CHAPTER - 2

Approach and Issues

Introduction

2.1 Broadly speaking, the fundamental task of the Assam State Finance Commission (ASFC) is to fulfill the Constitutional mandate as laid down under Articles 243 I and 243 Y. As such, its approach and issues are directly related to the provision of the Constitution as well as the Terms of Reference (ToR).

2.2 In this regard, Article 243 I and 243 Y empowered the ASFC to make recommendations as to the principles which should govern the (i) sharing of the net proceeds of taxes, duties, tolls and fees leviable by the State Government with the Panchayats and Municipalities and allocation between the Panchayats and Municipalities at all tiers of their respective share of such proceeds, (ii) the determination of taxes and duties which may be assigned to, or appropriated by the Panchayats and Municipalities and (iii) the grant-in-aid to the Panchayat and Municipalities from the Consolidated Fund of the State. Simultaneously Articles 243 G and 243 W empower the State Legislature to endow the Panchayats and Municipalities with such powers, authority and responsibilities as may be necessary to enable them to function as institutions of self-government particularly in respect of the subjects listed in the Eleventh and Twelfth Schedules.

2.3 By and large, the 73rd and 74th Constitutional Amendment sought to provide the Panchayat and Municipalities with adequate powers, functions, finances and functionaries to enable them to function as robust institutions of self-government at the grass root level. The radical empowerments carry with it the responsibilities of delivering basic civic services, expanding both the coverage and quality of services. The core civic services that the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) are expected to perform include water supply, sanitation, sewerage, drainage, street lighting etc. that impact upon the lives of the people on a daily bases. In this regard, the Second Administrative Reforms Commission (ARC) observed, that in the matter of devolution of powers, responsibilities and functions to the local governments, the principle of subsidiarity is the best option. The principle of subsidiarity affirms that in the matter of service delivery a Central Authority should have a subsidiary role, performing only those functions which cannot be performed by a local body. It implies that all civic functions shall be carried out by local units closest to the people at the smallest unit of governance as possible and delegated upwards only when the local units are unable to perform such functions. It is imperative therefore, for the local bodies to ensure core civic services to the preference of local people so that they do not feel excluded because of the choice of their residential location.

Skewed Allocation of Resources

2.4 In terms of the Constitutional Amendments, the functional canvas of the PRIs and ULBs has been sufficiently enlarged. In contrast, the resources statutorily allocated to them are less buoyant and suffer from extremely low yield. In this regard, Article 243 H and 243 X subjected the Panchayats and Municipalities to have access to such sources of revenue as the State Legislature may by law, confer on them. Thus, the State still enjoys supreme power in the matter of devolution of funds to PRIs and ULBs. Again, the Seventh Schedule of the Constitution enumerates the subjects entrusted to the Union and the States along with the sources of revenue allocated to them. Whereas, the Eleventh and Twelfth Schedules have only listed the subjects allocated to Panchayats and Municipalities without specifying the sources of revenue. This has led to their growing dependence on upper two levels of government for financial support. Moreover, due to historical reasons the PRIs and ULBs have also not been able to explore the sources of revenue assigned to them to its full potential. This has further enlarged their growing dependence on the State. In this regard, our approach would be to put the local bodies on sound financial footing commensurate with their enlarged functional canvas, keeping also in view the need to minimize both vertical and horizontal imbalances.

Dimension of Local Government

2.5 The task before the Commission is challenging because of the wide diversity in the demographic fabric of the State. The state is composed of General Area and Sixth Schedule Areas. The General Area is sharply divided into two valleys viz. the Brahmaputra Valley and the Barak Valley separated by the hills. Apart from General category, the General Area is inhabited by different plain tribes and ethnic groups. The Sixth Schedule Areas is composed of both hills and plains and its inhabited by people of diverse ethnicity. Table- 2.1 below gives a fair representation of the size and dimension of local government proposed to be covered in our scheme of fiscal decentralization.

Table- 2.1

PRIs and ULBs in Normal and Excluded Areas

Tier	No of Tier	Total Area (Sq. KM)	Average Areas (Sq. KM)	Population 2011 Census	Average Population
Normal Areas					
ZP	26	40659.00	1564	237.18	9.14
AP	185		220		1.28
GP	2197		18		0.11
M. Corp.	1	216.79	216.79	9.57	9.63
MB	80	503.32	5.93	22.09	0.28
Total - A	**2489**	**41379.11**		**268.84**	
Excluded Areas					
BTC					
VCDC	415	8941.00	21.43	30.01	0.07
MB	9	46.33	5.79	1.49	0.18
KAAC					
VCDC	26	10279.00	399	8.21	0.32
MB	9	46.89	7.61	1.36	0.16
DHAC					
VCDC	20	4891.00	242	1.52	0.07
MB	4	38.79	9.70	0.62	0.15
Total -B	**483**	**24243.01**		**43.21**	
Grand Total (A+B)	**2972**	**65622.12**	**--**	**312.05**	**--**

2.6 It appears from the above Table that the Commission is expected to put in place a transfer mechanism covering about 2489 units of PRIs and 81 ULBs in Normal areas alone covering an area of approximately 41379.11 sq. km and a population of approximately 269 lakh. Simultaneously, another 461 PRIs and 22 ULBs in Excluded areas covering an area of 24243.01 sq. km (approximately) and its population of 44 lakh (approximately) has to be taken care of. The enormity of the task is evident from the above table.

Size of Gram Panchayat

2.7 It appears from table 2.1 that the average area of a Gram Panchayats in normal area of Assam is 18 Sq. km with an average population of 11000 per GP. The situation is different in the Excluded areas where a Village Development Council (VDC) is constituted with an average population of 7000. This has seriously undermined the financial viability of the grass root level institutions. In this regard, the Assam Panchayat Act, 1994 stipulates that each GP will have population ranging between 6000 to

10000. But the ground position indicates that a sizeable number of GPs have population of less than 6000. It is suggested that there is enough scope for compression at the grass root level by merger and reconstitution so as to make the size of GPs financially and administratively viable.

Excluded Area

2.8 In terms of the provisions under Article 243 M and 243 ZC, Sixth Schedule Areas were treated as Excluded areas for the purpose of 73rd and 74th Amendments and as such, remained outside the purview of Finance Commission awards. Nevertheless, the Tenth, Eleventh, Twelfth and Thirteenth Central Finance Commissions apportioned and recommended certain allocation for the local bodies of Excluded areas. However, the 14th Finance Commission did not recommend any grant for the Excluded Areas in view of the prevailing Constitutional provisions in this regard. This has given rise to an anomalous situation between the local bodies of Normal Areas and that of Excluded Areas. Hence, our approach would be to bring the Excluded Areas within the purview of ASFC award. In this regard, the present ToR enjoins us to make an assessment and recommend devolution and grant to the local bodies of Excluded areas.

Interval Revenue Mobilisation

2.9 There is no doubt that financial autonomy cannot be attained and made sustainable merely by devolution of funds to the local Govt. For ensuring financial autonomy, internal revenue mobilization by the PRIs and ULBs is an imperative need. There is an urgent need for the local Govt. to appreciate that devolution of fund from Govt. is meant to supplement their resources and not supplant it. Hence, a determined and sustained effort needs to be made by the PRIs and ULBs to augment their own revenue from sources allocated to them by broadening and deepening the revenue base. In this regard, our approach would be to incentivise the PRIs and ULBs particularly based on their performance in the field of revenue mobilization. Incentive grant will be provided in keeping with their efficiency in own tax collection, improvement in service delivery, preparation of budget as per prescribed format and timely completion of accounts.

Needs of AP and ZP

2.10 One important feature arising from the recommendations of the Fourteenth Finance Commission is that the local body grant recommended by them was intended for GPs only which are directly responsible for the delivery of the basic services at the assaying cutting edge without any share for the upper two tiers of the Aanchalik

Panchayats and Zilla Parishads. They further observed that the State Govt. was expected to care for the needs of the upper tiers. Hence, our approach would be to put the Aanchalik Panchayats and Zilla Parishads on a sound financial footing to enable them to fulfill their statutory obligations.

Urban Centric Migration

2.11 The spurt in migration of rural population to urban centres in search of employment has been continuing for last several decades. Moreover, a sizable number of floating population visit the Urban centres frequently on work and business. This has put great stress on the capacity of the urban local bodies particularly in providing water supply and services related to sanitation, solid waste management, street lighting etc. The Commission recognizes this as a critical area and its approach would be to strengthen the ULBs to augment their service delivery to cope with the emerging challenges.

Vertical and Horizontal Imbalance

2.12 As noted earlier, our basic approach would be to put PRIs and ULBs on a sound financial footing commensurate with their enlarged functional canvas envisaged in the Constitution, beside, keeping in view the need to maintain a judicious balance between vertical and horizontal dimensions of resource transfer. The task is difficult indeed and entails walking the fiscal tight rope. If the scales are tilted in favour of State Govt. it would be unfair for both the local Govt. and the State govt. In this context, our approach would be to minimize both vertical and horizontal imbalances as far as possible by striking a healthy equilibrium between the affordability of the state and the genuine requirements of local self Govt.

Vertical Dimension

2.13 Vertical dimension refers to the transfer of funds from the State Govt. to the PRIs and ULBs tier wise and category wise. Vertical imbalance arises as a result of mismatch between generation of own resources and responsibilities of the respective level of the Govt. In respect of the State govt. the Commission is required to consider the States own resources and demands thereon to meet mandatory expenditures on law and order, civil administration, pension, debt servicing including other contingent liabilities, other committed expenditure as also the need to generate adequate surplus for capital investment. On the other hand, the PRIs and ULBs are mandated to perform various civic as well as economic development functions as envisaged in the Constitution. Apart from these civic functions this includes all matters listed in Schedule XI and XII of the Constitution for the PRIs and ULBs respectively. The sources of revenue statutorily allocated to them are less buoyant in nature and suffer from extremely low yield thereby accentuating the yawning mismatch between resources and responsibilities.

Divisible Pool

2.14 The vertical dimension of resource transfer from the state to the local govt. is sought to be addressed by creating a Divisible Pool (DP) consisting of net proceeds of taxes and duties levied and collected by the State govt. Usually taxes and duties are collected by the State govt. from three sources viz. i) states own taxes and duties, ii) states share of central taxes and iii) non tax revenue. As per Constitutional provision only the taxes and duties levied and collected by the State govt. is shareable with the Panchayats and Municipalities. In view of this, State share of Central taxes is left out of consideration of Divisible Pool. Again, non tax revenue is collected mainly from interest, dividend, royalty on mineral and forest. Other collections in this category are of the nature of user charges and fees collected from beneficiaries in lieu of services provided by State govt. and hence not considered for sharing. Having regard to the insufficient resources of the State and heavy demand thereon to meet its obligatory expenditure, royalty on minerals and forest are also kept outside the Divisible Pool. Accordingly, the Divisible Pool is proposed to be constituted out of a certain percentage of the net proceeds of taxes and duties levied and collected by the State govt. The size of the Divisible Pool depends on the fiscal capacity of the state vis-à-vis need of the local govt. keeping in view the necessity to upgrade the service delivery. Our approach would be therefore, to minimize vertical imbalance and strike a judicious balance between the fiscal capacity of the state and the needs of the local government. Wherever necessary, tax devolution is proposed to be supplemented by schematic grant-in-aid.

Horizontal Dimension

2.15 The horizontal dimension refers to inters distribution of transferred funds among the individual units of each tier of PRIs and categories of ULBs. Horizontal imbalance arises due to differences in fiscal capacity and differential cost of service delivery. While fiscal capacity is inherent, cost disability arises due to exogenous factors like disproportionately large area, thin spread of population, remoteness of location, proneness to natural calamities etc. The disparity in fiscal capacity is measured by using proxies like per capita income, per capita tax collection and per capita availability of basic infrastructure. The horizontal disparity is sought to be addressed by adopting an inter-se distribution mechanism based on certain objective criteria. Here, again our option is very limited due to lack of data. Other than population and area, reliable data particularly up to the GP level is not available. Hence, wherever necessary, tax devolution is sought to be supplemented by grant to address horizontal imbalance.

Assigned Taxes

2.16 The ToR mandated this Commission to recommend the principles which should govern the determination of the taxes, duties, tolls and fees, which may be assigned to or appropriated by, the Panchayats and Municipalities. Assignment of taxes to local government is feasible only in respect of local taxes like Land Revenue, Entertainment tax, Entry tax, Professional tax etc. However, in the case of Assam, local bodies are yet to be properly equipped with staff and required administrative set up. Moreover, the yield from such taxes being narrow compared to cost of collection, assignment may be counter-productive. As such, it is desirable to collect such taxes at the state level and share the proceeds thereof with the LSGs.

Normal and Excluded Areas Allocation

2.17 As noted earlier the ToR given to us require making recommendations for Devolution and Grant-in-Aid to the local bodies of the Excluded Areas. As such, given the size of the Divisible Pool, at the first instance, it is proposed to bifurcate allocation between Normal and Excluded areas. In this regard, the procedure followed by the Govt. of Assam for allocation of plan outlay between General and Sixth Schedule Areas was 80.54% allocation to the General Areas and 19.46% to the Sixth Schedule Areas. Further, the allocation of Sixth Schedule Area was apportioned at the ratio of 12.19% to BTC, 5.09% to KAAC and 2.18% to DHAC. This formula worked satisfactorily during the Plan Era. The Commission is inclined to adopt this formula for bifurcation of the DP between the Normal and Excluded areas.

Rural - Urban Bifurcation - Normal Area

2.18 Now, that the size allocation of the Divisible pool for the Normal Area is determined, the rural urban bifurcation is to be considered at the next stage. It is proposed to be apportioned on the basis of population and area giving 80% weightage to population and 20% to density of population.

Share of PRIs - Normal Area

2.19 Given the rural urban bifurcation of the Divisible pool for the Normal area, in the first instance, it is proposed to allocate funds to different districts on the basis of the weighted average of three factors viz., population 50%, area 25% and net District Domestic Product at current prices, net of mining and quarrying 25%.

2.20 At the second stage, the district wise allocation for Rural Areas of Normal Area is proposed to be apportioned among the three tiers of PRIs. In this regard, the Fourth SFC recommended inter tier rate at 10:25:65 respectively for ZP, AP and GP. However, the Fifth SFC changed this ratio to 30:30:40 for ZP, AP and GP respectively, keeping in view the recommendations of the 14^{th} FC, that their award should go to GPs only. We are therefore inclined to adopt the inter tier ratio recommended by the 5^{th} ASFC i.e. 30:30:40.

2.21 At the final stage of the devolution for the rural Areas, the share of each AP and GP shall be determined on the basis of their population as per 2011 census.

Share of ULBs - Normal Area

2.22 In case of ULBs the urban areas of the DP for the Normal Area is proposed to be allocated between the Municipal Corporation and Municipal Board on the basis of weighted average of four variables viz., i) population 50%, ii) Area 25%, iii) index of infrastructure 12.5% and iv) Per capita tax collection 12.5%. The index of infrastructure is constructed on the basis of three variables viz., i) length of the surface road, ii) length of pukka drains and iii) No. of street lights giving equal weightage to each factor.

Excluded Area
Rural Urban Divide

2.23 Given the size of the Divisible Pool for Excluded areas in para 2.17, its rural urban bifurcation is considered at the next stage. It is proposed to be allocated on the basis of population and area giving 80% weightage to population and 20% to area.

Share of VDC

2.24 At the second stage, the rural part of this Divisible pool for Excluded Area is proposed to be allocated among BTC, KAAC and DHAC at the ratio of 12.19:5.09:2.18 respectively and in percentage terms it accounts for 62.64% for BTC, 26.16% for KAAC and 11.20% for DHAC. After retaining 20% for the Autonomous Councils, the share of each village council within each Autonomous Council will be determined on the basis of their respective population as per 2011 census.

Share of ULBs

2.25 In case of ULBs the urban part of the Divisible pool for Excluded area is proposed to be allocated among BTC, KAAC and DHAC at the rate of 62.64% for BTC, 26.16% for KAAC and 11.20% for DHAC. Having determined the allocation for each Autonomous Council, the share of each Municipal Board will be determined on the basis criteria adopted for the General Areas.