



Govt of India
Ministry of Panchayati Raj

Finance Commissions Conclave “Devolution to Development”

14th November 2024
Vigyan Bhavan
New Delhi

Presentation by
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Karnataka - Profile



Population (Projected for 2024)	6.84 crore (3.77 crores rural; 3.07 crores urban)			
Area	1,91,791 sq km			
	PRIs		ULBs	
Local Bodies	Zilla Panchayats*	31	MPC- Bruhat Bengaluru Mahanagara Palike (BBMP)*	01
	Taluka Panchayats*	238	City Corporations	10
			City Municipal Councils	61
	Gram Panchayats	5950	Town Municipal Councils	126
			Town Panchayat	114
Functions Devolved	29	Functions Devolved	18	
* Duly constituted bodies not in place				



5th State Finance Commission of Karnataka

- Constituted on 11th October 2023. Term extended up to 28th Feb 2025.
- Report for the year 2024-25 submitted in Feb 2024; final report by December 2024.
- Major recommendations for 2024-25
 - Vertical devolution - 51: 49
 - Out of 49 percent for local bodies- 35% to PRIs, 13% to ULBs and 1 % to BBMP
 - The ratio of Tied and Untied grants to be 50:50

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Point of View of 5th SFC, Karnataka



Devolution of Funds, Functions and Functionaries

- Article 280 (3) (bb) and (c) mandates Central Finance Commission to make recommendations on the basis of the recommendations made by the Finance Commissions of the States.
- Concept of Economic Development with Social justice –envisaged in 73rd & 74th amendments to the Constitution of India.

Devolution of Funds - Criteria considered by FCs

Criteria for Distribution of Grants to States for Local Governments by Finance Commissions							(in Percent)
Criteria	FC-X	FC-XI	FC-XII	FC-XIII		FC-XIV	FC-XV
				RLB	ULB		
Population	100	40	40	50	50	90	90
(Census)	1971	1971	2001	2001	2001	2011	2011
Geographic area	-	10	10	10	10	10	10
Distance from highest per Capita Income	-	20	20	10	20	-	-
Index of decentralization	-	20	-	15	15	-	-
Index of deprivation	-		10			-	-
Revenue effort	-	10	20			-	-
Proportion of scheduled castes/Schedule Tribes in Population	-	-	-	10	0	-	-
FC local body grants utilization Index		-	-	5	5	-	-

- Population (90%) and area (10%) considered by XIV and XV FC
- Index of decentralization considered by XI and XIII FC



Devolution of Funds - Suggestions

- Proposed criteria (in percent) - **ENSURES BOTH EQUITY AND EFFICIENCY**
 1. Population - 50 %
 2. SC/ST Population – 10%
 3. Area - 20%
 4. Index of Decentralization* - 20%
- Growing urbanization trend and increasing needs of ULBs be considered – **devolution of 40% to ULBs proposed**

* *Sub Group of Chief Ministers' in their report (October 2015) on Rationalization of Centrally Sponsored Schemes recommended that while deciding the funding pattern, it should be ensured that better performing States should not be dis-incentivized.*

Devolution of Funds - Suggestions

- Devolution as **percentage of divisible pool** to be **increased from 4.23% under XV FC to 8%** with 5% to PRIs and 3 % to ULBs to enable the Local Bodies to effectively implement the schemes as per Schedules XI and XII.
- Share of GST to local bodies
 - To compensate Local bodies the loss of taxes subsumed in GST in the form of grants on annual incremental basis.
 - Local bodies to have a share in State GST (SGST) – funds to be earmarked separately.

Devolution of Functions - Suggestions

- Activity mapping of all 29 functions of PRIs and 18 functions of ULBs to be mandated.
- Localisation of SDGs: As SDGs are localised as 9 Themes for GPs, similar classification be taken up for ULBs



Augmentation of OSR - Suggestions

- Revision of Property Tax rates.
 - Upward revision of the property tax in regular periodicity is welcome.
 - Conditionality of linking property tax with growth rate of GSDP is in conflict with existing Act and rules of the State
 - State has adopted Capital Value Based Property Tax having annual incremental increase.
- Incentivize local bodies
 - For implementation of O& M Policies
 - For revenue efforts – per capita revenue be benchmarked



Strengthening of SFCs - Suggestions

- Establish a Federation of State Finance Commissions for experience sharing
- Institutionalize State Finance Commission – provide framework for
 - Organizational Structure for SFCs
 - Tenure of Commission
 - Action Taken Report and Explanatory Memorandum



THANK YOU