

# **CHAPTER-1**

## **INTRODUCTION**

**1.1** In pursuance of the provisions of Articles 243-I and 243-Y of the Constitution of India, read with the provision of Section 2 (I) of the Assam Finance Commission (Miscellaneous Provisions) Act, 1995, the Governor of Assam constituted the Third Assam State Finance Commission (TASFC) under notification No. FEA 182/2005/375 dated February 6, 2006. Shri H.N. Das, IAS (Rtd.) Ex-Chief Secretary to the Government of Assam (GOA) was appointed as Chairman. The Commissioners & Secretaries of the Departments of Finance, Panchayat & Rural Development, Urban Development and Guwahati Development Department were appointed as members. Shri H.N. Sharma, Director, Finance (Economic Affairs) Department was appointed as Secretary (A copy of the notification is at Annexure – 1.1).

**1.2** However, due to certain procedural inadequacies of the original notification, the Commission had to be reconstituted. Accordingly, a fresh notification No. FEA 266/2005/65, dated July 3, 2006 was issued reconstituting TASFC (A copy of the notification is at Annexure – 1.2). The reconstituted body is as follows:

- 1. Shri H.N.Das, IAS (Retd.)                      Chairman**  
**Ex-Chief Secretary to the Government of Assam**
- 2. Shri S.L. Mewara, IAS                      Member**  
**Commissioner & Secretary, P & RD**
- 3. Shri Biren Dutta, IAS                      Member**  
**Commissioner & Secretary, UDD**
- 4. Dr. Ashish Bhutani, IAS                      Member**

## **Secretary, GDD**

**5. Shri K.V. Eapen, IAS                      Member- Secretary**  
**Commissioner & Secretary, Finance**

- 1.3      Soon after reconstitution, Shri G.D. Tripathi, IAS, Joint Secretary, (presently Additional Secretary) Finance Department was appointed as Secretary, TASFC vide notification No. FEA 266/2005/80 dated July 25, 2006, in place of Shri H.N.Sharma who had been earlier appointed as Secretary (A copy of the notification is at Annexure -1.3). Again, Shri Davinder Kumar, IAS Commissioner & Secy, P&RD Department was inducted in as member vide notification No. FEA 266/2005/Pt-I/5 dated March 16, 2007, in place of Shri S.L. Mewara consequent upon the latter's transfer from P&RD Department (A copy of the notification is at Annexure – 1.4).**
- 1.4      It is evident from the composition of the reconstituted TASFC that other than the Chairman, all members including the Member Secretary and the Secretary are serving State Government Officials with heavy responsibilities in their own Departments. The Member Secretary is simultaneously the Commissioner & Secretary to GOA, Finance Department and was, for some time, working as the highest ranking Co-coordinating Officer in the Chief Secretary's office. The Secretary is also the Additional Secretary to GOA in the Finance Department and, what is more, he is the full time Managing Director of the Assam Financial Corporation, a very onerous job. The Secretary had to be absent for long spells of training in India and abroad and election duty in three states. As a result TASFC has been deprived of the benefit of having full time services of these officials.**
- 1.5      According to the time-table laid down by the Twelfth Central Finance Commission TASFC should have been appointed on or**

before 01.01.04. However, TASFC could formally assume office only on the 1<sup>st</sup> August, 2006. Later, the Chairman was provided with an Office Chamber on the 28<sup>th</sup> August, 2006. The other staff were gradually appointed in course of time. In the absence of a permanent State Finance Commission (SFC) Cell in the Finance Department, the Finance (Economic Affairs) Department was asked to provide secretarial and research assistance to TASFC.

### **THE TERMS OF REFERENCE (TOR)**

**1.6 The TOR, as mandated, is reproduced below:**

**(a) The principles which should govern**

**(i) The distribution between the State of Assam and the Panchayats/ Municipalities of the net proceeds of the taxes, duties, tolls, and fees leviable by the State, which may be divided between them and the allocation between the Panchayats/ Municipalities at all levels of their respective shares of such proceeds, after taking into account the transfers that are to be made by the State of Assam to the Autonomous District Councils constituted under the Sixth Schedule of the Constitution.**

**(ii) The determination of the taxes, duties, tolls and fees, which may be assigned to, or appropriated by, the Panchayats/Municipalities.**

**(iii) The grants-in-aid to the Panchayats/Municipalities from the Consolidated Fund of the State.**

**(b) The measures needed to improve the financial position of the Panchayats/Municipalities with special emphasis on**

**rationalization of property tax, collection of user charges and innovative realization methods.**

- (c) Examine the feasibility and make recommendations on raising of resources by the Urban Local Bodies through issuance of bonds.**
- (d) Examine the feasibility and make recommendations on creation of urban infrastructure and other civic amenities by the urban local bodies through public-private partnership and exploring avenues of viability gap funding.**
- (e) Any other matter referred to the State Finance Commission by the Governor in the interest of the sound finances of the Panchayats/Municipalities.**

**1.7 The Commission may make an assessment of (a) the actual debt position of each of the local bodies as on 31-03-2005 and (b) estimated debt position of local bodies as on 31-03-2006 and suggest suitable measures relating to the debts as are deemed necessary, keeping in view the financial requirements of the State government also.**

**1.8 In making its recommendations, the Commission shall have regard, among other considerations to:**

- (i) The objective of balancing the receipts and expenditure on revenue account of both local bodies as a whole and the State Government and each local body.**
- (ii) The resources of the State Government and demands thereon in particular, on account of expenditure on maintenance of law and order, civil administration, debt servicing and other committed expenditure.**

- (iii) The revenue and the resources of the local bodies for the five years commencing on 1<sup>st</sup> April, 2006 on the basis of the level of the collection made during 2004-05 from taxes, duties, tolls, fees, cess etc levied by them.**
- (iv) The potential for raising additional revenue from the existing sources available to them and**
- (v) The scope for better financial management consistent with efficiency and economy in expenditure.**

**1.9 In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of the latest Census available in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.**

**1.10 The Commission shall indicate the basis on which it has arrived at its findings and make available the local body wise estimates of receipts and expenditure.**

**1.11 It is evident that the TOR given to TASFC are somewhat different much more onerous from that given to the earlier two SFCs of Assam. For the first time, TASFC is required to examine the feasibility of raising resources by the ULBs through issuance of bonds and also the feasibility of creation of urban infrastructure and other civic amenities by the ULBs through public-private partnership to explore avenues of viability gap funding. In making its recommendations towards sharing the proceeds of State taxes, TASFC is also required to take into account the transfers that are to be made by the GOA to the Autonomous District Councils constituted under the Sixth Schedule of the Constitution. Further, TASFC is required to lay special emphasis on realization of property tax, collection of user charges and innovative realization**

methods. The additional clauses added to the TOR no doubt make the job difficult, though challenging, particularly in the context of abysmally poor database and the limited time given to TASFC.

- 1.12** In their Letter No. FEA 266/05/104 dated January 19, 2007, the Finance Department, however, asked TASFC to indicate the TORs on which TASFC found it difficult to make any recommendations (Copy of letter at Annexure-1.5).

## **Secretarial backup**

- 1.13** The need for creation of a separate and permanent SFC Cell in the State Finance Department is imperative in order to collect, compile and monitor the data regarding the finances of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) on a regular basis. A permanent SFC Cell would be of immense help in monitoring the follow up actions on implementation of the recommendations of earlier SFCs. In this regard, 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. TFC 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 First and the Second SFCs of Assam had also made similar recommendations. Since a separate and permanent SFC cell is yet to be set up, Finance (Economic Affairs) Department, GOA has been made the nodal department to provide secretarial and research assistance to TASFC. Given their normal duties and responsibilities, the existing officers of Finance (EA) Department can hardly spare much time for the work of the Commission. Declaration of Finance (EA)

**Department as the SFC cell will therefore not serve the purpose. Separate officers on a full time basis should be appointed to man the SFC cell. Nevertheless, TASFC is grateful to the handful of officers who have provided both secretarial and research assistance to it.**

### **LOCAL FINANCE DATA BASE**

- 1.14 The single most important constraint faced by TASFC in the preparation of its report has been the non-availability and inadequacy of data both in respect of PRIs and in respect of ULBs. The existing data base on the finances of PRIs and ULBs is not only insufficient but unsatisfactory too. Credible data on income and expenditure of local bodies are not available because accounts and audit have been kept pending for years. The First and the Second SFCs of Assam had also expressed utter dissatisfaction about inadequacy of data for making any realistic assessment of the financial position of local bodies. In spite of that the data deficiency, as observed by the earlier SFCs, has been persisting till now. With a view to overcome this difficulty, the Eleventh Finance Commission (EFC) had earmarked funds for creation of local body data base. These had been further pursued by the TFC. TFC, however, left the task of actual earmarking the fund required for data base to the State Governments. This was to be done out of the total funds they had provided under the head grants-in-aid to augment the Consolidated Fund (CF) of the state to supplement the resources of PRIs and ULBs. However, TASFC was given to understand that GOA could avail hardly about 50 percent of the recommended EFC grants. At least the Rural Development Department spent the major portion of it for up gradation of data base at the Head Quarters (HQs). Probably, that was not the intention of EFC. What comes, as a rude shock, has been the failure of the HQs to immediately provide the data required by**

TASFC. Meanwhile, the grants recommended by TFC have also started flowing. But no amount till the financial year 2006-07 has been allowed to percolate down to the grass root level except that SMC computers have been centrally purchased and sent to PRIs. These computers are yet to be used. In many places even the cartons have not been opened. Moreover, there are no computer operators in the GPs. That is why grass root level data are not available and a data base, as perceived by the EFC, has to come up as yet. TASFC would like to emphasise the need for creation of a Central Data Bank on finances of local bodies. Initially, the standard formats for creation of a networked data base on finances of PRIs, as formulated by the Comptroller & Auditor General of India (C&AG), should be adopted. This can be further diversified and improved upon in course of time.

## **RECOMMENDATIONS OF CENTRAL FINANCE COMMISSIONS**

- 1.15 Since the passage of the 73<sup>rd</sup> and the 74<sup>th</sup> Constitutional amendments, three Central Finance Commissions (CFC), beginning with the Tenth, had already recommended financial support to augment the Consolidated Fund (CF) of the States so that the resources of PRIs and ULBs can be supplemented for improvement of basic civic services. The TOR of the Tenth Finance Commission had been finalized prior to the Constitutional amendments and it was not followed up by a corollary amendment of the TOR. Yet the Commission felt that it was incumbent upon them to deal with the issue. Therefore, they considered assistance to the States for PRIs and ULBs albeit with the constraints imposed on them by the TOR.

## **RECOMMENDATIONS OF THE TENTH FINANCE COMMISSION**

## **(1995-2000)**

**1.16** The Tenth Finance Commission (TEFC) had expressed the view that the measures to augment the CF of the States for supplementing the resources of PRIs and ULBs, need not necessarily involve any transfer of resources from the Centre to the States because, once the SFCs completed their task, the CFC was duty bound to assess and build into the expenditure stream of the States the funding requirement for supplementing the resources of PRIs and ULBs. Further, the transfer of functions listed in the 11<sup>th</sup> and the 12<sup>th</sup> Schedules of the Constitution would also involve concomitant transfer of staff and resources. Transfer of duties and functions should, therefore, not entail any extra financial burden. Nevertheless, the Commission during its award period of 1995-2000, had recommended a grants-in-aid of Rs. 4380.93 crores for PRIs at the rate of Rs. 100 per capita of rural population as per 1991 census and Rs 1000 crores for the ULBs on the basis of the inter state ratio of slum population derived from the 1991 Census. As recommended by TEFC the sum allocated to Assam during 1995-2000 was Rs. 133.36 crores for PRIs and Rs. 14.20 crores for ULBs. These grants-in-aid would not be available for meeting expenditure on salaries and wages. Further, the local bodies were also expected to provide suitable matching contributions by raising their own resources.

## **RECOMMENDATIONS OF THE ELEVENTH FINANCE COMMISSION (2000-2005)**

**1.17** For the first time the Eleventh Finance Commission (EFC) was required as per its TOR to suggest measures needed to augment the CF of the states to enable them to supplement the resources of PRIs and ULBs on the basis of the recommendations made by the SFCs. The EFC was asked to make its own assessment even if the

**recommendations of the SFCs were not available either because they had not been constituted or they were yet to submit their reports. However, the EFC found itself unable to always adopt SFC reports as the basis of its recommendations because of the following reasons:**

- (a) non-synchronization of the period of recommendations of SFC and CFC;**
- (b) lack of clarity in respect of assignment of power, authority and responsibility of the local bodies;**
- (c) absence of a time frame within which the State governments are required to take action on the recommendations of SFCs and;**
- (d) Non-availability of the reports of SFCs.**

**1.18 In view of the above constraints, the EFC went so far as to suggest an amendment of the Constitution to delete the words “on the basis of the recommendations made by the Finance Commission of the State”. The EFC, while dealing with the issues of local body finances, recommended a number of measures which could be taken by the State governments and the local bodies for augmenting the CF of the States to supplement the resources of PRIs and ULBs. These included assignment of land tax, profession tax and surcharge/cess on State taxes for improving the basic civic services and taking up of schemes of social and economic development. Reforms had also been recommended in respect of property tax, house tax, octroi, entry tax and user charges. The EFC had observed that while assessing the revenue and expenditure of the States it had already taken into account the additional burden falling on their financial resources due to implementation of the SFC recommendations and no additional provision, therefore, need to be made on this account. However,**

considering the fact that certain critical areas might get overlooked in the normal flow of funds from the States, the EFC recommended adhoc grants-in-aid for PRIs and ULBs.

1.19 Grants-in-aid recommended by the EFC for the period 2000-2005 were Rs 8000 crores for PRIs and Rs 2000 crores for ULBs. As for inter-se allocation of the recommended amount among the States the EFC adopted the following criteria and weightage:

1.	Population	40%
2.	geographical area	10%
3.	distance from highest per capita income	20%
4.	Index of decentralisation	20%
5.	Revenue effort	10%

1.20 On the above basis, the allocation for PRIs in Assam during 2000-05 amounted to Rs. 23344.75 lakhs consisting of Rs. 22514.65 lakhs for general areas and Rs. 830.10 lakhs for the Sixth Schedule areas. The share of ULBs amounted to Rs. 2154.20 lakhs including Rs. 2063.30 lakhs for the General areas and Rs. 90.90 lakhs for the Sixth Schedule areas. The amount recommended by EFC contained an earmarked element for maintenance of accounts and creation of database by the local bodies. The amount so earmarked constituted the first charge on grants recommended by it. After allocation of the earmarked amounts among the local bodies, the balance left were to be distributed among them on the basis of the recommendation of SFC for maintenance of core civic services by them. The core civic services identified by EFC included primary education, primary health, safe drinking water,

**street lighting, sanitation, drainage, scavenging, cremation and burial grounds, public conveniences and other common property. These were untied grants subject to the condition that they were not to be utilized for payment of salaries and wages. But unlike the TEFC, the EFC did not recommend any matching contribution on the part of the local bodies.**

## **RECOMMENDATIONS OF TWELFTH FINANCE COMMISSION (2005-2010)**

**1.21 While dealing with issues concerning local body finances the Twelfth Finance Commission (TFC), inter alia, suggested the following:**

- 1. The States should avoid delays in the constitution of SFCs and that SFCs should be constituted at least two years before the required date of submission of their recommendations and getting these placed in the Legislative Assembly.**
- 2. The SFC report should be readily available to CFC when the latter is constituted so that an assessment of the States' need could be made by CFC on the basis of uniform principles.**
- 3. The convention established at the national level of accepting the principal recommendations of CFC, without modification, should be followed at the State level in respect of SFC reports also.**
- 4. The SFC must clearly identify the issues which require action on the part of the Central Government to augment the CF of the states.**
- 5. The SFC report should contain an estimation and analysis of the finance of the State Government as well as the local bodies with quantification of revenue that could be generated additionally by the local bodies. The gaps that may still remain**

could then constitute the basis for the measures to be recommended by the CFC.

6. A permanent SFC Cell may be created in the Finance Department of State governments as the collection and collation of data would need to be done constantly and data would need to be made available to SFC as and when it is constituted.

1.22 The TFC recommended a sum of Rs. 25000 crores for the period 2005-2010 as grants-in-aid to supplement the resources of PRIs and ULBs. The rural-urban apportionment of the divisible pool was made in the ratio of 80:20 i.e., Rs. 20000 crores for PRIs and Rs. 5000 crores for ULBs, roughly on the basis of rural-urban population ratio. The criteria and weightage adopted for inter se allocation among the states were as follows:

1.	Population	40%
2.	geographical area	10%
3.	distance from highest per capita income	20%
4.	Index of deprivation	10%
5.	Revenue effort	
	a. with respect to own revenue	10%
	b. with respect to GSDP	10%

1.23. Based on the above criteria, the share of Assam worked out to Rs. 526 crores for PRIs and Rs. 55 crores for ULBs during the period 2005-10. Out of the sum allocated to PRIs, priority was accorded to expenditure on operation and maintenance costs of water

supply and sanitation with emphasis that the PRIs shall endeavour to recover at least 50% of the recurring costs in the form of user charges. Out of the allocation for ULBs, at least 50% need to be earmarked for the scheme of solid waste management through public private partnership. Unlike the EFC, separate grants for general areas and excluded areas were not proposed. It was left to the States concerned to distribute grants among the local bodies, including those in the excluded areas. The condition of raising matching contribution by the local bodies was also not insisted upon. The normal practice of utilization certificate for the amount already released before further releases are considered was retained. The amount due to the State in the first year of their award period was, however, exempted from this condition.

- 1.24** The statement at Annexure- 1.6 indicates the actual amount released by the Ministry of Finance and the amount utilized by the GOA against the award of the successive CFCs for PRIs and ULBs.

#### **RECOMMENDATIONS OF THE FIRST ASSAM STATE FINANCE COMMISSION (1996-2001)**

- 1.25** The First Assam State Finance Commission (FASFC) was constituted by GOA on the 23<sup>rd</sup> June, 1995. It was headed by Shri M.M. Taimur, IAS (Rtd.) as full time Chairman and four others as part time members. The Commission was required to submit its report by the 31<sup>st</sup> December, 1995, covering the period of five years from the 1<sup>st</sup> April, 1996 to the 31<sup>st</sup> March, 2001. The tenure of the Commission was subsequently extended twice, first up to the 31<sup>st</sup> January, 1996 and then up to the 29<sup>th</sup> February, 1996. However, the Commission submitted its report on the 29<sup>th</sup> March, 1996.

- 1.26** With a view to improving the local finance data base, FASFC recommended that local bodies shall maintain accounts and detailed registers of revenue, expenditure and loan in the formats prescribed. For this purpose, the Commission recommended a grant-in-aid of Rs. 1000 per local body for the first year and thereafter at the rate of Rs. 500 for the subsequent years, to be met from the plan outlay of the State.
- 1.27** In the matter of devolution of taxes and duties, the Commission recommended continuation of the existing system of sharing some selected taxes and duties with the local bodies. In addition, 10% of the net proceeds of motor vehicle tax in each year was recommended for distribution among the Rural Local Bodies (RLBs) on the basis of their population as per the latest available Census. Thus, in terms of their recommendation, the devolution of taxes and duties as a proportion of State taxes stood at 2 per cent.
- 1.28** In regard to debt relief, the FASFC recommended consolidation of different types of outstanding State government loans to ULBs into a single block loan with effect from 01-04-1996 and the terms of repayment extended to 30 annual equal installments with 5 per cent rate of interest. The outstanding State government loan against PRIs was recommended to be written off.
- 1.29** In regard to measures needed to improve the financial position of local bodies, FASFC recommended changes in the existing method of assessment of property tax, periodic revision in assessment of property tax once in five years, levy of tax on vacant land and user charges on services provided. They also recommended transfer of registration of birth and death from Health and F.W. Deptt. to local bodies and to collect suitable amount as registration fee. Provincialisation of a minimum number of staff of the ULBs and reconstitution of GPs with

population ranging from 6000 to 8000 as against 236 to 4000 as at present were the other recommendations. There were also recommendations for setting up of a Tariff Commission for rationalizing the tax structure of local bodies and creation of a permanent Cell in Finance Department to monitor the follow up actions on the recommendations of SFCs.

- 1.30 All the above recommendations of the FASFC were accepted by GOA as stated in the Action Taken Report (ATR) laid before the State Legislature. But despite acceptance of the recommendations, without any modification, there seemed to be no action taken towards implementation of the same. As a result, local bodies in Assam have been languishing in a deplorable state.

### **RECOMMENDATIONS OF THE SECOND ASSAM STATE FINANCE COMMISSION (2001-2006)**

- 1.31 The Second Assam State Finance Commission (SASFC) was constituted by GOA on the 18<sup>th</sup> April, 2001. It was headed by Shri Rajiv K. Bora, IAS, Commissioner & Secretary, Finance Department as part time Chairman and four others as part time members. SASFC was required to submit its report by the 31<sup>st</sup> October, 2001 covering the period of five years from the 1<sup>st</sup> April, 2001 to the 31<sup>st</sup> March, 2006. The tenure of SASFC was subsequently extended up to the 31<sup>st</sup> July, 2003. However, SASFC submitted its report on the 18<sup>th</sup> August, 2003.
- 1.32 In the matter of devolution, SASFC had discarded the prevalent arrangement of sharing the proceeds of certain selected taxes and duties and its replacement by a global sharing of all taxes and duties collected by the State on the basis of some objectively defined criteria. This approach was supposed to ensure greater transparency and certainty in the distribution of resources between the State and the local governments and also enable the

latter to enjoy the benefit of buoyancy in the aggregate tax revenues of the State, rather than on individual taxes as per existing dispensation. The Commission recommended 3.5% of the aggregate collection of State taxes and duties to be devolved among local bodies both rural and urban. The rural-urban bifurcation of the divisible pool was determined on the basis of their respective population as per the 1991 Census. The rural divisible pool was then allocated among the districts on the basis of a composite index having three indicators with weightage as below:

<b>1.</b>	<b>Rural Population</b>	<b>50%</b>
<b>2.</b>	<b>Rural Area</b>	<b>25%</b>
<b>3.</b>	<b>Per capita D.D.P. of Primary Sector net of mining &amp; quarrying</b>	<b>25%</b>

1.33. The district-wise rural allocation 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 was made on the basis of their respective population.

1.34. The urban divisible pool was sought to be horizontally allocated among the Guwahati Municipal Corporation (GMC), Municipal Boards (MBs) and Town Committees (TCs) on the basis of a composite index of population, area, infrastructure and per capita tax collection as per weightage given below:

<b>1.</b>	<b>Population of urban areas</b>	<b>50%</b>
<b>2.</b>	<b>Urban geographical areas</b>	<b>25%</b>

3.	<b>Infrastructure index</b>	<b>12.5%</b>
4.	<b>Per capita tax collection</b>	<b>12.5%</b>

- 1.35. The infrastructure index was constructed using three indicators viz, length of surfaced road, length of pucca drains and number of street lights giving equal weightage to each factor.**
- 1.36. SASFC recommended grants-in-aid of Rs. 10 crores annually for ULBs to compensate their losses arising out of discontinuation of the present arrangement of tax sharing and abolition of check gates and parking places. Out of this, the share of GMC was Rs. 5 crores and other ULBs Rs. 5 crores per year.**
- 1.37 In regard to debt relief, SASFC recommended write-off of outstanding loans against the PRIs and one time settlement of GMC loans from HUDCO after discussion between the parties and GOA. While PRIs should be barred from fresh borrowings during the transitional period ULBs may borrow against viable projects of self-liquidating nature. Under no circumstances borrowing should be resorted to by the local bodies for meeting current expenditure.**
- 1.38 Other recommendations of SASFC included measures for augmenting the resources base of local bodies, synchronization of the financial year of PRIs and government, termination of the practice of dual authority in the matter of granting building permission simultaneously by GMC and GMDA, framing of separate pay structure for local bodies, separate norms for maintenance of assets by the local bodies, creation of a data bank and a separate SFC Cell in the State Finance Department.**
- 1.39 GOA have selectively accepted the recommendations of SASFC and also laid the ATR before the State Legislature. The recommendation relating to devolution of taxes was not accepted**

on the ground that the required amount could not be budgeted in the year 2005-06. The recommendation relating to grant-in-aid was also not accepted. However, the recommendations relating to augmentation of resources by the local bodies, local finance database and debt relief have been accepted. But even the accepted recommendations do not seem to have been implemented as yet.

### **APPROACH AND METHODOLOGY**

- 1.40 TASFC has dwelt at length on its approach and methodology in the Ad Interim Report already submitted to GOA. TASFC would, however, like to highlight the salient features of its approach and methodology once again. The Tenth Finance Commission had 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 area under their jurisdiction more directly than either the actions of the State or the Union”. TASFC are broadly in agreement with the above observation and inclined to put PRIs and ULBs on sound financial footing in recognition of their importance in our democratic polity. The first step in this regard would be to augment the capacity building of PRIs and ULBs. For this purpose the required manpower need to be ensured at all levels of local government at the first instance. This has to be followed by a comprehensive training programme to upgrade the skills of both the elected representatives and the official functionaries of the local bodies. It is equally important to provide the required infrastructure and to upgrade the same wherever these are not up to the mark. Ideally speaking, the devolution of fund should precede capacity building. With a view to assessing the need, it is essential to identify the functional responsibilities of different tiers of PRIs and ULBs. Once the functional responsibilities are clearly identified, an

**appropriate fiscal package can easily be designed. Above all, it would be the endeavour of TASFC to strike a dynamic balance between the needs and available resources of different tiers of Governments.**

**1.41 The adoption of a suitable methodology depends primarily on availability of data and its analysis and interpretation for deriving acceptable conclusions. In this regard the major hurdle faced by TASFC has been the total absence of a data base. There is no centralized agency in the State for collection, compilation and monitoring of physical and financial data in respect of PRIs and ULBs. Nor there is any mechanism in the Departments of Panchayats and Urban Development to maintain a comprehensive database. EFC and the earlier two SFCs of Assam had also made observations in their reports about the deficiency of database. In spite of that data deficiencies could not be removed or even reduced. As of now the situation can be described as pretty bad.**

**1.42 At the first instance, TASFC made an attempt to collect local body wise data on income, expenditure, area, population etc from the concerned Departments. The response was not only inadequate but unsatisfactory also. In respect of PRIs, nothing beyond the salary expenditure of provincialised staff could be furnished. The income of PRIs was not properly classified and lacks authenticity. The position of ULBs was slightly better. TASFC, therefore, had to rely mostly on the questionnaire method. For this purpose, a set of questionnaire covering all important aspects of local bodies were formulated by TASFC and circulated to all concerned. Undoubtedly, this has been a slightly better method but extremely time consuming since the number of GPs, is quite large. The data thus collected has been rather inadequate and not always reliable. This was supplemented by regular interaction with the elected**

representatives and official functionaries of PRIs and ULBs, frequent field visits by the Chairman and other officials of TASFC and conduct of workshops at different district HQs. Apart from this, a few Task Forces were also constituted to assess and apprise TASFC about important infrastructural gaps in local administration. (A detailed list of reminders is at Annexure- 1.7, a detailed statement of tasks undertaken is at Annexure- 1.8 and a short report of the activities in connection with data collection is at Annexure- 1.9).

### **CONSULTATIONS**

- 1.43** To the extent physically possible and to the extent the time horizon permitted TASFC consulted by meetings, discussions, correspondence, memorandums and representations as many stakeholders and their associations as it was possible after wide publicity of their ToR and after inviting public representations and recommendations. The list of those consulted is in Annexure- 1.10. Their views have been recorded and retained in file. These are not repeated in the Report and made public so that confidentiality is maintained. TASFC examined and analyzed these views before finalizing its conclusions with reference to its ToR. However, TASFC alone is responsible for the conclusions and the recommendations it has made.

### **TIME FRAME**

- 1.44** TASFC was originally asked to make its report, covering the period of five years from the 1<sup>st</sup> April 2006 to the 31<sup>st</sup> March, 2011, available by the 31<sup>st</sup> December, 2006 vide notification No FEA 182/2005/375 dated the 6<sup>th</sup> February, 2006. Despite reconstitution of TASFC on July 3, 2006, the original time frame for submission of the report was retained unchanged i.e., on the 31<sup>st</sup> December, 2006. Thereafter, on a specific reference from

TASFC seeking extension of time up to the 31<sup>st</sup> July, 2008, GOA vide letter No. FEA 266/05/104 dated the 19<sup>th</sup> January, 2007, extended the tenure of TASFC up to the 31<sup>st</sup> December, 2007. (Chairman, TASFC's letter is at Annexure- 1.11 and copy of Government letter dated 19.01.07 is at Annexure- 1.5) Simultaneously, GOA requested the Commission to submit a preliminary report latest by the 31<sup>st</sup> March, 2007 to enable them to incorporate the recommendations in the Supplementary demand for 2007-08. TASFC accordingly, submitted an Ad Interim report on the 31<sup>st</sup> March, 2007 covering the first two years of its dispensation, i.e., 2006-07 and 2007-08. As per TOR, the dispensation of TASFC has to cover the five year period from 2006-07 to 2010-11. But by the time this Ad Interim Report is tabled in the State Legislature, the first year of the award period i.e., 2006-07 will be over. Hence, it was recommended that GOA need not make any further allocation of funds to the local bodies during 2006-07 beyond what has been given to them already. Therefore, the recommendations in the Ad Interim Report were made applicable only to the financial year 2007-08.

A copy of the main Ad Interim Report is at Annexure- 1.12.

- 1.45 Finally, GOA, vide notification No FEA 266/2005/109, dated May 19, 2007 had extended the tenure of TASFC till March 31, 2008. However, the date of submission of the final report was retained on December 31, 2007 as before. A copy of the notification is at Annexure- 1.13. Meanwhile Panchayat elections were announced and the Main Report could not be submitted till the election process was over. The Main Report is submitted now. It was slightly delayed because of Members' pre-occupation with election duty and law and order duty during the Panchayat elections in December, 2007 and January, 2008. The Technical

**Supplement, pertaining to the financial years 2008-11, will be submitted on or before March 31, 2008.**