

CHAPTER 3

First State Finance Commission : Status of Implementation of Recommendations

3.1 The First State Finance Commission which was constituted by the Government of Chhattisgarh on 22.8.2003 submitted its report to the Governor of Chhattisgarh in May 2007. The Commission had suggested that the recommendations be given effect to from 1st April 2007. However, the State Government continued to transfer funds to local bodies as per the recommendations of 1st MP SFC which was being followed by the new State after reorganization, till the release of ATR on July, 2009. But the recommendations were made effective from the year 2007-08.

3.2 The First SFC had recommended devolution of 8.287 % of the own tax revenue of the State to the local bodies during its award period 2007-12. However, the State Govt. agreed to devolve only 6.0 %. The First SFC had made a total of 81 recommendations, out of these, the State Government accepted 36 while 5 others were accepted with modifications. The status of recommendations as per the ATR, as submitted by the State Government to the Vidhan Sabha on 29th July, 2009, is given in Table 3.1

Table.3.1 : Status of Recommendations

Sl No	Recommendations	Total No.	Status of Recommendations (No.)			
			Accepted	Accepted With Modifications	Rejected	To be Referred to CFC/CG
	RLB/ULB/State Government					
A	Rural Local Bodies					
1	Devolution	4	-	1	1	2
2	Assigned Revenue	10	1		9	
3	Internal Resource Mobilization (IMR)	18	10	-	8	-
4	Non-fiscal recommendations	12	5		7	
	Total RLB	44	16	1	26	2
B	Urban Local Bodies					
1	Devolution	6	1	4	1	
2	Fiscal Policy	4	3		1	
3	Non-fiscal recommendations	19	15		4	
4	Central Government	8	-	-	-	8
	Total ULB	37	19	4	7	8
	Total Local Bodies	81	36	5	33	10

Status of Implementation of Recommendation : PRIs

3.3 Devolution of Revenue

I. The Commission had recommended devolution of 6.00 percent of State's net own tax revenue to rural local bodies. The State Govt. agreed to devolution of 4.79 percent share of State's net own tax revenue to be given from the year 2007-08. The State Government decided to include the amount being given to PRIs for development of rural infrastructure development schemes : Gram Nirman, Gram Gaurav, Gram Vikas and Gram Utkarsh, in the devolution amount. The details of year-wise transfer of amount has been given in Table 3.2 & 3.3.

Table 3.2 Amount of Devolution and fund transferred to PRIs from 2007-08 to 2011-12

(Amount in Crore Rupees)

Year	4.79 % of Net SOTR to PRIs	Gram Utkarsh	Gram Nirman	Gram Gaurav	Gram Vikas	Basic Grants	Total	*Net to be Trans- ferred to PRIs (col.2-8)
1	2	3	4	5	6	7	8	9
2007-08	235.69	16.00	72.00	10.26	1.96	116.02	216.24	19.15
2008-09	269.06	30.00	38.00	20.00	18.50	130.00	236.50	32.26
2009-10	293.10	16.63	38.00	20.00	18.50	130.00	223.13	69.97
2010-11	377.98	75.00	15.00	15.00	15.00	150.00	270.00	107.98
2011-12	444.93	105.00	25.00	25.00	25.00	150.00	330.00	114.93
Total	1620.76	242.63	188.00	90.26	78.96	676.02	1275.87	344.29

Source : Finance Department, Govt. Of Chhattisgarh

Note : * Amount agreed by the State Govt. to be transferred to PRIs through various Plan and Non-planschemes under revenue sharing devolution scheme.

The State Government has claimed that it had transferred more funds through various schemes to PRIs than Rs. 344.29 crore as per Table 3.2 (col. 9). As per the details received from the State Government, the total amount transferred to PRIs under various schemes was Rs. 434.97 during 2007-08 to 2011-12 (5 years) as may be seen from Table 3.3.

Table 3.3 Amount Transferred Under Plan & Non-plan Schemes to PRIs

(Rs. in crore)

Sl.No.	Name of Scheme	Amount
1	General Purpose Grant to Zila Panchayat	3.96
2	Honorarium to Panchayat Office- bearers	32.48
3	Training to Panchayat Office bearers	2.80
4	Sachiveeya Vyavstha (Salary of Panchayat Secretaries)	156.70
5	Tristriya Puraskar (Prizes for Best Panchayats)	1.89
6	Zila Panch Sammelan	2.55
7	Panchayat Gazette	0.31
8	PRI related charges	234.28
	Total	434.97

Source : Finance Department & P&RD Deptt. and Govt. of Chhattisgarh

II) The Commission had recommended to provide general per capita grant of Rs. 166.48 crore to PRIs every year from the year 2005-06 (Per Capita Grant @ Rs. 90.00 to GPs, Rs. 8.00 to JPs and Rs. 2.00 to ZPs). The State Govt. had decided to place this matter before the 13th FC for assistance but could not be placed.

III) The Commission had recommended an agency Commission equivalent to 3 % of the estimated cost of the schemes of the government line departments including the Centrally Sponsored Schemes (CSS) may be allowed to the Panchayats towards their implementation costs. The State Govt. had decided to maintain status-quo of agency grant of the schemes of its line departments and to request 13th FC to recommend to the Central Govt. to provide agency Commission equivalent to 3 % of the estimated costs of CSS. But the recommendation could not be placed before 13th FC.

IV) The Commission had recommended an establishment grant of Rs. 71.81 crore to PRIs. However the State Govt. do not accept this recommendation

3.4 Assigned Revenue

The Commission had given 10 recommendations with regard to assigned revenues. The State Government accepted only one recommendation and did not accept the remaining 9 recommendations. The lone accepted recommendation is that ninety (90) % of the revenue from the State-administered entertainment tax be allotted to *ULBs* and *PRIs*, in ratio of 2:1 respectively. The transfer of PRIs share of entertainment tax revenue in the form of Entertainment Tax Grant has been effective from the year 2010-11. The amount transferred during 2010-11 and 2011-12 was Rs. 5.35 crore and Rs. 1.90 crore respectively. Thus total amount transferred in these two years was Rs. 7.25 crore.

3.5 Internal Revenue Mobilization by the Panchayats :

The State Government accepted some of the recommendations on the above subject including assessment of Property tax on classified plinth area basis; powers to GP to levy Theatre tax on non-cinematographic/ performances; etc.

3.6 The P & RD Deptt. has constituted a committee vide its order No. 76 dated 16th Dec. 2011 and referred all the above recommendations to examine. The report of the Committee is awaited. In view of the importance of this Committee, we have requested the State Government in our interim report, submitted in Nov. 2012 to immediately operationalize the Committee and fix a time period of three months for submission of its report.

3.7 The Commission has recommended that when a JP and the ZP, by resolution, request the govt. that a surcharge on excise duty be levied at a rate not exceeding 10 % in their jurisdiction area, the State govt. should invariably levy the surcharge at the suggested rate and collect the same, along with their principal duty in the specified areas. To this recommendation, the State Govt. decided to levy and collect the surcharge on State Excise Duty at State level and transfer to JP and ZP on the basis of collection in their respective area.

Non-fiscal recommendations

3.8 The State Government has accepted following 5 recommendations :

SL No.	Recommendation Accepted	Action taken by the Panchayat Department
1	The existing Panchayat Auditors who are conducting 'internal audit' of the GPs may be designated as 'Panchayat Internal Auditors.'	Action is under process.
2	All Officers / Officials involved in accounts and audit of different levels of Panchayats should be given regular training in the area of Accounts.	Arrangement of training has been made at P & RD Institute at Nimora.
3	A 'special drive' with time bound programme for the completion of post-audit of all unaudited accounts of the Panchayats by the local fund auditors	The responsibility of audit of accounts has been entrusted to LFA Deptt. The action plan has been prepared for the internal audit.
4	To expedite process of transfer of powers, authority and fund support.	The action of transfer of powers is in process.
5	Fresh Review and modifications in the existing Statutory provisions and the executive rules vis-a-vis the working of panchayats at all levels.	A Committee has been constituted vide its order No. 76 dated 16.12.11 to examine existing rules in this regard. The Report of the Committee is still awaited.

Status of Implementation of Recommendations : Urban Local Bodies.

Revenue Devolution

3.9 The recommendations of the Commission and action taken by the State Government are given in the table below ;

SI No	Recommendations of the Commission	Decision taken by the State Govt.																		
1	(a) Devolution of 1.659 % of State's net own tax revenue to ULBs.	Agreed to devolution of 1.21 % share of State's net own tax revenue to be given to ULBs from the year 2007-08. The State Govt. adjusted amount being given to ULBs for infrastructure development in this amount.																		
2	Criteria and weights for working out the inter-se allocation to different ULBs in the State : <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">CRITERIA</th> <th style="text-align: left;">WEIGHT(%)</th> </tr> </thead> <tbody> <tr> <td>1. Population</td> <td>80 %</td> </tr> <tr> <td>2. Area</td> <td>10 %</td> </tr> <tr> <td>3. Slum population</td> <td>10 %</td> </tr> </tbody> </table>	CRITERIA	WEIGHT(%)	1. Population	80 %	2. Area	10 %	3. Slum population	10 %	Decided to adopt modified criteria for inter-se allocation to different ULBs : <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">CRITERIA</th> <th style="text-align: left;">WEIGHT (%)</th> </tr> </thead> <tbody> <tr> <td>1. Population</td> <td>70 %</td> </tr> <tr> <td>2. Area</td> <td>10 %</td> </tr> <tr> <td>3. Slum population</td> <td>10 %</td> </tr> <tr> <td>4. Revenue Effort</td> <td>10 %</td> </tr> </tbody> </table>	CRITERIA	WEIGHT (%)	1. Population	70 %	2. Area	10 %	3. Slum population	10 %	4. Revenue Effort	10 %
CRITERIA	WEIGHT(%)																			
1. Population	80 %																			
2. Area	10 %																			
3. Slum population	10 %																			
CRITERIA	WEIGHT (%)																			
1. Population	70 %																			
2. Area	10 %																			
3. Slum population	10 %																			
4. Revenue Effort	10 %																			
3	Allocation of Rs. 16 crore for disbursement among ULBs as General Purpose Grant for first year of award period and increase every year by one crore over the previous year.	The Department has been disbursing Rs. 8 crore Year among ULBs from the year 2007-08.																		
4	15% annual increase in the transfers from the State Government in respect of compensation for certain taxes and Assigned Revenue and every year. The amount of octroi compensation should increase accordingly with Entry Tax.	Decided to increase the amount of devolution in respect of Assigned revenue and compensation of certain taxes on the basis of actual collection of revenue. The Finance deptt. had accepted provision of Rs. 405 crore in the Budget 2011-12																		
5	Distribution of Entertainment tax in the ration of 2:1 among ULB and RLBs.	Accepted. Accordingly 67 % share of ULBs worked out Rs. 10.59 crore and provided the in the supplementary budget. The budget provision in the year 2010-11 was Rs. 9.25 crore.																		
6	Rs. 8.00 crore which is being given as Compensation of passenger tax every year should be given as General purpose grant.	Accepted and provided Rs. 8.00 crore as General purpose grant in the 2011-12 State budget.																		

3.10 The State Government has agreed to devolution of 1.21 % of net proceeds of SOTR from 2007-08. The agreed amount worked out to Rs. 405.05 crore for five years (2007-08 to 2011-12). The actual amount transferred to urban local bodies was Rs. 648.10 during these years. The year-wise details are given in Table 3.5.

Table 3.5 : Funds Transferred to ULBs

(Amount Rs. in Crore)

Year	Amount of Net SOTR	Agreed Amount of 1.21 % of Net SOTR	Actual amount Transferred
2007-08	4903.91	58.85	48.93
2008-09	5599.21	67.19	207.61
2009-10	6106.29	73.28	54.22
2010-11	7874.62	94.50	142.05
2011-12	9269.29	111.23	195.40
Total	33,753.32	405.05	648.1

The scheme-wise details of transfer of funds to ULBs from 2007-08 to 2011-12 is given in Table 3.6.

Table 3.6 : Scheme-wise Transfer of Funds to ULBs

Sl.No.	Name of Scheme	Amount Rs. in crore
1	Urban Infra-structure Grant	340.91
2	Basic Services Grant	205.69
3	Specific Purpose Grant	58.60
4	Drinking Water & Sanitation Grant	29.68
5	Grant for Water works maintenance	5.39
6	Group Insurance Scheme for Urban LIG People	3.48
7	Resettlement Environment	4.05
8	Training of Elected ULB Representatives	0.41
	Total :	648.21

Fiscal Policy

3.11 The Recommendations of the Commission and action taken by the State Govt. are given below :

Sl No	Recommendations of the Commission	Action taken.
1	The amount of grant is to be distributed according to well defined policy.	Recommendation was accepted. <i>To implement the devolution formula the UA & D Department has issued letter no. 1158/862/18/10 dated 6.3.2010.</i>
2	The Grant-in-aid should be systematically classified and there should be proper and adequate system of monitoring and review of the uses of grants.	Accepted by the Government. The provision of systematic classification of Grant-in-aid has been made from supplementary budget 2011-12. <i>To implement the recommendation the UA & D Department has issued letter No. 1413/3056/2009/18.</i>

3	The two types of transfers from the State Government to ULBs, Grant-in-aid and compensation in lieu of certain taxes abolished should not be clubbed together.	Decided to continue the present system.
4	The system of transfer of funds from the State Government to ULBs should be progressive, transparent and purposeful.	Accepted. The Directorate of UA & D has started transfer of budget allocation of ULBs directly through <i>e-transfer</i> in their accounts in the nationalised banks. The ULBs are spending the amount for the purpose the amount was sanctioned.

Non-Fiscal Recommendations

3.12 The Commission had given 19 recommendations, of these 15 were accepted by the State Government. The concerned Administrative Departments were instructed to take necessary action in this regard. These are as follows :

Sl No.	Recommendation	Action Taken/ Compliance
1	Annual Economic Survey of the State may include one chapter on the functioning and performance of <i>local bodies</i> in the State.	<i>Accepted and started to include one chapter on ULBs.</i>
2	The technique should be developed with priority and seriousness to get <i>reliable data and accounts</i> for the future.	To get reliable data, double entry system of accounting has been adopted from 1.4.2008. CAs have been appointed in 10 groups from 1-1-2010. The work is in progress.
3	Reforms in the system of accounting may be introduced in consultation with CA & AG and the Director, <i>Audit, may provide format for the preparation</i> of budgets of ULBs.	Reforms in the accounting system has been introduced as above.
4	The Directorate of UD & A Department needs to be strengthened in terms of expertise.	The experts are being consulted from time to time in this regard.
5	The GOI has attached conditionality factor to Urban Reforms Measures, the State Government may make review of the conditionalities before joining the programme.	Reforms measures have been implemented with conditionality attached to them.
6	Need for training of elected ULB reps. in the area of municipal governance, decentralized planning, resource mobilization and relationship with executives.	Training programmes for elected ULB reps are being organized frequently.
7	Electrical bills should include ULBs fees in proportion of their infrastructure costs. State Govt. should request Electricity Regulatory Commission to decide on the fees for ULBs.	No action initiated so far.

8	An inventory of properties and assets of ULBs should be prepared and updated every year	This work is being done under supervision of CAs.
9	Computerization of municipal operations and records.	One ULBs Data Centre has been set up in the Directorate of UA&D. The work of computerization at ULBs has begun.
10	Exploring the possibility for increasing PPP in municipal services	PPP modal has been adopted in many areas such as infrastructure development, civic services, maintenance of parks, etc. The possibility of inclusion of other areas are under study.
11	Setting up a training institute for Municipal employees.	Govt. agreed to provide training to them in the State Academy Administration.

3.13 With regard to the implementation of the following recommendations of the Commission, instructions were issued to the concerned Administrative Department to examine them at competent level before submission of proposals:

Sl No.	Recommendation	Action Taken at Department Level
1	Constitution of Ward Committees with definite functions needs to be activated in ULBs with more than one lakh population	Ward committees have been constituted in 3 municipal corporations having population of 3 lakh and more as prescribed in section 48 (A) of CG Municipal Corporation Act 1956. The constitution of committees in the municipal corporation with population in the range of 1 lakh to 3 lakh is yet to be initiated.
2	Constitution of a Regulatory Authority on the pattern of Electricity Regulatory Authority, to recommend Water Tariff to be charged by ULBs in the State	The CG Municipal Revenue (Regulatory Authority) Act 2011 has been passed.
3	New taxes which the ULBs may be empowered to levy and collect.	CG Municipal Revenue Regulatory Authority Act 2011 has been passed. In the meantime the UA & D Department has issued notification on increase in fees and tax rates on following items: 1) Increase in water tax rates in residential and commercial multi-story buildings. 2) Fees on mobile towers 3) Setting up of ATM machines 4) Advertisement hoardings 5) Colonizers registration fees

Recommendations which call for the attention of the Central Government:

3.14 The State Govt. decided to forward all recommendations to the Central Government for attention and favourable consideration. The gist of recommendations are as follows :

Transfer of all Centrally Sponsored Schemes to LBs; Introduction of a local list of taxes in the VIIIth Schedule of the Constitution; Inclusion of Central government properties in the net of property tax levied by ULBs may be examined; 3 % project cost of CSS in urban areas be assigned to ULBs as agency commission; Creation of a financial institution to provide funds to local bodies for bankable infrastructure projects; etc. However, these proposals have not so far been sent.

Recommendations of the First State Finance Commission: Impact on State Finances

3.15 In the five year award period of the First Commission (year 2007-08 to 2011-12), 6.0 % of the net SOTR came to Rs. 2025.20 crore, out of which PRIs @ 4.79% were entitled to 1620.16 crore, while the ULBs @ 1.21 % to Rs. 405.04 crore. As per the figures furnished by the State Finance Deptt., the total funds transferred to PRIs during this period is Rs. 1710.80 crore as against 1620.16 crore as per the SFC's award, and to ULBs Rs. 648.21 crore as against 405.04 crore.

3.16 The table below gives the various grants purported to have been transferred to local bodies.

Table - 3.7 : Transfer to PRIs and ULBs

	(Rs. in crore)					
PRIs	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Basic grants / State Schemes	216.24	236.50	223.13	270.00	330.00	1275.87
Transfer to PRIs (other expenditure)	47.39	66.96	84.00	107.45	129.17	434.97
Grants to PRIs including assigned revenues	62.16	60.77	64.55	74.32	136.72	398.52
Total	325.79	364.23	371.68	451.77	595.89	2109.36
ULBs						
Transfers of ULBs including State Schemes	48.93	207.61	54.22	142.05	195.40	648.21
Grants to ULBs including assigned revenue	521.73	498.45	444.00	686.43	694.76	2845.37
Total	570.66	706.06	498.22	828.48	890.16	3493.58

It may be observed that the four State Plan Schemes, which have been made part of the devolution to PRIs, claimed nearly 37% of the total devolution to PRIs; the basic grant

provided to PRIs constitutes the other about 60%. The State Govt. has also included, as transfer to PRIs by way of grants, certain other expenditure. This amounts to Rs, 434.97 crore in the five year period aforementioned, and includes, apart from general purpose grants to Zila Panchayats, honorarium to Panchayat office bearers, training to office-bearers, salary to Panchayat secretaries, prizes for best Panchayats, Zila Panchayat Sammelan, Panchayat Gazettes and an unexplained 'PRIs related charges'. These charges include the expenditure on the salary of Panchayat Auditors, who are Govt. employees. Thus the Govt. has included all other expenditure connected with PRIs, as transfer of funds to them. **This is not a very reasonable classification. The normal presumption is that only that part of the fund should be treated as transfer to PRIs which they can spend. Expenditure incurred on Zila Panchayat Sammelan, Panchayat Gazette and 'PRI related charges' should not be treated as transfer of funds to PRIs.**

3.17 Similar is the situation with respect to transfer of funds to ULBs. A case has been made out that as against the FC's award of Rs.405.04 crore, a total of Rs.648.21 crore has been transferred to the ULBs during this period. The basic services grant provided is only Rs.205.69 crore which is less than 30% of the total transfer. The maximum amount of Rs.340.91 crore has been provided as grant for urban infrastructure. No grant was provided under this head in the year 2007-08; the very next year (2008-09) the provision was Rs.161 crore, while the next year (2009-10) it came down out to Rs.7.50 crore. It appears that this grant has been released on the basis of demand and selectively. **One of the important principles of transfer of funds is that the transfer should be predictable so that the local bodies can plan their expenditure. From the manner in which transfer of funds have been made to the ULBs, it is obvious that this principle has not been observed. The total grants provided under various other heads, including Entry Tax Compensation, Passenger Tax, Grants, Entertainment Tax, FL License fees, etc amounted to Rs.2845.37 crore. Thus, the total amount transferred to the ULBs in the last 5 years is Rs.3243.88 crore.**

3.18 It is to be noted that the modality of transfer of funds to ULBs is laid down in the Chhattisgarh Municipal Urban Development Rules, 2003. Funds are provided to the ULBs by the State Govt. following the provisions of these Rules. The Rules provide for creation of a Chhattisgarh Municipal Infrastructure Fund with provision for opening two accounts in this Fund; first, the Devolution Account and second the Infrastructure Account. The Rules provide that the grants received from the State Govt. on the basis of recommendations of the

Finance Commission, for improvement of the basic services, 'shall also be transferred to the Infrastructure Account'. The 'Devolution Account' is mainly meant for transfer of the proceeds of the Entry Tax which is by the way of compensation for abolition of which Octroi was a major source of income of the Municipal bodies. It was abolished by the State Govt. In 1976 and against the revenue lost, compensation is being provided to the ULBs. This should not be treated as devolution of funds. Infact, the whole scheme of transfer, as embodied in these Rules, needs a fresh look. The manner in which grants are given to the ULBs, including the award of the SFC, leaves very little discretion with the local bodies to plan and fund schemes and works as per local needs. While the State Govt. has a number of plan schemes for assistance to ULBs, these do not fill the gap in the financial resources required by them for the provision of basic services.

3.19 The overall position of transfer of financial resources by the State Govt. to the local bodies, including those under various schemes of the State Govt., comes to an average of 5.2% of the own revenues of the State, 2.9% of the total revenues of the State, and 2.7% of total expenditure of the State annually, in these five years. The year wise position is given in the table below :

Table 3.8 : Transfer to PRIs/ULBs as percentage to State's Own Revenue/Total Revenue /Total Expenditure

	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)
	(Rs. in crore)				
1. Own Revenue Receipts (Tax+Non Tax)	7638.52	8795.93	10166.27	12840.46	15031.94
Transfer to-PRIs (%)	4.3	4.1	3.7	3.5	4.0
Transfer to-ULBs (%)	7.5	8.0	4.9	6.5	5.9
2. Total Revenue	13878.65	15662.76	18153.65	22719.54	27708.3
Transfer to-PRIs (%)	2.3	2.3	2.0	2.0	2.2
Transfer to-ULBs (%)	4.1	4.5	2.7	3.6	3.2
3. Total Expenditure	14472.91	17226.07	20910.44	22876.16	32747.46
Transfer to-PRIs (%)	2.3	2.1	1.8	2.0	1.8
Transfer to-ULBs (%)	3.9	4.1	2.4	3.6	2.7

3.20 The nature of transfer of funds to PRIs and ULBs, particularly the ULBs, is not in keeping with the spirit of the relevant provisions of the Constitution. While adequate funds, in fact more than the devolution recommended by the State Finance Commission, may have been transferred to the local bodies, the manner in which funds have been provided does not enable the local bodies to function as units of self-govt. The Govt. continues to provide funds under its own schemes. The transfers are neither certain nor predictable. This does not enable local bodies to plan development of infrastructure and provision of basic services. In

fact, in the matter of accounting also it is observed that all funds of State Plan Schemes and some even of Central Govt. Schemes (such as Mid-Day Meals Programme) are treated as 'financial assistance' to local bodies and all the expenditure are booked under 'grant' head. Consequently, the C&AG books all such expenditure as 'financial assistance' to local bodies. The figures given in the table below are from the C&AG's report on State Finances for the year 2010-11.

Table 3.9 : Financial Assistance to Local Bodies

Heads	2006-07	2007-08	2008-09	2009-10	2010-11
Panchayat Raj Institution	769.82	955.14	1299.47	1520.71	1835.92
Urban Local Bodies	544.84	618.15	737.26	577.71	905.50
Total assistance to Local Bodies	1314.66	1573.29	2098.42	2098.42	2741.42
% of total expenditure of the year	11%	11%	12%	10%	12%

As is seen from the table above, on an average 'financial assistance' provided to local bodies constituted over 10% of the total expenditure of the State Govt. This presents inflated figures as financial assistance to local bodies and is misleading. The above includes assigned revenues from certain taxes, share of own tax revenues as recommended by the Finance Commission, funds provided under the various State Govt. schemes, and some Central Govt. schemes. This also includes transfer of funds by the line Deptts. to fund the functions transferred by them to the local bodies after the 73rd and 74th amendment to the Constitution. The expenditure on these functions was being incurred by the line Departments in any case and hence this should not be treated as 'financial assistance' to PRIs/ULBs. Similarly, funds provided for agency functions should not be treated as 'grants'.

3.21 It is advisable that the manner of presentation in accounts of funds transferred to local bodies be reviewed in consultation with the C&AG, if necessary. The accounts should clearly show funds transferred to the PRIs/ULBs as per the recommendations of the SFC. In the absence and such clarity, the impact of the SFC's recommendations on the State's finances cannot be assessed by the next SFC and the Central Finance Commission. Although separate budget books are prepared since last year for PRIs and ULBs by the State Government, these do not reflect the position clearly. In fact, these are only extracts of the detailed budget of the concerned Departments. In its present form it does not include assigned revenues. The books should clearly reflect the funds given to the local bodies by way of assigned revenues, financial devolution by the SFC, grants provided under Plan schemes, other grants provided by the State Govt. , grants

provided by the Central Finance Commission and funds transferred by the line Department separately. Only then will the purpose for which these books are prepared, as per the recommendations of the CFC, shall be served.

Implementation of 13th Finance Commission Recommendations

3.22 Under the 13th FC award, Chhattisgarh was allocated Rs. 2267.29 crore as a share of 2.59 percent of total divisible pool of general basic grant and general performance grant, and a share of 13.21 percent in the divisible pool of the special area grants. The allocation of the said amount among PRIs and ULBs was Rs. 1814.28 crore and Rs. 453.02 crore respectively. In addition to the above, an amount of Rs. 647.11 crore was provided towards Central contribution to Calamity Relief Fund. The year wise allocation of grants is given in Table 3.10.

Table 3.10 : 13th Finance Commission Allocation of Funds to Chhattisgarh

(Amount in Rs. Crore)							
	Item	2010-11	11-12	12-13	13-14	14-15	Total
	Local Bodies						
1	General Basic Grant	194.4	225.4	263.5	312.2	369.6	1365.2
	i) PRIs	155.5	180.3	210.8	249.8	295.7	1092.2
	ii) ULB	38.9	45.1	52.7	62.4	73.9	273.0
2	General Performance Grant	0.0	77.1	180.8	213.3	251.6	722.8
	i) PRIs	0.0	61.7	144.6	170.6	201.3	578.2
	ii) ULB	0.0	15.4	36.2	42.7	50.3	144.6
3	Total General Grant	194.4	302.5	444.3	525.5	621.2	2088.0
I	Total Grant : PRIs	155.6	242.1	355.6	420.5	497.1	1670.9
II	Total Grant : ULBs	38.8	60.4	88.7	105.0	124.1	417.1
III	Special Area Grant	21.1	31.6	42.2	42.2	42.2	179.3
	Total Grant : Local Bodies	215.5	334.1	486.5	567.7	663.4	2267.3

Source : 13th FC Report, Annexure 10.15

Grants to PRIs

3.23 The 13th Finance Commission had provided to the PRIs in the State a share of 2.65 per cent in the total divisible pool of General basic and General performance grants. Though the Commission did not insist on fulfilment of any condition for the drawal of its grant for 2010-11 by the States, it laid down certain conditionalities to be satisfied by each State for the drawal of General Area Grant from 2011-12 onwards. For drawal of General Area Performance Grant, the Finance Commission stipulated nine eligibility conditionalities for being satisfied by the States, which included a proper accounting framework, audit under

guidance of C & AG, appointment of independent local body Ombudsman, etc. The State government has complied with all the conditionalities laid down by the Finance Commission and the Government of India has released Rs.170.55 crore for 2010-11 and Rs.308.42 crore for 2011-12 to the State. The entire two years' grant of Rs.478.97 crore was apportioned among the GPs, JPs and ZPs initially in the ratio of 60:25:15 respectively. Following this formula State Govt. released Rs. 102.14 to GPs, Rs. 42.73 crore to JPs and Rs. 25.68 crore to ZPs in the year 2011-12. However later the ratio was changed to 70:20:10.

3.24 Detailed guidelines were issued by the State government for the utilization of the Central FC Grants. The General Areas Basic Grant and the Aggregate Special Areas Grant were allocated to the ZPs and JPs sector-wise (30%), and exhaustive list of works that could be taken up under each of the specified sectors were clearly indicated. Similarly works which could be taken up with the grant earmarked to GPs (70%), were also specified, without any specific sectoral allocation of the grant.

Urban Local Bodies

3.25 Under 13th FC Award, Rs. 453.02 crore was allocated to Urban local bodies towards general and basic grant (Rs. 417.10 crore) and special area basic & performance grant (Rs. 35.10 crore) as has been shown in table 3.10. The State Govt. decided to allocate these funds to undertake works relating to solid waste management (SWM), storm water drainage, water supply, sanitation and other related works as also to maintain a database on all aspects of urban governance. The allocations to different types of ULBs can be seen from the Table 3.11.

Table 3.11 : Allocation of Funds to ULBs under 13th Finance Commission

(Rs. in crore)

	Type of ULBs	SWM	SW Drains	Water Supply	Sanitations	Database	Total
1	Muni. Corporation	91.68	82.04	53.74	28.01	3.75	259.22
2	13 Muni. Councils	10.18	27.14	36.82	2.4	3.25	79.79
3	19 Muni. Councils	--	--	--	--	--	10.65
4	6 NPs	8.96	9.7	7.75	2.85	1.5	30.76
5	120 NPs						71.35
	Total						451.77

The Commission found variations in the allocation of funds to the different types of ULBs. Municipal Corporations got 52.22 percent; Municipal Councils 20.24 percent and NPs 22.54 percent. This is broadly in tune with the population of these three types of local bodies

as per census 2001. The Municipal Corporations were allocated Rs. 259.22 crore. In case of MCs the Govt. allocated Rs. 91.69 crore of which Rs. 79.79 crore were allocated to 13 MCs and the remaining to the other MCs for the procurement of solid waste machinery. Similarly Rs. 102.11 crore were allocated to NPs of which Rs. 30.76 crore were given to six NPs and the remaining to 120 other NPs for procurement of machinery for solid waste and the remaining to 120 other purposes.

3.26 The Govt. laid down criteria for allocation of 13th FC funds based on population, demand, potential for investment, absorption capacity, etc. The Govt. assumed that several local bodies do not have adequate capacity to absorb funds and allocated based on its judgment. The district head quarter ULBs received higher allocations than others as the government felt that these ULBs need to improve their infrastructure. In the informal discussions the Commission have had with the officials, it was informed that as the release of 13th FC funds is subject to submission of utilization certificates and the government seem to have considered the capacity of the ULBs to commit expenditure and submit the certificates on time.

3.27 There appears to be a need for some element of uniformity in the approach of successive Finance Commissions so far as grants to local bodies are concerned. For instance, specific earmarking of grants to maintenance of accounts and creation of a data bank was made by the 9th Finance Commission, while no such earmarking was made by the subsequent commissions. States may find it difficult to meet costs involved after the award period is over, if they act upon the recommendation of a Finance Commission that involves outlay of a recurring nature. It is desirable if each Finance Commission selects certain core areas for which local bodies need some earmarked grants. This, the State Govt. may recommend for consideration of the 14th Finance Commission.