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.

11.3 There is need for LSGs to appreciate that the devolution of funds to them channelised through the SFCs or CFCs are usually meant to supplement their existing resource base and not substitute it. Hence, a determined and sustained effort has to be made by them to augment their own revenue collection from all sources allocated to them under the respective Acts. In this context property tax reform should rank high in the reform agenda since it constitute the bulk of own revenues particularly of the urban bodies. Similarly, in case of rural bodies, the house tax allotted to them under the relevant Act may take the place of property tax meant for urban bodies. In regard to transferred subjects to PRIs, activity mapping is reported to have been completed way back in June, 2007 for 23 out of 29 subjects listed in Schedule XI. However, the ground realities do not confirm operationalisation of the activity mapping so far done, as it appears from the Annual Technical Inspection Report on local bodies for the year ending 31st March, 2009. Test audit of accounts of some PRIs and ULBs was conducted by the office of the Principal Accountant General (Audit), Assam. The scrutiny of records of test audited units revealed that the activities said to have been transferred to local bodies are still being performed by the authorities of the line departments without having the local bodies associated with its implementation. In case of ULBs, the process of decentralization has just been initiated with the recent amendment of the Assam Municipal Act. If is, imperative that the decentralization process be taken to its logical conclusion soon and that all activities listed in Schedule XI and XII be transferred to the local authorities at the appropriate level along with funds and functionaries.

Streamlining of Budgetary Procedure

11.4 In order to fully operationalise the decentralization process, the primary responsibility of the State Government is to streamline the budgetary procedure. The initial step would be to present a Local Body Supplement along with the budget documents of each year. This supplement will provide the details of plan and non-plan wise classification of all transfers separately for all tiers of PRIs and all categories of ULBs. The classification will be made as per the major heads to the respective minor heads followed by object head-wise details of all transfers. In order to facilitate verification of expenditure and its subsequent audit, a similar statement needs to be incorporated in the Finance Accounts of the State. While the Government of Assam has done a commendable job in presenting a budgetary supplement for Local Bodies from 2008-09 onwards, its reflection in the Finance Accounts of the State is yet to take place. This process should be speeded up in consultation with the Comptroller & Auditor General of India (C&AG).

11.5 While it is desirable for the State Government to maintain distinct budgetary provisions for amounts transferred by them to local bodies, it is at the same time obligatory for the local bodies to prepare their budgets and maintain their accounts in the formats prescribed by the C&AG. The accounting system should invariably conform to the list of codes for each programme, function and activity as suggested by the C&AG. For proper accounts classification, specific codes shall be allotted to each Zilla Parishad (ZP), Anchalik Panchayat (AP), Gaon Panchayat (GP), Guwahati Municipal Corporation (GMC), Municipal Board (MB) and Town Committee (TC). In the matter of proper maintenance of accounts by the local bodies and audit of accounts, the Technical Guidance and Supervision (T G&S) provided by the C&AG shall be the corner stone of accounting and auditin g standard. While the C&AG will provide TG&S, the major portion of the work will, h owever, devolve on the Directorate of Audit (Local Fund).

Present Status of Accounts and Audit

11.6 It is understood that Government of Assam have already entrusted the TG&S over local bodies to C&AG. In terms of the TG&S the offi ce of the Principal Accountant General (Audit) Assam has conducted test audit of s ome selected rural and urban local bodies for the financial year 2007-08 and 200 8-09. The Annual Technical Inspection Report for the year ending 31st march, 2008 brought out by the Principal Accountant General (Audit) has revealed serious irr egularities committed by PRIs and ULBs in the matter of accounts keeping. Many of the units test audited by the Principal Accountant General (Audit) have been foun d to be spending money unauthorizedly without preparing the budget or main taining the accounts. In some cases differences between balances of cash book and bank passbook remain unreconciled for a long period of time. Unrealised amount constituted very high percentage of total demand and diversion of funds f or alternative purposes were frequently taken resort to. Above all there was no consolidated information available at the head quarter about opening balance, net tran saction during the year and closing balance of the PRIs. With the gradual unfol ding of the process of decentralization, the flow of funds to PRIs and ULB s will be substantially increased over the years and unless the accounts and audit ar e fully streamlined transparency and accountability cannot be ensured at the cutting -edge level. It is desirable that accounts be prepared in a uniform manner for all lo cal bodies across the States in terms of TG&S provided by the C&AG and that the Ann ual Technical Inspection Report of the C&AG as well as the Annual Report of the Directorate of Audit (Local Fund) be placed before the State Legislature.

Upgradation of Local Audit Directorate

11.7 The substantial increase in the volume of tran sfer to local bodies channelised simultaneously through Central Finance Commission, State Finance Commission, line departments of the State Government and discretiona ry transfers from the Central Ministries indicates the necessity to strengthen th e audit framework of the State Government. As already stated, in the matter of accounts and audit the C&AG may provide technical guidance and supervision. But the major portion of the work will however, devolve on the Directorate of Audit (Local Fund). It is presumed that this organization in its present setup is not properly e quipped to cope up with the enormity of the task. Having regard to the vast num ber of local bodies, both urban and rural, they are expected to serve and its spread across the length and breadth of the State it is imperative that this organization b e suitably strengthened. The upgradation will be required not in terms of human resources alone but efficient and effective man power will have to be provided by enh ancing their skill through comprehensive training programme and provision of adequate physical infrastructure.

Improving Data Bases

11.8 The First, the Second and the Third SFCs observed that their functioning had been greately hampered by the non-availability of adequate and accurate data relating to the physical and fiscal indicators of performances of local bodies. The limited data that was available was not only inadequate but it suffered from lack of credibility also. Audited and authentic data-base were not available. The successive Central Finance Commission had also underscored the need to create a local finance data base encompassing their resources, operations and financial performance indicators. With a view to overcoming this difficulty, the Eleventh Finance Commission had earmarked funds for creation of local finance data base in their award covering the period 2000-05. This had been furthered supplemented by the Twelfth Finance Commission in their award covering the period 2005-10. Despite the dedicated fund allocation, little improvement has been made in the situation even now. The Thirteenth Finance Commission in its report recently published has also expressed similar dissatisfaction. Anyway, the main hurdle faced by this Commission in finalizing a suitable fiscal package for the LSGs has been the inadequacy and unsatisfactory nature of database. Unfortunately, even after one and half decade of constant persuasion a reliable data bank on local finance has yet to come up. As a consequence, when a SFC is constituted, considerable time get wasted in collecting, compiling and analyzing data which could have been eliminated had their been a data base with regular updation. This lacuna can well be surmounted if the responsibility is entrusted to a dedicated agency created for this purpose. It points to the need for creation of a separate permanent SFC Cell in the State Finance Department, properly staffed and equipped to tackle the situation.

State Finance Commission (SFC) Cell

11.9 The Constitution provides for the setting up of SFCs at the expiration of every five years. In between successive SFCs there are time gaps and continuity of efforts at monitoring of action and regular collection of data get somewhat lost. Even continuity in records, data, publication, documents etc. once collected are not maintained properly. The need for a proper organizational arrangement in State Finance Department is therefore keenly felt. Moreover, in the wake of a rapid spurt in activities of PRIs and ULBs following their empowerment under constitutional amendments, it has become all the more necessary to put in place a permanent SFC Cell in State Finance Department to oversee these activities and more importantly to systematically furnish data and information to the SFCs and CFCs when these are constituted.

11.10 The successive CFCs had stressed the need for creation of a separate and permanent SFC Cell in State Finance Department. In this regards the Twelfth Finance Commission (TFC) had observed that the collection and collation of data need to be done constantly and that data would need to be made available to the SFC as and when it is constituted. Twelfth Finance Commission recommended that a permanent

SFC Cell in the Finance Department of each State should be set up. They further observed that this Cell may be headed by a Secretary level officer, who will eventually function as Secretary of the SFC, as and when it is constituted. The successive SFCs of Assam had also reiterated the recommendations of the CFCs in the matter of setting up of SFC Cell. Despite the recommendations of CFCs and SFCs, a permanent SFC Cell under State Finance Department is yet to be put in place. However, a temporary Cell under State Finance Department has been set up of late, but it is neither adequately staffed nor properly equipped to meet the challenge.

11.11 With the gradual unfolding of the process of decentralization, the functional canvas of PRIs and ULBs will get sufficiently enlarged. Commensurate with the enhancement of their functional domain, the flow of funds will also increase through various channels like awards of Central and State Finance Commission, discretionary transfer from Central Ministries against Centrally Sponsored Schemes and State's share thereof. It will be the primary responsibility of the proposed SFC Cell to disburse timely these huge funds to the panchayats and municipalities at all levels numbering about 3644; to collect Utilization Certificate from the recipient bodies and to report back to the respective authority. In addition, the Thirteenth Finance Commission has put in lots of conditionalities to the grants recommended by them for local bodies. It will be the added responsibility of the SFC Cell to look into fulfillment of these conditionalities before release of funds. However, the basic duty of the SFC Cell will be to collect, compile and update the data base on local finances and to feed the Central and State Finance Commissions as and when these are set up.

11.12 The present temporary set up will hardly be able to cope up with this multi-dimensional responsibilities. When the Fourth SFC assumed office, the ground works appear to be not undertaken at all in the absence of a dedicated set up. As a result, when a new Finance Commission assumes office a lot of time get wasted in collecting the preliminary materials which could have been accomplished earlier. On top of this, it has been observed that as and when a SFC is constituted, a good deal of time is wasted in finding a suitable office accommodation for the Chairman and others. Since the SFC is a recurring feature, it will be expedient if accommodation for the Chairman and others is pre-arranged before constitution of a SFC.

11.13 Keeping in view the imperative need, it is recommended that a permanent SFC Cell may be set up in State Finance Department headed by a Secretary level officer properly equipped with staff and physical infrastructure and that suitable office accommodation for the SFC may be arranged prior to its constitution.

11.14 In this context it may be mentioned that data collected from Maharashtra and Kerala reveal that Maharashtra SFC Cell consists of 32 employees headed by one Director and Kerala 25 employees headed by one Additional Secretary. In contrast, SFC Cell of Assam consists barely of 4 persons headed by one Joint Director. The Commission feels that the ideal staffing pattern for the SFC Cell should be as detailed at Annexure- 11.1. Having regard to the extreme urgency of the situation, the Commission would like to set apart a sum of Rs.20 crores at the rate of Rs.5.00 crores annually for upgradation of SFC Cell with proper accommodation, involving construction of building as per estimate submitted by PWD, manpower, training, e-Governance, machinery and software package.

Capacity Building and Training

11.15 With a view to augmenting capacity building of PRIs and ULBs, it is imperative to put in place skilled manpower duly supported by physical infrastructure. For the purpose of upgrading human skill, training has to be imparted in the fields of planning, implementation, monitoring and maintenance of accounts. Any half-hearted attempt at conducting training programme sporadically will not give the desired result. For this purpose a sustained effort will be required to arrange training courses at regular interval encompassing the elected representatives, official functionaries of PRIs/ULBs and the functionaries of line departments as well. Apart from theoretical discourses, the training module may include exposure visits within the State and outside, conduct of seminar and workshop.

Training of PRI Functionaries

11.16 In the wake of large scale empowerments envisaged in the 73rd Constitutional Amendment for the PRIs, it is incumbent on them to play a pivotal role in rural governance not merely to ensure basic civic amenities to its constituents but also to carry forward plans of economic development and social justice. Given the above constitutional mandate it is equally important to upgrade the capacity of PRIs to run their own affairs satisfactorily. It is imperative therefore to put in place an organizational set up fully equipped with skilled and properly trained manpower. Training and human resource development constitutes an important element in capacity building. The target groups cover elected representatives and official functionaries of PRIs, officials of concerned line departments and other stake holders like Non Government Organisations (N.G.O), Self Help Groups (SHG) and other voluntary organizations.

11.17 In respect of capacity building of PRIs, the State Institute of Rural Development (SIRD) Assam may take the leading role. The organizational set up of SIRD is sufficiently broad based to meet the challenge adequately. As reported, its faculty includes 53 academic staff at the Head Quarter (HQ) which if fully funded by the MoRD. Apart from this there are 120 academicians in 12 Extension Training Centre out of which 40 are fully funded by the MoRD and 80 by State Government. Besides its own faculty members the SIRD has created a penal of trainers consisting of 70 academicians for the HQ and another 130 for its extension centres. The resource personnels help the institute in conducting specialized courses and sessions in different subjects.

The physical infrastructure of SIRD for training purpose consists of the following:

1. Two Campuses at the HQ with a capacity of 250 participants.
2. Twelve Extension Centers with a capacity of 60 participants each spread over different places in Brahmaputra and Barak Valleys.

3. One Resource Centre in IT & Skill Development at Guwahati.
4. Fifteen Satellite Hubs in different places.
5. Twenty Resource Centres in different parts of the State covering Brahmaputra and Barak Valleys.
6. Two Extension Centers being upgraded to Regional Centres.
7. Seven Handloom Common Facility Centers.
8. Twelve Computer Training Centres at district level.

11.18 At present SIRD has been organizing subject specific courses of training programmes for the elected representatives and official functionaries of PRIs including officials of line departments as well as other stake holders in panchayati raj system. Apart form imparting training directly SIRD also outsources training by establishing linkages with different institutions inside and outside the State thereby facilitating specialized training including exposure visits.

11.19 Given the expertise and infrastructure available with SIRD, the TASFC in consultation with them formulated a training programme for the PRIs involving a total cost of Rs.48.66 crores. The total expenditure was supposed to be funded by the Center and the State at the ratio of 75:25. Accordingly, TASFC recommended Rs.12.16 crores as grant-in-aid to meet the State share.

11.20 As reported by SIRD, the Central share of Rs.34.15 crore has been released by GOI during the period 2007-08 to 2010-11. However, in the same period the State Government has released only a sum of Rs.2.17 crores as State share. An important feature of this training scheme was that it had been integrated with two Flag Ship Programmes of MoRD viz Backward Regions Grant Fund (BRGF) and Rashtriya Gram Swaraj Yojana (RGSY). Accordingly, Central and State shares were met from Plan fund. The training programmes organized by SIRD under the above Centrally Sponsored Schemes with number of participants are indicated in Table below.

Table
Training Programme under BRGF/RGSY

Category of Trainee	Number of Participants under		Total
	BRGF	RGSY	
1. Elected Representatives of PRIs	15167	37044	52211
2. Functionaries of PRIs and Line Deptt	11650	11763	23413
3. Other Stakeholders	9993	16232	26225
4. Community Mobilisation	43572	-	43572
Total	**80382**	**65039**	**145421**

11.21 The above training programme being dovetailed with Centrally Sponsored Scheme its funding was made under the plan. GOI released the Central share under the respective centrally Sponsored Schemes. While, matching contribution of the State was met from budgetary allocation under the Centrally Sponsored Schemes. As a result non-plan grant-in-aid recommended by TASFC remained unutilized. The Commission is fully in agreement with the present funding pattern of the training programmes and would like its continuance under the plan in future. However, the only disturbing feature noticed in the present system is that State matching contribution always lags behind Central share and the agreed ratio of 75:25 is not always maintained. As a result smooth running of the training programmes very often get affected.

11.22 As desired by the Commission, Director, SIRD has submitted a proposed for rural sector training covering the five years period 2011-16. The total cost during five years is estimated at Rs.54.26 crores. It is expected to cover more than 4.23 lakh participants in 6675 courses to be imparted within a span of five years. The participants include elected representatives and official functionaries of PRIs, official functionaries of line departments and other stake holders in panchayati raj system. The proposal include village level campaign for social mobilization and management of Satellite based training system. It also include exposure visits outside the State for elected representatives and functionaries.

11.23 The training module proposed by SIRD is sufficiently broad based and covers all relevant disciplines. It is structured into four rounds. The first round deals with orientation courses in general, management, role and programme orientation. The second round is confined to micro planning, activity orientation and resource mobilization and management. The third round deals with social development, social justice and women empowerment, social audit and disaster management. The fourth and fifth rounds are refresher courses.

11.24 By and large, The Action Plan on Capacity Building of PRIs with its training module and course contents as prepared by SIRD appears to be satisfactory. But as stated earlier the financing pattern of rural sector training programme has taken a distinct shape through its integration with the Centrally Sponsored Schemes of BRGF and RGSY, having been funded at the ratio of 75:25 between the Centre and the State. Given this ratio, the respective shares of the Centre and the State out of Rs.54.26 crores proposed by SIRD would be Rs.40.70 crores and Rs.13.56 crores.

Training of ULB Functionaries

11.25 Unlike the PRIs, ULBs in Assam are not in a happy position in the matter of capacity building and human resource development of its functionaries. PRIs are greatly benefitted from the expertise available with the State Institute of Rural Development (SIRD), Assam apart from a local branch of National Institute for Rural Development (NIRD) located at Guwahati. There is however no institutional set up for urban sector capacity building in Assam or any of the NE States.

11.26 TASFC Keenly felt that in the absence of a dedicated set up within the State solely devoted for this purpose it may not be possible to build up Urban Sector Capacity merely by holding a few training programmes sporadically. Keeping in view this crucial lacuna in human resource development, TASFC earmarked an amount of

Rs.2.05 crores for facilitating opening of a branch of All India Institute for Local Self-Government, Bombay. It however did not materialise.

11.27 Meanwhile, the Centre for Urban Management of Assam Administrative Staff College (AASC) which had been the only organization in the matter of Urban Sector capacity building in the last one decade has ceased to function by the end of March, 2010. The above centre was set up in 2001 by virtue of an agreement between AASC and HUDCO with the limited purpose of augmenting Urban Sector capacity building particularly in Assam and all NE States in general. It is reported that during its tenure the centre had conducted altogether 72 training programmes covering 1236 participants drawn from elected representatives of municipalities and other municipal functionaries particularly in engineering and accounts courses. This apart they had also conducted a few Seminars/workshops, done consultancy services for the Urban civic bodies and developed training/reading materials coupled with a handful of publications. Unfortunately, the agreement with HUDCO was terminated on March 31, 2010 and the Centre ceased to exist from that date. Along with its closure undoubtedly a vacuum has been created in the Urban Sector training scenario of this region which has been persisting since then. This only highlights the need of setting up of a specialised academy for this purpose.

11.28 Over the last few decades the country has been experiencing a rapid growth of urbanisation and Assam has been no exception to that. The rate of urbanisation in Assam during the preceding two decades had been below the national average. Nevertheless the decadal growth of Urban population in Assam in the last two decades was much faster than that of the country. For instance, as per 1991 and 2001 Census the Urban population in the State went up from 2.4 million to 3.4 million approximately displaying a growth of around 42 per cent. In the same period total Urban population of the country shot up from 218 million to 285 million recording a growth of nearly 31 percent. Another noteworthy feature of urbanisation is that on the one hand there has been a tremendous growth of urban population and on the other there has been a growing tendency towards concentration of urban population in a few big cities and towns. This has thrown a new challenge before the civic authorities in urban management. More importantly the urban civic authorities in Assam are ill-equipped to handle the problems of this magnitude due to the dearth of skilled manpower. Capacity building in terms of human resource development therefore tops the agenda of urban sector management.

11.29 Given the enormous responsibilities engendered with sustain delegation of functions and devolution of funds, the urban civic bodies are constantly finding it extremely difficult to cope with the emerging situation particularly in the absence of skilled functionaries. Even though the Union Ministry of Urban Development Organises a few training courses of short duration at regular interval across the NE States these are not adequate enough to acquaint the Urban functionaries with the nitty-gritty of their day to day problems. Having regards to the absence of a specialised institution in Assam or its neighbourhood to look after the task of capacity building, the setting up of management institute at Guwahati, which is the gateway of NE, is of paramount importance.

11.30 In this context, it may be mentioned that in the past Ministry of Urban Development had set up a few Regional Centres for Urban & Environmental Studies at Delhi, Lucknow, Hyderabad and Mumbai. Unfortunately, no such regional Centre was considered for the NE Region. The Commission therefore, feel that a long felt need of this region will be fulfilled with the establishment of a Regional Centre for Urban Management at Guwahati. The proposed institute will act as a catalyst to good urban governance. Apart from augmenting the capacity building of urban civic bodies, it will act as a regional centre for advanced studies of urban problems, undertake documentation and research and provide professional support to policy and programme implementation, monitoring, evaluation and dissemination of innovative best practices for its replication across the urban civic bodies.

11.31 The Commission would urge the Government of Assam to take up the issue with Government of India for setting up of regular institute of Urban management at Guwahati. If necessary, Government of Assam may provide suitable built up premises and other infrastructural facilities to establish the Centre at Guwahati. In case of PRIs, the training programmes have been integrated with the Centrally Sponsored Schemes and the expenditure shared between the Centre and the State. Likewise, the overhead cost and the recurring cost of running training courses under the proposed regional centre may be dovetailed with the Flagship Centrally Sponsored Scheme JNNURM and the expenditure shared between the Centre and the State at the ratio applicable to this scheme.

Computerization and e-Governance

11.32 Governments in countries across the world have started utilizing the potential of technologies in a big way for improving the standard of administration and more particularly to upgrade the antiquated system with a view to ensuring delivery of services and information online to their citizens. In this context, the adoption of computerization in collecting, collating, storing and retrieving data on local self governance is well recognized. Computerization needs to be introduced in ULBs forthwith and to all levels of PRIs in a phased manner. The ambit of computerization in LSGs may cover the following aspects:

a) A comprehensive data bank on PRIs and ULBs covering their year-wise income, expenditure, assets, liabilities, opening and closing balance.
b) Time series data separately for tax and non-tax revenue collection by PRIs and ULBs.
c) CFC/SFC releases of funds and utilization thereof.
d) Financial management, budget preparation, C&AG format and accounting.
e) Data on planning, project execution and operation.
f) Project monitoring in terms of time and costs.
g) Data relating to HRD and personnel management.
h) Training of elected representatives and official functionaries.

i) Data on maintenance of urban and rural services.
j) Computerization of billing and collection system .
k) Demand and collection of revenue.
l) Profile of PRIs/ULBs.
m) Birth and death records.
n) Grievance redressal.

11.33 The above list is not exhaustive but only illustrative. The ambit of computerization can be sufficiently enlarged depending on the needs as it arises. However, there is urgent need to train staff and officers of LSGs in information technology and its uses. For new entrants knowledge of computer operation should be made an essential qualification.

11.34 The Twelfth Finance Commission (TFC) in Chapter-8, paragraph 8.55 (VI) of its report recommended that the SFCs must clearly identify and list out the issues which require action on the part of the Central Government to augment the Consolidated Fund of the State for consideration of the CFC. The template for SFC report as suggested by the Thirteenth Finance Commission also emphasized the need for its inclusion in SFC report.

11.35 There are a few issues which had surfaced repeatedly in the deliberations of previous CFC and SFC reports. Nonetheless, these issues merit reiteration as they require constitutional amendments which are long pending with Government of India. One such issue relates to synchronicity of the award period of SFCs and CFCs. Unless the award period of the two panels are co-terminus and unless the report of the SFCs is made available to the CFCs before they finalise their recommendations, it would not be possible for them to take into cognizance the findings of SFCs. Eventually, the States are likely to be deprived of CFCs dispensation.

11.36 As per Art 276 (2), the total amount levied on Taxes on Profession, Trade, Calling and Employment shall not exceed Rs.2500 per annum. In terms of the above restrictive clause, the yield from this tax, whether it is wholly assigned to local bodies or its net proceeds is sharable with them, will be substantially less than what should be otherwise. Hence, Government of Assam may move Government of India to raise the ceiling on this tax by appropriately amending the constitutional provision.

11.37 Art 285 of the Constitution prevents local bodies to impose property tax on Union Government property. In this context, the Eleventh Finance Commission (EFC) recommended for levy of service charges on Central Government properties in place of property tax. But even that option does not seem to be acceptable in view of a ruling of the Hon'ble Supreme Court regarding payment of service charges by the departments of Government of India. Legal opinion may be obtained and if necessary Government of Assam may take up the issue with Government of India for suitably amending Art 285 to enable local bodies to levy service charges on Union properties.

11.38 In the Schedule VI areas parts IX and IX A of the Constitution do not apply hence these areas are not covered by the 73rd and 74th Constitutional amendments. As a result these areas remained outside the purview of SFC recommendations. This is inspite of the fact that in Schedule VI areas ULBs function in the same manner as in the general areas and the traditional village councils functioning in such areas are akin to the gaon panchayats in general areas. While the local bodies in the general areas will be benefitted from the dispensation of the SFC, their counter-part in Schedule VI areas will be left behind. The provisions of 73rd amendment have already been extended to Schedule V areas by the Panchayats (Extension to the Scheduled Areas) Act, 1996 (PESA) enacted by the Government of India. However, Schedule VI areas still remain outside the purview. It has been ascertained that any legislation requiring enactment of PESA to Schedule VI areas has to be introduced in the Parliament. Therefore, financial support from Government of India should continue for the agencies which provide local government functions in Schedule VI areas till such time PESA is enacted for these areas.

Suggestions for the National Finance Commission

11.39 Since the enactment of 73rd and 74th Constitutional amendments all the CFCs beginning with the Tenth had recommended grants-in-aid to augment the Consolidated Fund of the States to supplement the resources of panchayats of municipalities in the States. All the previous CFCs had recommended grants-in-aid to local bodies on an adhoc basis varying from 1.38 percent of the divisible pool of taxes by the Tenth Finance Commission to 0.78 percent by the Eleventh, 1.24 percent by the Twelfth and 1.93 percent by the Thirteenth. In this regard the Union Ministries of Panchayati Raj and Urban Development in their memoranda to the Thirteenth Finance Commission had suggested that 5 percent of the divisible pool be allotted to rural local bodies and 3 percent to the ULBs. Against this the Thirteenth Finance Commission as stated above has recommended 1.93 percent of the divisible pool as grant to local bodies. We would urge the ensuing CFC to suitably augment the share.

11.40 The horizontal allocation among the States of the grants recommended by previous CFCs was determined on the basis of a set of criteria like population, area, income distance, revenue efforts, index of decentralization/deprivation etc. assigning varying degrees of weightages to each. It is a matter of deep concern that the entitlement of PRIs in Assam as a percentage of the divisible pool has been gradually declining from 2.98 percent in Eleventh to 2.63 percent in Twelfth and further to 1.83 percent during Thirteenth Finance Commission. Population and area are, no doubt, regarded as the best and reliable indicators of need. But unless economically and socially marginalized sections of population and remoteness and inaccessibility of areas are taken into consideration, it tends to be detrimental to the interest of States having small size population and difficult terrain. It is evident from the percentage share of PRIs in Assam as worked out by the Thirteenth Finance Commission. As the Thirteenth Finance Commission enhanced the weightage to population by 10 percent and discarded the index of deprivation adopted by its predecessor, the percentage share of PRIs in the divisible pool went down from 2.63

percent to 1.83 percent. Hopefully, the Fourteenth Finance Commission would look into this aspect of inter-State allocation of the divisible pool.

11.41 Decentralization not only envisages widening the ambit but also improving the standard of services being provided by the local bodies. Hence, to enable them to effectively provide basic services to their constituents they need financial support for enhancing their operational infrastructure including office buildings, appropriate staffing pattern and for maintenance of accounts and data base. Most of the village panchayats in the State are not having suitable office accommodation not to speak of meeting halls. In this respect the position of APs and ZPs are no better. On a rough rackoning it is estimated that about Rs.800 crore will be required for construction, renovation of office accommodation for all PRIs and ULBs at all levels. As of now, 31 urban local bodies are not having any water supply source of their own. On a modest estimate a sum of Rs.315 crores will be required for installation of water supply plants to the above bodies. Another substantial sum will be required to provide the PRIs and ULBs with adequate staffing support. Obviously the Government of Assam single handedly will not be able to bear this huge financial burden. It is expected that the ensuing CFC would look into this aspect while recommending measures to augment the Consolidated Fund of the State for supplementing the resources of panchayats and municipalities.

Bond Issue by ULBs

11.42 Item 3(c) of the ToR require the Commission to examine and make recommendations on raising of resources by the ULBs through issuance of bonds.

11.43 By and large, the conventional sources of municipal revenue consists of (i) their internal revenue through tax and non-tax sources, (ii) assigned or shared taxes by the State, (iii) grant-in-aid from the Central and State Governments, and (iv) borrowing from capital market through guaranteed regime of borrowing. Uptil now the municipalities in Assam including GMC relied mainly on the conventional sources of raising revenue. Hitherto, they have not experimented with the non-conventional method of raising revenue through flotation of bond . With gradual empowerment ULBs would require to tap resources from both conventional and non-conventional sources in other to finance the creation of urban infrastructure.

11.44 As of now, creation of urban infrastructure are usually financed through budgetary support from the State or Central Governments and guaranteed regime of borrowing resorted to by the ULBs. The budgetary support extended for finding urban infrastructure suffers from serious limitation in the sense that it can hardly motivate the ULBs to pursue a rational pricing policy and cost recovery agenda for services delivered. Similar is the case with guaranteed regime of borrowing. As guarantee is given by the higher levels of governments, the recipient body cares little for pricing and cost recovery towards servicing and repayment of debt. As a result creation of urban infrastructure is, more or less, regarded as a social welfare services. It is therefore imperative for the ULBs to have access to the capital market through bond floatation. It is reported that Ahmedabad Municipal Corporation is one such civic body which has raised resources to the time of Rs.100 crores through bond floatation.

11.45 However, development of a well structured municipal bond market is severely impacted by the following factors:

- Absence of a long term debt market.
- Lack of credit worthiness of the municipalities.
- Requirement of investment grade credit rating.
- Need for technical assistance from professionals.
- Lack of professional skill in structuring commercially viable and bankable projects to attract investors.
- General apathy among ULBs to tap full potential of own resources.
- Lack of confidence among the lenders about the ability of ULBs to service the debt.
- Weak financial and accounting system lacking transparency.

11.46 Given the constraints noted above, it is evident that ULBs in Assam may not be in a position to raise resource from non-conventional sources as long as these bottlenecks are not removed. Apparently, small and medium towns are not in a position to access the capital market on a stand alone basis because of their lack of credit-worthiness individually. It is even equally true for GMC. In their case pooled finance mechanism seems to be the viable alternative, where State sponsored intermediaries borrow on its own financial strength for a number of smaller ULBs that are individually incapable of having access to capital market. Tamil Nadu has successfully experimented with the pooled finance mechanism of raising fund for the civic bodies. Tamil Nadu model may be replicated by GMC and even by some of the larger municipalities.

11.47 In this context, TASFC recommended that as in Tamil Nadu, Government of Assam may nominate a State level financial entity, like Assam Financial Corporation or NEDFI, to raise funds by issue of bonds for a number of small ULBs combined in a group who otherwise would not be able to issue bonds on their individual financial strength. We reiterate the recommendation of TASFC and endorse it for GMC and other larger municipalities.

Registration of Births and Deaths

11.48 The first, Second and the Third SFCs of Assam recommended transfer of the issuance of birth and death certificate now administered by Health and Family Welfare Department to PRIs and ULBs. This has not been implemented uptil now even though registration of births and deaths is one of the subjects listed in Schedule XII for the ULBs. The Commission reiterates the recommendation of the earlier SFCs.

Panchayat Financial Year

11.49 In contrast to the financial year of Central and State Governments which commences on the 1st day of April every year, the panchayat financial year commences on the 1st day of July. In recent years the flow of funds from the Central and State governments to the PRIs has been substantial. These funds are c hannelized to the PRIs in terms of government financial year. As a result, the difference in financial year between the government and the PRIs is likely to create a lot of difficulties in maintenance of accounts, audit of accounts and devolution of funds from higher levels of governments. Having regard to these constraints, way back in 2003 the Second SFC recommended uniformity of financial year between government and PRIs. This recommendation though accepted has not been impleme nted till now. The Commission therefore recommends that PRIs may adopt the financial year from 1st April instead of 1st July.

Synchronicity of CFC and SFC Periods

11.50 The SFCs need to give their report well before the National Finance Commission finalises its recommendations so that the views of the former are available to the latter for consideration by them. It is therefore, of utmost importance that the period covered by the SFCs is synchronous with the period covered by the CFC. In this regard the Thirteenth Finance Commission endor sed the views of the Second Administrative Reforms Commission (SARC) and recomm ended that Article 243 1 (1) of the Constitution should be amended so that SFCs may be constituted even earlier than every fifth year. Similar recommendation was also made by the TASFC. We reiterate the recommendations of TFC and TASFC.

Amendments to Acts and Rules

11.51 Under Section 26 of the Assam Panchayat Act, 1994 the GPs are entitled to get a share of land revenue and local rate collected by G overnment of Assam. Similarly under Section 184 of the GMC Act, 1971 entitled to the net proceeds of Land Revenue and Local Rates, tax on Urban Immovable Property, Motor Vehicles and Entertainment Tax collected within the city. Likewi se, other ULBs are also entitled by an executive order to a share in the net proceeds of Motor Vehicle Tax collected by GOA. In view of the global sharing of the net proce eds of all taxes and duties collected by GOA as recommended by us, PRIs and ULBs will no longer be entitled to any further shares as mentioned in their respective statutes and rules. Necessary amendments may be made in the relevant Act and Rules.