

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATION
MADE BY THE THIRD STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE
STATE GOVERNMENT ON 23RD MARCH, 2010.

1. The Third State Finance Commission (hereafter referred to as Commission) was constituted by the Governor on March, 4th 2009 to review the financial position of the Panchayat & Municipalities; to give recommendation to improve the financial position of the Panchayats as well as the Municipalities; to examine the resources of the local bodies; maintenance and upkeep of the Capital assets created by local bodies or transferred by the Government to the local bodies ; to workout factor for determination of devolution of taxes, duties and grants-in-aid and to indicate the basis and make available the estimates and expenditure of each tier of local bodies during 2010-15. The Commission submitted its report to the Government on March 23rd, 2010 covering all aspects of its mandate.
2. The report of the Commission (hereafter referred to as the Report) covering the periods of five year commencing from April 1, 2010, together with this Explanatory Memorandum of the Commission is being laid on the Table of the House. The summary of the main recommendations of the Commission relating to the sharing of net proceeds between the state and the Panchayat as well as the Municipalities; grants-in-aid to the local bodies are contained in Chapter X of the Report of the Commission.
3. The Government has carefully examined the main recommendations of the Commission. The action to be taken on these recommendations is detailed below.
4. **Power to approve the rates for levying of taxes and fees.**

RECOMMENDATION

ACTION TAKEN

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| <p>The Commission has recommended that the power to approve the rates for levying of taxes & fees may be delegated to District Planning Committee.</p> | <p>This power has been retained by the Government since, the District Planning Committee is statutory body specifically constituted to supervise the formulation of the Developmental Plan at the GPs/ZPs & ULBs level. However, Government decided to constitute an appropriate mechanism to oversee this.</p> |
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5. **Recommendation pertaining to operate two accounts.**

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| <p>The Commission has recommended to operate two accounts, one for receipts of grants from the State Government & another for depositing the fees, taxes & user charges collected by the Gram Panchayat.</p> | <p>No action regarding this is required since the simplified format of accounts prescribed by C & AG for PRIs addresses this issue, Thus, right booking of receipts under the prescribed head will facilitate distinction of receipt.</p> |
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6. Recommendation for creation of Directorate of Local Fund Audit (DLFA) under FRED

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| <p>Commission has recommended for creation of Directorate of Local Fund Audit (DLFA) under FRED. The DLFA shall be responsible for conducting audit of all the GPs, ZPs and ULBs.</p> | <p>The Government has accepted the recommendation of the Commission, since, one of the conditions for release of General Purpose Grant awarded by Thirteenth Finance Commission is that the Annual Report of the DLFA must be placed before the State Legislative. Thirteenth Finance Commission recommends that all the State Government must strengthen their Local Fund Audit Departments appropriately through both Capacity Building as well as augmentation of personnel. Therefore, modalities relating to the constitution of the body will be prescribed by the Government.</p> |
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7. Recommendation pertaining to the collection of Taxes.

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| <p>The Commission has recommended for the Collection of taxes /tolls/fees & user charges by PRIs at Chapter X , Para -2 of the Report.</p> | <p>Government has accepted the recommendation with some modification i.e. Household Tax for resorts, hotels, restaurant and guest house to be modified to Rs. 2500 /-p.a. in place of Rs. 5000/-p.a. as recommended by the Commission.</p> |
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8. Recommendation pertaining to Allocation of Resources to the PRIs.

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| <p>The Commission has worked out the gap between administrative expenditure & own revenue of the PRIs to the tune of Rs. 418.00 lakhs for the year 2010-11 and Rs. 2600.00 lakhs for the period of 5 years i.e. 2010-15. Therefore, the Commission has recommended that this gap as mentioned above may be met by sharing of 2% of net proceeds of the following revenue of the State Government & duly supplemented by Grants-in-aid by the State Government which comes to Rs. 362.58 lakhs for 2010-11 & figures for next five years i.e.2010-15 are depicted in Table 5 of the Report.</p> <ul style="list-style-type: none"> a) Land Revenue b) Stamp & registration c) Tax & Sale, Trade etc. d) Animal Husbandry e) Forestry and Wildlife f) Minor Irrigation g) Village and Small industries h) Tourism | <p>The Government has accepted the recommendations of the Commission subject to the availability of adequate funds.</p> |
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9. **Recommendation pertaining to internal distribution of share of Revenue.**

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| <p>The Commission has recommended for the internal distribution of share of revenue between the ZPs & the GPs in the ratio 40:60 and the horizontal distribution among the various ZPs and the GPs will be on share percentage based on population figures of 2001.</p> | <p>The Government has accepted the recommendation with minor modification in the ratio 30:70 in place of 40:60 as recommended by the Commission.</p> |
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10. **Recommendation for providing specific purpose Grants to PRIs out of State Plan.**

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| <p>The Commission has recommended that for a period of the five year i.e. 2010-15, the State Government may provide Specific Purpose Grant from the 15 Sectors (mentioned in Chapter-X, Para 3(vi)) at a percentage rate ranging from 2% to 35% (approx.) as per the details given in the Table-9 of the Report. The total allocation under this head comes to Rs. 7679 .30 lakhs for 2010-11 and for 5 years (2010-15) it works out to Rs. 46882.88 lakhs excluding teachers Salary upto JHS level.</p> | <p>The Government has accepted the recommendation of the Commission subject to availability of adequate funds.</p> |
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11. **Recommendation for Providing General Purpose Grant to PRIs.**

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| <p>The Commission has recommended for providing General Purpose Grant to the PRIs at 20% (approx.) of the State Plan budget under RM&DD Sector as untied fund in addition to Specific Purpose Grant. It is estimated that the annual allocation of this General Purpose Grant would come to Rs. 2439.00 lakhs (for 2010-11) and for 5 years this grant would come to Rs.14891.00 lakhs (2010-15). The Commission has further recommended that the internal distribution of this grant between ZPs and GPs may be in the ration 10:90 & it is further recommended that horizontal distribution among the various GPs and ZPs may be based on population.</p> | <p>The Government has accepted the recommendation of the Commission subject to availability of funds. The said grant is subject to review based on performance.</p> |
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12. Recommendation pertaining to collection of Revenue by Municipalities (ULBs).

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| <p>The Commission has recommended that the proposed 7 nos. of Municipalities may impose & collect the following revenues (as per details in Table 16 of the Report)</p> <ul style="list-style-type: none">a) Property Taxb) Toll Taxc) Other Taxesd) Sanitation Chargese) Parking feesf) Rent from Premisesg) Other Chargesh) Blue print feei) License Feej) Other feesk) Fines. <p>The anticipated collection for 2010-11 from above sources would be Rs. 316.00 lakhs and Rs. 1919.00 lakhs for 5 years(2010-15)</p> | <p>The Government has accepted the recommendation of the Commission. The administrative department i.e. UD & HD shall devise appropriate methodology to impose and collect the revenue.</p> |
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13. Recommendation pertaining to Sharing of Tax and Grant to ULBs.

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| <p>The Commission has recommended for sharing of entertainment tax and trade tax/VAT out of the net proceeds of the state revenue as per details provided in Table 19 of the Report of the Commission. The administrative expenses for ULBs are estimated at Rs. 767.00 lakhs for 2010-11 and Rs. 4678,00 lakhs for 2010-15. The gap between the administrative expenses and the own revenue of ULBs comes to Rs. 451.00 lakhs for 2010-11 and Rs. 2759.00 lakhs for 5 years (2010-15) out of the net proceeds of the State's revenue under Entertainment Tax and Trade Tax./VAT, the Commission has recommended to share Rs. 125.00 lakhs for 2010-11 and Rs. 685.00 lakhs for 5 years (2010-15) Further, Commission has recommended for providing Grant @Rs.2000.00 lakhs annually with 10% increase i.e. Rs. 12210.00 lakhs for 5 years (2010-15) to ULBs for carrying out different developmental activities</p> | <p>The Government has accepted the recommendation with devolution to be limited to 1.5 % of the net collection. Further, Grants to be released subject to review of performance of ULBs.</p> |
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14. Recommendation of Thirteenth Central Finance Commission.

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| <p>As per provision under Article 280(3) (bb) of the Constitution of India, the 12th Central Finance Commission had allocated Rs.1400.00 lakhs to Sikkim for PRIs and ULBs. The Commission has recommended that the Central Finance Commission/Government of India may allocate such grant @ Rs. 150 per capita per annum. The annual allocation would thus be Rs. 871.00 Lakhs & for 5 years (2010-15) it comes to Rs. 4355.00 lakhs.</p> | <p>Thirteenth Finance Commission has given its recommendations. Transfer of funds to be made as provided.</p> |
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15. Recommendation for Special incentive Grants.

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| <p>The Commission has recommended for providing special incentive grant of Rs. 20.00 lakhs to each of top 3 GPs and Rs. 30.00 lakhs to the top ZP annually after monitoring and evaluation of performance of the PRIs by Directorate of Panchayats.</p> | <p>The Government has accepted the recommendation of the Commission with minor modification as follows.</p> <p>Rs. 2.00 lakhs to each of top 4 GPs Rs. 5.00 lakhs to one top ZP annually</p> |
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16.(a) Recommendation Pertaining to Administrative Reforms for Effective decentralization.

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| <p>The DPCs are Constitutional bodies constituted as per requirement under Article 243 ZD of Constitution of India. The District Planning Committees in the State have been constituted, however, their functioning is not effective. To make the DPC more effective to fulfill the mandate provided by the Constitution, the Commission has recommended that the DPC should be under direct administrative control of DPER & NECA Department. The DPO shall also be under the control of DPER & NECA Department. The Planning Department should create a separate cell in the Planning Department to monitor the functions of the DPCs.</p> | <p>The Government has accepted the recommendation of the Commission Separate Demands No. 43 and 46 are proposed to be opened for PRIs and ULBs respectively under the administrative control of Development Commissioner, DPER & NECAD.</p> |
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RECOMMENDATION**ACTION TAKEN**

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| <p>16.(b) The Commission recommended that all the plan funds of the various Departments reflected in the respective budget of various Line Departments should be placed at the disposal of the Development Commissioner who will re-allocate the fund to the DPO.</p> <p>16(c) The Commission recommended that every GPs should prepare Annual budget which will take into consideration the Sectoral allocation for GPUs. The Budget of GPs will be place in Gram Sabha and after approval of Gram Sabha will be submitted to DPC, DPC will examine the budget (in prescribed format) of GPs and will approve the budget or return it to the GP with the observation if any. If the budget is returned back to the GP by DPC, the GP should rectify the budget and obtain the approval of the Gram Sabha and re-submit to the DPC.</p> <p>16(d) The Commission has recommended that, all the fund whether pertaining to certain revenue, taxes etc. must be accounted for in the budget and no drawal from any of the GP account should be made which is not in consonance with the approved budget. The DPC may constitute Sub-Committees to examine the budget of two or three GPs and Sub-Committee will submit their report to the General body of DPC, The member of the Sub-Committee may be selected in the DPC meeting for the period as determined by DPC. The DPC may invite Government officials of various departments with having knowledge of finance to be member of Sub-Committee.</p> | <p>This recommendation may not be acted upon in view of the fact that from this current financial year a separate head of demand for grants has been created for PRIs in the Government budgets.</p> <p>The Government has accepted the recommendation of the Commission.</p> <p>The Government has accepted the recommendation of the Commission.</p> |
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17. Procedure for levies taxes/fees by PRIs.

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| <p>The Commission has recommended that every GP and ZP shall have a separate account for Non-Plan Grant including Collection of revenue. All the revenue collected or levied etc. will be deposited in this account. The Non-Plan grant of Government shall also be deposited in this account. Accordingly, the Commission has recommended that the Panchayat Act and Finance Rules should be amended to allow for different account one for Plan and other for Non-Plan by respective GPs.</p> | <p>No action regarding this is required since the simplified format of accounts prescribed by C and AG for PRIs addresses this issue.</p> |
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| <p>The Commission has recommended that the regular training programme to be organized for GP & ZP members to impart them necessary skills for effective administration.</p> | <p>The Government has accepted the recommendation for the Commission.</p> |
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| <p>The Commission has recommended that the PRIs should follow the GP Financial Rules and ZP Financial Rules strictly and prepare annual statement of Accounts. Monthly Statement of accounts; Annual Budgets etc. Directorate of Panchayat should conduct effective monitoring and supervision of the respective Panchayat.</p> | <p>Model Accounting System be adopted by all the GPUs.</p> |
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| <p>The Commission has recommended that a State Finance Commission Cell may be set up within FRED.</p> | <p>The Government has accepted the recommendation of the Commission Finance Commission Division under FRED shall be entrusted with the work of the State Finance Commission Cell Notification regarding this shall be issued.</p> |
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| <p>The Commission has recommended that one accountant and one Chowkidaar to each GP may be provided. The GPs may be empowered to select and appoint suitable Candidates on suitable Pay. The GPs will meet up the expenditure from their own revenue.</p> | <p>Posting of one Accounts personal to each GPUs will be taken up by FRED. The GPUs may appoint Chowkidar for the Gram Prasashan Kendras provided they are able to meet the wage component from within their own resources.</p> |
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| <p>The Commission has recommended that the Salary of Rural Development Assistant & Gram Rojgar Sahayaks posted under GPs should be paid through respective GPs. Similarly, the honorarium of GP members should be paid through concerned Gram Panchayats.</p> | <p>The Government has accepted the recommendation of the Commission.</p> |
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| <p>The Commission has recommended that the quantum of grants that will be available to each Gram Panchayat and Zilla Panchayat should be predictable & specific. No re-appropriation from Sectoral funds earmarked for PRIs should be allowed.</p> | <p>The Government has accepted the recommendation of the Commission.</p> |
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| <p>The Commission has recommended that Grants to PRIs should be released in two installments. Various Line Departments should place the entire earmarked PRI funds at the disposal of Development Commissioner through letter of allotment at the beginning of the year. The Development Commissioner may re-allocate the fund to 4 DPOs who will transfer the funds to the PRIs.</p> | <p>The entire budget of the PRIs are being reflected in a separate head of account from the Current Financial Year. Therefore, no action on this is required Since, the fund from Government of India is released in monthly installment , grants to PRIs will be released in 4- installments as usual.</p> |
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| <p>The Commission has recommended that the PRIs should submit the Utilization Certificates on annual basis to DPO who will forward copies to all concerned Line Departments & DLFA.</p> | <p>The Government has accepted the recommendation of the Commission. However, there is no need to forward the copies of Utilization Certificates to all concerned Line Departments. Since a separate demand for PRIs is proposed from this financial year.</p> |
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| <p>The Commission has recommended that the State Finance Commission should be constituted in advance in such a manner or that the report of the State Finance Commission is available for consideration of the CFC. Accordingly the 4th State Finance Commission may be constituted in November 2013.</p> | <p>The Government has accepted the recommendation of the Commission.</p> |
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IMPLEMENTATION:

Appropriate orders relating to share in State Taxes, duties and grants-in-aid on various recommendations of the Third State Finance Commission will be issued after obtaining the approval of the Governor. Other Recommendations of the Commission will be acted upon in the course.

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DEVELOPMENT DEPARTMENT.**