

Draft Report

Overview of State Finance Commission Reports

Pinaki Chakraborty

Manish Gupta

Rakesh Kumar Singh

October 2018



**National Institute of Public Finance and Policy
New Delhi**

Executive Summary

1. In keeping with the global trend, India too has taken significant steps towards greater devolution of powers to urban and rural local governments since the early 1990s. The impetus gained momentum with the statutory recognition of local bodies as institutions of rural and urban self-government following the 73rd and 74th Constitutional amendments in 1992.
2. Despite Constitutional recognition, the design and implementation of decentralization vary significantly across states. In most states, they are dependent on the higher levels of governments for resources and play the role agents implementing various schemes of the State and Union Government.
3. Our review of the latest available reports of SFCs of 25 states provides important insights with regard to the progress and prospect of decentralization in the country.
4. The working of SFCs has been examined by comparing across states the timeliness and regularity in constitution of SFCs by the State governments, time taken in submission of reports by the respective SFCs, acceptance of recommendations of SFCs by the state governments and timely tabling of action taken reports in the legislature by state governments.
5. The study also examines the approach adopted by the SFCs in carrying out their task and the principles adopted by each of them in allocating resources to the local governments both vertically and horizontally.
6. It also examines the approach adopted by the Thirteenth and Fourteenth Finance Commission with regard to sub-state decentralisation.
7. The Constitution provides for setting up of the SFCs within one year from the commencement of the Constitution Amendment Act 1992, and, thereafter, at the expiry of every fifth year. Therefore, as per the Constitutional provisions, setting up of fifth SFC became due in the year 2014-15 for all the states. Available information show that only thirteen states have constituted their 5th SFC till date. Five states have constituted their 4th SFCs and there are several states that are still in their 3rd and 2nd SFCs. Jammu & Kashmir has not yet constituted its 2nd SFC. In other words there is considerable divergence between the Constitutional provisions regarding setting up of SFCs by states and the working of SFCs on ground.
8. Examination of the time taken for submission of reports by the latest SFCs of 25 states reveal that on an average they took around two and half years. However, SFCs in 12 states took more than 30 months to submit their reports. If one were to exclude these twelve states, then the average time taken by SFCs to submit their report would be around 22 months (i.e., about two years). There is not much difference in the average time taken by the

first three generations of SFCs to submit their reports, the average being 27 months. However, the average time taken by the 4th and 5th generation SFCs of states have been higher at about 33 months.

9. Of the 25 states considered, only the 4th SFC of Uttar Pradesh submitted its report on time. For the other states, there were delays (i.e, the difference between the date of actual submission and the mandated dates of submission as per the ToR) in the submission of SFC report which ranged from 1 month (3rd SFC of Andhra Pradesh) to 60 months (4th SFC of Maharashtra). The average delay has been close to around 16 months for all the SFCs considered in the report. However, for ten SFCs the delay has been more than 18 months.
10. Non-availability of office space, technical staff and basic facilities like computers, office furniture etc. resulted in considerable time loss. Additionally, workings of the commissions have also been adversely affected by non-availability of data relating to local governments, delays in the appointment of chairpersons/members. Not much seems to have changed since the setting up of the first SFCs in the states. In almost all states, successive SFCs are faced with the same set of problems: non-availability of data, office space and technical staff. All this resulted in SFCs taking more time to submit their reports.
11. The average time taken by 18 state governments, for which we have information, to table the ATR is about 11 months. However, four states have taken one year or more to place the action taken report in the state legislature. There seems to be no well thought out planning or co-ordination between the submission of SFC reports and placing the ATR in the legislatures by the state governments.
12. The delay in submission of report by the SFCs along with the delay in placing the action taken reports by State governments effectively mean that there is very little time left to be governed by the recommendations of SFCs. Out of the 25 SFCs considered for the study, SFCs in six states, submitted their report before the commencement of their respective award periods. If one were to include the time taken by state governments to table the ATR in the legislature, for only three states the SFC report and ATR was submitted before the start of their respective award periods. For all other states, the entire process from setting up of SFC to tabling of ATR was so delayed that the full award period of the commission was not available for implementation of the recommendations of the SFCs.
13. Despite the core ToR of all SFCs remaining more or less the same, the State Finance Commissions have not been uniform in their approach towards the definition of divisible or the shareable pool of resources. The divisible pool differs across States and Commissions. This makes comparison of the SFC awards across different states extremely difficult.
14. Not only is the composition of the divisible pool different across SFCs, the quantum of transfers recommended also varies across SFCs widely. In order to get a comparative picture

of funds transferred by SFC we calculate the per capita devolution recommended by SFCs for these States for a common set of years (2010-11 to 2019-20). There is a huge variation in the recommended per capita devolution across States.

15. Devolution recommended by SFCs are an important source of revenues for local governments and the local body grants recommended by the Union Finance Commissions supplements the resources of local governments so that they can provide basic services to the people efficiently.
16. Comparing per capita recommended devolution with per capita income of states we find that there is no pattern between the two. However, per capita devolution is in general very low across states in India.
17. The horizontal sharing of funds recommended by the SFCs between PRIs and ULBs in most States is on the basis of rural and urban population or based on composite index comprising of various indicators viz., population, SC/ST Population, density of population, area, percentage of Illiterates, Percentage of people below poverty line, etc.
18. A review of the available ATRs of 20 states reveal that as far as the recommendations regarding devolution is concerned it was more or less accepted by a large number of States without any modifications. However, the recommendations of the 3rd SFC of Manipur, 4th SFC of Rajasthan, 5th SFC of Sikkim, 4th SFC of Uttar Pradesh and 4th SFC of West Bengal were accepted with some modifications while the action taken report of the Gujarat government for its 2nd SFC is strangely silent on the issue. The recommendations of the 5th SFC of Kerala and 4th SFC of Maharashtra was totally rejected by the state government.
19. Following the 73rd and 74th amendments to the Constitution of India, sub-clauses (bb) and (c) were added to article 280(3) which required the (Union) Finance Commission to make recommendations regarding measures needed to augment the Consolidated Funds of the States for supplementation of the resources of the panchayats and municipalities on the basis of the recommendations made by the Finance Commission of the State. Grants for local governments (called the local body grant) have been recommended every five years by Finance Commissions since the Tenth Finance Commission (1995–2000).
20. The Thirteenth Finance Commission designed its local body grants to have two components (a) an unconditional General Basic Grants and (b) a conditional General Performance Grants. In order to support areas covered by the V and VI Schedules and the areas exempted from the purview of Part IX and IX-A of the Constitution (or the special areas), the Commission carved out a small portion from its basic grant called the Special Areas Grant. It had two components (a) an unconditional Special Area Basic Grant and (b) a conditional Special Area Performance Grant.

21. The Fourteenth Finance Commission also designed its local body grants in two parts - a basic grant and a performance grant for duly constituted gram panchayats and municipalities. In the case of gram panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. In the case of municipalities, the division between basic and performance grant will be in the ratio of 80:20. All states will have access to the basic grant for all the five years from 2015-16 to 2019-20. The performance grant will be effective from 2016-17, the second year of its award period.
22. The Commission recommended that the rural component of its local grants should go to gram panchayats, which are directly responsible for the delivery of basic services, without any share for other levels whose needs can be taken care by the State Governments.
23. It recommended that the basic grants to Gram Panchayats and ULBs be distributed among them, using the formula prescribed by the most recent SFC, whose recommendations have been accepted.
24. The 13th and 14th FC recognised that for several reasons, the Union Finance Commissions could not base their recommendations entirely on the SFC reports. These included among other, variations in the approaches adopted by the SFCs, difference in the periods covered by individual SFCs, non-synchronisation of the SFC report periods with that of the Finance Commission report and the quality of SFC reports.
25. The 14th FC recognising the role of SFCs in empowering local bodies emphasised on the need for strengthening SFCs. The Commission studied and analysed the recommendations of SFCs, and made these central to its approach in making recommendations pertaining to local bodies. The Commission felt that there is a need for States to facilitate the effective working of SFCs. Therefore, it recommend that the State Governments should strengthen SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and timely placement of the SFC report before State legislatures, along with action taken report.
26. Finally, centrality of State government in the process of decentralisation cannot be undermined. In that context, one size fits all decentralisation approach is also not desirable. But our analysis shows that differences in approaches of various SFCs are not really based on this rationale. As far as the operational aspects are concerned it is observed that despite having statutory provisions for timely constitution, constitution of SFCs is delayed in many States. This along with the absence of the provision stipulating the time limit for submission of the SFC report resulted in a situation where there is no uniformity in the time taken by SFCs to submit their reports. States also appear not to have acted promptly on the recommendations of SFCs by not placing the ATRs before the State legislature in a timely manner.

27. Questionnaire based collection of data by many SFCs, puts a huge question mark on the quality of data used by SFCs. For SFC to function as an institution to promote decentralisation, the focus needs to be multi-dimensional focusing on improving the process, the data collection and sharing as well as improving the quality of SFC reports.

Overview of State Finance Commission Reports

1. Introduction

There has been a world-wide trend towards decentralisation in recent years. Many countries have experienced devolution of administrative, political and fiscal responsibilities to lower levels of government. This trend towards decentralisation is seen in countries with federal as well as unitary systems and has spanned across developing as well as developed countries. In keeping with the global pattern, in India too there has been a trend towards greater devolution of powers to urban and rural local governments particularly since the early 1990s. Of course, attempts to decentralise the administrative system and establishment of self-governing institutions has much longer history and there have been sporadic attempts at devolving powers and rights to rural and urban local governments, particularly after independence. However, the impetus gained momentum with the statutory recognition of local bodies as institutions of rural and urban self-government after the 73rd and 74th Constitutional amendments in 1992.¹

With the constitutional recognition of urban and rural local bodies after the 73rd and 74th constitutional amendments in 1992, the structure of inter-governmental fiscal relations underwent changes. The 73rd and 74th Constitutional amendment envisages local bodies, both rural and urban, to be institutions of self-government. The State legislature is required under Article 243G and 243W of the Constitution to transfer such powers, functions and responsibilities to rural and urban local bodies to enable them to function as institutions of self-government. The 11th Schedule to the Constitution lists 29 broad areas for the panchayats while the 12th Schedule lists 18 functions for urban local bodies. In respect of these functions, the State governments, at their discretion are required to devolve the functions to panchayats and the latter are required to undertake them concurrently. The legislature is also required to appoint a State Finance Commission (SFC) in all the states (barring Mizoram, Nagaland and Meghalaya).² Transfer of resources from the state to local bodies is the main task of SFCs.

The fiscal decentralisation envisaged in the Constitutional amendments has the potential to significantly improve the efficiency of public services delivery in the country. In principle, the

¹ The 73rd and 74th amendments of the Constitution were passed by Parliament on 22/23 December 1992. After securing the endorsement of half the States of the Union and the consent of the President, as required by the Constitution, Part IX ('The Panchayats') was notified in the Gazette of India on 24 April 1993. Part IX A ('The Municipalities') followed a month later.

² As per the 73rd and 74th Constitutional Amendments Act, 1992, these states are exempted from forming their SFCs. However, Nagaland constituted its first SFC in August 2008 and Mizoram in September 2011.

constitutional empowerment of the local governments enables them to elicit the preferences of people for public services and has the potential to provide public services according to the preferences efficiently. However, in reality, the situation is different. Despite Constitutional recognition, the design and implementation of decentralization do not enable the local bodies to be the institutions of self-government. It has been pointed out that many state governments have not devolved functions, funds and functionaries to local governments (see Rajaraman and Sinha, 2007, 2007a; Rao et al 2011). The own revenues efforts of local governments have been poor (refer Jena and Gupta 2008; Rao and Rao 2008; Rao et al 2011; Gupta 2014; CPR 2014) and they are dependent on the higher levels of governments for resources and play the role agents implementing various schemes of the State and Union Government.

The current study focuses on the institution of State Finance Commissions which is to be appointed in all the states with the objective of strengthening the local governments fiscally thereby promoting functioning of local bodies to enable them to fulfil the role envisaged for them in the Constitution

Constitution of a State Finance Commission (SFC) is mandated in Article 243-I (1) and 243-Y (1) of the 73rd and 74th Constitutional Amendment Act (CAA), 1992. SFCs are required to review the financial position of local bodies (i.e., Panchayats and Municipalities) and to make recommendations as to:

- a) the principles which should govern
 - (i) the distribution between the state and the local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under this part (i.e. Part IX, the panchayats and Part IXA, the municipalities) and the allocation between the local bodies at all levels of their respective shares of such proceeds;
 - (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the local level governments;
 - (iii) the grants-in-aid to the local bodies from the Consolidated Fund of the State;
- b) the measures needed to improve the financial position of local bodies; and
- c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the local level governments.

SFCs are the constitutional counterpart of the Union Finance Commission (UFC). They are required to advise the state governments on the principles to be applied in determining the allocation of funds to local governments and the range of taxes and non-taxes to be devolved to them. The importance of the SFCs in the scheme of fiscal decentralisation is that besides arbitrating on the claims to resources by the state governments and the local governments, its

recommendations could impart greater stability and predictability to the transfer mechanism and flow of resources to the third-tier. It is, therefore, essential that SFC as an institution function efficiently and effectively if the third-tier of the government has to be empowered and strengthened.

In the absence of adequate revenues from own sources, transfer of funds by the state government on the recommendations of SFC ideally should form an important source of untied revenues for local governments. It is, therefore, essential that the institution of SFC function in a manner that enables local governments to carry out their constitutional obligations. The objective of this paper is to review the functioning of SFCs and effectiveness of their recommendations in strengthening the process of decentralisation in India. The study would examine:

- a) The periodicity of constitution of SFCs by states,
- b) Approach of the SFCs in addressing their Terms of References (ToRs),
- c) How have states responded to the recommendations of SFCs? This involves examination of the processes. Process issues are examined looking at the time taken by state governments in tabling the Action Taken Reports in the Legislature and also their decisions on the various recommendations of SFCs

The study reviews the latest available reports of SFCs of 25 states.³ This involves exploring the working of SFCs by examining the timeliness and regularity in constitution of SFCs by the State governments, time taken in submission of reports by the respective SFCs, acceptance of recommendations of SFCs by the state governments and timely tabling of action taken reports in the legislature by state governments. The study also examines the approach adopted by the SFCs in carrying out their task and the principles adopted by each of them in allocating resources to the local governments both vertically and horizontally.

Following the 73rd and 74th amendments to the Constitution of India, sub-clauses (bb) and (c) were added to article 280(3) which required the (Union) Finance Commission to make recommendations regarding measures needed to augment the Consolidated Funds of the States for supplementation of the resources of the panchayats and municipalities on the basis of the

³ These are Andhra Pradesh (3rd SFC), Arunachal Pradesh (2nd SFC), Assam (5th SFC), Bihar (5th SFC), Chhattisgarh (2nd SFC), Goa (2nd SFC), Gujarat (2nd SFC), Haryana (5th SFC), Himachal Pradesh (5th SFC), Jammu and Kashmir (1st SFC), Karnataka (4th SFC), Kerala (5th SFC), Madhya Pradesh (4th SFC), Maharashtra (4th SFC), Manipur (3rd SFC), Mizoram (1st SFC), Odisha (4th SFC), Punjab (5th SFC), Rajasthan (4th SFC), Sikkim (5th SFC), Tamil Nadu (5th SFC), Tripura (3rd SFC), Uttar Pradesh (4th SFC), Uttarakhand (4th SFC) and West Bengal (4th SFC). The four states whose SFCs were not included are Jharkhand (no report was available), Meghalaya (exempted to set up SFC as per the 73rd and 74rd Amendment Act), Nagaland (although exempted, but it constituted the SFC; report was not available) and Telangana (the state was created in June 2014; the report of its 1st SFC is not yet available).

recommendations made by the Finance Commission of the State. Grants for local governments (called the local body grant) have been prescribed every five years by Finance Commissions since the Tenth Finance Commission (1995–2000). The study examines the approach of the last two Finance Commissions namely, the Thirteenth and Fourteenth Finance Commission for recommending local body grants.

The paper is organised in following sections: Section 2 discusses the periodicity and timeliness of constitution of SFCs; time interval between constitution of SFCs and submission of its report and the time taken by the State Governments for placement of Action taken Report (ATR) in the State Legislature. This has been done by a detailed review of Government Orders (or Notifications) relating to all these components, i.e., constitution to execution of SFCs recommendations in each State. Section 3 examines the principles of revenue sharing adopted by SFCs in these states while Section 4 analyses the principles adopted by latest SFCs in these states for horizontal distribution of resources across local governments, both rural and urban. Section 5 compares the importance accorded to SFCs recommendations by state governments. This is done through a critical review of Action Taken Reports (ATRs) of the states. Section 6 examines the approach adopted by the Thirteenth and the Fourteenth Finance Commissions in recommending grant to local bodies. Section 7 concludes by providing policy recommendations for improving the functioning of the SFCs.

2. State Finance Commissions: Periodicity of Appointment and Report Submission

The Constitution provides for setting up of the SFCs within one year from the commencement of the Constitution (73rd Amendment) Act 1992, and, thereafter, at the expiry of every fifth year. Therefore, as per the Constitutional provisions, setting up of fifth SFC became due in the year 2014-15 for all the states. Available information show that only thirteen states have constituted their 5th SFC till date as evident from table 1. Out of these thirteen states, the 5th SFC was constituted very recently in three states, namely, Odisha (constituted in May, 2018), Maharashtra (the cabinet approved setting of the Commission in January 2018) and Madhya Pradesh (constituted in October 2017); and in case of two states (Uttar Pradesh and Rajasthan) which constituted their fifth SFC in 2015, their reports are yet to be submitted. In other words, not many states would be in a position to set up their sixth SFCs which become due in 2019-20.

Five states have constituted their 4th SFCs and there are several states that are still in their 3rd and 2nd SFCs. Jammu & Kashmir has not yet constituted its 2nd SFC, while Mizoram which was exempted from constituting a SFC as per the 73rd and 74th Amendment Act constituted its 1st SFC in September 2011. Telangana, the newest state of India, was formed out of Andhra Pradesh in June 2014. It constituted its 1st SFC in December 2017. The status of current SFCs varies from the

1st SFC to the 5th SFCs. In other words there is considerable divergence between the Constitutional provisions regarding setting up of SFCs by state governments and the working of SFCs on ground.

Table 1: Status of Constitution of State Finance Commissions

States	State Finance Commissions				
	5 th	4 th	3 rd	2 nd	1 st
Assam, Bihar, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh (13)	✓				
Andhra Pradesh, Karnataka, Tripura, Uttarakhand, West Bengal (5)		✓			
Chhattisgarh, Goa, Gujarat, Manipur (4)			✓		
Arunachal Pradesh, Jharkhand, Nagaland (3)				✓	
Jammu & Kashmir, Mizoram, Telangana (3)					✓

Notes: (a) Figures in parenthesis refer to the number of states; (b) As per the 73rd and 74th Constitutional Amendments Act, 1992 three states, Meghalaya, Mizoram and Nagaland are exempted from constituting SFCs. However, Mizoram and Nagaland have constituted SFCs; (c) Telangana, the newest state of India, was formed out of Andhra Pradesh in June 2014. It constituted its first SFC in December 2017.

While reviewing the functioning of SFCs, the Thirteenth Finance Commission (FC-XIII) in its report recommended measures to strengthen their functioning. More recently a task force was constituted by the Ministry of Panchayati Raj, Government of India, to suggest measures to strengthen SFCs to enable them to perform their functions as envisaged in the 73rd and 74th Constitutional Amendment Act (CAA). The Fourteenth Finance Commission (FC-XIV) with the objective of strengthening the SFCs recommended that the basic grant component of its local body grant for gram panchayats should be distributed among them, using the formula prescribed by the respective SFCs for the distribution of resources. Similarly, the basic grant for urban local bodies will be divided into tier-wise shares and distributed across each tier, namely the Municipal Corporations, Municipalities (the tier II urban local bodies) and the Nagar Panchayats (the tier III local bodies) using the formula given by the respective SFCs. The Commission further recommended that the state governments should apply the distribution formula of the most recent SFC, whose recommendations have been accepted.⁴ This approach in a way puts pressure on the state governments to ensure periodic appointment of SFCs.

⁴ The Commission prescribed that in case the SFC formula is not available, then the share of each gram panchayat should be distributed across the entities using 2011 population with a weight of 90 percent and area with a weight of 10 percent; and in the case of urban local bodies, the share of each of the three tiers will be determined on the basis of population of 2011 with a weight of 90 per cent and area with a weight of 10 per cent, and then distributed among the entities in each tier in proportion to the population of 2011 and area in the ratio of 90:10.

None of the states, with the exception of West Bengal and Tripura, specify a maximum time limit for the submission of reports by SFCs in their respective Conformity Acts (CAs) or Rules.⁵ Even though there is no mention of the maximum time limit for submission of SFC report in the CAs, by and large, most states specify time limits for the submission of SFC reports in the Terms of Reference (ToR) provided to the respective SFCs.

Table 2 shows the details of time taken for submission of reports by the latest SFCs of 25 states.⁶ From the table one can see that the average time taken by the latest SFCs of these states to submit their report is about 32 months (around two and half years). However, in case of some states, the SFCs have taken unusually longer time (more than 30 months) to submit their report. These are 3rd SFC of Andhra Pradesh (3 years 1 month), 5th SFC of Assam (3 years 8 months), 5th SFC of Bihar (3 years 2 months), 2nd SFC of Gujarat (2 years 7 months), 5th SFC of Himachal Pradesh (4 years 2 months), 1st SFC of Jammu and Kashmir (3 years and 3 months), 4th SFC of Madhya Pradesh (4 years 11 months), 4th SFC of Maharashtra (6 years 8 months), 1st SFC of Mizoram (3 years 4 months), 5th SFC of Punjab (2 years 8 months) and 4th SFC of Uttar Pradesh (3 years). If one were to exclude these twelve states, then the average time taken by SFCs to submit their report would be around 22 months (i.e., about two years).

The table also presents the divergence between the mandated date of report submission by the SFCs as per their Terms of Reference (ToR) and the date when the SFC report was actually submitted. Of the 25 states considered, only the 4th SFC of Uttar Pradesh submitted its report on time. For the other states, there were delays in the submission of SFC report which ranged from 1 month (3rd SFC of Andhra Pradesh) to 60 months (4th SFC of Maharashtra). The average delay has been close to around 16 months for all the SFCs considered in the report. However, for ten SFCs the delay has been more than 18 months. These are 5th SFC of Assam (2 years 7 months), 5th SFC of Himachal Pradesh (1 year 9 months), 1st SFC of Jammu & Kashmir (2 years 2 months), 4th SFC of Karnataka (2 years 1 month), 4th SFC of Madhya Pradesh (4 years), 4th SFC of Maharashtra (5 years), 3rd SFC of Manipur (1 year 7 months), 1st SFC of Mizoram (2 years 2 months), 4th SFC of Rajasthan (1 year 9 months) and 4th SFC of West Bengal (1 year 8 months). If we were to exclude these nine SFCs, then the average delay in report submission would be around 7 months.

The average time taken to submit report by first SFCs of 27 states, second SFCs of 23 states, third SFCs of 18 states, fourth SFCs of 16 states and fifth SFCs of 7 states has been respectively 27, 29,

⁵ It is specified in the Conformity Act of West Bengal that the Chairman and Members of SFC shall hold office for 1 year and the term of the office may be extended for 6 months at a time by State government by notification. As per the provisions of the Tripura Panchayat (Constitution of Finance Commission) Rules, 1994, SFC should submit its recommendations to the Governor within 6 months of its constitution unless the Governor extends the period.

⁶ Jharkhand, Manipur, Meghalaya, Nagaland and Telangana are not included in the analyses due to non-availability of their SFC reports.

26, 32 and 34 months. There are however, considerable variations in the time taken by SFCs to submit their report not only across states but also across SFCs within a state (see Annexure Table A1). From table 2 we see that there is not much difference in the average time taken by the first three generations of SFCs to submit their reports, the average being 27 months. However, the average time taken by the 4th and 5th generation SFCs of states have been higher at about 33 months.

Table 2: Time taken to submit SFC Reports

Sl. No.	States	Award Period	Date of Appointment as per ToR	Date of Submission as per ToR	Date of Actual Submission	Delay in submission	Actual Time Taken
1	Andhra Pradesh (3 rd)	2005-06 to 2009-10	23-12-2004	28-12-2007	25-01-2008	1 month	3 years 1 month
2	Arunachal Pradesh (2 nd)	2015-16 to 2019-20	23-08-2012	30-09-2013	30-06-2014	9 months	2 years 2 months
3	Assam (5 th)	2015-16 to 2019-20	05-03-2013	30-09-2014	30-11-2016	2 years 7 months	3 years 8 months
4	Bihar (5 th)	2015-16 to 2019-20	13-12-2013	31-03-2015	02-02-2016	11 months	3 years 2 months
5	Chhattisgarh (2 nd)	2012-13 to 2016-17	23-07-2011	22-07-2012	March 2013	7 months	1 year 7 months
6	Goa (2 nd)	2007-08 to 2011-12	16-08-2005	11-09-2006	31-12-2007	1 year 3 months	2 years 4 months
7	Gujarat (2 nd)	2005-06 to 2009-10	19-11-2003	15-10-2005	June 2006	8 months	2 year 7 months
8	Haryana (5 th)	2016-17 to 2020-21	26-05-2016	30-05-2017	13-09-2017	4 months	1 year 4 months
9	Himachal Pradesh (5 th)	2017-18 to 2021-22	19-11-2014	30-04-2016	19-01-2018	1 year 9 months	4 years 2 months
10	Jammu & Kashmir (1 st)	2007-08 to 2011-12	18-08-2007	September 2008	25-11-2010	2 years 2 months	3 years 3 months
11	Karnataka (4 th)	2013-14 to 2017-18	21-12-2015	31-05-2016	July 2018	2 years 1 month	2 years 6 months
12	Kerala (5 th)	2016-17 to 2020-21	17-12-2014	21-05-2015	March 2016	10 months	2 years 3 months
13	Madhya Pradesh (4 th)	2011-12 to 2015-16	27-01-2012	31-01-2013	January 2017	4 years	4 years 11 months
14	Maharashtra (4 th)	2011-12 to 2015-16	10-02-2011	30-09-2012	October 2017	5 years	6 year 8 months
15	Manipur (3 rd)	2013-14 to 2017-18	18-02-2013	18-05-2013	15-12-2014	1 year 7 months	1 year 10 months
16	Mizoram (1 st)	2015-16 to 2019-20	30-09-2011	30-11-2012	19-02-2015	2 years 2 months	3 years 4 months
17	Odisha (4 th)	2015-16 to 2019-20	31-10-2013	30-04-2014	September 2014	5 months	11 months
18	Punjab (5 th)	2016-17 to 2020-21	18-09-2013	31-12-2015	29-06-2016	5 months	2 year 8 months
19	Rajasthan (4 th)	2010-11 to 2014-15	13-04-2011	31-12-2011	September 2013	1 year 9 months	2 year 5 months

Sl. No.	States	Award Period	Date of Appointment as per ToR	Date of Submission as per ToR	Date of Actual Submission	Delay in submission	Actual Time Taken
20	Sikkim (5 th)	2020-21 to 2024-25	17-08-2016	28-02-2017	July 2017	5 months	11 months
21	Tamil Nadu (5 th)	2017-18 to 2021-22	01-12-2014	31-05-2016	27-12-2016	7 months	2 years
22	Tripura (3 rd)	2009-10 to 2014-15	28-03-2008	30-04-2008	October 2009	1 year 6 months	1 years 7 months
23	Uttar Pradesh (4 th)	2011-12 to 2015-16	19-12-2011	16-12-2014	16-12-2014	No Delay	3 Years
24	Uttarakhand (4 th)	2016-17 to 2020-21	02-02-2015	31-01-2016	31-05-2016	4 months	1 year 4 months
25	West Bengal (4 th)	2015-16 to 2019-20	30-04-2013	30-04-2014	February 2016	1 year 10 months	2 years 10 months

Source: SFC Reports of respective states.

According to the SFCs, considerable time was lost in getting office accommodation and setting up the office of the Commission. SFCs are not a permanent body and hence they do not have permanent office space. Every time a SFC is constituted, it has to look for office space and get it functional and look for trained/technical staff who can handle the work of the Commission and arrange for supporting infrastructure facilities like computers, furniture and other supporting logistics. This takes a lot of time. Considerable time is lost by the time the Commission can actually start its work. Several SFCs have pointed out that the delay in submission of their reports can be attributed to non-availability of office space, technical staff, arranging for infrastructural support and various other administrative reasons (for details see Annexure table A2). The 4th SFC of Karnataka had highlighted that the Commission “was confronted with several administrative difficulties concerning establishment of the office and the working of the Commission in its initial stages, as had previous Commissions. When this Commission was appointed, there was neither an office nor a cell to assist.”

The other important reason for the delay in the report submission as highlighted by the SFCs in their respective reports relates to non-availability of data on the finances of local bodies. Every time a SFC is constituted, it has to start from scratch to collect data and considerable time is spent on re-designing of information formats, questionnaires etc. Moreover, the concerned departments also do not provide data in a timely manner. Annexure table A3 provides in details the grievances of the SFCs with respect to data on local body finances as reported by them in their respective reports.

The 5th SFC of Assam had pointed out that their work was also delayed due to state elections which affected the normal working schedule of the Commission. The 5th SFC of Himachal Pradesh also highlighted that the elections to local bodies in the state had delayed their working. It pointed out that “elections had priority and therefore, the collection of data from Panchayati Raj

Department for PRIs and Urban Development Department for ULBs got delayed”. Uncertainty relating to implementation of GST was one of the reasons for the delay in submission of report by the 4th SFC of Madhya Pradesh.

Working of SFCs was also delayed by the reconstitution of the Commission. The 5th SFC of Punjab was twice constituted by the 3rd SFC of Andhra Pradesh was reconstituted once. Also SFCs have highlighted that the state governments have in many instances delayed the appointment/re-appointment of Chairperson, Members, Member Secretary and Secretary resulting in their taking more time in submitting the reports. For example, (a) the 4th SFC of West Bengal was set up on 30-04-2013. The Commission had initially started with two members; subsequently, the member secretary was appointed in June, 2013 and another member in July, 2014. (b) The 4th SFC of Maharashtra was constituted in 10-02-2011. However, the full-fledged Commission came into existence only from 17-05-2014, on account of several appointment and re-appointment issues of the members of the Commission from time to time.

Another important reason for the delay in SFC reports is the unreasonable time assigned to SFC to submit the report. For example, the 3rd SFC of Manipur was given only 3 months to submit its report. Similarly, 4th SFC of Karnataka, 5th SFC of Kerala, and 5th SFC of Sikkim were given 6 months each, 4th SFC of Odisha was given 5 months while the 3rd SFC of Tripura was given 1 month to submit their reports. However, from Annexure table A1 we see that the average time taken by the 1st, 2nd, 3rd, 4th and 5th generation SFCs have been around 27, 29, 26, 32, and 34 months respectively. The 3rd SFC of Manipur strongly felt that “no purpose is served by creating the SFC for a period of only three months in Manipur, where no ready data base exists and collection of data and information is a time consuming exercise. Fixing a time frame of three months as done in the case of the 3rd SFC and then granting short extensions creates a wrong impression that a work which in the assessment of the State government can be done in a period of three months has been unreasonably delayed by the 3rd SFC. And so, the 3rd SFC while endorsing the recommendation of the 2nd SFC stated that the State Finance Commission should be appointed at least two years ahead of the commencement of the award period to be covered by the Commission for the timely availability of the report.” Given that lot of time is wasted in getting office space, getting technical manpower, arranging office infrastructure and collecting data on the finances of local bodies, we also endorse the view that state governments should provide SFCs adequate time for carrying out the task assigned to them.

Non-availability of office space, technical staff and basic facilities like computers, office furniture etc. resulted in considerable time loss. Additionally, workings of the commissions have also been adversely affected by non-availability of data relating to local governments, delays in the appointment of chairpersons/members. Not much seems to have changed since the setting up of the first SFCs in the states. In almost all states, successive SFCs are faced with the same set of

problems: non-availability of data, office space and technical manpower. All this resulted in SFCs taking more time to submit their reports.

2.1 Time interval between submission of SFC report and placement of ATR before the State Legislature

No state specifies a maximum timeframe for placing the Action Taken Report (ATR) before the state legislature in their CAs. Although, placing the ATR before the state legislature does not mean that the government has accepted the recommendations of SFCs, it does signal its consideration and acceptance (wholly and partly) by the government.

Table 3 shows the time taken by the state governments in tabling Action Taken Report (ATR) on the recommendations of the SFC in the state legislature. From the table one can see that five states have taken one year or more to place the action taken report in the state legislature. These are Andhra Pradesh (28 months), Gujarat (57 months), Kerala (23 months), Manipur (12 months) and Mizoram (13 months). The average time taken by 18 state governments, for which we have information, to table the ATR is about 11 months. However, if one were to exclude the four states which have taken one year or more to table the ATR, the average time comes down to 6 months. Thus, there seems to be no well thought out planning or co-ordination between the submission of SFC reports and placing the ATR in the legislatures by the state governments.

Table 3: Time taken for Tabling ATR by State Governments

Sl. No.	States	Award Period	Date of Submission of Report	Date of Submission of ATR by State Government	Time Taken to Table ATR
1	Andhra Pradesh (3 rd)	2005-06 to 2009-10	25-01-2008	17-05-2010	2 Year 4 months
2	Arunachal Pradesh (2 nd)	2015-16 to 2019-20	30-06-2014	Not available	Not available
3	Assam (5 th)	2015-16 to 2019-20	30-11-2016	20-06-2017	9 months
4	Bihar (5 th)	2015-16 to 2019-20	02-02-2016	24-02-2016	22 days
5	Chhattisgarh (2 nd)	2012-13 to 2016-17	March 2013	17-07-2013	4 months
6	Goa (2 nd)	2007-08 to 2011-12	31-12-2007	Not available	Not available
7	Gujarat (2 nd)	2005-06 to 2009-10	June 2006	30-03-2011	4 Year 9 months
8	Haryana (5 th)	2016-17 to 2020-21	13-09-2017	04-09-2018	1 year
9	Himachal Pradesh (5 th)	2017-18 to 2021-22	19-01-2018	Not available	Not available
10	Jammu and Kashmir (1 st)	2007-08 to 2011-12	25-11-2010	Not available	Not available
11	Karnataka (4 th)	2013-14 to 2017-18	July 2018	Not available	Not available
12	Kerala (5 th)	2016-17 to 2020-21	March 2016	07-02-2018	1 year 11 months
13	Madhya Pradesh (4 th)	2011-12 to 2015-16	January 2017	20-07-2017	7 months
14	Maharashtra (4 th)	2011-12 to 2015-16	October 2017	23-03-2018	7 months
15	Manipur (3 rd)	2013-14 to 2017-18	15-12-2014	17-12-2015	1 year
16	Mizoram (1 st)	2015-16 to 2019-20	19-02-2015	09-03-2016	1 Year 1 month
17	Odisha (4 th)	2015-16 to 2019-20	September 2014	16-02-2015	5 months

Sl. No.	States	Award Period	Date of Submission of Report	Date of Submission of ATR by State Government	Time Taken to Table ATR
18	Punjab (5 th)	2016-17 to 2020-21	29-06-2016	Date not known	--
19	Rajasthan (4 th)	2010-11 to 2014-15	September 2013	20-02-2014	5 months
20	Sikkim (5 th)	2020-21 to 2024-25	July 2017	March 2018	9 months
21	Tamil Nadu (5 th)	2017-18 to 2021-22	27-12-2016	31-03-2017	3 months
22	Tripura (3 rd)	2009-10 to 2014-15	October 2009	04-03-2010	5 months
23	Uttar Pradesh (4 th)	2011-12 to 2015-16	16-12-2014	23-03-2015	3 months
24	Uttarakhand (4 th)	2016-17 to 2020-21	31-5-2016	23-03-2017	9 months
25	West Bengal (4 th)	2015-16 to 2019-20	February 2016	Date not known	--

Note: ATRs for SFCs of seven states Arunachal Pradesh (2nd SFC), Goa (2nd SFC), Himachal Pradesh (5th SFC), Jammu & Kashmir (1st SFC), Karnataka (4th SFC), Punjab (5th SFC) and West Bengal (4th SFC) were not available.

Source: Reports of SFC and Action Taken Reports of respective states.

The delay in submission of report by the SFCs along with the delay in placing the action taken reports by State governments effectively mean that there is very little time left to be governed by the recommendations of SFCs. From Table 4, it can be observed that out of the 25 SFCs considered for the study, SFCs in six states, Arunachal Pradesh (2nd SFC), Kerala (5th SFC), Mizoram (1st SFC), Odisha (4th SFC), Sikkim (5th SFC) and Tamil Nadu (5th SFC) submitted their report before the commencement of their respective award periods. If one were to include the time taken by state governments to table the ATR in the legislature, one finds that for only three states the SFC report and ATR was submitted before the start of their respective award periods. These states are Odisha (4th SFC), Sikkim (5th SFC) and Tamil Nadu (5th SFC). For these three states the entire award period of the Commission was available for implementing its recommendations. For all other states, the entire process starting from setting up of SFC to tabling of ATR was so delayed that the full award period of the commission was not available. In many states (6 states namely, Andhra Pradesh-3rd SFC, Gujarat-2nd SFC, Madhya Pradesh-4th SFC, Maharashtra-4th SFC, Rajasthan-4th SFC and Uttar Pradesh-4th SFC) the process was so delayed that the ATR was submitted after the award period of the Commission was over. And in case of Maharashtra, its 4th SFC submitted the report after the completion of the award period of the Commission.

Table 4: Delay in Report Submission and Tabling of ATR

Sl. No.	States	Award Period	Date of Submission as per ToR	Date of Actual Submission	Date of submission of ATR by State Government
1	Andhra Pradesh (3 rd)	2005-06 to 2009-10	28-12-2007	25-01-2008	<u>17-05-2010</u>
2	Arunachal Pradesh (2 nd)	2015-16 to 2019-20	30-09-2013	30-06-2014	Not available

Sl. No.	States	Award Period	Date of Submission as per ToR	Date of Actual Submission	Date of submission of ATR by State Government
3	Assam (5 th)	2015-16 to 2019-20	30-09-2014	30-11-2016	20-06-2017
4	Bihar (5 th)	2015-16 to 2019-20	31-03-2015	02-02-2016	24-02-2016
5	Chhattisgarh (2 nd)	2012-13 to 2016-17	22-07-2012	March 2013	17-07-2013
6	Goa (2 nd)	2007-08 to 2011-12	11-09-2006	31-12-2007	Not available
7	Gujarat (2 nd)	2005-06 to 2009-10	15-10-2005	June 2006	<u>30-03-2011</u>
8	Haryana (5 th)	2016-17 to 2020-21	30-05-2017	13-09-2017	04-09-2018
9	Himachal Pradesh (5 th)	2017-18 to 2021-22	30-04-2016	19-01-2018	Not available
10	Jammu & Kashmir (1 st)	2007-08 to 2011-12	September 2008	25-11-2010	Not available
11	Karnataka (4 th)	2013-14 to 2017-18	31-05-2016	July 2018	Not available
12	Kerala (5 th)	2016-17 to 2020-21	21-05-2015	March 2016	07-02-2018
13	Madhya Pradesh (4 th)	2011-12 to 2015-16	31-01-2013	January 2017	<u>20-07-2017</u>
14	Maharashtra (4 th)	2011-12 to 2015-16	30-09-2012	<u>October 2017</u>	<u>23-03-2018</u>
15	Manipur (3 rd)	2013-14 to 2017-18	18-05-2013	15-12-2014	17-12-2015
16	Mizoram (1 st)	2015-16 to 2019-20	30-11-2012	19-02-2015	09-03-2016
17	Odisha (4 th)	2015-16 to 2019-20	30-04-2014	September 2014	16-02-2015
18	Punjab (5 th)	2016-17 to 2020-21	31-12-2015	29-06-2016	Date not known
19	Rajasthan (4 th)	2010-11 to 2014-15	31-12-2011	September 2013	<u>20-02-2014</u>
20	Sikkim (5 th)	2020-21 to 2024-25	28-02-2017	July 2017	March 2018
21	Tamil Nadu (5 th)	2017-18 to 2021-22	31-05-2016	27-12-2016	31-03-2017
22	Tripura (3 rd)	2009-10 to 2014-15	30-04-2008	October 2009	04-03-2010
23	Uttar Pradesh (4 th)	2011-12 to 2015-16	16-12-2014	16-12-2014	<u>23-03-2015</u>
24	Uttarakhand (4 th)	2016-17 to 2020-21	31-01-2016	31-05-2016	23-03-2017
25	West Bengal (4 th)	2015-16 to 2019-20	30-04-2014	February 2016	Date not known

Note: ATRs for SFCs of seven states Arunachal Pradesh (2nd SFC), Goa (2nd SFC), Himachal Pradesh (5th SFC), Jammu & Kashmir (1st SFC), Karnataka (4th SFC), Punjab (5th SFC) and West Bengal (4th SFC) were not available.

Source: Reports of SFC and Action Taken Reports of respective states.

In case of SFCs in eleven states, their award period commenced before the date of submission of report mandated by their respective ToRs. These states are Andhra Pradesh (3rd SFC), Chhattisgarh (2nd SFC), Gujarat (2nd SFC), Haryana (5th SFC), J&K (1st SFC), Karnataka (4th SFC), Madhya Pradesh (4th SFC), Maharashtra (4th SFC), Manipur (3rd SFC), Rajasthan (4th SFC) and Uttar Pradesh (4th SFC). Of these, SFCs in five states namely, Haryana (5th SFC), Jammu & Kashmir (1st SFC), Madhya Pradesh (4th SFC), Rajasthan (4th SFC) and Uttar Pradesh (4th SFC) were constituted after the start of their respective award period (refer table 2).

3. Treatment of Core ToR by SFCs and Revenue Sharing

The delay in submission of SFC report along with the delay in tabling of ATR vis-à-vis the core mandate of SFC points to the fact that SFCs as an institution for resource transfer from States to local self-governments is still evolving and needs improvement. SFCs are yet to emerge as an independent arbiter with regards to the devolution of funds from State governments to local governments. This needs improvement sooner rather than later for ensuring stability and predictability of flow of resources to the third-tier. This is critically important since internal revenue generated by local governments has remained meager.⁷ Let us examine the approach adopted by the State Finance Commissions for transferring resources to the third-tier.

As per the Constitution, the core task of a State Finance Commission is to make recommendations *regarding distribution between the State and the Panchayati Raj Institutions (PRIs) and Urban Local Bodies of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part IX and Part IX-A of the Constitution and allocation between the Panchayats at all levels and Urban Local Bodies of their respective shares of such proceeds.*

Despite the core ToR of all SFCs remaining more or less the same (i.e., the principles which should govern the distribution between the State and the local bodies of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this part and the allocation between the local bodies at all levels of their respective shares of such proceeds), the State Finance Commissions have not been uniform in their approach towards the definition of divisible or the shareable pool of resources. The divisible pool differs across States and Commissions even when the ToR is unambiguous as to what is shareable as evident from table 5. In determining vertical devolution, some SFCs have recommended devolution of a percentage of own tax revenues of the State, while others have recommended a share of own revenues (i.e., own tax and own non-tax revenues including GST compensation). There are some SFCs that recommended devolution of total revenues of the State inclusive of State's share in central transfers and in case of Himachal Pradesh, the SFC derived the devolution numbers by adopting a gap filling approach by projecting committed expenditures like salaries and wages of staff, honorarium for elected members, travel and office expenses.

Table 5: Composition of Divisible Pool and Quantum of Devolution Recommended by SFCs

⁷ See the Reports of the Eleventh, Twelfth and Thirteenth Finance Commissions; Jena and Gupta (2008); Rao and Rao (2008); Rao et al (2011); Rajaraman (2007).

Share of Net Own Tax Revenue (net of cost of collection only)	Share of Net Own Tax Revenue (net of cost of collection and other taxes/ charges)	Share of Total Revenues Receipts	Share of Own Revenues receipts	No Specific Recommendation / Criteria
<ul style="list-style-type: none"> • Assam (5th): 15.5% in 2015-16, 15% in 2016-17, 14.50% in 2017-18, 14% in 2018-19, and 13.5% in 2019-2020. • Jammu & Kashmir (1st): 12.5% of state's tax proceeds net of cost of collection. • Kerala (5th): 20% of the state's net OTR in 2016-17; for subsequent years increases by 1% every year • Mizoram (1st): 15% of state's own tax revenues. • Punjab (5th): 4% of net total tax revenue of the State. • Sikkim (5th): 4.5% of State's own tax revenue 2020-2025; 0.5% of net proceeds of State's own tax revenue should be allocated for capacity building of PRIs and ULBs; 0.5% of net proceeds of State's own tax 	<ul style="list-style-type: none"> • Bihar (5th): 8.5% of State's net own tax revenue in 2015-16 and 9% in 2016-17 to 2019-20. • Chhattisgarh (2nd): 8% of net tax revenues of the state, net of land revenue, tax on goods and passengers and other taxes on commodities and services. • Haryana (5th): 7% of State's own tax revenue net of cost of collection, VAT and 2% of Stamp duty and Registration fees collected on behalf of urban bodies. • Madhya Pradesh (4th): 1st interim report: 5% of the States net own tax revenue for 2015-16; 2nd & final interim report: 7.5 % of State's net own tax revenues (90%) for remaining 4 years. • Odisha (4th): 3% of net own tax revenue of the State. Net of entry tax, entertainment 	<ul style="list-style-type: none"> • Gujarat (2nd): 10% of State's total revenue receipts. • Manipur (3rd): 10% of State's own tax revenue, non-tax revenue and share in the central taxes. 	<ul style="list-style-type: none"> • Karnataka (4th): 48% of Non-loan net Own revenue receipt (NLNORR) inclusive of GST compensation but excludes 14th FC grants • Maharashtra (4th): at least 40% of state's own tax and non-tax revenue • Uttar Pradesh (4th): 15% of State's tax and non-tax revenues net of collection cost. 	<ul style="list-style-type: none"> • Andhra Pradesh (3rd): devolution by way of per capita grants and assignment. This works out to 6.77% of total tax and non-tax revenues of State including share of central taxes for 2004-05 • Himachal Pradesh (5th): adopted a gap filling approach. Funds to be devolved derived by including salaries of staff, honorarium of members, office expenses, TA/DA expenses. • Goa (2nd SFC): Assignment of tax revenue to ULBs shall mainly be a percentage of land revenue and of royalties of mines and minerals. For PRIs, the assigned devolution shall be 2% of States own revenues.

Share of Net Own Tax Revenue (net of cost of collection only)	Share of Net Own Tax Revenue (net of cost of collection and other taxes/ charges)	Share of Total Revenues Receipts	Share of Own Revenues receipts	No Specific Recommendation / Criteria
<p>revenue should be allocated for special support to most backward PRIs and ULBs.</p> <ul style="list-style-type: none"> • Uttarakhand (4th): 11% State's net own tax revenue. • Tamil Nadu (5th): 10% of State's own tax revenue 2017-22. • West Bengal (4th): 2.5% of State's net own tax revenue. 	<p>tax and motor vehicle tax.</p> <ul style="list-style-type: none"> • Rajasthan (4th): 5% of State's net own tax revenue. Net of entry tax and land revenue. 			<ul style="list-style-type: none"> • Tripura (3rd SFC): Adopted a gap-filling approach. Compute the Pre-devolution gap by assessing requirement of establishment expenditure, maintenance expenditure and development expenditure of the RLBs.

Note: The information contained herein have been drawn for only those states whose latest SFCs reports are available at the time of drafting this paper.

Source: SFC Reports of respective states.

Thus we see that the composition of divisible pool varies considerably across SFCs and this makes comparison of the SFC award to local governments across different states extremely difficult. Table 5 shows the composition of divisible pool as defined by the latest SFCs in the selected States. (Details of composition of divisible pool across states is presented in Annexure Table A4).

Not only is the composition of the divisible pool different across SFCs, the quantum of transfers recommended also varies across SFCs widely as can be seen from Tables 6,7, and 8. It is true that Panchayats and municipalities are in the Directive Principles of State Policy and are under State's Jurisdiction. The 73rd and 74th Constitutional Amendments do not supersede that position. Since centrality of State governments in deciding the process of decentralisation continues even after the 73rd and 74th Constitutional Amendment, our approach remained sensitive to this aspect. We are not arguing 'one size fits all' policies for the local governments. However, as own revenues of local bodies is very small and most of the central funds are tied in nature, the devolution from SFC is an important source of untied funds to them.

In order to get a comparative picture of funds transferred by SFC we calculate the per capita devolution recommended by SFCs for these States for a common set of years.⁸ For the period 2010-11 to 2019-20, we were able to get this information for several states. The per capita transfers recommended by SFC (in nominal terms) for each of the years between 2010-11 and 2019-20 are presented in Table 6. The table also shows the average per capita devolution recommended by SFC during 2010-11 and 2014-15, the award period of the FC-XIII and during 2015-16 and 2019-20, the award period of the FC-XIV. It can be observed that there is a huge variation in the recommended per capita devolution across States.

During the period 2010-11 to 2014-15, the average per capita devolution varies between Rs.47.50 in case of Sikkim to Rs.3112.22 in case of Karnataka. The all state average being Rs.599.04. During the five year period from 2015-16 to 2019-20, the average per capita devolution varies between Rs.146.78 in case of Odisha to Rs.6090.06 for Karnataka and the all state average per capita devolution being Rs.1179.63. From the table it is evident that in case of Karnataka the recommended per capita devolution has been the highest during the entire period from 2010-11 to 2019-20. If we were to exclude Karnataka, the all state average recommended per capita devolution would be Rs.410.14 during the period from 2010-11 to 2014-15 and Rs.662.74 for the period 2015-16 to 2019-20.

Examination of state-wise recommended per capita devolution numbers reveal that during the period 2010-11 and 2015-16, per capita devolution recommended by the 4th SFC of Bihar was lowest in 2010-11 and the for remaining four years from 2011-12 to 2014-15, per capita devolution recommended by the 3rd SFC of Sikkim was the lowest. During the award period of FC-XIV we find that for the years 2015-16 and 2016-17, per capita devolution recommended by the 1st SFC of Mizoram was the lowest among the SFCs of states for which we have information. However, during 2017-18 to 2019-20, the lowest per capita devolution was recommended by the 4th SFC of Odisha. Given the wide variation in recommended per capita SFC devolution across States, its relative role in financing basic public services by the local governments is an issue that requires deeper examination and is beyond the scope of this paper.

The period from 2010-11 to 2019-20 corresponds to the award period of the two Union Finance Commissions namely, FC-XIII (2010-11 to 2014-15) and FC-XIV (2015-16 to 2019-20).⁹ We calculate the per capita local body grants recommended by FC-XIII and FC-XIV. This provides a comparison of per capita devolution recommended by the SFCs and per capita local body grants of the Union Finance Commissions. Both of these transfers are statutory in nature (both SFCs and

⁸ Total funds to be devolved to local governments as recommended by SFCs of the selected states during the years from 2010-11 to 2019-20 is presented Annexure Table A5.

⁹ By dividing local body grants recommended by Union Finance Commissions (UFCs) for each year of its award period by that year's population we derive the per capita grants recommended by the UFCs.

Union Finance Commission are statutory bodies). The all state average per capita local body grants recommended by FC-XIII and FC-XIV are presented in table 6. The average annual per capita local body grants recommended by FC-XIII during its award period from 2010-11 to 2014-15 was Rs.144.68 vis-à-vis the average annual per capita devolution of Rs.1478.20 recommended by the SFCs of the selected states. Per capita local body grants recommended by FC-XIII was about 24.2 percent of the all state average per capita devolution recommended by SFCs. The FC-XIV substantially increased the local body grants. The average annual per capita local body grants recommended by it for the period 2015-16 to 2019-20 was Rs.442.33 which was around 37.5 percent of the average annual per capita devolution recommended by the SFCs of selected states. The average annual devolution recommended by SFCs during the period 2015-16 to 2019-20 was Rs.1179.63. Thus, we see that devolution by SFCs continues to be an important source of revenues for local governments and the local body grants recommended by the Union Finance Commissions supplements the resources of local governments so that they can provide basic services to the people efficiently.

Expressing total recommended devolution as a percentage of own tax revenue and own revenue receipts of states one can see considerable variations in the two ratios across states as evident from Tables 7 and 8. However, the all state average SFC devolution account for a small proportion to own tax revenue and own revenue receipts of states taken together. Share of all state devolution in all state own tax revenues and own revenue receipts varies between 7.8 to 11 percent and between 6.6 to 9.3 percent respectively.

Table 6: Per Capita Devolution Recommended by SFCs

(Rs.)

	States	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average of	
												2010-11 to 2014-15	2015-16 to 2019-20
1	AP (3 rd)	428.12	425.16	421.47	417.93	414.51						421.44	
2	Assam (3 rd -4 th -5 th)	323.86	99.57	107.32	139.93	170.33	201.25	487.28	484.89	487.85	494.01	168.20	431.06
3	Bihar (3 rd -4 th -5 th)	49.66	55.02	60.99	67.62	75.01	221.24	284.24	345.22	420.44	512.55	61.66	356.74
4	Chhattisgarh (1 st -2 nd)	188.99	218.10	333.22	375.07	421.51	474.02	534.15				307.38	504.08
5	Gujarat (2 nd)	433.50										433.50	
6	Haryana (3 rd -4 th -5 th)	258.90	194.58	228.02	266.02	304.51	352.58	704.52	784.55	873.90	973.68	250.40	737.84
7	HP (3 rd -4 th -5 th)	139.13	146.25	180.79	186.56	259.06	267.31	321.00	349.99	431.45	465.82	182.36	367.12
8	Karnataka (3 rd -4 th)	2340.04	2564.65	2889.90	3814.28	4452.21	4966.28	5637.60	6267.57	6516.94	7061.93	3212.22	6090.06
9	Kerala (3 rd -4 th)	900.17	1142.38	1410.02	1664.58	1909.89	2164.16	2505.53	2929.77	3418.46	3980.77	1405.41	2999.74
10	MP (4 th)						251.82	409.49	443.68	481.25	521.70		421.59
11	Maharashtra (3 rd)	1115.65	997.03	1151.25								1087.98	
12	Manipur (3 rd)	536.22	633.81	636.81	790.60	887.66	893.12	998.73	1116.24			697.02	1002.70
13	Mizoram (1 st)						113.48	129.05	146.77	166.88	189.81		149.19
14	Odisha (2 nd -3 rd -4 th)	215.05	212.24	209.45	206.70	203.98	149.76	148.25	146.76	145.29	143.84	209.48	146.78
15	Punjab (3 rd -4 th -5 th)	148.16	270.87	304.07	338.42	376.60	448.25	416.30	443.01	471.90	503.19	287.63	456.53
16	Rajasthan (3 rd -4 th)	197.42	250.43	301.86	322.98	385.79	446.94	496.86				291.69	471.90
17	Sikkim (2 nd -3 rd -4 th)	80.06	39.93	39.54	39.04	38.92	164.14	185.32	209.34	236.49	266.83	47.50	212.42
18	TN (3 rd -4 th -5 th)	584.16	659.90	933.95	1081.48	1253.16	1336.84	1467.49	1289.47	1443.97	1593.57	902.53	1426.27
19	Tripura (2 nd -3 rd)	128.92	139.44	151.53	163.84	179.45						152.64	
20	UP (3 rd -4 th)	219.89	207.51	302.68	466.05	381.65	449.53					315.55	449.53
21	Uttarakhand (2 nd -3 rd)	660.22	522.38	594.24	676.39	770.36	866.17	1157.40	1352.88	1581.43	1848.59	644.72	1361.29
22	WB (3 rd -4 th)	100.50	99.57	98.68	122.71	136.25	115.54	131.55	149.79	170.55	194.19	111.54	152.32
All State Average		490.20	506.03	602.80	667.39	728.77	794.81	1052.87	1234.77	1337.53	1478.20	599.04	1179.63
<i>Number of States</i>		<i>20</i>	<i>19</i>	<i>19</i>	<i>18</i>	<i>18</i>	<i>18</i>	<i>17</i>	<i>15</i>	<i>14</i>	<i>14</i>		
All State Average (without Karnataka)		374.85	365.66	447.12	422.95	440.12	486.44	603.73	653.82	737.34	832.40	410.14	662.74
Min		2340.04	2564.65	2889.90	3814.28	4452.21	4966.28	5637.60	6267.57	6516.94	7061.93	3212.22	6090.06
Max		49.66	39.93	39.54	39.04	38.92	113.48	129.05	146.76	145.29	143.84	47.50	146.78
FC Local Body Grants		70.12	106.23	153.81	179.17	208.70	237.69	381.68	433.20	492.48	652.76	144.68	442.33
Share: FC vis-a-vis SFC		14.30	20.99	25.52	26.85	28.64	29.90	36.25	35.08	36.82	44.16	24.15	37.50

Source: Author's calculation based on SFC reports of various states and reports of FC-XII, FC-XIII and FC-XIV.

Table 7: Recommended Devolution as Percent of States' Own Tax Revenue

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
AP (3 rd)	4.68	3.96	3.53	3.29	4.92				
Assam (3 rd -4 th -5 th)	16.61	4.01	4.05	4.91	5.82	6.59	13.52	16.86	14.42
Bihar (3 rd -4 th -5 th)	4.89	4.30	3.74	3.42	3.66	9.68	13.60	12.45	15.90
Chhattisgarh (1 st -2 nd)	5.25	5.19	6.65	6.93	7.25	7.63	7.88		
Gujarat (2 nd)	7.00								
Haryana (3 rd -4 th -5 th)	3.90	2.45	2.53	2.76	2.97	3.08	5.68	4.88	5.02
HP (3 rd -4 th -5 th)	2.80	2.46	2.72	2.57	3.01	2.85	3.29	3.45	3.84
Karnataka (3 rd -4 th)	35.99	33.93	33.41	38.28	40.29	42.18	44.11	48.04	46.65
Kerala (3 rd -4 th)	13.82	14.88	15.78	17.60	18.42	18.95	20.39	20.70	20.23
MP (4 th)						4.86	7.30	7.65	7.14
Maharashtra (3 rd)	16.66	12.88	12.74						
Manipur (3 rd)	61.12	49.82	56.56	50.52	53.02	51.19	54.88	57.78	
Mizoram (1 st)						12.29	11.47	12.06	13.89
Odisha (2 nd -3 rd -4 th)	8.01	6.67	5.96	5.31	4.52	2.92	2.88	2.48	2.31
Punjab (3 rd -4 th -5 th)	2.56	4.25	4.01	4.27	4.55	4.95	4.48	3.77	3.52
Rajasthan (3 rd -4 th)	6.41	6.76	6.88	6.81	7.14	7.66	8.32		
Sikkim (2 nd -3 rd -4 th)	1.75	0.84	0.57	0.47	0.47	1.85	1.84	1.96	2.03
TN (3 rd -4 th -5 th)	8.22	7.51	8.93	10.05	10.97	12.50	12.97	10.18	10.15
Tripura (2 nd -3 rd)	7.46	5.92	5.56	5.68	5.86				
UP (3 rd -4 th)	10.60	8.00	10.75	14.69	10.97	11.87			
Uttarakhand (2 nd -3 rd)	14.81	9.33	9.42	9.48	9.65	9.91	11.54	11.08	11.80
WB (3 rd -4 th)	4.24	3.59	2.73	3.14	3.19	2.60	2.79	3.21	3.71
All States	11.04	9.00	9.24	8.41	8.84	9.47	9.15	8.15	7.81

Source: Calculated using data from SFCs reports and Finance Accounts and 2018-19 Budgets of respective states.

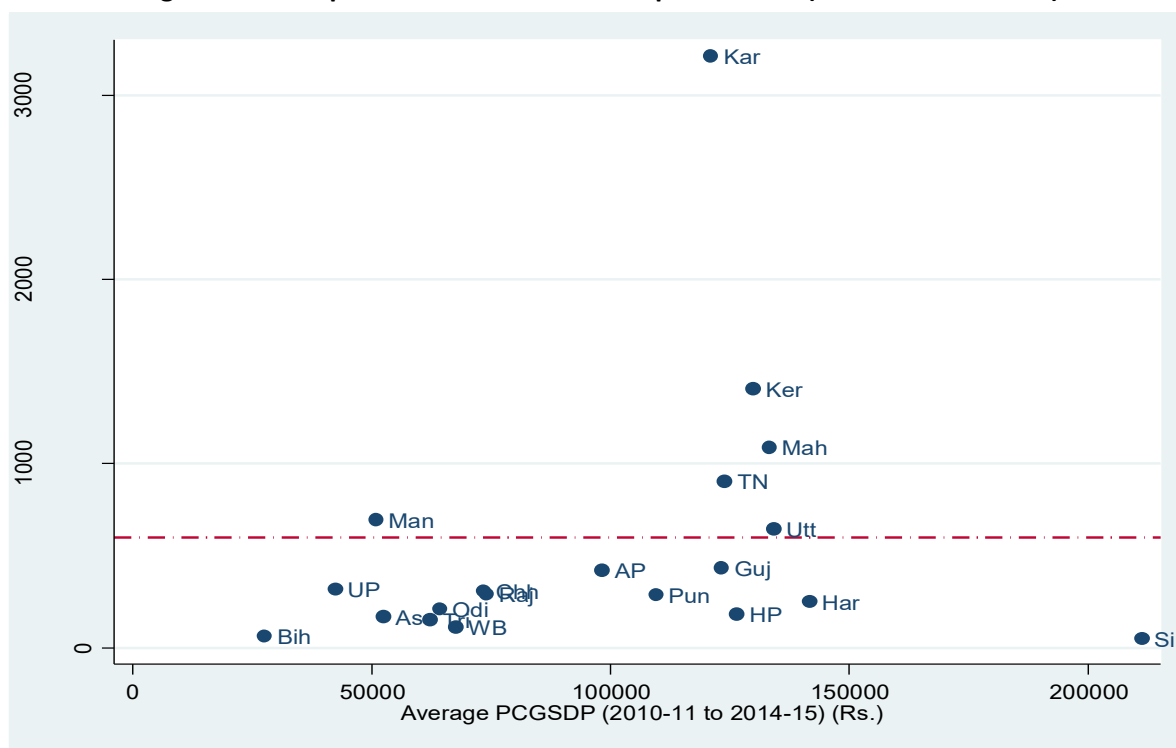
Table 8: Recommended Devolution as Percent of States' Own Revenue Receipts

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
AP (3 rd)	3.78	3.25	2.78	2.65	5.55				
Assam (3 rd -4 th -5 th)	11.86	2.92	3.12	3.77	4.64	5.18	9.94	10.18	8.46
Bihar (3 rd -4 th -5 th)	4.45	4.01	3.50	3.18	3.44	8.91	12.35	11.43	13.91
Chhattisgarh (1 st -2 nd)	3.68	3.77	4.91	5.11	5.51	5.85	6.06		
Gujarat (2 nd)	6.17								
Haryana (3 rd -4 th -5 th)	3.24	1.99	2.11	2.31	2.54	2.67	4.80	3.92	4.08
HP (3 rd -4 th -5 th)	1.86	1.68	2.10	1.90	2.23	2.24	2.65	2.68	3.10
Karnataka (3 rd -4 th)	33.10	31.18	31.12	35.96	37.77	39.39	41.23	44.49	42.87
Kerala (3 rd -4 th)	12.69	13.52	13.85	14.99	15.27	15.59	16.58	16.69	16.26
MP (4 th)						4.01	6.05	6.35	5.95
Maharashtra (3 rd)	15.01	11.78	11.62						

State	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Manipur (3 rd)	29.86	26.98	33.34	32.57	39.11	40.26	42.85	41.70	
Mizoram (1 st)						6.71	6.28	7.28	8.32
Odisha (2 nd -3 rd -4 th)	5.61	4.51	3.88	3.55	3.21	2.11	2.13	1.85	1.69
Punjab (3 rd -4 th -5 th)	1.94	3.96	3.59	3.77	4.09	4.50	3.70	3.30	2.74
Rajasthan (3 rd -4 th)	4.92	4.96	4.92	4.84	5.32	6.10	6.59		
Sikkim (2 nd -3 rd -4 th)	0.34	0.18	0.20	0.19	0.20	1.07	1.09	1.17	1.25
TN (3 rd -4 th -5 th)	7.49	6.85	8.17	8.92	9.92	11.26	11.63	9.18	9.22
Tripura (2 nd -3 rd)	6.15	4.73	4.72	4.62	5.02				
UP (3 rd -4 th)	8.34	6.71	8.79	11.78	8.65	9.24			
Uttarakhand (2 nd -3 rd)	12.84	7.76	7.54	8.04	8.51	8.77	10.27	9.36	9.58
WB (3 rd -4 th)	3.81	3.41	2.58	2.97	3.07	2.49	2.62	3.00	3.45
All States	9.29	7.70	7.89	7.14	7.66	8.15	7.79	6.95	6.61

Source: Calculated using data from SFCs reports and Finance Accounts and 2018-19 Budgets of respective states.

Figure 1: Per Capita Devolution and Per Capita Income (2010-11 to 2014-15)



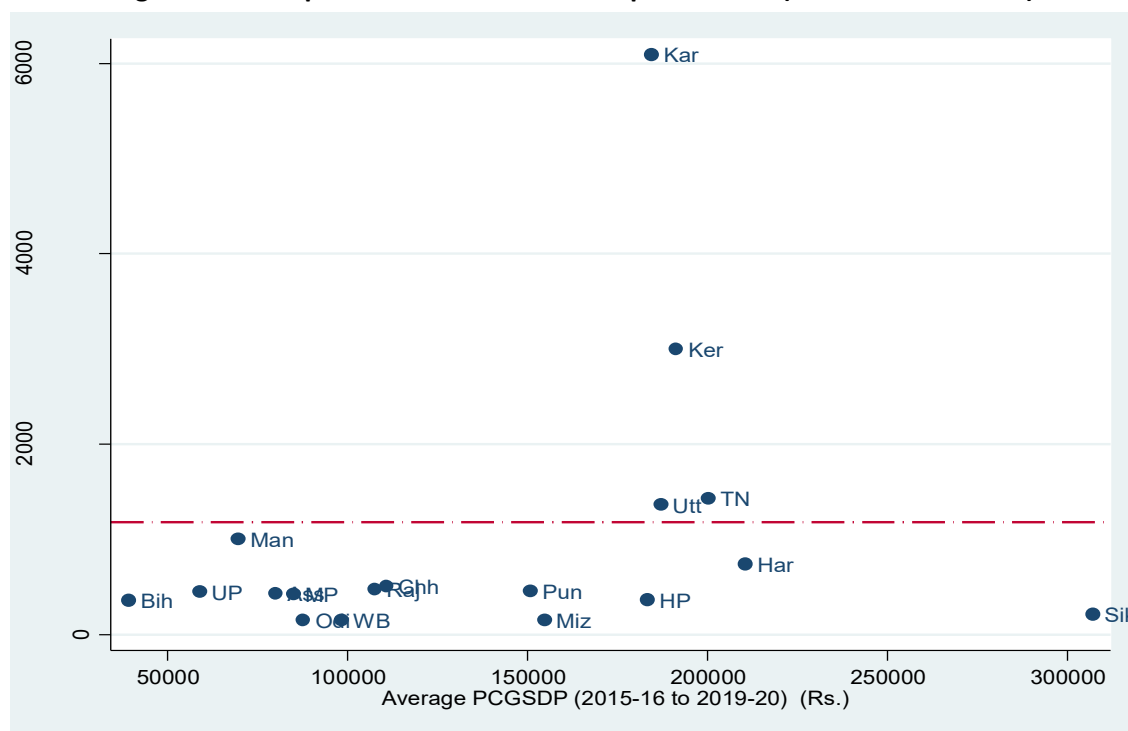
Note: The dotted line is the all state average per capita devolution which is Rs.599.04

Source: SFC reports and CSO

In order to examine whether transfers of resources by SFC has any relation with the level of income of the States we plotted the average per capita recommended devolution for the periods 2010-11 to 2014-15 and 2015-16 to 2019-20 against the average per capita income for the same

set of periods respectively (see Figures 1 and 2). We find that there is no pattern between the recommended transfers of resources and the level of income of the States, but the per capita devolution in both the time periods is in general very low across states in India. The dashed horizontal line in the two graphs depicts the all state average per capita devolution. One can see that for most of the states considered the average per capita devolution is lower than the all state average per capita devolution. However, there are a few outlier states like Karnataka, Kerala and Maharashtra (fig 1) and Karnataka and Kerala (fig 2)

Figure 2: Per Capita Devolution and Per Capita Income (2015-16 to 2019-20)



Note: The dotted line is the all state average per capita devolution which is Rs. 1179.63

Source: SFC reports and CSO

The devolution index for 2014-15 prepared by TISS (see Annexure A6 for the methodology adopted by TISS) is a composite index of four aspects of the functioning of PRIs. These represent achievement of States in the devolution of functions, functionaries and funds to local bodies and also in establishing infrastructure, governance and transparency (IGT). The devolution index seeks to capture effective devolution powers and resources as well as creation of mechanisms for responsive and efficient governance in the PRIs. Table 9 shows the ranking of States as per the indices of devolution in practice prepared by TISS and compares it with the ranking of States based on average per capita devolution recommended by the SFC for the period (a) 2010-11 to 2014-15 and (b) 2015-16 to 2019-20 calculated in the present study. The Spearman correlation coefficient between the rankings of States as per actual devolution of finances in practice

associated with the functions devolved by the States to PRIs and ranking as per the recommended per capita SFC devolution is 0.265 for the period from 2010-11 to 2014-15 and 0.313 for the period 2015-16 to 2019-20. A positive correlation emerges when we compare the ranking of States with respect to two criteria relating to financial devolution implying that states which have fared better in devolving finances to local governments are also the states that are devolving more funds per capita to local governments.

**Table 9: Ranking of States as per Devolution Index 2014-15 and
Average Per capita devolution 2011-16**

States	Ranking of States as per different Criteria of Devolution Index					Ranking based on per capita SFC Devolution	
	Function	Functionaries	Finances	IGT	Aggregate Index	2010-11 to 2014-15	2015-16 to 2019-20
Andhra Pradesh	8	11	6	16	11	8	--
Assam	15	15	12	17	17	16	11
Bihar	6	4	4	16	8	19	14
Chhattisgarh	13	13	6	13	13	10	7
Gujarat	2	9	5	4	3	7	--
Haryana	10	11	1	13	10	13	6
Himachal Pradesh	16	8	11	8	14	15	13
Karnataka	9	10	2	3	5	1	1
Kerala	1	1	2	1	1	2	2
Madhya Pradesh	5	8	4	10	7	--	12
Maharashtra	3	4	5	5	2	3	--
Manipur	18	9	16	21	19	5	5
Odisha	14	12	13	15	15	14	17
Punjab	17	15	15	20	8	12	9
Rajasthan	6	7	8	11	9	11	8
Sikkim	4	2	7	6	4	20	15
Tamil Nadu	11	3	2	9	9	4	3
Tripura	14	7	7	7	12	17	--
Uttar Pradesh	8	11	3	18	11	9	10
Uttarakhand	12	5	11	18	12	6	4
West Bengal	6	14	4	2	5	18	16

Source: Data of columns 2-6 from Devolution Report 2014-15, TISS; Rank in column 7 and 8 is based on Average Per capita recommended SFC devolution calculated by the authors.

Note: IGT stands for Infrastructure, Governance and Transparency

The key task of the State Finance Commission is to make recommendations as to the principles which should govern (a) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the local level governments; and (b) the grants-in-aid to the local bodies from the Consolidated Fund of the State.

Review of the reports of the latest SFCs of States reveals a wide variety of revenue sources being assigned to PRIs and ULBs. However, many SFCs, argued that that in view of the concept of sharing of aggregate revenues there is no need to assign any additional source to local bodies (Assam). There are yet another set of SFCs (Karnataka and Kerala), which felt that the existing assigned sources are adequate. In case of Uttar Pradesh, the SFC did not make any specific recommendation regarding assignment of additional revenue handles to the local governments. The details of revenue handles assigned to local bodies by the SFCs are presented in Annexure Table A7.

Apart from transferring a certain percentage of State's revenues and/or assignment of certain State taxes to local bodies, many SFCs also provide grants-in-aid to local bodies from the Consolidated Fund of the State to augment the resources of local bodies. Sometimes grants-in-aid are also given for specific purposes or to incentivise local bodies to collect more own revenues. Review of the reports of the latest SFCs of States reveals a wide variety of grants being recommended by the Commissions. These include among others grants for maintenance of assets (Andhra Pradesh, Gujarat, Madhya Pradesh, Odisha and Tamil Nadu), per capita grants to PRIs and ULBs (Andhra Pradesh). Some of the SFCs have also recommended lump sum grants, one time grants, ad-hoc grants, specific needs grant, special purpose grants (Assam, Chhattisgarh, Haryana and Gujarat). Untied grants were recommended by SFCs in Karnataka and Rajasthan. Many of the State SFCs in order to incentivise revenue collection by the local bodies recommended performance grant or incentive grant or matching grants. These include SFCs of Chhattisgarh, Karnataka, Maharashtra, Odisha, Punjab, Rajasthan and West Bengal. Grants for creation of capital assets and office buildings have been recommended by SFC in Manipur and Odisha. SFC of Bihar provided grants for capacity building of the functionaries of local governments. Since FC-XIV did not provide local body grants for the Block and District Panchayats, annual grants to the Block and District Panchayats were recommended by the SFCs in Bihar, Madhya Pradesh, Karnataka and Punjab. 4th SFC of Uttar Pradesh, however, did not recommend any grants-in-aid to local bodies. The details of grants-in-aid recommended by various SFCs are presented in the Annexure Table A8.

4. Approach to Horizontal Devolution: A Comparison

The horizontal sharing of funds recommended by the SFCs between PRIs and ULBs in most States is on the basis of rural and urban population or based on composite index comprising of various indicators, viz., population, SC/ST Population, density of population, area, percentage of Illiterates, Percentage of people below poverty line, etc. The resultant sharing of devolved funds between rural and urban local governments is presented in Table 10. Two important observations can be made from the Table (i) The share of PRIs is dominant in most States except Uttar Pradesh

and Uttarakhand; (ii) the share of PRIs is more than 65 percent in most States except Gujarat, Maharashtra and Tamil Nadu.

Table 10: Horizontal Distribution between PRIs and ULBs (in %)

	States	PRIs	ULBs	Remarks
1	Andhra Pradesh (3 rd)	--	--	Recommended per capita grants
2	Assam (5 th)	--	--	Distribution based on population (80%); density (20%)
3	Bihar (5 th)	70 60	30 40	70:30 in 2015-16 and 60:40 for remaining 4 years No specific criteria but resources need to be transferred to ULBs
4	Chhattisgarh (2 nd)	76.8	23.2	Distribution based on population (2011 census)
5	Gujarat (2 nd)	62.64	37.36	Distribution based on population (2001 census)
6	Haryana (5 th)	55	45	Distribution based on population (2011 census) and area in the ratio 80:20.
7	Himachal Pradesh (5 th)	--	--	No specific criteria. Adopted a gap filling approach for devolution. Funds to be devolved to PRIs and ULBs derived by including salaries of staff, honorarium of members, office expenses, TA/DA expenses.
8	Karnataka (4 th)	75	25	Distribution based on eleven indicators under three domains which are common to both rural and urban areas: (i) Demography (net increase in population, area, SC/ST population, Illiteracy), (ii) Decentralised Governance, and (iii) Basic Household Amenities (2011 census).
9	Kerala (5 th)	--	--	Devolution comprises of General Purpose Fund (GPF), Maintenance Fund and Development Fund. Each Fund has its own distribution criteria
10	Madhya Pradesh (4 th)	73	27	Distribution based 70% on population (census 2011), 15% on area and 15% on ST/SC population
11	Maharashtra (4 th)	55	45	Distribution based on population (census 2011)
12	Manipur (3 rd)	35.28	22.49	The remaining 42.33% of the total devolution is shared by the Autonomous District Councils (ADCs). Distribution based on population (2011 census).
13	Mizoram (1 st)	24.17	17.50	The remaining 58.33% of devolution is for ADCs Distribution among ADCs, Village Councils (VCs) and Aizawl Municipal Council (AMC), proposed in 3 stages (i) distribution between ADC in aggregate, AMC and VC in aggregate based on weighted average of 2011 population, weights being the proportion of estimated non-plan expenditure requirement of each layer of local body during the award period. (ii) Share of each of the 3 ADC determined by 2011 Population (40%), Area (30%), Distance from ADC HQ to the State capital (10%), Literacy (10%), Villages electrified (10%). (iii) distribution of aggregate share of VCs among the VCs of the each of the eight districts of the State based on

	States	PRIs	ULBs	Remarks
				2011 Non-municipal Population (40%), non-municipal area (20%), Per capita income distance (10%), road length (5%), No. of electrified villages (5%), no. of streetlight connections (10%), no. of water connection (10%). (iv) share of individual VC in a district based on population.
14	Odisha (4 th)	75	25	The sharing ratio arrived at based on population (30%); density of population (30%); percentage of persons below poverty line (20%); literacy rate (10%); SC/ST concentration (10%)
15	Punjab (5 th)	--	--	60% share of State taxes be distributed between PRIs and ULBs in the ratio of their 2011 census population. 40% share of State taxes be distributed between PRIs and ULBs on the basis of and in proportion to gaps in the projected revenue and expenditure figures during 2016-17 to 2020-21. While PRIs will have surplus and ULBs will be in deficit during 2016-17 to 2020-21, this 40% share will go to ULBs alone.
16	Rajasthan (4 th)	75.1	24.9	Distribution based on population (2011 census)
17	Sikkim (5 th)	70	30	Distribution based on expected rural and urban population during 2020-25
18	Tamil Nadu (5 th)	56	44	The sharing ratio as per the needs (O&M and Capital), and Infrastructure creation in RLBs and ULBs)
19	Tripura (3 rd)	--	--	Distribution between PRIs and RLBs of Sixth Schedule Areas based on assessment of the pre-devolution gap for these LBs
20	Uttar Pradesh (4 th)	40	60	No specific criteria
21	Uttarakhand (4 th)	45	55	No specific criteria but based on multiple factors like the roles, responsibilities and committed liabilities of PRIs and ULBs and increase in urbanisation made commission decide on this ratio.
22	West Bengal (4 th)	--	--	No criteria. From each years recommended devolution, funds for ULBs set aside based on estimated cost of providing services by them. The balance funds forms PRIs share.

Source: Reports of State Finance Commissions of respective states

Table 11 shows the vertical distribution across different tiers of local governments – both rural and urban as recommended by SFCs. States have used a variety of indicators (assigning different weights) to transfer resources across different tiers of local governments. Some of the indicators used are Population, Area, SC/ST Population, Slum Population, Revenue Effort, index of infrastructure, number of BPL families, backwardness index etc.

Table 11: Distribution Across Different Tiers of Local Government (Rural and Urban) (in %)

	States	PRIs				ULBs																																											
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description																																								
1	Andhra Pradesh (3 rd)	--	--	--	Per capita grants; no specific criteria	--	--	--	Per capita grants; no specific criteria																																								
2	Assam (5 th)	30	30	40	Stage 1: Allocation to PRIs in different districts in Normal Areas on the basis of a weighted average of (i) Population (50%), (ii) Geographical Area (25%) and (iii) Inverse Per Capita Rural District Domestic Product (25%). Stage 2: share among the 3 tiers i.e., ZPs, APs and GPs shall be in the ratio of 30:30:40. Stage 3: Share of AP and GP in a district determined on the basis of their respective 2011 census population.	--	--	--	Allocation based on Population (50%); Area (25%); index of infrastructure (12.5%); per capita tax collection (12.5%).																																								
3	Bihar (5 th)	20	10	70	<table><tr><th rowspan="2">Criterion</th><th colspan="3">Weights (%)</th></tr><tr><th>ZP</th><th>BP</th><th>GP</th></tr><tr><td>Population</td><td>50</td><td>50</td><td rowspan="3">Each GP falling within a Block would get equal share of amount available to all GPs in that Block based on Block's UDI and Population</td></tr><tr><td>Area</td><td>10</td><td>0</td></tr><tr><td>Under Development Index</td><td>40</td><td>50</td></tr></table>	Criterion	Weights (%)			ZP	BP	GP	Population	50	50	Each GP falling within a Block would get equal share of amount available to all GPs in that Block based on Block's UDI and Population	Area	10	0	Under Development Index	40	50	--	--	--	<table><tr><th rowspan="2">Criterion</th><th rowspan="2">Inter ULBs</th><th colspan="3">Weights (%)</th></tr><tr><th>MC</th><th>N Par</th><th>N Panc</th></tr><tr><td>Population</td><td>70%</td><td>1.5</td><td>1.3</td><td>1.0</td></tr><tr><td>Area</td><td>10%</td><td>1.0</td><td>1.0</td><td>1.0</td></tr><tr><td>No. of BPL families</td><td>20%</td><td>1.0</td><td>1.0</td><td>1.0</td></tr></table>	Criterion	Inter ULBs	Weights (%)			MC	N Par	N Panc	Population	70%	1.5	1.3	1.0	Area	10%	1.0	1.0	1.0	No. of BPL families	20%	1.0	1.0	1.0
Criterion	Weights (%)																																																
	ZP	BP	GP																																														
Population	50	50	Each GP falling within a Block would get equal share of amount available to all GPs in that Block based on Block's UDI and Population																																														
Area	10	0																																															
Under Development Index	40	50																																															
Criterion	Inter ULBs	Weights (%)																																															
		MC	N Par	N Panc																																													
Population	70%	1.5	1.3	1.0																																													
Area	10%	1.0	1.0	1.0																																													
No. of BPL families	20%	1.0	1.0	1.0																																													

	States	PRIs				ULBs			
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description
4	Chhattisgarh (2 nd)	5	10	85	Stage 1: distribution broadly based on statutory functions and other responsibilities Stage 2: (i) For ZPs: distribution based on Population (60%), Area (20%), SC/ST Population (10%); BPL Households (10%). (ii) For BP and GP: distribution based on population.	78		22	Stage 1: Urban Population Stage 2: (i) Municipal Corporations and Municipal Councils: Population (70%); Area (10%); Slum population (10%); revenue effort (10%); (ii) Nagar Panchayats: Population (80%); Area (10%); revenue effort (10%).
5	Gujarat (2 nd)	25	25	50	No broad Criteria Distribution for (i) DP & TP: based on 60% for those in backward Districts/ Talukas and 40% for those in developed Districts/Talukas and then on the basis of population; (ii) For GPs: based on 60% for GPs and 40% for developed GPs	49.06	50.94	--	Urban Population Distribution for (i) Municipal Corporation: based on share of General, SC & ST population in the MCs (ii) Municipalities: 60% for municipalities in backward Talukas and 40% for those in developed talukas and then on the basis of population
6	Haryana (5 th)	10	15	75	No specific criteria	--	--	--	No specific criteria
7	Himachal Pradesh (5 th)	--	--	--	No specific criteria	--	--	--	No specific criteria
8	Karnataka (4 th)	38.61	53.64	7.76	Based on the average transfer of funds (for PRIs) for five years, i.e., 2012-13 to 2016-17 under all heads to each tier of PRIs.	--	--	--	Devolution of funds to ULBs, class-wise: 28.97 for BBMP, 21.88 for 10 MCs, 21.80 for 57 CMCs, 17.64 for 114 TMCs, 9.287 for 89 TPs and 0.411 for 4 NACs. This is based on a scale of weights of 100 assigned as: population (40%), area (20%), level of illiteracy (20%), and SC/ST population (20%)

	States	PRIs				ULBs			
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description
9	Kerala (5 th)	--	--	--	No specific criteria	--	--	--	No specific criteria. However, distribution is based on different percentages of funds allocated for General Purpose (3.5%), Development Purpose (11%) and Maintenance Purpose (5.5%) for local bodies based on the projections of SOTR by Commission.
10	Madhya Pradesh (4 th)	0	0	100	Based on population of GPs, classified into various class-sizes.	5+10*	40	45	No specific criteria
11	Maharashtra (4 th)	30	20	50	No specific criteria	40	60	--	Distribution based on population
12	Manipur (3 rd)	15 10	0 10	85 80	Existing criteria based on Population should continue till Block Panchayats are created in the State As and when the Block level Panchayats are created, then the criteria of shares of each unit of PIRs will be in the given ratio. Share of each GP in the total share of GPs, and share of each ZP in the total share of ZPs determined on the basis of Population (75%), area (10%), No. of illiterates (5%), population without piped water supply (5%) and population without electricity (5%)	--	--	--	Share of each Nagar panchayat in total share of nagar panchayats determined on the basis of Population (75%), area (10%), No. of illiterates (5%), population without piped water supply (5%) and population without electricity (5%)
13	Mizoram (1 st)	--	--	--	No specific criteria	--	--	--	No specific criteria

	States	PRIs				ULBs			
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description
14	Odisha (4 th)	5	20	75	Sharing ratio determined considering different nature of functions carried out by each tier. <i>Inter-se</i> distribution among 3 tiers of PRIs based on population, category number of units like number of GPs, PSs etc.	--	--	--	Sharing based on Population (2011 Census); <i>Inter-se</i> distribution amongst categories of ULBs is based on population.
15	Punjab (5 th)	--	--	--	80% share in tax revenue to be disbursed among all Panchayats in proportion to individual Panchayat's population as per 2011 census. Remaining 20% be given as additional grant for poor Panchayats. Payments to Panchayats be routed through ZPs. Both 80% and 20% of grants be transferred to ZPs in proportion to rural population of the district and population of poor Panchayats of the district respectively.	--	--	--	80% share in tax revenue be disbursed among ULBs in proportion to 2011 population of each ULB. Remaining 20% be given as additional allocation to poor ULBs, to be distributed in proportion to population. Poor ULB are those whose per capita tax income is lower than the average of per capita tax revenue of all ULBs.
16	Rajasthan (4 th)	3	12	85	District-wise distribution based on Rural Population (40%); Area (15%); No of BPL families (5%); SC population (5%); ST Population (5%); child sex ratio (0-6 yrs.) (5%); IMR; (5%); Girls Education (5%); Own Revenue Mobilization (10%); Decline in decadal population growth rate (5%) <i>Inter-se</i> distribution among PSs and GPs based on latest population.	--	--	--	Distribution based on Population (50%); Area (10%); Average Revenue Mobilisation (10%); Population among Municipalities (30%).

	States	PRIs				ULBs			
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description
17	Tamil Nadu (5 th)	8	37	55	Population as per 2011 Census (60%); Area (15%); SC/ST Population (15%); Per Capita Consumption Expenditure Distance (10%)	40	29	31	Sharing based on Population (Census 2011) (65%); Area (15%); Per Capita Consumption Expenditure Distance (10%); Proportion of Slum Population (10%)
18	Tripura (3 rd)	--	--	--	Distribution among RLBs under Panchayat areas and 6 th Schedule areas based on (i) Establishment expenses both under Panchayat areas and Sixth Schedule areas, (ii) Development fund per capita ratio of 4:5 between Panchayat areas and ADC areas, and (iii) Among PRIs and RLBs in 6 th Schedule areas based on population.	--	--	--	No criteria given.
19	Sikkim (5 th)	35	--	65	Population figures of Census 2011	--	--	--	No specific criteria
20	Uttar Pradesh (4 th)	15	10	75	(i) District-wise distribution based on population (50%); Area (10%); SC/ST population (10%); backwardness index (30%) (ii) PSs and GPs: Population (80%); SC/ST population (20%).	42	38	20	(i) Shares obtained on the basis of Population (90%); Area (10%) (ii) Inter-se distribution amongst each of the 3 tiers of ULBs based on Population (40%); Area (5%); SC/ST population (10%); Average per capita income of own resources (15%); backwardness index (access to wealth) (10%); Overall backwardness index (20%).

	States	PRIs				ULBs			
		ZP	PS	GP	Criteria/Description	Municipal Corporation	Municipalities	Nagar Panchayat	Criteria/Description
21	Uttarakhand (4 th)	35	30	35	(i) Devolution to each tier of PRIs based on separate criteria based on Population, Area, Remoteness and Tax effort (ii) ZPs:KPs:GPs distribution based on Population (50:50:60), Area (20:30:20), Tax effort (15:00:00), Remoteness (15:20:20) respectively	40	45	15	(i) Devolution to each tier of PRIs based on separate criteria based on Population, Area, Tax effort and Centrality Index as a proxy for floating population (for NNs and NPPs only) (ii) NNs:NPPs:NP distribution based on Population (50:60:60), Area (20:10:20), Tax effort (20:20:20), Centrality index (10:10:00) respectively
22	West Bengal (4 th)	10	12	78	Focus on Developmental Activities. Horizontal distribution across PRIs on the basis of Index based on Population (50%), Area (10%), Backwardness (30%), proportion of Urban Population (10%) in rural areas to arrive at figures pertaining to horizontal devolution.	--	--	--	Proposed index for horizontal distribution across ULBs based on Population, Area and Backwardness (one-third weight to each of the criteria)

Note: * Madhya Pradesh: 10 percent funds goes to Municipal Corporation that have not received any funds under JNNURM and 5 percent to Municipal Corporations that received such funds; The 3rd SFC of Andhra Pradesh provided per capita grants to local bodies. Here, BP stands for Block Panchayats, AP stands for Anchalik Panchayats, PU stands for Panchayat Unions and KP stands for Kshetra Panchayats

5. Importance Accorded to SFCs Recommendations: A Review of ATR

A review of the available ATRs of 20 states¹⁰ reveal that as far as the recommendations regarding devolution is concerned it was more or less accepted by a large number of States without any modifications (see Annexure table A9 for details). However, the recommendations of the 3rd SFC of Manipur, 4th SFC of Rajasthan, 5th SFC of Sikkim, 4th SFC of Uttar Pradesh and 4th SFC of West Bengal were accepted by the respective state governments with some modifications. It was not clear from the ATR whether the recommendations of the 2nd SFC of Gujarat was accepted or rejected. The action taken report of the Gujarat government for its 2nd SFC is strangely silent on the issue. The recommendations of the 5th SFC of Kerala and 4th SFC of Maharashtra was totally rejected by the state government. In fact the entire report of the 5th SFC of Kerala was not accepted by the Government and the government had provided reasons for its not accepting the recommendations of the 5th SFC. No reasons was provided by the Maharashtra state government for not accepting the recommendations of the Commission. The case of 4th SFC of Madhya Pradesh is worth mentioning. The Commission submitted its report in October 2017 after completion of its award which was from 2010-11 to 2015-16. It also submitted an interim report in November 2015. In the ATR the government did not accept the interim report of the Commission and modified its award period to 2015-16 to 2019-20 and extended the recommendations of the 3rd SFC to the years 2015-16, 2016-17 and 2017-18. The recommendations of the 4th SFC will now be applicable for two years 2018-19 and 2019-20. However, from the ATR it was not clear as to how local bodies in the state would be provided funds for the period 2010-11 to 2014-15.

As regards recommendations relating to grants-in-aid, it was observed that in most cases the State governments have accepted the recommendations of SFC in totality. However grants to ULBs recommended by 3rd AFC of Andhra Pradesh was rejected. Recommendation relating to grants by the 5th SFC of Kerala was also rejected. However, the government gave reasons for not accepting the recommendations of the Commission.

All other non-financial recommendations of the SFCs were accepted either entirely or partially with modifications by the state governments or the ATRs were silent. In many cases we find that it was mentioned in the ATR that the government is still examining these recommendations or have constituted a committee to further examine these recommendations. However, no timeframe was provided in the ATR as to when a decision on these recommendations could be expected.

¹⁰ ATRs for Himachal Pradesh (5th SFC) and Karnataka (4th SFC) were not available.

6. Thirteenth and Fourteenth Finance Commissions' approach towards Local Body Grants

Following the 73rd and 74th amendments to the Constitution of India, sub-clauses (bb) and (c) were added to article 280(3) which required the (Union) Finance Commission to make recommendations regarding measures needed to augment the Consolidated Funds of the States for supplementation of the resources of the panchayats and municipalities on the basis of the recommendations made by the Finance Commission of the State. Grants for local governments (called the local body grant) have been recommended every five years by Finance Commissions since the Tenth Finance Commission (1995–2000).

The Tenth Finance Commission did not have any mandate, in its terms of reference, to make recommendations for the local bodies.¹¹ As the 73rd and 74th Constitutional amendments had become effective before the Commission had finalised its report, the Commission felt it was obliged to make recommendations regarding measures needed to augment the Consolidated Funds of the States for supplementation of the resources of the panchayats and the municipalities as the panchayats and municipalities were to discharge the new role assigned to them under the Constitution during its award period. It, therefore, recommended an *ad hoc* provision of Rs.5,380.93 crores towards local body grants (Rs.4,380.93 for rural local bodies, estimated at the rate of Rs. 100 per capita of rural population as per the 1971 Census and Rs.1,000 crores for urban local bodies). States and areas excluded from the operation of the 73rd and 74th amendments were also provided grants to supplement the resources of similar local bodies, even if these were not panchayats/municipalities.

The Eleventh Finance Commission (2000-2005) was the first commission which was required to make recommendations for the local bodies by its ToR.¹² Accordingly, the Commission recommended a grant of Rs.10,000 crores for the local bodies (Rs.8,000 crores for rural local bodies and Rs.2,000 crores for urban local bodies) during its award period. A part of the local body grants was for the excluded areas in the concerned states and their shares were determined in proportion to the population.

¹¹ The Commission was constituted by the Presidential Order dated 15 June 1992. The 73rd and 74th amendments of the Constitution were passed by the Parliament on 22/23 December 1992.

¹² The ToR of the Eleventh Finance Commission had two specific references to local bodies: (i) A reference to the measures needed to augment the consolidated funds of states to supplement the resources of panchayats and municipalities on the basis of the recommendations made by the Finance Commissions of the concerned states, (ii) Another reference reiterating the need to take into account the recommendations of the SFCs. Where such recommendations were not available, the Commission was directed to make its own assessment about the manner and extent of augmentation of the consolidated fund required. This assessment was to take into account the provisions for emoluments and terminal benefits of employees (including teachers); the ability of local bodies to raise financial resources and the powers, authority and responsibilities transferred to them under articles 243(G) and 243(W) of the Constitution.

The Twelfth Finance Commission (2005-10) recommended a sum of Rs.25,000 crores as local body grants to be distributed between rural and urban local bodies in the ratio of 80:20. Unlike the previous two Finance Commissions, the Twelfth Finance Commission did not provide separate local body grants for the normal and the excluded areas. It left it to the concerned state governments to distribute their respective shares of local body grants to local bodies in the excluded areas in a fair and just manner.

The quantum of local body grants recommended by the three Finance Commissions (Tenth, Eleventh and Twelfth FCs) was largely ad hoc in nature. The tenth Finance Commission pointed out in its report that it can make recommendations regarding measures needed to augment the consolidated funds of states to supplement the resources of panchayats and municipalities after ascertaining the need for them, and the primary basis for this would have to be the SFCs' reports. In the absence of SFC reports it recommended ad hoc grants. The Eleventh Finance Commission was constrained to use the SFC reports due to (i) lack in synchronicity in the periods covered by the SFC reports and the Finance Commission, (ii) extreme diversity in the approach, the content, the periods covered as well as quality of reports, and (iii) delay in finalizing ATR states and placing them the state legislatures. Hence, it recommended grants on an ad hoc basis. The Twelfth Finance Commission pointed out that both the data furnished by the states as well as the SFC reports failed to provide a sound basis for estimation of the required augmentation of the consolidated funds of the states. It, therefore, recommended ad hoc grants.

The Thirteenth Finance Commission (2010-15) recommended a grant of Rs.87,519 crores for local bodies. Of this, the grant to rural local bodies was Rs.63,051 crores and the share of urban local bodies was Rs.23,111 crore. In the case of States with Schedule V and VI areas, and the area exempted from the purview of Part IX and Part IX-A of the Constitution, a special area grant amounting to Rs.1,357 crores was provided without distinguishing between rural and urban areas.

The Fourteenth Finance Commission (2015-20) recommended local body grant amounting to Rs.2,87,436 crore for the period 2015-20, constituting an assistance of Rs.488 per capita per annum at an aggregate level. Of this, the grant recommended to rural local bodies was Rs.2,00,292.2 crores and that to urban local bodies was Rs.87,143.8 crores. However, unlike the earlier Finance Commissions, the rural local body component of its grants was for the gram panchayats only. The Commission pointed out that the grants recommended by it "should enhance resources available with gram panchayats and municipalities to enable them to discharge their statutorily assigned functions" (Ministry of Finance, 2014).

Let us now examine, in details, the approach adopted by the last two Finance Commissions i.e., the Thirteenth and Fourteenth Finance Commissions towards the local body grants.

Basic public goods like sewerage, solid waste management, water supply, road maintenance etc. can reliably be supplied by local governments only if the funding stream, whether from own revenue or external grants, is steady and predictable. “Finance Commissions prior to the Thirteenth Finance Commission had very granular usage prescriptions for the local grant” (Rajaraman and Gupta 2016). The state governments were required to prepare suitable schemes and prepare detailed guidelines for the utilization of the local body grants recommended by the Tenth Finance Commission. The local bodies were required to provide suitable matching contributions by raising resources and the grant cannot be used for expenditure on salaries and wages. The Eleventh Finance Commission mandated certain activities such as maintenance of accounts, development of data base and audit to be the first charge on the local body grant recommended by them. The remaining amounts were to be utilised for maintenance of core services - provision of primary education, primary health care, safe drinking water, street lighting and sanitation including drainage and scavenging facilities, maintenance of cremation and burial grounds, public conveniences and other common property resources. These grants were untied, barring the stipulation prohibiting the payment of salaries and wages. The Twelfth Finance Commissions stipulated that panchayats should use the grants to improve service delivery relating to water supply and sanitation. In towns with a population of over 100,000, 50 per cent of the grant was to be earmarked for solid waste management schemes in public-private partnership (PPP) mode. The urban and rural local bodies were also expected to give high priority to expenditure for the creation of database on local body finances and maintenance of accounts through the use of modern technology and management systems. All these meant adding another layer of complexity to the utilization certification process resulting in grants remaining unutilized.

The imperative to ensure a stable and predictable flow of funds to local governments which would incentivise them into providing reliable public services shaped the design of local grants by the ***Thirteenth Finance Commission (2010-2015)***. Accordingly, the Commission designed its local body grants to have two components (a) an unconditional General Basic Grants and (b) a conditional General Performance Grants. The following conditions (we have grouped them into 4 heads) have to be met by state governments to avail of the performance grants¹³:

A. Two to improve autonomy

- (i) all local bodies should be fully enabled to levy property tax.
- (ii) it must put in place a state level Property Tax Board, which will assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax.

¹³ The state will have to meet all the conditions to qualify for the performance grant. Failure to meet even one condition would make it ineligible.

B. One for timely transfer of local body grants

(i) it must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government.

C. Three to improve accountability

(i) it must put in place a supplement to the budget documents separately for PRIs and ULBs providing details of transfers separately for all tiers of PRIs and for all categories of ULBs.

(ii) it must put in place an audit system for all local bodies.

(iii) it must put in place a system of independent local body ombudsmen who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials.

D. Others

(i) it must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with Article 243I (2) of the Constitution;

(ii) State Governments must gradually put in place standards for delivery of all essential services provided by local bodies;

(iii) all Municipal Corporations with a population of more than 1 million must put in place a fire hazard response and mitigation plan for their respective jurisdictions.

The basic grant will be equivalent to 1.50 per cent of the previous year's divisible pool. All states will have access to this grant for all the five years. The performance grant will be effective from 2011-12 and will be 0.50 per cent for the year 2011-12 and 1 per cent thereafter, up to 2014-15. Only those states which meet the stipulated conditions will have access to performance grant.

In order to support areas covered by the V and VI Schedules and the areas exempted from the purview of Part IX and IX-A of the Constitution (or the special areas), the Commission carved out a small portion from its basic grant called the Special Areas Grant and allocated it to such areas. The Special Areas Grant also had two components (a) an unconditional Special Area Basic Grant and (b) a conditional Special Area Performance Grant. For a state to qualify for the Special Area Performance Grant, it has to satisfy certain conditions.¹⁴ An amount of Rs.20 per capita per year has been allocated as the Special area basic grant. This special area basic grant will be accessible by the eligible states for all five years. A special areas performance grant of Rs.10 per capita for 2011-12 and Rs.20 per capita for the subsequent three years (i.e., 2012-13 to 2014-15) will be made available to those states which meet the conditions.

¹⁴ States having special areas have to meet four conditions to qualify for Special Area Grant. For details on these conditions refer to the Report of the Thirteenth Finance Commission, Chapter 10, pp. 180.

The Fourteenth Finance Commission (2015-20) emphasising on the importance of stability and predictability of resources going to local bodies have taken a pragmatic view on supplementing the resources of panchayats and municipalities. They have recommended providing support that will provide financial stability to local bodies through assured transfers for planning and delivering of basic services smoothly and effectively. Like the Thirteenth Finance Commission, the Fourteenth Finance Commission designed its local body grants in two parts - a basic grant and a performance grant for duly constituted gram panchayats and municipalities. In the case of gram panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. In the case of municipalities, the division between basic and performance grant will be in the ratio of 80:20.

The Commission recommended that the rural component of its local grants should go to gram panchayats, which are directly responsible for the delivery of basic services, without any share for other levels whose needs can be taken care by the State Governments.

The purpose of the basic grant is to provide a measure of unconditional support to the gram panchayats and municipalities for delivering the basic functions assigned to them under their respective statutes. The grant provided is intended to be used to improve the status of basic civic services including water supply, sanitation including septage management, sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street-lighting, and burial and cremation grounds. The Performance grants was provided for addressing the following issues: (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services.

All states will have access to the basic grant for all the five years from 2015-16 to 2019-20. The performance grant will be effective from 2016-17, the second year of its award period so as to provide sufficient time to State Governments and the local bodies to put in place a scheme and mechanism for implementation. The performance grants will be operation for a period of four years from 2016-17 to 2019-20.

To be eligible for performance grants one needs to satisfy certain conditions. These are

- (i) To be eligible for **Performance Grants-Rural**, the gram panchayats will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which the gram panchayat seeks to claim the performance grant. It will also have to show an increase in the own revenues of the local body over the preceding year, as reflected in the audited accounts.

- (ii) To be eligible for **Performance Grants-Urban**, the urban local body will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant. It will also have to show an increase in own revenues (excluding octroi and entry tax) over the preceding year, as reflected in these audited accounts. Also, it must publish the service level benchmarks relating to basic urban services each year for the period of the award and make it publically available.

6.1 Quantum of Grants and Basis for Horizontal Distribution – 13th and 14th FCs

The Thirteenth Finance Commission recognised the need to support local bodies through a predictable and buoyant source of revenue accepted the demand of local bodies that they be allowed to benefit from the buoyancy of central taxes. Accordingly it recommended a percentage of the divisible pool for local bodies, estimated at Rs.87,519 crore for the entire award period, after converting it into grant-in-aid under Article 275 of the Constitution. For each year of the award period, the grant was to be determined on the basis of the divisible pool of the previous year. The local body grants recommended by the Commission was 1.93 per cent of the Divisible Pool as projected by the Commission for the period 2010-11 to 2014-15. Of this, the grant recommended to rural local bodies was Rs.63,050.5 crore, to urban local bodies was Rs.23,111.0 crore and Rs.1,357.1 was meant for Special Areas. Of the total local body grants the share of performance grants was Rs.30,385 crores (or about 34.7 percent of total local body grants). The criteria used by the Commission for inter se allocation of grants is presented in table 12.

Table 12: Criteria and Weights for allocation of local body grants by the 13th FC

Criterion	Weights allotted (%)	
	PRIs	ULBs
Population (census 2001)	50	50
Area	10	10
Distance from highest per capita sectoral income	10	20
Index of devolution	15	15
SCs/STs proportion in population	10	--
FC local body grants utilisation index	5	5
Total	100	100

Source: Report of the Thirteenth Finance Commission, p.177.

The Fourteenth Finance Commission worked out the total size of its local body grant to be Rs.2,87,436 crore for the five years of its award period, constituting an assistance of Rs.488 per capita per annum at an aggregate level. Of this, the grant recommended to gram panchayats is Rs.2,00,292.2 crore and that to municipalities is Rs.87,143.8 crore. Of the total grant recommended by the Fourteenth Finance Commission, the performance grants was Rs.37,457.98

crores (Rs.20,029.22 crores for gram panchayats and Rs.17,428.76 crores for urban local bodies).¹⁵ The total local body grants recommended by the Commission was 3.06 per cent of the Divisible Pool as projected by the Commission for the period 2015-16 to 2019-20. The share of individual states would be determined using 2011 population data with weight of 90 per cent and area with weight of 10 per cent.

The earmarked basic grants for gram panchayats will be distributed among them, using the formula prescribed by the respective SFCs for the distribution of resources. Similarly, the basic grant for urban local bodies will be divided into tier-wise shares and distributed across each tier, namely the municipal corporations, municipalities (the tier II urban local bodies) and the nagar panchayats (the tier III local bodies) using the formula given by the most recent SFC whose recommendations have been accepted by respective SFCs. However, in case the SFC formula is not available, then the share of each gram panchayats should be distributed across the entities using 2011 population with a weight of 90 per cent and area with a weight of 10 per cent. In the case of urban local bodies, the share of each of the three tiers will be determined on the basis of population of 2011 with a weight of 90 per cent and area with a weight of 10 per cent, and then distributed among the entities in each tier in proportion to the population of 2011 and area in the ratio of 90:10.

The Commission recommended that each state can devise its own procedure for the disbursement of its Performance grants, both rural and urban subject to the conditionalities specified by the Commission. In case some amount of the performance grant remains after disbursement to the eligible rural/urban local bodies, the undisbursed amount should be distributed on an equitable basis among all the eligible rural/urban local bodies that had fulfilled the conditions for getting the performance grant.

Converting the local body grants recommended by the 12th, 13th and 14th Finance Commission into per capita terms we see that the Twelfth Finance Commission recommended an annual average per capita grant of Rs.44.67 (Rs. 48.82 for PRIs and Rs.33.33 for ULBs) during its award period from 2005-06 to 2009-10 as evident from table 13. The average annual per capita local body grants recommended by the Thirteenth Finance Commission during its award period was Rs.144.68, of which, Rs.145.50 was for PRIs and Rs.142.43 for the ULBs. In per capita terms (nominal terms) the local body grants recommended by the Thirteenth Finance Commission was 3.24 times vis-à-vis Twelfth Finance Commission. The Fourteenth Finance Commission further enhanced it to Rs.442.33 per capita (Rs.442.28 for gram panchayats and Rs.442.44 for ULBs), an increase of 3.06 times as compared to the Thirteenth Finance Commission. Expressing the per capita number in real terms (i.e., at 2011-12 prices) we see that the annual average per capita

¹⁵ 87 per cent of the total local body grants recommended by the Fourteenth Finance Commission was unconditional in nature and only 13 per cent was conditional.

devolution recommended by the Twelfth, Thirteenth and Fourteenth Finance Commission works out to Rs.60.37, Rs.132.31 and Rs.348.12 respectively.

Table 13: Local Body Grants of the by Union Finance Commissions

FC	Year	Total Grant (Rs. Crore)	Per capita Grant (Rs.)	PRIs		ULBs	
				Total (Rs. Crore)	Per capita (Rs.)	Total (Rs. Crore)	Per capita (Rs.)
12 FC	2005-06	5000	45.99	4000	50.26	1000	34.32
	2006-07	5000	45.31	4000	49.52	1000	33.81
	2007-08	5000	44.66	4000	48.81	1000	33.33
	2008-09	5000	44.04	4000	48.13	1000	32.86
	2009-10	5000	43.43	4000	47.47	1000	32.41
	2005-10	25000	--	20000	--	5000	--
Average			44.67		48.82		33.33
13 FC	2010-11	8182.3	70.12	5870.48	70.62	2151.82	68.75
	2011-12	12723.1	106.23	9135.49	106.96	3348.61	104.23
	2012-13	18654.2	153.81	13417.15	154.77	4918.05	151.18
	2013-14	22003.6	179.17	15868.14	180.12	5816.46	176.57
	2014-15	25954.4	208.70	18759.22	209.64	6876.18	206.14
	2010-15	87517.6	--	63050.47	--	23111.13	--
Average			144.68		145.50		142.43
14 FC	2015-16	29988	237.69	21624.46	245.94	8363.06	218.70
	2016-17	48868	381.68	33870.52	379.59	14997.84	386.46
	2017-18	56288	433.20	39040.96	431.14	17247.42	437.94
	2018-19	64939	492.48	45069.18	490.44	19870.19	497.16
	2019-20	87352	652.76	60687.08	650.74	26665.29	657.42
	2015-20	287435	--	200292.2	--	87143.8	--
Average			442.33		442.28		442.44

Source: Author's calculations using data from reports of various Finance Commissions

Note: (1) Local Body Grants of 13th FC include grants for Special Areas. (2) For calculating per capita grants of 12th and 13th Finance Commission we have used 2001 rural and urban population numbers. For 14th Finance Commission we have used 2011 population. (3) The 14th FC recommended a per capita grant of Rs. 488 per annum to local bodies, this figure has been worked out to Rs. 442.33 per annum. This is because the Commission recommended the amount of Rs. 448 by projecting the 2011 census population numbers of all States based on 2011 Census. In the present study we have used the projected population numbers for each of the five years during 2015-16 to 2019-20.

6.2 Issues raised by the 13th and 14th Finance Commissions with respect to SFCs

The 13th and 14th FC recognised that for several reasons, the Union Finance Commissions could not base their recommendations entirely on the SFC reports. These included among other, variations in the approaches adopted by the SFCs, difference in the periods covered by individual SFCs, non-synchronisation of the SFC report periods with that of the Finance Commission report

and the quality of SFC reports. Both these commissions raised some crucial issues related to SFCs for the State governments. For instance, the 13th FC felt that the work of the SFCs needs to be streamlined and strengthened in many ways. These include standardisation in the methods and approaches of the SFCs, and in preparing their reports more systematically and uniformly.

Among the various issues relating to local bodies addressed by the 13th FC, one of the issues relate to the functioning of SFCs. The experience of SFCs has not been found to be successful for a number of reasons. SFCs themselves are hampered by lack of data. Limited capacity and poor ownership by State Governments compounds this problem. The Commission pointed out that the SFCs buttress the functioning of local bodies and therefore, need to be strengthened, their functioning made more predictable and the process of implementing their recommendations made more transparent. There is an urgent need to ensure that SFCs are appointed on time, the period covered by the SFCs is synchronous with the period covered by the National Finance Commission. State Governments should ensure that the recommendations of State Finance Commissions (SFCs) are implemented without delay and that the Action Taken Report (ATR) is promptly placed before the legislature.

The quality of SFC reports continues to be patchy. Though 12th FC had recommended that SFCs collect data in the formats suggested by it, this advice has not been uniformly followed. The basis for determination of support is not uniform across SFCs. Further, the recommendations of the SFCs do not follow a uniform pattern, thus detracting from their usability. The 13th FC had constituted a task force to prepare a template for SFC reports and recommended that SFCs should consider adopting the template suggested by it as the basis for their reports.

The 14th FC recognising the role of SFCs in empowering local bodies emphasised on the need for strengthening SFCs. The Commission studied and analysed the recommendations of SFCs, and made these central to its approach in making recommendations pertaining to local bodies. The Commission could not use the financial data in the SFC reports fully due to the fact that the available reports were for different periods with some containing data nearly a decade old. The Commission was of the view that there is wide variation in the assignment of functions, funds and functionaries across States and the SFCs can assess in details the needs of local bodies within the State as envisaged in the Constitution. The Commission felt that there is a need for States to facilitate the effective working of SFCs. Therefore, it recommend that the State Governments should strengthen SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and timely placement of the SFC report before State legislatures, along with action taken report.

7. Conclusion

We are of the view that centrality of State government in the process of decentralisation cannot be undermined. In that context, one size fits all decentralisation approach is also not desirable. But our analysis shows that differences in approaches of various SFCs are not really based on this rationale. As far as the operational aspects are concerned it is observed that despite having statutory provisions for timely constitution, constitution of SFCs is delayed in many States. This along with the absence of the provision stipulating the time limit for submission of the SFC report resulted in a situation where there is no uniformity in the time taken by SFCs to submit their reports. States have also quite often granted extensions to SFCs for submitting their reports without any consideration of the period of coverage thereby resulting in inordinate delay in the submission. Moreover, states also appear not to have acted promptly on the recommendations of SFCs by not placing the ATRs before the State legislature in a timely manner.

The other important aspect of the findings of this review is the differences in the treatment of divisible pool by individual SFC. Although, the ToRs are clear about what is divisible, different SFCs have defined divisible pool according to their own judgment making comparison of award extremely difficult across SFCs. However, for the purpose of comparison when awards are converted in per-capita terms and as a share of own revenues across States, we have observed wide variations across States. The comparison of this with the index of decentralisation does not show a clear pattern. We also do not find any relationship between per-capita income of a state and recommended financial devolution.

Our analysis also reveals that non-availability of data and infrastructure support is hampering the quality of SFC work in many States. Questionnaire based collection of data by many SFCs, puts a huge question mark on the quality of data used by SFCs. For SFC to function as an institution to promote decentralisation, the focus needs to be multi-dimensional focusing on improving the process, the data collection and sharing as well as improving the quality of SFC reports.

References

Centre for Policy Research (CPR) (2014), Analysis of Finances of Rural Local Bodies, A Study for the Fourteenth Finance Commission, New Delhi.

Gupta, M. (2014), "Panchayat Revenues and Fiscal Decentralisation," Geography and You, Vol. 14, pp. 9-13.

Jena, P.R. and Gupta, Manish (2008), "Revenue Efforts of Panchayats: Evidence from Four States", *Economic and Political Weekly*, pp.125-130, July.

Ministry of Finance (2000), Report of the Eleventh Finance Commission (2000-2005), Ministry of Finance, Government of India, New Delhi.

Ministry of Finance (2004), Report of the Twelfth Finance Commission (2005-10), Ministry of Finance, Government of India, New Delhi.

Ministry of Finance (2009), Report of the Thirteenth Finance Commission (2010-2015), Ministry of Finance, Government of India, New Delhi.

Ministry of Finance (2014), Report of the Fourteenth Finance Commission, Ministry of Finance, Government of India, New Delhi.

Ministry of Panchayati Raj (2013), Report of the Task Force on State Finance Commissions and Related matters, 2013, Ministry of Panchayati Raj, Government of India, New Delhi.

Oomen, M.A. (2005), "Twelfth Finance Commission and Local Bodies", *Economic and Political Weekly*, pp.2022-2025, May.

Oomen, M.A. (2010), "The 13th Finance Commission and the Third Tier", *Economic and Political Weekly*, pp.92-98, November.

Oomen, M.A. (2015), "Fourteenth Finance Commission: Implications for the Local Government", *Economic and Political Weekly*, pp.44-46, May.

Prasad, D Ravindra and Chary, V Srinivas (2015), "Trust-based Approach for Local Bodies: Fourteenth Finance Commission", *Economic and Political Weekly*, pp.19-22, December.

Rajaraman, I and D. Sinha, (2007), "Tracking functional devolution by States to Panchayat," Working Paper No. 48, NIPFP, New Delhi

Rajaraman, Indira (2007b), Rural Decentralisation and Participatory Planning for Poverty Reduction: Overall Report on Four States, National Institute of Public Finance and Policy, New Delhi.

Rajaraman, Indira and Gupta, Manish (2016), "Preserving the Incentive Properties of Statutory Grants", *Economic and Political Weekly*, Vol. LI, No. 9, pp.79-84.

Rajaraman. I, and D. Sinha, (2007a), "Functional Devolution to Rural Local Bodies in Four States," EPW, Vol. 42 (24), June.

Rao, M. Govinda and U.A.V. Rao (2008), "Expanding the Resource Base of Panchayats: Augmenting Own Revenues", *Economic and Political Weekly*, pp.54-61, January

Rao, M. Govinda, T.R. Raghunandan, M. Gupta, P. Datta, P.R. Jena and Amarnath H. K. (2011), Fiscal Decentralisation to Rural Local Governments in India: Selected Issues and Reform Options, National Institute of Public Finance and Policy, New Delhi, May.

Reddy, Y Venugopal (2015), "Fourteenth Finance Commission: Continuity, Change and Way Forward", *Economic and Political Weekly*, pp.27-36, May.

Tata Institute of Social Sciences (2015), How Effective is Devolution Across India States, Tata Institute of Social Sciences, Mumbai, April.

Panchayat Acts of various State Governments.

Report of the SFCs of various States of India.

Annexure

Table A1: Time taken to submit SFC Report (in months)

Sl. No.	States	1 st SFC	2 nd SFC	3 rd SFC	4 th SFC	5 th SFC
1	Andhra Pradesh	35	44	37	--	--
2	Arunachal Pradesh	59	26	--	--	--
3	Assam	8	28	25	21	44
4	Bihar	ns	53	28	36	36
5	Chhattisgarh	33	19	--	--	--
6	Goa	2	28	--	--	--
7	Gujarat	46	31	--	--	--
8	Haryana	34	48	36	50	--
9	Himachal Pradesh	31	53	29	32	50
10	Jammu & Kashmir	34	--	--	--	--
11	Jharkhand	63	--	--	--	--
12	Karnataka	25	26	27	30	
13	Kerala	22	18	14	16	27
14	Madhya Pradesh	17	54	39	59	--
15	Maharashtra	33	33	17	80	--
16	Manipur	32	23	--	--	--
17	Mizoram	40	--	--	--	--
18	Nagaland	15	--	--	--	--
19	Odisha	25	16	16	11	--
20	Punjab	20	17	27	30	32
21	Rajasthan	20	26	29	29	--
22	Sikkim	13	15	12	11	11
23	Tamil Nadu	19	15	22	22	24
24	Tripura	21; 37	41	19	--	--
25	Uttar Pradesh	26	28	44	36	--
26	Uttarakhand	15	13	18	16	--
27	West Bengal	18	18	32	34	--
Average time (months)		27	27	29	32	31
Min time		2	2	13	11	11
Max time		63	63	54	80	50

Note: In case of first SFC of Tripura, two separate Reports were submitted for RLBs and ULBs, Hence two time periods.

Table A2: Reasons for Delay in Submission of SFC Reports

Sl. No.	States	Actual Time Taken	Reasons for Delay in Report Submission as per the SFC Report
1	Andhra Pradesh (3 rd)	3 years 1 month	The Commission could not give its report by the stipulated date of 15-07-2004, due to non-receipt of statistical data from the Local bodies and the concerned Departments. The Commission was reconstituted with an entirely new team of three Members, Member Secretary and Chairman, which took charge on 29-12-2004.
2	Arunachal Pradesh (2 nd)	2 years 2 months	SFC report not available.
3	Assam (5 th)	2 years 8 months	The Commission was originally asked to make its report available by 30-04-2016. But much head way could not be made in this regard due to various administrative reasons, as well as intervention caused by the announcement of election to the State Legislature which hampered the normal schedule of the Commission. In view of this, the tenure of the Commission was first extended by three months up to 31-07-2016. Thereafter, the tenure was further extended by another four months up to 30-11-2016.
4	Bihar (5 th)	3 years 2 months	Due to administrative, technical and managerial issues at the Local levels, the SFC report was not submitted on time. Most of the ULBs did not follow the timelines in submitting its financial position report like audits etc. to SFC, due to delay in information from the line departments and different perspectives of the elected body and the officials.
5	Chhattisgarh (2 nd)	1 year 7 months	The Commission was expected to submit its report by 22-07-2012. However, it took time to arrange for staff and mobilise other resources, and the Commission could only commence its effective functioning in February, 2012, about six months after its constitution. In view of this delay, the State government made the recommendations of the 1 st SFC effective till 31-03-2012, and modified the award period of the 2 nd SFC from 2011-16 to 2012-2017, and also extended the time of submission of its report up to 31-03-2013. Meanwhile, the Commission submitted an interim report for the year 2012-13 on 30-11-2012.
6	Goa (2 nd)	2 years 4 months	The period of submission of SFC report was extended to December, 2007. However, the exact reasons for the delay has not been mentioned in the report.
7	Gujarat (2 nd)	2 year 7 months	The Commission faced the lapses in the appointment of members of the Commission. Despite repeated requests and efforts, no more members except Chairman, Principal Secretary and Member Secretary were appointed by the Government. The Principal Secretary was given the additional charge of the Member Secretary. Also, the post of Member Secretary was neither created nor filled up. Owing to the ill-health of Chairman of the Commission, he was unable to attend the office from 29-01-2005, and therefore, the Commission became a one member Commission. The Commission was originally asked to submit its report by 15-10-2005, but the Governor extended the tenure to 18-11-2006.

Sl. No.	States	Actual Time Taken	Reasons for Delay in Report Submission as per the SFC Report
8	Haryana (5 th)	1 year 4 months	The SFC requested the State government for extending the final report submission date till end of August 2017, which was accepted by the government, though reason for the same is not given in the report. Yet, the final submission of the report was on 13-09-2017. Therefore, it is not clear from the report as what made the delay in report submission.
9	Himachal Pradesh (5 th)	4 years 2 months	The general elections to all the three levels of PRIs and ULBs were to be held in December, 2016, and in the first week of January, 2017. The process for holding the elections had commenced much earlier. These elections had priority and therefore, the collection of data from Panchayati Raj Department for PRIs and Urban Development Department for ULBs got delayed.
10	Jammu & Kashmir (1 st)	3 years 3 months	The Commission faced serious problems from its very inception with respect to the appointment of Secretary, and additional personnel with subject knowledge, support system and infrastructure during its full tenure. The report says that – the Commission was left to fend on its own for accommodation, office staff and other required accessories both at Srinagar and Jammu.
11	Karnataka (4 th)	2 years 6 months	This Commission was confronted with several administrative difficulties concerning establishment of office and working of the Commission in its initial stages, as had previous Commissions. When this Commission was appointed, there was neither an office nor a cell to assist.
12	Kerala (5 th)	2 years 3 months	Though the Commission was constituted on 17-12-2014, first 3 months were lost due to delay in getting supporting staff. There was a delay of around 4 months in posting the staff of the Commission. The Commission lost time in the appointment of staff. The preparation of report was delayed forcing the Commission to submit the report in 2 parts.
13	Madhya Pradesh (4 th)	4 years 11 months	The Commission could not function since its inception till July, 2014, primarily due to non-appointment of Chairman and two other members. Due to these reasons, the SFC was reconstituted on 18-07-2014. It meant only 6 month period was left till January, 2015. Therefore, the tenure of the Commission was extended for one another year, i.e., 2015-16. Also, due to uncertainty related to GST with poor data collection in the State, the Commission decided to give an interim report initially.
14	Maharashtra (4 th)	6 years 4 months	Though the SFC was constituted in 10-02-2011, the full-fledged Commission came into existence only from 17-05-2014, on account of several appointment and re-appointment issues of members of the Commission from time to time. Since June, 2014, the full Commission started working. The Commission also faced problem of accommodation for starting the office work. It managed to get accommodation only in July, 2012. The tenure of the Commission was up to 30-09-2012, and was extended up to 31-12-2014.
15	Manipur (3 rd)	1 year 10 months	The 3 rd SFC was constituted as a one man body - the Chairman-cum-Member of the Commission. Further, the State government stated that the Commission shall hold office up to three months from the date of assumption of office by the Chairman-cum-Member. However, the 3 rd SFC

Sl. No.	States	Actual Time Taken	Reasons for Delay in Report Submission as per the SFC Report
			endorsed the views of the 2 nd SFC and strongly felt that no purpose is served by creating the SFC for a period of only three months in Manipur, where no ready data base exists and collection of data and information is a time consuming exercise. Fixing a time frame of three months as done in the case of the 3 rd SFC and then granting short extensions creates a wrong impression that a work which in the assessment of the State government can be done in a period of three months has been unreasonably delayed by the 3 rd SFC. And so, in view of the above considerations the 3 rd SFC and while endorsing the recommendation of the 2 nd SFC stated that the State Finance Commission should be appointed at least two years ahead of the commencement of the award period to be covered by the Commission for the timely availability of the report.
16	Mizoram (1 st)	3 years 5 months	Though the first ever SFC of the State was constituted on 30-09-2011, and should make its report available by the 30-11-2012 as per the ToR, the services of Chairman (part-time) and Secretary (part-time) of the Commission had been extended by the Government of Mizoram for six months and were unable to fulfill their assignments as stipulated. After the full-time appointment of the exiting part-time Chairman and Secretary, the Commission was expected to make available its report latest by the 31-10-2014. Yet, the Commission was able to submit its report on 19-02-2015.
17	Odisha (4 th)	11 months	The Commission was appointed initially for a term of six months, i.e., up to 30-04-2014, and its tenure was subsequently extended up to 30-09-2014. In other words, it had around eleven months time to complete the task of submitting the SFC report to the State government.
18	Punjab (5 th)	2 year 8 months	Though the 5 th SFC was constituted originally on 18-09-2013, and was expected to submit its report by 31-12-2015 as per the ToR, it was reconstituted twice, first up to 31-12-2015, and subsequently extended up to 30-06-2016. Hence, significant delay in submitting the SFC report, which was finally submitted in June, 2016.
19	Rajasthan (4 th)	2 year 5 months	The Commission's term was originally up to 31-12-2011. This was extended from time to time and the last extension given to the Commission expired on 30-09-2013. And therefore, due to time to time extension of the Commission, the submission of final report was delayed by a considerable period.
20	Sikkim (5 th)	11 months	The State Government extended the term of the Fifth State Finance Commission from 28-02-2017, up to 31-07-2017.
21	Tamil Nadu (5 th)	2 years	No such information available in the SFC report.
22	Tripura (3 rd)	2 years 7 months	The tenure of the Commission was extended up to 30-10-2009 from 28-03-2009. The Commission also face data availability issues for the delay in report submission.
23	Uttar Pradesh (4 th)	3 Years	The Commission was set up 19-12-2011. Interestingly, the ToR for the Commission was issued on 23-04-2012. The award period of this Commission was 2011-12 to 2015-16. In this way, the constitution of this

Sl. No.	States	Actual Time Taken	Reasons for Delay in Report Submission as per the SFC Report
			Commission was done after eight months of the start of the award period. Apart from this reasons, there were other administrative, technical reasons for the delay in the submission of the SFC report.
24	Uttarakhand (4 th)	1 year 4 months	The Commission had no office and had to look for office accommodation, equipment and some staff to begin its work. Appointment and re-appointment of Chairman, Secretary and other Members of the Commission were done, and therefore, the term of the Commission was extended up to 31-05-2016, and delayed also because the SFC report was also to be made available in Hindi.
25	West Bengal (4 th)	2 years 10 months	The Fourth State Finance Commission of West Bengal was set up on 30-04-2013. However, it was not until October, 2013 that it got an office space and some minimal support staff to become functional. The five months lying between April and October was spent on informal discussions with academicians and government officials to gather some initial information and form preliminary ideas which helped the Commission in its later deliberations. The Commission had initially started with two members; subsequently, the member secretary was appointed in June, 2013 and another member in July, 2014.

Source: SFC reports of various States

Table A3: Data availability challenges before the SFCs

Sl. No.	States / Latest SFCs	Data Challenges
1	Andhra Pradesh (3 rd) (2005-06 to 2009-10)	The 3 rd SFC observed that starting from the 1 st SFC towards the 3 rd SFC, the non-availability of statistical data continued to be the major problem faced by all the SFCs. For instance, the 1 st SFC could not find details on the various criterion used for the funds devolution. The 2 nd SFC similarly, faced the problem of non-availability of proper data from recommending devolution of funds. The 3 rd SFC says that it could not submit its final report as per its ToR mandated data due to non-receipt of information from Panchayat Raj Bodies and Municipalities. Data deficiency relating to Rural and Urban Bodies is the biggest challenge faced by all SFCs in the state.
2	Assam (5 th) (2015-2020)	The 5 th SFC observed that continuity of efforts at monitoring, implementation, collection, compilation and updation of data is lost between the two successive SFCs. This is the main challenge before a new SFC due to absence of a permanent SFC cell in the State. The permanent SFC cell could provide updated data when a new SFC is appointed. But in actual practice this has not happened because a permanent SFC cell is yet to be put in place and the temporary SFC cell is neither properly staffed nor fully equipped to meet the challenge. As a result when a new SFC assumes office a lot of time get lost in collecting basic data which could have been collected, compiled and updated much earlier had there been a permanent SFC cell in the Finance Department.
3	Bihar (5 th) (2015-2020)	No significant data issues faced by the Commission.
4	Chhattisgarh (2 nd) (2012-13 to 2016-17)	The 2 nd SFC observed that in the absence of a proper and effective institutional mechanism at State level, the Commission could not get the information and data required for study and analysis. The Commission suggested that development of database for future SFCs through a permanent SFC cell in finance department is the necessary for timely submission of SFC Reports.
5	Gujarat (2 nd) (2005-06 to 2009-10)	The Commission observed that the information and data at apex level with regard to Panchayats was either not available or was available in a highly unorganised manner. Also, there was hardly any response from the concerned departments like Finance, Panchayat and Urban Development on availability of data in record from the previous SFC for starting the working of the 2 nd SFC.
6	Haryana (5 th) (2016-17 to 2020-21)	The 5 th SFC observed that it had been constrained by the lack of robustness of the database to utilise simple criteria for devolving of funds among the Urban and the Rural Bodies. For instance, for 6000 plus Gram Panchayats, it has been too difficult to obtain reliable and consistent data of area and population. It is hoped that the 5 th SFC's recommendation concerning continuing the SFC related work, especially on collection of more timely and better data would enable future SFCs to

Sl. No.	States / Latest SFCs	Data Challenges
		<p>adopt more refined methods for allocation among Urban and among Rural Bodies.</p> <p>The 5th SFC recommended that a division be created in Swarna Jayanti Haryana Institute for Fiscal Management (SJHIFM) as a repository of the data and information about the ULBs and RLBs – about finances, about schemes, about services, about capacity, about central and state government's initiatives etc. This will immensely facilitate the work of the future SFCs.</p>
7	Himachal Pradesh (5 th) (2017-18 to 2021-22)	The Commission observed that the data from all the three tiers of PRIs collected by the Panchayati Raj Department initially were outsourced for tabulation. However, this data suffered from huge inconsistencies and gaps. Even in case of ULBs, the primary data suffer from lot of inconsistencies and gaps.
8	Jammu and Kashmir (1 st) (2007-08 to 2011-12)	The SFC observed that – despite the Commission approached the Government offices and functionaries to facilitate access of the Commission to information, required data and other official records, unfortunately, there was no response from the concerned authorities. The Commission suffered from the shortage of appropriate staff for compilation and collation of data. The Commission had to run without the required personnel despite several reminders to the Government.
9	Karnataka (4 th) (2018-19 to 2022-23)	The 4 th SFC observed that there is serious deficiency in data. The Commission strongly felt that there is a need to look into this issue by the departments concerned so that the existing data base of the local bodies is improved and data updated at regular intervals. This should be done on priority basis. Getting data and information relating to receipts and expenditure from local bodies was a challenge the Commission faced.
10	Kerala (5 th) (2016-17 to 2020-21)	Compared to the first three SFCs, the ToR of the 4 th and 5 th SFCs contained more issues requiring elaborate exercise and collection of data from the Local governments.
11	Maharashtra (4 th) (2011-12 to 2015-16)	The Commission observed that the prolonged vacancies of these administrative and technical posts hampered the process of data collection and its analysis and therefore, as per the approval the staff was made available through outsourcing for the work of recording data entries, their tabulation etc. The initial difficulty faced by Commission had been that there is no agency solely responsible for collection, compilation and analysis of data and for reviewing the Action Taken Report (ATR). The major constraint faced by this Commission in fulfilling its objective of balancing the receipt and expenditure on revenue accounts of local bodies in general, and of each local body severally, has been the lack of authentic and updated data.
12	Manipur (3 rd) (2013-14 to 2017-18)	The 3 rd SFC observed that it needed a large volume of data from various sources including Government Departments, local bodies etc. It issued a series of questionnaires to the RLBs, ULBs, and ADCs and held a series of

Sl. No.	States / Latest SFCs	Data Challenges
		meetings with them in order to collect the data/information as expeditiously as possible. The Commission had to adopt proxy figures in many instances due to the non-availability of reliable data. No ready data base exists and collection of data and information is a time consuming exercise, the Commission felt. The Commission, therefore, recommended earmarking a few personnel from within the existing resources of the Finance Department for collection and storage of data on local bodies on a regular basis.
13	Mizoram (1 st) (2015-16 to 2019-20)	The Commission felt that since this was the State's first SFC, the challenges were huge in terms of collection of statistical data mainly the revenue and the expenditure data of the State. The major limitation of such analyses was non-availability of reliable data.
14	Odisha (4 th) (2015-16 to 2019-20)	The Commission observed certain issues related to information from LBs on their finances and functions. The response from LBs was poor and not encouraging for the Commission. There was absence of any credible data or any accepted benchmark to determine the critical gaps in different sectors.
15	Punjab (5 th) (2016-17 to 2020-21)	The 5 th SFC observed that although the staff of the municipalities was given the required training, most of the municipalities were not able to provide reliable data primarily due to scarcity of staff. A large number of them had to get the services of staff of other municipalities for getting their data compiled, which resulted in poor quality of data being made available to the Commission. The situation in respect of PRIs was considerably worse as not much significance was attached by them to collecting and maintaining good quality data.
16	Rajasthan (4 th) (2010-11 to 2014-15)	The Commission observed that an updated and authentic database is the prerequisite for preparation of any development plan. It maintained that maintenance of records and data is woefully poor rather chaotic in Local bodies in Rajasthan. It suggested that the State government should evolve a comprehensive system of collecting, compiling, managing and monitoring the PRIs and ULBs finances regularly, and the basic data should be updated and stored regularly.
17	Sikkim (5 th) (2020-21 to 2024-25)	No significant data availability problems faced by the Commission.
18	Tamil Nadu (5 th) (2016-17 to 2020-21)	The 5 th SFC Report says that "in spite of the best efforts by the Commission, the quality of data remains a cause for concern, and the Commission tried to improve the data by having sample checks done either directly by the Commission or through the Directorate of Local Fund Audit, the respective Heads of Department and in some cases through external agencies. The Commission has also cross checked the data with other available sources. In case of conflict of figures, the source which is more authentic and based on better technical supervision has been taken into account".

Sl. No.	States / Latest SFCs	Data Challenges
19	Tripura (3 rd) (2009-10 to 2014-15)	The Commission observed that timely availability of data is a matter of concern for the SFC's effective working.
20	Uttar Pradesh (4 th) (2011-12 to 2015-16)	The SFC observed that there was severe lack of cooperation from the State government officials in releasing information to the Commission for organisation of data as required, and also there was undue administrative interference from the Government officials in the working of the Commission.
21	Uttarakhand (4 th) (2016-17 to 2020-21)	The 4 th SFC faced the difficulty of analysis of data provided in the questionnaires, showed major discrepancy in many cases between census data, data supplied by ULBs and information given by the Urban Development Directorate in respect of area and/ or population. Since population and area play an important role in any formula of devolution, it was necessary to get authenticated information on these parameters and relevant data was lacking.
22	West Bengal (4 th) (2015-16 to 2019-20)	The Commission faced the difficulty of non-availability of disaggregated data on population, area etc. up to GP level from the 5 Panchayats and Rural Development Department which could not be made available by the Census Directorate. Maintenance of database related to Local bodies for the use of future SFC was suggested by the Commission.

Source: SFC reports of various States

Table A4: Sharing of Resources: Devolution

	States	Sharing of Revenues
1	Andhra Pradesh (3 rd)	Devolution to local bodies is by way of <u>Grants and assignments</u> . 6.77% of the <u>Total Tax and Non-Tax Revenues of the State</u> including the share of Central Taxes for the year 2004-05.
2	Assam (5 th)	The Commission recommended devolution of the <u>Net proceeds of State taxes</u> to local bodies at the following rates: 15.5% in 2015-16, 15% in 2016-17, 14.50% in 2017-18, 14% in 2018-19, and 13.5% in 2019-2020. Net proceeds of State taxes are obtained by netting out cost of collection which is assumed 10% of the gross collection.
3	Bihar (5 th)	8.5% of the <u>State's own tax revenue net of collection costs</u> should be devolved on the local bodies; 2.75% of the State's previous year total revenue in way of devolution and grant to the local bodies for each financial year starting from 2015-16 to 2019-20.
4	Chhattisgarh (2 nd)	8% of <u>Net tax revenues of the State</u> to be shared with the local bodies. Net Tax Revenues of the State comprises of deducting the proceeds of three taxes i.e., Land Revenue, Tax on Goods and passengers and Other taxes on commodities and services and also the cost of collection. Cost of collection is assumed to be 2 percent of the States Own Tax Revenue
5	Gujarat (2 nd)	The Commission recommended devolution of additional 10% of <u>State's total revenue receipts</u> . At present the State Government shares 21.15% of its total gross revenue receipts with the local bodies.
6	Haryana (5 th)	The Commission recommended devolution of 7% of the <u>State's own tax revenue</u> to LBs and <u>Stamp duty</u> of 2% over and above the recommended devolution.
7	Jammu & Kashmir (1 st)	The Commission recommended 12.5% of divisible pool, i.e., <u>State's tax proceeds net of the cost of collection of 10%</u> to be devolved upon the ULBs, and 7% of <u>identified tax proceeds net of tax collection charges (less by 10%)</u> for PRIs during the award period, 2007-08 to 2011-12.
8	Karnataka (4 th)	The Commission recommended devolution based on the <u>Non Loan Net Own Revenue Receipts (NLNORR)</u> and thereafter every year, with a four-stage revenue sharing formula.
9	Kerala (5 th)	The Commission recommended 20% of the <u>Net proceeds of annual SOTR</u> to Local governments as total devolution on (t) basis. Devolution comprises of Development Funds; Maintenance Funds and General Purpose Funds. Under the General Purpose fund, it recommended sharing <u>3.5% of the Net proceeds of annual SOTR</u> to Local Governments as General Purpose Fund (GPF) on (t) basis. Under the Maintenance funds, 5.5% of the <u>Net proceeds of annual SOTR</u> calculated on (t) basis shall be devolved to Local governments. And under Development Fund, the Commission recommended sharing 11% of the <u>Net proceeds of annual SOTR</u> calculated on (t) basis shall be devolved to Local governments. The rate of devolution shall be increased to 11.5% in 2017-18, 12.5% in 2018-19, 13.5% in 2019-20 and 14.5% in 2020-21.
10	Madhya Pradesh (4 th)	The Commission recommended 7.5% of the 90% of the <u>Net tax and non-tax revenue of the State</u> to be shared between Gram Panchayats and ULBs.
11	Maharashtra (4 th)	The Commission recommended 40% of <u>Total State's revenue from tax & non tax revenue</u> to local bodies. Out of this divisible pool, 20% to be set aside for incentive grants for horizontal distribution amongst PRIs & ULBs.

	States	Sharing of Revenues
12	Manipur (3 rd)	The Commission recommended a transfer of 10% of the <u>State's tax and non-tax revenue and share in Central taxes</u> to LBs.
13	Mizoram (1 st)	15% share of <u>Own tax revenues of the State</u> to be shared among the LBs. At least 5% of the Excise duty be shared to the LBs from the date of actual levy of tax additionally.
14	Odisha (4 th)	The Commission recommended 3% of the <u>Net own tax revenue of the state (Net of cost of collection, Entry tax, Entertainment tax and Motor Vehicle Tax)</u>
15	Punjab (5 th)	The Commission recommended 4% of the <u>Net total tax revenue of the state (less cost of collection)</u> to be devolved to local bodies. And 60% of the share of <u>State's taxes</u> be distributed between PRIs and ULBs in the ratio of their population based on census 2011.
16	Rajasthan (4 th)	The Commission recommended 5% of <u>State's net own tax revenue (excluding Entry tax and Land revenue)</u> , 3% of Royalty on minerals, 2% Cess on Excise Duty and 10% Surcharge on Stamp Duty are also recommended to be devolved.
17	Sikkim (5 th)	The Commission recommends that an amount of at least 4.5% of the <u>net proceeds of State's taxes, fees and levies</u> should be devolved to PRIs and ULBs for the period of 2020- 2025. This resource should be made available to PRIs and ULBs in the beginning of each financial year.
18	Tamil Nadu (5 th)	The existing overall vertical devolution proportion of 10% of the <u>Net State's own tax revenue (SOTR)</u> may be retained for the award period of the Commission. A 56:44 sharing ratio between RLBs and ULBs may be adopted.
19	Tripura (3 rd)	The Commission did not recommend <u>any specific devolution percentage for LBs</u> from the State's tax and non-tax revenues. Instead, based on the projected State's own tax and non-tax revenues and expenditure gap therein, it recommended a <u>pre-devolution gap</u> of specified amount to be devolved per annum to the LBs during the award period, 2010-11 to 2014-15.
20	Uttar Pradesh (4 th)	The Commission recommended 15% of <u>State's tax and non-tax revenues net of cost of collection</u> to be devolved.
21	Uttarakhand (4 th)	The Commission recommended devolution amount of 11% of <u>State's own tax revenue</u> to be distributed between PRIs and ULBs.
22	West Bengal (4 th)	The recommended devolution, being 2.5% of the <u>Tax revenue</u> of the State for the year 2015-16. Thereafter, it grows annually at the rate of 15% with a general caveat that if in a particular year the State's own tax revenue grows by less than 15%, the recommended devolution is 2.5% of the actual tax revenue.

Note: Based on the SFCs recommendations.

Table A5: Total Recommended Devolution (2008-09 to 2015-16)

(Rs. crores)

	States	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1	AP (3 rd)	211228	211228	211228	211228	211228					
2	Assam (3 rd -4 th -5 th)	98496	30659	33449	44135	55000	66616	163375	164674	167814	172124
3	Bihar (3 rd -4 th -5 th)	48269	54202	60858	68324	76697	247500	323000	398500	493000	610500
4	Chhattisgarh (1 st -2 nd)	47248	55616	86636	99394	113807	130308	149203			
5	Gujarat (2 nd)	254475									
6	Haryana (3 rd -4 th -5 th)	65425	49979	59510	70522	81964	95337	193200	218200	246500	278550
7	HP (3 rd -4 th -5 th)	9415	10093	12603	13137	17877	19105	23173	25490	31703	34531
8	Karnataka (3 rd -4 th)	1384600	1576800	1796100	2396400	2827600	3188400	3658800	4111900	4322100	4734600
9	Kerala (3 rd -4 th)	300100	382721	474699	563162	649058	739127	859948	1010594	1185044	1386859
10	MP (4 th)						195515	322598	354663	390345	429375
11	Maharashtra (3 rd)	1250000	1128167	1318194							
12	Manipur (3 rd)	15175	18336	18824	23884	27402	28178	32199	36780		
13	Mizoram (1 st)						4404	5069	5834	6715	7729
14	Odisha (2 nd -3 rd -4 th)	89617	89617	89617	89617	89617	65837	65837	65837	65837	65837
15	Punjab (3 rd -4 th -5 th)	43018	80100	90600	102700	116400	132000	124200	133900	144500	156100
16	Rajasthan (3 rd -4 th)	133064	171462	209847	227891	276132	327181	368966			
17	Sikkim (2 nd -3 rd -4 th)	488	246	246	246	246	1051	1199	1369	1563	1785
18	TN (3 rd -4 th -5 th)	392983	446739	636082	740822	863191	1006225	1114819	1005122	1142522	1279625
19	Tripura (2 nd -3 rd)	4640	5077	5581	6103	6882					
20	UP (3 rd -4 th)	438349	420887	624465	977772	813948	963007				
21	Uttarakhand (2 nd -3 rd)	65263	52379	60416	69709	80456	92888	125798	149033	176560	209170
22	WB (3 rd -4 th)	89600	89600	89600	112393	125880	110380	126937	145977	167874	193055
All State		4941452	4873908	5878555	5817440	6433386	7413058	7658321	7827873	8542078	9559840

Source: SFC reports of States

Annexure A6

Devolution Index 2014-15 – Methodology of the Study done by TISS

(A) Scheme of the Study

[1] Twenty-six states and six union territories participated in the study. The Ministry of Panchayati Raj proposed that one District Panchayat (DP), one Block Panchayat (BP) and one Gram Panchayat (GP) in Districts falling within Part IX areas and two GPs each from the Fifth Schedule area be included in the sample. Leaving out the districts in the Schedule VI areas of States of Nagaland, Mizoram and Meghalaya and National Capital Territory of Delhi, which did not have panchayats and the districts having autonomous district councils (six in Assam, two in Jammu and Kashmir and five in Manipur hills) the districts available in all the federal units above is five hundred and eighty five out of which one hundred and one are fully or partially in Schedule V areas i.e. districts covered under the Panchayat Extension to Scheduled Areas (PESA) Act. Therefore for the field study, it was decided to cover ten PESA districts including one PESA districts in each of the States having schedule V areas and forty three Non PESA districts, ensuring that at least one non-PESA district is covered in all the States.

[2] The number of sample districts in each of the States was decided pro-rata to the total number of districts in the State. The sample was drawn from the Census 2011 data for proportion of Scheduled Castes and Scheduled Tribes (SC&ST) population and the share of Agricultural Workers in the total rural work force. In selecting the District Panchayats (DPs), those falling in the median class were selected. The number of sample DPs was arrived at as fifty one (Jammu and Kashmir and Puducherry does not have DPs), sample BPs was arrived at as forty-six (J&K, Manipur, Goa, Dadra Nagar Haveli, Daman and Diu, Lakshadweep and Sikkim don't have BPs) and number of sample Gram Panchayats was arrived at as sixty three. Some variations were necessitated in the identification of sample PRIs on consultation with the State Governments.

(B) Dimensions and Components

The Cumulative Devolution Index: Improved Index

The conceptual model for devolution index was developed through an interactive Delphi communication technique.

Improved Index: Operational Core of Decentralisation

The ranking of States based on the operational core of decentralisation comprises of four components viz., Transfer of functions, Transfer of functionaries, Transfer of finances and Autonomy. The component 'Transfer of Functions' is computed based on the percentage of detailed activities under each of the constitutionally assigned functions actually undertaken by the PRIs. The component 'Transfer of Functionaries' is computed based on two sets of indicators viz., (i) Number of sanctioned own functionaries in PRIs per thousand population and (ii) Actual availability of functionaries determined by the percentage of filled up positions currently out of the total sanctioned positions. The component 'Transfer of Finances' is reckoned based on four sets of indicators viz., per capita SFC fund available, per capita tied fund available, per capita tax mobilised and per capita non-tax mobilised.

Support Systems for Devolution

The ranking of States based on the dimension 'support systems for devolution' is based on three components viz., Capacity building, Operationalising Constitutional mechanisms systems for accountability and transparency. Capacity building is evaluated based on the total number of Elected Representative (ER) days in the State per panchayat. The component Operationalising Constitutional mechanisms consists of four sets of indicators viz.

- i) Percentage of SFC's constituted in time out of the maximum possible
- ii) Percentage of recommendations of SFC on resource mobilisation accepted
- iii) Percentage of DPC's functioned
- iv) Percentage of Districts where integrated district plans are prepared.

The component systems of accountability and transparency includes two sets of indicators viz., (i) Percentage of panchayat services notified out of the maximum number of services notified across all States. (ii) Average percentage of governance and transparency indicators.

(C) Normal Index

The normal index is based on four parameters viz. Devolution of Functions, Devolution of Functionaries, Devolution of Finances and Infrastructure, Governance and Transparency.

Construction of Normal Index

Based on the dimensions, components and indicators covered above, four indices of devolution have been constructed: (a) The Improved Index of Devolution (DPI), (b) The Index of Devolution in Policy (DPo), (c) The Index of Devolution in Practice (DPr) and (d) The Index of Devolution in Policy adjusted against Practice (DPa) or Normal Index.

Normalisation of Indicators

Each quantified indicator may have different maximum and minimum values, and different mean values. This makes comparisons and aggregation across indicators difficult. Hence, the indicators must be normalized to enable aggregation. The normalized indicator value has been arrived at using a distance function. The distance function is most commonly used in construction of composite indices. The indicator value of variable x, state i is computed as:

$$d(x_i) = \frac{(Actual\ x_i - Min\ x)}{(Max\ x - Min\ x)}$$

where Min x is the minimum value of x and
Max x is the maximum value of x observed
among all the States.

The Tier-Wise Component Indices

For the improved index, the Tier-wise Component Index for component k and tier j can be denoted as:

$$D_{kj} = \frac{\sum_i W_i d_{ij}}{\sum W_i}, \forall\ all\ d_i \in Component\ k$$

Where, W_i is the weightages for the indicators concerned

For the normal index, the Tier-wise Component Index for component k and tier j can be denoted as,

$$D_{kj} = \frac{1}{n} \sum_i d_{ij}, \forall \text{ all } d_i \in \text{Component } k$$

Where, d_{ij} is the i^{th} indicator for j^{th} tier in component k,
and n is the total number of indicators in component k.

Thus, each indicator gets equal weight in the component index.

For example, the Tier-wise Component Index (calculated for the Composite Index on Policy) for GP, for the component 'functions' would be computed from the normalised values of the two indicators under that component:

$$\frac{\text{Normalised Value of indicator 1} + \text{Normalised Value of indicator 2}}{2}$$

The Component-Wise Aggregate Indices

For the improved index, the Component-wise Aggregate Index for component k is:

$$D_k = \frac{\sum_j W_j D_{kj}}{\sum W_j}$$

Where W_j is the weightage for the tier concerned

For the normal index, the Component-wise Aggregate index for component k is:

$$D_k = \frac{1}{3} \sum_j D_{kj}$$

Each tier gets equal weight in the aggregate component index.

The Tier-Wise Aggregate Indices

For the improved index, the tier-wise Aggregate index for tier j is:

$$I_j = \frac{\sum_k W_k D_{kj}}{\sum W_k}$$

For the normal index, the tier-wise Aggregate index for tier j is:

$$I_j = \frac{1}{4} \sum_k D_{kj}$$

Thus, each component k has equal weight in the tier-wise Aggregate index.

The Composite Devolution Index

For the improved index, the composite devolution index for all tiers is:

$$I = \frac{\sum_j W_j I_j}{\sum W_j}$$

For the normal index, the composite devolution index for all tiers is:

$$I = \frac{1}{3} \sum_j I_j$$

Adjustments in the formula are made for states that do not follow the three-tier system.

Source: Tata Institute of Social Sciences. 2015. *How Effective is Devolution Across India States*, Report: Tata Institute of Social Sciences, Mumbai.

Table A7: Assignment of Revenues

	States	Assignment of Revenues
1	Andhra Pradesh (3 rd)	Water Tax, Seigniorage Fee, Profession Tax.
2	Assam (5 th)	In view of the concept of global sharing, assignment of any particular tax to the Panchayat was not recommended.
3	Bihar (5 th)	Entertainment Tax and Sairats.
4	Chhattisgarh (2 nd)	Water tax, Entry tax be assigned to the ULBs.
5	Gujarat (2 nd)	Sales Taxes, Stamp and Registration and Electric duty, Entertainment tax, Tax on Profession and Tax on Vehicles.
6	Haryana (5 th)	Stamp & Registration Duty, Electricity Duty, and Vehicle Registration Tax, Property Tax, State Excise Duty on liquor, Surcharge on VAT, Entertainment Tax, Toll Tax etc.
7	Karnataka (4 th)	The Commission recommended continuance of the current system of assignment and appropriation of taxes, duties, fees and tolls to PRIs and ULBs.
8	Kerala (5 th)	The Commission does not assign any new taxes apart from existing taxes.
9	Madhya Pradesh (4 th)	Tax on Minerals Extraction, Land and Property Tax, Water Charges, and other Fees.
10	Maharashtra (4 th)	Commercial Taxes (Value Added Tax/Sales tax), Stamp Duties & Registration, State Excise Duty, Taxes on vehicles, Other taxes that include Profession Tax, Tax on Goods and Passengers etc.
11	Manipur (3 rd)	Vehicle Entry/Toll Tax, Holding Tax (Property tax), Advertisement Tax, Rent from Market/Land/Owned buildings, Other Fees and User Charges etc.
12	Mizoram (1 st)	Tax revenue includes VAT, Motor Vehicles Tax and Profession Tax (6.5%), Land Revenue Tax (0.03%). Non-Tax Revenue includes power tariff, forestry and wildlife and other services, and interest receipts.
13	Odisha (4 th)	The Commission recommended assignment of Entertainment Tax to the rural and urban local bodies to enable them to levy and collect the taxes; it also recommended assignment of Entry Tax to both RLBs and ULBs.
14	Punjab (5 th)	VAT, Income from levy of Octroi on Electricity, Excise Duty and Auction Money.
15	Rajasthan (4 th)	Entry Tax, Royalty on minerals, Royalty on petroleum, Surcharge on Stamp Duty.
16	Sikkim (5 th)	Collection of taxes, fees and levies by PRIs and ULBs which may vary in different PRIs and ULBs in different regions.
17	Tamil Nadu (5 th)	Commercial Taxes, State Excise, Stamps and Registration and Motor Vehicles Tax and other surcharges, if any.
18	Tripura (3 rd)	Did not recommend assignment of additional tax handles to local governments.
18	Uttar Pradesh (4 th)	No specific recommendation regarding assignment of taxes.
20	Uttarakhand (4 th)	Stamp and Registration, State Excise, VAT, Motor Vehicles Tax, Forestry and Wildlife, Mines and Minerals.
21	West Bengal (4 th)	Taxes on Land and Buildings, Cesses, collection of irrigation charges etc.

Source: SFC reports of various States

Table A8: Grants-in-Aid

	States	Grants-in-Aid
1	Andhra Pradesh (3 rd)	The Commission recommended <i>Per capita grants</i> to GPs, Mandal Parishads and Zila Parishads and ULBs; <i>Grants for maintenance and other grants</i> (these transfers are part of overall devolution).
2	Assam (5 th)	Recommended <i>Special purpose grants</i> .
3	Bihar (5 th)	<i>Grants to each</i> ZP and Panchayat Samiti, Municipal Corporations, Municipal Councils and Nagar Panchayats; <i>Grants for capacity building</i> in RLBs and ULBs. The ratio of Grant between the PRIs and ULBs would be 70:30 in 2015-16 and 60:40 in the subsequent years.
4	Chhattisgarh (2 nd)	<i>Incentive grant and matching grant</i> to GPs; annual grant to GPs in Schedule-V area; Grant to ULBs for sanitation; <i>one-time grant-in-aid</i> for establishing an Institute for capacity building of elected representatives and officials of ULBs.
5	Gujarat (2 nd)	<i>Ad-hoc grants</i> to the Municipal Corporations and the Municipalities and grants for asset maintenance; <i>Grant</i> for stationery and printing to DPs and TPs.
6	Haryana (5 th)	The Commission recommended <i>Specific grants</i> of Rs. 250 crore for establishment of State Level Urban Shared Service Centre and Rs. 70 crore for Swarna Jayanti Haryana Institute for Fiscal Management.
7	Jammu & Kashmir (1 st)	The Commission recommended <i>Grant-in-aid</i> (both plan and non-plan) to meet revenue expenditure in particular, and expenditure on development works.
8	Karnataka (4 th)	The Commission recommended <i>Untied grants</i> to PRIs (Development grants to ZPs and Statutory grants to TPs and GPs) including compensatory grants for the cut in grants by the 14 th FC, <i>Untied grants</i> to ULBs for creation of capital assets and to meet expenditure on specific activities of the ULBs, <i>Performance grants</i> to better performing LBs, and Establishment grants to newly formed PRIs and ULBs.
9	Kerala (5 th)	The Commission recommended that the grant given by the 14 th UFC for civic services should be treated as a separate grant and it should be transferred in addition to the devolution of the Commission. The Commission recommended that <i>UFC 'basic grant'</i> would be distributed among Grama Panchayats, Municipalities and Municipal Corporations in accordance with formula adopted for the distribution of GPF, i.e., 80% weightage for population (2011 census), 10% weightage for area and remaining 10% weightage is given to the inverse of own income.
10	Madhya Pradesh (4 th)	The Commission recommended <i>grant</i> of Rs. 30/- per capita per annum for GPs (based on population census 2011) for maintenance and for works related to improvement of infrastructure, and an <i>annual grant</i> for Block and District Panchayats based on the estimates of the Government.
11	Maharashtra (4 th)	The Commission earmarked an <i>Incentive grant</i> of 20% of the total divisible pool of the State for each year for horizontal distribution amongst RLBs and ULBs.
12	Manipur (3 rd)	The Commission recommended that the expenditure on payment of salaries to the teachers working in the schools run by the ADCs (expenditure of Rs. 952 crore for the period 2013-14 to 2017-18), and construction of the office buildings of the ZPs and the ULBs (expenditure of Rs. 34.15 crore) should be met through a <i>grant-in-aid</i> from the Consolidated Fund of the State.

	States	Grants-in-Aid
13	Mizoram (1 st)	The Commission recommended <u>Non-Plan Deficit grant</u> for each of the ADCs, for each District in respect of all the VCs in the State and AMC.
14	Odisha (4 th)	Incentive grants for PRIs and ULBs, Grants for residential accommodations for functionaries of GPs and PSs; for street lights; creation and maintenance of capital assets in case of ULBs; and for metering and automation under Odisha State Urban Water Supply.
15	Punjab (5 th)	The Commission recommended that apart from the <u>14th FC grants</u> to Gram Panchayats only, the other two levels of PRIs, i.e., Panchayat Samitis and Zila Parishads shall be given an annual grant of Rs. 1 crore. The Commission also recommended <u>performance grants</u> .
16	Rajasthan (4 th)	The Commission recommended <u>Functional grants</u> to PRIs for specific purposes; <u>Performance grants</u> to PRIs and ULBs; and a special <u>Untied grants</u> to PRIs and ULBs.
17	Sikkim (5 th)	The Commission recommends that 0.5% of the net proceeds should be allocated as <u>Special incentive grant</u> for special support to a certain number of PRIs and ULBs which are constrained by topography as well as inaccessibility and other peculiarities.
18	Tamil Nadu (5 th)	A <u>Capital grant fund</u> may be established to replace the IGFF, into which 20% of the aggregate devolution intended for RLBs. 10% of the overall devolution intended for RLBs be credited into a Pooled Fund for Deficit RLBs. 5% of the overall devolution intended for ULBs be impounded into a Pooled Fund for Deficit ULBs subsuming the Operation and Maintenance Gap Filling Fund.
19	Tripura (3 rd)	The Commission recommended that a scheme of providing <u>Incentive fund</u> against collection of revenue by the RLBs may be introduced. Under this, matching contribution in the ratio 1:1 may be provided as additionality to the devolution to the concern RLBs.
20	Uttar Pradesh (4 th)	No specific grants-in-aid recommended by the Commission.
21	Uttarakhand (4 th)	The Commission recommended <u>Grants-in-aid</u> to the 25 newly created NPs and 3 newly created NNPs not included in the horizontal share formula of ULBs. Like the previous SFCs, this Commission also recommended <u>Grant-in-aid</u> to each of the three non-elected Panchayats of the State – Badrinath (Rs. 1 crore), Kedarnath (Rs. 50 lakh) and Gangotri (Rs. 50 lakh) on annual basis. Recommended other <u>Grants-in-aid</u> to ULBs for developmental needs in the State.
22	West Bengal (4 th)	The Commission was of the opinion that the idea of an <u>Incentive fund</u> should continue to enthuse the performance of the LBs and, therefore, recommended that 4% of the grant be earmarked as <u>Performance grant</u> from the 2nd year i.e., 2016-17.

Source: SFC reports of various States

Table A9: SFCs Major Recommendation and Action Taken Report (ATR)

Sl. No	States / Latest SFCs	Recommendations (Devolution + Grants) and Others	ATR Status on SFC Recommendations with Remarks
1	Andhra Pradesh (3 rd) (2005-06 to 2009-10)	<u>Core recommendations:</u>	
		The total devolution of funds recommended by the Commission to the PRIs and ULBs was Rs.1763.72 crore per annum (Rs. 1274.34 crore for PRIs and Rs. 489.38 crore for ULBs) for the period 2005-06 to 2009-10. It works out to 6.77% of the Total Tax and Non-Tax Revenues of the State including the share of Central Taxes for the year 2004-05.	The Government accepted recommendations related to total devolution. The Government felt at the same time that the recommendations of 3 rd SFC could be applied to 2010-2015 period also, since the period 2010-2015 was covered by the recommendations of the 13 th FC, and since there was no parallel SFC to that, this decision was taken for devolution. Therefore, post 13 th FC Report, the total devolution to the LBs stood Rs. 1597.04 crore for PRIs and Rs. 515.24 crore for ULBs, which exceeded that amount recommended by the 3 rd SFC which was accepted on the view that the constitutional and legal requirement of devolution is fulfilled.
		<u>Grants to PRIs:</u>	
		The Commission recommended per capita grant of Gram Panchayats may be enhanced from Rs.4 to Rs.8, that of Mandal Parishads from Rs. 8 to Rs. 16, and of the Zilla Parishads from Rs. 4 to Rs. 8 from the year 2005-06 onwards. This led to additional commitment of Rs. 88.64 crore to PRIs, the amount to be released annually. A special grant of Rs.18 crore per annum for five years for the construction of Gram Panchayat office buildings, and Rs. 30.64 crore per annum and for providing basic civic amenities by the Gram Panchayats.	Recommendations regarding per capita grant and special grant were accepted.
		<u>Grants to ULBs:</u>	
		The per capita grant of the Municipalities and Municipal Corporations may be enhanced from Rs.8 to Rs. 12 from the year 2005-06. This led to additional commitment of Rs.8.32 crore per annum for five years, the amount to be released to the ULBs.	Recommendation regarding per capita grant to Municipalities and Municipal Corporations was not accepted.
		<u>Other recommendations:</u>	
		(i) An amount of Rs. 42.08 crore may be released from excise income to PRIs was also recommended. An amount of Rs. 11.92 crore may be released from excise income to ULBs.	(i) Recommendation regarding release of excise income to PRIs and ULBs was not accepted.
		(ii) A separate cell in PR & RD Department may be set up exclusively for the work of the SFCs.	(ii) Recommendation accepted.

		(iii) Instructions may be issued to Gram Panchayats to levy and collect taxes on advertisements, drainage and lighting to augment their resources.	(iii) Recommendation accepted.
		(iv) A separate Budget Head may be opened for the 13 Municipal Corporations to provide amounts towards payment of the Property Tax and Water Charges annually on Government buildings.	(iv) Recommendation accepted.
2	Assam (5 th) (2015-16 to 2019-20)	Core recommendations:	
		The scheme of devolution consisted of three components: (i) tax devolution (ii) grants routed through PRIs and ULBs and (iii) grants routed through line departments. A divisible pool, equal to the amount needed to be transferred to LBs, has been formed out of the net proceeds of taxes and duties collected by the State Government. The net proceeds have been determined by deducting 10% from the gross collection. Tax devolution recommended during 2016-20 is Rs. 1391.87 crore consisting of Rs.580.39 crore for PRIs and Rs.811.48 crore for ULBs. Net of earmarked amount it is Rs. 1244.23 crore consisting of Rs.516.95 crore for PRIs and Rs.727.28 crore for ULBs. Percentage-wise devolution out of the net proceeds of taxes and duties stands 15.5% in 2015-16, 15% in 2016-17, 14.50% in 2017-18, 14% in 2018-19, and 13.5% in 2019-2020.	Recommendations accepted regarding the divisible pool.
		Grants:	
		Grants recommended to Village Development Councils (VDCs) in Schedule VI Areas is Rs.376.06 crore per year and Rs.1504.26 crore during four years (2016-17 to 2019-20) for various purposes. Grants recommended to ULBs in Schedule VI Areas is Rs.94 crore per year and Rs.376.05 during four years (2016-17 to 2019-20). Grants recommended to PRIs is Rs.71.41 crore in 2016-17 and Rs.224.84 crore during four years (2016-17 to 2019-20). Grants recommended to PRIs and routed through Line Departments is Rs.421.80 crore in 2016-17 and Rs.1687.20 crore during four years (2016-17 to 2019-20). Grants recommended to Guwahati Municipal Corporation (GMC) is Rs.33.20 crore in 2016-17 and Rs.132.80 crore during four years. Grants to GMC routed through Line Department is Rs.7.50 crore in 2016-17 and Rs.30 crore during four years. Grants recommended to ULBs other than GMC is Rs.68.92 crore in 2016-17 and Rs.281.18 crore during four years. Grants to ULBs routed	All forms of grants to PRIs and ULBs in all areas of the State were accepted.

		<p>through Line Departments is Rs.250.16 crore in 2016-17 and Rs.1000.81 crore during four years.</p> <p>Grants to VDCs in Excluded Areas is Rs.376 crore annually and Rs.1504 crore during four years. Grants recommended to ULBs in Excluded Areas is Rs.94 crore annually and Rs.376 crore in four years. Grants recommended to PRIs in Excluded Areas is Rs.1246.20 crore for Bodoland Territorial Council (BTC), Rs.156.40 crore for Karbi Anglong (KAAC) and Rs.101.66 crore for Dima Hasao (DHAC) during 2016-20. Grants recommended to ULBs in Excluded Areas is Rs.376 crore during 2016-20.</p>	
		Other recommendations	
		<p>(i) Government of India has been urged to provide a special package of Rs.100 crore for setting up permanent SFC Cells under Finance Department, Panchayat and Rural Development Department and Urban Development Department.</p> <p>(ii) Government of India has been urged to provide Rs.200 crore for E-Governance.</p> <p>(iii) Government of India has been urged to provide financial support to the LBs of excluded areas.</p> <p>(iv) District and State Level Monitoring Committee should be constituted.</p>	Other recommendations accepted with direction for action to all the Line Departments/Finance Department of the State
3	Bihar (5 th) (2015-16 to 2019-20)	Core recommendations:	
		<p>The Commission recommended that 2.5% of the Total State's revenues of the preceding financial year will be transferred to LBs in form of devolution and grant for the period 2015-16 to 2019-20.</p> <p>The divisible pool was computed by deducting cost of collection and appropriated taxes (Entertainment tax in the case of Bihar) from SOTR as given in the State Budget. The Commission recommended the divisible pool of 8.5% of State's net own tax revenue in 2015-16 and 9% from 2016-17 to 2019-20. The recommended devolution was 8.5% (Rs.2450 crore) for 2015-16.</p>	Recommendations accepted regarding devolution.
		Grants:	

		The commission recommended that grants for the LBs would come out of the Consolidated Fund of the State (CFS). The ratio of grants between the inter LBs, that is, PRIs and ULBs would be 70:30 in 2015-16 and 60:40 in subsequent years, which stands a total grants of Rs. 5785 crore for the PRIs and Rs. 3725 crore for the ULBs for the five years (2015-16 to 2019-20).	Recommendations accepted for grants.
		Other recommendations:	
		Grants would focus on capacity building and would be utilised for Manpower, Training, e-Governance, Office space, preparation of Master Plans/CDPs/DPRs/GIS maps, developing divisional and district headquarters on the lines of smart and AMRUT cities etc.	Distribution of amount of grants for utilization for various purposes as recommended was accepted.
4	Chhattisgarh (2 nd) (2012-13 to 2016-17)	Core recommendations:	
		The Commission recommended that the share of LBs should be 8% of the net SOTR of the State. The net SOTR of the five year period came out to Rs. 72418.55 crore, the divisible pool i.e., 8% of the net SOTR came to Rs.5793.48 crore, which was about Rs. 1158.6 crore annually. In the divisible pool, therefore, the share of the PRIs was 6.85% while that of the ULBs was 1.15% (based on rural-urban population census 2011). The share of PRIs and ULBs in the net SOTR of Rs. 5793.48 crore for the five year award period, comes to Rs.4453.73 crore and Rs.1339.75 crore respectively.	Recommendations accepted regarding devolution.
		Grants:	
		An annual grant-in-aid of Rs.2 lakh each to 4607 GPs in Schedule V areas was recommended for four years (2013-2017) to fund rural infrastructure. This involved a total grant-in-aid of Rs.92.14 crore per annum and Rs.368.56 crore over the four year period (2013-2017). One time grant-in-aid of Rs.50 crore was recommended for the establishment of Institute of Urban Governance and Development. Additionally, a grant-in-aid of Rs.200 crore was recommended to ULBs for sanitation.	Recommendations accepted for grants.
5	Gujarat (2 nd) (2005-06 to 2009-10)	Core recommendations:	
		10% of State's total revenue receipts was recommended for devolution. The Commission recommended that the existing 21.15% of total tax revenue of the State be increased by additional 10% to 31.15% of the Gross tax receipts of the State. The additional 10% of tax revenue should be diverted to PRIs and ULBs for the award period (2005-06 to 2009-10).	The recommended devolution is not clear, whether it had been accepted, rejected, or partially accepted etc. in the ATR. However, the ATR states several department wise (financial and non-financial recommendations) either implemented or tend to be revised or the action to be taken by the concerned departments.

		However, no additional grants were recommended for the PRIs and ULBs by the Commission.	In respect of PRIs, the Commission made 41 recommendations, out of which 20 (49%) were accepted by the State Government and on review it has been found that out of 20 recommendations, 7 recommendations have been implemented; while in respect of ULBs, the commission made 42 recommendations, out of which 12 (29%) recommendations were accepted by the State Government. It was found that out of 12 recommendations, 8 recommendations have been implemented by the Government.
6	Haryana (5 th) (2016-17 to 2020-21)	Core recommendations:	
		The Commission has estimated devolution of funds by making three different sets of assumptions. In Set 1, SOTR has been projected based on the compounded Annual growth rate of SOTR of Haryana for past five years. In Sets 2 and 3, SOTR has been projected based on the estimations of GSDP of Haryana for next five years. The Commission recommended 7% of State's own tax revenue (1.5% of Collection cost) and net of VAT, and 2% of Stamp duty & Registration fees collected on behalf of Urban Bodies.	Recommendation accepted.
		Other recommendations:	
		Specific grants of Rs. 250 crore for the establishment of State Level Urban Shared Service Centre and Rs. 70 crore Swarna Jayanti Haryana Institute for Fiscal Management (SJHIFM).	Recommendation accepted with the remark that the services of the proposed State Level Urban Shared Service Centre will be utilized for urban as well as rural areas.
7	Himachal Pradesh (5 th) (2017-18 to 2021-22)	Core recommendations:	
		For PRIs:	ATR not available
		The Commission recommended a total devolution of Rs. 1025.08 crore for the three levels of PRIs for the award period. The Commission's devolutions for PRIs are based on the crucial assumptions for the calculated amount from the following components: (i) The salaries and wages have been calculated at the existing rates with a 10% hike for each succeeding year based on the assumption that (a) increment will be 3% and (b) DA increase in a year will be 7%, (ii) The office expenses of PRIs have also been worked out with 10% hike each succeeding year, (iii) The honorarium of elected members has been calculated, for the entire award period at the existing honorarium rates, and (iv) The Commission has also recommended a grant of 15 crore from 2018-19 to 2021-22 for repair, maintenance, addition and alteration of the buildings of all the three levels of the PRIs.	
		For ULBs:	

		<p>The Commission recommended a total devolution of Rs. 680.76 crore for the ULBs for the award period.</p> <p>The Commission's devolutions for ULBs are based on the crucial assumptions for the calculated amount from the following components:</p> <p>(i) The salaries and wages are calculated with the existing rates and with a 10% hike for each succeeding year. This is based on an assumption that (a) increment will be 3% and (b) DA increase in a year will be 7%, (ii) The office expenses of ULBs have also been worked out with 8% hike for each succeeding year, and (iii) The honorariums of elected members have been calculated for the entire award period at the existing honorarium rates.</p>	
		Other recommendations:	
		<p>(i) The Commission recommended creation of a Centralised Pension Fund (CPF) to meet the pension benefits of the State Cadre Officers retired from the ULBs who are eligible for pensions by taking contribution from such municipal bodies where such offices have worked. This is essential because, otherwise, the burden of pensionary benefits falls on the ULB where from the person retires.</p> <p>(ii) The Commission recommended to put in place a mechanism whereby, better performing ULBs are incentivised by providing proportionately greater share in the grants recommended to be devolved by the Commission.</p>	ATR not available
8	Karnataka (4 th) (2018-19 to 2022-23)	<p>Core recommendations:</p> <p>For 2018-19 devolution should be based on the Non Loan Net Own Revenue Receipts (NLNORR) and thereafter every year. The fiscal devolution to the local bodies shall be part of the divisible pool or NLNORR. The FC grants shall not be treated as part of NLNORR. Recommended scheme of devolution is inclusive of salary components. The impact of Goods and Services Act, 2017 (GST) including its compensation should be factored into the tax receipts of the state w.e.f., July 1st 2017.</p> <p>The devolution scheme to be followed at four levels:</p> <p>1st level: In this level, the relative shares of the state and the LBs in NLNORR have been determined and it is recommended to be in the ratio 52:48 (exclusive of FC grants and inclusive of GST compensation). The increase in the share of local bodies is from the present 42% to 48% of NLNORR.</p>	ATR not available.

		<p>2nd level: In this level, the relative shares of the rural and urban bodies are determined. The share of LBs as determined in the first level is 48% of NLNORR. Out of the 48% determined, 1% of NLNORR shall be deducted and devolved to BBMP as additional grants. Based on domain wise indicators, the remaining 47% has to be divided between PRIs and ULBs in the ratio of 75:25. This works out to 35.25% rounded off to 35% to PRIs and 11.75% rounded off to 12% to ULBs in the NLNORR. The existing share of BBMP in the 12% meant for ULBs shall continue.</p> <p>3rd Level: Determination of <i>inter-se</i> sharing of funds among each tier of PRIs and each class of ULBs, 2012-13 to 2016-17.</p> <p>4th Level: Determination of share of funds among each unit in each tier of PRIs and each unit of each class of ULBs is to be based on existing proportion of allocation scheme-wise.</p> <p>The overall percentage in transfer of funds to PRIs and ULBs recommended is based on global protection and global provisioning along with justification.</p>	
9	Kerala (5 th) (2016-17 to 2020-21)	<p><u>Core Recommendations:</u></p> <p>The Commission decided to follow the Union Finance Commission, UFC's approach and devolve funds based on the estimate made for the year of devolution (t). Previous SFCs had taken Gross State Own Tax Revenue (SOTR) / State plan outlay for devolution of resources. This Commission decided to take net proceeds of SOTR after deducting collection charges for sharing the State resources in all items of devolution.</p> <p>The Commission recommended that 20% of the net proceeds of annual SOTR should be devolved to Local governments as total devolution on (t) basis in the year 2016-17 based on the projection of SOTR of the Commission. For the subsequent years, an annual increase of 1% has been recommended.</p> <p>The Commission recommended that 3.5% of the net proceeds of annual SOTR shall be devolved to Local Governments as General Purpose Fund (GPF) on (t) basis for the award period based on the projection of SOTR of the Commission.</p> <p>The Commission recommended that 5.5% of the net proceeds of annual SOTR calculated on (t) basis shall be devolved to Local governments as Maintenance Fund for the year 2016-17 based on the projection of SOTR of the Commission. For the subsequent four years, the rate shall be increased to 6% per annum.</p>	<p>Recommendations rejected.</p> <p><u>Reasons:</u></p> <p>The ATR on 5th SFC maintained that the financial transfers from State Government to Local Governments are substantial in volume and any uncertainty on this score will adversely affect the Project approval and consequent delay in the implementation of the Development programmes of the Local Governments. It is difficult to get data on current year State Own Tax Revenue (SOTR) at the appropriate time and devolving funds based on the same. Moreover, adjustments of the provision for Development Funds of a particular financial year in the coming years will lead to chaos in the preparation of the Projects. The present system of t-2 (State Own Tax Revenue of two financial years back, which appropriation account of the State is prepared by the Accountant General and passed by the State Legislature and data available for computation) has proved a successful formula in the financial devolution from the State Government to the Local Governments. Hence, considering the accounting issues, it is decided to continue the existing formula of (t-2) as the base year for the computation of award amount. The recommendation was therefore rejected.</p> <p>Following this, it was decided to continue the existing formula of 3.5% and 5.5% of SOTR in (t-2) for the allocation of General Purpose fund and</p>

	<p>The Commission recommended that 11% of the net proceeds of annual SOTR calculated on (t) basis shall be devolved to Local governments as Development Fund for the year 2016-17 based on the projection of SOTR of the Commission. The rate of devolution shall be increased to 11.5% in 2017-18, 12.5% in 2018-19, 13.5% in 2019-20 and 14.5% in 2020-21.</p>	<p>Maintenance Fund respectively for the award period. The Maintenance Fund will be increased in every year during the Fifth SFC award period to the extent of 5.60% in 2017-18, 5.75% in 2018-19, 5.90% in 2019-20 and 6.00% in 2020-21. For the Development Fund, the Government decided to modify the provision for Development Fund for Local Governments from the existing level of 22.92% to 23.00% for the financial year 2016-17. Thereafter it will be increased by 0.5% in every year during the Fifth SFC award period, i.e., 23.50% in 2017-18, 24.00 % in 2018-19, 24.50 % in 2019-20 and 25.00 % in 2020-21</p>
	<p><u>Other Recommendations:</u></p> <p>The basic grant should be spent in delivering basic civic services like water supply, sanitation, sewerage, waste management, maintenance of community assets, roads, street lighting and other basic functions assigned to them under the Kerala Panchayat Raj Act and Kerala Municipality Act.</p> <p>In order to avail 'performance grant' the Commission recommended that State government should take urgent steps to revise tax and non-tax rates of LGs as improvement in own revenues of LGs over the previous year is made mandatory by the UFC.</p> <p>For effective monitoring of the flow of fund to LGs this Commission recommends that the basic grant as well as performance grants to LGs should be distributed through the major head 3604 under suitable sub heads.</p>	<p>Recommendations rejected.</p> <p><u>Reasons:</u></p> <p>Regarding the grants part, the ATR states that since 14th Finance Commission Grant has to be used for developmental activities in the Local Governments it is decided to continue the existing arrangement of including 14th FC Grant also as part of the Development Fund. The recommendation was therefore rejected</p>
	<p><u>Grants:</u></p> <p>The basic grant should be spent in delivering basic civic services like water supply, sanitation, sewerage, waste management, maintenance of community assets, roads, street lighting and other basic functions assigned to them under the Kerala Panchayat Raj Act and Kerala Municipality Act.</p> <p>In order to avail 'performance grant' the Commission recommended that State government should take urgent steps to revise tax and non-tax rates of LGs as improvement in own revenues of LGs over the previous year is made mandatory by the UFC.</p> <p>For effective monitoring of the flow of fund to LGs this Commission recommends that the basic grant as well as performance grants to LGs should be distributed through the major head 3604 under suitable sub heads.</p>	<p>Recommendations rejected.</p> <p><u>Reasons:</u></p> <p>For other recommendations mentioned, for the first part, it was accepted with modification that the projects under 14th Finance Commission Basic Grant also are part of the Development Fund Projects. For the last two items, specifically the performance grant and the effective monitoring of the flow of fund to LGs, the recommendations were accepted.</p>

10	Madhya Pradesh (4 th) (2011-12 to 2015-16)	<p><u>Core recommendations</u> The Commission recommended 7.5% of the Net Own Tax Revenue of the State to be devolved to the LBs. Out of it, the share of PRIs (GPs) shall be 5.5% and the share of ULBs shall be 2%. The <i>inter-se</i> distribution among GPs will be based on population. For ULBs, the <i>inter-se</i> distribution will be 45% to Nagar Parishads, 40% to Nagar Pallikas, and 5% to Nagar Nigams.</p> <p><u>Other recommendations:</u> The Commission recommended that based on the formula of the 14th FC grants, the distribution of grants shall be on the criteria: 70% Area, 15% SC/ST population, and 15% weightage to those factors as given in the interim report 2015.</p>	<p>The ATR suggests the following: Since the 4th SFC award period had been from 2011-12 to 2015-16, and because the SFC final report was submitted in October 2017 (with an interim report submitted in November 2015). And since the 4th SFC award period had already collapsed by the time the SFC interim report came out in 2015. The interim report's recommendations for the year 2015-16 were also not carried out because the comments of the local government's administration on recommendations were not received. Therefore, the Government made the recommendation that for the years 2015-16, 2016-17 and 2017-18, to follow its 3rd SFC recommendations regarding LBs, and for two subsequent years 2018-19 and 2019-20, to follow the 4th SFC recommendations.</p>
11	Maharashtra (4 th) (2011-12 to 2015-16)	<p style="text-align: center;">Core recommendations:</p> <p>40% of Total State's Revenue from Tax & Non-Tax revenue to LBs was recommended for devolution. Out of this divisible pool, 20% to be set aside for incentive grants for horizontal distribution amongst ULBs & PRIs. For this distribution, the criteria should be as follows: ii) following indices to be considered weightage to be given as under Human Development Index (10%), Population (40%), Area (30%), Schedule Caste/Schedule Tribe (10%), Deficit in services (5%), and Recovery of tax & non-tax revenue (5%).</p> <p>Divisible Pool: Suppose out of Rs.100, Rs.20 deducted as Performance Grants incentive. The balance Rs. 80 is divided into Urban LBs and Panchayat Raj Institutions according to the proportion of the population i.e. 45:55. The share of Urban LBs to be divided amongst Municipal Corporations and Councils in the ratio of 40:60. In case Panchayat Raj Institutions its share is divided amongst Zilla Parishads, Panchayat Samitis and Village Panchayat in the ratio of 20:30:50.</p> <p style="text-align: center;">Other recommendations (Financial):</p>	<p>Recommendation rejected.</p>

		<p>(i) Commission recommended a share of 50% of the amount collected on account of profession tax to be devolved on the respective local bodies.</p> <p>(ii) Commission recommended for an increase of General cess to 500 paise per Rupee of a land revenue. Commission recommended for its transfer to Zilla Parishad immediately after it is recovered.</p> <p>(iii) Commission recommended that the acts related to Urban Local Bodies and Panchayat Raj Institutions so amended to incorporate provisions for application of User Charges and taking away freezing limits for the rates of fines and penalties to enable the local bodies to link their resources with cost and benefits and will be able to exploit their own sources to the fullest potentials.</p> <p>(iv) Commission recommended for increase in Water Cess to 50 paise per Rupee. Commission recommended for its transfer to Zilla Parishad immediately after it is recovered.</p> <p>(v) Commission recommended for a 15 % of the income from forest produce to PRI bodies.</p>	<p>(i) Recommendation accepted.</p> <p>(ii) Recommendation partially accepted.</p> <p>(iii) Recommendation partially accepted.</p> <p>(iv) Recommendation rejected.</p> <p>(v) Recommendation rejected</p>
		Other recommendations:	
		<p>(i) Commission recommends that the Village Panchayats with the population more than 5000 should have a village development officer.</p> <p>(ii) That all subjects in Schedule 11 be devolved with all powers to Panchayati Raj Bodies.</p> <p>(iii) Government should pass on the directions to Urban Local Bodies to ensure Drainage audits. Government should also pass on the directions to Urban Local Bodies to ensure Drainage byelaws</p>	<p>(i) None of the Recommendation in these categories was accepted.</p> <p>(ii) Recommendation partially accepted.</p> <p>(iii) Recommendations partially accepted.</p>
12	Manipur (3 rd) (2013-14 to 2017-18)	Core recommendations:	
		<p>(i) The Commission recommended allocation of a 10% share in the State's own revenue including the State's share in Central Taxes and Duties for the Panchayats including the Autonomous District Councils and Municipalities, subject to the condition that the expenditure on the salaries of the teachers of schools run by the ADCs will be met through a grant-in-aid from the Consolidated Fund of the State. In case of any increase, in future, in the strength of such school teachers, the expenditure arising out of such increase should also be met through a grant-in-aid from the Consolidated Fund.</p>	<p>Recommendation accepted with modifications.</p> <p>(i) The ATR states that the State government has accepted to transfer only 10% of the gross state's own tax revenue to the local bodies, namely, PRIs, ADCs and ULBs every fiscal year. Moreover, the ATR says that since State government is already providing grant-in-aid for meeting salary requirements of ADC teachers, the recommendation is accepted.</p>

		(ii) The Commission recommended that the existing distribution of funds in the ratio of 15:85 between Zilla Parishads and Gram Panchayats is reasonable and should continue.	(ii) The State government maintained that the sharing pattern between the Zilla Parishad and the Gram Panchayats shall be in the ratio of 40:60 instead of 15:85 as recommended by the Commission.
		Other recommendations:	
		<p>(i) The Commission, recommended that 30% of the allocated share should be used as untied fund for activities related to the items listed in the 11th Schedule of the Constitution (for PRIs and Autonomous District Councils) and items listed in the 12th Schedule of the Constitution (for ULBs). Under no circumstances these fund would be used for payment of salaries or honorarium or for construction of office buildings. As far as the Autonomous District Councils are concerned, these untied funds will be used for activities at the village level in association with the village representative bodies (Village Authority or Village Development Committee).</p> <p>(ii) The Commission made recommendations that deal with devolution of functions and functionaries to the LBs, accounting reforms, resource mobilization by the LBs, and the constitution of the 4th SFC etc. among others.</p>	<p>(i) The ATR does not mention its position on this recommendation.</p> <p>(ii) The State government maintained that the action will be taken on this recommendation after detailed examination and consultation with all the stakeholders.</p>
13	Mizoram (1 st) (2015-16 to 2019-20)	Core recommendations:	
		<p>The Commission recommended devolution of 15% share of Own Tax Revenues of the State to the LBs. This devolution will be in excess of the grants-in-aid of the State flowing to the LBs as further gap filling process and also the LBs grants from the Central Finance Commission.</p> <p>The Commission also recommended that at least 5% of the Excise Duty be shared to the LBs from the date of actual levy of tax additionally.</p> <p>The <i>inter-se</i> distribution of the 15% devolution of State taxes among the LBs was proposed in three stages: (i) Distribution of 15% devolution among the Autonomous District Councils (ADCs) in aggregate, the Village Councils (VCs) in aggregate, and the Aizawl Municipal Council (AMC), based on population census 2011 (ii) Allocation of the aggregate share of the ADCs among the three ADCs and (iii) Devolution of the aggregate share of the VCs to the VCs in a district-wise grouping of eight districts.</p>	Recommendation accepted.
		Other recommendations:	

		<p>(i) The Commission recommended Non-Plan Deficit grant for each of the ADCs, for each District in respect of all the VCs in the State and AMC.</p> <p>(ii) The Commission recommendation on more transfer of subjects to Village Councils and Aizawl Municipal Council, constitution of Lunglei Municipal Council, formation of Municipal Boards/Nagar Panchayats in the remaining six District Headquarters, the need for strengthening of State's tax efforts and streamlining of user charges, transfer of Plan activities to Village Councils, adoption of accounting framework and codification pattern consistent with the Model Panchayat Accounting System for local bodies, establishment of a permanent Secretariat or cell of the State Finance Commission to serve as a link between the First Commission and the Second Commission, enhancement of disaster management at the local levels, management of ecology, environment and climate change at the local levels, improvement in quality of public expenditure, etc.</p>	<p>(i) Recommendation accepted.</p> <p>(ii) The Government is yet to examine the recommendations in consultation with various stakeholders in the State.</p>
14	Odisha (4 th) (2015-16 to 2019-20)	<p style="text-align: center;">Core recommendations:</p> <p>The Commission recommended limiting the total transfer to LBs within 10% of net divisible pool of State taxes projected for the award period 2015-2020. The Commission recommended that 3% of the net tax revenue during the period 2015-2020 is to be devolved and distributed between the PRIs and the ULBs in the ratio 75:25. <i>Inter-se</i> distribution of devolution amongst the three tiers of PRIs will be in the ratio 75:20:05. The Commission recommended a total transfer of Rs. 25325.03 crore out of which Rs. 12740.08 crore is from the State's Taxes and Consolidated Fund to the three tiers of PRIs and ULBs during the award period, and recommended that the remaining amount of Rs. 12584.95 may be provided through the 14th FC to supplement the resources to be transferred.</p> <p style="text-align: center;">Grants:</p> <p>(i) The Commission recommended allocation of an additional amount of 20% to the Panchayats under TSP out of the total devolution – devolution proper and some specific grants for PRIs.</p> <p>(ii) The Commission recommended grants-in-aid to meet the fund requirement partly and fully for the selected focus areas after</p>	<p>Recommendations accepted.</p> <p>Recommendations accepted.</p>

		keeping aside the recommended amount in form of devolution and assignment of taxes.	
		Other recommendations:	
		<p>(i) The Commission recommended to exclude Entry Tax, Entertainment Tax and Motor Vehicle Tax from the shareable pool and to assign a part of these taxes to LBs directly.</p> <p>(ii) The Commission recommended institutional and structural strengthening, resource generation and to address legal hurdles and other general financial and non-financial issues of LBs.</p>	<p>(i) Recommendation accepted with modifications. The allocation for assignment from Entry Tax for PRIs in 2016-17 and subsequent years have been modified and aligned with the rate of growth of assignment to ULBs. The assignment from Entry Tax for ULBs is modified by shifting the base year from 2015-16 to 2014-15. Secondly, owing to lack of capacity of LBs to levy and collect Entertainment Tax, the Government felt that the present system of levy and collection of Entertainment Tax through the Commissioner of Commercial Taxes should continue.</p> <p>(ii) The ATR states that these issues are being examined, and the respective departments would be taking action in consultation with High Level Monitoring Committee.</p>
15	Punjab (5 th) (2016-17 to 2020-21)	<p><u>Core recommendations:</u></p> <p>(i) The Commission recommended 4% of Net Total Tax Revenue of the State be transferred as devolution to LBs for the next five years i.e., 2016-17 to 2020-21. The Commission recommended 60% of the share of State taxes be distributed between PRIs and ULBs in the ratio of their population based on census 2011. Accordingly, the shares of PRIs and ULBs worked out to Rs. 2727.75 crores and Rs. 1636.65 crores respectively. The Commission recommended 40% of the share of State taxes be distributed between PRIs and ULBs on the basis of and in proportion to gaps in the projected revenue and expenditure figures during 2016-17 to 2020-21. While PRIs will have surplus and ULBs will be in deficit during the 2016-17 to 2020-21, this 40% share amounting to Rs.2909.60 crores will go to ULBs alone.</p> <p>The Commission recommended the Panchayat Samitis and Zila Parishads Rs. 1 crore per annum for each of the Panchayat Samitis and Zila Parishads be devolved to these bodies out of the total share of PRIs by the State government, since under the 14 FC recommended grants are only meant for Gram Panchayats and not these two other tiers.</p> <p>The Commission recommended 80% share should be disbursed among all the ULBs in proportion to the population of each ULB, adopting the population figures of Census 2011. The remaining 20% of the total</p>	<p>ATR only summarizes the recommendations. It does not provide the decision of the Government on these recommendations.</p>

	<p>amount should go as additional allocation to the poor ULBs, to be distributed in proportion to respective population.</p> <p>The Commission recommended that out of the total amount of share in tax revenue which is to go to Panchayats, 80% may be disbursed among all Panchayats in proportion to the individual Panchayat's population as per the census 2011. The remaining 20% may be given as additional grant for poor Panchayats. The payments to Panchayats may be routed through Zila Parishads. Both the portions of 80% and 20% of the grants may be transferred to the Zila Parishads in proportion to all the rural population of the district and population of poor Panchayats of the district respectively.</p> <p>(ii) Compensatory Payments in lieu of Octroi: When the octroi in Urban Local Bodies (ULBs) was abolished in 2006, the State Govt. enacted the Punjab Municipal Fund Act, 2006. As per provisions of this Act, the Punjab Municipal Fund has been constituted and 10% of the collections (raised to 11% w.e.f May 2012 when Octroi on petrol and diesel abolished) made by the State Govt. from the Value Added Tax Act, 2005 are to be credited to the Punjab Municipal Fund. The Commission favoured its continuation. The Commission has estimated the contribution of Rs.9439.14 crore to this Fund during the Five Year period 2016-17 to 2020-21.</p>	
	<p><u>Other recommendations:</u></p> <p>(i) The Commission recommended that State may constitute a monitoring committee comprising the representatives from Finance Department and rural & urban local bodies to ensure the fully utilisation of performance grants.</p> <p>(ii) For improving the performance of ULBs the measures viz, computerization and E-governance, use of new tools of management system i.e., GIS and MIS, may be adopted by these bodies.</p> <p>(iii) To enhance capacity building and training the Commission felt that there should be departmental capacity building programmes at the regular intervals.</p> <p>(iv) As per the Thirteenth Finance Commission, this Commission again recommended that the process of compilation of statistical work should continue so that desired data is available to all concerned departments/agencies at appropriate time.</p> <p>(v) The Thirteenth and Fourteenth Finance Commissions emphasised the need for a uniform municipal accounting system and keeping of</p>	

		<p>accounts and audit under the technical guidance and support of C&AG. This Commission was of the view that the State should accept and follow the recommendations of the Central Finance Commission in this regard.</p> <p>(vi) The Commission highly recommended that the set service level benchmarking for the level of services i.e. water supply, sewerage and solid waste management to be finalised and regularly monitored.</p>	
16	Rajasthan (4 th) (2010-11 to 2014-15)	<p style="text-align: center;">Core recommendations:</p> <p>(i) The Commission recommended that 5% of Net Own Tax Revenue (excluding Entry Tax and Land Revenue) of the State government be devolved to the LBs for the award period i.e., 2010-2015. In addition, 100% of Land Revenue, 25% of Entry Tax, 3% of Royalty on minerals, 2% Cess on Excise Duty and 10% Surcharge on Stamp Duty are also recommended to be devolved. The total devolution earmarked was Rs.10183.96 crore for the award period.</p> <p>(ii) State's Net own tax revenue share in net own tax revenue (excluding Land Revenue and Entry Tax) amounting to Rs.7214.66 crore between PRIs and ULBs may be distributed on the basis of the share of rural and urban population in the 2011 Census which is 75.1% rural and 24.9 % of the total population of 6.85 crore. Accordingly, the share of PRIs and ULBs in devolution amounts to Rs.5418.21 crore for PRIs and Rs.1796.45 crore for ULBs.</p> <p>(iii) The Commission recommended that the existing ratio of 85% to Gram Panchayats, 12% to Panchayat Samitis and 3% to Zila Parishads as suggested in the Interim Reports be continued. <i>Inter-se</i> distribution of funds among the Panchayat Samitis and Gram Panchayats is to be made on the basis of population according to the latest Census of the concerned Panchayat Samitis and Gram Panchayats.</p> <p>(iv) The Commission recommended 50% devolution on population basis, 10% on area basis and 10% on average revenue mobilization basis among all the ULBs. The balance 30% will be distributed only among the Municipalities on population basis.</p>	<p>Recommendation accepted with modification.</p> <p>(i) The State government maintained that for the year 2014-15, instead of creation of divisible pool from separate Tax and Non-Tax revenue sources, 7.182% of net own tax revenue (excluding Land Revenue) of the State be devolved.</p> <p>(ii) Recommendation accepted for the share of PRIs and ULBs in the divisible pool.</p> <p>(iii) Recommendation accepted.</p> <p>(iv) Recommendation accepted.</p>
		Other recommendations:	

		<p>(i) The difference of funds to be devolved and funds already devolved in compliance of Interim Reports for the period 2010-13 would be kept in a Corpus Fund. The Corpus would be created at the level of Panchayati Raj Department.</p> <p>(ii) Specific functional grants to Gram Panchayats.</p> <p>(iii) PRIs would be given 20% funds as performance grant on meeting the following criteria during the financial year.</p> <p>(iv) After earmarking Functional grant for Gram Panchayats and 20% fund for performance grant to PRIs, remaining amount would be available as Untied grant.</p> <p>(v) In addition to the GoI subsidy, the Commission recommends that a further 20% the cost on solar street units installed by the Gram Panchayats during 2013-14 and 2014-15 be given by the state government as Incentive.</p> <p>(vi) The Commission recommends that an incentive of 50% of the cost of water purification plant installed by the Gram Panchayats during 2013-14 and 2014-15 for the community at a safe public place be provided out of the Untied Grant.</p> <p>(vii) To improve the service level, ULBs need to be motivated to contribute matching share towards expenditure for core functions specifically for sanitation and solid waste management. Therefore, to ensure proper xxvi utilisation of funds, the Commission considered it necessary to earmark grant for core functions for the years 2013-14 and 2014-15.</p> <p>(viii) Performance Grants for ULBs.</p> <p>(ix) Untied Grants to ULBs for undertaking various development works of local interest for which they have no funds.</p>	<p>(i) Recommendation accepted.</p> <p>(ii) Recommendation accepted.</p> <p>(iii) Recommendation not accepted.</p> <p>(iv) Recommendation not accepted.</p> <p>(v) & (vi) Recommendations accepted.</p>
17	Sikkim (5 th) (2020-21 to 2024-25)	<p style="text-align: center;">Core recommendations:</p> <p>The Commission recommended that an amount of at least 4.5% of the Net proceeds of State's taxes, fees and levies should be devolved to PRIs and ULBs for the period of 2020-2025 with sharing pattern of 70:30 in between PRIs and ULBs.</p> <p style="text-align: center;">Other recommendations:</p> <p>(i) The Commission recommended that an amount of 0.5% of the net proceeds of the State's own resources should be allocated for the State Level Capacity Building Fund. The Commission recommended that an additional 0.5% of the net proceeds should be allocated as</p>	<p>The government accepted that at least 4.5% of the Net proceeds of State's taxes, fees and levies should be devolved to PRIs and ULBs for the period of 2020-2025. However, the Government approves the sharing pattern of 75:25 in between the PRIs and ULBs in lieu of 70:30.</p> <p>(i) The Government also accepted the recommendation that an amount of 0.5% of the net proceeds of the State's own resources should be allocated for the State Level Capacity Building Fund, and an additional 0.5% of the net proceeds should be allocated as</p>

		<p>Special incentive grant for special support to a certain number of PRIs and ULBs which are constrained by topography as well as inaccessibility and other peculiarities.</p> <p>(ii) The Commission recommended for the formation of a SFC Cell within Finance Revenue and Expenditure Department (FRED) for the monitoring of resource transfer and resource utilization.</p> <p>(iii) The Commission recommended for enhanced collection of taxes, fees and levies by PRIs and ULBs which may vary in different PRIs and ULBs in different regions.</p> <p>(iv) The Commission recommended that the institutionalisation of local social entrepreneurship by the PRIs and the ULBs must be encouraged by the State Government.</p> <p>(v) The Commission recommended a collective of GPs to federate to develop joint business opportunities with a clear-cut division of labour and sharing of resources.</p> <p>The Commission recommended for an unambiguous and efficient accountability mechanism for all financial expenditures done at the level of the PRIs and the ULBs as well as expenses incurred by nodal departments for the PRIs and the ULBs. All such expense related data should be made available in one place for scrutiny of State audit authorities.</p>	<p>Special incentive grant for special support to a certain number of PRIs and ULBs which are constrained by topography as well as inaccessibility and other peculiarities.</p> <p>(ii) The ATR states that the recommendation is ideal and desirable but the State is constrained with non-availability of required man power. Therefore, the present Finance Commission Division of the Finance Revenue and Expenditure Department will continue to manage and function as State Finance Commission Cell.</p> <p>(iii), (iv), (v) and (vi) are accepted.</p>
18	Tamil Nadu (5 th) (2016-17 to 2020-21)	<p>Core recommendations</p> <p>(i) The Commission recommended devolution of 10% of the Net State's own tax revenue (SOTR) during the award period commencing from 2017-2018.</p> <p>(ii) The Net SOTR for the award period may be determined by permitting the following deductions from gross SOTR: (i) Surcharge on Stamp Duty of RLBS/ULBs provided in the expenditure budget, if not already deducted under the receipt major head (ii) Cost of collection for the major tax items – Commercial Taxes, State Excise, Stamps and Registration and Motor Vehicles Tax (iii) Other surcharges, if any.</p> <p>(iii) The cumulative arrears of Rs.156.90 crore for RLBS and Rs. 395.11 crore for ULBs be added to the divisible pool in the first year of the award period, i.e. 2017-18 and released to the respective LBs as per the devolution scheme recommended.</p> <p>(iv) The State Government should compensate LBs for loss of Entertainment Tax revenue in case a separate legislation enabling local bodies to collect Entertainment Tax is not passed. This</p>	<p>(i) Recommendation accepted.</p> <p>(ii) Recommendation accepted.</p> <p>(iii) Recommendation accepted with modification that the cumulative arrears be considered for release in three equal instalments commencing from 2017-18.</p>

	<p>compensation should extend to 90% of the State GST collected on Entertainment Services and be distributed on the destination principle.</p> <p>(v) In the event there is a loss in State Tax collection due to the introduction of GST and the Government of India also agrees to compensate States for loss in devolution from the Union divisible pool of taxes to the States on implementation of GST, in addition to the losses in State's tax revenue, then on a <i>pari passu</i> basis, the State should share 10% of the compensation that it receives from the Centre for the shortfall in revenue collections of the State due to introduction of GST, with the LBs.</p> <p>(vi) The vertical sharing ratio between rural and urban LBs shall be 56:44.</p> <p>(vii) The vertical sharing ratio between RLBs may be determined as 8:37:55 amongst District Panchayats, Panchayat Unions and Village Panchayats.</p> <p>(viii) 10% of the overall devolution intended for RLBs be credited into a Pooled Fund for Deficit RLBs. 40% of the amounts available in this Fund, i.e., 4% of the overall devolution intended for RLBs, may be disbursed in the first three years of the award period by the DRD only amongst those Panchayat Unions and Village Panchayats which have been in deficit for at least 3 of the last 5 years.</p> <p>(ix) 5% of the overall devolution intended for ULBs be impounded into a Pooled Fund for Deficit ULBs subsuming the Operation and Maintenance Gap Filling Fund. 40% of the Fund, i.e., 2% of the devolution amounts tier wise should be disbursed in the first three years of the award period by the DMA and DTP respectively only amongst those Corporations, Municipalities and Town Panchayats which have been in deficit for at least 3 of the last 5 years based on audited accounts.</p>	<p>(iv) Recommendation not accepted. As the proposal is likely to be cleared by Government for authorizing LBs themselves to levy Entertainment Tax, the hypothetical situation postulated by SFC may not arise.</p> <p>(v) Recommendation accepted.</p> <p>(vi) Recommendation accepted.</p> <p>(vii) Recommendation accepted.</p> <p>(viii) Recommendation accepted.</p> <p>(ix) Recommendation accepted with modification that the O&MGFF is to be increased to 5% and the existing practice will continue.</p>
	Grants to PRIs	

		<p>A Capital Grant Fund may be established to replace the Infrastructure Gap Filling Fund (IGFF), into which 20% of the aggregate devolution intended for RLBs would be paid. Of this Fund, 20% would be set apart for taking up projects which are deemed to be of importance at the State level.</p> <p>The minimum lumpsum grant may be increased from Rs. 5 lakh to Rs. 7 lakh per Village Panchayat per year.</p> <p>The Minimum Lump Sum Grant to Panchayat Unions may be increased to Rs. 40 lakhs per annum per Panchayat Union to be released on a monthly basis out of the 37% share of Panchayat Unions in the SFC devolution.</p>	All recommended grants to RLBs were accepted.
		Grants to ULBs:	
		<p>A Capital Grant Fund may be established to replace the IGFF, into which 15 per cent of the aggregate devolution intended for ULBs tier wise would be paid.</p> <p>The Minimum Lump Sum Grant for Town Panchayats may be enhanced from Rs. 20 lakh to Rs. 30 lakh.</p> <p>A special grant of Rs. 25 crores may be provided to Tamil Nadu Institute of Urban Studies (TNIUS) to be distributed in equal annual installments over the award period out of the aggregate devolution for ULBs in TN.</p> <p>Out of the aggregate devolution intended for ULBs, 5% may be set apart for the incentive fund.</p>	All recommended grants for ULBs were accepted.
19	Tripura (3rd (2009-10 to 2014-15))	<p><u>Core recommendations:</u></p> <p>The Commission recommended that, based on the projected State's Own Tax and Non-Tax Revenues and Expenditure gap therein, a pre-devolution gap of specified amount (share of taxes) to be devolved per annum to the PRIs and the RLBs of Sixth Schedule areas during the award period, 2010-11 to 2014-15</p>	Recommendation accepted
		<p><u>Other recommendations:</u></p> <ol style="list-style-type: none"> 1. The Commission recommended that a scheme for providing incentive against collection of revenue by the RLBs may be introduced. Under this, matching contribution in the ratio 1:1 may be provided as additionality to above devolution to the concern RLBs. 2. The Commission recommended that in respect of providing development fund per capita ratio of 4:5 is maintained between Panchayat areas and ADC areas, and subject to maintaining the above 	<ol style="list-style-type: none"> 1. Recommendation accepted with modifications. The ATR states that - regarding recommendations for incentive, it may be provided maximum of Rs. 50,000, in case of Gram Panchayat/Village Committee, maximum of Rs. 2 lakhs in case of Panchayat Samiti/Block Development Committee, and maximum of Rs. 5 lakhs in case of Zilla Parishad. 2. These recommendations may be accepted

		<p>ratio, funds is devolved among PRIs and RLBs in Sixth Schedule areas based on population. Since, the above formula is working quite satisfactorily and no proposal received by the Commission for its modification, it is recommended that the same may be continued.</p> <p>3. The Commission recommended several other non-financial matters such as improving the account and audit, providing of adequate training for all Panchayats staffs in a time bound manner, creation of State training institute, training for representatives and functionaries in the State and so on.</p>	<p>3. These recommendations may be accepted</p>
20	Uttar Pradesh (4 th) (2011-12 to 2015-16)	Core recommendations:	
		The Commission recommended 15% of State's tax and non-tax revenues net of collection cost be transferred to LBs.	Recommendation accepted with modifications. The ATR states that Non-Tax Revenue of the State is very low, and if seen in terms of expenditure on various general, social and economics areas, it is infact in deficit. Therefore, Government decided that only part of the State's Net Tax Revenue will form the divisible pool to be transferred to LBs.
		Other recommendations:	
		<p>The Commission recommended that, if the State government finds it feasible, it can enforce the fiscal devolution methodology for LBs as recommended by this Commission from the first year of the award period, 2011-12, and also, may continue to do so till the subsequent SFC recommendations for the next award period will be received by the Government.</p> <p>The Commission recommended that like the previous SFCs, and till the new SFC report comes after this 4th SFC, the Government can utilise the recommendations of this SFC. This is because, the recommendations regarding the working mechanism and the work environment for SFCs needs constant improvements and these improvements cannot be related to any specific award period of SFCs, and thus it should be a continuous process.</p>	<p>The ATR states that – from the financial year 2011-12, it is not feasible to enforce the recommendations. (Remark: Reason for the same not mentioned in the ATR).</p> <p>However, after the decision of the State government on this Commission's recommendations, the recommendations of this Commission will continue till the acceptance of the recommendations of the next SFC.</p>
21	Uttarakhand (4 th) (2016-17 to 2020-21)	<p><u>Core recommendations:</u></p> <p>The Commission recommended 11% of the State's own tax revenue as the devolution amount with the following devolution formula.</p> <p>(a) Share of ULBs to be 55% and of PRIs 45% of the divisible pool</p> <p>(b) The inter-se share of ZPs, KPs and GPs shall be 35%, 30%, and 35% respectively</p>	<p>The recommended devolution percentage amount to be transferred to ULBs was accepted and will be transferred as mention by the Commission with minimum changes.</p>

		<p>(c) The inter-se share of the 3 levels of ULBs (NNs, NPPs and NPs) shall be 40%, 45% and 15% respectively</p> <p>(d) The 25 newly created NPs and 3 newly created NNPs are not included in the above formula and the grant-in-aid recommended to them shall be deducted from the total grant admissible to their group of NPs or NPPs.</p>	<p>Similarly, in case of PRIs, the recommended devolution percentage amount to be transferred was accepted and will be transferred to PRIs as mentioned by the Commission in the SFC Report with minimum changes.</p> <p>For KPs and GPs, half of the recommended amount to be transferred. Half of the recommended wages and salaries and pension funds will be transferred to ULBs.</p> <p>The ATR also states that the government is yet to take action on the non-financial recommendations made by the Commission.</p>
		<p><u>Grants:</u> Grant-in-aid for constructing public parking/ other special purposes, other grants and infrastructure related grants as per the needs.</p>	
22	West Bengal (4 th) (2015-16 to 2019-20)	<p><u>Core recommendations:</u> The Commission recommended for SFC grants to the tune of Rs.1103.80 crore for the financial year 2015-16 which will constitute 2.5% of the projected State's own tax revenue.</p> <p>Of this SFC grants of Rs.1103.80 crore, share of GP, PS, ZP and ULB as vertical devolution will be Rs.153.00 crore, Rs.253.50 crore, Rs.224.81 crore and Rs.442.49 crore, respectively in 2015-16. The Commission also recommended a progressive enhancement of SFC grants at the rate of 15% per annum from 2016-17 onwards. Therefore, on an average a GP in West Bengal will be annually entitled to a sum of Rs.6.16 lakhs, a PS Rs.1.00 crore, a ZP Rs.15.16 crore and a ULB Rs.4.66 crore during 2015-16 to 2019-20.</p> <p>The Commission also considered it to be reasonable that if in a particular year the State's own tax revenue grows by less than 15%, the SFC grant should be 2.5% of the actual tax revenue. The Commission further recommended that 60% of recommended grant should be spent towards creation of new assets and 40% of the grant should be spent as expenditure towards payment of electricity bills, O&M cost of water supply schemes, street lights and regular maintenance of other assets created by the ULBs. The Rural LBs will, however, be free to spend the SFC grant on the basis of the local felt need pertaining to civic services, provided no salary, wages and establishment cost should be borne from this grant.</p>	<p>Recommendations accepted with modifications.</p> <p>It is stated that the State government may devolve Rs. 900 crore to the LBs for the year 2016-2017 from its Own Tax Revenues and an annual increase of 3% from 2017-2018 to 2019-2020.</p> <p>Out of the total devolved funds to Rural and Urban Local Bodies, 60% may be earmarked for capital expenditure and remaining 40% for maintenance of assets, payment of electricity bill, O&M of water supply schemes etc.</p>
		<p><u>Other recommendations:</u> The Commission was of the opinion that the idea of an 'incentive fund' should continue to enthuse the performance of the LBs and, therefore, recommended that 4% of the grant be earmarked as 'performance grant' from the 2nd year i.e., 2016-17.</p>	

Source: SFC reports and ATRs of various States