

# Conclave of SFC Chairpersons & Secretaries

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# DECENTRALISATION- KERALA AS LEAD STATE

- Devolution – funds, functions and functionaries
- Peoples Plan Campaign for participatory planning initiated in 1996
- Strong support systems for sustaining the decentralized planning process, including
  - Budgetary support - Devolution of 30 - 40 percent of state plan outlay to LSGIs
  - District Planning Committees
  - Development of strong digital support infrastructure under the Information Kerala Mission
    - S softwares, ILGMS, KSMART
  - Institution of a strong community network of women under Kudumbashree

# SFCs in Kerala

- Kerala constituted the First State Finance Commission on 23/04/1994.
- Kerala has been constituting State Finance Commissions regularly.
- 7<sup>th</sup> SFC constituted on 26<sup>th</sup> Sept 2024 for proposing devolution for the period from April 2026 to March 2031.

# Terms of Reference of the 7<sup>th</sup> SFC: Highlights

- Propose innovative new own revenue sources for LGs and methods to enhance the revenue collection, incentives for increased revenue collection etc.
- Propose means to further strengthen e-governance initiatives
- Propose steps to integrate spatial planning into state LSGI planning
- Explore opportunities for PPP, joint ventures among LSGs and government departments etc.
- Strengthening the local governance system to effectively support the long-term vision of the state and the nation
- To evolve a fiscal strategy for *Urban Development*

# Local Self Government profile of Kerala

| Type of LG                     | No.         | Average Area (in Sq.km) | Average Population |
|--------------------------------|-------------|-------------------------|--------------------|
| Municipal Corporation          | 6           | 113.50                  | 519765             |
| Municipality                   | 87          | 27.54                   | 51551              |
| District Panchayat             | 14          | 2528.67                 | 1842894            |
| Block Panchayat                | 152         | 232.90                  | 169740             |
| Gram Panchayat                 | 941         | 37.62                   | 27418              |
| <b>Total LSGs in the state</b> | <b>1200</b> |                         |                    |

# SFC devolution as a % of Net SoTR

| Share of Devolution to LSGs w.r.t. NET SOTR |   |          |   |
|---|---|----------|---|
| Year  | Devolution to the LSGs<br>(₹ crore)       | Net SOTR | Devolution vis-a-vis<br>SoTR (per cent) |
| 2019-20                                     | 11,867                                    | 48,745   | 24.3                                    |
| 2020-21                                     | 11,819                                    | 46,241   | 25.6                                    |
| 2021-22                                     | 12,398                                    | 56,108   | 22.1                                    |
| 2022-23                                     | 12,903                                    | 63,557   | 20.3                                    |
| 2023-24 (BE)                                | 14,149                                    | 66,452   | 21.3                                    |
| 2024-25 (BE)                                | 15,205*<br><i>*- including CFC grants</i> | 69,605   | Including CFC grant<br>28.05%           |

# Existing devolution categories

| Devolution type  | Criteria   | Allocation for 2024-25<br>(₹ in Cr) |
|--|--|-------------------------------------|
| General Purpose Fund   | 4% of State's SoTR   | 2542.27                             |
| Maintenance Fund   | 6.5 % of State's SoTR<br>(4 % for road assets; 2.5 % for non-road assets)  | 4131.19<br>(2542.27+1588.92)        |
| Development Fund<br>(General Sector,<br>Scheduled Caste Sub Plan<br>and Tribal Sub Plan) | 28.05% of state's plan outlay for 2024-25<br>(as per 6 <sup>th</sup> SFC recommendation it increases 0.5%<br>every year from 26 %in 21-22 till it reaches 30%) | 5714.72<br>(4171.87+1341.30+201.55) |
| CFC grants   | Rural, Urban and Health grants   | 2637.28<br>(1334 + 687 + 616.28)    |

# Union FC devolution as a % of Net Tax Revenue

## Share of Local Body Grant (all India) w.r.t. NET Own Tax Revenue (Union Government)

| Year    | Grants to Local Bodies |              |               |   | Total to Local bodies (₹ crores) | Own Tax Revenue (GOI) (₹ crore) | FFC grant to LBs vs Own tax revenue (per cent) |
|---------|------------------------|--------------|---------------|---|----------------------------------|---------------------------------|--|
|         | Rural Bodies           | Urban Bodies | Health grants | Incubation of new cities+ shared Municipal services |                                  |                                 |  |
| 2021-22 | 44901                  | 22114        | 13192         | 90  | 80297                            | 1804793                         | 4.44   |
| 2022-23 | 46513                  | 22908        | 13192         | 2090  | 84703                            | 2097786                         | 4.03   |
| 2023-24 | 47018                  | 24222        | 13851         | 2090  | 87181                            | 2323918                         | 3.75   |
| 2024-25 | 49800                  | 25653        | 14544         | 2090  | 92087                            | 2583499                         | 3.56   |



# Union FC devolution to LSGs in Kerala

## Share of CFC Grant to Kerala w.r.t. NET Own Tax Revenue (Union Government)

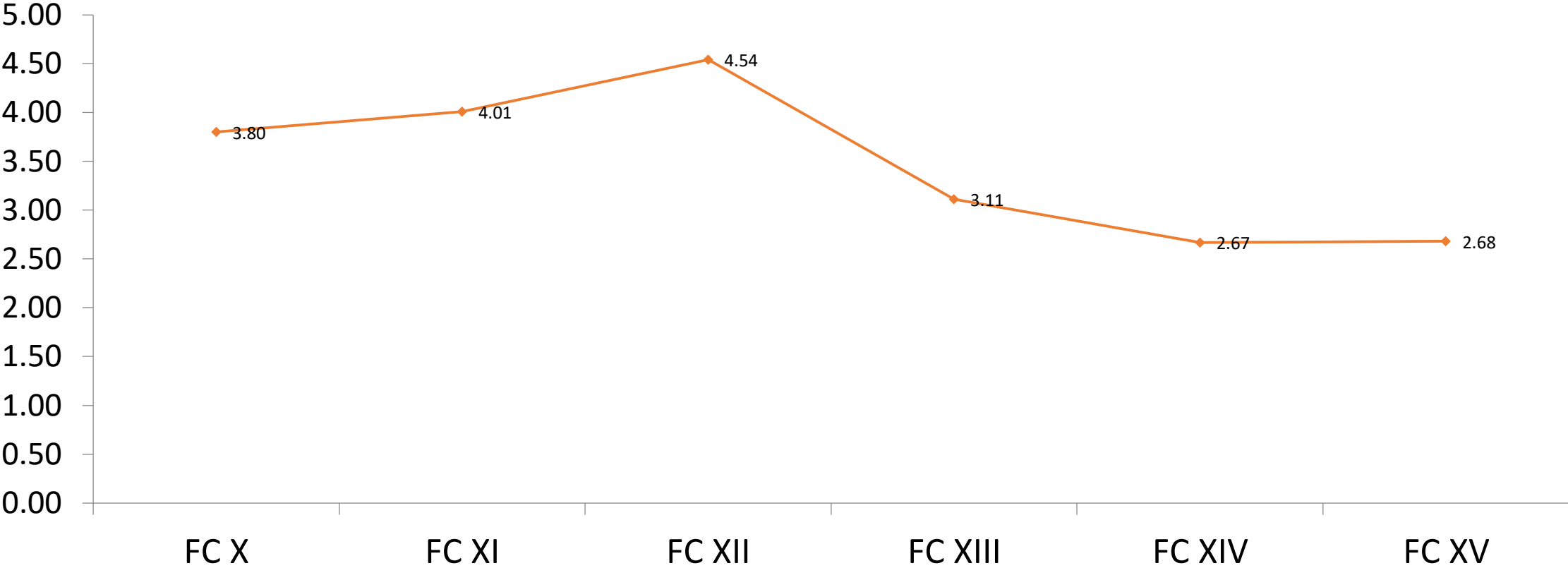
| Year    | LSG Grant<br>(₹ crore) | Own Tax Revenue of<br>GoI (₹ crore) | Own tax revenue<br>(per cent) |
|---------|------------------------|-------------------------------------|-------------------------------|
| 2019-20 | 2338.60                | 13,56,902                           | 0.17                          |
| 2020-21 | 2412.00                | 14,26,287                           | 0.17                          |
| 2021-22 | 2353.98                | 18,04,793                           | 0.13                          |
| 2022-23 | 2417.98                | 20,97,786                           | 0.12                          |
| 2023-24 | 2495.95                | 23,23,918                           | 0.11                          |
| 2024-25 | 2637.28                | 25,83,499                           | 0.10                          |

# Grants-in-Aid to Local Governments: 15<sup>th</sup> FC Criteria

| Criterion                                      | FC-X       | FC-XI      | FC-XII     | FC-XIII    |            | FC-XIV     | FC -XV     |
|--|------------|------------|------------|------------|------------|------------|------------|
|  |            |            |            | RLB        | ULB        |            |            |
| <b>Population</b>                              | 100        | 40         | 40         | 50         | 50         | 90         | 90         |
| <b>(Census)</b>                                | (1971)     | (1971)     | (2001)     | (2001)     | (2001)     | (2011)     | (2011)     |
| <b>Geographical area</b>                       |            | 10         | 10         | 10         | 10         | 10         | 10         |
| <b>Distance from highest per capita income</b> |            | 20         | 20         | 10         | 20         |            |            |
| <b>Index of decentralisation/ devolution</b>   |            | 20         |            | 15         | 15         |            |            |
| <b>Index of deprivation</b>                    |            |            | 10         |            |            |            |            |
| <b>Revenue effort</b>                          |            | 10         | 20         |            |            |            |            |
| <b>Proportion of SC/ST population</b>          |            |            |            | 10         | 0          |            |            |
| <b>FC local body grants utilisation index</b>  |            |            |            | 5          | 5          |            |            |
| <b>Total</b>                                   | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

# Union FC devolution to Kerala decreasing trend

Kerala's share from the Grant awarded by Successive FCs in percent



# Criteria for Devolution – Ideas for Discussion

- **Grants as a proportion of the divisible pool**
  - Local government grants to be expressed as a proportion of the divisible pool to benefit the LGs from the overall buoyancy of Union Tax Revenue.
  - Considering the rising requirements of LGs, the 16th FC may recommend allocation of 9% of the divisible pool to local governments. Nine percent is not high given the growing gap between the divisible pool and the gross tax revenue of the Union.

# Criteria for Devolution – Ideas for Discussion

- **Need to revise the existing criteria for horizontal distribution**
  - Adverse impact on application of 2011 Census data on states which had implemented National Population Policy.
  - Criterion of ***Demographic performance*** used by the 15<sup>th</sup> FC for devolving funds to the states was not applied in the case of Local Governments. The 16<sup>th</sup> FC may bring in demographic performance into the formula for devolving funds to LGs.
  - Some more criteria may be considered for factoring in spatial dynamics of population/economic growth.

# Criteria for Devolution – Ideas for Discussion

- The urban centers are growth centers of the nation where labour, capital, production, population concentrate. In order to factor in spatial dynamics of population/ economic growth ***urban population may be considered*** as a criterion for devolution with a weightage of 20%.
- Ageing of the population is another dimension of the demographic dynamics. ***Population of senior citizens*** may be considered as a criterion for devolution with a weightage of 10%.
- ***Criterion of area*** may be considered, factoring in cost of delivery of public services. A weightage of 10% may be considered.
- An ***index of Devolution*** for incentivizing the states which implement the national policy of decentralization can also be considered with a weightage above 20%. The problem of data availability appears to be resolved by the MoPR (2024) data.

# Criteria for Devolution – Tentative Ideas for Discussion

| No's | Criteria                      | Tentative Weight |
|------|-------------------------------|------------------|
| 1.   | Population                    | 30               |
| 2.   | Urban Population              | 20               |
| 3.   | Population of senior citizens | 10               |
| 4.   | Demographic Performance       | 10               |
| 5.   | Area                          | 10               |
| 6.   | Index of Devolution           | 20               |

# Inter-se distribution of grants among RLBs and ULBs within states

- For the distribution among RLBs and ULBs, the 15<sup>th</sup> FC used a set of common ratios for the nation as a whole.
- Instead, rural-urban distribution may be based on the rural-urban population ratio in each state, details of which may be left to the SFC or the State Government.



# Suggestions for improving own sources of revenue

- We observed a disconnect between the growth of the local economy and the ability to mobilise resources by the Local governments.
- Local governments do not have tax handles to tap local economic growth. This is true for state governments as well. States and local governments cannot tax individual or corporate income or other taxes payable by those who avail public services or generate more than proportionate pollutants.
- Constitutional amendment may be considered to facilitate increase in the upper ceiling of profession tax. ( as was recommended in 15<sup>th</sup> FC Report)
- We suggest the introduction of a pollution tax or user fee to make the polluter pay. All the major and medium enterprises will be required to submit their annual statement on the production of pollutants and the mode of treatment adopted. The collection of the pollution tax will not be highly promising in the beginning, but will emerge as a stable and dynamic source of revenue. We urge the FC to take the lead to design a national approach on this. Otherwise competition among states will spoil the effort to tax the polluters.

# Conditions on devolution of grants to LSGs

- Entry condition regarding property tax collection growth which is in tune with state GSDP growth rate.
  - . But every region will not be growing at the same pace. There will be laggards on account of unexpected economic or climate change events.
- National priorities such as sanitation, waste disposal and drinking water need not be the priority in every locale. Priority allocation may be reworked / revisited.
- Local governments should be able to spend the grant within their functional domain according to local needs, as they are constitutionally mandated local governance institutions.
- All grants may be given as 'Basic Grants' to enhance the functional autonomy of LSGs
- Or the Inter-se distribution of basic and tied grants may be revisited/

# Conditions on devolution of grants to LSGs

- As has been the experience of health grants, the Special grants take the schemata of Centrally Sponsored schemes.
- Therefore, the 16<sup>th</sup> FC may dispense the system of devolving special grants, such as the Health Grant, and revert it to the format of Basic Grant
- Or build in sufficient flexibility to the states for utilization of the specific grants.
- Here it is advisable to refer back to the terms of reference of the 16<sup>th</sup> FC.

“The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.”

# Expectations from this conclave

- Sharing of best practices and out-of-box thoughts for strengthening the local governance ecosystem in the country.
- Ideas on new sources and innovative practices to enhance the own revenue collection by the LSGs.
- The deteriorating health of the environment and proportionately aggravating effects of climate change need to be captured in the grant allocation formula.
- Early childhood care and education as well as support for ageing population are vital to shape healthy, creative, development oriented societies. How SFCs can guide the Governments and LSGs in this direction.

Thank you