Chapter- 10

Assessment of Gap and Scheme of Devolution

A. Assessment of the Gap

10.1 The basic thrust of the 73rd and the 74th Constitutional Amendments were to endow the panchayats and the municipalities with adequate power, functions, resources and responsibilities so as to enable them to function as autonomous institutions of self government. It is the primary responsibility of the SFCs to ensure adequate resources, both financial and physical, to PRIs and ULBs to enable them to fulfil the role envisaged for them in the Constitution. On the other hand, being nearest to the people, civic bodies are expected to provide basic services to the grass root levels. In recent years the growing agency functions relating to the implementation of various Centrally Sponsored Schemes have added a new dimension to their functional canvas. Paradoxically, the local bodies have plenty of funds to implement these schemes but very little funds for effectively meeting their administrative costs and for performing core civic functions. In the given situation, it is the imperative need to place PRIs and ULBs on a sound financial footing duly supported by adequate skilled manpower and fully equipped physical infrastructure .

10.2 In order to determine a suitable fiscal package for the panchayats and municipalities, the first and foremost necessity is the assessment of the gap in their financial resources. However, in this matter the Commission is greately handicapped due to non-existence of a data-base and the difficulties in obtaining accurate data from the grass root levels. Apart from being qualitatively poor, the available data is grossly inadequate also. It is so because accounts are not maintained properly. Any clear picture of revenue and expenditure of the local bodies does not emerge from the way the accounts are maintained now. Apparently, no distinction is made between own resources and transferred funds meant for specific purposes; revenue and capital receipts and expenditure and plan and non-plan expenditure. Despite priority accorded by successive Central and State Finance Commissions for creation of data-base and maintenance of accounts, no serious attempts seems to have been made so far in this regard. Consequently, earmarking of grants by the Central Finance Commissions for creation of data-bank and maintenance of accounts has not yielded the desired results. Initially, the SFC Cell under the State Finance Department is supposed to provide the SFC with the required input . But the Cell although constituted is not properly equipped with man and materials to do the job effectively. As a result, a SFC when constituted has to grapple with the problem of data collection.

10.3 Inspite of the crippling handicaps stated above, the Commission has made an assessment of the revenue gaps of each tier of PRIs and each category of ULBs. For the purpose of assessment the level of revenue and expenditure obtained during 2008-09 has been adopted as the base. However, population figure of 2001 Census has been adopted although ToR required the Commission to adopt the latest available census figure. As all necessary details of population upto block and village levels are not available in respect of the 2011 census, the Commission has been constrained to adopt the population figure of 2001 census.

10.4 Compared to some other states, the PRIs in Assam are rather late entrant in the scheme of decentralization. Accordingly, their performance in providing basic civic services is rather low. This is equally true of the small and newly emerging urban civic bodies. Obviously in such a situation the base year figure of expenditure on basic civic services and maintenance of community assets is negligible. The base year figure of expenditure is mainly confined to disbursement of salary and a few other contingent expenditure. Any assessment based on that low level would mean acceptance of such low level of service delivery in the years to come. This will not be conducive to the interest of democratic decentralization. The Commission, therefore, decided to upgrade the physical infrastructure of local bodies to augment their capacity for service delivery. In our assessment expenditure on account of upgradation of physical infrastructure is built in as fresh expenditure during the forecast period.

(a) Rural Local Bodies

10.5 The non-plan revenue gap of the PRIs has been worked out separately for each tier ZP, AP and GP having taken the level of revenue and expenditure of 2008-09 as the base. The revenue receipts of 2008-09 has been projected at an annual growth of 5 percent for the subsequent years upto 2015-16 for all the tiers. Similarly, the non-plan revenue expenditure of all tiers has been projected assuming an annual growth of 10 percent over the base year. Additional amount is provided separately for each tier for upgradation of physical infrastructure which will be treated as specific purpose grant-in-aid. The position is summarized in Table- 1 below.

Table- 1

Assessed Revenue Gap of PRIs **(Rs. in lakhs)**

Details	2012-13 Est	2013-14 Est	2014-15 Est	2015-16 Est	2012-16 Total
Zilla Parishad					
A. Revenue Receipt	309.84	325.32	341.60	358.67	1335.43
B. Revenue Expenditure	842.10	896.57	956.47	1022.38	3717.52
C. Upgradation Expenditure	2680.00	2680.00	2680.00	2680.00	10720.00
D. Total Expenditure (B + C)	3522.10	3576.57	3636.47	3702.38	14437.52
E. Assessed Gap of ZP (A - D)	**3212.26**	**3251.25**	**3294.87**	**3343.71**	**13102.09**
Anchalik Panchayat					
F. Revenue Receipt	776.46	815.29	856.06	898.85	3346.66
G. Revenue Expenditure	3215.38	3395.18	3592.97	3810.53	14014.06
H. Upgradation	10397.80	10397.80	10397.80	10513.80	41707.20
I. Total Expenditure (G + H)	13613.18	13792.98	13990.77	14324.33	55721.26
J. Gap of AP (F – I)	**12836.72**	**12977.69**	**13134.71**	**13425.48**	**52374.60**
Gaon Panchayat					
K. Revenue Receipt	724.56	760.79	798.83	838.77	3122.95
L. Revenue Expenditure	15364.58	16145.46	17004.41	17949.27	66463.72

M. Upgradation	20216.60	20216.60	20216.60	20266.60	80916.40
N. Total Expenditure (L +M)	35581.18	36362.06	37221.01	38215.87	147380.12
O. Gap of GP (K – N)	**34856.62**	**35601.27**	**36422.18**	**37377.10**	**144257.17**
P. Overall gap of PRIs	**50905.60**	**51830.21**	**52851.76**	**54146.29**	**209733.86**

N.B.- Details at Table- 11 and 12 of Chapter- 7 and Annexures 7.2 to 7.4

(b) Urban Local Bodies

10.6 For the purpose of assessment of municipal finances the urban civic bodies are categorized into two groups viz, 71 MBs/TCs in a single group and Guwahati Municipal Corporation separately. In case of both categories, the revenue receipt of the base year is projected assuming an annual growth of 7 percent and the revenue expenditure at an annual growth of 10 percent. As in the case of PRIs, additional amount is added to the expenditure stream for the purpose of upgradation of physical infrastructure. The position is summarized in Table- 2 below.

Table- 2
Assessed Revenue Gap of ULBs

(Rs. in lakhs)

Details	2012-13 Est	2013-14 Est	2014-15 Est	2015-16 Est	2012-16 Total
1. MBs/TCs					
A. Revenue Receipt	7667.69	8598.63	9665.01	9998.76	35930.09
B. Revenue Expenditure	9562.11	10424.94	11374.01	12418.01	43779.07
C. Deferred Expenditure	1017.46	72.34	72.34	72.34	1234.48
D. Upgradation Expenditure	14574.00	14562.00	14497.00	14700.00	58333.00
E. Total Expenditure (B+C+D)	25153.57	25059.28	25943.35	27190.35	103346.55
F. Gap of MB/TC (A - E)	17485.88	16460.65	16278.34	17191.59	67416.46
2. GMC					
A. Revenue Receipt	6120.83	6709.05	7366.88	7743.65	27940.41
B. Revenue Expenditure	8690.35	9528.34	10450.11	11464.09	40132.89
C. Deferred Expenditure	2500.00	2500.00	2500.00	2500.00	10000.00
D. Upgradation	3100.00	3100.00	3100.00	3100.00	12400.00
E. Total Expenditure (B+C+D)	14290.35	15128.34	16050.11	17064.09	62532.89
F. Gap of GMC (A – E)	8169.52	8419.29	8683.23	9320.44	34592.48
3. Overall Gap of ULBs (1F + 2F)	25655.40	24879.94	24961.57	26512.03	102008.94

B. Strategy for Bridging Normative Vertical Gap

10.7 Having assessed the gaps in financial resources of the panchayats and municipalities at all levels, the next vital issue is to appropriately structure the vertical and horizontal dimensions of resource transfer so that the mutual interests of the State and the local bodies at all levels are best served. The vertical dimension of transfer between the State and the local bodies is sought to be addressed by creating a divisible pool consisting of the net proceeds of taxes and duties collected by the State Government. The vertical dimension of transfer as between different levels of

PRIs and ULBs depend on their mutual revenue raising capacity as well as the level of services rendered by them. How best the PRIs and ULBs can augment their revenue collection from tax and non-tax domain is elaborately dealt with in Chapter- 7 and 8 respectively. The horizontal dimension of transfer is taken care of by an interse distribution based on some objectively defined criteria.

C. Scheme of Devolution

(a) Assigned Taxes

10.8 Articles 243 I and 243 Y of the Constitution vide clause (a) (ii) mandated the SFC to make recommendations as to the principle which should govern the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the panchayats and municipalities. It is, therefore, the constitutionally assigned duty of the SFC to determine the taxes which may be assigned to the local bodies.

10.9 Usually assignment takes place in respect of local taxes like land revenue, local rates, entry tax, entertainment tax, profession tax etc. Normally the base of such tax is narrow and the cost of collection proportionately high. As such it would be administratively convenient and more economic to collect such taxes at the State level and share the net proceeds with the local bodies. The global sharing of the net proceeds of all taxes collected by the State with the local bodies will safeguard their interest effectively.

(b) Share in State Taxes

10.10 Articles 243 I and 243 Y of the Constitution require the SFC to make recommendations as to the principles which govern the distribution between the State and the Panchayat and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Panchayats and Municipalities at all levels of their respective shares of such proceeds.

10.11 It is clearly laid down in the above Articles that distribution between the State and Panchayat/Municipalities shall take place in respect of taxes, duties, tolls and fees leviable by the State. The expression “leviable by the State” has unambiguously left State’s share of Central taxes outside the purview of devolution scheme. Besides, in the terms of reference for the Commission as set by the State Government it specifically mentions net proceeds of the taxes and duties levied and collected by the State for purpose of sharing between the State and the local bodies. The Commission is therefore, not inclined to bring State’s share of Central taxes in the divisible pool.

10.12 However, the Constitutional provisions do not prevent sharing of the proceeds of non-tax revenue collected by the State. It may be noted that in the category of non-tax revenue except forest revenue and royalty on minerals, all other collections are of the nature of user charges and fees collected from beneficiaries in lieu of services rendered. In the context of protection and preservation of depleted forests where the emphasis should be on plantation of trees rather than on exploitation, forest revenue has not been considered as a component of the divisible pool. Royalty on crude oil is a major source of State revenue, but the Commission is not inclined to take this too in the divisible pool as a flood prone deficit state like Assam also needs bolstering up of its revenue. Keeping in view the sources of non-tax revenue, the Commission is not in favour of its inclusion in the divisible pool.

10.13 In terms of the above approach in the scheme of resource transfer from the State to the local bodies only the State's own tax revenue may be included. In regard to the distribution of the net proceeds of taxes, different Central and State Finance Commissions at different points of time had taken different approach. In case of Central taxes sharable with the States successive Central Finance Commissions beginning from the First upto the Ninth had favoured the concept of selective sharing. The net proceeds of only two Union taxes i.e., Income tax and Union Excise Duty formed the divisible pool to the exclusion of all other Central taxes. The Tenth Finance Commission, for the first time, abandoned the practice of selective sharing and in its place favoured global sharing of all taxes raised by GOI. Apart from ensuring greater transparency and certainty, the global sharing was considered to be more simple in operation. And more importantly, it is expected to provide the States the benefit of buoyancy over the aggregate Central taxes.

10.14 Following the above approach, the SFCs of quite a few States had adopted a similar approach of globally sharing of the proceeds of State taxes with the local bodies. In this regard the First SFC of Assam though favoured a selective approach of tax sharing it simultaneously ensured that total devolution should conform to 2 percent of aggregate State taxes. The Second SFC of Assam for the first time, favoured the concept of global sharing of State taxes with the local bodies to the exclusion of non-tax revenue and State's share of Central taxes. Accordingly, it recommended 3.5 percent of the net proceeds of State taxes as devolution to local bodies. The Third SFC also favoured the concept of global sharing and recommended 10 percent of aggregate collection from State taxes as devolution in the first year and 25 percent for remaining years. The present Commission in its interim report for 2011-12 also favoured the concept of global sharing and recommended 14 percent of the net proceeds of State taxes as devolution to local bodies.

10.15 In the matter of distributing the net proceeds of State taxes with the panchayats and municipalities the Commission, in conformity with its interim report, recommends adoption of a global approach of sharing the net proceeds of all State taxes other than non-tax revenue and State's share of Central taxes during the next four years 2012-13 to 2015-16. In order to arrive at the net proceeds, 10 percent of the gross collection of each year shall be deducted.

10.16 The sharing of the net proceeds of State taxes with the rural and urban local bodies shall be subject to the following conditions. First, in the wake of a verdict of the Hon'ble High Court the proceeds of entry tax collected under the Assam Entry Tax Act, 2008 is being utilized for providing infrastructure and amenities to facilitate trade, commerce and intercourse. Accordingly, the proceeds of entry tax is utilized by the concerned departments for the above mentioned purposes. Second, the yield form entertainment tax collected under the Assam Amusement and Betting Tax Act, 1939 are set apart for disbursement to various cultural organizations. Third, the electricity duty collected under Assam Electricity Duty Act, 1964 are passed on to ASEB as State Government's contribution to terminal benefit fund of ASEB employees. In view of this, the yield from above three taxes shall be kept out of the divisible pool. And finally the Schedule VI areas a re not covered by the Constitutional Amendments. Accordingly, the Sixth Schedule Areas comprising four districts of Kokrajhar, Udalguri, Chirang and Baksa falling unde r BTAD and two Autonomous Hill Districts of Karbi Anglong and North Cachar shall b e outside the purview of this report. In view of this collection of State taxes w ithin the jurisdiction of Schedule VI areas shall not form part of the divisible pool.

10.17 To sum up, in determining the net proceeds of State taxes sharable with the panchayats and municipalities, at the first instanc e, the amount of collection attributable to Schedule VI areas shall be deducted form the projected gross own tax revenue. At the next stage, 10 percent of the balance shall be deducted on account of collection charges. Thereafter adjustment will b e made on account of entry Tax, entertainment tax and electricity duty. Having determined the net figure, the Commission recommends that 15 percent of the net pr oceeds of State's own tax revenue shall form the divisible pool for distribut ion between the PRIs and ULBs during 2012 – 16 as shown in Table – 3 below.

Table- 3
Divisible Pool

(Rs. in crore)

Year	Projected Gross own Tax Revenue	Schedule VI Areas	Collection Charges	Adjust ment Entry Tax etc	Net Tax Revenue	Divisible Pool 15% of Col- 6
1	**2**	**3**	**4**	**5**	**6**	**7**
2012-13	7306.15	51.97	725.42	632.28	5896.48	884.47
2013-14	8109.83	57.69	805.21	701.84	6545.09	981.76
2014-15	9001.91	64.04	893.78	779.04	7265.05	1089.76
2015-16	9992.13	71.08	992.10	864.73	8064.22	1209.63
Total	**34410.02**	**244.78**	**3416.51**	**2977.89**	**27770.84**	**4165.62**

Rural – Urban Division

10.18 Having worked out the size of the divisible p ool at Rs.4165.62 crores as indicated at Table – 3 above, an amount of Rs.2173.62 crores will be set aside for distribution to PRIs and ULBs at all levels including SFC Cell and Directorate of Audit as special purpose grant for creation/upgradation of physical infrastructure. The balance amount of Rs.1992.00 crores will be apportioned bet ween the rural-urban bodies on the basis of population-cum-density of population a s per 2001 census figure. The rural-urban bifurcation will be made 80 percent in proportion to rural and urban population and 20 percent in proportion to the density of rural-urban population. The rural-urban component of the divisible pool is shown year-wise in Table- 4 below.

Table- 4
Rural-Urban Division

(Rs. in crore)

Year	Divisible Pool	Grant Components	Net DP	Rural	Urban
2012-13	884.47	549.98	334.49	243.23	91.26
2013-14	981.76	540.41	441.35	320.93	120.42
2014-15	1089.76	539.76	550.00	399.94	150.06
2015-16	1209.63	543.47	666.16	484.40	181.76
Total	**4165.62**	**2173.62**	**1992.00**	**1448.50**	**543.50**

(c) Share of the PRIs

10.19 Given the rural-urban bifurcation of the divisible pool, at the first instance the rural part of it is allocated among different districts on the basis of the weighted average of three factors. These are (i) population 50 percent, (ii) geographical area 25 percent and (iii) per capita district domestic product net of mining and quarrying 25 percent.

10.20 In the second stage, the district-wise allocation of rural part is required to be apportioned vertically among the three tiers of PRIs. In the interim report the vertical allocation was made at the ratio of 20:30:50 respectively for ZP, AP and GP during 2011-12. However, from practical experience it appears that the above ratio is disadvantageous to the GPs because salary component is much higher at GP level compared to ZPs or APs. It is worth remembering that there are as many as 2202 GPs as against 185 APs and 20 ZPs in the General Areas of the State. Hence, the ratio is revised to **10:25:65** respectively for ZP, AP and GP. However, this revised ratio will be applicable only in respect of tax devolution as per our recommendation. If any individual unit is adversely affected due to this ratio, government may take corrective steps by intra-tier readjustment.

10.21 In the final stage of devolution of rural part, the share of each AP and each GP in a district shall be determined on the basis of their respective population as per 2001 census.

(d) Share of the ULBs

10.22 In case of ULBs, the urban divisible pool will be allocated horizontally among the Municipal Corporation, Municipal Board and Town Committees on the basis of the weighted composite index of (a) population 50 percent, (b) geographical area 25 percent, (c) index of infrastructure 12.5 percent and (d) per capita tax collection 12.5 percent. The index of infrastructure has been constructed by using three indicators, viz, (i) length of surface road, (ii) length of pucca drains, and (iii) number of street lights, giving equal weight to each indicator.

(e) Grants-in-aid

10.23 Articles 243 I and 243 Y of the Constitution empower the SFC to recommend grants-in-aid to the Panchayats and Municipalities from the Consolidated Fund of the State. In the matter of recommending grants-in-aid from the Consolidated Fund of India, the successive Central Finance Commissions have adopted the following approach.

(i) To meet the gap in non-plan revenue account, if any, after devolution of Central taxes.
(ii) Special purpose grant for upgradation of standard of administration wherever necessary and
(iii) To meet special problems of States and problems of national concern.

10.24 From the above principles enunciated by the Central Finance Commissions it is clear that revenue gap grant falls under the category of general purpose grant having no conditionality attached to it. Moreover, it is not generally admissible to all States but limited to those that are assessed as deficit at post devolution stage. Therefore, it is a sort of untied fund to revenue deficit States whereas the other two types are of the category of specific purpose grant to be utilized for the purpose intended for and not otherwise. Hence, these are conditional grants.

General Purpose Grant

10.25 Though handicapped by the infirmities of GP wise data, Commission made the devolution exercise as best as possible. But Commission still feels that because of the sheer large number of GPs their individual share out of the 15 percent tax devolution recommended by us will be relatively meagre. It is desirable that the grass root level entities should have some fund to carry on their core duties after meeting the establishment cost. Commission therefore recommends an untied grant of Rs.3 lakhs per GP per year from 2012-13 to 2015-16. The total cost per year is Rs.66.06 crores and this is in addition to 15 percent tax devolution recommended by us.

(e) Specific Purpose Grant

PRIs

10.26 In the interim report the Commission recommended specific purpose grant for the PRIs at all level for construction of functional and residential buildings involving a total amount of Rs.601.42 crores. One fifth of this amount or Rs.120.28 crores was recommended for the first year 2011-12. The Commission recommends that the balance amount be provided during the next four years at the rate of Rs.120.28 crores per year as per details at Table- 11 of Chapter- 7.71.

10.27 Apart from the above, the Commission has received a long list of demands from the PRIs at all level asking for hefty sums running into several thousand crores for creation/upgradation of physical infrastructures. Obviously it is not possible to respond to all these demands. However some common items like construction/improvement of markets, cremation and burial grounds at all levels and cold storage for selected ZPs were considered involving a total cost of Rs.852.30 crores. The Commission recommends that this amount may be provided year-wise in a phased manner as shown at Table- 12 of Chapter- 7 .77.

ULBs

10.28 The Commission recommends grant-in-aid of Rs. 72.34 lakhs to the municipalities listed at Table- 8 of Chapter- 8.77 during each year from 2012-13 to 2015-16 as compensatory grant for electricity charges.

10.29 As mentioned in Chapter- 8.86, certain ULBs have deferred liabilities amounting to Rs.945.12 lakhs on account of salaries and terminal benefits of their employees. The Commission recommends grant in aid of Rs.945.12 lakhs during 2012-13 to the concerned civic bodies as per amount noted against each in Table- 9 of Chapter- 8.86.

10.30 For construction of Town Halls for ULBs, as per specification of State PWD, the Commission recommends grant of Rs.232 crores at the rate of Rs.58 crores per year being 50 percent of the total cost of construction as shown in Table- 10 of Chapter 8.90.

10.31 For installation of water supply plants in MBs and TCs which are not having water supply plants of their own, the Commission recommends grant of Rs.314.70 crores at the rate of Rs.78.68 crores per year. The list of ULBs with amount noted against each is at Annexure- 8.11.

10.32 For procurement of equipments for solid waste disposal by the ULBs, the Commission recommends an amount of Rs.17.65 crores as grant. The year-wise break up is at Table- 11 of Chapter- 8.96. The list of ULBs with details of equipments is at Annexure- 8.12.

10.33 For construction of Harijan/Staff quarters, the Commission recommends an amount of Rs.18.96 crores as grant as per year-wise break up in Table- 11 of Chapter- 8.96. The list of ULBs is at Annexure- 8.13.

10.34 TASFC recommended extension of pensionary benefits to the employees of GMC with effect from 01.01.1996. In pursuance to the above recommendation, GMC has preferred a claim for payment of arrear pension and DCRG to the employees who retired after 01.01.1996. The Commission recommends grant of Rs.100 crores at the rate of Rs.25 crores per year for liquidation of arrear liability on account of pension and DCRG.

10.35 Further, grant-in-aid to GMC amounting to Rs.124.00 crores at the rate of Rs.31.00 crores per year is recommended for purposes shown against item D of Table- 12 in Chapter- 8.119.

Directorate of Audit (Local Fund)

10.36 Directorate of Audit is the primary agency in respect of audit of PRIs and ULBs. The Technical Guidance and Supervision (TG&S) of maintenance of accounts and audit is entrusted to the C&AG. The vital components of TG&S include (i) setting audit standards and audit planning, (ii) adoption of improved audit methodologies, (iii) training in audit and accounts and (iv) annual transactions audit. The present audit staff in the Directorate of Audit are not properly trained to carry out the job effectively. In order to assess the training need an in-house meeting of the Commission was arranged which was attended by Director of Audit. Other notable participants were Deputy Account General (Audit), Director, SIRD and representative of NIRD. Director Audit emphasized the need for internal training of auditors in his organization.

10.37 Pursuant to above discussion, Director Audit informed that the targeted group of trainees include 26 no of supervising officers of the rank of Assistant Director and above, 159 numbers of Audit Officers and 220 nos of Assistant Audit Officers. While it may be possible to organize training of auditors in panchayat matters within the State with faculty and logistic support from SIRD/NIRD, in case of urban sector training may have to be sponsored outside the State there being no urban training institute within the State. The training will be of short duration for 6 days and conducted in convenient batches. The probable cost of training will be Rs.35 lakhs for rural sector and Rs.15 lakhs for urban sector totaling to Rs.50 lakhs. It includes hiring charges of hall, remuneration of faculty, books and journals, TA, DA, working lunch, tea etc to the trainees. The commission recommends that Rs.50 lakhs may be provided to the Director of Audit (LF) at the rate of Rs.12.50 lakhs per year.

Strengthening of SFC Cell

10.38 As mentioned in Chapter- 11.14, a sum of Rs.20 crores is set apart for strengthening of SFC Cell suitably. The Commission recommends that this amount may be made available at the rate of Rs.5.00 crores per year.

Release of Fund

10.39 Broadly speaking, our recommendations consist of two components viz, tax devolution and grants-in-aid. Tax devolution is a sort of untied fund intended to meet salary burden, other obligatory expenditure and more importantly to improve and expand service delivery by the PRIs and ULBs. On the other hand grants-in-aid are meant for specific purposes as recommended. At the first instance the entire amount recommended by us as devolution and grant may be provided in the State budget of the respective years under the major head of account "3604 – Compensation & Assignment to Local Bodies". The budget provision will clearly show the minor and object head-wise details separately for all tiers of PRIs and all categories of ULBs. The interse distribution of fund between different tiers and categories and among individual units of PRIs and ULBs will be as per the Technical Supplement appended to this report. After the budget is passed and the Appropriation Bill is put in place, SFC Cell will formally issue an allocation order showing the entitlement of each tier of PRIs and each category of ULBs and circulate it among all concerned so that they know in advance the fund allocation during the year and can initiate timely follow up action.

10.40 The Commission in course of its interactions in different districts of the state has been confronted with the issue of late release of SFC recommended funds. The release of fund should be expeditious once government accept the recommendations of SFC.

10.41 As usual, the release of fund may be by means of a electronic software package transmitted to individual bank accounts of the PRIs and ULBs through their respective Drawing and Disbursing Officer (DDO). Since tax devolution is intended to meet salary, other obligatory expenditure and expenditure on service delivery, it may be released in quarterly instalments though it is desirable to make it monthly. Similarly, general purpose grant to the GPs may also be released in quarterly instalments. Release of fund against specific purpose grant may be made quickly on receipt of proposals from the concerned authorities preferably in two instalments.

Chapter- 11

General Observations and Concluding Remarks

11.1 The Tenth Finance Commission had rightly observed that "the panchayats / municipalities are late entrants in our federal democratic structure but their action or inaction is likely to affect the welfare of the people and the area under their jurisdiction more directly than either the actions of the State or the Union". The panchayats/municipalities are entrusted to provide basic civic services to the citizens which include water supply, sanitation, drainage, solid waste management, streetlighting etc that touch intimately the lives of the people. These tasks can be efficiently and effectively administered in a vast country like India only by the LSGs who are closer to the people and are more keenly alive to their problems and needs. The principle of subsidiarity also affirms that in the matter of service delivery, a Central authority should have a subsidiary role, performing only those functions which cannot be performed at a local level. That means, all functions shall be carried out closest to citizens, at the smallest unit of governance possible, and delegated upwards only when the local unit can not perform the task. Therefore, it is imperative for the LSGs to ensure a minimum level of civic services to the citizens so that they do not feel discriminated against because of the choice of their residential location. But given the resources placed at the disposal of local governments, there is hardly any match between their resources and responsibilities thereby leading to a gradual decline in the coverage and quality of services provided by them. The situation needs immediate attention for restoring a balance between resources and responsibilities.

11.2 Consequent upon the constitutional amendments, there has been considerable progress in the matter of empowerment of panchayats/municipalities. By and large, such empowerments remain confined to setting up State Election Commission, conducting regular elections to PRIs/ULBs, constituting SFCs periodically and devolution of funds as per awards of the SFCs and CFCs. But precious little has been done so far to augment the capacity building of PRIs/ULBs and to upgrade their weak administrative set up. Meanwhile, the agency function, particularly of the PRIs, has been growing tremendously over the years for implementation of the Centrally Sponsored Schemes (CSS) of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), National Rural Health Mission (NRHM), Pradhan Mantri Gram Sadok Yojana (PMGSY), Accelerated Rural Water Supply Programme (ARWSP), Integrated Child Development Scheme (ICDS), Indira Awas Yojana (IAY), Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY), Backward Regions Grant Fund (BRGF), Sarva Shiksha Abhiyan (SSA) and Mid-day Meals (MDM). This has led to an incongruous situation of PRIs having substantial funds to implement the aforesaid CSS on the one hand, and little by way of discretionary funds for meeting their administrative costs. This skewed allocation underlines the need to earnmark sufficient funds to streamline the administrative setup of local bodies. This is essential not only for performing the agency functions but more importantly for raising revenues from all sources allocated to them.