

A REPORT CARD OF STATE FINANCE COMMISSIONS

Recommendations of State Finance Commissions of all Generations and their
Implementation Status in India

Part II- Summaries of Recommendations & ATRs

Sponsored by



Ministry of Panchayati Raj
Government of India

Commissioned to



The Indian Institute of Public Administration
New Delhi- 110 002

July 2016

A REPORT CARD OF STATE FINANCE COMMISSIONS
Recommendations of State Finance Commissions of all Generations
and their Implementation Status in India

Part II- Summaries of Recommendations and ATRs

V N Alok

The Indian Institute of Public Administration
New Delhi- 110 002

July 2016

A REPORT CARD OF STATE FINANCE COMMISSIONS:

Recommendations of State Finance Commissions of all Generations
and their Implementation Status in India

by

V N Alok

With research support from

Ambar Zahara

Ankita Singh

July 2016

The Indian Institute of Public Administration

New Delhi- 110 002

List of Abbreviations

AAY	Antyodaya Anna Yojana
ADC	Autonomous District Council
AG	Accountant General
ANM	Auxiliary Nurse Mid-wives
AP	Andhra Pradesh
APMC	Agricultural Produce Market Committee
ArP	Arunachal Pradesh
ARM	Additional Resource Mobilisation
ARV	Annual Rental Value
ARWSP	Accelerated Rural Water Supply Programme
AS	Anchal Samiti
ASHA	Accredited Social Health Activist
Asm	Assam
BDPO	Block Development & Panchayat Officer
BE	Budget Expenditure
Bih	Bihar
BP	Block Panchayat
BPL	Below Poverty Line
BRGF	Backward Regions Grant Fund
CAA	Constitutional Amendment Act
C & AG	Comptroller & Auditor General
C&P Tax	Circumstances & Property Tax
CE	Capital Expenditure
CEO	Chief Executive Officer
CFC	Central Finance Commission
CSS	Centrally Sponsored Scheme
DDO	District Development Officer
DF	Development Fund
DLFA	Director of Local Fund Audit
DP	District Panchayat
DP	Divisible Pool
DPC	District Planning Committee
DPRO	District Public Relations Office
DRD	Department of Rural Development
DRDA	District Rural Development Agency
EO	Executive Officer
ERP	Enterprise Resource Planning
ET	Entertainment Tax
FC	Finance Commission
FD	Finance Division

FFC	Fourteenth Finance Commission
FRBM	Fiscal Responsibility & Budget Management
GDP	Gross Domestic Product
GIS	Geographical Information System
GMC	Guwahati Municipal Corporation
GO	Government Order
GP	Gram Panchayat
GPF	General Purpose Fund
GSDP	Gross State Domestic Product
GST	Goods & Service Tax
Guj	Gujarat
Har	Haryana
HIPA	Haryana Institute of Public Administration
HIRD	Haryana Institute of Rural Development
HoDs	Head of Departments
HP	Himachal Pradesh
HRDD	Human Resource Development Department
HRDF	Haryana Rural Development Fund
HUDA	Haryana Urban Development Authority
HUDCO	Housing & Urban Development Corporation
ICDS	Integrated Child Development Services Scheme
IDFC	Infrastructure Development Finance Company Ltd
IGFF	Infrastructure Gap Filling Fund
IGPRS	Indira Gandhi Panchayati Raj Sansthan
ILW	Inspector of Local Works
IMFL	Indian Made Foreign Liquor
IPAI	Institute of Public Auditors of India
IRDP	Integrated Rural Development Programme
IT	Information Technology
J & K	Jammu & Kashmir
JRY	Jawahar Rozgar Yojna
Kar	Karnataka
Ker	Kerala
KP	Kshetra Panchayat
LADT	Local Area Development Tax
LBs	Local Bodies
LGs	Local Governments
LIC	Life Insurance corporation
LR	Land Revenue
LSG	Local Self Government
Mah	Maharashtra
MAHUD	Municipal Administration, Housing & Urban Development
Man	Manipur
MB	Municipal Boards
MBA	Master of Business Administration
MFP	Minor Forest Produce

MIS	Management Information System
MLA	Member of Legislative Assembly
MLALAD	Member of Legislative Assembly Local Area Development
MoPR	Ministry of Panchayati Raj
MP	Madhya Pradesh
MP	Member of Parliament
MPC	Metropolitan Planning Commission
MPLAD	Member of Parliament Local Area Development
MV Tax	Motor Vehicle Tax
NAC	Notified Area Council
NATPAC	National Transportation Planning and Research Centre
NDDP	Net District Domestic Product
NGO	Non- Governmental Organization
NRHM	National Rural Health Mission
NIC	National Informatics Centre
NIRD	National Institute of Rural Development
NIUD	National Institute of Urban Development
NLGORR	Non Loan Gross Own Revenue Receipts
NN	Nagar Nigam
NOC	No Objection Certificate
NP	Nagar Panchayats
NPP	Nagar Palika Parishads
NPRE	Non-Plan Revenue Expenditure
NRDWSP	National Rural Drinking Water Supply Programme
Odi	Odisha
O & M	Operation & Maintenance
OBC	Other Backward Caste
OMGFF	Operation and Maintenance Gap Filling Fund
OTR	Own Tax Revenue
PBR	People's Biodiversity Register
PHC	Primary Health Centre
PHEO	Public Health Engineering Organization
PHSC	Punjab Health Systems Corporation
PPP	Public Private Partnerships
PR & RD	Panchayati Raj & Rural Development
PRI	Panchayati Raj Institutions
PS	Panchayat Samiti
PU	Panchayat Union
Pun	Punjab
PWD	Public Works Department
PWSSB	Punjab Water Supply & Sewerage Board
Raj	Rajasthan
RCC	Reinforced Cement Concrete
RDA	Rural Development Agency
RE	Revenue Expenditure
RLB	Rural Local Bodies

RMC	Regulated Marketing Committees
SC	Schedule Caste
SCP	Special Component Plan
SFC	State Finance Commission
SGOTR	State's Gross Own Tax Revenue
SHG	Self Help Groups
Sik	Sikkim
SIRD	State Institute of Rural Development
SOTR	State's Own Tax Revenue
ST	Schedule Tribe
SUDA	State Urban Development Authority
SWM	Solid Waste Management
TC	Town Committee
TFC	Thirteenth Finance Commission
TN	Tamil Nadu
ToR	Terms of Reference
TP	Taluk Panchayat
Tri	Tripura
TSP	Tribal Sub Plan
TUFIDCO	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited
TUIFSL	Tamil Nadu Urban Infrastructure Financial Services Limited
UDD	Urban Development Department
UD & HD	Urban Development & Housing Department
UFC	Union Finance Commission
UK	Uttarakhand
ULB	Urban Local Body
UP	Uttar Pradesh
UPSEB	Uttar Pradesh State Electricity Board
VAT	Value Added Tax
VDO	Village Development Officer
VLT	Vacant Land Tax
VP	Village Panchayat
VRS	Voluntary Retirement Scheme
WB	West Bengal
WCP	Women Component Plan
YASHADA	Yashwantrao Chavan Academy of Development Administration
ZP	Zila Parishad

Contents

<i>Preface</i>	iii
----------------	-----

<i>List of Abbreviations</i>	vi
------------------------------	----

Part- I Main Report

Chapter 1: Introduction	1
Chapter 2: Recommendations and Methodologies of SFCs: A Review	15
a) Global Sharing	15
b) Assignment of Revenues	20
c) Horizontal Distribution	23
d) Grants-in-Aid	29
e) Functions & Functionaries	45
f) Other Measures	52
g) Methodology	57
Chapter 3: Impediments in the Working of SFCs & Good Practices	81
Chapter 4: Conclusion and Suggestions	106

References

List of Tables

Table 1.1: Number of Panchayats in Each State/UT as on 1 March 2014	2
Table 1.2: Revenue Power of Panchayats in States at Each Tier	9
Table 2.1: SFC Recommendations for Share in State Resources	16
Table 2.2: Assignment of Revenues by various SFCs	21
Table 2.3: Criteria for Horizontal Distribution of Allocations to Panchayats	23
Table 2.4: Types of Grants Recommended by SFCs	35
Table 2.5: Devolution of Functions & Functionaries by SFCs to Panchayats	46
Table 2.6: Other Policy and Administrative Measures	52
Table 2.7: Methodologies Adopted by SFCs	57
Table 3.1: Constitution of State Finance Commissions by States: How Regular?	92
Table 3.2: Constitution and Submission of SFC Reports and Action Taken thereon	98

List of Exhibits

Exhibit 1.1 Classification of Functions Listed In Eleventh Schedule	6
Exhibit 2.1: Types of Grants Recommended by Various SFCs	30
Exhibit 3.1: Ranking of the States	95

Part- II Summaries of Recommendations and ATRs

Fifth SFC Summary of:

Bihar	1
Rajasthan	6

Fourth SFC Summary of:

Assam	8
Bihar	15
Haryana	19
Himachal Pradesh	24
Kerala.....	29
Odisha	38
Rajasthan	45
Sikkim	52
Tamil Nadu	58
Uttar Pradesh.....	67

Third SFC Summary of:

Andhra Pradesh	71
Assam	78
Haryana	83
Himachal Pradesh	88
Karnataka.....	92
Kerala.....	97
Madhya Pradesh.....	101
Maharashtra	106
Odisha	110
Punjab.....	115
Rajasthan	118
Sikkim	123
Tamil Nadu	128
Tripura	135
Uttar Pradesh.....	138
Uttarakhand	142

West Bengal	148
Second SFC Summary of:	
Andhra Pradesh	152
Assam	159
Goa	164
Gujarat.....	167
Haryana	174
Himachal Pradesh.....	178
Karnataka.....	181
Kerala.....	184
Madhya Pradesh.....	191
Maharashtra	195
Manipur	200
Odisha	207
Punjab.....	215
Rajasthan	220
Sikkim	225
Tamil Nadu	227
Tripura	233
Uttar Pradesh.....	235
Uttarakhand	242
West Bengal	249
First SFC Summary of:	
Andhra Pradesh	253
Arunachal Pradesh.....	260
Assam	263
Goa	267
Gujarat.....	271
Haryana	277
Himachal Pradesh.....	282
Jammu & Kashmir.....	284
Karnataka.....	286
Kerala.....	290

Madhya Pradesh.....	295
Maharashtra	298
Manipur	302
Odisha	305
Punjab.....	306
Rajasthan	312
Sikkim	318
Tamil Nadu	320
Tripura	323
Uttar Pradesh.....	326
Uttarakhand	331
West Bengal	334

Bihar Fifth State Finance Commission
Award Period: 2015-16 to 2019-20

Constitution: December 2013
Report Submission: January 2016
ATR Submission: NA

Composition

A N P Sinha	- Chairman
C. Ashok Vardhan (Dr)	- Member
Nandini Mehta (Dr)	- Member

Term of References

- Assessment of net proceeds of State Taxes.
- Distribution between the State Government and the LBs of the net proceeds of taxes, duties, tolls and fees liveable by the State Determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the LBs.
- Grants-in-aid to the LBs from the Consolidated Fund of the State.
- Measures needed to improve the financial position of the LBs.

Methodology

The commission followed the suggestions provided by Ministry of Panchayati Raj and the 13th Finance Commission. Questionnaires were circulated to the Panchayati Raj Department (PRD) and Urban Development Department (UDD). Questionnaires were also uploaded on the SFC website to obtain online entry of responses, data collection and analysis. Suggestions from the public were invited through Newspaper advertisement. Divisional level consultations were also of much help. To get firsthand experience field visits were also conducted. The 14th Finance Commission Report was analysed. It also included the analysis of a study report on Local Body Finances commissioned by Finance Commission. The State Budget was also critically analysed.

RECOMMENDATIONS

Global Sharing

- Devolution of 2.75% in 2015-16 to 3.25% in 2019-20 from the State Budget to the LBs primarily for capacity building and reforms.

Assignments of Revenues

- GPs to begin levying Property Tax even at a nominal rate.
- Empower the Panchayats to collect tax on advertisement
- Net proceeds of land revenue collected from a GP be transferred to the GP
- Property Tax General Rates, which have not been raised since 1992, be doubled effective April 01, 2016 to cover partially inflation costs of over 440%
- GIS data available for 29 ULBs be used for vacant land tax
- Newer forms of entertainment such as boat rides, cable television and internet cafes be brought into the entertainment tax net
- Congestion tax (used in London, Singapore, Milan etc) be levied in Patna, Gaya, Bhagalpur etc)
- Municipalities must start levying User Charges for water supply, sewerage SWM services etc.
- Levy surcharge of 2.5% on electricity consumption on behalf of municipalities to cover electricity charges.
- Levy surcharge of 5% on vehicle tax and transferred to the municipalities for maintenance of road within its jurisdiction
- Rules for levy of betterment tax should be formed and enforced

Horizontal Distribution

- Distribution of the Devolved amount and Grants between the Panchayats and Municipalities would be in the ration of 70:30 in 2015-16 and 60:40 in the subsequent years.
- Inter-se distribution among the GP:PS:ZP would be in the ration of 70:10:20
- Distribution of Devolved funds among the GPs, PSs and ZPs would be as per criteria given in Table

Criterion	Weight (%) Assigned by the 5 th SFC		
	ZP	BP	Each GP falling within a particular Block would get equal share of amount available to all the GPs in that particular Block based on the Block's Under Development Index (UDI)
Population	50	50	
AREA	50	0	
UDI	10	50	
TOTAL	100	100	

- Distribution of Devolved funds among the Municipalities would be as per criteria given in Table 8.9

Criterion	Inter ULB	Weight (%) Assigned by the 5 th SFC		
		Municipal Corporation	Nagar Parishad	Nagar Panchayat
Population	70	1.5	1.3	1.0
Area	10	1.0	1.0	1.0

No. of BPL Families	20	1.0	1.0	1.0
---------------------	----	-----	-----	-----

Grants-in-Aid

- Devolved funds would be given to the LBs as “Block Funds”.
- Devolved amount in 2015-16 would be released to the LBs in one instalment based on RE/Actual of 2014-15.
- Grants would focus on capacity building and Reforms and would be utilized for (a) Manpower, Training, e-Governance, Office Space, (b) GK, (c) Preparation of Master Plans/CDPs DPRs/GIS Maps, (d) Developing Divisional and District Headquarters on the lines of Smart and AMRUT Cities, (e) SPUR Type Professional Services to the ULBs and the PRIs, (f) Promoting PPP, (g) Incentive for ARM and Performance Grants, (h) Regulatory Bodies including Ombudsman, State Property Tax Board and Urban Regulator, and (i) DLFA and internal audit.
- Distribution of Grants item-wise is given in the following for the Panchayats

Table 1: Distribution of Grants among the Panchayats (Year 2015-2020)

		Rs (Cr.)
1	Devolution (In Cr)	12735
2	Grants (In Cr.)	5785
	A Capacity building	3443
	1 Man Power	2720
	2 e-Governance	305
	3 Training	380
	a) Programmes	200
	b) Institutions	180
	4 TSSP	38
	B GK	340
	5 Office Support	260
	6 Case Disposal	40
	7 Dispute free Village	40
C	8 PSB/ZPB	470
D	9 DPCs	80
	E Performance Grants	1400
	10 ARM	880
	11 Overall Performance	520
F	12 Ombudsman	20
G	13 DLFA/Internal Audit	31.20
H	14 SFC Cell	8.80

- Distribution of Grants item-wise is given in the following for the Municipalities

Table 2: Distribution of Grants among the Municipalities (Year 2015-2020)

		Rs (Cr.)
Devolution (In Cr)		8055
Grants (In Cr.)		3725
A	Capacity building	1245
	1 Man Power	1035
	2 e-Governance ¹	50
	3 Training	160
	a) Training Programms ¹	71
	b) SUPA	89
B	Office Space	25
C	Model Cities & Towns	1408
	1 Preparation of MP/CDP/DPR/GIS	200
	2 Viability Gap Funding for PPP	970
	3 SPUR Type Professional services for all ULBs	80
	4 Exp needs of reforms	88
D	Performance Grants	1035
	1 ARM	835
	2 Overall Performance	200
E	Regulatory Bodies	12

- Grants amount not likely to be utilized in a year, would be given to the PRIs and the ULBs as 'Block Grants' in the first week of the last quarter

Function & Functionaries

- Urgently operationalize Ombudsmen separately for the Panchayats to enquire into allegations of corruption, misconduct etc.
- Panchayats with the support of PRD make all efforts to become smart Panchayats.
- Enable the PRI to implement certain Central Acts
- Necessary Rules and Guidelines for collection of taxes by the PRIs be framed and circulated.
- PRD to come with Rules and prescribe procedural guidelines and circulate a Manual of Panchayat Finance.
- Collection of Own Revenue by the Panchayats to be incentivized.
- Overall supervision of Panchayats revenue collection be done by PRD.
- The Panchayats to create income earning natural or man-made assets for augmenting non-tax revenue.
- Clearly defined functions of BPRO/DPRO in the Panchayats.
- Intensive training of PDO/BPRO
- Set up Panchayats training infrastructure.

Other Measures

- Professionalize the SFC Cell in Finance Department to pursue reforms agenda with PRD and UDD, undertake research and documentation as required, and build database on the PRIs and the ULBs for use by Finance, Urban Development, Panchayati Raj and Planning Departments and the future SFCs & UFCs.
- Examine in-depth implications of GST for Bihar
- Intensive training of PDO/BPRO be done immediately on appointment
- PRI training infrastructure should be set up.
- All e-Panchayat modules be implemented urgently
- All internal and AG Audit Reports along with ATR should be uploaded on website.
- A committee of DJ, DM and SP to review progress & problems of GK every quarter. Similarly, monthly review need to be made by SDM & SDPO.
- Create a State Property Tax Board to optimize assessment, collection and recovery of PT.
- GPS system be installed on all vehicles to reduce fuel cost and achieve economy.
- Comprehensive GIS Mapping be done for all ULBs on top priority with multiple purposes
- Staff selection should be done through Staff Selection Commission (SSC) and/or a nationally acclaimed HR Agency on the panel of central Govt. and UN agencies.
- Biometric attendance system should be made mandatory.
- Set up School of Urban Planning and Architecture.

Rajasthan Fifth State Finance Commission (Interim Report)

For Year 2015-16

Methodology

The commission aims to redefine the ideal requirements and actual expenditure matrix by doing a comprehensive analysis of the data and other information gathered through questionnaires, detailed studies of previous reports, interaction with stakeholders, expert advices, seminars, workshops and field visits to the state and other states also to study their best practices. It aims to apply integrated framework to get the best results. Public suggestions were also invited through news paper and commission's website. A situational analysis of local governments were done to prepare the firm base for recommendations, an attempt is made to develop a Rational Devolution Index. On the basis of certain criteria, which is based on an eclectic mix of deprivation, performance, active involvement in achieving in national goals along with the standard parameters of population and area. It also attempted to upgrade and refine the devolution criteria suggested by the Fourth Commission by redesigning some weights and reshaping some parameters by utilizing Socio Economic and Caste Census (SECC-2011 released in July 2015).

The pending claims of Janta Jal Yojna may be paid out of 85% funds being given by us for basic and development functions.

RECOMMENDATIONS

Global Sharing

- 7.18% of net own tax receipts for the year 2015-16. It would be distributed among local bodies on the basis of rural urban population 75.1%:24.9% as per 2011 census. It works out to Rs 2457.13crore for Panchayats & 814.68crore for Municipalities.

[Accepted]

Assignment of Revenue

- No Recommendation

Horizontal Distribution

- 85% funds for basic and development functions. *[Accepted]*
- 5% funds for ZP, 15% funds for PS and 80% for GPs. *[Accepted]*
- 70% funds to all ULBs in the ratio of population to 55% and are to 15% will be allocated.

[Accepted]

- Balance 30% would be distributed among municipalities on population basis

[Accepted]

Grants-in-Aid

- 10% specific purpose grants for improvement in standard of administration.
- 5% incentive grant for some additional effort in the desired direction. This amount for Rs 122.86crore for PRIs and Rs 40.73crore for Municipalities. These amounts are indicative.
- The pending claims of Janta Jal Yojna may be paid out of 85% funds being given by us for basic and development functions.

Functions and Functionaries

- Outsourcing the job to some qualified persons at the local levels could be a viable alternative for capacity building.
- Incentive grant would be allotted on the performance of following functions:
 - Maintenance of accounts of income and expenditure.
 - Maintenance of records including 'Asset Register'.
 - Increase in own revenue over previous year.
 - Completion of enrolment and distribution of 'Bhamashah Card' of all eligible persons.

Other Measures

- The amounts of 14th CFC grants received may be distributed to Gram Panchayats and urban local bodies as per parameters and weights recommended by Commission.

[Accepted]

Assam Fourth State Finance CommissionAward Period: 2011-12 to 2015-16

Constitution: April 2010

Report Submission: February 2012

ATR Submission: February 2014

Composition

P K Bora Ex- Chief Secretary of Assam	- Chairman
Arun Kumar Principal Secretary Panchayat & Rural Development Department	- Member
Saraswati Prasad Principal Secretary Urban Development Department	- Member
Ashish Bhutani (Dr) Commissioner & Secretary Guwahati Development Department	- Member
M S Manivannan Joint Secretary	- Secretary (up to 25.4.2011)
Ashutosh Agnihotri Secretary, Finance Department	- Secretary (from 25.4.2011)
R S Prasad Commissioner & Secretary Finance Department	- Member Secretary (up to 13.6.2011)
S P Nandi Secretary Finance Department	- Member Secretary (from 13.6.2011)

Terms of Reference

The Commission shall make recommendations as to the following:

- a) *The principles which should govern:*

- i. *The distribution between the State of Assam and the Panchayats/ Municipalities of the net proceeds of taxes and duties, levied and collected by the State,*
 - ii. *The determination of the taxes, duties, tolls and fees, which may be assigned to, or appropriated by, the Panchayats/Municipalities,*
 - 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 with special emphasis on rationalization of property tax, collection of user charges and innovative realization methods.*
 - c) *Examine the feasibility and make recommendations on raising of resources by the Urban Local Bodies (ULBs) through issuance of bonds.*
 - d) *Examine the feasibility and make recommendations on creation of urban infrastructure and other civic amenities by the ULBs, through public-private partnership (PPP) and exploring avenues of viability gap funding.*
 - e) *Any other matter referred to the SFC by the Governor in the interests of sound financial position of the Panchayats/municipalities¹.*

Methodology

A set of general questionnaires covering the whole gamut of physical and fiscal administration of Panchayats and Municipalities were formulated. This questionnaire was circulated to all concerned departments up to the grass root level with a request to send back the filled in questionnaire in a time bound manner. Adequate care has been taken through official correspondence and personal interaction with the functionaries of Panchayats and Municipalities to explain to them the modalities of filling up the questionnaire. Apart from the general questionnaire, specific questionnaire relating to creation of physical infrastructure, maintenance and upkeep of existing infrastructure like roads and buildings falling within the jurisdiction of local bodies, capacity building of local body functionaries through training and maintenance of accounts and audit, have been formulated and sent to appropriate stake holders for their response.

The field visit of the Commission consists of various phases, covering almost all the districts of the state. In course of the field visits inter-active sessions were held with the elected representatives and official functionaries of Panchayats and Municipalities. The field officers of PWD, PHE, and Local Audit, DRDA, District NIC, DDOs of ULBS, Deputy Director of Town & Country Planning and respective Treasury Officers also participated in the inter-active sessions. The field visit concluded with a meeting of the representatives of GMC with Chairman held on 09.01.2012. In the matter of sharing of the net proceeds of state taxes with Panchayats and Municipalities, a global approach of

¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

sharing the net proceeds of all State taxes excluding non-tax revenue and share of Central taxes is adopted.

The data were collated and analysed for report writing.

RECOMMENDATIONS

Global Sharing

- 15 % of net proceeds of state taxes will be part of Divisible Pool (DP) for the period of 2012-13 to 2015-16.

[Accepted- except the year 2015-16]

- Revenue from entry tax, entertainment tax Betting Tax, Electricity Duty and the amounts of taxes collected from Schedule VI areas² shall be kept out of DP.

[Accepted]

- In the first stage 5% of the DP unit to be kept as incentive funds to encourage local governments.

[Not considered]

- In order to arrive at the net proceeds, 10 percent of the projected gross tax collection shall be deducted.

[Accepted]

Assignment of Revenue

- GMC and other Municipalities may levy property tax and service charges on the properties of the central and State government undertakings.

[Not considered]

Horizontal Distribution

- At Panchayat level the share of DP will be vertical at the ratio of 10:25:65 respectively for Zila Panchayat:Anchalik Panchayat:Gram Panchayat.

[Accepted]

- At municipality level share will be allocated horizontally among Guwahati Municipal Corporation (GMC) Municipal Boards (MBs) and Town Committees (TCs) on the basis of population (10%), area (25%), Index of infrastructure (12.5%), Per capita tax collection (12.5%).

[Accepted]

² The Schedule VI areas are not covered by the Constitutional Amendments. Accordingly, the Sixth Schedule Areas comprising four districts of Kokrajhar, Udalguri, Chirang and Baksa falling under Bodoland Territorial Areas District (BTAD) and two Autonomous Hill Districts of Karbi Anglong and North Cachar . (p. 123)

- In the budget for 2011-12, a sum of Rs.5927 crores under non-plan revenue account (nearly 28% of the total non-plan revenue account) is set aside for Panchayats and Municipalities against various transferred subjects.
[Not considered]
- An amount of Rs.2075 crores under plan (nearly 21% of the revenue account under plan revenue account) including State's share of Central plan is earmarked for Panchayats and Municipalities.
[Not considered]

Grants-in-Aid

- Out of the DP of Rs.4165.62 crores for 4 years, an amount of Rs.2173.62 crores as specific purpose grant to Panchayats and Municipalities.
[Accepted- except the year 2015-16]
- An untied grant of Rs.3 lakhs per GP per year.
[Accepted- except the year 2015-16]
- Specific purpose grant of Rs.120.28 crores per year for construction of functional and residential buildings for Panchayats at all levels.
[Accepted- except the year 2015-16]
- Specific purpose grant of Rs.852.30 crores for 4 years for construction/improvement of markets, cremation and burial grounds at all level of Panchayats and cold storage for selected GP.
[Accepted for three years]
- Compensatory grant of Rs.2.89 crore at the rate of Rs.72.34 lakhs annually for payment of electricity charges for 4 Municipalities. Viz. Jorhat, Golaghat, Sonari and Titabor.
[Not accepted]
- Grant of Rs.9.45 crore during 2012-13 for liquidating deferred liabilities of 21 Municipalities.
[Not Accepted]
- Grant of Rs.58 crores per year for construction of Town Halls.
[Accepted]
- Grant of Rs.78.68 crores per year installation of water supply plants in Municipal Boards and Town Committees (See Appendix 8.1).
[Accepted for three years]
- Grant of Rs.17.65 crores at the rate of Rs.4.32 crores, Rs.4.20 crores, Rs.3.55 crores and Rs.5.58 crores per year for purchase of equipments for solid waste management and creation of toilets.
[Not considered]
- Grant of Rs.18.96 crores at the rate of Rs.4.74 crores per year for construction of staff quarters for Municipalities.

- [Accepted]*
- Grant of Rs.100 crores at the rate of Rs.25 crores per year, for extending pensionary benefits to the employees of GMC.
- [Not considered]*
- Grant of Rs.124 crores at the rate of Rs.31 crores per year for construction of Zonal offices of GMC and for other purposes.
- [Accepted]*
- Grant of Rs.50 lakhs at the rate of Rs.12.50 lakhs per year for training of Auditors in the Directorate of Audit.
- [Accepted]*
- Grant of Rs.20 crores at the rate of Rs.5 crores per year for strengthening of SFC Cell.
- [Not considered]*
- Release of fund against specific purpose grant may be made quickly on receipt of proposal preferably in two instalments for three years for an amount Rs.198.18 crore.
- [Accepted]*

Function and Functionaries

- Registration of birth & death may be transferred to Panchayats and Municipalities.
- [Accepted]*
- Government of Assam has to ensure streamlining of budgetary procedure with local body supplement in the budget document and finance accounts.
- [Not considered]*
- Placement of an official of the Directorate of Town & Country Planning partially at the disposal of the concerned Municipalities.
- [Not considered]*
- The government should prescribe primary auditor to conduct audit of the accounts of the Panchayats.
- [Not considered]*
- Parastatals shall be accountable to concerned local governments in all respect.
- [Not considered]*
- Municipalities should concentrate in areas like sanitation, sewerage and solid waste disposal. Drainage system needs revamping. It is essential to preserve the water bodies and restrict haphazard construction of buildings.
- [Accepted]*
- Local governments may prepare their budget and maintain their accounts in the formats prescribed by C&AG.
- [Accepted]*

- Integration of implementation of the Action Plan on Capacity Building prepared by State Institute of Rural Development (SIRD) with centrally sponsored scheme Backward Regions Grant Fund (BRGF).
[Accepted]
- Placement of Annual Technical Inspection Report of the C&AG and Audit Report of the Director of Audit (Local Fund) before the State Legislature.
[Accepted]

Other Measures

- A permanent SFC cell may be set up in State Finance Department.
[Accepted]
- Panchayat Financial year may confirm with government financial year.
[Not considered]
- Necessary amendment in the relevant acts and Rules of Panchayats and Municipalities.
[Not considered]
- A monitoring and evaluation cell may be set up in the nodal heads of department.
[Not considered]
- Constitution of Monitoring Committee consisting of 10 members headed by the Minister, Urban Development Department.
[Not considered]
- Apart from house tax and tax on trades, all other sources of revenue allocated to the GPs are in the nature of fees, fines, tolls, cess etc. Hence these can be categorized as non-tax revenue.
[Not considered]
- Computerization needs to be introduced in the Municipalities forthwith and to all levels of Panchayats in a phased manner.
[Not considered]
- Establishment of a Regional Centre for Urban Management at Guwahati State.
[Accepted]
- Formation of Water Users Association by the Panchayats to collect water charges.
[Accepted]
- Institution of GIS method by GMC and other MBs for mapping of properties.
[Accepted]
- Award period of Central and State Finance Commissions may be made coterminous.
[Accepted]
- In order to motivate the Panchayats to be pro-active in internal revenue mobilization the required legal and administrative framework need to be firmly put in place.

- [Accepted]*
- The annual sale value of ferries, fisheries and hats settled by APs and ZPs may be determined with due regard to prevailing market price and revised annually.
[Not considered]
 - Periodicity of revision of holding tax as per provision of the Act and Rules may be strictly enforced by the Municipalities.
[Not considered]
 - Fourth Schedule of GMC Act may be amended to incorporate new trades that are emerging.
[Not considered]
 - Valuation of urban land may be done realistically.
[Not considered]
 - In the absence of proper documentation of outstanding State Government loan against Municipalities may be written-off.
[Accepted]
 - In respect of outstanding HUDCO loans to Municipalities against State Government guarantee one time settlement (OTS) with HUDCO may be made.
[Not accepted]
 - In respect of outstanding LIC loans against Municipalities, immediate reconciliation of the outstanding amount may be done with the LIC.
[Accepted]
 - In respect of outstanding loans of Municipalities from the banking sector, Government of Assam may arrange a tripartite meeting to settle the outstanding amount.
[Accepted]
 - In the matter of property tax the existing Annual Rental Value³ method may be replaced by Unit Area Method⁴.
[Accepted]
 - Quarterly release of fund against devolution as well as General purpose grant.
[Accepted]
 - A local body budget supplement may be presented along with the State budget every year and steps may be taken for incorporation of a similar statement in the Finance Accounts of the State.
[Accepted]

³ In this system tax is calculated on annual rent that is actually or reasonably be fetched by a property. Here Annual Rent (AR) = Monthly actual or reasonable rent X 12.

⁴ Under the Unit Area Method, the basic tax is related to plinth/carpet area of the building.

Bihar Fourth State Finance Commission

Award Period: 2010-11 to 2014-15

Constitution: June 2007

Report Submission: June 2010

ATR Submission: August 2011

Composition

D R Mehta	- Chairman
Atul Sarma	- Member (up to 8.12.2009)
Shaibal Gupta (Dr)	- Member (from 8.12.2009)
Prakash Keshaw	- Member

Terms of Reference

The Commission shall 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 Panchayats at all levels of their respective share 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 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.⁵*

Methodology

Questionnaires were circulated to all the Panchayats and Municipalities. Views of the Director Panchayati Raj, non-departmental representatives, Panchayati Raj Department, Urban Development department were collected. The Commission made a visit to Nalanda district on 13.11.08.

The data were collated and analysed for report writing.

⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

RECOMMENDATIONS

Global Sharing

- 7.5% of the state's tax revenue net of collection costs should be devolved to the local governments. Out of this the amount of Rs. 1589.95 crores and Rs. 251.19 crores should be spent only on the priority activities by the Panchayats and Municipalities respectively.

[Accepted]

Assignment of Revenue

- 50% of the proceeds of the tax from a municipal area maybe assigned to the municipalities on the basis of the audited figures of the preceding financial year, on account, pending receipt of audited figures for the current year. Similarly 100% of the collection from the rural areas may be assigned to the concerned Panchayat Samitis (PSs).

[Not considered]

Horizontal Distribution

- The devolution at 7.5% of net tax revenue receipts should be further divided so that 70% is disbursed to Panchayats and 30% to Municipalities.

[Accepted]

- The shares of Gram Panchayats (GPs), Panchayat Samitis (PSs) and Zila Parishads (ZPs) would be in the proportion 70:20:10.

[Accepted]

- The inter-se distribution between the ZPs should be on the basis of district population alone.
- The share of the PSs should be disbursed on the basis of the following criteria:

Item	Weight Assigned
Population of the Block	80%
Number of BPL families in that Block	20%

[Accepted]

- The 70% share of the GPs should be disbursed equally between all Panchayats of the state.

[Accepted]

- The devolution from the sharable pool should be disbursed among the municipalities on the following criteria:

Item	Weight Assigned
Population	60%
Number of BPL families	20%
Area	20%

[Accepted]

Grants-in-Aid

- Untied Grants: The Panchayats should be given grants from the consolidated fund of the state in the following manner:
 - i. Rs. 15 lakhs per annum to each Zila Parishad
 - ii. Rs. 1 lakh per annum to each Panchayat Samiti
 - iii. Rs. 2 lakhs per annum to each Gram Panchayat for capacity
 This will cause a total expenditure of Rs. 901 cr. over five year period.

[Accepted]

- The Municipalities should be given grants-in-aid from the consolidated fund of the state in the following manner:
 - i. Patna Municipal Corporation Rs. 5.00 cr. per annum
 - ii. Each Municipal Corporation except Patna Rs. 1.00 cr. per annum
 - iii. Each Municipal Council Rs. 0.50 cr. per annum
 - iv. Each Nagar Panchayat Rs. 0.20 cr. per annum

[Accepted]

- Retirement Benefits of the Municipal Employees:
 - i. The arrears of retrial dues whether pension or any other payments may be cleared by the municipalities without further delay. The last reported figure was Rs. 27.77 crores as at the end of financial year 2006-07.

[Accepted]

Functions and Functionaries

- Six activities have been identified as high priority for Panchayats. These activities can primarily be financed through devolution amount of share in state taxes. The activities include: drinking water, housing for homeless, drainage and lighting arrangements, poverty eradication schemes and education level.

[Accepted]

Other Measures

- The states should constitute a GIS system for mapping all properties to increase coverage.

[Not considered]

- The local bodies need to hire qualified staff to set up and maintain databases and accounts.

[Not considered]

- The state budgets should include a supplement showing the details of non-plan and plan wise classification of transfers separately for all categories of Municipalities and Panchayats from major head to object head.

[Not considered]

- The states should expedite adaptation of National Municipal Accounting Manual.

[*Not considered*]

- A state level Property Tax Board should be set up.

[*Not considered*]

- The State Government should provide an accountant or at least an accounts clerk to each Panchayat and smaller Municipality.

[*Not considered*]

Haryana Fourth State Finance Commission

Award Period: 2011-12 to 2015-16

Constitution: April 2010

Report Submission: June 2014

ATR Submission: NA

Composition

L S M Salins	- Chairman
Subhash Sudha	- Member
Shiv Lal Katyal	- Member
Brahampal Rana	- Member
Khazan Singh Sangwan (Prof)	- Member
Ram Bhagat Langayan (Dr)	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- a) *the principles which should govern:*
- iv. *the distribution between the State and Zila Parishads, Panchayat Samities 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 this Part IX of the Constitution of India and the allocation between the and Zila Parishads, Panchayat Samities and Gram Panchayats at all levels of their respective shares of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Gram Panchayats, Panchayat Samities and Zila Parishads ;*
 - vi. *the grants-in-aid to the Zila Parishads, Panchayat Samities and Gram Panchayats from the Consolidated Fund of the State;*
- b) *the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samities and Zila Parishads;*
- a) *the principles which should govern:*
- i. *the distribution between the State and the Municipalities, of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this Part IX A of the Constitution of India and the*

- allocation between 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 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;*⁶
- c) In making its recommendations, the Commission shall 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, their potential for raising resources and for reducing expenditure.

Methodology

With a view to have authentic feedback on structural, financial and functional status of rural and urban local bodies, the Commission had various rounds of discussions with the Administrative Secretaries and HODs of the Departments of Panchayats, Rural Development and Urban Local Bodies. Accounting and Auditing are important areas in which local bodies need to develop their capacities. With a view to have updated knowledge in these spheres, the Commission made specific references to the Director Local Fund Audit of the State and the Principal Accountant General (Audit and Entitlements) and exchanged views with them with the objective of enhancing its own understanding of local government finances and functioning of local bodies, this Commission organized a number of meetings with representatives of these bodies at divisional and district levels. On these occasions, site visits were also organized. Such meetings and visits were very helpful to the Commission in getting first-hand knowledge of the ground level working of rural and urban local bodies as well as familiarization with the problems being faced by these bodies. The Commission received very valuable suggestions in all these meetings. The Commission visited States of Himachal Pradesh, Karnataka and Gujarat to know the working and status of their local bodies as also the approach and methodology adopted by their SFCs. The Commission also attended a National Workshop on Panchayat Finances on 27.06.2011 organized by MoPR/GoI in Vigyan Bhawan, New Delhi; Deliberations in this workshop were relevant for improving quality of reports. The Commission organized two interactive sessions with experts and resource persons from reputed national level research institutes. The Commission also

⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

used data from state budget documents, State Statistical Abstract, State Economic Survey, plan documents, accounts related documents, Annual Administrative Reports of various departments. The overall approach of the Commission was to foster inclusive growth promoting fiscal federalism.

RECOMMENDATIONS

Global Sharing

- 2.5% of the net own tax revenue will be shared between Panchayats and Municipalities in the ratio of 65:35 based on the rural-urban population ratio as per 2011 census.

[Deferred]

- For horizontal division of share of Panchayats and Municipalities the commission computed the composite index consisting of factors like population area, literacy gap, Antodaya Anna Yojana population and gender ratio. The following criteria has been recommended for districts wise distribution of local bodies share:

Parameters	Weight
Population	40.00
Area (R/U)	25.00
Literacy Gap (R/U)	15.00
AAV Population	10.00
Gender Sex ratio	10.00
Total	100.00

[Not considered]

- The Panchayats share at district level to be allocated among GPs: PSs: ZPs in the ratio of 75:15:10.

[Not considered]

- The share of GPs and PSs within the district should be allocated on the basic of population (80%) and area (20%) same for Municipalities.

[Not considered]

- For the period 2015-16 the share of local bodies divisible pool would be 7% of DP and the ratio of Panchayats & Municipalities would be 50:50 as again rural urban population ratio of 65:35.

[Not considered]

Assignment of Revenue

- Development tax should be imposed for being a direct source of revenue for GPs.

[Not considered]

- Panchayat should be empowered to levy state entry tax.

[Not considered]

- The GPs should be permitted to levy additional duty on stamp duty at the rate of 3% on sale of transfer of immovable properties in their jurisdiction.

[Not considered]

Horizontal Distribution

- Additional duty on stamp duty should be increased by the municipalities from existing 2% to 3%.

[Not considered]

- Electricity tax should be enhanced to 10 paise per unit from 5 paise per unit in municipalities and electricity tax should be levied immediately at the rate of 5 paise per unit in panchayat areas.

[Not considered]

- The power consumed for public utilities in local bodies should be changed on domestic rates rather than commercial rate.

[Not considered]

- 10% of the income from royalty on minor minerals should be the share of Panchayat or Municipalities.

[Not considered]

- The rate of house tax should be revised.

[Not considered]

- 10% of the income from change of land use may be devolved on the GPs.

[Not considered]

Grants-in-Aid

- It does not recommend any kind of general purpose grant to local bodies from the consolidated funds.

[Not considered]

- It recommends one time grants in aid of Rs 113.60cr for the following purpose:

Purpose	Grants (cr.)
Maintenance of municipal road and SWM	57.85
Up gradation of fire services	10.00
Capacity building	15.00
Strengthening the pate base of Panchayats & Municipalities	10.00
Maintain some of accounts & audit of local bodies	20.00
Setting up of calls for research & analyzing of public finance policy	10.75

[Not considered]

Functions and Functionaries

- DPC member from Panchayats & Municipalities should have the authority to decide work and areas of such work.
[Not considered]
- ZP needs to be strengthened by providing regular staff.
[Not considered]
- To make ZP functional, one Gram Sevak must be put in place for only two Panchayats.
[Not considered]

Other Measures

- Constitution of incentive funds at the district level for each Panchayats and Municipalities to reward the better performing local bodies.
[Not considered]
- Improvement in the state government's own tax revenue (OTR)/ gross state domestic product (GSDP) rate to 8.6% from 2013-14 onwards from existing level of 6 to 6.5%.
[Not considered]
- Introduction of accrual based double entry system in all the Municipalities.
[Not considered]
- A well in build social audit system in all GPs.
[Not considered]
- A State level urban management training and research academy should be set up in the state.
[Not considered]
- Privatization of services like street lighting, solid waste management (SWM), construction/maintenance of toilets and such other works in all the major Municipalities.
- Liberalization of licensing policy for municipal areas.
[Not considered]
- Introduction of E-governance at appropriate level to improve work efficiency.
[Not considered]

Himachal Pradesh Fourth State Finance Commission

Award Period: 2012-13 to 2016-17

Constitution: April 2010

Report Submission: June 2014

ATR Submission: NA

Composition

The final composition of the Commission, at the time of report submission was as below:

Kuldeep Kumar Member of Legislative Assembly	- Chairman (from 21.10.2013)
Upma Chawdhry (Mrs) Principal Secretary (RD& PR)	- Member (Ex-Officio)
Amardeep Garg (Dr)	- Member Secretary

Terms of Reference

The Commission shall make recommendations to the Government as to:

- a) *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 Government which may be divided between them and allocation between all levels of Panchayats/Municipalities 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;*
 - iii. *the grants-in-aid to Panchayats/Municipalities from the consolidated fund of the State;*
- b) *to suggest measures needed to improve the financial position of the Panchayats/Municipalities;*
- c) the Commission should make a normative assessment of needs based on the actual devolution of functions to each tier of the PRIs and an assessment of potential fiscal capacity based on the tax and non-tax resources available to PRIs 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 representatives and employees of PRIs and suggest improvements in these schemes in order to promote the exercise of fiscal autonomy and responsibility by the PRIs;

- e) the Commission should suggest appropriate ways to take forward the process of devolution of functions, funds and functionaries to the PRIs keeping in view the existing delivery system and the financial capacity of the State Government. It may make specific suggestions with regard to:
- support for pilots to hand over responsibility for delivery of primary education, primary health, water and sanitation and rural roads to appropriate levels of PRIs;
 - changes in legislation and procedures necessary to enhance the tax and non-tax capacity of the PRIs consistent with accepted principles of taxation at the local level;
 - strengthening of administrative capacity of PRIs by placing under their control relevant categories of employees either by way of recruitment at the level of relevant tiers of the PRIs or by seconding of existing State Government staff to them.
- f) *any other matter referred to the Fourth Himachal Pradesh, State Finance Commission by the Government in the interest of sound finance of the Panchayats and Municipalities.*⁷

Methodology

The Commission collected data separately from the three tiers of Panchayats and levels of municipalities. Separate questionnaire were designed for each tier of Panchayats and each level of municipalities. Due to lack of desired staff for field survey, the task of data collection was assigned to the Department of Information technology to conduct the survey with the help of Lok Mitra Kendras. Regular meeting were conducted to review the status of survey work. Due to non-supportive attitude of the staff at grass root level the responses gained through Lok Mitra Kendras were very low. Therefore the Commission started to collect the data by sending the designed questionnaires to the Gram Panchayats (not covered by Lok Mitra Kendras) by post, mailed the questionnaires to district Panchayat Officers/ Block Panchayat Officers). The same process was followed for municipalities. More emphasis was given to participatory approach. The Commission invited views and suggestions by publishing advertisements in selected national and regional newspapers. Along with the detailed questionnaire the information was also collected from various departments to cross check the information obtained on questionnaires. To firm up the data received from various sources several rounds of meeting were conducted.

⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

RECOMMENDATIONS

Global Sharing

- As per the recommendation of XIII-FC, Himachal Pradesh Received Rs. 559.54 Crore for Panchayats and Rs 81.96 Crore for Municipalities as grant in aid to augment the consolidated fund of the state, to supplement the resources of local governments. To check the counterbalancing entry the fourth SFC would not take into account the resource transfers as recommended by XIII-FC on either receipts or expenditure account.

[Not considered]

Assignment of Revenue

- To levy a new consumption based tax as cess in the Municipalities.
- Increment in the rate of electricity tax from 2 paise per unit to a minimum 5 paise in the municipalities. The revenue generated could be totally adjusted to liquidate the pending arrears on account of street lighting.
- The existing ratio of liquor to local governments should be changed to 70:30 from 80:20, where liquor vend is functioning and where there is no liquor vend, respectively. The cess is charged at the rate of Rs. 2.00 per Bottle, out of which Rs. 1.00 is retained by the Excise and Taxation Department and Rs. 1.00 is distributed to the local bodies in the ration of 80:20, for where vend is functioning and not functioning respectively.

[Not considered]

[Not considered]

Grants-in-Aid

- The fourth commission in its I II and III Interim Reports recommended total transfer to Panchayats as mentioned below:

Report	Year	Amount (Rs.Crore)
I Interim Report	2012-13	53.95
II Interim Report	2013-14	63.83
III Interim Report	2014-15	106.39
	2015-16	109.62
	2016-17	130.32

[Not considered]

- Against these recommendations the revised gap in available resources worked out Rs. 64.33 crore and Rs. 65.82 crore for the year 2012-13 and 2013-14. Accordingly the Commission in its third Interim Report recommended further provision of Rs.

10.37 crore for 2012-13 and 1.98 crore for 2013-14 through the supplementary demand for grant.

[Not considered]

- The fourth commission in its I II and II Interim Reports recommended total transfer to Municipalities as below:

Report	Year	Amount (Rs. Crore)
I Interim Report	2012-13	57.07
II Interim Report	2013-14	63.55
III Interim Report	2014-15	72.38
	2015-16	81.43
	2016-17	101.41

[Not considered]

- Based on the data available it further recommended to provide additional grant of Rs. 66.3 crore through the supplementary demands for the financial year 2012-13 & 2013-14.

[Not considered]

Horizontal Distribution

- Total resource transfer of Rs 858.96 crore to local governments. (55.5 percent to Panchayats (Rs. 476.47 crore) and 46.5 percent (Rs. 382.48 crore) to Municipalities respectively).

[Accepted]

- Allocating Rs. 323.13 lakh to the GPs for the year 2012-13 for the maintenance of primary school building with 10% increase per annum.

[Not considered]

Functions and Functionaries

- The cess should be directly credited into the account of concerned Municipality.
- Certain amount of contingent funds should be allowed to retain in at GP level and for this Panchayati Raj department should issue the order for devolving powers to GPs to use at least 0.1% of the sanctioned budget under development scheme.
- To empower DPCs, the state government may consider merging the function assigned to the district planning development and 20 point programme review committee, in the function of DPCs.

[Not considered]

- The rate of surcharge on duty on transfer of property to be notified on priority to supplement the resources of Gram Panchayats.

[Not considered]

- There should be proper inventory of assets created at local bodies' level under the framework suggested by the commission.

[Not considered]

Other Measures

- A permanent secretariat for SFC with adequate staff.
- [Not considered]
- Education Health and Animal Husbandry to be maintained by Gram Panchayats.
- [Not considered]
- Declaring Director Panchayat Raj as Head of the department to the proper utilization of maintenance funds by Panchayats.
- [Not considered]
- Synchronization of the period of SFC with the period of Union Finance Commission.
- [Not considered]
- A standard Framework for guidance of the constitution and composition of State Finance Commission.
- [Not considered]
- The Central Government should set up a unit at the National Institute as a repository of State Finance Commissions Documents.
- [Not considered]
- Total projected revenue receipts of the Panchayats for the award period 2012-17, for GPs, PS and ZPs would be Rs. 76.08 crore Rs.1.94 crore and Rs.1.79 crore respectively.
- [Not considered]
- A total provision of Rs. 485.76 crore for Revenue Expenditure (RE) and Capital Expenditure (CE) to be made for the award period 2012-17 for Panchayats, consisting Rs. 484.26 crore for RE and Rs 1.50 crore for CE, respectively.
- [Not considered]
- Total projected Revenue receipts for the Municipalities would be Rs. 373.40 crore.
- [Not considered]
- The total projected revenue liabilities of Municipalities for the award period works out Rs. 513.67 crore. Consisting of Rs. 466.64 crore as RE, Rs. 37.03 crore for maintenance provision and Rs. 10.00 crore for creation and up gradation of Municipalities.

[Not considered]

Kerala Fourth State Finance Commission

Award Period: 2011-12 to 2016-17

Constitution: September 2009

Report Submission: January 2011

ATR Submission: February 2011

Composition

<p>M A Oommen (Prof) Malcom Adiseshiah Chair of Development Economics & Decentralized Planning Institute of Social Sciences, New Delhi</p>	<p>- Chairman</p>
<p>S M Vijayanand Principal Secretary to Government Local-Self Government Department</p>	<p>- Member</p>
<p>Ishita Roy (Smt) Secretary to Government Finance (Expenditure) Department</p>	<p>- Member</p>

Terms of Reference

The Commission shall 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 Government which may be divided between them under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities 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;*
 - iii. *the grants-in-aid to Panchayats/Municipalities from the consolidated fund of the State;*

- b) *Measures needed to strengthen the financial position of Panchayats & Municipalities*⁸ with special reference to:
- i. Suggest framework to LGs for realizing their potential to raise funds from financial institutions & markets
 - ii. Improving quality of upkeep assets owned by and transferred to LGs
 - iii. Rationalizing taxes & revenues now collected by LGs
 - iv. Achieving economy & efficiency in expenditure by LGs
 - v. Providing incentives for higher own resource mobilization by LGs
 - vi. Maintaining proper fiscal data base relating to LGs
 - vii. Streamlining the measures required for improving the capacity of financial management by LGs
 - viii. Improving monitoring of fiscal performance of LGs

The recommendations of the first three SFCs may be revisited by the Finance Commission and appropriate suggestions may be given on those recommendations which had been accepted by Government, but which have not been operationalized.

Methodology

The Commission visited a few selected Local Governments to have a firsthand experience of important developmental issues and good practices. Various meetings, workshops as well as seminars were conducted from time to time. The Commission launched an ambitious project to collect online data from the Local Governments for the period from 2004-05 to 2008-09. Unlike the previous Commissions' method of collecting data physically, this commission collected online data using the software developed by KELTRON for online collection of data relating to receipts and expenditure of Local Governments based on the accounting system. The main objective behind collection of data online was to build a data base which can be preserved for future use. In addition to this a number of studies were also sponsored by the Commission.

RECOMMENDATIONS

Global Sharing

- 3.5 % of State Own Tax Revenue (SOTR) to Local Governments (LGs) as General Purpose Fund (GPF) using the t-2 method⁹.

[Accepted]

⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

⁹ t-2 method denotes in the report that, for devolution in a particular year, the tax collection figures of two years back for which finalized figures of accounts are ready would be reckoned so as to arrive at the final figures.

- An amount of Rs. 793 crore (4.5 % of SOTR (t-2) as Maintenance Fund for the financial year 2011-12. Progressive increase over the remaining years would be as given below:

2011-12	4.5% of SOTR (t-2)
2012-13	5% of SOTR (t-2)
2013-14	5.5% of SOTR (t-2)
2014-15	5.5% of SOTR (t-2)
2015-16	5.5% of SOTR (t-2)

[Accepted]

- Development Fund (DF), earlier known as plan grants, for the five years of the award period is as detailed below, based on the assumed plan size¹⁰ calculated on historical trends:

Year	Share (%)	Actual Allocation (Rs. Crore)
2011-2	25	2750
2012-3	27.5	3388
2013-4	28.5	3933
2014-5	29.5	4559
2015-6	30	5193

[Accepted for the financial year 2011-12]

- The share of DF would be subject to the free plan outlay available each year. However under no circumstance should any year's allocation be less than 25% of the plan size.

[Accepted]

- Maximum of 10% of the total devolution under DF to be distributed to LGs on the basis of tax effort criterion.

[Accepted]

Assignment of Revenue

- Amount equal to Entertainment Tax to be collected and individually to be given to each eligible GP, municipality and Corporations, whenever the GST is introduced.
- A surcharge of 50% of the property tax by local governments.

[Referred to a Committee consisting of Secretaries of LSG Department and Finance Department for examination].

¹⁰ The assumed plan size is only notional for determining the share of local governments and should not in any way link to the real plan size of the particular year.

- Service tax to be levied by panchayats and municipalities subject to the minimum rate fixed for sanitation, water supply, scavenging, street lighting and drainage.
[Not considered]
- As per the Amendment Act section 208, the Kerala Municipality Act have also been revised to enable the local governments to levy a surcharge not exceeding 50% of the property tax to meet any extraordinary expenses incurred by them towards any scheme or project or plan. The rules need to framed expeditiously.
[Not considered]

Horizontal Distribution

- The GPF to be divided among Gram Panchayat (GP), Municipalities, and Corporations in the ratio of 75.93:10.02:14.05 after setting off Rs. 125 lakhs per District Panchayat (DP) and Rs.15 lakhs per Block Panchayat (BP).
[Accepted]
- The inter-tier distribution of Tribal Sub Plan (TSP) Fund among Panchayats may be restructured in the ratio of 60:20:20, for GP/BP/DP respectively.
[Not considered]
- The formula for distribution of non-Special Component Plan (SCP)/TSP portion of Development Fund should be as outlined below:

(weights)

Criteria	GP	BP	DP	Municipalities
Population (Excl.d.SC/ST)	50	50	50	50
Deprivation Index	30	30	30	30
Tax effort	10	-	-	10
Area	10	20	20	10

- A special allocation of Rs 50 lakh as fiscal support grant to Idamalakkudy Gram Panchayat from the GPF allocation for Panchayats.
[Not considered]
- 2/3rd of the maintenance fund to be earmarked for road maintenance and remaining 1/3rd for non-road maintenance.
[Accepted]
- 40% of development fund to be allocated to Panchayats for infrastructure.
[Not considered]

Grants-in-Aid

- A special grant of Rs. 25 lakh to each one of the 16 GPs (Names of the 16 GPs are given in Appendix 8A of the Report).
[Accepted]

- A grant of Rs. 15 lakh to each of 58 GPs (Names of the 58 GPs are given in Appendix 8B of the Report).

[Not considered]

Functions and Functionaries

- The Director of Panchayats and Director of Urban Affairs are to be made responsible for collection of data on taxes and would provide certified figures of tax collection before 31st December every year to the State Finance Commission (SFC) cell.

[Accepted]

- Local governments may be given freedom to spend road maintenance fund for any of the items allowed under the non-road maintenance.

[Not considered]

- Introduce computerized ticketing and a seat-based tax system to streamline collection of Entertainment Tax from cinema theatres. Simultaneously conduct a study to classify theatres.

[Referred to a Committee consisting of Secretaries of LSG Department and Finance Department for examination].

- An Account Cadre as noted below to be put in place in all LGs immediately.

Institution	No. of Accountants
GP	1
BP	1
DP	1
Municipalities	2 (3 in big Municipalities and 1 in small Municipalities with population less than 50000)
Corporations	5

[Accepted]

- The following officers may be put in charge of inspecting cash books of at least 10% of the Local Governments every month and report regularly to the heads of department concerned and to the Government in the case of District Panchayats:

Corporations & Municipalities	Regional Director of Urban Affairs
Village Panchayats	Deputy Directors and Assistant Directors
Block Panchayats	ADC (General)
District Panchayats	District level officers of the Finance Inspection Wing

[Not considered]

Other Measures

- Establishments of Biodiversity Management Committee to initiate People's Biodiversity Registers (PBRs).
[Accepted]
- PBRs to be mandatory for Panchayats and each GP shall spend Rs 1 lakh from the DF for preparation of Biodiversity Register. District Planning Committees should ensure this.
[Accepted]
- Introduction of GIS for both road and non-road mapping.
[Not considered]
- National Transportation Planning and Research Centre (NATPAC) is to be entrusted for mapping roads and agencies like Centre for Management Development, Costford and Socio-economic Unit Foundation and Maitri be entrusted with the task of preparing the details of building assets. Expenses of asset mapping may be deducted from maintenance fund.
[Not considered]
- All stand posts of Kerala water Authority to be converted mandatorily into metered domestic connection.
[Not considered]
- The own office buildings of BPs and DPs and assets like ferries, burial grounds etc. to be included as eligible for maintenance using non-road maintenance fund.
[Not considered]
- Public Health Act to replace Travancore-Cochin and Madras Public Health Acts.
[Not considered]
- Setting up of a High Power Committee on the lines of the Sen Committee to oversee the entire institutionalisation process.
[Not considered]
- Women Component Plan (WCP) may be strengthened and gender budgeting be given statutory status.
[Not considered]
- Need of an urgent action for operationalizing the new property tax regime and biennial inflation neutralization may be made compulsory as recommended by SFC II.
[Deferred]
- Creation of a GIS based property tax database.
[Deferred]

- The government may fix only the minimum rate and the local governments be given freedom to determine the rate according to the land value etc. of the particular local government.

[Deferred]
- Creation of Property Tax Board.

[Deferred]
- Launch a drive to enumerate all professionals and institutions and to map the data suitably.

[Deferred]
- Entertainment Tax (ET) Act and Rules need a re-visit and comprehensive updation to bring various Entrance fee or such other fees collected for entertainment under ET Act.

[Deferred]
- Immediate issue of Service Tax Rules.

[Deferred]
- Mapping out of both the road and non-road assets using GIS and creation of a dynamic data base for regular updation.

[Not considered]
- Development and deployment of Web-based software at the level of local governments and treasures with a district level terminal.

[Not considered]
- District Planning may be made mandatory with focus on the following sectors:

 - Health
 - Education
 - Agriculture and allied sectors
 - Water supply
 - Energy
 - Mobility

[Not considered]
- Constitution of a Human Resource Commission for local governments.

[Not considered]
- Disclosure of budgets, accounts and audit findings should be made mandatory under Section 4 of the Right to Information Act and formats prescribed for this easily understood by the citizens.

[Not considered]
- Constitution of a small Expert Group to interact with the local government officials.

[Not considered]
- Asset maintenance policy should be suitably adapted and reissued as applicable to local governments.

[Not considered]

- Government should come out with detailed guidelines on PPP Projects for local governments.

[Deferred]

- Few recommendations of the earlier three SFCs which need to be reaccepted and implemented without delay are listed below:
 1. In respect of Advertisement Tax, Government may fix the minimum rate chargeable and leave it to the LG concerned to fix the rates accordingly. There should be a system of authenticating advertisements. The penal provision for unauthorized advertisements should be fixed at least five times of normal tax.
 2. Similarly for license/permit fees the freedom to fix the fee above a mandatory minimum fixed by Government may be given to LGs.
 3. Cable Television and Internet may be brought under the Entertainment Tax net.
 4. All GPs, Municipalities and Corporations should conduct systematic tax mapping on a GIS platform and assign unique premises number to each premise.
 5. Plinth area-wise property tax may be implemented with effect from 1st April 2011 for revision and immediately in the case of new buildings. A cap on increase of tax may be reviewed; if it is not possible, rectification may be spread out over the next assessments.
 6. Conversion tax may be realized at the rate of 5% of the capital value in the case of conversion of paddy lands. If the conversion is without prior permission, ten times the rate should be realized.
 7. In the case of licences and permits which are to be renewed periodically, 25% of the fee may be collected as fine for delays beyond a grace period of 10 days; this penalty may be increased by 25% for every additional fortnight of delay.
 8. GPs may be given same powers which Municipalities and Corporations have under Section 376 of the Kerala Municipality Act for auctioning the right to set up temporary shops in public lands.
 9. A Demand-Collection-Balance statement of all revenue items should be prepared and discussed in meetings of LGs once in a quarter. The summary should be presented in the Grama Sabhas and Ward Sabhas.
 10. Legislative provision may be introduced for indexing non-tax revenue items and taxes like Property Tax and Advertisement Tax. Two yearly revisions are recommended for non-tax items and Advertisement Tax based on Consumer Price Index for Non-manual Workers for Thiruvananthapuram in the case of urban LGs and Consumer Price Index for Agricultural

Labourers for the State in the case of GPs. For property tax five yearly revisions may be done.

11. Unpermitted diversion of funds should be penalized by charging a penalty of 2% per month from the persons responsible.
12. A Statement of revenue collection and arrear position of LGs should be placed by the Government in the Assembly by 30th September of the succeeding financial year.
13. List of major defaulters of property tax should be published in the website of the LG concerned.
14. There should be a single account for crediting of the own source revenues of LGs.
15. Welfare pensions may be distributed centrally after the selection of beneficiaries is made by the LG concerned.
16. Before ordering any exemption/reduction in tax which is in the domain of LGs, Government should obtain the consent of the LGs concerned.
17. An Accounts Cadre should be set up in all LGs. (This is explained in the main Report).
18. An Empowered Committee under the Chief Secretary may be set up consisting of the Secretaries in charge of LSG, Finance and Law Departments to follow up the accepted recommendations and implement them fully. The Committee may be given secretarial support by SFC Cell now under the Finance Department.

[Not considered]

Odisha Fourth State Finance Commission

Award Period: 2015-16 to 2019-20

Constitution: October 2013

Report Submission: September 2014

ATR Submission: February 2015

Composition

Chinmay Basu	- Chairman
Adwait Kumar Mohanty (Prof) Professor of Economics (Retd.) Utkal University	- Member
Devi Prasad Ray	- Member
Shailendra Nrayan Dey Director, Panchayati Raj	- Ex-Officio Member
Sanjib Kumar Mishra Director, Municipal Administration	- Ex-Officio Member
Pradeep Kumar Biswal* Additional Secretary, Finance Department	- Member Secretary

*Shri Biswal was transferred as Joint Secretary in Planning and Coordination Department and was reappointed as Member Secretary of the Commission dated 12.9.2014.

Terms of Reference

The Commission shall make recommendations relating to the following matters:-

- 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-IX 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, Panchayat Samities and Zilla Parishads or, as the case may be, Municipalities; and*
 - c) *the Grants-in-aid to the Grama Panchayats, Panchayat Samities, 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 Samities, 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 Samities, Zilla Parishads and Municipalities.*¹¹

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

- a) the revenue proceeds of the State Government and the 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 expenditures and liabilities;
- b) the functions and liabilities of Panchayati Raj Institutions and Municipalities in respect of discharging and implementing the schemes entrusted to them under article 243G and 243W of the Constitution;
- c) the revenue resources of Panchayati Raj Institutions and Municipalities at all levels of five years, commencing from 1st April, 2015 on the basis of levels of taxation reached in 2011-12, target set for additional resource mobilization and potential for mobilizing additional resources;
- d) the scope for better fiscal management consistent with the need for speed, efficiency and cost effectiveness of delivery of services; and
- e) the need for providing adequate incentive for better resource mobilization as well as closely linking expenditure and revenue raising decisions.

The report of the Commission shall contain specific chapters, narrating-

- i. the approach adopted by it;
- ii. an analysis of the resources of the State Government;
- iii. an analysis of the resources of Panchayats at each level and also Municipalities at each level and make concrete recommendations for improvements; and
- iv. an estimation and analysis of the finances of the State Government as well as the Panchayati Raj Institutions and Municipalities at the pre and post transfer stages along with a quantification of the revenues that could be generated additionally by the Panchayati Raj Institutions and Municipalities by adopting the measures recommended therein.

For the purpose of assessment of supplementing the resources of the Panchayats and Municipalities by the Central Finance Commission, the Commission shall-

- i. follow a normative approach in the assessment of revenues and expenditure rather than make forecasts based on historical trends;

¹¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- ii. take into account per capita norms for revenue generation, the data relating to the tax bases and avenues for raising non-tax income by the Municipalities and the Panchayats, assuming reasonable buoyancies and the scope for additional resource mobilization; and
- iii. take into account per capita expenditure norms on the basis of the average expenditure incurred by some of the best performing Municipalities and Panchayats in the provision of core services.

The Commission shall also review the implementation of the recommendations of the Third State Finance Commission.

Methodology

Through newspaper advertisement dated November 14, 2013 and Correspondences, the Commission had apprised the public of constitution of the 4th State Finance Commission and its mandate and requested all Gram Panchayats, Panchayat Samitis, Zilla Parishads, Notified Area Councils, Municipalities, Municipal Corporations, universities, other organisations, intelligentsia and individuals to oblige it with their valuable views and advices to strengthen the local self-governments of the State.

The Commission visited some of the districts, and the Chairman and Members visited a few other districts individually or in smaller groups for direct interaction with the local body representatives, local public and officials working at the grassroots level.

The overall approach of the Commission was to recommend principles to facilitate resource availability to rural and urban local bodies in a sustainable manner to carry out functions entrusted to them.

RECOMMENDATIONS

Global Sharing

- 3% of the net tax revenue to be devolved between Panchayats and Municipalities in the proportion of 75:25. *[Accepted]*
- Limit the total transfer to Local Bodies (LBs) within 10% of net divisible pool of State taxes projected for the award period from 2015-20. *[Accepted]*
- Devolution to the of LBs, to be on the basis of size, density and percentage of population below poverty line (Tendulkar Methodology), literacy rate and SC & ST concentration. *[Accepted]*
- Total transfer of Rs.25325.03 crore to the LBs out of which Rs.12740.08 crore is from the State's taxes and Consolidated Fund.

[Not accepted]

- The Commission recommends that the 14th Finance Commission may consider augmenting the State's Consolidated Fund to meet the balance requirement of Rs.12584.95 crore in the next five years period to supplement the resources of the LBs over and above the fund recommended for transfer from the State's resources.

[Not accepted]

Assignment of Revenue

- Local governments should be empowered to impose advertisement tax except in the case of Central or State government advertisements.

[Not considered]

- Levy of Property Tax by local governments.

[Not considered]

- Exclusion of entry tax, entertainment tax and motor vehicle tax from the shareable pool and to assign a part of these taxes to the local bodies directly.

[Accepted. Instead of allowing LBs to levy and collect Entertainment Tax, the present system shall continue]

- Along with Municipalities, Panchayats should have the right to levy Entry Tax.

[Accepted]

- Amendment of GP Act enabling GPs to collect Advertisement Tax at the rate decided by them and to introduce Property Tax so that the GPs may be empowered to levy Property Taxes.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Share of Municipalities in motor vehicle tax need to be enhanced.

[Not considered]

- The rates and maximum collectable amounts have been fixed under provision 290(7) of the Act these restrictions should be scrapped and the amount to be charged should be the discretion of the municipal bodies.

[Not considered]

Horizontal Distribution

- Arrear pension of retired employees should be cleared from the entry tax.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- *Inter-se* distribution amongst three tiers of Local Bodies is based on population, category and number of units like GPs, Panchayat Samities etc.

[Accepted]

- *Inter-se* distribution of devolution amongst the three tiers of Panchayats is to be in the ratio of 75:20:05.

[Accepted]

Grants-in-Aid

- Odisha Kendu Leaves Grants should be either shared with the pluckers instead of Panchayats or it should be withdrawn completely.

[Not considered]

- The Commission does not consider the continuance of Sirat Grants and MFP worthwhile and recommends that it should be stopped.

[Accepted]

- An additional amount of 20% to the Panchayats under TSP areas out of the total devolution –and some specific grants for Panchayats.

[Accepted]

Functions and Functionaries

- DRDA should be dissolved and its office should be merged in ZP.

[Not considered]

- Activities which can be performed at a lower level should be undertaken only at that level.

[Not considered]

- The line department should providing activity mapping for each scheme with details of the functions assigned to Municipalities.

[Not considered]

- Implementation of centrally sponsored schemes should be the responsibility of the Panchayats with full departmental support.

[Not considered]

- Key functionaries at the panchayat level should be accountable to the concerned Panchayats.

[Not considered]

- New Panchayats should be created where population has exceeded 10,000. The existing Panchayats having more than 7,500 population should be strengthened by engaging technical and other functionaries exclusively.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Municipalities should be empowered with infrastructural support.

[Not considered]

- Drinking Water service which comes under Public Health Engineering Organization (PHEO) should be handed over to municipalities and the services of the existing staff along with finance should be placed with the local bodies.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Planning unit of the municipal body should focus on planning of day to day activities for basic amenities.

[Not considered]

- The powers of Junior Engineers, Assistant Engineers and other technical functionaries in the municipalities should be enhanced at least two times to facilitate undertaking routine works locally without sending upwards for approval.

[Not considered]

- All markets taken over by Regulated Marketing Committees (RMCs) should be returned to GPs.

[Not considered]

- Services of ANMs and anganwadi workers can be placed with the GPs.

[Not considered]

- A time-frame may be fixed for Panchayat Samitis to communicate the minimum procurement price of MFP.

[Not considered]

- GPs should be empowered to seize MFPs if procured illegally and inform the DFO concerned for final say in the matter and initiation of penal action where needed.

[Not considered]

- Administrative powers of officials, engineers and other technical functionaries in the local bodies shall be enhanced.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Municipal Authorities require more liberty to function within their legitimate domain of operation without waiting for Government's approval.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Municipal cadre shall be put in a place as quickly as possible.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

Other Measures

- Constitution of a separate Directorate of Municipal Administration.

[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]

- Municipal cadre should be put in place as quickly as possible.
[Not considered]
- Constitution of Valuation Organization.
[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]
- Advertisement tax rates should be decided in the municipal council, not by the government.
[Not considered]
- Development authorities/ improvement trust must issue NOC from local bodies for approval of plans.
[Not considered]
- Introduction of accrual based accounting system.
[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]
- H&UD Department should continue to fix annual achievement targets even beyond the present award period and put in place a monitoring mechanism involving external agencies to assess the physical progress.
[Not considered]
- The stamp duty according to the opinion of the Commission is being erroneously projected as grants to Municipalities but goes to Special Planning Authority etc. As such, it should not be part of the assignment.
[Accepted]
- Engagement of one Inspector of Local Works (ILW) in the level of Assistant Engineer or Executive Engineer to be stationed in each District.
[Being examined by State Government in detail. Follow up action would be taken with the High Level Monitoring Committee]
- A High Level Monitoring Committee to be constituted.
[Accepted]
- A dedicated Cell (Budget-VI Branch) in Finance Department with full-fledged staff to monitor implementation of grant, submission of utilization certificate, manner of utilization of grants etc. by the LBs.
[Accepted]

Rajasthan Fourth State Finance Commission

Award Period: 2010-11 to 2014-15

Constitution: April 2011

Report Submission: September 2013

ATR Submission: October 2012

Composition

Bulaki Das Kalla (Dr)	- Chairman
Rajpal Singh Shekhawat	- Member
J P Chandelia	- Member
P L Agarwal (Dr)	- Member Secretary

Terms of Reference

The Commission shall review the financial position of the Panchayats at all levels, and make recommendations as to:

- a) *the principles which should govern:*
 - i. *the distribution between the State and the Panchayats at all levels of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part-IX of the Constitution 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 at all levels; and*
 - iii. *the grants-in-aid to the Panchayats at all levels from the Consolidated Fund of the State.*
- b) *the measures needed to improve the financial position of the Panchayats.*

The Commission shall also review the financial position of the Municipalities at all levels and make recommendations as to:

- a) *the principles which should govern:*
 - i. *the distribution between the State and the 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-A of the Constitution and the allocation between 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 Municipalities; and*

- 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.*¹²

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

- i. the financial resources of the State and demands thereon, keeping in view the non-plan deficit and surplus, and in particular, the need for providing adequate resources for funding the plan expenditure for the overall development of the State;
- ii. the expenditure needs of the Panchayats at all levels and Municipalities at all levels for the proper discharge of the functions and responsibilities assigned to them;
- iii. adjustment of grants available to the Municipalities at all levels and the Panchayati Raj Institutions, under the recommendations of Thirteenth Finance Commission in their resources; and
- iv. powers available to Panchayati Raj Institutions and Municipalities at all levels for raising additional resources, including powers to levy taxes.

Methodology

For collecting information and relevant data from each tier of Panchayats and Municipalities, a well designed questionnaire and some formats were sent to all the Panchayats and Municipalities. The Commission participated in a number of Workshops and Conferences organized at National and State levels. The Commission also visited some major States and closely studied the working patterns of local governments and the concerning State Finance Commissions.

RECOMMENDATIONS

Global Sharing

- 5% of net own tax revenue (excluding Entry tax and land revenue) of the State government be devolved to the Panchayats and Municipalities in the ratio of 75.1:24.9. *[Accepted]*
- 2% of Cess on Excise Duty on Liquor should be distributed between Panchayats and Municipalities in the ratio of 40:60 respectively. *[Not accepted]*
- 25% of the entry tax should be distributed between Panchayats and Municipalities in the ratio of 40:60 respectively. *[Not considered]*

¹² Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- Thirteenth Central Finance Commission grants for Municipalities and Panchayats may also be distributed on the basis of criteria and norms recommended by this Commission for devolution of Funds under SFC Award.

[Accepted]

Assignment of Revenue

- The Urban Development tax should be made applicable on all lands and buildings situated in municipal areas.

[Not considered]

- User charges, license fees, tax on vehicles etc. be made obligatory in Gram Panchayats by the State government.

[Not considered]

- A new tax in the name of Sanitation tax may be levied on all hotels, restaurants, public schools, private hospitals, nursing homes, recreation clubs, marriage gardens, and shopping complexes and cinema halls/multiplexes.

[Not considered]

- 10% surcharge on stamp duty.

[Not considered]

Horizontal Distribution

- 100% land revenue to be transferred to the Gram Panchayats of the State in proportion to their latest available population.

[Not considered]

- 3% of royalty on minerals (both major and minor) except Hydrocarbons be distributed among all Gram Panchayats in proportion to their population as per latest available Census.

[Not considered]

- Transfer of a revolving fund of Rs.100 crore into an account to be opened by the Panchayati Raj Department and transferred to Panchayats as per needs.

[Not considered]

- 10% of the State Rode Funds to be transferred to the Municipalities for maintenance work.

[Not accepted]

- The IV SFC recommended following District wise distribution weights:

Parameter	Weights
Population	40%
Geographical Area	15%

Poverty (represented by no. of families BPL)	5%
Child Sex Ratio (0-6 Years)	5%
SC Population	5%
ST Population	5%
Decline in decadal population growth 2001-11 over 1991-2001	5%
Infant Mortality Rate	5%
Girl Education	5%
Own Revenue Mobilization by Panchayats	10%

[Not considered]

- Distribution among Panchayats is as below:

Unit	Weights
Gram Panchayat	85%
Panchayat Samiti	12%
Zila Parishad	3%

[Accepted]

Grants-in-Aid

- Specific Function Grant: provision of specific functional grants to the Gram Panchayat.
[Not considered]
- Panchayats would be given 20% funds as performance grants on the basis of following criteria:

Preparation and completion of annual accounts and asset register	5%
Disposal of Audit Paras	5%
Raising Own Resources	5%
Timely Convening the Meeting	5%

[Not accepted]

- After earmarking functional grant for Gram Panchayats and 20% fund for performance grant to Panchayats, remaining amount would be available as untied grant.

[Not accepted]

- In addition to the central government subsidy, the Commission recommends that a further 20% of the cost on solar street units installed by the Gram Panchayats during 2013-14 and 2014-15 be given by the state government as incentive.
[Not considered]
- An incentive of 50% of the cost of water purification plant installed by the Gram Panchayats during 2013-14 and 2014-15 out of the untied grants would be given.
[Not considered]
- Rs.150 crore out of the untied grant should be utilized for setting up the State Institute of Urban Affairs in a phased manner.
[Not considered]
- State Government should recalculate the compensation of octroi for Municipalities since 2001- 02 by increasing it at 10% every year and devolve the difference as one time grant to these bodies.
[Not considered]
- Provision of Rs. 777. 54 crore for as Special Untide Grants to Panchayats.
[Accepted]

Functions and Functionaries

- Director, Panchayati Raj Department and Director, Local Self Govt. Department should be nominated as nodal agencies to create data bank in Panchayats and Municipalities and to manage the same.
[Not considered]
- The Indira Gandhi Panchayati Raj Sansthan (IGPRS) should also serve as reference and research center for Panchayats.
[Not considered]
- State government may consider a major amendment in sub Section (6) of Section 8A of the P.R. Act, 94 so that the resolutions of the Gram Sabha are not treated as mere “suggestions” but should be mandated to be obeyed in compliance as far as possible.
[Not considered]
- Standing Committees of Panchayats need to be activated to ensure holding of periodic meetings.
[Not considered]
- District heads of transferred departments should be made integral part of Zila Parishad and they should be designated Additional/Deputy C.E.O. according to their seniority and other parameters like Addl. CEO (Medical), Dy. CEO (Education) etc.
[Not considered]
- Panchayats should be authorized to transfer the functionaries in their areas with the prior approval of their general body.

[Not considered]

- Projects or schemes which involve a matching share or repayment of loan by the Panchayats should be approved by the Panchayats prior to getting loans/advances sanctioned by the State Government.

[Not considered]

- Budget should be prepared in all local bodies as per provisions of the Acts and Rules.

[Not considered]

- The local bodies should be empowered to recruit the requisite manpower without any intervention of State government.

[Not considered]

- Municipalities may be authorized to stop the supply of water and electricity of the defaulters in payment of taxes/duties/fees.

[Not considered]

- 2.5% of the salary budget of the Municipalities should be allocated for capacity building.

[Not considered]

Other Measures

- Need for data bank of Panchayats and Municipalities.

[Not considered]

- Providing computer with accessories to each Gram Panchayat.

[Not considered]

- Compilation of data of PRIs in the forms designed by C&AG in a time bound manner.

[Not considered]

- Separate cells in the Panchayati Raj Department and Local Self Govt. Department should be created where basic data could be stored regularly.

[Not considered]

- Establishment of a State Institute of Urban Affairs.

[Not considered]

- Sector related training on urban governance and development should be mandatory to all functionaries.

[Not considered]

- The immediate introduction of e-governance in all functional areas of Municipalities.

[Not considered]

- The Panchayati Raj Department should categorize the Gram Panchayats into 3-4 categories on the basis of their area, population and revenue basis etc., for staffing and for functional and financial devolution.

[Not considered]

- The population of Jaipur and Jodhpur is more than ten lakh each in the 2011 Census, the State government should frame necessary Act/Rules for declaring these cities as “Metropolitan Area”.

[Not considered]

- A viable Staffing policy needs to be framed by the State Govt. for each category of Municipalities.

[Not considered]

- An independent Service Selection Commission to select officers and subordinate officials of municipal services.

[Not considered]

- Constitution of Corpus Fund.

[Not accepted]

Sikkim Fourth State Finance Commission

Award period: 2015-16 to 2019-20

Constitution: June 2012

Report Submission: May 2013

ATR Submission: February 2015

Composition

A K Chettri	- Chairman
Secretary, Cooperation Department	
C C Wangdi (Smt)	- Member
Special Secretary, RM & DD	
L B Chettri	- Member
Special Secretary, UD & HD	
Binod Sharma	- Member Secretary
Chief Accounts Officer, E & PD	

Terms of Reference

The Commission shall make recommendations as to the following matters, namely:

- I. a) *the principles which should govern:*
 - i. *the distribution between the State and Zila Parishads, 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 this Part IX and Part IX A of the Constitution of India and the allocation between the and Zila Parishads (ZPs), Gram Panchayats (GPs) and Urban Local Bodies (ULBs) 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 Zila Parishads, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats; and*
 - iii. *the grants-in-aid to the Zila Parishads, 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 Zila Parishads, Gram Panchayats, Municipalities, Municipal Councils and Nagar Panchayats.*¹³

¹³ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

II. The Commission shall also:

- i. Examine and make suggestions to the extent to which and the manner in which the resource available to the local bodies could be best utilized for meeting the expenditure of the bodies.
- 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 Bodies and make suitable recommendation for repayment of Government dues and make possibility of adjusting these dues against future devolution of revenues from Government to these bodies, and
- iii. Examine the resources of the Local Bodies for the five years commencing on 1st April 2010, on the basis of the existing and proposed level of taxation and non tax revenues reached at the end of 2008- 2009.

Methodology

Data was collected through various consultations, meetings, questionnaires, formats, secondary information resources and other correspondences. Both qualitative as well as quantitative information were collected from the desired destinations. Besides issuing ToRs as public notice in the regional newspapers the Commission also tried to reach almost 40 eminent personalities and retired public servants in Sikkim to get their views. The Commission also tried to invite suggestions/ comments/views of netizens on the ToRs by advertising the IV SFC Facebook page link through public notices in the local newspapers. Various workshops were also organized at state and district level.

RECOMMENDATIONS

Global Sharing

- Only 2.5% of the divisible pool of taxes for vertical sharing to the local bodies.
*[Accepted. Net tax revenue based on actual.
Excluding cess]*
- The allocation of share of taxes to Panchayats and Municipalities is made on the basic of provisional rural and urban population figure of census 2011 which is in the ratio of 75:25.
[Accepted. In ratio of 80:20 in place of 75:25]

Assignment of Revenue

- Assignment of property tax by Municipalities.
[Not considered]
- Collection of Irrigation tax by Gram Panchayats.
[Accepted. Subject to uniformity in levying taxes and charges.]

- Minimum of Rs 5.00 per tourist to be levied by Municipalities and GMC.
[Not accepted]

Horizontal Distribution

- Within Panchayats, the *inter-se* distribution would be 70:30 between the GPs & ZPs.
[Not considered]
- 10% funds of National Rural Drinking Water Supply Programme (NRDWSP) should be transferred to Panchayats.
[Accepted]

Grants-in-Aid

- Grants would be split into two grants, Primary Grant and Improvement Grant in the ratio of 70:30. Populations would be the criteria for distribution.
[Accepted]
- Condition based improvement grants.
[Accepted]
- Direct transfer of funds to Gram Panchayats.
[Accepted]

Functions and Functionaries

- GPs & ZPs should prepare the plan proposal for activities transferred to them.
[Accepted]
- GPs & ZPs should prepare the budgets for each year as stipulated in Sikkim Panchayat Act.
[Accepted]
- Artificial and field functionaries should be deputed to the GPs under the period of their posting.
[Not considered]
- BDOs should be given responsibility for GPs to satisfy the condition for improvement grants.
[Not considered]
- The District Planning Officer (DPO) shall be the district level nodal officer for all local bodies.
[Accepted]
- Deputation of Under Secretary to each of the major Panchayat.
[Not considered]
- Matters related to other line departments as listed in the XII schedule should be fully deviated to Municipalities.
[Not considered]
- Constitution of Ward committees should in all Municipalities.

- [Not considered]*

▪ Replacement of Nomenclature Block Development Official with Block Admin Officer.
- [Not considered]*

▪ Suitable accounts official be transferred to Nagar Panchayats.
- [Not accepted]*

▪ GPs should be the final issuing authority for trade license at grassroots level.
- [Accepted]*

▪ Training of accounting officials at ZP level.
- [Accepted]*

▪ Line department may involve local bodies in revenue heads function where cost of collection more than actual collection of revenue.
- [Not considered]*

▪ DPCs should be given ownership in deciding the decentralized district development planning priorities.
- [Not considered]*

▪ GPs should have direct administrative control over the officials and functionaries deputed.
- [Accepted]*

▪ Payment of salaries of employees of PHSC through GP by fund transfer from the concerned line department.
- [Not considered]*

▪ Payment of honorarium to ASHA workers through GPs.
- [Not considered]*

▪ Issue of birth and death certificates by GPs.
- [Not accepted]*

▪ Community fodder bank/pasture development through GPs.
- [Not considered]*

▪ Silage preparation at farmer's level.
- [Not considered]*

▪ Implementation of drought relief through GPs.
- [Not considered]*

▪ Functionaries from veterinary dispensaries and stockman centers under direct administrative control of GPs.
- [Not considered]*

▪ Renting of houses for veterinary centers in villages through ZPs.
- [Not considered]*

▪ Bull maintenance through ZPs.
- [Not considered]*

▪ GPs should have responsibilities over administrative/disciplinary matter of primary school teachers.

- [Not considered]*
- Release of grants-in-aid to village level health & sanitation committee (VHSCs) through GPs and utilization of untied fund of NHRM by PHSCs and PHCs through GPs.
- [Not considered]*
- Transfer repair works of minor irrigation channels to the GPs.
- [Not considered]*
- GPs should have the responsibility over the disciplinary matter of the officials like Aganwadi Workers, PH Workers, Village Level Worker, Rural Development Assistant, Gram Rozgar Sahayak, Accredited Social Health Activist, and Primary Teachers.
- [Accepted]*
- DPO is responsible for all the decentralized planning activities/functioning arising from Municipalities.
- [Not considered]*
- GPs should be final issuing authority for trade license at grass root level.
- [Accepted]*
- BDO should be responsible for GPs under their jurisdiction to satisfy the conditionality for availing the improvement grant.
- [Not considered]*
- Sabhapatis of GPs should be the grass root local representatives.
- [Accepted]*
- Funds for GPs should be directly transferred to them.
- [Accepted]*

Other Measures

- An administrative functionary should be appointed as the Secretary of Gram Panchayat.
- [Not considered]*
- Existing activity mapping revision by state government and all function to be devolved fully to local bodies.
- [Not considered]*
- Incorporation of 'Revenue Effect' with a weightage of 15 percentage point in order to motivate local bodies to generate increase tax and non tax revenue.
- [Not considered]*
- Circulation of the hard & soft copies of the reports and ATR to all local bodies and uploaded on web portals.
- [Accepted. PRIA Soft subject to improvement]*

- Rightful ownership to DPCs in deciding decentralised district development planning priorities.
[Accepted]
- District plan should be integrated into state plan.
[Accepted]
- Levy of taxes and changes should be made after passing resolution in the Gram Sabhas.
[Not considered]
- The SFC grants may be transferred in four tranches in a particular financial year. (April, July, October, January).
[Accepted. For the months of May, August, November & February considering the release of resource.]
- Monthly maintenance and updating of financial date of local bodies by SFC.
[Not considered]
- Social audit cum vigilance committee should also perform social for the works/schemes of the entire line department as per the activity mapping.
[Accepted]
- Provision of e-panchayat module facilities to the citizen.
[Not considered]
- Capacity building of Panchayat Account Assistants and similar accounting personnel of ZPs and Municipalities.
[Accepted]
- The 14th CFC may allocate special grants to the districts to undertaking such capacity enhancement and knowledge dissemination initiative across all the Panchayats and Municipalities.
[Not considered]

Tamil Nadu Fourth State Finance Commission

Award Period: 2012-13 to 2016-17

Constitution: December 2009

Report Submission: September 2011

ATR Submission: May 2013

Composition

K Phanindra Reddy	- Chairman
S Ramalingam	- Non-Official Member
Commissioner of Rural Development & Panchayat Raj	- Member
Director of Municipal Administration	- Ex-Officio Member
Director of Town Panchayats	- Ex-Officio Member
Reeta Harish Thakkar (Smt)	- Member Secretary

Terms of Reference

The Commission shall review the financial position of the rural and urban local bodies namely Village Panchayats, Panchayat Union Councils, District Panchayats, Town Panchayats, Municipalities and Municipal Corporations and make recommendations as to:

- a) *The principles which should govern-*
 - i. *The distribution between the State and the said local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and the allocation between the said local bodies 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 said local bodies;*
 - iii. *The grants-in-aid to the said local bodies from the Consolidated Fund of the State.*
- b) *The measures needed to improve the financial position of the local bodies and to suggest possible new avenues for tapping resources in rural and urban local bodies keeping in mind the local body tax structure in other States.¹⁴*

¹⁴ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

In making its recommendations, the Commission shall have regard to the resources of the State Government, the demand thereon, in particular the expenditure of the State on pension and debt servicing, including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the State Government and the need to generate adequate surplus on revenue account for State's commitments on capital account and other commitments of the State Government.

Methodology

The Commission formed an In house Committee to design an elaborative questionnaires to assess the income, expenditure, service level, capital needs etc. The Commission installed its own server system to collect online data. The server was made available to the users i.e., local bodies, 24 hours a day throughout the period of the Commission. The end users were taught to open the server IP, with the username, password provided exclusively for each local body. Training sessions were conducted for all the end users to download, to fill up offline and to upload in the Commission's server by the local bodies themselves.

The questionnaires to the local governments were devised almost like data sheets and constraints made therein to capture only the expected data. Questionnaires were also designed for Mayors of Municipal Corporations, Chairpersons of Municipalities / Town Panchayats and sent to them seeking their views on specific issues related to local bodies. Training sessions were conducted at Regional level for Municipalities and Town Panchayats and District level for rural local bodies on how to fill up the questionnaires correctly.

External agencies were also engaged to study the data collected from local bodies and to furnish an analytical report to the Commission. Another 33 questionnaires were issued to various stakeholders including Secretaries to Government, Heads of Departments and others. The commission also visited to various districts on the states as well as of other states to collect relevant information through face to face interviews and discussions with the concerned people. A questionnaire was sent to all the recognized National and State Political Parties. The views of NGOs on various issues were also obtained and utilized in the report.

RECOMMENDATIONS

Global Sharing

- 10% of the net state's own tax revenue to be devolved to local governments. [Accepted]
- The vertical sharing ratio between Panchayats and Municipalities should be 56:44. [Accepted. The ratio to be 58:42]

- 10% from out of the devolution for Panchayats towards Infrastructure Gap Filling Fund.

[Accepted]

Assignment of Revenue

- Levy of additional House tax/Property tax on the owners of the buildings having cell phone towers as applicable to commercial buildings by Village Panchayat.

[Accepted. License fee instead of property tax]

- The issues in the collection of service charges from Central Government properties be taken up with Government of India.

[Accepted]

- Levy of License fees on mobile service providers by the local governments.

[Accepted]

- The house tax in respect of terraced or tiled or thatched buildings with plinth area not exceeding 200 sq. ft be fixed at Rs 40/- per annum.

[Accepted]

- In respect of houses with plinth area of more than 200 sq. ft, the existing rates be increased by 25% under plinth area based taxation and in respect of assessment on capital value basis, the existing rates be increased by 25% subject to a minimum of Rs.40/- per annum during the next revision.

[Accepted]

- For Self-financing educational institutions, the house tax shall be levied on the basis of the revision suggested for plinth area based assessment.

[Accepted]

- All the self-financing educational institutions other than those covered under charitable purpose be brought under Property Tax net by suitably amending the Act.

[Accepted]

- The recommendation of Third SFC to revise the unit measurement in Square Decimeters into square meters under Schedule-I of the Act is reiterated.

[Accepted]

- Rural Development & Panchayati Raj (RD & PR) Department should address the Government of India to increase the maximum ceiling or to prescribe a minimum ceiling on Profession tax and to let the local governments to decide on the maximum ceiling depending on their capabilities.

[Accepted]

- Adoption of service oriented taxation in respect of self- employed professionals, private employers and private employees, as adopted by other States like Karnataka be adopted.

[Accepted]

- In respect of business, commercial, institutional and industrial establishments, the water charges should be levied with reference to the quantum of supply made by prescribing rate per kilo litre and by installing quality water meters. [Accepted]
- Levy of vacant land tax (VLT) for house sites other than agricultural lands by the Peri Urban Panchayats. [Accepted]
- The ceiling on the rate of water charges fixed by the Government earlier should be modified and that Rs.50/- be fixed as the minimum for domestic connections. The user charges to be revised with effect from 1st October, 2012 and periodically once in 5 years. The deposit amount to be collected while giving water connection be increased from Rs.1000/- to Rs.2000/- for new house hold connections and [Accepted]
- In respect of business, commercial, institutional and industrial establishments, the water charges should be levied with reference to the quantum of supply made by prescribing rate per kilo liter and by installing quality water meters. [Not considered]
- Collection of property tax through banks, post offices and online in all the Municipalities. [Accepted]
- The recommendation of Third SFC to levy surcharge on i) Agreement ii) Power of Attorney, iii) Release of benami right, iv) Release of right in favour of partner and v) Settlement is reiterated. [Accepted]

Horizontal Distribution

- The vertical sharing ratio between the tiers of Panchayats shall be 8:32:60 for District Panchayats, Panchayat Unions and Village Panchayats respectively. [Accepted]
- The vertical sharing ratio between the tiers of Municipalities shall be 40:29:31 for Municipal Corporations, Municipalities and Town Panchayats respectively. [Accepted. The ratio shall be 40:31:29]
- For horizontal sharing of SFC devolution within each tier of Municipalities, the following criteria and weightage would be adopted:

Criteria	Weight
Population	80%
Area	15%
Debt Outstanding	05%

[Accepted]

- Rs.200.00 crore per annum to be allocated by the State Government towards the Integrated Solid Waste Management activities both in Panchayats and Municipalities.

[Not considered]

- The percentage of Infrastructure Gap Filling Fund (IGFF) for each tier of Municipalities should be increased from 3% to 7%.

[Accepted]

- Transfer of the corpus of the Tamil Nadu Rural Road Development Fund RD & PR Department so as to develop and maintain the public roads in rural areas.

[Partially accepted]

- The percentage of Operation and Maintenance Gap Filling Fund (OMGFF) for each tier of Municipalities should be increased from 2% to 3%.

[Accepted]

- From the vertical share of SFC devolution 2.5 percent should be allocated as a separate corpus for incentive fund from SFC devolution. From out of the corpus, the incentive be given to the local governments as given below.

- Local governments which record 100% current collection in house/property tax and 75% arrear collection with increase in the collection at 15% over the previous year will be qualified to get an incentive as graded below:

100% of demand subject to a maximum of

Village Panchayats	Rs.2.00 lakh
Town Panchayats	Rs.10.00 lakh
Municipalities	Rs.20.00 lakh
Municipal Corporations	Rs.50.00 lakh

[Not considered]

Grants-in-Aid

- The minimum lumpsum grant to Village Panchayats to be increased from Rs.3.00 lakh to Rs.5.00 lakh per Panchayat.

[Accepted]

- The minimum lump sum grant for Town Panchayats to be increased from Rs.10.00 lakh to Rs.20.00 lakh.

[Not considered]

- The minimum lumpsum grant of Rs.30.00 lakh to Panchayat Unions to be continued for the award period.

[Accepted]

- A norm of 15% of SFC grant or Rs.30.00 lakh whichever is less be adopted for the administrative expenditure of each District Panchayat.

[Accepted. 15% of the SFC grant or Rs. 20 lakhs, whichever is less]

- The entitlement on the share of Social Forest proceeds to Village Panchayats for the previous year should be released as early in the first quarter of the subsequent year.

[Accepted]

Functions and Functionaries

- Local governments should predict their fund flow each year. [Not considered]
- The District Collectors through Assistant Director (Panchayats) shall arrange to pass on the amount collected from advertisement tax to the Village Panchayats concerned on quarterly basis. [Accepted]
- The Village Panchayats on their part shall arrange to send the details of advertisements exhibited in their areas to the District authorities through monthly reporting for levy and collection of license fees and advertisement tax. [Accepted]
- The quinquennial revision in respect of all Village Panchayats invariably be brought to a common date i.e., 1st April 2013 so as to overcome the situation of Village Panchayats in postponing / not revising the House Tax. The Act and Rules be amended suitably. [Accepted. Would be considered separately]
- The bus stand fees should be revised during the year 2012-13 by 25%. [Accepted]
- 75% of the revenue from seigniorage fee due to a particular Village Panchayat having quarries should be passed on to the respective Village Panchayat and the balance 25% should be pooled by the District Collector concerned and shared with Village Panchayats identified as having to bear the brunt of mining/quarrying activity in the particular Village Panchayat. [Accepted]
- All local governments should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed. [Not considered]
- A separate supplementary document to budget covering all fund transfers to both Panchayats and Municipalities including those transferred from Government of India directly to Panchayats through DRDA, be placed in the State Legislature. [Accepted]

- Revision of the norms for appointment of sanitation staff in Peri Urban Panchayats by CRD & PR so as to facilitate the Peri Urban Panchayats to appoint additional sanitation staff to meet the growing needs on solid waste management activities.
[Accepted]
- Commissioner of Rural Development and Panchayati Raj may also issue guidelines for engaging NGOs or outsourcing solid waste management activities following the best practices already in vogue in some Village Panchayats.
[Not considered]
- The rates of trades should be fixed taking the First SFC rates as the basis.
[Accepted]
- The nomenclature 'D & O Trade License fees' should be revised as 'Trade License fee' as in the case of Chennai Corporation.
[Accepted]
- The Government should approach the Departments of State/Central Governments which can furnish data needed for bringing various categories of untapped assesses of Profession tax.
[Accepted]
- During the next revision due on 01.10.2013, the rate of revision as decided by the Council between 25% and 35% be adopted and the maximum amount of Profession tax be restricted to Rs.1250/- per half year.
[Accepted]
- The Registration Department should periodically collect the information by the Municipalities on change of ownership by registration of sales, transfers etc of properties and VLT levied.
[Accepted]
- The sites for hoardings should be identified by the District Collectors and permission for erection of hoardings given by the executive authorities of Municipalities and the hoarding tax levied by them under the overall monitoring and guidance of the District Collectors and that the hoardings not to be allowed in places other than those identified by the District Collectors.
[Accepted. Permission shall be given by District Collectors and tax levied be collected by Municipalities]
- The District administration should encourage PPP mode of advertisements and hoardings with investments on infrastructure from the private companies/establishments.
[Accepted]
- The hoarding tax proceeds collected by the District Collectors in the past years should be passed on to the concerned Municipalities as per the ratios prescribed during 2003 and 2008.
[Accepted]

- The provisions available under Section 107 (A) of the District Municipalities Act, 1920 and similar provisions available in Municipal Corporation Acts need to be fully used of by Municipalities to raise income from Advertisement including those on lamp posts, telephone posts, posters and walls, writing on walls and buses and vehicles.

[Accepted]
- Effective monitoring and detection mechanism for unauthorized construction be enforced strictly and in case of detection of violation heavy penalty be levied apart from collecting building license fee.

[Accepted]
- In case the levy of E.T prevailed prior to 2006-07 is revived, the sharable components under Section 4 (A) – “Taxes on payments for admission to cinematographic exhibition”, Section 4-(H) – “Taxes on dubbed films”, Section 4-(F) – “Taxes on amusements” and Section 4-(G) – “Tax on recreation parlour” (on its sharing) shall be booked under the receipt major head : 0045 00 101 AA 01 – “Tax paid in cash” and tax under Section 4 (B) – “Tax on horse race” which is not sharable be booked under 0045 00 101 AB 02 – Other Receipts.

[Accepted]
- The tax under Section 4-(G) – “Tax on recreation parlour” be shared with local bodies by amending the Tamil Nadu Entertainment Tax Act, 1939 and Tamil Nadu Financial Code, Volume-I. Solid Waste Management fund be created and Rs.200.00 crore per annum may be contributed to the fund for improving solid waste management in the State.

[Not accepted]
- Issuing of orders regarding the sharing of the proceeds of fishery from Panchayat Union tanks as well as PWD tanks with the Village Panchayats as decided by the Government.

[Accepted]

Other Measures

- Constitution of Ombudsman in respect of placing of annual report of DLFA on local bodies in the Legislature.

[Accepted]
- There is no need to share Pooled Assigned Revenue with District Panchayats since all the civic works are implemented at the Village Panchayat level.

[Accepted]
- To develop a system of independent local body ombudsmen to look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials, and recommend suitable action.

[Not considered]
- Removal of the ceiling on the fixation of property tax.

[Accepted]

- Enforcing self assessment system with the field inspection of self assessed properties by the assessing authority in case of any default in filing return imposition of 100 % property tax on such assesses.

*[Accepted. Imposing 50% fine on assesses
in case of default in filing returns]*

- To develop a system to electronically transfer local body grants provided by the Central Finance Commission to the respective local bodies within five days of their receipt from the Central Government.

[Not considered]

- The State Government must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with Article 243 I (2) of the Constitution.

[Not considered]

- Transfer of assigned revenues to Panchayats as per entitlement.

[Accepted]

- Extension of GIS to bigger Municipalities and other corporations.

[Accepted]

Uttar Pradesh Fourth State Finance Commission

Award Period 2011-12 to 2015-16

Constitution: December 2011

Report Submission: December 2014

ATR Submission: March 2015

Composition

Atul Kumar Gupta - Chairman

B S Bhullar - Member

Vedpal Singh Saroha - Member

Terms of Reference

The Finance Commission shall review the financial position of the Panchayats and Municipalities and make recommendations 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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities 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;*
- iii. the grants-in-aid to Panchayats/Municipalities from the consolidated fund of the State;*

b) the measures needed to improve the financial position of the Panchayats and Municipalities;

c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats and Municipalities.¹⁵

In making its recommendation, the Commission would take into consideration the following:

1. Government will abide by the rules and regulations prescribed in the Uttar Pradesh Financial Responsibility and Budget Management Act 2004 (2^{ed} Amendment).

¹⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution. They are however not the exactly similar to the ToR mentioned in the Report, given the semantic barriers.

2. Auditing of the financial resources of local governments and inducing them in their effort to generate additional sources of raising finance.
3. Auditing of the outstanding loans of local government up to 31 March 2009 and attempting to resolve the issue by controlling the debt liabilities of local governments.
4. Financial devolution to the local governments as per the recommendation during the award period based upon the changes occurring due to the adoption of the indices of the principle (Sankraman Sidhhant) mentioned in the recommendation.
5. Follow up of the temple 10.5 of Thirteenth Finance Commission's recommendations, regarding the State Finance Commissions.

Methodology

The commission constructed various kinds of questionnaires to gather relevant information from various sources. The collected information/responses were analyzed to determine the resource requirement of various rungs of Panchayats and levels of Municipalities. Field visits were also conducted within the state as well as various other states to enrich the information gained. Time to time meetings with various stake holders workshops as well as seminars were also part of exercise.

RECOMMENDATIONS

Global Sharing

- 15% of net own revenue shared with local governments.
[Accepted. Only 12.5% of net tax revenue shall be considered for devolution]

Assignment of Revenue

- No recommendation

Grants-in-Aid

- No recommendation

Horizontal Distribution

- Inter se Distribution at Municipality level should be on the basic of population (90%) and area (10%).
[Not considered]
- The share of the Municipalities is as given below:

Municipal Corporation	42%
Municipalities	23%
Nagar Panchayat	20%

[Accepted. Would instead be in the ratio of 35:40:25]

- Within each Municipality the distribution will be based on the following criteria:

Parameter	Weight (%)
Population	40
Area	5
SC/ST	10
Per capita income	15
Establishment comfort backwardness index	10
Integrated development backwardness index	20

[Not considered]

- The criteria for district wise Panchayat allocation is as mentioned below:

Unit	Revenue
Population	50%
Area	10%
SC/ST population	10%
Integrated development backwardness index	30%

[Not considered]

- Inter se distribution within Panchayats would be in the ratio of 15:10:75 for ZP: BP: GP, respectively.

[Accepted. The ratio shall instead be 40:10:50]

- Within BP & GP the criteria for distribution would be population (80%) and SC/ST population (20%).

[Not considered]

Functions and Functionaries

- The local bodies that reject audience should be punished by restricting any kind of financial assistance.

[Accepted]

- A separate profit centre for each jal-kal department and the municipal corporation should devolve 35% of its revenue in these centers.

[Not accepted]

- Kanpur, Allahabad, Varanasi & Agra jal boards have been amalgamated with the concerned municipal corporation so the works of these boards are entitled to get the benefits of the transform through SFC recommendations.

[Not accepted]

- The SFC website covering the recommendations ATRs and the implementation states should be update regularly.

[Accepted]

- The administrator should not be entitled to take any action against the public representative without consulting with the lokpal.
[Not considered]
- The system to dismiss the mayor directly by the municipal councilor by issuing no confidence motion should be abolished.
[Not considered]
- If the administration is unable to appoint any full time gazette officer with 6 month then mayor should be empowered to appoint an officer on his responsibility for a period duration.
[Not considered]
- Gazetted officer should be either MBA or Master in Urban Studies.
[Not considered]
- Arrangement of skilled technical staff.
[Not considered]
- The sanctioned post that do not come under central service nor determined by the administration should be handled by the self governing institutions despite the fact that these institutions are capable enough to bear the financial burden of their employees.
[Not considered]

Other Measures

- Constitution of audit institution at state level.
[Not accepted]
- Audit fee payment should be done away.
[Not accepted]
- Minimum interferences of State in the Local Bodies' matters.
[Not accepted]
- The works that can be performed better by outsourcing as through public private partnership should be conducted that way.
[Not considered]
- Display of financial and administrative data on website and provision of departmental website.
[Accepted]
- Provision of online data entry and information circulation.
[Accepted]
- Provision of e-Governance at local level institutions.
[Accepted]
- Provision of IT professions in local bodies.
[Accepted]

Andhra Pradesh Third State Finance Commission

Award Period: 2005-06 to 2009-10

Constitution: December 2004*

Report Submission: January 2009

ATR Submission: January 2014

*The Commission was reconstituted with entirely new team on 29.12.2004.

The Third Commission was initially constituted on 16.1.2003 but the report could not be submitted on time due to the non-receipt of statistical data from local bodies and the concerned departments.

Composition

B Satyanarayan (Prof) Emeritus Professor of Economics Osmania University, Hyderabad	- Chairman
C N V Subba Reddy Retired Director, Telugu Academy Ex- Registrar, Dr B R Ambedkar Open University, Hyderabad	- Member
Yatam Anand Rao Anandapet, Perala, Chirala, Prakasam District (A P)	- Member
Tankala Babji Managing Trustee & Program Director S & V Charitable Trust, I G Smaraka Bhavan Narasannapeta, Srikakulam District	- Member
C Venkata Reddy (Prof) Retired Professor of Economics Director, S R K & P G College, Kurnool District (A P)	- Member Secretary (upto 3.10.2005)
N Gangaiah (Dr) Regional Joint Director (Retd.) School Education Department, Kurnool District (A P)	- Member Secretary (from 6.1.2006)

Terms of Reference

The Commission shall make recommendations as to the following:

- 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 under this Part and the allocation between the Panchayats/Municipalities at all levels of their respective share of such proceeds;*
- ii. *the determination of the taxes, duties,, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
- iii. *the grants-in-aid to the Panchayats/Municipalities from the consolidated fund of the state;*
- d) *the measures needed to improve the financial position of the Panchayats/Municipalities.*¹⁶

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

- i. *The resources of the State Government and the demands thereon, in particular on account of expenditure on administration debt servicing and other committed expenditure or liabilities;*
- ii. *The revenue resources of the bodies, for the five years commencing on 1st April, 2005 on the basis of the levels of taxation possible to be reached in 2003-2004, targets for additional resources mobilization and the potential for raising additional taxes;*
- iii. *The requirements of the Panchayat Raj Institutions and Municipal Bodies for meeting the non-plan revenue expenditure on staff and administration etc., also keeping in view the potential for raising their resources;*
- iv. *The requirements of the bodies for capital expenditure for creating assets like Water Supply Schemes, Roads, Bridges, Buildings, Minor Irrigation source;*
- v. *The maintenance and upkeep of capital assets like buildings, roads, water supply schemes, minor irrigation sources by the Panchayat Raj Institutions, Municipal Bodies, Municipal Corporation and the norms, on the basis on which specified amounts are recommended for the maintenance of assets;*
- vi. *The requirements of the Panchayat Raj Institutions and Municipal Bodies in the upgradation of standards in non-developmental sectors and services particularly in respect of Institutions which are backward;*
- vii. *The provisions required for emoluments and the terminal benefits of employees including teachers and other employees;*
- viii. *The scope for computerization of accounts; and*
- ix. *The incentives which may be provided for better realization of taxes and non- taxes.*

The Commission shall also indicate the manner in which the receipts and expenditure of the Panchayat Raj and Municipal Bodies can be monitored for better financial management.

¹⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

The Commission may also make recommendations about the financial devolutions to the Panchayat Raj Institutions and Municipal Bodies for the functions devolved on them under Articles 243 G and 243 W of the Constitution of India.

The Commission shall indicate the basis on which it has arrived at its findings.

In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 2001 in all cases where population is regarded as a factor for determinations of devolution of taxes and duties and grants-in-aid.

Methodology

A questionnaire was issued in Telugu to the GPs in State to furnish information about their income, expenditure and to indicate their views on collection of taxes, resource mobilization etc. Information on receipts & expenditure has been called upon from the executive authorities of the local bodies in a prescribed proformae for the period from 2000-01 to 2003-04 (actual) and 2004-05 to 2009-10 (anticipated) regarding taxes and non-taxes. The senior officials have also been addressed by the Commission to furnish their views and a Memorandum of Requirements. To have the first hand information on various financial and functional aspects of the local bodies, the Commission conducted visits to 10 districts and meetings were carried out with the District Collectors, and senior officials of ZPs , and officials of other departments. Meetings were conducted with the Mayors, Commissioners, Chairpersons, Vice-Chairpersons of different Municipalities in order to have their views with respect to Municipalities. Regional conferences were also organized by the Commission at Tirupati, Guntur and, Warangal.

RECOMMENDATIONS

Global Sharing

- 6.7 % of the total tax and non-tax revenue of the state Government including the share of Central Taxes for the year 2004-05 would be devolved to the Panchayats and Municipalities, the share would be as 72.25 % to the Panchayats and 27.25% to the Municipalities.

[Not Considered]

Assignment of Revenues

- Necessary instructions may be issued to levy maximum house-tax, as per the rules, to enhance revenue under this item.

[Accepted]

- Necessary instructions may be issued to GPs to levy and collect taxes on advertisements, drainage, and lighting to augment their resources.
[Accepted]
- GPs may levy vehicle tax on all vehicles kept/used in the village (except motor vehicles – being taxed by transport authorities).
[Accepted]
- GPs to levy non-taxes on the income of fruit bearing trees and other products, cart stands, and other remunerative enterprises.
[Accepted]
- GPs to levy Special Tax on houses at the rates indicated in the Rules.
[Accepted]
- The exemptions granted to the educational institutions from payment of House Tax may be withdrawn and permit the Municipalities and Panchayats to levy House Tax on all such educational institutions.
[Accepted]

Horizontal Distribution

- An amount of Rs. 42.08 crores per annum may be released from excise income to Panchayats and Rs. 11.92 crores per annum to Municipalities.
[In case of Municipalities not Accepted, for Panchayats no reference]
- 10% of the income realized towards motor vehicle tax should be released to the Municipalities on an immediate basis.
[Not Accepted]
- 5% of the income of Market Committees should go to the LBs on the basis of the population, instead of levying 5% extra surcharge.
[To be examined in consultation with Market Committee]

Grants-in-Aid

- The per capita grant of GPs may be enhanced from Rs. 4/- to Rs. 8/-, MPs from Rs. 8/- to Rs. 16/- and ZPs from Rs. 4/- to Rs. 8/- from 2005-06 onwards.
[Accepted]
- The Government should provide a special grant of Rs. 18 crores per annum for five years for the construction of GP office buildings.
[Treated as fulfilled]
- An amount of Rs.42.08 crores per annum may be released from excise income to Panchayat Raj Institutions at least now.
[Not Accepted]
- A special grant of Rs. 30.64 crores per annum at the rate of Rs. 1 lakh to each of 3,064 GPs having population upto 1000, for providing basic civic amenities.
[Treated as fulfilled]

- The per capita grant of the Municipalities and Municipal Corporations may be enhanced from Rs. 8/- to Rs. 12/- from year 2005-06.
[Not Accepted]
- An amount of Rs.11.92 crores per annum may be released from excise income to Municipalities.
[Not Accepted]
- Rs. 20 crores per annum may be released to the Municipalities towards Pension grants.
[No Relevance]
- An amount of Rs. 200 crores may be provided towards requirements for core amenities and released to GPs.
[Treated as fulfilled]
- An amount of Rs.220 crores may be provided annually to the Panchayats for the Rural Water Supply Schemes.
[Not Accepted]
- An amount of Rs.215 crores per annum may be released to the Panchayats for Rural Sanitation.
[Not Accepted]
- An amount of Rs.153 crores may be provided for the construction of Rural Roads and released to Panchayats.
[Treated as fulfilled]
- An amount of Rs.1.42 crores may be provided for providing drinking water facilities in the schools to the Panchayats.
[Treated as fulfilled]
- An amount of Rs.18 crores per annum may be sanctioned for maintenance of Mandal Office Buildings.
[Accepted]
- An amount of Rs. 6.08 crores to be released per annum to the Municipalities for maintenance of Municipal Buildings and Rs. 200 crores per annum may be provided for civic amenities.
[Not Accepted]
- Provision of Rs. 123.12 crores in the budget towards payments of arrears.
[Accepted]
- Release of Rs. 17.50 Crores towards increase of half yearly D.A. and revision of pay scale of Municipal Staff.
[No Relevance]

Functions and Functionaries

- The Government may expedite the orders permitting the Panchayat Raj Institutions to advertise the construction of complexes and construct them by taking advance money from the lessee.
[Accepted]
- Actions may be taken to re-issue the Rules for the levy of Kolagaram or Katarusum Tax on village produce sold in village.
[Not Accepted]
- An officer to be appointed three months before the constitution of fourth SFC to make all administrative arrangements for the functioning of the Commission.
[Accepted]
- Regional Transport Authorities adjust Motor Vehicle Tax Compensation directly to the Municipal Bodies.
[Not Accepted]
- The Municipalities should have the permission to advertise the construction of commercial complexes and construct them by taking advance money from the lessee.
[Accepted]
- Necessary training contents under Social Forestry (Forest Department) to be included in the training modules of the Panchayat Secretaries.
[Accepted]

Other Measures

- A separate cell in PR & RD Department should be set up exclusively for the work of the SFCs.
[Accepted]
- Necessary instruction may be issued to levy maximum house-tax, as per the rules, to enhance the revenue under this item.
[Accepted]
- Orders may be issued to the Regional Transport Authorities to adjust Motor Vehicle Tax Compensation direct to the Municipal Bodies.
[Not Accepted]
- Rs. 92 lakhs per annum recommended by second SFC and accepted by Government may be released to 15 Municipalities in Andhra area for medicines and for the salaries of Medical Officers and staff members.
[No Relevance]
- Pre-audit system may be introduced in the 748 GPs initially, whose income is above Rs. 10 lakhs per annum.

[Panchayat Secretaries may be trained to discharge the pre-audit]

- Clear and specific orders may be issued vesting all poramboke lands in Gram Panchayats.
[Accepted]
- A comprehensive drainage network may be taken up in 20 or 25 select Municipalities by entrusting the work to an expert committee.
[Not Accepted]
- Instructions may be issued on the procedure for the adjustment of the cable tax to the Municipalities and Panchayats.
[Accepted]
- A separate Budget Head may be opened for the 13 Municipal Corporations to provide amounts towards payment of the Property Tax and Water Charges annually on Government Buildings.
[Accepted]

Assam Third State Finance CommissionAward Period: 2006-07 to 2010-11

Constitution: July 2006*

Report Submission: March 2008

ATR Submission: September 2009

*Due to certain procedural inadequacies of the original notification dated 06.02.2006; the Commission had to be reconstituted with a fresh notification dated 03.07.2006.

Composition

H N Das*, IAS (Retd.) Ex-Chief Secretary, Govt. of Assam	- Chairman
S L Mewara^, IAS Commissioner & Secretary, P & RD	- Member
Biren Dutta, IAS Commissioner & Secretary, UDD	- Member
Ashish Bhutani (Dr) Secretary, GDD	- Member
K V Eapen, IAS Commissioner & Secretary, Finance	- Member- Secretary
G D Tripathi*, IAS Joint Secretary, Finance	- Secretary (25 July 2006)
Davinder Kumar^, IAS Commissioner & Secretary, P & RD	- Member (16 March 2007)

Terms of Reference

- The measures needed to improve the financial position of the Panchayats/Municipalities *with special emphasis on rationalization of property tax, collection of user charges and innovative realization methods.*
- *Examine the feasibility & make recommendations on raising of resources by the ULBs through issuance of bonds.*
- *Examine the feasibility & make recommendations on creation of urban infrastructure and other civic amenities by the urban local bodies through public-private partnership and exploring avenues of viability gap funding.*

- *The Commission may make an assessment of (a) the actual debt position of each of the local bodies as on 31-03-2005 and (b) estimated debt position of local bodies as on 31-03-2006 and suggest suitable measures relating to the debts as are deemed necessary, keeping in view the financial requirements of the State government also.*
- *In making its recommendations, the Commission shall have regard, among other considerations to:*
 - i. *The objective of balancing the receipts and expenditure on revenue account of both local bodies as a whole and the State government and each local body.*
 - ii. *The resources of the State government and demands thereon in particular, on account of expenditure on maintenance of law & order, civil administration, debt servicing and other committed expenditure.*
 - iii. *The revenue and the resources of the local bodies for the five years commencing on 1st April 2006 on the basis of the level of the collection made during 2004-05 from taxes, duties, tolls, fees, cess etc levied by them.*
 - iv. *The potential for raising additional revenue from the existing sources available to them, and;*
 - v. *The scope for better financial management consistent with efficiency and economy in expenditure.*
- *In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of the latest Census available in all cases where population is regarded as a factor for determination of devolution taxes and duties and grants-in-aid.*
- *The Commission shall indicate the basis on which it has arrived at its findings and make available the local body wise estimates of receipts and expenditure.*

Methodology

An attempt was made to collect local body wise data on income, expenditure, area, population etc from the concerned departments. The Commission relied mostly on the questionnaire method. A set of questionnaire covering all important aspects of local bodies were formulated and circulated to all concerned. The questionnaire method of data collection was supplemented by regular interaction with the elected representatives and official functionaries of Panchayats and Municipalities and frequent field visits by the Chairman and other officials. Workshops were conducted at different district Headquarters. Few Task Forces were constituted to assess and apprise the Commission about important infrastructural gaps in local administration. Consultations were carried out through meetings, discussions, correspondence, memorandums and representations. In determining the quantum of funds, (a) actual population and; (b) density of population, both according to census figures of 2001, shall be the only two parameters.

Global Sharing

- 25% of the non-loan gross own tax revenue receipt, minus collection expenditure of Government of Assam, should form the divisible pool out of which allocations should be made to Panchayats and Municipalities during the financial years 2008-11.

[Accepted]

- Out of the total amount in divisible pool, 80% will be divided in proportion to actual urban and rural population and 20% would be divided in proportion to the population density of urban and rural areas.

[Accepted]

Assignment of Revenues

- At least 50% of the cost of each service should be recovered by user charges (including minor irrigation and drinking water) on the facilities offered by local bodies.

[Accepted]

- A growth rate of 5% over the budget estimate of non tax revenue for 2007-08 is recommended for the three financial years 2008-11.

[Not Considered]

- An annual growth rate of 11% over the actual devolution of tax from GOI.

[Not Considered]

Horizontal Distribution

- The horizontal distribution for the Panchayats between different districts shall be made on the basis of the weighted average of the following three parameters:

Population	50%
Geographical Area	25%
Per Capita District Domestic Product net of mining & quarrying	25%

[Accepted]

- The vertical distribution between the three tiers of Panchayats, i.e, ZPs, APs and GPs will be in ratio of 20:30:50, respectively.

[Accepted]

- In case of Municipalities the horizontal distribution among GMC and other municipalities shall be done on the basis of weighted composite index of following:

Population	50%
Area	25%
Index of Infrastructure	12.50%
Per Capita Tax Collection	12.50%

[Accepted]

Grants in Aid

- Grant-in-aid of Rs. 46.38 crores to respective ZPs from the state government for the purpose of clearing the arrear dues of Panchayat Secretaries.

[Accepted]
- Rs. 204.58 lakhs as grants-in-aid for capacity building of GMC and other Municipalities for three financial years 2008-11 at the rate of Rs. 66.98 lakhs for 2008-09, Rs. 66.97 lakhs for 2009-10 and Rs. 70.63 lakhs for 2010-11.

[Not Considered]
- Rs. 9.21 crores to be given as grants-in-aid for the three financial years 2008-11 for the purpose of training and capacity building in Panchayats.

[Accepted]
- A total of Rs. 100 crores may be provided as grants-in-aid to ZPs, as nodal agencies, for distribution to APs for construction of multipurpose halls.

[Accepted]
- A grant-in-aid of Rs. 12.60 crores to GMC and other Municipalities for construction of cremation and burial grounds.

[Accepted]
- Grants-in-aid at the rate of Rs. 1.86 crores per year for the three financial year 2008-11 should be provided to 72 Municipalities including GMC for the construction of public convenience.

[Accepted]
- An amount of Rs. 98.80 crores per year should be given as grants-in-aid to the ZPs for repair and maintenance of roads and buildings within their respective jurisdiction during each of the three financial years 2008-11.

[Accepted]
- A hike of 5% to non-plan grants from GOI for each of the three financial years 2008-11 over the actual for 2006-07.

[Not Considered]

Functions and Functionaries

- State government to communicate various plan schemes and programs to Municipalities under which they can draw funds for improvement in different localities.
[Accepted]
- Revision of valuation of holdings should be regularized and the valuation procedure should be changed from Annual Rated Value to Unit Area Method. Enlargement of tax base should also be taken up.
[Accepted]
- Registration of births and deaths should be done by the local bodies. They should issue the relevant certificates and realize the fees.
[Accepted]
- Decisions to spend money on felt needs should be taken by the local bodies in formal meetings when majority of members are present.
[Accepted]

Other Measures

- Local bodies not to spend devolution money or funds from other specific allocations for the purpose of payment of honorariums, allowances or any other payments to the members or elected representatives.
[Accepted]
- The Panchayats may defray for office expenditure and other non-plan establishment expenditure out of their devolution and other revenues.
[Accepted]
- Since the local bodies are autonomous under the Constitution, their allotted functions must be performed by their own staff and not by any 'provincialized' staff. Hence the system of 'provincialization' should be completely abolished.
[Not Accepted]
- A quick management study to be initiated to determine the different category of staff required for GMC and other Municipalities.
[Accepted]
- A separate wing for auditing the accounts of local bodies.
[Accepted]
- GPs should be reconstituted by merger and reorganization and their population should not be less than 6000.
[Accepted]
- A Director General of Training should be appointed to supervise the activities of the Assam Administrative Staff College, the State Institute of Rural Development and the AIILSG Branch with the three Directors of the three Institutions assisting him.
[Accepted]

Haryana Third State Finance Commission

Award Period: 2006-07 to 2010-11

Constitution: May 2007*

Report Submission: December 2008

ATR Submission: September 2010

*The Governor of Haryana constituted the 3rd SFC of Haryana in four stages dated 22 December 2005, 16 January 2006, 4 December 2006 and 28 May 2007.

Composition

A N Mathur, IAS (Retd.)	- Chairman
Som Dutt	- Member
Rajinder Singh Ballah	- Member
Pritam Singh Balhara	- Member
Prem Prakash*	- Member
Hardeep Kumar, IAS	- Member Secretary
Mohan Singh Malik*	- Member (5 September 2008)

Terms of Reference

The Commission shall make recommendations as to the:

- a) *the principles which should govern:*
 - i. *the distribution between the State and Municipalities/ 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 IX of the Constitution of India and the allocation between the Municipalities/ Zila Parishad, 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 Municipalities/ Gram Panchayats, Panchayat Samitis and Zila Parishads;*
 - iii. *the Grants-in-aid to the Municipalities/ Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State;*
- b) *the measures needed to improve the financial position of the Municipalities/ Gram Panchayats, Panchayat Samitis and Zila Parishads;*¹⁷

¹⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

In making its recommendations, the Commission shall 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 Panchayats and the Municipalities, their potential for raising resources and for reducing expenditure.

Methodology

Comprehensive formats were designed for seeking primary and secondary data from the departments of Panchayats and Municipalities also involving district administration and all tiers of local bodies. A comprehensive questionnaire was designed and circulated to the state ministers, MPs, MLAs, elected representatives of Panchayats and Municipalities, universities, colleges, district bar associations, reputed institutions dealing with rural and urban development, eminent experts and professionals and stakeholders to solicit their views and suggestions on functional, financial and institutional empowerment of local bodies. An analytical study on state finances was sponsored and a Study Group was also constituted to make suggestion on the empowerment of Municipalities. Group discussions and open house seminars were also organized on finances of Panchayats, fiscal decentralization to Panchayats, and the role of SFC. Rounds of meeting and interactions were carried out with various experts, officials and representatives of local bodies. Latest Acts governing the local bodies were studied and varied information and data published in various state documents were used.

RECOMMENDATIONS

Global Sharing

- 4% of State Own Tax Revenue to be devolved to Local Bodies (LBs).
- Own tax revenue has been adopted as the most acceptable component of divisible pool in the scheme of revenue sharing.
- The share of local bodies in the divisible pool should be at 4% of the net own tax revenue.
- The local body share should be divided between the Panchayats and Municipalities in the ratio of 65:35.
- The unreleased funds belong to local bodies and should be transferred to the Panchayats and Municipalities as per their respective shares in a phased manner.

- Profession tax should be levied and collected by the Excise and Taxation Department and shared with the LBs.

Assignment of Revenues

- Local Area Development Tax (LADT) is already being shared with Panchayats and Municipalities.
- 3% of Stamp Duty to be given to Panchayats.
- Tax on consumption of electricity at the rate of 5p per unit to be levied to the Panchayats.
- If LADT is restored by Supreme Court, its proceeds should continue to be shared with the local bodies.
- If LADT is not restored, Entry Tax be levied and the net proceeds be distributed among Panchayats and Municipalities on 50: 50 basis.
- Share of municipalities in stamp duty should be increased to 3% from existing 2% and 3% of the net proceeds of stamp duties coming from rural areas should be the share of Panchayats.
- Tax @ of 5 paise per unit on electricity consumption to be levied in Panchayat areas and transferred to Panchayats.
- Vacant Land Tax could be levied by Municipalities @ 1.0 to 1.5% of the capital value.

Horizontal Distribution

- Respective share of Panchayats and Municipalities in the total share of 65:35.
- Criteria of distribution of respective shares of Panchayats and Municipalities amongst the districts shall be as follows:

Composite Index

Constituents	Weight
Population(rural/urban)	40%
BPL Population (rural/urban)	25%
Area	25%
Literacy Gap (rural/urban)	10%
Total	100%

- Share of Panchayats to be distributed among Gram Panchayats, Panchayat Samitis and Zilla Parishads in the ratio of 75: 15: 10.
- The share of Panchayats should be allocated between GPs, PSs and ZPs in the ratio of 75:15:10.
- The *inter se* shares of GPs and PSs within the district should be divided on the basis of natural criterion of population and area with 80% and 20% weight assigned, respectively.
- The *inter se* shares of municipalities at the district level should be worked out by the state government and be passed on to the local bodies as untied funds in regular manner, based on their respective proportion of population and area assigning weightage of 80% and 20% respectively.

Grants-in-Aid

- The bulk of resource transfers to local bodies should be done through tax sharing and the role of grants-in-aid should be supplementary only.

Functions and Functionaries

- Local Bodies should have full freedom to levy taxes and fees on advertisements, hoardings, cable operators, micro towers, public schools, coaching centres, technical and commercial institutions and other establishment like shops, restaurants, hotels, etc located in their jurisdiction.
- GPs should impose token tax on hawkers and other traders who sell their goods in the villages.
- Local Bodies should have full freedom to levy taxes and fees within limits prescribed by law subject to floor or ceiling rates fixed by the State government.
- Exemptions from property tax should be reduced and the property tax should also be levied on non-domestic properties and vacant lands.
- There should be an Assets Management System for municipal assets.
- The collection of taxes could be outsourced to private agencies on 5-10% commission basis.
- The power to levy tax on services must be given to Panchayats as it is an elastic source of revenue.

Other Measures

- The State Government should put in place some other viable alternative source of revenues to compensate the Panchayats for the loss due to abolition of house tax.
- The Government should review its policy of distributing village common lands to individuals, as this affects access of the poor to these common resources and reduces support areas needed by rural communities.
- Effects should be made for commercial exploitation of Shamlat lands by setting up commercial complexes, rural industries and industrial sheds etc.

- Maximum possible area should be Panchayat for plantation, afforestation, fishing activities, horticulture, floriculture etc.. For augmenting income of Panchayats.
- An Incentive Fund should be created at the district level each for Panchayats and Municipalities. 10% of annual entitlement of Panchayats & Municipalities should be retained in the Incentive Fund.
- 50% of the annual accruals in the Incentive Fund to be allocated to LBs showing better revenue performance to be measured in terms of at least 10% higher growth in their own tax and non-tax revenue over the proceeding year.
- The remaining 50% balance in the Incentive Fund should be allocated to LBs which show higher performance over the standard norms to be fixed by the State government.
- The State government should put in place some other viable alternative source of revenues to compensate the Panchayats for the loss due to abolition of house tax.
- The State government should double the rate of house tax on other buildings so as to compensate the LBs of their loss on account of abolition of the tax on residential buildings.
- User Charges should continue to be updated periodically so as to boost revenues.
- In order to improve the financial position of Municipalities and the quality of services the State should target full cost of pricing of services.
- Training of officials and non-officials of local bodies should be entrusted to HIPA & HIRD.
- Creation of Statistical Cells in the departments of Panchayats and Municipalities to overcome the problem of statistical data.
- Public private partnership should conserve municipal resources and bring latest technologies and managerial expertise for monitoring.
- Planning and implementation of infrastructure projects should be carried out through consultation process involving various stake holders.

Himachal Pradesh Third State Finance Commission

Award Period: 2007-08 to 2011-12

Constitution: May 2005

Report Submission: November 2007

ATR Submission: June 2008

Composition

Kuldeep Singh Pathania, MLA	- Chairman
Upma Chawdhry, (Ms) IAS Secretary, RD & PR	- Member
D K Sharma, Secretary, Planning	- Member Secretary

Terms of Reference

The Commission shall make recommendations to the Government as to:

- 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 under this Part and the allocation between the Panchayats/Municipalities at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - 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.*¹⁸

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

¹⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

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 representatives & employees of PRIs/Municipalities & suggest improvements in these schemes in order to promote the exercise of fiscal autonomy & responsibility by the PRIs/Municipalities.

The Commission should suggest appropriate ways to take forward the process of devolution of functions, funds & functionaries to the PRIs/Municipalities keeping in view the existing delivery system & the financial capacity of the State Government. It may make specific suggestions with regard to:

- i.* Support for pilots to hand over responsibility for delivery of primary education, primary health, water & sanitation & rural roads to appropriate levels of PRIs/ Municipalities;
- ii.* Changes in legislation & procedures necessary to enhance the tax & non-tax capacity of the PRIs/Municipalities consistent with accepted principles of taxation at the local level;
- iii.* Strengthening of administrative capacity of PRIs/Municipalities by placing under their control relevant categories of employees either by way of recruitment at the level of relevant tiers of the PRIs/Municipalities or by seconding of existing State Government staff to them.

The Commission shall devise its own procedure & may appoint such advisors, institutional consultants as it may consider necessary. It may call for such information & take such evidence as it may consider necessary.

Methodology

Throughout the report, emphasis has been laid on the need for equity, efficiency, and owning of the responsibility at all levels. An inventory of physical assets has been prepared & updated before estimating the requirement of funds for maintenance of assets at local level. Mailed questionnaires were used for collection of basic information and proformae were also circulated time to time to the Municipalities to gather requisite data. Information collected for the assessment of expenditure & receipts of Municipalities has been based on the 2001 population census, area, statutory functions, delegated functions, existing establishment expenditure, details of assets to be maintained and, other committed expenditure of Municipalities.

Commission's recommendations are based on the following conditions:

- a. Financial review of the Municipalities for last six-seven years.
- b. Recommendations for the 1st & 2nd SFC.
- c. Recommendations of 11th & 12th FC.
- d. State's financial position.
- e. Existing system of data collection & its maintenance.

- f. Revenue resources & its projections for next 5 years.

RECOMMENDATIONS

Global Sharing

- The total proceeds of cess on liquor to be pooled together and allocated to the GPs and Municipalities in proportion of the population according to 2001 census.
- Devolution of amount equivalent to 2.75% of the aggregate State's own tax and non-tax revenues between Panchayats and Municipalities.

Assignment of Revenues

- Collection of the cess on liquor at the rate of Rs. 2 per bottle should be transferred to the local bodies.
- 50% of collection of water charges and collection of Abiana charges for irrigation to be collected by GPs. 50% of the charges collected on drinking water supply for private domestic connection be entrusted to GPs.
- GPs to collect Abiana charges and retain 50% of such collection at local level.

Horizontal Distribution

- The Panchayats should be entitled to the proceeds of stamp duty just as the Municipalities are under the section 65 of HP Municipal Act, 1994. For this, the HP Panchayati Raj Act may be amended to make the provisions on the lines similar to the Municipal Act.

Grants-in-Aid

- Grant of Rs. 2463.52 lakhs to meet the obligations of committed expenditure and infrastructural support grants amounting to Rs. 201.70 lakhs for augmentation of accommodation of Panchayat ghars and office infrastructure.
- For the year 2007-08, gap filling grant of Rs. 1759.39 lakh to the Panchayats to meet committed expenditures and infrastructural support grant of Rs. 201.70 lakh for Panchayat ghars and office infrastructures.
- For the year 2007-08, a developmental grant of Rs. 3052.05 lakh to be devolved to Municipalities.
- Supplementary grant of Rs. 704.13 lakh in current fiscal year to meet committed expenditure.
- Rs. 3052.05 lakhs be devolved as developmental grants for Municipalities.
- A provision of Rs. 910 lakh be made through the supplementary demands for grants.
- Deficit of Panchayats and Municipalities, as assessed by SFC to be met by way of Developmental Grants (grants in lieu of Octroi) and Gap Filling Grants.

Functions and Functionaries

- GPs should be made responsible for preventive maintenance and upkeep of the water supply schemes.
- Activities related to primary education, mid-day meal programme, rural health functions and infrastructure upto the level of health sub-centre, ICDS programme upto the level of Anganwaris and animal husbandry programme upto the level of veterinary dispensaries and artificial insemination centres to be taken up by Panchayats.

Other Measures

- The recommended resource transfers to the local government institutions may not be passed on as grants-in-aid.
- State government to fix the resource transfers to the local government institutions as a percentage of the state own tax and non-tax revenues.
- The marriage registration fee and the fee for birth and death be fixed at Rs. 200 and Rs. 100 respectively with a provision for concessional registration for the IRDP families at the rate of Rs. 25 in both the cases.

Karnataka Third State Finance Commission

Award Period: 2011-12 to 2015-16

Constitution: August 2006

Report Submission: December 2008

ATR Submission: October 2009

Composition

A G Kodgi	-Chairman
Mahendra S Kanthi (Dr)	-Member
T Thimmegowda	-Member

Terms of Reference

The Commission shall make recommendations as to the following:

- 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 under this Part and the allocation between the Panchayats/Municipalities at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties,, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - 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/Municipalities;*¹⁹

The Commission shall also:

- i. Examine and make suggestions on the extent to which and the manner in which the resources available to the local bodies could be best utilized for meeting the expenditure of these bodies and;
- ii. Make a detailed analysis of the repayment of loans and advances extended by government from time to time to the local bodies and make suitable recommendations for repayment of Government dues and the possibility of adjusting these dues against future devolution revenues from government to these bodies.

In making the recommendations the commission shall have regard to among other things to the resources of the State government and the demands thereon on account of

¹⁹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

expenditure of civil administration, debt servicing, development and other committed expenditure.

Methodology

District level interactive meetings were held in all districts except Haveri. Consultations were carried out with experts, academicians, former chairpersons of SFCs. State visit was conducted to Kerala, New Delhi & views were exchanged with delegates and heads & faculty members of academic institutes. Various reports, papers and documents were studied for gaining inputs for the formulation of recommendations.

RECOMMENDATIONS

Global Sharing

- 33% of Net Own Revenue Receipts of state should be distributed to Panchayats and Municipalities. (Para: 28.16)
- Relative shares of Panchayats and Municipalities shall be in the ratio of 70:30 out of 33% of Net Own Revenue Receipts of the State. (23% of Net Own Revenue Receipts of the state is the share of Panchayats and 10% of Net Own Revenue Receipts of the state is the share of Municipalities). (Para: 28.38)
- The divisible pool consists of the net proceeds of the taxes, tolls, duties and fees levied and collected by the State government.
- The indicators selected by the Commission which would determine the percentage of relative share between the LBs are:

Sl. No.	Indicator	Weightage
1	Population	40%
2	Geographical Area	20%
3	SCs & STs Population	10%
4	Illiterates	10%
5	Population per Hospital Bed	10%
6	Density of Population	10%

- The following method has been adopted for calculating the indices to determine relative shares of the LBs:

$$\text{Share of Panchayats} = \frac{\sum_{i=1}^6 p_{ri} \times w_{i-6}}{100}$$

$$\text{Share of Municipalities} = \frac{\sum_{i=1}^6 p_{mi} \times w_{i-6}}{100}$$

Where,

pri = proportion of rural indicator

pui = proportion of urban indicator

w = weightage assigned to 1th indicator

Assignment of Revenues

- Continuance of present system of assignment and appropriation of taxes, duties, fees and tolls to Panchayats and Municipalities has been recommended.

Horizontal Distribution

- 5% of fund is earmarked to encourage rural sports, youth development and folk arts.
- Out of the Plan Grants, 25% may be reserved for “Special Needs”.
- For equitable distribution of resources, different indicators have been adopted to determine the relative of each ZP, TP and GP. These indicators are:

Sl. No.	Indicator	Weightage
1	Rural Population	40%
2	Geographical Area	40%
3	SCs & STs Population	10%
4	Illiterates	10%

- The variable and weights used for upfront earmarking of funds to each of the Municipalities, is as below:

Sl. No.	Indicator	Weightage
1	Population	40%
2	Geographical Area	20%
3	SCs & STs Population	20%
4	Illiterates	20%

Upfront earmarking should not exceed 60% of the total devolution to the Municipalities.

Grants-in-Aid

- Maximum of Rs. 10,000 grant be provided to organize programmes at village level covering sanitation, health checkup, cultural and folk sports.
- Maximum of Rs. 1 lakh grant be given for construction of youth association buildings.

- Maximum of Rs. 2 lakh grant be given for conducting folk arts training programmes.
- Minimum of Rs. 1 crores be provided in ZP budget to take up youth development programmes at village, hobli, taluk and district levels.
- Distribution of statutory development grants to the above three categories of GPs in the following manner:
 - Category I : Rs. 9 lakh per GP per year (Population below 4000 [14%])
 - Category II : Rs. 12 lakh per GP per year (Population 4001 to 8000 [71%])
 - Category III : Rs. 15 lakh per GP per year (Population above 8000 [15%])
- Distribution of an additional amount over and above the statutory development grants to the GPs located in three categories of backward talukas in the following manner:
 - All GPs located in 'Backward Taluks': Rs. 1 Lakh per GP per year
 - All GPs located in 'More Backward Taluks': Rs. 2 Lakhs per GP per year
 - All GPs located in 'Most Backward Taluks': Rs. 3 Lakhs per GP per year
- Rs. 3 lakhs to be given as 'incentive grant' to a Gram Panchayat every year.
- 25% of the plan grants made available to the ZPs and TPs to be reserved for 'Special Needs'.
- Block Untied Grants have been recommended for the ZPs and TPs from the state consolidated fund.

Functions and Functionaries

- ZPs should have independent powers to utilize funds released under CFC grants.
- Preparation of development plans be taken up at all 3 levels of Panchayats as envisaged in Section 309 of Karnataka Panchayat Raj Act, 1993.
- Secretary and Adhyaksha should be made responsible for delay in implementation of development works and poor collection of taxes.
- EOs of TP should be responsible for implementation of works and for any irregularities.
- CEO of ZPs be given power for re-appropriation of grants (upto 10% of grants estimated to remain as unspent, from one sub-head to another sub-head within the same major head of accounts).

Other Measures

- As a supplement to transparency and responsibility, Jamabandhi should be held informing public and action taken on complaints should be displayed on notice board.
- Creation of the post of Accounts Assistant and recruitment under the same.

- Creation of an audit wing in the RD & PR on similar lines of Co-operation department.
- A Rural Infrastructure Development and Finance Corporation should be created for mobilizing capital for the development of rural roads, drinking water supply, streetlights, etc in rural areas.
- Monthly Programme Implementation Calendar be introduced to avoid heavy expenditures at the fag end of financial year.
- The post of Field Extension Officer at taluk level should be included in the Cadre and Recruitment Rules.
- Ombudsman system to be introduced having jurisdiction over Panchayats and Municipalities.
- Every year an amount of Rs. 50 crores be set apart as Incentive Grants.
- Govt. should formulate clear and special yardsticks to identify the persons living below poverty line.
- A single window system should be created to integrate the works of different departments related to agriculture, horticulture, dairy and other activities at the village level.
- Release of Development grants through different boards, corporations should be stopped, and all funds should be released through ZPs only.
- Posts should be created for Taluk Planning Officers in remaining taluks where the posts have not been created.
- Posts of taluk level officers should be created for all the 176 taluks of the State.
- GP functions such as maintenance of drinking water supply, streetlights and cleaning should be given on annual contract basis (AMC). This will result in saving and instances of misutilisation also be reduced.
- Govt. should issue orders for identification of houseless and site less persons.
- For the effective implementation of public awareness program, a separate head of accounts be created by the govt. and funds should be released along with suitable instructions.
- Task Force under each TP should be constituted to oversee the activities of GPs and GP accounts.
- Adhyaksha of ZP should be given grants for taking up developmental works of urgent nature.
- The govt. should give additional grants to provide ground drainage to all the urban areas.
- The post of Field Extension Officer should be included in the Cadre and Recruitment Rules.

Kerala Third State Finance Commission

Award Period: 2006-07 to 2010-11

Constitution: September 2004

Report Submission: November 2005

ATR Submission: February 2006

Composition

K V Rabindran Nair, IAS (Retd.)	- Chairman
P Kamalkutty, Secretary Local Self Government Department	- Member (Part-time)
V S Senthil, Secretary Finance Expenditure	- Member (Part-time)

Terms of Reference

The Commission shall make recommendations as to the following:

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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities 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;*
- iii. *the grants-in-aid to Panchayats/Municipalities from the consolidated fund of the State;*

*Measures needed to strengthen the financial position of Panchayats & Municipalities*²⁰ with reference to:

- i. The scope of local bodies to raise institutional finance and to suggest a frame work for local self-governments to take recourse to such sources along with procedures to be followed and limits, if necessary, to raise such resources;
- ii. The need for sharing the cost of maintenance of assets and institutions transferred to local self-governments, and evolving criteria for it, with due

²⁰ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- regard to the fiscal position of the state government and the local self-governments;
- iii. The steps necessary for efficient financial management with particular reference to efficiency in resource mobilization and economy in expenditure;
 - iv. The settlement of claims and dues of panchayats and municipalities vis-a-vis government and governmental agencies;
 - v. The procedures to be followed for smooth flow of funds to local self governments and for ensuring proper financial accountability;
 - vi. The systems and procedures with respect to budgeting, accounting and auditing;
 - vii. The incentives for higher resource mobilization and efficiency in resource use;
 - viii. The systems and procedures for monitoring the fiscal performance of local self governments;
 - ix. Providing for specific fiscal responsibilities on local self-governments.

Methodology

The financial data was collected in three parts reflecting three major stages of transformation: LSGs before 73rd and 74th Constitutional amendments, LSGs during and after substantial shift of services and institutions that took place in accordance with Article 243 (G) and 243 (W) and LSGs as instruments of economic development resulting from Kerala's widely acclaimed experiment of decentralized planning. Five proformae were prepared help the LSGs make self-assessment of their services, wherein only two types of entries were to be made- receipts and expenditure. The five proformae are:

- i. Proforma 1 – Receipts & expenditure of local self-governments- abstract
- ii. Proforma 2 – Statements showing receipts under own funds, expenditure for traditional functions met from own funds and projections
- iii. Proforma 3 – Statements showing receipts and expenditure under transferred functions/assets and projections
- iv. Proforma 4 –Statement showing receipts, expenditure and projections under plan schemes
- v. Proforma 5 – Statement showing details of receipts and expenditure under 11th finance commission award.

RECOMMENDATIONS

Global Sharing

- An amount of Rs. 2050 crore to be transferred to LSGs, as their share of state tax revenue in financial year 2006-07.

[Accepted]

- Out of this Rs. 300 crore will be for expenditure on their traditional functions, Rs. 350 crore for expenditure on maintenance of assets and Rs. 1400 crore for expenditure on developing and expanding services and infrastructure transferred. [Accepted]
- The total amount to be so transferred during the five years 2006-07 to 2010-11 will be Rs. 12515 crore. [Accepted]
- Additional resources of three types can be raise by LSGs, Increase in tax and non-tax revenues and Public contribution [Accepted]

Assignment of Revenues

- No such recommendations.

Horizontal Distribution

- 1/3rd of state plan outlay to be given as plan grant to LSGs. [Not Considered]
- Funds means for expenditure on traditional functions and maintenance will be distributed among the LSGs in the same ratio as applied to the distribution of 3.5% and 5.5% of state tax revenue. [Accepted]

Grants-in-Aid

- The difference between funds available with LSGs and that share of outlay should be given to LSGs. [Accepted]

Functions and Functionaries

- A new system of fiscal freedom should come into force in 2008-09 after necessary staff deployed, accounting details worked out and monitoring agencies formed. [Accepted]
- Joint consultation, co-operation and mutual understanding is needed to solve the problems during release of funds. [Accepted]
- There should be four bank accounts for each LSG
 - For traditional functions expenditure
 - For maintenance expenditure
 - For expenditure on development of services
 - For agency functions[Accepted]

- Finance wing and secretary would be responsible to point out the pros and cons of a decision proposed to be taken. If higher authority overrules them they will have to own the responsibility for that decision. *[Accepted]*
- Work of disbursement of welfare pensions may be transferred to concerned departments. *[Accepted]*

Other Measures

- Funds meant for traditional functions expenditure should be released in twelve equal monthly installments from April to March. *[Accepted]*
- Funds meant for maintenance expenditure should be released in ten equal monthly installments from April to January. *[Accepted]*
- Funds meant for development expenditure should be released in ten equal monthly installments from May to February. *[Accepted]*
- To have a framework of accounting and financial control, Finance and Accounts Wing to be established in Gram Panchayats. *[Agreed to in principle]*
- Resource assessment of LSGs each year before finalizing the size of decentralised plan to be implemented by LSGs. *[Accepted]*
- A 'Board of Fiscal research' headed by the chief Secretary may be constituted. *[Accepted]*

Madhya Pradesh Third State Finance Commission**Award Period: 2001-02 to 2005-06****Constitution: July 2005****Report Submission: November 2008****ATR Submission: March 2009****Composition**

Sheetal Sahaya	Chairperson
M.N. Buch , IAS	Member
Surendra Nath , IAS	Members (Retired – 30.4.2006)
Amar Singh IAS	Member (6.6.2006 to 31.08.2007)
Iqbal Ahmad, IAS	Member (29.9.2007 – 31.12.2007)
Manoj Goyal, IAS	-Member

Terms of Reference

1. Government will abide by the rules and regulations prescribed in the Madhya Pradesh Financial Responsibility and Budget Management Act 2005.
2. Recommendations of 12th Finance Commission regarding Local Governments.
3. Devolution of functionaries as per the constitutional amendments.
4. Inducing local governments in their effort to generate additional sources of raising finance.
5. Need of E-Governance
6. Need of proper guidance for construction work and capital expenditure
7. Evaluation of the reports and data of Panchayats and Municipalities.

Methodology

A set of general questionnaires covering the whole gamut of physical and fiscal administration of Panchayats and municipalities were formulated. Adequate care has been taken through official correspondence and personal interaction with the functionaries of Panchayats and municipalities to explain to them the modalities of filling up the questionnaire. Commission organized a number of meetings with representatives of these

bodies at divisional and district levels. The Commission also visited some major States and closely studied the working patterns of local governments and the concerning State Finance Commissions.

RECOMMENDATIONS

Global Sharing

- 5% of the net divisible pool to be devolved to the Panchayats and municipalities. [Accepted]
- 4% to be allocated to the Panchayats and 1 % to the municipalities [Accepted]

Assignment of Revenues

- Levy and collection of entertainment tax by the state government and assignment of the net proceeds to municipalities on the basis of collection from their jurisdiction. [Accepted]
- Introduction of self assessment system regarding property tax [Accepted]
- Continuation of Cess on Passenger tax. [Passenger Tax is abolished]

Horizontal Distribution

- Devolution of the net 4% of the divisible pool to the Panchayats would be as mentioned below:

Village with the population less than 500, total population 57.87 lakh	35%
Village with the population 501-1000, total population 116.63 lakh	26%
Village with the population 1001-1500, total population 86.42 lakh	21%
Village with the population more than 1500, total population 182.89 lakh	18%

- Devolution of 1 % of the net divisible pool to be allocated to the municipalities would be as mentioned below: [Accepted]

District Panchayat	45%
Municipalities	40%
District Councils not covered under Jawaharlal Nehru Urban Scheme	10%

District Councils covered under Jawaharlal Nehru Urban Scheme	05%
---	-----

[Accepted]

- 10% of the net divisible pool to be allocated to such municipalities where slum population in more than 10 % of their respective population, the remaining amount to be allocated among municipalities on the basis of their populations including that of slums, as per 2001 census.

[Accepted]

- Continuation of the distribution of the net receipts from land revenue and additional stamp duty to the Panchayats

[Accepted]

Grants-in-Aid

- Grant of Rs. 110. 95 crore per annum to 13040 Gram Panchayats on the basis of the population. This grant would be availed only by those Gram Panchayats those levy and collect the taxes on time.

[Accepted]

- The grant would be allocated on the basis of population. For general category GPs 50 % of the tax collection and for SC population category 100 % of tax collection would be allocated.

[Accepted]

- Block Panchayats would receive Rs. 20 Crore per annum as general purpose grants and Zila Panchayats would get Rs. 5 Crore per annum.

[Accepted]

- Continuation of establishment grants to Panchayats

[Accepted]

- Grant of Rs. 50 crore as maintenance grants to Gram Panchayat on the basis of population in the Panchayat.

[Accepted]

- 100 % Compensation of electricity expanses of those GPs that are collecting water rates.

[Accepted]

- For Municipalities if the collection of property tax is

- Less than 50% of demand, municipal councils may get general purpose grants per head of population may be Rs. 4/- per capita and Nagar Panchayats at a rate of Rs. 5/- per capita.
- 50% and more but less the 75% of demand, rates of general purpose grants per head of population may be Rs.4/- for Municipal Corporations, Rs.5/-for Municipal Councils and Rs.6/-for Nagar Panchayats.
- 75% or more of demand, the per capita grants may be Rs. 5/- for Municipal Corporations, Rs. 6/-for Municipal Councils and Rs.7/- for Nagar Panchayats.

[Accepted]

- 5% of VAT to municipalities as grant.

[Accepted]

- If the municipalities collect water tax then they should receive financial assistance as mentioned below

- Provision of 50 % grant to the municipalities with the population is less than 10,000, as a compensation for electricity expenses
- Provision of 33 % grant to the municipalities with the population between 10,000 to 20,000, as a compensation for electricity expenses
- Provision of 25 % grant to the municipalities with the population between 20,000 to 50,000, as a compensation for electricity expenses

[Accepted]

- Provision of Rs 30 per head as maintenance grant to District Panchayats as well as corporations with the population of 50,000.

[Accepted]

Functions and Functionaries

- Formation of Data collection units in Municipalities and Panchayats.

[Not considered]

- Inclusion of financial management natural resource management, human resource and disaster management in the training manuals.

[Accepted]

- Population and area should be the criteria to quantify Panchayats. Three to four Panchayats should be dissolved into one Panchayat. Water Conservation Area can also be a unit for the constitution of Panchayat.

[Rejected]

- At District level the technical expert's pool should be created to help the GPs in their work.

[Rejected]

- Provision of tax raising power to Panchayats.

[Action will be taken separately]

- Removal of division of taxes as compulsory and voluntary taxes as mentioned in the MP PRI Act.

[Action will be taken separately]

- ZPs and BPs can critically review the responsibilities of levy and collection of taxes given to GPs. In Case GPs are not performing properly ZPs and BPs should take the responsibility.

[Action will be taken separately]

- The officers of the BPs should have the right to transfer the Panchayat secretaries from one Panchayat to another. Similarly for ZPs.

[Action will be taken separately]

Other Measures

- Transparent display of the receipts and grant provided to the local governments by the state governments. *[Accepted]*
- Constitution of auditing Committee at district level *[Accepted]*
- Set up SFC cell. *[Accepted]*
- Formation of a high level committee for devolution of functions and functionaries to Panchayats as per the XI Schedule. *[Accepted]*
- Constitution of District level Cadre of the secretaries of GPs *[Rejected]*

Maharashtra Third State Finance Commission**Award Period: 2006-07 to 2010-11**

Constitution: January 2005

Report Submission: June 2006

ATR Submission: December 2013

Composition

Satish Tripathi, IAS	- Chairman
SudhirShrivastava	- Member Secretary
Jeevanrao Gore	- Member (Part time)
Pradeep Apte	- Member (Part time)

Terms of Reference

The Commission shall make recommendations as to the following:

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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities 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 or as the case may be the Municipalities;*
- iii. the principles which should govern the grants-in-aid to Panchayats or as the case may be Municipalities from the consolidated fund of the State.²¹*

Methodology

Not mentioned in the Report.

RECOMMENDATIONS**Global Sharing**

- Total additional transfer to LBs to be around 7.8% of the revenues, without breaching Fiscal Responsibility rules.

²¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

[Not Considered]

- The motor vehicle tax will be shared with ULBs through a grant equaling 17.75% of the net tax collection.

[Not Considered]

Assignment of Revenues

- 10% increase in rate of tax every three years to maintain buoyancy in tax receipts. A formula of grant to be devised so that the GP of limited capacity are not deprived of grants.

[Not Considered]

- GPs to levy and collect taxes on open lands, appropriately.

[Accepted]

- A fivefold increase from 15 paise per day in rate of tax on fairs, festivals and entertainments.

[Accepted]

- A ten time increase in rates on the tax on shop keeping and hotel keeping.

[Accepted]

- Five times increase on the rates of fees on markets and weekly bazaars.

[Accepted]

Horizontal Distribution

- Only 50% of the amount shown against Implementation of Development Plans, and 50% of the amount suggested for water supply and sewerage schemes be considered for release during the year 2006-07.

[Not Considered]

- Out of Rs. 550 crores available for devolution to ULBs, it is proposed that Rs. 246 crores be given to Corporations and Rs. 304 crores to Councils, for carrying out activities indicated in the report.

[Not Considered]

Grants-in-Aid

- An annual grant of Rs. 40 crore for support to difficult villages for maintaining water supply schemes.

[Accepted]

- Rs. 40 crores annually to initiate a programme of low cost sullage disposal scheme in large size villages.

[Not Considered]

- Rs. 300 crore for maintenance of internal village roads to GPs.

[Not Considered]

- An annual grant of Rs. 100 crores to ZPs for for repair and maintenance of School rooms with the remaining 50% being provided as matching contributions by ZPs.

[Accepted]

- An additional annual grant of Rs. 25 crore for medicines and Rs. 17.25 crore for repair and maintenance of health service to ZPs.

[Not Considered]

- Grant in aid to ZPs for maintenance of the regional piper water supply scheme @50% of the expenditure on salary of employees engaged on the scheme.

[Not Considered]

- One time grant to meet 50% of the remaining outstanding amount of arrears of Maharashtra Jeevan Pradhikaran by GPs.

[Partially Accepted]

- Rs. 40 crores annually to those municipalities which cannot raise user charges to recover the cost of water supply to the town.

[Not Considered]

Functions and Functionaries

- ZPs should issue instructions for compulsory revision of the assessment list by the GPs every four years.

[Accepted]

- Government should take over hospitals for management if there are such requests from local governments.

[Partially accepted]

- Panchayats are responsible for primary education, communication, minor irrigation, health care, child care and nutrition services in the rural areas and extension services in veterinary care, agriculture and animal husbandry etc.

[Not Considered]

Other Measures

- Rural Development Department should carry out a review of section 124 of the Bombay Village panchayat Act 1958 and take steps to discontinue taxes/fees that are not capable of yielding sufficient revenue to panchayats or are difficult to administer.

[Accepted]

- GPs should receive the entire amount of cess/ grants in the first half of the year in which it falls due.

[Not Considered]

- Additional posts of extension officers, technical and accounting staff for larger GPs. Government to bear 50% of expenditure on these posts.

[Accepted]

- To supervise developmental programme in a close manner, an independent vehicle be provided to the President of the Panchayat Samities and the BDO.

[Not Considered]

- Local bodies should be compensated by paying past arrears which has accumulated due to remission of cess of land holder who are liable to pay land revenue between Rs. 5 to Rs. 10.

[Not Accepted]
- The norms for supply of medicines to P.H.Cs be increased from Rs. 60,000 to Rs. 2 lakhs per PHC, for P.O.L be increased from Rs. 7,000 per vehicle to Rs. 25,000 per vehicle, medicines for sub-centers be increased from Rs. 6,000 to Rs. 10,000 per sub centre and miscellaneous grants be increased to Rs. 15,000 per P.H.C.

[Not Considered]
- Increase in maintenance grants to 35% of requirement.

[Not Considered]
- D.A. grant should be released based on standardized staffing pattern for the three categories of councils.

[Not Considered]
- Rateable value method for calculation of property tax be replaced by capital value method to ensure buoyancy, equity, transparency and simplicity in fixation of taxes.

[Not Considered]
- To introduce appropriate substitute of octroi, Govt. should stop payment of compensation.

[Not Accepted]
- Rs. 5.272 crores annually be allocated to YASHADA for arranging training and capacity building.

[Not Considered]
- The entire expenses on training of staff, capacity building, provision of computers and hardware in municipal councils be borne by the government.

[Accepted]
- A provision for imposition of up to 1 % tax on transfer in immovable properties is provided in BPMC Act 1949.

[Partially Accepted]
- To induce the municipalities to introduce an appropriate substitutes if Octroi, Government should stop payment of compensation

[Not Accepted]
- Set up Municipal Development Fund.

[Not Accepted]

Odisha Third State Finance Commission**Award Period: 2010-11 to 2014-15****Constitution: September 2008****Report Submission: January 2010****ATR Submission: NA****Composition**

Sudhakar Panda (Prof) Utkal University, Bhubaneswar	- Chairman
Swapneswar Baya, IAS (Retired) Bhubaneswar	- Member
Bijaya Kumar Mohanty Sambalpur	- Member
Rabi Ranjan Mallick, IAS Municipal Administration, Bhubaneswar	- Member (14 January, 2009)
Durga Prasad Dash, IAS superannuation) Finance Department, Bhubaneswar	- Member-Secretary (Retired attaining
S N Sarangi, IAS Dash) Finance Department, Bhubaneswar	- Member-Secretary (After Shri Durga Prasad

Terms of Reference

The Commission was asked to make recommendations relating to the following matters:-

The principles that should govern-

- i. *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-IX 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;*
- ii. *the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by Grama Panchayats, Panchayat Samities and Zilla Parishads or, as the case may be, Municipalities; and*
- iii. *the Grants-in-aid to the Grama Panchayats, Panchayat Samities, Zilla Parishads or, as the case may be, Municipalities from the Consolidated Fund of the State;*

*the measures needed to improve the financial position of the Grama Panchayats, Panchayat Samities, Zilla Parishads and Municipalities. any other matters, which the Governor may refer to the Commission in the interest of sound finance of Grama Panchayats, Panchayat Samities, Zilla Parishads and Municipalities.*²²

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

- i) The revenue proceeds of the State government and the 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 expenditures and liabilities;
- ii) The functions and liabilities of Panchayati Raj Institutions and Municipalities in respect of discharging and implementing the schemes entrusted to them under article 243G and 243W of the Constitution;
- iii) The revenue sources of Panchayati Raj Institutions and Municipalities at all levels of five years, commencing from 1st April, 2010 on the basis of levels of taxation reached in 2006-07, target set for additional resource mobilization and potential for mobilizing additional resources;
- iv) The scope for better fiscal management consistent with the need for speed, efficiency and cost effectiveness of delivery of services; and
- v) The need for providing adequate incentive for better resource mobilization as well as closely linking expenditure and revenue raising decisions.

The report of the Commission shall contain specific chapters, narrating-

- i) The approach adopted by it;
- ii) An analysis of the resources of the State Government, and
- iii) An analysis of the resources of Panchayats at each level and also Municipalities at each level,
- iv) An estimation and analysis of the finances of the State Government as well as the PRIs and Municipalities at the pre and post transfer stages along with a quantification of the revenues that could be generated additionally by the PRIs and Municipalities by adopting the measures recommended therein.

For the purpose of assessment of supplementing the resources of the Panchayats and Municipalities by the Central Finance Commission, the Commission shall-

- i) Follow a normative approach in the assessment of revenues and expenditure rather than make forecasts based on historical trends;
- ii) Take into account per capita expenditure norms on the basis of the average expenditure incurred by some of the best performing Municipalities and Panchayats in the provision of core services.

²² Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

The Commission shall also review the implementation of the recommendation of the Second State Finance Commission.

Methodology

Visits were carried out to Panchayats and Municipalities in the states of Karnataka, Kerala and West Bengal to gain first hand information about their organization, functioning, resource mobilization efforts and their patterns of expenditure vis-à-vis the activities assigned to them. Meetings were held with different stake holders, from time-to-time, to analyse the problems of the Panchayats and Municipalities and, to work out appropriate policies that would strengthen their finance and rightly impact their working.

RECOMMENDATIONS

Global Sharing

- 15% of the average own Gross Tax Revenue of the State Government at Rs. 896.17 crores per annum to be devolved to LBs for providing public services and undertaking local development.

[Accepted]

- The devolved amount is to be distributed among the Panchayats and Municipalities in the ratio of 75:25.

[Accepted]

Assignment of Revenues

- The State government to provide 20% increase per annum towards Entry Tax to Municipalities. Out of the 20%, 10% would be passed as untied resources and the remaining 10% would be released to concerned Municipalities based on their performance.

[Accepted]

- The Commission has not made any recommendation with regard to the following taxes, hence the transfer from the following sources in the B.E. 2010-11 is as below:

Taxes	` In Crores
Entertainment Tax	0.15
Motor Vehicle Tax	25.00
Stamp Duty/ Annuity	3.00
Managerial Fines & Pilgrim Fees	0.00
Grants for Festival Occasions	0.65
Total	28.80

[Accepted]

- The GPs may be empowered to levy and collect following taxes/fees:

- a. *Re-introduction of Panchayat tax*
- b. *Advertisement tax*
- c. *Permit fees for construction, establishment/ installation of factories, workshops/ work places where electricity is used*
- d. *Share in cess on conversion of agricultural land for non-agricultural uses*
- e. *Social development and ecological protection fees*
- f. *Licence fees from shops*
- g. *Transfer of sairat sources & minor minerals to the GPs*
- h. *Toll/user fees for using village, GP and PS roads*

[Not considered]

- The Municipalities must strengthen and widen their resource base for larger revenue mobilization and hence the Municipalities have been recommended to levy following taxes/fees:
 - a. *Introduction of Unit Area Value Assessment (Property Tax)*
 - b. *Fines on unauthorised use of land under Municipal jurisdiction*
 - c. *Share in cess on conversion of agricultural land for non-agricultural uses*
 - d. *Capital/property transaction fee*
 - e. *Trade licence fees*

[Not considered]

Horizontal Distribution

- No such recommendation.

Grants-in-Aids

- Continuance of following grants as assignment of revenues in favour of Panchayats:

Grants	In crores
Sairat	Rs. 1.00
Kendu Leaf Grant	Rs. 20.00 (as against Rs. 10.00)
Cess on Land Revenue	Rs. 15.00
Minor Forest Produce	Rs. 1.00
Entertainment Tax	Rs. 0.15
Total	Rs. 37.15

[Accepted]

- An annual grant of Rs. 82.72 crores towards salaries and pension of employees has been recommended for Municipalities.

[Not accepted]

- An annual grant of Rs. 1.00 crore and Rs. 0.50 crore to be given as incentive grant to best Municipalities and best Notified Area Council, respectively.

[Accepted]

Functions and Functionaries

- Government should examine the creation of GP Level Cadre, District Level Cadre and a State Cadre, in the light of recommendation of MoPR.
[Not considered]
- Demand of Panchayati Raj Service Engineers' Association for creation of a Cadre and promotion of Panchayati Raj Junior Engineers to the post of Assistant Engineers should be considered by the Government without further delay.
[Not considered]
- Housing & UD Department, Finance Department and Revenue & Disaster Management Department should jointly discuss the matter for creation of a Cadre of Executive Officers for the Municipalities.
[Not considered]
- A professional body may be entrusted with the task of formulating a plan relating to composition of man-power requirement of Municipalities and phasing out of a surplus staff keeping in view resource base of Municipalities.
[Not considered]

Other Measures

- A State Institute of Urban Development in the pattern of SIRD should be established for developing training materials and for imparting training to the elected representatives with the objective of enhancing their capacity.
[Not considered]

Punjab Third State Finance Commission

Award Period: 2006-07 to 2010-11

Constitution: September 2004

Report Submission: December 2006

ATR Submission: June 2007

Composition

A S Chatha, IAS (Retd.) Former Chief Secretary, Punjab	- Chairman
Tapas Kumar Sen (Dr) Senior Fellow, NIPFP, New Delhi	- Expert Member
Principal Secretary, Local Government Government of Punjab	- Ex-Officio Member
Financial Commissioner/Secretary Government of Punjab	- Ex-Officio Member
Anjuly Chib Duggal, IAS (Smt.) Secretary (In addition to her own duties)	- Member

Terms of Reference

The terms of reference require the Commission to make recommendations on the following matters:

In the case of 'Panchayats' as to:

- a) *The principles, which shall 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 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; and*
 - 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 interest of sound finances of Panchayats.*

In the case of 'Municipalities' as to:

- a) *The principles, which shall 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 and the allocation between 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 Municipalities; and*
 - 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 the Governor in the interest of sound finances of Municipalities.*²³

The levy of appropriate user charges for civic services to strengthen the resource position of Panchayats/Municipalities and to make them ultimately self-reliant.

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.

Methodology

The basic services essential for civilized living, have been identified and cost of providing these services has been researched for a duration of over 10 years. Also, the cost of running local bodies at present level of services has been worked out. Questionnaires were circulated to all the Panchayats and Municipalities. Views of different officials were taken into account. Seminars were conducted and several meetings were organized. The data were collated and analysed for report writing.

RECOMMENDATIONS

Global Sharing

- 4% of the State's net tax collection (minus compensation for abolished octroi) to be divided between Municipalities and Panchayats.
- Rs. 400 crore to be devolved on Municipalities every year, through the Municipal Development Fund.

Assignment of Revenue

²³ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- 16% of the Excise Duty on IMFL and beer, and 10% of auction money from liquor vends continue to devolve on local bodies.

Horizontal Distribution

- Division between urban and rural areas on the basis of population in 34%: 66% respectively.

Grants-in-Aid

- Downward percolation of grants at district level as per the recommendations of DPC.

Functions and Functionaries

- Responsibility for collection of house tax and other taxes levied by Gram Panchayats, particularly by Panchayat Secretaries.

Other Measures

- Use of GIS technology to ensure that no property escapes the tax net.
- An implementation committee under the chairmanship of Chief Secretary to be set up.
- Training programs for the elected representatives and staff of both ULBs and PRIs, delivered through reputed training institutes.
- Setting up of Municipal and Village Development Funds to focus on filling the infrastructure gaps in rural and urban areas.

Rajasthan Third State Finance Commission

Award Period: 2005-06 to 2009-10

Constitution: September 2005

Report Submission: February 2008

ATR Submission: March 2008

Composition

Manik Chand Surana, Ex- Member Rajasthan Legislative Assembly	- Chairman
Jeet Ram Member of Legislative Assembly	- Member
Khush Veer Singh, Member of Legislative Assembly	- Member
Ramavatar, IAS (Retd.)	- Member Secretary

Terms of Reference

The Commission shall 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 Panchayats at all levels of their respective shares of such proceeds.*
 - ii. *the determination of the taxes, duties, tools and fees which may be assigned to, or appropriated by, the Panchayats.*
 - iii. *the grants-in-aid to the Panchayats from the Consolidated Fund for 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.*²⁴

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

- i. The financial resources of the State and demands thereon, keeping in view the non-plan deficit and surplus, and in particular, the need for providing adequate

²⁴ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- resources for funding the plan expenditure for the overall development of the State;
- ii. The expenditure needs of the Panchayats at all levels and Municipalities at all levels for the proper discharge of the functions and responsibilities assigned to them;
 - iii. Adjustment of grants available to the Municipalities at all levels and the PRIs, under the recommendations of Twelfth Finance Commission in their resources; and
 - iv. Powers available to PRIs and Municipalities at all levels for raising additional resources, including powers to levy taxes.

Methodology

Questionnaires were circulated to all the Panchayats and Municipalities. The Commission visited a few selected Local Governments to have a first hand experience of important developmental issues and good practices. Various meetings, workshops as well as seminars were conducted from time to time. The distribution of divisible share in net tax revenue (excluding entertainment tax), between the LBs, has been based on the population figures for the year 2004-05 (as on 1 Mar 2005). Census figures of rural- urban break up have been used for the distribution of net share. Inter-se distribution among ULBs has been based on municipality wise population figures of census 2001.

RECOMMENDATIONS

Global Sharing

- Devolution of 3.50 % of the net proceeds of State Own Tax Revenue to Panchayats and Municipalities. Out of this 0.50% shall be earmarked for incentive to these local bodies for mobilizing revenue from their own resources. *[Accepted]*
- Rs.34.40 crore representing 100 % net share of Entertainment Tax is to be devolved to the ULBs in proportion to collection of entertainment tax from their respective areas. *[Accepted]*
- Devolution of Rs 46.22 crore representing 1% of net royalty receipts from minerals to the Gram Panchayats in proportion of royalty collection in the concerned districts. *[Considered complied]*

Assignment of Revenues

- No such recommendations.

Horizontal Distribution

- Distribution of Rs. 1843.15 crores representing share in net tax revenue (excluding entertainment tax) between the PRIs and ULBs on the basis of population ration of 75.7% and 24.3% respectively.

[Accepted]

- Panchayats share of net own tax revenue, amounting to Rs. 1395.27 crores distributed among Gram Panchayats, Panchayat Samities and Zila Parishads in the ration of 85:12:3 respectively.

[Not considered]

- Following parameters and their weights have been recommended for district wise devolution of funds for onward devolution to Panchayats:

Sl.No.	Parameters	Weights
1	Population	60%
2	Geographical Area	20%
3	Poverty (No. of BPL families)	5%
4	Level of Literacy	5%
5	S C Population	5%
6	S T Population	5%

[Considered complied]

- For the inter-se distribution amongst the Municipalities, the following criteria has been adopted:

85%	On Population basis among all Municipalities
Additional 15%	On Population basis to class-II, class-III and class-IV Municipalities

[Not Considered]

- Distribution of 80% amount from share in tax revenue (except Entertainment Tax) among all the Municipalities on population basis and the balance 20% amount among all the three categories of Municipalities namely, viz., Class II, Class III and Class IV on population basis as an additional share to compensate their weak financial position to some extent. The share of II, III and IV class Municipalities has been raised from 15% to 20% in view of their pathetic financial position.

[Accepted]

- Distribution of the devolved amount of Rs. 2150.35cr representing net own tax revenue (excluding Entertainment Tax), between the PRIs and ULBs is to be made in the population ratio of 75.7% and 24.3% respectively.

[Accepted]

Grants-in-Aid

- Transfer of Rs. 32.20 crore out of the budget of irrigation department to the PRIs as per the district –wise requirement of the tanks transferred to them.
[Compliance still waited]
- Grants of Octroi compensation with 10% annual increase.
[Implemented]
- Rs. 307.20 crores as incentive amount to Gram Panchayats and Municipalities for raising revenues from untapped sources by the Panchayats.
[Accepted]
- Rs. 74.65 crores from the incentive amount to the recovery of discretionary taxes not levied and collected so far by the Municipalities.
[No amount was released by the State Government as incentive with effect from 2008-09]

Functions and Functionaries

- Enable the Gram Panchayat to render services mainly for rural cleanliness and sanitation and other essential functions.
[Compliance awaited]
- Power of revision of rates conferred on Municipalities.
[Not Considered]
- Cleaning, scavenging, solid-waste management, maintenance of roads, street lighting and other civic facilities in urban areas has could be contracted out by Municipalities, to help cost saving and improving Municipal finances.
[Implemented]
- Transfer to the following core subjects along with funds, functions and functionaries to Panchayats:
 1. Agriculture
 2. Minor Irrigation
 3. Education
 4. Public Health
 5. Animal Husbandry
 6. Dairy and Poultry
 7. Social Forestry and Agro-forestry
 8. Miner forest produce
[Transferred to Panchayats vide order dated 2.10.2010]
- An amendment in Sub Section (6) of Section 8 A of the Act, 1994, so that the resolutions of the Gram Sabha are not treated as only “suggestions” but should be mandated to be obeyed in compliance to the extent feasible.
[The Provisions of the Act are being followed]
- Enable the Ward Panchas to effectively participate in the proceedings and decisions of the Gram Panchayat.

- [Copies of the funds released to Panchayats are circulated upto Gram Panchayat level]
- The asset register of the Gram Panchayat is to be kept at both Gram Panchayat and Panchayat Samiti levels. Panchayat Samiti staff should carry out physical verification of such assets twice in a year.

[Provision has been made in rule 137 of Rajasthan Panchayati Raj Rules, 1996]

Other Measures

- Discretionary tax system or levying of tax by Municipalities on priorities basis.
[Powers to levy discretionary taxes have been given to Municipalities under Rajasthan Municipalities Act 2009]
- A full time qualified computer friendly graduate in each Gram Panchayat, besides qualified Gram Sewak is required and the payment to these personnel will be made out of the devolution amount recommended.
[Compliance is still awaited]
- Training of newly elected representatives, particularly for those who have been elected for the first time.
[Implemented]
- Funds to be placed at the disposal of Zila Parishad for organizing training programmes for newly elected ward panchas/ sarpanchas, members of Panchayat Samities, Zila Parishads and other public representatives.
[Compliance is still awaited]
- The grants meant for maintenance of core civic services may be disbursed to GPs on the criteria of population, geographical area, poverty, illiteracy population of SC/ST.
[Not Considered]
- The outstanding amount of House Tax needs to be recovered expeditiously by incentivizing the staff.
[Not Considered]

Sikkim Third State Finance Commission

Award Period: 2010-11 to 2014-15

Constitution: March 2009

Report Submission: November 2009

ATR Submission: March 2010

Composition

R Telang, IAS, Secretary Food Security and Agriculture Department	- Chairman
D P Sharma, Special Secretary Home Department	- Member
B Datta, Additional Director Finance Revenue and Expenditure Department	- Member
K K Shrestha, Deputy Director Rural Management and Development Department	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to-

The principles which should govern:

- i. the distribution between the state and the Panchayats as well as the Municipalities 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 as well as the Municipalities at all levels of their respective share of such proceeds;*
- ii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats as well as the Municipalities;*
- iii. the grants-in-aid to the Panchayats as well as the Municipalities from the consolidated fund of the state.*

To make recommendations to the Governor as to measures needed to improve the financial position of the Panchayats as well as the Municipalities.²⁵

To make recommendation to the Governor as to any other matter referred to the Finance Commission by the Governor in the interest of the sound finance of the Panchayats as well as the Municipalities.

²⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

To examine the resources of the Local Bodies for 5 years on the basis of the existing and proposed level of taxation and non-tax revenues at the end of 2008-09.

To give suggestions to improve the quality of public expenditures to obtain better output and outcome.

To examine the component of maintenance & upkeep of capital assets created by the Local Bodies or transferred by the Government to the Local Bodies.

In making its recommendation on various matters the Commission shall take the base of population figure as of 2001 in all such cases where population is a factor for determination for devolution of taxes, duties & grants-in-aid.

Methodology

The internal allocation of revenue between ZPs and GPs shall be based on population figures of 2001. The horizontal distribution among 4 ZPs will be on the basis of population figure and the Panchayat Area. Questionnaires were circulated to all the Panchayats and Municipalities. The Commission also used data from state budget documents, State Statistical Abstract, State Economic Survey, plan documents, accounts related documents, Annual Administrative Reports of various departments. To firm up the data received from various sources several rounds of meeting were conducted.

RECOMMENDATIONS

Global Sharing

- 2% of the net proceeds of State revenue from the following sources which comes to Rs. 362.58 lakhs to be transferred to Panchayats:
 - i. Land Revenue
 - ii. Stamps and Registration
 - iii. Tax on Sale, Trade, etc.
 - iv. Animal husbandry
 - v. Forestry and wildlife
 - vi. Minor irrigation
 - vii. Village and small industries
 - viii. Tourism

[Accepted]

Assignment of Revenues

- GPs to collect the following taxes:

- i. Household Tax @ Rs. 5/-, Rs. 10/- and Rs. 15/- per month from each household- small, medium and bigger respectively. For resorts, hotel, restaurant, guest houses @ Rs. 5000/- per annum.
- ii. Water and Sanitation Tax @ Rs. 1/month from each household.
- iii. Village road and Environment Tax @ Rs. 2 per month from each household.
- iv. Panchayat recommendation/ Clearance/ Certificate Fees @ Rs. 20 per case.
- v. Sale of tender forms as per Government norms.
- vi. Building, construction fees @ Rs. 2/ sq. feet for RCC building and @ Re. 1/ sq. feet for Egra / Kaccha Structure.
- vii. Trade license fees and hawker licenses fees as UD and HD rates.
- viii. Fees on Melas, picnic, etc. in rural areas.
- ix. Fees for construction of temporary sheds of any kind of social gathering in public property.
- x. Fees for minor dispute redressal @ Rs. 20 per application/case.

[Accepted]

- The Commission has recommended that the proposed 7 nos. of Municipalities may impose & collect the following revenues (as per details in Table 16 of the Report)
 - xi. a) Property Tax
 - xii. b) Toll Tax
 - xiii. c) Other Taxes
 - xiv. d) Sanitation Charges
 - xv. e) Parking fees
 - xvi. f) Rent from Premises
 - xvii. g) Other Charges
 - xviii. h) Blue print fee
 - xix. i) License Fee
 - xx. j) Other fees
 - xxi. k) Fines.

The anticipated collection for 2010-11 from above sources would be Rs. 316.00 lakhs and Rs. 1919.00 lakhs for five years (2010-15).

[Accepted]

Horizontal Distribution

- The distribution of share of revenue between ZPs and GPs will be in the ratio of 40:60.

[Accepted with modification in the ratio, i.e 30:70]

Grants-in-Aid

- Specific Purpose Grant of Rs. 46882.88 lakhs for five years under 15 sectors (agriculture, horticulture, animal husbandry, HRDD, health, forest, commerce and industry, disaster management, irrigation, culture, rural management and development department, co-operative, social welfare, tourism & power) excluding teacher's salary. [Accepted]
- General Purpose Grant of Rs. 14891.00 lakhs for five years. [Accepted]
- CFC Grant of Rs. 4855.00 lakhs for five years (@ Rs. 150 per capita per annum). [Not Considered]
- Special Incentive grant of Rs. 20.00 lakhs to each of top 3 GPs and Rs. 30.00 lakhs to the top ZPs annually. [Accepted]

Functions and Functionaries

- Power to approve the rates for levying of taxes and fees to be delegated to the DPC. [Accepted]
- Directorate of Panchayat should monitor the system of preparation of Annual Budgets, District Plans, and Annual Statement of Accounts. [Not Considered]
- Creation of Directorate of Local Fund Audit (DLFA) under FRED. The DLFA shall be responsible for conducting audit of all the GPs, ZPs and ULBs. [Accepted]
- The DPC may constitute Sub-Committees to examine the budget of two or three GPs and Sub-Committee will submit their report to the General body of DPC, The member of the Sub-Committee may be selected in the DPC meeting for the period as determined by DPC. The DPC may invite Government officials of various departments with having knowledge of finance to be member of Sub-Committee. [Accepted]
- All the fund whether pertaining to certain revenue, taxes etc. must be accounted for in the budget and no withdrawal from any of the GP account should be made which is not in consonance with the approved budget. [Accepted]
- Every GP should prepare Annual budget which will take into consideration the Sectoral allocation for GPUs. [Accepted]

Other Measures

- GPs be allowed to operate two accounts, one for receipts of grants from state govt. and another for depositing the fees, taxes or user charges collected by the GP. *[Accepted]*
- Organization of regular training programs organized for GPs and ZPs. *[Accepted]*
- GPs be empowered to select and appoint suitable candidate on suitable pay (one accountant and one chowkidar to each GP). *[Accepted]*
- Submission of Utilization Certificates on annual basis to District Planning Officer by Panchayats. *[Accepted]*
- Every GP and ZP shall have a separate account for Non-plan grant including collection of revenue. *[Not Considered]*
- A permanent SFC cell within the Finance, Revenue and Expenditure Department be created to administer and monitor the functioning of SFCs and to maintain records/data. *[Accepted]*
- The Financial Rules of Gram Panchayats and Zila Panchayats should be so amended to give full power to the GPs/ZPs for incurring expenditure within sanctioned annual budget provision under each item. *[Accepted]*
- The salary of Rural Development Assistants/Gram Rojgar Sahayaks (under GPS), honorarium of GP members etc. should be paid through concerned GPs. *[Accepted]*
- Quantum of grants for each GP/ZP should be predictable and specific. *[Accepted]*
- Grants to Panchayats should be released in two installments. *[Accepted]*
- SFC should be constituted in advanced so that their report is available for consideration of the Central Finance Commission. *[Accepted]*

Tamil Nadu Third State Finance Commission

Award Period: 2007-08 to 2011-12

Constitution: December 2004

Report Submission: September 2006

ATR Submission: May 2007

Composition

M A Gowrishankar, I A S	- Chairman
D Heerachand 31.5.2006)	- Non official Member (Resigned on
Director of Rural Development	- Ex officio Member
Commissioner of Municipal Administration	- Ex officio Member
P M Basheer Ahamed, I A S	- Member Secretary

Terms of Reference

The Commission shall review the financial position of the rural and urban local bodies namely village panchayats, special village panchayats, panchayat union councils, district panchayats, municipalities and municipal corporations and make recommendations as to-

1. *the principles which should govern:*
 - i. *the distribution between the state and the said local bodies 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 bodies at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the said local bodies;*
 - iii. *the grants-in-aid to the said local bodies from the consolidated fund of the state;*²⁶
2. The measures needed to improve the financial position of the local bodies taking into account inter-alia, their level of debt, pension and interest payment liabilities, possibilities of regulating the borrowing power and containing the debt liabilities of local bodies depending on their resource position and their ability to service the debt;
3. The measures needed to bring about greater efficiency in the functioning of local bodies in the mobilisation and use of their resources as Local Self Governments and suggestions on a well defined demarcation of functions of State Government vis-a-vis local bodies taking into account the prevailing levels of delegation of administrative,

²⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- functional and financial powers to local bodies with reference to the functions enumerated in the Constitution of India and the concomitant State Legislations;
4. Draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the local bodies and a scheme for providing an incentive to local bodies within the ambit of devolution mechanism linked to progress in implementing the said programme taking into account the measures and the extent to which the local bodies have implemented such measures to exploit the available and the potential sources of the revenue and State Finance Commission and Central Finance Commission grants;
 5. Suggest possible new avenues for tapping resources in rural and urban local bodies keeping in mind local body tax structure in other States. In particular, the levy of user charges to attain the goals of covering operation and maintenance costs and capital costs for each item of service may be gone into together with suitable mechanisms to effectively realise these goals;
 6. Suggest measures, after review of the present system for assessing the accountability of the local bodies in utilizing the 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;
 7. Suggest measures for improvement of the administrative arrangements already made by the Government consequent on the reclassification of town Panchayats. The Commission shall also suggest reclassification of other local bodies as well taking into account their present status and the reorganisation exercise already undertaken for the town Panchayats.

The Commission shall also have regard to --

- (i) *the existing level of devolution and other resource transfer from the State and Central Governments and other agencies including the award and recommendations of Twelfth Finance Commission to the local bodies and their adequacy;*
- (ii) *the requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment;*
- (iii) *revenue resources of the local bodies for the five years commencing from 1st April 2007 on the basis of level of taxation reached in 2004-05 and the expected increase in revenue keeping in mind the potential for revision of rates of tax and non-tax revenue;*
- (iv) *the status of implementation of the recommendations of the Eleventh Finance Commission appointed by the Central Government and the Second State Finance Commission constituted by the State Government and the utilisation by the local bodies of the resources transferred;*

- (v) *the scope for better fiscal management consistent with efficiency and economy in major components of recurring and non-recurring items of expenditure;*
- (vi) *the classification of rural and urban local bodies as per the Government of India guidelines and the consequences thereof.*

The Commission shall also review the functions of Grama Sabha, its linkages with Non-Governmental Organisations, line agencies / departments on par with other States and suggest measures/ powers to strengthen grass root democracy.

Methodology

In order to assess the income, expenditure, service level, debt and human resources, a detailed questionnaire was prepared and sent to Panchayats and Municipalities.

The number of LBs covered under the questionnaire were:

1. Village Panchayats(VPs)	12,618
2. Panchayat Unions (PUs)	385
3. District Panchayats (DPs)	29
4. Special Village Panchayats (Town Panchayats)	561
5. Municipalities	152
6. Municipal Corporations	6

Tours to various Districts were undertaken to take up discussions with District Collectors, District officials and elected chairpersons of LBs at District Collectorate. Questionnaires were sent to recognized National and State political parties and interactive meeting was also held with a few to have their views on various issues concerning local bodies which, have been considered and discussed in the report. Visits were carried out to other states to study the functioning of LBs. Sub-committees were constituted on entrustment of functions and delegation of powers to the LBs. A web-site was hosted in September, 2005, containing the details of all the SFCs constituted so far in the state of Tamil Nadu.

District allocations shall be based on the following criterion:

80%	Population (32% Total Population, 32% Women Population, 16% SC/ST Population)
10%	Area
10%	District Income

Inter se allocation among PUs and VPs shall be based on the following criterion:

80%	Population (32% Total Population, 32% Women Population, 16% SC/ST Population)
20%	Area

Vertical sharing among Municipalities could be based on the following criterion:

80%	Population (32% Total Population, 32% Women Population, 16% SC/ST& Slum Population)
10%	Area
10%	Debt Burden

RECOMMENDATIONS

Global Sharing

- Based on the SOTR as arrived at by the Commission by adopting Compounded Annual Growth Rate for major state taxes (*viz.* sales tax, motor vehicle tax, stamp duty and state excise etc.) the devolution transfer to LBs under Pool B shall be 10% for each year during entire award period of 3rd SFC (2007-12).

[Accepted with following modifications:]

2007-08	9%
2008-09	9%
2009-10	9.5%
2010-11	10%
2011-12	10%

- The rural share shall be 50% on population and 50% on collection for which Section 175 of TN Panchayat Act, 1994 may be amended.

[Not accepted]

- Pool B devolution between Panchayats and Municipalities shall be at 58:42 respectively.

[Accepted]

Assignment of Revenues

- The Entertainment Tax dues from 1997-2002 and from 2002-2006 should be adjusted to LBs in 2007-08 by the government, failing which LBs are entitled for interest at the maximum.

[Accepted with modification that the arrears if any will be released but without interest]

- Collection charge shall be 1% of the tax proceeds and the balance 99% of the Entertainment Tax shall be transferred to LBs with effect 1.4.2007.

[Status quo shall continue]

- There should be separate detailed heads for Surcharge on Stamp Duty collections and apportionment to LBs.

[Accepted]

- Ceiling on Local Cess may be enhanced from Re. 1/- to Rs. 3/- with a minimum of Rs. 2/-.

[Not accepted]

- Minimum Local Cess Surcharge may be enhanced from Rs.5/- to Rs. 10/- and further enhancement of the same may be left to Panchayat Unions.

[Not accepted]

- With regard to the Profession Tax, the income slab rates for salaried class shall be revised and those in the higher income bracket shall be made to pay higher levy.

[Not accepted. Status quo shall continue]

- No separate water tax/ sewerage tax needs to be collected by Municipalities except by Chennai Metropolitan Water Supply and Sewerage Board.

[Accepted]

- The education tax shall continue to be levied at the rate of 2.5% of Annual Rental Value or any other rate prescribed instead of as a percentage of Property Tax.

[Accepted]

- The government shall identify the places of archaeological/ historical interests and fix rates for different vehicles for the collection of tourist tax by Municipal bodies.

[Not accepted]

- The advertisement tax share should be apportioned to the Municipalities.

[Accepted]

- In all Municipal Corporations, parking areas may be identified and parking lots be developed and parking fees may be collected.

[Accepted]

- 100% proceeds of Fishery rental from VP ponds and 50% of the same from PU tanks should be credited to VP account.
[Accepted]
- The local bodies should be empowered to levy property tax in the Housing Board notified area.
[In vogue. Deemed to be accepted]
- Municipalities shall be permitted to levy tract rent on the land used for TN Electricity Board poles at the rates as prescribed by the government.
[Not accepted. Status quo shall continue]

Horizontal Distribution

- Horizontal sharing among Panchayats shall be at 8% for District Panchayats, 32% for Panchayat Unions and 60% for Village Panchayats. In respect of Municipalities, 30% for Municipal Corporations, 41% for Municipalities and 29% for Town Panchayats.
[Accepted]

Grants-in-Aid

- Specific purpose grant under Pool C shall be 0.5% to 1% of the SOTR.
[Not accepted]
- 50% of the Rural Road Development fund shall be given to the DPs only.
[Not accepted. Status quo shall continue]

Functions and Functionaries

- State government to plea Central Government for amending Article 285 to enable LBs to levy service charges on Central Government buildings/properties.
[Accepted]
- The LBs should involve SHGs and NGOs in raising public awareness and also function as the watch dogs of the local body administration.
[Accepted]
- The Municipal Council shall be empowered to fix the rates with reference to the minimum and maximum prescribed by the government in such a way that is not too exorbitant for the tax payer.
[Accepted]
- All fee collecting institutions viz. schools, colleges, medical institutions, coaching centres etc. shall be subjected to House Tax.
[Accepted]

- The issue of birth and death certificates shall be entrusted to the VPs and the VP President shall be the issuing authority.
[The High Level Committed constituted to examine the delegation of powers to the LBs will examine the issue.]
- The devolution grant may be exclusively spent for development.
[Accepted]
- The following functions should be discharged by the TN State Pollution Control Board in close cooperation with Municipalities:
 - a) Regulation of sanitary filled sites
 - b) Scientific disposal of municipal solid waste*[Accepted]*

Other Measures

- The State government may address Government of India to remove ceiling on the Profession Tax rates and let the States decide the same depending on the augmenting capacities of the local bodies.
[Accepted]
- The loan deductions from devolutions in respect of Municipalities shall not exceed 25% of the gross devolution.
[Not accepted]
- Every year, alongwith the Budget, the government must place details of the transfer to the LBs made during the year based on the decision taken by the government.
[In vogue. Deemed to be accepted]
- A local body council should be constituted and its effective functioning be ensured.
[Not accepted]
- The creation of Ombudsman has been reiterated on the lines of Kerala and Karnataka.
[Not accepted]
- There should be no ceiling on collection of water charges and the minimum may be retained at Rs. 30/- per month for residential supply.
[Accepted with modification that Panchayats shall be allowed to revise the rates at appropriate intervals]

Tripura Third State Finance Commission

Award Period: 2005-06 to 2009-10

Constitution: March 2008

Report Submission: NA

ATR Submission: March 2010

Composition

R K De Choudhary, Special Secretary Finance Department, Govt. of Tripura	- Chairman
Bhupal Sinha Controller of Examinations Tripura University	- Member
Soumitra Bandopadhyay, Joint Secretary, Finance Department, Govt. of Tripura	- Member Secretary

Terms of Reference

Under Article 243-I of the constitution of India the Governor appoints a Finance Commission to review the financial position of Panchayats and to make recommendations as to:

- a) *the principles which should govern:*
 - iv. *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 Panchayats at all levels of their respective share of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats;*
 - vi. *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;*

Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.²⁷

²⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Methodology

Approach is guided by the mandate of the constitutional provisions and the terms of reference contained in the order constituting the commission. Actual revenue expenditure is to be assessed and realistic estimates of expenses are to be projected over a period of next five years in order to ascertain the revenue gap of all Panchayats in totality. Differentiation has been made for hilly and plain areas. Projection is computed keeping in view forecast of the State Government on SOTR submitted to the 13th Finance Commission. Pre-devolution gap has been computed by assessing requirement of establishment expenditure, maintenance expenditure and development expenditure of the Panchayats.

RECOMMENDATIONS

Global Sharing

- Matching contribution in the ratio of 1:1 to be provided additionally to the below devolution to the concern Panchayats:

Recommendation for devolution of fund from share of taxes

(Rupees in crore)

Item	2010-11	2011-12	2012-13	2013-14	2014-15
For Panchayats only	26.80	29.25	31.95	35.00	38.50
For Panchayats of Sixth Schedule areas	19.60	21.52	23.86	26.03	28.52
TOTAL	46.40	50.77	55.81	61.03	68.82

[It may be accepted]

Assignment of Revenues

- Service charge at nominal rate ranging from Rs 5/- to Rs. 50/- to be realized from the beneficiaries who are provided significant benefits of durable nature from the Panchayats.

[Not accepted]

Horizontal Distribution

- Development fund per capita ratio of 4:5 is maintained between Panchayats & ADC (autonomous district council) areas.

[It may be accepted]

- Fund devolved among PRIs and RLBs in sixth schedule areas based on population.

[It may be accepted]

Grants-in-Aid

- Matching amount of additional grant equal to the amount of revenue collected by the Panchayats to be provided from the state govt. as an incentive.
[It would be examined]
- Grant may be provided for setting up of 3 more training institutes in the state along with its up keeping cost.
[It may be accepted]
- Grants may be provided for meeting expenditure for imparting training and capacity building of the elected representatives and staff of Panchayats.
[It may be accepted]
- Grants for meeting shortfall of fund in maintenance of assets and for establishment expenditure.
[It may be accepted]

Functions and Functionaries

- All village markets should be managed and controlled by the Panchayats so that they can levy & collect tolls and taxes from those markets.
[It may be accepted]
- Panchayats should utilize fisheries, horticulture farms etc assets for supply of inputs to various development schemes and raise their own revenue.
[It may be accepted]
- Panchayat Samities may let their halls on rent.
[It may be accepted]
- Maintenance of Asset Register.
[It may be accepted]

Other Measures

- Rules for collection of taxes, tolls, duties & fees by the Panchayats to be framed & notified.
[Not considered]
- A scheme for providing incentive against collection of revenues by Panchayats may be introduced.
[It may be accepted]
- The records of providing benefits under various welfare and development schemes may be reflected and maintained in a family card.
[It may be examined]

Uttar Pradesh Third State Finance Commission**Award Period: 2006-07 to 2010-2011****Constitution:** December 2004**Report Submission:** August 2008**ATR Submission:** February 2010**Composition**

- S.A.T. Rizvi, IAS (Retd.) - Chairman
- Principal Secretary,
Urban Development, Govt. of Uttar Pradesh - Member
- Secretary, Finance Department
Govt. of Uttar Pradesh - Member

RECOMMENDATIONS**Global Sharing**

- 15% of the state's net own tax and non-tax revenue to the local governments.
[Accepted with modification, i.e. devolution of 12.5%]
- The devolution would be in the ratio of 60:40 for Municipalities and Panchayats.
[Accepted]

Assignment of Revenues

- Trade tax should be assigned in four slabs as mentioned below

Raw martial	4%
Jewelry	1%
Motor Spirit Diesel	20%
Others	12%

[Deferred]

- Pithead value of Mineral be increased from 20% to 25% in the context of royalty from minerals. The arrangement needs to be reviewed periodically.
[Deferred]
- Exemptions to women for stamp duty payment, at the time of the purchase of immovable properties, to be withdrawn.
[Deferred]
- Enhancement of the license fee to Rs. 2400 per annum from the cable operators.
[Deferred]
- The Gram Panchayats should levy the house tax.
[Deferred]

- The rate of profession tax should be increased by Rs 10000 from the running rate of Rs. 25000. [Deferred]
- 50% of land revenue and 20% of house tax should be charged as flood safety fee from the farmers in the villages and residents in the cities whose agriculture land and buildings respectively are safe through flood safety measures. [Deferred]

Horizontal Distribution

- An amount of Rs. 9686 crore would be devolved to the Panchayats for the award period. It would be distributed among the Zila Panchayat (ZP), Kshtra Panchayats (KPs) and Gram Panchayats (GPs) in the ratio of 20:10:70 respectively. [Accepted]
- The inter-se distribution among Municipal Corporation, Municipal Council and Nagar Panchayat would be in the ratio of 40:40:20 respectively. [Accepted]
- The criteria adopted for the inter-se distribution among Municipal Corporation, Municipal Council and Nagar Panchayat would be as mentioned below:

Parameter	Weight
Population	50%
SC/ST Population	10%
Index of Integrated Development	30%
Revenue Effort	10%

[Accepted]

- Funds meant for panchayats will be distributed among districts as per the formula mentioned below:

Parameter	Weight
Population	50%
SC/ST Population	10%
Index of District Integrated Development	30%
Revenue Effort	10%

[Accepted]

- Funds allocated to Blocks will be distributed as per the formula mentioned below. Similar formula will also apply for Gram Panchayats:

Parameter	Weight
Population	80%
SC/ST Population	20%

[Accepted]

- Entertainment show, recreation, sports and horse race should be included under the definition of Show Tax.

[Deferred]

Grants-in-Aid

- Additional Grant of Rs. 15729.95 crore to fulfill the necessary basic infrastructural needs for the award period [Not Accepted]
- Additional Grant of Rs. 5379.23 crore for the needs based on social justice for the award period of five years.

[Not Accepted]

- Grant of Rs 119.25 crore for the award period to assist Mid-Day Meal Scheme @.Rs. 45,000 per year.

[Accepted with modification of Rs 15,000 per year]

- One time grant of Rs. 42.12 crore and annual recurring grant of Rs. 28.45 crore to GPs for the construction of library and information center.

[Deferred]

Functions and Functionaries

- Appointment of staffs in panchayat to manage the piped water supply mechanism in rural areas

[Deferred]

- Proper monitoring is needed at departmental head level to encourage ZP towards various ways to raise revenue.

[Considered]

- Only the GPs are permitted to do fisheries in the rivers. In this context necessary guidelines should be issued collectively by all the departments i.e., revenue, irrigation and fisheries.

[Accepted]

- GPs should be authorized to levy onetime fee in proportion to the market price of the land based on the nature of land use from such agricultural lands that are used for purposes other than farming.
[Deferred]
- ZP employees should be declared as state employees on the line of KPs and GPs.
[Not Accepted]
- Shiksha Mitra could be appointed directly by GPs on the basis of Gradation Schedule.
[Deferred]
- The services of the finance controller of District Rural Development Agency (DRDA) are required to strengthen the internal auditing mechanism of ZP.
[Accepted]
- Director Panchayati Raj should be authorized to transfer the tax officers and junior engineers at ZP level.
[Deferred]

Other Measures

- Units of local fund audit should be affiliated with the municipal corporations to strengthen the audit system.
[Accepted]
- Establishment of a Police Cell in Municipalities
[Deferred]
- Public Private Partnership (PPP) should be promoted.
[Accepted]
- Post of Environment Engineer should be created in place of Sanitary Inspector.
[Deferred]
- The process of determining water charges should be more rational.
[Accepted]
- A research cell should be set up in the tax and registration department.
[Deferred]

Uttarakhand Third State Finance Commission

Award Period: 2010-11 to 2015-16

Constitution: December 2009

Report Submission: NA

ATR Submission: NA

Composition

Indu Kumar Pande	- Chairman
T N Singh, Former Additional Secretary Finance Department	- Member Secretary
L N Pant, Budget Officer Finance Department	- Secretary
M C Joshi (Dr) Additional Secretary, Finance Department	- Member

Terms of Reference

The State Finance Commission shall review the financial position of the Panchayats and the Municipalities and make recommendations to the Governor as to:

- a) *the principles, which should govern:*
 - i. *the distribution between the State and Gram/Kshetra/Zila Panchayats and Urban Local Bodies, 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 Urban Local Bodies 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 Urban Local Bodies;*
 - iii. *the principles which should govern grants-in-aid to the Gram/Kshetra/Zila Panchayats or Urban Local Bodies from the consolidated fund of the State.*
- b) *the measures for strengthening the financial position of Gram/Kshetra/Zila Panchayats and Urban Local Bodies.*
- c) *any other matter, which the Governor may refer to the Commission in the interests of sound finance of Gram/Kshetra/Zila Panchayats and Urban Local Bodies;*²⁸

In making its recommendation, the State Finance Commission shall have regard, among other considerations to:

²⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- i. 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;
- ii. The liabilities of Panchayats and ULBs in respect of implementation of schemes entrusted to them under Article 243-G and 243-W and works entrusted to them at appropriate levels;
- iii. The revenue resources of Panchayats and ULBs 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;
- iv. The matching efforts of the Panchayats & ULBs with the devolution amount;
- v. The scope for improvement in fiscal management as well as organizational streamlining consistent with economy in expenditure and efficiency in administration;
- vi. 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, 2015;
- vii. The Commission may make an assessment of the debt position of the Panchayats and ULBs at all levels as on 31 March, 2011 and suggest such corrective measures as are deemed necessary keeping in view the financial requirements of the State;
- viii. If the funds available at local level; do not meet full requirement of expenditure on Plan side after the new arrangement, then the Commission will make specific recommendation regarding the arrangement of funds for expenditure on both Plan and Non-plan side; and
- ix. The use of information technology and right sizing of staff.

In discharging its responsibilities, the State Finance Commission shall have the following powers:

- i. It can ask for any information or document from any officer or authority;
- ii. It can send for any person for evidence or to produce a document;
- iii. The commission will determine its own procedure;
- iv. Any other powers, as may be laid down.

Methodology

The assessment of the finances of Municipalities & Panchayats includes their resources base, capacity to raise resources, and expenditure requirements in terms of the functions assigned to them. The U P Acts consisting of the U P Municipal Corporation Act, 1959, the U P Municipalities Act, 1916 for the ULBs, and the U P Panchayat Raj Act, 1947 and U P Zila Panchayat & Kshetra Panchayat Act, 1961 for PRIs continue to govern the local bodies of Uttarakhand. Separate financial assessments have been made for the State, the Municipalities and the Panchayats at various levels. Assessments of the finances of the local

bodies have been based on the responses to the detailed questionnaires sent out by the Commission.

RECOMMENDATIONS

Global Sharing

- 10.5% of the State's own tax revenue to be distributed equally between the Municipalities and Panchayats in the ratio of 50:50. [Accepted with modification]
- Grant-in-aid of 0.25% over and above 10.5% to be given to local bodies depending on the quantum of arrears. [Accepted with modification]

Assignment of Revenue

- Profession tax to be levied in the State and assigned to Municipalities in the urban areas and to ZPs in rural areas and Circumstances & Property tax to be replaced by it. [Cognizance taken]
- Circumstances & Property (C&P) Tax to be replaced by profession tax. [Cognizance taken]
- Municipalities to get conversion charges as per the changes in the land use of a master plan area. [Cognizance taken]

Horizontal Distribution

- The distribution of devolution amount among various categories of Municipalities shall be distributed as follows:

Nagar Nigams (NNs)	25%
Nagar Palika Parishads (NPPs) (30)	60%
Nagar Panchayats (NPs) (30)	15%

[Accepted]

- *Inter-se* distribution between Nagar Nigams would be based on the following criterion:

Population	75%
Area	10%
Tax Effort	10%
Special Circumstances	5%

[Accepted]

- *Inter-se* distribution of the devolution amount among NPPs & NPs would be based on the following criterion:

	Nagar Panchayat	Nagar Palika Parishads
Population*	65%	60%
Area**	10%	10%
Per capita on revenue	15%	15%
Special Circumstances	10%	15%

*Actual population subject to a minimum of 5000

** For consideration of area, all NPPs would be placed in one of four bands, and all NPs in one of three bands with different weights assigned to these bands as under.

NPPs

Area Bands (sq. km.)	0-10	11-20	21-30	above 30
Weight	50%	70%	85%	100%

NPs

Area Bands (sq. km.)	0-10	11-20	above 20
Weight	65%	95%	100%

[Accepted]

- The distribution of devolution amount among various categories of Panchayats shall be done as follows:

Gram Panchayats (7541)	50%
Kshetra Panchayats (95)	20%
Zila Panchayats (13)	30%

[Accepted]

- Devolution to different tiers of Panchayats would be based on separate formulae and weights assigned to different components would be as follows:

Population	50%
Area	20%
Remoteness	15%
Tax Effort	15%

[Accepted]

- The formula for devolution to the Kshetra Panchayats shall be as follows:

Population	60%
Area	15%
Remoteness	15%

No. of GPs	10%
------------	-----

[Accepted]

- In case of GPs, following two factors are to be taken into consideration for devolution:

Population	80%
Area	20%

[Accepted]

Grants-in-Aid

- Incentive grant to Municipalities in 2015-16 that have fully utilized the grants of 13th Finance Commission during 2010-15:

Nagar Nigams	50 lakhs
NPPs with population above 1 lakh	40 lakhs
50000 to 1 lakh	30 lakhs
20000 to 50000	20 lakhs
below 20000	10 lakhs
NPs	5 lakhs

[Accepted]

- Annual grant-in-aid of Rs. 15 lakhs has been recommended to ZP Uttarkashi.

[Accepted]

- Grant-in-aid of Rs. 1.68 crore in the year 2012-13 for construction of ZP building in Champawat.

[Accepted]

- A special annual grant of Rs. 5 lakhs is recommended for institutional arrangement of solid waste in Kausani.

[Accepted]

- Grant-in-aid of Rs. 50 lakhs is recommended for NPP Nainital for repairs, renovation and modernization of Durga Sah Memorial Library in the year 2012-13.

[Accepted]

- Annual grant of Rs. 25 lakhs to Uttarakhand Academy of Administration for capacity building/research work relating to urban issues has been recommended.

[Accepted]

Functions and Functionaries

- Outsourcing of functions should be seriously considered in order to compensate the lack of staff.

[Accepted]

- There is an urgent need to (a) develop and prescribe uniform budget formats for all Municipalities; and (b) identify and prescribe appropriate accounting software for use by Municipalities and make its adoption mandatory.

[Accepted]

- A beginning should be made, in selected Municipalities like the Nagar Nigam and the larger NPPs, for experimenting with on-line payment of property tax and license fees and public grievances. Gradually it should be extended to the other Municipalities.

[Accepted]

Other Measures

- ‘Unit Area System’ of computation of property tax based on self-assessment principle to be started in Dehradun, Hardwar, Haldwani, Nagar Nigams and Roorkee, Kashipur, NPPs and then gradually extended to other NPPs & NPs.

[Accepted]

- A regular system of recruitment and training to be introduced.

[Accepted]

- Integrated city/town planning should be implemented with greater focus on convergence and periodic revision of master plan.

[Accepted]

- Financial management systems at Municipalities level to be strengthened.

[Accepted]

- Both the directorates i.e. Municipalities and Panchayats need to be strengthened and e-enabled.

[Accepted]

West Bengal Third State Finance Commission

Award Period: 2008-09 to 2012-13

Constitution: February 2006

Report Submission: October 2008

ATR Submission: July 2009

Composition

SukhbilasBarma (Dr) IAS (Retd.)	- Chairman
N NBandyopadhyaya (Prof)	- Member
Bijan Kumar Kundu, IAS, Spe. Secretary, Home Department	- Member
B P Syam Roy (Dr) IAS, Spe. Secretary, Development & Planning Department	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

A. In case of Panchayats

- 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 IX of the Constitution of India 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 the Panchayats from the Consolidated Fund of the State;*
- b) *the measures needed to improve the financial position of the Panchayats;*

B. In case of Municipalities

- a) *the principles which should govern:*
 - i. *the distribution between the State and the Municipalities, of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this Part IX A of the Constitution of India and the allocation between 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 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;*²⁹

In making recommendations, the commission shall have regard, among other considerations, to:

- i. the resources of the state government and the demands thereon on the 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;

The commission shall determine its own procedure.

Methodology

Questionnaires were circulated to all the Panchayats and Municipalities. Views of the Director Panchayati Raj, non departmental representatives, Panchayati Raj Department, Urban Development department were collected. Visits were made to several districts, blocks and GPs and discussions were carried out with the representatives of Panchayats, Municipalities and Corporations.

RECOMMENDATIONS

Global Sharing

- 5% of State's own net tax revenue to be devolved as an 'untied' entitlement to the LSGs for 2008-09 with a progressive increase of 12% per annum for the remaining four financial years. [Accepted]
- The total 'untied' fund allocation at the state level should be split into 2 segments: Municipalities & Panchayats, with the respective population ratio 24:76. [Accepted]
- 2% 'incentive fund' to be raised for improvement of own resource mobilisation and participatory governance of the LSGs in the following departments:
 - i. Panchayat and Rural Development (76%)
 - ii. Municipal Affairs Department (24%)[Accepted]

Assignment of Revenues

- Rates and taxes to be transferred to the Panchayats with effect from the financial year 2010-11 are as follows:
 - i. Entertainment Tax

²⁹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- ii. Profession Tax
- iii. Land Revenue
- iv. Royalties on minor minerals
- v. Collection of Irrigation rates

[The transfer of power will depend upon the capability of the local body]

- Entertainment tax and profession tax to be assigned to Municipalities.

[The transfer of power will depend upon the capability of the local body]

- Incorporating a provision enabling Municipalities to collect at least Service Charges from the occupiers of unauthorised constructions.

[The transfer of power will depend upon the capability of the local body]

- Municipalities should collect outstanding property tax.

[Accepted]

Horizontal Distribution

- 12% of 'untied' fund is allocated to ZPs, 18% to PSs and 70% to GPS.

[Accepted]

- An allocation of 0.726% of the total 'untied' fund as the entitlement to the Hill area Panchayats.

[Accepted]

- 20% of 'untied' fund to be utilised for maintenance of assets by the LSGs, owned by or transferred to them.

[Not considered]

Grants in Aid

- A special fund named as a 'Pension Fund' to be granted to the Municipalities constituting of the amount received on account of arrear Property Tax and the Service Charges.

[Not considered]

- Municipalities to be given a share of proceeds from sale/lease of lands owned by parastatal agencies/State/Central Governments, within their jurisdiction.

[It requires further examination]

Functions and Functionaries

- Municipalities to be allowed to impose annual fees on the service providers like power utilities, telephone companies and cable T.V. companies.

[It requires further examination]

- All the Municipalities to introduce door-to-door garbage collection systems and impose necessary fees for the same.

[Implemented]

- Suitable rules to be framed empowering Municipalities to collect Non-Tax revenue on all the items mentioned in the act.

[Accepted in principle]

- Municipalities should be allowed to impose tolls at a higher rate for heavy trucks for use of municipal roads and on tourist/ pilgrims.

[It requires further examination]

- Conversion of posts of Panchayat bodies into posts of Block and District Panchayat Cadres and then filled up by the respective local bodies.

[Accepted]

- Municipalities should be empowered to issue trade licenses of shops and establishment of shopping mall at a higher rate.

[Accepted]

Other Measures

- Training Institutes to be set up in all district headquarters for year round training/refresher courses of all associated functionaries of the LSGs.

[Accepted]

- Geographical Information System (GIS) should be introduced in all Municipalities.

[Not considered]

- Ferries coming under the section 132 of the West Bengal Municipal Act, 1993, to be returned to the concerned Municipalities.

[It requires further examination]

- Water rates should be introduced on the basis of consumption in all Municipalities.

[Accepted]

- For proper accountability of the LSGs, double entry system of book keeping and accounting in order to speed up the system.

[Accepted]

- Instead of Rental Method of Valuation and Land and Building Method of Valuation, 'Unit Area' Method or 'Capital Value' Method to be introduced.

[Under Consideration]

- Impact fees should be introduced on shopping mall, multiplexes and residential-cum-shopping complexes.

[It requires further examination]

- Urgent rejuvenation of the DPCs.

[Accepted]

Andhra Pradesh Second State Finance Commission

Award Period: 2000-2001 to 2004-2005

Constitution: .12.1998

Report Submission: 19.8.2002

ATR Submission: 31.03.2003

Composition

D L Narayana (Prof) Retd. Professor of Economics	- Chairman
K Pichayya Retd. Finance Commissioner PR & RD Department	- Member
A Damodar (Dr) Chairperson, Wanaparthy Municipality	- Member
J Krishna Rao Sarpanch, Gram Panchayat	- Member
M Venkatramaiah Formerly Deputy Secretary First SFC	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- c) *the principles which should govern:*
 - i. *the distribution between the state and the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations 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 said bodies at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations;*
 - iii. *the grants-in-aid to the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations from the consolidated fund of the state;*

- d) *the measures needed to improve the financial position of the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations including measures for improving the management of available resources.*

The Commission shall also make recommendations on any other matter that may be referred to it by the Governor in the interest of sound finances of the Panchayat Raj and Municipal Bodies referred to above.³⁰

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

- i. *The resources of the State Government and the demands thereon, in particular on account of expenditure on administration debt servicing and other committed expenditure or liabilities;*
- ii. *The revenue resources of the bodies, for the five years commencing on 1st April, 2000 on the basis of the levels of taxation possible to be reached in 1998-99, targets for additional resources mobilization and the potential for raising additional taxes;*
- iii. *The requirements of the Panchayat Raj Institutions and Municipal Bodies for meeting the non-plan revenue expenditure on staff and administration etc., also keeping in view the potential for raising their resources;*
- iv. *The requirements of the bodies for capital expenditure for creating assets like Water Supply Schemes, Roads, Bridges, Buildings, Minor Irrigation source;*
- v. *The maintenance and upkeep of capital assets like buildings, roads, water supply schemes, minor irrigation sources by the Panchayat Raj Institutions, Municipal Bodies, Municipal Corporation and the norms, on the basis on which specified amounts are recommended for the maintenance of assets;*
- vi. *The requirements of the Panchayat Raj Institutions and Municipal Bodies in the upgradation of standards in non-developmental sectors and services particularly in respect of Institutions which are backward;*
- vii. *The provisions required for emoluments and the terminal benefits of employees including teachers and other employees;*
- viii. *The scope for computerization of accounts; and*
- ix. *The incentives which may be provided for better realization of taxes and non-taxes.*

The Commission shall also indicate the manner in which the receipts and expenditure of the Panchayat Raj and Municipal Bodies can be monitored for better financial management.

³⁰ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

The Commission may also make recommendations about the financial devolutions to the Panchayat Raj Institutions and Municipal Bodies for the functions devolved on them under Articles 243 G and 243 W of the Constitution of India.

The Commission shall indicate the basis on which it has arrived at its findings.

In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1991 in all cases where population is regarded as a factor for determinations of devolution of taxes and duties and grants-in-aid.

Methodology

A questionnaire was issued in Telugu to the GPs in State to furnish information about their income, expenditure and to indicate their views on collection of taxes, resource mobilization etc. Information on receipts & expenditure has been called upon from the executive authorities of the local bodies in a prescribed proforma for the period of four years from 1996-97 to 1999-00 and anticipated receipts and expenditure for five years from 2000-01 to 2004-05. The senior officials have also been addressed by the Commission to furnish their views and a Memorandum of Requirements. To have the first hand information on various financial and functional aspects of the local bodies, the Commission conducted visits to 10 districts and meetings were carried out with the District Collectors, and senior officials of ZPs , and officials of other departments. Meetings were conducted with the Mayors, Commissioners, Chairpersons of different Municipalities in order to have their views with respect to Municipalities.

RECOMMENDATIONS

Global Sharing

- 10.39% in the total tax & non-tax revenue of the state including the share of central taxes for the year 2000-2001 to be devolved to Panchayats & Municipalities. (6.76% for Panchayats & 5.63% for Municipalities)

[Not considered]

Assignment & Revenues

- Levy of taxes on vehicles (other than motor vehicle) and fruit bearing trees on Panchayat lands by GPs.

[Not considered]

- Levy of special taxes on houses by GPs.

[Not considered]

- Tax imposition on items like sugar cane, coffee and black pepper.
[Not considered]
- Collection of Cable Tax by District Panchayats on regular basis.
[Not considered]
- A surcharge of five percent on Market Cess.
[Not considered]

Horizontal Distribution

- The revenue forgone by Panchayat due to abolition of local tax should be given to them as compensation in the following ratio

Gram Panchayat	50%
Mandal Panchayat	30%
Zila Parishad	20%

[Not considered]
- In respect of major & medium sector of irrigation allocation of Gram Panchayats may be fixed at 10% of water charges per acre as in the case of minor irrigation sources instead of Rs 10 per acre.
[Not considered]
- 10% of the income released by the state Government towards motor vehicle tax may be given as compensation to Municipalities.
[Not considered]
- Release of an amount of Rs. 19.40 crores p.a. for the award period under minor irrigation.
[Not considered]
- Release of an amount of Rs. 165 crores p.a. to the Municipal Corporations for civic amenities etc. on population basis.
[Not considered]
- 2% of the basic price plus excise duty plus sales-tax at the initial point of release of the liquor in the market may be set apart as excise cess. It may be distributed among Municipalities and Panchayats on population basis.
[Not considered]
- Funding of the amounts required for infrastructure development on Water Supply and Drainage in urban bodies may be in the following ratio:

Urban Bodies	10
Loan	30
State Government	40
Government of India	20

[Not considered]

- From the 5% Surcharge on Market Cess 20% of the amount shall be passed on to the local governments where market committee is located and the remaining 80% shall be distributed among the other Municipalities and Panchayats that lie within the jurisdiction of the market committee.

[Not considered]

Grants-in-Aid

- Provision of special grant to strengthening small Panchayats on population criteria as follows:

SLAB-I Gram Panchayats with population up to 500	50,000 each
SLAB-II Gram Panchayats with population from 501-1000	75,000 each
SLAB-III Gram Panchayats with population from 1001-1500	1,00,000 each

[Not considered]

- Special grant of Rs. 39.22 crore to 81 Municipalities from the year 2002-2003 to meet the demand of the salaries bill of the no-teaching employees.

[Not considered]

- Vijayawada and Visakhapatnam Municipal Corporations have established plants for conversion of Solid Waste as manure etc. The Commission recommends that an incentive grant of Rs. 1 crore each to the remaining five Municipal Corporations may be given, if they come forward to establish Solid Waste Management Plants.

[Not considered]

- Eleventh Finance Commission grant of Rs. 152.05 crores for providing Civic Amenities to Gram Panchayats, Data Bank, Maintenance of Accounts etc., may be distributed as per the formula.

[Not considered]

- The Eleventh Finance Commission grant of Rs. 32.93 crores p.a. for creation of Data Base relating to finances of Municipal Bodies and for Maintenance of Civic Amenities may be distributed among Municipal Bodies.

[Not considered]

- An amount of Rs 0.41crore p.a. as grant in aid to provide drinking water in schools.

[Not considered]

- Grant of Rs 31.00 crore p.a. for construction of Panchayat building.

[Not considered]

Functions & Functionaries

- Transfer of small scale industries to local governments.

[Not considered]

- The Regional Transport Officers may be authorized to adjust Motor Vehicle Tax compensation to the Municipal Corporation & Municipalities.

[Not considered]

- Transfer of schools in urban area in Telangana Region to Municipal Corporation & Municipal Councillor to maintain uniformity in the procedure throughout the state.

[Not considered]

- Appointment of an officer on special duty before it is proposed to constitute the third SFC.

[Not considered]

- The Commissioner and Director of School Education should prepare a district allocation statement of contingent grant, immediately after the budget is passed and necessary formalities are completed and send it to the District Treasury Officers with budget authorisation before 30th April with instructions to adjust the amount to the Zilla Parishads / Mandal Parishads by 15th May and 15th October.

[Not considered]

- Gram Panchayats have to prepare Five Year Plans and Annual Plans for utilisation of Grants by prioritising their needs.

[Not considered]

Other Measures

- Constitution of SFC cell.

[Not considered]

- State government may appoint subsequent SFC much before the constituted of National Finance Commission.

[Not considered]

- Review of the implementation of recommendation of SFC by a statutory authority which may submit the report by 30th June of the succeeding year to the Governor with a copy to Government.

[Not considered]

ATR: Based on the review of the Cabinet Sub- Committee, Government agreed to devolutions to the extent of Rs 300 crores per annum towards Second State Finance Commission grants to the Local Bodies as shown below:

Name of the Local Body	Rs in Crores per annum
Panchayats	200.00
Municipalities	100.00

The amounts are to be distributed as shown below:

Panchayats

Name of the Local Body	Rs in Crores
Zilla Parishads	40
Mandal Parishads	25
Gram Panchayats	135

Municipal Bodies

Name of the Local Body	Rs in Crores
Municipalities	80
Municipal Corporations	20

Assam Second State Finance CommissionAward Period: 2001-2002 to 2005-2006

Constitution: April.2001

Report Submission: 18.8. 2003

ATR Submission: February 2006

Composition

Rajiv Kumar Bora, IAS Commissioner and Secretary Finance Department	- Chairman
Dilip Barua (Dr) Professor of Economics	- Member
S K Dutta, Retd. Director Finance (E A) Department	- Member
M Ariz Ahammed (Dr) Joint Secretary, Education Department	- Member
G C Laskar Director, Finance (E A) Department	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to-

- a) *The principles which should govern:*
- vii. *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 under this Part and the allocation between the Panchayats /Municipalities at all levels of their respective share of such proceeds;*
 - viii. *the determination of the taxes, duties,, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - ix. *the grants-in-aid to the Panchayats as well as the Municipalities from the consolidated fund of the state.*

- b) *To make recommendations to the Governor as to measures needed to improve the financial position of the Panchayats /Municipalities.*³¹

The expression 'Municipalities' includes Municipal Corporation and Town Committee.

The Commission may make an assessment of (a) the actual debt position of each of the Local Bodies as on 31st March, 2000 (b) estimated debt position of each of the Local Bodies as on 31st March, 2001 and suggest suitable measures relating to the debts as are deemed necessary, keeping in view also the financial requirements of the State Government.

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

- i. the objective of balancing the receipts and expenditure on revenue account of both the Local Bodies as a whole and the State Government and each Local body;
- ii. the resources of the State Government and the demands thereon, in particular, on account of expenditure on maintenance of law and order, civil administration, debt servicing and other committed expenditures;
- iii. the revenue resources of the Local bodies for the five years commencing on 1st April 2001 on the basis of the level of collection made during 1998-99 from taxes, duties, tolls, fees, cess etc. levied by them;
- iv. the potential for raising additional revenue from the existing sources available to them; and
- v. the scope for better financial management consistent with efficiency and economy in expenditures.

In making its recommendations on various matters aforesaid, the Commission shall adopt the population figures of 1971 Census in all cases, where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

The Commission shall indicate the basis on which it has arrived at its finding and make available the Local Body- wise estimates of receipts and expenditure.

Methodology

The constitution of the Commission was given wide publicity through print and electronic media and views, suggestions and opinions were invited from individuals, institutions, political parties and other academic organizations. Separate questionnaires were prepared and sent to Parishads and also the Deputy Commissioners seeking information on both urban and rural local bodies. Relevant data/ information were collected from the State and Central Government agencies and autonomous bodies.

³¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Discussions were held with departmental officers of the State Government. A member of the Commission was deputed to participate in the National Workshop on Panchayati Raj Finances organized by NIRD at Hyderabad.

RECOMMENDATIONS

Global Sharing

- 3.5% of the aggregate collection of states taxes and duties to be devolved annually to local governments based on the census of 1991.

[Not accepted]

Assignment of Revenue

- Levy of tax on cultivation land by GPs lying fallow for two consecutive years.
- Collection of surcharge of stamp duty by Municipalities.
- Implementation of user charge instead of property tax on central & state government properties.

[Not considered]

[Accepted]

[Accepted]

Horizontal Distribution

- The horizontal distribution of divisible pool for Panchayats as between different district would be on the basic of the weightage average of three criteria, population, geographical area and per capital net district domestic product (NDDP).
- The distribution between three tier of Panchayat *viz.* Zilla Panchayat, Anchalik Panchayat and Gaon Panchayat would be in the ratio of 10:30:60.
- The horizontal distribution of the divisible pool among the individual Municipalities are as follow:

[Not considered]

[Not considered]

Population	50%
Area	25%
Infrastructure Index	12.5%
Per capita tax collection	12.5%

[Not considered]

Grants in Aid

- A reduction of 5% in the grant in aid to Panchayats for payment of salary for the year 2004-2005.

[Not accepted]

- A grant in aid of Rs 10.00 crore to Municipalities out of which GMC will receive Rs 5 crore and remaining Rs 5 crore will be delivered to the Municipalities.
[Not accepted]

Function & Functionaries

- Improvements in the condition of markets, fisheries, ponds and fairies run by Panchayats.
[Not considered]
- Birth and death certificate should be transferred to local government.
[Not considered]
- The GP should do proper assessment of annual yield from various sources allocated to them and fix the target of collection for the year.
[Not considered]
- Engagement of additional manpower on contractual basis.
[Not considered]
- Creation of a separate pay structure for Panchayat employees and the Panchayat should raise their own resources to meet the salary liabilities of their employees.
[Not considered]
- Maintenance of a register of asset by both Panchayats and Municipalities.
[Accepted]
- The local government should adopt the accounts format prescribed by the C & AG.
[Accepted]
- Municipalities can consider engaging tax collectors on commission basis.
[Not considered]
- Freedom to Municipalities to revive trade license fee every three years and to distribute the rate & basic of such fees.
[Not considered]
- Restricting the power of Municipalities to appoint staff and preparing of VRS for employees of Municipalities.
[Not considered]
- Local government may encourage community participant.
[Not considered]

Other Measures

- Setting up of permanent SFC cell.
[Accepted]
- Setting up of metropolitan planning board.
[Not considered]
- Necessary amendment in GMC Act 1971 & Assam Municipal Act 1956 to enable Municipalities to adopt special rate for recovering shares.

- [Accepted]*

▪ Writing off the outstanding loan against the Panchayat, amounting Rs 46.40 lakhs.
- [Accepted]*

▪ Uniformity in the financial year of central, state & local governments.

[Not considered]
- Abolition of the maximum limit of taxes.

[Not considered]
- Fixation of a floor rate instead of ceiling rate.

[Not considered]
- Amendment in Assam Panchayat Act to enable Panchayats to impose surcharge on stamp duty on the sale, gift etc. of immovable property.

[Not considered]
- Simplification of the Tax collection productivity.

[Not considered]
- Constitutions of DPC as per the provisions of the constitution and Assam Panchayat Act, 1994 and the existing DPCs should be replaced with the new one.

[Not considered]

Goa Second State Finance CommissionAward Period: 2007-08 to 2011-12

Constitution: 24.07.2006

Report Submission: 31.12.2007

ATR: NA

Composition

Alban Couto	- Chairman
Uddipta Ray (Ms) Secretary, Finance/ Budget	- Member
R P Pal Secretary (Urban Development)	- Member
Ajit Srivastava Secretary, Panchayati Raj	- Member
Anupam Kishore Joint Secretary (DMU)	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- e) *the principles which should govern:*
 - iv. *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 under this Part and the allocation between the said bodies at all levels of their respective share of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - vi. *the grants-in-aid to the Panchayats/Municipalities from the consolidated fund of the state;*
- f) *the measures needed to improve the financial position of the Panchayats/Municipalities.*³²
- g) the measures needed for consideration of the Finance Commission to augment the Consolidated Fund of the State to supplement the resources of the Panchayats and of the Municipalities.

³² Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Methodology

The Commission held several meetings and detailed discussions were carried out with Secretaries and Heads of Departments and representatives of important organizations on the central and state government. On the basis of these, the Commission was able to make recommendations on Activity Mapping, Devolution of finances, functions and responsibilities. A considerable amount of data was also collected and analyzed for preparation and presentation of key documents. The interactions with the Public and with elected representatives of Village Panchayats (VPs), North and South Goa Zilla Panchayats (ZPs), Municipalities and consultations with departments on policy issues were limited because of the Code of Conduct that operated in the months of April, May and June 2007 for elections of Panchayats and of the Assembly. The Code of Conduct also operated in the months of September- October 2007 for the Parliamentary bye-elections.

RECOMMENDATIONS

Global Sharing

- Resource sharing was not recommended.

Assignment of Revenues

- Assignment of 2% of State Own Revenue to Panchayats to meet expenditure of Zilla Panchayats (which have no taxation powers) and Panchayats, the apportionment of the proceeds-25% to be provided to Zilla Panchayat and 75% to Panchayats on the basis of population.

Horizontal Distribution

- Total provision of Rs.1294.25 Crore for Panchayats, Rs. 629.92 Crore for Zilla Panchayat and Rs. 1011.10 Crore for Municipalities, represents transfer from Plan and Non Plan Budgets of the Departments.

Grants-in-Aid

- Grants from Directorate of Panchayats for Panchayats estimated at Rs.15.59 Crore.
- Grants to Municipalities are estimated at Rs.54.02 Crore.

Other Measures

- Activation of District Planning Committees that should first consider follow up plans on the basis of Activity Mapping and devolution of finances.
- Enlargement of District Planning Committees to provide for expert advice from relevant departments.

- Staff requirement regarding deputation and upgrading in terms of Capacity Building for Panchayats and for the District Planning Committee to be provided for 681 posts for a total financial outlay of Rs.55.06 Crore for five years.
- Acceptance of the two tier Panchayati Raj System with the addition of the Non statutory Block Advisory Committees.

Gujarat Second State Finance Commission

Award Period: 2005-06 to 2009-10

Constitution: 19.11.2003

Report Submission: June 2006

ATR Submission: NA

Composition

Dhirubhai Shah	- Chairman (upto 29.01.2005)
J S Rana	- Member and Member Secretary (upto 01.06.2005)
S C Sanehi	- Member and Member Secretary (from 01.06.2005)

Terms of Reference

The Commission shall make recommendations as to the following:

- h) 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 under the Part IX and IX- A of the Constitution and the allocation between the said bodies at all levels of their respective share of such proceeds;*
 - ii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - iii. the grants-in-aid to the Panchayats/Municipalities from the consolidated fund of the state;*
- i) the measures needed to improve the financial position of the Panchayats/Municipalities³³.*

The Commission shall review the state of finances of the State Government, the Panchayats and Municipalities and suggest the plan by which the State Government and the Panchayats and Municipalities collectively and severally may bring about speedy and equitable growth along with high quality of public services.

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

³³ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

1. The resources of the State Government for five years commencing from 1st April 2005, on the basis of levels of tax and non-tax revenues likely to be achieved by the end of 2003-04;
2. The demands on the resources of the State Government, in particular, on account of expenditure on civil administration, police and security, public works, general, social and economic services, debt servicing and other committed expenditure and liabilities;
3. The resources of the Panchayats and Municipalities, for the five years commencing from 1st April 2005, on the basis of levels of tax and non-tax revenues likely to be achieved by the end of 2003-04;
4. The objective of not only balancing the receipts and expenditures of the Panchayats and Municipalities, but also generating surpluses for capital investment;
5. Tax and non-tax efforts of the Panchayats and Municipalities as against targets, if any, and the potential for additional resource mobilization in order to improve the per capita own tax and non-tax revenue;
6. The need for ensuring the commercial viability of the drinking water supply system; drainage system, sanitation, street lighting as well as other commercial operations like public transport etc. through various means including adjustment of user charges, reduction of cost of public services through privatization and relinquishing of non-priority unviable areas;

In making its recommendations, the Commission shall-

1. Adopt a normative approach in assessing the receipt and expenditure of the Panchayats and Municipalities and, in doing so, keeping in view the special problems of a few Panchayats and Municipalities with regard to their geographical location;
2. Have due regard to the need for providing adequate incentives for better mobilization, financial discipline and cost effective provision of high quality public services;
3. Take into account the need for speed, efficiency and effectiveness of the delivery system of government programs;
4. Make an assessment of the debt position of the Panchayats and Municipalities, as on 31st march 2004, suggest such corrective measures as are deemed necessary, consistent with the debt sustainability;
5. Review the reforms facility introduced by the State Government on the basis of the First State Finance Commission and suggest measures for effective achievements of its objectives;
6. Suggest such measures that will enhance the absorption capacity and credit worthiness of Panchayats and Municipalities;
7. Suggest such measures so as to fully utilize the process of information technology to augment the resources of Panchayats

8. Take the base of population figures as of 2001, if available, or else 1991, in all such cases where population is a factor for determination of devolution of taxes, tolls and fees and grants-in-aid.

Methodology

The Commission held interactions with other State Finance Commissions (SFCs). Officials from Haryana SFC visited Gujarat and views were exchanged on the functioning of the local bodies in the two states. Reports of SFCs from Uttar Pradesh, Andhra Pradesh, Bihar, Punjab, Tamil Nadu and Kerala were useful in understanding other state governments' views on the finances and procedures between governments and the local bodies. To elicit the views of the peoples' representatives, letters were written to Ministers, MPs, MLAs, Presidents of District Panchayat, Taluka Panchayats and Municipalities, Municipal Corporations and other non-officials, seeking their suggestions. Video conferencing with the concerned officers were also held. Detailed statistical information and inputs with regard to financial positions of Municipalities and Panchayats were collected through specially designed schedules, annual reports and budgets of Panchayats and Municipalities. The Commission also contacted NGOs to solicit their suggestions with regard to the local self governance system.

RECOMMENDATIONS

Global Sharing

- State allocates 21.15% of total tax revenue to Panchayats and Municipalities. Now, additional 10% of tax revenue should be diverted to Panchayats and Municipalities, which becomes 31.15% of the total gross tax receipts of the state. *[Not considered]*
- 6% amount of divisible pool should be kept for social justice committees of all three levels. *[Not considered]*

Assignment of Revenues

- Cess on stamp duty can be imposed in the ratio of 20:15 by DPs and Taluka panchayats respectively. *[Not considered]*
- A cess should be levied on vehicle tax and royalties on mineral for Panchayats. *[Not considered]*
- Local tax on industries should be levied so that they become partners in Village Development. *[Not considered]*
- Municipalities must be authorized to levy cess on stamp duty on the line of Gujarat Panchayat Act.

- [Not considered]*

▪ Government should empower the local authorities to levy cess or charges for the use of infrastructural facilities.
- [Not considered]*

▪ Increase in charges for civil amenities provided by Municipalities to a reasonable level.
- [Not considered]*

▪ Local bodies should be empowered to levy tax on sale proceeds to agricultural produce market committee (APMCs) to provide better infrastructure services.
- [Not considered]*

▪ Re-imposition of the pilgrimage tax and entry tax.
- [Not considered]*

▪ Fixation of reasonable rate for issuing certificates to increase the non-tax income of the Municipalities.
- [Not considered]*

▪ Exemption of Municipal Corporation from fringe benefit tax.
- [Not considered]*

▪ Increase in user charges for civic amenities provided by Municipalities to a reasonable level.
- [Accepted]*

▪ The DPs and TPs are empowered to impose stamp duty cess.
- [Not considered]*

Horizontal Distribution

- 10% cess for the development of VPs.

[Not considered]
- 10% income out of total surcharge of stamp duty cess should be kept with DPs as a contributory fund.

[Not considered]
- Govt. provide 25% grant from income of education cess to the DPs and they disburse the amount of grants to VPs.

[Not considered]
- Panchayats should receive grant to 10% of total minor forest produces.

[Not considered]
- Spending limit enhanced from Rs. 50 to 500 on the celebration of national event.

[Not considered]
- Income from professional tax should be shared between Municipalities and Panchayats on the basis of rural and urban population ratio i.e. 67% and 33%.

[Not considered]

Grants-in-Aid

- Incentive to the VPs who manage assets (Gochar land) in the best manner on the pattern of SAMRAS VP. [Not considered]
- Grant for octroi on the basis of three years average of octroi collection to VPs who were collecting prior to abolition. An increase of Rs. 10 per capita instead to Rs. 5 is recommended. [Action yet to be taken]
- Some grant from the local cess collection to TPs. [Not considered]
- Under stationery and printing grant, TPs should be given at least Rs. 1 lakh and DPs should be given Rs. 5 lakhs every year. [Action yet to be taken]
- 5% administrative charges should be provided to Panchayats to meet the administrative expenses of development activities. [Action yet to be taken]
- Adequate grant for repair and maintenance should be provided every year. [Not considered]
- Increase in grants in lieu of octroi given to Municipalities should be increased from 7% to 10% on cumulative basis. [Not considered]
- Grants for road maintenance to Municipal Corporation and Municipalities and asset maintenance grant on yearly basis. [Not considered]
- The ad hoc grant of Rs. 35 per head given to the Municipal Corporation and Municipalities. [Accepted]
- Municipalities should be given ad hoc grant at the rate of Rs. 100 per capita per year (initially for three years) for new area development. [Not considered]

Functions and Functionaries

- Developmental works for VPs, especially under *Sampurana Gramin Rojgar Yojana* (SGRY). [Not considered]
- VPs are responsible to remove encroachments on Gamtal and Gochar lands and VPs should be allowed for commercial use of Gochar lands by themselves or by organizing women co-operatives or co-operative of BPL families. [Not considered]
- Panchayats can impose local cess upto 3 times of land revenue.

[Not considered]

- VPs should be allowed for the commercial use of village pond for the purpose of fisheries and use of clay for brick manufacturing when pond remains empty.

[Not yet implemented]

- One regional office (under Urban Development Department) to be opened in South/Central Gujarat.

[Yet to be implemented]

- Civic amenities namely drinking water, roads etc. are provided by VPs.

[Not considered]

- The power of technical sanction of the development work by Deputy Engineer of Taluka Panchayat should be enhanced up to Rs. 2.50 lakh or up to the limit to be announced by the govt. time to time.

[Not considered]

- In order to minimize the delay regarding the development works financed by the grants of 12th FC to carry out by Panchayats, power for making minor changes should be vested with DDO, after final approval of the proposal by the Development commissioner.

[Not considered]

- President and the Mamlatdar are authorized to sign on the usage of grants received by the state govt., this should be given to Chief Officer to relieve extra burden of Mamlatdar.

[No order has yet been issued]

- Salaries and allowance to District Development Officer, his staff and Accounts officer should be borne by the state government.

[Action is yet to be taken]

- Panchayats should be allowed to dispose off the properties not of any use by way of auction and the income accrued should be considered as their own fund.

[Not considered]

Other Measures

- Uniform pattern of imposing local cess across Panchayats by issuing direction to DP.

[Not considered]

- Government should merge all the four scheme i.e. State Equalization Fund, District Equalization Fund, District Village Encouragement Fund and District Development Fund, into one scheme named District Development Fund and the provisions and norms of the assistance should be revised.

[Not considered]

- Filling-up of 2331 of vacant post of Talati, 1369 post of Gram Sewaks and taluka level vacancies of technical officers such as Junior Engineers, Supervisors, Divisional Accountants, Dy. Accountants.

- [Not considered]*

▪ Regular training programmes should be organized at the taluka and district levels for sarpanchs and other elected members.
- [Not considered]*

▪ The estimates of the development works to be undertaken in the VP areas should be prepared in Gujarati instead of English.
- [Not considered]*

▪ To avoid the ownership disputes and encroachment, the commission recommends undertaking the city survey in the villages having more than 1500 population.
- [Not considered]*

▪ Formulation of a policy by which developers must bear the development expenditure on the agriculture land converted into non-agriculture.
- [Not considered]*

▪ Up-gradation of directorate into Commissionerate for better control over Municipalities.
- [Not considered]*

▪ Municipalities be exempted from Industrial Dispute Act and Govt. should establish a separate administrative tribunal for Municipalities establishment.
- [Not considered]*

▪ Separate Appellate Authority should be constituted with legal powers for settlement of disputes.
- [Not considered]*

▪ Municipalities be classified under 'domestic use' and the electricity bill be charged accordingly.
- [Implemented]*

▪ Enhancement in expenses from Rs. 50 to Rs. 500 on celebration of national events.

[Yet to be implemented]

Haryana Second State Finance Commission

Award Period: 2001-02 to 2005-06

Constitution: September 2000

Report Submission: September 2004

ATR Submission: December 2005

Composition

Suraj Bhan Kajal (Ex-MLA)	- Chairman
P P Singh Sahni, I.A.S.(Retd.)	- Member
Ami Chand Sehrawat, Advocate	- Member
Ram Kumar, Advocate	- Member
P K Dass, I.A.S.	- Member Secretary

Term of References

The Commission is required to make recommendations relating to the following matters:

- (a) *The principles which should govern-*
- i. *the distribution between the State and the 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 IX of the Constitution of India and the allocation among 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 the Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State, and*
 - iv. *the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads.*
- (b) *The principles which should govern:*
- i. *the distribution between the State and the 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 A of the constitution of India and the allocation between 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 Municipalities;*
 - iii. *the grants-in-aid to the Municipalities from the Consolidated Fund of the State, and*
 - v. *the measures needed to improve the financial position of the Municipalities.*³⁴

³⁴ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

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

- i. the objective of balancing the receipt and expenditure of the State and for generating surplus for capital investment;
- ii. the resources of 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 Panchayati Raj Institutions and the Municipalities, their potential for raising resources and reducing expenditure.

Methodology

An exhaustive questionnaire was designed to collect information on finances of all tiers of Panchayats i.e. Zila Parishads, Panchayat Samitis and Gram Panchayats and various other related issues through the Director Panchayats. The Commission also collected information on municipal finances in the designated questionnaire through Director, Urban Development Department. The Commission also invited suggestions from all stake- holders and held meetings with the persons of eminence in the field of local governance. The Commission also studied the latest Panchayati Raj Act and Municipal Act. The Commission analysed the annual Administrative Reports of Panchayati Raj, Urban Local Bodies, Rural Development Department, Local Fund and Audit, as also the reports and papers published by National Institute of Urban Affairs, New Delhi, National Institute of Rural Development, Hyderabad and National Institute of Public Finance and Policy, New Delhi.

RECOMMENDATIONS

Global Sharing

- Total devolution of Rs. 111751 crore to the local governments as share of taxes and grant in aids for the period 2001-02 to 2005-06. Further devolution of Rs. 696.22 crore to Panchayats and Rs. 421.29 crore for Municipalities

[Accepted with modification]

Assignment of Revenues

- Gram Panchayats should be empowered to impose token tax on hawkers and other traders to visit the village to sell their goods/products.
- Professional tax, entry fee in fairs and royalty on sand etc. be levied wherever possible

Horizontal Distribution

- 3% of the net receipts from stamp duty and registration fee collected from the panchayat area be transferred to Panchayats.

[Accepted]

- 65% of net proceeds of Local Area development Tax (LADT) to be given to the three tiers of Panchayats in the ratio of 10:15:75 to ZPs, PSs and GPs.

[Deferred]

- Devolution of Rs. 8.78 crore for 2005-06 from entertainment duty and show tax to Municipalities.

[Accepted with Modification]

- 20% of the net proceeds from vehicle tax should be transferred to the Municipalities.

[Accepted with Modification]

Grants-in-Aid

- Maintenance grants of Rs. 1276 lakhs (Rs. 10 lakhs per block annually for maintenance of community assets and Rs. 1 lakh per block for maintenance of Panchayat buildings).

[Accepted with modification]

- Sanitation and environmental improvement grant of Rs. 30.30 crore for Panchayats including an amount of Rs. 7.25 crore for the year 2005-06.

[Not Accepted]

- Development grant of Rs 54.90 crore including HRDF share for the year 2005-06 for Panchayats with district wise distribution to be made on "Decentralized Planning formula and distribution among GPs, PSs and ZPs be made in the ratio of 75:15:10

[Accepted with modification]

- Grant of Rs. 25 lakh for the repair of ZP/PS buildings as a one-time measure.

[Not Accepted]

- Incentive grant of Rs. 4.29 crore for Panchayats for the year 2005-06.

[Not Accepted]

- 20% of royalty on minor minerals to be given to Panchayats and Municipalities in the ratio of 50:50.

[Accepted]

- 10% of conversion charges to be devolved to panchayats through Panchayats Department.

[Not Accepted]

- 95 % of revenue from cattle fairs is to be given to Panchayats.

[Previous norms will be followed]

Functions and Functionaries

- Strengthening of HIPA (Haryana Institute of Public Administration) at Gurgaon and HIRD at Nilokheri by way of additional manpower and infrastructural facilities.
[Considered]
- Village Sarpanch and Gram Sachiv need to be made accountable for affecting recovery of house tax and registration fee for sale of animals.
[Considered]
- Examine the possibility of taxing telephone towers, cable operators, industrial units, sale of agriculture produce, passage of loaded vehicles passing through villages and use of land by power utilities and other agencies of Centre and State Govt.
[Considered]
- Encroachments of shamlat lands be removed and total panchayat land be leased out at rates not lower than the fixed by the Committee constituted for the purpose.
[Considered]
- Urban Development Department should tie up with HUDA for infrastructural development in the cities.
[Considered]

Other Measures

- Fee, fines and other user charges be reviewed & revised periodically so as to augment the revenue.
[Considered]
- Finance Commission Cell in Finance Department may be created to monitor the follow-up measures on implementation of the recommendations of State Finance Commissions and Central Finance Commission.
[Considered]
- The possibility be explored if moneys donated to Panchayats and Municipalities could be got exempted from income tax. It would motivate people to donate liberally for welfare schemes.
[Considered]
- Some charges should be imposed by Panchayats/Municipalities' advertisements and hoardings.
[Considered]

Himachal Pradesh Second State Finance Commission

Award Period 2002-03 to 2006-07

Constitution: May 1999

Report Submission: October 2002

ATR Submission: June 2003

Composition

The composition of the Commission underwent several changes in the course of its term. The report of the Commission was submitted under the following team:

K D Dharmani	- Chairman
Narinder Chauhan	- Member
D K Sharma	- Member Secretary

Terms of References

The Commission shall make recommendations to the Government as to:

- j) 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 under this Part and the allocation between the Panchayats/Municipalities at all levels of their respective share of such proceeds;*
 - ii. the determination of the taxes, duties,, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - iii. the grants-in-aid to the Panchayats/Municipalities from the consolidated fund of the state;*
 - iv. the measures needed to improve the financial position of the Panchayats/Municipalities.³⁵**
- k) Any other matter referred to the H.P. State Finance Commission by the Govt. in the interest of sound finance of the Panchayats and Municipalities.*

The notification relating to the constitution of 2nd State Finance Commission also covered:

- i) The Commission shall devise its own procedure and may appoint such Advisors, institutional Consultants as it may consider necessary. It may call for such information and take such evidence as it may consider necessary.*

³⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

ii) The Commission shall make its recommendations as soon as feasible. It may consider, if necessary, sending reports on any of the matter as and when recommendations are finalized.

Methodology

One of the important components of the approach was the question of estimating the existing revenue receipts and revenue expenditure of the Panchayats. The Commission had to access a very large number of units for collection of basic data. The Commission had to collect data separately for the three Tiers of the Panchayats. The Commission devised separate proformae for collection of basic data from these bodies. The Commission also resorted to the methodology of mailed questionnaires for collection of basic information. In addition, the Commission also invited views of the general public on the terms of reference of the Commission by sending advertisements in the selected national level newspapers. Besides the mailed questionnaires, the Commission also resorted to meetings at selective levels. Meetings were held with the elected representatives of Panchayats as well as with the concerned Heads of Departments.

RECOMMENDATIONS

Global Sharing

- No such recommendation.

Assignment of Revenues

- Amend the Statutes to empower the local bodies to levy new taxes and levies/cess as well as the revision of the existing rates. [Accepted]
- In case some local government bodies do not collect the statutory levies, the resource transfers recommended through this Report of the Commission, should not be released. [Accepted]
- All governments' properties, which belong to the Central or the State Governments, should be subject to the levy of user charges. [Not Accepted]
- Urban areas should be classified into three different zones and taxes based on slab system be apportioned accordingly. [Not Considered]

Horizontal Distribution

- No such recommendation.

Grants-in-Aid

- A one-time liquidation of the arrears; the administration/release of grants for the future years to the defaulting bodies shall be governed as under:
 - I. The arrears for energy bills for street lighting shall be adjusted against the future grants in four equal installments in case the local bodies fail to raise the local tax on consumption of electricity in a manner that no arrears accrue in future.
 - II. For water supply, the local bodies, as a first step, will raise the water rates to cover full cost of bulk supply at existing rates of supply and subsequently raise the rates towards ensuring full cost recovery of O&M charges over a five year period. In case of a failure to comply, the grants due to the local bodies will be adjusted at the rate of 25% of the arrears paid during the first year.

[Not Considered]

- An “Incentive Fund” amounting to Rs. 1.50 crore per annum from the year 2003-04, implying a total Corpus of Rs. 6 crore over the forecast period for any hike in the rates of local tax on consumption of electricity or water rates.

[Not Considered]

- In Municipalities release of grants should be linked with the imposition of house tax. The release of grants should be administered in the following manner.
 - I. 75 % of the grants to be released provided the local body imposes and collects a house tax on a minimum of 7.5%.
 - II. 25% of grant to be released provided the local body commits to raise the rate of house tax by a percentage point each year so that it reaches 12.5% by the end of the award period.

[Not Considered]

Functions and Functionaries

- Smaller local bodies should not have any permanent staff except Secretary.

[Not Considered]

Other Measures

- The transfer of the grants should be administered through the institutional mechanism.

[Not Considered]

- There should be a Permanent Institutional Arrangement in the State Planning Department.

[Not Accepted]

Karnataka Second State Finance Commission

Award Period: 2005-06 to 2010-11

Constitution: 28.02.2002*

Report Submission: 23.12.2002

ATR: NA

*The Commission was initially constituted in October 2000 with an entirely different team. But the then Chairman expired in October 2001 and the first Member resigned from his post. Hence the Commission had to be reconstituted with a full fledged Chairman and two Members as contemplated in Karnataka Panchayath Raj Act, 1993.

Composition

K P Surendranath, IAS (Retd.)	- Chairman
M C Kodli (Dr)	- Member
K R Shashidhara, IAS	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- l) *the principles which should govern:*
 - i. *the distribution between the state government and the Zilla Panchayats, Taluk Panchayats, Gram 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 state, which may be divided between them under this Part and the allocation between the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats;*
 - iii. *the grants-in-aid to the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats from the consolidated fund of the state;*

m) the measures needed to improve the financial position of the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats,³⁶

The Commission shall also:

- iii. Examine and make suggestions on the extent to which and the manner in which the resources available to the local bodies could be best utilized for meeting the expenditure of these bodies and;
- iv. Make a detailed analysis of the repayment of loans and advances extended by government from time to time to the local bodies and make suitable recommendations for repayment of Government dues and the possibility of adjusting these dues against future devolution revenues from government to these bodies.

In making the recommendations the commission shall 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

Requisite data were formulated and collected through questionnaires. Interactive sessions were planned with 27 Zilla Panchayats, 175 Taluk Panchayats, selected Gram Panchayats and all the Municipalities which were arranged at the district level. Reports of First SFCs from select states were studied.

RECOMMENDATIONS

Global Sharing

- Increase in percentage of Non Loan Gross Own Revenue Receipts (NLGORR) as the share of Panchayats and Municipalities.

Assignment of Revenues

- Quantum of user charges levied to GPs should not exceed 50% of the total operation and maintenance expenditure assessed by the GP in a financial year.
- The minimum rate of property tax be fixed at 8% of the annual letting value and maximum at 12% of the annual letting value.

³⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Horizontal Distribution

- NLGORR be shared in the ratio of 80:20 with Panchayats and Municipalities respectively.
- The revenue realized from all the tanks falling within jurisdiction of GPs be fully assigned to the concerned GPs.

Grants-in-Aid

- Out of the total share of the Municipalities, Rs. 5 crores each year be set apart to serve all Municipalities under 'Common Purpose Fund'.
- 1 lakhs be given to GPs out of 11th Central Finance Commission grants for the purpose of maintenance of civil services in rural areas and the remaining amount be allocated to ZPs and TPS in the ratio of 40:60 respectively.
- To encourage GPs to maximize their revenue, Rs. 10 crores be earmarked to GPs for the incentivization scheme.

Functions and Functionaries

- Power to levy property tax is with GPs.

Other Measures

- An incentive scheme be formulated by the Govt. on similar lines as recommended for GPs, after two years of implementation of the capital value based taxation system.
- Concept of user charges must be introduced at the GP level as an additional to the house tax/property tax.
- Annual letting value should be revised by a designated authority for every GP once in four years.
- The revenue realized by lease/ auction of sand beds and stone quarrying be utilized only for community development programmes and for protection of environment.
- Consolidation of schemes which are multi sectoral in nature not confined to any one department should be integrated and the department identified by the govt. should implement such schemes.
- Reduction in number of heads of Accounts by broadly categorizing them.
- Funds released during the end of the financial year be permitted to be used after the concerned financial year is over, by giving three months time for utilization of funds.
- A human resource management policy should be framed for regular recruitment to fill vacancies promptly.

Kerala Second State Finance Commission

Award Period: 2001-02 to 2005-06

Constitution: 23.6.1999

Report Submission: 8.1.2001

ATR Submission: January 2004

Composition

<p>Prabhat Patnaik (Dr) Professor, Jawaharlal Nehru University New Delhi</p>	<p>- Chairman</p>
<p>K M Abraham (Dr) Secretary , Finance (Resources) Department Government of Kerela</p>	<p>- Member</p>
<p>S M Vijayanand, Secretary Local Administration Department Government of Kerela</p>	<p>- Member</p>

Terms of Reference

The Commission shall make recommendations as to the following:

b) *the principles which should govern:*

- iv. *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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities of their respective shares of such proceeds;*
- v. *the determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats and Municipalities;*
- vi. *the grants-in-aid to Panchayats/Municipalities from the consolidated fund of the State;*

*Measures needed to strengthen the financial position of Panchayats & Municipalities*³⁷ with reference to:

- x. The scope of local bodies to raise institutional finance and to suggest a frame work for local self-governments to take recourse to such sources along with procedures to be followed and limits, if necessary, to raise such resources;

³⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- xi. The need for sharing the cost of maintenance of assets and institutions transferred to local self-governments, and evolving criteria for it, with due regard to the fiscal position of the state government and the local self-governments;
- xii. The steps necessary for efficient financial management with particular reference to efficiency in resource mobilization and economy in expenditure;
- xiii. The settlement of claims and dues of Panchayats and Municipalities vis-a-vis government and governmental agencies;
- xiv. The procedures to be followed for smooth flow of funds to local self governments and for ensuring proper financial accountability.

Methodology

The Commission directly studied the functioning of each of the five types of local government with special reference to financial matters viz. Village Panchayat (VP), Block Panchayat (BP), District Panchayat (DP), Municipality and Corporation by visiting one representative of each type. The Commission held consultations with representatives of local government associations viz., Panchayat Association, Block Panchayat Association and the Municipal Chairmen's Chamber which, brought to the fore various issues relating to the finances of these local governments as recognized and felt by the elected representatives. Detailed discussions were held with the Secretaries and Head of Department involved in decentralization. The Commission held special meeting with the Finance Minister and the Finance Secretary. And there were exchange of views with the State Planning Board with particular focus on decentralized plan preparation and implementation. The Commission conducted a detailed analysis of the Report of the First Finance Commission and the follow-up action on it. The services of one Consultant each were utilized by the Commission in respect of Panchayats and Municipalities. The Commission has entrusted the Institute of Public Auditors of India (IPAI) with the task of doing a thorough study of budgeting, accounting and audit systems in both Panchayats and Municipalities. Data from local governments has been collected through detailed questionnaire which were in two parts for Municipalities and Panchayats.

RECOMMENDATIONS

Global Sharing

- Plan funds (excluding state sponsored schemes) not less than 1/3rd the annual size of the State Plan may be devolved to the Panchayats and Municipalities for planning and implementing locally relevant projects.

[Deferred for further examination]

- Up to 10% of the non- SCP/TSP funds may be distributed as an incentive for increased own revenue mobilization by the Village Panchayats and the Municipalities. This could be done as per the formula given as below:

$$\theta_i = ri \frac{Pi}{ri Pi}$$

Where, θ_i - share for local governments

ri - percentage increase in its revenue

Pi - population of the local governments

[Accepted. Will be reflected in 2005-06 allocation to local governments]

- The maintenance grants should be based on the current cost of replacement and the initial norms (to be updated periodically) may be as follows:
 - Maintenance of buildings constructed before 1.4.1967 – 3% of capital cost
 - Maintenance of buildings constructed after 1.4.1967 – 2% of capital cost
 - Current construction cost – Rs 400/- per sq. ft.
 - Frequency of resurfacing of black-top/WBM roads – Once in 5 years
 - Annual repair expenditure of black-top roads – Rs 25,000/- per K M
 - Annual repair expenditure of WBM roads – Rs 23,000/- per K M
 - Annual repair expenditure of unsurfaced roads – Rs 20,000/- per K M
 - Cost of re-surfacing black-top roads (3.8 Meter width) – Rs 1.65 lakhs per K M
 - Cost of re-surfacing WBM roads (3.8 Meter width) – Rs 1.84 lakhs per K M

[Accepted]

Assignment of Revenue

- For property tax, the recommendations of the first SFC may be operationalized.

[Need not be pursued as action initiated for implementation of recommendation of 1st SFC]
- Presumptive profession tax may be introduced to bring certain self employed occupational groups into the tax net.

[Accepted]
- Entertainment tax may be introduced for cable and internet.

[Accepted only for cable and not for internet]
- Minimum rates of taxation may be fixed for different kinds of advertisement for different locations. This could be done by issuing Advertisement Tax Rules which could set the guidelines for local governments to assess the tax.

[Accepted]
- Conversion tax at the rate of 5% of the capital value (in case of conversion of paddy lands). Half of this rate may be made applicable for other kinds of conversions.

[Accepted]

- The service tax should be made compulsory and linked to the cost of performing obligatory functions and calculated as a percentage of property tax. [Accepted]
- The ceiling on surcharge may be removed. [Accepted]
- Minimum fees for various kinds of licenses under non-tax revenue should be fixed for Municipalities and Corporations through notification. In case of VPs, only minimum amount may be fixed in the rules. [Partially accepted]
- For periodically renewed licenses and permits, 25% of the license fee may be collected as fine for delay beyond a grace period of ten days; and this may be increased by 25% for every additional fortnight of delay. [Accepted]
- The following fees may be enhanced:
 - Building fee for theatres
 - License fee under Kerala Places of Public Resort Act
 - License fee for private markets
 - License fee for private slaughter houses
 - License fee for brokers, commission agents, weigh men and measurers
 - License fee for butchers, fishmongers, poulterers
 - License fee for premises where animals are kept for commercial purposes
 - Market fee
 - Gate fee for public halting and parking places
 - Gate fee for slaughter houses
 - User charges for burial grounds, burning ghats and electric crematoria [Accepted]
- 50% of building exemption fees and regularization fees may be given to the concerned VPs and Municipalities. [Accepted]

Horizontal Distribution

- 1/7th of the maintenance grant should be divided among District and Block Panchayats in the ratio of 19:1. [Accepted]
- The *inter-se* distribution among the Municipalities and Corporations should be based on population. [Accepted]

Grants-in-Aid

- 5.5% of the annual own tax revenue of the state government to be devolved to the Panchayats and Municipalities as grants-in-aid for maintenance of assets under their control, including the transferred assets. *[Accepted]*
- 3.5% of the own tax revenue of the state government based on figures certified by the Accountant General could be devolved to Panchayats and Municipalities as General Purpose Grant. *[Accepted]*
- After taking out the share of DPs and BPs from the General Purpose Grant, the remaining amount may be distributed as follows:

Village Panchayats	78.50%
Municipalities	8.50%
Corporations	13.00%

[Accepted]

Functions and Functionaries

- A system for authenticating advertisement should be introduced. Penal provisions for unauthorized advertisements should be five times the normal tax. *[Accepted]*
- A compulsory display by local governments for various items of revenue and in case of auctions, a district level public notice should be given in December about all the forthcoming auctions. *[Accepted]*
- Present practice in VPs for calculation of trade licenses based on turnover should be done away with. For both VPs and Municipalities, minimum rates for each trade with separate rates in each category of small, medium and large establishment should be notified by the government. *[Accepted]*
- The meat stalls and the right to fish in water bodies may be auctioned every year by the concerned local bodies after giving due publicity. *[Accepted]*
- VPs may auction the right to set up temporary shops in public land. *[Accepted]*
- Rules for levy of advertisement tax in VPs and Municipalities may be issued immediately. *[Accepted]*
- Steps to finalize minimum land value for use in registering sales may be completed at the earliest.

[Accepted]

- All proposals for staff creation should be cleared by the Ombudsman.

[Not accepted]

- A Local Government Staff Commission may be set up to suggest redistribution of staff among local bodies as well as from government to local bodies.

[Accepted]

- VPs, Municipalities and Corporations should have a single account for crediting all their own revenues.

[Accepted]

Other Measures

- Grants to local governments from 11th Finance Commission should be passed down as such, over and above the grants suggested by the Commission.

[Accepted with modification that the grants due be devolved as part of grant but shown separately for each local government]

- To avoid hardships during transition period, no VP or Municipality should experience shortfall in its receipts on account of the transfers compared to previous year.

[Accepted]

- A separate numbering system should be adopted for trade establishments.

[Accepted]

- Tax mapping may be done immediately and unique premises numbering system introduced.

[Accepted]

- A single financing agency for local governments may be set up by merging KUDFC and the Rural Development Board.

[Accepted]

- The question of VPs and Municipalities levying daily fee for use of poramboke may be examined and decided by government without further delay.

[Accepted]

- Rationalization of revenue village and VP/Municipality boundaries may be done in such a way that no revenue village would lie within more than one VP or Municipality.

[Accepted. Further action by revenue department]

- Shortfall in devolution of assigned and shared taxes vis-à-vis the accepted level may be made good by government.

[Accepted]

- Necessary amendments to the Kerala Panchayat Raj Act and the Kerala Municipality Act may be made to specify the minimum shares of local governments, of the plan grant, maintenance grant and general purpose grant.

[Accepted]

- Local governments should get automatic allocations at the beginning of every month.

[Accepted]

- A survey of the assets transferred to and owned by the local bodies may be carried out to calculate the standard spending assessment for maintenance purpose.

[Accepted]

- All local bodies should prepare annual maintenance plans.

[Accepted]

- Unpermitted diversion of funds should be penalized by charging a penalty of 2% per month from the persons responsible.

[Accepted]

- In case of plan grant-in-aid and maintenance grant-in-aid, bill system of drawing from treasuries should be introduced in the place of PD accounts.

[Accepted. Orders have been issued]

- An empowered committee under the Chief Secretary may be set up to follow-up the accepted recommendations and implement them fully.

[Accepted]

- A cell under the joint control of finance and local self government departments may be created for concurrent monitoring of all financial matters of local bodies.

[A cell in finance department is already looking after the financial matters of local bodies.]

- A separate budget document indicating local government-wise distribution of the three streams of grants-in-aid and grants-in-aid for pensions and for noon feeding may be prepared.

[Accepted]

- A legislative provision may be introduced for indexing non-tax revenue items, and taxes like property tax, advertisement tax and service tax.

[Accepted]

➤ *ATR-recommendation 6-point 3*

Madhya Pradesh Second State Finance Commission

Award Period: 2001-02 to 2005-06

Constitution: June 1999

Report Submission: December 2003

ATR Submission: March 2005

Composition

S S Sisodia (Dr)		Chairman
C S Mishra (Dr)		Member
V C David (Dr)		Member
Shri M K Dixit	-	Member Secretary

Terms of References

The Commission is required to review the financial position of local bodies and make recommendations to the Governor as to-

- a) *The principles which should govern:*
 - i. *The distribution between the State and the local bodies of the net proceeds of taxes, duties, tolls and fees leviable by the state, which may be divided between them and the allocation between local bodies at all levels of their perspective shares of such proceeds,*
 - ii. *The determination of taxes, duties, tolls and fees which may be assigned to or appropriated by rural and urban local bodies,*
 - iii. *The grants-in-aid to local bodies from the Consolidated Fund of the State,*
- b) *The measures needed to improve the financial position of local bodies.*³⁸

In addition to the above, the Governor of the state, in the interest of sound finance for the recommendations of the State Finance Commission:

- a)
 - i. The objective of not only balancing the receipts and expenditure or revenue account of both the state government on the one hand and the Panchayats and municipalities on the other, but also generation of surplus for capital investment and reducing fiscal deficit,
 - ii. The resources of the state government and the demands thereon, in particular on account of expenditure on civil administration, police and judicial administration, debt-servicing and other committed expenditure or liabilities;

³⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- iii. The maintenance and upkeep of capital assets and maintenance expenditure on Plan schemes to be completed by 31-3-2000 and the norms on the basis of which specified amounts are recommended for the maintenance of capital assets and the manner of monitoring such expenditure;
 - iv. The revenue resources of the state government on the one hand, the Panchayats and Municipalities on the other, for the five years commencing on 1st April, 2000, on the basis of the levels of taxation reached in 1999-2000, targets set for additional resource mobilization for the Plan and the potential for raising additional taxes;
 - v. The scope for better fiscal management consistent with efficiency and economy in expenditure;
 - vi. The functions and services transferred by the state government to the Panchayats and the municipalities in pursuance of the constitutional amendments vis-à-vis the transfer of services of employees engaged in those functions and services,
 - vii. Recommendations of the XI Finance Commission for Rural and Urban Local Bodies.
- b)
- i. Adopt a normative approach in assessing receipts and expenditure on revenue account of the state government, Panchayats and municipalities, keeping in view the liabilities already committed.
 - ii. Have due regard to the need for providing adequate incentive for better resource mobilization and financial discipline as well as closely linking expenditure and revenue raising decisions.
 - iii. Taking into account the need for speed, efficiency and effectiveness of delivery systems for government programmes.

Methodology

Due to absence of any agency in the state which may collect comprehensive financial data in respect of local bodies and unavailability of a mechanism in the state department of Rural Development and Panchayats for co-ordination and integration, in a systematic manner and on regular basis, the commission had to undertake the exercise of data collection from local bodies relating to their revenue and expenditure and allied matters during the period of five years, 1995-96 and 1999-2000 and for making projections for the next five years, 2001-2002 to 2005-2006. For making a macro review of the finances of local bodies in the state the commission used the data furnished by the XI FC. In addition, the Commission has made attempts to collect budgets of local bodies, along with other documents like the annual reports and audit reports. The members of the SFC made personal visits to a number of district/block head-quarters, to interact with the elected representatives of local bodies and officials working there, with a view to getting first hand

information regarding the functioning of local bodies, their difficulties and constraints in the way of resource mobilization and in the process of functional and financial decentralization. Since the number of rural local bodies in the state is very large the Commission decided to take a sample of Gram Panchayats in the state and blow up the data for the whole state, on the basis of sampled data. While making projections of revenue and expenditure on some normative basis, the commission followed the methodology evolved by the XI FC, with certain modifications. For making projections of tax revenue, non-tax revenue and revenue expenditure, we moved from micro to macro. In regard to projection of own tax revenue we have adopted the representative tax approach in contrast to the aggregative tax revenue approach adopted by the XI FC.

RECOMMENDATIONS

Global Sharing

- After deducting 10% collection charges, 2.93% may be given to the Panchayats out of the State's own tax revenue. 1.07% share of the divisible pool may be allotted to the Municipalities.

[Accepted]

Assignment of Revenues

- Continuation the devolution of net proceeds of land revenue, surcharge on stamp duty and cess on sales tax in the form of assigned tax revenue.

[Accepted]

- Net revenue from entertainment tax at present being levied and collected by the State Government may be assigned to municipalities on the basis of the collection from their respective jurisdiction.

[Not Accepted]

- Revenue from entry tax, passenger tax and cess/surcharge on certain taxes may be continued to be assigned to municipalities in proportion to collection of revenue from their respective jurisdiction.

[Accepted]

- Inclusion of entertainment tax in the category of assigned taxes to Municipalities

[Not Accepted]

- Re-imposition of Octroi by the Municipalities.

[Decision after further examination]

- The industrial and commercial establishments in rural areas may also be brought within the orbit of property tax.

[Not Accepted]

Horizontal Distribution

- 10% out of the total amount of divisible pool may be pre-empted for allocation on to such Municipalities which have slum population higher than 10% of their

respective population, as per 2001 Census. Remaining 90% amount is to be allocated to the Municipalities of the State on the basis of their respective population including slum population according to 2001 Census.

[Accepted]

- Out of the divisible amount of the tax revenue to the rural local bodies, 90% may be given to the District/Village Panchayats on the basis of population ratio and remaining 10% may be allocated among such districts where rural population of SC & ST is 10% or more of the rural population of the respective districts.

[Accepted]³⁹

Grants-in-Aid

- The general purpose grant of Rs. 50 crores to VPs.

[Not Accepted]

- General purpose grant of Rs.14.65 crores to Janapads and Rs.2 crores to Zila Panchayats.

[Accepted]

- Establishment grant (specific grant) of Rs.28.40 to Panchayats for the payment of honorarium and other payments to the staff working in the 3- tier Panchayats, with a provision of 10% increase in the amount of grant every year may be given.

[Accepted]⁴⁰

- Specific grant of Rs.5 crores to the Zila Panchyats for organizing training programmes at the district level for the elected representatives Panchayats in their respective jurisdictions.

[Accepted]

- Rs. 8.5 crore for the purpose of general-purpose grants to Municipalities.

[Not Accepted]

Other Measures

- Creation of a separate service cadre for professionals in the field of municipal administration, engineering, environment management, spatial planning, architecture, public health and accounts.

[Not Accepted]

- Present system of participation of Panchayats in primary education through autonomous bodies may be strengthened and continued.

[Not Accepted]

- Setting of State Panchayat level service cadre.

[Not Accepted]

³⁹ The distribution among the Panchayats with the present criteria of population, area and tax collection viz. 70, 25 and 5 per cent respectively shall be retained.

⁴⁰ Establishment grant to PRIs at 5% increase every year

Maharashtra Second State Finance Commission

Award Period 2001-02 to 2005-06

Constitution: 22.06.1999

Report Submission: 30.03.2002

ATR Submission: 29.03.2006

Composition

The report of second state finance commission was submitted under the following composition:

S Habeebullah	- Chairman
Vijay Naval Patil	- Member
Mukund Ghaisas	- Member
Vijay Bhaise	- Member
G S Sandhu	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

The principles which should govern:

- vii. *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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities of their respective shares of such proceeds;*
- viii. *the determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats or as the case may be the Municipalities;*
- ix. *the principles which should govern the grants-in-aid to Panchayats or as the case may be Municipalities from the consolidated fund of the State.⁴¹*

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

- a. The projected gap between the revenue receipts and revenue expenditures (non-plan or non-development or both) of the Panchayats and the Municipalities in the State for five years from 1st April 2001 on the basis of their level of taxation likely to be reached in 1999- 2000.

⁴¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- b. The measures and the extent to which the Panchayats and the Municipalities have exploited the available and the potential sources of the revenue and the manner and the extent to which their revenue gap can be reduced by such measures;
- c. The principles of financial assistance from the State Government to the Panchayat and the Municipalities as may be determined by the Commission taking into account the provisions of clauses (a) and (b) above;

In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1991 census, where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid;

- d. The outstanding debt position as on 31st March 1999 of the Panchayats and the Municipalities; and specify-
 - i. The principles and procedures to regulate the borrowing power of the Panchayats and the Municipalities; and
 - ii. The steps needed to contain the debt liabilities taking into account their resource position.
- e. The resources of the State government and the demands thereon, in particular, on account of expenditure on civil administration, police, social and economic services, debt servicing and all other committed expenditures or liabilities and non-paln revenue expenditures;
- f. The maintenance and upkeep of the capital assets of the Panchayats and the Municipalities, and work out the norms for their adequate maintenance with due regard to their resource position and introduce measures for mobilizing resources locally to meet these liabilities;
- g. The need for ensuring reasonable returns on investment made, if any, by the Panchayats and the Municipalities as the case may be, in irrigation projects transport undertakings, pipe water supply schemes; borewell programs and other activities of commercial nature, if any.

The Commission may make the recommendations about introducing a scheme for calamity relief and considering the need to have a calamity relief fund on the lines of the calamity relief fund scheme recommended by the 10th Finance Commission.

Methodology

Financial & other data were obtained directly from the local bodies. Budgetary data and projections were obtained from Finance Department. Study groups were constituted by different departments of local bodies and intensive interactions were carried out with concerned officials. Seminars and workshops were conducted and were participated in by the senior members of the Commission.

RECOMMENDATIONS

Global Sharing

- State should pass 40 % share of its taxes, duties, tolls and fees leviable, to the Panchayats and the Municipalities.
[Rejected]
- Out of the devolution, 5 % should be reserved for incentives in birth control, 95 % of the devolution funds, should be distributed to rural and urban local government institutions.
[Rejected]

Assignment of Revenues

- Entertainment tax imposed by Gram Panchayat to the families, cable T.V. operators and small cinema houses.
[Not considered]
- Area based property tax is compulsory for all the VPs.
[Not considered]
- The power to levy property tax should be conferred on the Municipalities, in addition to those resting with the State, upto maximum limit of Rs. 2500/- and relevant to local situation.
[Rejected]
- It is binding on the VPs to impose private and general water tax at revised rates.
[Not considered]

Horizontal Distribution

- Allocation of the devolution funds , should be in the ratio of 80:20 to the Panchayats and the Municipalities which should settle at 75:25 in future.
[Not considered]
- Allocation of various tiers of RLSGIs within a district should be made in the proportion of 85:5:10 to ZPs, PSs , & Village Panchayats, respectively.
[Not considered]

Grants-in-Aid

- All VPs shall be given Tax Recovery Incentive Grant on the basis of recovery of all the previous financial year.
[Rejected]
- Special grant for VPs to eliminate backlog in the districts of Marathwada, Vidarbha, Konkan and the rest of Maharashtra where backlog regarding development exists.
[Not considered]

- The additional funds to be made available to Municipalities through VAT system should not be treated as a share within 'Global Devolution' but should be in addition to that.

[*Rejected*]

Functions and Functionaries

- At ZP level, the Chief Executive Officer should work out the amount of Tax Recovery Incentive Grant to each of the village Panchayats.
[*Not considered*]
- The total grant amount shall be given to each ZP by the state and ZP shall distribute it among eligible GP.
[*Not considered*]
- The CEO of ZP can take final decisions on case if the VP encounter any technical or legal difficulty in executing the works as per the plan sanctioned by Gram Sabhas.
[*Not considered*]

[*Not considered*]

Other Measures

- Present limit to sanction loan from District Village Development Fund by the standing committee should be revised upto Rs. 100 Lakhs.
[*Not considered*]
- The government should study the haphazard growth of village in each of the talukas & establish a planned village or town in the areas near such villages.
[*Partially accepted*]
- The Government should increase the number of sanctioned posts of VDOs and Gramsevaks.
[*Not considered*]
- The Government should study whether to raise the minimum educational qualifications for the post of Gramsevak.
[*Not considered*]
- While computerizing Village Panchayat, 50% expenses of training be borne by employee and remaining by concerned Village Panchayat.
[*Partially accepted*]
- The Government should study whether Jr. Engineers to be appointed for the VP could be paid from the consolidated VP funds at district level or from their own funds.
[*Partially accepted*]
- The calamity relief funds for Urban and Rural areas should be established. For this, the Municipal Corporations/Municipalities/Zilla Parishads should be directed to credit half per cent of their respective revenues income every year to this fund.

[*Not considered*]

- For preservation of State Finance Commission, the government may establish an Information and Research Centre.

[*Partially accepted*]

- Necessary amendment in the Village Panchayat Act for the attendance of employees at meetings.

[*Partially accepted*]

Manipur Second State Finance Commission

Award Period: 2001-02 to 2005-06*

Constitution: January 2003

Report Submission: November 2004

ATR Submission: December 2005

*Award period of the Commission was extended till March 2010.

Composition

S S Sharma, IAS (Retd.) - Chairman
Secretary, Government of India

M Iboton Singh (Dr) - Member
Prof. in Economics, M.U. (Retd)

S. Ibochouba Singh - Member
Retd. Joint Secretary (Finance)
Government of Manipur

H Deleep Singh - Secretary
Joint Secretary, Government of Manipur

O.P. Bohra (Dr) was also appointed as Consultant

Terms of References

The Commission shall make recommendations as to the:

- a) *The division of net proceeds of the taxes, duties, tolls and fees leviable by the State between the State and the local bodies in accordance with part IX A of the Constitution and allocation between the local bodies of their respective shared.*
- b) *The taxes, duties, tolls and fees to be assigned to or appropriated by local bodies.*
- c) *The principles governing the grants-in-aid (including specific amounts to be paid) to local bodies.*⁴²
- d) Classification of tolls/taxes/duties to be exclusively levied by the local bodies.

In making its recommendation, the Commission is required to have regard among other considerations, to-

- i. The relevant recommendation of the Eleventh Finance Commission (EFC).
- ii. The resource position of the State.

⁴² Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- iii. The respective responsibilities of the State Government and local bodies and the overall limitations of revenue.
- iv. The objective of balancing the receipts and expenditure on revenue account of local bodies.
- v. The revenue resources of local bodies, targets for additional resource mobilization (ARM) and scope for economy measures.
- vi. Promoting fiscal autonomy as well as fiscal responsibility among local bodies.
- vii. The resource structure adopted for annual plans.
- viii. The need for balanced inter-sectoral and inter-regional development, inter and intra municipal equity and coverage of various target group like SCs, STs and other.

With regard to (v) above, the Commission is also required, among other things, to

- (i) Review the functions vested in the local bodies and suggest needed changes;
- (ii) Review their territorial jurisdictions and suggest needed changes to improve fiscal viability;
- (iii) Analyze and develop norms for;
 - (a) Collection of taxes and non-tax revenue including property tax.
 - (b) Performance of services, including standards and unit costs
 - (c) Expenditure on establishment
- (iv) Forecast for each of the five years period;
 - (a) Revenue receipts
 - (b) Revenue expenditure
 - (c) Revenue gap/surplus;
- (v) Specify desirable pattern, principles and procedures of development/plan assistance to the local bodies;
- (vi) Specify needed changed including desirable pattern in fiscal relationship between local bodies and the development authorities and other infrastructure agencies; and
- (vii) Suggest corrective measures for proper administration of the capital account with specific suggestions regarding principles and procedure to regulate their borrowing power.

Methodology

Not clearly mentioned in the report.

RECOMMENDATIONS

Global Sharing

- 10% share for the rural local bodies including District Councils and Municipalities in the State's own revenue including the State's share of central taxes.

[Accepted]

- As regards the respective shares in the above, of District Councils in the hill district and the Panchayats and Municipalities in the valley districts, the share of the District Councils should not be less than 45%. In other words, the Panchayats and Municipalities will together get the remaining 55%.

[Accepted]

- Accordingly, the respective shares of Panchayats and Municipalities in the valley districts of Manipur in the total devolution from the State's taxes would work out to be 34.38% and 20.62% respectively.

[Accepted]

Assignment of Revenues

- To make financial empowerment more effective, the local bodies need to be encouraged to utilize their taxation powers by:
 - a) Fixing the following as minimum target of taxation as percentage of their total budget :
 - Imphal Municipal council 50% of their total budget
 - Other Municipal council 20 % of their total budget
 - Nagar Panchayats 15 % of their total budget
 - Village Panchayats (GPS) 10 % of their total budget
 - Zilla Parishads/District 5 % of their total budget
 - b) Promotion of a system of incentives to encourage the local bodies to raise their own resources through judicious exercise of their powers of taxation is required. An incentive Fund with a corpus of Rs. 5 crores (Rs.2 crores each for village Panchayats and District Councils and Rs. 1 crore to Municipal Councils and Nagar Panchayats) should be set up for the purpose.

[Accepted]

- Introduction of Profession Tax for certain occupations (See Anx. 5.2)

[Accepted]

- The State Government should take appropriate steps to exploit the rich resource potential offered by Entertainment Tax as in other States. It demands for a system of assessment based on seating capacity and occupancy ratio.

[Accepted]

- Cable TV operators should be liable for Entertainment Tax.

[Accepted]

- Land Conversion Tax as a onetime charge may be imposed and collected on the minimum capital value of the land as may be notified by the State Government (pending issue of State Government Notification,

[Accepted]

Horizontal Distribution

- Revenue collection from land revenue should be transferred to the Panchayats, who should be allowed to retain the amount collected after remitting 15% of it to the Zilla Parishads for supervision etc. [Accepted]
- At least 50% of the Centrally Sponsored anti-poverty programme fund should flow to the local bodies in the state. [Accepted]
- At least 45% of the share of local bodies in state taxes including state's share in Central taxes should go to the District Councils. [Accepted]
- The entire collection of Hill House Tax may be made over to the District Councils after retaining 6.25% of it towards the cost of collection. [Accepted]
- The following criteria and weightage shown against each should be adopted for deciding the share of the various District Councils in the total share of state taxes falling to District Councils

Criterion	Weight
Population (2001 Census)	60%
Area	10%
Distance of ADC HQ from the State Capital	10%
Economic backwardness (Literacy-5% and % of villages electrified -5%)	10%
Additional resource mobilization (ARM) and economy measures.	10%

[Accepted]

- The total share of Panchayats in a district should be determined according to the following formula:

Criterion	Weight
Rural population	80%
Distance from State Capital	10%
Literacy (as a proxy for economic backwardness)	10%

[Accepted]

- As for sharing of resources between the Zilla Parishad (District level Panchayat) and the Gram Panchayats (Village Panchayats) in a district, the respective share

should be maintained at 15% and 85% so long as there is a two tier Panchayat structure in Manipur.

[Accepted]

- In case it is decided to have a full three tier structure as prescribed in the Constitution for States having a population of more than 20 lakhs, then the share of the three tiers should be as follows:

Criterion	Weight
Zila Parishad	10%
Block Panchayat	15%
Gram Panchayats	75%

[Accepted]

- 20% of the share of Municipalities in the devolution may be earmarked for Imphal Municipality. The remaining amount shall be released in favour of other Municipalities for sharing according to the prescribed formula.

[Accepted]

Grants-in-Aid

- Every District Council school should be given a grant-in-aid @ Rs.750/- per annum for purchase of essentials like chalk, registers and stationery etc.

[Accepted]

- Every District Council school should be given a grant-in-aid of Rs.750/- per annum for carrying out essential repairs of school furniture, fixtures and fittings.

[Accepted]

- Every District Council school should be given a grant-in-aid of Rs.5000/- per year for the remaining two years of the Commission's term, i.e., 2004-05, and 2005-06 for purchase of class rooms furniture.

[Accepted]

- Every District Council school should be given a grant-in-aid of Rs.1000/- per annum for purchase of games and sports material.

[Accepted]

- The subject of IVRs, along with minor bridges and culverts en-route should be transferred to the Engineering Cell under the ADCs, along with sufficient budgetary allocation every year to enable them to look after the work of both construction of new roads, and maintenance and repairs of existing IVRs. Annual allocation of Rs.10 lakhs should be given to every District Council for this purpose.

[Accepted]

- Similarly, the subject of planning and implementation of simple gravity fed drinking water supply schemes in villages should be transferred to the Engineering Cell under the District Councils along with appropriate budgetary allocation. Annual allocation of Rs.25 lakhs should be given to each District Council for this purpose.

[Accepted]

- All the existing Block roads and water supply schemes should be transferred to the Engineering Cell under the District Council, each of which should be provided Rs.25 lakh every year (Rs.12.5 lakhs for roads, and Rs.12.5 lakhs for water supply schemes) by the Tribal Development Department for their upkeep.

[Accepted]

Functions and Functionaries

- The State Government must speed up the process of transfer of functional responsibilities including devolution of financial powers to local bodies in keeping with the letter and spirit of the Constitution and to obtain greater devolution from C.F.C. to local bodies.

[Accepted]

- In order to maximize the share on account of the factor of decentralisation effort in the Finance Commission award and to ensure that local bodies get a better deal from the Twelfth Finance Commission, corrective action should be taken along the following fronts:-
 - Greater decentralisation and devolution of powers and functions upon the local bodies should be undertaken by bench marking against the best performing States;
 - Holding of long over-due election to the District councils without further delay;
 - Constitution of District Planning Committee in accordance with the provision of Article 243 ZD of the Constitution.

[Accepted]

- The total administration of the beneficiary oriented programmes be transferred to the local bodies subject to such guideline as the State Government may deem it fit to impose. Pending the same, no changes should be made in the list of beneficiaries recommended by local bodies without recording reasons in writing that can withstand judicial scrutiny, if necessary.

[Accepted]

- It would be necessary to take all steps well in time to meet the conditionalities laid down by EFC and the Govt. of India to avail the funds specifically earmarked for the local bodies so that no part of this funding lapses.

[Not Considered]

- The subject of IVRs, along with minor bridges and culverts en-route should be transferred to the Engineering Cell under the ADCs, along with sufficient budgetary allocation every year.

[Accepted]

Other Measures

- Committee consisting of Chief Secretary/Additional Chief Secretary as Chairman, Finance Commissioner as Member and Commissioner MAHUD as Member Secretary will scrutinize claims for incentive for ARM and economy measures by Municipalities and decide their entitlements

[Not Considered]

- A practice should be followed to auction rights to set up temporary shops etc. in Panchayat/ Municipal lands by local bodies during fairs and festivals by making a suitable provision in the relevant Acts/Rules.

[Accepted]

- Provision of essential classroom furniture

[Accepted]

- Proper pyramidal structure under the Executive Engineer should be set up in the Engineering Cell under the District Councils so that each level has an appropriate no. of subordinate level of officers to supervise who in turn have a sufficient number of complementary staff to assist them. The number of AEs in the Engineering Cell should be equal to the no. of revenue subdivisions /TD Blocks in the ADC area so that there is one designated AE to look after the public works of ADC in each subdivision/TD Block.

[Accepted]

Odisha Second State Finance Commission

Award Period: 2005-06 to 2009-10

Constitution: June 2003

Report Submission: September 2004

ATR Submission: August 2006

Composition

Trilochan Kanungo	- Chairman
Nihar Ranjan Hota, I.A.S. (Retd.) Ex-Principal Secretary, Panchyati Raj Department	- Member
Prasanta Kumar Tripathy, I.A.S. (Retd.) Ex-Director of Land Records & Survey, Orissa	- Member
Sudhakar Panda (Prof.) Department of Analytical and Applied Economics, Utkal University.	- Member
Durga Prasad Dash, I.A.S. Addl. Secretary to Government, General Administration Department	- Member Secretary

Terms of References

The Commission shall make recommendation relating on the following matters-

- I. *The principles which 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-IX 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, Panchayat Samitis and ZillaParishads or, as the case may be, Municipalities, and*
 - c) *the grants-in-aid to the GramaPanchayats, PanchayatSamitis, ZillaParishads 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, PanchayatSamitis, ZillaParishads and Municipalities.*

Or

III. *any other matter, which the Governor may refer to the Commission in the interest of sound finance of Grama Panchayats, Panchayat Samitis, Zilla Parishads and Municipalities.*⁴³

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

- a) the revenue proceeds of the State Government and the 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 expenditures and liabilities;
- b) the functions and liabilities of Panchayat Raj Institutions and, Municipalities in respect of discharging and implementing the schemes entrusted to them under article 243-G and 243-W of the Constitution;
- c) the revenue resources of Panchayati Raj Institutions and Municipalities at all levels for five years, commencing from the 1st April, 2005 on the basis of levels of taxation reached in 2001-02, target set for additional resource mobilization and potential for mobilizing additional resources;
- d) the scope for better fiscal management consistent with the need for speed, efficiency and cost effectiveness of delivery of services; and
- e) the need for providing adequate incentive for better resource mobilization as well as closely linking expenditure and revenue raising decisions.

The report of the Commission shall contain specific chapters, narrating;

- a) the approach adopted by it,
- b) an analysis of the resources of the State Government, and,
- c) an analysis of the resources of Panchayats at each level and also Municipalities at each level.

The Commission shall indicate the basis on which it has arrived at its findings.

Methodology

Not mentioned in the Report.

RECOMMENDATIONS

Global Sharing

- 10% of the average of State's Gross Own Tax Revenue from 1999-2000 to 2001-2002 which comes to Rs.211.83 crore for devolution to the Panchayats and

⁴³ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Municipalities each year, during the Award period from 2005-06 to 2009-10 (altogether Rs.1916.505 crore for the period 2005-10).

- It should be allocated to the Panchayats and Municipalities in the ratio of 80:20.

Assignment of Revenues

- Certain taxation measures would help in augmenting the internal revenue of the Panchayats these areas–
 - Reintroduction of Panchayat Tax
 - Turnover Tax on Commercial Agricultural Farms
 - Livestock Registration and Development Fee
 - Capital/ Property Transaction Fee
 - Population Welfare Cess
 - Pisciculture Cess
 - Education, Environment and Health Care Cess on Industries, Mines, Ports and Jetties and Power Plants
 - Parking Fees
 - License Fees from shops on the basis of turn over
 - Toll fees for using village, G.P. and P.S. Roads
 - Local Body Cess by Forest Corporation for Kendu Leaves Collected
 - Local Body Health Fees from Private Hospitals and Nursing Homes
 - Pilgrim Fee
 - Turn over Tax on Minor Forest Produce

Horizontal Distribution

Devolution to the Panchayats

- In each of the villages of each Grama Panchayat there must be a regular monthly interaction meeting. An amount of Rs.0.75 lakh per G.P. per year i.e. Rs.46.755 crore per annum for the 5 years of Award Period) for the purpose of such knowledge and skill empowerment through monthly interaction meetings in every village.
- An amount of Rs.0.25 lakh per G.P. per year i.e. Rs.15.590 crore per year for the 6234 G.Ps. is recommended for appointment of a person as 'Data Bank' and publication of an annual G.P. profile regularly.
- An amount of Rs.0.25 lakh per G.P. per annum is recommended i.e. Rs.15.590 crore for all the 6234 G.Ps for disaster relief.

- An amount of Rs.5.4 crores for all the G.Ps. in a year and Rs.4 crores for all the Z.Ps. per annum for maintenance of buildings and classrooms, supply of teaching-aids and equipments, library books etc. for improving functional literacy.
- A sum of Rs.30.40 crores for the 5 years of the Award period for providing Mobile Health Units to the Panchayat Samitis to make health services reach the poor in every nook and corner.
- A total amount of Rs.2 crore per annum i.e. Rs.10 crore for the Award period is recommended in favour of the Zilla Parishads, for providing drinking water facilities.
- Provide Rs.30 crore each year to the Panchayat Samities (i.e. Rs.150 crore for the Award period) for developing watersheds to boost agricultural production.
- Devolution of Rs.9.75 crores at the rate of Rs.1.95 crore per annum to promote literacy among the school going children, particularly female children in the tribal blocks.
- Provide the newly opened G.Ps with Rs.11.76 crores in the 1st year of the Award period for office building, furniture, etc.
- To provide funds to riverine G.Ps. for country boats at the rate of Rs.10000/- per boat.
- An amount of Rs.21.58 crores spreading over the period of 5 years for construction of buildings for library purposes and for providing books and journals and personnel for running the libraries.
- For the purposes of maintenance of drinking water schemes, sanitation, livestock improvement, electricity charges, maintenance of productive assets, maintaining vital statistics, etc untied funds at the ratio of 50:30:20 is recommended to the Z.Ps, P.Ss. and G.Ps.

Devolution to Municipalities

- An annual increase of 20% in the transfer of Entry Tax in favour of all Municipalities for the Award period, in place of the prevailing annual increase of 10%.
- Provide Rs.7.20 crores to the 103 Municipalities and N.A.Cs excluding the two corporations, in the first year for construction of 180 numbers of public toilets at a cost of Rs.4 lakhs each in the first year of the Award period and Rs.0.90 crore

during each of the following four years for their day-to-day management and maintenance. The total expenditure on this account for the 5 years comes to Rs.10.80 crores.

- A total amount of Rs.14.42 crores is recommended for construction of library building and provision of books and periodicals for the total period of five years for the 103 Municipalities and N.A.Cs, excluding the two corporations.
- Provision of Rs.1 crore to each of the two Municipal Corporations per year (i.e. Rs.10 crore for the Award period) distribution of the balance among the Municipalities and N.A.Cs on the weight age of 40% on density of population, 30% on number of holdings and 30% on revenue collection efficiency.

Grants-in-Aid

- 10% of the Gross Own Tax Revenue of the State for the year 2002-03 minus the Devolvable amount i.e. Rs.171.47 crores (Rs.383.30 – Rs.211.83) is recommended towards grants-in-aid for different specific problems.

Functions and Functionaries

- Along with the activities delineated under the Activity Mapping adequate gripping power over the functionaries of the concerned 21 Departments of the Government (Table No-4.A) should also be given to the Panchayats to enable them to function as “Institutions of Self- Government”. More specifically, powers like Performance Appraisal, Supervision and Monitoring, Power to call for report / Information, Routine Administrative Control Powers, Powers of Imposition of Minor Penalties and Powers to Sanction Development Works are recommended for making the empowerment efficacious.
- The D.R.D.A. should be fully merged with the Z.P., with a full time Executive Officer for the Z.P.
- Stringent punishment for un-hygienic and uncleanliness habits in Urban localities
- The State Government should provide necessary training, expertise and assistance to the staff and beneficiaries for mosquito and fly eradication in the urban areas, through the respective elected councils.
- The roads belonging to different line Departments lying within the jurisdiction of Municipalities be handed over to the concerned Municipalities with funds

equivalent to last three years average expenditure on such roads for proper upkeep and maintenance.

- The State Government, the Elected Councils / Corporations and the Electricity Supply Company of the town / city must sit periodically to chalk out programmes for keeping the streets well lit and to draw up plans for underground electricity cabling.
- The function of providing safe drinking water and the functionaries, particularly technical and funds now spent on this account on an annual average of last 3 years, should be transferred to the respective Municipality for effective supply, service and maintenance.
- The Local Bodies must find funds and commit themselves to provide a nutritious lunch to the poor children after proper identification. The Ward Member / Councilor / Corporator should control and manage the education programme and should be officially accountable. The G.P./ Town must prepare an advance action plan for education programme and the programme should be closely monitored by the Panchayat Samiti / Municipal Council apart from the Educational officers. All money released by the Ministries and Departments of the Central and State.
- Government in charge of welfare of S.Cs and S.Ts, towards education should be channelized through the local bodies.
- Establishment a State Institute of Urban Development.
- Repeal the Orissa Agricultural Produce Markets, Act, 1956 and to transfer all markets now managed by the Regulated Marketing Committees to the concerned G.Ps.
- Amendment in existing Rules regarding Sairat sources and Minor Minerals and all such sources situated within the area of Grama Panchyats may be transferred to the control and management of the respective Grama Panchayats.
- The Executive Officer of the G.P. be declared as the Registrar / Sub-registrar of Births and Deaths and authorized to issue Birth and Death certificates by collecting prescribed fee for issue of such certificates.
- Transfer of the markets under the management of the Regulated Market Committees to the concerned Municipalities.

- Transfer of all the Sairat Sources and Minor Minerals to the concerned Municipalities.

Other Measures

- The amount devolved should be released in three installments during the 2nd week of April 1st week of August and 1st week of December, every year.
- There is no provision in the Constitution regarding synchronization of the recommendation periods of the National Finance Commission and the State Finance Commission. Besides, Article - 243-I stands as a barrier to constitute the State Finance Commission earlier than the expiration of the fifth year from the date of constitution of the former Commission. The Commission recommends initiating necessary action for removing these deficiencies.
- Statutory provisions be made for placing the reports of the State Finance Commission along with Action Taken Report before the State Legislature within six months from the date of submission of the Report to the Governor.
- Constitute a strong cadre of officers for the Municipalities with proper training facilities for them to have the required expertise in urban development and management.
- Appoint an Expert Committee to study the man power requirements of all the Municipalities and to suggest a staffing pattern, recruitment procedure, etc.
- Revamp the Public Distribution System by involving Panchayats.
- Arrange Oriya rendering of the whole report of this Commission and to make it available to all the Panchayats and Municipalities within one year of submission of the report.

Action Taken Report

The State Government have decided to transfer Rs.1256.29 crore to Local Bodies in place of Rs.735.43 crore recommended by the 2nd State Finance Commission.

The existing pattern of distribution of Kendu Leaf Grant may continue (i.e. @ 72% to GPs, @ 10% to PSs, @ 8% to ZPs and @ 10% as Hard Cash Kendu Leaf Grant to be distributed by Government).

The annual average transfer of fund would be Rs.50.26 crore and this would include the following:

- Road Maintenance Grant @ not less than Rs.15.00 crore per annum
- Surcharge on Stamp Duty for Development Authorities @ Rs.3.00 crore per annum
- Surcharge on Entertainment Tax @ Rs.0.15 crore per annum.
- Pensionary contribution by State Government for Non-LFS employees of the Municipalities.
- The State Government's share as per the agreed pattern for the non-teaching posts approved prior to 1.1.74 and for the teaching posts approved prior to 1.11.76. Since the teaching and non-teaching staff of the Schools hitherto managed by the Municipalities.

As recommended by the 2nd State Finance Commission, the State Government will provide 20% increase per annum towards compensation on Entry Tax to the Municipalities. But out of this 20% hike, 10% hike would be passed on to the Municipalities as untied resources and the balance 10% hike would be released by the State Government to the concerned Municipalities based on their performance in undertaking various reforms including augmentation of internal non-debt resources.

The Local Bodies should ensure appreciable growth in their own non-debt revenue from year to year to take care of the basic services supposed to be provided by the Local Bodies. Appropriate incentive schemes should be worked out by Panchayati Raj Department and H & U.D. Department to encourage the Local Bodies to increase their own revenue.

Other recommendations and suggestions including revenue generation measures as recommended by the 2nd State Finance Commission have been accepted by Government.

Punjab Second State Finance Commission

Award Period: 2001-02 to 2005-06

Composition

B B Mahajan, IAS (Retd.)	- Chairman
O P Mathur, (Prof) Housing and Urban Economics NIPFP, New Delhi	- Member
N K Arora, IAS Principal Secretary, Local Government Government of Punjab	- Member (up to 5.3.2001)
J S Kesar, IAS Financial Commissioner Rural Development & Panchayats Government of Punjab	- Member
S P Karkara, IAS (Retd.)	- Member Secretary
Shri Rajesh Chhabra, IAS	- Member (From 5.3.2001 to 15.10.2001)
B C Gupta (Dr)	- Member (From 15.10.2001)

Terms of Reference

The terms of reference require the Commission to make recommendations on the following matters:

In the case of 'Panchayats' as to:

d) The principles, which shall 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 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; and*
 - iii. The grants-in-aid to the Panchayats from the Consolidated Fund of the State.*
- e) The measures needed to improve the financial position of the Panchayats.*
- f) Any other matter referred to the Finance Commission by the Governor in the interest of sound finances of Panchayats.*

In the case of 'Municipalities' as to:

- d) *The principles, which shall 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 and the allocation between 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 Municipalities; and*
 - iii. *The grants-in-aid to the Municipalities from the Consolidated Fund of the State.*
- e) *The measures needed to improve the financial position of the Municipalities.*
- f) *Any other matter referred to the Finance Commission by the Governor in the interest of sound finances of Municipalities.*⁴⁴

Methodology

The Commission devised detailed and exhaustive Information Proformae about functions, income and expenditure, grants received from various sources, and under various schemes, indebtedness, level of Civic Services, future requirement of funds etc. and sent these to all the Municipal Corporations, Municipal Councils, Nagar Panchayats (NPs), Zila Parishads (ZPs), Panchayat Samitis (PSs) and Gram Panchayats (GPs). The received data from the local bodies was then scrutinized, tabulated and analyzed. A detailed questionnaire covering all important issues relating to the finances of the Municipalities and Panchayats was prepared to be placed in the offices of Deputy Commissioners, the Sub-Divisional Officers (civil) and Local Bodies. The Commission also tried to collect information from other States about the finances of the state governments and the local bodies. Interaction with the Senior Officers of the state governments and experts provided valuable information and ideas. District level meetings were held with Divisional Commissioners, Deputy Commissioners, Regional and District level Officers of local government.

RECOMMENDATIONS

Global Sharing

- 4% of the net receipts from all state taxes may be transferred to the local bodies (LBs) during the period covered by the report *viz.* 2002-03 to 2005-06.
- Share in the state taxes may be allocated between the Panchayats and Municipalities in the ratio of population living in areas of GPs and Municipalities as per 2001 census, *viz.* 67.5% and 32.5% respectively.

Assignment of Revenue

⁴⁴ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- All Municipalities should start levying the property tax on vacant land on which no building has been erected but on which building can be erected and on any land on which building is in the process of erection.
- Profession tax may be imposed in all Municipalities on persons practicing any profession or carrying out any trade or calling in the area of Municipalities.
- Municipalities may levy suitable fee on hospitals and nursing homes generating bio-medical wastes.
- Octroi (abolished) may be replaced by surcharge on sales tax or accounts based entry tax on dealers in urban areas.
- A land holding tax may be levied by the Panchayats on the owners of the agricultural land situated within the Panchayat area (with suitable rebate for barani land and exemption for banjar and uncultivable land).
- Gram Panchayats of the villages where street lighting exist or are to be made in future should levy lighting tax.

Horizontal Distribution

- *Inter se* distribution of the share of State taxes allocated to Municipalities amongst individual Municipalities may be determined by giving the following weightage:

i. Population as per 2001 census	70%
ii. Population of SCs in the Municipalities	15%
iii. Shortfall of per capita tax income as compared to average per capita tax income of all Municipalities	15%
- Department of Rural Development & Panchayats may distribute the share of Panchayats in auction money of country liquor and excise duty on Indian Made Foreign Liquor (IMFL) among PSs and ZPs.
- The entire share in taxes allocated to Panchayats may be distributed among GPs.
- 40% of the amount available in the Incentive Fund for Municipalities may be earmarked for being awarded to the Municipality which has an increase in the total income tax in the previous year.
- Another 40% of the amount from Incentive Fund may be distributed among Municipalities with increase in the percentage recovery of O & M expenditure on water supply and sewerage schemes.
- Remaining 20% of the Incentive Fund may be awarded to Municipalities which reduction in the ratio of their expenditure on salary of establishment to their total expenditure.

Grants-in-Aid

- The Municipalities may be compensated by compensatory grants equal to the net receipts from octroi of each Municipality during the year 2000-01.

- Incentive funds may be set up for Municipalities and GPs. State government may provide Rs. 10 crores per annum to the Incentive fund for Municipalities and Rs. 20 crores per annum for GPs.

Functions and Functionaries

- Operation and maintenance of all tube-well based rural water supply schemes may be transferred to Panchayats.
- The supervision and control over working of the primary/elementary schools in rural areas may be transferred to the Gram Panchayat of the village in which the school is situated.
- Municipal Corporations and Class I Municipalities may be permitted to have their water supply and sewerage schemes executed by inviting tenders. Preferences may however be given to PWSSB, other things being equal.
- The power to fix the rate of tax should vest in the Municipalities subject to the maximum laid down in the Act and the minimum to be prescribed by the State Government.
- Exemption from a tax to any class of persons/properties should be left to the Municipalities, who may however be required to obtain prior sanction of the State Government.
- A system of parking fee may be introduced in areas in bigger towns with significant congestion.
- Efforts should be made by Municipalities to reduce the cost of collection of property tax.
- The collection of house tax and other taxes levied by the Gram Panchayats may be fixed on the Panchayat Secretaries.

Other Measures

- The area based method for assessment of the present market value of the property may be adopted for the purpose of determination of the annual value for levy of property tax.
- The blanket exemption to all residential buildings occupied by the owners from property tax should be withdrawn.
- All Municipalities where re-assessment has not been carried out during the last five years, should carry out their re-assessment and the re-assessment should be carried out regularly after every five years.
- Computerization of information on property tax may be given priority, particularly in Class I Municipal Councils and Municipal Corporations.
- Tax on vehicles other than mechanically propelled vehicles and animals may be abolished.
- 100% of the O & M expenditure on water supply and sewerage schemes in Municipalities should be recovered by 2005-06.

- For yellow card holders, the rates for water supply and sewerage may be fixed at 50% of the normal rates.
- The authority to fix rates for water supply and sewerage should vest in the Municipalities.
- Provisions of Punjab Municipal Bill, 1999 for rebate for payment of tax on or before the due date and levy of interest on delayed payment should be strictly enforced.
- Arrangements should be made for deposit of taxes, water and sewerage charges and license fees in banks. Post Offices may also be approached to undertake this work.
- Performance linked incentives may be provided to the municipal staff engaged in assessment and collection of taxes.
- All Municipalities which have vacant municipal lands should draw up plans for their commercial development.
- The larger Municipalities with sound financial position should be encouraged to go in for tax free municipal bonds.
- All posts in Municipalities which are at present in provincialised cadres may be de-provincialised (Commissioners- Municipal Corporations, Executive Officers- Municipal Councils/Nagar Panchayats, and other class I posts).
- An accrual based double entry system of accounts may initially be adopted in Municipal Corporations and Class I Municipal Councils.
- House tax in rural areas may be re-named as property tax and levied on the annual value of the property determined on area-based system.
- It should be made obligatory for a senior officer (Panchayat Samiti) nominated by the BDPO to attend the meeting of gram sabha wherein accounts of Gram Panchayat are reviewed.

Rajasthan Second State Finance Commission

Award Period: 2000-2001 to 2004-05

Constitution: May 1999

Report Submission: August 2001

ATR Submission: March 2002

Composition

Hira Lal Depura	- Chairman
Ghanshyam Tiwari	- Member
Munna Lal Goyal	- Member
S C Derashri	- Member Secretary

Terms of References

The Commission shall make recommendation on the following matters-

- A. *The principles which should govern:*
- a. *The distribution between the State and the 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-A of the Constitution and the allocation between the Municipalities at all levels 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 Municipalities; and*
 - c. *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.*⁴⁵

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

- i. The financial resources of the State and demands thereon, keeping in view the non-Plan deficit and surplus and, in particular, the need for providing adequate resources for funding the plan expenditure for the overall development of the State;
- ii. the expenditure needs of the Panchayats at all levels and Municipalities at all levels for the functions and responsibilities already assigned to them and those as may be assigned to them hereafter as per provisions of new/amended legislations;

⁴⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- iii. Adjustment of grants available to the Urban Local Bodies and Panchayat Raj Institutions under the recommendations of the Eleventh Financial Commission in their resources:
- iv. Power available to Panchayati kJraj institutions and Urban Local Bodies for raising additional resources, including powers to levy taxes.
The Commission shall make its report available by 31st December 1999 on each of the matters aforesaid, covering a period of five years commencing on the 1st day of April, 2000. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of receipts and expenditure of the Panchayats and the Municipalities at all levels.

Methodology

The methodology adopted by the commission included collection of information and materials and analysis thereof. Various meetings as well as field visits were conducted to enhance the feasibility of the report. Suggestions were invited through public notices. The Commission participated in a number of Workshops and Conferences organized at National and State levels. The Commission also visited some major States and closely studied the working patterns of local governments and the concerning State Finance Commissions.

RECOMMENDATIONS

Global Sharing

- Devolution of 2.5 % of state's net own tax revenue excluding entertainment tax, 15 % of entertainment tax and 1% of net royalty receipts for the award period 2000-2005. *[Accepted]*
- The distribution of divisible pool between the Panchayats and Municipalities would be based upon 2001 population percentage 76.6% and 23.4% respectively. *[Accepted]*

Assignments of Revenues

- Transfer of net proceeds of entertainment tax to the Municipalities. *[Deferred]*
- Recovery of House tax by Municipalities. *[Deferred]*
- Release of grants to Municipalities in lieu of Octroi. *[Deferred]*

Horizontal Distribution

- The amount of 15% share in entertainment tax to be given to the Municipalities in proportion to the recovery from their areas. *[Accepted]*
- Payment of 1% share from royalty on minerals to be made to Gram Panchayats based on actual recovery from the respective districts/Gram Panchayats. *[Deferred]*
- Out of the net proceeds of tax revenue of 2.25%, 2.20% amount to be paid as share in taxes for maintenance of civic services to Panchayats and Municipalities and 0.05% as incentive money for raising resources from untapped sources by the Gram Panchayats and Municipalities except corporations. *[Accepted]*
- The distribution of share in tax amount (2.20%) to be made among districts for Panchayats based on population 80% area 10% illiteracy 5% and poverty 5% weights. *[Deferred]*
- The distribution of share in tax among three tiers Panchayats to be made on 85% to Gram Panchayats 12% to Panchayat Samitis and 3% to Zila Parishads. *[Deferred]*
- Out of Municipalities share in taxes (2.20%). 85% will be distributed among all the five categories on population basis. The remaining 15% share would be distributed among II, III, IV categories of Municipalities on the basis of population. *[Deferred]*

Grants-in-Aid

- Incentive amount equal to the revenue raised from untapped sources of tax/non-tax to be given to Gram Panchayats. Similar incentive may be paid to Municipalities but for Corporations on raising tax/non-tax revenue except house tax. *[Deferred]*
- Payment of incentive amount to be made to Gram Panchayats by Zila Parishads out of the incentive amount of Rs. 12.57 crores which is to be transferred to their PD accounts out of 0.05% share in net taxes. *[Deferred]*
- At the end of award period undisbursed balances including interest if any from the incentive amount may be distributed to Gram Panchayats and Municipalities except corporations on population basis. *[Deferred]*

Functions and Functionaries

- Provision of a secretary in each Gram Panchayat. *[Deferred]*

- Outsourcing the services for cleaning and solid waste management and in case of emergency the local governments should be authorized to hire labour for cleaning operations. *[Deferred]*
- Rationalization of the staff norms along with computerization of office functions by Municipalities. *[Deferred]*
- Gram Sevak should handle cash and maintain records of Gram Panchayat. *[Deferred]*

Other Measures

- The government should appoint the commission on time and the members should not be changed before completion of the task and the Member Secretary should be appointed for full time. *[Deferred]*
- The life span of SFC should be maximum 18 months. *[Deferred]*
- Synchronize the recommendations of Union Finance commission with the SFC. *[Deferred]*
- Timely collection and compilation of financial data of Panchayats and Municipalities. *[Deferred]*
- Monitoring of the recommendations of SFC by the Finance Department. *[Deferred]*
- Proper utilization of Finance Commission's grant in the prescribed manner. *[Deferred]*
- Proper arrangement for training of the elected representatives of Panchayats and Municipalities. *[Deferred]*
- Inclusion of the third list of District Government in the Constitution. *[Deferred]*
- The District Rural Development Agencies should be merged with the Zila Parishads. *[Deferred]*
- Constitutional amendment is required to declare Jaipur a Metropolitan Area. *[Deferred]*
- Synchronize the criteria for rural and urban bifurcation adopted by the census authorities. *[Deferred]*

- Provision of recommended funds to local governments on regular basis and no ban on withdrawal after release.

[*Deferred*]

- For raising additional resources the Panchayats and Municipalities shall have resource to existing laws and rules.

[*Deferred*]

Sikkim Second State Finance Commission**Award Period: 2004-05 to 2009-10****Constitution: 5.7.2003****Report Submission: 30.9.2004****ATR Submission: March 2002****Composition**

Tobjor Dorjee - Chairman
Secretary, Co-operation Department

K N Sharma - Member
Special Secretary, Home

T P Koirala - Member
Director, Treasury and Pay & Accounts Administration

Terms of Reference

NA

Methodology

NA

RECOMMENDATIONS**Global Sharing**

- Global sharing was not recommended.

Assignment of Revenues

- Introduction and assignment of the following taxes, fees, charges, etc. to local bodies :
 - I. Taxes on property in municipal area.
 - II. User charges for drinking water in Panchayat areas @ Rs. 10/- per house per year.
 - III. User charge for use of irrigation water.
 - IV. Fees for construction of house in Panchayat area.
 - V. Fees for occupation of hat shed.
 - VI. Assignment of taxes on fairs Melas, markets and entertainment in Panchayat area to Panchayats.
 - VII. Service charge for registration of birth and deaths.

Horizontal Distribution

- Allocation of grants for development programmes.

Grants in Aid

- Allocation of grants to meet establishment cost amounting to Rs. 5.25 lakhs per annum.

Functions and Functionaries

- Posting of District Planning Officer as Member Secretary of DPC.
- Allowing the Panchayats some scope for self determination in selection of developmental programmes.
- Devolution of powers to the District Sub-Divisional level officials.

Other Measures

- Setting up of local area development fund.
- Enhancement of rates of honorarium of the elected members of the Panchayats.
- Preparation of Panchayat budgets.
- Framing of Sikkim Gram Panchayat Financial Rules.
- Constitution of Committee for monitoring and evaluation.
- Winding of advisory body to the DPC.
- Preparation of Planning Calender.
- Construction of East Zila Panchayat Bhawan and 64 Panchayat Ghars.
- Pension plans and medical assistance to elected members of Panchayats.
- Creation of Panchayati Raj Cadre and four DRDAs.

Tamil Nadu Second State Finance Commission

Award Period: 2002-03 to 2006-07

Constitution: December 1999

Report Submission: May 2001

ATR Submission: May 2002

Composition

Sukavaneshvar, IAS	- Chairman
Ma Vea Narayanaswamy	- Non Official Member
K Ganesan, IAS	- Ex Officio Member
K Shanmugam, IAS	- Ex Officio Member
B Anand, IAS	- Member Secretary

Terms of Reference

The Commission shall review the financial position of the rural and urban local bodies namely, Village Panchayats, Panchayat Union Councils, District Panchayats, Municipal Corporations, Municipalities and Town Panchayats and make recommendations as to:

- a) *The principles which should govern-*
 - i. *The distribution between the State and the said local bodies of the net proceeds of the taxes , duties, tolls and fees leviable by the government which may be divided between them and allocation between the said local bodies 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 said local bodies;*
 - iii. *The grants-in –aid to the local bodies from the Consolidated Fund of the State.*
- b) *The measures needed to improve the financial position of the local bodies⁴⁶ taking into account interalia, their level of debt and their ability to service the debt.*

In making the recommendations, the commission shall have regard, to the resources of the State Government, the demand thereon, in particular the expenditure of the State on debt servicing including the debt servicing on behalf of local bodies/other committed expenditure or liabilities of the state government and the need to generate adequate surplus on revenue account for states commitments on capital account.

⁴⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

The commission shall have regard to:-

- i. The existing level of devolution and other resource transfer from the state and Central Government and other agencies, including the award and recommendations of the Eleventh Finance Commission to the local bodies and their adequacy;
- ii. The requirement of the local bodies for meeting revenue expenditure including maintenance of capital assets, keeping in view the need for generating surplus for capital investment;
- iii. The revenue resources of the local bodies for the five years commencing from 1st April 2002 on the basis of level of taxation reached in 1999-2000 and potential for increase in revenue;
- iv. The status of implementation of the recommendations of the First State Finance Commission and the utilization by the local bodies of the resources transferred;
- v. The scope for better fiscal management consistent with efficiency and economy in major components of recurring and non recurring items of expenditure.

The Commission shall review the present system for assessing the accountability of the local bodies in utilizing the resources raised or received from the State and Central Government s and other agencies.

The Commission may suggest changes, if any, on the basis of classification of local bodies as rural and urban.

The Commission can also make suitable recommendations on the changes if any, needed in the system for payment of pension to retired employees of local bodies.

The Commission can also make suitable recommendations regarding any other issues having bearing on the terms of reference above in paras 2 to 8.

Methodology

The Commission's major source for eliciting information was through questionnaires, which were carefully designed and were separately prepared and sent to all Mayors of Municipal Corporations, Chairmen of Municipalities, Town Panchayats, District Panchayats and Panchayat Unions besides Village Panchayats Presidents. The data for Municipalities have been obtained both in manuscript and through computer floppies. The data obtained from Panchayats were fed into computer by obtaining the services of Data Centre, Chennai. Interactions were carried out at every stage with elected representatives and other officials. The Commission undertook field visits to various districts also other states *viz.* Ahmedabad, Mumbai, Bangalore and Hyderabad. State level seminars and regional seminars were conducted and also, various committees were constituted namely, Task Force Committee for Municipalities and Panchayats, Pension Sub-Committee, Urban and PRI Review Committee, Rainwater Harvesting Committee and Committees to study the needs of Training and Infrastructure in Tamil Nadu Institute of Urban Studies, Coimbatore and PRIs Training Institutes.

RECOMMENDATIONS

Global Sharing

- Assigned revenue items *viz.* Entertainment Tax, surcharge on Stamp duty, local cess and local cess surcharge need to continue as such and are to be distributed among the local bodies (LBs) as follows:

(Rs. in Lakhs)

1	Surcharge on Stamp Duty	26,318
2	Local Cess and Local Cess Surcharge	3,000
3	Entertainment Tax	7,196
	Total	36,514
or Rs. 365 crores		

[Accepted]

- 5% of the central devolution to be passed on to the LBs and be shared among them vertically and horizontally.

[Not accepted]

- The percentages of global sharing from out of the state own tax revenue, after excluding Entertainment Tax, shall be:

2002-03	8%
2003-04	8%
2004-05	9%
2005-06	9%
2006-07	10%

[Accepted with modification. The transfer shall be

8% from 2002-03 to 2006-07]

- The sharing between Panchayats and Municipalities shall be in the ratio of 58:42 respectively, after giving weightage to population resource potential and needs.

[Accepted]

- 10% each of the SFC devolution may be reserved for capital works in Municipalities and Corporations, 15% for Town Panchayats and 20% for Village Panchayats.

[Accepted]

- Unspent amount, if any, under Collector's Development Fund should be pooled in the fourth quarter and taken to general devolution and distributed based on population.

[Accepted]

Assignment of Revenue

- The existing system of pooling to be continued and the distribution formula be modified in respect of Panchayats by according 50% weightage to population and 50% weightage to surcharge on Stamp Duty collections. [Accepted]
- The Commission recommends to restrict the collection charges for the surcharge collected at 5% for Municipalities and 3% for Panchayats. [Accepted]

Horizontal Distribution

- The sharing of devolution among Corporations, Municipalities and Town Panchayats may be in the ratio of 33:32:35, respectively. [Accepted with modification. The ratio of 31:34:35 shall be adopted]
- After allocating the salary requirements of District Panchayats, the balance funds shall be distributed between Village Panchayats and Panchayat Unions in the ratio of 60:40 respectively. [Existing ratio of 47:45:8 for VPs, Pus and DPs shall continue for distribution of funds]
- The horizontal distribution of funds allotted to Village Panchayats and Panchayat Union will be as below:

(in percentage)		
Criteria	Village Panchayats	Panchayat Union
Population	60	60
SC/ST Population	10	10
Agricultural Laborers	10	10
Area	10	10
Asset Maintenance	10	-
Resource Gap on inverse per capita land revenue	-	10
Total	100	100

Urban:

Criteria	Corporations	Municipalities	Town Panchayats
Population	50	50	50
SC/ST and Slum Population	10 (slum population)	10 (SC/ST population)	10 (SC/ST population)

Per Capita Own Income	20	20	20
Asset Maintenance	10	10	10
Salary & Pension expenditure restricted to Corporations/Municipalities with 49% or less of total revenue income	10	10	10
Total	100	100	100

[The following weightages have been assigned within each class of Municipalities & Panchayats:

Total Population 40%

Women Population 40%

SC/ST Population including Slum Population 20%]

Grants-in-Aid

- 13% from the devolution, as noted below, shall be set apart to take care of the needs and utilizations of the LBs:

Reserve Fund 3%

Equalization Fund 5%

Incentive Fund 5%

[Accepted]

Functions and Functionaries

- The Village Panchayats' audit shall continue to be done by Deputy Block Development Officers as at present. But a test audit by Director of Local Fund Audit has been recommended.

[Accepted]

- For each Panchayat Union, a qualified para-accounting professional from the panel approved and maintained by Director of Local Fund Audit can be appointed on a pooled basis by the District Collector for maintaining accounts of Village Panchayats.

[Accepted]

- The Acts may suitably be amended for introduction of Contributory Pension Scheme for the employees of LBs, as and when the scheme is introduced in respect of Central/State Government employees.

[Accepted]

- The LBs may be encouraged to explore the options of obtaining loans from Infrastructure Development Finance Company Ltd. (IDFC) also in addition to TUFIDCO/TUIFSL depending on the terms of IDFC.

[Accepted]

Other Measures

- Director of Local Fund Audit shall be the statutory auditor for Municipal Corporations, Municipalities, Town Panchayats, District Panchayats and Panchayat Unions. *[Accepted]*
- The accrual accounting system may be extended to all Town Panchayats and Panchayat Unions from 2003-04 after due and extensive training to the staff. *[Accepted]*
- The Commission recommends for the preparation of schematic budget for a period of two years to start with. *[Accepted]*
- Except Village Panchayats, others can host website giving salient features of their area including budget. *[Accepted]*
- Computerized Information Kiosks may be opened in all the Corporations, Municipalities and Panchayat Unions. *[Accepted]*

Tripura Second State Finance Commission

Award Period: 2003-04 to 2007-08

Constitution: October 1999

Report Submission: April 2003

ATR Submission: June 2008

Composition

Sudhir Sharma, IAS	- Chairman
Haradhan Debnath Asst. Professor, MBB College	- Member
N C Sen, Joint Secretary (Finance), Government of Tripura	- Member Secretary

Terms of Reference

Under Article 243-I of the constitution of India the Governor appoints a Finance Commission to review the financial position of Panchayats and to make recommendations as to:

- a) *the principles which should govern:*
 - x. *the distribution of the net proceeds of the taxes, duties, tolls and fees leviable by the state among the state and the Zilla Parishads, the Panchayat Samitis and the Gram Panchayats;*
 - xi. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Zilla Parishads, the Panchayat Samitis and the Gram Panchayats;*
 - xii. *the grants-in-aid to the Zilla Parishads, the Panchayat Samitis and the Gram Panchayats from the consolidated fund of the state;*
- b) *the measures needed to improve the financial position of the Panchayats; or*
- c) *any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Zilla Parishads, the panchayat Samitis and the Gram Panchayats.*⁴⁷

Methodology

Not clearly mentioned in the report.

⁴⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

RECOMMENDATIONS

Global Sharing

1.40% of agricultural income tax and land revenue to be devolved to each of the Panchayats Samitis.

- 5 % of forest revenue to each Zilla Parishad.
- 1 % of collection from tax on motor vehicles to ZPs @0.25% for each ZP.

Assignment of Revenues

- Panchayats be empowered to collect revenue from sand, stone quarry and soil lifted/collected from the panchayat areas.

Horizontal Distribution

- Allocation of funds to sabhadhipatis and sahakari sabhadhipati of the ZPs for implementation of local area development schemes on the lines of MPLAD/MLALAD.

Grants-in-Aid

- GPs to be provided grant @ Rs 200/- per head, panchayats samiti @ Rs 120 per head and ZP @ Rs 80/- head on the basis of total population living in each unit on a permanent basis.

Functions and Functionaries

- Power to levy taxes, tolls, fees etc., to be assigned to Panchayats at all levels.
- Collection of revenue from sand, stone quarry, soil lifting, cattle pounds, ferry ghats and markets from the panchayats areas.

Other Measures

- State Govt. should fix uniform rates for leasing out of water areas belonging to panchayats.
- Incentives to panchayats or raising Panchayats be provided with incentives for raising resources through their own efforts.
- State Govt. to pursue the banks to consider providing some incentives to the panchayats in consideration of their service rendered to the banks for the recovery of bank loans.
- Appropriate amount of honorarium may be provided to the functionaries of the GPs to ensure their more meaningful involvement.

Action Taken Report- Not considered due to financial crunch.

Uttar Pradesh Second State Finance Commission

Award Period 2001-02 to 2005-06

Constitution: February 2000
Report Submission 28-06- 2002
ATR Submission: NA

Composition

T.N.Dhar	- Chairman
A.K.Singh	- Member
D.N. Roy	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- (a) *The principles which should govern:-*
 - i. *The distribution between State, Gram/Kshetra/Zila Panchayats and Urban Local Bodies of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part-IX and IX A of the Constitution and the allocation between Panchayats at all levels and Urban Local Bodies 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, as the case may be, the Urban Local Bodies;*
 - iii. *The principles which should govern the grants-in-aid to the Gram/Kshetra/Zila Panchayats or as the case may be, Urban Local Bodies from Consolidated Fund of the State;*
- (b) *The measures for strengthening the financial position of Gram/Kshetra/Zila Panchayats and Urban Local Bodies;*
- (c) *Any other matter, which the Governor may refer to the Commission in the interest of sound finance of Gram/Kshetra/Zila Panchayats and Urban Local Bodies.*

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

- i. the revenue resources of the State Government and the demands thereon, in particular, on account of expenditure on civil administration, debt serving and other committed expenditure or liabilities;
- ii. the liabilities of Panchayats and Urban Local Bodies in respect of implementation of schemes entrusted to them under Article 243-G and 243-W and works entrusted to them at appropriate levels.

- iii. the revenue resources of Panchayat and Urban Local Bodies at all level based on the potential for raising resources for the next five years and targets fixed for additional resource mobilisation along with tax efforts made in this direction.
- iv. the matching efforts of the Panchayats and Urban Local Bodies with the devolution amount.
- v. the scope for improvement in fiscal management as well as organizational streamlining consistent with economy in expenditure and efficiency in administration;
- vi. the maintenance and upkeep of capital assets and maintenance expenditure on those plan schemes which are entrusted to these bodies and are completed by March 31, 2002.
- vii. the Commission may make an assessment of the debt position of the Panchayats and Urban Local Bodies at all levels as on March 31, 1999 and suggest such corrective measures as are deemed necessary keeping in view the financial requirements of the State;
- viii. if the funds available at local level do not meet full requirement of expenditure on Plan side after the new arrangement, then the Commission will make specific recommendation regarding the arrangement of funds for expenditure on both Plan and non-Plan side.

Methodology

The Commission developed detailed questionnaires to elicit information on the financial and other aspects of local governments. These questionnaires were issued to PRIs and ULBs. Help of the Director, Panchayati Raj was taken in distribution of questionnaires to KPs/GPs in each district. The Commission also decided to have wide ranging interactions and discussions with experts, officials and representatives of PRIs and ULBs in U.P. as well as other States, The Commission undertook visits to other States to familiarize itself with the working of local bodies as also the approach and thinking of other SFCs. With this end in view the Chairman visited Andhra Pradesh, Kerala and Maharashtra. Most LBs have responded to the questionnaires. For the first time SSFC has been able to develop a comprehensive and reliable set of data for local bodies in the State. The Commission collaborated with SHERPA, a NGO, in carrying out a field survey on the functioning of Panchayats in the State.

RECOMMENDATIONS

Global Sharing

- The total share of local governments in the divisible pool should be increased from the present 11% to 12.5%, of which 7.5% share should go to Municipalities and 5% to Panchayats.

[Accepted]

- 70% of Panchayats devolution should go to GPs, 10% to KPs and 20% to ZPs.

[Accepted]

Assignment of Revenues

- Land Cess should be charged at a fixed rate of 50 paise per rupee of LR and it should be collected along with LR by revenue authorities and passed on to GPs on the basis of origin. [Accepted]
- The tax rates on animals and vehicles (other than mechanically propelled) plied for hire, be increased to Rs. 30 per animal and Rs.60 per vehicle per annum. [Not Accepted]
- The existing rate of Rs. 5 per day on theatres, cinemas, etc. exhibiting in the rural areas should be increased to Rs. 20 per show per day. [Accepted]
- Levy of Property tax in rural areas. [Differed]
- A fee at the rate of Rs. 200/- per harvester, Rs. 100/- per tractor, Rs.100/- per tube well and Rs. 50/- per pump set be charged annually from their owners by GPs as a compulsory levy. [Accepted with Modification]
- Penalty at the rate of 2% per month be imposed for delayed payments. [Accepted with Modification]
- The existing C&P tax should be replaced by a comprehensive Profession Tax. It should be made mandatory for all districts in the State. [Differed]
- Maximum limit of C & P tax should be increased to Rs. 10,000/- . Also, the rate of tax should be increased from 3 to 5 paise per rupee of taxable income. [Differed]
- ZP should be empowered to impose tax on advertisement. [Accepted]
- A cess of 5% may be levied on sales tax on motor spirit and diesel, which should be transferred to local bodies in entirety. 70% of receipts from this cess should be given to ULBs and 30% to ZPs in each district on the basis of origin. [Accepted with Modification]

Horizontal Distribution

- A composite formula for distribution of the devolution shares among Panchayats, was applied. The indicators used for the composite index at the district level and the weights assigned to them are given below:

Indicators and Weights Used For Composite District Level Index for Panchayats

Indicators	Weights Assigned (%)
Population (Rural), 2001	50
SC/ST Population (Rural), 1991	10
Area (Rural), 1998	15
Socio-economic Backwardness	15
Inverse of Gross value of agricultural output per person (Rural), Average for 1997-2000	5
Educational Backwardness (illiterate rural population), 2001	5
Medical Facilities (Inverse of No.of Beds in PHCs per lakh of rural population) 1997-98	5
Tax Effort (share in total own revenue of all PRIs), Average for 1997-2000	10
Total	100

[Accepted]

- For the inter-se shares of KPs, and GPs within the district a simple formula was recommended, based on total population, SC/ST population and area with the weights indicated against each below:

Indicators for Determining Inter-se Shares of Gram/Kshetra Panchayats	
Indicators	Weights
Population	70
SC/ST Population	10
Area	20

[Accepted]

- Entertainment tax should be taken out of the shareable pool and the realization from this tax should be shared between the State Government and local bodies in the ratio of 50:50 on the basis of origin, net of collection charges.
[Not Accepted]
- Land revenue may be taken out of the tax pool for devolution purposes and 50% of it be transferred to GPs on origin basis. Only those GPs should be eligible to receive this share which imposes cess on LR at the rate of 50 p. per rupee.
[Not Accepted]
- 75% of receipts from fishing leases in ponds/lakes should be directly deposited in the Gaon Nidhi. The balance 25% be deposited in the Sanchit Gaon Nidhi.
[Accepted]
- 75% of district level Sanchit Gaon Nidhis should be transferred to GPs.
[Accepted]
- The development charge of 0.50% collected by Mandi Samities should be passed on to concerned ZPs.

[Not Accepted]

Grants in Aid

- A one-time non-recurring grant of Rs.1.5 crore may be provided for IT equipment and MIS needs of the Directorate of Local Bodies and the Task Forces to be set up in all districts. The breakup of Rs.1.5 crore would be Rs.1.05 crore for 70 districts. Urban Task Forces at Rs.1.5 lakh per unit and Rs.45 lakh for the Directorate. This amount would be utilizable only on non-recurring expenditure on IT equipment and should be released in two equal annual installments of Rs.75 lakh each in the year 2002-03 and 2003-04.

[Not Accepted]

- The Commission is not recommending any grant to PRIs on account of their debt and other liabilities as the burden on this account is not large and can be borne by them on their own.

[Accepted]

Functions and Functionaries

- GPs should be empowered to impose a graded levy on sale of water by private tube wells or pumpset owners for irrigation purposes.
- [Not Accepted]
- Panchayats be encouraged to borrow funds from financial institutions and capital market for funding specific schemes for rural infrastructure. For doing so they would require credit rating.
- [Accepted]
- Expenditure on unpaid bills of electricity, water, telephone, etc. should be borne by ZPs from their own sources as these are items of routine expenditure.
- [Accepted]
- Powers, functionaries and funds related to the tasks devolved upon Panchayats in an increasing manner should be simultaneously transferred to these bodies to enable them to discharge properly the responsibilities assigned to them.
- [Accepted]
- There is clear functional overlap between the three tiers of Panchayats as they have been broadly entrusted with practically same functions specified in schedule 11. At present the nature of inter linkages between them is vague and unclear, both in law and practice. This ambiguity needs to be addressed. Above the GP level there is need for allocating specific coordinating and monitoring functions to KPs/ZPs. KPs have to consolidate the GP plans and ZPs, the KP plans.
- [Accepted]
- The post of DPRO should be given administrative and financial status of a district level officer in keeping with its responsibilities

[Accepted]

- There should be relocation of employees from ZPs which have surplus staff to those with shortages.
[Not Accepted]
- Employees belonging to non-centralized services should be transferable within the same Revenue Division.
[Not Accepted]
- Gaon Sabhas should be strengthened and at revenue village level implementation of local schemes, beneficiary identification, etc. should be entrusted to the constituent villages.
[Accepted]
- PR Department should develop model Citizens' Charters for the three tiers of Panchayats spelling out programmes being carried out, grievance removal methods, procedures, facilities, etc. and disseminating this information to people.
[Accepted]
- The role of Wards Committees with respect to the functions entrusted to them needs to be clearly spelt out.
[Accepted]
- The responsibility for district plan preparation, implementation and monitoring should be entrusted to DPCs.
[Accepted]
- The Directorate of Local Bodies may be strengthened by inducting three Joint/Dy. Directorate level officers at the headquarters who, together with the Director, LBs, would look after urban local bodies in the four recognized economic regions of the State.
[Not Accepted]

Other Measures

- Need of a high level monitoring mechanism for ensuring time-bound follow-up action for implementing SFC recommendations.
[Accepted]
- A separate independent organization for audit of Panchayats in the State should be created within the Finance Department.
[Acknowledged]
- A ZP Level Rural Infrastructure Development Fund should be created in each district for development and maintenance of rural infrastructure.
[Accepted]
- Mandatory annual audit and certification of accounts and audit reports publication in local newspapers.
[Not Accepted]

- Cost reduction measures need to be taken. *[Accepted]*
- High priority to creation for data bases for Panchayats. *[Accepted]*
- An Expert Group may be appointed by the State Government for the setting up of the Panchayat data base system. *[Accepted]*
- The functional domains of the three tiers of Panchayats, as also the nature of interlink ages between them, should be clearly defined and detailed in law, rules, and executive orders. *[Accepted in Principle]*
- Training for elected representatives/officials deployed with Panchayats assumes special significance *[Accepted in Principle]*
- Training Institutes should be set up in those districts also, where such institutes of RD Department do not exist at present *[Not Accepted]*
- Social audit system for works and accounts should be introduced in Panchayats. *[Accepted]*
- DRDAs should be merged with and located within ZPs *[Not Accepted]*
- The minimum size of the GPs in the State should be raised to at least 5000 *[Not Accepted]*
- GIS be used by NNs and large sized NPPs *[Accepted]*
- Introduction of computerization in all ULBs *[Accepted]*
- Public Private Partnerships (PPPs) can help in increasing financial resources *[Accepted in Principle]*
- Inflation indexing may be introduced at a rate not exceeding 5 per cent of basic rate every year for revision of ARV. *[Not Accepted]*

Uttaranchal Second State Finance Commission

Award Period: 2006-07 to 2010-11

Constitution: April 2005

Report Submission: June 2006

ATR Submission: October 2006

Composition

G C Srivastava (Dr)	- Chairman
B K Joshi (Dr) Former Vice Chancellor Kumaon University	- Member
L M Pant Additional Secretary (Finance) Government of Uttaranchal	- Member Secretary

Terms of Reference

The State Finance Commission shall review the financial position of the Panchayats and the Municipalities and make recommendations to the Governor as to:

- a) *The Principles, which should govern:-*
 - i. *The distribution between State, Gram/Kshetra/Zila Panchayats and Urban Local Bodies, of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part-IX and IX-A of the Constitution and the allocation between Panchayats and the Urban Local Bodies 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 Urban Local Bodies;*
 - iii. *The principles which should govern the grant-in-aid to the Gram/Kshetra/Zila Panchayats and Urban Local Bodies from consolidated fund of the State.*
- b) *The measures for strengthening the financial position of Gram/Kshetra/Zila Panchayats and Urban Local Bodies.*
- c) *Any other matter, which the Governor may refer to the Commission in the interest of sound finance of Gram/Kshetra/Zila Panchayats and Urban Local Bodies;*⁴⁸

⁴⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

In making its recommendation, the State Finance Commission shall have regard, among other considerations, to:

1. 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;
2. The liabilities of Panchayats and Urban Local Bodies in respect of implementation of schemes entrusted to them under Article 243-G and 243-W and works entrusted to them at appropriate levels;
3. The revenue resources of Panchayat and Urban Local Bodies 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;
4. The matching efforts of the Panchayats and Urban Local Bodies with the devolution amount;
5. The scope for improvement in fiscal management as well as organizational streamlining consistent with economy in expenditure and efficiency in administration;
6. 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, 2006
7. The commission may make an assessment of the debt position of the Panchayats and Urban Local Bodies at all levels as on 31 March, 2006 and suggest such corrective measures as are deemed necessary keeping in view the financial requirement of the State;
8. If the funds available at local level do not meet full requirement of expenditure on Plan side after the new arrangement, then the Commission will make specific recommendation regarding the arrangement of funds for expenditure on both Plan and Non-Plan side and
9. The use of information technology and right-sizing of staff.

Methodology

Not mentioned in the Report.

RECOMMENDATIONS

Global Sharing

- 10% of state's own revenues (both tax and non-tax excluding interest receipts, dividend, profits, royalties from minerals and sale proceeds from forest produce etc.) should devolve on the local bodies in each of the five years of our award period (2006-07 to 2010-11).

[Accepted]

Assignment of Revenues

- Municipalities should get full net proceeds of the additional stamp duty.
[Additional stamp duty has been abolished]
- Amendment in the relevant legislation(s) to provide for imposition of additional stamp duty in rural areas as well and the collection on this account should be passed on to the GP concerned. Until then, the Panchayats be given 15% of the stamp duty collections from transfer deeds of rural areas.
[Not Accepted]
- 205 of the total amount of development charges, betterment levy, fee for building permission, etc. collected by the prescribed/development/special development authorities be passed on to the local body concerned.
[Deferred]
- A pilgrim-cum-tourist tax be imposed by the state government and to be collected by the Municipalities/KP concerned.
[Deferred]
- Land revenue to be fully assigned to the Gram Panchayats.
[Not Accepted]
- The system of property tax should be made free of any discretion and as objective and transparent as possible by adopting the system of self-assessment based on the unit area method, as has been done in Delhi Municipal Corporation and many other cities in the country.
[Deferred]
- The minimum rate of property tax should be fixed at 12.5 per cent of ARV for NPPs and 10 per cent of ARV for NPs. Municipalities levying property tax at rates lower than these should be asked to reach the prescribed level within a period of three years i.e. by 2008-09.
[Deferred]

Horizontal Distributions

- The criteria and weights assigned for inter se determination of the shares of the districts (separately for urban and rural areas) are, thus, as follows:

Indicators	Weightage (%)
Population	50
Area	15
Deprivation Index	10
Remoteness Index	15
Tax Effort	10

[Accepted]

- The local bodies should be given a share, district-wise, as specified in table below in the state's gross revenues (tax and non-tax taken together excluding interest receipts, dividend, profits, royalties from minerals and sale proceeds from forests etc.) in each of the five financial years during the period 2006-07 to 2010-11.

District	Rural	Urban	Total
Almora	5.13	0.87	6.00
Bageshwar	1.82	0.31	2.13
Chamoli	4.27	2.35	6.62
Champawat	1.54	0.61	2.15
Dehradun	4.92	12.37	17.29
Hardwar	6.74	4.64	11.39
Nainital	3.41	4.78	8.19
Pauri	12.50	2.22	14.72
Pithoragarh	4.40	1.67	6.07
Rudraprayag	1.89	0.53	2.42
Tehri	5.01	1.74	6.75
Uttarkashi	3.30	6.59	9.89
U.S.Nagar	5.07	1.32	6.39
Total	60.00	40.00	100.00

[Accepted]

- Zila Panchayats may consider making some contribution out of the incentive grant to the funds of some or all the GPs of the district depending upon the assistance rendered by them in collection of the C&P tax.

[Deferred]

Grants-in-Aid

- The three non-elected Municipalities in the state to be given the following grants-in-aid in lieu of normal devolution:

Municipality	Amount
Badrinath	Rs. 25 lakh p.a
Kedarnath	Rs. 15 lakh p.a
Gangotri	Rs. 10 lakh p.a

[Accepted]

- Honoraria may be given to entitled elected functionaries of the panchayats also, as per the norms indicated below:

Upadhyaksha of a ZP	Rs.750 /- p.m.
Pramukh of a KP	Rs.750 /- p.m.
Up pramukh of a KP	Rs.500/- p.m.
Pradhan of a GP	Rs.500/- p.m.
Up pradhan of a GP	Rs.250 /- p.m.

[Accepted]

- To facilitate payment of honoraria to the elected functionaries, without putting financial burden on the panchayats, an additional grant-in-aid to be called “establishment grant” be given to each Panchayat at the following scale:

Each ZP	Rs. 9000 p.a
Each KP	Rs. 15000 p.a
Each GP	Rs. 9000 p.a

[Accepted]

- Special purpose grants are recommend for the following local bodies:-
 - Almora ZP : Rs.75 lakh for reconstruction of office building destroyed in a fire.
 - Pauri ZP : Rs.30 lakh for construction an annexe to the ZP building.
 - Uttarkashi NPP and Bhatwari KP : Rs 50 lakh for development of Bhagirathi river front.

[Accepted]

- All ZPs to achieve realization of at least Rs. 3.00 per capita in each of the five years (2006-11) through circumstances and property tax.

[Deferred]

- All the municipal bodies to achieve realization of at least Rs. 75.00 per capita in each of the five years (2006-11) through property tax.

[Accepted]

- ZPs and ULBs, which achieve the norms laid down in the preceding recommendations, should be given an additional grant as incentive grant amounting to the actual collection made by them. This grant should be disbursed within three months of the close of the financial year in which the norm is achieved.

[Deferred]

- No deficit grant need be given to local bodies, as all of them are expected to be in revenue surplus, post- devolution

[Accepted]

Functions and Functionaries

- The act for Panchayats should clearly demarcate the functions of the three tiers of Panchayats so that each tier has its unique set of functions and there is no overlapping.

[Deferred]

- Gram Sabha should be convened by rotation in each revenue village within a GP.

[Not Accepted]

- Local bodies should be given the authority to abolish vacant posts no longer needed and in their place create equivalent rank posts in areas needing additional staff.

[Local bodies are authorized to get sanitation work done through outsourcing]

- Two stage training programme be organized for elected representatives of all local bodies-one immediately after they are elected and the other after completion of one year in office. *[Accepted]*
- Need of hierarchical system in the Panchayats. KPs should supervise works undertaken by GPs and ZPs should supervise works undertaken by KPs. *[Deferred]*
- Training programmes should be organized for officials connected in any manner with the functioning of the state finance commissions. *[Accepted]*
- Local bodies should be allowed to engage the manpower required for scavenging work without financial constraints. They should be pulled up if, despite this freedom, they are not able to keep their areas clean. *[Deferred]*
- GPs, which do not have a full-time secretary, should appoint a qualified person. *[Not Accepted]*
- The state government should not take a decision on the revision of salary and allowances of Municipal employees on its own. It should invariably consult the Municipalities. The Municipalities should also be free to accept or modify any revisions suggested by the state government, in the light of their financial situation. *[Accepted]*
- Scattered and isolated GPs with very small population be merged with contiguous GP(s) so that every GP has a population in excess of 300 and a voter population of at least 200. *[Not Accepted]*

Other Measures

- The state should levy profession tax. *[Not Accepted]*
- The state should consider levying an environment or carbon tax on the 19 industries identified by the Ministry of Environment and Forests as polluting industries *[Deferred]*
- The state excise duty on spirits and alcohol should be levied on the maximum retail price. *[Accepted]*
- The design of VAT be rationalized and the rate may be increased. *[Accepted]*
- Introduction of ERP in a phased manner starting with a few large Municipalities and gradually extended to other Municipalities and later to Panchayats. *[Deferred]*

- Possibility of introducing the concept of "e-gram" of Gujarat and "e-panchayat" of Chhattisgarh in Uttaranchal be explored.

[Deferred]
- An independent national agency could be set up to facilitate data, learning and support exchanges among different SFCs. The Thirteenth Finance Commission may support this recommendation.

[Deferred]
- Modern methods like Geographic Information System (GIS) should be adopted.

[Accepted]
- The state government should refrain from standing guarantee for loans to be taken by local bodies and the financial institutions should assess proposals from local bodies for loan independently on merit and credit worthiness of the borrower.

[Accepted]
- The own tax revenues of the state should have annual growth rate of 23.5%.

[Accepted]
- Not more than 35% of the revenue expenditure (net of interest payments and pensions) should be on salaries as recommended by the TFC.

[Accepted]
- Two stage training programme be organized for elected representatives of all local bodies-one immediately after they are elected and the other after completion of one year in office.

[Accepted]
- District planning committees as per the provisions of article 243ZD of the Constitution should be constituted at the earliest.

[Accepted]
- The state government should set up an incentive fund' with a core amount of Rs. 50 crore, to be replenished through normal budgetary mechanism, as and when required.

[Accepted]

West Bengal Second State Finance Commission

Award Period: 2001-02 to 2005-06

Constitution: July 2000

Report Submission: February 2002

ATR Submission: July 2005

Composition

D K Bose (Prof)	- Chairman
N N Bandyopadhyaya(Prof)	- Member
R Bandyopadhyay	- Member
B K Kundu	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

C. In case of Panchayats

c) *the principles which should govern:*

- vii. *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 IX of the Constitution of India and the allocation between the Panchayats at all levels of their respective shares of such proceeds;*
- viii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats;*
- ix. *the grants-in-aid to the Panchayats from the Consolidated Fund of the State;*

d) *the measures needed to improve the financial position of the Panchayats;*

D. In case of Municipalities

c) *the principles which should govern:*

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

d) *the measures needed to improve the financial position of the Municipalities;*⁴⁹

Methodology

The initial task undertaken by the Commission was to review the actions taken so far by the government on the recommendations of the First SFC and its impact on the LSGs' functioning in general and their financial state in particular. Lack of knowledge about the recommendations of the First SFC amongst the people proved a handicap for the Commission as, it could not benefit from the reactions of the LSGs' representatives whose experience counted. The Commission, therefore, had to formulate their recommendations largely on their own understanding of the relevant issues. However, meetings were held with representatives of Panchayats and Municipalities, government officers and leaders of political parties of all districts in the State. Discussions were carried out with academicians, senior government officials and ministers.

RECOMMENDATIONS

Global Sharing

- 16% of State taxes as entitlement fund for local bodies, as recommended by first SFC, have been endorsed by the Commission. [Accepted]
- A minimum amount of Rs 700 crore should be provided in the budget for devolution to LSGs as 'untied' entitlement. [Accepted]

Assignment of Revenues

- Arrangement for sharing of Entertainment Tax may continue to be made by the State government as at present. [Accepted]
- LSGs to collect taxes on urban land and multi-storied buildings needs to be made. [No changes at present. No separate tax on multi-storied buildings]
- Powers to collect land revenue and cesses maybe devolved to the LSGs. [No changes at present]
- Irrigation charges may be collected by the Panchayats and the revenue devolved to them. [Being examined with concerned government departments]
- User charges and service charges should be levied by all Municipalities. [Accepted]

⁴⁹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Horizontal Distribution

- Sub-allocation of District Panchayat Fund as 60%, 20% and 20% for Gram Panchayats (GPs), Panchayat Samities (PSs) and Zila Parishads (ZPs) respectively. *[Accepted]*

Grants-in-Aid

- 2% of the State tax collection, i.e 0.32% be earmarked for a state level incentive fund. *[Accepted]*
- LSGs in hill areas should be given an additional allocation of 0.04% of total State's taxes. *[Accepted]*

Functions and Functionaries

- ZPs and PSs should apportion a part of 'untied' fund for villages suffering from calamities and problems of inaccessibility. *[Accepted]*
- Different rates and fees levied by Municipalities should be revised. *[Accepted. Process has started]*
- State government should consider making consolidated payments directly to the Municipalities through Municipal Affairs Department on account of municipal tax on State government properties. *[Under examination]*
- Besides augmenting resources by raising taxes and increasing fees etc. on items listed in LSG Acts, the LSGs should exploit potential resources lying unutilized like land, water bodies, livestock, trees etc. for generating both income and employment for the people. *[Accepted]*
- State government may consider redefining the functional responsibilities of the Panchayats and review the areas of own resource mobilization between the three rungs of Panchayats, namely, ZPs, PSs and GPs. *[Accepted]*
- Reconciliation of overlapping responsibilities for planning and allocation of fund between DPC and regional development boards both in rural and urban areas. *[Would be considered in consultation with the concerned departments]*

Other Measures

- State government should ensure that recommendations of the Central Valuation Board are implemented in all Municipalities.

[Implemented in all Municipalities except Kolkata Municipal Corporation and Howrah Municipal Corporation]

- State government should pursue with the central government the 11th Finance Commission recommendation on impositions of service charge on central government properties.

[Is being pursued]

Andhra Pradesh First State Finance Commission

Award Period: 1997-98 to 1999-2000

SFC Constitution: June 1994

Report Submission: May 1997

ATR Submission: September 2009

Composition

G Laxmana Swamy Former Registrar, Dr B R Ambedkar Open University, Hyderabad	-Chairman
K Pichayya Former Financial Commissioner Govt. of A P, Hyderabad	-Member Secretary
T Srinivasa Chary	-Member
Chandra Venkata Narayana Rao	-Member
O Chandramma (Dr)	-Member

Terms of Reference

The Commission shall make recommendations as to the following:

- n) *the principles which should govern:*
 - i. *the distribution between the state and the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations 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 said bodies at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations;*
 - iii. *the grants-in-aid to the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and Municipal Corporations from the consolidated fund of the state;*
- o) *the measures needed to improve the financial position of the Gram Panchayats, Mandal Parishads, Zilla Parishads, Nagar Panchayats, Municipal Councils and*

*Municipal Corporations*⁵⁰ including measures for improving the management of available resources.

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

- i. The resources of the State Government on account of expenditure on administration, debt servicing and other committed expenditure on liabilities,
- ii. The maintenance and upkeep of capital assets like buildings, roads, water supply schemes by the Panchayati Raj Institutions, Municipal Councils, and Municipal Corporations and the norms on the basis of which specified amounts are recommended for the maintenance of assets and the manner of monitoring such expenditure.
- iii. The requirement of Panchayati Raj Institutions, Municipal Councils, and Municipal Corporations for modernizing of expenditure i.e, computerization of accounts and upgrading the standards and non-developmental sectors, servicing and the manner in which such expenditure can be monitored,
- iv. The requirements of the Panchayati Raj Institutions, Municipal Councils, and Municipal Corporations for meeting the non-plan revenue expenditure on staff and administration etc., also keeping in view the potential for raising their resources.

Methodology

The Commission held meetings in-camera, meetings in public, discussions with groups or individuals and elected representatives and conducted press conferences. The Commission was faced with several challenges. Especially the inadequate data of local bodies relating to administration, finances, accounts and audits. Hence, the Commission has worked towards evolving its own methodology so that the condition of local bodies could be elevated towards self reliance. Consecutively, questionnaires were issued in Telugu and English in the daily newspapers and invited the public to respond. A copy of the same was communicated to all the officials from the concerned local bodies. A proforma of receipts and payments was prepared to cover a period of preceding five years and Chief Executives of Panchayats and Municipalities were requested to furnish the statistics in the forms. National seminars on Local Body Finances were organized and were attended by different state finance commissions. It is a strong opinion of the Commission that all statistics required should be collected by the Government for the convenience of the Second Finance Commission.

⁵⁰ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

RECOMMENDATIONS

Global Sharing

- 39.24% of States revenue both tax and non-tax revenue to all LBs. Ratio of Panchayats and Municipalities should be 70% and 30% respectively.

Assignment of Revenues

- Assignment of taxes levied by state government was not recommended to LBs.
- Government to issue rules relating to levy of new taxes like advertisement tax etc. to enable Gram Panchayats to derive income rightly due to them.
- 95% of the profession tax collected was to be transferred to the LBs and allocated between rural and urban areas as the basis of population.
- 10% of receipts from betting tax were to be passed on to the Hyderabad Municipal Corporations.
- Property tax compensation was to be enhanced by 5% every year.
- Octroi compensation was to be increased by 10% every year.
- Increase of motor vehicle tax compensation to Municipal Bodies.
- Municipal Councils may be empowered to enhance the user charges for water supply.
- The rate of 18 paise/ 25 paise of land cess local cess may be increased to Rs. 2.

Horizontal Distribution

- Government might get the categorization of Panchayats as advanced, ordinary, backward and tribal with weightage to be suggested by Planning Department to measure rate of development. Pending categorization as recommended, the amount recommended to the Gram Panchayats might be distributed on the basis of the following formula taking panchayats in the former ordinary, advanced, backward and tribal blocks as such:

1. Ordinary ...	X
2. Advanced ...	2/3 X
3. Backward ...	1 2/3 X
4. Tribal ...	2 2/3 X
- As regard urban bodies the amount of Rs 94 crore meant for various grades of municipalities might be distributed to each grade by giving the following weightage:-

Population	40%
Area (excluding slum area)	40%
Area of slum in each Municipality	20%

- Funding of the amounts required for infrastructure development on water supply and drainage in urban bodies might be in the following ratio:

1. Urban Bodies	10
2. Loan	30
3. State Government	40
4. Government of India	20

Grants-in-Aid

- For rural water supply, an additional provision of Rs 148 crores per annum.
- Rs 18.6 crores may be provided for minor irrigation plan provision.
- Rs. 6.03 crores may be provided for maintenance of minor irrigation sources.
- Rs 20 crores may be provided annually for construction of rural roads.
- A grant of Rs 100 crores is recommended for construction of school buildings.
- For the construction of mandal buildings Rs 12.06 crores per annum is recommended.
- For rural sanitation Rs 22.53 crores is recommended.
- Grants should be released for the maintenance of the following assets:
 - I. Mandal Parishad Roads
 - II. Zilla Parishad and Mandal Parishad Buildings, Offices and Guest Houses
 - III. Minor Irrigation
- Gram Panchayats should levy the compulsory water tax prescribed in Section 71 of Andhra Pradesh Panchayati Raj Act.
- An amount of Rs 18 crores may be provided additionally for maintenance of rural roads annually.
- An amount of Rs 13.58 crores may be provided for maintenance of school buildings.

- An additional amount of Rs. 0.16 crores may be provided for maintenance of family planning staff quarters.
- Rs 18 crores may be provided from 1997-98 onwards for water supply schemes in Municipal areas after setting off the 10th Finance Commission grants.
- Per capita grant of Gram Panchayat may be increased from Rs. 1 to Rs. 4 that of Zilla Parishad from Rs. 2 to Rs. 4 and Mandal Parishad from Rs. 5 to Rs. 8.
- Per capita grant to Municipal Bodies may be increased from Rs. 4 to Rs. 8.
- Incentive grant to the LBs for Family Planning.
- A special grant of Rs. 5,000 to the newly formed Gram Panchayats for purchasing of furniture, forms and registers.
- An amount of Rs. 50,000 to the newly formed Gram Panchayat converted into Municipality.
- A special grant of Rs. 25 lakhs to a new Municipal Corporation is constituted.
- A grant of Rs. 15 lakhs to Zilla Parishad for construction of meeting halls.
- An amount of Rs 8 crores each to Municipal Corporations, Hyderabad, Vishakhapatnam and Vijayawada and an amount of Rs 5 crores to each of the remaining Municipal Corporations as block grants to be utilized for felt needs.

Functions and Functionaries

- Transfer the functions contemplated in the Constitution to the Local Bodies. As and when the State Government decides to devolve any of the functions of Schedules XI and XII to the Panchayat Raj Bodies/ Municipal Bodies the finances intended for the discharge of the functions should also be devolved on the Panchayat Raj bodies and Municipal bodies along with the functionaries and empowerment in discharge of the responsibility.
- Government should pay the pension of provincialized non-teaching Panchayat employees from treasuries.
- There is a need for thorough examination of requirements of Zilla Parishads keeping in view the contemporary situation.
- Accounts wing of the Zilla Parishads should be strengthened with qualified and trained staffs.
- A part time group clerk or a Panchayat servant should be appointed.
- Senior officers in the Panchayat Department should conduct regular inspection in few allocated districts and get feedback about the programs being implemented there.

- An Officer on Special Duty may be appointed 6 months before the constitution of second SFC to secure accommodation, furniture, phones etc for the Commission's office.
- A committee may be constituted to fix the staffing pattern of Gram Panchayats.
- Training programmes should be conducted for candidates to be inducted into Panchayat Services and also a refresher training for service candidates.

Other Measures

- Effective steps should be taken to get the consolidated audit and review reports on the accounts of Panchayats and Municipal Bodies prepared and placed on the floor of the Assembly. Government should take effective steps for preparing and publishing the consolidated annual administration reports on the accounts of LBs.
- The Second Finance Commission should be appointed early in 1998, much earlier to the appointment of 11th National Finance Commission.
- Government may chalk out a programme of training for those to be inducted into Panchayat Raj Service and also a refresher training for in service candidates on the same lines.
- Provisions related to percentage of devolution may be incorporated in the Andhra Pradesh Panchayati Raj Act, Andhra Pradesh District Municipalities Act and Municipal Corporations Act.
- Government may get the categorization of Panchayats as Advanced, Ordinary, Backward, and Tribal with weightages to be suggested by Planning Department to measure rate of development.
- Grants not released and not adjusted during 1995-96 to the Panchayats and Panchayat Engineering Department may be released now.
- Computerization in LBs is recommended.
- There should be no government interferences in matters relating to taxation.
- General revision of taxes may be conducted once in three years.
- No house, however humble, shall be exempted from the tax.
- The vacant lands which are immediately available must be converted into complexes.
- Whenever exemptions or concessions are granted by the government in entertainment tax, LBs should be compensated to that extent.
- Social audit may be introduced in the LBs.

- Provisions related to the percentage of devolution may be incorporated in the Andhra Pradesh Panchayat Raj Act, Andhra Pradesh District Municipality Act, and Municipal Corporation Act.
- A monitoring cell to be created in Secretariat to monitor SFC's recommendations.
- Schools should be admitted into grants-in-aid if conditions are fulfilled and grants should be paid regularly.
- Consolidated annual administration reports of LBs should be prepared and published by the government.

Arunachal Pradesh First State Finance CommissionAward Period: NA

Constitution: September 2005
 Report Submission: April 2008
 ATR Submission: NA

Composition

A J Tayeng, IAS (Retd.) -Chairman

Terms of Reference

The Commission was constituted with following terms of reference:

- a. *the principles, which should govern the distribution between the State and the Zilla Parishads, the Anchal Samiti 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 this Part and the allocation between the said bodies at all levels of their respective share of such proceeds;*
- b. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, Zilla Parishads, the Anchal Samiti and Gram Panchayats;*
- c. *the grants-in-aid to Zilla Parishads, the Anchal Samiti and Gram Panchayats from the consolidated fund of the State.⁵¹*

Methodology

Not clearly mentioned in the report.

RECOMMENDATIONSGlobal Sharing

- 50% of the total State revenue to the Panchayats.
- 20% of the State share of Central taxes may be assigned to the Panchayats in the ratio of 10:8:2 to Zila Parishads (ZPs), Anchal Samities (ASs) and Gram Panchayats (GPs) respectively.

Assignment of Revenues

- No such recommendation

Horizontal Distribution

⁵¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- The basis of the for horizontal allocation of taxes among individual units could be the following factors:

Indicator	GP	AS	ZP
Population	65	65	55
Geographical Area excluding area under forests	5	10	15
Area under agriculture	10	-	-
Own Income of Efforts	5	-	-
Distance from highest per capita income	15	25	20
Composite Index of Backwardness/houses without latrines or Electricity or HDI of the State	-	-	10
Total	100	100	100

- 97% of the 'Land Revenue' levied and collected by the state in previous year in a district should go to the Panchayats in the ratio of 37.50: 30.00:20.00 and 12.50 to the Gram Panchayats, Anchal Samities, Zila Parishad and "Rural Resource Pool for Panchayats, respectively.
- 5% duty in the form of surcharge on transfer of immovable property can be directly provided to the Panchayats after retaining 3% of the gross proceeds towards collection charges of this additional stamp duty.
- 75% of the net proceeds of the additional stamp duty and surcharge may go to the Gram Panchayats on the basis of population, and the balance of 25% is credited to the "Rural Resource Pool for Panchayats".
- 5% of forest revenue to the "Rural Resource Pool for Panchayats". (Based on the forest revenue of the previous year)
- 15% of the net collection of the motor vehicle tax to the "Rural Resource Pool for Panchayats".
- 5% of minor minerals revenue to the "Rural Resource Pool for Panchayats".
- 10% surcharge on commercial taxes to mobilize additional resource for "Rural Resource Pool for Panchayats".

Grants-in-Aid

- Plan grants to the Panchayats where 40% should be spent on the "productive sector", 30% on "infrastructure building" and 10% on "gender-sensitive schemes and subsidies" 20% may be "open" at the discretion of the Panchayats.
- General purpose grant of Rs. 15 and 5 lakhs to ASs and ZPs respectively for meeting the establishment costs including salary and related expenses of the staff of ASs and ZPs.
- Incentive grant to the GPs for raising their own revenue.

Functions and Functionaries

- ZPs will perform an important role in planning, co-ordination and monitoring rural area development scheme/programmes at district level, similar is the case with ASs at Anchal level and GPs village level.
- Panchayats are authorized to utilize upto 10% of the plan grant earmarked to productive sector for taking up housing, sanitation and water supply schemes.
- Plan grants for local area development to be shared in the ratio of 60:20:20 between GP, AS & ZP respectively.
- Anchal Development Officer and the Gram Development officer shall perform not only the duties relating to the Anchal Samities and GP but also of the State line dept.
- Schemes of the state dept. of education, public health, family welfare, agriculture, animal husbandry, social welfare, minor irrigation, roads and building may be transferred to the Panchayats at appropriate level.

Other Measures

- Detailed activity mapping particularly on the grant-in-aids (plan, non-plan and others).
- System of record keeping and provisions has to be kept for the purpose of creation of database and maintenance of accounts and the same be given to the GP, AS and ZP in the ratio of 70.15.15 respectively.

Assam First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: June 1995

Report Submission: February 1996

ATR Submission: March 1996

Composition

M M Taimur, IAS (Retd)	- Chairman
Haren Das (Dr) Advocate	- Member
Anil Kr Sarma (Prof) Formerly Head of Commerce & Business Administration Department Guwahati University	- Member
Bhupendra Kr Barooah, IAS (Retd)	- Member
Secretary to the Government of Assam Finance Department	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to-

- c) *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 under this Part and the allocation between the Panchayats/ Municipalities at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - iii. *the grants-in-aid to the Panchayats/Municipalities from the consolidated fund of the state.*
- d) *The measures needed to improve the financial position of the Panchayats/Municipalities.*
- e) *Any other matter referred to the Finance Commission by the Governor in the interest of sound finance of the Panchayats/Municipalities.*⁵²

The expression 'Municipalities' includes Municipal Corporation and Town Committee.

⁵² Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

The Commission may make an assessment of-

- (a) the actual debt position of each of the Local Bodies as on 31st March, 1995;
- (b) estimated debt position of each of the Local Bodies as on 31st March, 1996 and suggest suitable measures relating to the debts as are deemed necessary, keeping in view also the financial requirements of the State Government.

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

- i. the objective of balancing the receipts and expenditure on revenue account of both the Local Bodies as a whole and the State Government and each Local body;
- ii. the resources of the State Government and the demands thereon, in particular, on account of expenditure on maintenance of law and order, civil administration, debt servicing and other committed expenditures;
- iii. the revenue resources of the Local bodies for the five years commencing on 1st April 1996 on the basis of the level of collection made during 1994-95 from taxes, duties, tolls, fees, cess etc. levied by them;
- iv. the potential for raising additional revenue from the existing sources available to them; and
- v. the scope for better financial management consistent with efficiency and economy in expenditures.

In making its recommendations on various matters aforesaid, the Commission shall adopt the population figures of 1971 Census in all cases, where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.

The Commission shall indicate the basis on which it has arrived at its finding and make available the Local Body- wise estimates of receipts and expenditure.

Methodology

Not clearly mentioned in the Report.

RECOMMENDATIONS

Global Sharing

- Share of state taxes for transfer to local bodies was recommended @ 2% in each year. [Accepted]
- No transfer of fund out of non-plan provision of the state government to be made to local bodies other than that for share of state taxes. [Not considered]

Assignment of Revenues

- 10% of motor vehicles tax to Panchayats. [Accepted]
- House tax to cover the new house holds on the basis of floor area, revision and assessment of house tax in every five year. [Not considered]
- User charges should be levied for services rendered by the local bodies on parks, public toilets, public health centers etc. [Accepted]
- Fee for sale of animals being a village trade should also be imposed. [Accepted]

Horizontal Distribution

- Share of motor vehicle tax for urban areas to be on the basis of number of vehicles in the areas while share to rural local bodies to be made on the basis of population of each rural local body as per latest census. [Not considered]

Grants-in-Aid

- Local bodies should be provided with grants-in-aid for 2000-01 by State Government at par with the 10th Finance Commission grants for 1999-2000. [Accepted]
- Local bodies should be given debt relief against existing government loans. [Not considered]
- Funds of Rs. 147.56 crores as per the award of 10th Finance Commission be distributed equally in each year from 1996-97 to 1999-2000 as grants-in-aid by state to each local body on the basis of population as per 1971 census out of the funds allocated under the State Plan. [Accepted]

Functions and Functionaries

- Assessment of property tax should be made in every five years for periodic revision. [Accepted]
- Subject for registration of birth and death certificate was recommended to be transferred from Health & Family Welfare Department to the local bodies. [Accepted]

Other Measures

- High Power Committee headed by the Chief Secretary of the state government to be constituted to review the flow of funds to local bodies in every 6 months. [Not considered]
- Gram Panchayats should be re-constituted to have population between 6000-8000. [Not considered]

- Permanent arrangement be made to monitor the follow up action on the recommendations of the Finance Commission.
[Not considered]
- In view of the difficult financial position of the local bodies no fresh recruitment should be made.
[Not considered]
- Panchayat Election should be held regularly for transferring power to elected body.
[Not considered]
- Tariff Commission to be set up for streamlining the existing rates, taxes etc. of the local bodies and also to look into the service conditions and staffing pattern of the Municipalities.
[Not considered]
- Posting of regular executive officer to Municipalities for affective functioning with necessary statutory provisions.
[Not considered]

Goa First State Finance Commission

Award Period: 2000-01 to 2004-05

Constitution: 29.09.1997

Report Submission: 05.06.1999

ATR Submission: 25.07.2002

Composition

Vishvanath A Pai Panandikar (Dr) - Chairman

Rajiv Mishra - Member
Joint Secretary (Budget)
Government of Goa

K S R V S Chalam (Dr) - Member Secretary
Director, Planning & Statistics

Terms of Reference

The Commission shall make recommendations as to the following:

- p) 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 Part IX of the Constitution and the allocation between the said bodies 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 the Panchayats from the consolidated fund of the state;*
- q) the measures needed to improve the financial position of the Panchayats⁵³*

The Terms of Reference mutatis mutandis, hold good for the Commission's review of the finances of Municipalities as well under Article 243-Y of the Constitution of India.

Methodology

Questionnaires were prepared and circulated to the concerned departments. A considerable amount of data was thus collected and analyzed for preparation and presentation of key documents. Meetings were held with the representatives of the Panchayat bodies and municipal councils with Commission. The population figures of 1991 were adopted in all cases where population is regarded as a factor for determinations of devolution of taxes and duties and grants-in-aid.

⁵³ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

RECOMMENDATIONS

Global Sharing

- 27% of the State's own tax revenue and share in central taxes are to be devolved to Zilla Panchayats (ZPs) for activities transferred under non plan. [Rejected]
- 9% of the State's own tax revenue and share in central taxes are to be devolved to Municipal Councils for activities transferred under non plan. [Rejected]
- 13% of Annual State Plan, excluding earmarked negotiated loan components and project specific central assistance for devolution to ZPs for activities transferred under plan. [Rejected]
- 3% of the Annual State Plan, excluding earmarked negotiated loan components and project specific central assistance for devolution to Municipal Councils for activities transferred under plan. [Rejected]

Assignment of Revenue

- No such recommendations.

Horizontal Distribution

- *Inter-se* distribution of non plan grants among local bodies (LBs) during first year should be based on actual and during subsequent years in the same proportion as first year. [Rejected]
- For *inter-se* distribution of plan grants among LBs, the following formula has been recommended:

Criteria	Weightage
Population	40%
Geographical Area	20%
Backwardness	10%
Performance	25%
Discretionary Quota	5%

- The devolution of plan grants from ZPs to Village Panchayats (VPs) shall be in the nature of 'gap filling' subject to the formula based allocation. [Partly accepted]
- [Rejected]

Grants-in-Aid

- The 11th Finance Commission should award a special grant of Rs 209.85 crore towards urban and rural sanitation and creation of infrastructure for ZPs, VPs and Directorate of Panchayats.

[Accepted]

Functions and Functionaries

- A committee may be appointed to go into the staffing pattern of VP keeping in view Section 113, 114 and 115 of the Goa Panchayat Raj Act, 1994.

[Accepted]

- No additional posts shall be created. All recruitment shall be done through Goa Public Service Commission.

[Rejected]

- The administrative set up required for the LBs needs to be created from the existing employees associated with various activities and functions, placing them at appropriate levels and giving additional responsibilities wherever required.

[Accepted]

- The role of Rural Development Agency (RDA) in the Panchayat Raj set up is obscure; hence, the staff of RDA could be transferred to ZPs.

[Rejected]

- Some of the staff released on account of transfer of functions must be located at the Block level as well.

[Accepted]

Other Measures

- A detailed study on the LBs finances in terms of tax potential, sources of additional resource mobilization, rationalization of tax structural, user charges in terms of ability to pay an equity, levy of cess and tax evasion.

[Accepted]

- LBs should go for additional resources mobilization to increase the level of basic minimum services and pace of development.

[Accepted]

- The decisions of the Gram Sabha are to be treated as binding on Panchayats.

[Accepted]

- The constitution of Vigilance Committee has to be made mandatory.

[Accepted]

- Misuse/abuse of powers by elected LBs should be strongly dealt with.

[Accepted]

- Auditing of incomes and expenditure of LBs and follow up action of audit report should be given prime importance.

[Accepted]

- Appointment of an Ombudsman headed by a retired High Court Judge. Scheme

[Rejected]

Gujarat First State Finance Commission**Award Period: 1996-97 to 2000-01****SFC Constitution: September 1994****Report Submission: October 1998****ATR Submission: August 2001****Composition**

Vinay Sharma	- Chairman
Sumanbhai Patel	- Member
M P Bhatt (Prof)	- Member
Sahdevibhai Chaudhari	- Member
R S Jani	- Member-Secretary

Term of References

ToR is mentioned in Appendix 1 which is not available.

Methodology

Considering the scope of the work entrusted to the commission, the statistical data and other information were obtained in different forms from the following sources:

- Concerned Departments
- Director of Municipalities
- Gujarat Municipal Finance Board
- All the Municipal Corporations/Municipalities
- District Collector
- Gujarat Water Supply and Sewerage Board

RECOMMENDATIONS**Global Sharing**

- The share of prescribed ratio in taxes and fees by the State Government granted to the 3 tier Panchayat is as under:

S.No.	Taxes/Fees	Share of Panchayats			
		District Panchayat	Taluka Panchayat	Gram Panchayat	Total
1.	Land Revenue	6%	15%	30%	51%
2.	Royalty on Sand	47.5%	-	47.5%	95%

3.	Irrigation Cess	-	205	-	20%
4.	Local Cess	60%	-	-	60%
5.	Additional Local	100%	-	100%	100%
6.	Addl. Land Revenue Cess	-	-	-	96%
7.	Addl. Stamp Duty	96%	-	-	96%
8.	Forest Revenue	5%	-	As per population	

- Commission also recommended share to Panchayats from the following taxes:-
 - (a) Profession Taxes
 - (b) Entertainment Tax on Cable TV Antenna

- The Municipalities and Municipal Corporations should get a certain amount of fixed share from the income of certain specified taxes collected by the State Govt. as per the following:

S.No.	Taxes	Share to the Urban Local Bodies
1.	Non-agricultural assignments	75% of the amount collected from Municipality area
2.	Land Revenue (Agri)	35% of the recovery made during the previous year
3.	Local Cess on Land, Revenue and Water rate	After deduction of recovery-expenditure, 100% of the remaining amount
4.	Education Cess	75% to 85% on the basis of the percentage of recovery (provided responsibility of Primary education is also taken)
5.	Entertainment tax	50% of the income, amount given to Municipal Finance Board

- The Commission has considered providing share from the income of the State to the Municipalities for (a) Stamp Duty (b) Motor Vehicle tax (c) Entertainment Tax on Cable/Dish Antenna etc.

Assignment of Revenues

- Share of Municipalities in entertainment tax be raised from 50% to 75%.

[Accepted]

- Municipalities should collect the entertainment tax on Cable TV. It should be distributed on 50%-50% basis between the State
[Accepted]
- At present, 50% amount of entertainment tax is given to Municipalities. This should be raised to 75%.
[Accepted]
- Pilgrimage Tax by the Municipalities should be revived.

▪ Surcharge on stamp duties collected during 1988-98 (Rs.127.08 crore) be given to the Gujarat Municipal Finance Board.
[Accepted]
- Municipal Corporations and “A” class municipalities should collect minimum Rs.100/- and maximum Rs.250/- while other municipalities should collect minimum Rs.50/- and maximum Rs.125/- as theatre tax.
[Accepted]
- 50% of Profession Tax should be given to the local governments
[Accepted]
- Turnover tax to be charged at the rate of 0.25% in lieu of Octroi on industries. Tax income to be shared among all Panchayats
[Accepted]
- Property tax, water tax and sanitation tax should compulsorily be levied by VPs.
[Accepted]
- Compulsory 10% cess on VP taxes instead of upto 15% cess on VP taxes which is voluntary.
[Accepted]
- With a view to giving grant in aid, State Govt. has imposed surcharge on stamp duty. Municipalities should be paid the amount of surcharge.
[Accepted]
- Municipalities should be authorized for imposing lifetime Motor Vehicle tax in consultation with Transport Dept.
[Accepted]
- Municipalities which undertake the work of primary education will be entitled to receive 100% of the amount collected by them. Non-authorized municipalities should be given 10% instead of 5% as recovery expenses
[Accepted]

- Imposition of property tax, water tax and sanitary cess be made obligatory for the Municipalities
[Accepted]
- The ceilings of Rs.5000/- and Rs.20,000/- for inviting tender through advertisement in newspapers should be raised to Rs.1 lakh and Rs. 5 Lakh respectively.
[Accepted]
- Two percent rebate should be given to those Municipalities which pay loan installments regularly.
[Accepted]

Horizontal Distribution

- Share of DP, TP and VP in land revenue should be increased to 10, 25, 50 Paise instead of existing 6, 15 and 30 out of 100 paise respectively.
[Accepted]

Grants in aid

- Rates of grant in aid in respect of per capita basic grant given to various types of urban local bodies should be doubled. Henceforth this grant should be paid at the following rates
 - “A” Class .. Rs.2/- per head
 - “B” Class .. Rs. 3/- per head
 - “C” Class .. Rs. 5/- per head
 [Accepted]
- Dispensaries, hospitals, maternity homes and child welfare centers should be paid grant in aid at the rate of 40% for “A” class, 50% for “B” class and 60% for “C” class and “D” class municipalities of the total admissible expenditure. Upper ceiling fixed in this regard should be removed.
[Accepted]
- Grants-in-aid to the Municipalities from the amount recovered as assessment on non-agricultural lands be raised from 75% to 85%. Similarly, share of land revenue be raised from 35% to 85%.
[Deferred]
- The Scheme of incentive grant to the Municipalities against revenue mobilization should be made more attractive.

[Accepted]

- Per capita grant of students to be raised from Rs.4 to 5. Panchayats will get additional income of Rs.45 lakh per annum.

[Accepted]

- Grant from land revenue should be given at the rate of Rs.10 per capita to the VPs of Forest areas.

[Accepted]

- Grant of DPs against the forest yield should be to 10% from 5%.

[Accepted]

- Maintenance of 4% of annual expenditure on O&M should be given to Panchayats.

[Accepted]

- Grant in aid for of Rs.35/- per capita. This should be increased after very three-four years.

[Accepted]

Functions and Functionaries

- At present the term of office of the President/Mayor is for a period of one year. It should be increased to two and a half years.

[Accepted]

- Sanctioning authority of Cess on land revenue should be DP.

[Accepted]

- DP should be authorized for revision of compulsory rate of local cess. Compulsory rate should be increased from 50 Paise to 100 Paise

[Accepted]

- DPs should be empowered to scrutinize the sale of open plots and to give grants to VPs

[Accepted]

- Officer of urban local bodies should be empowered to impose penalty for creating nuisance by throwing garbage, wastes etc.

[Accepted]

Other Measures

- Training to be given to the office-bears and employees of Panchayats for increasing work efficiency.

[Accepted]

- Set up Information Unit for giving information about Panchayats functioning.
[*Deferred*]
- Rate of land revenue should be doubled and rate of cess on Land Revenue be also doubled.
- A Tariff Commission should be constituted to determine the rates of taxes and fees
[*Accepted*]
- Make the Gujrat Panchayat Finance Board (GPFB) a statutory institution such as Gujrat Electricity Board (GEB), registered company or a registered society
[*Accepted*]
- A legal cell should be set up in the office of the Director of Municipalities. This cell should also provide necessary guidance to urban local bodies for solving disputes
[*Accepted*]
- The Municipalities should be exempted from paying sales tax on the basis of “P” form as applicable to government offices. This exemption should also be given to Panchayats. This benefit will not be available for commercial activities.
[*Accepted*]

Haryana First State Finance Commission

Award Period: 1997-98 to 2000-01

SFC Constitution: May 1994

Report Submission: March 1997

ATR Submission: September 2000

Composition

Kamla Verma (Smt) Health Minister Government of Haryana	- Chairman
L C Gupta, IAS (Retd.)	- Member
S K Sharma, IAS	- Member
M S Rathee, IAS (Retd.)	- Member
G Madhavan, IAS	- Member Secretary

Terms of Reference

The Commission shall make recommendations as to the:

- r) *the principles which should govern:*
 - i. *the distribution between the State and Municipalities/ 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 IX and IX A of the Constitution of India and the allocation between the Municipalities/ Zila Parishad, 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 Municipalities/ Gram Panchayats, Panchayat Samitis and Zila Parishads;*
 - iii. *the Grants-in-aid to the Municipalities/ Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State;*
- s) *the measures needed to improve the financial position of the Municipalities/ Gram Panchayats, Panchayat Samitis and Zila Parishads;*⁵⁴

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

⁵⁴ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- 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 Panchayats and the Municipalities, their potential for raising resources and for reducing expenditure.

Methodology

Comprehensive formats were designed for seeking primary and secondary data from the departments of Panchayats and Municipalities also involving district administration and all tiers of local bodies. A comprehensive questionnaire was designed and circulated to the state ministers, MPs, MLAs, elected representatives of Panchayats and Municipalities, universities, colleges, district bar associations, reputed institutions dealing with rural and urban development, eminent experts and professionals and stakeholders to solicit their views and suggestions on functional, financial and institutional empowerment of local bodies. An analytical study on state finances was sponsored and a Study Group was also constituted to make suggestion on the empowerment of Municipalities. Group discussions and open house seminars were also organized on finances of Panchayats, fiscal decentralization to Panchayats, and the role of SFC. Rounds of meeting and interactions were carried out with various experts, officials and representatives of local bodies. Latest Acts governing the local bodies were studied and varied information and data published in various state documents were used.

RECOMMENDATIONS

Global Sharing

- No such recommendations.

Assignment of Revenues

- 7.5% of the net proceeds of stamps and registration revenue be devolved to the Panchayats.

[Accepted with modifications. 3% of net proceeds.]

- The entire net income from revenue from cattle fairs is transferred to Panchayat Samitis.

[Accepted]

- 20% of the motor vehicle tax and 50% of entertainment tax be transferred to Municipalities.

[Accepted with modifications. 20% of motor vehicle tax only for 2000-01 and only 25% of entertainment tax.]

- 20% of the royalties on minor minerals be devolved to Municipalities and Gram Panchayats which works out to Rs. 5 crore annually to Gram Panchayats and another 5 crores to Municipalities.

[Not accepted]

- 10% of the bid amount payable by lessee for compensation in view of surface rights is transferred to local bodies / Gram Panchayats.
- 10% of the net receipts from conversion charges (change of land use) should go to Gram Panchayats.

[Not accepted]

Horizontal Distribution

- The funding of amount required for development grant would be based on the formula of decentralized planning. Below the district, the *inter-se* distribution between the Zila Parishads, Panchayat Samitis and Panchayats will be in the Ratio of 10:15:75. Further distribution to Panchayat Samitis and Panchayats would be on population basis. In the case of Panchayats, 75% of the grants due to them will be given straightway and 25% will be on the basis of their raising an equivalent matching contribution.

[Not accepted]

Grants-in-Aid

- A maintenance grant amounting to Rs. 10 per block for maintenance of community assets and Rs. 1 lakh per block for maintenance of Panchayats buildings are recommended.

[Accepted]

- A grant of Rs. 25 lakhs for the repair of Zilla Parishads for the Panchayat Samities buildings in the entire State as the one time measure is recommended.

[Accepted]

- A grant of Rs. 2.19 crores is recommended to be provided for sanitation and environmental improvement as a special purpose grant.

[Accepted]

- A per capita grant of Rs. 50 per annum is recommended for development purposes, which would work out to a total sum of Rs. 62.00 crores.

[Not accepted]

- Incentive grant of Rs. 167 lakhs is recommended to be given to Zilla Parishad, Panchayat Samities and Gram Panchayat in form of a cash price.

[Not considered]

- A one-time grant of Rs. 25 lakhs is recommended for repair of own existing assets of Zilla Parishad sand Panchayats Samities.

[Accepted]

- SFC recommends a grant of Rs. 50 per capita (based on 1991 census) to be provided to all Municipal Councils and Municipal Committees which would work out to Rs. 16.15 crores annually.

[Not accepted]

- Development grant of Rs. 50 per capita is recommended to Municipal Corporations of Faridabad, which would be about Rs. 3.09 crores with 10% escalation, year-wise.

[Not accepted]

Functions and Functionaries

- Registration fee be increased from 4% to 6% of the sale price and the fee per cattle to Rs. 10 against the existing Rs. 2.

[Not considered]

- The minimum lease money in respect of Shamlat Land is fixed for various panchayat lands by a committee specially constituted for purpose.

[Not considered]

- SFC recommended change over from the present system of house tax assessment on the basis of annual rental value to the “Area linked scheme”.

[Not considered]

- Rates of fees and fines are revised. Rates for user charges should be revised upward at least once every year.

[Not considered]

Other Measures

- With a view to expanding the pool of available resources, the enhancement in the levy of Haryana Rural Development Fund from 1% to 2% is recommended.

[To be used as before]

- A 10% escalation year-wise is recommended to take care of the increases in population and escalation costs in respect of maintenance grant, grant for sanitation and grant for developmental purposes.

[Not considered]

- In order to strengthen the Urban Infrastructure and accelerate development, Commission recommended the creation of two Apex organizations namely Haryana Water Supply and Sewerage Board; and Haryana Urban Development Finance Corporation.

[Not considered]

- The budget of the Municipal Council may be entrusted to Directorate of local bodies.

[Not considered]

- Training programme for the officials and non-officials of the Municipalities should be duly organized.

[Not considered]

- A State level Public Accounts Committee for Municipal Finance and another committee for Audit of Accounts of Zilla Praishads and Panchayat Samitis have been constituted. In case of Panchayats, a Committee at District level may be constituted.

[Not considered]

Himachal Pradesh First State Finance Commission

Award Period: 1996-97 to 2000-2001

Constitution: April 1994

Report Submission: November 1996

ATR Submission: April 1997

Composition

S C Nayar	- Chairman
A Shukla	- Member
D K Sharma	- Member Secretary

Terms of Reference

The Commission shall make recommendations to the Government as to:

- 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 under this Part and the allocation between the Panchayats/Municipalities at all levels of their respective share of such proceeds;*
 - ii. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats/Municipalities;*
 - 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.*⁵⁵
- c) *any other matter referred to the H P State Finance Commission by the Government in the interest of sound finances of the Panchayats and Municipalities.*

Methodology

One of the important components of the Commission's approach was the question of estimating the existing revenue receipts and revenue expenditure of the Panchayats and Municipalities. Data sent by these bodies suffered from serious inconsistencies, mainly of classificatory nature, where it was difficult to sift what constituted their own revenue receipts and what comprised the object specific grants from the state government or the central government. The Commission carefully considered the Statutory functions

⁵⁵ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

assigned to the Panchayats as enshrined in Sections 11, 81 and 92 of the H P Panchayati Raj Act, 1994 for Gram Panchayats (GPs), Panchayat Samitis (PSs) and, Zilla Parishads (ZPs), respectively. Similarly, the obligatory functions of the Municipal Corporation as laid down under Section 43 and delegated functions under Section 42 of the H P Municipal Corporation Act, 1994 and Section 48 of the H P Municipal Act, 1994 were also considered and assimilated. Data were collected separately for the three tiers of Panchayats and Municipalities. Separate proformae were devised for collection of basic data from these bodies. Questionnaires were mailed for the collection of basic information. Besides the mailed questionnaires, meetings were conducted with concerned officers from different districts.

RECOMMENDATIONS

Global Sharing

- No such recommendations.

Assignment of Revenues

- Certain taxes and levies are assigned to the Panchayats, i.e. land revenue, irrigation tax, cess on sale of liquor etc.

Horizontal Distribution

- No such recommendations.

Grants-in-Aid

- Deficit of Panchayats and Municipalities, as assessed by the SFC to be met by way of grants from the State Government.
- Grants for Municipalities in lieu of Octroi, be revised and raised @ 10% per year.

Functions and Functionaries

- 13 functions should be transferred to Municipalities along with the resources.

Other Measures

- The resource transfers recommended by the SFC should not be released for those local bodies which do not collect the statutory levies.

Jammu & Kashmir First State Finance Commission

Award Period 2003-2005

[The summary is based on the Report submitted to the 12th Finance Commission. Copy of the same is not available].

Global Sharing

- A scheme of global sharing from the divisible pool comprising sales tax, State excise, tax on goods and passengers and motor vehicle tax may be adopted. Sharing of non tax revenue has not been recommended.
- 10% and 5% share from the divisible pool to Urban Local Bodies (ULBs) and Rural Local Bodies (RLBs) respectively after deduction of 10% on account of collection charges for the year 2003-04 and 2004-05. This works out to 9% and 4.5% for ULBs and RLBs respectively.

Assignment of Revenues

- The proceeds of entertainment tax should be made over to the Local Bodies after deducting 10% collection charges till it is completely transferred to the Local Bodies.
- The administration of Entertainment tax should be transferred to the Local Bodies by 31.3.2004
- The process of the imposition of tax on electricity is completed and its proceeds be transferred to the Local Bodies.
- The revenue collected to the administration of laws pertaining to food adulteration, registration of hotels, labour and weights & measures within the municipal limits should be passed on to the concerned Municipal Bodies.

Horizontal Distribution

- 9% and 4.5% for ULBs and RLBs respectively from the divisible pool for the year 2003-04 and 2004-05
- The *inter-se* distribution of devolved funds among various categories of ULBs will be determined by assigning a weight age of 75% to population and 25% to illiteracy.
- The devolved funds to the Panchayati Raj Institutions will be share by the Halqa Panchayats and the Block Development Councils in the ratio 70:30.

Grants in aid

- Post tax devolution deficits of the ULBs may be covered by grants in aid transfers from the consolidated fund of the State on tapering basis as under:-
 - (a) 67% of the assessed post tax devolution deficit during 2003-04.
 - (b) 33% of the assessed post tax devolution deficit during 2004-05.

Functions and Functionaries

- Civic bodies should be entrusted with all the Municipal obligatory functions from the respective line departments of the State Government along with the staff considered absolutely necessary for the efficient discharge of such functions.

Other Measures

- The elections to Urban Local Bodies may be held as early as possible (Elections for PRIs were conducted in the year 2001).
- Implementation of the schemes provided in the State budget and Centrally Sponsored Schemes pertaining to poverty alleviation, physically and mentally challenged and weaker sections of the society be transferred along with the budget allocations from respective line departments of the State Government to the Local Bodies.
- A beginning should be made in imposing a tax on profession, trades, callings and employments at least to the extent of Rs.250 per annum.

Karnataka First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: June 1994

Report Submission: January 1996/ July 1996*

ATR Submission: March 1997

* Two separate reports were submitted. Report on the Urban Local Bodies was submitted in January 1996 and the report on Rural Local Bodies was submitted in July 1996.

Composition

G Ashwathnarayan, IAS (Retd.)	- Chairman [up to 28.2.1995]
G Thimmaiah (Dr) Institute for Social & Economic Change Bangalore	- Chairman [from 28.2.1995]
Abdul Aziz (Dr) Institute for Social & Economic Change Bangalore	- Member
R Suresh, IAS	- Member Secretary [up to 9.6.1995]
A K Agarwal, IAS	- Member Secretary [from 9.6.1995]

Terms of Reference

The Commission shall make recommendations as to the following:

- (b) *the principles which should govern:*
- iv. *the distribution between the state government and the Zilla Panchayats, Taluk Panchayats, Gram 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 state, which may be divided between them under this Part and the allocation between the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats at all levels of their respective share of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats;*
 - vi. *the grants-in-aid to the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town*

Municipal Councils and Town Panchayats from the consolidated fund of the state;

- (c) *the measures needed to improve the financial position of the Zilla Panchayats, Taluk Panchayats, Gram Panchayats, Municipal Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats;*⁵⁶

The Commission shall also:

- v. Examine and make suggestions on the extent to which and the manner in which the resources available to the local bodies could be best utilized for meeting the expenditure of these bodies and;
- vi. Make a detailed analysis of the repayment of loans and advances extended by government from time to time to the local bodies and make suitable recommendations for repayment of Government dues and the possibility of adjusting these dues against future devolution revenues from government to these bodies.

In making the recommendations the commission shall 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

Requisite data were formulated and collected through questionnaires. Interactive sessions were planned with different rungs of Panchayats and all the Municipalities which were arranged at the district level. Meetings were held with concerned representatives and officials.

RECOMMENDATIONS

Global Sharing

- 36% of Non-Loan Gross Own Revenue Receipts of the state was recommended for transfer to Panchayats and Municipalities.

[Accepted]

- Ratio of Panchayats and Municipalities was 85% and 15% respectively, valid for financial years beginning from 1996-97 to 2000-01.

[Accepted with modification. The ratio of 85:15 to be reached in a phased manner in the year 2001-02]

Assignment of Revenues

- Property tax is re-designed to make it an elastic source of municipal revenue.

[Not considered]

⁵⁶ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Horizontal Distribution

- The respective share of Zilla Panchayats, Taluk Panchayats and Gram Panchayats in the devolution to Panchayats may be 40:35:25 respectively.

[Under consideration of Government]

- Share of Panchayats may be distributed on the basis of the following criteria and weightage:

1. Population	33.33%
2. Area	33.33%
3 Illiteracy	11.11%
4. Length of Road Area	11.11%
5. Hospital Bed strength population	11.11%

[Under consideration of Government]

Grants-in-Aid

- Gram Panchayats may continue to be given a grant of Rs. 1 lakh per annum as additional financial assistance.

[Not accepted]

- Tenth Finance Commission grant of Rs. 43.80 crores for spending on reconstruction, improvement and repairs of school buildings, building of primary health centers, veterinary hospitals etc. might be distributed as per the formula of the SFC.

[Under consideration of Government]

- Total cost estimated at Rs. 11.30 cores for upgradation of essential public services i.e. drinking water, street lights, roads, primary education and primary health.

[Under consideration of Government]

Functions and Functionaries

- All individual beneficiary oriented programs and schemes be transferred to Gram Panchayats.

[Under consideration of Government]

- Municipalities should be free to determine the rate structure for various taxes and fees.

[Not considered]

- Full cost should be recovered for the services provided by the Municipalities.

[Not considered]

- Entrusting of repair works and maintenance of water supply system, street lights and intra-village roads to Gram Panchayats.
[Under consideration of Government]
- The Urban/Slum Development Authorities, Town Planning Units and Urban Forestry are brought under the respective Municipalities.
[Not considered]
- The clerk-cum-accountant-cum-typist of the Village Panchayat as also bill collector-cum-clerk should be paid a monthly salary of Rs. 1000.
[Under consideration of Government]

Other Measures

- The Zilla Panchayats/Taluk Panchayats/Gram Panchayats be allowed to allocate 10% of the district plan outlay to whatever schemes and programmes they consider important.
[Under consideration of Government]
- A common valuation authority should be created to undertake revision of valuation of rural and urban properties.
[Under consideration of Government]
- Ensuring of proper training to elected representatives and officials of Panchayats.
[Under consideration of Government]
- Constitution of District Planning Committee provided under 74th amendments of Constitution.
[Under consideration of Government]
- Creation of 'Gram Panchayat Fund'.
[Accepted]
- Abolition of all regional developmental boards and MLA local area development fund.
[Under consideration of Government]
- Formulation of rules of business to define the powers and privileges of elected representatives and Government officials.
[Rules of Business formulated for Taluk & Zilla Panchayat]
- Supply of safe drinking water, primary education, roads, street light and primary health care constitute as the most essential civic services by the Commission to be provided in rural areas and these be raised to certain normative standards.
[Under consideration of Government]
- The funds for Gram Panchayats might be released directly from Zilla Panchayat. Funds for Gram Panchayats need not be released through Taluk Panchayats.
[Accepted]

Kerala First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: April 1994

Report Submission: February 1996

ATR Submission: February 1997

Composition

P M Abraham, IAS (Retd.)	- Chairman
K Mohandas, Secretary Local Administration Department	- Part Time Member
K A Ommer, formerly Additional Secretary Finance Department	- Part Time Member

Terms of Reference^s

The Commission shall make recommendations as to the following:

- c) *the principles which should govern:*
- x. *the distribution between the State, Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them under Part IX of the Constitution and allocation between all levels of Panchayats at all levels of their respective shares of such proceeds;*
 - xi. *the determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats;*
 - xii. *the grants-in-aid to Panchayats from the consolidated fund of the State;*
- d) *the measures needed to strengthen the financial position of Panchayats.*

Methodology

Not mentioned in the report.

RECOMMENDATIONS

Global Sharing

- Non-statutory non-plan grants be provided to the local governments @ 1% of the State Revenue and distributed among Panchayats and Municipalities in proportion to the population.

[Not accepted]

^s Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

Assignment of Revenues

- District Panchayats may be empowered to levy tax on sale of immovable properties @ 1%.
[Accepted]
- Local governments (LGs) should be empowered to levy entertainment tax and annual license fee on Cable TV operators.
[Necessary amendments may be proposed by the Local Administration Department to fix lower rates.]
- Property/Building Tax collection be exclusively assigned to the Village Panchayats and Municipalities and tax payments rationalized.
[Not considered]
- A portion of the income from sale of court fee stamps should be earmarked for local governments.
[Accepted]
- Land tax is doubled and 60% of the additional income be given to Block Panchayats and 40% to District Panchayats.
[Accepted]
- 25% of surcharge on stamp duty levied on behalf of Municipalities should be put into a state pool.
[Accepted]
- The rates of Profession Tax may be uniform in urban and rural areas and the number of slabs be reduced and the rates be rationalized.
[Accepted]

Horizontal Distribution

- The indicators with the suggested weights are given below for devolution of plan funds:

	Indicator	For Municipalities	For Panchayats
i)	Population in 1991 Census	75	70
ii)	Population of SC/ST in 1991 Census	10	10
iii)	Total workers excluding workers in manufacturing processing, servicing and repairs outside household industry	15	10
iv)	Proportion of agricultural workers among workers	Nil	10
		100	100

[*Rejected*]

- The SFC has recommended that 1% each of the Rural and Urban Pool may be credited to the proposed fund for Local Development. After making this appropriation the remaining 99% of the annual accruals may be distributed on the basis of composite criteria given below:

	Criteria	Village Panchayats	Municipal Council
1.	Population in 1991 Census	75	80
2.	Population of SC/ST in 1991 Census	5	5
3.	Financial need of LGs	15	10
4.	Tax effort of LGs	5	5
	Total	100	100

[*Not considered*]

- The tax efforts of Local governments is to be judged on the basis of the 2 indicators:
 - i. Percentage of collection to demand.
 - ii. The rate at which property tax is being levied.

[*Not considered*]

Grants-in-Aid

- 50% of the gap estimated for the local governments for maintenance of roads should come from the central government via Centrally Sponsored Schemes and the balance from the state government.

[*Under consideration*]
- Maintenance grants should be based on current cost of construction.

[*Rejected*]
- Municipalities should also be eligible for basic tax grants. The total amount may be credited to a state pool.

[*Accepted*]
- It should be left to the local governments to decide on the application of the non-plan grants according to their own priorities and perception of needs.

[*Accepted*]
- All roads may be eligible for grants from motor vehicle tax.

[*Accepted*]
- 85% of the CFC grant may be earmarked for Village Panchayats and the remaining 15% may be distributed among Block and District Panchayat in the proportion of 3:2 on per capita basis.

[*Accepted*]

Functions and Functionaries

- Local governments that are prepared to undertake the work should be encouraged to take up maintenance and replacement works or street taps and street lights.
[Accepted]
- Local governments should be competent to execute civil works finance out of funds raised from public on the basis of estimates prepared by architect and without the intervention of any government agency.
[Not considered]
- 25% of the funds of the CSSs for poverty alleviation should be at the disposal of the local governments to be spent on poverty alleviation programmes formulated by them and approved by the District Planning Committee.
[Under consideration]

Other Measures

- A special cell may be constituted in the Finance Department after the expiry of the term of the Commission to watch the implementation of the recommendations of the SFC.
[Not considered]
- Government may appoint a small expert group which will go into the whole question of format of budget and other related matters of local governments.
[Accepted]
- Government may undertake a delimitation of revenue villages to ensure that no village falls in more than one Panchayat.
[Not considered]
- A provision should be incorporated in the rules and if necessary in their Kerala Panchayat Raj Act requiring Heads of offices and owners of buildings to furnish to the Panchayat details of employees and occupants.
[Accepted]
- To assess properties for valuation, plinth area method be adopted for residential properties and rental value method for commercial properties revision should be done in every four years.
[Accepted]
- Both the rural development board and Kerala Urban Development Financial Corporation should preferably have a soft window for socially desirable purposes.
[Not considered]

- State level fund for Village Panchayat and Municipal Council called the rural pool and the urban pool respectively may be constituted. The three Corporations, Thiruvanthapuram, Travancore and Cochin are to be kept out of the urban pool.

[Not considered]

- Local Body should be eligible for 50% of the Building Exemption Fees. This exemption should be increased to 100%.

[Accepted]

- While Library Cess may continue to be collected by local governments, it may be earmarked for improving the infrastructure of the Educational Institutes under their control.

[Rejected]

- Instead of specifying a unique rate of license fee, etc. government may specify only the minimum rate and leave it to the local governments to fix rates above it, except in the case of births and deaths.

[Accepted]

Madhya Pradesh First State Finance Commission**Award Period: 1996-97 to 2000-01**

Constitution: February 1995

Report Submission: July 1996

ATR Submission: July 1996

Composition

S S Sisodiya	- Chairman
C S Mishra	- Member
V C David	- Member
O P Mathur	- Member
A K Dutta	- Member-Secretary

RECOMMENDATIONS**Global Sharing**

- Either 2.91 % of the total tax and non-tax revenue or 3.24 % of net proceeds of the total revenue of the preceding year for Panchayats. [Accepted]
- 8.669 % of tax and non-tax revenue of the preceding year for Municipalities.

Assignment of Revenues

- The revenue forests falling under the geographical area of GPs should be handed over to the concerned GPs. [Deferred]
- The rates of agricultural produce market are revised to raise additional sum for the Panchayats. [Deferred]
- Rates of user charges are raised to ensure cost recovery. [Accepted]

Horizontal Distribution

- On the issue of district-wise inter-se distribution among Municipalities the SFC had recommended the following criteria :

Urban Population	:	40 %
Sales tax Contribution	:	35 %
Backwardness	:	15 %

Infrastructure : 10 %

[*Only Population is considered*]

- On the issue of district-wise inter-se distribution among rural local bodies, the SFC had recommended the following criteria :

(a) **Neutral Criteria**

1. Total Population : 21.25
2. Area : 10.625

(b) **Poverty Criteria**

3. Rural SC & ST population : 15.0
4. Number of agricultural labourers : 10.625
5. Average Gross value of output of
Agriculture per hectare : 10.625

(c) **Indicators of Backwardness**

Distance Method

6. No. of workers in registered factories : 10.625
(Per lakh of population)
7. Per capita consumption of power : 10.625
8. Literacy rate : 10.625

[*Deferred*]

Grants-in-Aid

- General purpose grant be given to Janpad/District level Panchayats @ Rs. 14.65 crores and Rs. 1.50 crores respectively for 1995-96.

[*Deferred*]

Functions and Functionaries

- Disposal of Waste in the Municipalities on the principle of energy management with the help of private institutions.

[*Accepted*]

Other Measures

- Continue the monitoring cell with limited staff even after the expiration of the Commission.

[*Accepted*]

- Strengthen internal accounting mechanism. *[Accepted]*
- Set up Data Bank. *[Accepted]*
- Review of the rights delegated to the Panchayats. *[Accepted]*
- Preparation of the Annual plan of Action (at district level) of the functions performed by the Panchayats with continuous monitoring *[Accepted]*
- Preparation of a separate performance budget by every department. *[Accepted]*
- Constitution of Rural Development Fund. *[Not Accepted]*
- Installation of Urban Infrastructure Development Fund. *[Deferred]*

Maharashtra First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: 23.4.1994

Report Submission: 31.1.1997

ATR Submission: March 1999

Composition

The report of first state finance commission was submitted under the following composition:

Makrand Herwadkar	- Chairman
Diwakar Kalsulkar	- Member
Vijay Tated	- Member
Shripad Patwari	- Member
P P Mahana	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

The principles which should govern:

- xiii. *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 under Part IX and Part IX – A of the Constitution and allocation between all levels of Panchayats at all levels and the Municipalities of their respective shares of such proceeds;*
- xiv. *the determination of taxes, duties, tolls, and fees which may be assigned to or appropriated by the Panchayats or as the case may be the Municipalities;*
- xv. *the principles which should govern the grants-in-aid to Panchayats or as the case may be Municipalities from the consolidated fund of the State.⁵⁷*

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

- h. The projected gap between the revenue receipts and revenue expenditures (non-plan or non-development or both) of the Panchayats and the Municipalities in the State for five years from 1st April 1996 on the basis of their level of taxation likely to be reached in 1994-95.
- i. The measures and the extent to which the Panchayats and the Municipalities have exploited the available and the potential sources of the revenue and the manner and the extent to which their revenue gap can be reduced by such measures;
- j. The principles of financial assistance from the State Government to the Panchayat and the Municipalities as may be determined by the Commission taking into account the provisions of clauses (a) and (b) above;

⁵⁷ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1991 census, where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid;

- k. The outstanding debt position as on 31st March 1994 of the Panchayats and the Municipalities; and specify-
 - iii. The principles and procedures to regulate the borrowing power of the Panchayats and the Municipalities; and
 - iv. The steps needed to contain the debt liabilities taking into account their resource position.
- l. The resources of the State government and the demands thereon, in particular, on account of expenditure on civil administration, police, social and economic services, debt servicing and all other committed expenditures or liabilities and non-palm revenue expenditures;
- m. The maintenance and upkeep of the capital assets of the Panchayats and the Municipalities, and work out the norms for their adequate maintenance with due regard to their resource position and introduce measures for mobilizing resources locally to meet these liabilities;
- n. The need for ensuring reasonable returns on investment made, if any, by the Panchayats and the Municipalities as the case may be, in irrigation projects transport undertakings, pipe water supply schemes; borewell programs and other activities of commercial nature, if any.

The Commission may make the recommendations about introducing a scheme for calamity relief and considering the need to have a calamity relief fund on the lines of the calamity relief fund scheme recommended by the 9th Finance Commission.

Methodology

Financial & other data were obtained directly from the local bodies. Budgetary data and projections were obtained from Finance Department. Study groups were constituted by different departments of local bodies and intensive interactions were carried out with concerned officials. Seminars and workshops were conducted and were participated in by the senior members of the Commission.

RECOMMENDATIONS

Global Sharing

- The global sharing was not recommended.

Assignment of Revenues

- 10% of the profession tax should be given to the local bodies.
- 25% of the net income received by way of vehicle tax should be allocated as 'tax share' to all the urban bodies including Mumbai on the basis of population.
- 10% of the net income of profession tax should be given to local bodies.

Horizontal Distribution

- The revised share of entertainment tax should be 50% for 'A' Class Municipal Councils, 90% for 'B' Class Municipal Councils, 100% for 'C' Class Municipal Councils and 25% for Municipal Councils.
- It was reported that urban areas had contributed 90% of the profession tax whereas rural areas contributed only 10%. 10% of the net income of profession tax should be given to local bodies. Out of this amount 80% should be given to the Urban bodies and 20% to the gram panchayats on per capita basis.

Grants in aid

- The present rate of recovery of land revenue and cess is 50 to 60% of the demand therefore 66.67% of the demand of land revenue and cess should be given as advance grant to Panchayats every year.
- The irrigation cess grant equal to 66.67% of the demand should be given to the Zila Parishads as advance grant.
- 10% of forest revenue to Zila Parishads to undertake projects in the forest areas
- A sum of Rs. 25 lakhs per year should be given to the Zila Parishads as an incentive grants subject to some conditions. 50% of the incentive grant should be passed on to the Panchayat Samities by the Zila Parishads.
- The amount of grant by way of land revenue, given to Municipal Corporation and Municipal Councils, should be increased to 75% from 15%.
- The primary education grant given to the Municipal Corporations and Municipal Councils should be increased by 10% for A & B class Municipal Councils.

Functions and Functionaries

- No such recommendation

Other Measures

- Maharashtra Government's premier training institution, YASHADA, Pune in consultation with national level institute should prepare training packages for different level of staff in the Panchayats and Municipal Councils.
- Each Municipal body should set aside half percent of their own income for 'Calamity Fund'.
- District Planning Committee and Metropolitan Planning Committee should be constituted at the earliest.
- There should be a data bank on the financial position of the Panchayat Raj Institutions and the Municipal bodies. The consolidation and checking of the information received from the primary level may be made on the District level and finally the work of collection and analysis may be done at the State level. The

Director, the Directorate of Economics and Statistics should do the work of collection and consolidation of the information and maintaining data bank information at State level.

- There should be uniformity in the rates and types of taxes in all the four Acts governing Municipalities.
- The local body should be allowed to levy taxes and service charges on all the government properties (including the properties of public sector undertakings of the Central and State government, Boards, Corporations).

Manipur First State Finance Commission

Award Period: 1996-97 to 2000-01

SFC Constitution: April 1994

Report Submission: December 1996

ATR Submission: July 1997

Composition

B R Basu	- Chairman
Y Radheshyam Singh	- Member
D S Sharma	- Member

Terms of References

The Commission shall make recommendations as to the:

- e) *The division of net proceeds of the taxes, duties, tolls and fees leviable by the State between the State and the local bodies in accordance with part IX A of the Constitution and allocation between the local bodies of their respective shared.*
- f) *The taxes, duties, tolls and fees to be assigned to or appropriated by local bodies.*
- g) *The principles governing the grants-in-aid (including specific amounts to be paid) to local bodies.⁵⁸*

In making its recommendations, the Commission was called upon to keep in view, among others:

- a) The recommendations of the 10th FC & the resource position of the State;
- b) Allocation of revenue between the State government & the Local bodies keeping in view their respective responsibilities;
- c) Revenue resources of the local bodies for next 5 years & the objectives of balancing their receipts & expenditure on revenue account & ensuring fiscal autonomy as well as fiscal responsibility among them;
- d) Scope for economy in expenditure and need for balanced, inter-regional development.

The Commission was also directed to:

- i. Review the functions at present vested in the local bodies & suggest changes therein, if necessary;
- ii. Develop norms for collection of tax & non-tax revenue, establishment expenses & performance of services by the local bodies;
- iii. Forecast revenue receipts & expenditures of the local bodies for the next five years;
- iv. Specify the pattern and procedure of plan assistance from state government to the local bodies during above period and

⁵⁸ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- v. Specify necessary changes in the fiscal relationship between the local bodies and the various state government departments.

RECOMMENDATIONS

Global Sharing

- Global sharing was not recommended

Assignment of Revenues

- The state government may hand over the entire work of collection of land revenue to the Panchayats to be used by latter as their own resources after present collection staff is suitably absorbed in other works.

Horizontal Distribution

- ARM (Additional Resource Mobilization) targets for Municipalities/Panchayats (excluding Imphal Municipal Council) totaling Rs. 186 lakhs in 4 years commencing 1997-98 have to be worked out on the basis of population for each of the 4 years and communicated to all concerned by the administrative departments.
- While average annual per capita government grant excluding bonus works out to Rs. 37.17 and Rs. 40.44 for rural and urban areas respectively for the 5 year period, annual per capita ARM targets work out to Rs. 3.25 and Rs. 8.52 (4years average) only. Since rural local bodies start with 'nil' revenue, ARM burden equals total burden as well. For urban local bodies excluding Imphal Municipal Council, present per capita annual contribution is less than Rs. 2.00.

Grants-in-Aid

- Commission recommended transfer of the entire Tenth Finance Commission grant to the Local Bodies, without insisting on matching current surpluses from the latter.
- Establishment grants of Rs. 9.25 crores to the Panchayats/Municipalities in the state for 5 years commencing 1996-97 including Rs. 50 lakhs per year for Imphal Municipality (in lieu of octori);
- Development grants totaling Rs. 14.16 crores to the Panchayats/Municipalities in the state for the 5 year period.
- Bonus grants totaling Rs. 145.00 lacs during the 5 years for exceeding minimum resource mobilization targets (100% matching grant).

Functions and Functionaries

- Gram Panchayats may be entrusted with the following 14 functions:
 - a. Maintenance of essential statistics;
 - b. Organizing voluntary labor and contribution for community works;

- c. Maintenance of all property created by or entrusted to GP;
 - d. Construction / maintenance of all drinking water wells, tanks and ponds;
 - e. Construction / maintenance of village roads drains and culverts;
 - f. Maintenance of general sanitation including cleaning of all public roads, drains, tanks, wells, bathing ghats cremation ground and such other public places;
 - g. Construction / maintenance of community latrines;
 - h. Construction / maintenance of street lighting;
 - i. Control of cattle and grazing lands;
 - j. Regulation of markets and fairs;
 - k. Control of eating and entertainment establishments;
 - l. Social forestry;
 - m. Adult literacy;
 - n. Assistance to all governmental and voluntary agencies in implementation of all rural development programs.
- Amendments in laws and rules for the local bodies to bestow additional powers of taxation on Gram Panchayats, simplify manner of approval of taxation proposals and to provide effective machinery for collection of arrears by both Panchayats/Municipalities.
 - Assets created by government departments – roads & paths, street-lighting, drainage/sewerage facilities, and community services, etc. should be handed over immediately to Panchayats/Municipalities for maintenance through newly created funds of all these bodies.
 - Arrears of holdings tax can be collected by the municipalities under the relevant provisions of the Act. It will be advisable to vest full authority and responsibility in the matter the local body.

Other Measures

- Octroi should be abolished and replaced by a surcharge on States tax, the proceeds of which can be distributed by way of maintenance grants to local bodies.
- Administrative Departments must take more interest in 'Servicing' of the local bodies-approval of budgets and taxation bye-laws, collection and scrutiny of year-end performance, and so on.
- New, comprehensive budget formats should be prepared for Panchayats/Municipalities and circulated immediately.
- A municipal services cadre may be created to provide control and mobility in respect of senior personnel. Training of municipal personnel should receive priority.
- Pending proposals of the Municipalities (for various purposes) may be approved expeditiously.

Orissa First State Finance Commission

Award Period: 1998-99 to 2002-03

Global Sharing

- 10% of gross collection of MV tax is given to Municipalities to be divisible among Municipalities and NACs in the ratio of 60:40 respectively.
- 50% of the gross revenue of Profession Tax is transferred to Municipalities.

Assignment of Revenues

- Octroi may be replaced by an entry tax only if the Municipalities are properly compensated.
- GPs are empowered to levy building tax, lighting tax and drainage tax.

Horizontal Distribution

- Arrear of land cess share due to Panchayats (Rs. 19.04 crores) be paid to them in 5 installments.
- Surcharge on entertainment tax be assessed and the dues be provided to six Municipalities with arrear.
- For inter-se distribution among Rural local bodies the commission recommends a formula :

(a)	Size/area of the district	:	50 %
(b)	Rural population of the district	:	25 %
(c)	Lack of rural Connectivity	:	25 %

- For inter-se distribution among Urban local bodies the commission recommends a formula :

(a)	Population	:	50 %
(b)	Area	:	25 %
(c)	Slum Population	:	25 %

Functions and Functionaries

- Roads, Drinking water, public health, street lights and sanitation functions should be transferred to Local Bodies along with staff and funds.

Punjab First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: April 1994
Report Submission: December 1995
ATR Submission: September 1996

Composition

J P Gupta, IAS (Retd.)	- Chairman
Om Prakash Mathur (Prof) National Institute of Public Finance and Policy, New Delhi	- Member (Part-time)
R R Bhardwaj, IAS Financial Commissioner, Govt. of Punjab	- Member (Part-time)
K R Lakhanpal, IAS	- Member (Part-time) (from 25.7.94 to 12.6.95)
N K Arora, IAS Principal Secretary, Govt. of Punjab	- Member (Part-time) (from 12.6.95)
B K Srivastava, IAS	- Member Secretary (till 23.11.94)
Surjit Singh, IAS Principal Secretary, Govt. of Punjab	- Member Secretary (from 23.11.94)

Terms of Reference^s

The terms of reference require the Commission to make recommendations on the following matters:

In the case of 'Panchayats' as to:

- g) *The principles, which shall govern:*
 - iv. *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 and the allocation between the Panchayats at all levels of their respective shares of such proceeds;*
 - v. *The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats; and*
 - vi. *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.*

^s Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- i) *Any other matter referred to the Finance Commission by the Governor in the interest of sound finances of Panchayats.*

In the case of 'Municipalities' as to:

- g) *The principles, which shall govern:*
- iv. *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 and the allocation between the Municipalities at all levels of their respective shares of such proceeds;*
 - v. *The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Municipalities; and*
 - vi. *The grants-in-aid to the Municipalities from the Consolidated Fund of the State.*
- h) *The measures needed to improve the financial position of the Municipalities.*
- i) *Any other matter referred to the Finance Commission by the Governor in the interest of sound finances of Municipalities.*

Methodology

The Commission devised detailed and exhaustive Information Proformae about functions, income and expenditure, grants received from various sources, and under various schemes, indebtedness, level of Civic Services, future requirement of funds etc. and sent these to all the Municipal Corporations, Municipal Councils, Nagar Panchayats (NPs), Zila Parishads (ZPs), Panchayat Samitis (PSs) and Gram Panchayats (GPs). The received data from the local bodies was then scrutinized, tabulated and analyzed. A detailed questionnaire covering all important issues relating to the finances of the Municipalities and Panchayats was prepared to be placed in the offices of Deputy Commissioners, the Sub-Divisional Officers (civil) and Local Bodies. Interaction with the Senior Officers of the state governments and experts provided valuable information and ideas. District level meetings were held with Divisional Commissioners, Deputy Commissioners, Regional and District level Officers of local government.

RECOMMENDATIONS

Global Sharing

- 20% of the net proceeds of five taxes i.e. Stamp Duty, Punjab Motor Vehicles Tax, Electricity Duty, Entertainment Tax and Entertainment (Cinematograph Shows) Tax should be shared with the Municipalities and the Panchayats.

Assignment of Revenues

- Additional Excise duty at the rate of 7% of the auction money of country liquor and 16% of Indian Made Foreign Liquor was collected by the State Government in lieu of octroi on import of liquor into Municipalities and was reimbursed to the Municipalities. This should be enhanced from 7% to 10% on country liquor and from 16% to 20% on IMFL.
- House tax should be charged on pucca houses on 10 Marla land and above at rate not below Rs. 100 per annum. However, no tax be levied on Kacha houses, below 10 Marla houses and houses of Yellow Card holders.
- Mandatory tax on professions, individuals, traders, commission agents, shopkeepers etc. based on income slabs be levied by the Gram Panchayats after the Government has fixed slabs of taxation.
- The Gram Panchayats should levy tax on advertisements other than those appearing in the newspapers within their respective areas. The Panchayats should lease out spaces owned by them for advertisers for putting up hording.
- The Gram Panchayats should tax brick kilns, rice shellers, stone crushers, petrol pumps, poultry farms, dairy units, fish farms and stud farms and small and large scale industries in the rural areas. All these levies will be in the form of property tax payable in lump sum on yearly basis.
- The Gram Panchayats should charge fee on sale of goods @ 2% of the value of goods sold.
- The Gram Panchayats should also charge Parchi Fee from the buses operating on the route @ Rs. 5 to Rs. 10 when they provide certain facilities.

Horizontal Distribution

- The share of proceeds from Stamp Duty should be distributed between the Municipalities and the Panchayati Raj Institutions on the basis of derivative principle i.e, the Stamp Duty collected from the urban areas should be transferred to ULBs and that from the rural areas should be transferred to the Panchayati Raj Institutions. It is also recommended that separate records for the transactions relating to urban and rural areas should be maintained by the registering authorities.
- The sharing of Punjab Motor Vehicles Tax be on the basis of proportionate length of roads maintained by the Municipalities and the Panchayati Raj Institutions. Keeping in view the intensity of usage of roads in urban and rural areas, the proportion of urban and rural roads should be worked out by applying a multiplier of 10 to the actual length of Municipal roads.
- The sharing of Electricity Duty between the Urban Local Bodies and the Panchayati Raj Institutions should be on the basis of collection.

- The sharing of the Entertainment Tax and the Entertainment (Cinematograph Shows) Tax be on the criteria listed below:

ULBs	80%
Panchayati Raj Institutions	20%
- The *inter-se* distribution of these taxes amongst the Panchayats should be as under:

Gram Panchayats	50%
Panchayat Samitis	30%
Zila Parishads	20%

Grants-in-Aid

- The weak Gram Panchayats, having per capita income of less than Rs. 100 should be given grants to bring their income up-to Rs. 100 per capita to enable them to perform their obligatory functions. The gap between Rs. 100 per capita and actual per capita income should be met up-to 50 per cent by the Grant and the remaining 50 per cent should be raised by the Panchayats through the statutory powers of taxation or through donations. For this purpose, a lump sum grant of Rs. 18 crore is recommended in each of the five years (1996-97 to 2000-01) and that no part of it should be utilized for salaries and wages.
- Grant-in-aid for street lighting should be given to weak Gram Panchayats, varying between 25 per cent and 50 per cent of the total electricity bill to be decided by the department on merit.
- The Panchayats which put in a desirable amount of effort to make the optimal use of their own fiscal domain, augment their resources and improve upon their fiscal administration should be suitably rewarded with additional grants to be known as 'incentive grants'.
- The incentive grant should be given at the following rates as the maximum and the actual disbursement should be according to the proportionate performance of each body:

Gram Panchayat	Rs. 0.50 lakh
Panchayat Samiti	Rs. 1.00 lakh
- SFC laid-down certain parameters like utilization of all tax/non-tax measures falling within its fiscal jurisdiction ; periodical revision in the rates of fees and non-tax rates; recovery of 80% of assessed demand of taxes, non-taxes and user charges including arrears upto the preceding year; cost of collection not exceeding 5% of the total taxes; user charges recovering the cost of provision and maintenance of services; expenditure on salaries, wages and contingencies, etc. as per norms fixed by the State Government and proper utilization of previous grants and devolutions.

Functions and Functionaries

- Devolution of the following functions to Panchayat Samitis:
 - a. Superintendence, direction and control of schemes and functionaries at the Panchayat Samiti and the Gram Panchayat level and, in particular, responsible for the accounting of expenditure incurred by the Gram Panchayats.
 - b. Execution and implementation of projects/schemes directly and through Gram Panchayats.
 - c. To co-ordinate functioning of Gram Panchayats regarding preparation and implementation of developmental schemes
 - d. Preparing of block level development plans for consideration of the Zila Parishad and to undertake all activities necessary for such preparation.
 - e. To implement schemes which spill over to more than one Gram Panchayat.
 - f. Promotion of people's participation and contribution in cash, kind and labour for programmes of development.
 - g. Make recommendation to State Government/Zila Parishad in the interest of development in the area.
 - h. To exercise financial powers delegated to them.
 - i. Budgetary control
 - j. Any other function as may be assigned by the Government.

- Devolution of the following functions to Zila Parishad:
 - a. Superintendence, control and co-ordination of Panchayat Samitis and Panchayats.
 - b. To prepare the draft development of plan of Gram Panchayat/Panchayat Samiti areas of the District for consideration of the District Planning Committee.
 - c. Execution and implementation of the Zila Parishad schemes.
 - d. To make recommendations to the State Government in the interest of development in the District.
 - e. To implement schemes which will spill over to more than one Panchayat Samiti.
 - f. To exercise delegated financial powers.
 - g. To exercise budgetary control
 - h. Any other function as may be assigned by the Government.

- The functions devolving on the Panchayats shall be performed with the funds identified by the Finance Commission and the funds of the State Government. The functionaries of the State Government, performing the transferred functions, shall be answerable to the.

Other Measures

- Constitution of Public Accounts Committee at district and State level.
- District Planning Committees be set up for preparing District Draft Development Plans.
- Allocation of (i) Untied funds, (ii) Rural Development Board funds, and (iii) State Marketing Board funds to be made by the District Planning Committees.
- System of pre-audit be stream-lined and applied on a selective basis.
- Municipal Accounts Committee in each Municipality and a State level Public Accounts Committee be set up.
- The local finance data be collected in formats that are easy and simple and still conducive for analysis and policy making.
- The data maintained should include information on income, expenditure and level of services.
- Contingency charges provided with centrally sponsored and State Schemes be transferred to Panchayati Raj Institutions alongwith the funds of the Scheme.

Rajasthan First State Finance CommissionAward Period: 1995-96 to 1999- 00

SFC Constitution: April 1994

Report Submission: December 1995

ATR Submission: March 1996

Composition

Krishna Kumar Goyal	- Chairman
Chandan Mal Baid	- Member
Devendra Singh Shaktawat	- Member
T Srinivasan	- Member-Secretary

Terms of Reference

The Commission shall review the financial position of the Panchayats at all levels, and make recommendations as to:

- c) *the principles which should govern:*
- iv. *the distribution between the State and the Panchayats at all levels of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part-IX of the Constitution and the allocation between the Panchayats at all levels, of their respective shares of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats at all levels; and*
 - vi. *the grants-in-aid to the Panchayats at all levels from the Consolidated Fund of the State.*
- d) *the measures needed to improve the financial position of the Panchayats.*

The Commission shall also review the financial position of the Municipalities at all levels and make recommendations as to:

- c) *the principles which should govern:*
- iv. *the distribution between the State and the 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-A of the Constitution and the allocation between the Municipalities at all levels, of their respective shares of such proceeds;*
 - v. *the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities; and*
 - vi. *the grants-in-aid to the Municipalities from the Consolidated Fund of the State.*

d) *The measures needed to improve the financial position of the Municipalities.*⁵⁹

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

- v. the financial resources of the State and demands thereon, keeping in view the non-plan deficit and surplus, and in particular, the need for providing adequate resources for funding the plan expenditure for the overall development of the State;
- vi. the expenditure needs of the Panchayats at all levels and Municipalities at all levels for the proper discharge of the functions and responsibilities assigned to them and those as may be assigned to them hereafter as per provisions of new/amended legislations.

RECOMMENDATIONS

Global Sharing

- 2.18 % of the net state tax proceeds to be devolved on the local bodies.

[Accepted]

Assignment of Taxes

- A nominal 10 % tax on land rent could be imposed by all PSs in the State. *[Deferred]*
- The State Government may consider vesting the powers of imposition of land revenue on barani land to ZPs. *[Deferred]*
- ZPs should levy a surcharge of 1 % on the sale of land in rural areas and ½ % surcharge on market fee. *[Deferred]*
- The Panchayats should levy taxes / fees on dhabas, hotels, automobile servicing and repair shops, petrol / diesel pumps etc., situated on the national / state high ways in their respective areas. *[Deferred]*
- Zilla Parishads is empowered to levy land revenue on barani land. *[Deferred]*
- Parking tax and hording tax could be a good source of revenue of big Municipalities *[Deferred]*

Horizontal Distribution

⁵⁹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- The share of the Panchayats and the Municipalities out of the divisible pool would be in the ratio of 3.4:1 on the proportion of rural / urban population according to the 1991 census.

[Accepted]

- Most of the items of assistance to the Gram Panchayats are per capita grant. Therefore the developmental assistance provided in Tenth Finance Commissions recommendations and matching contribution recommended would be distributed to the GPs on the following basis:

50 % on the basis of incidence of property

40 % on the basis of total rural population

10 % on the basis of population in the non-Desert Development Programmes / non-Drought Prone Area Programmes / non-Tribal Area Development blocks.

[Deferred]

- Land revenue on barani land to be shared by Panchayats in the ratio 60 % GPs, 25% PSs and 15 % ZPs.

[Deferred]

Grants-in-Aid

- Grants for maintenance of rural roads and buildings @ Rs. 5000/- per panchayat and @ Rs. 10,000/- per Panchayat Samities to maintain office buildings and staff quarters. In case of Zilla Parishads, the amount is Rs. 20,000 per Zilla Parishad per annum.

[Deferred]

- One time 'start-up; grant of Rs. 5000/- to each of 1856 newly created Gram Panchayats due to delimitation exercise carried out before the constitution of the Commission.

[Deferred]

- Incentive grants to each level of Panchayats for functional improvement, and better performance :

(a) Three cash awards for Gram Panchayats at each district level every year, the first prize being of Rs. 2 lakhs, second being of Rs. 1 lakh & third being of Rs. 50000 only.

(b) Cash awards to Panchayat Samities at every Divisional level every year: 1st- Rs. 8 lakhs, 2nd- Rs. 5 lakhs and 3rd - Rs. 2 lakhs.

(c) Cash awards to Zilla Parishads at State level every year: 1st- Rs. 8 lakhs, 2nd- Rs. 5 lakhs and 3rd- Rs. 2 lakhs.

[Deferred]

- Grants of Rs. 61.30 crores to arrange matching share for utilization of grants of the Tenth Finance Commission.

[Accepted]

- The existing per capita general purpose grant of Rs. 5/- be raised to Rs. 11/- with an annual increase of 10 % per annum for Gram Panchayats and in case of Panchayat Samities from Rs. 0.50 to Rs. 1.25 per person per annum. In case of Zilla Parishads, it is Rs. 30000/- per block.

[Deferred]

- Incentive grants to provide Cash awards for better performance every year

A. State Level

1.	Corporations	1 Award	of Rs. 5 lakhs.
2.	Councils	3 Awards	first of Rs. 5 lakhs, second of Rs. 3 lakhs, third of Rs. 1 lakh.

B. Divisional Level

1.	Class II	6 Awards	one in each division of Rs. 5 lakhs.
2.	Class III	12 Awards	two awards in each division, first of Rs. 5 lakhs and second of Rs. 3 lakhs.
3.	Class IV	18 Awards	three awards in each division, first of Rs. 5 lakhs, second of Rs. 3 lakhs and third of Rs. 1 lakh.

[Deferred]

- Grants of Rs. 10.68 crores as a matching share for the utilization of grants recommended by the Tenth Finance Commission.

[Deferred]

Functions and Functionaries

- Functions transferred to the Panchayats and Municipalities should be accompanied by transfer of resources & staff.

[Deferred]

- Cleaning of new colonies could be given on contract and the staff could be readjusted to fill the staff shortage in old colonies

[Deferred]

- Compilation of financial data by the Director Local Fund Audit, in the prescribed formant

[Deferred]

- Training of the Panchayat account Staff in the field of PRI finance, account and budgeting, technical staff in soil conservation water management, civil construction and the other staff in office procedure and management.

[Deferred]

- Separate classification for service/ maintenance activities for clear determination of fund flow.

[Deferred]

- Putting up of a self contained unit with two filters under each ZP to attend major repairs of hand pumps in their respective districts.

[Deferred]

- A system of midterm appraisal of financial position of the Municipalities is required

[Deferred]

Other Measures

- Lump sum assistance in lieu of property tax could be given to Municipalities by the Central and State Governments.

[Deferred]

- Rajasthan State Electricity Board should charge domestic rates from the Panchayats for street lighting.

[Deferred]

- A mechanism should be developed by the FD for transferring the surcharge to Panchayats at the district level itself without treating it as state receipts.

[Deferred]

- A Committee should go into the issue of strengthening the cadre of Panchayat and Municipal Services.

[Deferred]

- Set up service selection board to select municipal employees up to ministerial service level.

[Deferred]

- Areas like street lighting and road maintenance could be privatized.

[Deferred]

- A systematic study to work out index of urban backwardness in terms of income and infrastructure is needed.

[Deferred]

- LSG Departments in consultation with the FD should develop an effective Management Information System.

[Deferred]

Sikkim First State Finance Commission

Award Period: 2000-01 to 2004-05

Constitution: 3.11.1995

Report Submission: August 1999

ATR Submission: June 2000

Composition

S Lama	- Chairman
Rudra Pradhan	- Member
Topjor Dorji	- Member

Terms of Reference

The Commission shall make recommendations as to-

- a) *The determination of the principles which should govern:

 - i. *The distribution between the State Government and the Zilla Panchayats, Gram Panchayats, Municipalities and Municipal Councils of the net proceeds of the taxes, duties, tolls and fees levied by the Government which will be divided between them and the allocation between the Zilla Panchayats, Gram Panchayats, Municipalities and Municipal Councils 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 Zilla Panchayats, Gram Panchayats, Municipalities and Municipal Councils;*
 - iii. *The grants-in-aid to the Zilla Panchayats, Gram Panchayats, Municipalities and Municipal Councils from the Consolidated Fund of the State;**
- b) *The measures needed to improve the financial position of the Zilla Panchayats, Gram Panchayats, Municipalities and Municipal Councils;*
- c) *The Commission shall also:

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

RECOMMENDATIONS

Global Sharing

- One percent of the net proceed of all taxes collected by the State in the year be transferred to Panchayats.

Assignment of Revenues

- Introduction of property tax and its collection by the local bodies.
- Urban land tax to be enhanced.
- Entertainment tax is enhanced by 10 %.
- Introduction of toll tax & its collection in every entry point of the local bodies.
- Rate of existing trade licence / hawkers licence be doubled.
- Profession tax be levied by the local body depending upon the nature & profitability of the Profession.
- Introduction of Sanitation tax by the local body & State Government.
- Enhancement of Advertisement tax by 100 %.
- Dhuri khajana (i.e. annual fee for each house) be levied at the revised rates.
- Revision of water tax (user charges).
- Fees for construction of house within the panchayat unit be charged at the revised rates.
- Water cess from the user of irrigation facility at revised rates.

Horizontal Distribution

- Urban Local Bodies do not exist in the State. Only PRIs exist. The functions of ULBs are carried out by Department of Urban Development & Housing. Therefore, question of allocation between the two does not arise.

Grants-in-Aid

- Continuation & enhancement of existing grants-in-aid is recommended.
- Non-plan expenditure will be in the form of grants to the local bodies.
- Centrally Sponsored Schemes, for which central releases have to be matched by proportionate state releases, would also continue to be considered grants to the local bodies.

Functions and Functionaries

- SFC has recommended for the transfer of a set of functions to be transferred to Panchayats.

Other Measures

- Infrastructure / establishment expenditure of Panchayat borne by the State to be continued.

Tamil Nadu First State Finance Commission

Award Period 1997-2002

Global Sharing

- “Pool A” tax which rightly belongs to the local bodies but collected by the State Government is to be distributed to the local bodies concerned. This includes :
 - a. Surcharge on stamp duties
 - b. Local Cess and Local Cess surcharge and
 - c. Entertainment tax
- “Pool B” is the Net Tax Revenue of the State consisting of Sales Tax, Motor vehicle Tax, State Excise Revenue and others. Of this the percentage of devolution towards Local Bodies each year will be gradually increased from 8% in 1st year, to 9% in 2nd year, 10% in 3rd year, 11% in 4th year and 12% in the fifth year. 15% of this amount would however be kept aside as Reserves to meet post devolution conditions.

Assignment of Revenues

- 25% of the royalties from major minerals be shared with the LBs.

Horizontal Distribution

- The ratio for the distribution of funds between the rural and urban Local Bodies would be 60:40.
- 14% of the total Rural Fund to be given to District Panchayats. The remaining 86% to be distributed among the Panchayat Unions and Village Panchayats on 50:50 basis.
- Inter se distribution among Panchayat Unions will be based on

a)	Total population of the Panchayat Union (last census) weightage	50%
b)	Total SC & ST population of the Panchayat Union weightage	25%
c)	Financial viability of the Panchayat Union (Average per capita Land Revenue)	25% weightage
- Inter se distribution among Village Panchayat will be based on

a)	Total population of the Village Panchayat (1991) weightage	50%
b)	Total SC & ST population of the Village Panchayat(1991) weightage	15%

- c) Per capita House Tax collection performance weightage 15%
- d) Core Civic Services Infrastructure maintenance weightage 20%

Deficiency within the Village Panchayat area

- Urban Local Body funds are to be distributed in the following ratio:
 - a) Town Panchayat 38%
 - b) Municipalities 31%
 - c) Municipal Corporations 31%
- The following principle of weightage will be adopted for inter se distribution from out of the divisible pool of the respective tier of local body:

	Town Panchayats	Municipalities	Corporations
(i) Total population (1991)	45%	45%	40%
(ii) Total SC/ST Population (1991)	20%	10%	10%
(iii) Financial indicator	15%	15%	15%
Per Capita receipt under own resources (Average of both Tax and Non-Tax resources for the last 3 years ending with 31.3.94)			
(iv) Service indicator	20%	30%	35%
(Existing Per Capita Expenditure on core civic services for the last 3 years ending with 31.3.94)			
Total	100	100	100

Grants-in-Aid

- LBs should be provided with various grants, such as the specific purpose grants, revenue grants, road maintenance grant, lighting grants, water-supply grant,

drainage grants, House Tax matching grants, grants for maintenance of maternity centers and dispensaries.

Functions and Functionaries

- LBs should levy advertisement tax, higher user charges on water supply, sanitary services, tax on trade, parking fees etc.
- Village Panchayats should levy water tax compulsorily.
- LBs should be allowed to levy following taxes:
 - ii) Tax on motorized vehicles not taxed under the Motor Vehicle Tax
 - iii) Tax on timber
 - iv) Cable T.V. (Addl. Levy)
 - v) Surcharge on bus tickets etc.

Other Measures

- The procedure for sharing of revenue from royalties of minor minerals with the LBs be streamlined.
- Reform in property tax and profession tax be undertaken, to improve the tax collection.

Tripura First State Finance Commission

Award Period for Panchayats: 1996-97 to 2000-01

Award Period for Municipalities: 1999-00 to 2003-04

Constitution: April 1994 (Panchayats)

August 1996 (Municipalities)

Report Submission: January 1996 (Panchayats)

September 1999 (Municipalities)

ATR Submission: February 1997 (Panchayats)

November 2000 (Municipalities)

Composition

S K Panda	- Chairman
Haradhan Debnath	- Member
D Dutta	- Member-Secretary

Terms of Reference

Under Article 243-I of the constitution of India the Governor appoints a Finance Commission to review the financial position of Panchayats and to make recommendations as to:

- d) *the principles which should govern:*
- iv. the distribution of the net proceeds of the taxes, duties, tolls and fees leviable by the state among the state, Zilla Parishads, the Panchayat Samitis and the Gram Panchayat;*
 - v. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Zilla Parishads, the Panchayat Samitis and the Gram Panchayat;*
 - vi. the grants-in-aid to the Zilla Parishads, the Panchayat, the Panchayat Samitis and the Gram Panchayat from the consolidated fund of the state;*
- e) *the measures needed to improve the financial position of the Zilla Parishads, the Panchayat, the Panchayat Samitis and the Gram Panchayat;*
- f) *Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.*

Under Article 243-Y of the constitution of India the Governor appoints a Finance Commission to review the financial position of Panchayats and to make recommendations as to:

- a) *the principles which should govern:*
- i. *the distribution between the State and the Municipalities 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 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 to the Municipalities;*
 - iii. *the grant-in-aid to the Municipalities from the consolidated fund of the state;*
- b) *the measures needed to improve the financial position of the Municipalities.*⁶⁰

Methodology

The Commission invited views, suggestions and opinions from individuals, recognized institutions, political parties and organizations. Relevant data/information were collected from the State Government and other semi-government bodies and autonomous bodies. Discussions were carried out with departmental officers of the State Government and elected representatives of the three-tiers of Panchayats.

RECOMMENDATIONS

Global Sharing

- At the initial stage, 10% of the state share of central taxes may be assigned to the Zilla Parishad, 8% to the Panchayat Samiti and 2% to the Gaon Panchayats. The total amount may be distributed among individual units at each tier as per a formula, basing on population and socio-economic backwardness. [Accepted]
- 50% of the revenue earned from sale tax, purchase tax and luxury tax may be passed on to the Panchayati Raj Institutions @ 30% to Gaon Panchayat, 15% to Panchayat Samity and 5% to Zilla Parishads. The horizontal distribution in each tier may be done basing on the population. [Accepted]
- 35% of the professional tax may be provided to the Panchayati Raj institutions @ 20 % for Gaon Panchayat. 10% for Block Panchayat and 5% for Zilla Parishad. The horizontal distribution may be done basing on population. [Accepted]
- 15% of the forest revenue may be passed on to the three Zilla Parishads @ 5% each. [Rejected]

⁶⁰ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- 32% of the collection from agri-income tax and land revenue may be passed on to the middle tier Panchayati Raj Institutions i.e. Panchayat Samiti at a uniform rate of 2% each.

[Accepted]

Assignment of Revenues

- The Gaon Panchayats may levy taxes @ 1% of the value of land and building per annum and 1% additional stamp duty on all transfer of immovable property.

[Accepted]

Horizontal Distribution

- No such recommendations.

Grants-in-Aid

- Panchayats may be given untied fund for taking up innovative and location specific schemes. The Gaon Panchayat may be provided grant @ Rs. 100/- per head. Panchayat Samity @ Rs. 60/- per head and Zilla Parishad @ Rs. 40/- per head on the basis of total population living in each unit on a permanent basis.

[Accepted]

Functions and Functionaries

- 29 activities indicated in the 11th schedule implemented at the District, Block and village level may be transferred to the Panchayati Raj Institutions in a phased manner.

[Deferred]

Other Measures

- Preparation of annual plan for each tier of Panchayati Raj Institutions should be given specific emphasis. This may be introduced at the Zilla Parishad level immediately and taken up to Panchayati Samiti and Gaon Panchayat level in a phased manner. The Zilla Parishad may be provided required assistance for the purpose.

[Deferred]

- The best three Gaon Panchayats in each block may be given cash reward amounting to Rs. 3 lakhs, Rs. 2 lakhs and Rs. 1 lakh respectively. Similarly, the best three blocks may be given reward @ Rs. 10 lakhs, Rs. 5 lakhs, Rs. 3 lakhs respectively. The best Zilla Parishad may be given reward @ Rs. 50 lakhs, Rs. 20 lakhs and Rs. 10 lakhs in order of performance. This amount may be utilized mainly for creation of infrastructure.

[Rejected]

Uttar Pradesh First State Finance Commission

Award Period: 1996-97 to 2000-01

Constitution: October 1994

Report Submission: December 1996

ATR Submission: January 1998

Composition

B C Shukla	- Chairman
M S Verma	- Member
O P Agarwal	- Member-Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

- (d) *The principles which should govern:-*
- i. *The distribution between State, Gram/Kshetra/Zila Panchayats and Urban Local Bodies of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part-IX and IX A of the Constitution and the allocation between Panchayats at all levels and Urban Local Bodies 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, as the case may be, the Urban Local Bodies;*
 - iii. *The principles which should govern the grants-in-aid to the Gram/Kshetra/Zila Panchayats or as the case may be, Urban Local Bodies from Consolidated Fund of the State;*
- (e) *The measures for strengthening the financial position of Gram/Kshetra/Zila Panchayats and Urban Local Bodies;*
- (f) *Any other matter, which the Governor may refer to the Commission in the interest of sound finance of Gram/Kshetra/Zila Panchayats and Urban Local Bodies.*

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

- ix. the revenue resources of the State Government and the demands thereon, in particular, on account of expenditure on civil administration, debt serving and other committed expenditure or liabilities;

- x. the liabilities of Panchayats and Urban Local Bodies in respect of implementation of schemes entrusted to them under Article 243-G and 243-W and works entrusted to them at appropriate levels.
- xi. the revenue resources of Panchayat and Urban Local Bodies at all level based on the potential for raising resources for the next five years and targets fixed for additional resource mobilization along with tax efforts made in this direction.
- xii. the scope for better fiscal management consistent with economy in expenditure and efficiency in administration;
- xiii. the maintenance and upkeep of capital assets and maintenance expenditure on those plan schemes which are entrusted to these bodies and are completed by March 31, 1997.
- xiv. the Commission may make an assessment of the debt position of the Panchayats and Urban Local Bodies at all levels as on March 31, 1994 and suggest such corrective measures as are deemed necessary keeping in view the financial requirements of the State;
- xv. if the funds available at local level do not meet full requirement of expenditure on Plan side after the new arrangement, then the Commission will make specific recommendation regarding the arrangement of funds for expenditure on both Plan and non-Plan side.

Methodology

Questionnaires were prepared and sent to concerned departments. Team of officers from the Commission was sent to various districts to create awareness for the importance of filling the questionnaires and to have an intimate knowledge of the working of rural & urban LBs. Also, visits were carried out to different States (Karnataka, Kerala, Assam, Tamil Nadu, Andhra Pradesh, Haryana & Bihar) with a view to familiarize with the approaches adopted by the other SFCs. Discussion were taken up with the elected representatives of the Panchayats & Municipalities. Seminar at Hyderabad, Mussoorie, New Delhi & Madras were attended to have a better understanding of the need for devolution of funds to LBs and making them self sufficient for raising their own resources.

RECOMMENDATIONS

Global Sharing

- Global sharing was recommended. 10% of net proceeds of States total tax revenue to local bodies of which 70% be earmarked to urban local bodies and the remaining 30% to rural local bodies.

Assignment of Revenues

- No new tax was recommended to be assigned to Gram Panchayats as PRIs were considered not capable of collecting tax and non-tax revenue already assigned to them.

- Since urban local bodies were not collecting more than 50 to 55 per cent of the current demand of their own taxes, there is no need to assign more taxes and duties

Horizontal Distribution

- Out of 7 % of net proceeds of States total tax revenue to urban local bodies, 44.57%, 44.57% and 10.86% are to be divided between Nagar Nigams, Nagar Palika Parishads and Nagar Panchayats respectively based upon the criteria of 80% population and 20% area.
- Out of 3% of the net proceeds meant for rural local bodies 20% be earmarked for Zila Panchayats and the balance 80% for Gram Panchayats based upon the criteria of 80% population and 20% area.

Grants-in-Aid

- The existing system of grants in aids was considered to be discretionary. It was recommended that it should be disbanded and substituted by global sharing.
- The existing system of grants in aids with reference to centrally sponsored and central sector schemes need to be continued.
- The Tenth Finance Commission's grant in 1996-97 to 1999-2000 should be utilized strictly for civic services like improving drainage facilities, garbage disposal, latrines, street lighting etc. A matching contribution be provided by urban local bodies for raising their resources.
- Arrears of the electricity bills of the urban local bodies till 31st March 1996 be liquidated and the State Government out of their outstanding wage and means advance against UPSEB convert the amount of dues of electricity into grant to electricity board.
- The Electricity board in turn treats this amount as payment made by the urban local bodies towards electricity dues till 31st March 1996.
- Loans given under integrated urban development schemes and Special & General Component Plan for Scheduled Castes and Scheduled Tribes etc. to urban local bodies as on 31st March 1994 with interest thereon be converted into grant.
- Loans for integrated development and of small and medium towns, as on 31st March 1994 with interest thereon be converted into grant.

Functions and Functionaries

- Recommendations regarding transfer of functions as mentioned in the Eleventh Schedule made by the Administrative Reforms and Decentralization Commission to the State Government should be considered. Funds for such activities/functions should also be passed on to the rural local bodies.

Other Measures

- Adoption of carpet area as the basis for assessing the annual rental value of buildings in urban local bodies.
- Property tax, water tax and latrine tax are to be collected by the urban local bodies concerned.
- Comprehensive enactment covering the recommendations of the Commission and various provisions under different act to ensure a uniform policy for levy and recovery of property and other taxes in all the urban local bodies, i.e. Nagar Nigams, Nagar Palika Parishads and Nagar Panchayats.
- Urban local bodies should pay for water used in parks etc. to *Jal Sansthan*s. If the local bodies fail to pay the same should be recovered by the State Government out of devolutions to them from the State Budget.
- Water supply need to be maintained on commercial lines hence revision of water charges/rates need to be revise.
- The entire domestic water supply should not be metered and the minimum flat rate be raised gradually over the years. The post of some of the meter readers which would be rendered surplus, should be reduced gradually as meter readers retire, to enable local bodies to save the staff cost.
- Public private participation need to be encouraged in urban local bodies for the improvement in essential civic services.
- Development authorities and *Jal Sansthan*s operating in a municipal area should be brought under the umbrella of elected urban local bodies.
- Constitution of a Committee of experts to go into the question of reorganizing the administrative structure etc. of the urban local bodies including the State level bodies like the State Urban Development Authority (SUDA) and Directorate of Urban Local Bodies.
- Strengthening of the existing Finance Commission Cell in the State Finance Department so that necessary information and data about the urban local bodies and Panchayati Raj institutions could continue to be updated for study and use by the future Commissions.
- Common detained format for budget estimates for all the three categories of urban local bodies.
- Audit of the accounts of Nagar Nigams and Nagar Palika Parishads should be given to the Accountant General, Uttar Pradesh. However, the accounts of Nagar Panchayats may continue to be audited by the Director, Local Funds Accounts. The A.G., U.P. should submit a detailed audit report annually which should be placed before the State Legislature through Public Accounts Committee.
- The sanitation workers in the total strength of the local body employees account for almost 50 per cent. But the duty hours and work of the sanitation staff are not properly monitored in the light of norms laid down for the purpose in the U.P. Health Services Manual. This is resulting in poor standard of sanitation services

despite increasing trend in expenditure on sanitation staff. The work of sanitation staff should be monitored closely and regularly. Dependence on the sanitation staff could also be reduced by encouraging private agencies to take up on contract basis work for sanitation and disposal of garbage.

Uttarakhand First State Finance Commission

Award Period: 2001-02 to 2005-06

Constitution: March 2001

Report Submission: June 2002

ATR Submission: July 2004

Composition

R K Dhar	- Chairman
L M Pant	- Member-Secretary

Methodology

The review of the institutions is made in the context of the specific historical, demographic, physical and socio-economic realities of Uttaranchal. An effort has been made to bring in the citizens' point of view. The Report of the first UPSFC for the period 1996 to 2001 has been taken as a starting point. The observations of the 11th FC have been taken note of. Several instruments were used for carrying out the review: Desk studies, Questionnaires, Study of memorandums received, District level hearings, Formal/Informal meetings & consultations, Consultants' reports and other inputs.

RECOMMENDATIONS

Global Sharing

- 11% of the State Net Tax Revenues be distributed between the Panchayats and the Municipalities on the basis of 42.23% to Panchayats and 57.77% for Municipalities.
- The Panchayats as a whole would receive an annual devolution of Rs. 37.32 crores of which Gram Panchayats and Zilla Panchayats would receive Rs. 30.95 crores and Rs. 6.37 crores respectively.
- The Municipalities as a whole would receive an annual devolution of Rs. 48.61 crores of which Nagar Nigam, Nagar Palika Parishads and Nagar Panchayats would receive Rs. 11.19 crores, Rs. 33.03 crores and Rs. 4.39 crores respectively.

Assignment of Revenues

- No such recommendation.
- In the past municipalities were levying and collecting octroi and toll taxes, which were abolished by the State Government, and the power of municipalities to levy them was repealed. In lieu thereof, these institutions were given compensatory grants. The compensatory grants were done away with and merged in the scheme of devolution made effective w.e.f. 1-4-1997 on the recommendations of U.P. State Finance Commission.

Horizontal Distribution

- Out of the share of the Panchayats and the Municipalities accordingly and Zila Panchayats work out to 75.18%, 9.35%, 15.47%. Out of the share of the Municipalities, the percentage for Nagar Panchayats, Nagar Palika Parishads and Nagar Nigam respective work out at 9.41%, 68.94% and 21.65%.
- The Gram Panchayats would be classified into five classes based on the distance of the headquarter of their respective blocks from the nearest railhead as follows: (1) 0 to 49 Km. (2) 50 to 99 Km, (3) 100 to 149 Km, (4) 150 to 199 Km, and (5) 200 Km and above. The devolution would be made in rounded per capita terms based upon the category of Gram Panchayats.
- All Nagar Palika Parishads and Nagar Panchayats would be classified into only two classes on the basis of the minimum distance from the nearest railhead
- The devolution would be made in rounded per capita terms to ensure certainty, stability and transparency of entitlements.

Grants-in-Aid

- Grants in aid of Rs. 3.85 crores to Kshetra Panchayats for joint provision of essential civic services.
- Grants in aid of Rs 7.71 crores per annum to municipalities in the following manner:

Grants-in-Aid	Rupees (in crore)
Deficit Grants	1.68
Grants for Computerization	0.93
Grants for Joint Provisioning of essential civic services	0.95
Grants to environmentally sensitive pilgrim places	0.15
Grants for Slum Improvement	4

Functions and Functionaries

- No major recommendations.

Other Measures

- The system of keeping records dealing with citizens complaint, staff needs, revenue accounts including tax records in the NPPs and NPs is archaic. The Commission is of the firm view that modern means of keeping records etc must be introduced at the earliest which will not only lead to economy in expenditure in the long run but will also provide more transparent and efficient services to the citizens. Thus for rapid computerization for priority objectives, the Commission recommends that a grant be made of Rs. 2 Lakhs per annum to each NPP and Rs. 1 Lakh to each NP with effect from the financial year 2002-03, i.e., a total of Rs. 93 Lakhs per annum.

- It was recommended that initially in a year only 70% of the entitlement should be released and the release of remaining 30% be linked to their financial and institutional performance for which the Commission recommends the following criteria:
 - (i) The fulfillment of revenue increases as per norms recommended by the Commission (15%). A State Level Monitoring Committee chaired by the Finance Secretary should determine this entitlement.
 - (ii) The progress towards more democratic good governance (15%) as judged by:
 - (a) The grievance removal mechanisms and community mobilizaion
 - (b) The regularity and quality of proceedings of their councils and committees.
 - (c) Grading achieved in audit or budgeting, account keeping, timely placement of audit reports before the Parishad/Panchayat. A Committee chaired by the Divisional Commissioner and convened by the Director Local Bodies or his nominee should determine the entitlements in this regard. In the case of Badrinath, Kedarnath and Gangotri, which do not held in abeyance till they are constituted as per the law.

West Bengal First State Finance Commission

Award Period 1996-97 to 2000-01

Constitution: 30.5.1994

Report Submission: November 1995

ATR Submission: July 1996

Composition

Satyabrata Sen	- Chairman
Nripendra Nath Bandyopadhyay (Prof)	- Member
Prasad Ranjan Roy	- Member
Bijan Kumar Kundu	- Secretary

Terms of Reference

The Commission shall make recommendations as to the following:

E. In case of Panchayats

e) the principles which should govern:

- vii. 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 IX of the Constitution of India and the allocation between the Panchayats at all levels of their respective shares of such proceeds;*
- viii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats;*
- ix. the grants-in-aid to the Panchayats from the Consolidated Fund of the State;*

f) the measures needed to improve the financial position of the Panchayats;

F. In case of Municipalities

e) the principles which should govern:

- vii. the distribution between the State and the Municipalities, of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this Part IX A of the Constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;*
- viii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Municipalities;*

- ix. *the grants-in-aid to the Municipalities from the Consolidated Fund of the State;*
- f) *the measures needed to improve the financial position of the Municipalities;*⁶¹

RECOMMENDATIONS

Global Sharing

- 16% of the net proceeds of all tax collected by the State in a year should be transferred to local bodies. These form untied funds at the disposal of the local bodies. Such funds may be released to districts in suitable installments, quarterly or monthly.

Assignment of Revenues

- Taxes on entertainments now collected by the States should be handed over to local bodies.
- Urban land tax and multistoried building tax should be handed to Calcutta Municipal Corporation.
- Collection of irrigation rates along with the related responsibility of water management and routine maintenance is handed over to concerned Zilla Parishads.
- Resources generated in regulated markets should be brought within the purview of DPCs and the net proceeds ploughed back in the market hinterlands.

Horizontal Distribution

- For distribution between districts the following factors were taken were population (50% weightage), level of non literacy(10% weightage), proportion of backward population (10% weightage), area of the district(10% weightage), proportion of rural population(10% weightage) and inverse ratio of per capita bank deposits and of working capital of primary agriculture cooperatives taken together (10% weightage).
- Within a district its allocation among Panchayats, Municipalities and Special areas should be on the basis of respective total population.
- The distribution between Municipalities has been based on factors: Population (50% weightage), Level of non literacy (16.67% weightage), Proportion of SC& ST population (16.67% weightage), and Population density (16.66% weightage).
- Of the total entitlement going to Panchayats the proportionate allocation between a three tiers is ZP 30 percent, all PSs together 20 percent, all GPs together 50 percent.

⁶¹ Words in italics are verbatim reproduction of the proviso under articles 243 I and Y of the Constitution.

- The distribution between GPs has been made on the basis of population (50% weightage), level of non-literacy (25% weightage) and proportion of SC/ST population (25% weightage).
- The distribution between PSs has been based on the same three factors as in the case of GPs.

Grants-in-Aid

- Over the past decade, the proportion of plan expenditure for districts has increased and, with further decentralization, this share will go up. A substantial part of this should be entitlement to the local bodies in the form of untied funds and the rest will continue to be grants.
- There should be modifications of some grants to Municipalities. In place of Entry Tax, a surcharge on Sales Tax has to be introduced. As promised, the State Government should distribute the fund to the Municipalities as grants in the same manner as done so far with money from the Entry Tax. State grants on parts of collection of Profession Tax and Motor Vehicles Tax to LSGs may be discontinued.
- A large number of Centrally Sponsored Programmes such as JRY, IRDP, ARWSP etc. are now in operation in which the Central releases have to be matched by proportionate State releases. Such State and Central releases would continue to be grants and will not be part of the untied entitlement of the local body concerned.
- Covering of non-Plan expenditures will also be grants.
- DA liabilities of approved staff should be available as grants.

Functions and Functionaries

- The West Bengal Panchayat Act has empowered the three tiers of Panchayats to raise taxes, levies and tolls for a wide range of fields. Efforts should be stepped up.
- Fiscal powers of LSGs have been set forth in various legislations, but further spread is necessary.

Other Measures

- District Planning Committees (DPC) has now been given a constitutional status. In this state for nearly a decade Planning Committees at a district level were functioning. But the planning process needs to be much more comprehensive than hitherto. Also the process should start from the GP level and move upwards with appropriate modifications at upper levels including the State Planning Board.
- Suitable and adequate number of persons from existing employees in the district should be selected for the job of auditing of income and expenditure of local bodies. No additional recruitment should be necessary.
- A new Standing Committee (Sthayee Samiti) may be created in each ZP to help develop favourable milieu for small-scale and large industrial units.

- Municipalities should be empowered to issue trade licenses with fees at a much higher level; to impose higher toll taxes, higher water taxes and introduce conservancy charges for commercial and industrial establishments.
- Auditing of incomes and expenditures is a must for healthy running of Local Bodies.
- Periodical assessment by the Central Valuation Board should be made mandatory.