सत्यमेव जयते

INTERIM REPORT

OF THE

FIFTH STATE FINANCE COMMISSION

RAJASTHAN

(FOR 2015-16)

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INTERIM REPORT

Introduction

1. The Fifth State Finance Commission was constituted by an order of H.E. the Governor of Rajasthan dated 29th May, 2015 with the mandate to give its report by 30th November, 2015 (Annexure-1). The Terms of Reference of the Commission are set out in the order and are more comprehensive than subscribed to the earlier Commissions. This Commission is also expected to identify the services rendered by the Panchayats and Municipalities, fully or partly funded from their own resources, standards of these services, normative requirements of funds for delivering these services at the standards recommended and the gaps in resources for rendering these services including the measures needed to generate own resources for delivering these standards of services. Apart from this, the Commission has also been asked to suggest the system of accounts maintenance and measures for better fiscal management consistent with the need for speed, efficiency and cost effectiveness of delivery of services.

2. 73rd and 74th amendments of Constitution of India have paved the path of democratic decentralization of governance by delegating various functions to the local bodies and by providing the opportunities to the people to participate in direct democracy. Central and State Finance Commissions have effectively played their roles in financial decentralization since then. Fourteenth Central Finance Commission (FCFC) and Fourth State Finance Commission (FSFC) have given their recommendations for increased financial devolution to the local bodies and now Fifth State Finance Commission is constituted to consider further strengthening of this third layer of governance.

3. A review of the studies on federal finance and the recommendations of earlier FCs suggest that **the efficiency and welfare gains to be achieved from the decentralization are well recognized. Yet, administrative capacities and systemic constraints act as distortions for achieving allocative efficiency. 'Operational Optimization' thus becomes a real challenge in this context.**

4. **'Enablement' mode of empowering the local government requires a unique balance between 'accountability' and 'autonomy'. To strengthen these local bodies and to make them vibrant vehicle of the local democracy, a 'structural' change in the financial architecture of the fund-transfers is imperative. To achieve this ambitious goal, a comprehensive analysis of ideal 'requirements' and actual 'expenditure' matrix becomes necessary. That too in a normative frame work. This Commission aims to redefine this matrix** by detailed studies, interactions, expert advice, surveys and an analysis of secondary and primary information and also studying the best practices in the other states. In a way this would be the tentative agenda around which the Commission is building its future work.

5. Again, when 'co-operative federalism' is being institutionalised in the Centre-State financial relations, the task to percolate this spirit to the grassroot level becomes a major challenge for us too. **The Commission notes that an integrated framework is to be engineered for the best results.** And that actual empowerment will come only with fiscal self reliance. We also realize that strengthening local bodies is not just about 'normative' or 'appropriate' devolution, Accountability, Transparency and strong 'administrative will' together build the desired 'eco-system' where it is possible to translate political decentralisation into financial decentralisation.

6. A review of Thirteenth and Fourteenth Finance Commission's reports indicates that an extensive treatment has been given to the Local Bodies. Thirteenth Central Finance Commission recommended that the Local Bodies grants may be devolved in two parts i.e. basic grant and performance grant. Performance grant included maintenance of proper accounts and strengthening of audit system. The 13th FC also recommended that the revenue collection by Local Bodies should be incentivised and the recommendations of State Finance Commissions should be implemented without delay. It also suggested that Local Bodies should be associated with city planning functions by development authority and development plan may be brought before District Planning Committees.

7. Thereafter, Fourteenth Central Finance Commission has also more or less emphasised on the above mentioned issues. Main features of its recommendations are that the devolution of grant to local bodies in two parts i.e. basic grant and performance grant, direct devolution to Gram Panchayats leaving away other two tiers of Panchayati Raj Institutions (PRIs), performance grant for making available reliable data by maintaining proper accounts and its timely audit, Urban Local Bodies (ULBs) to measure and publish service level benchmarks for basic services, submission of audited accounts showing the increase in the own revenue by the local bodies over preceding year. It suggested to levy property tax by introducing self assessment system and levy of vacant land tax, sharing of land conversion charge by the State Government with Local Bodies, empowerment of local bodies by imposing advertisement tax, restructuring of entertainment tax to cover more and newer form of entertainment and imposition of service charges by ULBs to recover its operational and maintenance charges.

8. In a similar way, Fourth State Finance Commission has also recommended performance grant for preparation of accounts, its timely audit and increase in own tax revenue as measure to strengthen Local Bodies. **In this backdrop, an emphatic message emerges that the local bodies should endeavour to become financially self reliant, earn increased own revenue progressively and bear the maintenance cost of basic civic services given in the area of their jurisdiction, by acting upon the above suggested measures. And they should engineer an efficient system of financial management to transform themselves into self reliant and accountable governance centres. This Commission intends building an innovative blue print for this much desired transformation.**

9. This Commission has been constituted recently and the exercise to assess the requirements of funds for the Panchayati Raj Institutions and Urban Local Bodies is yet to commence. The Departments of Panchayati Raj and Local Self Government have been requesting the Finance Department for earliest release of SFC funds provided in the budget for the year 2015-16 to enable the ULBs and PRIs to meet out their functional requirements. As release of funds is not possible without the recommendations of the Commission, the Finance Department has requested the Commission vide D.O. Letter No F5(1)FD/FC&EAD/SFC/2014 Dated 5th June 2015 to issue an "Interim Report" so that funds are released to the PRIs and ULBs. Keeping this fact into consideration the Commission is submitting its interim report.

Approach

10. The Directive Principles of the Constitution envisage democratic decentralization. The 73rd Constitutional amendment mandated transfer of 29 subjects with funds, functions and functionaries to PRIs. The State Government has transferred some functions with the commitment to

transfer the remaining functions. Accordingly, funds are being devolved with other support measures. Yet, lack of accounting and monitoring systems, lack of personnel at the district level and downwards are the most recognised handicaps and need to be addressed to handle the devolved functions. Thus the task of creating an effective institutional and operative frame work for effective utilization of these funds still remains a challenge. **It will require endogenous planning, competent and trained manpower, mobilization of additional resources, and proper budgeting, monitoring and reporting systems to enable the Panchayati Raj Institutions to efficiently perform the functions already devolved to them.** Again, a road map for devolving the remaining functions alongwith funds and functionaries is also essential.

11. The Commission observed a paradox in the context of expectations from the ULBs. On the one hand, the concept of smart model cities is being promoted and expectations of the client population are being enhanced. On the other hand, most cities of Rajasthan are still deprived of the basic amenities and civic services. Elected representatives are either reluctant or lethargic in intensifying efforts to generate or expand the ULBs revenues. Many times the manpower shortage is also given as reason for poor collection of taxes. **Vicious cycle of financial paucity, poor services, inadequate tax structure, and poor capacity is evidently self sustaining in this context. One cannot expect vibrant self reliant smart cities in this constrained environment. Therefore, these vicious cycles are to be broken with administrative and financial interventions.** In our view, capacity building to create a conducive environment for sustainable smart cities should also be an implicit function of the ULBs. Its only in this context that the Commission feels that fund transfers should be somehow related to ‘performance’ of the ULBs.

Collaborative efforts for capacity building in this direction are a precondition.

12. It is general observation that the performance of urban local bodies (ULBs) in Rajasthan is dismal. They are not in a position to provide even basic expected services timely to the satisfaction of people. The standard and delivery of services remains unsatisfactory. Many reasons have been given for their unsatisfactory performance like non availability of requisite trained manpower, availability of only unskilled and unwilling manpower, lack of training and motivation. But lack of financial resources is the foremost among them. These local bodies are autonomous and independent constitutionally, but practically they are financially dependent on the Central and State Government grants even to manage their day to day affairs.

13. In urban areas specifically, large migration of population is also creating serious strain on basic civic services. Most of the migrants are poor and are compelled to live in unregulated slums. Congestion, air pollution caused by vehicular traffic, lack of open spaces, sanitation, water supply and disposal of solid waste, cause health and environmental problems. ULBs find themselves unequipped to handle these emerging challenges of urbanization, financially as well as functionally. Although the local bodies have immense potentials of raising tax revenues but majority of them lack the 'willingness' to impose and collect taxes. Shortage of manpower to collect taxes creates further bottleneck leading to paucity of funds and resulting into dependence of local bodies on Government grants perennially. These issues need informed analysis.

14. Despite a very short period available to the Commission for the preparation of its interim report, the endeavour of the Commission has been to solicit

the views of all the stakeholders. The report of the earlier Commissions has been reviewed. Again, the Commission has made efforts to have deliberations with the concerned departments. In this process the Commission had informal discussions with Minister, Rural Development and Panchayati Raj Department, Minister, Local Self Government Department, Principal Secretary, Finance Department, Principal Secretary, Local Self Government Department, and Director, Local Self Government Department. The Chairperson had detailed discussions with Mayor and officers of Nagar Nigam, Jodhpur and Bikaner. Jodhpur Municipal Corporation was also studied as a random example to understand the resource gaps and operational constraints. The Chairperson also visited Mumbai to participate in a discussion session organized by Centre of Urban Economics, University of Mumbai to understand the operation of local bodies in Maharashtra. A Brain Storming session was also organized on 6th July 2015 on the theme 'Autonomy and Accountability'. The session was attended by academics, experts and civil servants having vast experience of working with the Government. The interactions and the Brain Storming helped in creating a 'knowledge base' on the issues before the Commission. The Commission has also issued a press note inviting suggestions from public at large, interested persons, institutions and stake holders on Terms of Reference given to the Commission. Again, the Commission has instituted its website for live suggestions.

15. **A preliminary 'situational analysis' of ULBs and PRIs was done by the Commission to build a context in which the recommendations are to be given. Our effort for the interim report has been to evolve a rational devolution index on the basis of certain criteria, which is based on a eclectic mix of deprivation, performance, active involvement in achieving**

in national goals along with the standard parameters of population and area. We have made an attempt to upgrade and **refine the devolution criteria** suggested by the Fourth Commission by redesigning some weights and reshaping some parameters by utilizing Socio Economic and Caste Census (SECC-2011 released in July 2015). Our methodology has been based on utilising the most reliable data sets alongwith providing a refined weight structure.

Recommendations

16. Under the Terms of Reference, the Commission is required to determine the principles which should govern the distribution of net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided among the Panchayats at all levels as also Municipalities and to keep system of fiscal transfers from the State Government to Panchayats/Municipalities simple and easy to administer and for that purpose, consider transfers based on net own tax receipts of the State Government in place of share in individual taxes. The need of grants recommended to be directed towards improvement of standards of administration, keeping of accounts, maintenance of databases and mainstreaming of information technology in running of the affairs and delivery of services by Municipalities/Panchayats.

17. In this context it would be pertinent to mention here that the Fourth State Finance Commission in its final report had recommended devolution of 5% of net own tax revenue (excluding entry tax and land revenue), 100% of land revenue, 25% of entry tax, 3% of royalty on minerals, 2% cess on excise duty on liquor and 10% surcharge on stamp duty. However, in the Action Taken Report, the State Government instead of devolving share from individual taxes, pooled the amount which was equivalent to the recommendations of

Fourth State Finance Commission to form the divisible pool. This pooled amount worked out as 7.182% of State's net own tax revenue. This Commission wanted to evaluate the requirements of Panchayati Raj Institutions and Urban Local Bodies and the availability of funds with them for the services rendered by them, but this exercise would take some time. Thus, in the meantime, for the purpose of Interim Report the Commission is constrained to depend on the ratio of transfers recommended by the Fourth State Finance Commission. This Commission is of the view that an amount equivalent to 7.182 % of net own tax receipts of the State as per budget estimates for the year 2015-16 would be reasonable as the situations have remained almost unchanged in terms of functions and on resources available to PRIs and ULBs. Thus, we have kept the share of transfers from net own tax receipts at the same percentage as was recommended by the Fourth SFC in their final report. Based on 7.182% of state's net own tax receipts the amount of transfers during 2015-16 works out as follows:

Table 1: Devolution to Local Bodies **(Rs. in crore)**

State's own Tax Revenue as per B.E. 2015-16	47,096.05
Less : Cost of collection	1,540.29
Net Tax Revenue	45,555.76
Total Amount of devolution @ 7.182 %	3,271.81

We need to mention that the above amount of Rs. 3271.81 crore being recommended is devolution based on static transfer and will not change with changes in revised estimates or actual revenue receipts of the State Government for the year 2015-16.

18. As regards the distribution of divisible amount of Rs. 3,271.81 crore among PRIs and ULBs, we recommend to adopt rural urban population ratio of 75.1% and 24.9% for PRIs and ULBs respectively as per 2011 census figures.

Accordingly, the share of PRIs would work out to be Rs. 2457.13 crore and ULBs Rs. 814.68 crore.

Distribution of Funds

19. Along with the provision for the basic and development functions, the Terms of Reference require us to consider the need of grants for improvement of standards of administration, keeping of accounts, maintenance of database and mainstreaming of information technology in running of affairs and delivery of services by Municipalities/Panchayats. Keeping this aspect in view we have decided to recommend a scheme for transfer of 85% funds for basic and development functions, 10% for improvement in standards of administration, maintenance of database, implementation of national priority schemes, capacity building etc. as mentioned in Table-2 and 5% to incentivise keeping of accounts, records, asset register, efforts of raising additional revenues and completion of enrolment and distribution of Bhamashah Card of all eligible persons.

Table 2: National and State Priority Schemes

(a)	E-governance / Atal Service Centre
(b)	Maintenance of databases
(c)	Information technology
(d)	Revenue mobilisation effort - capacity building
(e)	Gender Sensitisation – Beti Bacho Beti Padhao
*(f)	Drinking water arrangements including O & M of Janta Jal Yojna
(g)	R.O. system for drinking water
(h)	Water harvesting
(i)	Tree plantation
(j)	Use of LED lights
(k)	Solar lights
(l)	Clean India Mission / Efforts for open defecation free (village, town, city)
(m)	Litigation free village / town
**(n)	Fire Services

* For rural areas only
**For urban areas only

20. It has been observed that the Panchayati Raj Institutions are not making payment of electricity and other pending bills of Janta Jal Yojna, whereas the responsibility of paying these claims lies with them. The Finance Department has also stressed in March, 2015 the need for clearing the pending claims of Drinking Water Supply Schemes out of SFC funds. We, therefore, recommend that the pending claims of Janta Jal Yojna may be paid out of 85% funds being given by us for basic and development functions. It will be the responsibility of the department to ensure utilization of grants recommended by us.

21. The successive Central and State Finance Commissions have emphasized the need for maintenance of accounts and database of income and expenditure as also increase in own revenue of Local Bodies, but not much has been done in this regard. The 14th CFC has also emphasized these issues and provided performance grants from 2016-17. We are also of the view that there is need for providing incentive for these purposes as also to find some alternatives for capacity building. Outsourcing the job to some qualified persons at the local levels could be a viable alternative. It has been brought to our notice that large number of post of Secretary Gram Panchayat are lying vacant either due to retirement or other reasons. This may also be the case at Panchayat Samities and Zila Parishads. Such a situation also exists in Urban Local Bodies particularly in small and medium town Municipalities. We feel that with 10% specific purpose grants and 5% incentive grants these bodies will make some additional efforts in the desired direction and the willing ones will be able to get some support. We consider this as a significant step towards supporting the process of capacity building.

Incentive Grants for PRIs

22. To address the problem of non maintenance of accounts of income and expenditure, other records including Asset Register and raising of own revenues providing 5% amount as incentive out of total amount recommended by us for transfer to Panchayati Raj Institutions can significantly help in this direction. We are of the view that release of grant from this amount needs to be made on performance of any of the following functions:

    (i) Maintenance of accounts of income and expenditure.

    (ii) Maintenance of records including 'Asset Register'.

    (iii) Increase in own revenue over previous year.

    (iv) Completion of enrolment and distribution of 'Bhamashah Card' of all eligible persons.

23. We, therefore, recommend that the amount of incentive grants which works out to be Rs. 122.86 crore in respect of PRIs may be provided for payment of incentive to PRIs. The Panchayati Raj Department may issue detailed scheme for utilization of incentive grants and notify the same to Panchayati Raj Institutions upto Gram Panchayat level.

Inter-se-distribution among PRIs

24. For distribution of divisible amount among PRIs at district level, we have studied the criteria and weights adopted by the Fourth State Finance Commission in its final report. We have refined and altered the weights. The data of Socio Economic and Caste Census (SECC-2011) conducted by the Government of India has been partially released. These data gives level of deprivation of rural households on seven criteria. In our view, this is a good

data source for estimating deprivation. We have utilized it with 10% weight, along with the other parameters given in Table-3. Accordingly, the distribution criteria and weights for inter district transfer of funds to PRIs being recommended by us are as under:

Table 3: Parameters and Weights for districtwise distribution

Parameters	**Weights**
Population	40 %
Geographical Area	15 %
Child Sex Ratio	10 %
S.C. Population	5 %
S.T. Population	5 %
Infant Mortality Rate	5 %
Girls Education	5 %
Decline in Decadal Population Growth	5 %
Deprivation on 7 Criteria as per SECC-2011	10 %
Total	**100%**

Distribution among PRIs

25. The 14th Central Finance Commission has changed the grant pattern of PRIS. In view of this we are recommending release of 5% funds for Zila Parishads, 15% funds for Panchayat Samities and rest 80% funds are earmarked for Gram Panchayats. Further distribution is to be made based on 2011 population among these institutions. Based on the parameters and weights recommended by us, the district-wise percentage share and amount for the year 2015-16 would be as under:-

Table 4: Districtwise Distribution of Funds for the year 2015-16 for PRIs **(Rs. in crore)**

S. No.	District	District wise composite weight %	District wise allocation	Funds for basic and development functions 85%	Grants for improvement in standards of administration & national priority schemes 10%	Incentive grant for performance 5%
1	Ajmer	2.763	67.892	57.709	6.789	3.395
2	Alwar	4.393	107.940	91.749	10.794	5.397
3	Banswara	3.604	88.565	75.280	8.857	4.428
4	Baran	2.196	53.964	45.869	5.396	2.698
5	Barmer	4.883	119.989	101.990	11.999	5.999
6	Bharatpur	3.061	75.213	63.931	7.521	3.761
7	Bhilwara	3.538	86.931	73.891	8.693	4.347
8	Bikaner	3.914	96.165	81.740	9.616	4.808
9	Bundi	2.163	53.151	45.179	5.315	2.658
10	Chittorgarh	2.518	61.873	52.592	6.187	3.094
11	Churu	2.805	68.921	58.583	6.892	3.446
12	Dausa	2.679	65.819	55.946	6.582	3.291
13	Dholpur	1.946	47.814	40.642	4.781	2.391
14	Dungarpur	2.873	70.600	60.010	7.060	3.530
15	Ganganagar	3.128	76.865	65.336	7.687	3.843
16	Hanumangarh	2.657	65.277	55.485	6.528	3.264
17	Jaipur	4.759	116.945	99.404	11.695	5.847
18	Jaisalmer	3.181	78.158	66.434	7.816	3.908
19	Jalore	3.033	74.518	63.340	7.452	3.726
20	Jhalawar	2.359	57.971	49.275	5.797	2.899
21	Jhunjhunu	2.567	63.065	53.606	6.307	3.153
22	Jodhpur	4.404	108.208	91.977	10.821	5.410
23	Karauli	2.624	64.487	54.814	6.449	3.224
24	Kota	1.733	42.583	36.196	4.258	2.129
25	Nagaur	4.460	109.594	93.155	10.959	5.480
26	Pali	3.190	78.387	66.629	7.839	3.919
27	Pratapgarh	2.095	51.481	43.759	5.148	2.574
28	Rajsamand	1.921	47.199	40.119	4.720	2.360
29	S. Madhopur	2.268	55.737	47.376	5.574	2.787
30	Sikar	3.045	74.813	63.591	7.481	3.741
31	Sirohi	2.024	49.723	42.265	4.972	2.486
32	Tonk	2.359	57.962	49.267	5.796	2.898
33	Udaipur	4.856	119.320	101.422	11.932	5.966
Total		**100.00**	**2457.13**	**2088.561**	**245.713**	**122.857**

26. To sum up the transfer of funds to Panchayati Raj Institutions has been given in a tabular form as under:

Table 5: Inter-se distribution among PRIs **(Rs. in crore)**

Share of Panchayati Raj Institutions 75.1% of total transfer of funds during 2015-16				2457.13
85% funds for basic and development functions				2088.56
10% grants for improvement in standards of administration and national priority schemes				245.71
5% Incentive grants for performance				122.86
Particulars	**Funds for basic and development functions 85%**	**Grants for improvement in standards of administration & national priority schemes 10%**	**Incentive grant for performance 5%**	**Total**
Zila Parishads (5%)	104.43	12.29	6.14	122.86
Panchayat Samities (15%)	313.28	36.85	18.44	368.57
Gram Panchayats (80%)	1670.85	196.57	98.28	1965.70
Total	**2088.56**	**245.71**	**122.86**	**2457.13**

Funds for Urban Local Bodies

27. The Fourth State Finance Commission had recommended 50% devolution on population, 10% on geographical area and 10% on average revenue mobilisation basis for the Urban Local Bodies. Since the figures relating to revenue mobilisation of all the urban local bodies of recent period are not available at this point, we, therefore, have decided to raise the ratio of population to 55% and area to 15% for distribution of 70% funds to all the Urban Local Bodies. We recommend balance 30% to be distributed among the Municipalities on population basis as they have a weak revenue base. These municipalities were hitherto called municipalities of category II, III and IV. While assigning weights we have taken population of 2011 census. The formula of 85% funds for basic and development functions, 10% for

improvement in standards of administration and national priority schemes will also be applicable for Urban Local Bodies. The balance 5% is to be utilized for the Incentive grant.

28. Based on above discussions and parameters the share of Urban Local Bodies would work out as under:-

Table 6: Distribution of Funds among Urban Local Bodies **(Rs. in crore)**

Categories (as per Municipal Act, 2009)	55% on Population	15% on Area	Balance 30% for Municipalities	Total Funds	Out of which		
					Funds for basic and development functions 85%	Grants for improvement in standards of administration & national priority schemes 10%	Incentive grant for performance 5%
Municipal Corporations (7)	198.05	34.79	-	**232.84**	197.92	23.28	11.64
Municipal Councils (34)	121.83	27.43	-	**149.26**	126.87	14.93	7.46
Municipalities (146)	128.20	59.98	244.40	**432.58**	367.69	43.26	21.63
Total – 187	**448.08**	122.20	244.40	**814.68**	692.48	81.47	40.73

<u>Improvement in Standards of Administration and Implementation of National Priority Schemes</u>

29. We have mentioned earlier that we are recommending 10% funds as grants for improvement in standards of administration and for implementation initiates for national priority schemes. Since the requirement and utilization of this amount may vary from place to place we have indicated some activities of national and state priority in Table-2 which may be undertaken out of these grants both by Panchayati Raj Institutions and Urban Local Bodies.

<u>Incentive Grant for ULBs</u>

30. We have discussed the concept of Incentive Grant in the earlier paras. We feel that urban local bodies have the scope of raising own resources and the people also have the paying capacity and willingness, but somehow the

desired efforts are not being made. The successive Central and State Finance Commissions have stressed the need for making the urban local bodies financially strong to recover at least the cost of operation and maintenance of basic civic services and for improving the level of these services. This issue also came up for discussion during the preliminary meeting with Principal Secretary, Local Self Government Department. It was felt that there is need to provide encouragement and recognition to urban local bodies which perform better in this regard. The 14th Central Finance Commission has laid down increase in own revenues over the preceding year as one of the condition for release of performance grants from the next year i.e. 2016-17. Keeping these aspects into consideration we have decided to recommend sanction of 'incentive grants' out of 5% amount of the total funds proposed for transfer to ULBs which works out to Rs 40.73 crore. This amount is to be used for rewarding and incentivising urban local bodies which makes considerable efforts in raising own revenues, maintenance of accounts and records as prescribed by the department, as also completion of enrolment and distribution of Bhamashah Card of all eligible persons in its area of jurisdiction. Modalities of its payments to ULBs may be determined by the department and circulated among ULBs. We are of the view that the department will arrange to provide proper information to ULBs to avail the benefits of this provision.

31. The amount of incentive grant for performance mentioned in Table-4, Table-5 and Table-6 are indicative. Actual payments of these grants will depend on performance of the functions given in para-22 as per the detailed scheme to be drawn and circulated to PRIs and ULBs by the respective departments. We understand that working out the modalities of payment of incentive grants to Panchayati Raj Institutions and Urban Local Bodies may take time and by

that time major part of the financial year 2015-16 may be over. It is, therefore, recommended that unspent amount of incentive grants may be provided during next financial year so that these local bodies may implement the functions included in this scheme and avail incentive grants. The base or reference year for achievement of the functions for availing incentive grants will be 2014-15.

Functional Requirements

32. The requirement of funds for 'Operation and Maintenance' of basic functions of gram panchayats and urban local bodies based on per capita norm suggested by the study sponsored by 4th SFC was estimated at Rs. 1458 crore. As against this we are recommending transfer of Rs. 2363.33 crore to Gram Panchayats and Urban Local Bodies for basic and development functions. Thus the requirement is fully met including escalation. Another Rs. 1905.07 crore are provided under 14th CFC grants for Gram Panchayats and Urban Local Bodies.

14th Central Finance Commission Grants

33. The 14th Central Finance Commission has recommended grants for Gram Panchayats and Municipalities as basic grant and performance grant for its award period 2015-2020 as under:

Table 7: 14th Finance Commission grants **(Rs. In crore)**

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Gram Panchayats	1471.95	2305.52	2657.47	3067.80	4130.90	13633.64
(a) Basic	1471.95	2038.17	2354.92	2724.22	3681.01	12270.27
(b) Performance	-	267.35	302.55	343.58	449.89	1363.37
Urban Local Bodies	433.12	776.73	893.23	1029.07	1380.98	4513.13
(a) Basic	433.12	599.73	692.93	801.60	1083.13	3610.51
(b) Performance	-	177.00	200.30	227.47	297.85	902.62
Total	**1905.07**	**3082.25**	**3550.70**	**4096.87**	**5511.88**	**18146.77**

34. The basic grant is to be used to improve the status of basic civic services including water supply, sanitation sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street lighting and burial and cremation grounds. The performance grants are for (i) making available reliable data on local bodies receipts and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services. The performance grants will be disbursed from the second year that is 2016-17 onwards so as to enable sufficient time to State Government and the local bodies to put in place a scheme and mechanism for implementation. **In this context our incentive grants are path makers in this direction.**

35. The 14th CFC grants are to be given to Gram Panchayats and Municipalities which also include the Municipal Corporations and Councils. These grants are to be distributed using the formula given by the State Finance Commission whose recommendations have been accepted. We understand that the first installment of 14th CFC grants has been received. We recommend that the amounts of 14th CFC grants received henceforth may be disbursed to Gram Panchayats and Urban Local Bodies using the formula and parameters recommended by us in our Interim Report.

36. This is our interim report for the financial year 2015-16. We would like to reiterate that devolution and grants recommended, the criteria and weights assigned, other stipulations and recommendations will be subject to changes as might be considered necessary in the final report.

Summary of Recommendations

37. (i) 7.182% of state's net own tax revenue which works out to be Rs. 3271.81 crore may be given to PRIs and ULBs during the year 2015-16. Though this amount recommended by us is based on net own tax revenue of the State, it shall be static at this level, irrespective of any change in revenue figures in revised budget or actual realisation. (para 17)

(ii) The amount of Rs. 3271.81 crore may be divided between PRIs and ULBs in the ratio of rural-urban population of 75.1 : 24.9. Accordingly, the amount would work out to Rs.2457.13 crore and Rs. 814.68 crore for PRIs and ULBs respectively. (para 18)

(iii) 85% of recommended amount may be released as funds for basic and development functions, 10% amount is to be released as grants for improvement in standards of administration and implementation of national priority schemes and 5% as incentive grant for performance of specified tasks to PRIs and ULBs. (para 19 and 27)

(iv) The districtwise distribution of PRIs share may be made based on various parameters and weights recommended. (para 24)

(v) The tierwise distribution of funds among PRIs should be 5% for Zila Parishads, 15% for Panchayat Samities and 80% for Gram Panchayats. (para 25)

(vi) We have recommended provision for Incentives to encourage PRIs and ULBs to raise own revenues, maintain accounts and records and for completion of enrolment and distribution of Bhamashah Card to all eligible persons in their jurisdiction. This amount of Rs.122.86 crore for PRIS and Rs. 40.73 crore for ULBs is to be utilized for disbursement of incentive to PRIs and ULBs based on performance.

Detailed scheme shall be drawn and issued by the respective departments. (para 23 and 30)

(vii) The amount of incentive grants are indicative and actual payments will be based on performance. The unspent amount may be provided in next year. (para 31)

(viii) The amounts of 14th CFC grants received henceforth may be distributed to Gram Panchayats and urban local bodies as per parameters and weights recommended by us. (para 35)

(ix) This is our Interim Report and recommendations made in this report are subject to changes as might be considered necessary in our final report. (para 36)

(Dr. Jyoti Kiran)
Chairperson

(S. C. Derashri)
Member Secretary

Jaipur,
September 2015.

Annexure-1

Government of Rajasthan

Finance Department

(Finance Commission & Economic Affairs Division)

NOTIFICATION

The following order made by the Governor is published for general information :-

ORDER

In pursuance of the provision of Articles 243-I and 243-Y of the Constitution of India and the Rajasthan Panchayati Raj Act, 1994 and the Rajasthan Municipalities Act, 2009 the Governor is pleased to constitute a State Finance Commission consisting of Smt. Jyoti Kiran, as the Chairman Shri S.C. Derashri, Member Secretary.

2. The Chairman and other Members of the Commission shall hold office from the date on which they respectively assume office upto the 30th November 2015.
3. The Commission shall review the financial position of the Panchayats at all levels and make recommendations as to :

(a) the principles which should govern:

(i) The distribution between the State and the Panchayats at all levels of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part-IX of the Constitution and the allocation between the Panchayats at all levels of their respective shares of such proceeds;

(ii) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats at all levels; and

(iii) The grants-in-aid to the Panchayats at all levels from the Consolidated Fund of the State.

(b) The measures needed to improve the financial position of the Panchayats.

4. The Commission shall also review the financial position of the Municipalities at all levels and make recommendations as to :

   (a) the principles which should govern:

   (i) The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part-IX-A of the Constitution and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

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

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

   (b) The measures needed to improve the financial position of the Municipalities.

5. The Commission shall identify the services rendered by the Panchayats (at all three different levels) and Municipalities fully or partly funded from their own resources (including general purpose transfers from Central Government through Central Finance Commissions and by State Government directly or on recommendations of the State Finance Commissions), standards of these services, normative requirements of funds for delivering these services at the standards recommended and the gaps in resources for rendering these services. The Commission shall also suggest the measures needed to generate own resources for delivering these standard of services.

6. The Commission shall also suggest the system of accounts maintenance and measures for better fiscal management consistent with the need for speed, efficiency and cost effectiveness of delivery of services;
7. In making its recommendations, the Commission shall have regard, among other considerations, to:
   (i) the financial resources of the State and demands thereon, in particular, the need for providing adequate resources for funding the plan expenditure for the overall development of the State;
   (ii) adjustment of grants available to the Municipalities at all levels and Panchayati Raj Institutions under the recommendations of the 14th Finance Commission in their resources;
   (iii) powers available to Panchayati Raj Institutions and Municipalities at all levels for raising additional resources, including powers to levy taxes;
   (iv) the need to keep system of fiscal transfers from the State Government to Panchayats/Municipalities simple & easy to administer and for that purpose, consider transfers based on net own tax receipts of the State Government in place of share in individual taxes (except taxes which have strong tax payer residence linkage to respective Municipalities/Panchayats);
   (v) the need of grants recommended to be directed towards improvement of standards of administration, keeping of accounts, maintenance of databases and mainstreaming of information technology in running of the affairs and delivery of services by Municipalities/Panchayats.
8. The Commission shall make its report available by 30th November, 2015, on each of the matters aforesaid, covering a period of five years commencing on the 1st day of April 2015. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of

receipts and expenditure of the Panchayats and the Municipalities at all levels.

29 May, 2015 Sd/-

Camp: Delhi (**Kalyan Singh**)

Governor of Rajasthan

No.F5(1)FD/FC&EAD/SFC/2014 Jaipur, Dated: 30 May, 2015

Sd/-

(**Prem Singh Mehra**)

Principal Secretary, Finance