CHAPTER - 3
Status of Implementation of Previous

State Finance Commission Recommendations

3.1 In terms of the provisions of Articles of 243I and 243Y of the Constitution of India read with provision of Section 2(1) of the Assam Finance Commission (Miscellaneous Provision) Act, 1995, the Government of Assam had, so far, constituted Sixth Assam State Finance Commission including the present one as per details shown at Table- 3.1 below:

Table-3.1
Constitution of ASFC

No. of SFC	Date of Constitution	Date of Report Submission	Date of ATR	Period covered
First	23.06.1995	29.02.1996	18.03.1996	1996-97 to 2000-01
Second	18.04.2001	18.08.2003	07.02.2006	2001-02 to 2005-06
Third	06.02.2006 Reconstituted on 03.07.2006	31.03.2007 (Interim Report) 27.03.2008 (Final Report)	25.09.2009	2006-07 to 2007-08 2008-09 to 2010-11
Fourth	23.04.2010	25.03.2011 (Interim Report) 18.02.2012 (Final Report)	13.07.2011 07.02.2014	2011-12 2012-13 to 2015-16
Fifth	05.03.2013 Revisit 29.10.2015	30.09.2014 (Interim Report) 30.11.2016 (Final Report)	22.05.2017	2016-17 to 2019-20
Sixth	09.11.2018	29.02.2020		2020-21 to 2024-25

3.2 It is seen from the above table that the award period of Fifth ASFC had been curtailed to four years. This was done with a view to ensure synchronicity with the Central Finance Commission. As a result, the Fourteenth Finance Commission was made co-terminus with Fifth ASFC and the Sixth ASFC is synchronized with the Fifteenth Finance Commission. However, it may be pointed out that the target date of submission of both the Sixth ASFC and the Fifteenth Finance Commission is 30/10/2019. Therefore, the Fifteenth Finance Commission will be unable to get the report of the Sixth ASFC before finalization of their report. What is necessary is that, the SFC report should be made available timely to the Central Finance Commission, particularly before finalization of their report, so that an assessment of the State's needs can be made by them on the basis of the findings of SFC.

First SFC
(1996-97 to 2000-01)

a) Action taken on Recommended Devolution of Fund

3.3 In the matter of tax devolution the First ASFC favoured continuation of the prevailing practice of sharing the proceeds of some selected taxes viz, Motor Vehicle Tax, Entertainment Tax and Land Revenue. Their recommended tax devolution conformed to 2 percent of the gross proceeds of taxes levied and collected by the State Government. In addition, they recommended nominal grant of Rs.1000 per local body for the first year and thereafter at Rs.500 per year for the purpose of maintenance of accounts and upkeep of registers. Their recommendations though accepted remained unimplemented, albeit finalisation of ATR on 18-03-1996.

b) Action Taken on other Recommendations

3.4 Other important recommendations of the First ASFC included

i. Change in procedure of levying property tax,
ii. Levy of tax on vacant land,
iii. Collection of user charges,
iv. Transfer of registration of birth and death to local bodies,
v. Provincialisation of ULB staff,
vi. Re-constitution of GP on population varying from 6000 to 8000,
vii. Setting up of a Tariff Commission and,
viii. Creation of permanent SFC Cell in Finance Department.

3.5 All the above recommendations were accepted but not implemented within the time frame of First ASFC. However, some of these recommendations were subsequently implemented based on recommendations of future ASFCs.

Second ASFC
(2001-02 to 2005-06)

(a) Action Taken on Recommendations related to Devolution of Fund.

3.6 In the matter of devolution of finances to local bodies, the Second Assam State Finance Commission, for the first time, deviated from the prevailing practice of sharing the net proceeds of some selected taxes and duties and favoured its replacement by a global sharing of the net proceeds of all taxes and duties levied and collected by the State Government. Accordingly, they recommended 3.5 percent of the net proceeds of taxes and duties levied and collected by the State to be shared with the local bodies. Apart from tax devolution, they recommended grant of Rs.10 crore annually to the ULBs to compensate the losses incurred on account of abolition of check gates and collection on parking places. The recommendations were accepted, without modification, but not implemented.

(b) Action Taken on other Recommendations

3.7 Other recommendations of the Second ASFC included, inter alia, the following:-

i. Internal revenue mobilization by PRIs and ULBs,
ii. Synchronization of the financial year of PRIs with that of State Government,
iii. Termination of dual authority in the matter of granting building permission by ULBs,
iv. Separate pay structure for local bodies,
v. Separate norms for maintenance of assets by local bodies,
vi. Creation of data bank,
vii. Creation of a separate SFC cell in the Finance Deptt. All these recommendations were accepted but not implemented during the award period.

Third ASFC
(2006- 07 to 2010-11)

(a) Action Taken on Recommendations on devolution of fund.

3.8 The Third ASFC submitted its report in two parts. The first part covered the first two years of the award period and the second part covered the remaining three years. The first report covered two fiscals 2006-07 and 2007-08. However, there were no recommendations for 2006-07, as the year came to a close before submission of their report. For the second year 2007-08, 10 percent of the net proceeds of taxes and duties levied and collected by the state amounting to Rs.363.77 crore was recommended as tax devolution. This was further supplemented by grant of Rs.81.24 crores. However, by the time the necessary formalities were completed, the second fiscal year 2007-08 came to a close, thereby the report went unimplemented for the first two years.

3.9 The second part of their report covered three years from 2008-09 to 2010-11. Devolution of 25 percent of the net proceeds of taxes and duties amounting to Rs.2800.33 crores was recommended. An additional devolution of Rs.258.26 crore was also recommended for merger of Block staff with the APs and DRDA staff with the ZPs. Tax devolution was supplemented by specific purpose grant of Rs.512.22 crore. All these recommendations were accepted without modification and ATR was finalized on 25-09-2009. However, against the tax devolution an amount of Rs.532.08 crore was released during 2008-09 to 2010-11. The additional devolution of Rs.258.26 crore was not utilized as the merger of Block staff with the APs and DRDA staff with the ZPs did not take effect at that time. Against the recommended grant, only about Rs.40.00 crore was released.

(b) Action Taken on other Recommendations

3.10 Notable among the other recommendations of the third ASFC were

i. Write-off of outstanding debt of PRIs,
ii. Organization of User's Association by PRIs in irrigation and drinking water supply schemes,
iii. Replacement of ARV Method by Unit area method in respect of property tax,
iv. Fixation of floor rate of taxes instead of ceiling limit,
v. Abolition of dual authority in granting building permission by ULBs,
vi. Rationalization of tax exemption under Assam Municipal Act,1956 and
vii. Abolition of the system of provincialization of local body employees.

3.11 Although the above recommendations of the Third ASFC was accepted and ATR finalized on 25-09-2009, they were implemented only partially. However, the recommendations regarding deprovincialization of Panchayats employees was not accepted.

Fourth ASFC
(2011-12 to 2015-16)

a) Action Taken on Recommendation for Devolution of Fund.

3.12 The Fourth ASFC submitted its report in two parts; the first part covered 2011-12 fiscal. The second part covered the remaining four years from 2012-13 to 2015-16. For the first year 2011-12, the Commission recommended 14 percent of the net proceeds of taxes and duties amounting to Rs.674.60 crore as devolution. Out of this, Rs.33.73 crore was kept aside for incentive fund, Rs.334.28 crores was recommended as specific purpose grant and the remaining amount of Rs.306.59 crore as Untied fund. In the second report covering four years from 2012-13 to 2015-16, the Assam State Finance Commission recommended 15 percent of the net proceeds of taxes and duties levied and collected by the State amounting to Rs.4165.62 crore as devolution. Out of this, Rs.2173.62 crore was recommended as specific purpose grant and the balance amount of Rs.1992.00 crore was earmarked as Untied Fund. The annual phasing of the recommended amount and its rural- urban divide is indicated in Table- 3.2 below:

Table- 3.2
Devolution and Grant by Fourth ASFC

(Rs. in Crore)

Year	**Devolution**			**Grant**		
	Rural	**Urban**	**Total**	**Rural**	**Urban**	**Total**
2011-12	222.94	83.65	306.59	120.28	214.00	334.28
2012-13	243.23	91.26	334.49	332.94	217.04	549.98
2013-14	320.93	120.42	441.35	332.94	207.47	540.41
2014-15	399.94	150.06	550.00	332.94	206.82	539.76
2015-16	484.40	181.76	666.16	334.62	208.85	543.47
Total	**1671.44**	**627.15**	**2298.59**	**1453.72**	**1054.18**	**2507.90**

3.13 In addition to devolution and specific purpose grant as indicated in Table-3.2 above, the Commission recommended a sum of Rs.264.24 crore as general purpose grant to the GPs at the rate of Rs.3.00 lakh each per year from 2012-13 to 2015-16.

3.14 All the recommendations for the year 2011-12 contained in the first report, other than an amount of Rs.33.73 crore representing incentive fund was accepted by State Government and ATR finalised on 13/07/2011. Against Untied Fund of Rs.306.59 crore, an amount of Rs. 217.08 crore was released during the year. Against Specific Purpose grant of Rs.334.28 crore, Rs.232.55 crore was released.

3.15 All the recommendations contained in the second part of the report pertaining to four years from 2012-13 to 2015-16 was accepted by the Government and ATR finalised on 07/02/2014. But, unlike the first report, the implementation was not followed up in respect of the second report. Against the recommended Untied Fund of Rs.1992.00 crore only Rs.1051.33 crore was released. Whereas, in respect of Specific Purpose grant only Rs.127.97 crore was released against the recommended amount of Rs.2173.62 crore.

(c) Action Taken on Other Recommendations

3.16 By and large, the other major recommendations of the Fourth ASFC are listed below:

i. Outstanding State Govt. loan against PRIs and ULBs to be written off,
ii. One time settlement of HUDCO loan outstanding against ULBs,
iii. Revised rate of remuneration to elected members of PRIs,
iv. Transfer of registration of birth and death to local bodies,
v. Levy of property tax based on Unit Area Method,
vi. To extend revised scales of pay to ULBs employees w.e.f. 01-04-2009,
vii. Creation of permanent SFC cell in the Finance Department,
viii. Synchronization of the award period of Central and State Finance Commission.

3.17 The above recommendations of the Commission were accepted by the Government and some of them have already been implemented.

3.18 The revised rate of remuneration to elected representatives of the PRIs had already been finalized. The revised scales of pay to ULBs employees had been extended but with prospective effect. The ULBs are gradually shifting to Unit Area Method in the matter of property tax. A temporary SFC cell had been set up in Finance Department which requires needs to be strengthened.

3.19 Apart from the above recommendations, the Fourth ASFC in a supplementary report recommended (i) Appropriate staffing pattern for Panchayat and Municipalities and (ii) Provicialisation of Panchayat employees. The recommendations regarding staffing pattern of PRIs and ULBs was accepted by Government with a few modifications. However, it is yet to be implemented. In regard to provincialisation, the present procedure is that only a certain number of posts of panchayats employees have been provincialised. The posts of employees of ULBs are not provincialised. This has created an anomalous situation. The Fourth ASFC recommended against the existing practice of provincialisation of the posts of Panchayat employees on the ground that this would affect the autonomy of the local bodies and that, the elected representatives of the Panchayats would have no control over the provincialised staff. However, the Government decided to continue provincialisation in respect of Panchayat employees.

Fifth ASFC
(2016-17 to 2019-20)

(a) Action Taken on Recommendations regarding devolution of Fund

3.20 The Fifth ASFC, for the first time, made an assessment of the requirements of the Excluded Areas and recommended devolution of fund to them as well. They recommended approximately 14 percent of the net proceeds of taxes and duties levied and collected by the State Government amounting to Rs.6679.87 crore during the award period covering four years beginning from 2016-17. Out of this amount, Rs.4748.70 crore was allocated to the Normal Areas and Rs.1931.17 crore to the Excluded Areas based on their needs as assessed by the Commission. The allocation of the Normal Areas consisted of Rs.3356.83 crore as earmarked grant and the balance amount of Rs.1391.87 crore as Untied Fund. Similarly, the components of earmarked grant and Untied Fund for the Excluded Areas was Rs.1880.32 crore and Rs.50.85 crore respectively. The annual phasing of the recommended amount between the Normal and Excluded Areas and also its rural- urban bifurcation is indicated in Table- 3.3 below:

Table- 3.3
Devolution and Grant by Fifth ASFC

(Rs. in Crore)

Year	Devolution			Grant		
	Rural	Urban	Total	Rural	Urban	Total
A. Normal Areas						
2016-17	135.29	165.46	300.75	493.21	359.78	852.99
2017-18	141.38	188.09	329.47	472.66	362.94	835.60
2018-19	148.13	214.07	362.20	471.46	360.86	832.32
2019-20	155.59	243.86	399.45	474.71	361.21	835.92
Total-A	**580.39**	**811.48**	**1391.87**	**1912.04**	**1444.79**	**3356.83**
B. Excluded Areas						
2016-17	-	9.93	9.93	376.06	94.01	470.07
2017-18	-	11.59	11.59	376.06	94.01	470.07
2018-19	-	13.54	13.54	376.07	94.02	470.09
2019-20	-	15.79	15.79	376.07	94.02	470.09
Total- B	**-**	**50.85**	**50.85**	**1504.26**	**376.06**	**1880.32**
Grand Total (A+ B)	**580.39**	**862.33**	**1442.72**	**3416.30**	**1820.85**	**5237.15**

3.21 All the above recommendations of the Fifth ASFC were accepted by the Government and ATR finalised on 22.05.2017. However, the implementation needs further progress. Against the recommended devolution of Rs.1391.87 crore for Normal Areas, an amount of Rs.585.06 crore has been released till the end of 2018-19 fiscal. Against the recommended grant of Rs.3356.83 crore only an amount of Rs.27.50 crore has been released till now. In respect of the Excluded Areas, against the recommended devolution of Rs.50.85 crore, an amount of Rs.41.72 crore has been released during the first three years. Against the recommended grant of Rs.1880.32 crore only Rs.454.27 crore has been released so far. For utilisation of the balance amount of recommended grant both for the Normal and Excluded Areas, only the terminal year 2019-20 is left and it would be hardly possible to utilize the balance amount in a single year.

(b) Action Taken on Other Recommendations

3.22 Other important recommendations of the Fifth ASFC are summarized below:

i. Setting up of a permanent SFC cell in Finance Department and Similar Cells in Panchayat and Rural Development Department and Urban Development Department.
ii. Framing of Financial Management Rules for Panchayats and Municipalities.
iii. Devolution of Functions, Functionaries and Fund to PRIs and ULBs to be completed within 60 days.
iv. The measures suggested to improve financial accountability of PRIs and ULBs particularly in respect of observations made in the Supplementary Audit conducted by the CAG in the matter of maintenance of Cash book, Asset Register, preparation of Budget, submission of UCs and absence of Internal Audit.
v. Merger of DRDA staff with ZP and Block staff with AP.
vi. Allotment of Government land for office building and staff quarter of local bodies.
vii. Write off of outstanding loans of PRIs to government.
viii. The Assam Panchayat (Financial) Rules to be amended and Bye Laws to be framed.
ix. Directorate of Audit Local Fund to be suitably strengthened.
x. Outsourcing and PPP model to be adopted by ULBs for expenditure compression.
xi. The Assam Local Self Government Fiscal Responsibility Act, 2011 to be implemented.
xii. Emphasis on arrear revenue collection by the ULBs.
xiii. Vehicle parking areas to be identified and fees collected by ULBs.
xiv. ULBs to be authorized to issue building construction permission.
xv. Track rent to be levied by ULBs on all service providers.
xvi. Advertisement and Hoarding tax to be levied by all ULBs.
xvii. PRIs and ULBs to play pro-active role in controlling menace of illicit liquor.
xviii. The need for Ombudsman at district level.
xix. DDOs to be made responsible for timely submission of UCs.

xx. The issue of a local Body Supplement in the Finance Accounts should be taken up with the CAG.

xxi. Local Bodies should prepare their budget in the formats prescribed by the CAG.

xxii. Account/ Auditing norms laid down by the CAG shall be followed by the Primary Auditor.

xxiii. Relevant Rules to be framed to incorporate the provisions of TG&S by the CAG.

xxiv. The Annual Technical Inspection Report of the DALF should be placed before the Assam Legislative Assembly.

xxv. The Nodal department to regularly pursue with the local bodies for submission of UCs.

3.23 The above recommendations of the Fifth ASFC have been accepted by the Government and some of them have been implemented and some others are under active consideration. In order to ensure effective implementation of ASFC reports, it is first of all necessary to strengthen the nodal Directorates of Municipal Administration and Panchayat and Rural Development so that they can closely monitor take up the issues with the Government in a time bound manner. Similarly, the Directorate of Audit Local Fund needs suitable strengthening so that transparency and accountability in the functioning of local bodies can be ensured. More importantly, the SFC Cell in the Finance Department need to be enlarged and strengthened and placed on a permanent footing so that they can coordinate effectively.

3.24 A review of the status of implementation of previous ASFC reports clearly brings out one fact that even the accepted recommendations of the SFCs are not fully implemented. In this context, the Twelfth Finance Commission vide Para - 8.29 of their report observed that “The convention established at the national level of accepting the principal recommendations of the Finance Commission, without modification, however, is not being followed in the States. Often, even the accepted recommendations are not fully implemented, citing revenue constraints and this defeats the very purpose of constituting the ASFCs. This situation needs a change.” They further followed this observation with a recommendation at Para - 8.55(V) that the convention established at the national level of accepting the principal recommendations of the Finance Commission, without modification, should be followed at the State level in respect of SFC reports.

3.25 What is necessary, therefore, is that SFC report should be readily available to the Central Finance Commission, when the latter is constituted, so that an assessment of the State’s need could be made by the CFC on the basis of some uniform principles.