



REPORT OF THE SIXTH STATE FINANCE COMMISSION BIHAR

VOLUME I

**APRIL 2021
PATNA**



**REPORT OF
THE SIXTH STATE
FINANCE COMMISSION
BIHAR**

Volume I
(Main Report)

April 2021
Patna

Preface

It is our pleasure to submit the Final Report of the Sixth State Finance Commission (2020-25) for consideration of the State Government.

The principal task assigned to the Commission was to devise a scheme of fiscal transfer from the State Government to the Local Bodies (LBs) of the State in the light of the constitutional provisions. This entailed three broad exercises. First, the Commission needed to recommend the sum of money to be transferred to the LBs by way of Devolution of State's Tax Revenue and Grant from the Consolidated Fund of the State. Second, the amount of total fiscal transfer was to be bifurcated between the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs). Third, the share of PRIs was to be apportioned among its three tiers (Zila Parishads, Panchayat Samitis and Gram Panchayats) and then distributed among the individual units in each tier, and the share of ULBs was to be distributed among the Nagar Nigams, Nagar Parishads and Nagar Panchayats.

For recommending Devolution and Grant, the Commission looked at the pattern and magnitude of actual Devolution and Grant released by the State Government during 2015-20, the quantum of grants recommended by the Fifteenth Union Finance Commission (UFC15) for the LBs of Bihar in the next five years and the trend of such transfers in Low Income States in the neighbourhood. The requirement of the LBs was considered on the basis of expenditure projections submitted by the Panchayati Raj Department (PRD) and the Urban Development and Housing Department (UDHD). The projection of Bihar's Consolidated Fund and Divisible Pool of Taxes was made on the basis of time-series data of State Budget, duly considering the likely impact of Covid Pandemic on the State's revenues. Thereafter, the expenditure-resources gap of the LBs was worked out. After careful consideration of all aspects, the Commission has recommended the amount of Devolution and Grant so as to cover this gap fully.

In the recent past, the amounts of Devolution and Grant have been apportioned between PRIs and ULBs of Bihar in 70:30 ratio. UFC15, on the other hand, has recommended to gradually increase the share of ULBs to 35 percent by 2025-26. Considering that there is a need to accelerate urbanization in Bihar from its current low level of 11 percent, there is a case for enhancing the share of ULBs. Accordingly, The Commission has recommended to raise the share of ULBs to 35 percent during the period from 2021-22 to 2024-25.

UFC15 has stipulated that grants for PRIs and ULBs recommended by it should be distributed as per recommendations of the SFC, subject to certain conditions. This Commission is of the view that the distribution formulae for UFC15 grants as well as the SFC Transfers from the State Government should be identical. Based on this premise and keeping the conditions specified by UFC15 in view, recommendations have been made for (a) distribution of PRIs' share of SFC Transfer and UFC15 Grant among its three tiers (ZPs, PSs and GPs) and (b) allocation to individual PRIs in each tier. Similarly, identical formula for distribution of ULBs' share of SFC Transfer and UFC15 Grant among Nagar Nigams, Nagar Parishads and Nagar Panchayats has been recommended.

As the magnitude of Total SFC Transfer from the State Government is not large enough to cover the entire expenditure of the LBs, for the first time, this Commission has identified the items of expenditure that must be met out of the amount of such transfers. Once the identified expenditure items have been covered, and if any surplus remains thereafter, the same could be used for other purposes specified by the State Government.

In order to ensure proper upkeep of assets created by the LBs, a dedicated Maintenance Fund has been recommended to provide the necessary wherewithal to undertake maintenance activities. Further, a system of Revenue Effort Bonus is recommended to incentivize the LBs to make sincere efforts to maximise their own revenue.

The Chairman and Members of the Commission would like to express their gratitude to the Hon'ble Chief Minister of Bihar Sri Nitish Kumar for giving them the opportunity to work for the State Finance Commission and enhance their understanding of the issues of local governments. Thanks are also due to Sri Sushil Kumar Modi, Former Deputy Chief Minister and Finance Minister and his successor Sri Tarkishore Prasad, present Deputy Chief Minister and Finance Minister for their support.

The Commission would like to thank the officers of the State Government for their understanding and cooperation. In particular, we would like to convey our appreciation for the prompt action taken by the Finance Department under the leadership of Dr. S. Siddharth, Principal Finance Secretary for issuing various orders, making logistic arrangements and providing office staff and equipment for the Commission.

The Commission conveys its thanks to Sri Amrit Lal Meena, Addl Chief Secretary, Panchayati Raj Department and Sri Anand Kishore, Principal Secretary, Urban Development

and Housing Department for making available relevant information and data pertaining to the Rural and Urban Local Bodies. Without their co-operation, the Commission could not have accomplished the task assigned to it by the State Government. We thank all officers of these two Departments who interacted with the Commission.

Sri Binod Kumar Tiwary, Deputy Secretary, Finance Department served as the Secretary of the Commission and was our link person for interfacing with the State Government. Even though this was an additional charge for him, he devoted considerable time and effort to serve the Commission. The Commission thanks him for his assistance in handling various administrative matters and providing access to financial data of the State government.

Sri Manoj Kumar Pandey and Sri Durgapada Bannerjee, Consultants of the Commission, have contributed significantly in preparation of this Report. We thank both these professionals for their untiring efforts and hard work.

We owe thanks to the Asian Development Research Institute (ADRI), its office bearers and staff for accommodating the office of the Commission in its premises and permitting use of its conference room and video conferencing facilities.

Last but not the least, the Chairman and Members of the Commission would like to record their appreciation for the personal staff, office staff and support personnel who served the Commission with sincerity and devotion.



Navin Kumar, IAS (Retd)
Chairman



Dr Prabhat Prasad Ghosh
Member



Navin Chandra Jha, IAS (Retd)
Member

Report of

Sixth State Finance Commission

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List of Abbreviations

A-ITA	Accountant-cum-IT Assistant
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
BGSYS	Bihar Gram Swaraj Yojana Samity
BIPARD	Bihar Institute of Public Administration and Rural Development
BMA	Bihar Municipal Act 2007
BPSP	Bihar Panchayat Strengthening Project
BRGF	Backward Region Grant Fund
BRPA	Bihar Rajya Panchayati Act, 2006
BUDA	Bihar Urban Development Authority
BUIDCO	Bihar Urban Infrastructure Development Corporation
BUIDF	Bihar Urban Infrastructure Development Fund
BUMI	Bihar Urban Management Institute
CAGR	Compounded Annual Growth Rate
CFMS	Comprehensive Financial Management System
CFS	Consolidated Fund of State
CSS	Centrally Sponsored Scheme
DDC	District Development Commissioner
DEAS	Double Entry Accounting System
DF	Development Fund
DLFA	Director Local Fund Audit
DPC	District Planning Committee
DPRC	District Panchayat Resource Centre
DPRO	District Panchayati Raj Officer
DPMU	District Programme Management Unit
DPU	District Planning Unit
EA	Executive Assistant
EAP	Externally Aided Project
EESL	Energy Efficiency Service Limited
FRBMA	Fiscal Responsibility and Budget Management Act
GeM	Government e-Market

GF	General Fund
GFD	Gross Fiscal Deficit
GIS	Geographical Information System
GK	Gram Katchahry
GP	Gram Panchayat
GPMS	Gram Panchayat Management System
GSDP	Gross State Domestic Product
HFA	Housing for All
HDI	Human Development Index
IAY	Indira Awas Yojana
IEC	Information, Entertainment and Communication
IHSDP	Integrated Housing and Slum Development Programme
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IT	Information Technology
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LB	Local Bodies
LEB	Life Expectancy at Birth
MF	Maintenance Fund
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MMNNPY	Mukhya Mantri Nagar Nigam Protshahan Yojana
MMNY	Mukhya Mantri Nishchay Yojana
MOU	Memorandum of Understanding
NIC	National Informatics Centre
NIELIT	National Institute of Electronics and Information Technology
NOFN	National Optical Fiber Network
NULM	National Urban Livelihood Mission
ODF	Open Defecation Free
O&M	Operations and Maintenance
PCI	Per Capita Income
PDO	Panchayat Development Officer

PES	Panchayat Enterprises Suite
PMU	Programme Management Unit
PPP	Public Private Partnership
PRD	Panchayati Raj Department
PRI	Panchayati Raj Institutions
PS	Panchayat Samiti
PSB	Panchayat Sarkar Bhawan
RGPSA	Rajiv Gandhi Panchayat Sashaktikaran Abhiyan
RGSA	Rashtriya Gram Swaraj Abhiyan
RTPS	Right to Public Services
SBM	Swachha Bharat Mission
SBMG	Swachh Bharat Mission Grameen
SFC5	Fifth State Finance Commission
SFC6	Sixth State Finance Commission
SPMU	State Programme Management Unit
SPUR	Support Programme for Urban Reform
SOTR	State's Own Tax Revenue
SONTR	State's Own Non-Tax Revenue
SWM	Solid Waste Management
TA	Technical Assistant
TOR	Terms of Reference
UDHD	Urban Development and Housing Department
UFC14	Fourteenth Union Finance Commission
UFC15	Fifteenth Union Finance Commission
U5MR	Under-Five Mortality Rate
UIDSSMT	Urban Infrastructure Development for Small and Medium Towns
ULB	Urban Local Bodies
UTST	Urban Technical Support Team
ZP	Zilla Parishad

Part I

Part I

HIGHLIGHTS OF RECOMMENDATIONS

MAIN FEATURES OF THE REPORT

1. This report is a single document, consisting of three parts:
 - a. Part I: Highlights of Recommendations
 - b. Part II: Chapters 1 to 8
 - c. Part III: Annexures
2. The award period of SFC6 is to cover five years from 2020-21 to 2024-25. The Commission has already submitted an Interim Report on January 8, 2020 covering FY 2020-21 (Annex 1.12). As such, recommendations in this report would apply to fiscal transfers to the LBs during the period from FY 2021-22 to FY 2024-25. [para 8.5(3)]
3. PRD and UDHD submitted revenue and expenditure data for the period 2015-20 as well as their estimates of revenue and expenditure for the period 2020-25 in respect of PRIs and ULBs respectively. The Commission has examined the data and projections furnished by them and made its own forecast of revenue and expenditure of LBs for 2021-25 based on the same with a view to making its recommendations realistic and implementable. [para 8.5(5)]

FOR THE FIRST TIME ...

4. **Fiscal Transfer in 3 Compartments:** Making a departure from the mode of fiscal transfers hitherto being practiced, the Commission has recommended fiscal transfer to LBs in three separate compartments – (a) Development Fund for creation of new assets; (b) Maintenance Fund for maintenance of assets and (c) General Fund for performance of civic services, capacity building, payment of salary and remuneration and meeting other administrative and miscellaneous expenses. [para 8.5(8)]
5. **Expenditure Items that must be fully Funded using SFC Transfers:** For the first time, expenditure items that must be fully funded out of the Fiscal Transfers made to LBs based

on SFC recommendations (i.e. SFC Transfers) have been identified by this Commission.
These are: [para 8.5(11)]

(i) Expenditure items under General Fund

- (a) Establishment expenditure, covering salary/ remuneration/ wages of employees; office expenses and other administrative expenses, etc,
- (b) Expenditure over capacity building, covering training, IT enablement, provision of office space, etc,
- (c) Operational expenditure for providing civic services,

(ii) Expenditure items under Maintenance Fund

- (a) Maintenance of assets,
- (b) Electricity Bills in connection with providing civic services

(iii) Expenditure items under Development Fund

- (a) Untied funds for local schemes.

6. After the requirement of above items of expenditure have been fully met, only then the balance of SFC Transfer, if any, may be used for other purposes such as State Sponsored Schemes/ Centrally Sponsored Schemes. [para 8.5(12)]

7. **Untied Funds for Local Development:** Taking a cue from UFC15, this Commission has recommended that at least 40 percent of the Development Fund should be untied. The PRIs and ULBs will be able to use these untied funds to take up schemes for local level development under the subjects enshrined in the Eleventh Schedule / Twelfth Schedule of the Constitution respectively, subject to the overall guideline of the State Government. [paras 8.5(10), 8.29(1) and 8.33(1)]

8. **Dedicated Fund for Maintenance:** For the first time, earmarking of 20 percent of SFC Transfers has been recommended for maintenance of assets. [para 8.40 and 8.41]

9. **Minimum Threshold:** For the first time, a minimum threshold of Devolution and Grant has been recommended. If the calculated value of Devolution and Grant as per recommendations of this Commission falls below the Minimum Threshold, the State Government should transfer at least the Minimum Threshold amount to the LBs.

[para 8.5(15), 8.36(3) and 8.37(3)]

10. **Revenue Effort Bonus:** For the first time, introduction of Revenue Effort Bonus for LBs that achieve specified revenue benchmarks has been recommended to incentivise the LBs to make sincere efforts to maximise their own revenue. [para 8.5(16) and 8.59]
11. **Special Package for Patna Nagar Nigam:** For the first time, a special package has been recommended for Patna Nagar Nigam to take care of the infrastructural needs of the capital city. This amount shall be used for schemes specified by the State Government. [para 8.5(18) and 8.41(3)(iv)]
12. **One Time Package for New ULBs:** A one-time package for newly created ULBs has been recommended for construction of office buildings and meeting inception expenditure over setting up of their offices. [para 7.30 and 7.34(4)]
13. **Delay Compensation:** Unduly long delay in release of funds to LBs has been a worrisome aspect of fiscal transfers in the past. SFC6 has recommended that in the event of delayed release, the LBs should be compensated by payment of interest for the period of delay. [para 8.5(14) and 8.49]
14. **Additional Allocation by State Government:** In the past, actual fiscal transfers from the State Government to the LBs have fallen far short of the amounts recommended by the SFCs. On the other hand, State Government has parallelly transferred additional funds to the LBs from the budget for various purposes. In order to ensure that entire fund flow from the State Government to LBs is reflected against the transfers recommended by the SFC, this Commission recommends that henceforth PRD and UDHD should make all releases to LBs (i.e. devolution and grant funds recommended by SFC as well as any additional allocation from State Budget beyond SFC recommendations) in Development Fund, Maintenance Fund and General Fund only. [para 8.5(17)]

RECOMMENDATIONS ON FISCAL TRANSFER FROM STATE GOVERNMENT

15. **Devolution @ 10 percent** of State's Divisible Pool of Taxes on (t-1) basis is recommended in each year of the award period. [para 8.36(1)]
16. **Grant @ 2.5 percent** of the Consolidated Fund of the State on (t-1) basis is recommended in each year of the award period. [para 8.37(1)]

17. Based on projections of SFC6, the estimated fiscal transfer during 2021-25 is depicted in Table below. [para 8.38]

Table I.1 : Total SFC Transfer to Local Bodies during 2021-25

(Rs. crore)

		2021-22	2022-23	2023-24	2024-25	2021-25
1	Devolution	2,197	2,654	3,156	3,706	11,713
2	Grant	3,811	4,360	4,727	5,265	18,162
3	Total SFC Transfer (1+2)	6,008	7,014	7,883	8,971	29,875

18. Commission has made recommendations for distribution of composite amount of Devolution and Grant i.e. Total SFC Transfer to the Local Bodies. [para 8.26]
19. The amount of **Total SFC Transfer** is recommended to be distributed between PRIs and ULBs in the ratio 65:35. [para 8.39]
20. **Distribution of PRIs Share of Total SFC Transfer**

- (i) PRIs' share of Total SFC Transfer is recommended to be apportioned in three heads as follows:

- (1) Development Fund: 30 percent
- (2) Maintenance Fund: 20 percent
- (3) General Fund: 50 percent

[para 8.40(1)]

- (ii) Distribution of Development Fund

- (a) Inter-se Distribution of Development Fund among PRI Tiers: Both tied and untied parts of Development Fund are recommended to be shared among ZPs, PSs and GPs in the ratio 15:15:70. [para 8.40(3)(iii)]

- (b) Intra Distribution of Development Fund among individual PRIs in each tier: The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:

- (i) Population: 90 percent
- (ii) Area: 10 percent

[para 8.40(3)(iv)]

(iii) Distribution of Maintenance Fund

- (a) Inter-se Distribution of Maintenance Fund among PRI Tiers: Maintenance Fund is recommended to be shared among ZPs, PSs and GPs in the ratio 15:15:70.

[para 8.40(4)(iii)]

- (b) Intra Distribution of Maintenance Fund among individual PRIs in each tier: The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:

(i) Population: 90 percent

(ii) Area: 10 percent

[para 8.40(4)(iv)]

(iv) Distribution of General Fund

- (a) Inter-se Distribution of General Fund among PRI Tiers: Funds allocated for Civic Services in General Fund are recommended to be shared among ZPs, PSs and GPs in the ratio 15:15:70. Funds allocated for other purposes are recommended to be distributed as mentioned in paragraph 8.31(5).

[para 8.40(5)(v)]

- (b) Intra Distribution of allocation for Civic Services in General Fund among individual PRIs in each tier: The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:

(i) Population: 90 percent

(ii) Area: 10 percent

[para 8.40(5)(vi)]

21. Distribution of ULBs' Share of Total SFC Transfer

- (i) ULBs' share of Total SFC Transfer is recommended to be apportioned in three heads as follows:

(1) Development Fund: 30 percent

(2) Maintenance Fund: 20 percent

(3) General Fund: 50 percent

[para 8.41(1)]

(ii) Distribution of Development Fund

- (a) Special Package for Patna Nagar Nigam shall be funded from Development Fund. [para 8.33(3)]

- (b) Inter-se Distribution of Development Fund among ULBs: After setting apart the allocation for Patna Special Package, balance amount in Development Fund is recommended to be shared among Nagar Nigams (including Patna Nagar Nigam), Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90 percent

(ii) Area: 10 percent [para 8.41(3)(v)]

(iii) Distribution of Maintenance Fund

- (a) Inter-se Distribution of Maintenance Fund among ULBs: Maintenance Fund is recommended to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90 percent

(ii) Area: 10 percent [para 8.41(4)(iv)]

(iv) Distribution of General Fund

- (a) Inter-se Distribution of General Fund among ULBs: Funds allocated for civic services in General Fund are recommended to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:

(i) Population: 90 percent

(ii) Area: 10 percent [para 8.41(5)(v)]

- (b) Funds allocated for purposes other than civic services in General Fund are recommended to be distributed as mentioned in paragraph 8.35(5).

[para 8.41(5)(vi)]

RECOMMENDATIONS ON DISTRIBUTION OF UFC15 GRANTS

22. UFC15 has recommended following grants for LBs of Bihar during 2021-26 (Table I.2). Distribution of these grants is to be done on the basis of recommendation of SFC.

Table I.2 : UFC15 Grants for Local Bodies of Bihar during 2021-26

(Rs. crore)

Table I.2						
	2021-22	2022-23	2023-24	2024-25	2025-26	2020-26
PRIs	3,709.00	3,842.00	3,884.00	4,114.00	4,012.00	19,561.00
ULBs	1,827.00	1,892.00	2,001.00	2,119.00	2,160.00	9,999.00
Total	5,536.00	5,734.00	5,885.00	6,233.00	6,172.00	29,560.00

23. Distribution of UFC15 Grants for PRIs

- i. Inter-se Distribution of PRIs' share of UFC15 Grants among PRI Tiers: It is recommended that inter se distribution of UFC15 Grants among the PRI tiers should follow the same ratio that this Commission has recommended for inter se distribution of SFC Transfers, viz., 15:15:70 for ZPs:PSs:GPs. [para 8.43(1)]
- ii. Intra-tier Distribution of PRIs' share of FC15 Grants: As in the case of SFC transfers, it is recommended that PRIs' share of UFC15 Grants (both untied Basic Grant as well as tied Grants) be distributed among individual units of each tier according to the following criteria:
 - (i) Population: 90 percent
 - (ii) Area: 10 percent [para 8.43(2)]

2. Distribution of UFC15 Grants for ULBs

- i. Grants for Million Plus Cities: Bihar has only one Million Plus City – Patna. Hence, Grants for improving air quality and meeting service level benchmarks for drinking water supply, sanitation and solid waste management in Million Plus Cities will go to Patna Nagar Nigam. [para 8.44(2)]
- ii. Grants for Other Than Million Plus Cities: ULBs' share of UFC15 Grants (both untied Basic Grant as well as tied Grants) for Other Than Million Plus Cities is

recommended to be distributed among Nagar Nigams (other than Patna), Nagar Parishads and Nagar Panchayats based on the following criteria:

(1) Population: 90 percent

(2) Area: 10 percent

[para 8.44(3)]

Part II

Chapter 1

INTRODUCTION

Constitution of Sixth State Finance Commission

1.1 The Sixth State Finance Commission (SFC6) was constituted by the Government of Bihar, as envisaged in Article 243 I and 243 Y of the Constitution of India and as provided in Section 168 of the Bihar Panchayati Raj Act, 2006 (BPRA2006) and Section 71 of Bihar Municipal Act, 2007 (BMA2007), vide notification no रा० वि० आ० (6) का० -39 /2018 (पार्ट)-1835 /पटना ,दिनांक - 20 /02 /19 for period up to 31.01.2020 (**Annex-1.1**).

1.2 The SFC6 is a three-member commission with the following members:

- | | |
|---|----------|
| 1. Shri Navin Kumar (I.A.S. Retd.) | Chairman |
| 2. Shri Navin Chandra Jha (I.A.S. Retd.) | Member |
| 3. Dr. Prabhat Prasad Ghosh, Director, ADRI
(M. Statistics, Ph.D.) | Member |

1.3 The State Government vide notification no 5483 dated 01.07.2019 (**Annex 1.2**) accorded the status of Cabinet Minister to Chairman and Minister of State to the Members of the Commission.

Terms of Reference and Tenure

1.4 The terms of reference of the Commission mandated the following:

The Finance Commission shall review the financial position of the Panchayats (Zila Parishad, Panchayat Samiti and Gram Panchayat) and the Municipalities (Nagar Nigam, Nagar parishad and Nagar Panchayat) and make recommendations as to –

- a. the principles which should govern —
 - i. the distribution between the State, Panchayats and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State,

which may be divided between them and the allocation between the Panchayats at all levels and the Municipalities of their respective shares of such proceeds;

- ii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats and the Municipalities;
 - iii. the grants-in-aid to the Panchayats and the Municipalities from the Consolidated Fund of the State;
- b. the measures needed to improve the financial position of the Panchayats and Municipalities;
 - c. The Commission shall make available a report on projection of receipts and expenditure of Panchayats and Municipalities.

1.5 The Commission was required to submit its report by 31st January 2020.

1.6 Following the extension of term of the Fifteenth Finance Commission (FC15), the State Government extended the tenure of SFC6 to December 31, 2020 (**Annex 1.3**), thereafter to March 31, 2021 (**Annex 1.4**) and finally up to April 30, 2021 (**Annex 1.5**).

Office and Staff of the Commission

1.7 Finance Department, Government of Bihar made a proposal for allotment of office space for the Commission in the Main Secretariat building. When the same did not materialize until May 2019, the Commission, in consultation with the Finance Department, decided to rent space in the building of the Asian Development Research Institute (ADRI) at BSIDC Colony, Boring Pataliputra Road, Patna 800013. The rented accommodation provided chambers for the Chairman and Members and space for their personal staff, the Consultants and office staff.

1.8 Office staff and office equipment were made available by the Finance Department, Government of Bihar.

1.9 ADRI made available the services of two consultants to the Commission, one each for the ULBs and the PRIs. The Consultants joined in August 2019.

Request for Memorandum

- 1.10 Chairman, SFC6 addressed DO letter no 06, dated 16-05-2019, to the Secretaries of Panchayati Raj Department (PRD) and Urban Development and Housing Department (UDHD) seeking their assistance to the Commission in framing its recommendations. A copy of the letter is at **Annex 1.6**.
- 1.11 In the said letter, the two Departments were requested to make available a Memorandum covering topics such as Revenues of PRIs/ ULBs, manpower structure, expenditure pattern, modalities of financial transfers from State/ Central government, functions transferred and being performed by PRIs/ ULBs, status of implementation of recommendations of the Fifth State Finance Commission (SFC5), use of IT in PRIs/ ULBs, demands/ expectations of PRIs/ ULBs from the Finance Commission, etc. Each topic was to be covered in a separate chapter giving the current laws/rules/ guidelines, details of existing schemes, data on financial allocations and expenditure as well as other relevant data. The Departments were asked to segregate data for the state PRI-levelwise (i.e. data for Zila Parishads as a group, Panchayat Samitis as a group, and Panchayats as a group) in case of PRIs and ULB-classwise (i.e. data for Municipal Corporations as a group, Municipalities as a group, and Nagar Panchayats as a group) in case of ULBs. The Memoranda were to be submitted by the two Departments to the Commission by July 15, 2019.
- 1.12 A meeting was convened with the PRD on 28.05.2019 which was attended by Deputy Secretary, PRD and others. In this meeting, expectation of the Commission from PRD was explained, and guidelines were given for preparation of the Memorandum. A similar meeting was held with the UDHD on 29.05.2019 which was attended by Secretary, UDHD along with other officers.
- 1.13 As the Memorandum was not received from the two Departments by the due date, the Departments were reminded vide letter no 6727, dated 14.08.2019 to submit the same by August 31, 2019 (**Annex 1.7**). However, the Commission did not receive the Memorandum by this deadline as well.

- 1.14 The Commission organized another meeting with the officers of PRD on 17.09.2019 and again on 11.12.2019 where suggestions (**Annex 1.8**) were made as to the information to be included in the Memorandum. Similarly, a meeting was held with the Secretary and officers of UDHD on 16.10.2019 and 10.12.2019 wherein suggestions as per **Annex 1.9** were made for inclusion in the Memorandum.
- 1.15 Chairman, SFC6 addressed DO no 96, dated 11.12.2019 to Secretary, PRD (**Annex-1.10**) and DO no 97, dated 11.12.2019 to Secretary, UDHD (**Annex 1.11**) calling upon them to submit the Memorandum by December 20, 2019. This deadline too passed but the Memorandum did not come from either Department.

Interim Report

- 1.16 The Government of India had constituted the 15th Finance Commission (FC15) in November 2017, which was to submit its report by November 31, 2019. Vide notification, dated November 29, 2019, the term of FC15 was extended to October 30, 2020 and the Commission was directed to submit two reports – first report for FY 2020-21 and a final report for five year period from 2021-22 to 2025-26.
- 1.17 Following submission of report for FY 2020-21 by UFC15, the SFC6 reviewed the status of responses from the PRD and UDHD at the end of December 2020 and noted that --
- (i) financial data, particularly data pertaining to expenditure incurred and own revenue raised by PRIs and ULBs during 2015-20 had not been made available by PRD and UDHD, and
 - (ii) the SFC6 needed the vision of the two administrative departments with regard to the work programme of local bodies for the next five years to estimate their fund requirement for the award period 2020-25, but that too was still awaited. Without a formal response from the departments on the specific topics cited in the Commission's letters, this Commission found itself unable to complete its exercise.

- 1.18 In view of the above, the Commission decided to draft an Interim Report for FY 2020-21. Accordingly, the Interim Report (**Annex 1.12**) was prepared and submitted to the Hon'ble Finance Minister on January 8, 2020.

Feedback from PRD and UDHD

- 1.19 Informally, some documents and information were acquired from the two departments for preparing the Interim Report. After submission of the Interim Report, Memorandum of PRD was received along with their letter no 387 dated 20.01.2020 (**Annex 6.1.1 and 6.1.2**).
- 1.20 After Covid 19 pandemic struck across India, the functioning of Government offices was seriously affected. The SFC6 was no exception. The lockdown period was particularly difficult. To meet with this situation, the Commission started operating through video conferencing.
- 1.21 Memorandum of UDHD was received vide their letter dated 17.06.2020 (**Annex 7.3**).
- 1.22 As the Memoranda of both Departments were deficient in many respects, extensive consultations were held with them to elicit the desired information. The Commission observed that the memoranda were devoid of financial data. They neither provided an account of the revenues and expenditures of PRIs and ULBs for the award period 2015-20 of the SFC5, nor did they furnish the Departments' estimates of the revenues and expenditures for the period 2020-25. As such, tabular formats were given to them to make available financial data and their response was received in December 2020. Over the next two months, the Departments were guided to rectify and refine their data in the supplied formats. Commission has based this report on the data and projections furnished by PRD and UDHD with a view to making its recommendations realistic and implementable.

Field Study Visits

- 1.23 The Commission made field visits to various districts and had face-to-face interactions with the elected representatives and officials of Zila Parishads, Panchayat Samitis and Gram Panchayats in the PRI sphere and with those of Nagar Nigams, Nagar Parishads

and Nagar Panchayats in the ULB domain. This exposure has enabled the Commission to understand and appreciate the ground realities of the LBs.

- 1.24 The Commission undertook visits to two states, namely Kerala and Karnataka, that are known for well-developed local body functioning. This has allowed the Commission to have first-hand idea of their innovative methods and good practices and some of these are being recommended for replication in Bihar.

Data Sources and Format of Report

- 1.25 To obtain data for this report, the Commission has used, inter alia, budget documents, reports of earlier SFCs, report of UFC15, data and information furnished by the Finance Department (FD), the Urban Development and Housing Department (UDHD) and the Panchayati Raj Department (PRD).
- 1.26 Having gone through the reports of various FCs, previous SFCs of Bihar and other states, the Commission adopted the following format for its report:
1. The report to be a single document, consisting of three parts:
 - (i) Part I: Highlights of Recommendations
 - (ii) Part II: Chapters 1 to 8
 - (iii) Part III: Annexures
 2. Ensure brevity as it would enhance the readability of the report without sacrificing the substance.
 3. The report will be brought out in English.

Chapter Scheme

- 1.27 The report follows the chapter scheme indicated below:
1. **Chapter 1 (Introduction):** This chapter deals with constitution of the present Commission (SFC6), its terms of reference, setting up of office, modalities for obtaining information from the Panchayat Raj Department (PRD) and Urban Development and Housing Department (UDHD) and the design and format of the report.
 2. **Chapter 2 (Previous State Finance Commissions of Bihar – An Overview):** This chapter provides information about the previous five State Finance

Commissions set up by the Government of Bihar. Recommendations of the first four Commissions are given in brief, whereas the recommendations of the immediately previous Commission i.e., the Fifth State Finance Commission (SFC5) pertaining to fiscal transfers and status of their implementation have been stated in detail.

3. **Chapter 3 (Socio Economic Scenario of Bihar):** The quantum of financial and other support for the Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB) depends on many factors, including the growth performance of the state economy in the recent past, financial health of the state government, and progress of the state on social front. These issues have been analysed in this Chapter, based on the available data.
4. **Chapter 4 (Panchayati Raj Institutions of Bihar):** Chapter 4 gives an overview of the Panchayati Raj Institutions (PRIs) of Bihar covering aspects such as legal provisions, organization, functions and functionaries.
5. **Chapter 5 (Urban Local Bodies of Bihar):** This chapter covers urbanization scenario of Bihar, the legal framework for Urban Local Bodies and provides a glimpse of their functioning.
6. **Chapter 6 (PRI Finances: Review and Forecast of Revenue and Expenditure):** Fiscal data of the PRIs for the period 2015-16 to 2019-20 has been reviewed and forecast of revenue and expenditure for the period 2021-22 to 2024-25 made.
7. **Chapter 7 (ULB Finances: Review and Forecast of Revenue and Expenditure):** As in case of PRIs in Chapter 6, the revenue and expenditure of ULBs pertaining to 2015-20 has been reviewed by the Commission in this Chapter and forecast for the period 2021-25 made.
8. **Chapter 8 (Fiscal Transfer to Local Bodies: Issues, Approach and Recommendations):** This chapter, being the core of the report, contains the recommendations relating to scheme of fiscal transfer from the State Government to local bodies. It also has recommendations regarding distribution of the grants recommended by the UFC15 among the local bodies.

Chapter 2

STATE FINANCE COMMISSIONS OF BIHAR: AN OVERVIEW

2.1 Article 243-I of the Constitution of India provides for setting up of Finance Commission at the expiry of every fifth year by the Governor of the State to review the financial position of the Panchayats and to make necessary recommendations. Similarly, Article 243-Y provides that the Finance Commission constituted under Article 243-I shall also review the financial position of the Urban Local Bodies (ULB) and make necessary recommendations. Reaffirming the State's commitment to decentralized democracy, Bihar has been among the forefront states in constituting the State Finance Commissions. The First SFC was constituted on April 23, 1994. The details about the constitution of Commissions, dates of submission of reports etc. of the previous five State Finance Commissions are given in Table 2.1.

Table 2.1 : Details of State Finance Commissions – Constitution and Submission of Report				
SFC	Date of Constitution of SFC	Date of submission of SFC Report	Period during which SFC recommendations were implemented	Recommended Devolution and Grants to Local Bodies
SFC1	23.04.1994	This Commission could not submit recommendations because of various reasons.		
SFC2	02.06.1996	This Commission was reconstituted several times because of transfer, retirement of its members and Chairman and made some interim recommendations. However, it could not submit a complete report.		
SFC3	20.07.2004	This Commission submitted its report in November 2004. It incorporated in its final report all five previous interim reports		
SFC4	25.06.2007	26.06.2010	2011-2015	Rs. 4,279.12 crore
SFC5	13.12.2013	30.01.2016	2015-2020	Rs. 30,300 crore

Source : Department of Finance, Bihar & report of 4th SFC , Bihar

2.2 Tables 2.2 and 2.3 give detail of the devolution from State's Own Tax Revenue (SOTR) and grants from State's Consolidated Fund recommended by previous SFCs.

Table 2.2 : Devolution Recommended by Previous SFCs

SFC3						
Year	2005-06	2006-07	2007-08	2008-09	2009-10	Total
% of SOTR	3.0	3.0	3.0	3.0	3.0	—
Amount (Rs. crore)						—
SFC4						
Year	2010-11	2011-12	2012-13	2013-14	2014-15	—
% of SOTR	7.5	7.5	7.5	7.5	7.5	—
Amount (Rs crore)	482.69	542.02	608.58	683.24	766.97	3,083.50
SFC5						
Year	2015-16	2016-17	2017-18	2018-19	2019-20	—
% of SOTR	8.5	9.0	9.0	9.0	9.0	—
Amount (Rs crore)	2,540	3,230	3,985	4,930	6,105	20,790.00

Table 2.3 : Grant Recommended by Previous SFCs

(Rs. crore)

SFC4						
Year	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
Amount	261.34	233.57	233.57	233.57	233.57	1,195.62
SFC5						
Year	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Amount	790	1,555	1,810	2,545	2,810	9,510

2.3 Sharing between PRIs and ULBs of the devolved funds in percentage terms recommended by previous SFC's is indicated in Table 2.4.

Table 2.4 : Sharing of Devolved Funds between PRIs and ULBs

SFC4					
Year	2010-11	2011-12	2012-13	2013-14	2014-15
PRI : ULB	70:30	70:30	70:30	70:30	70:30
SFC5					
Year	2015-16	2016-17	2017-18	2018-19	2019-20
PRI : ULB	70:30	60:40	60:40	60:40	60:40

2.4 The recommendations of the previous SFCs with regard to intra distribution of devolved funds amongst PRIs and ULBs are summarized in Tables 2.5 and 2.6.

Table 2.5 : Intra Distribution of PRIs' Share of Devolved Funds

SFC4						
	ZP		PS		GP	
Percentage share of PRIs in Devolved Funds	10		20		70	
Criterion for inter se distribution	Criterion	Weight	Criterion	Weight	Criterion	Weight
	Population	100	Population	80	Equally amongst all GPs	
			No of BPL families	20		
SFC5						
	ZP		PS		GP	
Percentage share of PRIs in Devolved Funds	20		10		70	
Criterion for inter se distribution	Criterion	Weight	Criterion	Weight	Criterion	Weight
	Population	50	Population	50	<ul style="list-style-type: none">• Allocation to Blocks on the basis of UDI• Block share to be distributed equally among GPs of that Block	
	Area	10	Area	0		
	UDI	40	UDI	50		

Table 2.6 : Intra Distribution of ULBs' Share of Devolved Funds

SFC4			
ULBs’ share of Devolved Funds to be distributed amongst Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following weights assigned to population, area and number of BPL families:			
	Population	60 Percent	
	Area	20 Percent	
	No of BPL families	20 Percent	
SFC5			
ULBs’ share of Devolved Funds to be distributed amongst Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following weights assigned to population, area and number of BPL families:			
	Nagar Nigam	Nagar Parishad	Nagar Panchayat
Population	70% x 1.5	70% x 1.3	70%
Area	10%	10%	10%
No of BPL families	20%	20%	20%

2.5 SFC5 was the immediate predecessor of the present Finance Commission. It had made recommendations for fiscal transfer to PRIs and ULBs of Bihar during the period 2015-16 to 2019-20. As the TORs require this Commission to review the finances of the LBs for this period (2015-20), we have examined at length the status of implementation of recommendations of SFC5 by the State Government in the following paragraphs.

RECOMMENDATIONS OF SFC5 AND THEIR IMPLEMENTATION

2.6 In its report, SFC5 has expressed the view that for the Local Bodies (LBs) to function as 'self-governments' as envisaged in the Constitution and as 'Panchayat Sarkars' as envisioned by State Government, they must be empowered, enabled and made

accountable. Good governance, maximization of own revenue, sound planning, budgeting and expenditure management, particularly in the Urban Local Bodies (ULBs), were preconditions to enabling the cities and towns to provide opportunities arising from urbanization to the people. For the villages to be made more livable and productive and the Panchayats and Gram Katchahries to contribute to the ‘सात-निश्चय’ of State Government, they had to be managed professionally. Keeping these considerations in mind, SFC5 made recommendations for devolution and grant to the LBs.

- 2.7 In the following paragraphs, the recommendations of SFC5 have been summarized and the current status of their implementation has been given, based on the information received from the State Government. **Recommendations/ assessments of the Commission appear in italics and the status report in regular font.**

Resource Gap of the ULBs

- 2.8 *Based on certain assumptions, the SFC5 assessed the resource gap of the Local Bodies of Bihar. In case of PRIs, the assessed gap was of the order of Rs 52,315 crore and, for ULBs, the gap was computed to be Rs 33,315 crore. The year-wise breakdown is shown in the Table 2.7:*

Table 2.7 : Estimated Resource Gap of PRIs and ULBs (SFC5)

(Rs. crore)

Year	PRIs			ULBs		
	Revenue	Expenditure	Gap	Revenue	Expenditure	Gap
2015-16	360	6,652	6,292	834	7,427	6,593
2016-17	397	9,324	8,927	1,457	7,878	6,421
2017-18	439	10,809	10,370	1,760	8,411	6,651
2018-19	483	12,737	12,254	2,125	8,947	6,822
2019-20	534	14,916	14,382	2,697	9,525	6,828
Total	2,123	54,438	52,315	8,873	42,188	33,315

Consolidated Fund of the State

- 2.9 *SFC5 also made its own projections of Consolidated Fund of State (CFS) of Bihar for the award period 2015-20, based on a detailed exercise. According to these projections, the CFS was expected to rise from Rs 1,25,079 crore in 2015-16 to Rs 2,74,266 crore in 2019-20. The projections are reproduced in Table 2.8.*

Table 2.8 : Projection of CFS by SFC5

(Rs. crore)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
SOTR	30,141	37,119	45,781	56,548	69,954	2,39,543
SONTR	2,079	2,412	2,797	3,245	3,764	14,297
Share in Central Taxes	50,896	64,974	75,083	86,871	1,00,626	3,78,450
Central Grants	18,171	21,959	27,778	33,889	41,345	1,43,142
Capital Receipts	23,791	33,032	41,668	49,418	58,576	2,06,485
CFS	1,25,079	1,59,496	1,93,107	2,29,971	2,74,266	9,81,917

2.10 Data received from the Finance Department shows that the quantum of the CFS actually attained during the award period has been much lower, ranging from Rs 1,14,525 crore in 2015-16 to Rs 1,53,408 crore in 2019-20. The year-wise position of actual CFS against SFC5 projections is presented in Table 2.9.

Table 2.9 : CFS – Projections by SFC5 vs. Actuals

(Rs. crore)

CFS	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Projection	1,25,079	1,59,496	1,93,107	2,29,971	2,74,266	9,81,917
Actual	1,14,525	1,27,185	1,30,638	1,52,287	1,53,408	6,78,043
Actual (%)	91.6	79.7	67.7	66.2	55.9	69.1

Divisible Pool of Taxes

2.11 SFC5 had estimated the cost of collection of taxes and computed the size of divisible pool of taxes year-wise. As per these calculations, the size of the divisible pool was to be Rs 29,682 crore in 2015-16, gradually increasing year by year to Rs 67,811 crore in 2019-20, as indicated in Table 2.10.

Table 2.10 : Projection of Size of Divisible Pool by SFC5

(Rs. crore)

Sl No	Items	2015-16	2016-17	2017-18	2018-19	2019-20	Total
1	SOTR (from Table 2.8)	30,141	37,119	45,781	56,548	69,954	2,39,544
2	Entertainment Tax & sairats	64	78	94	114	138	489
3	Taxes excluding Ent Tax & sairats (1-2)	30,077	37,042	45,686	56,434	69,816	2,39,055
4	Cost of Collection	967	1,161	1,393	1,671	2,006	7,198
5	Divisible Pool (3-4)	29,110	35,881	44,294	54,762	67,811	2,31,857

2.12 Actually, however, the divisible pool has fallen far short of the projections. Figures obtained from Finance Department show that the overall shortfall for the award period 2015-20 has been as high as 48.7 percent. In none of the years, the size of the divisible pool was anywhere close to the projected figure. Table 2.11 depicts the year-wise position.

Table 2.11 : Divisible Pool – Projection by SFC5 vs Actuals

(Rs. crore)

<i>Items</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	<i>Total</i>
Projection	29,110.00	35,881.00	44,294.00	54,762.00	67,811.00	2,31,857.00
Actual	20,101.73	24,825.66	23,047.30	22,337.55	28,614.78	1,18,927.02
Shortfall	9,008.27	11,055.34	21,246.70	32,424.45	39,196.22	1,12,930.98
Shortfall (%)	30.9	30.8	48.0	59.2	57.8	48.7

Devolution

2.13 *SFC5 had expressed the view that the State could easily devolve 12 percent of taxes/ duties collected without strain on its finances. However, the Commission adopted an approach of gradual enhancement of devolution and recommended devolution of 8.5 percent of the divisible pool of taxes in the first year (2015-16) and 9.0 percent in each of the remaining four years. On the basis of the Commission's projection of the divisible pool, total devolution of Rs 20,790 crore was projected during 2015-20 (Table 2.12).*

Table 2.12 : Recommended Devolution by SFC5

(Rs. crore)

<i>Items</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	<i>2015-20</i>
<i>Divisible Pool</i>	29,110	35,881	44,294	54,762	67,811	2,31,857
<i>Devolution (%)</i>	8.5	9.0	9.0	9.0	9.0	—
<i>Devolution</i>	2,540	3,230	3,985	4,930	6,105	20,790

2.14 The State Government accepted the recommendation regarding devolution of taxes for the first year (2015-16) and stipulated that the same share (8.5 percent) will continue in the subsequent years of the award period 2015-20 as well. As the actual figures of the divisible pool turned out to be almost half of the projection and since the State Government had decided to devolve a lower proportion of the divisible pool from second year onwards, the amount actually devolved to the local bodies during 2015-20 was only

Rs 8,784.74 crore, i.e. merely 42.3 percent of the projected devolution of Rs 20,790 crore (Table 2.13).

Table 2.13 : Actual Devolution during the Period of SFC5

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Divisible Pool (Actuals)	20,101.73	24,825.66	23,047.30	22,337.55	28,614.78	1,18,927.02
Accepted Devolution (%)	8.5	8.5	8.5	8.5	8.5	—
Computed Devolution	1,708.65	2,110.18	1,959.02	1,898.69	2,432.26	10,108.80
Actual Release	434.64	2,110.17	1,880.90	1,926.77	2,432.26	8,784.74

Inter LBs (PRI vs ULB) Share of Devolution

2.15 *In order to apportion the devolved taxes between the PRIs and ULBs, the SFC5 took into account the respective role of rural and urban sectors in the state economy, the migration factor, the imperatives of stimulating urbanization as the engine of growth and also correlation between Per Capita Income and urbanization. Based on these considerations, the Commission advised to continue the prevailing 70:30 (PRIs:ULBs) formula of the SFC4 only for the first year (2015-16) and recommended an enhanced share for the urban sector under 60:40 (PRIs:ULBs) formula for the following four years. With this re-engineered formulation, the following distribution of the devolved taxes between PRIs and ULBs was envisaged (Table 2.14).*

Table 2.14 : Recommended Inter LBs Share of Devolution by SFC5

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
PRIs	1,780	1,940	2,390	2,960	3,665	12,735
ULBs	760	1,290	1,595	1,970	2,440	8,055
Total	2,540	3,230	3,985	4,930	6,105	20,790

2.16 The State Government did not accept Commission's recommendation for a higher allocation for urban areas from second year onwards and decided to stick to the existing 70:30 share throughout the award period. On this basis, while the PRIs as a whole received 46 percent of the recommended amount during 2016-20 (i.e. four years, as no release was made during the first year), the ULBs got only 38 percent of the recommended amount in five years (Table 2.15).

Table 2.15 : Inter LBs Share of Devolution – Recommended vs Actual during Award Period of SFC5

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
PRIs						
Recommended	1,780.00	1,940.00	2,390.00	2,960.00	3,665.00	12,735.00
Actual	0.00	1,477.13	1,371.31	1,357.16	1,702.58	5,908.16
Actual (%)	0.0	76.1	57.4	45.8	46.4	46.4
ULBs						
Recommended	760.00	1,290.00	1,595.00	1,970.00	2,440.00	8,055.00
Actual (Rs cr)	512.65	638.54	596.62	581.64	729.68	3,059.13
Actual (%)	67.4	49.5	37.4	29.5	29.9	38.0

Inter PRIs (GP vs PS vs ZP) Share of Devolved Funds

2.17 *Making a departure from the SFC4 formula for distribution of funds to PRIs in the ratio of 70:20:10 among GP: PS: ZP, the SFC5 recommended a revised ratio of 70:10:20 among the three tiers of PRIs. The argument for higher transfers to ZPs as compared to PSs was that (a) the PSs get sufficient manpower and scheme funds as Blocks are the pivots of rural development, and (b) the ZPs would utilize these funds for works of overall district importance, based on Integrated District Plan, prepared through District Planning Committees (DPC).*

2.18 The State Government accepted recommendation of SFC5 and accordingly, funds were allocated to GPs, PSs and ZPs during 2015-20 in the ratio of 70:10:20.

2.19 Table 2.16 shows the year-wise recommended and actual allocation of devolved funds under the new sharing pattern during the award period of SFC5.

Table 2.16 : Sharing Pattern of Devolved Funds among (GP vs PS vs ZP) during Award Period of SFC5

(Rs. crore)

PRI	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
GP (70 percent)						
Recommended	1245	1355	1670	2075	2565	8910
Actual	0	1034	959	950	1192	4136
Actual (%)	0.0	76.3	57.4	45.8	46.5	46.4
PS (10 percent)						
Recommended	180	195	240	295	365	1275
Actual	0	148	137	136	170	591
Actual (%)	0.0	75.9	57.1	46.1	46.6	46.4
ZP (20 percent)						
Recommended	355	390	480	590	735	2550
Actual	0	295	274	271	341	1182
Actual (%)	0.0	75.6	57.1	45.9	46.4	46.4

Intra PRI-Tier Distribution

2.20 The SFC5 recommended inter-se distribution of devolved funds amongst the individual PRIs in each tier using criteria of population, area and the extent of deprivation, as indicated by Under Development Index (UDI), as presented in Table 2.17.

Table 2.17 : Recommended Intra PRI-Tier Distribution by SFC5

<i>Criterion</i>	<i>Weight (Percentage)</i>		
	<i>ZP</i>	<i>PS</i>	<i>GP</i>
<i>Population</i>	50	50	<i>Each GP falling within a particular Block would get equal share of amount available for GPs of that Block based on the Block's UDI.</i>
<i>Area</i>	10	0	
<i>UDI</i>	40	50	
<i>Total</i>	100	100	

2.21 The State Government decided that for distribution of devolved funds among PRIs, the weight of UDI will be 10 percent and that of population 90 percent. The 70 percent share of devolution meant for GPs will be first apportioned among the blocks based on the same criteria for sharing among PSs (i.e. 90 percent weight for population and 10 percent weight for UDI) and the block share will be distributed among the GPs of that block on the basis of population.

<i>Criterion</i>	<i>Zila Parishad (20 percent)</i>		<i>Panchayat Samiti (10 percent)</i>		<i>Gram Panchayat (70 percent)</i>
	<i>R</i>	<i>I</i>	<i>R</i>	<i>I</i>	<i>Allocation to Blocks on the basis of UDI (10 percent) and population (90 percent). Block share to be distributed among GPs of that block on the basis of population.</i>
<i>Population</i>	50	90	50	90	
<i>Area</i>	10	0	0	0	
<i>UDI</i>	40	10	50	10	
<i>Total</i>	100	100	100	100	

Note : R = Recommended / I = Implemented

2.22 The State Government has been releasing funds to the individual PRIs based on the above adopted criteria.

Inter and Intra ULB Distribution

2.23 For distribution of amount devolved for the ULBs, SFC5 adopted the criteria based on population, area and number of BPL families. The Commission was of the view that special needs of the bigger cities, even though having higher revenue raising capacity,

are higher, since it is the bigger cities that alone compete with the cities within and outside India for talent, investment, job etc., which Bihar urgently needs. Keeping this in mind, SFC5 assigned higher weights for population of Nagar Nigams and Nagar Panchayats. The recommended distribution criteria are shown in Table 2.19.

Table 2.19 : Recommended Distribution Criteria for Inter and Intra ULB Distribution (SFC5)

Criterion	Inter ULBs (Percentage)	Weight assigned by SFC5		
		Nagar Nigams	Nagar Parishads	Nagar Panchayats
Population	70	1.5	1.3	1.0
Area	10	1.0	1.0	1.0
No of BPL Families	20	1.0	1.0	1.0

2.24 SFC5 also suggested that if data on BPL families was not available, the weightage assigned to it should be added to that of population.

2.25 Aforesaid recommendation was accepted by the State Government. On account of non-availability of BPL data, the weight for population was raised to 90 percent and weight for Area was retained at 10 percent (Table 2.13).

Table 2.20 : Criteria Adopted for Inter and Intra ULB Distribution

Criterion	Inter ULBs (Percentage)	Weight assigned by SFC5		
		Nagar Nigams	Nagar Parishads	Nagar Panchayats
Population	90	1.5	1.3	1.0
Area	10	1.0	1.0	1.0

2.26 For purposes of release to individual ULBs, the UDHD has been merging the devolution funds with grant funds and making consolidated transfers using the criteria of Table 2.20. The figures of actual transfers by way of Total SFC Transfer (i.e. Devolution + Grant) are presented in Paragraph 2.47.

Use of Funds Devolved to PRIs

2.27 SFC5 recommended that the PRIs could use the devolved funds for the following purposes:

- i. O&M of existing services (subject to a ceiling of 20 percent of total devolution)
- ii. Supplementing Grants

- iii. *Creating and replacing old facilities like piped drinking water, sanitation, gali-nali with focus on Saat Nishchaya and Smart Panchayats*
- iv. *Completion of incomplete projects under BRGF/ RGPSA*
- v. *Implementation of recommendations on Sound Finances and Governance in LBs*

2.28 While releasing funds to the individual GPs, the PRD stipulated that 90 percent of the devolved funds would be spent on two specified components of Mukhya Mantri Saat Nishchaya Yojana, namely, ‘Mukhya Mantri Gramin Peyajal Yojna’ and ‘Mukhya Mantri Gramin Gali-Naali Yojana’, in 50:50 ratio. The balance 10 percent could be used for any other purpose recommended by the SFC5.

2.29 The funds devolved to the ZPs and PSs were directed to be used for purposes mentioned in Paragraph 2.27 above. They could even take up schemes of rural roads and Pakki Gali Naali, provided they were not included in similar scheme being implemented by any GP.

Use of Funds Devolved to ULBs

2.30 *SFC5 recommended that the ULBs could use the devolved funds for the following purposes:*

- i. *O&M of existing services (subject to a ceiling of 20 percent of total devolution)*
- ii. *Supplementing Grants*
- iii. *Creating and replacing old facilities like piped drinking water, sanitation, gali-nali and solid waste management with focus on Saat Nishchaya and development of Model Cities and Towns*
- iv. *Completion of incomplete projects under JNNURM*
- v. *Implementation of recommendations on Sound Finances and Governance in LBs*

2.31 During the award period, the State Government earmarked a small proportion of Grant (5 percent in FY 2017-18 and 1 percent in subsequent three years) for conducting internal audit and introducing double entry system of accounting in the ULBs, as well as for providing professional services at headquarters. These Grant funds could also be used for meeting the cost of capacity building in ULBs, setting up e-municipality, data base management, training, preparation of Model City and Town master plans, viability gap funding for PPP, Mukhya Mantri Nagar Nikaya Protsahan Yojana, etc.

2.32 The balance amount of Grant, together with the entire Devolution, was released as a composite allocation to the ULBs with the following stipulations:

- i. 30 percent of the allocation will be spent on schemes of ‘Mukhya Mantri Shahari Peyajal Nishchaya Yojana’;
- ii. 20 percent of the allocation will be spent on schemes of ‘Mukhya Mantri Shahari Naali Gali Pakkikaran Nishchaya Yojana’; and
- iii. Balance 50 percent of allocation will be used first for payment of arrears of pensionary benefits of retired employees and thereafter for payment of salaries and electricity bills and meeting expenditure over solid waste disposal.

Grant

2.33 SFC5 studied the trend of Grants recommended by SFCs of other states and came to the conclusion that there was no clear trend / pattern, but among the Low-Income States, the sum total of devolution and grant during 2012-13 ranged between 2.02 percent (Madhya Pradesh) and 5.01 percent (Uttar Pradesh) of the State Budget, average of which was 2.90 percent.

2.34 Further, the SFC5 observed that SOTR of Bihar was low (20 percent of Budget), whereas the all-India average was 40 percent. As a result, devolved funds in Bihar were much lower as compared to other Low-Income States. Therefore, the Commission took the view that the Total SFC Transfers to the LBs (devolution + grant) should ideally be 5 percent of the State Budget, which is the position in the similar state of Uttar Pradesh. It recommended a phased increase, starting with 2.75 percent of the State Budget in 2015-16, 3 percent in 2016-17 and 2017-18 and 3.25 percent in 2018-19 and 2019-20. The difference between Total SFC Transfer and the Devolution was to be released as Grant. The recommended year-wise Grant is shown in Table 2.21.

Table 2.21 : Grant Recommended by SFC5

(Rs. crore)

		2015-16	2016-17	2017-18	2018-19	2019-20	Total
1	Estimated CFS (Table 2.8)	1,25,079	1,59,496	1,93,107	2,29,971	2,74,266	9,81,917
2	Recommended Total SFC Transfer						
3	% of CFS	2.75	3.00	3.00	3.25	3.25	
4	Amount	3,440	4,785	5,795	7,475	8,915	30,300
5	Recommended Devolution (Table 2.12)	2,540	3,230	3,985	4,930	6,105	20,790
6	Recommended Grant (4 - 5)	790	1,555	1,810	2,545	2,810	9,510

2.35 The State Government partially accepted the recommendation for Total SFC Transfer. For FY 2015-16, the SFC5 recommendation of 2.75 percent was adopted, but for the subsequent years the suggestion for gradual increase was overlooked and the same 2.75 percent formula was applied for each of the following four years. As a result, during the award period 2015-20, the actual Total SFC Transfer was only Rs 15,291.48 crore, which was just 50 percent of the recommended Total Transfer of Rs 30,300 crore. Table 2.22 presents the year-wise actual transfers against recommendations in respect of Total Transfers and Grants.

Table 2.22 : Total SFC Transfers and Grants (Recommended vs Actual) (SFC5)

(Rs. crore)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Total SFC Transfer						
<i>Recommended</i>	3,440.00	4,785.00	5,795.00	7,475.00	8,915.00	30,300.00
<i>Actual</i>	781.32	3,076.97	3,465.03	3,715.13	4,253.03	15,291.48
<i>(Actual %)</i>	22.7	64.3	59.8	49.7	47.7	51.0
Grant						
<i>Recommended</i>	790.00	1,555.00	1,810.00	2,545.00	2,810.00	9,510.00
<i>Actual</i>	268.67	961.31	1,497.11	1,776.33	1,820.77	6,324.19
<i>Actual (%)</i>	34.0	61.8	82.7	69.8	64.8	66.5

Inter LBs (PRI vs ULB) Share of Grant

2.36 SFC5 recommended that the distribution of Grant between the PRIs and the ULBs would be 70:30 in 2015-16 and 60:40 in the subsequent years. The year-wise allocation of Grant in accordance with this formula is given in Table 2.23.

Table 2.23 : Recommended Inter LB Sharing of Grant (SFC5)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Total Grant (Rs. crore)	790	1,555	1,810	2,545	2,810	9,510
PRIs						
<i>Percentage Share</i>	70.0	60.0	60.0	60.0	60.0	
<i>Amount (Rs. crore)</i>	555	935	1,085	1,525	1,685	5,785
ULBs						
<i>Percentage Share</i>	30.0	40.0	40.0	40.0	40.0	
<i>Amount (Rs. crore)</i>	235	620	725	1,020	1,125	3,725

2.37 As in the case of devolution, the State Government decided to apportion the Grant between PRIs and ULBs in 70:30 ratio throughout the award period. Funds actually

released as Grant during 2015-20 to the PRIs and ULBs is indicated against the recommendations in Table 2.24.

Table 2.24 : Inter LB Sharing of Grant – Recommended vs Actual (SFC5)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
(Rs. crore)						
PRIs						
Recommended	555.00	935.00	1,085.00	1,525.00	1,685.00	5,785.00
Actual	0	674.00	1,052.28	1,243.43	1,274.54	4,244.25
Actual (%)	0	72.1	97.0	81.6	75.6	73.3
ULBs						
Recommended	235.00	620.00	725.00	1,020.00	1,125.00	3,725.00
Actual	268.67	287.31	444.83	532.90	546.23	2,079.94
Actual (%)	114.5	46.3	61.4	52.3	48.6	55.8

Distribution of Grant Available for PRIs

2.38 *SFC5 recommended that the amount of Grant available for the PRIs (Rs 5,785 crore) should be used for the following items:*

- | | |
|-----------------------------------|----------------------------|
| (i) Capacity Building | (v) Performance Grants |
| (ii) Gram Kutchery | (vi) Ombudsman |
| (iii) PS Bhawan/ ZP Bhawan | (vii) DLFA/ Internal Audit |
| (iv) District Planning Committees | (viii) SFC Cell |

2.39 *It specified year-wise allocation for each item and recommended that the PRD would determine the norms based on the letter and spirit of Commission's recommendation for disbursement of item-wise grants among the PRIs.*

2.40 The PRD did not specify a separate formula for distribution of grant to the PRIs and followed the same criteria for sharing of grant among the three tiers and distribution among its individual units as those adopted for devolution.

2.41 No item-wise allocation was made for PSs and they could use the amount of grant for purposes mentioned in Chapter 9 of the report of SFC5.

2.42 Out of the grant for GPs, specific amounts were placed at the disposal of the District Panchayat office for (a) Gram Katchary office expenses @ Rs 50,000 per unit per annum and (b) payment of remuneration to the Office Assistants deployed in the GPs. The

balance amount was distributed among GPs and they could use the grant for purposes mentioned in Chapter 9 of the report of SFC5 with special focus on capacity building, including manpower, training, e-governance and provision of office space.

2.43 In case of ZPs, amount of grant was specified for (a) construction of District Panchayat Resource Centre (DPRC) buildings, and (b) payment of arrears of salary of ZP employees and the balance amount could be used for purposes mentioned in Chapter 9 of the report of SFC5, with special focus on capacity building, including manpower, training, e-governance and provision of office space.

Distribution of Grant Available for ULBs

2.44 *The Commission recommended that the amount of Grant available to the ULBs (Rs 3,725 crore) should be used for the following items:*

- (i) Capacity Building
- (ii) Office Space
- (iii) Model Cities & Towns
- (iv) Performance Grants
- (v) Regulatory Bodies

2.45 *It specified year-wise allocation for each item and recommended that the UDHD would determine the norms based on the letter and spirit of Commission's recommendation for disbursement of item-wise grants among the ULBs.*

2.46 The UDHD did not release Grant funds separately to the ULBs and, as such, there was no occasion for specifying a separate formula for distribution of grant among the ULBs. As mentioned above in Paragraph 2.31, the State Government earmarked a small proportion of Grant (5 percent in FY 2017-18 And 1 percent in subsequent years) for conducting internal audit and introducing double entry system of accounting in the ULBs, as well as for providing professional services at headquarters. These Grant funds could also be used for meeting the cost of capacity building in ULBs, setting up e-municipality, data base management, training, preparation of Model City and Town master plans, viability gap funding for PPP, Mukhya Mantri Nagar Nikaya Protsahan Yojana (MMNNPY), etc. The entire amount was retained by the UDHD and transferred to the PL account of BUDA and payments were made centrally to the implementing agencies. The year-wise Grant allocated by the UDHD for these purposes is shown in Table 2.25.

Table 2.25 : Grants to ULB (Actuals) (SFC5)

(Rs crore)

	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
DEAS	-	-	11.12	10.47	8.30	29.89
MMNNPY	-	13.00	13.00	-	17.00	43.00
Total	-	13.00	24.12	10.47	25.30	72.89

Distribution of Total SFC Transfer for ULBs

2.47 After retaining a small portion of Grant in UDHD, the balance amount of Grant, together with the entire Devolution, was released as a composite allocation to the ULBs with strict stipulations as to their usage. The Department applied the 90:10 (Population: Area) criteria, together with population multiplying factors 1.5: 1.3: 1.0 (Nagar Nigam : Nagar Parishad : Nagar Panchayat) recommended for devolution to the composite amount of Total SFC Transfer (Devolution + Grant) for distribution among the ULBs in the State. Table 2.26 gives details of the amount of Total SFC Transfer (Devolution + Grant) released by the UDHD to the ULBs in the State.

Table 2.26 : Actual Total SFC Transfer (Devolution + Grant) to ULBs (SFC5)

(Rs. crore)

Item	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Devolution	512.65	638.54	596.62	581.64	729.68	3059.13
Grant	268.67	287.31	444.83	532.90	546.23	2079.94
Total	781.32	925.85	1041.45	1114.54	1275.91	5139.07

Additional Budgetary Provision for LBs

2.48 *SFC5 emphasized that the Total SFC Transfers (Devolution + Grant) recommended by it are over and above the normal State Budgetary Provisions for the LBs. Further, as some schemes like BRGF and RGPSA have been discontinued by the Central Government, the State Government may consider providing equivalent amount to the LBs in the State Budget, in addition to the SFC5 Transfers.*

2.49 During 2015-16 to 2019-20, both PRD and UDHD provided additional funds from the State Budget to the PRIs and ULBs, over and above the SFC Transfers. A major portion of these additional allocations (Rs 8,718 crore out of total additional allocation of Rs 14,872 crore) was meant for two components of Saat Nishchay scheme — piped water supply and construction of Naali Gali, but funds were provided for other purposes too

(civic services, allowance of elected representatives, Panchayat Sarkar Bhawans, etc). The year-wise additional allocations are presented in Table 2.27.

Table 2.27 : Additional Allocations to LBs from State Budget during 2015-20

						(Rs crore)
Addl Allocation	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
PRIs	964.36	1,579.01	2,524.30	2,857.00	3,857.32	11,781.99
ULBs	654.23	547.60	657.77	648.15	581.84	30,89.58
Total	1618.59	2126.61	3182.07	3505.15	4439.16	14,871.58

2.50 Against SFC5 recommendation for Total SFC transfer of Rs 30,300 crore, for a variety of reasons, actual transfer was much lower at Rs 15,291.48 crore (50.6 percent) (Table 2.22). This gives the impression that the implementation of accepted recommendations of SFC5 was lackadaisical. However, when one takes into account the additional allocations made by PRD and UDHD to PRIs/ ULBs out of the State Budget over and above the SFC transfers, the picture changes. During 2015-20, the two Departments together released additional allocation of Rs 14,871.58 crore to PRIs and ULBs. Thus, overall fund flow from the State Government to the LBs (SFC transfers + Additional allocations) was Rs 30,163.06 crore, very close to the amount recommended by SFC5 (Rs 30,300 crore).

Bridging the Resource Gap

2.51 *SFC5 observed that, even after the transfers recommended by it, the PRIs would face a resource gap of Rs 33,795 crore and the ULBs would have a resource gap of Rs 21,536 crore. It suggested the use of the following sources to fill this gap:*

- (i) Own Additional Resources (Tax and Non-Tax)
- (ii) Public Private Partnership (PPP)
- (iii) Borrowing
- (iv) Central and State Schemes
- (v) Sound Expenditure Management

PRIs

2.52 During the period 2015-20, the PRIs have not been collecting taxes. Article 243 H of the Constitution of India provides that the PRIs are to be authorized by the State Legislature

to levy, collect and appropriate tax and non-tax revenue. Accordingly, BPRA 2006 has empowered the PRIs to levy and collect tax and non-tax revenue and there are specific provisions in this regard in Sections 27 (1,2), 55 (1,2 and 3) and 82 (1,2,3) of the Act. The Rules and guidelines for the same are yet to be issued by the State Government. As per information obtained from PRD, the draft of Bihar Panchayat (Account, Audit, Budget and Taxation) Rules is under consideration of the State Government.

2.53 The ZPs have been raising some revenues from rent of land and buildings, settlement of sairats, markets, bus stands, etc.

2.54 There is no proposal to use PPP or borrowing from financial institutions to raise resources. In fact, until and unless the PRIs start generating revenues of their own, these modes will not be viable for them.

2.55 For maintaining accounts and managing the receipts and expenditure in the PRIs, some significant steps have been initiated. A provision of services of an Accountant on contract basis has been made for every four GPs. In 330 GPs of 12 districts of the State, the Gram Panchayat Management System (GPMS) has been developed for computerization of vouchers and Cash Book with a view to efficiently monitoring expenditure and accounts. The GPMS also covers the PSs and ZPs of the 12 districts. The State Government plans to roll out the GPMS in all other districts of the State in the near future. This **Commission recommends that topmost priority should be accorded to deployment of GPMS across all districts of the State, ensuring networking of all PRIs.**

ULBs

2.56 No additional resource mobilization measures by ULBs were brought to the notice of the SFC5.

2.57 There is no proposal to use PPP or borrowing from financial institutions to raise resources.

2.58 The ULBs are implementing schemes with funding from Central / State Government under Namami Gange Project, Smart City Mission, AMRUT, Jal Jeevan Hariyali Abhiyan, Swachh Bharat Mission (SBM), Mukhya Mantri Shahri Peya Jal Yojna and Mukhya Mantri Shahri Naali Gali Yojna. The financial support for these schemes from Central/ State Governments is over and above the SFC Transfers.

2.59 UDHD has informed that, for sound expenditure and cash management, ULBs are practising Internal auditing. Double entry accounting system has also been implemented. Training of accounting staff has been organised. Budgets are prepared as per Bihar Municipal Budget Manual 2014 and adherence to Bihar Municipal Accounting Manual 2014 is ensured.

Release of Funds to the LBs

2.60 SFC5 had made the following recommendations with regard to the release of funds by the State Government to the LBs:

- (i) *SFC transfers should be released directly into the bank account of the LBs concerned through electronic bank transfer and core banking system.*
- (ii) *Devolution amount for 2015-16 should be released to each PRI/ ULB in one installment, based on Revised/Actual of SOTR of the preceding year. In the subsequent years, the first installment of 50 percent should be released in April, based on the Revised/Actuals of SOTR of the previous year, and the second installment of 50 percent should be released in October, subject to submission of at least internally audited accounts.*
- (iii) *Grants for 2015-16 should be released to each PRI/ ULB in one installment based on Revised/Actual of the preceding year. In the subsequent years, first installment should be released with the first installment of the devolved fund, and the second installment should be released after securing utilization certificate of 50 percent of the first installment. In case some LBs fail to submit utilization certificate of first installment within a year of the date of its release, amount of the second installment due to them may be utilized by PRD/ UDHD on Capacity Building.*

PRIs

2.61 Funds are transferred by the PRD directly to the bank accounts of GPs by electronic bank transfer through Comprehensive Financial Management System (CFMS). In case of ZPs and PSs, PRD allots funds to the Deputy Development Commissioner (DDC) of District, who draws money from the District Treasury and distributes to the ZP/ PSs of the district. Grant funds meant for office expenses of GKs and payment of remuneration to the office

assistant of GPs are allotted to the District Panchayat Officer, who draws money from the District Treasury and disburses to the GKs/ GPs.

2.62 Table 2.28 shows the timeline of fund releases made by the PRD to the PRIs during 2015-20.

Table 2.28 : Timeline of Fund Releases to PRIs during Award Period of SFC5

	2015-16	2016-17	2017-18	2018-19	2019-20
1st Installment					
Due Date	30-04-15	30-04-16	30-04-17	30-04-18	30-04-19
Release Date	Fund not released	23-12-16	08-01-18	05-09-18	07-08-19
Delay (Days)	—	237	253	128	99
2nd Installment					
Due Date	31-10-15	31-10-16	31-10-17	31-10-18	31-10-19
Release Date	Fund not released	29-03-17	26-03-18	08-02-19	24-01-20
Delay (Days)	—	149	146	100	85

2.63 Data in Table 2.28 shows that no funds were devolved to the PRIs and no Grants were released during 2015-16. In the subsequent years, fund releases were made after long delays, ranging from 85 to 237 days. Unfortunately, **the time schedule for release of Devolution and Grants suggested by the SFC5 was not adhered to by the PRD even once during its entire award period of SFC5.**

2.64 The precondition of utilization certificate and internal audit as recommended by SFC5 is not taken into account before releasing the installments.

ULBs

2.65 Devolution + Grant funds are transferred by the UDHD to the Personal Ledger (PL) Accounts of Nagar Nigams, Nagar Parishads and Nagar Panchayats directly by electronic transfer through CFMS. 5 percent / 1 percent of Grant meant for internal audit etc is transferred to the PL Account of BUDA by electronic transfer through CFMS.

2.66 The details of dates when funds were released by the UDHD to the ULBs during 2015-20 may be seen in Table 2.29.

Table 2.29 : Timeline of Fund Releases to ULBs during Award Period of SFC5

	2015-16	2016-17	2017-18	2018-19	2019-20
1st Installment					
Due Date	30-04-15	30-04-16	30-04-17	30-04-18	30-04-19
Release Date	21-03-16	19-10-16	14-09-17	10-07-18	13-08-19
Delay (Days)	326	172	137	71	105
2nd Installment					
Due Date	31-10-15	31-10-16	31-10-17	31-10-18	31-10-19
Release Date	Not released	29-03-17	03-07-18	13-08-19	15-09-20
Delay (Days)	—	149	245	286	320

2.67 It would be noticed that the UDHD did not release funds to the ULBs as per time schedule recommended by the SFC5. Sadly, **out of the nine releases made during the award period, not a single release was made before the deadline.** Not only this, the second installment of FY 2017-18 and 2018-19 could not be released during the same financial year; these installments were actually released during the following financial year after a delay of 245 and 286 days respectively. The time delay in releases ranged from 71 to 326 days.

2.68 The precondition of utilization certificate and internal audit as recommended by SFC5 is not taken into account before releasing the installments.

Use of Transferred Funds for Salary Payment

2.69 *SFC5 recommended that Salaries of existing staff of ULBs and ZPs should be paid out of their own revenues. The State Government could at best meet the arrears bill.*

2.70 *Funds earmarked for Manpower by the SFC5 should be used only for new positions and filling of vacant positions.*

PRIs

2.71 PRD has been making specific allocation out of Grant funds for payment of arrears of salary to the employees of ZPs.

2.72 At the GP level, positions of Office Assistant (one per GP), Junior Engineer (one for every four GPs) and Accountant (one for every four GPs) have been created and they are appointed on contract basis. Funds for payment of remuneration of Office Assistant are allotted to the District Panchayat Officer out of the Grant funds, who releases the requisite amount to the GPs.

ULBs

2.73 After earmarking 50 percent of the composite allocation of Devolution + Grant for two components of Saat Nishchay schemes, the balance 50 percent is allowed to be used for payment of arrears of pensionary benefits of retired employees, payment of salaries (of existing / new employees) and electricity bills and meeting expenditure over solid waste management.

Chapter 3

SOCIO-ECONOMIC SCENARIO OF BIHAR

- 3.1 The quantum of financial and other support for the Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB) depends on many factors, including the growth performance of the State economy in the recent past, financial health of the State Government, and progress of the state on social front. These issues have been analysed in this Chapter, based on the available data. For this exercise, the chosen reference period is 2011-12 to 2018-19, the period covered by the latest constant price data on Gross State Domestic Product (GSDP). This covers last four years of the SFC4 period and first four years of the SFC5 period.

Growth Performance of State Economy

- 3.2 The data on GSDP for Bihar for the period 2011-12 to 2018-19 is presented in Table 3.1 (Current Prices) and Table 3.2 (Constant 2011-12 Prices). The nominal growth rate for Bihar economy has been high at 10.4 percent for the reference period and the real growth rate has also been very decent at 5.9 percent. From Table 3.2, one can also notice that there has been a **steady acceleration in the growth rate over the period, from 4.1 percent (2012-13) to 7.4 percent (2019-20)**. Indeed, during the period 2016-17 to 2019-20, the growth rate of Bihar economy has been about 8 percent, **the highest among all Indian states**.
- 3.3 When the overall real growth rate is decomposed among the three major sectors, it is observed that the growth rates of the secondary sector (8.2 percent) and tertiary sector (7.5 percent) are much higher than the overall growth rate of 6.4 percent. A lower growth rate for the primary sector is an expected phenomenon, but unfortunately, this growth rate has been extremely low at 2.3 percent for Bihar. Since more than 70 percent of the population derive their livelihood from primary sector in Bihar, this low growth rate for primary sector is a limitation of the otherwise satisfactory growth performance of the Bihar economy.

Table 3.1 : GSDP of Bihar in Current Prices (2011-12 to 2019-20)

(Rs. 000' crore)

Year	Primary Sector	Secondary Sector	Tertiary Sector	Total	Yearly Growth Rate
2011-12	62.27	45.34	134.09	241.70	—
2012-13	76.93	42.58	157.18	276.70	14.5
2013-14	75.23	56.92	174.54	306.69	10.8
2014-15	79.48	65.97	189.75	335.20	9.3
2015-16	86.95	63.04	214.16	364.16	8.6
2016-17	101.07	71.99	235.40	408.46	12.2
2017-18	112.80	79.05	266.56	458.42	12.2
2018-19 (P)	119.10	89.02	307.74	515.86	12.5
2019-20(Q)	137.44	98.71	346.17	582.32	12.9
Long Term Growth Rate	9.0	9.9	11.3	10.4	—

Source : Directorate of Economics and Statistics, GOB

Table 3.2 : GSDP of Bihar in Constant (2011-12) Prices (2011-12 to 2019-20)

(Rs. 000' crore)

Year	Primary Sector	Secondary Sector	Tertiary Sector	Total	Yearly Growth Rate
2011-12	62.27	45.34	134.09	241.70	—
2012-13	68.26	39.34	144.01	251.61	4.1
2013-14	60.90	50.28	149.48	260.66	3.6
2014-15	59.93	56.25	153.25	269.42	3.4
2015-16	62.52	56.33	167.24	286.09	6.2
2016-17	68.78	64.40	177.92	311.09	8.7
2017-18	72.07	67.47	195.05	334.59	7.6
2018-19 (P)	73.74	73.22	216.86	363.81	8.7
2019-20 (Q)	76.36	79.24	235.30	390.90	7.4
Long Term Growth Rate	2.4	7.7	6.7	5.9	—

Source : Directorate of Economics and Statistics, GOB

3.4 The sectoral composition of the Bihar economy has undergone a change in the recent past, obviously because of the varying growth rates of 3 major sectors (Table 3.3). Because of the lower growth rate of primary sector, its share in the overall economy has declined from 26.0 to 23.8 percent, during the period 2011-12 to 2018-19. Unfortunately, such a decrease in the share is also observed for secondary sector (from 18.6 to 16.8

percent), indicating limited growth of industrial activities in Bihar. **These two declines obviously imply that the major source of growth of Bihar's economy has been the tertiary sector, whose share in the overall economy has increased from 56.4 percent to 59.4 percent between 2011-12 and 2018-19.**

Table 3.3 : Sectoral Composition of GSDP

	Percentage of			
	Primary Sectors	Secondary Sectors	Tertiary Sectors	All Sectors
Triennium ending 2013-14	26.0	18.6	56.4	100.0
Triennium ending 2018-19	23.8	16.8	59.4	100.0

- 3.5 From a comparison of the Per Capita Income (PCI) in current prices for Bihar and India, it is possible to judge the relative growth performance of Bihar economy vis-à-vis the overall Indian economy (Table 3.4). During the period 2011-12 to 2018-19, the PCI in Bihar has grown at 10.2 percent, compared to a lower 10.0 percent for India. Consequently, in 2011-12, while the PCI in Bihar (Rs. 23,525) was 37.1 percent of PCI in India (Rs. 63,462), the ratio has improved to 37.6 percent in 2018-19 (Rs. 47,541 for Bihar and Rs. 1,14,958 for India). This growth momentum of Bihar's economy has to be maintained for several years to ensure a parity between the PCI in Bihar and India.

Table 3.4 : Per Capita Income in Bihar and India (Current Prices)

Year	Per Capita Income (Rs.)		Bihar as Percentage of India
	Bihar	India	
2011-12	23524.7	63461.7	37.1
2012-13	26458.8	70982.6	37.3
2013-14	29250.7	79118.0	37.0
2014-15	31142.3	86647.5	35.9
2015-16	33218.2	94796.6	35.0
2016-17	37163.3	104659.0	35.5
2017-18	41991.7	114958.0	36.5
2018-19	47541.3	126405.6	37.6
Growth Rate	10.2	10.0	

Source : MOSPI

- 3.6 One of the requirements for a steady growth process in Bihar is the status of infrastructure in the state, both physical and financial. Thanks to the high level of development expenditure by the State Government, there has been a considerable improvement in

Bihar with regard to its physical infrastructure, particularly roads and electricity. For example, in Bihar, the length of roads was 126 kms per lakh population in 2010, which increased to 181 kms. in 2017. Similarly, the per capita consumption of power was 134 kwh in 2011-12, which was more than doubled to reach the level of 311 kwh in 2018-19. However, when one considers the data on banking sector, it becomes apparent that the growth of financial infrastructure in Bihar has been much slower than in rest of the country (Table 3.5). First, the share of Bihar in the total number of branches of Scheduled Commercial Banks in the country has declined from 7.2 percent in 2011-12 to 4.9 percent in 2018-19. Consequently, the population per branch has only marginally declined in Bihar (from 22.9 thousand to 16.8 thousand), whereas such decline is much larger for India as a whole (from 19.2 thousand to 9.2 thousand). One should also note here that, in spite of this slower growth of banking infrastructure, Bihar was able to record a moderate increase of 5.0 percentage points in the credit-deposit ratio of the banks, from 29.0 percent in 2011-12 to 34.0 percent in 2018-19. For India as a whole, the increase in credit-deposit ratio was of lesser magnitude (3.1 percentage points).

Table 3.5 : Banking Infrastructure in Bihar and India for Scheduled Commercial Banks (SCB)

	2011-12			2018-19		
	Bihar	India	Bihar as percentage of India	Bihar	India	Bihar as percentage of India
Number of Branches	4549	62914	7.2	7040	142239	4.9
Population per Branch (thousand)	22.9	19.2	118.9	16.8	9.2	182.3
Number of employees ('000)	36.4	1050.9	3.5	48.1	1380.5	3.5
Average Employees per Branch	8.0	16.7	47.9	6.8	9.7	70.5
Credit-Deposit (CD) Ratio	29.0	75.1	38.6	34.0	78.2	43.5

Source : RBI

Trend in Social Development

3.7 Parallel to the economic development in Bihar during the recent years, there has also been **improvements in the social sector**, as indicated by the data in Table 3.6. For example, the **literacy rate in Bihar has increased** by 2.0 percentage points (from 61.8 percent in 2011 to 63.8 percent in 2016-17), the corresponding increased being lesser at

1.1 percentage point for the entire country (from 72.9 percent in 2011 to 74.0 percent in 2016-17). This obviously implies lessening of the gap between Bihar and India vis-à-vis literacy rate. One can also notice similar improvements in the health status in Bihar, as indicated by the data on **Life Expectancy at Birth (LEB), Infant Mortality Rate (IMR) and Under 5 Mortality Rate (U5MR)**. For example, LEB has increased in Bihar by 2.8 years (from 66.3 years in 2007-11 to 69.1 years in 2014-18), as compared to an increase of 2.6 years in India (from 66.5 years to 69.1 years). An absence of demographic transition, as experienced by most other states, has been a major challenge in Bihar; but here again, the progress has been noticeable in the recent past — the Total Fertility Rate (TFR) has declined from 3.6 to 3.2 in Bihar between 2011 and 2018; for India as a whole, the decline is lesser from 2.4 to 2.2.

- 3.8 As regards the overall improvement in social indicators, it is expressed by the Human Development Index (HDI) and the **HDI** for Bihar and India are also presented in Table 3.6 for years 2011 and 2018. For Bihar, this index stood at 0.524 in 2011 and it increased to 0.576 in 2018. Similarly, for India, the Index stood at 0.590 at 2011 and then increased to 0.647 in 2018. It may be noted here that the Index has increased by approximately 10 percent in both Bihar and India.
- 3.9 From the above discussion, it is clearly emerges that the progress in the social sector during the period 2011-18 has been nearly equal in Bihar and India. **However, one needs to remember that, for several historical reasons, the present level of social development is still very low in Bihar, in some cases the lowest in India.** Bihar, therefore, needs to progress at a rate faster than the country as a whole to reach the national average.

Table 3.6 : Indicators of Social Development — Bihar and India

Indicator	About a Decade ago			Recent Years		
	Reference Year	Bihar	India	Reference Year	Bihar	India
Literacy Rate						
Male	2011	71.2	80.9	2016-17	73.4	82.1
Female	2011	51.5	64.6	2016-17	53.3	65.5
Overall	2011	61.8	72.9	2016-17	63.8	74

Indicator	About a Decade ago			Recent Years		
	Reference Year	Bihar	India	Reference Year	Bihar	India
Life Expectancy at Birth						
Male	2007-11	65.9	64.9	2014-18	69.4	68.2
Female	2007-11	66.8	65.4	2014-18	68.7	70.7
All	2007-11	66.3	66.5	2014-18	69.1	69.4
Infant Mortality Rate						
Rural	2011	45	48	2018	32	36
Urban	2011	34	29	2018	30	23
All	2011	44	44	2018	32	32
Under 5 Mortality Rate						
Rural	2011	61	61	2018	37	40
Urban	2011	41	35	2018	32	26
All	2011	59	55	2018	37	36
Total Fertility Rate						
Rural	2011	3.7	2.7	2018	3.3	2.4
Urban	2011	2.6	1.9	2018	2.5	1.7
All	2011	3.6	2.4	2018	3.2	2.2
Human Development Index	2011	0.524	0.590	2018	0.576	0.647

Sources : Census 2011, udise 2016-17, UNDP, Global Data Lab

Financial Health of State Government

- 3.10 The **level of economic development in Bihar is the lowest** among all the Indian states and, as such, the **financial base of the State Government is also very narrow** in Bihar. In 2019-20, the total budget of the State Government was only Rs. 1.43 lakh crore in Bihar, compared to Rs. 3.39 lakh crore in Maharashtra. However, in spite of a narrow base, **the financial health of the State Government has been very satisfactory**, thanks to the adoption of prudent practices for resource, deficit and debt management.
- 3.11 As regards resource management, it may be noted that the **State's Own Revenue (tax + non-tax) has grown steadily at 11.7 percent** during the period 2011-12 to 2018-19 (Table 3.7). During the same period, the **total revenue of the State Government has**

increased again steadily at 14.6 percent. Because of restriction on some unproductive revenue expenditure, Bihar has steadily generated revenue surplus during the recent years, a feat that could not be achieved even by high income states like Punjab and Maharashtra. As recorded in Table 3.7, such revenue surplus in Bihar has grown at a rate of 12.9 percent in the recent past. It may also be noted here that the **Own Tax: GSDP ratio in Bihar in recent years has been much lower (below 6 percent)**, compared to other states. This makes the State Government highly dependent on the Central Government for resources. In the recent past, the share of Central Government in total revenue of Bihar has been above 70 percent in Bihar.

Table 3.7 : Resource Management of the State Government

Year	State's Own Revenue (Rs. crore)	Total Revenue (Rs. crore)	Revenue Surplus (Rs. crore)	Tax : GSDP Ratio	Central Transfer in Total Revenue
2011-12	13502	51320	4820	5.1	73.7
2012-13	17388	59567	5101	5.8	70.8
2013-14	21505	68919	6441	6.3	68.8
2014-15	22308	78418	5848	6.1	71.6
2015-16	27635	96123	12507	6.8	71.3
2016-17	26145	105585	10819	5.6	75.2
2017-18	26643	117447	14823	4.8	77.3
2018-19	33539	131794	6897	5.7	74.6
2019-20	33858	124233	699	4.9	72.8

Source : State Government Budget

3.12 For financing development expenditure, the State Governments are required to supplement their revenue surplus with some borrowings from the market, resulting in Gross Fiscal Deficits (GFD). However, to ensure that such borrowings do not exceed the financial capacity of the State Governments, the Financial Management and Budget Management (FRBM) Act mandates that GFD in any year should not cross the limit of 3.25 percent of State's GSDP. Bihar has kept its GFD within this limit in 6 out of last 8 years. The limit was exceeded in 2014-15 (3.3 percent) and 2016-17 (3.9 percent). These figures clearly indicate that **the deficit management by the State Government has also been satisfactory in the recent years.**

3.13 Finally, one may examine the debt management of the State Government, as indicated by the magnitude of the outstanding debt, as percentage of GSDP of the State. The UFC12 had suggested that this ratio should be below 28 percent of GSDP and Bihar had followed that suggestion till 2014-15, with a marginal slip in 2014-15 (28.9 percent). Later, UFC14 had lowered this desired ratio to 25 percent. Bihar was not able to maintain this ratio in last 4 years, when it was around 32 percent. However, this higher ratio for outstanding debt in Bihar is justifiable on the ground that development expenditure accounts for more than 70 percent of total expenditure in Bihar, testifying productive utilization of the borrowed funds.

Table 3.8 : Deficit and Debt Management of the State Government

Year	Gross Fiscal Deficit (GFD) (Rs. crore)	GFD as Percentage of GSDP	Outstanding Debt (Rs. crore)	Debt as Percentage of GSDP
2011-12	5915	2.4	50990	20.6
2012-13	6545	2.3	57474	20.4
2013-14	8352	2.6	64262	20.3
2014-15	11178	3.3	99056	28.9
2015-16	12062	3.2	116578	31.4
2016-17	16480	3.9	138722	32.8
2017-18	14305	3.0	156777	32.3
2018-19	13807	2.7	168921	32.8
2019-20	12241	2.0	190899	30.9

Source : State Government Budget

Impact of Covid 19 on State Economy and Finances

3.14 The foregoing analysis of the state economy and finances refers to the period 2011-12 to 2019-20. However, there is certain to be a break in that trend in 2020-21 and a few years thereafter, because of the outbreak of Covid 19. The projections about the state's economy and finances, therefore, cannot be done based on the recent trend.

3.15 The outbreak of Covid 19 has substantial negative impact of the economy, and there have been several estimates of this negative impact for different countries by many agencies. For example, very recently, the International Monetary Fund (IMF) has estimated that the growth rate for the Indian economy for 2020 is (–)10.3 percent. For Bihar, a study by

the Asian Development Research Institute (ADRI), Patna, shows that it will shrink by 18 percent in the first quarter of 2020-21, compared to 23 percent for the India economy. This is understandable, since the impact of Covid 19 is much higher on the urban economy, which is of much smaller size in Bihar. On this basis, one can safely assume that, if the Indian economy shrinks by 10.3 percent in 2020, the corresponding shrink for the Bihar economy will be about 7-8 percent in 2020-21. The IMF, along with a forecast of (–) 10.3 percent for the growth of Indian economy, also forecasts a growth rate of 6.8 percent for 2021. **In that scenario, Bihar is also expected to attain a positive growth rate of 6-7 percent in 2021-22 and regain the growth momentum that it had attained in the recent past.**

3.16 Since the Bihar economy is estimated to experience a negative growth in 2020-21 (by approximately 7-8 percent) and then recover in 2021-22 (by approximately 6-7 percent), the state finances would also be substantially weakened in 2020-21 and then partially recover in 2021-22. This process of weakening will have two components — loss of state's own revenue (tax + non-tax) and lower transfers from the Central Government (share of taxes + grants-in-aid). It is not possible here to estimate the loss of revenue due to lower Central Transfers, but the Department of Finance of the State Government has made some projections for the revenue receipts for the period 2021-22 to 2025-26, the period to be covered by the UFC15. These projected amounts are much less than the projections that assume growth rate of 11.3 percent for state's own revenue, as observed for the period 2011-12 to 2018-19 (Table 3.9). In 2021-22, this loss is estimated to be Rs. 17.75 thousand crore, and this gradually increases to Rs. 23.93 thousand crore in 2025-26. If one takes into lower transfers from the central government, the negative impact of Covid 19 on state finance could be even larger.

Table 3.9: Projections for State's Own Revenue

(Rs. '000 crore)

Year	2021-22	2022-23	2023-24	2024-25	2025-26
Projection by Department of Finance	29.03	33.03	37.62	42.87	48.89
Projections assuming a growth rate of 11.7 percent	46.78	52.23	58.35	65.18	72.82
Difference	17.75	19.20	20.73	22.31	23.93

Chapter 4

PANCHAYATI RAJ INSTITUTIONS OF BIHAR

PRI_s AS SELF- GOVERNMENTS

- 4.1 Local Government is a State subject listed as item 5 in List II of the Seventh Schedule of the Constitution. The 73rd Amendment has given Constitutional status to the Panchayats, provided it with a complete framework and also imparted it certainty. Article-243G (Box 4.1) envisions Panchayats as institutions of self-government and also universal platform for planning and implementing programmes for economic development and social justice.

Box 4.1

Constitutional Provision for Enabling the PRI_s as LSGs

243G. Powers, authority and responsibilities of Panchayats.—Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary **to enable them to function as institutions of self-government** and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to—

- a) the preparation of plans for economic development and social justice;
- b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

- 4.2 **Bihar Panchayati Raj Act 2006:** In pursuance of the provisions made in the 73rd Constitution (Amendment) Act, 1992, the Bihar Panchayati Raj Act, 2006 has been enacted, which provides for establishment of Gram Panchayat at village level, Panchayat Samiti at Block level and Zila Parishad at District level. At present, 8,387 Gram Panchayats, 534 Panchayat Samitis and 38 Zila Parishads are functional in the State. Gram Panchayats are divided into wards, which are approximately 1.15 lakhs in number.
- 4.3 In addition to establishment of three-tier Panchayats, a Gram Katchahry is also envisaged at each Gram Panchayat for dispensation of grassroots level justice at the doorstep of rural populace, which has got the authority to bring about amicable settlement of certain

criminal and certain civil disputes between the rival parties, and in case of failure to do so, to impose a fine up to Rs. 1000 to the party found guilty after deciding the matter through prescribed procedures.

- 4.4 To usher in decentralization at the grassroots level, along with provision of Gram Sabha at the Gram Panchayat level, Ward Sabha has been created at each Ward level under the Chairmanship of the Ward Member. The Ward Sabha, through Ward Implementation and Management Committee, implements several schemes of public importance assigned to the Ward by the Gram Panchayat. Vigilance Committees have also been formed at ward level to keep close watch on qualitative implementation of schemes and render appropriate counsel to the ward/ Panchayat.
- 4.5 PRIs at different levels have been entrusted with the responsibility of carrying out important functions and duties with regard to 29 subjects, described in the Eleventh Schedule of the Constitution. For the purpose of hand holding and ease in working, the PRD from time to time, issues advisory and necessary directions with respect to Standard Operating Procedures to Panchayats.
- 4.6 The State Government has got the authority to dissolve a Panchayat found not working as per provisions of the Act and directions of the Government. The Government may remove a Chairperson/ Vice-chairperson of a Panchayat from his/her post, if found guilty of misusing his/her powers, after giving reasonable opportunity of hearing. The PRD ensures that the powers assigned to Panchayats are not misused and they become partners in overall development of villages.
- 4.7 In addition to appropriate devolution of funds received from the Central and State Governments for development purpose, the PRD keeps a close watch on regular maintenance of accounts of Panchayats and audit thereof, as well as due disposal of audit objections. The Deputy Development Commissioner/ District Panchayat Raj Officer at the district level and the Block Panchayat Raj Officer/ Junior Engineer/ Executive Assitants/ Panchayat Secretary and employees of different departments working at the panchayat level render necessary assistance and guide to the Panchayats subject to directions of the department.
- 4.8 **Reservation for Women:** Apart from providing reservation to members of Scheduled Castes, Scheduled Tribes and Backward Classes in seats of members and Chairpersons

of three-tier Panchayats and Gram Katchahry, 50 percent horizontal reservation has been provided to women belonging to both reserved and general categories. Bihar was the first state in the country to bring in 50 percent reservation for women in PRIs. This was made operational through the Bihar Panchayati Raj Act, 2006. Accordingly, elections to PRIs held in 2006 had 50 percent reservation for women and thus the total elected representatives had more women than men in the final tally.

Table 4.1 : Elected Representatives and Officers of PRIs

No	Type of Tier	Local Name	Number
1	District Panchayat	Zila Parishad	38
		Zila Panchayati Raj Officers	38
		Zila Parishad Members	1161
2	Intermediate Panchayat	Panchayat Samiti	534
		Block Panchayati Raj Officers	528
		Panchayat Samiti Members	11497
3	Village Panchayat	Gram Panchayat	8387
		Gram Panchayat Members	114691
		Gram Panchayat Secretary	3701

- 4.9 MGNREGA, which mandates the Panchayats as the principal planning and implementing authorities, has given visibility to the Panchayats and, in the process, catalyzed their enablement.
- 4.10 The UFC13 award was a major milestone in the history of Panchayati Raj in as much as it devolved a share of the divisible tax pool to the Panchayats as grant, instead of a mere lump sum, de facto recognizing the Panchayats as the third tier of government. The UFC13 also earmarked a performance grant with a view to bringing about major improvements in functioning and accountability of the Panchayats. The UFC14 and the UFC15 have continued this approach and given certainty to recognition of the Panchayats as the third tier of government.
- 4.11 **Panchayat Sarkar:** The letter and spirit of the Constitutional amendment is epitomized in the ‘Panchayat Sarkar’ vision of Government of Bihar, physical symbol of which are

the ‘Panchayat Sarkar Bhawans’ (PSBs). A unique feature of ‘Panchayat Sarkar’ in Bihar is the Gram Katchahry (GK), based on a comprehensive legislation. The basic structure of the GK is in position but needs to be nurtured by the judiciary and the district administration.

- 4.12 SFC5 in its report had observed that there were several unfinished agenda, such as: (i) the Panchayats quite often are unable to function efficiently due to insufficient staffing, office space and infrastructure, (ii) true integrated decentralized planning is yet to happen (Article-243ZD), (iii) true devolution of 3Fs (Functions, Functionaries, Funds) is still at nascence, and (iv) the Gram Sabha, which is the soul of the Panchayats is still to institutionalize. While some progress has been made in provisioning of office space and infrastructure through PSBs and making available staff such as Office Assistant, Accountant and Junior Engineer, a lot remains to be done.
- 4.13 **SFC5 had recommended to pursue three broad aspects of the Panchayat Agenda: (a) effective devolution of functions and funds, (b) capacity building through skilled manpower, IT facility, office space etc. and (c) ensuring accountability through Gram Sabhas, Social Audit, Ombudsman etc. In view of this Commission, these recommendations are equally valid even in 2021.**

FUNCTIONS

- 4.14 **Functions of the PRIs under the Constitution and the State Acts:** A comparison between the functions assigned to the PRIs under the Constitution and the Bihar Panchayati Raj Act, 2006 (BPRA, 2006) shows that BPRA, 2006 includes all functions listed in the Constitution in Section 22 (for GP), Section 47 (for PS), Section 73 (for ZP) and Section 96 to 122 (for GK).
- 4.15 **Categories of Functions**
- (i) **Regulatory:** Issuing Death & Birth Certificate, Trade license and other Regulations, etc. besides judicial functions through the GKs.
 - (ii) **Planning and Implementation:** Schemes for both economic development and social justice.

- (iii) **Providing Core Civic Services:** Water Supply, Sanitation, Drainage, Sewerage, Solid Waste Management, Street Lighting, Streets and Footpaths, Parks, Playgrounds, Burial and Cremation Grounds, Library, Museum etc.
 - (iv) **Agency Functions:** Functions assigned under the Central and State Schemes and policies.
- 4.16 **Devolution of Functions:** In order to enable the PRIs to function as effective local governments, they must be enabled to carry out the functions listed above. Such of these functions that are currently being carried out by the State Government formations need to be devolved to the PRIs. Each function should be broken down into activities and individual activities should be assigned either to a relevant government body/ functionary or to the appropriate level of PRIs on the basis of clear principles of public finance and public accountability, and above all, the governance principles of Subsidiarity, Democratic Decentralization and Citizen-Centricity.
- 4.17 **Need for Activity Mapping:** As mentioned in the previous paragraph, activity mapping is an essential pre-requisite for devolution of functions to PRIs. It provides clarity on the role and responsibilities of the different tiers of PRIs. This is not a one-time exercise and has to be done periodically, while working on locally relevant socio-economic programmes, restructuring organisations and framing subject matter laws.
- 4.18 **Status of Activity Mapping:** PRD has reported that 20 departments have transferred 79 functions to the GP, 60 functions to the PS and 61 functions to the ZP. The numbers are impressive, but such transfers are more in the form of ‘delegation’, rather than ‘devolution’ and no substantial responsibility and resource have been given to these institutions. The Departments that have transferred functions are: Agriculture, Revenue and Land Development, Water Resources (Minor Irrigation), Animal Husbandry and Fishery, Forest and Environment, Industry, Public Health Engineering, Rural Development, Rural Engineering, Energy, Primary Education, Adult Education, Literacy, Cultural Activities, Medical, Family Welfare, Social Welfare, Welfare of the Handicapped, Public Distribution System and Relief and Rehabilitation.
- 4.19 **In reality, the exercise of activity mapping has been far from effective. Devolution of funds for transferred functions has not happened and the departments concerned have continued to receive budgetary allocations in respect of transferred functions.**

- 4.20 SFC5 had given the following status report (Table 4.2) in respect of devolution of 3 F's (Funds, Functions and Functionaries). This Commission has not noticed any substantial change in the situation.

Table 4.2 : Status of Devolution of 3 Fs

Funds	Functions	Functionaries
<p>SFC5: No taxes are collected by the PRIs but a proposal regarding the same is under consideration of state government.</p> <p>SFC6 Observation: <u>While the BPRA 2006 has conferred powers of taxation on PRIs, they are awaiting guidelines from PRD, which is still awaiting approval of Govt.</u></p>	<p>SFC5: Activity mapping has been conducted. 20 line depts. have issued GOs.</p> <p>SFC6 Observation: <u>Activity mapping orders have issued, but not acted upon. Funds for transferred functions are still being allocated to administrative departments.</u></p>	<p>SFC5: Departmental staffs are answerable to departments. Aanganwadi workers, health workers and teachers are appointed by PRIs.</p> <p>SFC6 Observation: <u>The workers mentioned above are appointed by PRIs but do not report to them. Departments that have issued activity mapping orders, have not transferred services of officers handling those activities to PRIs.</u></p>

Status of Regulatory Functions

- 4.21 The present status regarding regulatory functions is presented in Table 4.3.

Table 4.3 : Status of Regulatory Functions

Activity	Status
Issuing Death & Birth Certificate	Functioning at GP level.
Trade license and other Regulations	No activity at any of the three levels.
Judicial functions through GK	GKs (8387) are functional in all GPs. Services of Office Secretary and Nyaya Mitra have been made available to assist the Sarpanch. Funds to meet office Expenses of GK are given out of SFC Grant.

- 4.22 **Gram Katchahry (GK):** A provision has been made to set up Village Courts (Gram Katchahry) (GK) under the Bihar Panchayati Raj Act, 2006 to provide easy and affordable justice to the villagers. The Bench is generally constituted with a total of 5 members, including four panches and sarpanch. After the suit is filed, the Bench tries its best to

execute the suit with amicable settlement. In case there is no amicable settlement, the Bench examines facts and give its decision.

4.23 An Office Secretary is appointed in the GK on contractual basis. Services of a law graduate having minimum three years' experience have been made available in each GK on contract basis. Known as Nyaya Mitra, these persons assist the GK and its Bench in the discharge of its duties. The State Government has organised training for Sarpanch, Upa-sarpanch and Panches.

4.24 Current number of GKs, its personnel and members are shown in Table 4.4.

Table 4.4 : Gram Katchahries

Gram Kachahari (GK)	Number
Total number of GK	8387
GK Nyaya Mitra	6947
GK Secretary	7474
GK Members	1,14,691

4.25 An amount of Rs. 50,000 per year is allocated for GK office support out of SFC Grant. Total amount allocated for GK during 2015 to 2020 was Rs. 209.79 crore. Funds are also provided from the State budget for payment of remuneration to Office Secretary @ Rs. 6000 per month, Fees of Nyay Mitra @ Rs. 7000 per month and Rent of GK @ Rs. 1000 per month in case of non-availability of Government premises. Honorarium is paid to Sarpanch @ Rs. 2500 per month, Upa-sarpanch @ Rs.1200 per month, and Members @ Rs. 500 per month.

4.26 **Gram Raksha Dal:** As per Section 33 of BPRA 2006, functions of Gram Raksha Dal are: (a) general watch and ward, (b) meeting emergent events like fire, flood, breach of embankment, collapse of bridge, outbreak of epidemic, (c) encountering burglary or dacoity, and (d) such other duties that may be entrusted by the Government from time to time. Gram Raksha Dal is to be organised under a Dalpati, appointed for every GP. All able-bodied persons of a village between the ages of 18 and 30 years are to be members of the Dal.

Status of Planning Function

4.27 **District Planning Committee:** Article 243ZD of the Constitution envisages formation of a District Planning Committee (DPC) to consolidate the plans prepared by both the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole. In this context, the SFC5 had recommended the following steps for enabling the DPCs to perform this role:

- (i) **Provide technical support** to the DPCs by constituting District Planning Units (DPUs) and allow them to hire experts in requisite areas like planning, programme management, resource management, livelihood, etc,
- (ii) **Provide building and secretariat** for the DPC and adequate budgetary support for research, consultancy, plan preparation, etc, and
- (iii) **Operationalise Plan Plus and GIS Modules of e-Panchayat** that are designed to capture the entire planning workflow of the PRIs, starting from identification of needs and up to the plan approval processes. These modules are capable of generating convergent unit plans for the LBs, based on the plans prepared by the line departments at the State and Central levels and consolidate the same into the District and State Plans.

4.28 This Commission has noted that, during the five-year period from 2015 to 2020, the PRIs have carried out two Saat Nishchaya Schemes — ‘Mukhya Mantri Gramin Peya Jal Yojna’ and ‘Mukhya Mantri Gramin Naali Gali Yojna’ using the SFC transfers and State funds. Every GP has been involved in their implementation. This task involved performance of planning functions, such as need assessment, formulation of individual schemes, their scrutiny and approval, supervision of construction and monitoring of progress. The process followed by the PRIs to execute the schemes is explained below:

- (i) Scheme selection was done by a Ward Level Implementation and Monitoring Committee in the backdrop of baseline survey conducted under the supervision of District Level Committee.
- (ii) Technical approval was granted by the Block Level Committee.
- (iii) Administrative approval of schemes was done by the GP.

- (iv) The Block and District level Committees monitored and reviewed implementation and progress.
- 4.29 The PRD vide its Resolution no. 4864, dated 05.09.2018, has decided to set up a District Programme Management Unit (DPMU) in each of the 38 districts of the State. The DPMUs will have Experts in the subject areas of Finance and Accounts, Co-ordination, Information, Entertainment and Communication (IEC), Monitoring and Evaluation, IT and Engineering. The DPMU will be under the supervision and control of the District Magistrate. Services of experts will be taken on contract and they will be paid a remuneration of Rs 60,000 per month. The DPMU will also have services of two Quality Monitors (one retired engineer of the rank of Executive Engineer and one retired civil servant of the rank of Deputy Secretary) for every 4 Blocks of the district. The DPMUs are tasked with implementation and monitoring of the Saat Nishchaya Schemes as well as the PSBs.
- 4.30 **This Commission has included the cost of DPMUs in the expenditure projection for PRIs. Provision is also being made for untied funds for taking up local schemes and the Commission recommends that the DPMUs should take these schemes within its ambit in addition to the Saat Nishchaya Schemes for purposes of technical support, implementation and monitoring.**

Status of Civic Functions

- 4.31 During the period 2015-20, the PRIs, especially the GPs, have played a very important role in implementing the two Saat Nishchaya Schemes of the State Government, namely, 'Mukhya Mantri Gramin Nal Jal Yojna' and 'Mukhya Mantri Gramin Naali Gali Yojna' that addressed critical civic functions, namely, drinking water supply, access roads and sanitation. Thanks to these schemes and active involvement of PRIs in their implementation, piped water supply has reached all rural homes for the first time, and paved access to homes and cemented drains have been built in the villages. However, other civic services have either not been attended to or operated marginally, primarily on account of lack of funds. The status of other civic functions is shown in the Table 4.5.

Table 4.5 : Status of Other Civic Functions

Activity	Status
Solid Waste management	No activity
Sanitation	Other than construction of drains, no other activity
Street lighting	No activity
Parks/Playgrounds	No activity
Burial /Cremation grounds	Functioning well at all levels.
Library/Museum	No activity at the GP & PS. Limited activity at the ZP.

4.32 The State Government has recently announced Saat Nishchay Yojna-2. Included under item 4 of this Yojna are two important elements that would help GPs to expand the range of their civic services. These are:

- (i) **Street lighting:** Solar streetlights are to be installed in every village and arrangement would be made for their proper upkeep and maintenance.
- (ii) **Solid and liquid waste management:** Arrangements would be made for management of solid, liquid and faecal waste. Cleaning of drains and village streets would be done. Collection of garbage from homes and its proper disposal would be organized. Treatment of dirty water at the outfall drain would be done before releasing it into water bodies.

4.33 Implementation of above schemes under Saat Nishchay Yojna-2 is expected to fill some critical gaps in the civic services availability in rural areas.

Status of Agency Functions

4.34 PRIs have been associated with implementing schemes floated by the Central and State Governments. Information with regard to some of the prominent schemes handled by the PRIs in Bihar is given below.

4.35 PRIs are involved in implementing two schemes of the Saat Nishchay Yojna of Government of Bihar. These are:

- (i) **Mukhya Mantri Gramin Peya Jal Nishchay Yojna:** The scheme aims to provide clean drinking water in the homes of approximately 2 crore households in the state through concerted co-operation of the people of every village and

locality in Bihar. Piped water supply @ 70 liters per person per day would be made available to every household with a view to ending their dependence on Hand-pumps (chapakal) and other sources of drinking water.

(ii) **Mukhya Mantri Gramin Naali Gali Nishchay Yojna:** This scheme intends to create a network of ‘Pakka’ drainage and by-lanes in villages and habitations in the rural areas of the State. The target has been set to provide all weather connectivity and drainage facilities in all 1,14,691 rural wards of 8,387 Gram Panchayats in the state.

(iii) The Salient features of the schemes are given below:

- (a) A plan has been prepared for each ward considering the ward of Gram Panchayats as one unit.
- (b) Implementation and Monitoring Committees at Ward and Block levels participate in selection, and technical and administrative approval of schemes. District and State Level Committees regularly monitor and review the schemes.
- (c) Resources for the scheme come from UFC14 grants, SFC5 Transfers and State funds.
- (d) PRD has reported that, during the period 2015-20, a sum of Rs 17,040 crore was spent by the PRIs on implementation of this scheme, together with the Mukhya Mantri Gramin Peya Jal Nishchay Yojna.

4.36 **Saat Nishchay Yojna-2:** The State Government has announced Saat Nishchay Yojna-2 in December 2020. The fourth Nishchay of this Yojna pertains to ‘Swachh Gaon, Samriddh Gaon’, under which solar street lighting and solid and liquid waste management in villages is to be undertaken. The PRIs will be responsible for implementing these schemes.

4.37 **Construction of Panchayat Sarkar Bhawans**

- (i) The State Government has decided to construct a Panchayat Sarkar Bhawan in each GP to provide the much-needed space to house the GP functionaries and officials. It

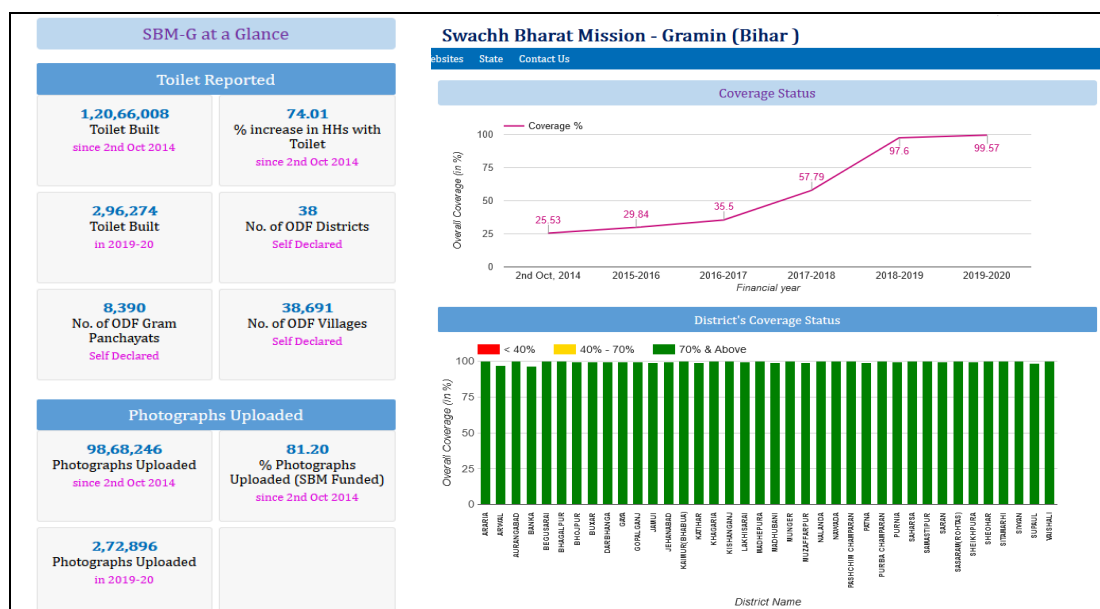
would be the office of the GP where people could come and meet elected representatives, seek services, and raise their grievances. The Gram Katchahry and the Right to Public Services (RTPS) Centre that provides services under the RTPS Act will also be located in the same building.

- (ii) Initially, the PSBs were being constructed by the LAEO. Subsequently, the State Government decided to involve the GPs in their construction. Presently, the GPs are handling the task of construction of PSBs. Details of PSBs constructed may be seen in Paragraph 4.53.

4.38 Swachh Bharat Mission

- (i) To accelerate the efforts to achieve universal sanitation coverage and to put focus on sanitation, Swachh Bharat Mission (SBM) was launched in 2014. Under the mission, all villages, Gram Panchayats, Districts, States and Union Territories have declared themselves Open-Defecation Free (ODF) by October 2, 2019 by constructing over 100 million toilets in rural India.

Box 4.2



- (ii) The Gram Panchayats have played a pivotal role in the implementation of the programme, providing support in terms of motivation, mobilization, implementation and supervision of the programme through Village Water and Sanitation Committees. The progress of the Mission in Bihar is shown in Box 4.2.

- (iii) The Mission is now moving towards the Phase II of Swachh Bharat Mission Grameen (SBMG), i.e, ODF-Plus. ODF Plus activities under Phase II of SBMG will reinforce ODF behaviours and focus on providing interventions for the safe management of solid and liquid waste in villages. As before, the PRIs will be intimately involved in implementing Phase II of the Mission.

4.39 MGNREGA

1. MGNREGA is a demand driven wage employment programme. It provides a legal guarantee for wage employment by providing allowances and compensation both in cases of failure to provide work on demand and delays in payment of wages for work undertaken.
2. Plans and decisions regarding the nature and choice of works to be undertaken, the order of worksite selection etc., are all made in open assemblies of the Gram Sabha (GS) and ratified by the GP. The Gram Sabha also monitors the execution of works within the GP and is the primary forum for conduct of social audits.
3. Responsibilities of the GPs include, inter alia, registering households, issuing Job Cards, receiving applications for work, identification and planning of works, developing shelf of projects including determination of the order of their priority, and executing works that shall meet the required technical standards and measurements.

FUNCTIONARIES

- 4.40 It goes without saying that if the PRIs are to function effectively as local governments, they must have adequate human resources possessing requisite skill-sets to perform the activities assigned to these bodies. The SFC5 had deliberated upon the issue and recommended that a Model Panchayat Cadre be created in accordance with the suggestions of the Union Ministry of Panchayati Raj. The suggested Cadre Structure comprises four distinct streams viz. Development Cadre, Engineering Cadre, Administrative Cadre and Finance and Accounts Cadre. A model staffing pattern was also suggested for each tier of the PRIs. This is shown in Table 4.6.

Table 4.6 : Model Staffing Pattern for PRIs

Sl.	Post	Nature of Post	Unit per GP/PS/ZP				
			GP	PS	ZP		
					Large	Medium	Small
		1	2	3	4	5	6
A	Development Cadre						
1	PDO	Regular	1	0	0	0	0
B	Engineering Cadre						
2	District Engineer	Regular	0	0	1	1	1
3	Assistant Engineer	Regular	0	1	2	1	1
4	Junior Engineer	Regular	1 for 5	1	4	3	1
C	Administrative Cadre						
5	GP Sachiv	Regular	1	0	0	0	0
6	Head Clerk	Regular	0	0	1	1	1
7	LDC-cum-Tax Collector	Regular	1	1	7	5	4
D	Accounts Cadre						
8	Accountant	Regular	1	1	1	1	1
E	I.T. Cadre						
9	I.T. Manager	Regular	0	1	1	1	1
10	I.T. Assistant-cum-Data Entry Operator – 2	Regular	1	1	4	3	2
F	Contractual Staff						
11	M.T.S	Contractual / Outsourced	1	1	(Maximum 3)		
12	Peon-cum-Mali	do	0	0	(Maximum 2)		
13	Driver	do	0	0	(Maximum 3)		

4.41 The steps taken by the State Government during 2015-20 to provide staffing support to the PRIs is elaborated in the following paragraphs.

4.42 The State Government decided to appoint one Executive Assistant (EA) in each GP. Hiring on contract basis in 6,090 out of 8,387 GPs has already been completed and the appointment in the remaining GPs is under process. Remuneration of the EA is met out of the SFC Grant funds. The remuneration is determined by the Bihar Administrative Reform Society and is currently pegged at Rs 16,843 per month. Annual financial liability on account of EAs' remuneration is Rs 169.52 crore.

- 4.43 This one single step has considerably boosted the capacity of the GPs. Nevertheless, PRD feels that one hand is not adequate to handle the office work of the GP, considering the fact that the GPs in Bihar are large in size and, as a consequence, the workload in GP office is considerable. PRD has, therefore, proposed to provide services of one more EA in the GPs. PRD has also proposed to hire EAs for 534 PSs, as well as 38 ZPs of the State.
- 4.44 Another significant development has been the employment of Technical Assistants (TA), one for every 4-5 GPs. A total of 2,096 positions have been approved. These appointments too are on contract basis and the remuneration paid is Rs 27,000 per month.
- 4.45 The State Government has also approved contract appointment of 2,096 Accountant-cum-IT Assistants (A-ITA). Each A-ITA will serve 4-5 GPs. Their remuneration is fixed at Rs 20,000 per month. The positions have been filled in most places.
- 4.46 The annual financial liability for payment to TAs and A-ITAs is Rs 118.21 crore. This amount is paid out of the PRD's budgetary provision for Administrative Expenses of the two Saat Nishchaya Schemes — Mukhya Mantri Gramin Peya Jal Nishchay Yojna and Mukhya Mantri Gramin Naali Gali Nishchay Yojna.
- 4.47 Current availability of human resources in the PRIs against the recommendations of the SFC5 is given in Table 4.7 (GP), Table 4.11 (PS) and Table 4.12 (ZP).

Table 4.7 : Staffing of GPs – Recommendation vs Actual

	Recommendation			Actual Availability		
	Post	Nature of Post	No	Post	Nature of Post	No
A	Development Cadre					
1	PDO	Regular	1	PDO	-	-
B	Engineering Cadre					
2	Junior Engineer	Regular	1 for 5	Technical Assistant	On Contract	1 for 4-5
C	Administrative Cadre					
3	GP Sachiv	Regular	1	GP Sachiv	Regular	1 for 3-4
4	LDC-cum-Tax Collector	Regular	1	LDC-cum-Tax Collector	-	-
D	Accounts Cadre					
5	Accountant	Regular	1	Accountant	On Contract	1 for 4-5
E	I.T. Cadre					
6	I.T. Assistant-cum-DEO2	Regular	1	Executive Assistant	On Contract	1
F	Contractual Staff					
7	M.T.S.	Contractual / Outsourced	1	M.T.S.	On Contract	1

Table 4.8 : Staffing of PSs – Recommendation vs Actual

	Recommendation			Actual Availability		
	Post	Nature of Post	No	Post	Nature of Post	No
A	Development Cadre					
B	Engineering Cadre					
1	Assistant Engineer	Regular	1			
2	Junior Engineer	Regular	1	Technical Assistant		
C	Administrative Cadre					
3	LDC-cum-Tax Collector	Regular	1	LDC-cum-Tax Collector	-	-
D	Accounts Cadre					
4	Accountant	Regular	1	Accountant		
E	I.T. Cadre					
5	I.T. Manager	Regular	1			
6	I.T. Assistant-cum-DEO2	Regular	1	Executive Assistant	On Contract	1
F	Contractual Staff					
7	M.T.S.	Contractual / Outsourced	1	M.T.S.	On Contract	1

Table 4.9 : Staffing of ZPs – Recommendation vs Actual

	Recommendation			Actual Availability		
	Post	Nature of Post	No	Post	Nature of Post	No
A	Development Cadre					
B	Engineering Cadre					
	District Engineer	Regular	1			
1	Assistant Engineer	Regular	1 - 2			
2	Junior Engineer	Regular	1 - 4			
C	Administrative Cadre					
	Head Clerk	Regular	1			
4	LDC-cum-Tax Collector	Regular	4 - 7		-	-
D	Accounts Cadre					
5	Accountant	Regular	1	Accountant		
E	I.T. Cadre					
	I.T. Manager	Regular	1			
6	I.T. Assistant-cum-DEO2	Regular	2 - 4	Executive Assistant	On Contract	1
F	Contractual Staff					
7	M.T.S.	Contractual / Outsourced	Maximum 3	M.T.S.	On Contract	1
	Peon-cum-Mali	Contractual / Outsourced	Maximum 2			
	Driver	Contractual / Outsourced	Maximum 3			

- 4.48 In September 2018, PRD has issued order creating a District Programme Management Unit (DPMU) in every district of the State. Each DPMU will recruit experts in the subject areas of Finance and Accounts, Co-ordination, IEC, Monitoring and Evaluation, IT and Engineering, together with Data Entry Operators and Quality Monitors. Besides, the State Government has also decided to set up a State Programme Management Unit (SPMU) together with an IT Wing at the PRD headquarters.
- 4.49 In September 2019, the State Government has approved the creation of the Bihar Panchayati Raj Audit Cadre with positions of 373 Auditors, 174 Senior Auditors, 41 District Audit Officers under the supervision of a Chief Audit Officer.
- 4.50 A proposal to create an Engineering Cadre under the direct control of PRD is under active consideration of the State Government. This cadre would be dedicated to formulating and implementing construction projects of the PRIs. It will be headed by a Chief Engineer and will have 4 Superintending Engineers, 54 Executive Engineers, 284 Assistant Engineers and 1,545 Junior Engineers. It will have a unit in each District under an Executive Engineer level officer.

CAPACITY BUILDING

- 4.51 The SFC5 had observed in its report that the PRIs in Bihar suffer capacity constraints in terms of skilled manpower, IT facilities, equipment, office space, etc. leading to meagre utilization of available funds, inability to avail central resources (CSSs/ACAs), poor project implementation as well as less than satisfactory delivery of services.
- 4.52 **Skilled Manpower:** The Central Government had introduced Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA). PRD had prepared a perspective plan for the Abhiyan for the period 2013-17 with a budget of Rs 1,629 crore, 75 percent of which was to come from the Central Government and the balance from the State Government. For capacity development, RGSPA had elements such as administrative support, engineering support, GP buildings, DPRCs, Training and provision of IT facilities to GPs and PSs. Unfortunately, Bihar could not make use of the funds under RGPSA. Notwithstanding the fact that it was unable to draw funds under RGPSA, the State Government has indeed acted on some of the elements included in the Perspective Plan as explained in the following sub-paragraphs:

(i) Administrative Support

- (a) An Executive Assistant has been recruited in each GP (presumably vide the position of Panchayat Sahayak of the Perspective Plan).
- (b) Services of an Accountant have been hired for every 4-5 GPs. This, however, falls far short of the Perspective Plan which had envisaged an Accountant-cum-Data Entry Operator for each GP.

(ii) Engineering Support: Technical Assistants have been recruited on contract basis, one for every 4-5 GPs, which is better than the Perspective Plan provisioning of one position of Junior Engineer for a cluster of 10 GPs.

4.53 GP Buildings

1. To give a concrete shape to the vision of Panchayat Sarkar, the State Government decided to build a Panchayat Sarkar Bhawan (PSB) in each GP. The goal is to construct a 5920 sq. ft. building in 50 decimals of land that would serve as the seat of Panchayat Sarkar. It would provide seating arrangement for elected representatives of Panchayat and Panchayat level personnel, court room for GK, space for storage of records, hall for Panchayat / Standing Committee meetings, reception hall for citizens, IT room, computerized service center and toilets, etc. The building can also be used as emergency shelter during floods and other disasters. The construction of PSB would facilitate the Panchayats to become accountable to the public in their work operations. It will serve as an integrated focal point of the concept of good governance.
2. PSB was initially estimated to cost Rs 82.00 lakh per building, which has since risen to well above Rs 1.30 crore.
3. To date, 330 PSBs have been constructed in 330 GPs of 12 districts under World Bank funding. Additional sanction for 2,870 PSBs has been accorded and construction has been completed in 1,082 of the approved schemes, taking the number of PSBs currently ready and in use to 1,412. The expenditure over construction of the PSBs is being provided out of the State Budget. Funds are also provided for administrative expenses, furniture and maintenance of the buildings.

4. PRD has intimated that the State Government intends to complete construction of PSBs in the remaining GPs by 2025.

4.54 Training

- (i) For PRIs to function successfully, it is absolutely necessary to develop the capabilities of the human resources through training. Both office personnel as well as the elected representatives need to be covered under training plan. This will require appropriate training infrastructure and arrangements, such as Training Institutions and Training Programmes.
- (ii) As envisioned in the Perspective Plan, the State Government has decided to set up a District Panchayat Resource Center (DPRC) in each of 38 districts of the State. In the initial phase, the construction of the District Panchayat Resource Center is under process in 24 major districts, at a cost of Rs. 5.15 crore. each. The plan map and estimate of the building has been prepared by the Building Construction Department. In the remaining 14 districts, DPRC buildings costing less than Rs. 4.00 crore will be constructed. A sum of Rs. 179.00 crore was allocated for the construction of the building in the financial year 2018-19.
- (iii) In September 2020, the State Government has decided to redeploy 396 employees of BGSYS in the DPRCs on contract basis in order to start training activities. To build up the capacity of 38 District Panchayat Resource Centres (DPRC), 351 nos of trainers has been deployed against the approved strength of 732 trainers. Annual budget of Rs 101 crore has been sanctioned to cover the cost of training, management, IT resources etc of the SPRC and the 38 DPRCs. This expenditure will be met out of the State Plan Budget.

4.55 E-enablement of PRIs

- (i) To e-enable the PRIs, the Perspective Plan had proposed supplying IT equipment along with internet connectivity as well as support for meeting the recurring cost of internet and implementation of e-Panchayat MMP. The State Government has succeeded in providing computer, printer, UPS to the GPs/ PSs/ ZPs.

- (ii) National Optical Fiber Network (NOFN) / Bharat Net Project is an important project run by the Central Government, with the basic objective of connecting all GPs with high-speed Broadband Connectivity through optical fiber, so that the functioning of GPs is smooth. In the first phase of the NOFN / Bharat Net Project, internet connectivity has been provided in about 5,600 nos. of GPs in the state of Bihar. In the second phase, the remaining GP are likely to be covered soon.
- (iii) Under the Mission Mode Project 'e-Panchayat' of Government of India, NIC has developed 12 software applications known as Panchayat Enterprise Suite (PES). PRD has reported that work on the following applications of PES started through Bihar Gram Swaraj Yojana Society (BGSYS) under the World Bank funded Bihar Panchayat Strengthening Project (BPSP):
 - (a) Local Government Directory: Captures details of local government and maps GPs with Assembly and Parliamentary Constituencies
 - (b) Area Profiler: Captures geographic, demographic, infrastructural, natural resources and socio-economic data
 - (c) Plan Plus: For preparation of perspective, annual and action plans
 - (d) Action Soft: For monitoring physical and financial outcomes of schemes
 - (e) National Asset Directory: Captures details of assets created
 - (f) National Panchayat Portal: Dynamic web-site for each Panchayat
 - (g) MIS Application Result Framework: For uploading agenda notes, minutes and follow up of decisions taken
- (iv) Priasoft Module of PES is meant to capture expenditure data of schemes implemented by the three levels of PRIs. Use of this module was abandoned in 2015-16 and a separate software called Gram Panchayat Management System (GPMS) was commissioned by BGSYS. This software is an integrated solution covering accounting, audit and budgeting for GPs. The pilot phase of software deployment has been completed in 330 GPs and the software is currently being rolled out in 3,186 GPs of 12 districts.
- (v) For online monitoring of the Panchayat Sarkar Bhawans under construction, e-PMS software is being used.

- (vi) NIC has developed the Panchayat NishchaySoft software which is being used to monitor physical and financial progress of the two Saat Nishchay schemes under implementation by local bodies, namely, Mukhyamantri Gramin Peyajal Nishchaya Yojna and Mukhyamantri Gramin Gali-Naali Pakkikaran Nishchaya Yojna.
- (vii) Services covered under the Right to Public Services (RTPS) Act, such as issuance of caste, income, residential certificates are provided online through RTPS Centers. It has been decided to locate these centres in the PSBs. To date, RTPS Centres have been established in 4,127 GP out of total 8387 GPs of Bihar, implying a coverage of 49.2 percent.
- (viii) **This Commission is of the view that a comprehensive IT system for PRIs needs to be put in place, networking all GPs, PSs and ZPs and providing necessary hardware and software. In this context, recommendations of the Commission for setting up an IT System for ULBs may be seen in Chapter 5, paragraph 5.56. Those recommendations would apply, mutatis mutandis, to PRIs too.**

4.56 Bihar Panchayat Strengthening Project (BPSP)

1. With a view to strengthen the capacity of PRIs, the State Government implemented a project titled **Bihar Panchayat Strengthening Project (BPSP)**, supported by IDA assistance from the World Bank in 12 districts of Bihar (Patna, Nalanda, Bhojpur, Gaya, Aurangabad, Rohtas, Saharsa, Supaul, Madhepura, Samastipur, Darbhanga and Madhubani). The project covered 3,186 Gram Panchayats lying in the territory of 204 Panchayat Samitis.
2. **Bihar Gram Swaraj Yojna Society (BGSYS)**, an autonomous institution registered under the Society Registration Act, 1860, was set up to work as the implementing agency for BPSP.
3. The Project consisted of four components:
 - (i) **Component 1 - Construction of Panchayat Sarkar Bhawan (PSB) in 330 GPs**

(ii) Component 2 - Core Institutional Capacity Building: In order to empower the GPs to achieve substantive development outcomes, following activities were undertaken:

- (a) Training on Basics of Finance and Book Keeping for Mukhiya and Secretary
- (b) Training Module for Gram Katchahry in collaboration with Chanakya Law University
- (c) Training on Basics of Computer and Smart Phone handling in collaboration with NIELIT (National Institute of Electronics & Information Technology)
- (d) Training of Trainers (ToT) on GPMS, Act and Rules, and on scheme 'Clean and Secure Piped Water Supply to All Households' of the Chief Minister's Flagship programme
- (e) Orientation and exposure programme for Mukhiya on Functionality of GPs.

(iii) Component 3 - Strengthening the capacity to manage decentralization:

- (a) Under this component, 'Bihar Panchayat Accounts, Audit, Budget and Taxation Rules' were drafted which is awaiting State Government's approval. These Rules will enable the PRIs to generate their own revenues.
- (b) GPMS, an IT system for PRIs was developed and rolled out in all 3186 GPs in the Project area.
- (c) Training of District Level Programmers and Block level EAs in PES and NishchaySoft was conducted across the State.

(iv) Component 4 - Project Management and Coordination

- a. Block Project Management Units were set up in all Blocks in the Project area
- b. Quality check of PSB construction was done

4. The Project has proved very useful in building capacity of the PRIs. The IT system for GPMS developed by the Project is slated to be rolled out across the state.

Chapter 5

URBAN LOCAL BODIES OF BIHAR

URBAN LOCAL BODIES AS INSTITUTIONS OF LOCAL SELF GOVERNMENT

- 5.1 **Constitutional Provision:** The Constitution, to begin with, did not make Local Self Government in urban areas a clear-cut Constitutional obligation. While the Directive Principles of State Policy referred to Village Panchayats, there was no specific reference to municipalities, except implicitly in Entry-5 of the State List, which placed the subject of Local Self Government as a responsibility of the State. Entry-5 read as under:

“Local Government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-Government or village administration.”

- 5.2 As a consequence of inadequate Constitutional provision for Local Self Government, democracy in municipal governance was not stable. Though the respective municipal Acts of the States provided for regular elections to municipal bodies, they were frequently suspended and often superseded for indefinite periods of time. Frequent and indefinite suspensions or supersessions eroded the very basis of local self-government and had a negative effect on democracy at the grassroot level. The general position with regard to financial resources of the municipal bodies was also not satisfactory. Over the years, there was a steady encroachment on the assigned functions and revenues of Urban Local Bodies by specialized agencies of the State Governments. As a result, many urban local bodies became weak and were not able to perform effectively. The weakened status of Urban Local Bodies crystallized public opinion in favour of providing Constitutional guarantee to safeguard the interests of Urban Local Bodies.

- 5.3 **The 74th Constitutional Amendment, 1992** accorded Constitutional status to the Urban Local Bodies (ULBs). Article-243 (W) (Box 5.1) envisions the ULBs as

institutions of self-governance and universal platform for planning and implementing programmes for local economic development and social justice.

Box 5.1

Constitutional Provision Regarding Powers, Authority and Responsibilities of Municipalities

Art. 243W. Powers, authority and responsibilities of Municipalities, etc.—Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow—

- (a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to —
 - (i) the preparation of plans for economic development and social justice;
 - (ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule;
- (b) the Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

5.4 State Legislation of Bihar: The ULBs have been in existence as institutions of urban local self-government in a limited way in the State of Bihar since 1920s. Under the Bihar & Orissa Municipal Act, 1922, various Municipalities and Notified Area Committees were constituted. Patna Municipal Act, 1951 paved way for constitution of five Municipal Corporations in major cities/towns of the state. Following the 74th Constitutional Amendment Act 1992, the State Government has enacted the Bihar Municipal Act 2007

5.5 Bihar Municipal Act 2007 (BMA 2007) has been enacted to consolidate and amend the laws relating to the municipal governments in the State of Bihar in conformity with the provisions of the Constitution of India, as amended by the Constitution (Seventy-fourth Amendment) Act, 1992, based on the principles of participation in, and decentralization, autonomy and accountability of, urban self- government at various levels, to introduce reforms in financial management and accounting systems, internal resource generation capacity and organizational design of municipalities, to ensure

professionalization of the municipal personnel, and to provide for matters connected therewith or incidental thereto.

5.6 Urbanization Scenario in Bihar: Urbanization in Bihar is far behind all-India average and today Bihar is one of the least urbanized states in the country. Bihar's urbanisation has increased from lowly figure of 9.59 percent in 1981 to just 11.29 percent in 2011, as against 22.89 percent and 31.16 percent respectively for all India. Relevant Urbanisation data is shown in Table 5.1.

5.7 The SFC5 in its report had noted that *“Seventy-two new towns, i.e., settlements that became urban for the first time in 2011, added around 35 percent to the urban population. Emergence of census towns is a recent development in Bihar and needs to be continuously monitored. The role of rural - urban migration in the process of Bihar's urbanization is relatively modest, though rural– urban migration usually is central to urbanization.”*

Table 5.1 : Urbanisation in Bihar

Population -2011 Census (million)	11.76
CAGR (2011-census)– 2001-2011	3.06
Urban Population as percentage Total population (2011)	11.29
Urban population density (2011: persons per sq.km.)	5,752
Urban population residing in Corporation Area (Towns with more than 2 lakh Population) (%)	44
Urban population residing in Nagar Parishads (towns with population between 40,000 and 2,00,000) (%)	32
Urban population residing in Nagar Panchayats (towns with population between 12,000 and 40,000). (%)	24
Slum Population (%)	10.52
Urban Literacy - 2011 census (%)	76.86
Census Towns	199
Statutory Towns	142
Cantonment	1

- 5.8 **Trend of Urbanisation:** Decadal growth of urban population in Bihar vis-à-vis that for the country as a whole may be seen in Table 5.2.

Table 5.2 : Trend of Urbanisation

Year	Urban Population (Million)		Level of Urbanization (%)	
	Bihar	India	Bihar	India
1961	2.58	78.99	7.41	17.84
1971	3.24	109.11	7.70	19.75
1981	5.01	159.46	9.59	22.89
1991	6.49	217.18	10.05	25.50
2001	8.66	286.12	10.43	27.82
2011	11.76	377.10	11.29	31.16
2021(Projection)	15.9	432.61	18.80	32.29
2031(Projection)	21.6	600.00	34.20	40.00

Source : SFC5 Report, Bihar

- 5.9 **Need for rapid urbanization in Bihar:** UN HABITAT III, 2016, in its new Urban Agenda, has stated that “In this unprecedented era of increasing urbanization, and in the context of the 2030 Agenda for Sustainable Development, the Paris Agreement, and other global development agreements and frameworks, we have reached a critical point in understanding that cities can be the source of solutions to, rather than the cause of, the challenges that our world is facing today. If well-planned and well-managed, urbanization can be a powerful tool for sustainable development for both developing and developed countries.”
- 5.10 Rapid globalization has established the fact that the present century will belong to cities. Cities are moving centre stage, and both the commercial and cultural world is increasingly characterized by cities rather than by countries. It may be correct to state that, around the world, cities continue to evolve as the centers of innovation and engines of economic growth; it can be said that the cities are fast coming to function as the basic motors of economy. This calls for a greater and more focussed effort for rapid urbanization in developing states such as Bihar.
- 5.11 The urban areas in Bihar contribute almost 70 to 75 percent to GSDP of state and this coherently asserts the importance of urbanization in the state. Sadly, as stated in the preceding paragraphs, the level of urbanization in the State is pitifully low and the trend

of its growth is even more disheartening. There are many causes for this state of affairs, such as poor urban infrastructure, lack of effective delivery of services, weak ULBs that are starved of financial and skilled human resources, sparse employment opportunities, etc.

- 5.12 **It is high time that the State Government paid greater attention to development of its urban areas and came up with a comprehensive action plan to bring about rapid urbanization in the State.**

URBAN LOCAL BODIES IN BIHAR

- 5.13 Section 7 of BMA 2007 has stipulated the following classification of municipal areas in the state:

- (a) a larger urban area having population above 2,00,000
- (b) a medium urban area of –
 - Class 'A' municipal area having population above 1,50,000, but not exceeding 2, 00,000 or
 - Class 'B' municipal area having population above 1,00,000, but not exceeding 1, 50,000 or
 - Class 'C' municipal area having population above 40,000, but not exceeding 1, 00,000, and
- (c) transitional small urban area having population above 12,000, but not exceeding 40,000.

- 5.14 Accordingly, a three-tier structure of ULBs has been created, viz. Municipal Corporation (Nagar Nigam), Municipal Council (Nagar Parishad), and Nagar Panchayat. The State Government has created 111 new ULBs in December 2020, taking the total number to 253 as shown in Table 5.3.

Table 5.3 : ULBs in Bihar

Municipal Corporation (Having Population more than 2 lakh or more)	17
Municipal Council (Having Population between 40,000 to 2 lakh)	84
Nagar Panchayat (Having Population between 12,000 to 40,000)	152
Total	253

Source: UDHD, Bihar

ULB's Agenda for Future

5.15 The future agenda of ULBs must be to ensure sustainable and all-round development in order to make the cities livable. The SFC5 has noted “At ULB level, three broad agenda need to be pursued towards rapid, planned and people-centric urbanization: **Empowerment** (through effective devolution of functions and finances), **Enablement** (capacity building through skilled manpower, IT, office space, etc.) and **Accountability** (through Ward Sabha, Social Audit, Ombudsmen, etc.”).

5.16 **This Commission strongly endorses the above recommendation of the SFC5.**

FUNCTIONS

5.17 74th Constitutional Amendment, through insertion of Schedule 12, has mandated the functions to be performed by ULBs. The BMA specifically lists the functions to be performed by the ULBs. Broadly, the ULBs are to perform following categories of functions as self-government:

1. **Regulatory Functions:** Section 45 (1)(b) - Perform such statutory or regulatory functions as may be provided under BMA or any other law.
 - (i) **Planning Functions:** (a)Section 45 (1)(a)(iv) - Preparation of plans for development and social justice, (b) Section 47 (1)(a)- Planned development of human settlement, (c) Section 287 - Slum Improvement, and (d) Section 289 - Works to be executed in Slums.
 - (ii) **Provision of Core Civic Services:** Section 45(1)(a) - (a) Water-supply (domestic, industrial, and commercial purposes), (b) Drainage and Sewerage, (c) Solid Waste Management, (d) Markets and Slaughterhouses, (e) Promotion of educational, sports and cultural activities, (f) Aesthetic Environment.
 - (iii) **Communication and Transport System:** Sec.45 (v), (vi) - (a) Construction and maintenance of roads, footpaths, pedestrian pathways, transport terminals (both for passengers and goods), bridges, over-bridges, subways, ferries, and inland water transport system, and (b) Transport system accessories including traffic engineering schemes, street furniture, street lighting, parking areas, and bus stops.

- (iv) **Agency Functions:** Section 46 - Subject to the underwriting of the costs by Central or State Government, undertake any function belonging to their functional domain, viz., primary education, curative health, transport, supply of energy, fire safety, and urban poverty alleviation.

5.18 **Devolution of Functions:** The UDHD has reported the status of devolution of functions to ULBs in Bihar, as presented in Table 5.4

Table 5.4 : Devolution of Functions to ULBs

Function to be devolved as per 12 th Schedule	Whether devolved
1. Urban planning including town planning	Yes
2. Regulation of land use and construction of buildings.	Yes
3. Planning for economic and social development.	Yes
4. Roads and bridges.	Yes
5. Water supply for domestic, industrial and commercial purposes.	Yes
6. Public health, sanitation conservancy and solid waste management.	Yes
7. Slum improvement and upgradation.	Yes
8. Urban poverty alleviation.	Yes
9. Fire services.	No
10. Urban forestry, protection of the environment and promotion of ecological aspects.	No
11. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded	No
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds.	Yes
13. Promotion of cultural, educational and aesthetic aspects.	No
14. Burials and burial grounds; cremations, cremation grounds and electric crematoriums.	Yes
15. Cattle pounds; prevention of cruelty to animals.	No
16. Vital statistics including registration of births and deaths.	Yes
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.	Yes
18. Regulation of slaughterhouses and tanneries.	Yes, under process

Source : UDHD, Bihar

5.19 Thus, 13 functions have been devolved to the ULBs. Remaining 5 functions continue to be handled by State Government Departments, viz., Urban Forestry and protection of Environment (by Forest & Environment Department), Fire Services (by Home Department), Promotion of cultural activities (by the Arts & Culture Department), Primary Education (by Education Department), etc. Besides, some parts of even

devolved functions are being handled by Government Departments/ Parastatals, e.g. water supply in almost all ULBs except Patna is looked after by PHED/ BUIDCO, primarily on account of lack of requisite capacity to undertake such services.

5.20 **This Commission recommends that the ULBs should be equipped adequately in order to enable them to perform those functions mentioned in BMA 2007 that are currently being performed by other agencies.**

5.21 **Activity Mapping:** The UFC13 had mentioned the recommendation made by 2nd Administrative Reforms Committee (ARC) on activity mapping, wherein a number of steps had been suggested, including a clear delineation of functions for each tier through activity mapping and passing of a framework law to formalise the relations between the state and local governments. As reported by the UDHD, activity mapping has not been done yet. **Keeping in view the best interests of an all-round sustainable urban development, this Commission recommends that activity mapping should be done urgently.**

5.22 **Bihar Urban Infrastructure Development Corporation (BUIDCO):** On account of low capacity (both professional and technical) of the ULBs, the State Government created BUIDCO in 2009 which is mandated to execute and accelerate urban infrastructure projects in the State of Bihar. It currently implements urban infrastructure projects falling into following categories:

1. Water Supply Projects,
2. Sewerage and Sewage Network Projects,
3. Storm Water Drainage Projects,
4. Solid Waste Management Projects,
5. Urban Transport Projects,
6. Affordable Housing Projects,
7. Riverfront Development Projects,
8. Urban Street Light Projects,
9. Commercial Market Development Projects, and
10. Urban Beautification Projects such as parks etc

5.23 BUIDCO has set up Bihar Urban Infrastructure Development Fund (BUIDF) to develop a long-term state-led market-driven sustainable urban infrastructure financing mechanism. The primary objective of creating BUIDF is to progressively increase

external financing of ULB level capital projects in a sustainable manner, without a State Government guarantee. However, UDHD has reported that BUIDF has not been effective in terms of fund mobilization.

5.24 During field visits to ULBs, this Commission solicited information regarding their relationship with BUIDCO. Their feedback was that there was hardly any dialogue between the ULBs and BUIDCO regarding site selection, implementation schedule, progress reporting, quality of construction, etc. The office bearers and ward councilors expressed their dissatisfaction that elected representatives were sidelined by BUIDCO in execution of schemes in their municipal areas. Hence, it is imperative that working relationship and coordination between BUIDCO and the ULBs be harmonized in order to accelerate the urban development without any hindrance. **Harmonizing the role of experts dominated parastatals with the elected municipal bodies is a key challenge that needs to be addressed urgently.**

5.25 **Salient features** of functions being performed by the ULBs of Bihar is given in the following paragraphs.

STATUS OF REGULATORY FUNCTIONS

5.26 The UDHD has reported that a web portal has been created and online delivery of undernoted citizen centric services undertaken in 55 Urban Local Bodies which include 12 Nagar Nigams, 42 Nagar Parishads and 02 Nagar Panchayats:

1. Assessment/Payment of Property Tax
2. Birth & Death Registration
3. Building permission & occupancy certificate
4. Trade Licenses

5.27 Action as indicated in Table 5.5, has been taken to operationalize the regulatory provisions of various rules:

Table 5.5 : Actions to Operationalise Regulatory Provisions

Acts/Rules/Regulations	Status
Bihar Urban Planning & Development Rules, 2014	BUPD Board has been constituted and it is functional.
Bihar Building Byelaws – 2014	Notified in 2014 and implemented in all Municipalities and Planning Authorities of the state.
Bihar Municipal Competent Authority for sanction of Building Plan Rules, 2014	Chief Municipal Officers of all the Municipalities and CEOs of all Planning Authorities of the state have been made the competent authority for sanction of Building plan s.
Bihar Apartment Ownership Act, 2006.	Bihar Apartment Ownership Rules are pending.

Bihar Metropolitan Planning Committee Rules, 2008	Being Implemented: Patna Master Plan was notified after consultation with Metropolitan Planning Committee.
Real Estate (Regulation & Development) Act, 2016 and Bihar Real Estate (Regulation & Development) Rules, 2017	Real Estate Regulatory Authority is fully functional

Source : UDHD, Bihar

Status of Planning Functions

5.28 The UDHD has reported the following status of planning activities in the urban sector:

Table 5.6 : Status of Planning Activities ULBs

Preparation of Master Plan	<ul style="list-style-type: none"> Patna Master Plan 2031 has been notified (Danapur Nizamat included in Patna Planning area) Patna Metropolitan Area Authority (PMAA) has been established and it is functional. Master Consultant for preparation of Zonal Development Plan and implementing Area Development Schemes has been appointed. Their Inception Report has been reviewed and further steps are being taken.
GIS based Master Plan Proposals	<ul style="list-style-type: none"> Notice Inviting Proposal (NIP) for Selection of Consultancy Firms for Preparation of GIS Based Master Plan for 14 Towns of Bihar was floated. HUDCO has been engaged to develop integrated Master Plan for Rajgir. Letter of Acceptance has been issued to 3 Firms for Biharsharif, Chhapra and Begusarai. A new Notice inviting Proposal (NIP) for all the remaining 22 Towns was floated but after Technical Evaluation of bids none of the bidders qualified. A new RFP for “Preparation of GIS based Master Plan of 21 Planning area covering 22 AMRUT towns of Bihar” was floated through E-Proc on 08-03-2019. Pre-proposal and Technical evaluation resulted in nil qualifications. It was re- tendered on 19-09-19. Technical process completed. Financial process to be done for qualified bidders. Currently the preparation of only the Master Plans of 27 AMRUT Towns and Rajgir Regional Area is under process. Other District towns are to be taken up in subsequent phases.
Notification of Planning Areas	13 Planning Areas have been notified: Patna, Gaya, Bodhgaya, Rajgir, Ara, Muzzafarpur, Biharsharif, Saharsa, Purnea, Chhapra, Darbhanga, Begusarai and Munger including Jamalpur.

Notification of Planning Authorities	13 Planning Authorities have been notified for Patna, Gaya, Bodhgaya, Rajgir, Ara, Muzzafarpur, Biharsharif, Saharsa, Purnea, Chhapra, Darbhanga, Begusarai and Munger including Jamalpur.
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Source : UDHD, Bihar

5.29 This Commission recommends expeditious and timebound action for finalization of Master Plans for all major cities/ towns. The State must prepare City Development Plans and City Investment Plans as well.

Status of Core Civic Services

5.30 Water Supply

(i) Current status of piped water supply in ULBs is depicted in Table 5.7.

Table 5.7 : Status of Piped Water Supply in Urban Areas of Bihar

Indicators	No. of households
Total No. of Households (HHs)	19,08,164
No. of HHs with piped water supply	3,33,309
No. of HHs to be covered with piped water supply	15,74,855
Strategy	<ul style="list-style-type: none"> • 1,50,452 HHs in 360 wards under State Plan being executed by BUIDCo. • 5,02,948 HHs in 817 wards under AMRUT being executed by BUIDCo. • 54,603 HHs in 125 wards under 02 ADB schemes and 03 JNNURM Schemes being executed by BUIDCo. • 93,735 HHs in 223 wards under State Plan Being Executed By PHED. • 75,786 HHs in 125 wards is Proposed Scheme in Bhagalpur, Patna, Danapur and Bodhgaya. • 7,00,371 HHs in 1,751 wards under Nishchay Yojana being executed by ULBs
No. of wards in which tenders floated	3,316 out of 3370 wards
No. of wards in which work started	3,001 wards
No. of HHs provided with water pipeline connections	6,70,272

(ii) **Mukhya Mantri Shahri Peyajal Nishchay Yojana:** This is a State Sponsored Scheme which is financed jointly by the SFC transfers and State Plan funds. 30

percent of SFC5 funds were earmarked for the purpose. The project is implemented through ULBs, BUIDCO and PHED.

- (iii) **ADB funded Water Supply Schemes** have been sanctioned for Bhagalpur and Gaya districts at a cost of Rs. 1,186.00 crore.
- (iv) **The Commission recommends complete time-bound coverage of each household that is without piped drinking water supply under Mukhya Mantri Shahri Peyajal Nishchay Yojana.**

5.31 Solid Waste Management

- (i) Management of Solid Waste is a critical component of core services to be provided by the ULBs. The Central Government has notified the **Solid Waste Management Rules 2016** to regulate SWM.
- (ii) To ensure effective management of plastic waste in Patna Municipal Corporation area, Plastic Waste Management Byelaws, 2018 has been notified.
- (iii) 06 ULBs (Muzaffarpur, Biharsharif, Munger, Rajgir, Bodh Gaya and Supaul) have been notified as Model City/Town by National Green Tribunal. Works are being done as per parameters of Solid Waste / Plastic Waste / C&D Waste management.
- (iv) UDHD has reported that to ensure Solid Waste Management in ULBs, Detailed Project Reports (DPRs) have been prepared for 48 ULBs, out of which 28 SWM DPRs have been approved by the Central Government and funds has been released to respective ULBs.
- (v) UDHD has reported actions in compliance of **Solid Waste Management Rules 2016** rules, as presented in Table 5.8.

Table 5.8 : Actions Taken by ULBs for SWM

S. No	Action contemplated under SWM Rules 2016	Action Taken (Position prior to creation of 111 new ULBs)
1.	Preparation of State Policy and Solid waste Management Strategy.[Rule-11 (a)]	Comprehensive Solid Waste Management Policy and Strategy & Solid Waste Management Action Plan for the Urban Local Bodies of the State have been prepared by Urban Development & Housing Department, Govt. of Bihar.

2.	Constitution of State Level Advisory Body (SLAB) and its meeting. [Rule-23].	State Level Advisory Body (SLAB) has been constituted under Solid Waste Management Rules, 2016 and its meetings are regularly held
3.	Identification and allocation of suitable land to the Local Bodies for setting up of processing and disposal facilities for solid waste. [Rule-11(f)].	<ul style="list-style-type: none"> 268 Sites identified to start the construction of solid waste processing units in 136 out of 258 ULBs. 71 Solid waste processing units of wet waste constructed in 56 ULBs. 48 units of wet waste started the composting of wet waste in 39 ULBs.
4.	Establishment of common regional sanitary landfill for a group of cities and towns falling within a distance of 50 KMs or more from the regional facility on cost sharing basis and ensure professional management of such sanitary landfills. [Rule-11(j)].	Out of 142 ULBs, land has already been identified and available in 81 ULBs for setting up sanitary landfill facilities.
5.	Arrangement for door-to-door collection of segregated solid waste. [Rule-15(b)].	<p>Total no. of ULBs in Bihar-142 (3,386 wards).</p> <ul style="list-style-type: none"> Total No. of ULBs which started Door to Door Collection Services-140 ULBs out of 142 ULBs. Total 3,272 wards covered by D2D Services. Total No. of ULBs in which Household bins (blue & green) distributed – 111. Total No. of ULBs which started segregation of waste at source- 68 ULBs (covering 1104 wards)
5.	Formulation of Bye-laws and its implementation with levying of spot fine for persons who litter or fail to comply. [Rule-15(e), (zf)].	<p>For effective implementation of the provisions of SWM Rules, 2016, Bihar Municipal Model SWM bye-laws, 2018 has been approved by the State Cabinet.</p> <ul style="list-style-type: none"> There is provision of spot fine for the persons who litter or fail to comply. It has been adopted by 66 ULBs under Bihar Municipal Act, 2007 and Gazette publication for the same has also been done. Adoption by remaining ULBs is under process.
6.	Facility of bins for storage of solid waste (Bio-degradable: green, recyclable: white & others: black). [Rule-15(h)].	<ul style="list-style-type: none"> Household bins have been distributed by ULBs among the citizens to start segregation of solid waste and storage of waste in Green (wet waste) and Blue (dry waste) bins. Two colour litter bins also provided in the commercial areas for storage of waste. Arrangements have been made for collection and transportation of segregated waste from household level.
7.	Setting up of de-centralized compost plant or bio-methanation plant at suitable location in the vicinity of vegetable, fruit, flower,	<ul style="list-style-type: none"> ULBs have been directed by UDHD to establish decentralized composting plants with all the facilities such as: Shredder, Sieving and compost

	meat, poultry & fish market. [Rule-15(m)].	bagging machines and other required infrastructure. <ul style="list-style-type: none"> • To implement the same, model estimate and detailed guideline has been circulated to all the ULBs. • 56 ULBs completed the construction of pits to process the wet waste. • Out of 56 ULBs, 39 ULBs have started the processing of wet waste in their respective ULBs.
8.	Create public awareness to educate the waste generators for solid waste management. [Rule-15(zg)].	<ul style="list-style-type: none"> • Public awareness created through newspaper, advertisement, broadcast of radio jingles, hoarding and door to door campaign through women's Self Help Groups. • For IEC Activity, fund transferred to all 142 ULBs for Mass awareness on Source Segregation at School, College, Public Place and Commercial areas of ULB.
9.	Submission of annual report in Form-IV by ULBs to SPCB on or before 30 th day of June every year. [Rule-24(2)].	Annual report in Form-IV has been submitted to Bihar State Pollution Control Board by all the 142 ULBs.
10.	Safe Disposal of Legacy waste (old municipal solid waste).	<ul style="list-style-type: none"> • For Safe disposal of Legacy Waste (old municipal waste dump site), Model EOI has been developed and provided to Muzaffarpur, Gaya and Bihar Sharif Municipal Corporations in 1st phase. • EOI has been Published by all the three municipal corporations and they are in the process of finalizing it.
11.	Construction & Demolition (C&D) Waste Management 2016	<ul style="list-style-type: none"> • Draft "Policy of Construction and Demolition Waste Management" has been approved and circulated among the concerned stakeholders for suggestion and feedback. • For establishment of C & D Waste Processing Facility in the state, Expression of Interest (EOI) has been released by all the Nagar Nigams. • Work order issued by Patna Nagar Nigam to M/s. National Federation of Farmers, Procurement Processing Retailing Cooperatives of India Pvt. Ltd. (NACOF). • RFP published by Bihar Sharif Nagar Nigam (Capacity-30 TPD) and Muzaffarpur Nagar Nigam (Capacity-25 TPD) for establishment of C & D waste management facility.

(vi) This Commission recommends that the management of solid waste in each ULB be done in a scientific and professional manner with the help of

specialized agencies in accordance with different national and state guidelines.

5.32 Sanitation

1. Under the Swachh Bharat Mission (SBM), all households without toilets, living in urban areas, were to be provided with toilet facilities without any discrimination. Families having adequate land were to be given individual toilets and families not having land were to be covered through community toilets. With a view to stopping open defecation in all 3,377 urban wards of 142 Urban Local Bodies of the State, the UDHD was to facilitate construction of Individual Household Latrines (IHHL) by beneficiaries themselves, as well as construction of Community Sanitation Centre (CSC) seats for urban families who do not possess own land.
2. UDHD has given the following progress report on construction of toilets:
 - (i) Public toilets are being constructed through urban local bodies using State and Central funds and CSR funds.
 - (ii) Till October 2, 2019, for IHHL Component, a sum of Rs. 564.48 crore (GOI Share: Rs. 150.02 crore + GOB Share: Rs. 414.46 crore) and for CT Component Rs. 87.68 crore (GOI Share: Rs. 35.21 crore + GOB Share: Rs. 52.47 crore) has been disbursed to 142 towns in the state.
 - (iii) For individual toilets, the State Government provides Rs. 8000 to each family, in addition to the central assistance of Rs. 4000.
 - (iv) Physical Progress:
 - (a) Total Target of IHHL: 4,09,741, Completed: 3,85,432, In progress: 24,309
 - (b) Total Target of Community Toilet/Mobile Toilet: 31,552 Seats, Completed: 10,005, In Progress: 5,244, Tendered: 6,821, Mobile Toilet ordered on GeM: 2,389
 - (v) Under SBM (U) Program, the criteria for Open Defecation Free (ODF) status has been achieved by all ULBs of Bihar in all aspects of IHHL, Community Toilets and Public Toilets.

- (vi) On the eve of 150th birth anniversary of Mahatma Gandhi, the Central Government has declared Bihar as Open Defection Free (ODF) State.

5.33 Sewerage

- (i) As per Census 2011, only 7.21 percent of Bihar House Holds (HHs) had access to toilets connected to piped sewer system, against all India average of 32.68 percent.
- (ii) Presently, 20 ULBs have 25 STPs with an aggregate capacity of 651 Mld
- (iii) In Patna Municipal Corporation, construction of 2 STPs with 80 Mld capacity has been completed. Construction of 4 more STPs with capacity of 270 Mld is under process.
- (iv) Under the **Namami Gange Project**, a total of 30 sewerage infrastructure projects have been sanctioned at a cost of Rs. 5,487.87 crore for 20 Cities/ towns namely, Patna (11 projects), Phulwarishariff, Begusarai, Hajipur, Mokama, Sultanganj, Naugachia, Barh, Bhagalpur, Sonapur, Chhapra, Khagaria, Fatuha, Bakhtiyarpur, Maner, Danapur, Munger, Barahiya, Kahalgaon and Buxar. These projects will facilitate treatment of 651.5 MLD of sewage through creation/rehabilitation of STPs, sewerage network and allied interception and diversion works. 2 projects have been completed, 22 projects are under progress, 6 projects are under tendering process.
- (v) SFC5 had observed that Citizens' Charter target was to connect 100 percent toilets to piped sewer system within 10 years. Six years have already elapsed. **This Commission, therefore, recommends that provision of Sewerage system in all ULBs should be ensured by 2025.**

5.34 Drainage

- (i) Against a cumulative target to provide drainage facilities to 2.88 lakh households spread over all 3,331 urban wards, work is in progress in 3,127 wards and has been completed in 238 wards, while 2.69 lakh households have been provided with the aforesaid facilities, as of now.
- (ii) There are 39 Sump Houses in Patna. A total of Rs. 196.72 crore was allotted for O&M of these sump houses between 2015-16 to 2019-20.

- (iii) Drainage is also being provided under Mukhya Mantri Shahri Naali-gali Pakkikaran Nishchay Yojana to address the chronic issue of water logging.
- (iv) ULBs have been directed to prepare plan for outfall drains. Outfall drain is sanctioned and implemented by 42 ULBs presently.
- (v) Storm water drainage project is sanctioned for Saharsa, Sasaram, Madhubani, Supaul, Chhapra, Darbhanga and Phulwari, to be done by BUIDCO.

5.35 **Street Lighting:** Under the SLNP (Street Lighting National Programme), contract agreement with all municipal bodies has been done by the Energy Efficiency Service Limited (EESL). Existing lights are being replaced with the LED lights in the first phase. So far 3,15,320 LED lights have been installed, against the target of 5,70,000.

5.36 **Internal Roads and Streets:** ‘Mukhya Mantri Shahri Naali Gali Pakkikaran Nishchay Yojana’ has been launched with the aim of linking every house located in the urban areas with a permanent pucca drain and street. The ULBs, on the basis of the recommendation of the Ward Sabhas, have prepared long-term plans which are now being implemented. About 3,65,490 households were targeted to be covered under this scheme by 2019–20. Up to the end of FY 2018-19, 2,76,352 households had benefited under the scheme, with 871.466 kms. of streets and 699.889 kms. of drains constructed. To meet the fund requirements, 20 percent of SFC transfers were reserved for the scheme, and this was supplemented by State Plan funds.

5.37 **Crematorium:** 3 electric crematoria in Patna and one in Vaishali have been renovated. Renovation of crematoria at Bhagalpur, Mokameh, Simariyaghat, Pahlezaghat and Munger has been approved. UDHD has asked District Magistrates to furnish proposals for construction of crematoria in ULBs falling in their district.

5.38 **Slum Development**

1. **The Bihar Slum Policy 2011** has been formulated within the framework of the National Slum Policy with the following key objectives:
 - (i) To integrate slum settlements and the resident communities into the urban area by creating awareness amongst public of the underlying principles that guide slum development and improvement and the options that are available,

- (ii) to strengthen legal and policy framework to facilitate slum development and improvement on a sustainable basis,
 - (iii) to establish a framework for involving all stakeholders for efficient and smooth implementation of the policy objectives,
 - (iv) to ensure allocation of adequate resources for slum development and provision of basic services.
2. Slums are usually found in larger cities. However, in Bihar, the largest proportion of slum population is reported from small and medium towns as shown in Table 5.9.

Table 5.9 : Distribution of Slum Population - 2011

City size	No. of ULBs reporting slums	Percentage of urban population
>1 million	1	4.60
1,00,000 – 1 million	21	13.90
50,000 – 100,000	19	18.30
20,000 – 50,000	39	20.70
<20,000	5	23.70
Total	85	10.52

Source : SFC5 Report

3. UDHD has reported that 259 slums have been identified throughout the State. ULBs have been asked to give proposals through District Magistrate for acquisition of lands for rehabilitation of slum dwellers.

5.39 Poverty Alleviation and Urban Employment

1. With growing urbanization, proportion of urban poor has been showing an upward trend. As per NSSO 68th round data, 10.4 percent of urban population in Bihar fell in urban poor category in 2011-12, up from 7.4 percent in 2004-05.
2. **DAY-NULM:** In 2013-14, The Central Government had launched the Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM) with the following objectives:

- (i) To reduce poverty and vulnerability of the urban poor households by enabling them to access gainful self-employment and skilled wage employment opportunities, resulting in an appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots level institutions of the poor.
 - (ii) The mission would aim at providing shelters equipped with essential services to the urban homeless in a phased manner.
 - (iii) In addition, the mission would also address livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.
3. The Mission focusses on :
- (i) Employment Through Skills Training & Placement (EST&P),
 - (ii) Social Mobilization and Institutional Development (SM & ID),
 - (iii) Self-Employment Programme (SEP),
 - (iv) Support to Urban Street Vendors Shelter for Urban Homeless (SUH), and
 - (v) Capacity Building & Training.
4. In Bihar, NULM is under implementation in 142 ULBs. UDHD has reported following progress under the scheme:
- (i) Under EST&P 42,853 persons have been trained, and training of 2,858 is under way.
 - (ii) 48 shelters (Rain Basera) sanctioned under SUH, out of which 35 are functional and remaining 13 are in construction phase.
 - (iii) Bihar State Street Vendors (Protection of Livelihood and Regulation Of Trade) Rules 2017 has been notified. Town Vending Committee constituted in all ULBs. 24 sanctioned vending zones are under construction. Town Level Federation constituted in all ULBs.

Status of Agency Functions

- 5.40 Under the agency function, the ULBs carry out schemes specified and funded by the State and Central Governments.

5.41 State Sponsored Schemes

1. **Mukhya Mantri Shahari Peya jal Yojana:** Mukhya Mantri Shahari Peya jal Yojna is being implemented through ULBs, BUIDCO and PHED. The objective is to provide piped water supply in every urban home. Overhead tank is also provisioned for uninterrupted supply of water. 30% of SFC transfers to the ULBs has been earmarked for this scheme and, in addition, the State Government is also providing allocation from the State Budget. Updated progress under the scheme is as follows:
 - (i) Wards Covered: 3370
 - (ii) Total Tenders Floated Under Yojna: 3,296
 - (iii) Work started under Yojna: 2,931
 - (iv) Households getting piped water supply before this Yojna: 3,26,332 Households
 - (v) House holds covered under Peya Jal Yojna: 6,43,792
 - (vi) Total Households Covered: 9,70,124
2. **Mukhya Mantri Shahari Naali Gali Pakkikaran Nishchay Yojana**
 - (i) The scheme was launched with the aim of linking every house located in the urban areas with a permanent pucca drain and street. The urban local bodies, on the basis of the recommendation of the ward sabhas, have prepared long-term plans which are now being implemented as per the priority list. About 3,60,940 households were to be covered under the Yojana by 2019–20. To meet the fund requirements, 20 percent of SFC funds have been reserved for the scheme. In addition, the State Government has allocated Rs 2,110.99 crore from the State Budget for this scheme.
 - (ii) The year–wise target and current status of the scheme is presented in the following Table 5.10.

Table 5.10 : Status of Mukhya Mantri Shahari Naali-Gali Pakkikaran Yojana

Indicators	No. of Households
Total No. of Households (HHs)	19,08,164

Table 5.10 : Status of Mukhya Mantri Shahari Naali-Gali Pakkikaran Yojana

Indicators	No. of Households
No. of HHs to be covered under NishchayYojana	3,60,940
Status	<ul style="list-style-type: none"> • 66,694 HHs have been covered against the target of 73,098 in 2016-17 and • 76,839 HHs against the target of 112778 in 2017-18 (including backlog) and • 1,32,819 HHs in 2018-19 against the Target of 1,44,224 HHs (Including Backlog)
Long term Action Plan with priority list	Prepared in all Wards after conducting ward sabha and uploaded on departmental website
No. of wards in which tenders floated	In 3341 Wards out of 3341
No. of schemes tendered	12,281
No. of wards in which work started	3341 Wards out of 3341
No. of schemes completed	11,783
Length of Gali completed	871.466 km
Length of Nali completed	699.889 km

Source : UDHD

(iii) The Commission recommends complete coverage and effective implementation of Mukhya Mantri Shahri Naali gali Pakkikaran Nishchay Yojana.

3. **Jal Jeevan Hariyali Abhiyan:** This scheme has been launched with a view to conserving water in the state, under which the Pokhar / Pond blowing / renovation, well blowing / renovation, construction of wells and Rooftop Rain Water Harvesting is taken up in urban areas under the aegis of UDHD. A total of 122 schemes have been completed and work on 497 schemes has begun.

5.42 Central Schemes

1. **Pradhan Mantri Awas Yojana - Urban (PMAY-U):**

- (i) It is a flagship Mission of Government of India being implemented by Ministry of Housing and Urban Affairs (MoHUA). It was launched on June

25, 2015. The Mission addresses urban housing shortage among the EWS, LIG and MIG categories, including the slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022. PMAY-U adopts a demand driven approach wherein the housing shortage is decided based on demand assessment by States/Union Territories. State Level Nodal Agencies (SLNAs), Urban Local Bodies (ULBs)/ Implementing Agencies (IAs), Central Nodal Agencies (CNAs) and Primary Lending Institutions (PLIs) are main stakeholders.

- (ii) All houses under PMAY-U have basic amenities like toilet, water supply, electricity and kitchen. The Mission promotes women empowerment by providing the ownership of houses in name of female member or in joint name. Preference is also given to differently abled persons, senior citizens, SCs, STs, OBCs, Minority, single women, transgender and other weaker and vulnerable sections of the society.
- (iii) Central Assistance up to Rs. 1.50 lakh per house is provided to eligible families belonging to EWS categories for individual house construction/ enhancement. The ULBs validate the information and building plan submitted by the beneficiary so that ownership of land and other details like economic status and eligibility can be ascertained. Central Assistance, along with State/UT/ ULB share, if any, is released to the bank accounts of beneficiaries through Direct Benefit Transfer (DBT) by States/UTs.
- (iv) For the State of Bihar, 505 proposals have been considered and 3,60,108 houses sanctioned at a cost of Rs 19,352.75 crore up to 23.11.2020. Out of these, construction of 1,81,528 houses started and 74,150 houses have been completed. Central assistance of Rs 2,210.75 crore has been released out of the sanctioned central assistance of Rs 5,597.02 crore.

2. Smart Cities Mission

- (i) The Mission seeks to promote cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment and application of 'Smart' Solutions. The focus is on sustainable and inclusive development.

- (ii) The Smart Cities Mission covers 100 selected cities. The core infrastructure elements in a smart city would include: (a) Adequate water supply, (b) Assured electricity supply, (c) Sanitation, including solid waste management, (d) Efficient urban mobility and public transport, (e) Affordable housing, especially for the poor, (f) Robust IT connectivity and digitalization, (g) Good governance, especially e-Governance and citizen participation, (h) Sustainable environment, (i) Safety and security of citizens, particularly women, children and the elderly, and (j) Health and education
- (iii) Under the Smart Cities Mission, 4 cities of Bihar have been selected (Patna, Muzaffarpur, Bhagalpur and Biharsharif). UDHD has reported the progress in the Mission cities, as presented in Table 5.12.

Table 5.11 : Progress Under Smart City Mission in Bihar

SI No.	Cities	SCP Cost (Rs Cr)	SPV Establishment	PMC appointment	Central Share Released (Rs Cr)	State Share Released (Rs Cr)
1	Bhagalpur (Fast Track- 25.05.2016)	1,309.30	14.12.2016	Handhold support from PSCL. Tender floated for selection of new PMC	196	186
2	Muzaffarpur (3rd Round- 28.06.2017)	1,580.00	18.12.2017	18.06.2018 (M/s SREI Infrastructure Finance Ltd)	60	52.50
3	Patna (3rd Round- 28.06.2017)	2,776.16	09.11.2017	21.12.2017 (M/s Eptisa – iDeCK JV)	194	186
4	Biharsharif (4th Round- 19.01.2018)	1,517.00	17.05.2018	23.07.2018 M/S URS Scott Wilson	60	50
	Total	7,182.46			510	474.5

- (iv) The Commission noted that against the SCP cost of Rs 7,182.46 crore, only Rs 984.5 crore (approx. 14 percent) has been released as the Central and State share. The progress under the Smart Cities Mission is far from satisfactory. UDHD and the concerned ULBs need to speed up the implementation in the selected cities.

3. **Atal Mission for Rejuvenation and Urban Transformation (AMRUT)**

- (i) The purpose of AMRUT is to (i) ensure that every household has access to a tap with the assured supply of water and a sewerage connection, (ii) increase the amenity value of cities by developing greenery and well-maintained open spaces (e.g. parks) and (iii) reduce pollution by switching to public transport or constructing facilities for non-motorized transport (e.g. walking and cycling). All these outcomes are valued by citizens, particularly women, and indicators and standards have been prescribed by the Ministry of Housing and Urban Affairs (MoHUA) in the form of Service Level Benchmarks (SLBs).
- (ii) The Mission focusses on the following Thrust Areas:
 - (a) water supply, (b) sewerage facilities and septage management, (c) storm water drains to reduce flooding, (d) pedestrian, non-motorized and public transport facilities, parking spaces, and (e) enhancing amenity value of cities by creating and upgrading green spaces, parks and recreation centers, especially for children.
- (iii) In AMRUT, the State Annual Action Plan is approved once a year by the MoUD and the States are supposed to give project sanctions and approvals at their end, thus making States equal partners in planning and implementation of projects and actualizing the spirit of cooperative federalism.
- (iv) 27 cities/ towns of Bihar have been selected under AMRUT and 2 towns () under HRIDAY (Heritage City Development and Augmentation Yojana).
- (v) As per AMRUT guidelines, for towns under 10 lakh population, 30 percent and 20 percent financial burden is to be borne by State and ULBs respectively and remaining by Centre. For cities above 10 lakh population, 1/3rd cost is borne by Centre, 20 percent by ULB and remaining by the State.
- (vi) The total SCP cost of schemes in 27 towns is Rs 2,536.55 crore To-date the central share released is Rs 596.94 crore and State /ULB share released is Rs 575.38crore.

FUNCTIONARIES

- 5.43 In various interactions of this Commission with the elected representatives of ULBs, the issue of shortage of staff in terms of numbers and skills was repeatedly raised. There is no doubt that the manpower at the disposal of the ULBs in Bihar is grossly inadequate for effectively shouldering the responsibilities cast upon them through Constitutional provisions and the Municipal Acts.
- 5.44 **Creation of Municipal Cadre:** The need for creating a dedicated municipal cadre in India was felt as early as 1948. However, it was the Committee on the Service Conditions of Municipal Employees (1967-68) which recommended setting up of the state-wide municipal cadre under Integrated Personnel System. Following the 74th Constitutional amendment, which mandated strengthening local governance by devolution of funds, functions and functionaries to the local bodies, the issue of municipal cadre gained currency once again. When JNNURM was launched in 2005, its administrative and structural reforms strongly professed creation of municipal cadre and developing cadre management systems.
- 5.45 Ministry of Urban Development (MoUD) of the Central Government suggested in 2014 a model municipal cadre as shown in Table 5.12.

Table 5.12 : Municipal Cadre Proposed by MoUD

Cadres	Types of Services
Municipal Administrative Service(MAS)	<ul style="list-style-type: none"> • Municipal Executive Service • Municipal Social Development Service • Municipal Staff Service
Municipal Technical Service (MTS)	<ul style="list-style-type: none"> • Municipal Engineering Service • Municipal Sanitation Service • Urban Planning & Transportation Service • Municipal Fire Service • Municipal E-Governance Service
Municipal Finance Service (MFS)	<ul style="list-style-type: none"> • Municipal Accounts Service • Municipal Revenue & Financial Services
<i>(Approach towards Establishing Municipal Cadres in India- MoUD & World Bank 2014.)</i>	

- 5.46 Several states such as Maharashtra, Karnataka, Tamil Nadu, Madhya Pradesh, Odisha have gone ahead and created municipal cadres, as was noted by SFC5.

5.47 Section 43(1) of BMA 2007 states that “The State Government may constitute cadres of common municipal services of such officers of municipality referred to in sub-section (1) of Section 36 and other employees as may be determined by that Government from time to time.” Thus, the State Government is duly empowered for the creation of municipal cadres as per requirement.

5.48 The Government of Bihar has created the following three cadres for the ULBs:

1. **Bihar Municipal Service Cadre:** This cadre was created in 2008. Sanctioned strength is 144; presently 111 positions are filled and there are 33 vacancies. The cadre comprises Executive Officers in Grade I, II and III. Grade I officers are posted in Nagar Nigams, Grade II officers in Nagar Parishads and Grade III officers in Nagar Panchayats. Posts in Grade III are filled by direct recruitment, those in Grade II by direct recruitment (50 percent) as well as by promotion (50 percent) and all posts in Grade I are to be filled by promotion. Recruitment and Service Condition Rules have been framed.
2. **Bihar City Managers Cadre:** This cadre was created in 2015. Sanctioned strength is 227; presently 64 positions are filled (3 on regular basis and 61 on contract basis) and there are 163 vacancies. Selection for regular appointments is held up on account of court case. Recruitment Rules have been approved, but there is no provision for promotion in these Rules.
3. **Bihar UDHD Engineering Service Cadre:** This was created in 2016. Sanctioned strength is 517 at Junior Engineer (JE) level and 256 at Assistant Engineer (AE) level. Presently, 26 posts of JE are filled on regular basis and 49 on contract basis. Only one post at AE level is filled and requisition for appointment against 255 posts has been sent to Bihar Public Service Commission. Recruitment and Service Condition Rules are in existence.

5.49 **Cadres for Finance and Accounts, Sanitation and Urban Planning are yet to be created. These are critical subject areas for municipal governance. The State Government needs to urgently act for their creation.**

5.50 **Manpower**

1. The Municipal Commissioner is the executive head of the Municipal Corporation, while Municipal Councils and Nagar Panchayats are headed by the Executive Officers, appointed by the State Government.

2. Officers from the IAS or the BAS are posted as Municipal Commissioners. As indicated above, officers of Bihar Municipal Service are posted as Executive Officers in Nagar Parishads and Nagar Panchayats. In Nagar Parishad/ Nagar Panchayat where a regular Executive Officer is not posted, the local DM or SDO deputes an officer of the BAS to discharge the functions of Executive officer, generally in addition to his own charge. City Managers are posted in the ULBs to aid and assist the Municipal Commissioners/ Executive Officers.
3. Majority of the posts in City Managers Cadre as well as the Engineering Cadre are lying vacant. Almost 25 percent of Executive Officers' posts are also vacant. Progress of recruitment is very slow and needs to be speeded up. There are critical gaps in staffing, particularly for finance and accounting, sanitation and town planning functions.
4. **Outsourcing of Functionaries:** In June 2018, UDHD issued detailed guidelines for engaging agencies/ individuals on outsourcing basis for various kinds of services.
5. **Model Staffing:** The SFC5 had recommended that model staffing pattern proposed by MoUD of the Central Government should be adopted in Bihar. During the period 2015-20, the State Government has issued sanction orders for creation of a number of posts. A comparative statement showing the total number of posts (both already existing and the newly created posts) against the model staffing suggested by MoUD/SSFC is given in Tables 5.13 to 5.16.

Table 5.13 : Patna Municipal Corporation

		Position	Recommended		Sanctioned
			Scale	No	
1	Group A	Municipal Commissioner	1 (IAS)	1	1
2		Senior Additional Commissioner			1
3		Additional Commissioner	2	2	3
4		Joint Commissioner			2
5		Engineer-in-chief	1	1	
6		Chief Engineer	1	1	1
7		Superintending Engineer (Dy Chief Engineer)	3	3	1
8		Chief Town Planner (Director, Planning & Architecture)	1	1	1
9		Dy Director, Planning & Architecture			3
10		Chief Finance Officer (Chief Finance & Accounts Controller)	1	1	1
11		Chief Social Development Officer	1	1	
12		Estate Officer			1
13		Vigilance Officer			7
14	Group B	Dy. Commissioner	3	3	4

Table 5.13 : Patna Municipal Corporation

	Position	Recommended		Sanctioned
		Scale	No	
15	City Manager			17
16	Law Officer			1
17	Health Officer			1
18	Municipal Secretary			1
19	Assistant Commissioner (Executive Officer)	8	8	7
20	Veterinary Officer			2
21	Asst Horticulture Officer			1
22	Asst Vigilance Officer			6
23	Asst Health Officer			7
24	Social Development Officer	3	3	
25	Executive Engineer	3/sec	1	
26	Assistant Engineer	16	16	7
27	Sanitary Officer	1/5lakh	3	
28	Senior Town Planner (Asst Director, Planning)	1	1	3
29	Fire Officer	1	1	
30	E-Governance Officer	1	1	
31	Revenue Officer	2	2	7
32	Procurement Officer			1
33	Senior Account Officer	2	2	
34	Finance Officer			1
35	Accounts Officer	$\frac{1}{2}$ Accountant	8	9
36	Asst. Revenue Officer	$\frac{1}{2}$ Rev Ins	15	
37	Office Superintendent			1
38	Head Clerk			15
39	Asst. SDO	$\frac{1}{2}$ CO	17	
40	Community Organizer	16	16	
41	Senior Assistant	1/3 Sec	17	
42	Assistant (UDC)	1/3 Sec	34	30
43	Junior Assistant (LDC)	1/20k Pop	84	30
44	Personal Assistant			3
45	Sub Engineer	1/25k Pop	67	14
46	Sanitary Supervisor (Chief Sanitary Inspector)	1/lakh	17	7
47	Sanitary Inspector	1/30k Pop	56	75
48	Safai Jamadar			300
49	Asst. Town Planner	1/2TPI	34	
50	Town Planning Inspector(Building)	1/50k Pop	34	
51	Leading Fireman	1/50k Pop	34	
52	Fireman	2/50k Pop	67	
53	MIS Associate	1/10lakh	1	
54	GIS Associate	1/5lakh	3	
55	Rev. Inspector	1/5 TA	21	46
56	Tax Assistant	1/50k	84	
57	Accountant (UDC)	$\frac{1}{2}$ lakh	17	23
58	Cashier (LDC)			10
59	Surveyor			7
60	Store Keeper			8
61	Amin		8	7
62	Draftsman		2	2
			688	675

Table 5.14 : Nagar Nigams Other than Patna

		Position	Recommended		Sanctioned
			Scale	No	
1	Group A	Municipal Commissioner	1(IAS/BAS)	11	11
2		Additional Commissioner	1	11	11
3		Engineer-in-chief	1		
4		Chief Town Planner (Town Planner)			11
5	Group B	Dy. Commissioner	2	11	33
6		City Manager			33
7		Assistant Commissioner (Municipal Secretary)	1	11	11
8		Asst Health Officer			11
9		Veterinary Officer			11
10		Vigilance Officer			11
11		Social Development Officer	1	11	
12		Executive Engineer	2	11	
13		Assistant Engineer	1/lakh	32	11
14		Sanitary Officer	1	11	
15		Senior Town Planner	1		
16		Fire Officer	1	11	
17		E-Governance Officer	1	11	
18		Revenue Officer	2	11	11
19		Senior Account Officer	1	11	
20		Accounts Officer	$\frac{1}{2}$ Accountant	13	11
21		Asst. Revenue Officer	$\frac{1}{2}$ Rev Ins	26	
22		Office Superintendent			11
23		Head Clerk			33
24	Group C	Asst. SDO	$\frac{1}{2}$ CO	32	
25		Community Organizer	1/50k Pop	61	
26		Senior Assistant	1/3 Sec	32	
27		Assistant (UDC)	1/3 Sec	61	55
28		Junior Assistant (LDC)	1/20k Pop	155	110
29		Sub Engineer	1/25k Pop	123	22
30		Sanitary Supervisor (Chief Sanitary Inspector)	1/lakh	32	11
31		Sanitary Inspector	1/30k Pop	102	518
32		Safai Jamadar			1554
33		Asst. Town Planner	1/1lakh Pop	61	
34		Town Planning Inspector(Building)	1/50k Pop	61	
35		Leading Fireman	1/50k Pop	61	
36		Fireman	2/50k Pop	123	
37		MIS Associate	1	11	
38		Rev. Inspector	1/4TA	39	96
39		Tax Assistant	1/4k HH	155	
40		Accountant (UDC)	1/1lakh	32	11
41		Cashier (LDC)			11
42		Surveyor			11
43		Amin	a/2lakh		44
				1,333	2,663

Table 5.15 : Nagar Parishads

		<i>Position</i>	<i>Recommended</i>		<i>Sanctioned</i>
			<i>Scale</i>	<i>No</i>	
1	Group B	<i>Assistant Commissioner (EO)</i>	1	43	46
2		<i>City Manager</i>			92
3		<i>Executive Engineer</i>	1	43	
4		<i>Assistant Engineer</i>	1/lakh	43	
5		<i>Sanitary Officer</i>	1		
6		<i>E-Governance Officer</i>	1	43	
7		<i>Revenue Officer</i>	1		49
8		<i>Senior Account Officer</i>	1		
9		<i>Accounts Officer</i>	1	43	
10		<i>Asst. Revenue Officer</i>	1	43	
11		<i>Head Clerk</i>			46
12	Group C	<i>Asst. SDO</i>	1	43	
13		<i>Community Organizer</i>	2	86	
14		<i>Senior Assistant</i>	1	43	
15		<i>Assistant (UDC)</i>	1/3 Sec	76	46
16		<i>Junior Assistant (LDC)</i>	1/20k Pop	186	147
17		<i>Sub Engineer</i>	2	86	
18		<i>Sanitary Supervisor (Chief Sanitary Inspector)</i>	1	43	49
19		<i>Sanitary Inspector</i>	1	43	484
20		<i>Safai Jamadar</i>			1453
21		<i>Asst. Town Planner</i>	1	43	49
22		<i>Town Planning Inspector(Building)</i>	2	86	
23		<i>Leading Fireman</i>	1	43	
24		<i>Fireman</i>	2	86	
25		<i>MIS Associate</i>	1	43	
26		<i>Rev. Inspector</i>	1	43	119
27		<i>Tax Assistant</i>	1/3k HH	249	
28		<i>Accountant (UDC)</i>	1/50k	75	46
29		<i>Cashier (LDC)</i>			46
30		<i>Amin</i>	1/2lakh	40	92
31		<i>Draftman</i>	2		
				1,572	2,764

Table 5.16 : Nagar Panchayats

		<i>Position</i>	<i>Recommended</i>		<i>Sanctioned</i>
			<i>Scale</i>	<i>No</i>	
1	Group B	<i>Dy. Commissioner</i>			
2		<i>Assistant Commissioner (EO)</i>	1	82	85
3		<i>City Manager</i>			85
4		<i>Senior Account Officer</i>	1	82	
5		<i>Asst. Revenue Officer</i>	1	82	
6		<i>Head Clerk</i>			85
7	Group C	<i>Asst. SDO</i>	1	82	
8		<i>Community Organizer</i>	1	82	
9		<i>Assistant (UDC)</i>	1	82	85
10		<i>Junior Assistant (LDC)</i>	1/10k Pop	257	170
11		<i>Sub Engineer</i>	1	82	
12		<i>Sanitary Supervisor</i>	1	82	
13		<i>Sanitary Inspector</i>	1	82	225
14		<i>Safai Jamadar</i>			676
15		<i>Asst. Town Planner</i>	1	82	
16		<i>Town Planning Inspector(Building)</i>	1	82	
17		<i>Leading Fireman</i>	1	82	
18		<i>Fireman</i>	2	164	
19		<i>MIS Associate</i>	1	82	
20		<i>Rev. Inspector</i>	1	82	88
21		<i>Tax Assistant</i>	1/2k HH	257	
22		<i>Accountant (UDC)</i>	2	164	85
23		<i>Cashier (LDC)</i>			85
24		<i>Amin</i>	1/lakh	30	85
				2020	1754

6. In the tables above, posts sanctioned by the State Government by a different name appear within brackets in red font; posts depicted in red font without brackets are those sanctioned beyond the recommendation of SFC5. Posts appearing in blue font are some critical posts that were recommended by 5SFC but have not been sanctioned by the Government.
7. A good number of positions of the Model Staffing have been sanctioned. Once all these posts are filled by recruitment, the ULBs will have skilled manpower at their disposal. This would definitely strengthen their capacity and enable them to render services effectively.
8. **There are, however, some critical gaps in the manpower structure. In case of Patna and other Nagar Nigams, positions pertaining to e-Governance and Social Development have not been sanctioned. In case of Nagar Parishads and Nagar Panchayats, in addition to the e-Governance and Social developments posts, the engineering and town planning posts too are missing. UDHD will do well to bridge these gaps at the soonest possible.**

5.51 Payment of Salary in ULBs

1. Data furnished by UDHD for the period from FY 2015-16 to FY 2019-20 shows that the total expenditure on salary in Bihar's ULBs was Rs 3,002.52 crore, whereas their own tax and non-tax revenue totaled Rs 1,214.57 crore only. The State Government assigned a part of revenues earned from Stamp Duty and Profession Tax amounting to Rs 1,075.62 crore. and also provided establishment support of Rs 65.12 crore from the State Budget. The balance expenditure over salary was met out of SFC transfers.
2. As mentioned earlier, the ULBs in Bihar are grossly understaffed. Even with such poor manpower, the ULBs are struggling to foot the salary bill. It is not difficult to imagine the situation that would emerge after the posts created by UDHD are filled. Hence, there is an urgent need to address the issue of resources for salary payment.
3. To enable the ULBs to render quality services with promptitude, it is necessary that they should have the services of administrative, technical and finance personnel, possessing requisite qualifications, experience and skills within their organisation. They should be appointed on regular basis in the cadres established for each subject area and there should be a clearly charted career path and promotional opportunities for the hired personnel. Together with this, there should be an assurance of regular payment of salary. Persons with qualifications, merit and expertise necessary for municipal governance will look forward to joining an ULB only if they see a future for themselves in the municipal service. Unless these steps are taken, ULBs will not get qualified persons to work for them.
4. In view of the above, this Commission feels that adequate arrangements need to be made to provide resources for meeting the Establishment Expenditure of ULBs in full.
5. **In view of the above, this Commission makes the following recommendations to strengthen the human resource base in the ULBs:**
 - (i) **Creation of other essential Municipal Cadres viz. Finance & Accounting, Sanitation and Town Planning.**

- (ii) **Framing of Recruitment and Service Rules for new cadres and revision of Rules of existing cadres to provide for clear career progression paths.**
- (iii) **Earmarking of funds for Establishment Expenditure as under:**
 - (a) **100 percent of own tax and non-tax revenue.**
 - (b) **100 percent of assigned revenue.**
 - (c) **Entire balance amount required for Establishment Expenditure to be allocated out of the SFC Transfers.** If the amount earmarked for Establishment Expenditure in SFC Transfers falls short of the requirement, the balance should be provided by the State Government from the State Budget as additional allocation.

CAPACITY BUILDING

5.52 UDHD has reported that the training programme under capacity building have been undertaken, but detailed information has not been provided. It appears to this Commission that a comprehensive action plan for capacity building has not been drafted. On account of low capacity of ULBs, Bihar has not been able to take advantage of the central funds as has been brought out in Paragraph 5.42 above. In fact, Bihar's performance in implementing Smart Cities, AMRUT, JNNURM etc. has been far from satisfactory.

5.53 ULBs in Bihar suffer capacity constraints in terms of skilled manpower, IT facilities, equipment, office space, etc leading to meagre utilization of available funds, inability to avail central resources (CSSs/ACAs), poor project implementation as well as less than satisfactory delivery of services.

5.54 Training:

1. Although the State Government has created more than 7,000 posts for ULBs in March 2019, action for selection and appointment against these posts is very slow. As and when these personnel are appointed, they would need induction training. Moreover, all personnel need to undergo refresher training periodically to update

their knowledge and skills. Also, the need for continuous training and capacity building of the elected functionaries can hardly be overemphasized.

2. Ad-hoc arrangements for training and skill building have been ineffective and detrimental to inculcate professional culture in the Bihar's ULBs. It is necessary to institutionalise the capacity building programme in the state by setting up a Bihar Urban Management Institute (BUMI). It will be a specialized exclusive institution having mandate for training, research and consultancy in the area of urban governance, development and management. It should be tasked with assessing the training needs of the employees and elected functionaries of the ULBs, drawing up training plans for them and conducting training courses.
3. The Commission has noted that for the training of officials and elected representatives of the PRIs, District Resource Centres are being set up and funds from State Budget are being provided for the same. Considering the comparative numbers of officials and elected functionaries in ULBs vis-à-vis PRIs, it may not be necessary to have district level training facilities for ULBs at this stage, but definitely a state level training institution is required. **Hence, this Commission recommends that action should be initiated urgently for setting up BUMI and the institution should be made functional within next two years. Commission is recommending allocation out of SFC Transfers for setting up and running BUMI.**

5.55 Strengthening Capacity of UDHD

1. DMA

- (i) It is a good idea to separate responsibilities of policy formulation and implementation in UDHD. Looking at the large number of ULBs in Bihar, the Department needs an efficient organization that is focused on supervision and monitoring of ULBs. This could be achieved through a well-functioning Directorate of Municipal Administration (DMA). Most other states have DMAs with a pool of technical and professional staff.
- (ii) The State Government has created DMA and approved following positions for it (Table 5.17).

Table 5.17 : Directorate of Municipal Administration, Bihar

Sl. no	Post	Number	Grade
1	Director, Directorate of Municipal Administration (IAS, Secretary/Spl.Secretary Level)	01	A
2.	Project Director cum Additional Director (Through Promotion)	09 (at Divisional level)	A
3	Project Director cum Deputy Director (Through Promotion)	09 (at Divisional level)	A
4	Section Officer	05	B
5	Assistant	20	B
6	Personal Assistant	01	B
7	Stenographer	02	C
8	Upper Division Clerk	05	C
9	Lower Division Clerk	05	C
	Total No. of Posts	57	

- (iii) SFC5 in its report had observed that “UDD should operationalize the already Government approved DMA immediately”. However, even now the DMA is barely functional, with most of the senior positions being held by officers as an additional charge.

2. Bihar Urban Technical Support Team (BUTST)

- (i) SFC5 had recommended that Bihar Urban Technical Support Team (like SPUR) should be appointed to lend expert advice and support to the UDHD: The composition of the proposed Team is presented in Table 5.18.

Table 5.18 : Composition of the Proposed Urban Technical Support Team

Sl.	Post	No.
1	Team Leader	1
2	Urban Governance - Expert	1
3	Municipal Finance Specialist	1
4	Urban Planner	1
5	Urban Architect	1
6	E-Gov .Expert	1
7	GIS Specialist	1
8	Community Dev./Social Dev. Specialist	2
9	PPP Expert	2
10	Procurement Expert	1
11	Urban Transport	1
12	Municipal Engineer	1
13	Administrative Officer	1

14	IT Assistant cum DEO	1
15	Office Executive	2

(ii) This Commission endorses the above recommendation of SFC5.

- DMA together with BUTST could be a very powerful mechanism for improving the governance of ULBs. This Commission recommends that UDHD should take urgent steps to make both these units fully functional at the soonest.**

5.56 Use of IT

- The total number of ULBs in the State is 253. In view of their numbers and geographical spread, monitoring and supervision, collection of reports and data, and even dissemination of orders and information among the ULBs poses a big challenge. It is well-nigh impossible to get authentic and accurate figures of expenditure and progress of schemes from them through manual channels. The only means of overcoming these challenges is extensive use of IT in the affairs of the local bodies.
- During 2015-20, a total sum of Rs 15,590.97 crore was transferred to the ULBs by the State and Central Governments through devolution, grants and budgetary support for State and Central schemes. The fund flows are likely to double during 2020-25. In this scenario, if the desired result of expenditure over State's development through ULBs is to be achieved, it is absolutely necessary to develop a comprehensive IT system that would capture and make available in real time financial figures, scheme data, manpower reports, etc. from the ULBs to the State Government and also act as a vehicle for dissemination of State Government orders, policies and fund allocations.
- The UDHD has signed an MoU in December 2018 with e-Governments Foundation, a Bangalore-Based NGO founded by Nandan Nilekani and Srikanth Nadhamuni, for development of e-Municipality. Development work has started in March 2019. The e-Municipality System will have Modules such as Online Building Permit System, Public Grievance Redressal System, Property Tax, Trade License, etc.

4. Currently, the following software modules developed by e-Governments Foundation are in use in various ULBs:

- (i) Modules for Personnel Management System and General Administration have been introduced in 55 ULBs (12 Nagar Nigams, 42 Nagar Parishads and 02 Nagar Panchayats).
- (ii) Generation of GIS Base Map in 57 ULBs is under way
- (iii) Double Entry Accounting System started in some ULBs using Tally software.
- (iv) GeM is being used in all ULBs for Procurement of goods and services.
- (v) e-tendering system being used in all ULBs.
- (vi) Online Reporting System for ULBs : Video Conferencing software and connectivity provided to 101 ULBs by Beltron being used for review at UDHD level
- (vii) Online Delivery of following citizen centric services in 55 Urban Local Bodies:
 - (a) Birth & Death Registration
 - (b) Property Tax
 - (c) Building Plan Approval
 - (d) Licenses
 - (e) Rent, Lease and Sairat
 - (f) Advertisement & Hoardings
 - (g) Websites for ULBs

5. A good beginning has been made in the realm of ULBs to use IT for improving efficiency and rendering citizen-centric services. The following is suggested in this context:

- (i) **UDHD should ensure that the e-Municipality is developed as a comprehensive IT system to provide services to citizens as well as to facilitate office and personnel management, financial management,**

supervision and monitoring of schemes in all ULBs. The coverage should be universal and Nagar Panchayats should not be left out. UDHD would need to initiate concerted action to ensure that the bouquet of softwares is deployed swiftly across the State and for this to happen, following would need to be done:

(a) UDHD should identify an existing organisation or create a new organisation to develop, own, operate, maintain and propagate a comprehensive IT system for ULBs. The organisation should have IT professionals with requisite skills and may be designated as the ULB IT Agency (ULBITA). UDHD can take a cue from the Kerala IT Mission which is an IT organisation created by the Government of Kerala exclusively to develop, manage and operate IT system for PRIs and ULBs of that State.

(b) The IT system should have at least the following modules:

- (1) Plan formulation, approval and monitoring
- (2) Online repository of Acts, Rules, Govt orders/ circulars/ guidelines pertaining to local bodies
- (3) Financial Management System
- (4) Double entry accrual based accounting system
- (5) Revenue and License System
- (6) Payroll and HR System
- (7) Module for recording agenda, minutes and follow-up actions of meetings
- (8) Module for Property Tax, Trade Licenses and other revenue generating items
- (9) GIS mapping and Asset Register
- (10) Web portal of PRIs

(ii) Software currently being used has some gaps vis-à-vis requirement indicated in preceding sub-paragraph. **The missing modules should be commissioned and the new modules together with the existing software should be integrated in the comprehensive e-Municipality system.**

- (iii) **e-Municipality should be rolled out swiftly across the State in all ULBs, including the Nagar Panchayats.** It will enable better financial management in the ULBs. It will also enable the UDHD and Finance Department to monitor use of funds by the ULBs. The software should be versatile enough to drill down to fetch data of any individual ULB.
- (iv) **Adequate computers, peripherals and accessories should be provided to all ULBs.**
- (v) **Municipal staff should be trained in the use of computers and deployed software.** The tendency to hire Data Entry Operators for capturing data should be strictly banned. Every employee should be enabled to use computer and software himself for the functions entrusted to him.

6. It is expected that use of computers and customized software will lead to productivity, efficiency and transparency in the functioning of ULBs.

ACCOUNTABILITY

5.57 The ULBs, being units of local governance, must be accountable to the people. SFC5 had recommended that accountability of ULBs may be ensured through Ombudsman, ward sabhas and social audit.

1. Ombudsman

- (i) One of the main recommendations of the UFC13 was that State Governments should put in place a system of independent Ombudsmen for local bodies who will look into complaints of corruption and maladministration against the functionaries, both elected and official, and recommend suitable action. 2nd Administrative Reforms Commission of the Central Government had made similar suggestion and 5SFC too recommended the same.
- (ii) At present, there is no Ombudsman system in Bihar. However, by an amendment made in 2011, the BMA 2007 has made provision for this in Section 44 of the Act. This section reads as follows:

- “44 Lok Prahari- (1) The State Government shall appoint such number of Lok Prahari as the Government may determine from time to time to inquire into any allegation of corruption, misconduct, lack of integrity, or any kind of malpractice or maladministration or misdemeanour of Chief Councillor/Deputy Chief Councillor/Officers and other employees of the Municipality, contained in a complaint in the form of an affidavit or on a reference from Government, or that has come to the notice of the Lok Prahari and pass order as soon as possible but not later than three months
- (2) The qualification, terms and conditions and tenure of appointment and the powers and duties of the Lok Prahari shall be as may be prescribed by the State Government.
- (3) The State Government shall, by notification, entrust the responsibilities to the Lok Prahari, for conducting such inquiry or taking any other suitable action in the manner as may be prescribed under the Rules by the Government.”

(iii) Ombudsman is an important pillar of accountability mechanism. The State Government should seriously consider appointing an Ombudsman for urban sector in Bihar.

2. Ward Committee

- (i) Article 243S of the Constitution of India provides for constituting Wards Committees in a Municipality having a population of three lakhs or more and empowers the State Legislature to enact law in this regard. Accordingly, BMA 2007 has provisions for setting up Wards Committee in Sections 30 and 31. As per Section 30 “Every Municipal Corporation having a population of three lakhs or more may, at its first meeting after the election of Councillors thereto or as soon as may be thereafter, group the wards of the Corporation in such manner that each group consists of not less than three wards, and constitute a wards committee for each such group”. Similarly, Section 31 provides that “Each ward of a Municipality shall have

a Ward Committee”. The State Government has framed “Bihar Urban Local Body (Community Participation) Rules 2013”. However, Ward Committees are yet to be made functional as reported by UDHD.

- (ii) **The Ward Committees can play a major role in holding ULBs accountable. Active participation of citizens needs to be stimulated by activating the Ward Committees.**

3. Urban Regulator

- (i) SFC5 had recommended creation of the position of State-level Urban Regulator to do the following:
 - (a) Set tariffs for various user charges, like water supply, solid waste management, sewerage etc.,
 - (b) Issue guidelines for various taxes excluding Property Tax,
 - (c) Act as an arbitrator on tariffs, setting services benchmarks, monitoring tariffs and services’ benchmarks, publish city performance on service standards and providing transparency on delivery standards,
 - (d) Play an oversight role in tracking the financial health of municipal agencies, including the recovery of costs and reinvestment goals, facilitate process through objective setting, charters and suggest five-year targets for each ULBs
 - (e) Collect consumer feedback from city wards on delivery and customer service and elicit responses from the relevant departments and agencies.
 - (f) Create framework for Public-Private Partnerships (PPP) and act as arbitrator in disputes.
- (ii) **This Commission endorses this recommendation of SFC5.**

4. Social Audit

- (i) Social Audits allow people to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize and evaluate the development work done by agencies. SFC5 had laid emphasis on Social Audit aspect for the ULBs, but there is no social audit being practiced in ULBs, as reported by UDHD.
- (ii) **This Commission recommends that the practice of social audit may be introduced in ULBs.**

5.58 From the foregoing it would appear that the accountability aspect of ULBs is still to receive attention of the State Government. This Commission recommends that an appropriate accountability mechanism may be put in place sooner than later.

Chapter 6

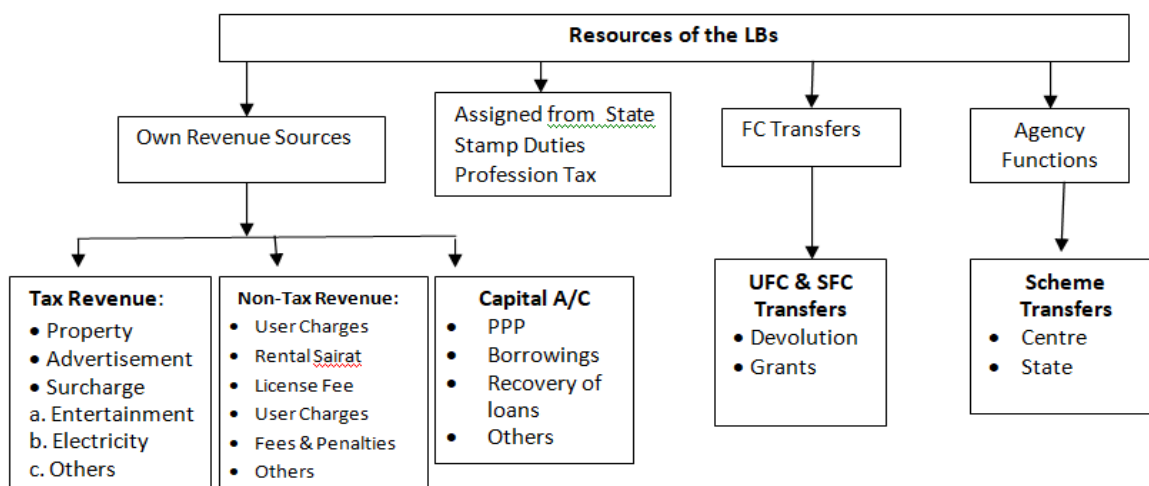
PRI FINANCES

REVIEW AND FORECAST OF REVENUE AND EXPENDITURE

6.1 The primary objective of this Chapter is to project the Expenditure-Resources Gap of the Panchayati Raj Institutions (PRIs) for the award period of the SFC6 (2021-22 to 2024-25) (four years). On the basis of information furnished by the Panchayati Raj Department (PRD), the Commission has reviewed the finances of the PRIs of Bihar for the period 2015-16 to 2019-20, when the recommendations of the SFC5 were under implementation, and thereafter made forecast of Revenue and Expenditure for the period 2021-22 to 2024-25.

RESOURCES OF THE PRIs

6.2 The flowchart below shows the possible resources of the PRIs:



6.3 Thus, the PRIs could derive resources primarily in the following ways:

1. Own Revenue

- (i) **Constitutional Provision:** As per Article 243H (Box 6.1) of the Constitution, the PRIs are to be authorized by the State Legislature to levy, collect and

appropriate tax and non-tax revenue apart from assigning taxes etc. and providing grants from the CFS.

Box 6.1

Constitutional Provision regarding Tax and Non-tax Revenues of PRIs

243H. Powers to impose taxes by, and Funds of, the Panchayats.—The Legislature of a State may, by law,—

- (a) authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- (b) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- (c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State; and
- (d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys therefrom, as may be specified in the law.

- (ii) **State Act:** As per Section 27(1,2), 55(1,2,3) and 82(1,2,3) to 136 of Bihar Panchayati Raj Act, 2007 (BPRA), the PRIs have the power to realize tax and non-tax revenues as detailed in Table 6.1.

Table 6.1 : Taxation Powers of PRIs in BPRA

Gram Panchayat	Panchayat Samiti	Zila Parishad
<p>Tax: Section 27. (1):- (a) Tax on occupants of holdings; (b) Tax on Professions, trades, callings and employments</p> <p>Non-Tax: Section 27.(2):- – (a) Registration of vehicles not registered under any other law (b) sanitary arrangements at such places of pilgrimage, haats, melas and public use (c) Water Rate, (d) Lighting Fee, (e) Conservancy Rate</p>	<p>Tax: Section 55.(1):- (a) levy tolls in respect of any ferry established by it or under its management; (b) levy following fees and rates; (i) Registration of vehicles, (ii) Sanitary arrangements at such places of pilgrimage, haats and melas (iii) License for a haat or market; (iv) Water rate, (v) Lighting rate</p> <p>Non-Tax: Section 55.(2):- (a) registration of vehicle or levy fee there for and shall not provide sanitary arrangements at places of pilgrimage, haats and melas.</p>	<p>Tax: Section 82. (1):- (a) levy tolls in respect of any ferry established by it or under its management. (b) levy following fees and rates; (i) Registration of boats or vehicles; (ii) sanitary arrangements at such places of pilgrimage, fairs and melas (iii) Licence for fair or mela; (iv) Lighting rate (v) Water rate</p> <p>Non-Tax: Section 82.(2):- (a) not levy fee on such vehicles which have already been registered by any other authority or at the places of pilgrimage, melas etc.</p>

2. **Assignment of Taxes by State Government:** The Panchayati Raj Department (PRD) has not reported any taxes assigned by the State Government to PRIs.
3. **Finance Commission Transfers:** PRIs are recipients of fiscal transfers from Central and State Governments, based on the recommendations of Union and State Finance Commissions. Such transfers comprise (i) Grant from Central Government and (ii) Devolution and Grant from State Government (Details in Chapter 8).
4. **Scheme Transfers:** Funds also flow to the PRIs under State and Central schemes for specific functions/ purposes, but they are extremely tied in nature. PRIs act as agency to implement the schemes specified by the respective Government.

6.4 Historically, major part of PRIs' resources comes through FC transfers and Scheme transfers. Even though empowered in this behalf, the Gram Panchayats (GPs) and the Panchayat Samitis (PSs) are not collecting taxes, duties and fees at all. The Zila Parishads (ZPs) do collect some revenue, but the effort is far below the potential.

REVIEW OF RESOURCES OF PRIs (2015-20)

6.5 PRD has made available aggregate revenue and expenditure data pertaining to all PRIs of the State for the period 2015-20 vide their letter no 325 dated 15-01-2021, which is available at Annex 6.3. The Statement of Revenue for the period 2015-20 accompanying the letter is reproduced in Table 6.2.

Table 6.2 : Revenue of All PRIs of Bihar during the period 2015-20

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
1. Establishment						
a) Salary	270.40	272.07	230.8	249.91	249.00	1272.18
b) Others	367.95	156.29	139.34	108.25	158.50	930.33
Total	638.35	428.36	370.14	358.16	407.50	2202.51
2. Own tax revenue						
a) Property Tax						
b) Advt. Tax						
Total	0.00	0.00	0.00	0.00	0.00	0.00
3. Own Non Tax Revenue						
a) Fees etc	0.00	0.00	0.00	0.00	0.00	0.00
b) User fee for civis services						
c) Others. Specify						
Total	0.00	0.00	0.00	0.00	0.00	0.00

Items		2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
4. Grant - UFC14							
a) Basis	14FC (20%)	2269.18	628.00	726.00	840.00	1135.00	5598.18
	MMNY (80%)	0.00	2514.08	2904.39	3359.71	4539.70	13317.88
	Total	2269.18	3142.08	3630.39	4199.71	5674.70	18916.06
b) Performance		0.00	0.00	0.00	0.00	0.00	0.00
Total		2269.18	3142.08	3630.39	4199.71	5674.70	18916.06
5. SFC5							
a) Devolu- tion	5th SFC	0.00	546.52	507.39	502.16	629.94	2186.01
	MMNY (90%)	0.00	930.60	863.91	855.00	1072.64	3722.15
b) Grant		0.00	674.00	1052.28	1243.43	1274.54	4244.25
c) Performance		0.00	0.00	0.00	0.00	0.00	0.00
Total			2151.12	2423.58	2600.59	2977.12	10152.41
6. Assigned Revenue							
a) Stamp Duty							
b) Profession Tax							
c) Others							
Total		0.00	0.00	0.00	0.00	0.00	0.00
7. Centrally Sponsored Schemes							
a) MGNREGS		Related to Rural Development Department					
b) BRGF		2.72					2.72
c) RGPSA/RGSA		64.21	60.91	64.91	123.02	75.78	388.83
d) IAY		Related to Rural Development Department					
e) Others							
Total		66.93	60.91	64.91	123.02	75.78	391.55
8. Support from State Budget							
a) Mukhya Mantri Nal Jal Yojna		0.00	630.00	1625.00	1925.00	2925.00	7105.00
b) Mukhya Mantri Gali Nali Yojana							
c) Jal Jivan Hariyali		Related to Rural Development Department					
d) Establishment							
e) Other than above mentioned items, if any							
i	Allowance of PRIS	201.24	260.00	300.00	350.00	350.0	1461.24
ii	EAP	618.38	210.00	214.29	300.00	206.00	1548.67
iii	PSB	124.0	400.00	300.00	201.00	300.0	1325.0
iv	Modernization of PRD	3.00	3.00	3.00	3.00	3.00	15.00
v	Zila Panchayat Esst.	10.00	18.01	12.01	16.50	56.00	112.52
vi	Contingency of GK	7.74	7.00	10.00	10.00	7.32	42.06
vii	Contingency of GP	0.00	51.00	60.0	51.50	10.00	172.50
Total		964.36	1579.01	2524.30	2857.00	3857.32	11781.99
Grand Total		3938.82	7361.48	9013.32	10138.48	12992.42	43444.52

6.6 Own Tax and Non-tax Revenue of PRIs: PRD has reported nil tax and non-tax revenues for the PRIs in the period under review. During field visits, the Commission had opportunity of interacting with the elected representatives as well as employees of the PRIs, whereupon it came to notice that the GPs and PSs had not started collecting taxes,

duties and fees for which they were specifically empowered by BPRA. On inquiry, the Commission was informed that they were awaiting rules and guidelines from PRD on the subject. The PRD, in its Memorandum to the Commission, has reported that Bihar Panchayat (Gram Panchayat Accounts, Audit and Taxation) Rules has been drafted and is currently under consideration of the State Government.

6.7 The Commission had also come to know in course of the field visits that the ZPs are generating some revenues by way of levy of fees, income from sairats, settlement of bus stands, rent of inspection bungalows and other properties, etc. It is strange that the Department has not reported these revenues, however small they may be. It appears that PRD has no system of collection of revenue data from PRIs. **The Commission recommends that PRD should set up a sound IT system to monitor schemes, expenditure and revenues of the PRIs and put in place a mechanism for regular periodic (monthly / quarterly) monitoring of these aspects¹. PRD should also compile data of revenue generation by PRIs. There is a need to lay greater emphasis on this aspect.** This is particularly important as Bihar Panchayat (Gram Panchayat Accounts, Audit and Taxation) Rules are likely to be notified shortly, whereafter the PRIs at all levels are expected to start generating revenues. **PRD should nudge the GPs to start collecting user fees for drinking water supply, which has begun in most GPs after successful implementation of Mukhya Mantri Nal Jal Yojna.**

6.8 From the foregoing, it is apparent that the PRIs are not able to realize tax or non-tax revenue due to the absence of relevant Rules, clear Guidelines and related manpower. The SFC5 had considered this issue and emphasised certain measures for revenue generation. These are still very much relevant today and this Commission endorses them. **With a view to starting revenue generation by the PRIs, the Commission recommends the following:**

1. **State Government should notify Bihar Panchayat (Gram Panchayat Accounts, Audit and Taxation) Rules at the soonest.**
2. **State Government should issue clarification and circulate a model Bye-law to enable the Panchayats to collect non-tax revenue and user fees against services provided.**
3. **The Panchayats may mobilize revenue by**
 - (i) **creating economic assets like market, shops, community hall etc**

¹ In this context, recommendations of this Commission for setting up an IT System for ULBs may be seen in Chapter 5, paragraph 5.56. Those recommendations would apply, mutatis mutandis, to PRIs too.

- (ii) **developing natural assets like horticulture, social forestry, fishery etc. on their own community land, which may be given on lease.**

- 6.9 **Grant Based on Recommendations of UFC14:** PRD has reported that PRIs of Bihar received a total grant of Rs 18,916.06 crore during 2015-16 to 2019-20, based on UFC14 recommendations. These grants constituted approximately 46 percent of the total revenues of all PRIs during this period. It is noted that the UFC14 grants were of two kinds – Basic Grant and Performance Grant. Bihar could drawdown the entire allocation of Basic Grant, but missed the Performance Grant of Rs 2,101.78 crore altogether as the prescribed conditions could not be met.
- 6.10 **Devolution and Grant Based on Recommendations of SFC5:** On the basis of SFC5 recommendations, the PRIs received Rs 5,908.16 crore by way of Devolution and Rs 4,244.25 crore as Grant during the award period of 2015-20. Thus, the total SFC Transfer amounted to Rs 10,152.41 crore, which was about 25 percent of the total revenue.
- 6.11 The State Government had reserved 90 percent of the Devolution to GPs for implementation of the Mukhya Mantri Gramin Peyajal Yojana and Mukhya Mantri Gramin Gali-naali Yojana. As a result, availability of untied funds was extremely limited, which reduced the ability of the PRIs to take up local schemes as per felt needs of the people.
- 6.12 The Commission noticed a discrepancy in the data of Devolution and Grant furnished by the Finance Department and the PRD. This is shown in Table 6.3.

Table 6.3 : Difference in Data of Devolution & Grant

(Rs. crore)

		Finance Deptt Data	PRD Data	Difference
1	Devolution	7,076.15	5,908.16	1,167.99
2	Grant	4,943.75	4,244.25	699.50
	Total	11,419.90	10,152.41	1,267.49

- 6.13 On inquiry, it was found that the difference has arisen because the **PRD failed to release the Devolution and Grant of FY 2015-16, amounting to Rs 1,196.05 crore and Rs 626.88 crore respectively.** It was also discovered that the Department did not make up for this shortfall in the subsequent year either. Once State Government has taken a decision on the formula for Devolution and Grant for the LBs based on SFC recommendations, a right is bestowed on the LBs upon the amount of Devolution and Grant. Apparently, the right of the LBs was violated by non-release of funds. **To prevent**

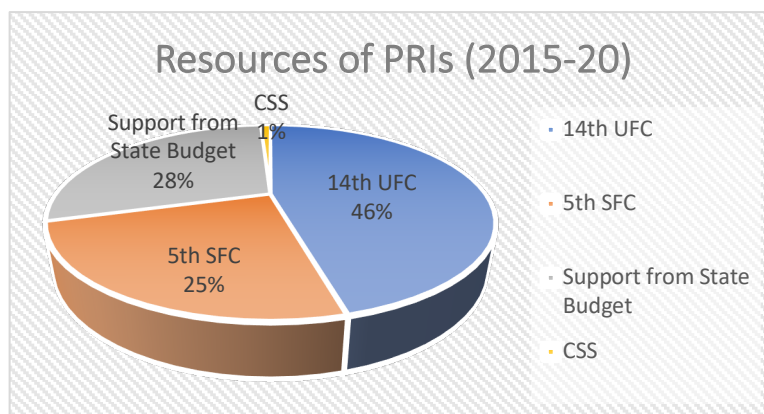
recurrence of such lapse and to recompense the LBs in the event of such default, the Commission recommends that, in the event of default in release of Devolution or Grant by the Department, the defaulted amount should be released at the soonest possible and the LBs should be compensated for delay in release by payment of interest for the period of delay calculated as per effective rate of interest on market borrowings/ State Development Loans (SDLs) for the previous year. (See Chapter 8, paragraph 8.52)

6.14 **Assigned Revenue:** PRD has submitted Nil report for Assigned Revenue. It appears that State Government is not assigning any revenue to the PRIs. On the other hand, UDHD has informed the Commission that 2 percent of Stamp Duty and 40 percent of Profession Tax is being assigned to the ULBs. **The Commission recommends that as in the case of ULBs, State Government should consider assignment of taxes to PRIs as well.**

6.15 **Centrally Sponsored Schemes (CSS):** Rs 391.55 crore was received for implementing BRGF and RGSPA/ RGSA.

6.16 **Support from State Budget:** The State Government provided Rs 11,781.99 crore to the PRIs from the State Budget over and above SFC Transfers (Devolution and Grant). The largest chunk of Rs 7,105 crore (approximately 60 percent of the State funds) was meant for Mukhya Mantri Gramin Peyajal Yojana and Mukhya Mantri Gramin Gali-naali Yojana. Besides, allocations were made for payment of allowance to the elected representatives (Rs 1,461.24 crore), implementation of externally aided project (EAP) Bihar Gram Swarajya Yojna (Rs 1,548.67 crore), and Construction of Panchayat Sarkar Bhawans (Rs 1,325 crore). Money was also provided for contingent expenditure in Gram Katchahary and Gram Panchayat, as well as for meeting establishment cost of District Panchayat Offices and modernization of PRD.

6.17 The pie chart below shows the relative shares of different sources that contributed to the resources of the PRIs during 2015-20.



REVIEW OF EXPENDITURE OF PRIs (2015-20)

6.18 Expenditure report received from PRD for all PRIs for the period from 2015-16 to 2019-20 is presented in Table 6.4.

Table 6.4 : Expenditure of All PRIs during 2015-20

(Rs. crore)

Items		2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
1. Establishment							
a) Salary		189.16	179.04	191.77	221.24	169.69	950.90
b) Pension		Related to finance Department					
c) Others		184.10	132.55	131.38	105.59	138.00	691.62
Total		373.26	311.59	323.15	326.83	307.69	1642.52
2. O&M on Civic Services							
3. Grant- UFC14							
a) Basic	14FC (20%)	2269.18	628.00	726.00	840.00	1135.0	5598.18
	MMNY (80%)	0.00	2514.08	2904.39	3359.71	4539.70	13317.88
	Total	2269.18	3142.08	3630.39	4199.71	5674.70	18916.06
b) Performance		0.00	0.00	0.00	0.00	0.00	0.00
Total		2269.18	3142.08	3630.39	4199.71	5674.70	18916.06
4. SFC5							
a) Devolution	SFC5	0.00	546.52	507.39	502.16	629.94	2186.01
	MMNY	0.00	930.60	863.91	855.00	1072.64	3722.15
b) Grant		0.00	674.00	1052.28	1243.43	1274.54	4244.25
c) Performance		0.00	0.00	0.00	0.00	0.00	0.00
Total		0.00	2151.12	2423.58	2600.59	2977.12	10152.41
3. Centrally Sponsored Schemes							
a) MGNREGS		Related to Rural Development Department					
b) BRGF		This scheme has been closed					
c) RGPSA		0.00	50.91	0.00	0.00	5.67	56.58
d) IAY		Related to Rural Development Department					
e) Others, specify							
Total		0.00	50.91	0.00	0.00	5.67	56.58
4. State Sponsored Schemes							
a) Mukhya Mantri Nal Jal Yojna		0.00	620.00	1623.15	900.00	1217.22	4360.37
b) Mukhya Mantri Gali Nali Yojana							
c) Jal Jivan Hariyali							
d) Other, if any specify							
i. Allowance of PRIs		179.02	204.95	280.85	309.30	208.52	1182.64
ii. EAP		0	50	80.13	272.35	100.05	502.53
iii. PSB		122.69	205.31	50.93	35.54	49.63	464.10
iv. Modernisation of PRD		1.28	0.50	0.68	1.14	0.00	3.60
v. Zila Panchayat Estt.		3.21	0.65	1.01	10.91	0.86	16.64
vi. Contingency of GK		3.07	4.11	4.46	6.00	4.72	22.36
vii. Contingency of GP		0.00	40.35	48.52	41.42	1.05	131.34
Total		309.27	1125.87	2089.73	1576.66	1582.05	6683.58
Grand Total		2951.71	6781.57	8466.85	8703.79	10547.23	37451.15

6.19 Review of expenditure of PRIs is presented below:

1. Total expenditure during the five-year period was Rs 37,451.15 crore. Compared to the total revenue of Rs 43,444.52 crore, the expenditure was substantially less. The year-wise comparison of revenue and expenditure is presented in Table 6.5.

Table 6.5 : Expenditure vs Revenue of PRIs during 2015-20

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Revenue	3938.82	7361.48	9013.32	10138.48	12992.42	43444.52
Expenditure	2951.71	6781.57	8466.85	8703.79	10547.23	37451.15
Balance	987.11	579.91	546.47	1434.69	2445.19	5993.37

2. It would be seen that there were unspent balances every year. PRD has not explained in its report as to why these balances remained unused. It appears that PRD is lacking in regular monitoring of PRI expenditure. **The Commission recommends that the Department should set up a mechanism for regular collection of data, monitoring and review of expenditure of PRIs.**
3. **Establishment Expenditure:** It is strange that the Establishment Expenditure is less than the amount received for this purpose. There are two components – Salary and Others, and the same situation exists under both heads.
4. **Expenditure of UFC14 Grant:** About 80 percent of the UFC14 Grant of Rs 18,916 crore amounting to Rs 13,317.88 crore was earmarked for the two Nishchay schemes, namely, Mukhya Mantri Gramin Peyajal Yojana and Mukhya Mantri Gramin Gali-naali Yojana. These funds were used along with a portion of SFC5 Transfer and budgetary allocations from the State Budget for implementing these two schemes. The balance 20 percent was untied fund available to the PRIs.
5. **Expenditure of SFC5 Transfers:** Out of Devolution of Rs 5,908.16 crore, 37 percent was spent on the Nishchay schemes. The balance of devolution Rs 2,186.01 crore and the Grant of Rs 4244.25 crore have been reportedly fully spent. There is some discrepancy in expenditure data for the two Nishchay schemes. 90% of Devolution funds were reserved for these schemes, yet only 37% expenditure has been reported which does not appear correct.

6. **Centrally Sponsored Scheme:** Rs 56.58 crore was spent on RGPSA, out of total allocation of Rs 388.83 crore.
7. **State Sponsored Schemes:** Against a total amount of Rs 11,781.99 crore received from State Budget over and above the SFC Transfer, expenditure of Rs 6,683 crore was incurred, leaving a huge balance of more than Rs. 5000 crore. PRD needs to look into this shortfall in expenditure.

6.20 Commission's review of resources and expenditure of PRIs have brought out the following issues:

1. Huge unspent balances lying with the PRIs are a matter of concern. **The Commission advises PRD to look into this to ascertain whether there are actually unspent funds or this is a case of reporting error. In either case, the Department needs to take corrective action.**
2. **In the context of unspent balances, regular audit of the accounts of PRIs assumes special significance.** The UFC15 has made online availability of (a) provisional accounts of the previous year and (b) audited accounts of the year before previous year as entry level condition to avail of the grants. Unless these conditions are met, PRIs will not get UFC15 grants. **This Commission recommends that PRD should (a) make arrangements for regular audit of accounts of each PRI and (b) set up a mechanism for review of the Action Taken Reports (ATRs) prepared by the PRIs on each audit report.** UFC15 in its report has mentioned the initiatives taken by some States, such as Madhya Pradesh, Rajasthan, Chhattisgarh and Sikkim to use the services of Chartered Accountants for auditing the PRI's accounts. PRD could consider this option as well.
3. No expenditure has been reported on provision of civic services. This again is a worrisome aspect. Providing civic services is a core function of PRIs, especially the GPs. **This Commission is of the view that a part of SFC transfers should be allocated for providing civic services and the GPs should be encouraged to take up this work in all seriousness.**
4. No expenditure has been reported over maintenance of assets. In the absence of maintenance, assets being created at a huge expense will wither away in a few years. **The Commission is recommending a restructured SFC Transfer system that would ensure provision of dedicated funds for maintenance of assets.** The details of the same are in Chapter 8.

5. Commission's review of resources of all PRIs reveals that 80 percent of UFC14 grants (Rs 13,317.88 crore), 90 percent of SFC5 Devolution (Rs 3,722.15 crore) and State Budgetary support (Rs 7,105.00 crore), totalling to Rs 24,145.03 crore were earmarked for Mukhya Mantri Shahari Peyajal Nishchay Yojana and Mukhya Mantri Shahari Gali Naali Pakkikaran Nishchaya Yojana. Allocation for these schemes comprised 56 percent of the total resources of the PRIs. This investment has produced the desired results and today almost all rural households have piped water supply and the work of providing pucca access to homes and lined drainage has progressed considerably. However, it is not clear why some part of the balance 44 percent of the PRIs' resources were not utilised for civic services and maintenance of assets. **The Commission recommends that PRD should issue guidelines to PRIs for providing civic services and undertaking maintenance of assets.**

FORECAST OF EXPENDITURE OF PRIs (2021-25)

- 6.21 After the Sixth State Finance Commission was notified by the State Government vide notification no 1835, dated 20.02.2019, the Commission requested the PRD in May 2019 to submit a Memorandum covering, inter alia, manpower structure, revenue and expenditure of the PRIs, functions being performed by them, as well as demands / expectations of the PRIs from the SFC6.
- 6.22 After numerous follow-ups, Memorandum was received from PRD vide their letter 387, dated 20.01.2020 (Annex 6.1.1). However, the memorandum received (Annex 6.1.2) was devoid of financial data. It neither provided an account of the revenues and expenditures of PRIs for the award period of the SFC5 (2015-20), nor did it furnish the Department's estimates of the revenues and expenditures for the SFC6 award period. As such, tabular formats were given to the PRD to make available financial data and their response was received vide letter no 7638, dated 01.12.2020 (Annex 6.2). Over the next two months, consultations were held to rectify and refine their data in the supplied formats, as also to elicit their responses to the Commission's queries. Finally, the Department provided their projections vide their letter no 325, dated 15.01.2021 (Annex 6.3), along with a list of several additional expenditure items for inclusion in the projections. This was followed by letter no 1366, dated 02.03.2021 (Annex 6.4), from PRD, wherein certain clarifications were given regarding expenditure projection. Commission has analysed the data and projections furnished by PRD, and based its projections on this analysis with a view to making its recommendations realistic and implementable.

6.23 The State Government has notified 2020-21 to 2024-25 as the award period of this Commission. An interim report for FY 2020-21 has already been submitted in January 2020. Hence, the projections below will cover the period from 2021-22 to 2024-25.

Table 6.6 : PRD's Projection of Expenditure of All PRIs for 2021-25

(Rs. crore)

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
1. Establishment						
a) Salary	350.95	296.71	326.38	359.02	394.92	1727.98
b) Pension	From Finance Department.					
c) Others	208.5	243.5	267.85	294.64	324.1	1338.59
Total	559.45	540.21	594.23	653.66	719.02	3066.57
2. O & M on Civic Service						
3. Centrally Sponsored Schemes						
a) MGNREGS	From Rural Development Department					
b) BRGF	Closed before 2015-16					
c) RGPSA/RGSA	105.71	116.28	0.00	0.00	0.00	221.99
d) IAY						
e) Others, Specify						
Total	105.71	116.28	0.00	0.00	0.00	221.99
4. State Sponsored Schemes						
a) Mukhya Mantri Nal Jal Yojna	500.00	550.00	550.00	550.00	550.00	2700.00
b) Mukhiya Mantri Gali Nali Yojana	200.00	220.00	220.00	220.00	220.00	1080.00
c) Jal Jivan Hariyali	374.40	0.00	0.00	0.00	0.00	374.40
d) Other, if any specify	2434.52	2677.97	2945.77	3240.35	3564.38	14862.99
Total	3508.92	3447.97	3715.77	4010.35	4334.38	19017.39
5. Any other item						
a) Solar Street Light	0.00	250.00	250.00	50.00	50.00	600.00
b) Solid Waste Management	420.00	420.00	420.00	420.00	420.00	2100.00
c) Panchayat Sarkar Bhawan	600.00	600.00	600.00	600.00	194.00	2594.00
d) Security & Sanitation in Panchayat sarkar bhawan	62.00	245.00	286.00	327.00	343.00	1263.00
e) Two Executive Astt. In GP	403.00	472.00	544.00	626.00	720.00	2765.00
f) Tech. Astt. In GP	75.00	87.00	100.00	115.00	133.00	510.00
g) Accountent- cum IT Astt.	63.00	73.00	84.00	97.00	112.00	429.00
h) IT Enablement of GP & GP	200.00	192.00	42.00	42.00	42.00	518.00
i) Mandey of GK Sachiv & Nyaymitra Management of GK	182.00	209.00	240.00	276.00	317.00	1224.00
j) Executive Astt. In Block Office	52.00	60.00	69.00	79.00	91.00	351.00
k) Executive Astt. In ZP Office	8.00	9.20	10.58	12.16	13.98	53.92
l) Amin in ZP Office	2.00	2.30	2.64	3.03	3.48	13.45
m) IT Enablement of ZP Office	2.00	0.20	0.20	0.20	0.20	2.80
n) Professional Service Provider Consultancy Unit in ZP	0.00	22.00	22.00	22.00	22.00	88.00
o) Executive Astt. In DPRO Office	3.00	3.45	3.96	4.55	5.23	20.19
p) DPMU	16.42	16.42	16.42	16.42	16.42	82.10
q) IT Enablement of DPRO Office	2.00	0.20	0.20	0.20	0.20	2.80
r) SPMU	0.58	0.58	0.58	0.58	0.58	2.90

Table 6.6 : PRD's Projection of Expenditure of All PRIs for 2021-25

(Rs. crore)

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
s) Panchayat Election 2021	150.00	242.00	0.00	0.00	0.00	392.00
t) SPRC & DPRC	25.00	70.00	70.00	40.00	40.00	245.00
u) United Fund of GP/PS/ZP	1816.00	1816.00	1816.00	1816.00	1816.00	9080.00
Total	4082.00	4790.35	4577.58	4547.14	4340.09	22337.16
Grand Total	8256.08	8894.81	8887.58	9211.15	9393.49	44643.11

6.24 PRD's Projection of Total Expenditure: Expenditure projection of all PRIs for the period 2020-21 to 2024-25, submitted by PRD, may be seen in Table 6.6. This table shows that PRD has projected total expenditure of Rs 36,117.03 crore for the four year period 2021-25. From Table 6.4, we find that the actual expenditure reported by the Department for five year period from 2015-16 to 2019-20 was Rs 37,451.15 crore. Thus, in nominal terms, the projected expenditure in the coming four years is practically of the same order as the actual expenditure in the preceding five years.

6.25 Projection of Establishment Expenditure of Government Servants

1. PRD has informed that following expenditure (Table 6.7) is expected on salary and related establishment expenses of Government employees working in the offices of Deputy Development Commissioner, District Panchayati Raj Officer, Block Panchayati Raj Officer, Panchayat Secretary, etc:

Table 6.7 : PRD Projection of Salary Expenditure for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Salary	296.71	326.38	359.02	394.92	1,377.03
Other	243.50	267.85	294.64	324.10	1,130.09
Total	540.21	594.23	653.66	719.02	2,507.12

2. This expenditure is borne by State Govt from its budget. This projection is accepted.

6.26 Projection of Expenditure on Remuneration of Contractual Staff: PRD has conveyed vide letter no 325, dated 15.01.2021, State Government's intention of providing following manpower in PRIs on contractual basis:

1. **EAs for GPs:** GPs are currently using services of one Executive Assistant (EA). In view of the increasing workload of GPs, it is proposed to appoint one more EA in

each GP. Considering that appointment of EA will take time, remuneration of the additional hand is being provided with effect from FY 2022-23.

2. **Security Guards for Panchayat Sarkar Bhawans (PSBs):** Two security guards are proposed to be hired for each PSB. Construction of 3200 PSBs is almost complete. Provision is being made in the Commission's expenditure projection for construction of 400, 620, 720 and 800 new PSBs in successive years starting from 2021-22. Thus expenditure over remuneration of 6,400, 7,200, 8400 and 9660 security guards has been included in the projection.
3. **Technical Assistants (TA):** One TA for every 4 GPs has been appointed on contract basis in 2018. Thus, remuneration of 2,096 TAs is provided for in the expenditure projection.
4. **Accountant-cum-IT Assistant (A-ITA):** 2096 Accountant-cum-IT Assistants are in position. Their remuneration is included.
5. **Gram Kachahary Secretary and Nyay Mitra:** These personnel are employed in all GPs and their remuneration has been accounted for.
6. **Staff for ZPs:** On account of retirement of employees, ZP office staff strength has been considerably depleted. It is proposed to engage services of 8 EAs and one Amin in each ZP.
7. **Staff for PS:** There is paucity of hands in Panchayat Samitis. Their manpower is to be strengthened by recruiting 4 EAs in each PS.
8. **EAs for District Panchayat Office:** To bolster the manpower availability in District Panchayat Office, 3 EAs are proposed to be appointed on contract.
9. Expenditure projection for remuneration of contractual staff is compiled in Table 6.8.

Table 6.8 : Projection of Expenditure on Remuneration of Contractual Staff for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
2 Security Guards in GP @ Rs 17,000/month	130.56	146.88	171.36	197.06	645.86
2 EAs in GP @ Rs 20,000/month	201.29	402.58	442.83	487.12	1,533.81
1 TA for every 4 GPs @ Rs 30,000/month	83.00	83.00	91.30	91.30	348.61
1 Accountant-cum-IT Ass4 for every \$ GPs @ Rs 25,000/month	69.17	69.17	76.08	76.08	290.51
GK Secy @ Rs 6,000/month & Nyay Mitra @ Rs 7,000/month	130.84	137.38	144.25	151.46	563.92
8 EAs in each ZP @ Rs 20,000/month	7.30	7.66	8.04	8.45	31.45
1 Amin in each ZP @ Rs 40,000/month	1.82	1.92	2.01	2.11	7.86
4 EAs in each PS @ Rs 20,000/month	51.26	53.83	56.52	59.34	220.95
3 EAs in DPRO Office @ Rs 20,000/month	2.74	2.87	3.02	3.17	11.79
Total	677.97	905.28	995.42	1,076.10	3,654.77

6.27 Projection of Office Expenditure: PRD releases funds to GKs and GPs for office expenses. No such funding exists for ZPs and PSs. Provision of resources to meet office running expenses is necessary for proper functioning of the offices of GPs, GKs, PSs and ZPs. Commission's projection of office expenditure at rates mentioned in first column and incrementing @10 percent per annum is given in Table 6.9.

Table 6.9 : Projection of Office Expenditure of PRIs for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
GP @ Rs 60,000/year	50.32	55.35	60.89	66.98	233.54
GK @ Rs 60,000/year	50.32	55.35	60.89	66.98	233.54
PS @ Rs 1,20,000/year	6.41	7.05	7.75	8.53	29.74
ZP @ Rs 2,40,000/year	0.91	1.00	1.10	1.21	4.23
Total	107.96	118.76	130.64	143.70	501.06

6.28 Projection of Expenditure on PMU: PRD has proposed setting up of a District Project Management Unit (DPMU) in the office of the District Panchayati Raj Officer (DPRO) for examination and monitoring of development schemes. Similarly, services of 6 professionals are to be made available to each ZP for assisting the PRIs of the district to formulate schemes. They will also help in monitoring of the schemes. Besides, PRD has proposed setting up of State Programme Management Unit (SPMU) as well. Commission's projection of expenditure on DPMUs is presented in Table 6.10.

Table 6.10 : Projection of Expenditure on PMUs for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
ZP: 6 professionals @ Rs 60,000/month	16.42	18.06	19.86	21.85	76.19
DPMU: 6 professionals @ Rs 60,000/month	16.42	18.06	19.86	21.85	76.19
SPMU: 6 professionals @ Rs 80,000/month	0.58	0.63	0.70	0.77	2.67
Total	33.41	36.75	40.42	44.47	155.05

6.29 Projection of Expenditure on Capacity Building: Capacity of the PRIs needs to be strengthened in terms of skill development through training, provision of IT facilities and adequate office space. Projection for these items is considered below:

- 1. State Panchayat Resource Centre (SPRC) and District Panchayat Resource (DPRC) :** In order to bolster the skills of both the elected representatives as well as employees and staff working in the PRIs, a DPRC is being set up in each district of the state. Further, a SPRC is also to be established. Expenditure on setting up SPRC and DPRC and running expenses of these Centres have been included in the projection, as shown in Table 6.11.

Table 6.11 : Projection of Expenditure on SPRC and DPRC for 2021-25

(Rs. crore)

Year	2021-22	2022-23	2023-24	2024-25	2021-25
SPRC and 38 DPRCs	50.00	55.00	60.50	66.55	232.05

- 2. IT Enablement:** The PRIs are receiving considerable funding from the State and Central Governments. They are executing several schemes and are supposed to render services as laid down in BPRA. For these purposes, the PRIs need to use IT for managing schemes, keep accounts, prepare and submit reports, etc. On account of their large numbers (8,387 GPs, 534 PSs and 38 ZPs) and huge geographical spread, it is impossible for PRD to communicate with them using traditional means. In this backdrop, PRD has proposed to enable the PRIs to use IT in their day-to-day functioning. Each GP and GK will be provided with computers and peripherals and software will be developed to network them. Enablement of ZP and DPRO office is also to be done. PS office being situated in Block office, they already have access to IT facilities. Cost of hardware and software has been frontloaded in 2021-22. In the

subsequent years, provision has been made for maintenance, cost of connectivity and consumables. An amount of Rs 478.58 crore has been included in the projection for IT Enablement (Table 6.12).

Table 6.12 : Projection of Expenditure on IT Enablement for 2021-25

(Rs. crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
GPs and GKs (8,387)	335.48	41.94	46.13	50.74	474.28
ZPs (38)	1.52	0.19	0.21	0.23	2.15
DPRO Offices (38)	1.52	0.19	0.21	0.23	2.15
Total	338.52	42.32	46.55	51.20	478.58

3. **Panchayat Sarkar Bhavans (PSBs):** The State Government has decided to build a PSB in every GP which will be the office of the GP and GK. PSBs have already been sanctioned for 3,200 GPs. PRD has proposed construction of PSBs in remaining 5187 GPs at a cost of Rs 13,257 crore Unfortunately, the size of SFC transfers is not large enough to accommodate such a huge expenditure. As intimated by PRD, the cost of a PSB is around Rs. 1.30 crore. In addition, Rs 10.00 lakh will be needed for furniture and furnishings, Rs 3.00 lakh for setting up the RTPS Centre and Rs 2.00 lakh for providing computer and peripherals in the RTPS Centre. Thus, expenditure over each PSB comes to Rs 1.45 crore. Taking into account the likely quantum of SFC6 Transfers, funds would be available for a total of 2,540 PSBs during four year period from 2021-22 to 2024-25 (400 in 2021-22 and 620, 720 and 800 PSBs in the succeeding years). The projection for expenditure on construction of PSBs is presented in Table 6.13.

Table 6.13 : Projection of Expenditure on PSBs for 2021-25

(Rs crore)					
Year	2021-22	2022-23	2023-24	2024-25	2021-25
PSBs (400+620+720+800)	580.00	899.00	1,044.00	1,160.00	3,683.00

6.30 Projection of total expenditure on Capacity Building is compiled in Table 6.14.

Table 6.14 : Projection of Expenditure on Capacity Building for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
SPRC and DPRCs (Table 6.11)	50.00	55.00	60.50	66.55	232.05
IT Enablement (Table 6.12)	338.52	42.32	46.55	51.20	478.58
PSBs (Table 6.13)	580.00	899.00	1,044.00	1,160.00	3,683.00
Total	968.52	996.32	1,151.05	1,277.75	4,393.63

6.31 Projection of Expenditure on Civic Services: The PRIs are expected to render services in respect of items mentioned in the 11th Schedule of the Constitution and in the relevant provisions of BPR. Surprisingly, PRD has not made any projection of the anticipated expenditure over civic services. This Commission feels that rendering civic services is a core function of PRIs and constitutes a basic and essential part of their responsibilities. As such, the Commission is of the view that a part of the SFC Transfer as well as UFC15 Grant should be earmarked for provision of civic services by PRIs. Accordingly, Commission has made projection of Rs 6,357.10 crore for expenditure on civic services, as presented in Table 6.15. With this allocation, annually each GP will have Rs 11-16 lakh, each PS Rs 38-53 lakh and each ZP Rs 5.36-7.40 crore for meeting operational expenditure of civic services.

Table 6.15 : Projection of Expenditure on Civic Services for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Operational Expenditure on Civic Services	1,360.15	1,524.15	1,589.65	1,883.15	6,357.10

6.32 Projection of Expenditure on Maintenance: PRD has not included any projection for expenditure on maintenance of assets. Under two Saat Nishchay schemes for supply of piped drinking water and providing gali-naali for rural homes, approximately Rs. 24,145.03 crore has been spent. Obviously, arrangements for their maintenance is necessary. Similarly, 3,200 PSBs have been constructed and in the next four years 2,540 more are like to be constructed. These buildings will also need maintenance. The State Government has launched Saat Nishchay Yojana Part-2, under which schemes for provision of street lighting and solid waste management are to be taken up in a big way. Assets created under these schemes will also need periodic repairs. PRD has intimated

that the piped water schemes at many places become inoperational due to non-payment of electricity bills and has requested for including this requirement in the expenditure projection. Taking these aspects into account, Commission has projected maintenance expenditure of Rs 4,937.06 crore for the four year period 2021-25. In addition, Rs 820 crore has been included to take care of the electricity charges. The projection of maintenance expenditure is presented in Table 6.16.

Table 6.16 : Projection of Expenditure on Maintenance of Assets for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Street Lighting @ 5% of investment		12.50	25.00	27.50	65.00
Nal Jal schemes @3% of investment	424.35	440.85	457.35	473.85	1,796.40
Gali Naali schemes @ 3% of investment	300.00	306.60	313.20	319.80	1,239.60
SWM schemes@ 3% of investment		33.38	71.30	113.38	218.06
PSB @ Rs 5L per annum	160.00	180.00	211.00	247.00	798.00
Payment of Electricity Charges	200.00	200.00	210.00	210.00	820.00
Total	1,084.35	1,173.33	1,287.85	1,391.53	4,937.06

6.33 Development Fund for Local Schemes: In course of field visits to PRIs and ULBs, one constant complaint put forth before the Commission by the elected representatives was regarding paucity of untied funds for taking up local schemes. They said that practically entire amount of devolution and grants is tied for State or Central schemes. They conveyed that inability to fulfil the local needs of the inhabitants of panchayats/ municipalities was giving rise to frustration and disappointment. Local bodies are embodiment of decentralised governance, but absence of resources for taking up activities based on decentralised decision-making makes them appear ineffective in the eyes of people. In view of this, in its expenditure projection (Table 6.6), PRD has included expenditure of Rs. 9,080 crore over local schemes and requested for allocating untied funds for this purpose. It may be mentioned here that the UFC15 has also recognised the need of untied funds for LBs and allowed 40 percent of the Grants allocated by it to be given as untied funds.

6.34 This Commission is in agreement with the approach of UFC15 and has projected Rs 8,851.76 crore as untied fund for PRIs during 2021-25 for taking up local schemes on the basis of decisions taken by them (Table 6.17). Thus, annually each GP will have

at its disposal untied funds ranging from Rs 16-20 lakh, each PS will have Rs 54-69 lakh and each ZP will have Rs 7.6-9.7 crore.

6.35 The projection of untied funds is shown in Table 6.17.

Table 6.17 : Projection of Untied Funds for PRIs for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
ZP	283.38	317.56	344.94	383.80	1,329.68
PS	283.38	317.56	344.94	383.80	1,329.68
GP	1,327.79	1,479.93	1,605.67	1,779.01	6,192.40
Total	1,894.55	2,115.05	2,295.55	2,546.61	8,851.76

6.36 **Projection of Expenditure over State Sponsored Schemes (SSS):** Vide letter no 325, dated 15.01.2021 (Annex 6.3), PRD has submitted following projection for State Sponsored Schemes that were part of Saat Nishchay Yojana Part-1 (Table 6.18).

Table 6.18 : Projection of Expenditure on Saat Nishchay Yojana Part-2 Schemes for 2020-25

(Rs. crore)

Item	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
Mukhya Mantri Gramin Peya Jal Yojna	550.00	550.00	550.00	550.00	550.00	2,700.00
Mukhya Mantri Gramin Gali Naali Yojana	220.00	220.00	220.00	220.00	220.00	1,080.00
	770.00	770.00	770.00	770.00	770.00	3,780.00

6.37 The State Government has recently launched Saat Nishchay Yojana Part-2, under which schemes for (1) installing solar street lights in villages and (b) solid and liquid waste management will be taken up. The expenditure projected by PRD for these schemes are indicated in Table 6.19.

Table 6.19 : Projection of Expenditure on Saat Nishchay Yojana Part-2 Schemes for 2020-25

(Rs. crore)

Year	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
Solar Street Lighting		250.00	250.00	50.00	50.00	600.00
Solid & Liquid Waste Management	420.00	420.00	420.00	420.00	420.00	2,100.00
Total	770.00	770.00	770.00	770.00	770.00	3,780.00

6.38 Subsequently, vide letter no 1366, dated 02.03.2021 (Annex 6.4), PRD has submitted a revised projection of Rs 9,100 crore for Solid and Liquid Waste Management. This is reproduced below (Table 6.20):

Table 6.20 : Revised Projection of Expenditure on Solid & Liquid Waste Management for 2020-26

(Rs. crore)							
Year	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2020-26
Solid & Liquid Waste Management	2,288.85	2,372.72	1,109.62	1,109.62	1,109.62	1,109.57	9,100.00

6.39 This Commission has no means to make an assessment of the likely expenditure of the State Sponsored Schemes. It is presumed that these schemes will be funded by the State Government out of the State Budget. As such, projections submitted by PRD for Saat Nishchay Yojana (Part 1) for the period 2021-22 to 2024-25 in (Table 6.18), projection for Solar Street Lighting for period 2021-22 to 2024-25 (Table 6.19) and the revised projection for Solid and Liquid Waste Management for period 2021-22 to 2024-25 (Table 6.20) are accepted and included in Commission's projections, as presented in Table 6.21.

Table 6.21 : Projection of Expenditure on State Sponsored Schemes for 2021-25

(Rs. crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Mukhya Mantri Gramin Peya Jal Yojana	550.00	550.00	550.00	550.00	2,200.00
Mukhya Mantri Gramin Gali Naali Yojana	220.00	220.00	220.00	220.00	880.00
Solar Street Lighting	250.00	250.00	50.00	50.00	600.00
Solid & Liquid Waste Management	2,372.70	1,152.60	1,165.20	1,234.20	5,924.70
Total	3,392.70	2,172.60	1,985.20	2,054.20	9,604.70

6.40 **Panchayat Election:** PRI elections were last held in 2016. Next elections are due in 2021. PRD has projected an expenditure of Rs 392.00 crore on conduct of elections and requested for its inclusion in overall expenditure projection of PRIs. Hence, this expenditure has been included.

6.41 **Forecast of Expenditure for All PRIs for 2021-25:** On the basis of analysis in the foregoing paragraphs, the overall forecast of expenditure of all PRIs for the four year period from 2021-22 to 2024-25 is shown in Table 6.22.

Table 6.22 : Projection of Expenditure of All PRIs for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
1. Establishment (Table 6.7)	540.21	594.23	653.66	719.02	2,507.12
2. Remuneration of Contractual Staff (Table 6.8)	677.97	905.28	995.42	1,076.10	3,654.77
3. Office Expenditure (Table 6.9)	107.96	118.76	130.64	143.70	501.06
4. PMUs (Table 6.10)	33.41	36.75	40.42	44.47	155.05
5. Capacity Building (Table 6.14)	968.52	996.32	1,151.05	1,277.75	4,393.63
6. Operational Expenditure on Civic Services (Table 6.15)	1,360.15	1,524.15	1,589.65	1,883.15	6,357.10
7. Maintenance (Table 6.16)	1,084.35	1,173.33	1,287.85	1,391.53	4,937.06
8. Untied Fund for Local Schemes (Table 6.17)	1,894.55	2,115.05	2,295.55	2,546.61	8,851.76
9. State Sponsored Schemes (Table 6.21)	3,392.70	2,172.60	1,985.20	2,054.20	9,604.70
10. Panchayat Election	392.00				392.00
Total	10,451.83	9,636.47	10,129.43	11,136.53	41,354.25

FORECAST OF RESOURCES OF PRIs (2021-25)

6.42 Revenue projections for All PRIs furnished by PRD vide their letter dated 25.01.2021 may be seen in Table 6.23.

Table 6.23 : PRD's Projection of Resources of All PRIs for 2020-25

(Rs. crore)

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
1. Own tax revenues						
a) Property Tax						
b) Advt. Tax						
c) Others, Specify						
Total	0.00	0.00	0.00	0.00	0.00	0.00
2. Own Non Tax Revenue						
a) Fees etc						
b) User fee for civic services	73.28	252.65	252.65	252.65	252.65	1083.88
c) Others, Specify						
Total	73.28	252.65	252.65	252.65	252.65	1083.88
3. UFC15						
a) United	2509.00	2509.00	3136.25	3920.31	4900.39	16974.95
b) Tied	2509.00	2509.00	3136.25	3920.31	4900.39	16974.95
Total	5018.00	5018.00	6272.50	7840.62	9800.78	33949.90
4. SFC6						
a) Devolution						
b) Grant	4782.00	5560.35	5347.58	5317.14	5110.09	26117.16
c) Performance						
Total	4782.00	5560.35	5347.58	5317.14	5110.09	26117.16
5. Assigned Revenue						
a) Stamp Duty						
b) Profession Tax						
c) Others						
Total	0.00	0.00	0.00	0.00	0.00	0.00
6. Centrally Sponsored Schemes						
a) MGNREGS						

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
b) BRGF						
c) RGPSA						
d) IAY						
e) Other						
Total	0.00	0.00	0.00	0.00	0.00	0.00
7. Support From State Budget						
a) Mukhya Mantri Nal Jal Yojna						
b) Mukhiya Mantri Gali Nali Yojana						
c) Jal Jivan Hariyali						
d) Establishment	559.45	540.21	594.23	653.65	719.02	3066.56
e) Other than above mentioned items, if any						
Total	559.45	540.21	594.23	653.65	719.02	3066.56
Grand Total	10432.73	11371.21	12466.96	14064.06	15882.54	64217.50

6.43 **Projection of Total Revenue:** The amount of Total Revenue projected for the period 2020-25 is Rs 64,217.51 crore, which is almost one and a half times the projected expenditure of Rs 44,643.11 crore in Table 6.6. Compared to actual revenue of all PRIs during five year period 2015-20 amounting to Rs 43,444.52 crore too, PRD's revenue projection is too high. This high estimation of revenue is primarily due to very large amounts expected to be received by way of Finance Commission Transfers.

6.44 The Commission has examined the projections for each individual item of revenue and the findings are recorded in the following paragraphs.

6.45 **Projection of Own Tax Revenue:** PRD has projected nil tax revenue for the period 2020-25. No tax or non-tax revenue has been reported in the revenue report of 2015-20 (Table 6.2). The Commission is aware that presently only ZPs are generating some revenues, but in view of the powers conferred by the BPRA, it is expected that all PRIs would start collecting revenues during the award period. SFC5 had estimated that the PRIs would generate Rs 974.00 crore in 5 years by way of revenue. This Commission has taken figures of first four years from revenue estimation of SFC5 amounting to Rs 737.00 crore for the revenue projection of PRIs for the period 2021-25 (Table 6.24).

Table 6.24 : Projection of PRI's Own Tax Revenue for 2021-25

(Rs. crore)

Year	2021-22	2022-23	2023-24	2024-25	2021-25
Own Tax Revenue	157.00	174.00	193.00	213.00	737.00

6.46 **Projection of Own Non-tax Revenue:** PRD has estimated that the PRIs would collect Rs. 1,083.88 crore of non-tax revenue during five year period 2020-25 (Table 6.25).

Table 6.25 : PRD's Projection of PRI's Own Non-tax Revenue for 2020-25

(Rs. crore)						
Year	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
Own Non-tax Revenue	73.28	252.65	252.65	252.65	252.65	1,083.88

6.47 During 2015-20, no non-tax revenue was reported by PRD (Table 6.2). However, it is well known that ZPs do collect some revenues. The GPs are required to charge Rs 30 from every household for supply of piped water. It is hoped that PRIs at all three tiers would begin collecting fees, rents, user charges, etc. during the award period. Nevertheless, we do not expect the quantum of non-tax revenue to jump from the present level of a few crores to Rs 252.65 crores in 2024-25. The Commission would prefer to make a conservative projection of non-tax revenue, as presented in Table 6.26.

Table 6.26 : SFC6 Projection of PRI's Own Non-tax Revenue for 2021-25

(Rs. crore)					
Year	2021-22	2022-23	2023-24	2024-25	2021-25
Own non-tax revenue	50.00	60.00	70.00	80.00	260.00

6.48 **UFC15 Grant for PRIs of Bihar:** PRD's estimation of UFC15 Grant for 2020-25 is reproduced in Table 6.27.

Table 6.27 : PRD's Projection of UFC15 Grant for PRIs for 2020-25

(Rs. crore)						
Item	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
Untied	2,509.00	2,509.00	3,136.25	3,920.31	4,900.39	16,974.95
Tied	2,509.00	2,509.00	3,136.25	3,920.31	4,900.39	16,974.95
	5,018.00	5,018.00	6,272.50	7,840.62	9,800.78	33,949.90

6.49 UFC15 has already submitted its report and we have access to its recommendations with regard to Grants for PRIs of Bihar. The funds that would be available to the PRIs during 2021-25, as per UFC15 recommendations, are given in Table 6.28. It would be noticed that the quantum of grants is much below the expectations of PRD.

Table 6.28 : UFC15 Grants for PRI's of Bihar for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Basic Grant (Untied)	1,483.60	1,536.80	1,553.60	1,645.60	6,219.60
Grant for Sanitation, Solid and Liquid Waste Management (tied)	1,112.70	1,152.60	1,165.20	1,234.20	4,664.70
Grant for Drinking Water, Rain water Harvesting & Water Recycling (tied)	1,112.70	1,152.60	1,165.20	1,234.20	4,664.70
Total	3,709.00	3,842.00	3,884.00	4,114.00	15,549.00

6.50 UFC15 has specified following entry level condition for availing these grants:

1. The PRIs have to mandatorily prepare and make available online in the public domain annual accounts of the previous year and the duly audited accounts of the year before previous. **This implies that from FY 2023-24 onwards Grants for the Year (t) = Grants due to the rural local bodies that prepared provisional accounts for the previous year (t-1) and audited accounts for the year before the previous (t-2), and these accounts are available online in the public domain in year (t).**
2. The timeframe for complying with these conditions is shown in Table 6.29.

Table 6.29 : Time Frame for Complying with UFC15 Conditions for Availing Grants

FY 2021-22 and 2022-23
<i>In the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the rural local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in the public domain in order for them to avail of the full grants in that year.</i>
FY 2023-24, 2024-25 and 2025-26
<i>From the third year (2023-24) onwards, States will receive total grants due to the rural local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online. For example, if for a particular State only 35 per cent of rural local bodies have both provisional accounts for the year 2022-23 and audited accounts for the year 2021-22 and these are available online in 2023-24, then in 2023-24, the State will receive total amount due to these 35 per cent of rural local bodies for the year 2023-24.</i>

6.51 In view of the above stipulations of UFC15, it is absolutely necessary to ensure that there are adequate arrangements for preparing audit reports of each PRI. UFC15 in its report has mentioned the initiatives taken by some States such as Madhya Pradesh, Rajasthan, Chhattisgarh and Sikkim to use the services of Chartered Accountants for auditing the PRI's accounts. PRD could consider this option as well.

6.52 **Projection of Resources for State Sponsored Schemes (SSS):** PRD has made nil projection for resources required for State Sponsored Schemes, presumably in the hope that the UFC15 and SFC Transfers would fully provide the resources for the SSS. As UFC15 Grants are less than 50 percent of the amount estimated by PRD and the amount of SFC6 Transfer is also over-estimated, the State Government would have to provide funds from the State Budget for the SSS.

6.53 For ready reference the expenditure projection for SSS is shown in Table 6.30:

Table 6.30 : Projection of Expenditure on State Sponsored Schemes for 2021-25

(Rs. crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Mukhya Mantri Gramin Peya Jal Yojna	550.00	550.00	550.00	550.00	2,200.00
Mukhya Mantri Gramin Gali Naali Yojna	220.00	220.00	220.00	220.00	880.00
Solar Street Lighting	250.00	250.00	50.00	50.00	600.00
Solid & Liquid Waste Management	2,372.70	1,152.60	1,165.20	1,234.20	5,924.70
Total	3,392.70	2,172.60	1,985.20	2,054.20	9,604.70

6.54 UFC15 tied Grants may be used to defray expenditure over the SSS. Rs 2,200 crore needed for Mukhya Mantri Gramin Peya Jal Yojana may be provided out of UFC15 tied Grant of Rs 4,664.70 crore for Drinking Water, Rain Water Harvesting and Water Recycling. Similarly, the entire UFC15 tied Grant of Rs 4,664.70 crore for Sanitation, Solid and Liquid Waste Management may be used for implementing the Solid & Liquid Waste Management Scheme of Saat Nishchay Yojana Part-2. Thus, resources required from the State Budget will be much less than the total requirement of Rs 9,604.70 crore for SSS as indicated in Table 6.31.

Table 6.31 : Projection of Resources Required from State Budget for State Sponsored Schemes during 2021-25

(Rs. crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Total Requirement of Funds for SSS (Table 6.21)	3,392.70	2,172.60	1,985.20	2,054.20	9,604.70
Less					
15th UFC Grant for Drinking Water, Rain water Harvesting & Water Recycling (tied)	550.00	550.00	550.00	550.00	2,200.00
15th UFC Grant for Sanitation, Solid and Liquid Waste Management (tied)	1,112.70	1,152.60	1,165.20	1,234.20	4,664.70
Balance to be funded from State Budget	1,730.00	470.00	270.00	270.00	2,740.00

6.55 Projection of Resources for Establishment Expenditure of Government Servants:

PRD's projection of funding required for Establishment from State Budget is presented in Table 6.32.

Table 6.32 : PRD's Projection of State Funds Required for Establishment Expenditure for 2020-25

(Rs. crore)

Year	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
Establishment Expenditure	559.45	540.21	594.23	653.65	719.02	3,066.56

6.56 From this table, the Commission has taken figures for 2021-22 to 2024-25 for its projection of Establishment Expenditure (Table 6.33).

Table 6.33 : Projection of Resources Required for Establishment Expenditure during 2021-25

(Rs. crore)

Year	2021-22	2022-23	2023-24	2024-25	2021-25
Establishment Expenditure	540.21	594.23	653.66	719.02	2,507.12

6.57 **Projection of Resources of All PRIs for 2021-25:** In the light of analysis presented in the foregoing paragraphs, Commission's projection of the Resources of the PRIs for period from 2021-22 to 2024-25 is compiled in Table 6.34.

Table 6.34 : Projection of Resources of All PRIs for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Own Tax Revenue (Table 6.24)	157.00	174.00	193.00	213.00	737.00
Own Non-tax Revenue (Table 6.26)	50.00	60.00	70.00	80.00	260.00
UFC15 Grants (Table 6.28)	3,709.00	3,842.00	3,884.00	4,114.00	15,549.00
Support from State Budget for SSS (Table 6.31)	1,730.00	470.00	270.00	270.00	2,740.00
State Funds for Establishment Expenditure (Table 6.33)	540.21	594.23	653.66	719.02	2,507.12
Total	6,186.21	5,140.23	5,070.66	5,396.02	21,793.12

PROJECTION OF EXPENDITURE-RESOURCES GAP (2021-25)

6.58 Using Expenditure Projection of all PRIs in Table 6.22 and Resource Projection in Table 6.33, Commission has computed the Expenditure-Resources Gap of PRIs of Bihar for the period from 2021-22 to 2024-25 and the same is presented in Table 6.35 below.

**Table 6.35 – Projection of Expenditure-Resources Gap of PRIs
for 2021-25**

(Rs. crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
Expenditure (Table 6.22)	10,451.83	9,636.47	10,129.43	11,136.53	41,354.25
Resources (Table 6.33)	6,186.21	5,140.23	5,070.66	5,396.02	21,793.12
Gap	4,265.62	4,496.24	5,058.77	5,740.51	19,561.13

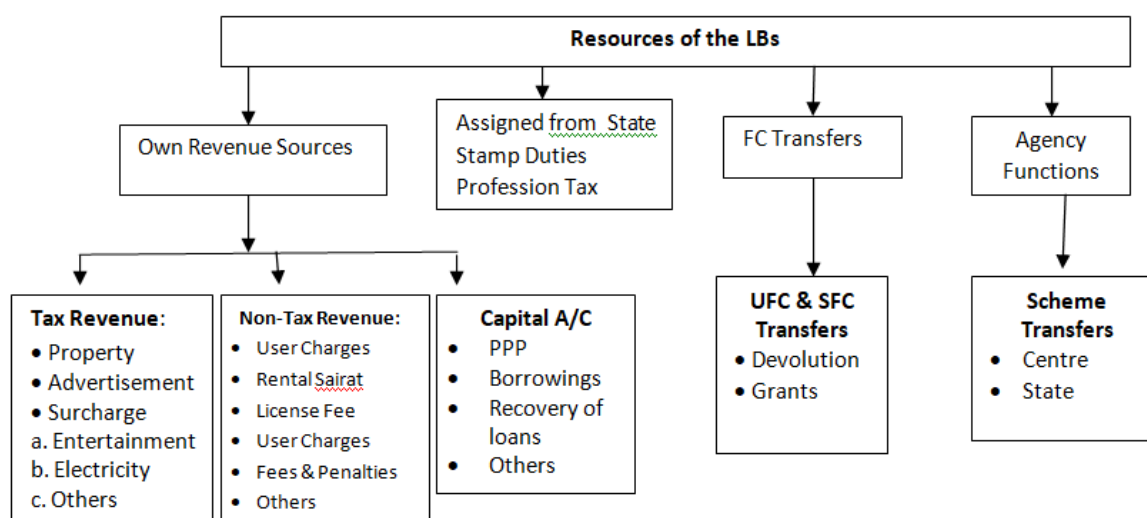
Chapter 7

ULB FINANCES: REVIEW AND FORECAST OF REVENUE AND EXPENDITURE

7.1 The main objective of this Chapter is to project the Expenditure-Resources Gap of the Urban Local Bodies for the award period of the SFC6. With this end in view, the Commission has reviewed the finances of the ULBs of Bihar for the period 2015-16 to 2019-20, when the recommendations of the SFC5 were under implementation and undertaken forecast of Revenue and Expenditure for the period 2021-22 to 2025-26.

RESOURCES OF THE ULBs

7.2 The flowchart below shows the possible resources of the ULBs:



7.3 As indicated above, the ULBs derive their resources primarily in the following four ways:

1. Own revenue

- i) **Constitutional provision: Article 243X of the Constitution empowers the State legislatures to authorize ULBs to realise tax and non-tax revenue (Box 7.1).**

Box 7.1

Constitutional provision regarding tax and non-tax revenues of ULBs

243X. Power to impose taxes by, and Funds of, the Municipalities.—The Legislature of a State may, by law, —

- (a) authorize a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- (b) assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- (c) provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and
- (d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys therefrom, as may be specified in the law.

- ii) **State Act:** As per Section 127 to 136 of BMA, 2007, the ULBs have the power to realize tax and non-tax revenue as indicated in table below:

Tax (Section127)	User Charges: (Section 128)	Fees and Fines (Sections 129 to133)
Property tax on lands and buildings.	Water-supply, drainage and sewage	Section 129
Surcharges on transfer of lands and buildings	Solid Waste Management	Licence fee for non residential use of properties
Tax on deficit in parking spaces	Parking of Vehicles	Licensing fee for trades & Profession, activities etc.
Water Tax	Staking of materials or rubbish on public streets	Building plans and issue of completion certificate
Tax on Advertisements	Other specific services (as specified in Act)	Birth & death Certificates fees etc.
Surcharges on Entertainment Tax		Section 130
Congregation Tax		Surcharges at 25% on tax or user charge, or fee or fines or on electricity consumption
Pilgrims/Tourists Tax		Section 131: Development Charge
Toll Tax		Other relevant provision in of Sections 132-136 (Annex. 7.1)
Profession Tax		
Other Taxes (Specified in BMA)		

2. **Assignment from State Government:** 2 percent of State Stamp duty and 40 percent of Professional tax devolves to the ULBs from the State Government.

3. **Finance Commission Transfers:** ULBs are recipients of fiscal transfers from Central and State Governments based on the recommendations of Union and State Finance Commissions. Such transfers comprise (i) Grant from Central Government and (ii) Devolution and Grant from State Government (Details in Chapter 8).
4. **Scheme Transfers:** Funds also flow to the ULBs under State and Central schemes for specific functions/ purposes, but they are extremely tied in nature. ULBs act as agency to implement the schemes specified by the respective Government.

7.4 Historically, major part of ULBs' resources comes through FC transfers and Scheme transfers. Own revenue of the ULBs of Bihar is low.

REVIEW OF RESOURCES OF ULBs (2015-20)

7.5 UDHD has made available aggregate revenue and expenditure data pertaining to all ULBs of the State for the period 2015-20 (Table 7.1). Besides, they have also submitted similar data for the following ULB groupings:

- (i) Data for Patna Nagar Nigam
- (ii) Data for Nagar Nigams other than Patna
- (iii) Data for Nagar Parishads
- (iv) Data for Nagar Panchayats

7.6 These statements are compiled in Annex 7.2.1 to 7.2.4.

7.7 **Own Revenue of ULBs:** It would be seen from Table 7.1 that Own Tax Revenue and Own Non-tax Revenue of all ULBs taken together (Rs 1,214.57 crore) constituted only 7 percent of the total revenue (Rs 16,805.54 crore). This shows inability of ULBs to tap the full potential of taxation, a matter of grave concern. SFC5 in its report had mentioned that own revenue of the ULBs in the previous 5 year period was 13.2 percent of total revenue. Thus, the revenue performance of the ULBs appears to have deteriorated during the recent years, even though the absolute amount of revenue collection may have gone up.

Table 7.1 : Revenue of All ULBs of Bihar during the period 2015-20

(Rs. crore)

	2015-16	2016-17	2017-18	2018-9	2019-20	2015-20
1. Own tax revenue						
a) Property Tax	129.51	177.06	178.44	219.18	176.69	880.88
b) Others						0.00
Total	129.51	177.06	178.44	219.18	176.69	880.88
2. Own Non Tax Revenue						0.00
a) Fees etc	16.27	36.76	33.27	33.24	29.00	148.54
b) User fee for civic services	0.00	0.00 0.0 0	0.00	0.00	0.00	0.00
c) Others, specify	27.73	34.07	37.55	45.77	40.02	185.15
Total	44.00	70.83	70.83	79.01	69.02	333.69
3. Grant UFC14						0.00
a) Basic	255.85	351.86	405.11	473.68	637.79	2124.28
b) Performance	0.00	104.22	0.00	0.00	0.00	104.22
Total	255.85	456.07	405.11	473.68	637.79	2228.50
4. SFC5						
a) Devolution	512.65	638.54	596.62	581.64	729.68	3059.13
b) Grant	268.67	287.31	444.83	532.90	546.23	2079.94
Total	781.32	925.85	1041.45	1114.54	1275.91	5139.07
5. Assigned Revenue						0.00
a) Stamp duty	167.02	175.45	143.11	236.61	159.48	881.67
b) Profession Tax	28.06	32.26	37.39	44.34	51.91	193.96
c) Others	0.00	0.00	0.00	0.00	0.00	0.00
Total	195.08	207.71	180.49	280.95	211.39	1075.62
6. Centrally Sponsored Schemes						0.00
a) AMRUT	72.92	147.58	171.80	240.99	0.00	633.29
b) Smart City	0.00	129.00	359.50	461.00	2.50	952.00
c) SBM	112.72	302.70	212.45	292.21	89.28	1009.36
d) NULM	25.59	54.50	0.94	64.27	52.66	197.95
e) HFA	0.00	477.48	314.39	114.03	196.71	1102.60
f) Patna Metro Rail Pariyojana	0.00	0.00	0.00	3.00	160.00	163.00
Total	211.23	1111.26	1059.07	1172.50	341.14	4058.20
7. State Sponsored Schemes						
a) Mukhya Mantri Nal Jal Yojna	142.18	218.22	76.25	63.12	30.48	530.25
b) Mukhya Mantri Nali Gali yojna	162.56	184.64	289.98	233.39	212.61	1083.18
c) Jal Jivan Hariyali	0.00	0.00	0.00	0.00	56.00	56.00
d) Establishment	8.93	12.04	14.03	17.85	12.27	65.12
e) Nala Nirman	111.15	45.08	66.83	41.70	61.55	326.31
f) Nagarik suvidha	229.40	87.61	210.69	292.09	208.93	1028.72
Total	654.23	547.60	657.77	648.15	581.84	3089.58
Grand Total	2271.22	3496.38	3593.15	3988.01	3293.78	16805.54

7.8 The data on Own Total Tax and Non-tax Revenue collection for different categories of ULBs for 2015-20 may be seen in Table 7.2. Own revenue for all ULBs has grown at CAGR of merely 7.13 percent. The best revenue performance as a group has been that of the Nagar Nigams other than Patna. Surprisingly, Patna Nagar Nigam, which has the highest potential for revenue generation, has collected, on an average, just Rs 60 crore per annum, with a poor annual growth rate of 6.26 percent.

Table 7.2 : Total Tax and Non-Tax Revenue Collection of All ULBs

(Rs. crore)

Year	Patna Nagar Nigam	Other Nagar Nigams	Nagar Parishads	Nagar Panchayats	All ULBs
2015-16	39.41	81.67	33.13	19.31	173.52
2016-17	55.26	110.68	50.99	30.96	247.89
2017-18	57.74	115.51	63.17	32.21	268.63
2018-19	92.83	111.45	62.18	31.56	298.02
2019-20	53.39	119.5	46.67	25.28	244.84
2015-20	298.63	538.81	256.14	139.32	1232.90
CAGR (%)	6.26	7.91	7.09	5.54	7.13

7.9 The bulk of ULB's Own revenue came from Property Tax. The year-wise property tax data for different ULB groupings is given in Table 7.3. This table demonstrates that, between 2015-16 and 2019-20, total Property Tax collected by all ULBs was Rs. 880.88 crore against Total Own Revenue collection of Rs. 1,232.90 crore. In other words, Property Tax comprised about 72 percent of ULB's Own Revenue. Even though, property tax was such a critical component of ULB revenue, its growth at CAGR of 6.41 percent was even more sluggish than the growth of Total Own Revenue (7.13 percent). The trend was identical in all ULB groupings.

Table 7.3 : Property Tax Collection of All ULBs

(Rs. crore)

Year	Patna Nagar Nigam	Other Nagar Nigams	Nagar Parishads	Nagar Panchayats	All ULBs
2015-16	35.94	61.62	22.48	9.48	129.51
2016-17	45.57	79.23	35.83	16.43	177.06
2017-18	49.32	72.23	41.08	15.81	178.44
2018-19	82.85	83.88	36.48	15.97	219.18
2019-20	46.98	87.62	30.04	12.05	176.69
2015-20	260.66	384.57	165.91	69.74	880.88
CAGR (%)	5.51	7.29	5.97	4.91	6.41

7.10 ULBs of Bihar fared poorly as compared other states of the country in terms of Per Capita Own Revenue. In FY 2017-18, Bihar's Per Capita Own Revenue was Rs 139, as compared to the all-India average of Rs 1,975. Among the Low-Income States also, Bihar's ULBs stood at the bottom of the heap (Figures 7.1 and 7.2).

Figure 7.1

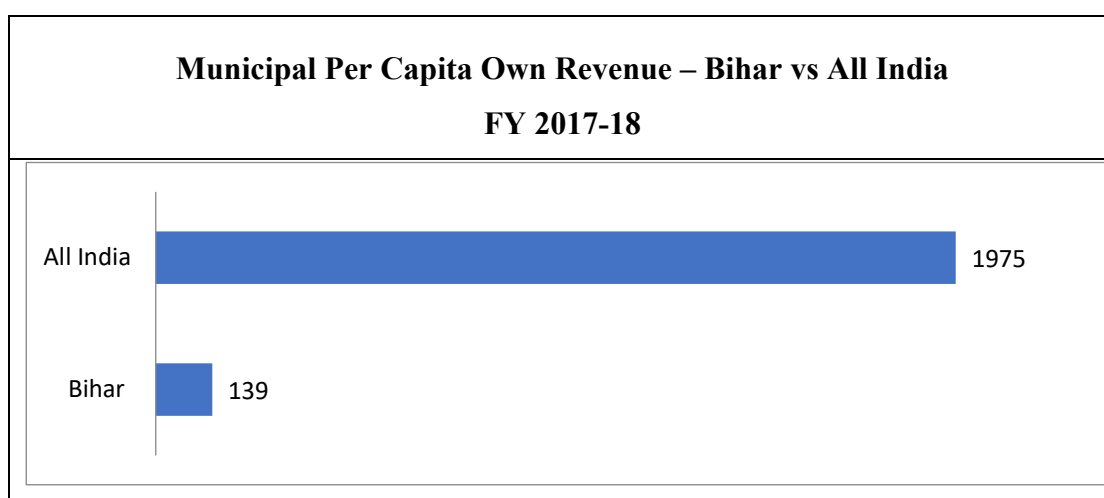
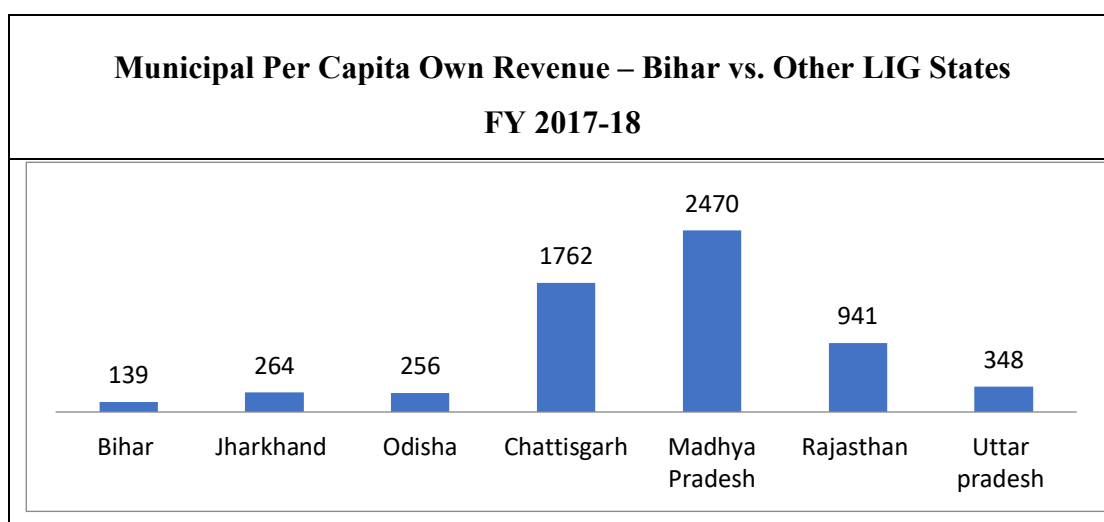
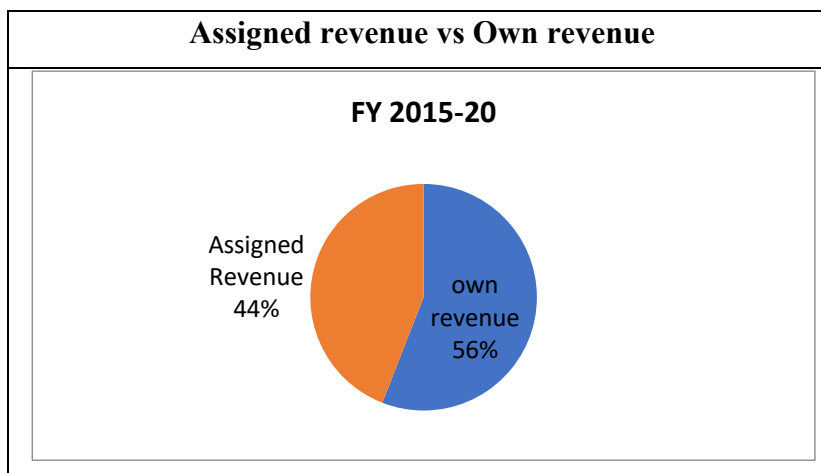


Figure 7.2



7.11 **Assigned Revenue:** The size of assigned revenue (Rs 1,075.62 crore) was almost as big as that of ULB's Own revenue (Fig 7.3). However, its growth rate was just 1.6 percent.

Figure 7.3



7.12 Finance Commission Transfers: Leaving aside the funds received for the Centrally Sponsored Schemes (CSS) and the State Sponsored Schemes (SSS), which are tied to specified schemes, the Finance Commission transfers constitute the dominant component of ULBs' revenue.

- 1. UFC14:** In the award period of the UFC14 (2015-20), ULBs of Bihar received Rs 2,227.66 crore in the shape of Basic and Performance Grants on the recommendation of UFC14 (Table 7.4). Bihar was able to draw down practically the entire amount of Basic Grant, but only about 20 percent of the Performance Grant.

Table 7.4 : UFC14 Grant for ULBs in Bihar

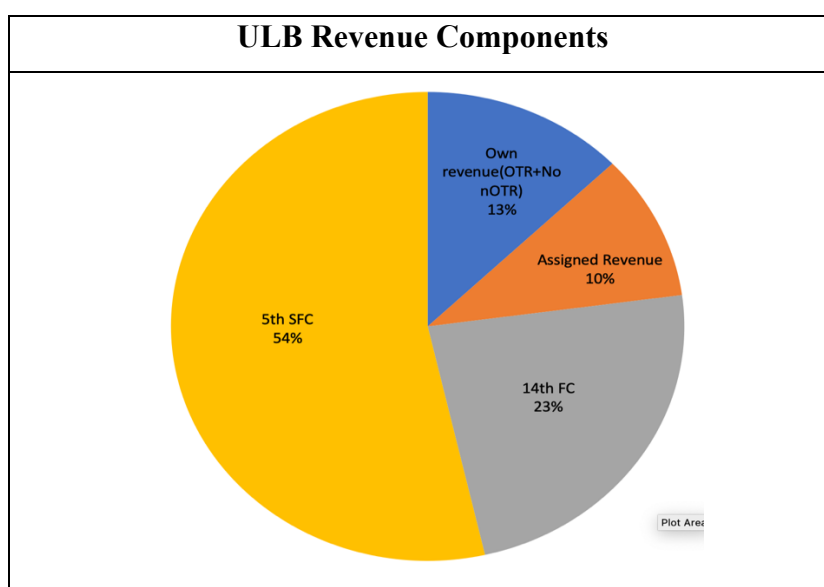
(Rs. crore)

Years		Basic Grant	Performance Grant	Total
2015-16	Recommendation	256.83	0.00	256.83
	Amount Received	255.01	0.00	255.01
2016-17	Recommendation	356.83	104.96	461.79
	Amount Received	351.85	104.22	456.07
2017-18	Recommendation	410.90	118.78	529.68
	Amount Received	405.11	0.00	405.11
2018-19	Recommendation	475.34	134.89	610.23
	Amount Received	473.68	0.00	473.68
2019-20	Recommendation	642.28	176.22	818.50
	Amount Received	637.79	0.00	637.79
Total	Recommendation	2,142.18	534.85	2644.03
	Amount Received	2,123.44	104.22	2227.66

2. **SFC5:** Devolution and Grant received from the State Government based on SFC5 recommendations was Rs 3,059.13 crore and Rs. 2,079.94 cr respectively. While releasing these funds, the State Government stipulated that 50 percent of the SFC Transfer will be reserved for implementation of Mukhya Mantri Shahari Peyajal Nishchay Yojna and Mukhya Mantri Shahari Gali Naali Pakkikaran Nishchaya Yojna.

7.13 Their own revenue being low, the ULBs of Bihar are overly dependent on the UFC and SFC transfers to garner resources for rendering services expected of them. UFC14 grant and SFC5 Devolution and Grant together account for 77 percent of the ULB revenues, excepting the Scheme transfers from the Central and State Governments. The pie-chart in Fig 7.4 highlights this dependence.

Figure 7.4



7.14 SFC5 had considered the low revenue generation in the ULBs and emphasised certain measures that need to be taken to bolster own revenues of ULBs. These are still very much relevant today and SFC6 endorses the same. **To improve own revenues of ULBs, this Commission recommends, inter alia, the following:**

1. **Revise property tax in tune with UFC15 recommendations.**

2. **Implement Bihar Municipal Property Tax (Assessment, Collection and Recovery) Rules 2013 in letter and spirit.**
3. **Constitute Property Tax Board in accordance with provisions of Bihar Property Tax Board Rules 2013.**
4. **Universalise online property tax filing and online payment of property tax. A good beginning has already been made, but the system needs to be strengthened and stabilised. Coverage should be complete — all ULBs from Nagar Nigams, Nagar Parishads and Nagar Panchayats should be fully covered including the newly created 111 ULBs.**
5. **Undertake GIS mapping for property tax purposes as well as for asset management.**
6. **Exploit fully all own sources such as parking fee, trade license, road cutting charges, mobile transmission tower fees, etc.**
7. **Harness User Charges fully, aiming to meet O&M expenses .**
8. **Monetize land, buildings and shops for which nominal rent is being charged and that too not recovered fully.**

REVIEW OF EXPENDITURE OF ULBs (2015-20)

7.15 UDHD has provided year-wise expenditure statement for all ULBs of the State which is reproduced in Table 7.5. Similar statements have been furnished for the each of the ULB groupings mentioned in Paragraph 7.5 and the same are available at Annex 7.2.1 to 7.2.4.

Table 7.5 : Expenditure of All ULBs of Bihar during the period 2015-20

(Rs. crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
1 Establishment						
a) Salary	381.90	511.47	548.64	630.17	540.72	2612.90
b) Pension						
c) Others (Daily wages and Administrative Expenditure)	125.20	36.38	61.63	92.73	73.66	389.61
Total	507.10	547.85	610.27	722.91	614.38	3002.52
2 O&M of Civic Services	213.17	273.11	373.28	299.87	346.25	1505.67

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
3 Centrally Sponsored Schemes						
a) AMRUT	72.92	147.58	171.80	240.99	0.00	633.29
b) Smart City	0.00	129.00	359.50	461.00	2.50	952.00
c) SBM	112.72	302.70	212.45	292.21	89.28	1009.36
d) NULM	25.59	54.50	0.94	64.27	52.66	197.95
e) HFA	0.00	477.48	314.39	114.03	196.71	1102.60
Total	211.23	1111.26	1059.07	1175.50	501.14	4058.20
4 Support from State Budget						
a) Mukhya Mantri Nal Jal Yojna	453.33	632.80	510.22	539.58	604.58	2740.52
b) Mukhya Mantri Nali Gali yojna	318.82	369.81	498.27	456.30	467.80	2110.99
c) Jal Jivan Hariyali	0.00	0.00	0.00	0.00	56.00	56.00
d) Establishment	8.93	12.04	14.03	17.85	12.27	65.12
e) Nala Nirman	111.15	45.08	66.83	41.70	61.55	326.31
f) Nagrik suvidha	229.40	87.61	210.69	292.09	208.93	1028.72
Total	1121.64	1147.34	1300.02	1347.52	1411.13	6327.66
Grand Total	2053.24	3079.56	3342.64	3545.80	2872.90	14894.14

7.16 The expenditure data has been reported under four major heads. The relative proportions of expenditure by all ULBs under these heads during 2015-20 is shown in Table 7.6:

Table 7.6 : Distribution of Expenditure of ULBs by Major Heads (2015-20)

Major Head	Percentage Share
Establishment	20.2
O&M of Civic Services	10.1
Centrally Sponsored Schemes	27.2
State Specified Schemes	42.5
Total	100.0

7.17 A review of the expenditure incurred under the above heads is presented below:

- Establishment Expenditure:** Expenditure over salary, wages and other administrative expenses was of the order of Rs 3,002.52 crore (20.2 percent of total expenditure). Interaction of the Commission with ULBs indicated that fund availability for salary payments was a problem, as the actual requirement under

this head was much higher. Further, it is noted that the State Government has created a good number of additional posts for the ULBs during the past two years (appointment against these posts is reportedly under process) and also created 111 new ULBs. As such, additional funding will be needed for meeting establishment expenditure of the ULBs in the coming years.

2. **Expenditure over O&M of Civic Services:** UDHD reported that Rs 1,505.67 crore was spent by the Nagar Nigams, Nagar Parishads and Nagar Panchayats over Operation and Maintenance (O&M) of civic services. Break-up of this item into maintenance expenditure and operational expenditure was not available. During, 2015-20, only about 10.1 percent of the total expenditure was incurred on provision of civic services. The ULBs also spent Rs 1,028.72 crore on civic amenities and Rs 326.31 crore on construction of drainage with the help of additional budgetary support provided by the State Government; some part of this expenditure could have been for meeting operational expenses for civic services. Similarly, some part of expenditure of Rs 1,559.95 crore of UFC14 grant could have provided resources for civic services. Nevertheless, expenditure on provision of civic services appears to have been far below the requirement.
3. **Scheme Expenditure:** Rs 4,058.20 crore of Central funds and Rs 6,327.66 crore of State funds were spent by the ULBs over implementation of schemes floated by the Central Government and State Government respectively. These were tied funds linked to specified schemes and constituted no less than 69.7 percent of the total expenditure. This indicates that the major part of the expenditure of ULBs was in connection with their role as agency of Central and State Governments for carrying out schemes specified by them.

7.18 The expenditure pattern of the ULBs was marked by the following characteristics:

1. In general, ULBs could not take up schemes to fulfil local needs as per their choice, as availability of untied funds was limited.

2. There was no dedicated allocation for incurring expenditure over maintenance of assets.
3. As already mentioned, while releasing devolution and grant based on SFC5 recommendations, the State Government had issued directions to the effect that 50 percent of the funds would be earmarked for implementation of Mukhya Mantri Shahari Peyajal Nishchay Yojna and Mukhya Mantri Shahari Gali Naali Pakkikaran Nishchaya Yojna. The balance amount was directed to be used for salary, pensionary benefit, electricity bills and SWM. As a result, availability of untied funds was extremely limited. Consequently, the ULBs had to restrict their operational expenditure for provision of civic services to Rs 1,505.67 crore.
4. This Commission considers the inability of ULBs to spend more on provision of civic services a serious handicap. The range and quality of civic services being rendered by the ULBs leaves much to be desired. A major reason for this state of affairs is the paucity of resources for meeting operational expenditure for civic services. **The Commission is of the view that expenditure for civic services needs to go up substantially and necessary resources in the form of untied funds must be provided to the ULBs for this purpose during the award period.**

7.19 For any organisation to run smoothly, it is necessary that it has adequate manpower. The necessary corollary is that the organisation must have resources to pay salary and wages to its employees and also have adequate funds for office and administrative expenses. Inability to disburse salary on time demoralises staff and this, in turn, leads to below par performance. **The Commission recommends that expenditure over salary, wages and office running expenses of the ULBs should be fully met out of the SFC Transfers.**

7.20 Maintenance of assets has been neglected for too long by the ULBs for want of funds. Periodic maintenance of assets is of utmost importance for enabling the ULBs to render necessary services. **This Commission, therefore, recommends that a dedicated allocation should be made through SFC Transfers for maintenance of assets.**

- 7.21 ULBs are instruments of decentralised governance. They are best positioned to respond to local felt needs of the people. Resources need to be placed at their disposal to take up schemes of local importance identified by them in the process of decentralised decision-making . **The Commission recommends that untied funds should be provided for this purpose out of the SFC Transfers.**

FORECAST OF EXPENDITURE OF ULBs (2021-25)

- 7.22 After the SFC6 was notified by the State Government vide notification no 1835, dated 20.02.2019, the Commission requested the UDHD in May 2019 to submit a Memorandum covering, inter alia, manpower structure, revenue and expenditure of the ULBs, functions being performed by them as well as demands/ expectations of the ULBs from the SFC6.
- 7.23 After numerous follow-ups, Memorandum was received from UDHD vide their letter no 2174, dated 17.06.2020 (Annex 7.3). However, the memorandum was devoid of financial data. It neither provided an account of the revenues and expenditures of ULBs for the award period of SFC5 (i.e. 2015-20), nor did it furnish the Department's estimates of the revenues and expenditures for the SFC6 award period. As such, tabular formats were given to the Department to make available financial data and their response was received in December 2020 (Annex 7.4). Over the next two months, consultations were held to rectify and refine their data in the supplied formats, as also to elicit responses to the Commission's queries. Response of UDHD, dated 25.01.2021, may be seen at Annex 7.5 and subsequent communication, dated 01.03.2021, at Annex 7.6. Commission has based this report on the data and projections furnished by UDHD with a view to making its recommendations realistic and implementable.
- 7.24 Expenditure projections furnished by the UDHD vide their letter, dated 25.01.2021, is reproduced in Table 7.7. Another projection was received with the Department's letter, dated 01.03.2021. The two projections were exactly same with regard to years 2020-21 to 2024-25; the only difference being that the second letter had projections for 2025-26 as well.

Table 7.7 : UDHD's Projection of Expenditure of All ULBs of Bihar during the Period 2020-25

(Rs. crore)

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
1. Establishment						
a) Salary	1,950.20	3,472.66	3,826.59	4,216.64	4,646.52	18,112.61
b) Pension						
c) Others (Daily wages and Administrative Expenditure)	81.03	89.13	98.04	107.85	118.63	494.68
Total	2,031.23	3,561.79	3,924.63	4,324.49	4,765.15	18,607.29
2. O&M of Civic Services	401.65	465.91	540.46	626.93	727.24	2,762.19
3. Centrally sponsored schemes						
a) AMRUT	610.00	1,006.50	1,107.15	1,217.87	1,339.65	5,281.17
b) Smart City	620.00	1,023.00	1,125.30	1,237.83	1,361.61	5,367.74
c) SBM	240.10	396.17	435.78	479.36	527.30	2,078.71
d) NULM	95.00	156.75	172.43	189.67	208.63	822.48
e) HFA	544.00	897.60	987.36	1,086.10	1,194.71	4,709.77
Total	2,109.10	3,480.02	3,828.02	4,210.83	4,631.90	18,259.87
4. State Sponsored schemes						
a) Mukhya Mantri Nal Jal Yojana	200.00	330.00		-	-	530.00
b) Mukhya Mantri Nali Gali Yojana	500.00	825.00	-	-	-	1,325.00
c) Jal Jivan Hariyali	855.60	1,645.90	1,860.49	2,096.54	2,356.19	8,814.72
d) Establishment	8.93	14.74	16.21	17.83	19.61	77.32
e) Nala Nirman	201.75	332.89	366.17	402.79	443.07	1,746.67
f) Nagrik Suvidha	500.00	825.00	907.50	998.25	1,098.08	4,328.83
g) SWM	1,691.20	3,549.00	3,963.54	4,204.37	5,149.65	18,557.76
Total	3,957.48	7,522.53	7,113.91	7,719.78	9,066.60	35,380.30
5. Saat Nishchay Yojna Part-2						
a) Multistory Building for Beggars	900.00	2,400.00	2,640.00	2,904.00	3,194.40	12,038.40
b) Solid & liquid waste Management	615.00	1,350.00	1,305.00	1,420.50	1,547.55	6,238.05
c) Mokshdham Yojna	450.00	300.00	300.00	330.00	363.00	1,743.00
d) Storm Water Drainage Scheme	2,310.00	9,575.00	6,232.50	3,519.75	3,596.33	25,233.58
Total	4,275.00	13,625.00	10,477.50	8,174.25	8,701.28	45,253.03
Grand Total	12,774.46	28,655.25	25,884.52	25,056.28	27,892.17	1,20,262.68

7.25 The State Government has notified 2020-21 to 2024-25 as the award period of this Commission. An interim report for FY 2020-21 has already been submitted in January 2020. Hence, the projections below will cover the period from 2021-22 to 2024-25.

7.26 **Projection of Total Expenditure:** Table 7.7 shows that UDHD has projected total expenditure of Rs 1,07,488.22 crore for the four year period from 2021-22 to 2024-25. From Table 7.5, we find that the actual expenditure reported by the Department for the preceding four year period from 2016-17 to 2019-20 was Rs 12,840.90 crore. Thus, the projected expenditure in the coming four years is more than 8 times of the actual expenditure incurred in an identical time span of recent past. The projections submitted are indeed very ambitious.

7.27 **Projection of Expenditure over Central and State Schemes**

- (i) In the expenditure projections, Centrally Sponsored Schemes (AMRUT, Smart City, Swachh Bharat Mission, NULM and Housing for All) account for Rs 16,150.77 crore.
- (ii) Recently, the State Government has launched Saat Nishchay Yojna Part-2, under which construction of shelters for the poor and elderly, electric crematorium at river ghats, storm water drainage systems and solid and liquid waste management systems will be taken up in the urban areas. UDHD has estimated an expenditure of Rs 40,978.03 crore for these activities during 2021-22 to 2024-25. In addition, a sum of Rs 31,422.82 crore is included in the projection for expenditure over State Sponsored Schemes (SSS), listed at serial no 4 in Table 7.7.
- (iii) The ULBs act as agency of the Central and State Governments for implementing CSS, SSS and Saat Nishchay Yojna. They receive funds from the respective governments for these schemes. This Commission is not in a position to assess the likely expenditure on CSS, SSS and Saat Nishchay Yojna. As such, the Commission has decided to include the projection submitted by UDHD without any change in the Commission's Expenditure projection for ULBs. The Commission presumes that the ULBs will receive funds from Central and State Governments to fully meet their expenditure for these schemes.

7.28 Projection of Salary Expenditure

- UDHD's projection of Salary expenditure for 2021-25 is shown in Table 7.8.

Table 7.8 : UDHD Projection of Salary Expenditure for 2021-25

(Rs crore)					
Year	2021-22	2022-23	2023-24	2024-25	2020-25
Salary	3,472.66	3,826.59	4,216.64	4,646.52	16,162.41

- Actual expenditure over Salary during 2016-20 is presented in Table 7.9

Table 7.9 : Actual Salary Expenditure for 2016-20

(Rs crore)					
Year	2016-17	2017-18	2018-19	2019-20	2016-20
Salary	511.47	548.64	630.17	540.72	2,231.00

- As is evident from Tables 7.8 and 7.9, the projected expenditure is more than 7 times the actual expenditure during similar time span in recent past. The Department was requested to clarify reasons for such high assessment, but no explanation has been received. Hence, the Commission has made its own estimation of the likely salary expenditure.
 - In the first step, the actual salary of 2019-20 was incremented at the rate of 5 percent per annum to project salary expenditure of existing staff for each year of the period 2021-25 (Table 7.10).

Table 7.10 : Projection of Salary Expenditure of existing occupied posts for 2021-25

(Rs. crore)						
Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Salary	540.72	567.76	596.14	625.95	657.25	690.11

- During field visits, the Commission was informed that about 40-50 percent of posts in ULBs were lying vacant. Hence, assuming that there were as many vacant posts as filled ones, salary expenditure as calculated above was taken as projection of salary for vacant posts as well. However, considering that appointment against vacant posts would take time, the calculated projection for 2021-22 was reduced by 50 percent and that for 2022-23 by

20 percent while leaving projections for next two years unchanged (Table 7.11).

**Table 7.11 : Projection of Salary Expenditure of Vacant Posts for 2021-25
(expected to be filled shortly)**

(Rs. crore)

Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Salary	—	—	298.07	500.76	657.25	690.11

- iii) In 2018 and 2019, State Government has created 7,876 new posts for the existing ULBs at an annual cost of Rs 201.64 crore. Action to fill these posts has reportedly been initiated. Making allowance for time required to fill these positions, 50 percent of the annual cost has been assumed for 2021-22, 80 percent for 2022-23 and 100 percent (with 5 percent annual increment) for the remaining two years (Table 7.12).

Table 7.12 : Projection of Salary Expenditure of New Posts for Existing ULBs for 2021-25

(Rs. crore)

Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Salary			100.82	169.38	233.44	245.11

- iv) State Government has recently created 103 new Nagar Panchayats and 8 new Nagar Parishads. To include their salary in the projection, actual salary expenditure reported by UDHD for FY 2019-20 for Nagar Panchayats (Annex 7.2.4) and Nagar Parishads (Annex 7.2.3) was used to calculate average salary bill for one Nagar Panchayat/ Nagar Parishad. Using these figures, salary expenditure for new 103+8 new ULBs has been calculated for 2019-20 and incremented by 5 percent per annum to arrive at figures for each year of the period 2021-25. Again, to make allowance for time taken in sanction of posts and making appointments against them, the calculated projection for 2021-22 has been reduced by 50 percent and that for 2022-23 by 20 percent, while leaving projections for next two years unchanged (Table 7.13).

Table 7.13 : Projection of Salary Expenditure of Posts for Newly Created ULBs for 2021-25

(Rs crore)						
Item	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Nagar Parishads (8)	15.71	16.50	8.66	14.55	19.10	20.05
Nagar Panchayats (103)	99.35	104.32	54.77	92.01	120.77	126.81

4. Following the methodology explained above, the projection of Salary Expenditure for ULBs is presented in Table 7.14.

Table 7.14 : Projection of Salary Expenditure of All ULBs for 2021-25

(Rs crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Existing occupied posts	596.14	625.95	657.25	690.11	2569.46
Vacant Posts to be filled shortly	298.07	500.76	657.25	690.11	2146.19
New posts for existing ULBs	100.82	169.38	233.44	245.11	748.74
Posts for new Nagar Parishads	8.66	14.55	19.10	20.05	62.36
Posts for new Nagar Panchayats	54.77	92.01	120.77	126.81	394.36
Total	1,058.47	1,402.65	1,687.80	1,772.20	5921.12

- 7.29 The expenditure projection for Other Items under Establishment head is accepted as submitted by UDHD. The Commission's projection of total expenditure under Establishment head for ULBs in Bihar is presented in Table 7.15.

Table 7.15 : Projection of Establishment Expenditure of All ULBs for 2021-25

(Rs crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Salary	1,058.47	1,402.65	1,687.80	1,772.20	5921.12
Other Items (daily wage/ office expenses/ Administrative expenditure)	89.13	98.04	107.85	118.63	413.66
Total	1,147.60	1,500.70	1,795.65	1,890.83	6,334.78

- 7.30 **One Time Inception Expenditure for New ULBs:** By their letter, dated 25.01.2021 (Annex 7.5), UDHD has communicated expenditure projections for certain additional items that are not included in their original projections. One such item is the inception expenditure for setting up the newly created / expanded ULBs with requisite furniture, furnishings, stationery etc. They have projected an anticipated expenditure of Rs 73.60

crore for 109 Nagar panchayats, 40 Nagar Parishads and 6 Nagar Nigams. As this is an urgent requirement, entire expenditure is expected to be incurred in 2021-22. Accordingly, following expenditure has been included in the Commission's projection:

Table 7.16 : Projection of One Time Inception Expenditure for New ULBs

(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Nagar Nigams 6 nos @ Rs 1 crore each	6.00	—	—	—	6.00
Nagar parishads 40 nos @ 0.6 crore each	24.00	—	—	—	24.00
Nagar panchayats 109 nos @ 0.4 crore each	43.60	—	—	—	43.60
Total	73.60	—	—	—	73.60

- 7.31 **Project Management Unit:** UDHD has informed the Commission that the number of ULBs in the state has gone up from 141 to 253. The State Government has floated several schemes for the urban areas and the ULBs are directly involved in their implementation. Flow of funds from the State Government as well as the Central Government has multiplied and even larger allocations are expected in future. In view of this, the task of monitoring of ULB activities, progress of schemes implemented by them, their expenditure, etc. has become very important and arduous. To empower the Department to discharge these responsibilities effectively, UDHD has proposed to setup a Project Management Unit (PMU). UDHD has projected an expenditure of Rs 51.05 crore for four year period 2021-25 and has requested the Commission to include it in the expenditure projection.
- 7.32 While considering the issue of capacity building in the Urban sector, the SFC5 had recommended setting up of a Urban Technical Support Team (UTST) for UDHD. The Team was to comprise Team Leader and experts in Urban Governance, Urban Planning and Architecture, E-Gov, GIS, Municipal Finance, Urban Infrastructure etc. UDHD's proposal is in line with this recommendation.
- 7.33 The Commission is favourably disposed towards this proposal. The Department must have at its disposal services of specialists in relevant fields to strengthen its capacity to monitor physical and financial progress of schemes taken up by ULBs and to provide expert advice on relevant issues. As such, expenditure over UTST for the period 2021-22 to 2024-25 has been included in the expenditure projection (Table 7.17).

Table 7.17 : Projection of UTST Expenditure for 2021-25

(Rs crore)

Year	2021-22	2022-23	2023-24	2024-25	2021-25
Urban Technical Support Team	10.00	11.00	12.10	13.31	46.61

7.34 Capacity Building

1. **IT Enablement:** UDHD has signed an MOU with e-Governance Foundation, Bangalore to develop software for the use of ULBs. It has been reported that some modules have already been developed and comprehensive system for providing online citizen-centric services is under development. UDHD has projected an expenditure of Rs 90.00 crore on software development. Besides, it is proposed to equip the ULBs with computers and peripherals. In all, 6 sets of computers will be provided to each Nagar Panchayat, 8 sets to each Nagar Parishad and 10 sets to each Nagar Nigam at an expense of Rs 21.43 crore.
2. This Commission considers that IT enablement is of utmost importance for efficient and effective functioning of ULBs. Hence, entire demand of UDFHD has been accommodated in the projection for 2021-22. Besides, additional funds have been provided in the subsequent years too to continue IT enablement and upgradation as needed. Total amount for IT enablement in Commission's projection is Rs 290.00 crore (Table 7.18).

Table 7.18 : Projection of IT Enablement Expenditure for 2021-25

(Rs crore)

Year	2021-22	2022-23	2023-24	2024-25	2021-25
IT Enablement	120.00	100.00	20.00	50.00	290.00

3. **Training:** There is no training institution dedicated to training in subjects relating to urban governance in Bihar. This Commission has recommended setting up of Bihar Urban Management Institute (BUMI) in Chapter 5. An expenditure of Rs 100.00 crore spread over two years has been included in the projection for its building, fittings, furniture etc. Its operational expenditure as well as expenditure for conducting training programmes have also been accounted for as indicated in

Table 7.19. Until BUMI is ready, training programmes may be conducted in BIPARD or any other institution chosen by UDHD using training funds.

Table 7.19 : Projection of Training Expenditure for 2021-25

(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
BUMI Building		50.00	50.00		100.00
BUMI Operational Expenditure			10.00	15.00	25.00
Training Programmes	30.00	40.00	40.00	55.00	165.00
Total	30.00	90.00	100.00	70.00	290.00

4. **Office building and residential quarters:** Out of 253 ULBs, office building is already sanctioned for 141. Construction of office building will be required for 112 new ULBs, together with expansion of the existing buildings of those ULBs that stand upgraded to the next higher level. UDHD has estimated an expenditure of Rs 438.00 crore for construction of office buildings. UDHD has also proposed construction of residential building for Executive Officers of the ULBs. Presently, no ULB has residential quarters. The estimated expenditure for residential buildings is Rs 330.00 crore.
5. The present Commission agrees with the above suggestion of UDHD. Construction of office buildings for new ULBs is an urgent requirement. Hence, the Commission recommends provision of the entire cost amounting to Rs 438.00 crore in 2021-22 itself. So far as the residential quarters are concerned, their construction may be spread over three years from 2022-23 to 2024-25.
6. The expenditure projection for construction of buildings for ULBs is presented in Table 7.20.

Table 7.20 : Projection of Expenditure for Buildings for ULBs during 2021-25

(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Office Building					
Nagar Nigams (6 nos @ Rs 10 cr each)	60.00				60.00
Nagar Parishads (40 nos @ Rs 4 cr each)	160.00				160.00
Nagar panchayats (109 nos @ Rs 2 cr each)	218.00				218.00
Residential Quarters					
Nagar Nigams (18 nos @ Rs 5 cr each)		25.00	35.00	30.00	90.00

Table 7.20 : Projection of Expenditure for Buildings for ULBs during 2021-25

(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Nagar Parishads (83 nos @ Rs 1 cr each)		25.00	28.00	30.00	83.00
Nagar panchayats (157 nos @ Rs 1 cr each)		55.00	58.00	44.00	157.00
Total	438.00	105.00	121.00	104.00	768.00

- 7.35 Based on the above projections for expenditure on IT Enablement, Training and Office/ Residential Buildings, total projection of expenditure for ULBs under Capacity Building head is shown in Table 7.21.

Table 7.21 : Projection of Capacity Building Expenditure for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
IT Enablement	120.00	100.00	20.00	50.00	290.00
Training	30.00	90.00	100.00	70.00	290.00
Office/ Residential Buildings	438.00	105.00	121.00	104.00	768.00
Total	588.00	295.00	241.00	224.00	1,348.00

Table 7.22 : Projection of Operational Expenditure on Civic Services for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Using SFC6 Transfer	230.00	265.00	280.00	500.00	1,275.00
Using UFC15 Basic Grant	607.20	628.80	665.20	704.40	2,605.60
Using UFC15 Grant for Air Quality	103.00	107.00	113.00	119.00	442.00
Total	940.20	1,000.80	1,058.20	1,323.40	4,322.60

- 7.36 **Projection of Expenditure on Civic Services:** Providing civic services is a core function of the ULBs. They need to spend much higher than what they have been hitherto doing. During 2015-20, the average annual expenditure incurred by all ULBs on provision of civic services was Rs 301.00 crore. This Commission is of the view that expenditure on this critical function of the ULBs is grossly inadequate and needs to be incremented by a factor of 3 to 4. The Commission recommends that higher expenditure on civic services should be ensured using untied basic grant of UFC15 and SFC6 Transfers in the following manner (Table 7.22). This would lead to average annual

expenditure of Rs. 1,035 crore which is more than 3 times the average annual expenditure during 2015-20.

- 7.37 **Maintenance of Assets:** In the past, ULBs have been provided considerable funds for creation of assets, but funds specifically for maintenance purposes were not given. UDHD's expenditure projection too does not have any expenditure for maintenance. The concept probably has been that the ULBs would maintain the assets using their own resources. Unfortunately, own revenues of ULBs are low and are not enough even to pay salaries of their employees. In the circumstances, it is very important to place resources in the hands of ULBs to maintain the assets under their charge. The Commission believes that the ULBs must have dedicated funds for maintenance and accordingly recommends earmarking of 20 percent of SFC Transfers for maintenance purposes. Necessary allocation will be included in the revenue projection. Total expenditure of Rs. 2,080 crore is projected for maintenance of assets (Table 7.23) during 2021-25.

Table 7.23 : Projection of Maintenance Expenditure for 2021-25

(Rs. crore)					
Year	2021-22	2022-23	2023-24	2024-25	2021-25
Maintenance Expenditure	425.00	480.00	550.00	625.00	2,080.00

- 7.38 **Development Fund for Local Schemes:** In course of field visits to PRIs and ULBs, one constant complaint put forth before the Commission by the elected representatives was regarding paucity of untied funds for taking up local schemes. They said that practically entire amount of devolution and grants is tied for State or Central schemes. They conveyed that inability to fulfil the local needs of the inhabitants of panchayats/ municipalities was giving rise to frustration and disappointment. Local bodies are embodiment of decentralised governance, but absence of resources for taking up activities based on decentralised decision-making makes them appear ineffective in the eyes of people. UFC15 has recognised the need of untied funds for LBs and allowed 40 percent of the Grants allocated by it to be given as untied funds. **This Commission is in agreement with the approach of UFC15 and recommends earmarking of 30 percent of SFC Transfers for Development Fund which the ULBs can use for taking up local schemes.**

7.39 Development Fund will be used for following purposes:

- (i) Special Package for Patna Nagar Nigam
- (ii) Untied fund for Local Schemes

7.40 **Projection of Special Package for Patna Nagar Nigam:** UDHD has made a request for a special package for Patna Nagar Nigam. Patna is the seat of State's capital. Spread over an area of 109 sq kms, it had a population of 16.84 lakhs in 2011; at present, the population is more than 20 lakhs. There is a considerable floating population which imposes added pressure on the civic amenities of the city. Patna has a saucer-shaped topography, which traps and accumulates water in its low lying areas. It requires a robust storm drainage system to prevent water logging, which has been a persisting problem in Patna. The Nigam has started upgrading its street lighting through EESL, but the work is proceeding with frequent hiccups due to paucity of funds. Door to door garbage collection has started, but work on Waste Processing Unit is yet to be taken up. City roads require renewal and upgradation. UDHD has projected a requirement of Rs 2,042 crore for these purposes during the award period. For a city of Patna's size, even this amount may not be adequate. However, looking at the quantum of SFC Transfer for ULBs, the present Commission has managed to provide a special package of Rs 1,300 crore for Patna (Table 7.24). This amount will be in addition to its normal share of SFC Transfer and will be used to implement schemes specified by the State Government.

Table 7.24 : Projection of Special Package for Patna for 2021-25

(Rs. crore)					
Year	2021-22	2022-23	2023-24	2024-25	2021-25
Patna Special Package	275.00	300.00	350.00	375.00	1,300.00

7.41 **Projection of Untied Fund Expenditure:** Expenditure of untied funds has been projected at scales indicated below:

1. Patna Nagar Nigam: Rs 50.00 crore in 2021-22, increasing by Rs 10.00 crore every year
2. Nagar Nigams other than Patna: Rs 5.00 crore in 2021-22, increasing by Rs 1.00 crore every year
3. Nagar Parishads: Rs 1.50 crore in 2021-22, increasing by Rs 10.00 lakh every year
4. Nagar Panchayats: Rs 50.00 lakh in 2021-22, increasing by Rs 10.00 lakh every year

7.42 Projected expenditure of untied funds during 2021-25 is given in Table 7.25.

Table 7.25 : Projection of Untied Fund Expenditure for 2021-25

(Rs. crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Patna Nagar Nigam	50.00	55.00	60.00	65.00	230.00
Other Nagar Nigams	90.00	144.00	144.00	216.00	594.00
Nagar Parishads	124.50	132.80	141.10	149.40	547.80
Nagar Panchayats	78.50	94.20	125.60	157.00	455.30
Total	343.00	426.00	470.70	587.40	1,827.10

7.43 Putting together Special Package for Patna and estimates for untied funds, Commission's projection for total expenditure on Local Schemes for 2021-25 is presented in Table 7.26.

Table 7.26 : Projection of Expenditure on Local Schemes for 2021-25

(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25
Special Package for Patna Nagar Nigam	275.00	300.00	350.00	375.00	1,300.00
Untied Fund for ULBs	343.00	426.00	470.70	587.40	1,827.10
Total	618.00	726.00	820.70	962.40	3,127.10

7.44 **Forecast of Expenditure for All ULBs for 2021-25:** On the basis of analysis in the foregoing paragraphs, Commission's forecast of expenditure of All ULBs for the four year period 2021-22 to 2024-25 is shown in Table 7.27.

Table 7.27 : SFC6 Projection of Expenditure of All ULBs for 2021-25

(Rs crore)

Items	2021-22	2022-23	2023-24	2024-25	2021-25
1. Establishment (Table 7.15)	1,147.60	1,500.70	1,795.65	1,890.83	6,334.78
2. Inception Expenditure for new ULBs (Table 7.16)	73.60				73.60
3. UTST (Table 7.17)	10.00	11.00	12.10	13.31	46.41
4. Capacity Building (Table 7.21)	588.00	295.00	241.00	224.00	1,348.00
5. Operational Expenditure on Civic Services (Table 7.22)	940.20	1,000.80	1,058.20	1,323.40	4,322.60
6. Maintenance (Table 7.23)	425.00	480.00	550.00	625.00	2,080.00
7. Local Schemes (Table 7.26)	618.00	726.00	820.70	962.40	3,127.10

Items	2021-22	2022-23	2023-24	2024-25	2021-25
8. Centrally Sponsored Schemes (Table 7.7)	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77
9. State Sponsored Schemes (Table 7.7)	7,522.53	7,113.91	7,719.78	9,066.60	31,422.82
10. Nishchay Yojna Part-2 (Table 7.7)	13,625.00	10,477.50	8,174.25	8,701.28	40,978.03
Grand Total	28,429.95	25,432.93	24,582.51	27,438.72	1,05,884.11

FORECAST OF RESOURCES OF ULBs (2021-25)

7.45 The revenue projections for All ULBs furnished by UDHD vide their letter, dated 25.01.2021, may be seen in Table 7.28.

Table 7.28 : UDHD's Revenue Projection for All ULBs during the Period 2021-25

(Rs. crore)

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
1. Own tax Revenue						
a) Property Tax	292.87	323.62	35.76	263.43	436.63	1,352.31
b) Advt. Tax						
c) Others, Specify						
Total	292.87	323.62	35.76	263.43	436.63	1,352.31
2. Own Non Tax Revenue						
a) Fees etc.	54.81	69.06	87.01	109.64	138.14	458.66
b) User fee for civic Services						
c) Others, specify	66.63	73.96	82.10	91.13	101.15	414.97
Total	121.44	143.02	169.11	200.76	239.29	873.62
3. Grant - UFC15						
a) Basic	2,416.00	5,070.00	5,577.00	6,134.70	6,748.17	25,945.87
b) Performance	-	1,014.00	1,115.40	1,226.94	1,349.63	4,705.97
Total	2,416.00	6,084.00	6,692.40	7,361.64	8,097.80	30,651.84
4. SFC6						
a) Devolution						
b) Grant	2,700.00	5,250.00	5,775.00	6,352.50	6,987.75	27,065.25
c) Performance						
Total	2,700.00	5,250.00	5,775.00	6,352.50	6,987.75	27,065.25
5. Assigned Revenue						
a) Stamp duty	193.33	203.08	165.64	273.88	184.60	1,020.53
b) Profession Tax	32.48	37.34	43.27	51.32	60.08	224.49
c) Others						
Total	225.81	240.43	208.92	325.20	244.69	1,245.05
6. Centrally sponsored schemes						
a) AMRUT	610.00	1,006.50	1,107.15	1,217.87	1,339.65	5,281.17
b) Smart City	620.00	1,023.00	1,125.30	1,237.83	1,361.61	5,367.74
c) SMM	240.10	396.17	435.78	479.36	527.30	2,078.71
d) NULM	95.00	156.75	172.43	189.67	208.63	822.48
e) HFA	544.00	897.60	987.36	1,086.10	1,194.71	4,709.77
Total	2,109.10	3,480.02	3,828.02	4,210.82	4,631.90	18,259.86
7. Support from State Budget						
a) Mukhya Mantri Nal Jal Yojna	200.00	330.00	-	-	-	530.00
b) Mukhya Mantri Nali Gali Yojna	500.00	825.00	-	-	-	1,325.00

Items	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
c) Jal Jivan Hariyali	10.00	16.50	18.15	19.97	21.96	86.58
d) Establishment	8.93	14.74	16.21	17.83	19.61	77.32
e) Nala Nirman	201.75	332.89	366.17	402.79	443.07	1,746.67
f) Nagrik Suvidha	500.00	825.00	907.50	998.25	1,098.08	4,328.83
Total	1,420.68	2,344.12	1,308.03	1,438.84	1,582.72	8,094.39
8. Saat Nishchay Yojna Part-2						
a) Multi Storey Building for poor	900.00	2,400.00	2,640.00	2,904.00	3,194.40	12,038.40
b) Solid & liquid waste Management	75.00	300.00	150.00	150.00	150.00	825.00
c) Mokshdham Yojna	450.00	300.00	300.00	330.00	363.00	1,743.00
d) Storm Water Drainage Scheme	1,500.00	9,000.00	4,500.00	1,614.00	1,500.00	18,114.00
Total	2,925.00	12,000.00	7,590.00	4,998.00	5,207.40	32,720.40
Grand Total	9,285.89	17,865.20	18,017.24	20,153.18	22,220.79	1,20,262.69

7.46 **Projection of Total Revenue:** The amount of Total Revenue projected by UDHD is the same as the Total Expenditure projection in Table 7.7. However, compared to actual revenue of All ULBs during five year period 2015-20 amounting to Rs 16,805 crore, revenue projection of Rs 1,20,262 crore for five years from 2020-21 to 2024-25 is many times higher. This massive increase is primarily due to manifold increase in the anticipated receipts from Central and State Governments for CSS, SSS and Saat Nishchay Yojna. The Commission has examined the projections for each individual item of revenue and the findings are recorded in the following paragraphs.

7.47 **Projection of Own Tax Revenue:** UDHD has estimated that all ULBs of the State would generate Own Revenue of Rs 1,352.30 crore in 5 years (2020-25) with a CAGR of 8.31 percent (Table 7.29).

Table 7.29 : UDHD's Projection of Property Tax of All ULBs for 2020-25

(Rs. crore)							
Item	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25	CAGR
Property Tax	292.87	323.62	35.76	263.43	436.63	1,352.31	8.31

7.48 The reported figure of actual tax revenue collected in 2015-20 was Rs 880.88 crore at a CAGR of 6.41 percent (Table 7.30). The revenue effort of the ULBs leaves much to be desired. The revenue base is small and the growth rate is sluggish. This points to the need for greater effort on part of the ULBs to collect tax revenues.

Table 7.30 : Actual Collection of Property Tax of All ULBs for 2015-20

(Rs. crore)							
Year	2015-16	2016-17	2017-18	2018-9	2019-20	2015-20	CAGR
Property Tax	129.51	177.06	178.44	219.18	176.69	880.88	6.41

- 7.49 The Commission has considered the UDHD projection of Rs 323.63 crore for 2021-22 and incremented it at a growth rate of 12.0 percent per annum to project the revenue of the existing ULBs. In addition, likely revenue collection by 111 new ULBs is assumed to be 20 percent of the revenue of existing ULBs in 2021-22, incremented by 10 percent in each of the remaining three years. The projected revenue may be seen in Table 7.31.

Table 7.31 : Commission's Projection of Property Tax of All ULBs for 2021-25

(Rs crore)						
Item	2021-22	2022-23	2023-24	2024-25	2021-25	CAGR
Property Tax (Existing ULBs)	323.62	362.45	405.95	454.66	1,546.69	12.0
Property Tax (New ULBs)	64.72	71.20	78.32	86.15	300.38	10.0
	388.34	433.65	484.26	540.81	1,847.07	11.7

- 7.50 **Projection of Own Non-tax Revenue:** Actuals of Own Non-tax revenue in the period 2015-20 is given in Table 7.32.

Table 7.32 : Actual Collection of Non-tax revenue of All ULBs for 2015-20

(Rs. crore)							
Year	2015-16	2016-17	2017-18	2018-9	2019-20	2015-20	CAGR
Non-tax Revenue	44.00	70.83	70.83	79.01	69.02	333.69	12.0

- 7.51 Against the above actuals, projection for the period made by UDHD is presented in Table 7.33.

Table 7.33 : UDHD's Projection of Non-tax revenue of All ULBs during 2020-25

(Rs. crore)							
Year	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25	CAGR
Non-tax Revenue	121.44	143.02	169.11	200.76	239.29	873.62	18.5

- 7.52 There is a hint of better performance in this projection and, as such, the Commission has accepted UDHD's projection. Accordingly, the projection of Non-tax Revenue for all ULBs for four years from 2021-22 to 2024-25 is presented in Table 7.34.

Table 7.34 : Commission's Projection of Non-tax Revenue of All ULBs for 2021-25

(Rs crore)						
Year	2021-22	2022-23	2023-24	2024-25	2021-25	CAGR
Non-tax Revenue	143.02	169.11	200.76	239.29	752.18	18.5

- 7.53 **Projection of Assigned Revenue:** A portion of Stamp Duty and Profession Tax is assigned by the State Government to the ULBs. Actuals for 2015-20 is shown in Table 7.35.

Table 7.35 : Actual Assignment of Taxes by State Government to ULBs during 2015-20
(Rs. crore)

Item	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20	CAGR
Stamp Duty	167.02	175.45	143.11	236.61	159.48	881.67	-1.2
Profession Tax	28.06	32.26	37.39	44.34	51.91	193.96	16.6
Total	195.08	207.71	180.49	280.95	211.39	1,075.62	

- 7.54 It is noted that the assignment of Stamp Duty has been fluctuating from year to year. UDHD's Projection (Table 7.36) maintains the same fluctuating character.

Table 7.36 : UDHD's Projection of Assignment of Taxes to ULBs during 2020-25
(Rs. crore)

Item	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25	CAGR
Stamp Duty	193.33	203.08	165.64	273.88	184.60	1,020.53	-1.2
Profession Tax	32.48	37.34	43.27	51.32	60.08	224.49	16.6
Total	225.81	240.43	208.92	325.20	244.69	1,245.05	

- 7.55 No justification has been provided for fluctuation in assigned Stamp Duty. The Commission has taken the assigned value of Stamp Duty proposed by UDHD for 2021-22 and incremented it by a modest 5.0 percent every year for its projections. For Profession Tax, the assigned value for 2021-22 has been incremented by 20.0 percent every year. Commission's projection of assigned taxes is shown in Table 7.37.

Table 7.37 : Commission's Projection of Assigned taxes for 2021-25
(Rs crore)

Item	2021-22	2022-23	2023-24	2024-25	2021-25	CAGR
Stamp Duty	203.08	213.23	223.90	235.09	875.30	5.0
Profession Tax	37.34	44.81	53.77	64.52	200.44	20.0
Total	240.42	258.04	277.67	299.61	1,075.74	

- 7.56 **UFC15 Grant for ULBs of Bihar:** UDHD's estimation of UFC15 grant for 2020-25 is reproduced in Table 7.38.

Table 7.38 : UDHD's Projection of UFC15 Grant to ULBs during 2020-25
(Rs. crore)

Year	2020-21	2021-22	2022-23	2023-24	2024-25	2020-25
UFC15 Grant	2,416.00	6,084.00	6,692.40	7,361.64	8,097.80	30,651.84

7.57 This estimation has turned out to be overly optimistic. UFC15 has already submitted its report and we have access to its recommendations with regard to Grants for ULBs of Bihar. The funds that would be available to the ULBs during 2021-25 as per UFC15 recommendations are given in Table 7.39. It would be noticed that the quantum of grants is much below the expectations of UDHD.

Table 7.39 : Grant Recommended by UFC15 for ULBs of Bihar for 2021-25
(Rs. crore)

ULB	Purpose	2021-22	2022-23	2023-24	2024-25	2021-25
Patna Nagar Nigam	Air Quality	103.00	107.00	113.00	119.00	442.00
	SWM & D/W	206.00	213.00	225.00	239.00	883.00
	Total	309.00	320.00	338.00	358.00	1,325.00
Other ULBs	Basic Grant (Untied)	607.20	628.80	665.20	704.40	2,605.60
	SWM & Sanitation (Tied)	455.40	471.60	498.90	528.30	1,954.20
	Drinking Water (Tied)	455.40	471.60	498.90	528.30	1,954.20
		1518.00	1572.00	1663.00	1761.00	6,514.00
Total		1,827.00	1,892.00	2,001.00	2,119.00	7,839.00

7.58 UFC15 has specified following two entry level conditions for availing these grants:

1. The ULBs have to mandatorily prepare and make available online in the public domain annual accounts of the previous year and the duly audited accounts of the year before previous. Such audited accounts should include the minimum of a) balance sheet; b) income and expenditure statement; c) cash flow statement; and d) schedules to balance sheet, income and expenditure statement and cash flow statement. **This implies that Grants for the Year (t) = Grants due to the ULBs that prepared provisional accounts for the previous year (t-1) and audited accounts for the year before the previous (t-2), and these accounts are available online in the public domain in year (t).**
2. To qualify for grants for urban local bodies in 2021-22, **States will have to appropriately notify floor rates and thereafter show consistent improvement in collection in tandem with the growth rate of State's own GSDP.** The minimum floor rate shall have different slab-wise Property Tax rates for different types of properties; and differential rates for commercial, residential and industrial properties.

7.59 The timeframe for complying with these conditions is shown in Table 7.40.

Table 7.40 : Time Frame for Complying with 15 FC Conditions for Availing Grants

FY 2021-22 and 2022-23		
<p><i>In the first year of the award period, that is 2021-22, the State needs to ensure online availability of at least 25 percent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year. States are also expected to notify the floor rates of property tax and operationalise the relevant arrangements in 2021-22.</i></p> <p><i>The condition of notifying the floor rates of property tax will apply for eligibility of grants from 2022-23 along with which a State needs to ensure online availability of at least 25 per cent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.</i></p>		
FY 2023-24, 2024-25 and 2025-26		
<i>State has notified minimum floor rate of property tax rate by 2022-23</i>	<i>State has notified minimum floor rate of property tax rate by 2022-23</i>	<i>State has notified minimum floor rate of property tax rate by 2022-23</i>
<i>Unaudited annual accounts of the previous year and audited online accounts for year before previous available.</i>	<i>Can avail the grants</i>	<i>Cannot avail the grants</i>
<i>Unaudited annual accounts of the previous year and/or audited online accounts for year before previous not available</i>	<i>Cannot avail the grants</i>	<i>Cannot avail the grants</i>

7.60 **UFC15 has observed that some States are using the services of Chartered Accountants for timely preparation of provisional and audited accounts. UDHD may explore this avenue if the current audit arrangements are not adequate to prepare these accounts in time.**

7.61 **UDHD needs to take urgent action for fulfilling the entry level conditions, failing which the UFC15 Grants cannot be availed.**

7.62 **Projection of Resources for State Sponsored Schemes:** In the Expenditure projection, UDHD has estimated expenditure of Rs 31,422.82 crore over State Sponsored Schemes (SSS) and Rs 40,978.03 crore for schemes of Saat Nishchay Yojna Part-2, taking total expenditure on these schemes to Rs 72,400.85 crore. It is presumed that funds would flow for these schemes from the State Budget over and above SFC transfers. Included in the State Sponsored Schemes is Jal Jivan Hariyali over which

expenditure of Rs 7959.12 crore is projected. Following UFC15, tied grants for the period 2021-25 could be used for this scheme:

1. Tied grant of Rs 1,954.20 crore for drinking water, water recycling and water conservation in Non-million plus cities/ towns (i.e. ULBs other than Patna Nagar Nigam)
2. 50 percent of tied grant of Rs 883.00 crore for Patna Nagar Nigam meant for Solid Waste Management, drinking water, water recycling and water conservation.

7.63 Thus, requirement of State funds for SSS will go down by Rs 2,395.70 crore as indicated in Table 7.41.

Table 7.41 : Projection of Resources Required for SSS during 2021-25¹

(Rs. crore)						
	Item	2021-22	2022-23	2023-24	2024-25	2021-25
1	Total Cost of SSS	7,522.53	7,113.91	7,719.78	9,066.60	31,422.82
	Less					
2	a) Tied grant for Non M+ Cities for D/W etc	455.40	471.60	498.90	528.30	1,954.20
3	b) Tied grant for M+ Cities for SWM, D/W etc @ 50 percent	103.00	106.50	112.50	119.50	441.50
	Funding required from State Government (1-2-3)	6,964.13	6,535.81	7,108.38	8,418.80	29,027.12

7.64 **Projection of Resources for Saat Nishchay Yojna Part-2:** The expenditure projection of UDHD includes expenditure of Rs 40,978.03 crore for schemes of Saat Nishchay Yojna Part-2. Following UFC15 tied grants for the period 2021-25 could be used for this scheme:

1. Tied grant of Rs 1,954.20 crore for Solid Waste Management and sanitation in Non-million plus cities/ towns (i.e. ULBs other than Patna Nagar Nigam)
2. 50 percent of tied grant of Rs 883.00 crore for Patna Nagar Nigam meant for Solid Waste Management, drinking water, water recycling and water conservation.

¹ Refer to Chapter 8 Table 8.16 serial no 9

7.65 Hence, requirement of State funds for Saat Nishchay Yojna Part-2 will go down by Rs 2,395.70 crore as indicated in Table 7.42.

Table 7.42 : Projection of Resources required for Saat Nishchay Yojna -2 during 2021-25 ²

(Rs crore)						
	Item	2021-22	2022-23	2023-24	2024-25	2021-25
1	Total Cost of Yojna	13,625.00	10,477.50	8,174.25	8,701.28	40,978.03
	Less					
2	a) Tied grant for Non M+ Cities for SWM etc	455.40	471.60	498.90	528.30	1,954.20
3	b) Tied grant for M+ Cities for SWM, D/W etc @ 50%	103.00	106.50	112.50	119.50	441.50
	Funding required from State Government (1-2-3)	13,066.60	9,899.40	7,562.85	8,053.48	38,582.33

7.66 **Projection of Resources for CSS:** The Commission has assumed that entire cost of CSS (Rs 16,150.77 crore) for the period 2021-25 will come from the Central Government, as shown in Table 7.43.

Table 7.43 : Projection of Resources for CSS for 2021-25

(Rs. crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
Stamp Duty	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77

7.67 **Projection of Resources of All ULBs for 2021-25:** In the light of analysis presented in the foregoing paragraphs, Commission's projection of the Resources of the ULBs for period from 2021-22 to 2024-25 is compiled in Table 7.44.

Table 7.44 : SFC6 Projection of Resources of All ULBs for 2021-25

(Rs. crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
1. Own Tax revenue (Table 7.31)	388.34	433.65	484.26	540.81	1,847.07
2. Own Non-tax revenue (Table 7.34)	143.02	169.11	200.76	239.29	752.18
3. Assigned Revenue (Table 7.37)	240.42	258.04	277.67	299.61	1,075.74
4. 15th UFC Grants (Table 7.39)	1,827.00	1,892.00	2,001.00	2,119.00	7,839.00

² Refer to Chapter 8 Table 8.16 serial no 9

Table 7.44 : SFC6 Projection of Resources of All ULBs for 2021-25

(Rs. crore)

Items	2021-22	2022-23	2023-24	2024-25	2021-25
5. Centrally Sponsored Schemes (Table 7.43)	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77
6. State Sponsored Schemes (Table 7.41)	6,964.13	6,535.81	7,108.38	8,418.80	29,027.12
7. Nishchay Yojna Part-2 (Table 7.42)	13,066.60	9,899.40	7,562.85	8,053.48	38,582.33
Grand Total	26,109.53	23,016.03	21,845.76	24,302.89	95,274.21

PROJECTION OF EXPENDITURE-RESOURCES GAP (2021-25)

7.68 Using Expenditure Projection in Table 7.27 and Resource Projection in Table 7.44, Commission has computed the Expenditure-Resources Gap of ULBs of Bihar for the period from 2021-22 to 2024-25 and the same is presented in Table 7.45.

Table 7.45 : Projection of Expenditure-Resources Gap for ULBs for 2021-25

(Rs. crore)

Items	2021-22	2022-23	2023-24	2024-25	2021-25
Expenditure (Table 7.26)	28,429.95	25,432.93	24,582.51	27,438.72	1,05,884.11
Resources (Table 7.43)	26,109.53	23,016.03	21,845.76	24,302.89	95,274.21
Gap	2,320.41	2,416.89	2,736.75	3,135.82	10,609.89

Chapter 8

FISCAL TRANSFER TO LOCAL BODIES: ISSUES, APPROACH & RECOMMENDATIONS

INTRODUCTION

- 8.1 As per the Terms of Reference (TOR), this Commission is required to make recommendations regarding the distribution of the net proceeds of taxes, duties, tolls and fees leviable by the State between the State and the Local Bodies (LBs) and allocation of the LBs' share among different Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). Further, the Commission is also to recommend quantum of grants to be given to the PRIs and ULBs out of the Consolidated Fund of the State (CFS).
- 8.2 Keeping the above TOR in view, in this Chapter, the Commission has identified issues that need to be addressed and explained the approach adopted by it to frame its recommendations. This is followed by detailed recommendations with regard to quantum and process of Fiscal Transfer from the State to LBs.
- 8.3 The Fifteenth Union Finance Commission (UFC15) has stipulated that distribution of grant allocated by it for the LBs of Bihar is to be done in accordance with the recommendations of the State's Finance Commission. Accordingly, recommendations for distribution of UFC15 grant have also been incorporated at the end of the Chapter.

ISSUES TO BE ADDRESSED

- 8.4 After deliberations, this Commission has identified following issues that need to be addressed in order to fulfil the mandate of the Terms of Reference (TOR):
1. Estimation of the funding needs of the local bodies that would enable them to perform the functions mandated by the Bihar Panchayati Raj Act 2006 and the Bihar Municipal Act 2007, keeping in view the nature, quantum and trends of devolution and grants recommended by the earlier State Finance Commissions and UFC15.

2. Estimation of the Consolidated Fund of the State (CFS) and State's Own Tax and Non-tax Revenue.
3. Apportionment of the State's Own Tax and Non-tax Revenue between State and Local Bodies.
4. Nature and quantum of grants to be given to LBs out of the CFS.
5. Relative shares of PRIs and ULBs in devolution and grants.
6. Inter se share of each tier of PRIs.
7. Intra tier distribution of the share of each tier among the individual units (ZP, PS and GP).
8. Inter se distribution of the share of ULBs among the individual units (Nagar Nigam, Nagar Parshad and Nagar Panchayat).
9. Identification of the items of expenditure that must be funded by Fiscal Transfers from the State.
10. Need for additional grants/ devolution for Patna Nagar Nigam.
11. Provision of resources for setting up offices of newly created ULBs.
12. Need of untied funds for LBs.
13. Timeliness of release of funds to LBs.

APPROACH OF THE COMMISSION

8.5 The Commission has followed the approach detailed below while considering the subject of fiscal transfer from State Government to the LBs:

1. **Data Sources:** To obtain data for this report, the Commission has used, inter alia, budget documents, reports of earlier SFCs, report of UFC15, data and information furnished by the Finance Department (FD), the Urban Development and Housing Department (UDHD) and the Panchayati Raj Department (PRD).
2. **Award period:** Neither the original notification dated, 20.02.2019, constituting SFC6 nor the subsequent notifications, dated 29.01.2020 and 31.12.2020, for extension of its term, mentioned the period for which the Commission was required to submit its report. As the report of the SFC5 covered the period from 2015-16 to 2019-20, this Commission proceeded with the idea of making recommendations for the five year period from 2020-21 to 2024-25. This

approach was in consonance with the objective of synchronising the report period of this Commission with that of the UFC15, which as per Government of India notification, dated 27.11.2017, was to cover “a period of five years commencing 1st April 2020”. Subsequently, when the term of UFC15 was extended, Government of India stipulated that the Commission would submit “a first report for FY 2020-21 and a final report for extended period of 2021-22 to 2025-26”.

3. As this Commission had already submitted an Interim Report for FY 2020-21 in January 2020, it was suggested to the State Government that, akin to the extension of award period of UFC15, a supplementary notification be issued specifying that the SFC6 would submit a final report for extended period of 2021-22 to 2025-26. No response was received from the State Government. However, in the notification dated 31.03.2021 (Annex 1.5) for extension of the term of SFC6 up to 30.04.2021, it has been mentioned that the Commission would submit its report for the five year period from 2020-21 to 2024-25. Since an interim report for FY 2020-21 has already been submitted, **the Commission has decided to submit this final report covering the balance period from 2021-22 to 2024-25. Hence, for purposes of this report, the words ‘Award Period’ should be taken to mean the four year period from 2021-22 to 2024-25.**
4. **Memoranda submitted by PRD and UDHD:** PRD and UDHD were requested to submit their memoranda detailing the current status of PRIs and ULBs, their finances, their work programme for the award period and their constraints. They were also asked to convey the expectations of LBs and the State Government from the SFC6. After numerous follow-ups, PRD furnished the memorandum vide their letter no 387, dated 20.01.2020 and UDHD’s memorandum was received vide their letter no 2174, dated 17.06.2020. As the Memoranda were deficient in many respects, extensive consultations were held with the two Departments to elicit the desired information.
5. **Financial Data from PRD and UDHD :** The memoranda received from the two departments were devoid of financial data. They neither provided an account of

the revenues and expenditures of PRIs and ULBs for the award period 2015-20 of the SFC5, nor did they furnish the Departments' estimates of the revenues and expenditures for the period 2020-25. As such, tabular formats were given to them to make available the financial data and their response was received in December 2020. Over the next two months, the Departments were guided to rectify and refine their data in the supplied formats. **The Commission has analysed the data and projections furnished by PRD and UDHD and framed its own projections based this analysis with a view to making its recommendations realistic and implementable.**

6. **Difficulty in Data Collection:** The Commission has noted that both PRD and UDHD are facing difficulties in obtaining reliable and complete data from the individual LBs on account of their large numbers (8959 PRIs and 253 ULBs) and wide geographical spread. In the prevailing circumstances, it is well-nigh impossible to collect data and information from field using the traditional, manual methods. The solution to this long existing problem is to use technology to communicate with the LBs. Both Departments need to put in place robust IT systems with requisite hardware and software that would enable the State Government to connect with the individual units to disseminate information, guidelines and orders on the one hand and gather data, monitor progress and exercise desired supervision on the other. Further, UFC15 has stipulated that audited accounts of each individual LB must be made available online in order to avail its Grants. **As such, speedy action on setting up a comprehensive IT System for LBs has assumed great urgency and PRD and UDHD need to take effective steps to complete this task at the earliest.**¹
7. **SFC Transfers in Three Components:** The Commission was surprised to find that no expenditure was reported on maintenance of assets in the reports submitted by PRD and UDHD. Similarly, no expenditure was reported on implementation of local schemes. Expenditure report of PRIs for 2015-20 did not show any expenditure on providing civic services, which is a core function of the local governments.

¹ See Chapter 5 paragraph 5.56 and Chapter 4 paragraph 4.55 for recommendations in this regard.

8. One reason for such state of affairs could be the absence of dedicated funds for maintenance, civic services and local schemes. The Commission, during visit to Kerala, found that State has addressed these issues by releasing funds to the LBs in three separate components – (a) Development Fund (DF) for creation of new assets; (b) Maintenance Fund (MF) for maintenance of assets and (c) General Fund (GF) for performance of civic services, payment of salary and remuneration and meeting other administrative and miscellaneous expenses. Diversion of money from one fund to another is not allowed. **This Commission has decided to recommend adoption of the Kerala system for fiscal transfers to LBs in three components, viz., Development Fund, Maintenance Fund and General Fund.**
9. **Untied Funds:** In course of field visits to PRIs and ULBs, one constant complaint made before the Commission by the elected representatives was regarding paucity of untied funds for taking up local schemes. They said that practically entire amount of devolution and grants is tied for state or central schemes. They conveyed that inability to fulfil the local needs of the inhabitants of panchayats/ municipalities was giving rise to frustration and disappointment.
10. This Commission is of the view that local bodies are embodiment of decentralised governance, but absence of resources for taking up activities based on decentralised decision-making makes them appear ineffective in the eyes of people. UFC15 has recognised the need of untied funds for LBs and allowed 40 percent of the Grants allocated by it to be given as untied funds. PRD has put forth a specific proposal for provision of untied funds for PRIs of each tier. **This Commission is in agreement with the approach of UFC15 and has included provision for untied funds for both PRIs and ULBs in the projections.**
11. **Expenditure Items to be Met out of Fiscal Transfer from State Government:** During 2015-16 to 2019-20, total expenditure of LBs, as reported by PRD and UDHD, was Rs 53,905.15 crore, while the total SFC transfer amounted to Rs 15,291.48 crore. Apparently, the quantum of fiscal transfer as per SFC5 recommendation was much less than the total expenditure requirement of LBs. Since the SFC transfers cannot provide resources to meet

all expenditure of the LBs, there is a need to identify the expenditure items for which these funds should be used. The Commission is of the view that, if the LBs are to render services expected of them, it is necessary for them to have adequate manpower, their capacity needs to be strengthened in terms of skills, IT facilities and office space and they must have resources to provide civic services. Besides, they should have adequate funds at their disposal for maintaining assets created. They should also have untied funds to take up local schemes as per felt needs. Keeping these considerations in view, **the Commission recommends that Fiscal Transfers to LBs based on SFC recommendations (i.e. SFC Transfers) should be used to fully meet the requirement of the following expenditure items:**

i) **Expenditure items under General Fund**

- a) **Establishment expenditure** covering salary/ remuneration/ wages of employees; office expenses and other administrative expenses, etc,
- b) **Expenditure over capacity building** covering training, IT enablement, provision of office space, etc,
- c) **Operational expenditure for providing civic services,**

ii) **Expenditure items under Maintenance Fund**

- a) **Maintenance** of assets,
- b) **Electricity Bills** in connection with providing civic services

iii) **Expenditure items under Development Fund**

- a) **Untied funds** for local schemes

12. The balance of SFC transfer after meeting the above items of expenditure could be used for implementing State Sponsored Schemes/ Centrally Sponsored Schemes.
13. **Compensation for Delayed Releases:** Fund releases by PRD and UDHD to PRIs/ ULBs have been erratic in terms of timelines. The SFC5 had stipulated that Devolution and Grant for 2015-16 should be released to each PRI/ ULB in one instalment and in the subsequent years, the first instalment of 50 percent should be released in April and the second instalment of 50 percent in October. Actually, however, in case of PRIs, no funds were released during 2015-16 and

in the subsequent years, fund releases were made after long delays, ranging from 85 to 237 days. The time schedule for release of Devolution and Grants was not adhered to by the PRD even once during the entire award period of 5 years. The position was not much different in case of ULBs either. Out of the nine releases made during the award period, not a single release was made before the specified deadline. Not only this, the second instalment of FY 2017-18 and 2018-19 could not be released during the same financial year; these instalments were actually released during the following financial year after a delay of 245 and 286 days respectively. For ULBs, time delay in releases ranged from 71 to 326 days.

14. Delayed releases upset the schedule of schemes being implemented by the LBs and adversely impact the management of the PRIs and ULBs. UFC15 has stipulated that if the State Government fails to release Union Finance Commission grants to the LBs within 10 working days, interest for the period of delay has to be paid. **This Commission is of the view that the LBs need to be compensated for delayed releases and accordingly an element of Delay Compensation has been incorporated in the recommendations.**
15. **Minimum Transfer Threshold:** SFC5 had recommended Devolution as a percentage of State's Own Net Tax Revenue (SONTR) (8.5 percent in 2015-16 and 9 percent in later years) and Grant as a percentage of State Budget (2.75 percent in 2015-16, 3.00 percent in next two years and 3.25 percent in the last two years) less Devolution. As the State Government accepted the lowest of recommended percentages (8.5 percent of SONTR and 2.75 percent of Budget) and actual tax realisation and CFS fell below the projections, the net result was a drastic fall in actual SFC transfers (Rs 15,348 crore against recommended Rs 30,300crore). Although the State Government extended generous support from the State Budget over and above SFC transfers, the additional allocations were all tied to specific purposes. The LBs were starved of funds to organise their core services and were unable to take up schemes as per local needs. In view of this, **the Commission has felt the need for specifying a minimum threshold of Devolution and Grant. If the calculated value of Devolution and Grant as per recommendations of this Commission falls below the**

Minimum Threshold, the State Government should transfer at least the Minimum Threshold amount to the LBs.

16. **Revenue Effort Bonus:** Commission is recommending untied funds in Development Fund for taking up schemes as per locally felt needs. The quantum of untied funds needs to be linked to the revenue effort of the LBs. Presently, in the PRI domain, the Gram Panchayats and Panchayat Samitis are not raising any revenue, although the BPRA has empowered them to levy taxes and duties; the ZPs, however, do collect small amounts of revenue. The ULBs, on the other hand, collect some revenue, mostly as property tax, but the quantum is way below their potential. **To incentivise the LBs to make sincere efforts to maximise their own revenue, this Commission is recommending introduction of Revenue Effort Bonuses for LBs that achieve specified revenue benchmarks.** The Bonus would be given in the shape of additional untied funds for local schemes.
17. **Modalities of Additional Transfers from State Government:** As mentioned above, against SFC5 recommendation for transfer of Rs 30,300 crore, actual transfer, for a variety of reasons, was much lower at Rs 15,291.48 crore (50.6 percent) (Table 2.22). This gives an impression that the implementation of accepted recommendations of SFC5 was lackadaisical. However, the picture changes when one takes into account the additional allocations made by PRD and UDHD to PRIs/ ULBs out of the State Budget over and above the SFC transfers for purposes such as implementation of Saat Nishchay Schemes, payment of allowances to elected functionaries and salary to employees, construction of Panchayat Sarkar Bhawans (PSBs) and District Panchayat Resource Centres (DPRCs), drainage in urban areas, provision of civic services, etc. During 2015-20, the two Departments together released additional allocation of Rs 14,871.58 crore to PRIs and ULBs (Table 2.27). Thus, overall fund flow from the State Government to the LBs (i.e. SFC transfers + Additional allocations) was Rs 30,163.06 crore, very close to the amount recommended by SFC5 (Rs 30,300 crore). Considering this, **in order to ensure that entire fund flow from the State Government to LBs is reflected against the transfers recommended by the SFC, this Commission recommends that henceforth**

PRD and UDHD should make all releases (i.e. devolution and grant funds recommended by SFC as well as any additional allocation from State Budget beyond SFC recommendations) in General Fund, Maintenance Fund and Development Fund only. To illustrate, if the size of the Development Fund as per this Commission's recommendation is Rs 4,000 crore and the State Government directs the LBs to implement two Saat Nishchay schemes costing Rs 7,000 crore, then additional allocation of Rs 3,000 crore may be made in Development Fund itself. Thus, in the final reckoning, it would appear in records that the State Government actually released funds in excess of SFC recommendations. This would be a correct portrayal of the actual situation and would demonstrate the commitment of the State Government to support and strengthen local governance.

18. **Special Package for Patna Nagar Nigam:** UDHD has made a request for a special package for Patna Nagar Nigam. Patna is the seat of State's capital. Spread over an area of 109 sq kms, it had a population of 16.84 lakh in 2011; by now, it is expected to be at least 20 lakh. There is a considerable floating population in Patna which imposes added pressure on the civic amenities of the city. Patna has a saucer-shaped topography, which traps and accumulates water in its low lying areas. It requires a robust storm drainage system to prevent water logging. The Nigam has started upgrading its street lighting through EESL, but the work is proceeding with frequent hiccups due to paucity of funds. Door to door garbage collection has started, but work on Waste Processing Unit is yet to be taken up. City roads require renewal and upgradation. UDHD has projected a requirement of Rs 2,442 crore for these purposes during the award period. For a city of Patna's size, even this amount may not be adequate. However, looking at the modest quantum of SFC Transfer for ULBs, **the Commission has managed to provide a special package of Rs 1,300 crore for Patna. This amount, which will be in addition to its normal share of SFC Transfer, will be used for schemes specified by the State Government.**

FRAMEWORK OF FISCAL TRANSFER

- 8.6 **Purpose of Fiscal Transfer:** Fiscal transfer based on recommendation of Finance Commission is necessitated to address the asymmetry in revenue generating capacity

and expenditure responsibility of different tiers of the Government. Higher tiers of Government can impose and collect higher revenues and have the ability to use their higher revenues to bridge the fiscal capacity deficits of lower formations, which can provide public goods and services more responsively and efficiently.

8.7 **Elements of Fiscal Transfer to Local Bodies:** As per Article 243 (I) and 243 (Y) of the Constitution of India, the State Finance Commission is to recommend fiscal transfer to LBs through the following two elements:

1. **Devolution:** State's Own Net Tax Revenue (SONTR) is to be shared between the State and the LBs. To make recommendation in this regard, the SFC needs to estimate the size of Expenditure-Resources gap of the LBs as well as the percentage of the gap that should be covered with devolution, and then recommend the size of devolution.
2. **Grant:** Grant is to be given out of the Consolidated Fund of the State, keeping in view the expenditure need of the LBs and the capacity of the State to spare resources.

SCHEME OF FISCAL TRANSFER

8.8 Based on the framework cited above, the Scheme of Fiscal Transfer recommended by the present Commission is detailed in the following paragraphs.

Assessment of Expenditure-Resources Gap of Local Bodies

8.9 **Projection of Expenditure of LBs:** In order to assess the fund requirements of LBs during the award period, it was necessary to have full knowledge of their work programme for the period 2020-25. Considering that only the administrative departments could have comprehensive vision of LB's future responsibilities that would include implementation of Centrally and State Sponsored schemes together with rendering civic and other services expected of them, this Commission requested the PRD and UDHD to provide their projections of the anticipated expenditure of PRIs and ULBs for the award period. The previous State Finance Commissions had also made similar requests to the departments concerned, but did not receive their inputs and, as such, were compelled to make their own projections based on several ad-hoc assumptions. We are happy to report that this time the Secretaries of the two

Departments and their officers responded to our request and furnished their projections for the rural and urban local bodies. In a series of discussions and interactions with them, the data made available was refined. Based on an analysis of the Departments' inputs, the Commission has made projections and the same may be seen in Chapters 6 and 7 of this Report.

- 8.10 **Projection of Revenues of LBs:** Once the exercise of expenditure projection was completed, the Revenue Projections were worked out. In doing so, in addition to the projections made by UDHD for the existing ULBs, anticipated revenues of the newly created ULBs were also taken into consideration. In the PRIs' domain, only ZPs are generating revenues, but in view of the powers conferred by the BPRA, it is expected that GPs and PSs would start collecting revenues during the award period. SFC5 had estimated that the PRIs would generate Rs 974 crore during 2015-16 to 2019-20 by way of revenue. As the PRIs, other than ZPs, have not begun collection of revenue, we have adopted the same figures for revenue projection of PRIs for the period 2021-22 to 2024-25.
- 8.11 UFC15 Grants that would be available to ULBs and PRIs have been accounted for in the Revenue Projections.
- 8.12 Estimates of receipts of central funds for the Centrally Sponsored Schemes and state funds for the State Sponsored Schemes provided by UDHD and PRD have been incorporated in the Revenue projections without any change.
- 8.13 Commission's projection of Resources of PRIs and ULBs for 2021-25 is available in Chapters 6 and 7.
- 8.14 **Expenditure-Resources Gap:** Commission's computation of Expenditure-Resources Gap of PRIs and ULBs may be seen in Tables 6.35 and 7.45. These tables are reproduced below:

Table 6.35 : Projection of Expenditure-Resources Gap of PRIs for 2021-25

(Rs crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
Expenditure	10,451.83	9,636.47	10,129.43	11,136.53	41,354.25
Resources	6,186.21	5,140.23	5,070.66	5,396.02	21,793.12
Gap	4,265.62	4,496.24	5,058.77	5,740.51	19,561.13

Table 7.45 : Projection of Expenditure-Resources Gap for ULBs for 2021-25

(Rs. crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
Expenditure	28,429.95	25,432.93	24,582.51	27,438.72	1,05,884.11
Resources	26,109.53	23,016.03	21,845.76	24,302.89	95,274.21
Gap	2,320.41	2,416.89	2,736.75	3,135.82	10,609.89

8.15 The total Expenditure-Resources Gap of the LBs for the award period from 2021-22 to 2024-25, as estimated by this Commission, is presented in Table 8.1.

Table 8.1 : Projection of Expenditure-Resources Gap for LBs for 2021-25

(Rs. crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
PRIs (Table 6.35)	4,265.62	4,496.24	5,058.77	5,740.51	19,561.13
ULBs (Table 7.45)	2,320.41	2,416.89	2,736.75	3,135.82	10,609.89
Total Gap	6,586.03	6,913.13	7,795.52	8,876.33	30,171.02

Assessment of Consolidated Fund of State And Divisible Pool of Taxes

8.16 This Commission has made an assessment of the Consolidated Fund of State and Divisible Pool. The methodology used is explained in Annex-8.1. Table 8.2 gives year-wise projections of the CFS.

Table 8.2 : Projected Consolidated Fund of State For 2020-25

(Rs. crore)							
	Items	2020-21	2021-22	2022-23	2023-24	2024-25	2021-25
1	State's Own Revenue	26,491	31,860	37,807	44,391	47,656	1,61,714
	(i) Tax Revenue	22,540	27,226	32,373	38,017	40,181	1,37,797
	(ii) Non-tax Revenue	3,951	4,633	5,434	6,374	7,475	23,916
2	Transfers from Centre	87,881	1,01,041	1,05,972	1,16,804	1,29,830	4,53,647
	(i) Share in Central Taxes	57,727	66,241	73,688	82,917	94,200	3,17,046
	(ii) 15 FC Grants	9,514	13,091	9,451	9,873	10,372	42,787
	(iii) Other Central Grants	20,641	21,709	22,833	24,015	25,258	93,815
3	Capital Receipts	38,057	41,513	45,282	49,394	53,879	1,90,068
	CFS (1 + 2 + 3)	1,52,429	1,74,414	1,89,061	2,10,589	2,31,365	8,05,429

- 8.17 The Divisible Pool of Taxes is calculated by deducting the cost of collection from State's Own Tax Revenue (SOTR). Table 8.3 gives projection of the Divisible Pool of Taxes during 2020-21 to 2024-25.

Table 8.3 : Projected Divisible Pool of Taxes for 2020-25

(Rs. crore)							
	Items	2020-21	2021-22	2022-23	2023-24	2024-25	2021-25
1	State's Own Tax Revenue	22,540	27,226	32,373	38,017	40,181	1,37,797
2	Cost of collection @ 2.52%	568	686	816	958	1,013	3,472
3	Divisible Pool (1-2)	21,972	26,540	31,557	37,059	39,168	1,34,325

Devolution

- 8.18 The present Commission has examined the trend of devolution in Bihar as well as other major states. A summary of recommendations of preceding SFCs of Bihar vs other states is given in Table 8.4. It would be noticed that in the Low Income States, the devolution as a percentage of SOTR has been progressively increasing.

Table 8.4 : Trend of Devolution as a Percentage of SOTR

	1st SFC	2nd SFC	3rd SFC	4th SFC	5 th SFC
Low Income States (LIS)					
Rajasthan	2.18	3.05	5.00	7.05	7.18
Uttar Pradesh	11.00	12.50	15.00	15.00	
Odisha	.....	10.00	15.00	N.A.	Max.10.00
Madhya Pradesh	3.42	4.00	N.A	5.00-7.50	
Bihar	N.A	N.A	3.00	7.50	8.50-9.00
Middle Income States (MIS)					
Tamil Nadu	.....	9.00	10.00	10.00	10.00
Kerala	.....	.....	25.00	19.70	20.00-24.00
West Bengal	16.00	16.00	7.87	2.50	
Karnataka	36.00	40.00	33.00	48.00	
High Income States (HIS)					
Punjab	.....	4.00	4.00	N. A	4.00
Haryana	.....	4.00	4.00	N. A	7.00
Maharashtra	.....	40.00	N.A	40.00 (State own Tax & Non tax)	

- 8.19 SFC5 had assessed the capacity of the State Government to spare resources for LBs and observed that there is enough cushion for enhanced devolution to the LBs (vis-à-vis 7.50 percent recommended by SFC4). It considered devolution scenarios starting from 7.5 percent going up to 12.0 percent and worked out the incremental financial burden on the State Budget and came to the conclusion that Bihar could easily devolve 12 percent of SOTR without much strain on its finances. However, with a view to making the increases gradual, SFC5 recommended 8.5 percent devolution for the year 2015-16 and 9 percent for the remaining four years. Concurring with the approach of the SFC5 for gradually increasing the devolution, this Commission, in its Interim Report submitted in January 2020, recommended 10 percent Devolution for FY 2020-21.
- 8.20 Keeping in view the devolution in neighbouring Low Income States of Uttar Pradesh (15 percent) and Odisha (10 percent) as well as the conclusions of the SFC5 of Bihar, **this Commission is of the view that Devolution at the rate 10 percent of the Divisible Pool would be appropriate for the entire period from 2021-22 to 2024-25 and recommends accordingly.**
- 8.21 **Calculation of devolution as a percentage of Divisible Pool of Taxes is currently done in Bihar on t-1 basis. This Commission recommends to continue this practice.** This would mean that Devolution in FY 2021-22 equals 10 percent of Divisible Pool of Taxes of FY 2020-21 and so on.
- 8.22 Year-wise projection of devolution at the rate 10 percent on t-1 basis is shown in Table 8.5.

Table 8.5 : Devolution to Local Bodies during 2021-25

		(Rs. crore)					
		2020-21	2021-22	2022-23	2023-24	2024-25	2021-25
1	Divisible Pool of Taxes	21,972	26,540	31,557	37,059	39,168	1,34,325
2	Devolution (10 percent on t-1 basis)		2,197	2,654	3,156	3,706	11,713

- 8.23 Thus, the quantum of devolution for the award period 2021-25 at the rate of 10 percent will be Rs 11,713 crore. This devolution would cover about 39 percent of the Expenditure-Resources Gap.

Grant

- 8.24 As indicated in Table 8.1, the Expenditure-Resources Gap of the LBs for the period 2021-25 is Rs 30,171 crore. With devolution amounting to Rs 11,713 crore (Table 8.5), the uncovered gap will be Rs 18,458 crore. **This Commission recommends that the uncovered gap should be met fully with Grant from the Consolidated Fund of the State.**
- 8.25 Thus, the amount of Grant for the four year period 2021-22 to 2024-25 will be Rs 18,458 crore which is 2.54 percent of the Consolidated Fund of the State (on t-1 basis). **Hence, the Commission recommends that the amount of annual Grant during the period 2021-25 should be calculated at the rate of 2.5 percent of CFS on t-1 basis.**

Relative Shares of PRIs And ULBs in Total SFC Transfer

- 8.26 The Commission has noticed that PRD has been issuing separate sanction orders for release of devolution and grant to the PRIs, but UDHD has been merging the amounts of devolution and grant and releasing composite sanction orders. This Commission feels that the methodology adopted by UDHD offers greater flexibility and should be followed for making transfers to the LBs. **As such, this Commission is making recommendations for distribution of composite amount of Devolution and Grant (Total SFC Transfer) to the LBs.** Henceforth, all references to the term Total SFC Transfer should be taken to mean composite amount of Devolution and Grant.
- 8.27 SFC5 had recommended devolution to PRIs and ULBs in ratio 70:30 in the first year and 60:40 in the remaining four years. State Government, however, applied 70:30 formula for the entire five year period. The Commission has noted that UFC15 has recommended release of FC grants to PRIs and ULBs in the ratio 67:33 during first two years, starting from 2021-22, 66:34 during the next two years and 65:35 in the fifth year (2025-26). Keeping in mind the recommendations of SFC5 and UFC15 to raise the share of ULBs, and in view of the existing low level of urbanisation in Bihar (just 11 percent) and the need for accelerating urbanisation in the state, **this Commission recommends to adopt 65:35 formula for PRIs:ULBs for the entire award period from 2021-22 to 2024-25.**

Distribution Of PRIs' Share of Total SFC Transfer

8.28 Apportionment between General Fund, Maintenance Fund and Development

Fund: In accordance with the approach outlined in Paragraph 8.5(7), the Commission recommends apportionment of PRIs' share of Total SFC Transfer in three heads as shown below:

- i) Development Fund – 30 percent
- ii) Maintenance Fund – 20 percent
- iii) General Fund – 50 percent

8.29 Development Fund

1. Development fund is meant to finance implementation of schemes for local level development. It may have two components – untied and tied. Using the untied funds, the individual PRI will have freedom to prepare and execute annual plans consisting of a number of individual projects and schemes for local level development under the 29 subjects enshrined in the Eleventh Schedule of the Constitution, subject to the overall guideline of the State Government. The tied funds, if any, could be used for implementation of State or Centrally Sponsored Schemes.
2. The quantum of untied funds for local schemes in the expenditure projection is such that it would consume the entire allocation of the Development Fund. Nevertheless, the State Government will be free to determine the relative sizes of untied and tied portions of the Development Fund each year and release funds to the PRIs accordingly. However, the size of the untied part shall not be less than 40 percent of the total amount in Development Fund in any year. Savings of untied funds, if any, could be used for State Sponsored Schemes.
3. **Inter-se Distribution of Development Fund among PRI Tiers:** As per recommendation of SFC5, presently inter-se share of ZPs, PSs and GPs in Devolution and Grant is 20:10:70. UFC15 has recommended inter-tier distribution of FC Grant in accordance with following bands:
 - a) GP: 70-85 percent
 - b) PS: 10-25 percent
 - c) ZP: 5-15 percent

4. This Commission is of the view that inter-tier as well as intra-tier distribution of Fiscal transfers from the State as well as the Centre (i.e. SFC6 Transfers and UFC15 Grants) should follow the same formula for ease of implementation and accounting. Since UFC15 has pegged the upper limit for ZP share of Grant at 15 percent, **this Commission recommends that ZP share of Development Fund should be fixed at 15 percent and that of PS and GP should be fixed at 15 percent and 70 percent respectively.**
5. **Both the untied and tied parts of Development Fund will be shared among ZPs, PSs and GPs in the ratio 15:15:70.**
6. **Intra Distribution of Development Fund among Individual PRIs in Each Tier:** Currently, based on SFC5 recommendation, the State is following a formula for intra-tier distribution based on three parameters, namely, population, area and UDI with varying weights for each tier as presented in Table 8.6. On the other hand, UFC15 has recommended that the intra-tier distribution should be on the basis of population and area in the ratio 90:10 or as per accepted recommendation of the latest SFC. **This Commission would like to recommend the simpler formula suggested by UFC15 for intra-tier distribution based on population and area with the following weights:**
 - a) Population: 90 percent
 - b) Area: 10 percent

Table 8.6 : Existing Criteria for Intra PRI Tier Distribution as per SFC5

Criterion	Weight assigned by SFC5		
	ZP	PS	Each GP falling within a particular Block would get equal share of amount available to all the GPs in that particular Block based on the Block's UDI
Population	50	50	
Area	10	0	
UDI	40	50	
Total	100	100	

8.30 Maintenance Fund

1. Maintenance Fund is meant for meeting the maintenance expenditure of assets of the PRIs. Maintenance would comprise of repairs of assets and replacements

of spare parts to retain an asset in working condition. It would include repair and maintenance of the following:

- a) Buildings,
 - b) Furniture,
 - c) Machineries and equipment,
 - d) Computers and its peripherals including Annual Maintenance Charge (AMC)
 - e) Electrical works including wiring/ rewiring,
 - f) Plumbing works,
 - g) Drinking water pipelines and fittings,
 - h) Drains (naali),
 - i) Village streets (gali),
 - j) Solid waste/ liquid waste disposal structures,
 - k) Street lights.
2. Maintenance Fund should not be used for purchase of furniture, computers and peripherals; payment of salary/ wages/ remuneration; travel expenses; telephone charges; and fuel charges for vehicles. However, electricity bills for running drinking water schemes and solid/ liquid waste facilities etc can be paid out of Maintenance Fund.
3. PRD should annually review the list of items over which expenditure from Maintenance Fund could be incurred and the list of eligible items should be circulated along with fund release orders.
4. **Inter-se Distribution of Maintenance Fund among PRI Tiers:** Maintenance fund will be shared among ZPs, PSs and GPs in the ratio 15:15:70.
5. **Intra Distribution of Maintenance Fund among Individual PRIs in Each Tier:** The inter-se share of individual PRIs in each tier will be determined on the basis of following criteria:
- a) Population: 90 percent
 - b) Area: 10 percent

6. Surplus of Maintenance Fund, if any, could be transferred to the Development Fund, but not vice versa. PRD will issue guidelines for such transfers.

8.31 General Fund

1. General Fund is primarily meant for meeting expenditure over performance of various functions of the PRIs, as stipulated in the BPRA 2006, as well as for defraying establishment and administrative expenditure. Thus, money in General Fund may be used for following expenditure items:
 - i) Operational expenditure over provision of civic services such as
 - a) Supply of drinking water,
 - b) Collection and disposal of solid waste,
 - c) Disposal of liquid waste,
 - d) Street lighting,
 - e) Provision of public toilets,
 - f) Establishment of burial and burning grounds,
 - g) Running public libraries,
 - h) Managing playgrounds, etc
 - ii) Establishment and administrative expenditure such as
 - a) Payment of salary/ wages/ remuneration of employees,
 - b) Office expenses,
 - c) Furniture and stationery.
 - iii) Expenditure over capacity building such as
 - a) Training,
 - b) IT enablement including purchase of computers, peripherals, software,
 - c) IT connectivity,
 - d) Construction of office building,
 - e) Programme Management Unit (PMU), etc.
2. Surplus in General Fund may be transferred to Development Fund, but not vice versa. PRD will issue guidelines for such transfers.

3. **Inter-se Distribution of General Fund among PRI Tiers :** Funds earmarked for civic services in General Fund should be shared among ZPs, PSs and GPs in the ratio 15:15:70.
4. **Intra Distribution of General Fund for Civic Services among Individual PRIs in Each Tier:** The inter-se share of individual units of each tier will be determined on the basis of following criteria:
 - a) Population: 90 percent
 - b) Area: 10 percent
5. Amounts in the General Fund meant for purposes other than civic services shall be distributed as indicated below:
 - i) **Salary/ remuneration/ wages of employees:** Funds to be released to each GP, PS and ZP on the basis of employees in position.
 - ii) **Office expenses:**
 - a) GP : Rs 60,000 in 2020-21, increasing by 10 percent each year;
 - b) GK: Rs 60,000 in 2020-21, increasing by 10 percent each year;
 - c) PS: Rs 1,20,000 in 2020-21, increasing by 10 percent each year;
 - d) ZP: Rs 2,40,000 in 2020-21, increasing by 10 percent each year.
 - iii) **PMU:** Funds to be released to SPMU, DPMUs and ZPs on the basis of employees in position.
 - iv) **IT Enablement:** PRD to allocate funds as per requirement;
 - v) **SPRC/ DPRC:** PRD to release funds as per work programme;
 - vi) **Panchayat Sarkar (Bhawan) (PSB) :** Funds to be released to concerned GPs as per work programme drawn up by PRD.
6. In case new items are included in the General Fund, PRD will devise a fair and equitable method for distribution of funds meant for the new items among the PRIs.

Distribution Of ULBs' Share of Total SFC Transfer

- 8.32 **Apportionment between General Fund, Maintenance Fund and Development Fund:** In accordance with the approach outlined in Paragraph 8.5(7) the Commission recommends apportionment of ULBs share in three heads as shown below:

- i) Development Fund – 30 percent
- ii) Maintenance Fund – 20 percent
- iii) General Fund – 50 percent

8.33 Development Fund

1. Development fund is meant to finance implementation of schemes for local level development. It may have two components – untied and tied. Using the untied funds, the individual ULB will have freedom to prepare and execute annual plans, consisting of a number of individual projects and schemes for local level development under the 18 subjects enshrined in the Twelfth Schedule of the Constitution, subject to the overall guideline of the State Government. The tied funds could be used for implementation of State or Centrally Sponsored Schemes.
2. The quantum of untied funds for local schemes in the expenditure projection is such that it would consume the entire allocation of the Development Fund. Nevertheless, the State Government will be free to determine the relative sizes of untied and tied portions of the Development Fund each year and release funds to the ULBs accordingly. However, the size of the untied part shall not be less than 40 percent of the total amount in Development Fund in any year. Savings of untied funds, if any, could be used for State Sponsored Schemes.
3. Special package for Patna Nagar Nigam shall be funded out of Development Fund.
4. **Inter-se Distribution of Development Fund among ULBs:** The Development Fund will be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of the criteria given below:
 - a) Population: 90 percent
 - b) Area: 10 percent
5. Any savings in Development Fund (untied) may be used for State or Centrally Sponsored Schemes.

8.34 Maintenance Fund

1. Maintenance Fund is meant for meeting the maintenance expenditure of assets of the ULBs. Maintenance would comprise repairs of assets and replacements of spare parts to retain an asset in working condition. It would include repair and maintenance of the following:
 - a) Buildings,
 - b) Furniture,
 - c) Machineries and equipment,
 - d) Computers and its peripherals including AMC,
 - e) Electrical works including wiring/ rewiring,
 - f) Plumbing works,
 - g) Drinking water pipelines and fittings,
 - h) Drains (naali) and storm water structures,
 - i) Roads and streets (gali),
 - j) Solid waste/ liquid waste disposal structures,
 - k) Street lights, etc.
2. Maintenance Fund should not be used for purchase of furniture, computers and peripherals; payment of salary/ wages/ remuneration; travel expenses; telephone charges; and fuel charges for vehicles. However, electricity bills for running drinking water schemes and solid/ liquid waste facilities etc can be paid out of Maintenance Fund.
3. **Inter-se Distribution of Development Fund among ULBs:** Maintenance fund will be shared among the ULBs on the basis of following criteria:
 - a) Population: 90 percent
 - b) Area: 10 percent
4. Surplus of Maintenance Fund, if any, could be transferred to the Development Fund, but not vice versa.

8.35 General Fund

1. General Fund is primarily meant for meeting expenditure over performance of various functions of the ULBs as stipulated in the BMA 2007, as well as for

defraying establishment and administrative expenses. Thus, General Fund could be used for following types of expenditure:

- i) Operational expenditure over provision of civic services such as
 - a) Supply of drinking water,
 - b) Collection and disposal of solid waste,
 - c) Disposal of liquid waste,
 - d) Street lighting,
 - e) Provision of public toilets,
 - f) Establishment of burial and burning grounds,
 - g) Running public libraries,
 - h) Managing playgrounds, etc
 - ii) (ii) Establishment and administrative expenditure such as
 - a) Payment of salary/ wages/ remuneration of employees,
 - b) Office expenses,
 - c) Furniture and stationery,
 - iii) (iii) Expenditure over capacity building such as
 - a) Training,
 - b) IT enablement including purchase of computers, peripherals, software,
 - c) IT connectivity,
 - d) Construction of office building,
 - e) Programme Management Unit (PMU), etc.
2. Surplus in General Fund may be transferred to Development Fund, but not vice versa. UDHD will issue guidelines for such transfers.
3. In case new items are included in the General Fund, UDHD will devise a fair and equitable method for distribution of funds meant for the new items to the ULBs.
4. **Inter-se Distribution of General Fund among ULBs:** Funds earmarked for civic services should be shared among ULBs on the basis of following criteria:

- a) Population: 90 percent
 - b) Area: 10 percent
- 5. Amounts in the General Fund meant for purposes other than civic services shall be distributed as indicated below:
 - a) **Salary/ remuneration/ wages of employees:** Funds to be released to each ULB on the basis of employees in position.
 - b) **Office expenses and other administrative expenses:** Funds will be released to ULBs as per requirement assessed by UDHD.
 - c) **One Time Allocation to New ULBs:** UDHD to allocate funds to the new ULBs as per requirement.
 - d) **PMU:** UDHD to use funds to defray expenditure on PMU located in the Department.
 - e) **IT Enablement:** UDHD to allocate funds as per requirement.
 - f) **Training:** UDHD to allocate fund for BUMI building as per sanctioned estimates; training fund to be allocated to training institutions as per need assessed by UDHD.
 - g) **Office buildings and residential quarters:** UDHD to allocate funds for construction of office buildings in 2021-22 and residential quarters in subsequent years to respective ULBs as per sanctioned estimates.

RECOMMENDATIONS

Fiscal Transfer from State Government

8.36 Devolution

1. Devolution at the rate of 10 percent of State's Divisible Pool of Taxes on t-1 basis is recommended in each year of the award period.
2. Based on the projection of Divisible Pool in Table 8.3, year-wise devolution during the award period 2021-22 to 2024-25 is shown in Table 8.7.

Table 8.7 : Devolution to Local Bodies during 2021-25

(Rs. crore)

		2020-21	2021-22	2022-23	2023-24	2024-25	2021-25
1	Divisible Pool	21,972	26,540	31,557	37,059	39,168	1,34,325
2	Devolution (10 Percent on t-1 basis)		2,197	2,654	3,156	3,706	11,713
3	Minimum Devolution Threshold (80 percent of 2)		1,758	2,123	2,525	2,965	

3. In case Devolution calculated at the rate of 10 percent of actuals of Divisible Pool on t-1 basis is less than the Minimum Threshold amount mentioned in Row 3 of Table 8.7, then the Minimum Threshold amount shall be devolved. The amount of Devolution should never be less than the Minimum Threshold. On the other hand, if the calculated value of devolution is more than the Minimum Threshold mentioned in Row 3 of Table 8.7 and/ or projected devolution mentioned in Row 2 of Table 8.7, the calculated higher amount shall be devolved.

8.37 Grant

- Grant at the rate of 2.5 percent of the Consolidated Fund of the State on t-1 basis is recommended in each year of the award period.
- Based on the projection of CFS in Table 8.2, year-wise Grant on t-1 basis during the award period 2021-22 to 2024-25 is shown in Table 8.8.

Table 8.8 : Grant to Local Bodies during 2021-25

(Rs. crore)

		2020-21	2021-22	2022-23	2023-24	2024-25	2021-25
1	CFS Projection	1,52,429	1,74,414	1,89,061	2,10,589	2,31,365	8,05,429
2	Grant @2.5% of CFS on t-1 basis		3,811	4,360	4,727	5,265	18,162
3	Minimum Grant Threshold @80% of 2		3,049	3,488	3,781	4,212	

3. In case Grant calculated at the rate of 2.5 percent of the Consolidated Fund of the State on t-1 basis is less than the Minimum Threshold amount mentioned in Row 3 of Table 8.8, then the Minimum Threshold amount shall be given as Grant. The amount of Grant should never be less than the Minimum Threshold. On the other hand, if the calculated value of Grant is more than the Minimum

Threshold mentioned in Row 3 of Table 8.8 and/ or projected amount mentioned in Row 2 of Table 8.8, the calculated higher amount shall be released as Grant.

- 8.38 **Total SFC Transfer:** Based on the recommendations for Devolution and Grant above, projected value of Total SFC Transfer during the award period is shown year-wise in Table 8.9.

Table 8.9 : Total SFC Transfer to Local Bodies during 2021-25

	2021-22	2022-23	2023-24	2024-25	(Rs. crore) 2021-25
Devolution	2,197	2,654	3,156	3,706	11,713
Grant	3,811	4,360	4,727	5,265	18,162
Total SFC Transfer (1+2)	6,008	7,014	7,883	8,971	29,875

- 8.39 **Relative Shares of PRIs and ULBs in Total SFC Transfer:** The amount of Total SFC Transfer is recommended to be distributed between PRIs and ULBs in the ratio 65:35. Year-wise sharing of Total SFC Transfer is given in Table 8.10.

Table 8.10 : Share of PRIs and ULBs in Total SFC Transfer

	2021-22	2022-23	2023-24	2024-25	(Rs. crore) 2021-25
Items					
Total SFC Transfer	6,008	7,014	7,883	8,971	29,875
PRIs (65 percent)	3,905	4,559	5,124	5,831	19,419
ULBs (35 percent)	2,103	2,455	2,759	3,140	10,457

- 8.40 **Distribution of PRIs' Share of Total SFC Transfer**

- Apportionment between General Fund, Maintenance Fund and Development Fund:** PRIs' share of Total SFC Transfer is recommended to be apportioned in three heads as follows:
 - Development Fund: 30 percent
 - Maintenance Fund: 20 percent
 - General Fund: 50 percent
- Thus, on the basis of projections made by this Commission in consultation with PRD, the amounts that would be available to the PRIs in the three Funds during award period is shown in Table 8.11.

Table 8.11 : Apportionment of PRIs' Share of Total SFC Transfer between Development, Maintenance and General Fund

(Rs. crore)

Items	2021-22	2022-23	2023-24	2024-25	2021-25
Total SFC Transfer	3,905	4,559	5,123	5,831	19,419
Development Fund@30%	1,172	1,368	1,537	1,749	5,826
Maintenance Fund @20%	781	912	1,025	1,166	3,884
General Fund @50%	1,953	2,280	2,562	2,915	9,709

3. **Development Fund**

- i) Development Fund may be used for purposes mentioned in Paragraph 8.29.
- ii) State Government may determine the relative sizes of untied and tied portions of the Development Fund. However, proportion of untied fund in Development Fund shall not be less than 40 percent.
- iii) **Inter-se Distribution of Development Fund among PRI Tiers:** Both tied and untied parts of Development Fund are recommended to be shared among ZPs, PSs and GPs in ratio 15:15:70.
- iv) **Intra Distribution of Development Fund among Individual PRIs in Each Tier:** The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:
 - (1) Population: 90 percent
 - (2) Area: 10 percent

4. **Maintenance Fund**

- i) Maintenance Fund may be used for purposes mentioned in Paragraph 8.30.
- ii) Surplus of Maintenance Fund may be transferred to development Fund, but not vice-versa. PRD may issue guidelines for such transfers.
- iii) **Inter-se Distribution of Maintenance Fund among PRI Tiers:** Maintenance Fund is recommended to be shared among ZPs, PSs and GPs in ratio 15:15:70.

- iv) **Intra Distribution of Maintenance Fund among Individual PRIs in Each Tier:** The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:
 - (1) Population: 90 percent
 - (2) Area: 10 percent

5. General Fund

- i) General Fund may be used for purposes mentioned in paragraph 8.31.
- ii) The State Government shall determine the amounts to be allocated out of General Fund for (a) Establishment and Administrative Expenses, (b) Capacity Building and (c) Operational expenditure on civic services. However, allocation for civic services shall not be less than 15 percent of the General Fund in any year.
- iii) Surplus of General Fund may be transferred to Development Fund, but not vice-versa. PRD may issue guidelines for such transfers.
- iv) In case new items are included in General Fund, PRD will devise a fair and equitable method for distribution of funds meant for new items.
- v) **Inter-se Distribution of General Fund among PRI Tiers:** Funds allocated for civic services in General Fund are recommended to be shared among ZPs, PSs and GPs in ratio 15:15:70. Funds allocated for other purposes are recommended to be distributed as mentioned in Paragraph 8.31(5).
- vi) **Intra Distribution of Allocation for Civic Services in General Fund among individual PRIs in Each Tier:** The inter-se share of individual units in each tier is recommended to be determined on the basis of population and area with the following weights:
 - (1) Population: 90 percent
 - (2) Area: 10 percent

8.41 Distribution of ULBs' Share of Total SFC Transfer

1. **Apportionment between General Fund, Maintenance Fund and Development Fund:** ULB's share of Total SFC Transfer is recommended to be apportioned in three heads as follows:
 - a) Development Fund: 30 percent
 - b) Maintenance Fund: 20 percent
 - c) General Fund: 50 percent
2. On the basis of projections made by this Commission in consultation with UDHD, the amounts that would be available to the ULBs in the three Funds during award period is shown in Table 8.12.

Table 8.12 : Apportionment of ULBs Share between Development, Maintenance and General Fund

(Rs. crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
Total SFC Transfer	2,103	2,455	2,759	3,140	10,456
Development Fund (30 percent)	631	737	828	942	3,137
Maintenance Fund (20 percent)	421	491	552	628	2,091
General Fund (50 percent)	1,051	1,228	1,379	1,570	5,228

3. **Development Fund**
 - i) Development Fund may be used for purposes mentioned in Paragraph 8.33.
 - ii) State Government may determine the relative sizes of untied and tied portions of the Development Fund. However, proportion of untied fund in Development Fund shall not be less than 40 percent.
 - iii) Any savings in Development Fund (untied) may be used for State or Centrally Sponsored Schemes.
 - iv) **Special Package for Patna Nagar Nigam :** The year-wise allocations under special package for Patna Nagar Nigam will be as shown in Table 8.13. This allocation is in addition to the share of Patna Nagar Nigam in SFC Transfers for ULBs. These funds are to be used for schemes specified by the State Government.

Table 8.13 : Special Package for Patna Nagar Nigam

(Rs. crore)

Items	2021-22	2022-23	2023-24	2024-25	2021-25
Special Package Allocation	275.00	300.00	350.00	375.00	1,300.00

- v) **Inter-se Distribution of Development Fund among ULBs:** After setting apart the allocation for Patna Special Package, balance amount in Development Fund is recommended to be shared among Nagar Nigams (including Patna Nagar Nigam), Nagar Parishads and Nagar Panchayats on the basis of following criteria:

- (1) Population: 90 percent
- (2) Area: 10 percent

4. **Maintenance Fund**

- i) Maintenance Fund may be used for purposes mentioned in Paragraph 8.34.
- ii) Surplus of Maintenance Fund, if any, may be transferred to Development Fund, but not vice-versa. UDHD may issue guidelines for such transfers.
- iii) UDHD should annually review the list of items over which expenditure from Maintenance Fund could be incurred and the list of eligible items should be circulated along with fund release orders.
- iv) **Inter-se Distribution of Maintenance Fund among ULBs:** Maintenance Fund is recommended to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:
 - (1) Population: 90 percent
 - (2) Area: 10 percent

5. **General Fund**

- i) General Fund may be used for purposes mentioned in Paragraph 8.35.
- ii) The State Government shall determine the amounts to be allocated out of General Fund for (a) Establishment and Administrative Expenses, (b) Capacity Building and (c) Operational expenditure on civic services.

However, allocation for Civic Services shall not be less than 20 percent of the General Fund in any year.

- iii) Surplus of General Fund may be transferred to Development Fund, but not vice-versa. UDHD may issue guidelines for such transfers.
- iv) In case new items are included in General Fund, UDHD will devise a fair and equitable method for distribution of funds meant for new items.
- v) **Inter-se Distribution of General Fund among ULBs:** Funds allocated for Civic Services in General Fund are recommended to be shared among Nagar Nigams, Nagar Parishads and Nagar Panchayats on the basis of following criteria:
 - (1) Population: 90 percent
 - (2) Area: 10 percent
- vi) Funds allocated for purposes other than Civic Services in General Fund are recommended to be distributed as mentioned in Paragraph 8.35(5).

UFC15 GRANTS FOR LOCAL BODIES OF BIHAR

8.42 UFC15 has allocated Grants for Local Bodies of Bihar amounting to Rs 29,560 crore for the five year period from 21-22 to 25-26 (Table 8.14).

Table 8.14 : 15 FC Grants for PRIs & ULBs for the period 2021-22 to 2024-25

(Rs. crore)

Items	2021-22	2022-23	2023-24	2024-25	2025-26	2021-26
Total UFC15 Grant	5,536	5,734	5,885	6,233	6,172	29,560
PRIs share	3,709	3,842	3,884	4,114	4,012	19,561
ULBs share	1,827	1,892	2,001	2,119	2,160	9,999

8.43 Distribution of PRIs' share of UFC15 Grants

1. **Inter-se Distribution of PRIs' Share of UFC15 Grants among PRI Tiers:**
 UFC15 has recommended that the inter se distribution of Grants among all the tiers should be done by the State Governments on the basis of recommendations of the latest SFC, subject to shares of ZPs, PSs and GPs being in bands of 5-15 percent, 10-25 percent and 70-85 percent respectively. Considering this, **this Commission recommends that inter se distribution of UFC15 Grants among**

the PRI tiers should follow the same ratio that this Commission has recommended for inter se distribution of SFC Transfers, viz., 15:15:70 for ZPs:PSs:GPs, which is in conformity with the bands specified by UFC15.

2. **Intra-tier Distribution of PRIs' Share of UFC15 Grants:** As in the case of SFC transfers, this Commission recommends that PRIs' share of UFC15 Grants (both untied Basic Grant as well as tied Grants) be distributed among individual units of each tier according to the following criteria:
 - a) Population: 90 percent
 - b) Area: 10 percent

8.44 **Distribution of ULB's Share of UFC15 Grants**

1. UFC15 Grants for ULBs are bifurcated into Grants for Million Plus Cities and Grants for Other Than Million Plus Cities.
2. **Grants for Million Plus Cities:** Bihar has only one Million Plus City – Patna. Hence, Grants for improving air quality and meeting service level benchmarks for drinking water supply, sanitation and solid waste management in Million Plus Cities will go entirely to Patna Nagar Nigam.
3. **Grants for Other Than Million Plus Cities:** ULBs' share of UFC15 Grants (both untied Basic Grant as well as tied Grants) for Other Than Million Plus Cities is recommended to be distributed among Nagar Nigams (other than Patna), Nagar Parishads and Nagar Panchayats based on the following criteria:
 - a) Population: 90 percent
 - b) Area: 10 percent

RESOURCES FOR EACH ITEM OF PROJECTED EXPENDITURE

- 8.45 For better understanding of Commission's projections, different sources from which each expenditure item is to be funded and the amounts required from those sources is explained in Tables 8.15 and Table 8.16. The projected expenditure is displayed in **Bold Font** and the fund source data in *Italics*.

Table 8.15 : Funds Required from Different Sources to Meet Projected Expenditure of PRIs*

(Rs crore)					
Item	2021-22	2022-23	2023-24	2024-25	2021-25
1. Establishment	540.21	594.23	653.66	719.02	2,507.12
<i>Fund Source</i>					
<i>Allocation from State Budget</i>	<i>540.21</i>	<i>594.23</i>	<i>653.66</i>	<i>719.02</i>	<i>2,507.12</i>
2. Remuneration of Contractual Staff	677.97	905.28	995.42	1,076.10	3,654.77
<i>Fund Source</i>					
<i>General Fund</i>	<i>677.97</i>	<i>905.28</i>	<i>995.42</i>	<i>1,076.10</i>	<i>3,654.77</i>
3. Office Expenditure	107.96	118.76	130.64	143.70	501.06
<i>Fund Source</i>					
<i>General Fund</i>	<i>107.96</i>	<i>118.76</i>	<i>130.64</i>	<i>143.70</i>	<i>501.06</i>
4. PMU	33.41	36.75	40.42	44.47	155.05
<i>Fund Source</i>					
<i>General Fund</i>	<i>33.41</i>	<i>36.75</i>	<i>40.42</i>	<i>44.47</i>	<i>155.05</i>
5. Capacity Building	968.52	996.32	1,151.05	1,277.75	4,393.63
<i>Fund Source</i>					
<i>(i) General Fund</i>	<i>811.52</i>	<i>822.32</i>	<i>958.05</i>	<i>1,064.75</i>	<i>3,656.63</i>
<i>(ii) Own Tax Revenue#</i>	<i>157.00</i>	<i>174.00</i>	<i>193.00</i>	<i>213.00</i>	<i>737.00</i>
6. Operational Expenditure on Civic Services (Table 6.15)	1,360.15	1,524.15	1,589.65	1,883.15	6,357.10
<i>Fund Source</i>					
<i>(i) General Fund</i>	<i>300.00</i>	<i>360.00</i>	<i>400.00</i>	<i>540.00</i>	<i>1,600.00</i>
<i>(ii) Own Non-Tax Revenue</i>	<i>50.00</i>	<i>60.00</i>	<i>70.00</i>	<i>80.00</i>	<i>260.00</i>
<i>(iii) UFC15 Basic Grant</i>	<i>741.80</i>	<i>768.40</i>	<i>776.80</i>	<i>822.80</i>	<i>3,109.80</i>
<i>(iv) UFC15 Grant for Drinking Water</i>	<i>268.35</i>	<i>335.75</i>	<i>342.85</i>	<i>440.35</i>	<i>1,387.30</i>
7. Maintenance (Table 6.16)	1,084.35	1,173.33	1,287.85	1,391.53	4,937.06
<i>Fund Source</i>					
<i>(i) Maintenance Fund</i>	<i>790.00</i>	<i>906.48</i>	<i>1,015.50</i>	<i>1,147.68</i>	<i>3,859.66</i>
<i>(ii) UFC15 Grant for Drinking Water</i>	<i>294.35</i>	<i>266.85</i>	<i>272.35</i>	<i>243.85</i>	<i>1,077.40</i>
8. Untied Fund for Local Schemes (Table 6.17)	1,894.55	2,115.05	2,295.55	2,546.61	8,851.76
<i>Fund Source</i>					
<i>(i) Development Fund</i>	<i>1,152.75</i>	<i>1,346.65</i>	<i>1,518.75</i>	<i>1,723.81</i>	<i>5,741.96</i>
<i>(ii) UFC15 Basic Grant</i>	<i>741.80</i>	<i>768.40</i>	<i>776.80</i>	<i>822.80</i>	<i>3,109.80</i>
9. State Sponsored Schemes	3,392.70	2,172.60	1,985.20	2,054.20	9,604.70
<i>Fund Source</i>					
<i>(i) Allocation from State Budget</i>	<i>1,730.00</i>	<i>470.00</i>	<i>270.00</i>	<i>270.00</i>	<i>2,740.00</i>
<i>(ii) UFC15 Grant for Drinking Water</i>	<i>550.00</i>	<i>550.00</i>	<i>550.00</i>	<i>550.00</i>	<i>2,200.00</i>
<i>(iii) UFC15 Grant for SWM</i>	<i>1,112.70</i>	<i>1,152.60</i>	<i>1,165.20</i>	<i>1,234.20</i>	<i>4,664.70</i>
10. Panchayat Election	392.00				392.00
<i>Fund Source</i>					
<i>General Fund</i>	<i>392.00</i>				<i>392.00</i>
Total Projected Expenditure	10,451.83	9,636.47	10,129.43	11,136.53	41,354.25
<i>Fund Source</i>					
<i>(i) Development Fund</i>	<i>1,152.75</i>	<i>1,346.65</i>	<i>1,518.75</i>	<i>1,723.81</i>	<i>5,741.96</i>
<i>(ii) Maintenance Fund</i>	<i>790.00</i>	<i>906.48</i>	<i>1,015.5</i>	<i>1,147.68</i>	<i>3,859.66</i>
<i>(iii) General Fund</i>	<i>2322.86</i>	<i>2243.11</i>	<i>2524.53</i>	<i>2869.02</i>	<i>9,959.52</i>
<i>(iv) Own Revenue</i>	<i>207</i>	<i>234</i>	<i>263</i>	<i>293</i>	<i>997.00</i>
<i>(v) UFC15 Grants</i>	<i>3,709.00</i>	<i>3,842.00</i>	<i>3,884.00</i>	<i>4,114.00</i>	<i>15,549.00</i>
<i>(vi) Allocation from State Budget</i>	<i>2,270.21</i>	<i>1,064.23</i>	<i>923.66</i>	<i>989.02</i>	<i>5,247.12</i>

* Refer to Expenditure Projection for PRIs in Table 6.22

#There are three sub-items of Capacity Building. Own Tax Revenue is to be used for sub-item 'PSBs'.

Table 8.16 : Funds Required from Different Sources to Meet Projected Expenditure of ULBs*

(Rs crore)					
Items	2021-22	2022-23	2023-24	2024-25	2021-25
1. Establishment	1,147.60	1,500.70	1,795.65	1,890.83	6,334.78
<i>Fund Source</i>					
(i) General Fund	375.81	639.89	832.95	811.11	2,659.78
(ii) Own Tax Revenue	388.34	433.65	484.26	540.81	1,847.07
(iii) Own Non Tax Revenue	143.02	169.11	200.77	239.29	752.19
(iv) Assigned Revenue	240.42	258.04	277.67	299.61	1,075.74
2. Inception Expenditure for new ULBs	73.60				73.60
<i>Fund Source</i>					
General Fund	73.60				73.60
3. PMU	10.00	11.00	12.10	13.31	46.41
<i>Fund Source</i>					
General Fund	10.00	11.00	12.10	13.31	46.41
4. Capacity Building	588.00	295.00	241.00	224.00	1,348.00
<i>Fund Source</i>					
General Fund	588.00	295.00	241.00	224.00	1,348.00
5. Operational Expenditure on Civic Services	940.20	1,000.80	1,058.20	1,323.40	4,322.60
<i>Fund Source</i>					
(i) General Fund	230.00	265.00	280.00	500.00	1,275.00
(ii) UFC15 Basic Grant for Other Than Million Plus Cities	607.20	628.80	665.20	704.40	2,605.60
(iii) UFC15 Grant for Air Quality in Patna	103.00	107.00	113.00	119.00	442.00
6. Maintenance	425.00	480.00	550.00	625.00	2,080.00
<i>Fund Source</i>					
Maintenance Fund	425.00	480.00	550.00	625.00	2,080.00
7. Local Schemes	618.00	726.00	820.70	962.40	3,127.10
<i>Fund Source</i>					
Development Fund	618.00	726.00	820.70	962.40	3,127.10
8. Centrally Sponsored Schemes	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77
<i>Fund Source</i>					
Central Government Allocation	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77
9. State Sponsored Schemes	7,522.53	7,113.91	7,719.78	9,066.60	31,422.82
<i>Fund Source</i>					
(i) Allocation from State Budget	6,964.13	6,535.81	7,108.38	8,418.80	29,027.12
(ii) UFC15 Grant for Drinking water for Other Than Million Plus Cities	455.40	471.60	498.90	528.30	1,954.20
(iii) UFC15 Grant for Drinking Water for Patna	103.00	106.50	112.50	119.50	441.50
10. Saat Nishchay Yojna Part-2	13,625.00	10,477.50	8,174.25	8,701.28	40,978.03
<i>Fund Source</i>					
(i) Allocation from State Budget	13,066.60	9,899.40	7,562.85	8,053.48	38,582.33
(ii) UFC15 Grant for SWM for Other Than Million Plus Cities	455.40	471.60	498.90	528.30	1,954.20
(iii) UFC15 Grant for SWM for Patna	103.00	106.50	112.50	119.50	441.50

Table 8.16 : Funds Required from Different Sources to Meet Projected Expenditure of ULBs*

	(Rs crore)				
Items	2021-22	2022-23	2023-24	2024-25	2021-25
Total Projected Expenditure	28,429.95	25,432.93	24,582.51	27,438.72	1,05,884.11
<i>Fund Source</i>					
(i) <i>Development Fund</i>	618.00	726.00	820.70	962.40	3,127.10
(ii) <i>Maintenance Fund</i>	425.00	480.00	550.00	625.00	2,080.00
(iii) <i>General Fund</i>	1,277.41	1,210.89	1,366.05	1,548.42	5,402.77
(iv) <i>Own Revenue</i>	531.36	602.76	685.03	780.10	2,599.25
(v) <i>Assigned Revenue</i>	240.42	258.04	277.67	299.61	1,075.74
(vi) <i>UFC15 Grants</i>	1,827.00	1,892.00	2,001.00	2,119.00	7,839.00
(vii) <i>Allocation from State Budget</i>	20,030.73	16,435.21	14,671.23	16,472.28	67,609.45
(viii) <i>Central Govt Allocation</i>	3,480.02	3,828.02	4,210.83	4,631.90	16,150.77

* Refer to Expenditure Projection for ULBs in Table 7.27

- 8.46 It is clarified that for the expenditure items where funding is coming from multiple sources, PRD / UDHD may modify the relative proportions in accordance with availability of funds.

REMITTANCE OF SFC FUNDS TO LBs

- 8.47 Currently, PRD remits the SFC funds to various PRIs in the manner indicated below:
1. Funds for GPs are drawn from the Government Treasury by an officer of PRD and remitted directly to the bank accounts of individual GPs by electronic bank transfer through CFMS;
 2. Funds for PS and ZP are allotted to the DDC who draws the funds from Treasury and transfers to the PSs and ZPs of the District;
 3. Funds for GK (office expenses, remuneration of Secretary and Nyay Mitra) and remuneration of EAs in GPs are allotted to the DPRO who draws money from Treasury and makes payment to the respective GKs/ GPs of the District.
- 8.48 **This Commission recommends that funds meant for ZPs, PSs and GKs too should be transferred by PRD directly to their bank accounts by electronic bank transfer through CFMS. Similarly, money for remuneration of EAs working in GPs should be remitted directly to bank accounts of GPs by electronic bank transfer through CFMS.**

- 8.49 In case of ULBs, UDHD issues release orders and the respective ULBs draw money from the Government Treasury. **Commission suggests that UDHD should explore the possibility of remitting funds to ULBs' bank accounts directly by electronic bank transfer through CFMS.**

TIMELINES FOR SFC TRANSFERS

- 8.50 In FY 2021-22, release orders for each item under Development Fund, Maintenance Fund and General Fund should be issued in a single instalment by August 31, 2021.
- 8.51 In subsequent years, funds for each item under Development Fund, Maintenance Fund and General Fund should be released in two instalments – first instalment of 50 percent by June 30 and second instalment of remaining 50 percent by October 31.
- 8.52 **If there is any delay in release of funds vis-à-vis the deadlines mentioned above, release should be made to the LBs along with a Delay Compensation. The Delay Compensation shall be equal to interest for the period of delay beyond the specified deadline calculated as per effective rate of interest on market borrowings/ State Development Loans (SDLs) for the previous year.**

MISMATCH BETWEEN PROJECTIONS OF EXPENDITURE AND RESOURCES FOR FY 2021-22

- 8.53 Table 8.17 shows Commission's projections of amounts that would be available in Development Fund, Maintenance Fund and General Fund of PRIs in FY 2021-22 through SFC Transfers in column 2. Column 3 shows the amounts required in each Fund to meet the projected expenditure.

Table 8.17 : Expenditure-Resources Mismatch in Projections for PRIs in FY 2021-22
(Rs crore)

Items	FY 2021-22	
	Projected Total SFC Transfer (Table 8.11)	Amount Required to Meet Projected Expenditure (Table 8.15)
1	2	3
Total SFC Transfer for PRIs	3,905.00	—
Development Fund (30 percent)	1,172.00	1,152.75
Maintenance Fund (20 percent)	781.00	790.00
General Fund (50 percent)	1,953.00	2322.86

- 8.54 It would be noticed that the SFC Transfer in General Fund would fall short of the requirement by 370 cr. This is due to the fact that a one-time expenditure of Rs 392 cr is projected for conducting Panchayat Elections in 2021, causing the projected expenditure from General Fund to exceed the amount of projected SFC Transfer.
- 8.55 To resolve this mismatch, the Commission recommends that for FY 2021-22 alone, the amount of shortfall (Rs 370 crore) should be transferred from Development Fund to General Fund. With this modification, the amounts available in Development Fund, Maintenance Fund and General Fund in FY 2021-22 will become Rs. 802 crore, Rs. 781 crore and Rs. 2,323 crore. **This is recommended as a one-time measure and no diversion of amounts from Development Fund shall be done in subsequent years.** It is clarified that the recommended transfer from Development Fund to General Fund shall be done only if the amount of Total SFC Transfer to General Fund, computed in accordance with Paragraphs 8.36 to 8.40 on the basis of actuals of CFS and Divisible Pool on t-1 basis, falls short of the projected requirement of Rs 2,322.86 crore indicated in the last row of Table 8.17.
- 8.56 A similar situation obtains in case of ULBs too. Column 2 of Table 8.18 shows the amounts that would be available in Development Fund, Maintenance Fund and General Fund of ULBs in FY 2021-22 through SFC Transfers. Column 3 shows the amounts required in each Fund to meet the projected expenditure.

Table 8.18 : Expenditure-Resources Mismatch in Projections for ULBs in FY 2021-22

(Rs crore)

Items	FY 2021-22	
	Projected Total SFC Transfer (Table 8.12)	Amount Required to Meet Projected Expenditure (Table 8.16)
1	2	3
Total SFC Transfer for ULBs	2,103.00	
Development Fund (30 percent)	631.00	618.00
Maintenance Fund (20 percent)	421.00	425.00
General Fund (50 percent)	1,051.00	1,277.41

- 8.57 It would be seen that the SFC Transfer in General Fund would fall short of the requirement by Rs. 226 crore. This is due to the fact that the State Government has recently created 111 new ULBs and office buildings have to be constructed for them. The entire estimated expenditure of 511.60 crore for construction of buildings and purchase of office furniture has been front-loaded in FY 2021-22, causing the projected

expenditure from General Fund to exceed the amount that would be available in it through SFC Transfer.

- 8.58 To resolve this mismatch, the Commission recommends that for FY 2021-22 alone, the amount of shortfall (Rs 226 crore) should be transferred from Development Fund to General Fund. With this modification, the amounts available in Development Fund, Maintenance Fund and General Fund in FY 2021-22 will become Rs. 405 crore, Rs. 421 crore and Rs. 1,277 crore. **This is recommended as a one-time measure and no diversion of amounts from Development Fund shall be done in subsequent years.** It is clarified that the recommended transfer from Development Fund to General Fund shall be done only if the amount of Total SFC Transfer to General Fund, computed in accordance with Paragraphs 8.36 to 8.39 and 8.41 on the basis of actuals of CFS and Divisible Pool on t-1, basis falls short of the projected requirement of Rs 1,277.41 crore indicated in the last row of Table 8.18.

REVENUE EFFORT BONUS

- 8.59 In order to incentivise the ULBs to improve their own revenue generation, the **Commission recommends introduction of ‘Revenue Effort Bonus’ system explained below:**

1. In 2021-22, PRD/ UDHD shall compute the share of **untied portion** of Development Fund of each individual PRI/ ULB in accordance with distribution criteria specified in Paragraphs 8.40 and 8.41 respectively. The entire amount shall be released to the PRIs/ ULBs in one instalment by August 31, 2021. While releasing the Development Fund, PRD/ UDHD shall specify the revenue Growth Target for each category of PRI/ ULB, viz, ZP, PS, GP in the PRI group and Nagar Nigam, Nagar Parishad and Nagar Panchayat in the ULB group.
2. From the next year, i.e., FY 2022-23 onwards, PRD/ UDHD shall compute the share of each individual PRI/ ULB in the manner indicated above and 50 percent of the amount shall be released as 1st instalment by June 30.
3. By September 30, PRD/ UDHD shall obtain report of revenue generated by each PRI/ ULB in the previous year. Thereafter, second instalment shall be released to the individual PRIs/ ULBs by October 30, in the manner indicated below:

- a) PRIs/ ULBs that achieved the target : Entire balance 50 percent. The release order shall mention that 40 percent is the amount of Revenue Effort Bonus.
- b) PRIs/ ULBs that failed to achieve the target: Only 10 percent. The remaining 40 percent may be used by PRD/ UDHD for implementation of State Sponsored Schemes.
