

GOVERNMENT OF ASSAM
FINANCE (ECONOMIC AFFAIRS) DEPARTMENT
SFC CELL, BLOCK –F, DISPUR

EXPLANATORY MEMORANDUM ON THE ACTION TAKEN ON THE
RECOMMENDATIONS MADE BY THE PRELIMINARY REPORT OF FOURTH ASSAM
STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO HIS EXCELLENCY
THE GOVERNOR OF ASSAM ON MARCH 25, 2011.

The Preliminary Report of the Fourth Assam State Finance Commission covering the period of one year from 1st April 2011 to 31st March 2012 together with Explanatory Memorandum on the action taken on the recommendations of the commission is being laid on the Table of the house in pursuance of Articles 243-I (4) and Articles 243- Y (2) of the constitution of India. The summary of the recommendations of the commission relating to devolution of State Taxes, grants-in-aid to the Local Bodies and other matters is contained in Para 108 to 132 of the report of the Commission.

The decisions taken by the Government on the recommendations of Preliminary Report of Fourth Assam State Finance Commission (FASFC) for 2011-12 are as follows and subject to the condition that PRIs and ULBs need to be adequately staffed with properly trained personnel, subjects to be transferred as per Schedules XI and XII of the Constitution of India, activity mapping to be prepared and accounts of the funds to be maintained properly. Otherwise, the possibility of unutilization or misutilization of the devolved fund cannot be ruled out :-

Sl. No.	Recomm endation No.	Para No.	Gist of the recommendations	Decision taken by the Cabinet
1	108	20	FASFC recommends that the PRIs and ULBs of Schedule VI Areas were left out of the recommendations because the 73 rd and 74 th Constitutional Amendments are not extended to such areas.	Accepted
2	109	14	FASFC recommends that the basic objective of the Commission is to maintain a healthy financial equilibrium between the vertical and horizontal dimensions of transfer so that the mutual interests of the State Government and the LSGs are better served.	Accepted
3	110	14	FASFC recommends that fiscal transfer to PRIs and ULBs are meant to supplement their own resources and not to substitute it. Therefore, a sustained and determined effort needs to be made by the PRIs and ULBs to raise their own revenues	Accepted Action by P&RD/UD/GD Department

			from all sources allocated to them.	
4	111	25	FASFC observed that in case of PRIs framing of relevant Bye-laws laying down the rates of taxes etc are still pending. This has encouraged the PRIs to have a lackadaisical approach in the matter of mobilization of their own resources. In order to motivate the PRIs to become pro-active, the required legal and administrative framework need to be put in place forthwith.	Accepted Action by Panchayat & Rural Development Department
5	112	33	FASFC recommends that since the reports of the Study Groups on Staffing Pattern for the PRIs and ULBs set up by the government were not made available to the Commission in time, it has not been possible to make any recommendation in this regard in the Interim Report.	Accepted Action by P&RD/UD/GD Department
6	113	39	FASFC recommends that the PRIs at all levels should be pro-active in mobilization of their internal revenue so that they can meet the expenditure on remuneration and sitting allowance of the elected representatives from their own resources as stipulated in the Assam Panchayat (Administrative) Rules, 2002.	Accepted Action by Panchayat & Rural Development Department
7	114	17 & 88	FASFC recommends that the matter of distribution of the net proceeds of taxes etc between the GOA and the PRIs and ULBs, the Commission recommends that the net proceeds of all taxes and duties levied and collected by the GOA, excluding non-tax revenue and State's share of Central taxes, shall form part of the divisible pool (DP).	Accepted
8	115	18 & 88	FASFC recommends that the yield from Entry Tax, Entertainment Tax and Electricity Duty shall also be kept outside the DP.	Accepted
9	116	19 & 88	FASFC recommends that out of the gross collection of State taxes and duties, 10 percent will be deducted as collection charges to get the net proceeds.	Accepted
10	117	88	FASFC recommends that 14 percent of the net proceeds of all taxes and duties, other than Entry Tax, Entertainment Tax and Electricity Duty, amounting to Rs.674.60 crores shall be the quantum of the DP for distribution between PRIs and ULBs during 2011-12 as shown in the Table below :	Accepted

				(Rs. in crore)					
			Year	Projected Gross tax Revenue	Non Tax Revenue	Divisible pool 14% of col. 3			
			1	2	3	4			
			2011-12	5353.92	4818.53	674.60			
11	118	90	FASFC recommends that in the first stage, out of the DP an incentive fund with a corpus of Rs.33.73 crores at 5 percent of the DP will be created to encourage PRIs/ULBs to improve their performance.				Not Accepted		
12	119	91	In the next stage, special purpose grants amounting to Rs.120.28 crores to PRIs at all levels, Rs.150 crores to all categories of ULBs and Rs.64 crores to GMC totalling to Rs.334.28 crores will be disbursed as per details at Table- A below-				Accepted		
Table –A									
(In crore)									
	A	PRIs				Grants 2011-12			
	1	ZP Building				5.00			
	2	Office Building for AP (New)				4.93			
	3	Office Building for AP (Extension)				4.07			
	4	Multipurpose AP Hall				37.25			
	5	GP Office Building (New)				13.24			
	6	GP Office Building (Extension)				27.20			
	7	Staff Quarter for AP				4.37			
	8	Staff Quarter for GP				24.22			
		Total A				120.28			
	B	ULBs							
		Upgradation of Physical Infrastructure & Service Delivery							
	9	ULBs (other than GMC)				150.00			
	10	GMC				64.00			
		Total B				214.00			
		Grand Total (A+B)				334.28			
13	120	92	The balance amount of Rs.306.59 crores in the DP will be apportioned between the PRIs and the ULBs at the ratio of 80:20 between population and density of population respectively. The rural-urban apportionment of the divisible pool stands				Accepted		

			as shown				
			Rural –Urban Divisible Pool				
			(Rs.in crore)				
Year	Size of DP	Rural	Urban				
			2011-12	306.59	222.94	83.65	
14	121	93	FASFC recommends that Horizontal distribution of the rural DP as between different districts will be on the basis of the weighted average of three parameters viz, population 50 percent, geographical area 25 percent and per capita District Domestic Product (DDP) net of mining and quarrying 25 percent.				Accepted
15	122	94	After horizontal distribution, the inter-tier vertical distribution among the ZPs, APs and GPs will be in the ratio of 20:30:50 respectively.				Accepted
16	123	95	In the final stage of devolution of rural part of the DP, the shares of each AP and GP will be on the basis of 2001 census population.				Accepted
17	124	96	In case of the urban DP, it will be allocated horizontally among the Gauhati Municipal Corporation, Municipal Boards and Town Committees on the basis of the weighted composite index of population 50 percent, geographical area 25 percent, index of infrastructure 12.5 percent and per capita tax collection 12.5 percent.				Accepted
18	125	97	FASFC recommends that in view of global sharing of the net proceeds of all taxes and duties recommended by the Commission, the assignment of taxes and duties to panchayats and municipalities has not been considered.				Accepted
19	126	102 & 103	<p>Release of funds</p> <p>(a) The entire amount recommended by the Commission as devolution and grant is required to be provided in the State budget under the appropriate major head of account “3604 – Compensation & Assignment to Local Bodies etc”. It will show the minor and object head-wise details separately for all tiers of PRIs and all categories of ULBs.</p>				Accepted. Action by SFC Cell under Finance (Economic Affairs) / Finance (Budget) Department. SFC Cell under Finance (EA)

			<p>(b) SFC Cell under Finance Department will be required to issue an allocation order showing the entitlement of each during the year and circulate it among all stake holders so that they know in advance the fund position and accordingly initiate plan of actions in time. The next step would be on line release of fund by means of a electronic software package to individual bank accounts of the recipient bodies through the respective Drawing & Disbursing Officers.</p> <p>(c) FASFC recommends that there are two components of the recommendations viz, tax devolution and grants-in-aid. The tax devolution may be released in quarterly instalments beginning from June each year.</p>	Department has already entrusted to issue sanction to local bodies through concerned DDOs as declared by Government under head of Account "3604"
20	127	103	FASFC recommends that Tax devolution being in the nature of untied fund, there will not be any conditionality except that release of any instalment will be subject to utilization of the previous installment drawn.	Accepted Action by P&RD U.D. and GD, SFC Cell of Finance Department.
21	128	103	FASFC recommends that release of grant-in-aid will be subject to submission of Detailed Project Report duly supported by technical sanction and administrative approval from the competent authority	Accepted Action by P&RD U.D. and GD, SFC Cell of Finance Department.
22	129	104	FASFC recommends that a High Level Monitoring Committee headed by the Chief Secretary with Finance Secretary and the Secretaries of nodal departments should be constituted for the purpose of monitoring and proper utilization of SFC grants	Accepted. Action by SFC Cell under Finance (Economic Affairs) Department
23	130	105	FASFC recommends that the present single entry system of accounts and cash based accounting should be replaced by a double entry system and accrual based system of accounting user charges are recovered from the beneficiaries.	Accepted. Action by P&RD, UD and GD Departments.
24	131	106	FASFC recommends that GOA has to ensure streamlining of budgetary procedure with a Local Body Supplement in the budget documents and Finance Accounts.	Accepted. Action P&RD , UD, GD, Finance (Budget) , SFC

				Cell of Finance Departments
25	132	107	FASFC recommends that LSGs should prepare their annual budget and maintain monthly accounts in the formats prescribed by the C&AG and abide by the Technical Guidance and Supervision provided by the C&AG	Accepted. Action by P&RD, UD, GD, Finance (A&F), Director of Audit (Local Fund) Department


IMPLEMENTATION OF THE COMMISSION RECOMMENDATIONS REQUIRES:-

- (a) Legislative measures
- (b) Executive /Administrative orders
- (c) Further examination

Necessary action for the amendments of relevant Acts /Rules introduction of Legislative measures, wherever necessary, for the implementation of the recommendations of the commission will be taken up by the concerned departments of the State Government.

Other recommendations of the commission will be considered in due course.

Dated:- 13.07.2011
Dispur, Guwahati-06.


(Tarun Gogoi)
Chief Minister as Finance Minister
Assam