



ଓଡ଼ିଶା ସରକାର
GOVERNMENT OF ODISHA

**ACTION TAKEN REPORT
ON
THE RECOMMENDATIONS OF
FOURTH
ODISHA STATE FINANCE COMMISSION**

**FINANCE DEPARTMENT
FEBRUARY, 2015**

GOVERNMENT OF ODISHA
FINANCE DEPARTMENT

**EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON
THE RECOMMENDATIONS MADE BY FOURTH STATE FINANCE
COMMISSION IN ITS REPORT SUBMITTED TO THE HON'BLE
GOVERNOR OF ODISHA.**

The Fourth State Finance Commission (hereafter referred to as the Commission) was constituted by the Governor under the provision of Article-243-I and 243-Y of the Constitution of India, read with Section 3 and 8 of Odisha Finance Commission (Miscellaneous Provisions) Act, 1993 (Odisha Act 28 of 1993) vide Notification No.33020 FIN-BUD6-SFC-0001-2012-F dated 31st October, 2013 to recommend on specific aspects of the finances of Local Bodies and the aggregate distribution of State resources among the Local Bodies.

2. The Commission was mandated to recommend -

- (i) The principles that should govern-
 - (a) the distribution between State and Panchayati Raj Institutions and the Municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the State which may be divided amongst them under Part-IX and Part-IXA of the Constitution and the allocation between the Panchayats at all levels and the Municipalities of their respective shares of such proceeds;
 - (b) the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by Gram Panchayats, Panchayat Samities and Zilla Parishads or, as the case may be, Municipalities; and
 - (c) the Grants-in-aid to the Gram Panchayats, Panchayat Samities, Zilla Parishads or, as the case may be, Municipalities from the Consolidated Fund of the State;
- (ii) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samities, Zilla Parishads and Municipalities.
- (iii) any other matters, which the Governor may refer to the Commission in the interest of sound finance of Gram Panchayats, Panchayat Samities, Zilla Parishads and Municipalities.

3. The Commission has submitted its report covering all aspects of its mandate to the Hon'ble Governor of Odisha in September, 2014. The summary of recommendations of the Commission as contained in Chapter-XII of the report is placed in **Annexure**.

Salient
Features

4. The report of the Commission in many ways articulates the philosophy of democratic decentralised governance through fiscal empowerment of the local bodies. **Important Financial and Non-Financial Recommendations include :**

4.1. Financial Recommendations :

Limit of
Total
Transfer

4.1.1. The Commission has recommended to limit the total transfer to Local Bodies within 10% of net divisible pool of State Taxes projected for the award period from 2015-20.

Scheme of
Devolution

4.1.2. The Commission has recommended that 3% of the net tax revenue during the period 2015-20 is to be devolved and distributed between the PRIs and ULBs in the ratio of 75:25. The Commission has recommended that devolved fund is the right of the local bodies and to be used as per the own priority and decision.

4.1.3. The Commission recommended to exclude entry tax, entertainment tax and motor vehicle tax from the shareable pool and to assign a part of these taxes to the local bodies directly.

4.1.4. The Commission recommended *Inter-se* distribution amongst three tiers of Local Bodies is based on population, category and number of units like GPs, Panchayat Samities etc.

4.1.5. The amount to be devolved to the of Local Bodies is on the basis of size, density and percentage of population below poverty line (Tendulkar Methodology), literacy rate and SC & ST concentration.

4.1.6 This Commission has recommended allocation of an additional amount of 20% to the Panchayats under TSP areas out of the total devolution – devolution proper and some specific grants for PRIs.

4.1.7 *Inter-se* Distribution of devolution amongst the three tires of PRIs is to be in the ratio of 75:20:05.

Assignment
to Local
Bodies

4.1.8 The Commission has recommended discontinuance of assignment like Kendu leaf, Cess, Sairat, Minor Forest Produce etc. for rural areas.

4.1.9. The stamp duty according to the opinion of the Commission is being erroneously projected as grants to ULBs but goes to Special Planning Authority etc. As such, it should not be part of the assignment.

4.1.10 The Commission has indicated in its report that Entry Tax should be the legitimate revenue of not only Urban Local Bodies, but also for Panchayati Raj Institutions and this tax should be assigned to both.

Grants-in-aid

4.1.11 After recommending devolution and assignment of taxes, the Commission has recommended grants-in-aid to meet the fund requirement partly and fully for the selected focus areas.

4.1.12 The Commission has recommended total transfer of Rs.25325.03 crore out of which Rs.12740.08 crore is from the State's Taxes and Consolidated Fund.

**Transfer to Local Bodies recommended for the period 2015-20
(from State Resources)**

(Rupees in Crore)

DISTRIBUTION MECHANISM	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
a) DEVOLUTION						
i) PRIs	493.77	493.77	493.77	493.77	493.77	2468.85
ii) ULBs	164.60	164.60	164.60	164.60	164.60	823.00
TOTAL	658.37	658.37	658.37	658.37	658.37	3291.85
b) ASSIGNMENT OF TAXES						
i) PRIs	438.31	539.60	620.16	672.84	730.79	3001.70
ii)ULBs	540.00	644.00	708.40	779.24	857.16	3528.80
TOTAL	978.31	1183.60	1328.56	1452.08	1587.95	6530.50
c) GRANTS- IN- AID						
i) PRIs	290.05	368.43	455.12	539.20	581.72	2234.52
ii) ULBs	59.61	80.48	178.10	180.94	184.08	683.21
TOTAL	349.66	448.91	633.22	720.14	765.80	2917.73
PRIs	1222.13	1401.80	1569.05	1705.81	1806.28	7705.07
ULBs	224.21	245.08	342.70	345.54	348.68	1506.21
GRAND TOTAL (a+b+c)	1986.34	2290.88	2620.15	2830.59	3012.12	12740.08

4.1.13 The Commission in its Report has recommended total transfer of Rs.25325.03 crore to the three tier Panchayati Raj Institutions and Urban Local Bodies during the award period of five years from 2015-16 to 2019-20. The broad break-up of recommendations are given below:-

(Rs. in crore)		
1.	Devolution	3291.85
2.	Assignment of Taxes	6530.50
3.	Sector Specific Needs (Grants-in-aid)	15502.68
Total		25325.03

4.1.14 10% estimated net divisible pool Year-wise during 2015-20

(Rs. in crore)						
	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
10% of net divisible pool	1974.00	2236.41	2533.58	2870.12	3251.25	12865.36

4.1.15 The Commission recommends that the 14th Finance Commission may consider augmenting the State's Consolidated Fund to meet the balance requirement of Rs.12584.95 crore in the next five years period to supplement the resources of the Local Bodies over and above the fund recommended for transfer from the State's Resources.

4.1.16 The Commission has taken care to ensure while making the allocations, the total transfer does not exceed 10% of divisible pool of State Taxes projected for the award period.

4.2. Non-Financial Recommendations

Administrative
measures

4.2.1. New Panchayats shall be created where population has exceeded 10,000 and the existing Panchayats having more than 7500 population shall be strengthened by placing technical and other functionaries exclusively for them while smaller Panchayats may continue to share functionaries for the time being as is the practice now.

4.2.2. Administrative powers of officials, engineers and other technical functionaries in the local bodies shall be enhanced at least two times to facilitate undertaking routine works locally without sending estimates upwards for approval.

- 4.2.3.** The Commission has observed that for an expenditure of a small amount of Rs.5000.00 out of their own resources, Municipal Bodies need prior approval of the Government. It has accordingly, recommended that the Municipal Authorities require more liberty to function within their legitimate domain of operation without waiting for Government's approval.
- 4.2.4.** Municipal cadre shall be put in a place as quickly as possible. The present LFS and non-LFS staff be gradually phased out and replaced by the organised Municipal cadre, so that Municipal bodies are served by competent professionals in due course.
- 4.2.5.** The Commission has recommended that a mechanism to transfer maintenance of the entire water supply system to the Urban Local Bodies in phases. The Services of the existing staff along with finance shall be placed with the Local Bodies.
- 4.2.6.** The H & U D Department shall expeditiously take appropriate steps for engagement of one Inspector of Local Works (ILW) in the level of Assistant Engineer or Executive Engineer to be stationed in each District to give technical advice to the Municipal Bodies for executing engineering works.
- 4.2.7.** The Commission has recommended for constitution of a separate Directorate of Municipal Administration.
- 4.2.8.** Action shall be initiated against officials who have illegally recruited staff after 2005 in some Municipal Bodies.
- 4.2.9.** The Law shall be amended in Valuation Organisation so that it would be an independent body and constituted in line of Tamilnadu and West Bengal.
- 4.2.10.** The Commission has recommended for amendment of GP Act enabling GPs to collect Advertisement Tax at the rate decided by them and to introduce Property Tax so that the GPs may be empowered to levy Property Taxes.
- 4.2.11.** By enlarging the basic provisions under Article 243(I) and 243 (Y) of the Constitution and keeping in view the mandate of 73rd and 74th constitutional Amendment, the Commission before making recommendation have interacted with various stake holders

such as elected representatives as well as officials of PRIs and ULBs, different NGOs, State Government Officials, Hon'ble Ministers and M.L.As. Besides the Commission have made field visits to different corners of the State in order to have a in-depth study about the working of the system at the grass root level.

5. Action Taken Note

5.1. After careful consideration of the financial recommendations of the Commission for transfer of funds to Local Bodies during 2015-20, the State Government have decided to accept the principles enunciated in Paragraph 4.1.1 to 4.1.11 & 4.1.15 above and to transfer a total sum of Rs.12792.77 crore from its own resources. The details are indicated in the Table below :-

Scheme of Transfer of Resources to Local Bodies for the period from 2015-20

(Rs. in crore)						
DISTRIBUTION MECHANISM	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
DEVOLUTION						
Gram Panchayats	370.59	370.59	370.59	370.59	370.59	1852.95
Panchayat Samities	99.63	99.63	99.63	99.63	99.63	498.15
Zilla Parishads	23.55	23.55	23.55	23.55	23.55	117.75
(i) Total PRIs	493.77	493.77	493.77	493.77	493.77	2468.85
Municipal Corporations	51.78	51.78	51.78	51.78	51.78	258.90
Municipalities	86.09	86.09	86.09	86.09	86.09	430.45
NACs	26.73	26.73	26.73	26.73	26.73	133.65
(ii) Total ULBs	164.60	164.60	164.60	164.60	164.60	823.00
TOTAL Devolution (i+ii)	658.37	658.37	658.37	658.37	658.37	3291.85
ASSIGNMENT OF TAXES						
1. Salary & Establishment cost	317.64	349.40	384.34	422.78	465.06	1939.22
2. Sitting fee, Honorarium, TA & DA	60.67	66.74	73.41	80.75	88.83	370.40
Total Assignment (out of Entry Tax)	378.31	416.14	457.76	503.53	553.88	2309.62
Maintenance/ Improvement of road infrastructure (out of MV Tax)	60.00	66.00	72.60	79.86	87.85	366.31
i) Total PRIs	438.31	482.14	530.36	583.39	641.73	2675.93
1. Salary & Establishment cost	398.58	448.15	492.97	542.27	596.49	2478.46
2. Sitting fee, Honorarium, TA & DA	1.02	1.02	1.99	1.99	1.99	8.01
3. Expenditure on arrear pension and Basic Services	200.40	210.83	231.04	254.34	279.98	1176.59
Total Assignment (out of Entry Tax)	600.00	660.00	726.00	798.60	878.46	3663.06

Maintenance/Improvement of road infrastructure (out of MV Tax)	40.00	44.00	48.40	53.24	58.56	244.20
ii) Total ULBs	640.00	704.00	774.40	851.84	937.02	3907.26
TOTAL Assignment of Taxes (i+ii)	1078.31	1186.14	1304.76	1435.23	1578.75	6583.19
C) GRANTS- IN- AID						
Water Supply: Mega Piped water Supply Scheme	50.00	75.00	125.00	170.00	170.82	590.82
Street Light	25.63	38.75	51.87	65.00	78.13	259.38
Staff Quarter (G.P)	35.25	38.76	42.65	46.90	51.58	215.14
Staff Quarter (Panchayat Samiti)	22.96	25.25	27.78	30.56	33.63	140.18
Maintenance of Capital assets	54.21	59.63	65.58	72.15	79.37	330.94
Creation of capital assets for revenue generation	102.00	112.20	123.40	135.75	149.35	622.70
Incentive	0.00	18.84	18.84	18.84	18.84	75.36
i) TOTAL PRIs	290.05	368.43	455.12	539.20	581.72	2234.52
Water Supply: User end Metering	10.00	20.00	115.00	115.00	115.00	375.00
Street Light	15.07	16.58	18.25	20.05	22.05	92.00
Maintenance of Capital assets	9.15	9.15	9.15	9.15	9.15	45.75
Urban Sanitation	8.59	9.45	10.40	11.44	12.58	52.46
Creation of capital assets for revenue generation	16.80	16.80	16.80	16.80	16.80	84.00
Incentive	0.00	8.50	8.50	8.50	8.50	34.00
ii) TOTAL ULBs	59.61	80.48	178.10	180.94	184.08	683.21
TOTAL Grants-in-aid	349.66	448.91	633.22	720.14	765.80	2917.73
Grand Total PRIs	1222.13	1344.34	1479.25	1616.36	1717.22	7379.30
Grand Total ULBs	864.21	949.08	1117.10	1197.38	1285.70	5413.47
GRAND TOTAL	2086.34	2293.42	2596.35	2813.74	3002.92	12792.77

5.2. The allocation for assignment from Entry Tax for PRIs in 2016-17 and subsequent years have been modified and aligned with the rate of growth of assignment to ULBs. The assignment from Entry Tax for ULBs in 2015-16 is modified by shifting the base year from 2015-16 to 2014-15. Further assignment from Entry Tax for Panchayati Raj Institutions towards Salary and Establishment cost, Sitting Fee, Honorarium, TA & DA will be on the basis of actual requirement and may exceed the normative recommendations of the Commission. In case of the Urban Local Bodies the assignment from Entry Tax is to be in accordance with the modified normative recommendations of the Commission.

5.3. The other deviations from the recommendations are as follows :

5.3.1 The Commission has emphasized on assigning Entertainment Tax to both the Rural and Urban Local Bodies to enable them to levy and collect the taxes. Instead of allowing Local bodies to levy and collect Entertainment Tax, Government has decided that the present system should continue. At present, Commissioner of Commercial Taxes is the Commissioner of Entertainment Tax. In view of the lack of capacity of the Local bodies to administer the tax, it is felt necessary to continue to entrust the Levy and collection of Entertainment Tax to Commissioner of Commercial Taxes.

5.4. In case 14th Finance Commission recommends the grant for the same purpose for which 4th SFC has already recommended, the 14th Finance Commission grant shall not be mixed up with 4th SFC grant. Separate account for 14th Finance Commission grant and 4th State Finance Commission grant shall be maintained by the Local Bodies, if it is for the same purpose.

5.5. There shall be a dedicated Cell (Budget-VI Branch) in Finance Department with full-fledged staff to monitor implementation of grant, submission of utilization certificate, manner of utilization of grants etc. by the Local Bodies.

5.6. There shall be a High Level Monitoring Committee headed by the Chief Secretary with Development Commissioner and Secretaries of Finance, P.R. and H & U.D Departments as Members to review the progress of utilization of grants to Local Bodies so provided as per the recommendations of 4th State Finance Commission. The Committee will be serviced by Finance Department.

5.7. Finance Department will issue detailed guidelines for utilisation of Specific Grants-in-Aid and follow up mechanism with the approval of High Level Monitoring Committee in respect of recommendations.

5.8. A special supplement to the Budget document in respect of transfer to the Local Bodies on the basis of the recommendation of the Commission shall be presented by Finance Department in the Legislative Assembly by the end of fiscal year (31st March) regarding utilization of grants by the Local Bodies.

5.9. Finance Department shall put in place a computerised Management Information System for monitoring the implementation of the recommendations of the Commission pertaining to ULBs and PRIs during the award period 2015-20.

5.10 Recommendations and suggestions pertaining to Institutional & structural strengthening, resource generation & legal hurdles and general issues as recommended by the Commission and contained in the summary of recommendations at Annexure are being examined by the State Government in detail. The respective Departments would examine such recommendations and suggestions on merit and take appropriate follow up action within a stipulated time period in consultation with the High Level Monitoring Committee.

The report of the Fourth State Finance Commission covering the five year period commencing from April 1, 2015 together with the Explanatory Memorandum on the Action Taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article-243-I (4) and 243-Y (2) of the Constitution.

Bhubaneswar
Dated the 16th February, 2015

Pradip Kumar Amat
Minister, Finance

SUMMARY OF RECOMMENDATIONS

The State Finance Commission, while laying down the principles governing distribution of resources between the State and the local bodies, went into the issues relating to improving the fiscal management, effectiveness of delivery of civic services, and strengthening the local bodies through effective provision of resources and decentralized system of policy making. In the process, certain inadequacies, system inefficiencies, legal bottlenecks, lack of timely process re-engineering and many other matters which stood in the way of local bodies evolving into vibrant units of self-governance have come to the notice of the Commission. The Commission strived for financial empowerment of the local bodies both at the rural and urban areas through infusion of funds and provide them flexibility in taking policy decision regarding provision of civic services. The Commission through its recommendation endeavoured to assist and advise the State Government to develop the lowest tiers of democratic institution in both rural and urban areas as responsible local governments.

The recommendations of the Commission address the issue of transfer of resources from the State's taxes and the consolidated fund. Equally important are the recommendations relating to the measures to strengthen resource base of the Local Bodies to help them evolve into responsible units of Local Self Governance. The recommendations have been grouped into four broad heads:

1. Institutional and structural strengthening.
2. Resource generation and legal hurdles thereof.
3. General issues.
4. Fund transfer.

While different recommendations have been made in the Chapters, the most important ones have been enlisted below.

Institutional and structural strengthening

- ATR to recommendations of the State Finance Commission does not contain decisions of the Government on recommendations of the SFC on issues, not pertaining to transfer of fund. Departments dealing with

administration of local bodies have no forum to report the action taken by them on the recommendations. Commission therefore, recommends that ATR should incorporate commitment of PR and H&UD departments to act on the recommendations in a given time frame. **(3.21)**

- State Government should constitute a committee headed by the Chief Secretary with Development Commissioner, Finance Secretary, PR Secretary and H&UD Secretary as members to meet quarterly to examine suitability and feasibility of implementation of SFCs' recommendations in a time bound manner. The committee may be serviced by Finance Department. **(3.22)**

- Substantial fund should go as untied to the local bodies to help them decide as to how best they could utilize the same for meeting their needs and priorities. It is important to allow them to decide, the activities that deserve support and funding to serve the people who have elected them. This is a means to reach the broader goal of responsible local self-governance as enshrined in the Constitution. There should not be any guideline, but a negative list of works for the use of untied funds should suffice (e.g. for religious institutions, donation, any kind of celebration). **(2.15, 3.12, 7.32 & 11.25)**

- In P.R. Department, the District Rural Development Agency(DRDA)has emerged as a powerful parastatal and all the centrally sponsored programmes/schemes of the Ministry of Rural Development are routed through them in contrary to the spirit of 73rdConstitutional amendment. The Commission feels that dichotomy in the way of empowerment of PRIs will come to an end if DRDA is dissolved and its office merges in ZP. This will not only convey a determined attitude of the State Government to strengthen local governance, but will also inspire the line departments to realign their schemes, programmes and administrative structure in tandem with the new reality. **(5.3)**

- The School & Mass Education Department has made significant efforts to make the School Management Committee and Parent Teacher Association integral parts of the Panchayati Raj Institutions. The Commission feels that all other departments, particularly those in the social sector should take note of the effort of School & Mass Education Department and try to make a similar beginning in this direction.

Consequent to enactment of the Right of Children to Free and Compulsory Education Act, PRIs and ULBs have become the Local Authorities under new education paradigm. Similarly, many of the grassroots level services related to health, nutrition and pre-school education can be successfully provided by the local bodies under the overall guidance and superintendence of the departmental officials as facilitators. **(5.7&6.13)**

- The Tahasildar may have all the functions relating to land, land records, law & order, natural calamities and such other responsibilities while the BDO may be re-designated as the Secretary or Executive Officer of Panchayat Samiti to look after developmental responsibilities of Panchayat Samiti. Sections 15A & 19A of Panchayat Samiti Act should be amended accordingly. **(5.10)**
- All employees serving under the Block administration at present should have their services placed with and salaries paid by the Panchayat Samiti. A chain of commands is to be put in place to make the employees accountable to the Panchayat Samiti. **(5.10)**
- In order to avoid unnecessary compartmentalisation of the Government functions and funds, all the schemes and programmes related funds irrespective of the departments they flow from, should be released in favour of the Panchayat Samiti and not the Block. **(5.11)**
- In order to make the Gram Panchayats more effective in providing services in a meaningful way and to ensure accountability of the key functionaries, services of Executive Officers, Junior Engineers, Rojagar Sahayaks, Jogan Sahayaks and Officials involved in disbursement of pension should be placed with the Panchayats and their salaries should be paid by the Panchayats. Further all users' committees like the ones for primary schools, anganwadis and health centres work under the guidance of specially created parastatals under the direct supervision of departmental officers in contravention to Eleventh Schedule of the Constitution. As a first step services of ANMs and anganwadi workers can be placed with the GPs to make them an integral part of the institution of Gram Panchayat. **(5.12 & 6.12)**

- In order to make panchayats viable units of local self-governance, number of panchayats should be contained; each shall be a viable unit of local self-governance. Splitting of a Gram Panchayat always may not be in its best interest. The Commission is of the view that, lesson should be learnt from the experience of Kerala for evolving strong and efficient village panchayats; and
 - (a) New Panchayats should be created where population has exceeded 10,000.
 - (b) The existing panchayats having more than 7,500 population should be strengthened by placing technical and other functionaries exclusively for them while smaller panchayats may continue to share functionaries for the time being as is the practice now. **(5.13)**
- With increase of rates of materials and wages etc real power of approval and sanction shrink over the years making it difficult for the functionaries to perform, particularly in local bodies. The Commission recommends that the administrative and sanctioning power of officials, engineers and other technical functionaries in the local bodies should be enhanced at least two times to facilitate undertaking routine works locally without sending estimates upwards for approval. **(5.14 & 5.22)**
- Though urban bodies are bestowed upon more power and functional freedom compared to their rural counterparts, a lot of inadequacies and constraints are being faced by them while discharging their functions. An expenditure of a small amount of Rs.5000.00 out of their own resources needs prior approval of the Government. They require more liberty to function within their legitimate domain of operation without waiting for Government's approval. **(5.15 & 5.23)**
- There is a need to amend the laws to empower the urban local bodies and also provide them with major infrastructural support enabling them to effectively discharge their functions as absence of skilled manpower, inadequate own resource base and legal hindrances impair smooth and efficient functioning of the municipal bodies and some of these problems arise because of restrictive government guidelines and instructions and in many cases, inadequate external technical and other support services.

Commission recommends that Municipal cadre should be put in place as quickly as possible. The present LFS and non-LFS staff may be gradually phased out and replaced by the organised municipal cadre, so that municipal bodies are served by competent professionals in due course.

(5.17 & 5.29)

- The Commission considers it feasible on the part of PH organisation to work out a mechanism to transfer maintenance of the entire water supply system to the urban local bodies in phases. The services of the existing staff along with finance should be placed with the local bodies. (5.18)
- H & U.D. department should expeditiously take appropriate steps for engagement of one Inspector of Local Works (ILW) in the level of Asst. Engineer or Executive Engineer to be stationed in each district to give technical advice to the municipal bodies for executing engineering works. (5.21)
- It would be worthwhile to constitute a separate Directorate of Municipal Administration to be managed by senior level officers as in many States in order to ensure functional efficiency of municipal bodies. (5.27)
- Some municipal bodies have recruited staff even as late as 2005 without government sanction deviating from relevant provisions under Municipal Act. It is understood that no action has been taken against either such staff or the authorities responsible for these appointments. The Commission is of the view that it will be appropriate for the Government to take stock of the situation and initiate action against the persons who have indulged in such irregularities as a deterrent to its repetition. (5.28)
- The Commission would like to recommend that the law should be amended such that the valuation organisation shall be an independent body and may be constituted in the line of Tamil Nadu and West Bengal. The Municipal Act too should have similar provision. (8.9)

Resource generation and legal hurdles thereof

- To inculcate the spirit of generating more revenue internally, an incentive structure should be put in place. Incentivisation should be structured to make it attractive and to induce competitiveness among the local bodies.

The Commission is of the view that the ULBs should be rewarded for their performance in revenue collection for reducing their dependency on State and Central Governments. **(2.19 & 8.20)**

- Levy of property tax recommended by the 2nd State Finance Commission has not been acted upon as yet. The Commission has gone through the property tax Bills earlier introduced in 14th Assembly and is of the view that the goal cannot be achieved if some of the restrictive provisions are not done away with. So the Bills have to be relooked into. The LSGs being elected bodies should be given complete freedom to raise their own resources. The Commission feels that sooner the change to property tax takes place better it is for the financial health of the Local Bodies and recommends introducing the tax at the earliest. **(3.7, 7.23 & 8.5)**
- Section 131 of the Municipal Act and the Gram Panchayat Act be amended empowering local bodies to impose advertisement tax at rates decided at their level without seeking Government approval in order to earn more revenues. **(5.24, 7.22 & 8.12)**
- The Commission recommends that the municipal bodies should be given freedom to collect annual license fees within their jurisdiction for trade and business by suitable amendment of Section 131 of the Act. The license fees need not be uniform across the ULBs nor in different localities of a municipal area. Choice in the matter should be the prerogative of the municipal bodies and Acts and Rules for ULBs should be amended accordingly. **(5.25)**
- The rates and maximum collectable amounts from industries and factories carrying on dangerous and offensive trades have been fixed under provision 290(7) of the Act decades back. The Commission feels that these restrictions should be removed and the amount to be charged should be the discretion of the municipal bodies. **(5.26)**
- Markets earlier transferred from Gram Panchayats to Regulated Marketing Committees (RMCs) are good sources of revenue for local bodies. As per amendment of Gram Panchayat Act consequent to 73rd amendment they are properties of Gram Panchayats and they should be transferred back to Panchayats from the control of RMCs immediately by Cooperation Department. **(6.11)**

- The assignment under the cess grant to the PRIs is not based on the collection of cess and is too meagre. It has little impact on the finances of the local bodies. The Commission feels that suitable amendment of the law to discontinue the grant will save the government as well as PRIs a lot of book keeping exercises. However, till the law is amended, funds may continue to be released to PRIs as per the present system. (7.8)
- Odisha Kendu leaves (Control and Trade) Act, 1961 and the Rules thereof should be amended to share the net profit with the pluckers, not with PRIs or the corresponding provision for sharing be completely withdrawn. The management of kendu leaf trade should not be handed over to GPs. (7.11)
- Under Odisha Gram Panchayat (Minor Forest Produce Administration) Rules, 2002, GPs are entrusted with regulation of 69 MFPs and collection of registration fees from the registered dealers. The registration fee of Rs.100.00 per trader irrespective of the volume of transactions continues for more than a decade. The rule provides for Panchayat Samiti to fix the procurement price. GPs suffer for Panchayat Samitis delaying in price fixation. Any legal non-compliance indulged in by the traders or others is only to be reported by GPs to the Divisional Forest Officers concerned. GPs have no power to seize and take penal action against the erring traders. The Commission feels there is a need for modification in the Minor Forest Produce Administration Rules as follows:-
 - (a) A time-frame may be fixed for Panchayat Samiti to communicate the minimum procurement price of MFPs fixed by them, failing which GPs should be at liberty to fix the price at their level.
 - (b) Rule 4(6) also should be amended such that registration fees would be decided from time to time by the individual Panchayat, not through government notification.
 - (c) There should also be provision in the rule authorising GPs to seize MFPs if procured illegally and inform the D.F.O concerned for final say in the matter for initiation of penal action where needed. (7.12, 7.13, 7.14 & 7.15)

- The Commission recommends that the Entertainment Tax be entirely assigned to local bodies both urban & rural for levy and collection and the relevant Act need to be amended accordingly. (7.18 & 8.21)
- State Government should take steps for appropriate changes in the laws to enlarge the tax net and to include other avenues of entertainments including commercial sports and games, opera, circus etc. as in other States like Karnataka, Maharashtra etc. (7.19)
- Laws governing Improvement Trusts/Development Authorities should have provisions to give approval to building construction only with NOC from GPs and Municipal Bodies coming under their jurisdictions and GPs & Municipal Bodies too should be empowered by law to collect fees/taxes for giving NOC. (7.21 & 8.34)
- Proactive steps needed on the part of the ULBs to get their cases relating to holding tax pending at different courts expedited for the interest of their own financial health. For this purpose, municipal bodies should have total freedom to engage reputed legal professionals backed by a conscious decision of the council instead of seeking clearance from the Government. (8.3)
- H&UD department should periodically evaluate performance of Executive Officers with regard to collection of taxes, inclusion of new properties under tax net etc. which is a neglected area. (8.6)
- Urban local bodies are not eager to charge the maximum rate allowed by the municipal laws and in many cases, the rates fixed are quite low. The local bodies in their interest should provide better services by collecting higher revenues. (8.8)
- The responsibility to revise property value every five years lies with the valuation organisation under Sections 146 and 147 of the Municipal Act. As per the Act, the Executive Officer of a municipal body is empowered to act as a Valuation Officer in the interregnum period between two valuations. However, because of non-revision of rates over decades, the amount of tax paid by a big old structure is often less than that of a smaller new structure. The Commission recommends appropriate amendment in the laws to make it mandatory for municipal bodies to

levy 5% more tax in every succeeding year after a valuation is made till the new valuation is in place. **(8.10)**

➤ There are ample instances of reluctance of local bodies to hike holding tax though they are legally competent to do so. In addition to that there are also instances of revised rates of taxation not getting clearance of the municipal council. Laws should be amended so that the main taxes including holding tax are periodically increased as a mandate. **(8.11)**

➤ In course of interaction with the municipal bodies, certain novel methods of revenue generation came to the notice of the Commission. These innovative methods proved effective for arrear tax collection. Each municipal body can find its own innovative ways to augment the resources. **(8.13)**

➤ With the introduction of metering, water user charges can be collected in the same way as electric charges from commercial, industrial and domestic consumers at different rates. This is likely to boost revenue of the municipal bodies substantially and help control misuse of the treated water. **(8.15)**

➤ The Commission would like to urge that all its recommendations relating to revenue enhancement measures should be addressed in totality within a definite timeframe. **(8.16)**

➤ The issue of entry tax assignment needs to be re-visited on account of emergence of new ULBs and varying changes in their population, area, and demand for basic services. Further taking into consideration the spirit of Para-52 of List-II (State list) of the Seventh Schedule of the Constitution as well as the Entry Tax Act and the mandates of Hon'ble Supreme Court of India, the Commission feels that not only the ULBs, the RLBs too have a right on the Entry Tax. **(8.19)**

➤ Present level of share of ULBs in motor vehicle tax need to be enhanced as maintenance of roads in urban areas is an important function of ULBs. **(8.22)**

➤ Sharing of Rs.3 crore in a total collection of Rs.383.98 crore of stamp duty is abysmally low and its distribution amongst more than 100 ULBs will not make any significant impact on their resources. The Commission recommends that there is no necessity of sharing of stamp duty with

ULBs. As regards bestowing the grant to special planning authorities by the State Government which is the practice, the Commission has no jurisdiction to make any recommendation. (8.24)

- Long term lease of tanks and orchards can fetch more revenue. Another emerging area which can boost income of and services provided by the PRIs & ULBs, particularly municipal bodies is PPP projects in urban sanitation, urban transportation, street lighting and tax collection etc. (11.8)

General issues

- The Commission recommends the Government to take expeditious steps to amend the obsolete and obstructive provisions of law mentioned in their Report at A, B, C, D, of the para 5.30 for empowering and improving function and finances of the local bodies. The list is illustrative and not exhaustive. It is hoped that the administrative departments will come up with proper amendments after making exhaustive scrutiny. (5.30)
- Directorate of Local Fund Audit should develop an accounting standard along with a suitable software for the Gram Panchayats in consultation with the Institute of Chartered Accountants of India and PR Department. Though some of the GPs have been provided with computers, universal computerisation of GPs should not be delayed. (5.31)
- It should be ensured that all government offices, residential schools, anganwadi centres and such other institutions located in rural areas have functional toilets and urinals with running water facilities. The Commission does not propose to make any financial allocation for this purpose, as there is adequate funds from schemes like Mahatma Gandhi National employment Guarantee programme to address such needs. It is strongly recommended to attend to this aspect in rural life by the administrative department concerned. (6.7)
- With the programme of financial inclusion by opening accounts in banks in place, it would be worthwhile to transfer the old age, widow, disability and other pensions to the bank accounts of the pensioners. However, recipients having serious difficulties to access bank can be distributed money physically. (6.10)

- Evaluation of the performance of municipal bodies to assess their achievement against targets or standards fixed is the mandate under the 13th Finance Commission. Fixing of service standard has for the first time brought home the realisation to the urban body administration that performance can be quantified and evaluated. Concern is that this practice should not be given up once the award period of the 13th Finance Commission is over. The Commission recommends that H&UD department should continue to fix annual achievement targets even beyond the present award period and put in place a monitoring mechanism involving external agencies to assess the physical progress. (6.17)
- Arrear pension dues of the retired ULB employees is huge. Further, the present low level of pension of the retired employees of the ULBs need to be revised upward. The Commission recommends that arrear pension of retired employees should be cleared from the entry tax and pension level be reviewed. (8.18)
- There is need for an MIS to link budget, accounting and performance management, but it is still in a nascent stage in the ULBs. The much sought after practice of accrual system of accounting to record the financial transactions is badly needed for the ULBs. The system with in-built financial reporting will facilitate prompt financial decision making. (8.32)
- One of the reasons for delay in the execution of urban projects is high premium for government land. To solve this problem, H&UD department has authorised the Executive Officers of ULBs to get land alienated in the name of the department. It is an innovative method, but has legal lacunae. The Commission recommends that as many institutions in the State are often given land free of premium for developmental purposes, it would be appropriate to extend the facility to the third tier of governance too. (8.33)
- The parameter selected by PR & H&UD departments to identify the best performing local bodies are rather complicated. It would be better to identify a few parameters like tax and non-tax revenue collection, percentage increase in tax revenue or per capita expenditure on civic services etc. to evaluate the performance. (9.5& 9.10)

- For the sake of transparency, it is necessary for municipal bodies to disclose all relevant information on income, expenditure, tax rates, tolls, public utility facilities provided, details of projects, executants, time frame on the website of the department with specific access code for each urban body. The Directorate of Municipal Administration may host and monitor the same. **(10.3)**
- It is necessary to introduce accrual based accounting system without further delay in urban local bodies to have better transparency and accountability. **(10.4)**
- Maintenance of inventory of assets by PRIs and ULBs should be made an obligatory condition for release of grants. Before funds out of State Finance Commission recommendations are released, it may be ensured that department concerned certifies that asset registers have been updated till the end of the last but one fiscal year. Besides, while introducing e-governance system in this context, a special module may be created by the respective departments to ensure efficiency and transparency in maintenance of inventory of assets. **(10.5)**
- It is necessary for the State Training Institute to prepare an inventory of good practices developed in different parts of the country and send elected representatives from all corners of the state to such places. **(10.6)**
- The Directorate of Municipal Administration should set up an institutional framework for regular capacity building and training of the officials and elected representatives of ULBs within a reasonable time frame and with a concrete action plan. **(10.7)**
- The Directorate of Municipal Administration may make a time bound programme for the leading urban bodies of the state to adopt e-governance system which will go a long way in strengthening urban administration in the State like Ahmedabad and Greater Hyderabad Municipal Corporations. **(10.9)**

Fund Transfer

- In keeping with the spirit of the Constitutional provisions, the Commission has treated transfer of resources to the PRIs and ULBs under the recommendations of the Central Finance Commission as a supplementation to the amount recommended by the State Finance Commission. Accordingly, the Commission recommends to the Central Finance Commission to provide for the gap in the total estimated resource requirements of the State. **(2.9, 2.10, 2.11 & 11.77)**
- The Commission is sensitive to the cost disadvantage suffered by the remote Tribal Sub-Plan (TSP) areas to provide equal level of services. Institutions in these areas tend to spend more amount because of low level of access, higher transportation cost etc. Therefore, the Commission proposes to provide 20% additional fund to the TSP areas for different components of grants. **(2.20 & 11.6)**
- The recommended devolution to the local bodies is meant to meet infrastructural gaps and welfare needs of the community. The fund is untied and the modalities of use of these funds are left to the local bodies. Keeping in view the existing limitations of the local bodies, it is pegged within a nominal rate of 3% of the net sharable pool of taxes (total taxes less the taxes to be assigned to local bodies). **(11.10)**
- The Commission has recommended to use the assigned taxes primarily to meet the salary and establishment needs, sitting fees/ honorarium/ DA etc. of employees and elected representatives of the rural and urban local bodies. Residual amount out of this, if any, can be utilised to meet the requirements for providing basic services by the local bodies. **(11.11 & 11.29)**
- The Commission has decided to limit the total transfer to 10% of the net total tax revenue forecasted for the period 2015-20. After recommending the funds towards devolution and assignment of taxes, the Commission recommended grants-in-aid to meet the fund requirement partly or fully for the selected focus areas. **(11.12)**
- The Commission decided to exclude Entry Tax, Entertainment Tax and Motor Vehicle Tax from the sharable pool and assign a part of these taxes to the local bodies directly. The net tax revenue, thus available for

devolution during the period 2015-20 is estimated at Rs.109750.01 crore. The Commission has recommended that 3 % of the above amount be devolved and distributed between PRIs and ULBs. **(11.15)**

➤ The approaches of the Commission with regard to the devolution are as follows-

- a. The devolution amount is to be untied.
- b. It is to be divided between RLBs and ULBs in the proportion of 75:25
- c. *Inter se* distribution amongst three tiers of PRIs and ULBs is based on population, category and number of units like GPs, PSs etc.
- d. The emphasis of the Commission is to strengthen and empower the rural local bodies for the purpose of gradual reduction in their dependence on the revenue of the State and Central Government.

(11.18)

➤ The amount to be devolved to the PRIs and ULBs is based on the criteria of size and density of population, percentage of persons below poverty line (Tendulkar Methodology), literacy rate and SC & ST concentration. Devolutions to PRIs and ULBs are Rs.2468.85crore and Rs.823.00 crore respectively out of a total of Rs.3291.85crore. **(11.18)**

➤ The Commission has allocated funds to all the three tiers so that each level of PRIs gets reasonable amount of funds to provide meaningful services. While making fund allocation to Panchayats, the Commission noted the complaints about rationality of uniform distribution of fund irrespective of size or population of each unit. The Commission followed the same method as was adopted by State Government for distribution of 13th Finance Commission Grants based on population, grouping them into four categories. **(11.19)**

➤ The fund to be devolved to 6227 Gram Panchayats comes to Rs.1743.25 crore. The Commission has allotted an additional amount of 20% to the Panchayats under the TSP areas. The total devolution to the Gram Panchayats works out to the Rs.1852.95 crore. **(11.20)**

- Allocation to Panchayat Samitis has been made on the basis of number of Gram Panchayats in a Panchayat Samiti and for each of the G.Ps, Rs.1.5 lakh per year provided over the award period. The total amount is Rs.498.15crore. The Commission has accordingly recommended Rs.498.15crore for the 314 Panchayat Samitis of the State. **(11.21)**
- The Zilla Parishads, 30 in number comprise of 314 Panchayat Samitis. Allocation of fund to the Zilla Parishads, has been made based on the number of Panchayat Samitis in the district. A sum of Rs.7.50 lakh per Panchayat Samiti per year is taken as yardstick and accordingly the Commission recommend Rs.117.75 crore for the Zilla Parishads. **(11.22)**
- The total devolution recommended are Rs.1852.95 crore to Gram Panchayats, Rs.498.15 crore to Panchayat Samitis and Rs.117.75 crore to Zilla Parishads during the award period. The distribution of devolution amongst the three tiers of the PRIs works out to be in the ratio of 75:20:5. **(11.23)**
- The major criterion based on which the municipal bodies are categorised is the population. Problems, complexities, quality and nature of services of the ULBs are all dependant on population size. Fund transfers to different levels of ULBs, therefore has been based on population criterion as per 2011 census. The Commission recommends Rs.258.90 crore to Municipal Corporation, Rs.430.45 crore to Municipalities and Rs.133.65 crore to NACs. **(11.24)**
- The Commission is of the opinion that devolved fund is the right of the Local Bodies to be used as per their own priority and decision. The administrative departments should desist from giving any direction indicating the purposes for which such fund should be utilised. The utilisation of fund should not be limited to only construction related activities. The Local Bodies should consider areas in health services, primary education, anganawadi, children park and other sectors while taking decision to use the devolved fund. Only purposes for which the fund should not be utilised are donation to any organisation or any religious activity or related construction. **(11.25)**
- The assignment policies followed for decades have lost their significance and fund placed is so little that it has rather become symbolic. Therefore, the Commission recommended discontinuance of such assignments, like

Kendu Leaf, Cess, Sairat, Minor Forest Produce Grants etc. for rural areas. The stamp duty, which is being erroneously projected as grants to urban local bodies but goes to special planning authorities etc. should not be part of the assignment. The Commission emphasized on assigning Entertainment Tax to the rural and urban local bodies to enable them to levy and collect the taxes. **(11.26)**

➤ Entry tax shared with urban local bodies is treated as “compensation” for the loss of octroi tax. As per List-II in the seventh Schedule of the Constitution, Entry Tax is for the entry of goods into a “local area”. The Odisha Entry Tax Act, 1999 defines “local area” as municipalities, gram panchyats and areas under other local authorities. Therefore, Entry Tax should be legitimate revenue of not only urban local bodies, but also of rural local bodies and this tax should be assigned to both. **(11.27)**

➤ The total requirement of funds towards salary, establishment and enhanced entitlements of elected representatives of the local bodies during the period 2015-20 works out to Rs.2234.06crore for PRIs and Rs.2100.00 crore for the ULBs. **(11.31 & 11.34)**

➤ The Commission recommends to increase the honorarium, sitting fees/ DA from the year 2017-18 for the elected representatives of the local bodies. The total expenditure on this account comes out to be Rs.401.33 crore for RLBs and Rs.8.01 crore for ULBs. **(11.32 &11.35)**

➤ Rural local bodies do not get any share of Motor Vehicle Tax. The Commission is of the view that rural roads also deserve funding for maintenance from this tax. The Commission recommends Rs.366.31 crore for RLBs and Rs.244.20 crore for the ULBs in the award period. Rs.60.00 crore and Rs.40.00 crore for rural and urban local bodies respectively in 2015-16 and 10% increase each year thereafter has been recommended. ULBs presently get Rs.25.00 crore per year from this source. Commission leaves it to the department to distribute the assignment amongst different levels of local bodies. **(11.30, 11.33 & 11.37)**

➤ After meeting the requirements of salary of officials entitlements of elected representatives of the urban bodies a good amount of surplus from entry tax assignments remains with ULBs every year. This can be used to meet the requirement of arrear pension and substantial balance will still be available for basic services. The total entry tax assignment for

rural local bodies will be Rs.2635.39 crore and Rs.3284.60 crore for urban local bodies. **(11.32 &11.36)**

- The Commission recommended grants for sectors like drinking water supply, solid waste management, storm water discharging, sanitation, street lighting, drainage & roads, maintenance of assets etc. Creation of revenue generations avenues, incentivising revenue collection, improving capacity building, staff accommodations are some of the additional needs the Commission recommended to assist. **(11.38)**
- The sector specific needs of urban and rural local bodies have been projected in Para-11.39 to Para 11.59. The total estimate comes to Rs.15502.68crore. Fund required for rural local bodies is Rs.9037.66 crore and for urban bodies Rs.6465.01 crore. It is not possible to meet the entire requirement from the State's resources alone. So, Commission has proposed to meet a part of the requirement from the State's Consolidated Fund. **(11.60)**
- To address acute scarcity of potable water in saline and fluoride affected areas, the Rural Water Supply and Sanitation (RWSS) organisation have proposed Mega Water Supply Projects, each covering large number of such water scares villages, at a cost of Rs.1010.97 crores. The Commission identified 8 projects covering villages with most serious and acute water scarcity problems and recommends to finance them from the State resources with a financial support of Rs.590.82. **(11.39&11.62)**
- The Commission recommends provision of 10 street lights (Sodium Vapour Lamp) per village in a GP every year. It will cover 5 villages in the award period of five years. The cost of installation with accessories would be Rs.12.50crore per annum. Assuming same electricity charges over next five years and maintenance cost at the rate of five percent of the installation cost, Rs.259.38 crore has been recommended from State's consolidated fund during 2015-20. **(11.42&11.63)**
- The Commission recommends provision of residential accommodations for the functionaries of Gram Panchayats and Panchayat Samitis with a cost support of Rs.215.14 crore and Rs.140.18 crore respectively to be met from State resources. This also includes additional cost of 20% for TSP areas. **(11.44 & 11.64)**

- As there is no provision for maintenance of capital assets, once created under different schemes, a sum of Rs.330.94 crore is recommended for all the GPs out of the state resources to maintain the village assets during the award period. Additional funding of 20% for TSP areas has been included in the above assessment. **(11.45 & 11.65)**
- Commission feels that resource allocation for creating assets like market sheds, stalls, rest sheds in places of pilgrimage etc which can fetch revenue by generating rent, lease value, licence fees could be good investments. Improvement of pisciculture tanks, running of ferry services, cycle and bike stands etc wherever possible and such other avenues can be explored for enhancing own resources of the panchayats. The total funds recommended for this purpose at the rate of Rs.10.00 lakh per panchayat is Rs.622.70 crore to be met from State resources. **(11.46 & 11.66)**
- An incentive structure should convey that incentivisation is to promote resource generation by own efforts. To encourage competition amongst the Gram Panchayats, two GPs in every Panchayat Samiti may be rewarded with the rider that increase in revenue is minimum 20% over the previous year's. Commission recommends an amount of Rs.75.36 crore at the rate of Rs.3.00 lakhs per Panchayat, be provided from the State's Consolidated fund. **(11.47 & 11.67)**
- The total fund requirement is estimated to be Rs.2703.00 crore for five years i.e. up-to 2020 for Odisha State Urban Water Supply Policy 2013, which stipulates to provide access to piped water supply to all households at the rate of 70 litres of water per capita per day, progressively to be increased to 135 lpcd. Out of this huge requirements the Commission recommends an allocation of Rs.375.00 crore specifically for metering, automation etc. in individual households in urban areas to promote revenue generation of the ULBs. **(11.49 & 11.68)**
- Expansion of street lighting is utmost need in all ULBs in the State. For the ULBs Rs.92.00 crore has been recommended for providing new installations and O&M of street light system over the period of 5 years from the state resources. **(11.54 & 11.69)**

- Commission recommends an amount of Rs.45.75 crore for maintenance of capital assets in ULBs from the State's Consolidated fund Rs.50.00 lakh for each Municipal Corporation, Rs.10.00 lakh for each Municipality and Rs.5.00 lakh for each NAC per year for five years has been recommended. **(11.55 & 11.70)**
- Sulabh Sanitation organisation apprised the Commission that total 239 public toilets of various sizes are required in urban areas at a cost of Rs.52.46 crore based on a survey conducted by them. The Commission recommends the said amount to be provided from the State's Consolidated fund. However, the ULBs may decide services of any organisation as they deem best, for the purpose **(11.56 & 11.71)**
- An amount of Rs.84.00 crore from the State's Consolidated fund at the rate of Rs.10.00 lakh, Rs.20.00 lakh and Rs.50.00 lakh to each of the NACs, Municipalities and Municipal Corporations respectively have been proposed. This will enable them in creation of assets which can bring additional revenues. The said amount may be provided to ULBs at the uniform rate of Rs.16.80 crore each year. **(11.57& 11.72)**
- It is proposed to introduce an incentive of Rs.2.00 crore each year for the best performing Municipal Corporation and Rs.1.00 crore each for the four best performing Municipalities every year during the award period. In the same way, five best performing NACs can get every year rewards of Rs.50 lakh each. The performance rating should be based on own revenue generation with an eligibility criteria that increase in revenue has to be 20% or more over previous year. Commission recommends Rs.34.00 crore from the State resources for the period from 2016-20. **(11.58 & 11.73)**
- The sharing of taxes and transfer from the State's consolidated fund to the rural and urban local bodies under the three modes of transfer i.e. devolution, assignment of taxes and grant-in-aid is as follows-

**Total Resource Transfers to Local Bodies recommended for the period 2015-20
(from State Resources)**

(Rs. in crore)

DISTRIBUTION MECHANISM	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
a)DEVOLUTION						
i) PRIs	493.77	493.77	493.77	493.77	493.77	2468.85
ii)ULBs	164.60	164.60	164.60	164.60	164.60	823.00
TOTAL	658.37	658.37	658.37	658.37	658.37	3291.85
b)ASSIGNMENT OF TAXES						
i) PRIs	438.31	539.60	620.16	672.84	730.79	3001.70
ii)ULBs	540.00	644.00	708.40	779.24	857.16	3528.80
TOTAL	978.31	1183.60	1328.56	1352.08	1587.95	6530.50
c)GRANT IN AID						
i) PRIs	290.05	368.43	455.12	539.20	581.72	2234.52
ii)ULBs	59.61	80.48	178.10	180.94	184.08	683.21
TOTAL	349.66	448.91	633.22	720.14	765.80	2917.73
GRAND TOTAL	1968.34	2290.88	2620.15	2730.59	3012.12	12740.08

- The Commission has taken care to ensure while making the allocations, the total transfer does not exceed 10% of divisible pool of state taxes projected for the award period. Care has also been taken that transfer recommended each year remain within or close to 10% of projected net tax resources of the corresponding year. **(11.75)**
- Given the meagre own revenues of the local bodies touching a few thousand a year for many PRIs and barely a lakh for many ULBs, the Commission decided not to offset the own revenues of the local bodies against the requirements projected by the Commission. So, whatever own resources they raise be left unencumbered for providing better basic services to the people. **(11.76)**
- According to Article 280(3)(bb) &(c) of the Constitution, the Central Finance Commission has to supplement the resources of the rural and

urban local bodies in addition to transfer recommended by the State Finance Commission from the State's resources. The total fund requirement assessed for the five year period of 2015-20 is Rs.25325.03crore. Total fund proposed for transfer from the State's taxes and Consolidated Fund is Rs.12740.08 crore. This leaves a gap of Rs.12584.95 crore which is required to be met in the next five years period. The 4th SFC therefore, recommends that the 14th Finance Commission may consider to augment the State's Consolidated Fund by Rs.12584.95 crore, to supplement the resources of the local bodies over and above the fund recommended for transfer from the State's resources.

(11.77 & 11.78)

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