

## **A CAPSULE OF MAJOR STATE FINANCE COMMISSIONS' RECOMMENDATIONS**

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WITH THE advent of State Finance Commission (SFC) in our federal finance structure the state-local fiscal relation has acquired a new meaning. After twelve years of its inception, more than thirty SFCs have submitted their reports to their respective State Governors of States. Similar to other government publications, reports of the SFCs are also difficult to obtain. The compilation at hand attempts to present the key recommendations of these SFCs. Despite significant inter-state variations noticed in the approach and principles adopted by the SFCs, attempt has been made here to categorize the major recommendations of SFCs into the following six categories.

1. Resource sharing - Recommendations related to global sharing have found place in this category.
2. Assignment of taxes - Recommendations regarding taxes fully or partly assigned to local bodies and proceeds of individual tax (es) transferred to local bodies are placed in this head.
3. Allocation - Recommendations regarding inter-se distribution between PRIs and ULBs and among different levels of local bodies are listed under allocation.
4. Grants - Major recommendations regarding specific purpose grants and general purpose grants to fill the revenue gaps of the local bodies are listed here.
5. Powers & Functions - Recommendations related to the transfer of functions to local bodies and concomitant powers are mentioned in this category.
6. Policy - Recommendations which are administrative in nature and other guidelines for the efficient functioning of the system are listed under policy.

Though care has been taken, it is difficult to strictly classify all the recommendations as per the above classifications. Hence, some overlapping has occurred at few places.

### **GIST OF MAJOR RECOMMENDATIONS OF STATE FINANCE COMMISSIONS**

FIRST SFC OF ANDHRA PRADESH FOR 1997-2000

#### *Resource Sharing*

- Global sharing was recommended. 39.24 percent of States revenue both tax and non-tax revenue to all Local Bodies. Ratio of Panchayati Raj

Institutions (PRIs) and Urban Local Bodies (ULBs) was 70% and 30% respectively. 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.

*Assignments of Taxes*

- Assignment of taxes levied by State Govt. was not recommended to Local Bodies.
- 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 percent of the Profession Tax collected was to be transferred to the Local Bodies and allocated between rural and urban areas as the basis of population.
- 10 percent of receipts from betting tax were to be passed on to the Hyderabad Municipal Corporations.
- Property tax compensation was to be enhanced by five percent every year.
- Octroi compensation was to be increased by 10 percent every year.
- Increase of motor Vehicle Tax compensation to Municipal Bodies.

*Allocation*

- 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 ...  $\frac{2}{3} X$
  3. Backward ...  $1 \frac{2}{3} X$
  4. Tribal ...  $2 \frac{2}{3} X$
- 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:
  - Urban Bodies 10
  - Loan 30
  - State Government 40
  - Government of India 20

### *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 local bodies 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.

### *Powers and Functions*

- 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.

### *Policy*

- Effective steps should be taken to get the consolidated audit and review reports on the accounts of PRIs 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 Local Bodies.
- 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.

SECOND SFC OF ANDHRA PRADESH FOR 2000-2005

### *Resource Sharing*

- The total additional devolution of Rs. 1793.94 which was 10.39 percent in the total tax and non-tax revenues of the State including the share of Central taxes was recommended for both Rural and Urban Bodies (i.e.

6.76 percent to Rural Bodies and 3.63 percent to Urban Bodies), for the year 2000-2001

- Release of grants was linked up to performance of the local bodies in the matter of collection of Taxes and Non-Taxes.

#### *Assignments of Taxes*

- Assignment of taxes was not recommended.
- Instructions to the Gram Panchayats to levy taxes on vehicles /other than vehicles.
- Addition of the following items in the list of items of the Village Produce that were proposed to be taxed.
  - i. Sugar Cane
  - ii. Coffee
  - iii. Black Pepper
- Instructions to the Gram Panchayats to levy the special tax on houses
- Small Scale Industries including Food Processing, Slate Manufacturing, Basket Manufacturing etc., be transferred to Local Bodies.
- Ten percent of the income realized by the State Government towards Motor Vehicle tax to urban bodies as compensation.
- Reverting back to the procedure of adjustment of Profession Tax to the Local Bodies.
- Instructions to Panchayat Secretaries to collect the cable tax regularly.
- Gram. Panchayats might be allowed to auction fish ponds, retain 70 percent of the auction proceeds of Fish Ponds, and distribute 15 percent to Fishermen Co-operative Societies, the remaining 15 percent to the Mandal Parishads for distribution among other Gram Panchayats in the concerned Mandal.

#### *Allocation*

- Special grant to small panchayats on population criteria, as follows:

		<i>Rupees</i>
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

- The revenue foregone by the Panchayat Raj Institutions due to abolition of land cess should be given to them as compensation. The amount may be distributed among the PRIs on population basis in the following ratio.

Gram Panchayats	50 percent
Mandal Parishads	30 percent
Zilla Parishads	20 percent

- The amount collected in the District towards water tax be allocated among all the Gram Panchayats on population basis.

- Two percent of the basic price plus excise duty plus sales-tax at the initial point of release of the liquor in the market might be set apart as excise cess. And distributed among urban and rural bodies on population basis.
- Where the sand bearing area is within the municipal limits, 75 percent of the proceeds might be credited to the Municipalities/ Municipal Corporations and 25 percent to the surrounding Gram Panchayats.
- A surcharge of five percent is levied on the Market Cess and passed on to the Local Bodies Viz., Twenty percent to the Gram Panchayat or Municipalities where the Market Committee is located and the remaining 80 percent to other Municipalities and Gram Panchayats within the jurisdiction of the Market Committee. The principles of inter-se distribution of the amount among the panchayats and municipalities be decided by the Government

#### *Grants*

- A special grant of Rs. 39.22 crores may be provided to the said 81 Municipalities from the year 2002-03 to meet the salary bill of the non-teaching employees.
- Eleventh Finance Commission grant of Rs. 152.05 crores for providing Civic Amenities to Gram Panchayats and Municipal Bodies, Data Bank, Maintenance of Accounts etc., might be distributed as per the formula of the SFC.
- 177 Mandals did not have office buildings and were located in rented buildings. Construction of these buildings might be taken up and completed in a period of 3 years by allocating Rs. 12 crores per annum.
- Provision of Rs.2.41 crores per annum as grants to Local Bodies for providing toilet facilities in school particularly for Girl Schools and Rs. 2.07 were for drinking water in the schools.
- An amount of Rs. 6.50 crores p.a. for special repairs to school buildings of PRIs.
- Rs.294.22 crores might be released to the Municipalities towards providing civic amenities to the citizens in the respective areas duly deducting the grant of Rs. 32.84 crores recommended by the Eleventh Finance Commission. Rs.165 crores p.a. might be released to the Municipal corporations for civic amenities etc. on population basis.
- Rs. 4:88 crores per annum for maintenance of office buildings of Mandal Parishads, Zilla Parishads and other buildings.
- A grant equivalent to Five percent of salary might be released to meet the additional expenditure due to revision of Pay Scales and also due to revision of rates of DA half yearly,
- Grants-in-aid towards salaries of Medical Officers and staff, working in the Medical Dispensaries and also to purchase medicines.

*Powers and Functions*

- Out of Twenty Nine functions, the Government of Andhra Pradesh transferred Seventeen functions to the Panchayat Raj Bodies in the State. Some of them are partial transfers without funds and functionaries. The remaining items contained in the XI schedule to the Constitution were recommended to be transferred along with funds and functionaries.

*Policy*

- Review of implementation of recommendations of the State Finance Commissions is entrusted to a statutory authority.
- The initiation of action on the implementation of the financial recommendations and placing of Action Taken Report on the Table of the House may be done within six months from the date of submission of the Report by State Finance Commission to Government.
- Appointing the subsequent State Finance Commissions much before the constitution of National Finance Commissions.
- With a view to see that the Local Bodies are not deprived of the Second State Finance Commission grants for the years 2000-2001 and 2001-2002 the grants for this period may be provided in the budget for 2003-04 along with the grant for the year 2003-04. Grants for the year 2002-03 may be provided in the budget for the year 2004-05 along with grants for the year 2004-05.
- Schools in Urban areas in Telangana Region be transferred to Municipal Corporations and Municipal Councils to maintain uniformity in the procedure through out the State.
- Clear instructions to Gram Panchayats to make use of the Communal Poramboke Lands by the Revenue Department.
- Maintenance of school buildings might be taken up in a cycle of 3 year. An amount of Rs. 114.19 crores was required for this purpose. Government had already provided an amount of Rs. 40 crores in the budget. Several buildings might have been constructed under Tenth Finance Commission and Operation Black Board grants, the Government might provide an additional amount of Rs.26.00 crores per annum for this purpose
- Creation of a post of Jr. Assistant in each Mandal for maintenance of accounts of Mandal Parishads expenditure on their salaries could be met from the grant earmarked by Eleventh Finance Commission.
- Reviewing the present system of training of the officials including Panchayat Secretaries and elected representatives under PRIs
- Preparation of a draft bill for enacting a single comprehensive Andhra Pradesh Municipal Corporations Act.

FIRST SFC OF ASSAM FOR 1996-97 TO 2000-01

*Resource Sharing*

- Share of state taxes for transfer to Local Bodies was recommended @ 2 percent in each year
- 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

*Assignment of Taxes*

- 10% of Motor Vehicles Tax to Rural Bodies.
- House tax to cover the new house holds on the basis of floor area, revision and assessment of house tax in every five year.

*Allocation*

- No change was recommended for inter-se 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.

*Grants*

- Local Bodies should be provided with grants- in-aid for 2000-01 by State Government at par with the TFC Grants for 1999-2000.
- Local Bodies should be given debt relief against existing government loans.
- Funds of Rs. 147.56 crores as per the award of Tenth 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.

*Powers and Functions*

- Assignment of functions contemplated in the XI and XII Schedule of the Constitution to Panchayat Raj Bodies and Municipal Bodies was not recommended.
- Subject for registration of birth and death certificate was recommended to be transferred from Health & Family Welfare Department to the Local Bodies.

*Policy*

- 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 six months.
- Gram Panchayats should be re-constituted to have population between 6000-8000.
- Permanent arrangement be made to monitor the follow up action on the recommendations of the Finance Commission.

- In view of the difficult financial position of the local bodies no fresh recruitment should be made.
- Panchayat Election should be held regularly for transferring power to elected body.
- 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 Urban Local Bodies.
- Posting of regular executive officer to Urban Local Bodies for affective functioning with necessary statutory provisions.

FIRST SFC OF GOA FOR 2000-2005

*Resource Sharing*

- 36 % of State's own tax revenue and share in central taxes for devolution to local bodies. The distribution of 36 % share in own tax revenue to be made between PRIs and ULBs on the basis of 27% and 9% respectively.
- 16 % of Annual State Plan, excluding earmarked negotiated loan components and project specific central assistance for devolution to local bodies. The distribution of 16 % of Annual State Plan to be made between PRIs and ULBs on the basis of 13% and 3% respectively.

*Assignment of Taxes*

- No such recommendation

*Allocation*

- The following criteria should be used for inter-se distribution among local bodies:

Population	:	40 %
Geographical Area	:	20 %
Backwardness	:	10 %
Performance	:	25 %
Discretionary quota	:	5 %
- The devolution of plan grants from Zilla Panchayats to Village Panchayats should be in the nature of 'gap filling', subject to the formula based allocation.

*Policy*

- No additional post should be created.
- Constitution of vigilance Committee has to be made mandatory.
- Decisions of the Gram Sabha are treated as binding on the Panchayats.

FIRST SFC OF GUJARAT FOR 1996-2001

*Resource 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			Total
		District Panchayat	Taluka Panchayat	Gram Panchayat	
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:-
  - Profession Taxes
  - 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 ULBs for (a) Stamp Duty (b) Motor Vehicle tax (c) Entertainment Tax on Cable/Dish Antenna etc.

*Assignments of Taxes*

- 50% of Profession Tax should be given to the LBs.
- Share of ULBs in entertainment tax be raised from 50% to 75%.
- LBs should collect the entertainment tax on Cable TV.

- Pilgrimage Tax by the ULBs should be revived.
- Surcharge on stamp duties collected during 1988-98 (Rs.127.08 crore) be given to the Gujarat Municipal Finance Board.
- District & Taluka Panchayats should get 1% of the total cost of general services related to the transferred services.
- Surcharge should be levied on various State taxes, for the LBs.
- Octroi should be continued till a proper alternative is found.

#### *Grants*

- Grants-in-aid to the ULBs 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%.
- The Scheme of incentive grant to the ULBs against revenue mobilization should be made more attractive.
- Maintenance grant be provided to RRIs @ 5% of the capital cost of buildings.
- A series of Grants-in-aid Scheme for ULBs recommended for continuation/improvements.

#### *Powers & Functions*

- ULBs that have been entrusted the work of primary education should be given 100% of the education cess amount.
- Imposition of property tax, water tax and sanitary cess be made obligatory for the ULBs & GPs.
- LBs should be authorized to collect advertisement tax, theatre tax, etc.

#### *Policy*

- 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.

FIRST SFC OF HARYANA FOR 1997-98 TO 2000-01

#### *Resource Sharing*

- Global Sharing was not recommended.

#### *Assignment of Taxes*

- 7.5 percent of stamps and registration revenue be devolved to the PRIs.
- The entire net income from registration fees is transferred to Panchayat Samities.
- 20 percent of the Motor Vehicle tax and 50% of entertainment tax be transferred to ULBs

- 20 percent of the royalties on minor minerals be devolved to Urban Local Bodies and Gram Panchayats which works out to Rs. 5 crore annually to Gram Panchayats and another 5 crores to ULBs.
- 10 percent of the Bid amount payable by lessee for compensation in view of surface rights is transferred to Local Bodies / Gram Panchayats.
- 10 percent of the net receipts from conversion charges (change of land use) should go to Gram Panchayats.

#### *Allocation*

- 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 Praishads, Panchayat Semites and Panchayats will be in the Ratio of 10:15:75. Further distribution to Panchayat Semites 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.

#### *Grants*

- A maintenance grant amounting to Rs. 10 per block for maintenance of community assets and Rs. 1 lakh per block for maintenance of PRI buildings are recommended.
- 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.
- A grant of Rs. 2.19 crores is recommended to be provided for sanitation and environmental improvement as a special purpose grant.
- 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.
- Incentive grant of Rs. 167 lacs is recommended to be given to Zilla Parishad, Panchayat Samities and Gram Panchayat in form of a cash price.
- A one-time grant of Rs. 25 lakhs is recommended for repair of own existing assets of Zilla Parishad and Panchayats Samities.
- 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.
- 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.

#### *Powers and Functions*

- 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.

- The minimum lease money in respect of Shamlat Land is fixed for various panchayat lands by a committee specially constituted for purpose.
- SFC recommended change over from the present system of house tax assessment on the basis of annual rental value to the "Area linked scheme".
- Rates of Fee and fines are revised. Rates for user charges should be revised upward at least once every year.

#### *Policy*

- With a view to expanding the pool of available resources, SFC recommended the enhancement of levy of Haryana Rural Development Fund from 1% to 2%.
- A 10 percent 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.
- 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.
- The budget of the Municipal Council may be entrusted to Directorate of Local Bodies.
- Training programme for the officials and non-officials of the ULBs should be duly organized.
- A State level Public Accounts Committee for Municipal Finance and another committee for Audit of Accounts of Zilla Praishads and Panchayat Samities have been constituted. In case of Panchayats, a Committee at District level may be constituted.

#### FIRST SFC OF HIMACHAL PRADESH FOR 1996-2001

#### *Resource Sharing*

- Global sharing was not recommended.

#### *Assignments of Taxes*

- Certain taxes and levies are assigned to the PRIs, i.e. land revenue, Irrigation tax, cess on sale of liquor etc.

#### *Grants*

- Deficit of PRIs and ULBs, as assessed by the SFC to be met by way of grants from the State Government.
- Grants for ULBs in lieu of Octroi, be revised and raised @ 10% per years.

#### *Powers and Functions*

- 13 functions should be transferred to ULBs along with the resources.

### *Policy*

- The resource transfers recommended by the SFC should not be released for those Local bodies which do not collect the statutory levies.

### FIRST SFC OF J&K SFC FOR 2003-2005

### *Resource 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.

### *Assignments of Taxes*

- 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.

### *Allocation*

- 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*

- 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.
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*Powers and Functions*

- 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.

*Policy*

- 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.

FIRST SFC OF KARNATAKA FOR 1996-97 TO 2000-01

*Resource Sharing*

- 36 percent of Non-Loan Gross own Revenue Receipts of the state was recommended for transfer to PRIs and ULBs. Ratio of PRIs and ULBs was 85% and 15% respectively.

*Assignment of Taxes*

- Property tax is re-designed to make it an elastic source of municipal revenue.

*Allocation*

- The respective share of Zilla panchayats, Taluk Panchayats and Gram Panchayats in the devolution to PRIs may be 40:35:25 respectively.
- Share of PRIs 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

*Grants*

- Gram panchayats may continue to be given a grant of Rs. one lakh per annum as additional financial assistance.
- 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

- 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.

#### *Powers and Functions*

- All individual beneficiary oriented programs and schemes be transferred to Gram Panchayats
- ULBs should be free to determine the rate structure for various taxes and fees.
- Full cost should be recovered for the services provided by the ULBs
- Entrusting of repair works and maintenance of water supply system, street lights and intra-village roads to Gram Panchayats
- The Urban/Slum Development Authorities, Town Planning Units and Urban Forestry are brought under the respective ULBs.

#### *Policy*

- 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.
- A common Valuation Authority is created to undertake revision of valuation of rural and urban properties.
- Ensuring of proper training to elected representatives and officials of PRIs.
- Constitution of District Planning Committee provided under 74th amendments of Constitution
- Creation of 'Gram Panchayat Fund'
- Abolition of all regional developmental boards and MLA local area development fund
- Formulation of rules of business to define the powers and privileges of elected representatives and Government officials.
- For all ULBs, safe drinking water supply, sanitation, roads and street light should constitute their most essential civic services and these be raised to certain normative standards.
- The funds for Gram Panchayats might be released directly from Zilla Panchayat. Funds for Gram Panchayats need not be released through Taluk Panchayats.

SECOND SFC OF KARNATAKA FOR 2003-04 TO 2007-08

#### *Resource Sharing*

- 40 percent of Non-Loan Gross Own Revenue Receipts (NLGORR) of the state is recommended as share of the Panchayats Raj Institutions and

Urban Bodies. Of the 40 % of the NLGRR, 80 percent should go to the PRIs and 20 percent to ULBs

#### *Assignments of Taxes*

- 'User Charges' be introduced at Gram Panchayat level as addition to the house tax/property tax.
- Minimum rate of Property tax should be fixed at 8 percent of annual letting value and maximum at 12 percent of annual letting value
- 50% of the share out of revenue realized by lease. auction of sand beds and stone quarrying should be assigned to Gram Panchayats
- The revenue realized from tanks within the jurisdiction of Gram Panchayats should be fully assigned to concerned Gram Panchayats.

#### *Allocation*

- Share of Panchayat Raj Institutions may be distributed among three tier on the basis of the following criteria:

Population	30%
Area	30%
An Index of Backwardness	40%
- Inter-se allocation among the Urban Local Bodies has been worked out on the basis of indicators and weight age viz., Population 67% and illiteracy rate 33%.
- Allocation under plan for development works should be based on indicators and weight age formulated by Second SFC.

#### *Grants*

- Uniform rate of block grant with an incremental increase every year to Gram Panchayats. In the first year, Rs. 3.50 lakhs be allocated to each Gram Panchayat and in subsequent four years, it should be increased at the rate of 25 thousands per GP.
- Rs. One lakh should be given to each Gram Panchayat out of 11th Finance Commission grant for maintenance of civic services in rural areas. The remaining amount should be allocated to Zilla Panchayats and taluk Panchayats in the ratio of 40:60 respectively.'
- Rs. 10 crores should be earmarked each year for the incentiviation scheme to Gram Panchayats @ Rs. 2 lakhs for each eligible GP.

#### *Powers and Functions*

- The functions delegated to the three tiers include almost all those functions enumerated in the 11th schedule. Moreover, the State Government has transferred to the Panchayat Raj Institutions more than 400 State and centrally sponsored schemes for implementation. Furthermore, the Government through a series of notifications has allocated different plan

schemes to Zilla Panchayats, Taluk Panchayats and Gram Panchayats to correspond to the functions assigned to them.

*Policy*

- A "Common Purpose Fund" is created to serve all the ULBs for developing comprehensive database, computerization, Software etc.
- Consolidation of schemes which are multi sectoral in nature and not confined to any one department should be integrated and department identified by the Govt. should implement such schemes.
- Funds released during the fag end of a financial year should be permitted to be used after the concerned financial year is over by giving three months time for utilization.
- A human resources management policy be evolved for regular recruitment and training of personnel.
- Karnataka Panchayat Raj Act 1993 and Karnataka Municipalities Act 1964 should be amended suitably, if considered necessary, in context of recommendations of Second SFC.

FIRST SFC OF KERALA FOR 1996-2001

*Resource Sharing*

- Non-statutory non-plan grants be provided to the local bodies (LBs) @ 1% of the State Revenue and distributed among RLBs and ULBs in proportion to the population.

ASSIGNMENTS OF TAXES

- District Panchayats may be empowered to levy tax on sale of immovable properties @ 1%.
- LBs should be empowered to levy entertainment tax and licence fee on Cable TV operators.
- Property/Building Tax collection be exclusively assigned to the village panchayats and ULBs and tax payments rationalized.
- A portion of the income from sale of court fee stamps be earmarked for LBs.
- Land tax is doubled and 60% of the additional income be given to Block Panchayats and 40% to District Panchayats.

*Allocation*

- The indicators with the suggested weights are given below for devolution of plan funds:

<i>Indicator</i>	<i>For Urban Local Bodies</i>	<i>For Rural Local Bodies</i>
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

- 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:

<i>Criteria</i>	<i>Village Panchayats</i>	<i>Municipal Council</i>
1. Population in 1991 Census	75	80
2. Population of SC/ST in 1991 Census	5	5
3. Financial need of LBs	15	10
4. Tax effort of LBs	5	5
TOTAL	100	100

- Financial need of RLB is based on annual income, there being 4 income groups for rural and 5 groups for urban/
- The tax efforts of Local Bodies 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.

#### *Grants*

- 50% of the gap estimated for the LBs for maintenance of roads should come from GOI via CSSs and the balance from the State Government.
- Maintenance grants should be based on current cost of construction.
- Urban local bodies should also be eligible for basic tax grants. The total amount may be credited to a state pool.
- It should be left to the local bodies to decide on the application of the non-plan grants according to their own priorities and perception of needs.
- All roads may be eligible for grants from motor vehicle tax.

#### *Powers and functions*

- Local bodies that are prepared to undertake the work should be encouraged to take up maintenance and replacement works or street taps and street lights.
- Local bodies 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.

schemes to Zilla Panchayats, Taluk Panchayats and Gram Panchayats to correspond to the functions assigned to them.

*Policy*

- A "Common Purpose Fund" is created to serve all the ULBs for developing comprehensive database, computerization, Software etc.
- Consolidation of schemes which are multi sectoral in nature and not confined to any one department should be integrated and department identified by the Govt. should implement such schemes.
- Funds released during the fag end of a financial year should be permitted to be used after the concerned financial year is over by giving three months time for utilization.
- A human resources management policy be evolved for regular recruitment and training of personnel.
- Karnataka Panchayat Raj Act 1993 and Karnataka Municipalities Act 1964 should be amended suitably, if considered necessary, in context of recommendations of Second SFC.

FIRST SFC OF KERALA FOR 1996-2001

*Resource Sharing*

- Non-statutory non-plan grants be provided to the local bodies (LBs) @ 1% of the State Revenue and distributed among RLBs and ULBs in proportion to the population.

ASSIGNMENTS OF TAXES

- District Panchayats may be empowered to levy tax on sale of immovable properties @ 1%.
- LBs should be empowered to levy entertainment tax and licence fee on Cable TV operators.
- Property/Building Tax collection be exclusively assigned to the village panchayats and ULBs and tax payments rationalized.
- A portion of the income from sale of court fee stamps be earmarked for LBs.
- Land tax is doubled and 60% of the additional income be given to Block Panchayats and 40% to District Panchayats.

*Allocation*

- The indicators with the suggested weights are given below for devolution of plan funds:

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i) Population in 1991 Census	75	70
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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

- 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:

<i>Criteria</i>	<i>Village Panchayats</i>	<i>Municipal Council</i>
1. Population in 1991 Census	75	80
2. Population of SC/ST in 1991 Census	5	5
3. Financial need of LBs	15	10
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TOTAL	100	100

- Financial need of RLB is based on annual income, there being 4 income groups for rural and 5 groups for urban/
- The tax efforts of Local Bodies 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.

#### *Grants*

- 50% of the gap estimated for the LBs for maintenance of roads should come from GOI via CSSs and the balance from the State Government.
- Maintenance grants should be based on current cost of construction.
- Urban local bodies should also be eligible for basic tax grants. The total amount may be credited to a state pool.
- It should be left to the local bodies to decide on the application of the non-plan grants according to their own priorities and perception of needs.
- All roads may be eligible for grants from motor vehicle tax.

#### *Powers and functions*

- Local bodies that are prepared to undertake the work should be encouraged to take up maintenance and replacement works or street taps and street lights.
- Local bodies 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.

- 25% of the funds of the CSSs for poverty alleviation should be at the disposal of the Local Bodies to be spent on poverty alleviation programmes formulated by them and approved by the District Planning Committee.

#### *Policy*

- 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.
- Government may undertake a delimitation of revenue villages to ensure that no village falls in more than one Panchayat.
- 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.
- 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.
- Both the rural development board and Kerala Urban Development Financial Corporation should preferably have a soft window for socially desirable purposes.
- State level fund for Village Panchayat and Municipal Council called the rural pool and the urban pool respectively may be constituted. The 3 Corporations, Thiruvanthapuram, Travancore and Cochin are to be kept out of the urban pool.
- Local Body should be eligible for 50% of the Building Exemption Fees. This exemption should be increased to 100%
- While Library Cess may continue to be collected by Local Bodies, it may be earmarked for improving the infrastructure of the Educational Institutes under their control.

#### SECOND SFC OF KERALA FOR 2001-2006

#### *Resource Sharing*

- Government may devolve to the Local Self Government Institutions (LSGIs), plan funds (excluding state sponsored schemes) not less than one-third the annual size of the State Plan as fixed by the Planning Commission. This Fund is to be used by LSGIs for planning and implementing locally relevant projects. The sectoral ceilings if any within this grant may be fixed by Government from time to time.
  - Three and a half percent of the own tax revenue of the State Government based on the figures certified by the Accountant General could be devolved to LSGIs as General Purpose Grant in lieu of assigned taxes, shared taxes
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and various statutory and non-statutory grants-in-aid, both specific purpose and general purpose. This grant-in-aid would subsume under it Basic Tax Grant, Surcharge on Stamp Duty, Vehicle Tax Compensation, Rural Pool Grants, the specific purpose and general purpose grants to Urban Local Bodies and all other non-plan grants-in-aid devolved to LSGIs from the Local Self Government Department.

- Five and a half percent of the annual own tax revenue of the State Government may be devolved to the LSGIs as Grant-in-aid for maintenance of assets under the control of the LSGIs including the transferred assets. This percentage may be determined on the figures certified by the Accountant General, which normally relates to the financial year two years before the Budget year. All expenses related to running of institutions except wages, supply of medicines to health institutions, educational concessions/scholarships to students, supply of books, equipments and consumables to schools and conducting noon-feeding in schools, shall be borne by the LSGIs. This should include payment of rents, repair of equipment including vehicles, and meeting of telephone charges and vehicle operating expenses.

#### *Assignments of Taxes*

- Entertainment Tax be introduced for cable and Internet.
- The Service Tax should be made compulsory and be linked to the cost of performing obligatory functions and calculated as a percentage of property Tax.

#### *Allocation*

- The inter se distribution among the Municipalities and Corporations should be entirely on the basis of population. As regards Village Panchayats, a corpus of Rs. 10 crore may be set apart and be used as per a gap filling formula-to fill the gap between obligatory expenditure (reckoned as establishment expenses, street light and water supply charges) and the revenue usable for these purposes (calculated as the sum of own collected revenue and the share of the Village Panchayat from the General Purpose Grant). The entire gap could be filled in the case of Second and Third Grade Village Panchayats, 50 percent of the gap in the case of First Grade Village Panchayats and 25 percent of the gap in the case of Special Grade Panchayats. The remaining portion may be distributed according to the population criterion.

#### *Grants*

- The Eleventh Finance Commission grants to LSGIs should be passed down as such, over and above the grants suggested by the Second SFC of Kerala.
- Plan Grant-in-Aid. The existing devolution formula and the non-SCP/TSP Funds may be distributed as aim incentive for increased own revenue mobilization by the Village Panchayats and the Urban Local Bodies. The

actual percentage to be distributed as incentive grant-in-aid should be the same as the percentage to be distributed as incentive grant-in-aid should be the same as the percentage of Village Panchayats and Urban Local Bodies showing an increase in own revenue.

- **Maintenance Grant.** The maintenance grants should be based on the current cost of replacement and the initial norm (which has to be updated periodically) may be as follows.

I.	Maintenance of buildings constructed before	
	1-4-1967	3% of capital cost
II.	Maintenance of buildings constructed after	
	1-4-1967	2% of capital cost
III.	Current construction cost.	
		Rs. 400/- per Sq. ft
IV.	Frequency of resurfacing of black-top/ WBM Roads	
		Once in five years
V.	Annual repair expenditure of Blacktop roads.	Rs. 25,000/- per K.M.
VI.	Annual repair expenditure of WBM roads.	Rs. 23,000/- per K.M.
VII.	Annual repair expenditure of unsurfaced roads.	Rs. 2,000/- per K.M.
VIII.	Cost of re-surfacing black-top roads (3.8 Metre width)	Rs. 1.65 lakhs per K.M.
IX.	Cost of resurfacing WBM roads (3.8 Metre width)	Rs. 1.84 lakhs per K.M.

- **General Purpose Grant.** The Government may determine as a one-time exercise, the share of District Panchayats and Block Panchayats in the General Purpose Grant, based on normative assessment of their establishment cost and office expense requirements. The remaining amount may be distributed as follows:

Village Panchayats	78.5 percentage
Municipalities	8.5 percentage
Corporations	13.0 percentage

#### *Policy*

- Necessary amendments to the Kerala Panchayat Raj Act and the Kerala Municipality Act may be made to specify the minimum shares of LSGIs, of the Plan Grant, Maintenance Grant and General Purpose Grant.
- LSGIs should get automatic allocations at the beginning of every month.

- A Cell under the joint control of Finance and Local Self Government Departments may be created for concurrent monitoring of all financial matters of LSGIs.

FIRST SFC OF MADHYA PRADESH FOR 1996-2001

*Resource 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 PRIs.
- 8.669 % of tax and non-tax revenue of the preceding year for ULBs.

*Assignments of Taxes*

- Revenue from forests is entrusted to village panchayats for maintenance and revenue.
- The rates of agricultural produce market are revised to raise additional sum for the panchayats.
- Rates of user charges are raised to ensure cost recovery.

*Allocation*

- On the issue of district-wise inter-se distribution among urban local bodies, the SFC had recommended the following criteria :

Urban Population	:	40 %
Sales tax Contribution	:	35 %
Backwardness	:	15 %
Infrastructure	:	10 %

- 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 (Per lakh of population)	:	10.625
7. Per capita consumption of power	:	10.625
8. Literacy rate	:	10.625

### *Grants*

General purpose grant be given to Janpad/District level panchayats @ Rs. 14.65 crores and Rs. 1.50 crores respectively for 1995-96.

### SECOND SFC OF MADHYA PRADESH FOR 2001-2005

#### *Resource Sharing*

- 1.07% of the net divisible pool i.e. tax revenue of the state may be allocated to ULBs and this percentage will remain valid for the award period of the SFC, 2001-02 to 2005-06.

#### *Assignments of Taxes*

- Inclusion of entertainment tax in the category of assigned taxes.

#### *Grants*

- In case, the collection of property tax is less than 50% of demand, municipal corporations may get general purpose grant at a rate of Rs. 3/- per head of population, municipal councils at a rate of Rs. 4/- per capita and nagar panchayats at a rate of Rs. 5/- per capita. In case, collection of property tax is 50% and more but less than 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. In case, collection of property tax is 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. The underlying idea is to provide incentive to municipalities to improve their respective collection of property tax in relation to demand. The criteria for the allocation of general purpose grants, therefore, take into account, equity as well as tax effort and are also progressive in nature. But the main underlying idea is to provide incentive to ULBs to improve their respective collection of property tax revenue.
- In addition to the above, the municipalities in the state would be getting specific-purpose grants on the recommendation of the State Planning Board, funds from the central government for a number of centrally sponsored schemes, and also funds on the recommendations of the Central Finance Commission.

#### *Powers and functions*

- Entertainment tax may continue to be levied and collected by the state government but the net proceeds of revenue may be assigned to municipalities, on the basis of collection from their respective jurisdictions.

#### *Policy*

- The share of each municipality in tax revenue and grants-in-aid, on the basis suggested by the SFC, is to be determined by a designated officer
-

of the Urban Development Department of the state government and if any municipality has grievance against the determination of its share, it may file an appeal with the designated authority appointed by the state government.

FIRST SFC OF MAHARASHTRA FOR 1996-2000

*Resource Sharing*

- The global sharing was not recommended.

*Assignment of taxes*

- 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

*Allocation*

- 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*

- 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 Panchayat Raj bodies 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.

*Powers and Functions*

- No such recommendation

*Policy*

- 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 Panchayati Raj Institutions 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 urban local bodies.
- 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).

SFC OF MANIPUR FOR 1996-2001

*Resource Sharing*

- Global sharing was not recommended

*Assignments of Taxes*

- The state government may hand over the entire work of collection of land revenue to the Panchayati Raj institutions to be used by latter as their own resources after present collection staff is suitably absorbed in other works.

*Allocation*

- ARM (Additional Resource Mobilisation) targets for ULB/RLBs (excluding Imphal MC) 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*

- 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 RLB/ULBs in the state for 5 years commencing 1996-97 including Rs. 50 lakhs per year for Imphal Municipality (in lieu of octroi);
- Development grants totaling Rs. 14.16 crores to the RLB/ULBs 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):

*Powers and functions*

- Gram Panchayats may be entrusted with the following 14 functions.
  - 1) Maintenance of essential statistics;
  - 2) Organizing voluntary labor and contribution for community works;
  - 3) Maintenance of all property created by or entrusted to GP;
  - 4) Construction / maintenance of all drinking water wells, tanks and ponds;
  - 5) Construction / maintenance of village roads drains and culverts;
  - 6) Maintenance of general sanitation including cleaning of all public roads, drains, tanks, wells, bathing ghats cremation ground and such other public places;
  - 7) Construction / maintenance of community latrines;
  - 8) Construction / maintenance of street lighting;
  - 9) Control of cattle and grazing lands;
  - 10) Regulation of markets and fairs;
  - 11) Control of eating and entertainment establishments;
  - 12) Social forestry;
  - 13) Adult literacy;
  - 14) 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 RLB/ULB's.

- Assets created by government departments - roads & paths, street-lighting, drainage/sewerage facilities, and community services, etc. should be handed over immediately to RLB's/ULB's 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.

#### *Policy*

- 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 RLB/ULBs 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 ULBs (for various purposes) may be approved expeditiously.

#### FIRST SFC OF ORISSA FOR 1998-2003

#### *Resource Sharing*

- 10 % of gross collection of M.V. tax is given to ULBs to be divisible among Municipalities and N.A.Cs in the ratio of 60:40 respectively.
- 50 % of the gross revenue of Profession Tax is transferred to ULBs.

#### *Assignments of Taxes*

- Octroi may be replaced by an entry tax only if the ULBs are properly compensated.
- GPs are empowered to levy building tax, lighting tax and drainage tax.

#### *Allocation*

- Arrear of land cess share due to PRIs (Rs. 19.04 crores) be paid to them in 5 installments.
- Surcharge on entertainment tax be assessed and the dues be provided to six ULBs 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 %

#### *Powers and Functions*

- Roads, Drinking water, public health, street lights and sanitation functions should be transferred to Local Bodies along with staff and funds.

#### SECOND SFC OF ORISSA FOR 2005-06 TO 2009-10

#### *Resource Sharing*

- 10% of the average of State's Gross Own Tax Revenue from 1999-2000 to 2001-2002 which comes to Rs. 211.83 crores should be transferred to RLBs and ULBs.

#### *Assignments of Taxes*

#### *Allocation*

- Based on 2001 census population devolution in the ratio of 80:20 in respect of RLBs and ULBs respectively should be released to the Rural & Urban local bodies in three instalments during the Financial Year starting from 2005-06 to 2009-10, namely during the 2nd week of April, 1st week of August & 1st week of December every year.

#### *Grants*

#### *Powers and functions*

- Besides, the Commission after a great deal of deliberations, identified four zones where the funds devolved by the State Finance Commission can be utilized by the Panchayati Raj Institutions. These functional areas are:
  - 1) Primary and Secondary Education
  - 2) Health care
  - 3) Drinking Water
  - 4) Watershed Development and Management.

#### *Policy*

- The guidelines and instructions that are accompanying the release of funds from the State and Central Government are hampering the Panchayats in chanelising the expenditure into ways as assessed and required by them,

these grants should be more in the nature of united grants, leaving the Panchayats free to spend them as per their need assessment on improving the quality of Primary Education with emphasis on raising the level of functional literacy both among the male and female population.

FIRST SFC OF PUNJAB FOR 1996-97 TO 2000-01

*Resource 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 Panchayati Raj Institutions.

*Assignments of Taxes*

- 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, shop-keepers 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.

*Allocation*

- 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 per cent
Panchayati Raj Institutions	20 per cent

- The interse distribution of these taxes amongst the Panchayati Raj Institutions should be as under:

Gram Panchayats	50 per cent
Panchayat Samitis	30 per cent
Zila Parishads	20 per cent

#### *Grants*

- 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 an 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.

*Powers and functions*

- 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 Panchayati Raj Institutions 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 Panchayati Raj Institutions.

#### *Policy*

- 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.

#### SECOND SFC OF PUNJAB FOR 2002-03 TO 2005-06

#### *Resource Sharing*

- 4% of the net receipts from all States taxes may be transferred to the local bodies during the period 2002-03 to 2005-06.

#### *Allocation*

- Total amount of State taxes to be transferred to local bodies may be allocated between the PRIs and ULBs in the ratio of population living in areas of Gram Panchayats and ULBs as per 2001 census, i.e. 67.5 and 32.5 respectively. For making inter-se distribution amongst the ULBs

and PRIs, the Commission has taken into account considerations of equity and feasibility of implementation. It has recommended that the inter-se allocation amongst individual ULBs may be determined by giving following weightage:

- |      |  |     |
|------|--|-----|
| i.   | Population as per 2001 census  | 70% |
| ii.  | Population of scheduled castes in the ULB  | 15% |
| iii. | Shortfall of per capita tax income as compared<br>To average per capita tax income of all ULBs | 15% |
- Taking into account the considerations of equity and feasibility of implementation the Commission has recommended that the share of State taxes allocated to PRIs may be distributed amongst various districts by giving following weightage:
 

i.	Rural population of the district as per 2001 census	65%
ii.	Shortfall of per capita own income of Gram Panchayats in the district as compared to per capita Own income of all Gram Panchayats in the State.	15%
iii.	Population of scheduled castes in rural areas of the District	15%
iv.	Rural population in sub-mountainous areas of the District	5%

*Policy*

- Introduction of accrual based double entry system of accounts and cost audit of expenditure on execution of capital works and operation & maintenance of civic services initially in Municipal Corporations and Class-I Municipal Councils to ensure better control over expenditure.

FIRST SFC OF RAJASTHAN FOR 1995-2000

*Resource Sharing*

- 2.18 % of the net state tax proceeds to be devolved on the local bodies. The share of the PRIs and the ULBs 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.

*Assignments of Taxes*

- A nominal 10 % tax on land rent could be imposed by all PSs in the State.
- The State Government may consider vesting the powers of imposition of land revenue on barani land to ZPs.
- ZPs should levy a surcharge of 1 % on the sale of land in rural areas and ½ % surcharge on market fee.
- The panchayts 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.

- Zilla Parishads is empowered to levy land revenue on barani land.

#### *Allocation*

- 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.
- Land revenue on barani land to be shared by PRIs in the ratio 60 % GPs, 25% PSs and 15 % ZPs.

#### *Grants*

- 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.
- 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.
- Incentive grants to each level of PRIs 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.
- Grants of Rs. 61.30 crores to arrange matching share for utilization of grants of the Tenth Finance Commission.
- 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.
- 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.

- Grants of Rs. 10.68 crores as a matching share for the utilisation of grants recommended by the Tenth Finance Commission.

#### *Powers and Functions*

- Functions transferred to the PRIs and ULBs should be accompanied by transfer of resources & staff.

#### *Policy*

- Lump sum assistance in lieu of property tax could be given to ULBs by the Central and State Governments.
- Rajasthan State Electricity Board should charge domestic rates from the panchayats for street lighting.
- A mechanism should be developed by the FD for transferring the surcharge to PRIs at the district level itself without treating it as state receipts.
- A Committee should go into the issue of strengthening the cadre of Panchayat and Municipal Services.

#### SECOND SFC OF RAJASTHAN FOR 2000-2005

#### *Resource Sharing*

- 2.25 % of State's net own tax revenue excluding entertainment tax, 15 % of net revenue from entertainment tax and 1 % of net receipts from Royalty on minerals. The distribution of 2.25 % share of PRIs and ULBs, based on the 2001 population, would be 76.6 and 23.4 percent respectively.

#### *Allocation*

- Out of net proceeds of tax revenue of 2.25 %, 2.20 % amount to be paid as share in taxes for maintenance of civic services to PRIs and ULBs and 0.05 % as incentive money for raising resources from untapped sources by the Gram Panchayats and ULBs except corporations.

- The distribution of share in tax amount (2.20%) to be made among districts for PRIs based on assigning population 80%, area 10%, illiteracy 5% and poverty 5%.
- The distribution of share in tax among three tiers PRIs to be made on 85% to Gram Panchayats, 12 % to Panchayat Samities and 3 % to Zilla Parishads.
- Out of ULBs share in taxes, 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.

#### *Grants*

- The existing general purpose grant being given to PRIs in lieu of land revenue and per capita general purpose grants to Urban Local Bodies, to continue and if, feasible may be released on the basis of 2001 population.
- State Government should release grant in lieu of octroi to the Urban Local Bodies on a regular basis.

#### *Powers and Functions*

- The powers, functions and responsibilities of the State Government and the PRIs & ULBs may be bifurcated between the State Government and PRIs & ULBs on the lines of division of subjects made between the Centre and the State in the Union and State Lists. For this purpose a third list of District Governments may be inserted in the Constitution.

#### *Policy*

- The life span of the SFC should be for a maximum period of 18 months.
- The Panchayati Raj Act / Rules may be amended to make recovery of certain taxes and fees obligatory for the PRIs.
- State Government should expedite rationalization of house tax provision to make it area based.

FIRST SFC OF SIKKIM FOR 2000-01 TO 2004-05

#### *Resource Sharing*

- One percent of the net proceed of all taxes collected by the State in the year be transferred to PRIs.

#### *Assignments of Taxes.*

- 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 cesses from the user of irrigation facility at revised rates.

#### *Allocation*

- 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*

- 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.

#### *Powers and Functions*

- SFC has recommended for the transfer of a set of functions to be transferred to PRIs.

#### *Policy*

- Infrastructure / establishment expenditure of Panchayat borne by the State to be continued.

### FIRST SFC OF TAMIL NADU FOR 1997-2002

#### *Resource 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.

#### *Assignments of Taxes*

- 25% of the royalties from major minerals be shared with the LBs.

#### *Allocation*

- 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) 50% weightage
  - b) Total SC & ST population of the Panchayat Union 25% weightage
  - 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) 50% weightage
  - b) Total SC & ST population of the Village Panchayat (1991) 15% weightage
  - c) Per capita House Tax collection performance 15% weightage
  - d) Core Civic Services Infrastructure maintenance Deficiency within the Village Panchayat area 20% weightage
- 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.

	<i>Town Panchayats</i>	<i>Municipalities</i>	<i>Corporations</i>
(i) Total population (1991)	45%	45%	40%
(ii) Total SC/ST Population (1991)	20%	10%	10%
(iii) Financial indicator Per Capita receipt under own resources (Average of both Tax and Non-Tax resources for the last 3 years ending with 31.3.94)	15%	15%	15%
(iv) Service indicator (Existing Per Capita Expenditure on core civic services for the last 3 years ending with 31.3.94)	20%	30%	35%
TOTAL	100	100	100

#### *Grants*

- 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.

#### *Powers and functions*

- 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:
  - i) Tax on motorized vehicles not taxed under the Motor Vehicle Tax
  - ii) Tax on timber
  - iii) Cable T.V. (Addl. Levy)
  - iv) Surcharge on bus tickets etc.

#### *Policy*

- 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.

SECOND SFC OF TAMIL NADU FOR 2002-07

#### *Resource Sharing*

- "Pool A" taxes namely entertainment tax, surcharge on stamp duty and local cess and local cess surcharge levied by the State Government will continue to be distributed among the local bodies concerned.

- In "Pool B" the percentage of global sharing from out of the states own tax revenue excluding the entertainment taxes will be 8% in the first two years, 9% in the 3rd and 4th year and 10 % in the 5th year.
- Out of 100% global sharing prescribed under pool B each year 13% shall be set aside as Reserves for (3%) Equalization Funds (5%) and Incentive Funds (5%).

*Assignments of Taxes*

- Levy of property taxes may be done as enshrined in the Tamil Nadu Urban Local Body Act.
- Levy of water tax and education tax may be done at the rates as suggested by the Act.
- The commission recommends that Panchayats Union Councils may be authorized to levy 'development cess' at the rate of Rs. 5 p.a. on residential properties and Rs 10 p.a. for commercial properties.
- Tax measures common to both PRIs/ULBs are advertisement tax, pilgrim tax, cable T.V. taxes and bus stand fees. For Chennai, the Commission had recommended a congestion tax for tall buildings.

*Allocation*

- Commission recommends that the sharing between PRIs and ULBs shall be in the ratio 58:42.
- The Commission recommends that out of the PRI funds after allocating the proposed salary requirements of District Panchayats, the balance funds shall be distributed between Village Panchayats and Panchayat Unions in the ratio 60:40.
- The Commission recommends that sharing of devolution among Corporations, Municipalities and Town Panchayats shall be in the ratio 33:32:35.
- The horizontal distribution of funds allotted to village Panchayats and Panchayat Unions will be as follows:

*(In percentage)*

	<i>Village Panchayats</i>	<i>Panchayat Union</i>
Population	60	60
SC/ST Population	10	10
Agricultural labourers	10	10
Area	10	10
Asset Maintenance	10	--
Resource gap on inverse per capita land revenue	--	10
Total	100	100

- For ULBs the following will be the inter-se distribution formula:

(in percentage)

Criteria	Corporations	Municipalities	Town Panchayats
Population	50	50	50
SC/ST Population /Slum population	10		
(slum population)	10		
(SC/ST population)	10		
(SC/ST population)			
Per Capita own income	20	20	20
Asset Maintenance	10	10	20
Salary and Pension expenditure restricted to Corporations/Municipalities with 49% or less of total revenue income	10	10	
Total	100	100	100

#### Grants

- The Commission recommends payments of incentive funds should be based on the report card system which means the perspective of citizens in urban areas.

	(Rs. in lakhs)
Town Panchayats	30
Best Municipal Corporation	100
Best Special Grade Municipality	30
Selection & Grade I Municipality	25
Second Grade Municipality	20

- The Commission recommends payments of incentive fund should be based on report cards system in rural area:

	(Rs. in lakhs)
Panchayats Union	10
Village Panchayats	5

- Equalization Funds to be given:
  - For PRIs to the needy Village Panchayats and Panchayat Union.
  - For ULBs as Election funds, Urban Development funds and for funding self financing projects like sewerage, drainage and over-bridge.
- The Reserve Fund shall be used for expenditure under:
  - Disaster Management
  - Training Needs
  - Rain Water Harvesting
  - Collector's Development Funds

*Powers and functions*

- The Commission recommends that all work relating to village Panchayats should be placed in the Gram Sabha and for urgent works post facto approval may be obtained.
- It is recommended that the monitoring mechanism at the district level under the chairmanship of the collector may be evolved to look into the level of investment and the O & M (Operation & Maintenance) needed.
- In respect of sewerage and sanitation individual Town Panchayats may take up projects with public and private participation and with their own funds.

*Policy*

- The Commission recommended new basis of classification of Village Panchayats, Panchayat Unions, Town Panchayats and municipalities on the basis of their population sizes and level of income. On the basis of their recommendations the changes expected in the number of local bodies are as follows:-

<i>Existing</i>	<i>No. of Local Bodies</i>	<i>Proposed</i>	<i>No. of Local bodies</i>
6	Municipal Corporations	6	Municipal Corporations
102	Municipalities	93	Municipalities
611	Town Panchayats	432	Town Panchayats
28	District Panchayats	29	District Panchayats (including Ariyalur District Panchayat)
385	Panchayats Unions	345	Panchayats Unions
12619	Village Panchayats	10000	Village Panchayats

- The Commission recommends that whenever investments exceed Rs. 5 crores for Corporations, Rs. 1 crore for Municipalities and Rs. 50 lakhs for Town Panchayats, such projects should be monitored personally by the District Collector, Commissioners of the concerned Corporations, Commissioner of Municipal Administration, Director of Town Panchayats and Commissioner of Rural Development to ensure that the local bodies do not act as hindrance but actively cooperate in such projects.
- The Commission recommends that the Collector may be nominated as the Co-Chairman instead of Vice Chairman of the District Planning Committee.
- It was recommended that the plinth area rental value will be a more appropriate basis for house tax in village Panchayats

FIRST SFC OF TRIPURA FOR 1995-96

*Resource Sharing*

- At the initial stage, 10% of the state share of central taxes may be assigned to the Zilla Parishad, 8% to the Panchayat Samity 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.

- 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.
- 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.
- 15% of the forest revenue may be passed on to the three Zilla Parishads @ 5% each.
- 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 Samity at an uniform rate of 2% each

#### *Assignments of Taxes*

- 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.

#### *Allocation*

- Please see the recommendations mentioned under the heading of 'Resource Sharing' above.

#### *Grants*

- Panchayati Raj Institutions 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.

#### *Powers and functions*

- 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.

#### *Policy*

- 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 Samity and Gaon Panchayat level in a phased manner. The Zilla Parishad may be provided required assistance for the purpose.

- 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.

FIRST SFC OF UTTAR PRADESH FOR 1996-97 TO 2000-01

*Resource 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.

*Assignments of Taxes*

- 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

*Allocation*

- 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*

- 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.

*Powers and functions*

- 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.

*Policy*

- 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 Sansthans. 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 Sansthans 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.
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- 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.

#### SECOND SFC OF UTTAR PRADESH FOR 2001-06

##### *1. Resource sharing -*

- Divisible pool should be increased from 11% to 12.5%.
- Receipts from entertainment tax, land revenue, proposed cess on motor spirit and diesel oil and proposed profession tax should not form the part of divisible pool.

##### *2. Assignment of taxes -*

- 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.
- 75% of income from auction of river fishing be distributed to GPs in proportion to their population in the district. Balance 25% be deposited in with the Sanchit Gaon Nidhi.
- Large amounts are lying undisposed in district.
- 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 Land Revenue at the rate of 50 paisa per rupee.

- Tax on land revenue, rural property tax, tax on theatres, cinemas and entertainment, tax on animals and vehicles, goods for sale and graded levy on sale of ground water be made obligatory taxes levies for GPs. The optional taxes could be cleaning of streets and lighting and sanitation according to cost of the service provided. Fees on tractors, harvesters, tubwells and pump-sets and on animals should and also be made obligatory. The optional fees could be fees on use of slaughter houses and encamping grounds and water rates where water is supplied by the GP.
- 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.
- ZP be empowered to impose tax on advertisements (other than newspapers and hoardings) in rural areas. Legal provision in this respect may be made.
- A surcharge of 10% be levied by the State Government on royalty/dead rent of minor minerals and distributed among ZPs on the basis of origin. The amount should be deposited in the ZP level Rural Infrastructure Fund.
- ZP should be given 30% share in the proposed Cess on Sales tax on Petroleum Product and Diesel. The amount should be transferred to the proposed ZP level Rural Infrastructure Fund.
- The State Government should enact a law on Profession Tax on the pattern existing in some other States. The tax should be as broad based as possible and the number of slabs should not be large. 50% of the receipts from the profession tax in urban areas should be shared with ULBs on basis of origin.

### 3. Allocation -

- 7.5% of the divisible pool should go to ULBs and 5% to PRIs.
  - Entertainment tax which is not a part of the divisible pool should be shared with local bodies on the following principles.
    - (a) The existing rate of Rs. 5 per day on theatres, cinemas, etc. exhibiting in the rural areas be increased to Rs. 20 per show per day.
    - (b) Rates, taxes and fees being levied should be revised regularly at five year intervals.
  - 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.
  - As in the case of urban areas, Additional Stamp Duty of 2% be imposed on transfer of rural properties also and the amount realized be distributed on the basis of the proposed devolution formula for PRIs, viz., 70% to KPs and 20% to ZPs. Procedure for transfer to Addl. Stamp
  - C&P tax should be replaced by a comprehensive Profession Tax. The share of proceeds of this tax arising in rural areas should go to concerned ZPs on origin basis.
-

- Government may deduct half percent of SFC devolution earmarked for PRIs to meet expenditure for strengthening the audit machinery.

#### 4. Grants -.

- From devolution funds, earmarked for PRIs, 1% may continue to be utilized for training needs of elected PRI representatives as already decided by the State Government.
- In view of increased work, higher responsibilities and increasing devolution to PRIs the need for strengthening the Panchayati Raj Directorate remains urgent. It would have to be equipped properly in terms of its equipment needs. Similarly, the officers of DPROs would also need to be computerized, and IT related equipment provided to them. For this one time grant of Rs.2 crore from SSFC devolution share may be provided to these offices of which a sum of Rs.60 lakh for the Directorate, and Rs.1.40 crore for 70 DPRO offices @ Rs.2 lakh per DPRO office. The amount may be released in two installments of Rs.1 crore each in the years 2002-03 and 2003-04. The need for additional staff/offices and recurring expenditure for strengthening the Directorate would have to be fulfilled by the State Government itself.

#### 5. Powers & Functions -

- The development charge of 0.50% collected by Mandi Samities should be passed on to concerned ZPs. These receipts should be put in the ZP Level Rural Infrastructure Fund.
- 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.
- Some GPs have reported that audit fees dues have not been paid. As the amounts involved are not large, GPs should be able to clear these on their own.
- The functional domains of the three tiers of PRIs, as also the nature of interlink ages between them, should be clearly defined and detailed in law, rules, and executive orders. Clear operational guidelines in this respect should be issued by the Government.
- Training funds for PRI elected representative (1% of PRI devolution money) should be non-lapsable and non-divert able.
- Management of common property resources in rural areas has been neglected. Such resources are not being looked after properly. Instances of misuse and encroachments are common. This has entailed serious social costs for the poor. Records of CPRs should be properly maintained and updated. Encroachments should be treated as serious penal offences and removed expeditiously. Development of CPRs should form an essential part of Gram Panchayats and District Plans. Mass campaigns may be undertaken to increase peoples' awareness about the importance

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of CPRs. GPs may impose a reasonable charge on users of CPRs.

- The existing role assigned to ULBs is not in keeping with the spirit of the 74th CAA. ULBs have been given limited role in planning for economic and social development and even with respect to the provision of some basic services like drinking water and slum improvement. Other agencies are functioning parallel creating problems of overlapping jurisdiction and inter-agency coordination. ULBs should be adequately empowered to discharge responsibilities marked for them in the 12th Schedule of the Constitution.
- Besides existing obligatory taxes (e.g., property tax, and taxes on vehicles and animals), profession tax, tax on deeds of transfer of immovable property and urban vacant land tax should also be included in the list of obligatory taxes for Nagar Nigams(NNs).
- Property related taxes (i.e., water tax, drainage tax and conservancy tax) in NPPs and NPs should be restructured on the same lines as in NNs. Minimum and maximum rates of PT and its components should be fixed by the Government, which may vary from 15% to 25% of AV in case of NPPs and 12% to 21% of AV in case of NPs.
- Minimum and maximum rates of all taxes, besides PT, should also be laid down by the Government.
- PT and service charges should be imposed on buildings attached to public places of worship and charitable institutions, which are utilized as commercial properties, as provided in law.
- The items of licensing fees be classified into two categories viz., (a) Obligatory and (b) Discretionary and minimum and maximum rates of fees for each items should be fixed by the Government. Provision should be made for periodic regular revision of rates or fees, at an interval of 5 years.
- There are large variations in tahbazari rates, which have not been revised in many cases for two decades or even more. The Government should frame model bye laws for tahbazari and should fix minimum and maximum rates for different tiers of ULBs. Periodic revision of these rates on a regular basis, at least once in five years, should be made mandatory.
- The properties of ULBs that are not being used due to encroachment or other reasons or are uneconomically used at present, should be sold off, in a transparent way through open bid system, according to a time bound programme and receipts from such sales should be utilized for creation of infrastructure locally.
- In 1999, the State Government transferred functions related to eleven Departments to GPs. The remaining functions mentioned in the Eleventh Schedule of the Constitution should be transferred to PRIs in consonance with the improvements in their capacities in phases.

6. Policy -

- Own resources of Districts Panchayats (DPs) are very narrow and shallow. Even their existing own tax potential has not been properly exploited. There is need for deepening and widening their tax/non-tax bases.
- Property tax, which is levied in rural areas in many States, should be introduced in the rural areas of U.P. on all private, commercial and Government properties as an obligatory tax for GPs, subject to specified exemptions on the lines suggested in the report. Necessary legal provisions be made in this regard. Even at very moderate rates, this tax can yield large amounts.
- GPs should be empowered to impose a graded levy on sale of water by private tube wells or pumpset owner for irrigation purposes.
- The present rates of LR are very low. There is a strong case for upward revision of LR rates in the State.
- Penalty at the rate of 2% per month be imposed for delayed payments. This Should be specified in law itself.
- An effective system of positive and negative incentives for own revenue efforts by GP must be put in place on the lines suggested in the report. Those not imposing obligatory taxes/non-taxes should not receive full devolution share.
- Although Khetra Panchayati (KPs) have tax and non-tax powers, their functional domain is not yet clearly demarcated. KPs are functioning largely as agencies for carrying out Government schemes. They are not raising any revenue from own sources at present.
- C&P tax is at present imposed only in 47 districts. Till this tax is replaced by a comprehensive Profession Tax. It should be made mandatory for all districts in the State. Model rules be framed by the Government to maintain uniformity in its application.
- Objective norms for levying C & P tax should be laid down and more professions and establishments including section of salaried class should be brought under the ambit of this tax. Assessee identification, procedure of assessment and recovery machinery should be specified in detail.
- Government should fix rates and range of rates for different types of license fees, which should be revised at yearly intervals. Scope of such fees be expanded to cover new activities.
- A ZP Level Rural Infrastructure Development Fund should be created in each district for development and maintenance of rural infrastructure. The Fund should be non-lapseable and administered by ZPs themselves. Its funding sources would, inter-alia, be additional stamp duty share, surcharge on trade tax petroleum products, development fee charged by Mandi Samitis, etc.

- The existing accounting and audit systems for PRIs in the State are unsatisfactory and characterized by incomplete coverage and delays. The systems need to be thoroughly reviewed and rationalized.
- A separate independent organization for audit of PRIs in the State should be created, delinked from the audit of co-operative societies. This set-up should be located within the Finance Department and should function under the overall supervision and guidance of C&A G, as already agreed to by the State Government. ZPs should move to a modified accrual system of accounting.
- The presentation of the consolidated report of audit and accounts of PRIs before the State legislature should be mandatory. These reports should be discussed in a specifically designated committee of the State Legislature which should function on the lines of the Public Accounts Committee.
- Increasingly large financial transfers are made to PRIs each year. Need for oversight and vigilance regarding proper utilization of funds is important. Anti-corruption/Vigilance Establishment should set up LB Cells at the State and District levels for this purpose. Also social audit be utilized as an instrument for promoting greater transparency and accountability in PRIs.
- Necessary steps may be taken for maintenance of accounts of DPs on the lines suggested by the EFC and the guidelines laid down by C&AG.
- Specific arrangements for training of elected representatives, staff deployed with PRIs as well as staff of audit agencies should be made with special focus on maintenance of accounts and their audit. Capsules on financial management should also form part of the general training programmes.
- Creation for data bases for PRIs need to be accorded high priority. In addition to financial data, information on other programmes and activities of PRIs and also needs to be collected and maintained on a regular basis for proper planning.
- An Expert Group may be appointed by the State Government for the setting up of the PRI data base system
- For making PRIs more accountable, transparent and efficient, an effective and networked information system needs to be put on the ground. This would need skills, training, equipment and connectivity. Equipment like computers, copiers, fax machines etc., have to be provided for the purpose. In the first phase all ZP offices be computerized and linked to the State HQ. In the second phase, computerization and connectivity should travel down to the KO level. In the final phase linking of GPs could be undertaken in stages. The EFC has earmarked Rs. 47.55 crore for creating data bases for PRIs in U.P. These funds, together with required supplementation by the State Government, should be utilized for PRI data base development

and MIS. MIS would cover areas like natural resources, social/physical infrastructure, tax/non-tax regimes, collection, according, grievance removal, core-services management, monitoring the progress of development schemes, etc.

- Monitoring system for Panchayats should be strengthened at the Directorate and DPRO levels. Loops for corrective action must be created at various levels.
- There is need for regular evaluation of the functioning of PRIs. Apart from government agencies, it would be desirable to associate reputed research organizations, university departments and NGOs in this task. It would also be desirable to earmark some funds for sponsoring such evaluation studies.
- Training for elected representatives/officials deployed with PRIs assumes special significance in view of their expanding functional domains and large scale financial transfers. It is estimated that about nine lakh persons (elected representatives and officials) would need to be trained.
- Training requirements for different categories of functionaries as well as elected members of PRIs should be identified and a comprehensive time bound and phased training programme prepared.
- Training Institutes should be set up in those districts also, where such institutes of RD Department do not exist at present.
- About two-thirds of 52,029 GPs in the State have population below 2000. The small size of GPs make them unviable from economic, administrative and financial points of view.
- The minimum size of the GPs in the State should be raised to at least 5000.
- Social audit system for works and accounts should be introduced in PRIs.
- A simplified carpet area based ARV system of assessment of PT should be extended to NPPs and NPs also on the lines suggested in the report.

FIRST SFC OF UTTANCHAL FOR 2001-02 TO 2005-06

*Resource 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

#### *Assignments of Taxes*

- 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.

#### *Allocation*

- 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*

- 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 aids	Rs. 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	4.00

*Powers and functions*

- No major recommendations.

*Policy*

- 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.

FIRST SFC OF WEST BENGAL FOR 1996-2001

*Resource Sharing*

- 16 percent 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.

### *Assignments of Taxes*

- 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 alongwith 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.

### *Allocation*

- 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.
- 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*

- 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.
- D.A. liabilities of approved staff should be available as grants.

#### *Powers and functions*

- 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.

#### *Policy*

- 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.

#### SECOND SFC OF WEST BENGAL FOR THE YEAR 2001-2006

#### *Resource Sharing*

- The Second SFC endorses the basic framework of First SFC allocation structure including the recommendations of 16 per cent of state taxes as

entitlement fund. The limitation of the financial resources of the state government should not pose any problem for making appropriate allocation for untied entitlement to the LSGs.

#### *Assignment of taxes*

- Two per cent of 16 per cent of state tax collection, i.e., 0.32 per cent is earmarked for a state level incentive fund.
- LSGs in hill areas should be given an additional allocation of 0.04 per cent of total state taxes.
- Arrangement for sharing of entertainment tax may continue to be made by the State Government. The recommendation of First SFC in this respect is modified to that extent. Thus, 10% can be retained by the State Government and the remaining should be divided between RLB and ULB in the ration of 20:80.
- User charges and service charges should be levied by all ULBs.
- 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.

#### *Allocation*

- The allocation to the different LSGs should be broadly on the principles of the First SFC: 50 per cent weight would be assigned to the population factor for inter district comparison and the remaining 50 per cent to the seven variables namely population density, rural population, SC population, ST population, No. of non-literates, IMR of the district, per-capita NDDP of the district. Each of these seven factors has a weight of seven per cent.
- Within a district municipal funds and panchayat funds will be distributed on the basis of panchayat and municipal population.
- Sub-allocation of District Panchayat Fund as 60, 20 & 20 per cent respectively for GPs, PSs & ZPs was recommended.
- Among panchayat samities funds be distributed 50 per cent based on population and 12.5 per cent based on each of the factors: SC/ST population size, No. of non-literates, No. of villages without power, and No. of villages without pacca roads.
- Entitlements for Gram Panchayats within a panchayat samiti will be based on the two factors:
  - a) Population as per 1991 census 50 per cent weightage
  - b) No. of non-literates as per 1991 census 50 per cent weightage
- Among municipalities the funds will be distributed giving 50 per cent weightage to the population size and 12.5 per cent weightage to each of

the following factors:

- a) Density of population
- b) Size of SC and ST population as per 1991 census
- c) No. of non-literates
- d) Length of kutchra drains in a municipality

#### *Grants*

- A minimum amount of Rs. 700 crores should be provided in the budget for devolution to LSGs as untied entitlement. Further the detailed LSG unitwise entitlement should be included in a supplement to the Budget.
- ZPs and PSs should apportion a part of untied fund for villages suffering from calamities and problems of inaccessibility.

#### *Powers and Functions*

- Legislation enabling the LSGs to collect taxes on urban land and multi-storied buildings needs to be made.
- Powers to collect land revenue and cesses may be devolved to the LSGs. LSGs would require to suitably strengthen their revenue collection machinery for the purpose.
- Responsibility for collection of irrigation charges may be given to the Panchayats and the revenue devolved to them.
- Government should consider reconciliation of overlapping responsibilities for planning and allocation of fund between DPC and regional development boards in the rural and urban areas.

#### *Policy*

- The State Government should ensure that recommendations of the Central Valuation Board are implemented in all ULBs.
- Different rates and fees levied by the ULBs should be revised.
- The State Government should consider making consolidated payments directly to the ULBs through Municipal Affairs Department on account of municipal tax on State Government properties
- The State Government may consider redefining the functional responsibilities and review the areas of own resource mobilization between the three tiers of Panchayats, namely ZPs, PSs and GPs.
- The State Government should pursue with Government of India, the EFC recommendations on imposition of service charges on Central Government properties.
- Sthayee Samitis should be made truly functional.
- Role of DPCs should be clearly defined. They should have smaller Executive Committees and adequate infrastructure support.