

Chapter- 3

Status of Implementation of Previous State Finance Commission Recommendations

- 3.1 Articles 243 I and Articles 243 Y of the Constitution inserted by 73rd and 74th Constitutional amendments respectively mandated that State Finance Commission (SFC) be appointed by the State Governments at the expiration of every fifth year. In consonance with the provisions of the aforesaid Articles read with the provision of Section 2 (1) of the Assam Finance Commission (Miscellaneous Provisions) Act, 1995, the Government of Assam (GOA) had so far constituted four SFCs including the instant one, as per details shown at Table- 1 below .

Table- 1
Constitution of SFC

No. of SFC	Date of Constitution	Date of Report Submission	Date of ATR	Period covered
First SFC	23.06.1995	29.02.1996	18.03.1996	1996-97 to 2000-01
Second SFC	18.04.2001	18.08.2003	07.02.2006	2001-02 to 2005-06
Third SFC	06.02.2006 reconstituted on 03.07.2006	31.03.2007 (Interim Report) 27.03.2008 (Final Report)	25.09.2009	2006-07 to 2010-11
Fourth SFC	23.04.2010	25.03.2011 (Interim Report)	13.07.2011	2011-12 to 2015-16

Recommendations of the First SFC Recommendations Relating to Devolution of Finances

- 3.2 In the matter of devolution of taxes and duties , the Commission recommended continuation of the existing practice of sharing the proceeds of some selected taxes and duties with the local bodies. In addition, 10% of the net proceeds of M.V. Tax in each year was recommended for distribution among the Rural Local Bodies (RLB) on the basis of their population as per the latest available census. The Commission, however, did not favour assignment of taxes, duties etc. collected by the State Government to the local governments.
- 3.3 In regard to grants-in-aid, the Commission recommended Plan grant of Rs.1000 per local body for the first year and thereafter at the rate of Rs.500 per year for the purpose of maintenance of accounts and upkeep of registers in the formats prescribed by them.
- 3.4 In regard to debt relief, the Commission recommended consolidation of different types of outstanding State Government loans to Urban Local Bodies (ULBs) into a single block loan with effect from 01.04.1996 and the terms of repayment extended to 30 annual equal instalments with 5% rate of interest.

- 3.5 The outstanding State Government loan against Panchayati Raj Institutions (PRIs) was recommended to be written off.

Other Recommendations

- 3.6 Other recommendations of the First SFC included the following:
- i. Changes in the existing method of property tax coupled with periodic revision in assessment once in five years.
 - ii. Levy of a tax on vacant land.
 - iii. Collection of user charges on services provided by the Local Self Governments (LSGs).
 - iv. Transfer of the job of registration of birth and death from Health & Family Welfare Department to respective local bodies enabling them to collect suitable registration fee.
 - v. Provincialisation of a minimum number of staff of ULBs.
 - vi. Reconstitution of existing Gaon Panchayats (GP) on the basis of population varying from 6000 to 8000 as against the prevailing 236 to 4000.
 - vii. Setting up of a Tariff Commission for rationalizing the tax structure of local bodies.
 - viii. Creation of a permanent SFC Cell in Finance Department.

Action Taken on First SFC Recommendations

- 3.7 It appears from the records that Government of Assam had accepted the recommendations of First SFC without any modification and also tabled the Action Taken Report (ATR) before the State Legislature in due course. But it is unfortunate that despite acceptance of the recommendations without any modification there appeared to be no action taken towards its implementation. As a result, local bodies in Assam remained, as before, in a deplorable state of existence. In this context, sometime later the Twelfth Finance Commission (TFC) observed and included in its recommendations that “the convention established at the national level of accepting the principal recommendations of the Finance Commission without modification, should be followed at the State level in respect of SFC reports”. It should be the endeavour of Government of Assam to replicate the national practice at the state level.

Recommendations of the Second SFC Recommendations Relating to Devolution of Finances

- 3.8 In the matter of devolution of finances to local bodies, the Second SFC, for the first time, deviated from the prevailing practice of sharing the net proceeds of selected taxes and duties and favoured its replacement by a global sharing of all taxes and duties collected by the Government of Assam.
- 3.9 The Commission recommended 3.5% of the aggregate collection from all state taxes and duties of Government of Assam to be devolved among PRIs and ULBs. It

however, excluded the State's share of Central taxes and the proceeds of non-tax revenues collected by the State Government from the divisible pool.

- 3.10 The rural-urban bifurcation of the divisible pool was determined on the basis of their respective population as per 1991 census.
- 3.11 The rural divisible pool was then allocated among the districts on the basis of a composite index having three parameters with weighted averages viz, (i) rural population 50% (ii) rural area 25% and (iii) per capita District Domestic Product of Primary Sector net of mining and quarrying 25%.
- 3.12 The district-wise rural allocation so arrived at was then vertically apportioned among the three tiers of PRIs in the ratio of 10:30:60 to ZP, AP and GP respectively. The horizontal allocation among the APs and GPs being made on the basis of their respective population.
- 3.13 The urban divisible pool was sought to be horizontally allocated among Guwahati Municipal Corporation (GMC), Municipal Boards (MB) and Town Committees (TC) on the basis of a composite index of (i) urban population 50% (ii) urban area 25% (iii) infrastructure index 12.5% and (iv) per capita tax collection 12.5%.
- 3.14 The infrastructure index was constructed using three parameters viz, (i) length of surface road, (ii) length of pucca drains and (iii) number of street lights giving equal weightage to each factor.
- 3.15 Apart from devolution of taxes and duties, the Commission recommended grants-in-aid of Rs.10 crores annually to ULBs to compensate their losses due to abolition of check gate and parking places. Out of this, the share of GMC was Rs.5 crore and that of other ULBs Rs.5 crore per year.
- 3.16 In regard to debt relief, the Commission recommended write off of outstanding loans against the PRIs and one time settlement of GMC loans from HUDCO by mutual discussion between the parties and Government of Assam. Henceforth, PRIs were precluded from fresh borrowing during the transitional period. However, ULBs were allowed to borrow against viable projects only and in no case borrowing should be resorted to for meeting current expenditure.

Other Recommendations

- 3.17 Other recommendations of the Second SFC covered the following aspects:
 - (i) Measures needed for augmenting the resource base of PRIs and ULBs.
 - (ii) Synchronization of the financial year of PRIs and Government.
 - (iii) Termination of the practice of dual authority in the matter of granting building permission simultaneously by GMC and GMDA.
 - (iv) Framing of a separate pay structure for Local Bodies.
 - (v) Separate norms for maintenance of assets by the Local Bodies.

- (vi) Creation of a data bank.
- (vii) Creation of a separate SFC Cell in Finance Department.

Action Taken on Second SFC Recommendation

- 3.18 Government of Assam has selectively accepted the recommendations of Second SFC and laid the Action Taken Report before the State Legislature. The recommendations relating to devolution of tax share and grants-in-aid were not accepted. However, the recommendations relating to augmentation of resource base of local bodies, debt relief and local finance database have been accepted. Apart from one time settlement of GMC's loan from HUDCO, no other accepted recommendation of the Second SFC seemed to have been implemented.

Recommendations of Third SFC Recommendation Relating to Devolution of Finances

- 3.19 In the matter of devolution of resources through the scheme of tax sharing, the Commission favoured the concept of global sharing of the net proceeds of all taxes and duties collected by the State Government. Accordingly, the Commission recommended devolution of 10% of the net proceeds of taxes and duties collected by the Government of Assam to the local bodies during the second year of its award period. There being no award for the first year as it came to a close before submission of their report. For the remaining three years the devolution was pegged at 25% of the net proceeds of taxes and duties collected by the Government of Assam. Like the Second SFC, it also excluded the State's share of Central taxes and non-tax revenues collected by the State Government from the divisible pool.
- 3.20 The rural-urban bifurcation of the divisible pool was determined on the basis of two criteria viz, population 80% and density of population 20%, both according to the 2001 Census. Table- 2 below indicates the quantum of devolution recommended by Third SFC with rural-urban bifurcation.

Table- 2

(Rs. in crore)

Year	Gross Collection of Taxes	Net Collection	Total Devolution	Rural	Urban
2006-07	-	-	-	-	-
2007-08 (Actual)	4041.85	3637.67	363.77	266.69	99.08
2008-09 (Est.)	3685.47	3528.44	882.11	641.86	240.25
2009-10 (Est.)	3902.66	3733.06	933.26	679.07	254.19
2010-11 (Est.)	4123.04	3939.87	984.96	716.69	268.27
Grand Total	15753.02	14839.04	3164.10	2302.31	861.79

- 3.21 In regard to inter se distribution of rural share among each tier of PRI and to each individual entity, the Commission recommended that at the first stage it will be horizontally apportioned among different districts based on a composite index

having three parameters with weighted averages viz, (i) population 50%, (ii) geographical area 25% and (iii) per capita District Domestic Product of Primary Sector 25%.

- 3.22 In the second stage, the fund allocated district-wise will be vertically distributed among the three tiers of PRIs at the ratio of 20:30:50 to ZPs, APs and GPs respectively.
- 3.23 In the final stage, the shares of each AP and GP shall be on the basis of their respective population as per 2001 Census.
- 3.24 In respect of ULBs, the urban fund will be allocated horizontally among the municipal corporation, municipal boards and town committees on the basis of weighted average of a composite index consisting of four factors viz, (i) population 50%, (ii) geographical area 25%, (iii) per capita tax collection 12.5% and (iv) index of infrastructure 12.5%. The infrastructure index was based on three parameters having equal weightage viz, (i) length of surface roads, (ii) length of pucca drains and (iii) number of street lights.
- 3.25 Apart from devolution, the Commission recommended additional devolution of Rs.79.55 crore in 2008-09, Rs.85.92 crore in 2009-10 and Rs.92.79 crore in 2010-11 to ZPs and APs to enable them to meet the salary burden of DRDA and Block staff consequent upon merger of DRDA with ZPs and Blocks with APs.
- 3.26 In addition to devolution and additional devolution, the Third SFC also recommended grants-in-aid to local bodies both rural and urban for specific purposes involving liquidation of accumulated past arrears and also for creation of capacity in terms of human resources and physical infrastructure. Table- 3 below shows the year-wise quantum of devolution, additional devolution and grants-in-aid as recommended by Third SFC.

Table- 3

(Rs. in crore)

Year	Devolution	Addl. Devolution	Grants-in-aid	Total
2006-07	nil	nil	nil	nil
2007-08	363.77	-	81.24	445.01
2008-09	882.11	79.55	210.98	1172.64
2009-10	933.26	85.92	144.60	1163.78
2010-11	984.96	92.79	156.64	1234.39
Grand Total	3164.10	258.26	593.46	4015.82

Action Taken on the Recommendations

- 3.27 Government of Assam accepted the recommendations of Third SFC and laid the Action Taken Report before the State Legislature. In terms of the recommendations of TASFC, the year-wise amounts released by the Government of Assam to PRIs and ULBs as devolution and grants-in-aid are shown at Table- 4 below.

Table- 4

(Rs. in crore)

Year	Devolution		Grants-in-aid	
	PRIs	ULBs	PRIs	ULBs
2006-07	nil	nil	nil	Nil
2007-08	-	-	-	-
2008-09 (Act)	48.60	48.61	-	-
2009-10 (Act)	67.62	96.15	-	-
2010-11 (Act)	119.43	151.67	36.00	3.29

Other Recommendations

3.28 Other recommendations of the Third SFC covered the following aspects:

- i. Devolution is now substantial. GMC and other ULBs should not claim any further amounts from GOA as their respective shares of taxes etc or any arrears thereof. The relevant Acts may be amended.
- ii. Outstanding debt of Rs. 46.40 lakhs of PRIs to GOA should be written off.
- iii. Outstanding institutional loan of ULBs to LIC was Rs. 340.48 lakhs as on 31-03-2007. The exact position of other loans may be obtained. This matter should be settled early.
- iv. Tax and Non-tax revenue targets of Rs. 50 crores in 2008-09, Rs. 55 crores in 2009-10 and Rs. 60 crores in 2010-11 should be achieved by PRIs.
- v. ULBs, including GMC, should raise taxes and other non-tax revenues as per projections made by TASFC.
- vi. At least 50 per cent of the cost of each service provided by PRIs/ULBs should be recovered from the users of such services.
- vii. PRIs should organize Users' Associations for irrigation projects.
- viii. Users' Associations should be formed for drinking water supply and 50 per cent of the cost should be recovered.
- ix. Beside making the raising of major taxes and non-tax revenues obligatory for PRIs the floor rates, instead of a ceiling limits, should be fixed by GOA with provision for periodic revision.
- x. Appointment of Tax Collectors in all GPs should be made forthwith.
- xi. Arrear collection should get priority and, where necessary, Collection Tribunals may be appointed by GOA for GMC and other ULBs.
- xii. Revision of valuation of holdings should be done by ULBs every five years. Valuation procedure should be changed from Annual Rental Value (ARV) to Unit Area Method (UAM).
- xiii. For better tax compliance ULBs should enforce vigilance cover on property valuation, payment of tax through post offices, rebate for timely payment, surcharge for delayed payment, computerized billing and obligatory collection and municipal tax clearance certificates for obtaining permission for telephone and electricity connections etc and appointment Executive Officers.
- xiv. ULBs should be allowed to determine the rates and basis of trade licence fees themselves and to revise the same periodically.

- xv. ULBs should be empowered to grant building permission and realize the laid down fees. The present dual authority of granting building permission by GMC and GMDA should be ended and GMC alone should be allowed to exercise this power.
- xvi. Tax exemptions under Section 92 of the Assam Municipal Act, 1956 should be exceptions and no abuse of this power should be allowed. This section should be amended in line with Section 148 of the GMC Act, 1971.
- xvii. ULBs should be allowed to levy service charges on properties belonging to GOI and State Governments.
- xviii. Realistic revaluation of urban land should be done to augment collection.
- xix. GMC should revise the rates of trade licence at regular interval as per statutory provisions and include emerging new services in the list under appropriate Schedule of the GMC Act.
- xx. GMC should be empowered to issue provisional licences for construction of buildings on land, other than patta land, and collect fees on the same.
- xxi. Markets, ferries, fisheries and ponds run by PRIs should be settled by fixing reasonable rates through market specific studies. The markets now being run by the State Agricultural Marketing Board should be transferred to the concerned PRIs/ULBs.
- xxii. Estimates of annual collection of revenues by PRIs/ULBs should be made in advance in a realistic manner and performance should be judged against the achievement of such targets.
- xxiii. Any decisions, to spend money on felt needs, should be taken by PRIs and ULBs in formal meetings when majority of members of the concerned PRI or ULB present.
- xxiv. The system of provincialisation should be totally abolished
- xxv. Registration of births and deaths should be assigned to PRIs and ULBs.
- xxvi. No amount should be allowed to be spent in the secretariat or Head quarter in respect of data base
- xxvii. The periods of recommendations of Central and State Finance Commissions should be synchronized, if necessary, by an amendment of the Constitution.
- xxviii. GOA should seek financial assistance from the Government of India (GOI) for improvement in the quality of mid-day meals in schools.
- xxix. Public-Private-Partnership (PPP) pattern should be adopted in respect of certain core civic services by GMC and ULBs.
- xxx. Borrowing by PRIs/ULBs for meeting current expenditure should be banned. Borrowing by financially sound ULBs may be considered against viable schemes.
- xxxi. A pooled finance mechanism may be adopted for bond issue by GMC and other ULBs through some State sponsored intermediaries.
- xxxii. A permanent SFC Cell, manned by full time officers, should be set up. The Cell is not only collect data but also to monitor progress of implementation of central Finance Commission and State Finance Commission recommendations including fund released by GOI under various centrally sponsored schemes. Finance Department of GOA sanction and release the amounts due to PRIs and ULBs with the help of a software package which is similar to GOI's.
- xxxiii. The system of accounts and audit should be suitably streamlined.

- xxxiv. GPs should be reconstituted by merger and reorganization to make the size viable. The population of each GP should not be normally less than 6000.
- xxxv. GOA may consider appointment of a small Committee to look into local finance in Schedule VI areas.
- xxxvi. A Committee may be appointed to look into the “felt needs”.

Recommendations of Fourth SFC (Interim Report for 2011-12)

Recommendation Relating to Devolution of Finances

- 3.29 In regard to devolution, the Commission in its interim report covering the period of one year 2011-12 accepted the concept of global sharing of the net proceeds of all taxes and duties collected by the Government of Assam. Accordingly, it recommended devolution of 14% of the net proceeds of taxes and duties collected by the GOA during 2011-12 to panchayats and municipalities. However, the divisible pool excluded the State’s share of Central taxes and non-tax revenue collected by GOA.
- 3.30 The projected gross tax revenue was Rs.5353.92 crores and the net tax revenue Rs.4818.53 crores. The divisible pool at the rate of 14% was Rs.674.60 crores. At the first instance 5% of the DP or Rs.33.73 crores was set apart as incentive fund for best performing local bodies. Thereafter, Rs.334.28 crores was deducted for distribution as grants to PRIs and ULBs for upgradation of physical infrastructure. The rural-urban bifurcation of the remaining amount of Rs.306.59 crores was done on the basis of population 80% and density of population 20%. On this basis the size of the rural part was Rs.222.94 crores and that of urban part Rs.83.65 crores.
- 3.31 The interse distribution of rural and urban share among different tiers of PRIs and levels of ULBs was done on the same principle as that of the Third SFC.
- 3.32 Out of the recommended grants-in-aid of Rs.334.28 crores, an amount of Rs.120.28 crores was allocated to PRIs and Rs.214 crores to ULBs. The amount allocated to PRIs was meant for constructions of office buildings at all tiers of PRIs, multipurpose halls for the APs and staff quarters for certain categories of AP and GP employees. Out of the grants recommended for ULBs, Rs.64 crores was allocated to GMC and Rs.150 crores to other ULBs. The amount was meant for upgradation of physical infrastructure and improvement of service delivery.

Action Taken

- 3.33 Apart from the incentive fund all other recommendations in the interim report of the Fourth SFC are accepted by GOA and ATR laid before the legislation on 13th July, 2011. The release of fund against tax devolution started from June 2011. As per latest information, release of fund against grants is under process.