

- An integrated Module of Accounting and Budgeting should be developed.

[Accepted]

- Municipalities to be directed to adopt the double entry system for book keeping, maintain the asset register in a systematic manner, undertake annual stock verification and upload the assets record in the National Asset Directory on a regular basis.

[Accepted]

### Other Measures

- Government is required to expedite the process of creating and maintaining data base of local finances.

[Accepted]

- The rates and structure of different taxes prescribed under the municipal act require revision and changes, whenever necessary.

[Accepted]

- User charges and fees should be levied and collected by Municipal Bodies whenever services provided are user specific and identified. It should aim at achieving improved accountability, reduction of wasteful use and the principles of social equity.

[Accepted]

- Municipalities need to develop integrated urban Accessibility planning (IUAP) which must include i) Date of collection of mapping. ii) Analysing the magnitude of the problems and iii) Type of interventions required.

[Accepted]

- There is a need for Homeopathy College in the State as the people are very receptive for homeopathy treatment. Tripura state Homeopathy college to be established to fulfill the aspirations of the people of Tripura.

[Accepted]

- All GPs/ VCs in the state should be provided with internet facility to enable them to upload data on physical and financial transactions on a real time basis in PRIA Soft and National Asset Directory.

[Accepted]

- A land transfer policy for Municipalities needs to be formulated.

[Accepted]

- Meetings at the ward level of Municipalities should be conducted regularly so as to discharge the duties assigned.

[Accepted]

- Establishment of State Property Tax Board for revision of property tax general rates after every 3 years, implement systematic tax mapping on a GIS platform.

[Accepted]

- Management of markets, daily haats should remain with Municipalities within the jurisdiction of which such markets exist.

[Deferred]

- A District Level Monitoring Committee (DLMC) under chairmanship of DM & Collector may be constituted at the district level with PD, DRDA as Member Convener and the representatives from concerned line departments as members to review the progress of expenditure on quarterly basis. This is suggested in addition to existing HLMC under Chairmanship of Chief Secretary and other monitoring arrangements.

[Accepted]

- Use of PRIA Soft by all GPs/ VCs for all maintaining accounts requires availability of internet facility. All GPs/ VCs in the state should be provided with internet facility to enable them to upload data on a real time basis.

[Accepted]

- Increase the number of e-services to be provided to citizens.

[Accepted]

- RD (Panchayat) Department to examine the Tamil Nadu Model of Solid Waste Management (Rural) and try it in some GPs on pilot basis.

[Accepted]

- The effective and efficient utilization of funds released by both Central and State Governments depend largely on the preparation of a comprehensive Gram Panchayat Development Plan (GPDP).

[Accepted]

- Format of cash book as prescribed needs to be simplified looking at the revenue and expenditure pattern of the GPs. Some Obsolete items of receipts and expenditures need to be done away with.

[Accepted]

- Information related to functioning of GPs should be uploaded on e- Panchayat portal regularly.

[Accepted]

- Property tax also be collected from Census Towns and existing property tax in GPs should be confined to buildings and permanent / pucca houses subject to some exemptions as deemed proper.

[Accepted]

- Establishment of State Property Tax Board for revision of property tax general rates after every 3 years, implement systematic tax mapping on a GIS platform.

[Accepted]

- Consideration of the government to share the proceeds of conversion charges between the *Panchayats* and Municipalities in the ratio of 75:25 respectively in cases of conversion of agricultural land for non agricultural use. (2% to 3% on the land value charged).

[Deferred]

- Markets situated in GP/ Municipal areas which are being managed by RMCS should be transferred to the management of the local governments concerned.

[Accepted]

- A District level monitoring committee (DLMC) under the chairmanship of DM & Collector to be constituted at the district level to review the progress of expenditure on quarterly basis.

[Accepted]

- Population alone should not be the only factor in deciding whether an area becomes Nagar Panchayat or Municipal Council. Other factors, like population density, local revenue, non-agricultural employment, and economic importance, should also be considered, as mentioned in Article 245Q(2) of the Constitution.

[Accepted]

## Uttarakhand Fifth Finance Commission

Award Period: 2021-22 to 2025-26

Constitution: November, 2019

Report Submission: July, 2021 (As per ATR)

ATR Submission: March, 2022

### Composition

Sh. Indu Kumar Pande IAS (Retd.)	Chairman
Sh. Surendra Singh Rawat IAS (Retd.)	Member
Sh. Bhupesh Chandra Tiwari Addl. Secretary (Finance)	Member Secretary

### Terms of Reference

The Commission was required to make recommendations as to the following:

(a) The principles, which should govern –

(i) the distribution between State, Gram/Kshetra/Zila Panchayats and Municipalities, of the net proceeds of taxes, duties, tolls and fees leviable by the State which are to be or may be divided amongst them under Part-IX and IX-A of the Constitution and the allocation between *Panchayats* and the Municipalities at all levels of their respective shares of such proceeds;

(ii) the determination of taxes, duties, tolls and fees, which may be assigned to or appropriated by the Gram/Kshetra./Zila Panchayats or, the Municipalities;

(iii) the principles which should govern the grant-in-aid to the Gram/Kshetra/Zila Panchayats or Municipalities from the consolidated fund of the State.

(b) the measures for strengthening the financial position of Gram/Kshetra/Zila Panchayats and Municipalities.

(c) any other matter, which the Governor may refer to the Commission in the interest of sound finance of Gram/Kshetra/Zila Panchayats and Municipalities.

(d) Outlining the broad trends in urbanization, assess the status of basic infrastructure in the urban, peri urban areas and census towns identifying the gaps therein, suggest measures for improvement/augmentation thereof.

(e) Assess the status of implementation of reforms in the *Panchayats* and Municipalities and suggest measures for improvement in governance and implementation.

2- In making its recommendation, the State Finance Commission was to have regard, among other consideration, to: -

- (a) the revenue resources of the State Government and the demands thereon, in particular, on account of expenditure on civil administration, debt servicing and other committed expenditure or liabilities;
- (b) the liabilities of *Panchayats* and Municipalities in respect of implementation of schemes entrusted to them under Article 243- G and 243-W and works entrusted to them at appropriate levels;
- (c) the revenue resources of *Panchayats* and Municipalities at all levels based on the potential for raising resources for the next years and targets fixed for additional resources mobilization along with tax efforts made in this direction;
- (d) the matching efforts of the *Panchayats* and Municipalities with the devolution amount;
- (e) the Scope for improvement in fiscal management as well as organisational streamlining consistent with economy in expenditure and efficiency in administration;
- (f) the maintenance and upkeep of capital assets and maintenance expenditure on those plan schemes, which are entrusted to these bodies and are to be completed by 31 March, 2026.
- (g) the commission may make an assessment of the debt position of the *Panchayats* and Municipalities at all levels as on 31 March, 2020 and suggest such corrective measures as are deemed necessary keeping in view the financial requirements of the State;
- (h) if the funds available at local level do not meet full requirement of expenditure on revenue after the new arrangement, then the Commission will make specific recommendation regarding the arrangement of funds for expenditure on both revenue and capital side and
- (i) the use of information technology and right-sizing of staff;

3- In discharging its responsibilities, the State Finance Commission had the following power;

- (a) It can ask for any information or document from any Officer or Authority;
- (b) It can send for any person for evidence or to produce a document;
- (c) The Commission will determine its own Procedure;
- (d) Any other powers, as may be laid down.

4- The State Finance Commission shall make its report available both in Hindi and English version, on each of the aforesaid matters, covering a period of five years commencing on 01 April, 2021.

5- Identifying issues for the Sixteenth Finance Commission.

## Methodology

Due to COVID-19 restrictions such as lockdowns and office closures, the Commission requested Municipalities and Panchayats to submit their suggestions in writing through memorandums and representations. It also sought information from various local governments in response to questionnaires sent by the Commission. Additionally, the Commission held discussions with the Finance, Urban Development, Housing, and Panchayat Raj Departments, along with officials from the Directorate of Urban Development and various audit organizations. The Commission found the studies on urbanization conducted by the 4th SFC, particularly the work by ISID, Delhi, to be very useful.

## Recommendations

### Global Sharing

11% of State own tax revenues (including GST compensation) has been recommended as devolution local government.

[Modified to 10.50%]

### Horizontal Distribution

The amount of devolution to be distributed between *Panchayats* and Municipalities<sup>26</sup> in the ratio of 40:60, respectively.

[Accepted]

### *Inter se* Distribution

Following the principle of equalization equity and efficiency, the Commission adopted the population<sup>27</sup>, area<sup>28</sup>, remoteness<sup>29</sup> and tax effort<sup>30</sup> as parameters for distribution.

For *Panchayats* the *inter se* share between ZPs, KPs & GPs to be 37.5%, 17.5% and 45% respectively and criterion for devolution to be as follows:

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<sup>26</sup> The Commission proposes a higher share for Municipalities due to the growth of the urban population since the 2011 census, increased rural-to-urban migration, and the addition of new areas to existing Municipalities. Additionally, towns with high floating populations, such as tourist destinations, face higher costs for municipal services, further justifying the increased share.

<sup>27</sup> Given the meagre population in hill areas, the Commission has assumed a minimum population of 10000 for NPPs, 5000 for NPs and 500 for GPs.

<sup>28</sup> For Gram Panchayats, the minimum area is 2 sq. km and the maximum area is 6 sq. km. For NPPs and NPs, both the minimum and maximum area are set between 10 and 40 sq. kms.

<sup>29</sup> distance from the nearest rail head as indicator of remoteness has been used

<sup>30</sup> 50% weightage has been given to per capita tax incidence and 50% to per capita realization.

S.N.	Name of the Panchayats	Population	Area	Tax Effort	Remoteness
1	ZPs	60	20	10	10
2	KPs	60	20	-	20
3	GPs	60	20	-	20

[Accepted]

The *inter se* share for Municipalities is NN - 40%, NPP - 47% and NP -13% based on following parameters.

S.N.	Name of the Municipalities	Population	Area	Tax Effort	Remoteness	Special Dispensation
1	NNs	60	20	10	10	-
2	NPPs	65	10	15	5	5
3	NPs	65	10	15	5	5

[Accepted]

2. The Commission recommended that when a NP is upgraded to a NPP, its share of grants should remain the same as it was before the upgrade, and this share cannot be changed during the award period.

[Accepted]

### Grants-in aid

1. The newly created Municipal Council and Nagar Panchayats during the award period to get a grant-in-aid of Rs.1.25 crore in the first year and Rs.75.00 lakh per annum in the remaining years. The amount recommended shall be deducted from the total devolution amount admissible to their corresponding group.

[Accepted and 2<sup>nd</sup> year amount has been increased to Rs.1 crore in place of Rs.75 lakh]

2. The commission is in agreement with the observations of the Fourth SFC regarding sharing of civic responsibilities by the temple committees of the Himalayan Shrines of Badrinath, Kedarnath and Gangotri, which are the three non-elected panchayats. It recommended the following grant in aid to the three NPs.

Badrinath	-	Rs.1 crore per year
Kedarnath	-	Rs.0.50 crore per year
Gangotri	-	Rs. 0.50 crore per year

[modified to Rs.2 crore per year to each of these non-elected *Panchayats*]

3. For pay and pension related arrears amounting to a total of Rs.53.40 crore, the Commission recommended a grant of Rs.38.15 crore for clearance of arrears after due verification on the basis of audited accounts.

[Accepted]

1. Special purpose Grant for the following purposes:
- Preparation of GIS based master plans after detailed survey. - Rs.15 crore
  - Annual grant to Uttarakhand Academy of Administration, Nainital for training of elected representatives and research purposes - Rs. 1 crore
  - Solid waste management project – Rs. 180 crore
  - For replacing existing street light by LED Lights and installation of solar based LED lights – RS. 25 crore
  - setting up underground garbage bins - Rs.20 crore

[Accepted]

## 2. Untied grants but conditional grants

An untied grant of Rs.100 crore is recommended for Municipalities, primarily for asset creation to boost income, with priority for setting up electric crematorium in Dehradun, Hardwar and Haldwani, Similarly, untied grant of Rs. 20 crore is recommended for GPs, KPs & ZPs.

[Accepted]

These grants may be released from second year onwards and subject to the condition of minimum floor rates of property tax except for those Municipalities which have been newly created and exempted for the period. It will become applicable the moment exemption period is over. For *Panchayats* the conditionality proposed by 15th FC would apply for the release of grants.

[Accepted]

## Assignment of Tax and Non-tax Handles to Local Government

- The Commission suggested 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. Part of these charges to be earmarked for the Municipalities in the jurisdiction and accordingly increased within reasonable limits.

[Accepted]

## Functions and functionaries

- A work which is undertaken by the GPs within their jurisdiction and any devolution to KPs, needs to be for schemes which benefit more than one GP and there has to be a better accounting, audit and monitoring mechanism to ensure expenditure efficiency.

[Accepted]

- The GP office to be strengthened both in terms of personnel as well as management aids.

[Accepted]

- Right sizing of departments needs to be done by way of abolishing of posts which have remained vacant for more than three years except for those providing essential services and because of delays in recruitment. Further the departments with similar functions be merged and overheads be reduced.

[Accepted]

- A suitable voluntary retirement scheme be formulated to get rid of redundancies which cannot be accommodated elsewhere.

[Accepted]

- Municipalities should establish a dedicated waste management department with trained staff specializing in MSW management. Staff training is crucial to improve skills and keep them updated on the latest technologies and best practices.

[Accepted]

- State Institute of Urban Development (SIUD) to be set up (as recommended by the 3rd SFC also) to address urbanization issues and propose solutions based on local conditions and stakeholder views.

[Accepted]

- Since the State Academy of Administration at Nainital is logistically well equipped for training purpose it can with its present infrastructure sustain the State Institute of Urban Development without much expenditure.

[Accepted]

- While setting up the proposed institute is important, strengthening the Directorate of Urban Development is crucial for maintaining municipal data and monitoring urban development programs. Effective use of ICT for data updates and improved coordination across departments is needed, along with a unified approach to urban planning and increased decentralization with capacity building.

[Accepted]

## **Other measures**

- The challenge of re-focussing on public health, primary healthcare, and decentralized governance, while strengthening health infrastructure, financial planning, and ICT/ICE integration, community participation and a strong commitment to system improvement to ensure positive health outcomes has to be met.

[Accepted]

- The state needs to play a bigger role in planning and supporting rural economic activity, especially through micro-enterprises in agriculture and services. This involves using innovative technology and ICT to promote sustainable farming and related businesses.

[Accepted]

- Technological upgrades are important for water and soil conservation, but a thorough cost-benefit analysis is needed for success. A micro-level review of voluntary consolidation, cluster farming, and industry partnerships with technical support should also be done.

[Accepted]

- The first step should be an overall review of all the institutions, production units etc. which have been set up for agricultural and horticulture research and processing, production, marketing etc. in terms of their actual performances and efficiency. And if there are serious bottlenecks, then necessary changes be done both in terms of institutional structure and strategies.

[Accepted]

- This would apply equally to sericulture, animal husbandry, dairy sector, fisheries apiary and other related activities.

[Accepted]

- The possibility of the value addition in dairy and fisheries sector along with modern marketing strategies and strategic partners from the private sector needs to be explored. The same applies for sugar mills and cooperative sector where government holdings are more than 90%.

[Accepted]

- Waste management specially in destinations with a large influx of tourists as well as in rural areas becomes very important. Another important issue will be about the safe disposal of bio medical waste like masks, sanitizers etc. Bangkok has already taken an initiative in this regard by way of an awareness campaign.

[Accepted]

- The Uttarakhand tourism development plan to be revisited and future plans and strategies to be worked out in the context of changed circumstances.

[Accepted]

- A more localised plan, which inter alia would include the transportation facilities, communication infrastructure based on district wise micro plans needs to be formulated for future keeping in view, the compulsions of providing employment to the local populace.

[Accepted]

- Expenditure control should involve phasing out outdated subsidies and targeting them based on affordability. State-owned sugar mills should be privatized or run through PPPs, with product diversification like ethanol. Subsidies in the power sector should also be gradually reduced.

[Accepted]

- A large expenditure in educational and training institutions like schools, colleges, industrial training institutes, polytechnics etc. need to be scrutinised and institutions where the infrastructure is almost non-existent, student teacher ratio is very low should be closed and merged with the neighbouring area institutions to make it viable and in the interest of quality of education.

[Accepted]

- The state government should implement the committee's recommendations (set-up by it) for reorganizing departments to reduce salary and pension costs over time. Additionally, resource mobilization measures should include setting user charges for services like irrigation, healthcare, and water on a cost-plus basis, with annual price adjustments.

[Accepted]

- The royalty from mining of minor minerals like sand, clay, stone etc. and from forest produce be closely monitored and rates suitably revised and any leakages be effectively plugged.

[Accepted]

- It is recommended that rents, user charges etc be reviewed periodically and while disbursing the untied grants for asset creation, the income from existing assets be reviewed and suitable commitment be obtained for periodical increases based on cost and price indices.

[Accepted]

- Endorsing the view of earlier commission, this commission also recommended replacement of Circumstance and Property tax by profession tax levied by the State Government assigned to ZP's and Municipalities.

[Accepted]

- The Department of Geography at Kumaon University used GIS to create a detailed case study of Almora Town's urban governance, mapping land use, building data, and infrastructure. This approach should be expanded to all municipalities in phases, starting with urban areas and moving to smaller towns and villages.

[Accepted]

- Computerisation at the village level has to be in consonance with convergence between various departments implementing rural development programmes in a wider sense including agriculture, irrigation, water supply etc.

[Related administrative departments will taken action in coordination with each other]

## Uttar Pradesh Fifth State Finance Commission

Award Period: 2016-17 to 2020-21

Constitution: October, 2015

Report Submission: October, 2018

ATR Submission: April, 2020

### Composition

Sh. Anand Mishr IAS (Retd.)	Chairman
Sh. Rakesh Chaubey	Member
Sh. Jagdev Singh	Member

### Terms of Reference

The Commission had to review the financial condition of *Panchayats* and Municipalities in respect of the following subjects:-

(a) The principles which will regulate:-

(1) Regarding the distribution of the net proceeds of taxes, duties, tolls and fees levied by the State Government as are to be, or may be, divided between the State and the *Panchayats* and the Municipalities under Parts IX and IXA of the Constitution and the allocation of the respective shares of such proceeds between the *Panchayats* at all the said levels and the Municipalities;

(2) Regarding determination of taxes, duties, tolls and fees which are to be assigned to, or taken over by, the Gram/Area/District *Panchayats* and the three-tier Municipalities,

(3) Regarding the principles governing the sums payable as grants-in-aid to *Panchayats* and Municipalities out of the Consolidated Fund of the State,

(4) Regarding the measures needed to improve the financial condition of the three-tier *Panchayats* and Municipalities,

The State Finance Commission shall, in making its recommendations, have regard to, among other things, the following matters, namely:-

(i) Financial resources of the State Government and commitment of the State Government under the provisions of Uttar Pradesh Fiscal Responsibility and Budget Management Act,

(ii) Assessment of the financial status of rural and urban local governments at all levels and suggestions for increasing the resources of the bodies. Incentives for increasing the resources of the bodies,

(iii) Assessment of financial requirements of other Panchayati Raj Institutions (regional and district) in the context of grants recommended by the Fourteenth Finance Commission for only Gram Panchayats under Panchayati Raj Institutions,

(iv) Assessment of basic services provided by local governments, level of services, availability, access, inclusion and quality,

(v) Maintenance of assets of local governments at all levels,

(vi) Data base regarding income and expenditure of all local governments with a view to ensure financial discipline in the bodies,

(vii) The Commission shall assess the outstanding debt position of all Panchayats and Urban Bodies as on 31st March, 2014 and suggest such corrective measures as may be necessary for controlling their debt liabilities

### **Methodology**

The Commission employed a multifaceted approach to assess the financial status and requirements of rural and urban local governments. To begin with, it developed detailed information forms aimed at gathering data on the financial condition, physical assets, and operational methods of *Panchayats* and Municipalities. These forms, which covered a wide range of aspects, were made available both physically and online on the Commission's website. All rural and urban bodies were instructed to submit the required data, with District Project Managers in each district trained to assist with online data entry. The Commission also obtained financial reports from the Urban Development and Panchayati Raj Departments for the years 2016-21 and gathered relevant data from the Finance Department regarding the state's fund transfer status and projections for future years.

In addition to this data collection, the Commission organized divisional and state-level meetings with elected representatives of urban and rural bodies to gather views and suggestions. It also reviewed reports from the 13th and 14th Central Finance Commissions, alongside work statements from the Urban Development Department for 2012-13 and 2016-17. To further enhance its analysis, the Commission studied available data on various departmental websites concerning population, area, schemes, backward development index, and local body services. All the collected information, along with the suggestions received, were thoroughly analyzed, and the findings were compiled in the final report, providing a comprehensive overview of the financial landscape of local governments in the state.

### **Recommendations**

#### **Global Sharing**

15% of the divisible pool net tax revenue to be transferred to rural and urban local government.

[modified to 12.5% of the net tax revenue received by the state]

### **Horizontal Distribution**

The share to be transferred to local government to be distributed between Municipalities and Panchayats in the ratio of 55:45.

[Due to the inclusion of rural areas in urban bodies, the population and area of urban bodies has increased and new urban areas have been created. In view of the possibility of increase in urban bodies in future, the mutual share of the amount to be transferred to urban and rural bodies should be kept 60:40 (7.5% and 5%)]

### *Interse distribution*

For Municipalities: Out of the 55% share transferred to the Municipalities of the state, distribution among Municipal Corporations, Municipal Councils and Nagar Panchayats to be done in the ratio of 40:40:20.

[Out of the 60% share transferred to Municipalities, funds will be transferred to Municipal Corporations, Municipal Councils and Nagar Panchayats in the ratio of 45:35:20 respectively on the basis of population percentage]

The parameter for distribution are as following:

	<b>Indicators</b>	<b>Load delivered (in percentage)</b>
1	Population, 2011	45
2	SC/ST Population, 2011	10
3	Area, 2011	10
4	Overall Development Index	25
5	Efforts made for revenue	10

[The funds available for each category of Municipalities to be distributed among them on the basis of the following formula:-

	<b>Indicator</b>	<b>Load delivered (in percentage)</b>
1	Population, 2011	90
2	Area	10

As per the above standards, the body wise share will be estimated by the Urban Development Department.

The said amount to be allocated with the following restriction:-

(i) 12.5% of the total transfer amount of urban bodies will be quantified for payment of electricity bills, which will be paid against their liabilities. Metering action should be taken on priority by U.P.P.C.L.

(ii) The accounts of the five water institutions, namely Agra, Kanpur, Prayagraj, Lucknow and Varanasi, should be merged immediately and until the merger takes place, separate funds should be made available to the concerned Municipal Corporations and Water Institutions as per their requirements.

Merger of two water institutions namely Jhansi Mandal Water Institute and Chitrakoot Dham Mandal Water Institute has not been done in any Municipal Corporation. Therefore, funds should be made available to both these water institutions as per the requirement by making deductions from all the urban bodies of the concerned division.

(iii) An 'incentive scheme' should be implemented under which 1% of the amount allocated to all three categories will be retained as incentive money. The outline and criteria of the incentive scheme will be prepared by the Urban Development Department and this scheme will be implemented after getting approval from the Hon'ble Council of Ministers. This deduction will be made only when the incentive scheme is implemented.]

#### **For Panchayats**

Out of the 45% share transferred to the *Panchayats* of the state, distribution among the district Panchayats, Area Panchayats and Gram Panchayats to be done in the ratio of 25:10:65.

[Out of the 40% share transferred to Panchayats, funds will be transferred to district Panchayats, Area Panchayats and Gram Panchayats in the ratio of 15:15:70 respectively. it was also recommended by the Commission to withheld the 1% from each category as 'incentive money' for which outline and criteria would be prepared by PRD]

The parameters for distribution are as following:

	<b>Indicators</b>	<b>Load delivered (in percentage)</b>
1	Population, 2011	45
2	SC/ST Population, 2011	10
3	Area, 2011	10
4	Overall Development Index	25
5	Efforts made for revenue	10

[The amount allocated for the *Panchayats* of the state should be divided district-wise on the basis of the following formula:-

	<b>Indicators</b>	<b>Load delivered (in percentage)</b>
1	Population, 2011	90
2	Area	10

According to the above standards, the share will be estimated by the Panchayati Raj Department]

The total amount available for the area panchayats to be distributed amongst themselves giving 90% weightage to total population and 10% to Scheduled Caste/Tribe population.

[Accepted]

The total amount sanctioned for Gram Panchayats (65%) at the district level should be distributed among the Gram Panchayats giving 90% to the total population and 10% to Scheduled Caste/Tribe population.

[Accepted]

The recommendations given by the Fifth SFC on the principle of distribution should be implemented from 01-04-2019.

[The recommendations of the Fifth SFC will be implemented from April 1, 2020.]

The said amount to be allocated with the following restriction for *Panchayats*.

- The Commission recommended that even if a rural body is upgraded or there are changes in population or area, the transfer ratio of 55:45 between Municipalities and *Panchayats*, will be maintained.

[Accepted but the transfer ratio between Municipalities and *Panchayats* will be 60:40 as decided in recommendation above].

- The Commission recommends that when a Nagar Palika Parishad is upgraded to a Municipal Corporation or a Nagar Panchayat to a Municipal Council, the body will receive its share from the upgraded category, with the re-determined share effective from the next financial year, while maintaining the previous share during the current year.

[Accepted]

- The Commission recommended allocating 10% of funds to area panchayats for capital works benefiting two or more gram panchayats, such as connecting roads and storage godowns, with supervision on requirements, cost, and quality by the concerned department, and no revenue expenditure allowed.

[Accepted. The work should be done from the 15% amount transferred to the area panchayats.]

- out of 65% funds to Gram Panchayats, 20,000 Gram Sabhas without Panchayat Ghars to receive funds for construction within two years. Additionally, 50% of the transferred amount should be used for capital works, such as warehouses or school expansions, and not for revenue expenditures.

[Deferred]

### **Individual Tax revenue sharing with Local Government**

- 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.

[Accepted]

- The share of local government in stamp duty is an important issue. Municipalities have demanded an increase in their share (from 2%) and *Panchayats* 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.

[Not Accepted]

### **Assignment of Tax and Non-tax Handles to Local Government**

- Introduction of a “use tax” on road and land use for parking and services within municipal areas.

[Accepted]

- GPs that have built facilities like sheds, drinking water, toilets and pavements for shopkeepers at Haat-paith and Pashu -bazars should charge a fee for each shop and auction spaces. This will generate additional income for GPs while improving civic amenities for buyers and sellers.

[Accepted]

- The state government should create rules to regulate visual media and set fees for commercial establishments to get approval from local Panchayats. The fee rates should be based on the type and size of the media, to avoid future issues with changing rates or standards.

[Accepted]

- Each district panchayat to prepare a list of all such markets and places falling under the district and upload it on its website, mentioning the type-wise number of shops in each market and other places and the license fee charged on them.

[Accepted]

- Every mobile and internet service provider must seek approval from the concerned Gram Sabha before installing towers and pay an annual fee to the village fund as per

prescribed conditions. If needed, the State Government should amend Section 37 of the Act and create rules to determine and collect the fee.

[Accepted]

### **Grants-in-aid**

- For construction of office building of the newly created Municipal Corporation, an amount of Rs. 50 crore each, i.e. a total of Rs. 100 crore, should be made available to Faizabad and Ayodhya and Mathura and Vrindavan as special capital grant.

[Accepted. It was also decided to give a grant of Rs. 50 crore for the construction of the office building of Shahjahanpur Municipal Corporation.]

- An amount of Rs. 30 crores should be made available to the Municipal Corporation of Gorakhpur as a special capital grant to provide temporary residential facilities to the parents, other close relatives or caretakers of children who have come from far away for the treatment of JE/AE infected children.

[This type of facility has been made available in BRD Medical College through the State Government and CSR.]

- The funds for capital works mentioned in recommendation 1& 2 above should be arranged from the amount (15%) to be transferred to Panchayats and Municipalities. After making the funds available accordingly, the remaining amount should be distributed on the basis of the principle recommended by the Commission.

[After providing the said amount from the 45% of the amount recommended for municipal corporations, the remaining amount will be distributed among the bodies as per the prescribed formula.]

### **Functions and Functionaries**

- Future state commissions be fully constituted two years before their award period, as per the State Government's decision, ensuring timely formation.

[Accepted].

- The State Government to decide on the transfer of work, personnel, and funds within six months, considering past recommendations from the Administrative Reforms and Decentralisation Commission and the High Powered Committee.

[Accepted]

- District Panchayats should prioritize computerization and e-governance, with expert institutions appointed for implementation and continuous supervision, supported by necessary state funds.

[Accepted]

- Local government failing to cooperate with audits will be ineligible for performance grants, while funds for eligible institutions will be used for rural development capital works.

[Audit proceedings should be carried out by all the local government on time.]

- District Panchayats can spend only up to 25% of the amount transferred on the recommendation of the Finance Commission on the salary and pension of their employees. No change should be made in the current system in the payment of pension arrears of retired officers / employees of the Central Transitional Cadre.

[Accepted]

- Resource Centres at Area Panchayat levels to be established for information exchange, training, and library facilities, using SFC funds for construction.

[Accepted]

- Archive rooms should be established in Panchayat Bhawan and Area Panchayat Resource Centers, with district-level records maintained in the District Panchayat Office.

[Accepted]

- The Commission recommended transferring all 18 subjects of the 12th Schedule to local government to promote decentralization, self-reliant governance, and effective urban service delivery.

[Accepted]

- The administrative departments should set fund release standards, withholding 5% of funds until standards are met, and minimize interference in municipal bodies' operations, except in policy or financial matters.

[Efficient management, functional efficiency and financial discipline to be implemented. This should not be linked to reduction of funds.]

### **Other Measures**

- The State Government to electronically transfer funds to concerned bodies within 15 working days, with interest on delays and accountability for the delay as per applicable rules.

[The recommendation regarding payment of interest was not accepted.]

- All recommendations of the previous State Finance Commissions of Uttar Pradesh, which have been accepted by the State Government but not yet implemented, should be given top priority and promptly carried out by the concerned administrative departments.

[Accepted]

- The performance of State Government-backed units/undertakings should be continuously monitored to ensure timely completion of work and loan repayment, avoiding financial burden on the State.

[Accepted]

- State Government to revise the list of 337 items in the Model Municipal Law and expanding land use permits to include more non-residential purposes, in line with the Urban Transformation Acts.

[Accepted]

- The State should revise property and potential tax rates based on the consumer price index and increase the taxable income limit under the Uttar Pradesh Area Panchayat and District Panchayat Act to exempt small businesses from taxes.

[Accepted]

- The State Government to create model bye-laws for fees and standards, which District Panchayats will use to notify and collect fees from business establishments, with details posted online.

[Accepted]

- The State Government should recover wrongly deposited funds in the District Consolidated Village Fund, use them for multi-village development, and ensure proper deposit into the Gram Panchayat fund in the future.

[In the coming years, action will be taken to deposit the income generated from the Panchayats in the village fund.]

- The State Government should allocate Rs. 7.50 crores from the transition amount for constructing office buildings for the new District Panchayats, with the amount deducted from their total allocation.

[Accepted]

- In view of the requirement of huge amount of money for construction of roads within the district, it would be better that separate arrangement be made for this purpose from the government budget and the work be done by double-checking from the amount transferred on the recommendation of the SFC.

[Accepted]

- Water conservation schemes spanning multiple development blocks or Gram Panchayats should be handled by district or area Panchayats, with expert guidance and authorization to use SFC funds.

[Accepted]

- The Government should provide funds to the District Panchayats through the budget for road maintenance and double-checking should be done as required from the sanctioned amount with the recommendation of the SFC.

[Not Accepted]

- Funds should be provided to 20,000 Gram Sabhas without Panchayat Ghar within 2 years, with the amount deducted from transfers, and Gram Panchayats must spend 50% of transferred funds on asset creation.

[Deferred]

- Cremation grounds serving multiple Gram Panchayats should be prioritized for development with basic amenities, funded jointly by member Panchayats through a committee.

[Accepted]

- Except for Gram Panchayats covered by special government schemes, funds should be directly transferred to the Gram Panchayats in other villages, which should handle the construction of these roads and drains.

[Accepted]

- The Panchayati Raj Department should study waste management techniques in other states and provide Gram Panchayats with technical expertise to implement their own plans.

[Accepted]

- No separate budget provision has been made by the State Government for maintenance of assets and providing civic amenities. The Gram Panchayats should get the said works done as per the requirement from the funds transferred under the SFC.

[Accepted]

- State Government to provide at least 50% of the funds for hand pump reboring in Gram Panchayats to ensure the work is completed without affecting other development activities.

[Adequate funds are being made available to the Gram Panchayats, so that reboring work can be done.]

- The Panchayati Raj Department should leverage e-governance schemes and government assistance to digitize birth-death registrations and family records in Gram Panchayats.

[Accepted]

- There is no need for any additional staff at the Gram Panchayat level. Technology should be developed. Computerization/digitization should be promoted and the Pradhan and Panchayat members should be made capable of performing all the tasks of the Gram Panchayat by giving them training as per the need.

[Accepted]

- The funds transferred on the recommendation of the SFC for the repair of damaged platforms of hand pumps and expansion of drainage channels for the availability of clean drinking water by the Gram Panchayats should be used as required.

[Accepted]

- The Commission recommended maintaining the training fund allocation at 0.15% instead of increasing it to 1%, as requested by the Panchayati Raj Training Centre.

[Funds will be provided as per requirement for operating expenses, which will not exceed 0.15%]

- The expenditure burden for honorarium and meeting allowances of Panchayat representatives, estimated at Rs. 1,421 crore over five years, should be shared with 75% from the State Government and 25% from the Panchayat body.

[Not Accepted.]

- Health and Nutrition Day should be organized by Gram Panchayats, which will also monitor social responsibility initiatives and manage funds for necessary materials if government funds are unavailable.

[Accepted]

- Municipalities should strengthen financial resources through improved tax collection, innovative income sources, outsourcing, and promoting PPP models for civic amenities.

[Accepted]

- The state government should ensure full computerization of the tax system, with online payment options, and temporarily withhold 2% of funds from bodies not adopting the online process.

[There is agreement on promoting the online process, but there is no justification for withholding funds for this.]

- Municipalities should be granted full authority to levy taxes, increase revenue, and identify new sources without state government approval, with necessary rule amendments.

[Taxation/amendment should be done with the consent of the state government.]

- Municipalities to implement water metering system in their areas to not only increase revenue income, but also to curb misuse of water resources.

[Accepted]

- A purpose-built computerized system using geo-tagging, apps, and ICT should be created for effective supervision of construction works in Municipalities.

[Accepted]

- All payments by Municipalities should be cashless, and cash payments to contractors and manpower should be stopped immediately.

[Accepted]

- An incentive system should be introduced to encourage internal revenue generation, with performance-based rewards for local governments excelling in revenue collection.

[Accepted]

## West Bengal Fifth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: May, 2022

Report Submission: September, 2023

ATR Submission: Not mentioned

### Composition

Dr. Abhirup Sarkar Professor (Retd.), Indian Statistical Institute, Kolkata	Chairman
Smt. Barnali Biswas, IAS(Retd.)	Member
Shri Asis Chakraborty, WBCS (Exe.)(Retd.)	Member
Smt. Ruma Mukherjie	Member
Shri Swapan Kr. Paul, IAS (Retd.)	Member-Secretary

### Terms of Reference

In addition to the terms specified in Clause (a) and (b) of Article 243-I and Article 243-Y of the Constitution, the Commission was required to make recommendations as to the following:

- (i) the resources of the State Government and the demands thereon on account of expenditure on administration, development and debt-servicing;
- (ii) the resource-raising powers of the *Panchayats* and Municipalities;
- (iii) the responsibilities entrusted upon the *Panchayats* and Municipalities by Statutes and Government Orders;
- (iv) awards given by the Central Finance Commission to the local government;
- (v) grants given by the State Government to the local government beyond the recommendations of the State Finance Commission and the Central Finance Commission.

### Methodology

Structured questionnaires were developed by the Commission separately for *Panchayats* and Municipalities excepting *Panchayats* under Darjeeling Hill Rural Areas. Department of *Panchayats* and Rural Development and the Department of Urban Development and Municipal Affairs respectively, facilitated the work. The services of the team of Institutional Strengthening of Gram Panchayat Programme (ISGPP) working at different districts under the *Panchayats* and Rural Development was also rendered to help the Gram Panchayats to answer

the questionnaire. The Centre for Studies in Social Science, Kolkata processed the data uploaded/mailed by the respective *Panchayats* and Municipalities.

Studies were also entrusted to (a) Indian Statistical Institute, Kolkata (ISI), and (b) Centre for Studies in Social Sciences, Calcutta (CSSSC) to conduct studies on actual functioning of the *Panchayats* and Municipalities and the gap in their resources.

Further, the Commission organised meetings with the representatives of the Panchayats & Rural Development Department, Urban development and Municipal Affairs Department, Finance Department, State Urban Development Agency and Institutional Strengthening of Gram Panchayats, Government of West Bengal to have a idea as to the ongoing programmes of the concerned Departments, financial devolution and the utilisation of funds thereof.

## **Recommendations**

### **Global Sharing**

The Commission recommended 1.5% of own tax revenue, which comes at Rs.905 crore, to be devolved to the local government for 2020-21 with a subsequent annual increase of 5% for the remaining years.

[As the State Government has already made grants to local government on account of SFC from 2020-21 to 2022-23 on the basis of Interim Report, the funds may not be granted for these years. For the remaining years, the funds may be devolved with the 5% annual increase from the base year value of Rs.905 crore.]

### **Horizontal Distribution**

The total “untied” fund allocation be divided between *Panachayats* and Municipalities in the ratio of 68:32 on the basis of population census 2011.

[Accepted]

### *Inter se* Distribution

For *Panchayats*, the fund to be allocated among three tier in the ratio 60:20:20 to GP:PS:ZP.

The Commission developed a horizontal devolution index for the basis of devolution, giving equal weightage of 1/3rd to population<sup>31</sup>, area and backwardness<sup>32</sup> for both *Panchayats* and Municipalities.

[Accepted]

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<sup>31</sup> For the purpose of population, the commission used both census 2011 and the Socio-economic Caste Census (SECC) data sources. for GP, population related data of SECC and for PS and ZP data of census 2011 have been used.

<sup>32</sup> Nightlight data has been used as a proxy for economic activity (a measure of backwardness).

### **Allocation for Hill Area - Rural Local Government**

The Commission normatively indicated the share of entitlement of rural local governments of Darjeeling and Kalimpong Hill Areas and has left it on the State Government for future allocation in such manner as it may decide.

[Future allocation to rural local government in hill areas to be decided in consultation with Panchayat and Rural Development]

### **Individual Tax Sharing with Local Government**

The 30% of collection from Taxes on Professions, Trade, Callings and Employment and Taxes on Vehicles to be shared between the *Panchayats* and the Municipalities in the ratio of 68:32.

[Accepted]

### **Assignment of Tax and Non-tax handles to Local Government**

- Parking Fees for vehicles can be imposed by all municipal boards.

### **Grants-in-aid**

The Commission recommended the continuation of the incentive fund of 2% of the total untied fund of the State for each year. Of this, 68% of fund is to be kept at the disposal of Panchayats and Rural Development Department and rest (32%) at the disposal of Municipal Affairs Department. the fund is to be devolved on the basis of performance towards:

- a) proper reflection of accounts in the audit report, and
- b) better utilization of fund.

[Accepted]

### **Functions and Functionaries**

- Till the Government undertake the fresh manpower planning to fill up the vacancies, the employees of some rural local government as per availability and admissibility may be placed on deputation to the rural local government facing acute shortage of staff.
- the skill of the GP employees to be upgraded to strengthen the accounting system of the GPs.
- The website of the department of the Panchayats and Rural development should contain necessary information about regular published annual report, functioning of the rural local government, nature of fund flow to them, their pattern of expenditure, best practices, etc., and should be updated regularly.
- Training camps at Sub-Division level should be set up on a regular basis utilising the local school buildings, auditoriums or temporary tents for such camps.
- managing the assets to ensure quality of operations and making available the services generated from the assets and maintenance of records are recommended.

- The CAG-audited and internally audited accounts be mandatorily made in public domain. Further, as there is a shortage of number of auditors for internal auditing, the empanelled CAs may be entrusted to do the job as is the case in urban local government.
- Social audits may also be introduced on an experimental basis.
- To ensure timely inspection of *Panchayats*, schedules of inspection to be made public and strictly followed.

### Other Measures

- Given the success of ISGP-I and ISGP-II, similar projects in the future be continued if external support is available and other two tiers of the *Panchayats* may also be considered for inclusion.
- In view of the unsatisfactory collection of Tax and Non Tax Revenue in certain areas of *Panchayats*, a sound and optimistic resource mobilisation policy is recommended.
- Following measures are recommended for revenue generation of *Panchayats*:
  - a) the procedure of valuation of taxes by the GPs needs to be improved to ensure better collection;
  - b) immediate steps to be taken to assess arrear tax on government properties and collect them without any further loss of time.
- Inspection schedules for *Panchayats* should be publicly posted and strictly followed and should cover both financial transactions and physical checks of assets and completed work.
- the Commission recommended the following steps for revenue generation in urban local government:
  - a) regular valuation of holdings after every five years
  - b) intensify the follow-up effort for default in payment of service charges on properties of central government as well as recovery of arrears of property tax.
  - c) levying of property tax for non-residential use should be stringent
  - d) review of license fees and stringent action where hoardings are erected without license are recommended
  - e) the government may look into the modalities for collection of revenue from service users of colony areas and slum areas which have access to municipal services
  - f) Parking Fees for vehicles can be imposed by all municipal boards as well as review of rates is recommended
  - g) Fees for bulk waste generators, non-domestic bulk water consumption may be reviewed
  - h) cut down on non-essential expenditure
- An effective asset management is recommended through careful planning, quality materials and machinery, proper acquisition, storage, and regulate revaluation. The importance of safety, maintenance, and reliable contractors is also emphasised.
- The finalisation of Asset Management Policy and its implementation is recommended.

**[State Government to constitute a State Level Committee under the Chairmanship of Principal Chief Adviser to Honourable Chief Minister and Finance Department and comprising of Chief Secretary, Additional Chief Secretary, Finance Department, Principal Secretary, Urban Development and Municipal Affairs and Secretary, Panchayats and Rural Development Department to look into the other measures recommended by the 5th SFC].**

## Andhra Pradesh Fourth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: February, 2018  
Report Submission: October, 2019  
ATR Submission: February, 2024

### Composition

Prof. Gummadi Nancharaiah Emeritus Professor, School of Economics, University of Hyderabad	Chairman
Prof. V. Jayasimhulu. Naidu, Professor of Economics (Retd), Sri Venkateswara University, Tirupati.	Member
Prof. B. Nagaraja, Professor of Economics (Retd), Sri Venkateswara University, Tirupati.	Member
Sh. Thumula Bhaskar Rao Bobbili, Vizianagaram District.	Member
Sh. Inaganti Satyanarayana Director (Retd), Planning Department, Andhra Pradesh Secretariat.	Member Secretary

### Terms of Reference

The Finance Commission has been required to review the fiscal position of *Panchayats and Municipalities* in the State and make recommendations to the Governor as to:

- a) The principles which should govern:
  - i. The distribution between the State Government and *Panchayats*, Municipalities of the net proceeds of the taxes, tolls and fees liveable by the State, which may be divided between them and the allocation between said bodies, at all Professor of economislevels, of their respective shares of such proceeds;
  - ii. The determination of the taxes, duties, tolls and fees which may be assigned to or apportioned by *Panchayats* and Municipal bodies;
  - iii. The sharing of Grants-in-aid to the *Panchayats* (Zilla Parishads, Mandal Parishads and Grama Panchayats) and Municipal Corporations, Municipal Councils and Nagar Panchayats from the Consolidated Fund of the State;
- b) The measures needed to improve the financial position of the said *Panchayats* and Municipal bodies including measures for improving the management of available resources;
- c) An assessment of the financial requirements of the *Panchayats* and Municipal bodies as well as ways and means to augment their resources;

d) While making its recommendations, the SFC has been required to make projections of the finances of *Panchayats and Municipalities* for the period 2020-25, duly taking into account:

- i. The resources of the State Government and its committed liabilities;
- ii. Scope for additional resource mobilization by *Panchayats and Municipalities* and
- iii. Likely grants from State Government and Central Finance Commission

### **Methodology**

The Commission held its first and second meetings on 26-07-2018 and 30-08-2018 in which key decisions relating to the approach and work of the Commission were finalized. Based on the decision taken, key Departments, Directorates /Commissionerate and Para-statal agencies connected with the tasks ahead of the Commission were identified and initial contacts were established. Most of the Departments / Directorates appointed nodal officers to interact with the Commission on a regular basis and to provide information. Second, elaborate questionnaires were designed in-house to collect secondary information on functions, functionaries and finances from the Departments / Directorates /Agencies such as the office of the Commissioner of Panchayati Raj and Rural Development, Office of the Commissioner, Municipal Administration and Urban Development, Guntur Department of Public Health Engineering, Department of Mines and Geology, Ibrahimpatnam, Department of Commercial Taxes, Vijayawada. Based on the initial information collected, formats were also designed to collect information on the finances of *Panchayats and Municipalities* as well as the services provided by them during the period 2014-15 to 2019-20. In parallel, detailed information was also collected on state finances from the budget documents, as well as from the Finance Department, GoAP. Detailed schedules / questionnaires / formats were also prepared to collect disaggregated data from 3-tiers of sample *Panchayats* (Gram Panchayats, Mandal Parishads and Zilla Parishads) and 3 types of sample municipal bodies (Municipal Corporations, Municipal Councils and Nagar Panchayats) across the State. These tools were then sent to the sample *Panchayats and Municipalities* for compilation. The Research Officer of the Commission guided the sample *Panchayats and Municipalities* in the compilation of information required by the Finance Commission. To assess the field realities of *Panchayats and Municipalities*, the Commission visited different districts and conducted detailed interactions with the elected representatives (past and present), key officials and general public.

After a quick perusal of basic information collected, the Commission then decided to undertake the following activities:

- Meeting with key officials of the relevant Departments / Commissionerate / Directorates related to local governments;
- Conduct of Commission sittings in Vizianagaram, Visakhapatnam, West Godavari, Krishna, Guntur, Prakasam, Nellore, Chittoor and Kadapa districts of the State;
- Entrust a study to CESS on Finances of *Panchayats and Municipalities*;
- Discussion with key public representatives and tax payers' associations

### **Recommendations**

## Global Sharing

A total devolution of 6.50% and 3.26% of State's Own Tax Revenue to meet the expected resource gap of *Panchayats* and Municipalities, respectively has been recommended.

[Not accepted]

The commission recommended for specification of the amount of transfer to be devolved to local government for each year for the award period, at least one year in advance so that they can prepare their development plans.

[Not accepted]

Not more than 50% of total tax transfer to be spend for meeting the resource gap. The rest 50% to be used for investment in core infrastructure areas (to be used as development grants).

[Accepted]

## Inter-se Distribution

The Devolution to *Panchayats* to be distributed in the ratio of 80:10:10 between the GP, MPP and ZPP, respectively.

[The ratio should be 70:20:10 between GP, MPP and ZPP, respectively]

The distribution to be on the basis of following parameters and weights:

Criteria	Weights (%)	Weights to be given for GPs with less than 1000 population
population (2011 census)	60	30
Geographical Area	20	50
SC population (2011 Census)	10	10
ST population (2011 Census)	10	10
Total	100	100

[Accepted with one change, The weights of population and area for GPs should be revised to 40% and 40% respectively instead of 30% and 50% proposed.]

90% of the funds to be distributed to each tier to be used for meeting the basic and development functions and the rest 10% for audit performance of *Panchayats* for improving the accountability and updating the books of accounts, submitting records for auditing in time, and use of IT for ensuring transparency in administration.

[Accepted]

For Municipalities, 90% of the fund to be provided to all Municipalities on the basis of population basis (census 2011) and balance 10% to be provided only to Municipal Councils and Nagar Panchayats on the basis of population.

[Accepted]

### Individual Tax Sharing with Local Government

- 100% transfer of profession tax compensation to GPs regularly.

[Accepted with prospective effect]

- Transfer of the seigniorage fee in stipulated proportions to *Panchayats* for the award period. The share transferred to MPPs and ZPPs to be spent on laying and maintenance of roads leading GPs from where minor minerals are transported to other places.

[If it is in the limits of the *Panchayats*, it can be accepted. The PR&RD Dept. to examine the matter and take necessary action.]

- *Panchayats* to identify the parking places suitable for parking vehicles and levy parking fees. the revenue raised thereof to be shared with *Panchayats* on 60:40 ratio, of which 40% transferred to *Panchayats*.

[Accepted]

- 5% of income of the Marketing Committees to be apportioned and distributed to local government in the ratio 80:20 between *Panchayats* and Municipalities, respectively. The *Panchayats* share to be divided in the ratio of 80:10:10 for GPs:MPP:ZPP, respectively, whereas 90% of the Municipalities fund to be given to all Municipalities and 10% to Municipalities and Nagar Panchayats.

[Accepted for 10% surcharge on Marketing Committees for the use of maintenance of assets around the Market yard]

- In view of sub-optimal transfer, the Government to transfer the prescribed proportion of surcharge on stamp duty to Gram Panchayats for the award period

[Accepted]

- The State government to share the revenue from GST on entertainment with Municipalities.

[Accepted]

- The revenue from profession tax to be transferred to Municipalities entirely after deducting the cost of collection.

[Accepted]

- Municipalities to be fully compensated for the loss of advertisement tax revenue.

[Accepted]

### **Assignment of Tax and Non-tax Handles to Local Government**

- 5% user fee at a percentage of property tax to be collected by GPs and Municipalities to meet the payment of honorarium to green ambassadors, operations and maintenance expenditure of solid waste management projects.

[Accepted]

- *Panchayats* to fix the rents for shops in the shopping complexes in their jurisdiction at 10% of the market value of the property.

[Accepted]

- trade license fee to be explored by *Panchayats* and all trades to be brought under fee-net for augmenting revenue.

[Accepted]

- Municipalities to collect service charges from the Central Government properties.

[Accepted]

- Collection of Vacant Land tax to be assigned to GPs and Municipalities in respective jurisdiction.

[Accepted]

- Municipalities to collect permission fee for the use of land in their jurisdiction for advertisement.

[Accepted]

- Municipalities to identify places to park the vehicles for leasing out.

[Accepted]

- Municipality to impose and collect encroachment fee and levy penalties on encroachments after proper eviction.

[Accepted]

**Grants-in-Aid**

- A special gap fund of Rs. 260 crores for five years is recommended for 1719 GPs with less than and upto 1000 population (2011 census) which are not having adequate resources even to pay their current consumption charges.

[Such GPs should be supported with electricity charges by the government as per the actual]

- Municipalities with less than one lakh population including Naar Panchayats to be provided a separate grant on line with AMRUT scheme.

[Not Accepted]

- Per Capita grant to Municipalities to be increased to Rs.50/-

[Accepted with prospective effect]

- In view of growing expenditure on provision of basic services, Per capita grant to GPs to be enhanced from Rs.8/- to Rs. 25/-, that of Mandal Praja Parishads from Rs. 16/- to Rs.50/- and that of Zilla Praja Parishads from Rs. 8 to Rs. 25/- and to be released on the basis of population 2011.

[Accepted]

- An annual grant of Rs.250/- crore is recommended to Municipalities to meet the maintenance cost including cost of replacement of different types of infrastructure and assets created.

[Not accepted]

- The specific-purpose grant provided to Municipalities by the State Government for development and maintenance is recommended to be enhanced.

[Not Accepted]

**Functions and Functionaries**

- The outsourced staff working in *Panchayats* under the budgetary allocation head “010” (Salaries) which lessens the financial burden of *Panchayats*.

[Rejected]

- due to lack of adequate staff to collect revenue, recently recruited village secretaries to be used for the purpose.

[Accepted]

- The staff appointed for identifying, assessing, levying and collecting property taxes should not be converted into agents of the Government compromising their ability and motivation to collect taxes.

[Accepted]

- The Government to review the issue of outsourced staff for hiring their services with appropriate number of workers, taking into account the total revenue and other connected liabilities of the Municipalities.

[Accepted]

### Other Measures

- Increase the allocation of funds towards current consumption charges from Rs.0.01 lakh to a minimum of Rs 10 crore per annum for *Panchayats*.

[Accepted]

- The Government and the State Property Tax Board to examine the desirability of allowing the Municipalities to undertake property tax revisions on annual / biannual incremental basis. Municipalities must be permitted to enhance the property tax rates by at least 2.5% once in two years.

[CDMA is requested to examine and submit proposals for taking necessary action at government level]

- A comprehensive survey is to be conducted to collect information on area, type of roof, type of flooring, number of floors, and location of property as the measure of tax assessment for rationalization of property tax.

[Accepted]

- The list of taxable properties, based on use of property should be prepared and updated, so that all properties might be brought into tax-net to raise much more revenue even at the existing rates of tax.

[Accepted]

- The Government to ensure property tax reforms including objective determination of the base and its regular revision for every 3 years to adjust for inflation.

[Accepted]

- Permissible rebates in the amount of property tax to be provided for one-time annual tax payers and the rebates to be offered must be publicized for getting the property taxes paid in time.

[Accepted]

## Chhattisgarh Fourth State Finance Commission

Award Period: 2025-26 to 2029-30

Constitution: July, 2021

Report Submission: January, 2024

ATR Submission: January, 2025

### Composition

Sh. Serjius Minj Former Addl. Chief Secretary, CG Govt. & Former Chief Information Commissioner, Chhattisgarh Government	Chairman
Sh. Satish Pandey State Finance Service Officer (Retd.)	Secretary

### Terms of Reference

The Commission was required to make recommendation pertaining to:

- a) The principles which should govern: -
  - i. The distribution the State and the Panchayats or the Municipalities (as the case may be) of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them under part IX and IX A of the Constitution and the allocation between the *Panchayats* and Municipalities, as the case may be, at all levels of their respective shares of such proceeds.
  - ii. The determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats and Municipalities, and
  - iii. The Grants-in-Aid to the Panchayats and Municipalities from the Consolidated fund of the State;
- b) The need to improve the financial position of the Panchayats and the Municipalities, and to make recommendations, including in respect of,
  - i) rationalising the taxes and non-tax revenues being collected by the Panchayats and Municipalities, and identifying new possibilities for generating resources, in particular the levy of user charges on services rendered by such bodies, in order to cover operation and maintenance costs;
  - ii) the potential of local governments to raise funds from financial institutions and the market, and framework for this;
  - iii) improving local governments' capacity of financial management;
  - iv) improving the monitoring of the fiscal performance of local governments;
  - v) providing incentive for higher revenues;
  - vi) achieving economy and efficiency in expenditure by local governments;
- c) the need for sharing between the State, the Panchayats and Municipalities, the cost of maintenance of assets owned by local governments as well as those transferred to them;
- d) the potential for public-private partnership with special reference to Municipalities.

In making its recommendations, the Commission shall have regard, among other consideration to-

- i) the fiscal demands on the State Government in view of the Chhattisgarh Fiscal Responsibility and Budget Management Act, 2005;
- ii) the recommendations of the 15th Finance Commission with regard to local governments; and
- iii) Central sector programmes and Centrally sponsored schemes under which funds are provided to local governments.

### **Methodology**

The SFC adopted a comprehensive and systematic methodology for study of various economic and development parameters of the state, ensuring valid and reliable results the methodology included an overall review of the State's economy, and economic analysis of local governments, discussions with local government representatives and relevant government departments, and gathering memorandum from these departments. Additionally, the SFC engaged with expert organizations, like UNICEF, NIPFP, NIRDPR for suggestions, organized studies on relevant topics, participated in seminars, and studies the methodologies of other SFCs, like Madhya Pradesh, Maharashtra, Odisha etc. Public dialogues and the role of local governments in global development were also the integral part of the process.

### **Recommendations**

#### **Global Sharing**

The share of the local government to be 10% of the Net SOTR<sup>33</sup> of the State.

[Rejected]

#### **Horizontal Distribution**

The divisible pool to be distributed between *Panchayats* and Municipalities in the ratio of 70:30 based on the estimated population in the year 2025<sup>34</sup>.

[Accepted]

#### *Inter se* Distribution to *Panchayats*

The amount to be distributed amongst *Panchayats* only on the basis of population.

[Accepted]

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<sup>33</sup> The net tax revenues have been arrived at by deducting from the State Own Tax Revenue (SOTR), the 1% of additional fees on stamp duty, 7.72% of the GST, 10% of surcharge on excise duty and transfers from rural development fund, and also the expenditure incurred in the collection of the remaining taxes is deducted from SOTR.

<sup>34</sup> Based on report of Ministry of Health and Family Welfare, GoI. Even though, according to the report, the ratio of rural-urban population would be 72.24:27.76, the SFC has taken the ratio as 70:30 to address the issue of temporary population in urban areas.

Also, in addition to the amount normally received by all GPs, an additional amount of Rs.2.5 lakh per GP to be provided to the GPs of the scheduled area.

[Accepted]

The amount to be distributed among GP, JP and ZP in the ratio of 85:10:5.

[Rejected]

The amount so devolved to *Panchayats* to be utilized as follows:

	<b>% of Fund</b>	<b>Type</b>	<b>To be used for</b>
1	30	Untied fund	Maintenance of basic services
2	60	Tied fund	Carrying out capital works
3	5	Addl. fund	GPs in scheduled areas
4	5	Performance grants	Encourage GPs to increase their own income.

[Rejected]

#### *Inter se* Distribution to Municipalities

The following are parameters and weights for distribution among Municipalities:

	<b>Parameter</b>	<b>Weightage</b>
1	Population	90%
2	Area	10%

[Accepted]

The amount so devolved to Municipalities to be utilized as follows:

	<b>% of Fund</b>	<b>Type</b>	<b>To be used for</b>
1	30	Untied fund	Maintenance of basic services
2	65	Tied fund	Carrying out capital works
3	5	Performance grants	to increase their own income.

[Accepted]

### **Individual Tax Sharing with Local Government**

#### *With Panchayats*

- GPs receive assigned revenue from the State Government in the form of:
  - royalty of minor minerals,
  - additional duty and cess on registration fees,

- land revenue cess,
- rural fund cess,
- Surcharge on excise duty.

The GPs have been receiving funds from the royalty of minor minerals and registration fee but no funds are transferred for land revenue cess, rural fund for 2017-22. The Commission, therefore, recommended the transfer of remaining funds amounting to Rs.181.53 crore and Rs.30 crore, respectively in the next budget and regular transfer in future.

[Accepted]

For excise duty, no fund has been received by the local government for the period 2010-2017. The commission recommended disbursing this amount also to local governments.

[Rejected]

### *With Municipalities*

- Under the assigned receipts, share from the following are transferred to Municipalities:
  - 1% of addl. Duty on stamp duty
  - Transfer of royalty/ revenue receipts from minor minerals
  - Grant of F.L. licence fees to Municipalities
  - General purpose grants
  - Grant to Municipalities for road repair from the income received from tax on vehicles
  - Grants equal to the income received from entry tax
  - Grant from state excise duty
  - Special grant to local government in lieu of abolition of passenger tax.

Out of these eight heads, the municipalities are receiving funds from only first two heads as assigned receipts, while grants are provided for the rest. Due to this arrangement, the local government is deprived of buoyancy of tax collection. The SFC, thus recommended that instead of grant being given under these heads to Municipalities, a 7.62% of SGST should be provided in the form of assigned receipts.

[Rejected]

### **Grants-in-aid**

- An amount equivalent to the amount received by the GPs and Municipalities from their own sources in a year to be provided as performance grant to the GPs and Municipalities, respectively in coming years.

[Partially Accepted. An amount equivalent to the additional increase in the tax revenue income from own source above 10% as compared to previous year to be provided as performance grant]

- 5% of the devolution amount to be provided to GPs as convergence grant.

[Rejected]

- Local governments having religious, cultural and historical heritage should get assistance grant from the consolidated fund of the state.

[Rejected]

### **Functions and Functionaries**

- A senior officer to be posted in the SFC cell to ensure timely action on recommendations of the SFC and for monitoring the implementation of such recommendations.

[Accepted]

- Website of the SFC to be maintained by SFC Cell. [Accepted]
- A committee to be constituted with Chief Secretary as Chairman to monitor the action taken by the concerned departments on the recommendations of the SFC. [Accepted]
- Local government and Panchayati Raj Accounts Committee of the legislative assembly to monitor the implementation of ATR. [Rejected]
- Department-wise activity mapping to be done regarding fund, functions and functionaries. [Accepted]
- If it is not possible to devolve 3Fs at once, then initially partial control must be handed over to the *Panchayats*. [Accepted]
- An expert committee to be constituted to make rules about the classification of budget and accounting in local governments. A software should also be developed for the same. [Accepted]
- Regular training should be provided to officers and employees of local government by reputed institutions. [Accepted]
- An inventory of land be created and tap land-based financing sources - conversion changes, betterment charges, development charges, etc. pricing of Floor Space Index (FSI) above a certain limit, within overall planning guidelines and to put in place a transparent and accountable mechanism for monetization which would contribute to creating urban infrastructure assets<sup>35</sup>. [Accepted]

### Other Measures

- A time bound action plan to be prepared to fill the gap in provision of basic services. [Accepted]
- For better tax collection, awareness among citizens to be created for tax payment. [Accepted]
- Tax and fee rates prescribed in Gram Panchayat Compulsory Tax and Fee Rules, 1996 to be revised and rationalized. [Accepted]
- The GPs which are not imposing and collecting taxes, the minimum rate of tax or fees as per the provision on the Gram Panchayat Compulsory Tax and Fee Rules, 1996, will automatically be levied and its recovery shall be compulsory. [Accepted]
- The rules should be made for the expenditure of interest amount received by the *Panchayats*. [Rejected]
- Government to consider reorganization of GPs on the basis of population for PESA and non-PESA GPs. [Partially accepted]

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<sup>35</sup> This is the recommendation made by third SFC of Chhattisgarh. The information regarding this and the other SFCs looking into this aspect is placed at Annex 9.

- The establishment expenditure of Municipalities be reviewed and reduced. [Accepted]
- Chhattisgarh State Audit Department to take timely action on pending audits in Municipalities and objections thereof be redressed by setting a time limit. [Accepted]
- Receipts from own sources of Nagar Panchayats and Nagar Palika Parishads should be targeted at 25% of the total receipts. [Accepted]
- Fixing service benchmarks as suggested by the Commission for monitoring of citizen services provided by GPs. [Accepted]
- A high level committee to be constituted to prepare a plan for developing sewerage facilities in the Municipalities of the State and arrangement of funds by the State Government. [Rejected]
- Receipts and expenditure of local governments against the set benchmarks for civic services provided by them to be monitored regularly and also be made public through the website. For this, the software of both the directorates can be updated through CHIPS as per requirements. [Accepted]
- In order to meet the vertical gap in fund requirements of the local governments, the State Government should make a demand for this from the 16<sup>th</sup> UFC and the State Government should include it in its memorandum. [Accepted]

## Manipur Fourth State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: October, 2019  
Report Submission: July, 2021  
ATR Submission: March, 2023

### Composition

Sh. RR Rashmi, IAS (Retd.) and Former Chief Secretary, Govt. of Manipur	Chairman
Dr. Th. Munindro Singh	Secretary

### Terms of Reference

The Commission had to make recommendations to the Governor on the following matters:

- a) The distribution between the State and the local government, namely, the *Panchayats*, Municipalities including Municipal Corporations and Nagar Panchayats and Autonomous District Councils (ADCs), the net proceeds of taxes, duties, tolls and fees leviable by the State, which may be divided among them and allocation among them and allocation among the *Panchayats*, Municipalities and ADCs at all levels of their respective shares of such proceeds;
- b) the determination of the taxes, duties, tolls and fees and the extent and amount thereof which may be assigned to, or appropriated by the *Panchayats*, Municipalities and ADCs;
- c) the principles which should govern the grants-in-aid to the *Panchayats*, Municipalities and ADCs from the Consolidated Fund of the State; and
- d) the measures needed to improve the financial position of the *Panchayats*, Municipalities and ADCs.

In making its recommendations, the Commission was required to have regard, among other considerations, to:

- (i) the resource position of the State Government for five years commencing on 1<sup>st</sup> April, 2020, on the basis of levels of tax and non-tax revenues likely to be reached at the end of 2019-20;
- (ii) the resources of local governments, for the five years commencing on 1<sup>st</sup> April, 2020, on the basis of levels of tax / non- tax revenues likely to be reached at the end of 2019-20;
- (iii) taxation efforts of the State Government and each of the local governments in the State as against target, if any, and the potential for resource mobilization through tax and non-tax revenue measures;

(iv) need to evolve objective and transparent norms for both vertical (between State Government and local governments) and horizontal (among each level of local governments) devolution and distribution of funds which serve to ensure inter-local body equity

(v) the expenditure on non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31<sup>st</sup> March, 2020; and

(vi) need for evolving broad guidelines / priority areas for application of the grants-in-aid to the *Panchayats*, Municipalities and ADCs.

Additionally,

(a) The Commission had to recommend specific measures to streamline and computerise the tax administration for better compliance of existing taxes. rationalization of taxes and recovery of the cost of operation and maintenance of the civic services through appropriate user charges;

(b) the Commission had to review arrangements for maintenance of accounts of the local government creation of database relating to finances of local governments; arrangement made for audit of the accounts of the local governments and the status thereof;

(c) the Commission had to make its report based on the template recommended by the 13<sup>th</sup> FC; and

(d) the Commission had to submit its report to the State Government by 29<sup>th</sup> February, 2020, on each of the matters aforesaid covering a period of five financial years commencing on the 1 day of April, 2013 subject to further extension being allowed by the State Government based on requirement/ necessity.

## **Methodology**

The Commission collected both primary and secondary data to carry out its work. It used information from state government departments, public records, audit reports, and other reliable sources. The Commission also held public meetings, interviews, field visits, and regular discussions with government officials and local governments to gather information and understand the issues mentioned in its ToR.

The Commission also invited suggestions from the public through a public notice. It collected socio-economic data using official sources and sent out questionnaires to *Panchayats*, Municipalities and ADCs. Meetings were also held to help local governments understand how to fill out the forms. However, in some cases, due to lack of reliable data, the Commission had to use estimates.

To better understand how local government function and the challenges they face, the Commission also visited some of them in both hill and valley districts.

## Recommendations

### Global Sharing

10% of the State's own tax revenue, non-tax revenues and share in the central taxes every year to be devolved to the local governments (*Panchayats*, ADCs and Municipalities).

[Modified to 10% of gross SOTR for 3 years period 2003-24 to 2025-26]

This share is meant to cover both regular expenses, *i.e.* revenue expenditure (like salaries) and developmental expenditure earmarking 50% of funds to each.

If the salary expense exceeds the approved revenue expenditure, the extra amount can be taken from the development fund, provided it does not exceed the audited level reached during the previous year.

The development fund to have two components, *viz.* (i) tied funds (40%) and untied funds (60%). Tied funds to be spent on identified categories of development work which includes solid waste management, sanitation, water conservation and rain harvesting, street lighting and durable community assets. While untied fund to be spent on development work on items listed in 11<sup>th</sup> schedule, 12<sup>th</sup> schedules and those under tied fund category.

### Horizontal Devolution

The allocation to local governments to be decided in proportion to their population as per 2011 Census. The percentage shares of different sets of local governments are as follows:

Sl. No.	Category	Population	Share (in %)
1	Panchayats	1007298	35.28
2	Autonomous District Councils	1205275	42.23
3	Nagar Panchayats	33016	1.16
4	Municipal Councils	340505	11.93
5	Imphal Municipal Corporation	268243	9.40
	Manipur	2854337	100

[Accepted]

### *Inter-se* Distribution

The share of Panchayats be divided between the ZPs and the GPs in the ratio of 15:85. As and when the Block level panchayats are created in the state, the shares of the three tiers should be modified to Zilla Parishads - 10%, Block Panchayats - 10%, and Gram Panchayats - 80%

Following criterion to be used to determine the share of (i) each GP in the total share of GPs, (ii) each ZP in the total share of ZPs, (iii) each Nagar Panchayat in the total share of Nagar Panchayat, and (iv) each Municipal Council in the total share of Municipal Councils.

S.N.	Parameter	Weightage (%)
1	Population	85
2	Area	7.5
3	Illiterate Population	7.5
	Total	100

[Modified to population and area in ratio of 90:10]

In addition to above parameters, the forest cover is also a parameter in determining the share of each ADC in the total share of ADCs.

S.N.	Parameter	Weightage (%)
1	Population	85
2	Area	5
3	Illiterate Population	5
4	Forest cover as % of total area	5
	Total	100

[Modified to Population to 75%, area to 5% and forest cover to 20%]

For distribution of funds among constituencies within an ADCs, same criteria as adopted for *Panchayats* and Municipalities to be adopted.

### **Sharing of Individual Taxes with Local Government**

- State Government to impose Stamp duty on transaction of immovable property within jurisdiction of the GPs and assigned this to the GPs. Ratio of share to be decided by the government in consultation with local governments
- 10% of the profession tax to be assigned to local governments collected from respective jurisdictions
- 5% of the stamp value on transfer of land or other immovable property taking place within the jurisdiction of the local government to be assigned to ZPs.
- GPs to be assigned a share of the income from royalties on minor minerals extracted from their jurisdiction and be allowed to use such funds from improvement of the local environment.
- MAHUD to evaluate the possibility of assigning any state taxes or duties to IMC and take suitable steps for restoration of assigned taxes in appropriate manner.

### **Assignment of Tax and Non-tax handles with Local Governments**

- Betterment tax to be levied by Municipalities where areas have improved as result of development by the Municipalities.
- The Government to look into the possibility of allowing the ADCs to impose tax on the advertisements, and user charges on the services such as water supplies & Community assets, conservancy fees, shop registration and license fees, issuance of death and Birth certificates fees etc. by effecting necessary amendments in the Act.
- IMC to impose a drainage tax where the wards benefit from the maintenance of the drainage related services.

### **Grants-in-aid**

- Whole devolution is formula based grant and any additional grant over and above the allocated share and given by the State Government is designated as 'Post Devolution Grant' and accounted for in the final total transfers to the local body.
- The Government can help IMC with about Rs.10 crores needed for salaries, pensions and retirements benefits as of October, 2020. This can be given either as a one-time grant or as part of the total funds, but only after submitting audited statements checked by LFA.

### **Functions and Functionaries**

- The State Government should consider transferring functions involving direct benefit to beneficiaries to GPs.
- Following the principle of subsidiarity, consultations among stakeholder should be held to decide on what all functions can be transferred to the respective local governments.
- All development oriented departments should be compulsorily mandated to prepare Activity Map and delegate activities and functions to the local governments accordingly.
- Performance of the department and local governments should be assessed quarterly by a high level empowered committee.
- The Government should establish essential positions in both ZPs and GPs and complete the recruitment process within a year to ensure their smooth functioning.
- An officer not below the rank of Additional Deputy Commissioner to be appointed as the CEO of the ZP and to ensure that they are not given dual responsibilities. The administrative control of the deputed staff to be devolved to *Panchayats* to promote efficient, dedicated and accountable functioning.
- LFA to be strengthen in terms of staff and other requirements to ensure regular local government audit.
- Necessary amendments be made in the Act, for placing audit report of LFA before the PAC for discussions and necessary action.
- The Government to enforce Model Accounting System (MAS) in *Panchayats* as suggested by GoI and link the performance grants to the progress in the system.
- Municipalities to move to accrual based double entry from 2022-23. The Government to provide necessary training and IT applications/software.

### **Other Measures**

- State government to put a regular institutional arrangement in place for effective implementation of recommendations and suggestion made by the SFC.

- An independent review Commission to be put in place to identify the areas of possible economy in expenditure.
- GPs to be allowed to incur expenditure only after approval of budget from the competent authorities.
- Digital information system to be put in place for monitoring the utilization of funds released to *Panchayats*.
- There should be clear delineation of activities and jurisdiction of the GPs and ZPs in terms of the scale of activities and projects.
- The Imphal Municipal Corporation (IMC) to take economical and financially viable projects through loans or municipal bonds.
- Amendments be made in the Act so that *Panchayats* can be formed with members being elected democratically in hill villages.
- Strong measures to be taken to build capacity within the ADCs to do financial monitoring and reviews.
- The provision of social audit to be extended to ADCs.
- In all the valley districts. DPC should be constituted without any further delay.
- All funds provided to *Panchayats*, Municipalities, ADCs outside the SFC grant route should be integrated with the SFC grants.
- ZPs and GPs to meet certain portion of expenditure from own revenues and if fails to do so, the SFC award will be adjusted downward by at least 1% in that year.
- ZPs to develop and install appropriate software for online registration of regular taxpayers and efficient collection of fees and taxes, which should be the measurable criterion for the release of performance or tied grants of the SFC.
- A high level of expert committee to study the existing taxation system of GPs and suggest necessary amendments in the relevant sections of the taxation powers of the local governments.
- State government to invest and develop assets and handover thereafter to GPs for their maintenance and upkeep and also allow GPs to keep the revenue earned from such assets.
- State Government to study feasibility of providing adequate power of levying taxes and user charges to ADCs on items mentioned in sections 33 & 34 of the District Council Act.
- State Government to notify and constitute town committees for management of urban areas in the hills and funds to be provided from the available share of ADCs based on criteria adopted for devolution.
- Moreh small town committee should be revived and be made eligible for receiving grants of the SFC.
- Transfer to IMC in lieu of octroi to be revised at regular interval of every three or four years taking into account inflation rate, time value of money, etc.
- IMC to revise the rates of various taxes taking into account the inflation and consider exploring new sources of additional revenues.
- IMC to notify minimum property tax and ensure timely submission of audited accounts for release of funds for the year 2022-23 onwards by the State Government.
- State Government to consider handing over the management of sewerage to IMC for the completed projects.
- 30% of the outstanding liabilities on account of pensions and salaries to be cleared by IMC from its own revenue account.
- State Government to develop the manpower and technical capacity of the IMC to address the persistent drainage problem in Imphal town.

- 10% of the untied funds to be kept aside for IMC to start online registration of taxpayers and online collection of revenue by the end of 2022-23.
- IMC to create a pool of funds by setting aside a portion from its share for taking projects like building ponds, parks, community halls, and improving traffic facilities.
- The government to release grants to local government on pro rata basis and make final adjustments to the amount at the end of the financial year based on Commission's recommendations.
- The Finance Commission Cell to be suitable upgraded with dedicated research staff for the purpose of collection of basic social, economic, financial and developmental data for the use by the SFC.
- The State government should involve the local governments in the schemes and programmes where beneficiaries have to be identified and DBT are provided to the citizens.
- The UFC to consider earmarking special funds for improvement of accounting procedure, database, and E-governance for local government. It may set certain conditions that local government must meet to received funds and put in place a system to monitor their usage.
- SFC to be constituted at least 2 years before the award period of the previous commission expires.

**[Rest of the recommendations to be considered after detailed examination and in consultation with stakeholders]**

## Goa Third State Finance Commission

Award Period: 2024-25 to 2028-29

Constitution: December, 2021  
Report Submission: January 2024  
ATR Submission: February, 2024

### Composition

Sh. Daulat A. Hawaldar IAS (Retd.)	Chairman
Sh. Gurunath S. Potekar Ex-Director of Accounts	Member
Dr. Y. Durga Prasad Director of Planning, Statistics and Evaluation	Member Secretary

### Terms of Reference

The State Finance Commission was required to make recommendations to the Governor as to the following:

(a) The principles which should govern:-

- i. The distribution between the State and the local government of the net proceeds of the taxes, tolls and fees leviable by the State which may be divided between them under this part and the allocation between these government at all levels of their respective shares of such proceeds;
- ii. The determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by the local government
- iii. The grants-in-aid to the local government from the consolidated fund of the state;

(b) the measures needed to improve the financial position of the local government; and

(c) Any other matter referred to the Finance Commission by the Governor in the interest of sound finance of local government.

### Methodology

Following the approach adopted by UFC, the 3rd SFC Goa visited all local governments, conducted about 235 consultations with all the stakeholders and also interacted with the citizens. The commission drafted two questionnaires for local governments, one is regarding general information i.e. demography, availability of amenities, services, infrastructure, functioning of local governments, financial position regarding tax collections, grants received from the State and Central governments, utilization of 13th, 14th and 15th UFCs, and another questionnaire regarding implementation of central / state flagship programmes. The Commission also obtained latest audit reports, financial statements of local governments and its delivery of services and made detailed study of these reports.

## **Recommendations**

### **Global Sharing**

The Commission recommended the continuation of existing devolution of 10% of State's Own tax revenue for the award period 2024-25 to 2028-29.

[Accepted]

### **Horizontal distribution**

Devolution criteria of the Union Finance Commission to be followed, i.e. 90:10 population and area criteria.

[Accepted]

### **Assignment of Tax and Non-tax Handles to Local Government**

- The introduction of Professional Tax by the local government in Goa has been recommended.

[Accepted]

- The village panchayat to implement the garbage user charges

[Not Action Taken mentioned]

- Municipalities to collect service charges from the Central Government establishment.

[Not Action Taken mentioned]

- Municipalities to implement pay parking system in their areas.

[Not Action Taken mentioned]

### **Grants-in-aid**

- 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.

[Accepted]

- Climate change fund of Rs. 10 crore per year is recommended during the award period for the urban and rural local government.

[Accepted]

- One time grant of Rs.2 lakh per panchayat for weaker panchayats to replace/ discard the computers which are more than five years old with the latest higher version.

- The stray cattle grant to be given to all VPs.

[Not Action Taken mentioned]

- All Village *Panchayats* and Municipalities to allocate space for libraries. The Art and Culture Department to release annual grants for this purpose. In this regard, the state Government to sanction the grants @ Rs. 2.00 lakh per VP per annum for the weaker Panchayats for maintenance of local libraries. It was also recommended to extend the library grant facility to all municipalities.

[Accepted]

- The Wage grants pattern of assistance for workers engaged in solid waste management in Municipal Administration to be extended for Village panchayat.

[Accepted]

### Functions and Functionaries

- The District Planning Committee to coordinate and monitor the annual plans of *Panchayats* and Municipalities.

[Accepted]

- The Accounts manual to be prepared for ZPs. ZPs to finalize its accounts annually and also prepare its annual plans regularly.

[Accepted]

- The Technical cell in BDO offices to be further strengthened for speedy disposal of development proposals of the *Panchayats*.

[Accepted]

- The State to appoint the high Level Committee to monitor the fund flow of Central Finance Commission grants and its timely utilization and submission of utilization certificates.

[Accepted]

- The State Government to develop customized Accounting Software for real time monitoring of Accounts/expenditure of the local governments.

[Accepted]

### Other Measures

- The budget provision for the IDC compensation to local governments to be kept in the respective Directorates of Municipal Administration and Panchayats. The compensation to be disbursed in two installments

[Accepted]

- As majority of the *Panchayats* have not started to collect wet garbage, 30% of the tied grants given by UFC for solid waste management needs to be utilized with the assistance of Goa Waste Management Corporation (GWMC).

[Accepted]

- 30% of grants from UFC for water and sanitation to be used to restore these traditional water bodies, with local governments encouraged to seek help from relevant government departments for proper and timely implementation.

[Accepted]

- The State Government to lower the base rent rates for newly built commercial properties in local areas to encourage participation in their auction.

[Accepted]

- As the management of stray cattle pounds in both *Panchayats* and Municipalities is unsatisfactory, the State Government through Animal Husbandry and Veterinary Services department is required to intervene to keep check on stray cattle.

[Accepted]

- The Funnel zone to be notified at the newly commissioned MOPA airport covering adjoining Village Panchayats.

[Accepted]

## Gujarat Third State Finance Commission

Award Period: 2013-14 to 2017-18

Constitution: February 2011  
Report Submission: December 2013  
ATR Submission: Not mentioned

### Composition

Dr. Bharat Gariwala An Eminent Economist	Chairman
Sh. Yamal Vyas Chartered Accountant	Member
Sh. Dinesh Chokshi Ex-Standing Committee Chairman of the Vadodara Municipal Corporation	Member
Sh. D.N. Pandey Senior IAS Officer	Member Secretary

### Terms of reference

The Commission had to review the financial position of the Panchayats including District, Taluka and Village Panchayats and the Municipalities including Municipal Corporations and Municipal Boards and make recommendations to the Governor as to:

- (a) The principles which should govern -
- i. The distribution between the state government, the Panchayat and the Municipalities of the net proceeds of the taxes, duties, tolls and fees levied by the State which may be divided between them under Part IX and Part IX-A of the Constitution and the allocation between the Panchayats and the Municipalities at all levels of their respective shares of such proceeds;
  - ii. The determination of the taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats and the Municipalities as the case may be;.
  - iii. The sharing of grant-in-aid to the Panchayats and Municipalities from the consolidated fund of the State;
- (b) measures needed to improve the financial position of the Panchayats and Municipalities;

The commission shall assess the financial requirements of the Panchayats and Municipalities as well as the ways and means to augment their resources to make them minimum dependent on additional financial support from the State government in order to swift and impartial fiscal escalation with a rather sustainable financial base as to improve the civic services.

In doing so the commission shall make recommendations with regard to the considerations of measures-

- 1) based upon the level of taxation and non-tax revenues of the State Government likely to be reached at the end of 2010-11, make projection for the forthcoming five years connecting from 1st April 2010;
- 2) analyse the outstanding debt position of the Panchayats and Municipalities in detail and offer recommendations to establish sound equilibrium between the receipts and expenditures aiming to build up surplus capital savings;
- 3) consider the resources of the state government and its burden of committed expenses and liabilities thereon, in particular, on account of expenditure on Civil administration, police, social and economic services and non plan revenue expenditures;
- 4) Decrease the debt liabilities of Panchayats and Municipalities, keeping in view their resource capacity and simultaneously widen their resources aiming to reduce the projected gap between their revenue receipts and expenditure;
- 5) appraise tax and non tax efforts of the Panchayats and Municipalities as against their targets, if any, and explore additional potential resources in order to uplift their tax and non tax revenues, making their accounts credible and more self dependent.
- 6) scrutinize the timely needs for possible commercialization of public services like drinking water supply system, sanitation, street light etc. by way of imposing user charges, updating rates of levies, taxes, fees, ec. as well as privatization of the public transport system. This should be done in a way that both public and private agencies are benefitted and the people do get adequate services with affordable charges;
- 7) suggest measures for improving accountability of local government in the discharge of their functions.

In addition, the commission had to -

- Evaluate the revenue receipts and expenditures of the panchayats and municipalities on a common scale keeping in view their population and its socio economic backwardness, geographic location etc. Population data to be taken into account shall be of Census 2011 or of Census 2001, whichever is available, which shall further be regarded as key factor in the process of devolution of funds by means of taxes, duties, tolls, fees, and grant-in-aid to Panchayats and Municipalities;
- assess the debt liabilities of the Panchayats and Municipalities as on 31st March, 2010 and resolve necessary steps to sustain appropriate debt level;
- impart quality and cost effective civic services that bear express installation and render more comforts to the people by using modern technologies. Also offer incentives like encouragements to the Panchayats and Municipalities for better utilization of their resources adhering to their financial restrictions.
- undergo and examine the reforms considered and suggested by the previous State Finance Commissions, endorse and ensure their implementation in the best way that the principles behind them can be attained at optimum level.

The TOR thus expects The Gujarat State Finance Commission (GSTFC) to examine broadly the following issues:

- a) Review of financial position of both rural and urban local governments in relation to their population, geographical area, backwardness, debt position, tax and non tax efforts, etc.
- b) Assessment of the financial requirements of local governments, augmenting their resources in order to make them minimum dependent on State Government.
- c) Recommendations regarding distribution of resources between state government and local governments of the net proceeds of State's tax and non tax revenue, and sharing grant in aid to local governments from consolidated fund.
- d) Explore possibilities of commercialization and modernization of public services through technology and innovations, fiscal decentralization, and use of public private partnership (PPP) model to provide best and adequate services at affordable charges.
- e) Actions suggested by previous SFCs.
- f) Measures of accountability in local governments for their functions.

### **Methodology**

The commission has tried to adopt a multi-pronged approach and wide-ranging strategies to accomplish tasks bestowed upon it by the state government. The commission made it a practice of weekly internal meetings to discuss various issues before it, besides reviewing the progress of the past decisions. Some of the meetings were also attended by important invitees including leading economists, former bureaucrats, NGOs and some elected representatives. SFC visited various *Panchayats* Municipal Corporations and other SFCs. The commission conducted various state level seminars with the help of reputed Research/Management Institutions/Universities. Three research studies were undertaken one each on Gram Panchayats, Municipalities and State Finances. Data was collected for panchayats with the help of the Development Commissioner of the govt. of Gujarat. Similarly, data for all municipalities for 5 years was accessed with the help of GMFB. The commission held wide ranging discussions with different expert groups and for the first time the website of SFC in Gujarat was launched on 22.03.2013 for a wider and transparent approach.

### **Recommendations**

#### **Global Sharing**

It is recommended that 6.25% of state's total tax revenue<sup>36</sup> per annum should be allocated as a divisible pool for devolution of all local governments of the state.

[Not Accepted]

Some guidelines of usage of funds are as follows:

- a) Maximum 10% of devolution fund should be used for administrative and establishment purposes as decided by the general body of the respective local governments.
- b) Rest 90% amount should be spent on Operation and Maintenance on the existing physical assets.

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<sup>36</sup> State Total Tax revenue includes States' all taxes and State's share in central taxes.

- c) In case GPs and Municipalities whose financial conditions are not good, 25% of the amount may be spent on clearing the arrears of electricity bills and that of GWSSB.
- d) All the works taken up out of the devolution fund should have the approval of general body of the concerned local body.
- e) Development commissioner in the case of *Panchayats* and GMFB in the case of Municipalities should compile the data of all the works done either in the form of O&M or in the form of creating new physical assets.

[Partially acceptable]

### Horizontal Devolution

Recommended that from the divisible pool, 22.55% share should be allocated to Municipalities and 77.45% share should be allocated to *Panchayats* on the basis of following criteria.

Parameter	Weightage
Population	50%
Geographical Area	50%

[Share is not Accepted, parameters and weights have been accepted]

### Inter-se Distribution

For *Panchayats*, *inter-se* distribution among DPs, TPs and GPs to be in the ratio of 15:15:70, respectively.

For DPs and TPs, the rural population has been classified into four categories and then on the basis of average population and area, funds are to be distributed.

For GPs, funds are first given to DP according to population classification and then to each GP on per capita basis.

For Municipalities, 44.60% share to be allocated to MCs and 55.40% share to NPs which have been worked on the basis of population and geographical area. The further *inter-se* distribution has also been done on the basis of population and geographical area.

[Accepted]

### Individual Tax Sharing with Local Government

1. State have been giving grants against assigned taxes<sup>37</sup> to *Panchayats*
2. At the time of the abolition of octroi, it was decided that compensation to be given to local government with an annual increase. However, this has not happened and

<sup>37</sup> local cess on land revenue, local fund cess, local cess on water rate, education cess, profession tax, abolition of octroi

therefore it was recommended to pay such arrears to local government since the date of abolition of Octroi.

[Not Accepted for *Panchayats*]

3. land revenue tax rate should be revised in the context of changing irrigation scenario and productivity and also to be raised from 25 paise to 50 paise for village panchayat

[Accepted]

### **Assignment of tax and non-tax handles to Local Government**

- Municipal Bodies to start imposing vehicle tax, theatre tax, hoarding charges, pay and park contract, etc.

[Accepted]

### **Grants-in-aid**

1% of the State's total tax revenue has been recommended as need-based and incentive grant in the form of Special Grants for the following purposes and areas:

- 1) Incentive grant for revenue collection
- 2) Grant for developing Talukas
- 3) Need based grant for Agarias (Salt Workers)
- 4) Area based grant to Kutch and Dangs
- 5) Need based grants for creation of statistical cells
- 6) Innovation grant for service level benchmarking cell for *Panchayats*
- 7) Need based Grant for Creation of GSDP Division in State Bureau of Economics and Statistics
- 8) Development Grant for Outgrowth Areas

[Partially acceptable]

### **Functions and Functionaries**

- All the remaining activities of total 29 activities should be transferred to *Panchayats*.

[Accepted]

- Budget and account forms should be simplified and there should be complete uniformity all over the state in maintenance of accounts.

[Accepted]

- Customized training programmes should be prepared and organised by inducting professionals on assignment basis. Also, on the line of National Urban Development

Institute, Gujarat Urban Development Institute should be started in the State for purpose of capacity building,

[Accepted]

- There is only one post of Assistant/Deputy Engineer at the level of Taluka Panchayat and that too remains vacant most of the time. It is recommended to create a panel of private Chartered Engineers which may be utilized by the local government on assignment basis.

[Not Accepted]

- State Government has created common cadres of chief officers, health officers, engineers and accountants, but most of them are vacant. They should be filled up immediately and staff should be made transferable across the state.

[Not Accepted]

- It is recommended that state government may come out with a priority plan to fill up all vacant post of *Panchayats* within a time frame of one year, so that *Panchayats* can provide better services.

[Accepted]

- training institutions of *Panchayats* for training staff and office bearers should be modernized with latest technology and should have qualified faculty members and latest facilities.

[Accepted]

- It is recommended that the State Government should adopt the National Accounting Manual for local government.

[Accepted]

### **Other measures**

- State Government may appoint the SFCs in synchronization with the CFCs, covering the same 5 year period as in case of CFCs, for financial and administrative convenience.

[Accepted]

- Funds like District Development Fund etc. should be merged as one district level fund and rules of these funds should be simplified and updated so that *Panchayats* may take benefit of the money.

[Accepted]

- Rurban programme to be implemented in a period of next 10 years to cover all the villages of the state by 2025, which will be a boon to improve the quality of life of all villages.

[Accepted]

- The Panchayat Department to work with a reputed research organization to conduct a study on the basic services provided by *Panchayats*. This will help understand the current situation of services in rural areas and allow for proper steps to be taken to improve them

[Accepted]

- Complete village-wise data on physical assets should be compiled and to be put online by the Development Commissioner's office. Similar inventory is to be prepared by GMFB for Municipalities. The State Government is recommended to provide a special grant of Rs. 10 crore and Rs.5 crore, respectively for creating a statistical cell.

[Accepted]

- A service level benchmarking cell to be set up by Panchayat Department, on the line Urban Department to monitor the performance of basic civic services.

[Not Accepted]

- The Gujarat Finance Board to be made operational immediately.

[Not Accepted]

- The office of the Development Commissioner's Office to act as a single window for release of all kind of grants to *Panchayats*. Similarly, it should be GMFB for Municipalities.

[Not Accepted]

- Information Centers to be created at each level of *Panchayats* to ensure accountability and dissemination of information relating to expenditure.

[Not Accepted]

- PPP guidelines to be issued by the State Government and *Panchayats* should be encouraged to follow this model

[Accepted]

- Customised should be prepared for all E-gram Center to ensure that they start collecting taxes at their level also.

[Accepted]

- Taxes and user charges collection to be clubbed with electricity bill collection and companies may be paid small commission also. State Government to take this forward.

[Accepted, for Municipalities it is not accepted]

- House rent deducted from salaries of *panchayat* employees who are provided quarters should be given to concerned panchayats only because repair/ maintenance of quarters is done by them.

[Accepted]

- As mentioned in the Companies Act, 2%of the net profit is to be spent on local level CSR activities. State Government to take this forward.

[Not Accepted]

- Minimum rates of taxes and user charges should be made compulsory to be imposed by all Municipal Bodies

[Accepted]

- existing municipal body should be allowed to collect various taxes and user charges from newly developed area outside municipal limit.

[Accepted]

- Constitution of Tariff Commission is recommended, like previous SFCs, for fixing the minimum tax and user charges rate and their timely revision.

[Accepted]

- 25-30% non-revenue water cases exist in state which can be identified immediately and can augment resources of Municipalities.

[Accepted]

- State Government to fix the definite time period for sanction of Town Planning Schemes and fill vacant posts of TPs.

[Accepted]

- It is recommended that the SFC be constituted in totality with supporting staff and infrastructure to avoid delays and be constituted on a regular basis every five years as provided in the Constitution. further, the report alongwith its ATR be promptly put before state Legislative Assembly for its implementation within a timeframe.

[Accepted]

- State Government to provide the sufficient annual budgets for SFC, when constituted as well as for the whole period. further it should be constituted under the aegis of Finance Department rather than the current practice of under Panchayat Department.

[not Accepted]

- It is recommended to state government to follow the example of Karnataka State of converting the SFC, after submitting its report, into a Task force for monitoring implementation of its recommendations till new SFC is formed.

[Accepted]

- State government to establish a system by which the *Panchayats* do get automatically their share of royalty from the income earned by the state government and that the rates of royalty should be fair and revised regularly as per the price rise/ inflation index.

[Accepted]

- Gujarat government to study compensating local government for loss of their tax income when GST is implemented

[Accepted]

- State government should create a permanent SFC Cell in Finance Department

[Not Accepted]

## Nagaland Third State Finance Commission

Award Period: 2023-24 to 2025-26

Constitution: March 2023  
Report Submission: February 2024  
ATR Submission: February 2024

### Composition

Sh. Menukhol John Retd. Principal Secretary	Chairman
Smt. Sarah Ritse, Retd. Commissioner & Secretary	Member
Sh. G.W. Lee Retd. Director (T&A)	Member Secretary

### Terms of Reference

The commission had to make recommendations relating to the following matters:

a. the principles which should govern -

- i. The distribution between the State, Panchayats and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them
  - ii. The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities;
  - iii. The grants-in-aid to the Municipalities from the Consolidated Fund of the State;
- b. The measures needed to improve the financial position of the Municipalities;
- c. The rates of various taxes, tolls and fees that may be revised by the Municipalities and the method of determining the same.
- d. Any other matter referred to the commission by the government in the interest of sound finances of the municipalities.

In making its recommendations, the commission had to give regard, among other considerations to:

- i) the objective of balancing the receipts and expenditure of the State Government and the local governments and for generating surplus for capital investment.
- ii) the resources of the State Government and demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State and;

iii)the requirement of the municipalities, their potential for raising resources and for reducing expenditure.

### **Methodology**

The third State Finance Commission used the reports of the first and second State Finance Commission as basic working papers while starting its work.

*(Methodology not mentioned in the report)*

## **Recommendations**

### **Global Sharing**

1% of the Gross State GST to be devolved to the Municipalities in the State as share in taxes.

[Accepted]

### **Horizontal Distribution**

Horizontal Distribution of share in taxes among the Municipalities be done taking into consideration to Population and Area with 80% and 20% weight, respectively.

The Commission has applied a cap on the population figures of Dimapur and Kohima at 60,000 each. Likewise for those Municipalities having more than 30,000 population, applied a cap of 30,000 while giving weightage for population for more equitable distribution.

[Accepted]

### **Individual Tax Sharing with Municipalities**

1% of SGST is to be shared with Municipalities as devolution from share in taxes.

### **Assignment of Tax and Non-Tax Handles to Municipalities**

- The practice of collection of tolls to be discontinued. Municipalities to be authorised to collect fee on non-GST items brought into the Municipal/ Town Council area for consumption, use or sale within its area.

[Accepted in principle regarding toll, the recommendation on taxation on non GST items not accepted]

- Sanitation Fee, Tax on advertisement, Show Tax (where state govt. is not collecting entertainment tax), License fees, utility service charges, vehicle parking fee, market/slaughter houses fee, Fees for use of Town Halls, Play Grounds, Burials/Cremation Grounds.

[Accepted in principle]

- Taxes on vehicles

[Not Accepted]

- Municipalities not be authorised to collect fire tax

[Accepted in principle]

### Grants-in-aid

The following amount of Grant-in-aid is to be given to Municipalities during the award period which includes grants-in-aid to 22 Urban Station Committees<sup>38</sup> (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.

<sup>38</sup> It had been brought to the notice of this commission by the Municipal Affairs Department that besides the 39 notified Municipalities, there are also 22 Nos. of Urban Station Committee (USC) in the state notified by the Government. It is, however, given to understand that all these USCs are not yet functional. Therefore, while recommending Grants-in-aid, this commission also kept in the view these USCs with certain conditions.

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.
9. Unencumbered Land for Office Buildings: Municipalities must provide unencumbered land for the construction of office buildings.

[Accepted with modification that devolution shall be initiated from FY 2024-25.  
There shall be no carryover of Share-in-Taxes for the FY 2023-24]

### **Functions and Functionaries**

- Setting up of an Administrative Reforms Commission is recommended to go into the issue of organisational, structural and functional reforms in the Government.

[Accepted]

- Setting up a committee for i) Basic Staff Requirement ii) Basic office and iii) Functional requirement of each Municipalities.

[Accepted]

- Proper accounting system and transparent revenue administration system in Municipalities and providing in-Service training to Municipalities staff to be put in place.

[Accepted]

- Provision of adequate organisational infrastructure for effective functioning of local government.

[Accepted]

- Requisite Rules/ Administrative Orders/Guidelines under the provisions of the new Nagaland Municipal Act, 2013 to be issued to enable Municipalities to function as per provisions.

[Accepted]

### **Other Measures**

- Immediate constitution of the fourth SFC as the Government of India has already established the 16th Finance Commission. The infrastructure and logistics developed by the third SFC should be handed over to the fourth SFC to ensure smooth functioning from the start.

[Accepted]

- The State Government may take necessary action so that the conditions as laid down by the 15th Finance Commission are duly fulfilled to facilitate accessing the grants for Municipalities as recommended by it.

[Accepted]

- It is recommended to hold elections for the Municipalities at the earliest possible time.

[Accepted]

- Steps to be taken to reduce operating losses of Power and Road Transport sectors.

[Accepted]

- Efforts to attract Private Sector investor's needs to continue to increase the tax revenue for the state along with other positive fallouts.

[Accepted]

- Efforts to be made to explore and exploit the States' untapped mineral resources like crude oil and coal.

[Accepted]

**Arunachal Pradesh Second State Finance Commission**

Award Period: 2015-16 to 2019-20

Constitution: August 2012

Report Submission: June 2014

ATR Submission: Report not Accepted

**Composition**

Smt. Fantry Mein Jaswal IAS (Retd.)	Chairman
Secretary Panchayati Raj	Ex-officio Member
Special Secretary Finance	Ex-officio Member

**Terms of Reference**

The Commission was required to make recommendations as to the following:

The principles which should govern-

- (a) The distribution between the State government and local government, i.e. Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State government, which may be divided between them and the inter-se allocation between Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities of their respective shares of such proceeds;
- (b) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities from the Consolidated Fund of the State;
- (c) The grant-in-aid to Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities;
- (d) the measures needed to improve the financial position of the Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities; and
- (e) Any other matter referred to the State Finance Commission in the interest of sound fitness of the Zilla Parishad, Anchal Samitis, Gram Panchayats and Municipalities.

In making these recommendations, the Commission was required to have regard among other considerations to:

- a) the objective of balancing the receipts and expenditure on revenue account both the local governments as a whole and the state government and each local government;

- b) the resources of the state government and the demand thereon, in particular, on account of expenditure on maintenance of law & order, civil administration, dbt servicing and other committed expenditure;
- c) the revenue of the resources of the local government for the five years commencing on 1st April, 2015, on the basis of the level of the collection to be made during 2013-14 from the taxes, duties, tolls, fees, cess, etc. by them;
- d) the potential for raising additional revenue from the existing sources available to them; and
- e) the scope for better financial management consistent with efficiency and economy in expenditure.

### Methodology

Questionnaires were prepared by the Commission and sent to MPs, MLAs, *Panchayats*, 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 *Panchayats*, though the institution of *Panchayats* 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 *Panchayats* and Municipal Council. It also visited the States like Kerala and Karnataka to learn from other developed states.

### Recommendations

#### Global Sharing

An overall devolution package of 30% of total state revenue is recommended for the local government.

#### Horizontal Distribution

The State Government to adopt the following criteria for distribution of the devolution package between *Panchayats* and Municipalities and also between different *Panchayats* and Municipal wards:

S.N.	Indicator	Weightage (%)
1	Population	40
2	Geographical Area	20
3	Backwardness of the area	10
4	Illiteracy	10
5	Transferred assets/ infrastructure	10

### Individual Tax Sharing with Local Government

- 50% of the profession tax collected by the State government to be transferred to *Panchayats* and Municipalities.
- 25% of the State's revenue from Stamp Duty to be allocated to *Panchayats* and Municipalities
- 97% of the land revenue collected by State Government in a district to be paid to *Panchayats* and Municipalities

The criteria of division between *Panchayats* and Municipalities for all the assigned revenue will be same as for *inter-se* distribution given above.

### Assignment of Tax and Non-tax Handles to Local Government

- ASs to levy and collect the following taxes after necessary amendment in the Act:
  - i. Property tax
  - ii. Entertainment Tax
  - iii. Advertisement Tax
  - iv. Service tax
  - v. Irrigation cess
  - vi. Fines, registration fees, toll, permit fees, services and user charges, licensing ferries, fish ponds, public/private markets; cart stands, permanent or temporary cinema theatres, video parlours, cable, DTH operators, etc., irrigation tax and sand mining permit fees.
- ZPs to levy and collect taxes from licensing of hotels, restaurants, factories, workshops or workplace installation of machinery, construction of buildings in Panchayat land.
- Municipal Councils were also recommended to levy and collect all the taxes mentioned above in the Municipal areas.

### Grants-in-aid

- A. 10% of devolution to be assigned as grants-in-aid for defraying costs towards Administrative expenses which include the following:
  - i. Salary/ honorarium of elected representatives
  - ii. Salary of the Secretary and other officials
  - iii. Expenditure on travelling of elected representatives
  - iv. expenditure on travel of Secretary and other officials
  - v. Expenditure on medical reimbursements
  - vi. Expenditure on unforeseen items, e.g (Seminar/ relief funds, etc.)
  - vii. Contingent expenditure

The criterion for distribution of this grant to be same as in *inter-se* distribution criterion above.

- B. Maintenance Grant

10% of total devolution amount is recommended as Maintenance grant for the maintenance of common properties like schools, hospitals, veterinary hospitals, anganwadis, hostels etc. which have been transferred to local government. Some other properties to be maintained by local government include public properties like:

- a. parks,
- b. grazing grounds
- c. haats/ bazaars
- d. cremation grounds
- e. roads
- f. ponds/wells
- g. Forests/orchards/tree plantations
- h. social forestry
- i. public buildings

The maintenance grant has to be spent within a financial year and a asset management plan was recommended to be prepared by local government. The criterion for distribution of the maintenance grant will be same as in inter-se distribution criterion above.

#### C. General Purpose Grant

The Commission recommended to devolve 10% out of the total devolution as general purpose grant to meet the obligatory expenses which include water charges, electricity charges, rent, telephone charges of all offices and institutions transferred to local government, fuel and running costs, civic services, etc. While allocating the funds the same criteria as mentioned in inter-se distribution above to be used.

#### D. Performance Grant

Performance grant is recommended for top performing *Panchayat* and Municipalities as 10% of the preceding year's allocation to the concerned local government on the basis of following criteria:

- i. the local government to maintain accounts as per the Model Accounting System;
- ii. accounts to be audited by the statutory audit department notified by the State government
- iii. no complaint of corruption and maladministration against the functionaries of local government;
- iv. proper bank account for all funds received from government should be maintain
- v. local government to notify in the beginning of the financial year the own standard for delivery of service proposed to be achieved during the year
- vi. the local govt. to achieve the target fixed by the state government for collection of taxes/non-taxes revenue assigned to them.

The commission recommended appointment of a committee for evaluating the performance of the local government for the award of performance grant. A penalty of 5% of their previous allocation was also recommended for non-performing local governments.

## Functions and functionaries

- All the 29 subjects enumerated in the 11th schedule of the Constitution have been devolved to the *Panchayats*.
- The State has only two municipal bodies, viz. Itanagar Municipal Council and Pasighat Municipal Council, though 28 areas have been notified as urban centers. The Government of Arunachal Pradesh proposes to constitute Municipalities for the remaining notified urban centers in a phased manner.
- The Commission, however, observed that no rules and procedures have been put in place for the functioning of Municipalities and therefore recommended that no other urban centers should be notified as Municipal Council till rules and procedures are put in place for their effective functioning.
- Though 13 out of 18 subjects enumerated in 12th schedule of Constitution have been transferred to Municipalities, but no officers/ staff have been transferred to them. Department of Town Planning and Municipalities are recommended to take immediate action in this regard.
- Several assets have been transferred to Municipalities without the asset mapping having been done. The Commission recommended that transfer of assets should be affected only after mapping of these assets is completed by Department of Town Planning and Municipalities.
- A permanent SFC cell was recommended with complete office accommodation and office equipments befitting its constitutional stature. This would prevent unnecessary loss of time in mundane issues like locating spaces etc. when the next Commission is constituted.
- SIRD to be utilized for training to Municipalities as is the case in *Panchayats*.
- The function of monitoring and evaluation of performance of the *Panchayats* and Municipalities should be undertaken by the Directorate of Panchayati Raj and Department of Municipalities and Town planning, respectively.
- Accounting cadre needs to be put in place to ensure accurate and efficient maintenance of accounts. The local government to be empowered to select and appoint suitable candidate.
- Government to take immediate steps to create a Directorate of Local Fund Audit for auditing the accounts of *Panchayats* and Municipalities, Performance Audit Department for scrutiny of functioning of *Panchayats* and Municipalities and also set up a system of social audit.

- Mapping of all assets belonging to *Panchayats* and Municipalities to be done by the concerned government departments. the government should also put in place an Asset Management policy.

### **Other Measures**

- State Government to take immediate steps to enact the Financial rules and for creating Window for *Panchayats* and Municipalities in the State Budget.
- State Government to frame Debt Limitation Policy for both *Panchayats* and Municipalities to enable them to raise loans when required
- Appellate Tribunals to be set up for both *Panchayats* and Municipalities.
- A new chapter titled “Fiscal Accountability” to be introduced in the Arunachal Pradesh Panchayati Raj Act and Arunachal Pradesh Municipal Act.
- The District Planning Committees should be made more functional and ensure that the District Plans are effectively implemented.

**Arunachal Pradesh has not accepted the report of the 2nd State Finance Commission, Arunachal Pradesh. However, over a period, the following activities (which are also a part of the report of the 2nd State Finance Commission, Arunachal Pradesh) are undertaken by the State Government.**

- There is a Finance Commission Branch who looks after the work of Central Finance Commission and State Finance Commission, having the staff such as Under Secretary (FC), Consultant(Finance), RO (FC), SRAs and clerical staff and data entry operators etc. Hence, a permanent State Finance Commission Cell would not be required.
- 3rd State Finance Commission has been constituted vide Notification No. 15/9/2023 (E-163184)/403 dated 27th December, 2024.
- State Government has enacted Financial Rules (FRs) for the Municipal Councils and Panchayati Raj Institutions.
- Head of Account is created under PRI window for release of salaries to PTA, CCA, CA, Driver, Peon etc.
- SIRD is imparting training to the Panchayat functionaries and also nominates functionaries for training in NIRDs and other National Institutes.
- Accountants are engaged under the Panchayati Raj Institutions(PRI) and Municipal Councils for maintenance of accounts of the local governments.
- The Director (Audit & Pension) has been authorised to act as Ex-officio Director Local Fund Audit (DLFA) vide order No. DAP/AUD/PRI & ULB – 124/2017-18 dated 7th December, 2022.
- The Govt. vide Notification No. DAP/SAU-02/16-17 dated 08.02.2018 has empowered the Director Audit and Pension, Govt. of Arunachal Pradesh to function as Social Audit Unit and conduct social audits under MGNREGA and other schemes.
- The account of Panchayat is audited online through e-Gram Swaraj portal.
- The Arunachal Pradesh Panchayat Raj Act, 1997 amended vide Notification No. PR-21/2006/520Dated 27th January, 2022.
- From 2022-23, the State Government has committed and provided 10% of the States Own Tax Revenue to the Panchayati Raj Institutions (PRIs) to enable the local governments of the State to undertake local area development.

- The Honorarium of Municipal Councils has been enhanced vide Notification No. MUN/Estt-15/2013-14 (Part-I) Dated 16th April, 2015.
- Monthly mobility is paid to the Panchayati Raj Members at the following rate:
  - (i) Zila Parishad Chairperson : Rs. 2000/- per month.
  - (ii) Zila Parishad Member : Rs. 1850/- per month
  - (iii) Gram Panchayat Chairperson : Rs. 450/- per month.
  - (iv) Gram Panchayat Member : Rs. 300/- per month.

(Source: Letter received from the state on Dated 13th January, 2025.)

## Mizoram Second State Finance Commission

Award Period: 2021-22 to 2025-26

Constitution: April 2021

Report Submission: July 2023

ATR Submission: August 2023

### Composition

Sh. F. Vanlalruata MF&AS (Retd)	Chairman
Sh. Lalmalsawma MF&AS (Retd) Former Secretary to the Government of Mizoram, Finance Department and Excise & Narcotics Department	Member Secretary

### Terms of reference

The Commission had to make the recommendations as to the following matters:

The principles which should govern-

(i) The distribution between the State and the *Panchayats*, Municipalities and the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned to it under any laws in force or orders, and the allocation between the *Panchayats*, Municipalities and the Autonomous District Councils at all levels of their respective shares of such proceeds;

(ii) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the *Panchayats*, Municipalities and the Autonomous District Councils;

(iii) The grant-in-aid to the *Panchayats*, Municipalities and the Autonomous District Councils from the Consolidated Fund of Mizoram

(2) the measures needed to improve the financial position of the *Panchayats*, Municipalities and the Autonomous District Councils;

In making its recommendations, the Commission shall have regard, among other considerations, to-

i) the resources of the State Government, for five years commencing on 01.04.2021, on the basis of levels of taxation and non- tax revenues likely to be reached at the end of March, 2021;

(ii) the demands on the resources of the State Government, in particular, on account of civil administration, keeping of law and order, debt servicing and other committed expenditure and liabilities;

(iii) the objectives of State's fiscal consolidation road map recommended by the Fifteenth-Finance Commission, which bind the management of public finance of Mizoram;

(iv) the functions which may be transferred to the *Panchayats*, Municipalities and the Autonomous District Councils for the coming five years with effect from 1st April, 2021 and the manner in which the existing functionaries of the State Government, who are at the time of making recommendations are performing the functions recommended for transfer to the local governments, shall be transferred to the *Panchayats*, Municipalities and the Autonomous District Councils;

(v) the taxation efforts of the State Government in relation to levy of all types of property tax by the local governments for additional resource mobilization to enhance the financial independence and capacity of the local governments to perform the functions assigned to them;

(vi) the need to enhance disaster management at the local levels so as to avoid minor disasters such as landslips, etc. at the local levels

(vii) the need to manage ecology, environment and climate change at the local levels; (viii) the need to improve the quality of public expenditure to obtain better outputs and outcomes through innovative monitoring and appraisal system at the local levels;

## **Methodology**

The Commission's methodology involved a structured approach to gather critical financial and functional information from various stakeholders, ensuring comprehensive data collection for assessing the financial position of local governments in Mizoram. Key stakeholders, including the Autonomous District Councils (ADCs) of Lai, Mara, and Chakma, the Aizawl Municipal Corporation (AMC), and the Lunglei Municipal Council (LMC), were asked to submit detailed memoranda by March 2022. These memoranda, following a prescribed format, aimed to capture data on resource transfers, own-source revenue, expenditures, and account audits. Similar memoranda were sought from the village councils (VCs), who were provided with a five-schedule format for reporting their finances and functions. The Commission also gathered input from various government departments, including Finance, Urban Development, Local Administration, and Taxation, to address issues outlined in the terms of reference. Additionally, consultations with local body representatives, through meetings and video conferences, helped gather diverse perspectives, while field visits to local governments provided first hand insights into their operational realities.

To enhance its analysis, the Commission assigned two study projects focused on the devolution of funds and the financial functioning of local governments, using the findings to inform its recommendations. A workshop in October 2022 facilitated deeper understanding of state finances and their implications on local governments, involving key stakeholders and experts. Statistical methods, including Auto-Regressive Integrated Moving Average (ARIMA) and Compound Annual Growth Rate (CAGR) models, were employed to project revenue, expenditures, and economic variables for the award period. The Commission also used log-

linear regression models to assess revenue buoyancy and taxable capacity. By leveraging extensive government data and studies, the Commission aimed to develop a fair and equitable devolution scheme for local governments across the state.

### Global Sharing

42% of the net proceeds of the State's own tax revenue<sup>39</sup> is recommended for local government which is primarily to be used for creation of capital assets.

[Accepted]

### Horizontal Distribution

1st Level of Horizontal Devolution:

- The Commission aims to fill the 100% of the pre-devolution revenue gap of *Panchayats* and Municipalities using the divisible pool. The remaining gap for the Autonomous District Councils (ADCs) is addressed through post-devolution revenue deficit grants.

2nd Level of Horizontal Devolution:

- 1st Stage: Tax devolution is distributed across the 11 districts using a combination of three criteria: population<sup>40</sup> (60%), area (30%), and deprivation index (10%).
- 2nd Stage: Within each district, tax devolution is distributed among Village Councils based on population (needs) and development distance (equity).

3rd Level of Horizontal Devolution:

- 1st Stage: Tax devolution is distributed between the two Municipalities (Aizawl Municipal Corporation and Lunglei Municipal Council) using three criteria: population<sup>41</sup> (needs), area (needs), and households below the poverty line (equity).
- 2nd Stage: Within each municipality, the distribution among Local Councils is based on population<sup>42</sup> (80%) and households below the poverty line (20%).

4th Level of Horizontal Devolution:

- The tax devolution is distributed among the three Autonomous District Councils based on four criteria: population (40%), area (30%), revenue efforts<sup>43</sup> (15%), and deprivation index (15%).

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<sup>39</sup> The divisible pool for devolution will comprise taxes, duties, tolls, and fees that fall within the own tax revenue of the state government net of cost of collection of such taxes.

<sup>40</sup> Population in this context is the non-municipal population according to the Census, 2011

<sup>41</sup> Population in this context is the population of the notified urban area according to the Census, 2011

<sup>42</sup> Population in this context is the population of the respective localities according to Census, 2011.

<sup>43</sup> revenue efforts measured in terms of the average of per capita own revenues generated by the district councils for 6 years from 2015-16 to 2020-21 in terms of ₹ per person.

[Accepted]

## Individual Tax Sharing with the Local Government

Since the commission has recommended global sharing of the net proceeds of all taxes, duties and fees levied and collected by the State government with all the local governments, separate assignment of taxes, duties, tolls and fees with the rural local governments, urban local governments or the autonomous district councils is not recommended by the Commission.

## Assignment of Tax and Non-tax handles to Local Government

- The levy, collection and appropriation of property tax by village councils is recommended.
- State government to set reasonable fees for services provided by VCs such as issuing of certificates of scheduled tribe, residence, income, inner line permits, vehicle permits, hailing, and NOC for land revenue
- State government to fix suitable user charges for various services such as the supply of drinking water, the collection and disposal of solid waste, the provision of community toilets, community markets, etc.
- The base of property tax be enhanced by enabling the municipal property tax on vacant lands.
- Entertainment Tax to be levied by Municipalities within their respective jurisdiction
- District Council to collect Stamp duty, motor vehicle tax, entertainment tax, tax on entry of goods into the market, and animal tax in their jurisdiction.

## Grants-in-aid

*Deficit Grants* -The commission recommended post devolution revenue deficit grants for ADCs to fill post devolution deficit. (Without any conditions)

[Accepted]

*Performance grants* -Performance grants to the *Panchayats* and Municipalities from the financial year 2023-24 up to the end of the award period of 2025-26 subject to the fulfilment of certain performance conditions.

The performance conditions for *Panchayats* and village councils to avail performance grants include the following:

1. Non-Tax Revenue Collection: In the previous financial year, the receipts from non-tax revenues (including user charges from assets created under Central or State schemes) must be at least 15 times the population of the village, as per the Mission Antyodaya Survey 2020. For example, Bulfekzawl village (population 429) must collect at least Rs.6,435 in non-tax revenues in 2022-23 to qualify for performance grants in 2023-24.
2. Annual Revenue Growth: From 2024-25 onwards, the village must increase its non-tax revenue collection by at least 6% annually to remain eligible for performance grants.

3. Property Tax Collection: *Panchayats* must collect property tax from at least 90% of taxable units in the village once the State Government frames the rules for property tax.
4. Asset Register Maintenance: Starting from 2024-25, *Panchayats* must maintain and submit an Asset Register to the Local Administration Department by the end of each financial year to qualify for performance grants.
5. Accounts Maintenance: From 2025-26, *Panchayats* must maintain accounts as prescribed by the State Government and submit updated accounts to the District Local Administration Officer to qualify for performance grants.

The Commission recommended different performance conditions for Aizawl and Lunglei municipalities due to their varying levels of development, with specific conditions set for Aizawl Municipal Corporation to avail performance grants.

- i) Capital expenditure not less than 40% of the total expenditure in the previous financial year.
- ii) Collection of property tax from at least 90% of the surveyed taxable units in a municipal area in the previous financial year.
- iii) Ensure segregation of wastes at source generated by waste generators within the municipality into three separate streams, viz., bio-degradable, non-biodegradable, and domestic hazardous wastes, and hand them over to the local level waste collectors as per Rule 4 of the Solid Waste Management Rules, 2016.
- iv) Maintenance of accounts as per the National Municipal Accounts Manual.

The conditions for availing performance grants in respect of the Lunglei Municipal Council are as follows:

- i) Frame bye-laws on solid waste management as per rule 15(e) of the Solid Waste Management Rules, 2016 read with section 371 of the Mizoram Municipalities Act, 2007 as amended not later than the 29th February, 2024.
- ii) Resolution of the Board of Councillors determining to levy the property tax as per section 210 of the Mizoram Municipalities Act, 2007 as amended not later than the 29th February, 2024.
- iii) Collection of property tax from at least 90% of the surveyed taxable units in a municipal area in the previous financial year. This condition shall be applicable for availing performance grants from the year 2025-26
- iv) Ensure segregation of wastes at source generated by waste generators within the municipality into three separate streams, viz., biodegradable, non-biodegradable, and domestic hazardous wastes, and hand them over to the local level waste collectors as per Rule 4 of the Solid Waste Management Rules, 2016. This condition shall be applicable for availing performance grants from the year 2024-25.

## Functions and Functionaries

- All the functions mentioned in the 11th schedule to be devolved to the VCs and ADCs.
- Secretary of the VC to have the minimum educational qualification of at least high school leaving certificate.
- 18 functions for the Municipalities in line with 12th schedule to be progressively transferred to Municipalities in next two years. To look after the modalities in this respect, a committee headed by Secretary, Urban Development and Poverty Alleviation (UD&PA) be constituted by State government.
- The recommendation of the 2nd ARC with regard to outsourcing of personnel to deliver various civic functions without compromising on quality of service.
- UD&PA department in consultation with Administrative Training Institute and the Municipalities to prepare and implement a structured capacity building programme for the officers and staff of the Municipalities in a time bound manner.
- State Government to create appropriate number of positions for the Lungei Municipal Corporation
- The three ADCs to restrict new recruitment, focusing only on technical or specialized roles that cannot be handled by current staff. recruitment for lower level positions, like peons or drivers, should be banned for at least the next five years.
- VCs to follow consistent accounting standards set by the State government, in consultation with the Accountant General.
- Maintenance and submission of an Asset Register by all the VCs is recommended at the end of every financial year. Local Administration Department shall prepare the format for the Asset Register.
- The Director of Local Fund Audit should expedite auditing of the accounts of village councils, municipalities, and autonomous district councils to ensure expenditures are used for their intended purposes.
- If there are insufficient auditors, the issue should be raised with the State Government in the Finance Department, seeking to re-employ retired auditors (under 65 years) on contract to assist with the audits.

## Other Measures

- Local Administration department to take steps to reorganize the collection of animal tax by village councils with the aim to increase their own tax revenue.
- State government to revise the minimum floor rate of property tax on the recommendation of State Property Tax Board to bring it closer to market prices of properties.
- User charges to be revised regularly and linked, at least partially, to the cost-of-living index to ensure they remain fair and adjust to price increases.
- State government to create an expenditure policy with clear guidelines to control rising revenue costs from expending the Corporation's administration. It should also ensure sufficient funds for operation, maintenance, and capital expenditure to provide quality civic service and infrastructure.

- District Councils to revise rates of profession tax within ceiling limit imposed by the Constitution for different classes of persons.
- Appropriate regulation for the levy and collection of property tax be framed by all District Councils in line with Municipalities
- Maintenance and submission of accounts and Asset Register to the District Local Administration Officer at the end of every financial year shall be the prerequisite condition for release of grants recommended by the State Finance Commission.

[Accepted]

- Separate object heads for tax devolution to local governments viz., village councils, municipalities and autonomous district councils be opened under suitable minor heads in addition to the existing object head for grants-in-aid, with no further classification of grants-in-aid into salary and non-salary components.
- Village councils, municipalities and autonomous district councils can utilise a portion of the tax devolutions, not more than 20% in a year, for the purpose of strengthening disaster mitigation efforts.
- Village councils, municipalities and autonomous district councils can utilise a portion of the tax devolutions, not more than 10% in a year, for the purpose of forest conservation, maintenance of ecological balance and tackling issues of climate change, if considered necessary
- Accountant General, Mizoram to expedite the process of auditing the accounts of the three autonomous district councils since a significantly large chunk of public funds have been utilised year after year in the administration of the councils.
- Social audits of works implemented by *Panchayats* and Municipalities funded by tax devolutions and grants should be conducted by an independent social audit organisation, like the Social Audit Unit for auditing of CSSs, with a view to improve the quality of public spending.
- Local body works funded by devolutions and grants should be part of the agenda of the District Development Coordination and Monitoring Committee (DISHA), chaired by the Member of Parliament.
- The State Government should adhere to constitutional provisions for the timely constitution of the 3rd State Finance Commission to support local governments.
- Permanent cell of the State Finance Commission headed by a suitable officer be established in the Finance Department to closely monitor the implementation of the accepted recommendations of the State Finance Commission by various stakeholders and obtain crucial information pertaining to the finances of the local governments regularly, at least on a quarterly basis.
- Lay down the broad format for the collection of reliable databases by the proposed State Finance Commission Cell in the Finance Department from the local governments, right from the autonomous district councils to the more than 800 village councils across the state.
- Future Union Finance Commissions should consider grants for autonomous district councils to enhance their administration and development.

**[The government will examine these recommendations of the commission in due course]**

## **Jharkhand First State Finance Commission**

Award Period: 2009-10 to 2013-14

Constitution: Initially constituted in January, 2004 and then again in November, 2008

Report Submission: April, 2009

ATR Submission: Not Submitted

### **Composition**

Sh. Shiv Basant IAS	Chairman
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### **Terms of Reference**

The Commission was required to make recommendations as to the following:

a. The principles which should govern:

(i) the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls, and fees leviable by the State, which may be divided between them under this part and the allocation between the Panchayat at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the panchayats;

the grants-in-aid to the panchayat from the consolidated funds of the state;

b the measures need to improve the financial position of the panchayats;

c. any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats

### **Methodology**

The public consultations were held in which the elected representatives of Municipalities, other prominent citizens and concerned officials were invited. The study tour was also held in the state of Kerala and West Bengal to study the functioning of local governments in the states. The research institutes of prominence, like NIRD, IIPA, NIPFP, NIUA, Administrative Staff college of Hyderabad were visited to held discussions with their senior faculty members who have been working with UFCs and SFCs. Meetings were held with senior members of the 13<sup>th</sup> UFC also.

To understand the issue of mapping of functional domain of local governments, meetings were held with Principal Secretaries/ Secretaries of the State Government under the Chairmanship of Chief Secretary, Jharkhand. Finance secretary, Government of Jharkhand also provided with the revenue and expenditure data of the State for the year 2006-07 to 2008-09. The data on

income and expenditure was also requested from Ranchi Municipal Corporation and Municipalities of the State, which were not received till submission of the report. The Commission, thus, visited the Ranchi Municipal Corporation and held discussions with CEO, Deputy Mayor and some of the Ward Councillors to have understanding of various issues being faced by them and was also able to collect information regarding various functions carried out by them and income and expenditure etc.

The Commission confined its report to the Municipalities of Jharkhand as elections in Municipalities had held recently only and they were facing issues in their functioning on account of lack of role clarity, support mechanisms and finances. Panchayats are not in place in the state and have not held its election yet.

## **Recommendations**

### **Global Sharing**

- A per capita core Municipal services provision grant of Rs.375 in 2009-10 with annual increase on 10% for remaining four years in lieu of taxes not assigned and taxes not shared with Municipalities is recommended and to be released in 10 equal installments from May to February every year.
- The salary grant of 70% admissible to Municipalities to be subsumed under this grant after a gap of 2 years.
- To meet rest 30%, Municipalities to raise own revenues. To incentivize the Municipalities, the 10% to be released in February would be linked to the performance on the mutually agreed increased revenue collection targets.

### **Functions and Functionaries**

- A suitable administrative structure and staffing pattern in Municipalities in the State to be evolved within a timeframe of 90 days.
- A pool of administrative, accounts and engineering personnel to be created for Municipalities in the state or contractual hiring within 6 months to all Municipalities depending on their size and requirements.
- In long run, Municipal services to be created in the State.
- Creation of an umbrella local self government Department with one Minister and one Principal Secretary.
- There should be continuous hand-holding and capacity building of Municipalities

### **Other Measures**

- State Government of Jharkhand to adopt the functional domain carved out for Municipalities in the state of Kerala in toto.
- Enact a new Jharkhand Municipal Act containing a 'Municipal Financial Schedule' as per the recommendations of the Development Research Group.

- 'Jharkhand Urban Development Fund' to be created under JNNURM with participation from and national and international agencies for assisting Municipalities in project formulation and accessing capital by issuance of Municipal Bonds.

## Telangana First State Finance Commission

Award Period: 2020-21 to 2024-25

Constitution: March 2015  
Report Submission: March 2020  
ATR Submission: February 2024

### Composition

Sh. Godisela Rajesham Goud (Former MLA, Jagtial & Former Minister for Law & Housing and Former Chairman, Zilla Parishad, Karimnagar)	Chairman
Sh. Mondyagu Chennaiah (CEO, Zilla Parishad (Retd.))	Member
Sh. Suresh Chanda, IAS Special Chief Secretary to Government of Telangana	Member Secretary

### Terms of reference

As there was no specific Terms of Reference (ToR) issued for the Commission, the Commission had adopted the following Terms of Reference as per provisions of Constitution of India and Panchayati Raj (PR) Act 2018 for itself:

(a) the principles which should govern-

i) the distribution between the State and the local governments of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds; Operation

ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the local governments;

iii) the grants-in-aid to the Panchayats from the Consolidated Fund of the State;

(b) the measures needed to improve the financial position of the Panchayats;

(c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.

### Methodology

The Commission adopted a multifaceted methodology to assess the financial status and needs of rural and urban local governments. It began by designing and distributing separate questionnaires for Gram Panchayats (GPs), Mandal Praja Parishads (MPPs), Zilla Praja Parishads (ZPPs), Nagar Panchayats, Municipalities, and Municipal Corporations. These questionnaires were intended to gather comprehensive data on the financial conditions, functional devolution, and operational activities of all tiers of local governments. A web portal was developed for efficient data collection, and workshops were organized to help functionaries understand how to complete the questionnaires and upload data. Despite

challenges in receiving data from some MPPs and GPs, the Commission successfully collected data from all ZPPs and 73 Municipalities.

In addition to data collection, the Commission conducted wide consultations with local body functionaries and elected representatives, such as Sarpanchs, Chairpersons, and Mayors. These consultations covered topics like financial position, staffing, fund utilization, and service delivery, helping the Commission understand the challenges faced by local governments and the gaps in their finances. Representatives were also asked to submit written suggestions. The Commission further strengthened its analysis by entrusting the Centre for Economic and Social Studies (CESS) and Administrative Staff College of India (ASCI) to undertake detailed studies on the finances of *Panchayats* and Municipalities. These studies examined the current financial status and projected funding requirements for the next five years.

The Commission also organized field visits and study tours to understand best practices in other states. Delegates visited Karnataka, Maharashtra, Tamil Nadu, and West Bengal to learn about measures implemented by their State Finance Commissions to strengthen local governments' financial positions. Discussions with the SFC members of these states, as well as sector experts, provided valuable insights. Moreover, separate meetings were held with key departments such as Panchayat Raj, Municipal Administration, and Finance, and consultation meetings with senior officials, including Principal Secretaries and Chief Executive Officers, were conducted to gather their perspectives on local body finances and development priorities.

## **Recommendations**

### **Global Sharing**

11% of State Own Net Revenue<sup>44</sup> based on revised estimates for last financial year.

[Accepted]

### **Horizontal Distribution**

Out of this devolution, 61% to be earmarked for *Panchayats* (Percentage of Rural population as per Census 2011) and 39% to Municipalities.

[Accepted]

### *Inter-se Distribution*

From the 61% of funds allocated to *Panchayats*, 12%, 16%, 72% are allocated to ZPPs, MPPs and GPs respectively on the basis of population.

[Accepted]

The share of Municipalities to be shared amongst themselves on the basis of population. *i.e.* particular Municipality population divided by population of all Municipalities in State.

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<sup>44</sup> State Own Net Revenue means Revenue from all Taxes, Duties, Tolls and Fees and including GST compensation if any received from Government of India but minus cost of collecting these revenues which is taken as 1%.

[Will be examined]

### Individual Tax Sharing with Local Government

- Continuation of existing assignment of revenue from Profession Tax, Seigniorage Fee and Transfer Duty (Entertainment Tax already subsumed in GST) and transfer 95% of each of assigned revenues to local government .

[Not Accepted]

- Commission recommended for incurring required expenditure additionally from consolidated fund of the State for Construction of offices for newly created ZPPs, MPPs, GPs and Municipalities, over a period of next three years.

[Accepted]

- To ensure equity and take care of local governments which have very little or no scope in assigned revenues, it is recommended to put all assigned revenues in a divisible pool and divide the revenue among all local governments based on the formula for division of share in State Own Net Revenue.

[Deferred- ATR of *Panchayats*] [Accepted as this provision is made in the TMA, 2019- ATR for Municipalities]

### Assignment of Tax and Non-tax Handles to Local Government

- Gram Panchayats to implement provisions of Shops and Establishment Act and Trade License in their respective jurisdiction.

[Accepted]

- Gram Panchayats to explore levying tax on Agriculture Land if land holding of an individual Pattadar exceeds 5 Acres; for construction and maintenance of Farm Roads and Farm Drainage, Village roads, Village Drainage and Sewerage System.

[Not Accepted]

### Grants-in-Aid

Funds to be released to local government in two parts:

a. General Component: 90% of eligible amount without any conditions

b. Performance Component: 10% of eligible amount on:

- 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.

## Functions and Functionaries

- All the 29 functions mentioned in 11th schedule to devolved to *Panchayats* through required amendments in Telangana Panchayati Raj Act, 2018.

[Deferred]

- Service of TSIRD and MCR HRD Institute, Hyderabad to be utilised to train local government staff extensively on regular basis. Based on Feedback from Audit reports, special training programme also be structured for identified weak areas.

[Accepted]

- Accountability in spending Public Funds / Annual Audit of local government.

[Accepted]

- SFC subject to transferred from the Panchayat Raj Department to the Finance Department

[Accepted]

## Other Measures

- Transfer of funds in 10 Equal Monthly installments.

[Accepted]

- While transferring funds to any local body, no other adjustment shall be made for any amount spent or transferred to that local body under any scheme of state or GOI; Grant given by State or GOI or Funds transferred by Central Finance Commission.

[Accepted]

- A Revolving Innovation Project Fund will be set up for rural and urban local governments, with 5% of allocated funds transferred annually. Local governments can access up to 50% of project costs as interest-free loans for cost-reduction or revenue-enhancement projects, repayable over five years.

[Accepted]

- The financial powers of ZPPs, MPPs, and GPs, last enhanced decades ago, are recommended to be increased to Rs. 100 Lakhs for ZPPs, Rs. 25 Lakhs for MPPs, and Rs. 10 Lakhs for GPs, considering current prices. This adjustment aims to better align with the current financial needs and inflation.

[It is accepted to enhance the financial powers of ZPP to Rs. 15 lakhs, of MPPs to Rs. 4.5 Lakhs and Rs. 3 Lakhs to major GPs and Rs 1.5 Lakhs to minor GPs.]

- The Commission recommends constituting the State Finance Commission two years before the current award period ends, with recommendations submitted within two years and government orders issued within three months.

[Accepted]

- Create an independent section in the Finance Department to monitor the timely transfer of funds to local government, ensuring they receive their due share for effective self-governance.

[Accepted]

- Annual reviews of taxes, fees, and water charges with a maximum 10% increase per year, and the renaming of the Property Tax Board to the Local Body Regulatory Board to oversee revisions.

[Not Accepted]

- Local government should explore levy of Property Tax based on Plinth area multiplied by Standard Property Tax Rate per Sft. for that Road/Area notified by local government every year on the recommendation of Property Tax Board. Such a system will bring certainty in tax levy and reduce scope for subjectivity in tax levy.

[Accepted]

- A comprehensive resurvey of tax incident points every five years, with random checks for accuracy, and monthly cross-checking of new electricity connections with the Property Tax Register, with DISCOM publishing the reports online for easy access.

[Accepted]

- The Commission recommended that local governments enter into lease agreements for up to five years, with annual rent increases of 5%, and no provisions for automatic extensions, ensuring rental income aligns with current market rates.

[Not Accepted for *panchayats* and Accepted for Municipalities]

- The Commission recommended that local governments assess parking fee potential, use a tender-auction method with a minimum bid amount, and award contracts for up to 12 months, renewed annually without extensions, effective from April 1st.

[Accepted]

- Revenue from renting out space for Advertisement: Same procedure as that for Parking area could be followed.

[Accepted]

- The Commission recommended that local government maintain public toilets and facilities through annual maintenance contracts, with daily inspections, citizen feedback via mobile apps, and payment reductions for poor maintenance.

[Accepted]

- Mechanism for Monitoring and Comparison of Expenditure and Revenue across local governments.

[Deferred for Panchayats and Accepted for Municipalities]

- Computerisation of Accounts of all Local government.

[Accepted]

- Computerisation of all Taxes and Fees related activities so that citizen can make payment of all Taxes and Fees, etc., online.

[Accepted]

- Transparency in Collection and Utilisation of Resources.

[Accepted]

- All local governments must install Grid Connected solar power plants within 3 years to meet at least 80% of their power requirements from Solar power. They must also move to LED lighting and BLDC fans to conserve power.

[Accepted]

- All water connections must have Water Meters installed even if local government plans to provide Free Water to citizens. Water Meter must also be installed for Public Taps to account for every litre of scarce resource like drinking water.

[Not Accepted for *Panchayats* and Partially accepted for Municipalities with the decision to install meters for all non domestic connections]

- All local government must prepare plan for supplying adequate safe piped drinking water to all citizens at their door steps within next 2 years.

[Accepted]

- Municipalities and GPs aim for 100% house-to-house solid waste collection and disposal within five years, while incentivizing composting at bulk waste generators and exploring third-party contracts for waste collection.

[Accepted]

- Power generation from Waste: to generate power from waste even if it is to be subsidised by local body in the interest of environment and quality of life for its citizens.

[Accepted]

- Sewerage Line coverage and Recycling of Sewerage water for industrial and non-drinking water use: Municipalities and GPs must prepare plan for treating and recycling at least 75% of its sewerage waste water in next 5 years and 100% in next 10 years.

[Not accepted for *Panchayats* and Accepted for Municipalities]

- Make your city Green: To combat climate change which is looking very real now and to protect environment from pollution, all local government should plan to increase green cover in their jurisdiction.

[Accepted]

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