

**MODEL TEMPLATE FOR THE REPORTS OF THE  
STATE FINANCE COMMISSIONS**

**Index**

- Chapter I. Introduction.
- Chapter II. Issues, Approaches and Methodology.
- Chapter III. Finances of the State (Revenue and Expenditure for the period)
- Chapter IV. Status of Decentralized Governance and Devolution.
- Chapter V. Finances of PRIs (Tier/ Level-wise analysis). - Review and forecast of Revenue and Expenditure.
- Chapter VI. Finances of ULBs - Review and forecast of Revenue and Expenditure
- Chapter VII. Review of Debt Position and Management.
- Chapter VIII. Scheme of Devolution - Assessment of the Gap in Financial Resources
- Chapter IX. Measures for strengthening Local Bodies - other than Devolution of funds
- Chapter X. Issues to be considered by the Central Government.
- Chapter XI. General Observations and Concluding Remarks.
- Chapter XII. Summary of Recommendations.

## **Chapter I.**

### **Introduction**

#### a. Constitution of the SFC.

This section should narrate the sequences relating to the constitution of the SFC including the changes owing to resignation, replacements etc.

#### b. Terms of Reference (TOR).

The TOR of the SFC as notified by the Governor and subsequent modifications, if any, may be cited verbatim, with brief explanations as required.

#### c. Design of the Report.

The chapter scheme of the Report and its Annexures may be explained.

#### d. Data and information collected and utilized.

The nature and sources of data collected, the limitations of the data and difficulties encountered, if any, to be stated. The place where the data not displayed in the Report can be accessed, may be stated to facilitate its subsequent retrieval and usage.

#### e. Major activities.

Enlist the major activities undertaken by the Commission, such as tours, meetings, seminars, research studies, public notices and the response thereto, the web portal launched and the response that it generated, and so on.

#### f. Meetings:

It is desirable to have a well thought out schedule for the meetings, to optimize the benefits, given the time constraints. The suggested schedule for the meetings would include the following:

- Elected Representatives and CEOs/ Senior officers of the PRIs/ ULBs.
- Federation of the PRIs/ ULBs.
- Experts in public administration, economics, political science, environmental issues etc.
- Farmers' Bodies, NGOs, Civil Society Organizations.
- Political Parties.
- Trade & Commerce Bodies.
- Employees' organizations.
- Accountant General and Director of Local Fund Audit.
- State Government Departments.

#### g. Acknowledgements.

The individuals and institutions that provided help and support to the Commission in performing its task may be acknowledged.

## **Chapter II.**

### **Issues, Approaches and Methodology**

a. Issues.

This Chapter may commence with the mandate for the SFC as per the Constitution, State Laws and the TOR. It may also analyze the economic and social trends in the State such as enactment of Fiscal Responsibility and Budget

Management Act, the five Year Plan changes in the Sectoral Trends, Intra-State issues about backwardness, gaps in infrastructure etc. Based upon such analysis, the SFC may identify the key issues that it proposes to address.

b. Approaches and Methodology.

Having enlisted the issues identified to be addressed, the Report may indicate the approaches adopted by the Commission to analyze those issues. This should be followed by a broad description of the methodology adopted by it in respect of each of the issues, such as the vertical sharing, distribution between the ULBs and the PRIs, ratio of distribution among the tiers of the PRIs, criteria for horizontal distribution of grants, the extent to which the concept of equalization of the standards of basic services has been adopted etc. Full details of the actual principles adopted by the Commission for these purposes should, however, be explained in Chapter VIII. The questionnaires issued for eliciting information, the seminars and workshops held, consultations made etc. may be annexed.

c. Scheduled Areas:

In respect of the Fifth Schedule Areas, the SFC would have to take note of the provisions of the PESA Act, 1996 and its reflection on the relevant State laws and Article 275(1) of the Constitution.

d. District Plans:

The Report may undertake a review of the approaches adopted by the State for District Plans, the functioning of the District Planning Committees (DPCs) and their reports. The impact of the district plans on the financial needs of the local bodies may be suitably factored in by the SFC in its report.

e. Assumptions & Limitations:

The assumptions made by the SFC in analyzing the various information and data and the limitation that the SFC finds in making a more elaborate analysis of the various issues, need to be clearly recorded.

## **Chapter III.**

## **Finances of the State (Revenue and Expenditure for the period)**

### a. Structure of the Economy.

This chapter may undertake a detailed review of the economic scenario for the State in the overall context of the national scenario.

### b. A Review of Growth and Development.

The trends in the growth and development of the State and its different regions may be deliberated. The possible impact of such trends on the rural and urban sectors, respectively, could also be stated. The trends projected by the previous SFCs may be compared with the actual status.

### c. A critical Analysis of the State Finances

This is important, as the recommendations of the SFC have a major bearing on the State Finances. Accordingly, the impact on the Consolidated Fund of the State on account of implementation of SFC recommendations, including the annual financial implication of accepting each of the recommendations, needs to be elaborated. A list of suggestions for efforts required to raise revenues to meet the additional requirement may be included.

## **Chapter IV.**

### **Status of Decentralized Governance and Devolution**

#### a. Activity Mapping.

The status of devolution of the Functions, Funds and Functionaries (3Fs) to the LBs by way of Activity Mapping and issue of formal notifications, as also as per actual practice, may be reviewed. This may be followed by a detailed analysis of the devolution of 3Fs. Guidelines for Activity Mapping by the States is being issued separately.

#### b. Functional Devolution.

This part may discuss the details of additional functional responsibilities assigned to The LBs consequent on 73rd/74th Amendments; expenditure incurred by the State Government on the functions before such transfers; transfer of manpower from the State to the LBs for such functions, adequacy of approach of the SFCs on the issue and recommendations by the SFCs.

#### Financial Devolution.

Analysis of Financial Devolution should also include the existence of Panchayat Window in State Budget and Fund Flow through the Window; arrangements for maintenance of accounts of the LBs; creation of data base relating to the finances of LBs; arrangements made for audit of the accounts of the LBs and status thereof.

d. Administrative Devolution.

The extent and nature of transfer of staff, as also the staff appointed by the LBs themselves, the adequacy of the staff vis-à-vis the functional assignments and the financial implications thereof, may be examined.

**Chapter V.**

**Finances of PRIs (Tier/ Level-wise) - Review and forecast of Revenue and Expenditure.**

The revenue receipts and expenditure requirements of the Local Bodies need to be analyzed. This would require an analysis of the past trends and projections for the future. The trends in the finances of the PRIs may be described, giving the revenue and expenditure details by various Heads of Account. The trends projected by the previous SFCs may be compared with the actual status. Details of transfers made to PRIs before setting up of SFCs; Growth rate of such transfers; Amounts recommended by SFCs under different categories of transfers (such as assignment of taxes, devolutions, grants-in-aids); Actual transfers effected; Difference between the projected amount for each year based on the average growth rate (in the previous 5 years) and amounts recommended by SFCs for the same functional responsibilities etc may find place in this part. The projections for the future should be normative and the norms need to be explicitly stated. For example, to work out the financial implication on committed expenditure towards honorarium to elected representatives, field level functionaries, etc, the calculation may be based on the approved rates. Similarly, the LBs have to fulfill the responsibilities of Civic Services such as water supply, sewerage, storm-water drainage etc. Reasonably good estimate can be formed regarding the cost of providing and maintaining these services on the basis of certain bench marks. A copy of the assessment of revenue and expenditure in regard to State Finances made in Chapter VI of the 12th CFC Report is at **Annexure VII**. A model template for assessment of revenues and expenditure is placed at **Annexure-IV**.

**Chapter VI.**

**Finance of Urban Local Bodies - Review and forecast of Revenue and Expenditure.**

The analysis and presentation in this chapter should, broadly speaking, be on the same lines as the preceding chapter on the PRIs. However, the trends in urbanization, industrialization etc. would need particular focus for assessment of the Finances of the ULBs.

**Chapter VII.**

**Scheme of Devolution - Assessment of the gap in Financial Resources**

This chapter may present an assessment of the revenue gap for the LBs by levels based on the preceding analysis, and propose the actual scheme of devolution, in the following format:

- A. Assessment of the gap.
  - a. Rural Local Bodies.

- i. Zilla Panchayats.
- ii. Block Panchayats.
- iii. Gram Panchayats.

b. Urban Local Bodies.

- i. Nagar Panchayats.
- ii. Municipal Councils.
- iii. Municipal Corporations.

B. Scheme of Devolution

- a. A review of the Scheme of devolution recommended by the past SFCs. The scheme of devolution adopted by the preceding SFCs may be summarized and the need for changes, if any, may be explained.
- b. The Scheme of Devolution.

The actual scheme of devolution adopted by the SFC may be explained here including the criteria and recommended sharing of the divisible pool between the ULBs and the PRIs, the sharing/ among the tiers of the PRIs.

For sharing of the divisible pool between the ULBs and the PRIs, a possible option would be to adopt the criteria mentioned in Annexure II. The ratio of distribution among the tiers of the PRIs could be benchmarked to the functional assignments reflected through the activity mapping. A suggested ratio is 10:15:75 between the Districts, Intermediate and Gram Panchayats, respectively. The horizontal distribution among the panchayats of a particular tier could be based on a combination of indices as mentioned in Annexure II.

C. Details of Devolution.

Having explained the principles adopted for devolution and distribution of the sharable revenues, the Commission may give out the actual figures for each item of sharable revenue, such as the following:

I. Sharing of Taxes and Duties:

- i. Assigned Taxes.
- ii. Share in State Taxes.
- iii. Determination of the collection charges and “net proceeds”.
- iv. Share of the PRIs and Inter se distribution
- v. Share of the ULBs and Inter se distribution

II. Grants-in-aid:

The Grants-in-aid should generally be untied. However, purpose specific grants could be made with good reasons. In either case, the principles for distribution and broad guidelines for application of the grants may be explained. For example, the 12<sup>th</sup> CFC while recommending untied grants to LBs has also recommended purpose specific grants. In respect of the untied grants, the SFC could make recommendation on the priorities for expenditure, such as-

- i. Setting up data base, MIS and computer station with internet facilities in each LB.
- ii. Grants towards staff (e.g. one Secretary, one Accountant, one barefoot Engineer, one Assistant for each GP and similarly for others tiers of PRIs).
- iii. O& M of assets/services created under various programmes.

## **Chapter IX.**

### **Measures for strengthening Local Bodies - other than Devolution of funds.**

The non-fiscal measures for the strengthening of the LBs, such as the legislative and administrative empowerment issues, may be deliberated. The SFCs may recommend devolution of additional functions to LBs, devolution of more financial and administrative powers to sanction works as well as more powers over staff engaged in delivery of basic services such as Primary Education, Health, removal of Parallel Bodies which impinge on the functional autonomy of local bodies, adoption of professional systems of audit/accounting and costing, etc.

## **Chapter X.**

### **Issues to be considered by the Central Government.**

This should include the expectations articulated with reference to the Central government, Central Finance Commission, Planning Commission and similar bodies. For example, whether the States should be given concurrent powers to tax all services, whether the net proceeds and not the gross proceeds should be made distributable between Union and the States, whether a minimum guaranteed devolution should be fixed by the CFCs, whether any cess or surcharge continued beyond one year should be included in the divisible pool and made shareable with the States.

## **Chapter XI.**

### **General Observations and Concluding Remarks.**

In this chapter, the issues relating to monitoring timely releases of the SFC Grants, arrangements for monitoring & evaluation of the utilisation of the SFC Grants. Implementation of other recommendations of the SFC, suggestions for creation of permanent Cell for SFC, better upkeep of records and data, may be stated.

The SFC may also make recommendations for creation of an appropriate administrative arrangements for monitoring of the assumptions made in its report including these relating to growth

of the revenue receipts and expenditure of the State, PRIs and ULBs and for placement of the same before the Legislature.

The chapter could also incorporate a model procedure for transfer of SFC Grants by the States to the LBs, as indicated in **Annexure-V**.

## **Chapter XII.**

### **Summary of Recommendations.**

The summary of the recommendations may be stated in crisp paragraphs, with a view to facilitating systemic review of the implementation of the recommendations by authorities concerned.

-----

**Model Template for estimating the resources and expenditure of local bodies.**

Information to be collected separately for Rural Bodies (District, Block & Gram Panchayats) and Urban Local Bodies (Municipal Corporations, Municipal Board, & Nagar Panchayats)

**I. Resources**

A. Own Revenue.

1. Tax Revenue

- a. Property Tax
- b. Octroi ( Where Applicable)
- c. Conservancy Tax
- d. Taxes on Buildings and Land
- e. Taxes on vehicles, other than motor vehicles
- f. Entertainment tax, other than under the Cinematograph Act
- g. Pilgrim Tax
- h. Profession Tax
- i. Service Tax
- j. Any Other Tax (Specify)

2. Non-Tax Revenue

- a. User Charges
- b. Fees
  - i. Licence Fee
  - ii. Registration Fee
  - iii. Any Other Fee (Specify)
- c. Royalty from Minor Minerals
- d. Interest
- e. Dividend
- f. Income From Property
- g. Receipt from Transferred Institutions
- h. Other Income

B. Transfers from the State

- a. Assigned taxes
- b. Share in State Taxes
- c. Unconditional or Untied grants

d. Special Purpose Grants

- i.
- ii.
- iii.

e. Grants for Agency Functions

f. Grants on recommendation of SFC

C. Grants from the Central Government

a. Centrally Sponsored Schemes

- i.
- ii.
- iii.

b. Central Sector Schemes

- i.
- ii.
- iii.

c. Other Schemes and Programmes.

D. Capital Receipts

a. Borrowings

b. Bonds.

c. Other Debt Receipts

E. Miscellaneous Receipts

a. Aids and Donations

b. Other Receipts

**II. Expenditure**

A. Administrative Expenditure.

- a. Salary/Honoraria of elected representatives.
- c. Salary of Secretary and other officials
- d. Expenditure on traveling of elected representatives.
- f. Expenditure on Travel of Secretary and other officials
- g. Expenditure on medical reimbursement etc.
- h. Expenditure on Unforeseen Items (Seminar/ Relief Funds etc)
- i. Contingent Expenditure

B. Expenditure on Civic Services

- a. Water Supply
- b. Sanitation
- c. Street Lighting
- d. Solid Waste Disposal
- e. Public Health
- f. Libraries
- g. Museums
- h. Any other

C. Expenditure on Maintenance of Common Property Resources

- a. Parks
- b. Grazing grounds
- c. Hats/Bazaars
- d. Cremation grounds/graveyards
- e. Roads
- f. Ponds/Wells
- g. Forests/Orchards/Tree Plantations
- h. Social Forestry
- i. Public Buildings
- j. Any other

D. Expenditure on each of the Schemes Assigned by the State Government

- i.
- ii.

E. Expenditure on each of the Schemes Assigned by the Central Government

- a. Centrally Sponsored Schemes
- b. Additional Central Assistance Schemes.
- c. Central Sector Schemes

F. Expenditure on Interest on Borrowings from-

- a. State Government.
- b. Central Government.
- c. Financial Institutions.

G. Capital Expenditure.

- a.
- b.
- c.

### **III. Financial Management**

G. Review of Fiscal and Financial Management

H. Debt position and its management.

- a. Status and trends of indebtedness of PRIs.
- b. Need and scope for ARM through the Debt Route. If the State laws do not permit the PRIs to raise resources through debts, the Report may examine the desirability of introducing such a provision.

### **IV. Net Budgetary Position.**

Note: In the case of States with large number of Local Bodies, collection of information could be done through representative sampling methods.

-----