

FINAL REPORT FOR 2015-20
OF
THE FIFTH STATE FINANCE
COMMISSION
BIHAR

Volume I

JANUARY, 2016

PATNA

Preface

It is our pleasure to submit the Final Report of the 5th State Finance Commission (2015-20) in 2 Volumes (Vol I: Main Report, Vol II : Annexures & Appendices) for consideration of State Government.

2. It must be stressed at the outset that for the LBs to function as 'institutions of self-government' as envisaged in the Constitution and as "Panchayat Sarkars" as envisioned by State Govt., they must be empowered, enabled and made accountable. Good governance, maximization of own revenue, sound planning, budgeting, accounting, audit and expenditure management particularly in the ULBs are preconditions to enabling the cities and towns to provide opportunities to the people arising from urbanization. Similarly, if the villages are to be made more livable and productive, if the Panchayats are to contribute to "*सात निश्चय*" of State Govt., and if the Gram Katchahries are to dispense inexpensive justice at the doorsteps, the PRIs have to be managed professionally.

3. Further, though funds available to the LBs (both the PRIs & the ULBs) from various sources are grossly inadequate for their assigned functions, they are unable to utilize even that (Tables 2.9, 2.10 and 3.19). Such unsatisfactory situation is primarily due to the capacity constraints e.g. serious deficiencies in skilled man-power, office space, IT facility etc. and non-implementation of much needed 'reforms'. **Full capacity building and 'reforms' in the LBs are, therefore, at the core of our recommendations.** Grants of Rs 21,018 Cr for the GPs, Rs 2,676 Cr for the ULBs and Performance grant conditions of the 14th FC make it all the more urgent and unavoidable. Besides, major amounts are expected under various Central and State schemes.

4. It is interesting to note that even the Nagar Nigams are presently spending more than 200% of own revenue on establishment. Similarly, establishment expenditure is more than 50% of the total expenditure in almost all Nigams. The situation in Patna Municipal Corporation, Nagar Parishads and Nagar Panchayats is even worse. Such a situation is totally unsustainable and would continue to frustrate all efforts of the ULBs to provide even basic services to the people. Moreover, the staffing pattern need fundamental restructuring on the lines of MOUD model to meet the contemporary requirements of urban planning, urban management and evolving technology.

5. Given the huge underutilization of Central Schemes and Resources due to the low capacity of the LBs and the need for reaching govt. services and judicial redressal to the people, etc., an outgo of 2.75% in 2015-16 to 3.25% in 2019-20 from the State Budget to the LBs would not be excessive. In fact this % is around the average of the Low Income States and considerably lower than that of the comparable state of UP.

6. The Report has been structured as follows on the lines suggested by MoPR and the 13th FC :

Ch-1 : Delineates issues emanating from the TORs of the SFC and also contains recommendations of the 4th SFC and of the 13th & 14th FCs regarding the LBs and implementation status thereof.

Ch-2 : Examines various aspects of enabling the PRIs to function as 'self-government'. These obviously include Empowerment (effective devolution of functions and funds), Enablement (capacity building through skilled manpower, IT facility, office space, etc.) and Accountability (effective Gram/Ward Sabha, Social Audit, Ombudsman, DLFA, etc.)

Ch-3 : Same as above for the ULBs.

Ch-4 : Evaluates socio-economic scenario of Bihar in the context of the 5th SFC. These include (i) feasibility of 15% or more (nominal) growth in GSDP for projection of State revenue and other financial parameters, (ii) critical importance of urbanization for Bihar, and (iii) computation of Under Development Index (UDI) for Districts and Blocks for the purposes of the 5th SFC and 14th FC transfers.

Ch-5 : Gives a comprehensive but concise review of revenues and expenditures of State Govt., various fiscal parameters and projections for the period 2015-20. Also assesses capacity of State Govt. to spare resources for the LBs.

Ch-6 : Contains review & projection of Revenue & Expenditure and Resource Gap (2015-20) of the PRIs.

Ch-7 : Contains review & projection of Revenue & Expenditure and Resource Gap (2015-20) of the ULBs.

Ch-8 : Provides conceptual framework of devolution and grants to the LBs, in consonance with the Principle of Equalization i.e., providing comparable services at comparable tax efforts, etc.

Ch-9 : Gives recommendations on devolution and grants.

Ch-10 : Gives recommendations on good governance and sound finances of the LBs including governance reforms, own revenue mobilization, financial management, accountability, etc.

Ch-11 : Contains suggestions for Union Govt. and the future UFCs.

7. Some key recommendations relate to :

A. PRIs- Making even Gram Panachayats "Smart" (Box 2.2) which would include (i) Creation of Model Panchayat cadre and filling up consequential positions on a drive basis, (ii) bringing RTPSA services to the GPs, and (iii) Making Gram Kachahry fully functional.

B. ULBs – Developing all Cities & Towns on the lines of Smart and AMRUT Cities which would include (i) Creation of Model Municipal Cadre, (ii) Preparation of Master Plan, CDP, GIS Map for all ULBs and corresponding DPRs, (iii) Use of PPP option in a big way to fulfill the huge needs of infrastructure & services, (iv) Maximizing own revenue (Tax and non-Tax), (v) Transparent & competitive procurement of goods & services, (vi) Creation of Property Tax Board and Urban Regulator.

C. Common to the PRIs & the ULBs– (i) Establishment of Ombudsmen, (ii) Strengthening of Directorate of Local Fund Audit, (iii) Sound Accounting & Audit, (iv) Professionalization of District Planning Committees, (v) Implementation of all modules of e-Panchayat and e-Municipality, (vi) Creation of Land Bank, etc.

8. The non-financial recommendations of the 5th SFC (viz. governance reforms, maximizing own revenue, sound financial management, etc.) have far greater significance than devolution/grants per se in enabling the LBs to function as self government. The SFC Cell of Finance Deptt. should, accordingly, be sensitized and professionalised to pursue these recommendations with the Panchayati Raj and Urban Development Deptts. till the logical conclusion.

9. Contribution of S/Shri Saurav Singh and Roshan Bhatnagar in preparation of this Report has been commendable. S/Shri Shailendra Rajhans, H.C. Shastri, Kumar Rohit (Sr.), Gaurav Kumar, Laloo Prasad, Chandan Chandra Chunna, Surabhi Priya and Ranjay Kumar have also made significant contributions.

10. Finally, purposeful interactions with S/Shri Ravi Mittal, Sudhir Kumar Rakesh and Amrit Lal Meena, Principal Secretaries of Finance, Panchayati Raj and Urban Development Department has enhanced authenticity and implementability of this Report.

(A.N.P. Sinha)

Chairman

5th State Finance Commission

FINAL REPORT OF THE 5th SFC

(2015-20)

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Lists of Abbreviations

Abbreviation No.	Titles
AMC	Annual Maintenance Contract
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
ARM	Additional Resource Mobilization
ARR	Aggregate Revenue Receipts
ARV	Annual Rental Value
ATIR	Annual Technical Inspection Report
ATR	Action Taken Report
BDO	Block Development Officer
BE	Budget Estimate
BMA	Bihar Municipal Act.
BMAM	Bihar Municipal Accounting Manual
BMBM	Bihar Municipal Budget Manual
BOOT	Build-Own-Operate and Transfer
BPL	Below Poverty Line
BRGF	Backward Regions Grant Fund
BUDA	Bihar Urban Development Agency
BUIDCO	Bihar Urban Infrastructure Development Corporation Limited
CAG	Comptroller and Auditor General (CAG)
CAGR	Compound Annual Growth rate
CAs	Chartered Accountant
CD	Credit & Deposit
CDP	City Development Plan
CDP	City Development Program
CDR	Credit & Deposit Ratio
CENVAT	Central value added tax
CFS	Consolidated Fund of state
CGST	Central Goods & Services Tax
CII	Composite Infrastructure Index
CII	Cost of Inflation Index
CIP	Cost Investment Plan
CIS	Change In Stock
C-LIQR	Country Liquor
CMO	Chief Municipal Officer
COC	Cost of Collection
CPI-AL	Consumer Price Index-Agriculture labour
CPI-IW	Consumer Price Index-Industrial worker
CSO	Central Statistical office
CSS	Central Sponsered Scheme
CVD	Countervailing Duty
DEAS	Double Entry Accounting System
DEMOG	Demographic
DLFA	Director of Local Fund Audit
DMA	Directorate of Municipal Administration
DPC	District Planning Committee

Abbreviation No.	Titles
DPR	Detailed Project Report
EAP	Externally added Program
ELA	Examiner of Local Accounts
ESC	Empowered Standing Committee
EWR	Elected Women Representatives
EWS	Economically Weaker Section
FAR	Fixed Assets Register
FC	Finance Commission
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIS	Geographic Information System
GK	Gram Katchahry
GOI	Government of India
Govt.	Government
GP	Gram Panchayat
GPS	Global Positioning System
GR	Growth rate
GRAI	Growth Rate of All India
GR-GOB	Growth rate - Govt. of Bihar
GSDP	Gross State Domestic Product
GSDPPC	Gross State Domestic Product per capita
GST	Goods and Service Tax
GSTN	Goods and Service Tax Network
GTR	Gross Tax Receipts
GVA	Gross Value Added
HDI	Human Development Index
HIS	High Income State
HQ	Headquarter
ICAI	Institute of Chartered Financial Analysts of India
ICOR	Incremental Capital Output Ratio
IGFT	Inter-Governmental Fiscal Transfer
IMFL	Indian made Foreign liquor
IP	Interest Payment
IT	Information Technology
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LAD	Local Audit Department
LB	Local Body
LCS	Least Cost Selection
LFA	Local Fund Audit
LG	Local Government
LIS	Low Income State
LMV	Light Motor vehicle

Abbreviation No.	Titles
LSG	Local Self Government
MC	Municipal Corporation
MFIS	Municipal Finance Information System
MFSA	Municipal Finance Self-assessment
MIS	Middle Income State
MMR	Maternal Mortality Rate
MMRP	Modified Mixed Reference Period
MMSVY	Mukhya Mantri Shahari Vikas Yojana
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MoF	Ministry of Finance
MoPR	Ministry of Panchayati Raj
MoUD	Ministry of Urban Development
MP	Master Plan
MP	Manpower
MPCE	Monthly Per Capita Plan Expenditure
MPI	Multi-Dimensional Poverty Index
MRP	Mixed Reference Period
MSE	Madars School of Economics
MTS	Multi Tasking Staff
MV	Motor Vehicle
NCC	National Capital Circles
NGRBA	National Ganga River Basin Authority
NMAM	National Municipal Accounting Manual
NP	Nagar Pannchayat
NPRE-	Non-Plan Revenue Expenditure
NSDP	Net State Domestic Product
O&M	Operation & Management
P>	Passenger and Goods Tax
PBs	Parallel Bodies
PC	Per Capita
PCA	Principal Component Analysis
PCI	Per Capita Income
PC-NPRE	Per Capita Non-Plan Revenue Expenditure
PCPE	Per Capita Plan Expenditure
PCRE	Per Capita Revenue Expenditure
PDO	Panchayat Development Officer
PFDf	Pooled Finance Development Fund
PMC	Patna Municipal Corporation
POP	Population
PPP	Public Private Partnership
PRD	Panchayati Raj Department
PRI	Panchayat Raj Institution
PS	Panchayat Samiti
PS	Panchayat Sachiv
PSB	Panchayt Sarkar Bhawan

Abbreviation No.	Titles
PT	Property Tax
PVT.	Private
QCBS	Quality cum Cost Based Selection
R.E	Revised Estimate
REP	Revenue Enhancement Plan
RG	Resources gap
RGPSA	Rajiv Gandhi Panchayat Sashaktikaran Abhiyan
SAD	Special Additional Duty
SAS	Self-Assessment System
SDA	Software Development Agency
SFC	State Finance Commission
SFC	State Finance Commission
SJSRY	Swarna Jayanti Shahari Rozgar Yojana
SONTR	State Own Non-Tax Revenue
SOTR	State Own Tax Revenue
SPUR	Support Programme for Urban Reforms
SPV	Special Purpose Vehicle
SR14FC	Study Report of 14 th Finance Commission
STAMP-DT	Stamp Duty
SUPA	School of Urban Planning & Arhitecture
TFP	Total Factor Productivity
TFR	Total Fertility Rate
TSSP	Technical Support for Smart Panchayats
TUFIDCO	Tamil Nadu Urban Finance & Infrastructure Development Corporation
UB	Urban Body
UD	Urban Development
UD&HD	Urban Development and Housing Department
UDD	Urban Development Department
UDI	Under Development Index
UFC-	Union Finance Commission
ULB	Urban Local Body
VAT	Value Added Tax
VLEs	Village Level Entrepreneurs
W/S	Water Supply
YOY	Year-on-Year
ZP	Zila Parishad
ZPB	Zila Parishad Bhawan

Summary of the main Recommendations

A. Basic premise behind the recommendations

(i) It must be stressed that for the LBs to function as ‘institutions of self-government’ as envisaged in the Constitution and as “Panchayat Sarkars” as envisioned by State Govt., they must be empowered, enabled and made accountable. Good governance, maximization of own revenue, sound planning, budgeting, accounting, audit and expenditure management particularly in the ULBs are preconditions to enabling the cities and towns to provide opportunities to the people arising from urbanization. Similarly, if the villages are to be made more liveable and productive, if the Panchayats are to contribute to “सात-निश्चय” of State Govt., and if the Gram kutchahries are to dispense inexpensive justice at the doorsteps, the PRIs have to be managed professionally. (Para 9.1.1)

major amounts are expected from various Central/State schemes. (Para 9.1.2)

(iii) An outgo of 2.75% in 2015-16 to 3.25% in 2019-20 from the State Budget to the LBs primarily for capacity building and ‘reforms’, therefore, would not be excessive. In fact this % is around the average of the Low Income States and considerably lower than that of the comparable state of UP. (Para 8.9.8)

(iv) And that rapid and planned urbanization is an imperative for Bihar for the next stage of socio-economic development. (Para 4.12)

B. Devolution and Grants

(i) Composite picture of CFS, Divisible pool, Devolution and Grants is given in **Table 9.8**. A snapshot is as follows. (Para 9.6.1)

Composite picture of Devolution and Grant (2015-20)

Sl.	Items	Projections (Rs. Cr.)					Total
		15-16	16-17	17-18	18-19	19-20	
1	CFS	121064	159496	193107	229971	274266	977904
2	SOTR	30875	37119	45781	56548	69954	240277
3	Divisible pool	29862	35881	44294	54762	67811	232610
4	Transfers to the LBs (devol. + grants) as % of CFS	2.75	3	3	3.25	3.25	2.75 to 3.25
5	Devolution						
	a) As % of Divisible Pool	8.5	9	9	9	9	8.5 to 9
	b) Amount	2540	3230	3985	4930	6105	20790
6	Grants						
	a) As % of CFS	0.65	0.97	0.94	1.11	1.02	0.65 to 1.11
	b) Amount	790	1555	1810	2545	2810	9510
7	Tota Transfers (Devol. + Grants) to the LBs	3330	4785	5795	7475	8915	30300

(ii) Further, though funds available to the LBs from various sources are grossly inadequate for their assigned functions, they are unable to utilize even that (**Tables 2.9, 2.10 and 3.19**). Such unsatisfactory situation is primarily due to the capacity constraints e.g. serious deficiencies in skilled man-power, office space, IT facility etc. and non-implementation of much needed ‘reforms’. **Full capacity building and ‘reforms’ in the LBs is, therefore, at the core of our recommendations.** Grants of Rs. 21,018 Cr. for the GPs, Rs. 2,676 Cr for the ULBs and performance grant conditions of the 14th FC, make it all the more urgent and unavoidable. Besides,

(ii) Distribution of Devolved funds and Grants between the PRIs and ULBs would be in the ratio of 70:30 in 2015-16 and 60:40 in the subsequent 4 years. (Para 8.10.4)

(iii) Inter-se distribution of Devolved funds among the GP: PS: ZP would be in the ratio of 70:10:20. (Para 8.11.1)

(iv) Distribution of Devolved funds among the GPs, PSs and ZPs would be as per criteria given in **Table 8.8** and corresponding formulae in **Box 9.1**. (Para 9.5.5)

(v) Distribution of Devolved funds among the ULBs would be as per criteria given in **Table 8.9**

and corresponding formulae in **Box 9.2. (Para 9.5.6)**

(vi) Devolved funds would be given to the LBs as “Block Funds” and used by the LBs for the purposes given in **Box 9.3** in that priority. **(Para 9.5.8)**

(vii) Devolved funds in 2015-16 would be released to the LBs in one instalment based on RE/Actuals of 2014-15. In the subsequent years, first allocation of 50% of the devolved funds would be released in April and second instalments by October of the year subject to the submission of accounts of the previous year, even internally audited. **(Para 9.12)**

(viii) Grants would focus on Capacity Building and Reforms and would be utilized for (a) Manpower, Training, e-Governance, Office Space, (b) GK, (c) Preparation of Master Plans/CDPs/DPRs/GIS Maps, (d) Developing Divisional and District Headquarters on the lines of Smart and AMRUT Cities, (e) SPUR Type Professional Services to the ULBs and the PRIs, (f) Promoting PPP, (g) Incentive for ARM and Performance Grants, (h) Regulatory Bodies including Ombudsman, State Property Tax Board, Real Estate Regulatory & Development Authority and Urban Regulator, and (i) DLFA and internal audit. **(Para 9.6.3)**

(ix) Distribution of Grants item-wise is given in **Table 9.10** for the PRIs and in **Table 9.11** for the ULBs. (Details in **Para 9.6.4 & Para 9.6.5**)

(x) PRD and UDD would determine the norms based on letter and spirit of this Commission’s recommendations for disbursement of item-wise grants among the PRIs and the ULBs. **(Para 9.6.4 & Para 9.6.5)**

(xi) Funds earmarked for Manpower is only for sanction of new and filling of the vacant positions as per the Model Panchayat and Municipal Cadres **(Para 2.3 and Para 3.3.2)** and not for payment of salary etc. to the existing staff. **(Para 9.13.2)**

(xii) Funds for e-Governance must be used for operationalizing e-Panchayat and e-Municipality modules in a Mission Mode. **(Para 9.13.3)**

(xiii) Part of Gram Katchahry fund would be provided for (a) award for cases filed and disposed, and (b) promotion of dispute free village, under “मुख्यमंत्री ग्राम न्याय प्रोत्साहन योजना”.

(Para 9.6.4)

(xiv) Matching Grant for ARM would be given in the ratio of (a) 1:4 to GPs, 1:3 to PSs, 1:2 to ZPs, under the PRIs and (b) 1:1 for Municipal Corporations, 1:2 for Nagar Parishads, 1:3 for Nagar Panchayats under the ULBs. **(Para 9.6.4 and Para 9.6.5)**

(xv) Amount of overall performance grant for the PRIs would supplement “मुख्यमंत्री पंचायत प्रोत्साहन योजना” and be divided among GPs, PSs and ZPs in the ratio of **70:20:10** as given in **para 9.6.4.**

(xvi) Amount of overall performance grant for the ULBs would supplement “मुख्यमंत्री नगर निकाय प्रोत्साहन योजना” and be divided among Municipal Corporations, N Parishads and N Panchayats in the ratio of **1:2:3** as given in **Para 9.6.5**

(xvii) Grants for 2015-16 would be released in one installment based on the R.E/Actuals of the preceding year. In the subsequent years, while 1st installment would be released along with the 1st installment of the devolved fund (based on RE/Actuals of the preceding year), the 2nd installment would be released on submission of utilization of 50% of the 1st installment, which are at least internally audited. **(Para 9.12)**

(xviii) Grants amount not likely to be utilized in a year, would be given to the PRIs and the ULBs as ‘Block Grants’ in the first week of the last quarter as per formula given in **Box 9.1** and **Box 9.2** for Smart Panchayats and Model Cities/Towns respectively. **(Para 9.10)**

(xix) The Devolved amount could be utilized to supplement those component of the grants which need additional amounts as given in **Box 9.3. (Para 9.6.7)**

(xx) Transfers (Devolution + Grants) recommended by the 5th SFC are over and above

the normal State Budgetary provisions for the LBs. **(Para 9.9)**

(xxi) Resource gap of the LBs remaining even after the 5th SFC transfers would be bridged through (a) own additional revenue (tax and non-tax), (b) full utilization of Central and State schemes, (c) leveraging PPP, (d) borrowing, and (e) sound expenditure management. **(Para 9.11)**

C. Sound Finance and Governance of the LBs

I. Action points for Finance Department

(i) Substantially **improve the Local Body window in the State Budget** to serve its objectives better. **(Para 5.11)**

(ii) Strengthen **Directorate of Local Fund Audit**. **(Para 10.5.5)**

(iii) As recommended by the 14th UFC, strengthen the future SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and also timely placement of the SFC Report before State Legislature, with Action Taken Notes. **(Para 1.7.1)**

(iv) Professionalize the SFC Cell in Finance Department to pursue reforms agenda with PRD and UDD, undertake research and documentation as required, and build database on the PRIs and the ULBs for use by Finance, Urban Development, Panchayati Raj and Planning Departments and the future SFCs & UFCs. **(Para 9.14.2)**

(v) Analyze major ups & downs in Sales Tax/VAT collection. **(Para 5.4.1.3)**

(vi) Analyze NPRE of State Govt. vis-a-vis Non-Plan Revenue Deficit grant by the UFCs. **(Para 5.5.6)**

(vii) Examine in-depth implications of GST for Bihar. **(Para 5.9)**

(viii) Levy Surcharge of 10% on behalf of the LBs on Entertainment Tax and share a reasonable share of the surcharge with the PRIs. **(Para 10.9.13)**

(ix) As regards, transfer of funds to the LBs, switch over from the present system of

‘Advances and Disbursement’ to a system of ‘Authorization’ as per MoPR letter No. N-11019/125/2009-Po1.1, dated: 23.02.2010”

II. Action points for Panchayati Raj Department and the PRIs

(i) Urgently **operationalize Ombudsmen** separately for the Panchayats to enquire into allegations of corruption, misconduct etc. **(Para 10.19.4)**

(ii) The Panchayats with the support of PRD make all efforts to become Smart Panchyats (**Box 2.2**). Technical Support for Smart Panchayats (TSSP) proposed by this Commission to assist in this effort. **(Para 2.4.10)**

(iii) Expedite Activity Mapping for the PRIs and integrate Parallel Bodies functionally with the PRIs. **(Para 2.2.3)**

• Enable the PRI to implement certain Central Acts (**Table 2.6**). **(Para 2.2.7)**

(iv) Local Assets

• Make Inventory & periodically update Fixed Assets Register (FAR), using transparent procedures for allocating assets for private use, aligning or classifying assets according to their role in delivering services, using the market value of assets for decision making, establishing a depreciation fund for funding asset replacement, monitoring key indicators, etc.

• PRI asset register be made available online by using ‘Asset Directory’ module of e-Panchayat.

• Encroachment be removed from the PRI land & property and boundary walls constructed. **(Para 10.9.6)**

(v) Own Revenue Enhancement in the PRIs

• PRD to prepare and circulate a Manual of Panchayat Finance

• Necessary Rules and Guidelines for collection of taxes by the PRIs be framed and circulated.

• Collection of Own Revenue by the Panchayats be incentivized. **(Para 10.6.6)**

• Overall supervision of Panchayat revenue collection be done by PRD.

• The proposed TSSP to monitor revenue enhancement steps (**Box 10.4**) along with

improving capacity of collection of both tax and non-tax revenues. **(Para 2.4.9)**

(vi) Tax

(a) Property Tax

- GPs to begin levying Property Tax even at a nominal rate (*Table 6.1*). **(Para 6.2.1)**
- Revenue target to be fixed for the PRIs and monitored by PRD. **(Para 10.9.1)**

(b) Professions Tax: Be assessed comprehensively so that collections are much higher than the present level. **(Para 10.9.10)**

(c) State Govt. to empower the Panchayats to collect tax on advertisement. (Para 10.9.11)

(vii) Non-Taxes

- Revenue Source of GP to include Sairat, Mineral, Mobile Tower, NREGA Assets etc.
- The Panchayats be encouraged to develop income earning natural or man-made assets such as markets, community centres, and bus stands for augmenting their non-tax revenue. **(Para 10.6.5)**
- Banks be instructed by the PRIs to “Auto Sweep” their surplus balances in Savings/Current Accounts to Fixed Deposits. **(Para 10.10.3)**
- All receipts be credited speedily to the respective accounts and deposited immediately in their bank accounts. Also Bank Reconciliation Statement be prepared each month and uploaded on website. **(Para 10.10.3)**
- Net proceeds of land revenue collected from a GP be transferred to the GP.

(viii) Manpower, Training and Performance Management:

- **Model Panchayat Cadres as recommended by the 5th SFC be implemented to have requisite professional & technical manpower. (Para 2.3 and Table 2.7)**
- It be carefully determined as to which of the posts at GP level should be regular or contractual and which function should be outsourced. **(Para 2.3.2(c))**
- Panchayat Development Officer be positioned in the GPs (*Box 2.9*). **(Para 2.3.2(c))**
- The PDO (and till PDO is in place, the Panchayat Sachiv) to have control over all GP

level contractual staff (like Vikas Mitra, Tola Sahayak, IAY Sahayak etc.). Further, such staff to sign master attendance register kept in PSB **(Para 2.3.2(c))**.

- Functions of BPRO/DPRO in the PRIs be clearly defined.
- Intensive training of PDO/BPRO be done immediately on appointment.
- Robust PRI training infrastructure be set up. **(Para 2.4.7)**
- A schedule to train all elected PRI functionaries soon after the elections be prepared with emphasis on Elected Women Representative **(Para 2.4.7)**.

(ix) e-Governance:

- **All e-Panchayat modules be implemented urgently**, being the most important requirement for improving services, governance and financial management of the PRIs. **(Para 2.6.2)**
- Vasudha Kendra or equivalent be made functional to provide services under RTPSA at GPs itself and also services like Bill Payments (Electricity, Telecom etc), Birth/ Death Registration, payment of Property Tax, Advertisement Tax, etc. **(Para 2.6.7)**

(x) Planning:

- DPCs to prepare Integrated District Plan for both the Panchayats and Municipalities as per Art 243ZD (*Box 2.6*). **(Para 2.2.5.1)**
- Make DPCs effective and functional with full complement of professional staff and use of Plan Plus & GIS modules of e-Panchayat for planning. **(Para 2.2.5.4)**
- PRD to prepare appropriate guidelines on proper planning and delivery to develop Smart Panchayats (*Details in Box 2.2*). **(Para 2.1.7)**
- Since the most funds are received by the Panchayats as grants or for implementation of Govt. schemes, all information on probable receipt of funds be communicated to the Panchayats in time. **(Para 10.3.6)**

(xi) Budgeting

- The PRIs to prepare outcome based budget timely as per the Manual, which must be consistent with the long and short term plans that promote the strategic priorities of the

communities and be uploaded on the website for citizen's feedback.

- Approved budgets not to show any deficits. **(Para 10.3.4)**
- Adequate capacity building of both the elected and official functionaries particularly that of the GPs, be done for preparing budget and using the same for expenditure control. **(Para 6.10)**

(xii) Accounting:

- PRD to have a robust system of supervision and facilitation for maintenance of accounts by the Panchayats.
- For sustainable improvements, qualified Accountants be appointed on a regular basis apart from contracting CAs (internal auditor) as an interim measure. **(Para 10.4.10)**
- **All PRIs to use PRIASoft for accounting urgently** and to enable this, State Govt. to urgently provide IT facility and regular Accountants in all the PRIs. **(Para 10.4.9)**
- The books of accounts to distinctly capture income of own taxes, non-taxes and devolution and grants as per the 14th FC recommendations. **(Para 10.4.2)**

(xiii) Auditing

- All Internal, DLFA and AG Audit Reports along with ATR be uploaded on website. **(Para 10.5.4)**

(xiv) Accountability and Transparency

- Community be involved in setting key performance indicators (PIs) and actual performances reported back to community.
- SLBs be publicized for various services,
- Citizen's Charter be updated and disseminated regularly. **(Para 10.19.1)**
- **Regular and purposeful meetings of Gram Sabha, Ward Sabha, Standing Committees etc. be ensured. (Para 2.5)**
- Social Audit by the Gram Sabha be ensured. **(Para 2.5.1(ii))**

(xv) Gram Katchahry (GK) :

- A committee of DJ, DM and SP to review progress & problems of GK every quarter. Similarly, monthly review be made by SDM & SDPO. **(Para 2.2.4)**

- Judiciary and Police be sensitized to the need, functions and processes of the GK. Cases belonging to jurisdiction of GK be referred to GK by both Police & Judiciary. State Govt. to issue clear guidelines.

- GK Case Record Management be streamlined. **(Para 10.20)**

- Amount of civil jurisdiction be enhanced from Rs. 10,000 to at least Rs. 1.0 lac and then linked to inflation.

- Disposal prizes to the Sarpanches/Panches. **(Para 6.7.3.4 & Table 6.26)**

- Mahatma Gandhi Dispute Free Villages Campaign on the pattern of Maharashtra be tried in Bihar. **(Para 2.2.4 (f))**

- Regular training of Sarpanches, Panches and other GK Officials be conducted. **(Para 2.2.4)**

- Roles of GK Secretary and Nyay Mitra be well defined. **(Para 2.2.3)**

- Voting right be given to the Sarpanches in State Council Elections. **(Para 10.20)**

- Dalapati or some such personnel be made available to GK for service of notice, execution of orders etc.

- Provision of BLDR, 2009 be harmonized with GK to make dispute resolution faster and less expensive. **(Para 2.2.4(c))**

- Impact assessment of GK vs. Judiciary and BLDR be made and the local justice system improved. **(Para 10.20(ii))**

(xvi) Panchayat Sarkar Bhawan: Implement suggestions listed in *Box 2.11*. **(Para 2.4.8)**

III. Action points for Urban Development Department and the ULBs

(i) Formulate comprehensive State Urban Policy for rapid and planned urbanization (*Box 3.3*). **(Para 3.1.3)**

(ii) Expedite Activity Mapping for the ULBs and integrate Parallel Bodies functionally with the ULBs. **(Paras 3.2.2 and 3.2.3)**

(iii) Enable the ULBs to develop Model Cities & Towns **(Para 3.2.10.3)** and set up SPUR like entity to support this effort. **(Para 3.4.5)**

(iv) Urgently **operationalize Ombudsmen** separately for Municipalities to enquire into

allegations of corruption, misconduct etc. **(Para 10.19.4)**

(v) Create a State-level Urban Regulator for setting user charges, standards for services, performance, etc. **(Para 10.10.1)**

(vi) Establish Real Estate Regulation Authority for regulation and development of the real estate sector. **(Para 3.2.11(v))**

(vii) Create a **State Property Tax Board** to optimize assessment, collection and recovery of PT. **(Para 10.9.1& Box 10.8)**

(viii) Ensure accountability through proper functioning of Ward Committees and Standing Committees. **(Para 10.19.2)**

(ix) Complete delimitation of the ULBs, which is overdue, urgently for planned growth of the urban areas. **(Para 3.1.2)**

(x) Implement Reforms recommended under JNNURM & AMRUT in a Mission Mode in all ULBs **(Annex – 10.9). (Para 10.15)**

(xi) Taxes

• Make a policy to periodically revise property tax, user charges and taxes. **(Para 10.9.1 (iv)a)**

• **Onetime Settlement** plan be enforced in all ULBs to collect dues and award given to employees for excellent work. **(Para 10.9.11)**

• Inefficiencies in revenue administration like high collection costs be addressed.

a) Property Tax

• Property Tax General Rates, which have not been raised since 1992, be at least doubled effective April 01, 2016 to cover partially inflation of over 440% **(Para 10.9.1 iv(a))**

• The existing Property tax system based on computation of Annual Rental Value (ARV) be replaced with “Area Based System” **(Box 10.7)** due to its objectivity, transparency, and lower compliance cost. **(Para 10.9.1 iv(b))**

• All temporary / contracted PT Collectors on 4% commission must meet minimum PT collection target of Rs. 2 lacs per month so as to ensure atleast subsistence monthly income of Rs. 8,000. Moreover, their Commission be enhanced to 6%. **(Para 10.9.1 iv(d))**

• Online filing of Self-Assessment and Online-payment of Property Tax with Payment Gateway be implemented. Cyber Cafes also be empanelled for the purpose. Tax Daroga system is outdated, inefficient and not cost-effective. **(Para 10.9.1 iv(f))**

• Demand based on GIS mapping, completed for 29 SPUR ULBs, be used to cover all unassessed properties. **(Para 10.10.6(ii))**

• GIS Mapping and Fiscal Cadastre for all ULBs be prepared urgently to identify all holdings and achieve coverage rate of Property Tax near to 100%. **(Para 10.10.6(i))**

• Recovery Regulation be prepared by all ULBs as per Model Regulation already shared with them and be enforced. **(Paras 10.9.1(iv)c & 10.9.1(iv)d)**

• The ULBs to comply with PT Rules including uploading on the website the defaulter assessees and assessees outside Tax Net. Computer generated notice to be issued regularly.

• The ULBs to use ABC principle and focus initially on multi- story buildings for residence and business, and larger defaulters. **(Para 10.9.1 iv(k))**

• The ULBs to set up monthly PT Collection Target for Tax Collectors, Wards and Circles. MC/EO to monitor performance on monthly basis using MIS. **(Para 10.9.1(l))**

• Property Title Certification System be introduced. **(Para 10.9.1(j))**

b) Vacant Land Tax

• GIS data available for 29 ULBs be used for Vacant Land Tax. The remaining ULBs to use “Google Maps” to identify vacant lands and do billing. **(Para 10.9.2)**

c) Entertainment Tax

• Newer forms of entertainment such as boat rides, cable television and internet cafes be brought into the Entertainment Tax net and no exemptions be given without compensating the LBs for the loss. **(Para 10.9.13)**

d) Communication Tower Tax

• The ULBs to take recovery actions under Bihar Communication Towers & Related Structures Rules, 2012 and Recovery Regulations. Also to upload list of such towers

with tax paid status on their website. **(Para 10.9.3)**

e) Property Lease, Rental and Monetization

- ULBs to prepare a list of all rental properties with exhaustive details as advised by UDD;
- A specialist Consultant be appointed to make recommendations about disposal of such properties.
- e-Tendering/ e- Auction be used to maximize revenue from such properties and also from sairats and the existing non-transparent tendering process replaced. Funds realized thus be credited to “Infrastructure Fund”. **(Paras 10.9.5 and 10.9.7)**

f) Local Assets

- Make Inventory & periodically update Fixed Assets Register (FAR), using transparent procedures for allocating assets for private use, aligning or classifying assets according to their role in delivering services, using the market value of assets for decision making, establishing a depreciation fund for funding asset replacement, monitoring key indicators, etc.
- Municipal staff to build expertise on regulatory, procedural, real estate and infrastructure operating details.
- Procedure of encroachment removal be well defined in BMA. Such powers be given to EO. **(Para 10.9.6)**

g) Advertisement Tax and Parking Charges

- Municipal Corporations to use existing or new SPV to manage Advertisement Tax and Parking Charges. PMC (Grant of Permission for Display of Advertisement & Similar Desires) Regulations, 2012 be followed by all ULBs.
- Online collection and payment of hoarding tax be made fully functional in all ULBs by 31st July, 2016.
- Full potential of advertisement revenue be achieved by making a policy for destination specific potential having dynamic pricing module. **(Para 10.9.11)**

h) Income from Tehbazari: License for Tehbazari be given without charge, to assist unorganized labor and poor in the city. **(Para 10.9.14)**

i) Income from Licenses

- Regulation for Trade license be prepared and approved by ESC and got notified.

j) Congestion tax

- Congestion tax (used in London, Singapore, Milan etc) be levied in Patna, Gaya, Bhagalpur etc. which are facing huge traffic problem and high carbon emission. The revenue so generated be used to improve public transport. **(Para 10.9.15)**

k) Rules for levy of Betterment Tax be framed and enforced urgently.

l) Framework for road cutting and charges be made and implemented in all ULBs. **(Para 10.9.9)**

m) Professions Tax: Be assessed comprehensively so that the collections are much higher than the present level.

- Section 342, which has a list of non-residential businesses prepared several decades ago, to include new industries and services also. **(Para 10.9.10)**

n). Income from Misc. Taxes

Because of the high transaction costs, taxes yielding insignificant income and impacting poor (like Cycle Tax, Rickshaw Tax) be no longer levied. **(Para 10.9.17)**

(xii) Non-Taxes

a) User Charges

- ULBs must start levying User Charges under section 128 of BMA, 2007 for Water Supply, Sewerage, SWM services, etc. to meet atleast the O&M cost of the services. The ULBs to provide good level of civic services, to encourage payment of user charges.
- All ULBs to prepare a Subsidy Report for each service as mandated under section 83 of BMA, 2007 and include the same in its Budget Estimates.
- All ULBs to periodically review and update the charges and fees for the services.
- All ULBs to create awareness amongst elected representatives, LB functionaries and general public on the importance of own revenues for the LBs and the need to pay for improved public services. **(Para 10.10.1)**

b). **Income from Royalties** be shared with the LBs in whose jurisdiction the mining is done, to ameliorate the adverse effects of mining. **(Para 10.9.16)**

c). Surcharge of 2.5% be levied on electricity consumption on behalf of the ULBs to cover electricity charges. **(Para 10.11.6)**

d). Surcharge of 5% be levied on Vehicle Tax and transferred to the ULBs for public transport and maintenance of roads within its jurisdiction. **(Para 10.10.5)**

(xiii) Revenue Enhancement Plan (REP)

• All ULBs to prepare comprehensive REP **(Annex – 10.4)**.

• Revenue Enhancement Committee (REC) be established having senior functionaries of ESC of the ULB, senior revenue staff and headed by MC/EO;

• Results be reviewed at the end of each month and modifications made in the REP, as necessary and agreed. **(Para 10.6)**

(xiv) MFSA

• At least all Municipal Corporations to carry out MFSA. **(Para 10.7)**

(xv) Expenditure Management

• “Aggregation in fiscal discipline, Allocative efficiency and Operational efficiency” be promoted. **(Para 10.11.2)**

• Establishment Expenditure be immediately limited to 80% of own revenue and be reduced further within a time frame. **(Para 10.11.4)**

• GPS system be installed on all vehicles to reduce fuel cost and achieve economy. **(Para 10.11.5)**

• Comprehensive inventory of equipments and scientific O&M be ensured.

• Switch over to use of LED or solar systems and Sensor based Street Lighting system. **(Para 10.11.6)**

• Experts to carry out energy audit of all plants, pumps, installations, etc. for replacement with efficient systems. **(Para 10.11.6)**

(xvi) GIS Mapping and Fiscal Cadastre

Comprehensive GIS mapping be done for all ULBs on top priority with multiple purposes i.e.

Planning, Asset Management, Property Tax Assessment, Execution of Infrastructure & Services etc. **(Para 10.10.6)**

(xvii) Manpower, Training and Performance Management:

• **Model Municipal Cadres as recommended by the 5th SFC be implemented to have requisite professional & technical manpower.**

• While doing so, it be carefully determined as to which of the posts should be regular or contractual and which function should be outsourced. **(Para 3.3.1)**

• PMC staff restructuring be done at earliest as per MoUD norms **(Para 3.3.4)**

• Group D services, except skilled civic services, be outsourced **(Para 3.3.2 (v))**

• Policy be made for Right-sizing the number of functionaries based on analysis of population of the LB, generation of internal resources, expenditure level on salaries, etc.

• Vacant posts of technical, accounting and professional staff be filled up in a Mission mode. If needed, new posts be created in view of SMART/AMRUT City schemes and Model Cities/Towns.

• Staff selection be done through Staff Selection Commission (SSC) and/or a nationally acclaimed HR Agency on the panel of Central Govt. or UN Agencies. **(Para 10.16.3)**

• All Job descriptions must have performance indicators defined clearly and be measurable and handbook for functionaries be circulated.

• Capacity and productivity of staff at all levels be ensured through Performance Management System and intensive need-based capacity building. **(Para 10.16.4)**

• State-wide database of employees be uploaded on website. **(Para 10.6.3)**

• Biometric attendance system be made mandatory. **(Para 10.16.3)**

• To break local nexus of non-transferable staff, there be clear guidelines on periodic transfers. New posts invariably be transferable. **(Para 10.16.3)**

• Full-fledged Directorate of Municipal Administration (DMA) be made functional. No

support system including SPUR can work effectively without this. **(Para 10.16.1)**

- City Managers be professionals in Urban Affairs and be regular staff or be appointed on long term contract after careful selection.
- Functions of Executive officer and City manager in the ULBs be clearly defined. **(Para 10.16.3)**
- Intensive training of Executive Officer and City Manager of the ULBs be done immediately on appointment. **(Para 3.4.4.1)**
- Policy be framed for engagement of interns in the ULBs.
- **School of Urban Planning and Architecture (SUPA) be set up on priority. (Para 3.4.4.2)**

(xviii) Urban Infrastructure Financing: Estimated Costs of Rs 30,000 Crores for infrastructure and services over next 5 years be met as follows: **(Para 10.12.2)**

- Establishment and O&M expenditure of the ULBs be met through own sources. **(Para 10.12.3(a))**
- Available lands and properties be monetized. **(Para 10.9.5)**
- PPP be used as the preferred option for financing construction, operation & maintenance of infrastructure and services. **(Para 10.13)**
- Union Government's PFDF Scheme and Tax-free Municipal Bonds be used. Accordingly, Credit ratings of the ULBs be done.
- BUIDFT be strengthened for attainment of its objectives. **(Para 10.12.3(b))**

(xix) Procurement of Goods & Services:

- For procuring quality Goods & Services, procurement be changed from Least Cost Selection (LCS) to Quality-cum-Cost Based Selection (QCBS) basis.
- e-Tendering or e-Auction be used for achieving greater transparency in all procurements **above Rs.1 lakh.**
- Regular testing and price benchmarking be done to ensure achievement of value for money.
- Clear legal procedures be framed to implement financial penalties in the event of poor supplier performance.

- All procurement be made generally with 5 years' Annual Maintenance Contract (AMC) and whenever possible, DGS&G system be followed.
- A customized Procurement Manual and MIS with standard forms and templates be made available to the ULBs.
- Websites of the ULBs and UDD be used for making procurement information available to all interested parties. **(Para 10.18)**

(xx) e-Governance:

- All e-Municipality modules be implemented urgently, being critical to improving services, governance and financial management of the ULBs.
- More modules be developed to take care of the Smart City and AMRUT schemes. **(Para 3.6.3)**
- Property Tax System Module be designed to automate the processing of real property transactions such as transfer of ownerships, subdivisions, consolidations, general revisions etc. thereby making it accurate, consistent and transparent. **(Para 3.6.4)**
- Nagarsewa (e-Municipality) to have customer access. **(Para 3.6.6)**
- ULBs be provided a reliable, complete and integrated Revenue and Accounting Software System, replacing the existing deficient software. **(Para 3.6.5)**

(xxi) Office & record management be streamlined based on Management Study.

(xxii) M& E of the ULBs:

Computerized monitoring and evaluation of the LBs be done through professionally managed M & E Cell in UDD and DMA. **(Para 10.16.6)**

(xxiii) Planning:

a. General

- Implement the recommendations of the Working Group on Urban Strategic Planning for the 12th Plan. **(Box 10.2 and Para 10.2.3)**
- Revise the nomenclature of "Master Plan" to "Spatial and Development Plan".
- URDPFI guidelines of MoUD be used for the purpose. **(Para 3.2.6.16)**

- Have a State level policy to implement parameters given in National Mission for Sustainable Habitat. **(Para 10.2.3)**
- Have Regulation on Fringe Area Development. **(Para 10.2.3)**
- Create Computerized Database for all ULBs and periodically updated for long & short term planning. **(Para 10.12.1)**
- Create dedicated cadre in the ULBs for implementation of BUPD Act including strengthening of TCPO. **(Para 10.2.1)**

b. Spatial Planning

- All ULBs to urgently prepare Master Plan and City Development Plan (CDP) including CIP using GIS, and corresponding Detailed Project Reports (DPRs), through outsourcing since requisite in-house skill is not available. **(Paras 3.2.5(B) and 3.2.6.16)**
- Riverfront Development be a major part of Master Plan. **(Para 3.2.6.14)**
- Urban land use policy be framed **(Box 3.11)**. **(Para 3.2.5)**
- **Land bank** be setup since availability of land is a serious issue in provision of public goods & services. **(Para 10.9.6)**

c. Development Plan

- DPCs to prepare Integrated District Plan for both Municipalities and Panchayats as per Art 243ZD. **(Para 10.2.1)**
- Role of State Planning Board be as suggested by the Working Group on Urban Strategic Planning. **(Para 3.2.5 (e))**
- Multi-year Capital Investment Plans be prepared to reach 100 % SLB benchmark over next 3 to 7 years for services like water supply, SWM, sewerage, drainage etc. **(Para 10.12.1)**

d. Master Plan of Patna

- Operationalize Patna Metropolitan Area Authority and constitute Patna Metropolitan Planning Committee
- Prepare new Master Plan for Greater Patna with an ambitious vision through internationally reputed consultants **(Box 3.10 and Para 3.2.5 B(ii))**

(xxiv) Urban Transport:

- Formulate Urban Transport Policy urgently.
- CDPs to have multi-modal transport system. **(Para 3.2.7)**

(xxv) Budgeting

- The ULBs to prepare outcome based budget timely as per the Manuals, which must be consistent with the long and short term plans that promote strategic priorities of the communities and be uploaded on the website for citizen's feedback.
- Approved budgets not to show any deficits.
- Budget be formulated timely to obviate frequent references to ESC.
- Adequate capacity building of both the elected and official functionaries, be done for preparing budget and using the same for expenditure control.
- Annual Budget to indicate financial outlays under various schemes for Urban Poor also, indicating specific outputs and outcomes. **(Para 10.3)**

(xxvi) Accounting

- All ULBs to migrate to Accrual Based Double Entry Accounting System (DEAS) effective April 01, 2014 and make audited accounts of 14-15 available during first half of 16-17 in order to be eligible for Performance Grant for 16-17. **(Para 10.4.1)**
- All ULBs to adopt RBI's Municipal Finance Information System (MFIS) along with an Integrated Accounting and Revenue Software. **(Para 10.4.5)**
- All ULBs to prepare Financial Statement and Annual Report timely and upload on website. **(Para 10.4.6)**
- For sustainable improvements, qualified accountants be appointed on a regular basis apart from contracting CAs (internal auditor) as an interim measure. **(Para 10.4.7)**
- The books of accounts to distinctly capture income of own taxes, non-taxes and devolution and grants as per the 14th FC recommendations. **(Para 10.4.2)**

(xxvii) Auditing

- Internal control mechanisms at the ULBs be strengthened through regular internal audits to ensure compliance of BMAR, 2014.
- All ULBs to prepare ATR in respect of each audit report and submit these reports along with ATRs within 30 days for approval by its Audit Committee and its ESC.
- All Internal, DLFA and AG Audit Reports along with ATR be uploaded on website.
- Copies of all Internal Audit reports be sent to C&AG for necessary action
- Copies of all reports from internal auditors as well as C&AG be sent to Audit Committee within 15 days of submission.
- Audit Committee must take follow up action u/s 95 to 97 of BMA, 2007 or refer to Ombudsman or to Bihar Municipal Vigilance Authority u/s 44 of BMA, 2007. **(Para 10.5)**

(xxviii) Accountability and Transparency (Para 10.19)

- Community be involved in setting key performance indicators (PIs) and actual performance reported back to the community.
- SLBs be publicized for various services,
- **Citizen's Charter** be updated and disseminated regularly.
- Single window clearance be ensured for approval of Building Permissions, Mutation Certificates, Trade licences, Mobile Towers Registration, etc. **(Para 10.19.1)**
- **Ward Sabhas** be made functional. Elections not held since approval of the Rules in 2013. **(Para 10.19.2)**
- Effective steps be taken to minimize friction between elected and official functionaries. **(Para 10.19.5)**

(xxix) Urban Housing

- Ongoing programs needs to be scaled up and PMAY '2015-22' implemented effectively.
- Role of market as a provider of housing to the middle & high income groups be examined in the context of REIT, RERD. **(Para 3.2.11)**

(xxx) Slum improvement & Poverty alleviation

- Fresh Slum Survey be made.
- Ongoing slum development and urban poverty alleviation programmes be scaled up.
- Social audit of Slum and poverty alleviation programmes be a must. **(Para 3.2.8)**

D. Recommendations for the Future UFCs and Union Govt.

a. The future UFCs

(i) A higher share of the divisible pool (i.e. increase from 2.28% to 5%) to the LBs, coupled with firm insistence on compliance in letter & spirit of the conditionalities, is an imperative. **(Para 11.2)**

(ii) The UFCs in the past have used proxy indicators like population, area, income distance etc. for determining Grant to the LBs of a State (**Table 11.1**). Criteria used by the 14th FC do not include Per Capita Income or Income Distance, which seems to be a serious omission. **(Para 11.3)**

(iii) The future UFCs should consider introducing disincentive to the States for late constitution of the SFC or not acting timely on its recommendations without good justification. **(Para 11.4.3)**

(iv) The future UFCs should compile basic LB data relating to revenue and expenditure, level of services, devolution of 3Fs, best practices etc. and also a comparative summary of recommendations of the SFCs over time as done by the 13th FC, to facilitate the SFCs in their work. **(Para 11.4.5)**

b. Union Govt

(v) As recommended by the HPEC set up by MoUD, Union Govt. should introduce a 'Local Bodies Finance List' in the Constitution, empowering the ULBs with 'exclusive' taxes e.g. property tax, profession tax, entertainment tax and advertisement tax; constitutionally ensuring sharing of a pre-specified percentage of State's revenues from taxes on goods and services with the ULBs on the basis of formula designed by the SFC; and provision of formula-

based transfers and grants-in-aid to the ULBs from the divisible pool. **(Para 11.5.1)**

(vi) While subsuming taxes, cesses and surcharges in the GST, protection of revenue sources of the LBs be ensured. **(Para 11.5.2)**

(vii) Union Govt. should amend the Constitution to raise the ceiling of professions tax to Rs.25,000/- per annum with a provision for automatic increase every year corresponding to inflation and rise in per capita income. **(Para 11.5.4)**

(viii) Union Govt. should make appropriate amendment in the Constitution to allow taxing the properties of the Union Government or to compensate the Local Governments for providing services to their properties. **(Para 11.5.5)**

(ix) Union Government should direct all its Ministries to monitor implementation of CSSs LB-wise and to compile and publish performance LB-wise. **(Para 11.5.6)**

(x) There should be 'Activity Mapping' of all the CSSs/ACAs, followed by Orders giving specific responsibilities to each tier of the LBs and corresponding devolution of funds and functionaries. All CSSs/ACAs guidelines be revised accordingly. **(Para 11.5.7)**

(xi) From the next Census 2021 onwards, all demographic and amenities data should be captured and published LB-wise also. **(Para 11.5.6)**

(xii) Union Govt. should push e-Governance in the LBs as a critical component of its Digital India Mission. **(Para 11.6)**

Chapter I

The ToRs and issues emanating therefrom

1.1 Terms of Reference (ToRs) and the Constitution & the State Acts:

1.1.1 The 73rd and 74th Constitutional Amendments are the landmarks in evolution and development of the LBs. The basic objective of these amendments is empowerment of the LBs through functional and financial devolution so as to enable them to function as vibrant units of Self Government (LSGs).

1.1.2 India being a federal structure, fiscal relation between Centre, State and LSGs has always been a contentious issue. These three constitutionally 'independent' governments operate upon fiscal resources of the individual citizens. Moreover, revenue assignments and expenditure responsibilities of the three govts. are inherently asymmetrical. Thus, with a view to achieving 'equalization' and particularly strengthening the third tier of government as envisaged in the 73rd and 74th Constitutional Amendments, Articles 243 I and 243 Y of the constitution requires every State Govt. to constitute, once in five year, a State Finance

Commission (SFC) to decide upon revenue sharing between the State and LSGs as well as other related fiscal and governance issues. **Box 1.1** gives an overview of the UFC/SFC fiscal transfer mechanism among the three tiers of governments.

1.1.3 Under the new fiscal arrangement, reasonable transfer of resources from State Govt. to the LBs, which have wide differentials in fiscal capabilities and needs, constitutes the main task of the SFC. At the national level, the UFC recommends grants to the States for supplementing resources of the LBs and also suggest measures for augmentation of own sources of revenue.

1.1.4 The 5th State Finance Commission (5th SFC) of Bihar was constituted in Dec,2013 (Notification at **Appendix 1.1**) in accordance with the constitution and as provided in Section 168 of the Bihar Panchayati Raj Act, 2006 (BPRA, 2006) and Section 71 of the Bihar Municipal Act, 2007 (BMA, 2007) with the ToRs as mentioned in **Table 1.1** :

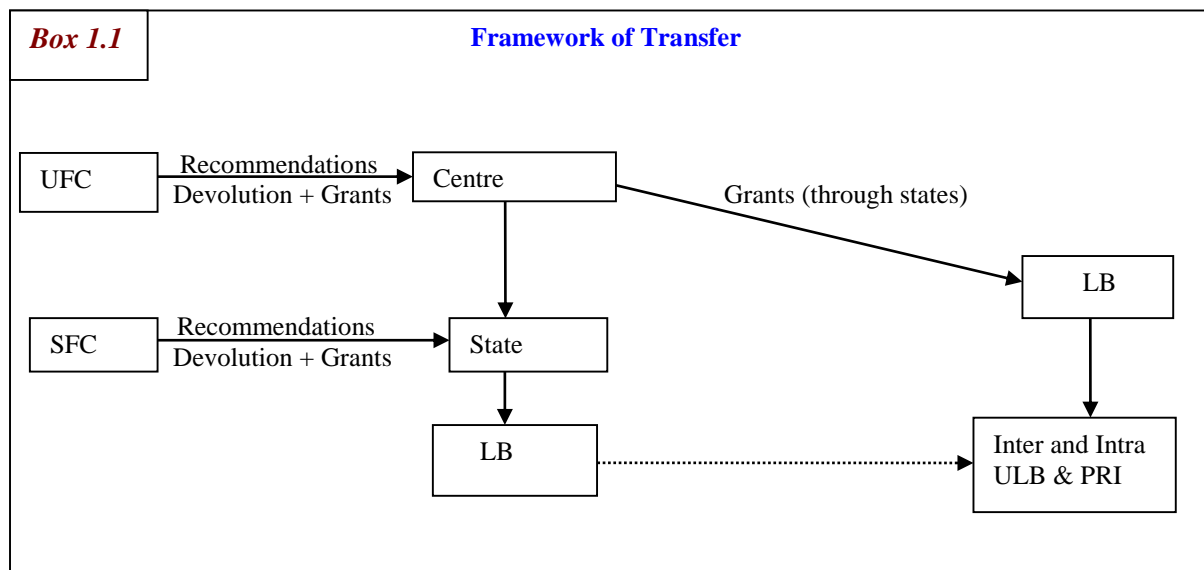


Table 1.1 : ToRs and the Constitution & the State Acts

Constitution Article 243 I, 243Y	Section 168, BPR Act, 2006	Section 71, BMA , 2007	TOR
Distribution between the State and the Panchayats/Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State.	Distribution between the State and the ZP, PS & GP of the net proceeds of the taxes, duties and fees livable by the Govt	Devolution of net proceeds of the taxes, duties, tolls and fees to the Municipalities	Assessment of net proceeds of State Taxes
Allocation between the Panchayats/Municipalities at all levels of their respective shares of such proceeds.	Allocate between the Zila Parishads, Panchayat Samitis and Gram Panchayats of their respective shares of such proceeds	Assignment of taxes, duties, tolls and fees to the Municipalities	Distribution between the state Government and the LBs of the net proceeds of taxes, duties, tolls and fees leviable by the State
Determination of the taxes, duties, tolls and fees which may be assigned as, or appropriated by, the Panchayats/Municipalities.	Determination of the taxes, duties and fees which may be assigned to or appropriated by the Zila Parishads, Panchayat Samitis and Gram Panchayats		Determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the LBs.
Grants-in-aid to the Panchayats/Municipalities from the CF of the State.	Grants-in-aid to Zila Parishads, Panchayat Samitis and Gram Panchayats from the CF of the State	Sanction of grants-in-aid to the Municipalities from the CF of the State	Grants-in-aid to the LBs from the Consolidated Fund of the State
Measures needed to improve the financial position of the Panchayats/Municipalities & any other matter referred to the FC by the Governor in the interests of sound finance of the Panchayats/Municipalities.		Measures required to improve the financial position of the Municipalities	Measures needed to improve the financial position of the LBs

- **ToRs of the SFC are evidently consistent with the Constitution and the State Acts.**

1.2 Issues emanating from the ToRs of the 5th SFC:

Following issues emanate from the TORs and the accepted principles of IGFT:

a. Enabling the LBs to function as LSGs and to fulfill their Constitutional and Statutory mandates.

b. Design of IGFT: as per the Principle of Equalization

c. Determination of Net Taxes etc. and Consolidated Fund of State Govt.

i) Methods of projection of Revenue and Expenditure considered by UFCs, State Finance Deptt., SFCs, etc: – CAGR, Buoyancy, Tax Capacity, Tax Effort.

ii) Implications of GST for both State Govt. and the LBs.

d. Projection of Revenue & Expenditure of the LBs and Resource gap.

e. Framework of Devolution and Grant (Vertical Distribution):

i) Devolution Criteria

- Capacity of State Govt. to spare resources for the LBs.

- Bridging resource gap of the LBs.

- Historical trend: intra and inter-state comparison (viz.% of Taxes, Budget, GSDP)

ii) Grants-in-Aid:

- Arguments for and against Grants

- Purpose of Grants

- Performance Grant

iii) Devolution vs Grant

f. Inter & Intra LB distribution (Horizontal Distribution)

i) PRI vs ULBs – Imperatives of Urbanization.

ii) Intra PRIs – Why a large share to the GPs?

iii) Intra ULBs - Needs of the bigger cities as the engines of growth vs. lower fiscal capacity of the smaller towns.

iv) Criteria for inter-se distribution.

g. Assignment and Appropriation of taxes:

i) Concept

ii) Need & Scope

h. Sound Finances

i) Planning and Budgeting

ii) Accounts

iii) Audit (Local Fund Audit, Social Audit, etc.)

iv) Own Resource Enhancement

- i) PPP
- ii) Borrowing/ Pooled Finance

i. Governance and Reforms

- i) Reforms for Efficiency, Transparency and Accountability (ETA) : JNNURM, 14th FC, AMRUT, etc.
- ii) Administrative: Manpower, Skilling, Delegation, M&E.
- iii) Legal and Regulatory
- iv) e- Governance
- v) Decentralized Planning

j. Issues for consideration of the UFC and Union Govt.

1.3 Methodology followed by the 5th SFC:

- i) Template of the Report: The 5th SFC has largely followed the template suggested by MoPR and the 13th FC.
- ii) Questionnaires : Questionnaires were circulated to PRD and UDD for obtaining relevant data and information. (*Appendix 1.2 and 1.3*)
- iii) Online collection of data from the LBs: Questionnaires for both the ULBs and the PRIs were made computer-compatible and uploaded on the SFC website (<http://www.biharsfc.org>) to enable online entry of responses and also collation & analysis of data.
- iv) Public Notice: Suggestions/comments were invited from people at large through Newspaper advertisements.
- v) Divisional level consultations: were held with State Govt. and LB functionaries (officials as well as elected). Main suggestions made are listed at *Annexure 1.1 (PRIs) and Annexure 1.2 (ULBs)* respectively.
- vi) Visit to the PRIs and the ULBs: were made for appreciating the ground reality.
- vii) Analysis of the 14th FC Report: including the Study Reports on LB finances commissioned by the 14th FC was made.
- viii) Comprehensive analysis of State Budget was made.

1.4 Issues identified by the SFC/FCs:

The following paras summarize recommendations of the 4th SFC and the 13th & 14th FCs and action taken by State Govt.

with a view to getting some idea of issues identified by the SFC/FCs and the extent of compliance by State Govt.

1.5 Recommendations of the 4th SFC, Bihar:

1.5.1 The 4th SFC submitted its report for the period 2010-2015 in June, 2010. Followings were the salient recommendations of the 4th SFC (Details in *Appendix 1.4*):

- i) 7.5% of State's own tax revenue to be devolved to the LBs.
- ii) Devolved amount to be shared 70:30 between the PRIs and the ULBs.
- iii) Distribution between GP, PS and ZP to be 70:20:10.
- iv) (a) 10% share of the ZP to be distributed among the ZPs on lone criterion of population, (b) 20% share of the PSs to be distributed among the PSs based on 80% weight to population and 20% weight to BPL families and (c) 70% share of the GPs to be distributed equally among all the GPs.
- v) Similarly 30% devolution to the ULBs to be distributed among the ULBs on the criteria of (a) 60% weight to population, (b) 20% weight to area and (c) 20% weight to number of BPL families.
- vi) Consolidated grant of Rs. 50.00 lakh p.a. to the ZPs, Rs.10.00 lakh p.a. to the PSs and Rs.2.00 lakh p.a. to the GPs.
- vii) Similarly, consolidated grant of Rs.5 crore p.a. to the PMC, Rs.1.00 crore p.a. to Municipal Corporations, Rs.0.50 crore p.a. to Municipal Councils and Rs.0.20 crore p.a. to Nagar Panchayats.
- viii) First charge on the grants to be on filling the gaps in the cost of priority activities: water supply, sanitation, abolition of manual scavenging, street & lighting, parking places. The second charge to be on the purposes consistent with the functions given in the LB Acts.
- ix) ZPs and ULBs to become financially self-reliant by raising own resources, putting their assets to profitable use and adopting PPP.
- x) State Govt. to notify maximum limit of taxes to enable the PRIs to raise resources or else dispense with such Govt. approval.
- xi) Accounting format and accounting manuals prescribed by CAG to be used.

1.5.2 State Government accepted the recommendations of the 4th SFC in toto but only in Dec, 2011. Timely implementation of the recommendations, therefore, was not possible. Implementation of items IX to XI Para 1.5.1 is still pending.

1.5.3 Projected and actual transfers to the LBs (4th SFC): *Table 1.2* shows that amount actually devolved has been much higher than that recommended by the 4th SFC. It is explained by the fact that the 4th SFC unquestioningly accepted the figures of receipts (understated) and expenditures (overstated) projected by State Govt.

1.6 Recommendations of the 13thFC for the LBs.: Summary of the recommendations of the 13th

FC regarding the LBs is given at *Appendix- 1.5*

1.6.1 Paradigm shift by the 13thFC: The 13th FC took a big leap of faith by earmarking 2.28% of the divisible pool of the Central Taxes as grant for the LBs. This recognized the fact that the LBs are not mere agents to receive grants for agency functions but they are self governments at the local level under the Constitution, eligible to receive a part of the central divisible pool. Further, performance Grant based on 9 conditionalities (*Table 1.3*) was a major step towards ensuring Transparency, Accountability, Prudent Financial Management and Institution Building. Such conditionalities rightly accompanied the major resource transfer :

Table 1.2 : Projected and actual transfers to the LBs (4th SFC)

Sl. No.	Years → Items	10-11		11-12		12-13		13-14		14-15	
		(R)	(A)	(R)	(A)	(R)	(A)	(R)	(R.E)	(R)	(R.E)
1	Divisible pool	6436	9377	7227	12010	8114	15637	9110	20021	10226	24636
2	7.5% of Devolution	483	703	542	901	609	1173	683	1502	767	1848
3	Share of PRIs(70%)	338	492	379	631	426	821	478	1051	537	1293
4	Grant of PRIs	180	180	180	180	180	180	180	180	180	180
5	Tied amount for PRIs*	318	318	318	318	318	318	318	318	318	318
6	Untied amount for PRIs*	20	174	61	313	108	503	160	733	219	975
7	Share of ULBs(30%)	145	211	163	270	183	352	205	450	230	554
8	Grants to ULBs	81	81	53	53	53	53	53	53	53	53
9	Tied amount for ULBs*	72	72	67	67	37	37	37	37	37	37
10	Untied amount for ULBs*	72	139	95	203	145	315	168	413	193	517
11	Total transfer to PRIs	518	673	560	811	606	1001	659	1231	717	1474
12	Total transfer to ULBs	226	292	216	324	236	405	258	504	283	608
13	Total transfer to LBs	744	965	776	1134	842	1406	917	1735	1001	2081

(R): Recommendations based on the 4th SFC report; (A) As per actuals; (R.E): Revised Estimate; (B.E): Budget Estimate
* out of devolution

Table 1.3 : Performance Grant Conditions of the 13th FC & implementation

Performance condition		Status of implementation
(i)	Introduction of a supplement to budget documents on LBs;	Done
(ii)	Putting in place audit system in all LBs;	Not Done
(iii)	Establishment of an independent Local Body Ombudsmen	Not Done
(iv)	Electronic transfer of grants to LBs in 5 days;	Not Done
(v)	Prescribing qualifications of SFC members through an Act;	Done
(vi)	Empowering the ULBs to levy property tax without hindrance;	Not Done
(vii)	Constitution of State Property Tax Board;	Not Done
(viii)	Putting in place benchmarks for essential civil services;	Done
(ix)	Putting in place Fire-hazard Response and Mitigation Plan (ULB).	Not Done

1.7 Recommendations of the 14th FC for the LBs : A summary of recommendations of 14th FC is given at *Appendix 1.6*.

**1.7.1 The main recommendations are—
A. Grants :**

(i) Total LBs grants to all States equivalent to

5th SFC (2015-20)

3.06% of the divisible pool.

(ii) Grant to be spent only on basic services assigned to the LBs under relevant legislations;

(iii) Distribution of grants among the States to be based on 90% weight for 2011 population and 10% for area;

(iv) PRIs grants to go entirely to the GPs which are directly responsible for delivery of basic services. State Govt. to take care of the needs of the other tiers.

(v) **The basic grant to be distributed among the GPs, using formula prescribed by the respective SFC.**

(vi) 10% of the grant to the GPs and 20% of the grants to the Municipalities to be given on **compliance of performance conditions;**

B. Performance Grants :

(vi) Performance grant to address the following issues: (a) making available reliable data on LBs' receipt and expenditure through audited accounts, and (b) improvement in own revenues. ULBs also to measure and publish SLBs for basic services;

(viii) Un-disbursed amount of performance grant to be distributed equally among the eligible GPs.;

(ix) For computing increase in own revenue in a particular year, proceeds from Octroi and Entry tax to be excluded in the case of ULBs.;

C. SFC :

(x) State Governments to strengthen SFCs. This would involve timely constitution, proper administrative support and adequate resources for smooth functioning and also timely placement of the SFC report before State Legislature with Action Taken Notes.

D. Own resources :

(xi) The existing rules to be reviewed and amplified to facilitate levy of property tax and the granting of exemptions to be minimized. Assessment of properties to be done every 4-5 years and the ULBs to introduce system of self-assessment.

(xii) Clear recommendations made for (a) levy of vacant land tax by peri-urban Panchayats, (b) land conversion charges, (c) betterment tax, (d) advertisement tax, (e) entertainment tax, (f) profession tax;

(xii) Clear recommendations made for (a) levy of vacant land tax by peri-urban Panchayats, (b) land conversion charges, (c) betterment tax, (d) (xiii) State Governments to assign productive local assets to the Panchayats, put in place enabling rules for collection and institute systems so that they can obtain the best returns while leasing or renting common resources.

(xiv) The ULBs to rationalize their service charges to at least recover O&M costs.

(xv) Since mining puts a burden on the local environment and infrastructure, some of the income from royalties to be shared with the LB concerned.

(xvi) The LBs and States to explore issuance of municipal bonds as a source of finance with suitable support from Union Government.

1.7.2 The 14th FC made two major departures from the 13th FC as follows :

(i) The entire PRI grant has been given to the GPs since they are directly responsible for delivery of the basic services.

(ii) Performance grant is linked to (a) submission of audited account, and (b) increase in own revenue. **Compliance of these conditions is going to be a major challenge, though eminently desirable.**

1.8 Criteria used by the FCs for State allocations for the LBs:

1.8.1 Criteria for allocation among States for the LBs should be based on Equalization Principle which is at the core of fiscal federalism i.e. providing comparable services at comparable tax efforts for all citizen of the country irrespective of place of residence in a proximate time-frame. It is difficult to assess precisely the State specific requirements based on such principle because of inadequacy of data, widely varying capacity to raise own revenue, institutional constraints etc. The earlier FCs have, therefore, used proxy

Indicators like population, area, income distance etc. as given in **Table 1.4.**

1.8.2 Criteria used by the 14th FC (**Table 1.4**) do not include Per Capita Income or Income Distance, which does not seem to be logical.

1.8.3 Grants recommended for the LBs by the FCs : FC Grants to all States LBs as percentage of the divisible has increased progressively from 0.78% by the 11th FC to 3.06% by the 14th FC (**Table 1.5**).

1.9 Grants recommended by the 13th & 14th FC for the Bihar LBs are given in **Table 1.6**. While the 13th FC gave 3.15% of the total LB grant to Bihar LBs, the 14th FC reduced it to 3.07% (**Table 1.5**).

Table 1.4 : Proxy Indicators used by the FCs for LB allocation

Criterion	Weights (%) allotted for State LB Share		
	12 th FC	13 th FC	14 th FC
Population	40	50	90
Area	10	10	10
Distance from highest PCI	20	10	0
Index of devolution	10	15	0
Tax effort	20	0	0
SC/ST pop.	0	10	0
FC LB grants utilization	0	5	0
Total	100	100	100

Table 1.5 : Grants recommended to All States LBs by various Finance Commissions

FCs	All-States									Bihar								
	Basic grant			Performance linked			As % of divisible pool			Basic grant			Performance linked			Share of Bihar		
	R	U	Total	R	U	Total	R	U	Total	R	U	Total	R	U	Total	R	U	Total
11th FC		2000			2.93				0.78		93.9							4.69
12th FC		5000							1.24		142							2.84
13th FC		15110			8000			0.6	1.93		727.6							3.15
14th FC		69715			17825			0.9	3.06		2141			535.3				3.07

Table 1.6: Grants recommended to Bihar LBs by the 13th and the 14th FCs

Sl. No.	Item	13th FC						14th FC						
		10-11	11-12	12-13	13-14	14-15	10-15	15-16	16-17	17-18	18-19	19-20	15-20	
1	PRIs Grant													
	(a) Basic	461	535	625	741	877	3239	2269	3142	3630	4200	5675	18916	
	(b) Performance	-	183	429	506	597	1715	-	412	466	530	694	2102	
2	ULBs Grant													
	(a) Basic	68	79	92	109	129	476	257	356	411	475	642	2141	
	(b) Performance	27	63	74	179	88	431	-	105	119	135	177	535	

Chapter II

Enabling the Panchayati Raj Institutions to function as self-governments

2.1 PRIs as self- governments:

2.1.1 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 a complete framework and also imparted it certainty. Article-243G (**Box-2.1**) envisions the Panchayats as the institutions of self-government and also the universal platforms for planning and implementing programmes for economic development and social justice.

Box 2.1	<p style="text-align: center;">Constitutional provision for enabling the PRIs as LSGs</p> <p>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—</p> <p>a) The preparation of plans for economic development and social justice;</p> <p>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.</p>
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2.1.2 It has deepened democracy and ensured social and political empowerment of the people, particularly the dis-advantaged, through 8,970 Panchayats, 8,398 Gram Katchahry and 2.60 lakh elected representatives, more than 50% of whom are women. (**Table-2.1**). The PRIs also are the crucibles of future political leaderships.

2.1.3 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. Backward Region Grant Fund (BRGF) gave untied financial backup to the Panchayats and (a) Promoted decentralized, participative and holistic planning (as an essential

condition for getting BRGF grant) that should start from the grassroots upwards through the Panchayats and Municipalities, and culminate in a District Plan consolidated by the DPC, (b) Bridged (to some extent) critical gaps in development not met through the existing schemes/resources, and (c) Built capacity of the Panchayats and their functionaries. The recent discontinuation by GoI of BRGF is a major setback for the Panchayats. Discontinuation by GoI of RGPSA, which was a major effort towards capacity building of the PRIs, is another serious setback.

Table 2.1: Elected Representatives of the PRIs

Levels	Category	No.
Gram Panchayat (8398)	Mukhiya	8398
	GP Members	115191
Panchayat Samiti (534)	Pramukh	531
	PS Members	11035
Zila Parishad (38)	Chairpersons	38
	ZP Members	1124
Gram Katchahry (8398)	Sarpanch	8398
	Panch	115191
Total		259914

Source: Panchayati Raj Department, Bihar

2.1.4 The 13th FC award was a major milestone in the history of Panchayati Raj. In a radical departure from the past, the 13th FC devolved to the Panchayats as grant a share of the divisible tax pool, instead of a mere lump sum, de facto recognizing the Panchayats as the third tier of government. The 13th FC also earmarked a performance grant subject to the fulfillment of stipulated conditions, so as to bring about major improvements in functioning and accountability of the Panchayats. The 14th FC has continued this approach and has given certainty to recognition of the Panchayats as the third tier of government.

2.1.5 **The letter and spirit of the Constitutional amendment is epitomized in the ‘Panchayat Sarkar’ vision of Govt. of Bihar, physical symbol of which are the ‘Panchayat Sarkar Bhawans’.** The 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.

2.1.6 However, there are many unfinished agenda such as: (i) the Panchayats quite often are unable to function efficiently due to insufficient staffing, office space & infrastructure, (ii) true integrated decentralized planning is yet to happen (Article-243ZD), (iii) true devolution of 3Fs is still at nascence, and (iv) the Gram Sabha, which is the soul of the Panchayats and in fact the whole democratic framework, is still to institutionalize. “Active Gram Sabha: For Empowered people and Accountable Panchayat” is not a mere slogan. Empowering and enabling the Gram Sabha must receive the highest attention if the dreams of ‘Gram Swaraj’ and ‘Power to the People’ are to be realized.

2.1.7 Evidently, three broad aspects of the Panchayat Agenda need to be pursued: Empowerment (effective devolution of functions and funds), Enablement (capacity building through skilled manpower, IT facility, Office space etc.) and Accountability (through effective Gram Sabhas, Social Audit, Ombudsman etc.). Accordingly build/strengthen institutions, systems, processes etc. and make the PRIs vibrant institutions of ‘Smart’ self-governments (**Box-2.2**).

2.2 Functions:

2.2.1 Functions of the PRIs under the Constitution and the State Acts:

A comparison between the functions assigned to the PRI under the Constitution and the Bihar Panchayati Raj Act, 2006 (BPRA, 2006) respectively may be seen at **Annexure-2.2**. BPRA, 2006 includes all functions listed in the Constitution. (**Sec 22 for GP, Sec 47 for PS, Sec 73 for ZP and Sec 96 to 122 for GK**)

2.2.2 Categories of Functions: The PRIs evidently need to perform broadly the following categories of functions as self-government:

- **Regulatory Functions:** Issuing Death & Birth Certificate, Trade license and other Regulations, etc. besides judicial functions through the GKs.
- **Planning and implementing schemes:** For both economic development and social justice.
- **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.

- **Agency Functions:** Functions assigned under the Central and State Schemes and policies.

Box 2.2

Smart Gram Panchayat*

Panchayats should become symbols of Modernity and Responsive Governance.

- Have Panchayat Sarkar Bhawan
- Have requisite skilled manpower
- Implement all modules of e-Panchayat
- Take RTPSA services from Block to GP.
- Enhance own revenue at least by 10% per year
- Implement PRIASoft accounting software and regularly submit audited account
- Provide essential civic amenities in its jurisdiction:
 - (a) Drinking Water, Drainage, Sanitation
 - (b) Village Street and Lighting (Solar + LED)
- Promote skill development, economic activities, rural market, etc.
- Provide Agri-Service Centre, etc.
- Prepare spatial plan for the GP area and implement building byelaws.
- Prepare socio-economic development plan for the GP
- Have at least one playground and one library with IT facility.
- Facilitate Digital India (promote e-governance, e-education, e-health, etc.)

**Elements of Smart Village envisaged by Govt. of Andhra Pradesh are given at Annexure. 2.1*

2.2.3 Devolution of functions:

2.2.3.1 MoPR has made suggestions regarding devolution of functions as in **Box-2.3** and the 5th SFC endorses it.

Box 2.3

Action points for devolution of function to the PRIs

- Emphasize governance, regulatory and convergence function of the LBs
- Devolve functions as per Activity Mapping.
- Refine "Devolution Index" to capture critical indices and standards.
- Implement MoPR advisory dt. 19.1.09 on delineating roles of the LBs in CSSs/ ACAs.
- Merge the parastatals in the Standing Committees of the LBs.

Source: MoPR Roadmap

2.2.3.2 Moreover, issuing trade license and approving buildings plans should be included in BPRA, 2006.

2.2.3.3 The Panchayats should monitor functioning of the institutions like JIVIKA, ICDS Centres, Health Sub-Centres, Schools and PDS through (i) monthly report to the respective

Panchayat and (ii) participation of the GP level officials concerned in monthly meetings of the respective Standing Committee. This will also enable these Committees to perform their functions.

2.2.3.4 Need for Activity Mapping: Clarity on the role and responsibilities of the Panchayats of different tiers is provided by Activity Mapping which, thus, becomes an important step in devolution of functions. This is not an one time exercise and has to be done continuously while working out locally relevant socio-economic programmes, restructuring organisations and framing subject matter laws.

- Activity Mapping does not imply that the subjects are devolved wholesale. The Subjects or Sectors need to be unbundled and assigned to the different levels of Governments and the PRIs on the basis of clear principles of public finance and public account-ability, and above all, the governance principles of Subsidiarity, Democratic Decentralisation and Citizen-Centricity (**Box-2.4**).
- Steps in Activity Mapping and format for the same are given in **Box-2.4** and **Annexure-2.3** respectively.

2.2.3.5 Status of Activity Mapping:

The progress so far on Activity Mapping department wise and subject wise is unsatisfactory.

2.2.3.6 Government Orders (GOs):

While response to **questionnaire from the PRD is awaited**, as per the *Study Report piloted by the 14th FC (SRI4FC)*, 20 line departments have issued GOs.

2.2.3.7 Actual Devolution: Status of Actual devolution may be seen at **Table -2.2**.

2.2.3.8 Functions that the Panchayats are able to actually perform (list & extent):

Information not received from PRD.

2.2.3.9 Functions that the Panchayats are unable to perform (indicating reasons):

Information not received from PRD

2.2.3.10 Parastatals /Parallel Bodies (PBs):

- Often, Parallel Bodies (PBs) are created for supposedly speedy implementation and greater accountability. However, there is little evidence to show that such PBs has avoided the evils including that of partisan politics, sharing of spoils, corruption and elite capture.

Box 2.4	Steps in Activity Mapping
<p>The first step towards activity mapping is unbundling of each Sector into services, activities and sub-activities to a level of disaggregation that is consistent with devolution. For example:</p> <ul style="list-style-type: none"> • Rural Education, Health, Drinking Water and Sanitation are Sectors. • Education would include services such as Primary, Secondary and Tertiary Education and Vocational Training. • Services can be further unbundled into activities. For example: Basic education could be unbundled into activities such as: <ul style="list-style-type: none"> • Identifying and recruiting persons with appropriate teaching skills. • Monitoring teacher attendance. • Procuring and maintaining an inventory of educational materials and equipment. • Setting up school buildings with adequate drinking water and sanitation facilities. • Repairing and maintaining existing schools. • Ensuring an even spread of teachers, wherever necessary. 	

Table 2.2: Status of devolution of 3Fs to the PRIs in Bihar (2012)*

Funds	Functions	Functionaries
No taxes are collected by the PRIs but a proposal regarding the same is under consideration of state government.	Activity mapping has been conducted. 20 line depts. have issued GOs.	Departmental staffs are answerable to departments. Aangadwadi workers, health workers and teachers are appointed by PRIs.

** Based on MoPR (2012) information.*

- ‘Missions’ in particular often bypassing mainstream programmes, create disconnect, duality and alienation between the existing and the new structures and functions. In addition, there are issues of continuity beyond the life of CSSs or ACA, or State Schemes; subsequent operation and maintenance; and continued accountability. PBs usurps the legitimate space of PRIs and demoralize the PRIs by virtue of their superior resource endowments, though such resources are available only during the lifetime of the schemes.
- Arguments such as **protection of funds from diversion** have now weakened since advances in core banking systems, treasury computerization and connectivity can enable instantaneous, seamless and just-in-time transfer of funds directly to the implementing PRI. Expenditures by the PRIs can also be monitored on a real time basis,

thus doing away with the need for intermediate PBs to manually transfer funds and collect, pool and analyses data on expenditures.

• **Examples of the PBs** are: District Rural Development Agencies, Forest Development Agencies, District Watershed Development Societies, District Health Mission, District Education Mission, District Horticultural Mission, District Project Management Units of Externally-assisted Projects etc. They are considered ‘parallel bodies’ (PBs) because they have a separate system of decision making, resource allocation and execution of projects, which is removed from the Panchayati Raj set up. User Group-Based Organizations or Community Based Organizations (CBOs) for water supply, irrigation etc., are not per-se PBs; but they become so if there is no conscious decision to structure them within the PRI set up.

• **The PRIs in Bihar also have been weakened due to such parastatals.** Ideally all parastatals should be structured within the PRI set up. It would be desirable that at least DRDA is functionally integrated with the ZP and accordingly, DDC becomes full time CEO of ZP and DRDA employees become full time employees of the ZP.

2.2.4 Status of the Regulatory Functions:

(a) The 5th SFC is still to receive responses to its Questionnaire from PRD. However, based on field visits, the position appears to be as in **Table 2.3**

Activity	Status
Issuing Death & Birth Certificate	Functioning at GP level. However, there is lack of awareness among people.
Trade license and other Regulations.	No activity at any of the three levels. It used to happen earlier.

(b) Gram Katchahry (GK):

The GK at the GP level in Bihar represents a quasi-judicial forum for resolution of disputes locally. Provisions regarding its election, duration, powers, functions etc. have been made in BPR, 2006. Civil and Criminal power of the GK may be seen in **Appendix-2.1**. Decision

of State Govt. to provide “**Nyaay Pagdi**” to the Sarpanchs is a significant gesture.

• **The GKs are not functioning properly due to:**

(i) Lack of sensitization in Police & judiciary towards jurisdiction and powers of GK: Often cases belonging to jurisdictions of the GK are usurped by Police on some pretext. A Committee of District Judge (DJ), District Magistrate (DM) and Superintendent of Police (SP) need to review progress & problems of GK every quarter. Moreover, SDM should review functioning of the GK along with DSP every month and report to DJ /DM/SP and PRD.

(ii) Inadequate civil jurisdiction of GK: needs to be enhanced from Rs. 10,000 to at least Rs. 1.00 lakh and then linked to price index.

(iii) Lack of personnel like Dalpati: to serve notice, enforce judgment, etc.

(iv) Insufficient infrastructure: for holding GK sittings in an amiable atmosphere.

(v) Lack of training of Manpower: Intensive training programmes for Sarpanch, Panch, Nyaya Mitra and GK Secretary need to be conducted regularly. DJ, DM and SP should also participate.

(vi) Lack of awareness among people: about both the GK and Bihar Land Disputes Resolution Act, 2009 (BLDRA).

(vii) Lack of Monitoring: PRD need to evolve a proforma on cases filed and disposed off as also for probing quality and timeliness of disposal. Functioning of the GKs must be a review item in the meeting of DPROs at the State Headquarter.

(c) **Need for harmony between GK and BLDRA, 2009** (Bihar Land Disputes Resolution Act, 2009): **Box-2.5** lists amendments proposed in the two Acts so as to lessen burden of the Civil Court and take appropriate cases to DCLR, which will be both time-saving and cost-saving. This will result in convergence of the BPR, 2006 and the BLDRA, 2009. These amendments would also bring the disputes under BPR, after appeals are disposed off, before the DCLR, where time-lines for disposal are fixed and District Collectors are empowered to supervise.

- i) New section 112 (3) under BPRA, 2006: A case against the order passed by the Full Bench of the Gram Kutchahry in respect of cases pertaining to section 110 of the Act may be filed within 30 days of the order, in the Court of the Deputy Collector Land Reforms, under the BLDR, 2009 and the same shall be treated as a fresh case filed and shall be disposed off in accordance with the provisions of the BLDR, 2009.
- ii) Section 3 (7) of BPRA, 2006 (in respect of cases pertaining to Section 110 of the BPRA, 2006).
- iii) Section 114 (BPRA, 2006): New Explanation – The Court of the Competent Authority shall include the Court of the Competent Authority under the BLDR, 2009.
- iv) New Section 4(A) under BLDR, 2009: If it appears to the Competent Authority that a case filed or pending in the Court of the Competent Authority is fit to be disposed off by the Gram Kutchahry concerned, the aforesaid Competent Authority shall transfer the case to the Gram Kutchahry, where the same shall be disposed off in accordance with the provisions of the BPRA, 2006.
- v) A new proviso under Section 115 BPRA, 2006: provided that the Competent Authority in a Civil Court may withdraw a case pending before a bench of the Gram Kutchahry in respect of cases pertaining to Section 106 of the BPRA, 2006 and shall proceed to take further action as per the provisions under Section 115 of the BPRA, 2006. Provided further that the Competent Authority under the BLDR, 2009 may withdraw a case pending before a bench of the Gram Kutchahry in respect of cases pertaining to Section 110 of the BPRA, 2006, and shall proceed to take further action as per the provisions under Section 115 of the BPRA, 2006.
- vi) New Section 4 (1) (K) under BLDR, 2009: withdrawal of cases under the second proviso to Section the BPRA, 2006.
- vii) A new proviso under Section 118 of BPRA, 2006: provided that the Competent Authority for the purposes of Section 118 shall be Dy Collector Land Reforms in respect of cases pertaining to Section 110 of the BPRA, 2006.
- viii) A new Proviso under section 119 of the BPRA, 2006: provided that the Competent Authority for the purposes of Section 119 shall be Dy Collector Land Reforms in respect of cases pertaining to Section 119 of the BPRA, 2006.
- ix) A new explanation of Section 121 of the BPRA, 2006: The Competent Authority under Section all includes the Competent Authority under the BLDR, 2009.
- New proviso of Section 122 of BPRA, 2006: Insertion of words in main text – regarding inspection of proceedings and records – to "in respect of cases pertaining to Section 106 of the Act". The Collector of the district, the Additional Collector and the Sub Divisional officer shall have the power to inspect proceedings and records of the Gram Kutchahry or its Benches, in respect of cases pertaining to Section 110 of the Act.

(d) **Mahatma Gandhi Dispute Free Villages Campaign:** launched by the Government of Maharashtra provides cash awards to the GPs which attain predetermined targets in terms of dispute resolution. Details may be seen at **Annexure-2.4**. This could be tried in Bihar as well.

(e) **Para Legal Volunteers** under Bihar Legal Service Authority could be used to assist GKs in their functioning.

(f) **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, (d) such other duties that may be imposed 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.

- Village volunteers trained for disaster management could be designated as members of Gram Raksha Dal to enable them to perform duty under section 33 of BPRA, 2006.

2.2.5 Status of the Planning Function:

2.2.5.1 Article 243ZD of the Constitution (**Box-2.6**) 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.

Box 2.6

Art243ZD. Committee for district planning

(1) There shall be constituted in every State at the district level a District Planning Committee to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole.

(2) The Legislature of a State may, by law, make provision with respect to—

(a) the composition of the District Planning Committees;

(b) the manner in which the seats in such Committees shall be filled:

Provided that not less than four-fifths of the total number of members of such Committee shall be elected by, and from amongst, the elected members of the Panchayat at the district level and of the Municipalities in the district in proportion to the ratio between the population of the rural areas and of the urban areas in the district;

(c) the functions relating to district planning which may be assigned to such Committees;

(d) The manner in which the Chairpersons of such Committees shall be chosen.

(3) Every District Planning Committee shall, in preparing the draft development plan,—

(a) have regard to—

(i) matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation;

(i) The extent and type of available resources whether financial or otherwise;

(b) Consult such institutions and organizations as the Governor may, by order, specify.

(4) The Chairperson of every District Planning Committee shall forward the development plan, as recommended by such Committee, to the Government of the State.

2.2.5.2 Actual status of functioning of the DPCs:

Information was not received from PRD. This Commission found that primarily due to (a) non-cooperation of the line departments, and (b) low capacity of the PRIs, ULBs and the DPCs to plan, such ‘planning’ was limited to BRGF and Finance Commission funds. Discontinuation of BRGF by Central Govt. has further weakened the DPCs and also the bottom up planning.

2.2.5.3 Action points for decentralized planning: MoPR has suggested action points as given in **Box-2.7**. The 5th SFC endorses it.

Box 2.7

Action points for decentralized planning

- Implement Planning Commission circulars of 25.08.06 for preparing integrated bottom up participatory plans to ensure convergence of plethora of schemes/resources for better outcomes.
- Ensure that sectoral plans get integrated into District Plan via DPC/DPU through iterative process.
- Provide professional and technical support to the planning entities: including constitution of professional DPUs, use of Technical Support Institutions.
- Appropriately train and build capacity of the PRI members and functionaries.
- Expedite use of Plan Plus software and GIS.

Source: MoPR Roadmap.

2.2.5.4 Accordingly, the following recommendations are made regarding DPC:

(i) Technical Support to the DPC: To enable the DPC to perform its role, a District Planning Unit (DPU) should be constituted by functionally integrating DRDA, District offices for Planning/ Economics & Statistics, Town & Country Planning, District units of National Informatics Centre (NIC), and National Resources Data Management Centre. Besides, experts in requisite areas like: planning, programme management, resource management, livelihood etc. should be hired to support the DPU. (**Table-6.27**)

(ii) Building and Secretariat for DPC: The DPC must also have a building and Secretariat. Secretary of the DPC should be a sufficiently experienced person who works on a full-time basis. Even contractual appointments with pay

packages commensurate with the responsibility of leading the preparation and implementation of the district plan, for a period of say three to five years, could be considered. Besides, the DPCs must have adequate budgetary support for research, consultancy, preparation of plans, etc.

(iii) Plan Plus and GIS modules of e-Panchayat must be made operational urgently. Plan Plus software has been developed to demystify and simplify the decentralized planning process. The software is web-based; compatible for local language adaptation and captures the entire planning workflow starting from identification of needs and up to the plan approval processes. It is generic and can capture the plans prepared by the line departments at the state and central levels to generate convergent unit plans for the Panchayats and the Municipalities, and consolidate the same into the District and State Plans. The software enables convergence of the related schemes and programmes, brings about total transparency in the plan preparation and approval processes, and facilitates online monitoring.

2.2.6 Status of the Civic Functions:

Information from PRD was not received. However, our preliminary field visit indicates the status as in **Table -2.4**.

(a) Level of service coverage: Information was not received from PRD in the format at **Table-2.5**

(b) Efforts being made to enforce the benchmarks for essential services: Response was not received from PRD.

Table 2.4: Status of the Civic Functions

Activity	Status
Water Supply	Limited functioning at the GP.
Sanitation	No activity
Drainage & Sewerage	Functioning relatively well at the GP.
Solid waste Management	Very limited activity.
Street lighting	Used to happen. Now the matter is in High Court.
Local roads and footpaths	Functioning well at all levels.
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.

2.2.7 Status of the Agency Functions:

(i) Details of agency functions assigned to the PRIs under different Central and State schemes were not received from PRD. Such schemes and funds evidently come with specific responsibilities and functions.

(ii) **Implementation of certain Central Acts:** Many Central Acts give specific responsibilities to the LBs (**Table-2.6**). Arrangement made to enable the PRIs to implement these Acts was not received from PRD.

Table 2.5: Level of service coverage

Tier	No. of drinking water sources			Length of Roads			Length of Streets/lanes		
	Hand Pump	Well	Piped Supply	Kuchha	Semi-Pucca	Pucca	Kuchha	Semi-Pucca	Pucca
GP									
PS									
ZP									
Tier	No. of Libraries			No. of Light Points			Sanitation		
	With Internet	Basic	Others	Solar	Electric	Others	Drainage	Solid Waste	Others
GP									
PS									
ZP									

Table 2.6: Implementation of Central Acts

Act	Functions
Biological Diversity Act, 2002	
Disaster Management Act, 2005	
Forest Rights Act, 2006	
Right to Education Act, 2009	
National Food Security Act, 2013	

2.3 Functionaries:

2.3.1 Model Panchayat Cadre: A Model Panchayat Cadre structure suggested by MoPR for all tiers of the PRIs is given in **Box-2.8**. Such a structure will (a) ensure availability of technical personnel at all three tiers, and (b) make the personnel transferable while providing them career progression. Resource requirement for implementing the **Model Panchayat Cadre** is given in **Table-2.7**.

2.3.2 Recommendations for the GP :

(i) Only available staff in GP is a Panchayat Sachiv, who usually holds charge of 3-5 GPs and performs many non-GP functions as assigned by district administration. This is the main reason behind the present plight of the GPs. While providing staff as envisaged under Model Panchayat Cadre (**Box-2.8**) may take time, contractual personnel (Vikas Mitra, Tola Sevak, Indira Awas Sahayak, Panchayat Rozgar Sewak, Krishi Mitra, etc.) already available within the GPs, who are without full-time work, could be placed under the GPs. These GP level staff should sit in the PSBs, sign attendance and be readily accessible to people.

(ii) Model staffing of the GPs would be as given in **Table-2.7**. It may be noted that MOPR has recommended one JE for 10 GPs. Since population per GP for the country is around 3000 and that for Bihar is around 11000, one JE should be assigned to 5 GPs in Bihar. This will also enable JE to visit the other four GPs, which are not his HQ GP, one or two days a week.

(iii) PDO should be the overall supervising officer of the GP (**Box-2.9**) who will be assisted by personnel with different skills as in **Table-2.7**.

- PDO should also have overall charge of (a) GP level functionaries like Vikas Mitra, Tola Sevak, etc., and (b) GK staff since two part time employees of the GK cannot take up issues with

Box 2.8

Model Panchayat Cadre Structure suggested by MoPR

Four cadres for functionaries of PRIs at Village, Block & Dist. Panchayat level are suggested as under:-

Development Cadre comprising of Gram Rozgar Sewak (GRS)/Sahayak Gram Sachiv (SGS) → Gram Panchayat Sachiv (GPS) → Panchayat Development Officer (PDO)/ Panchayat Coordination Officer (PCO) → Block Panchayat Raj Officer (BPRO)/Joint Block Development Officer (Jt. BDO) → Block Development Officer (BDO) / Executive Officer (EO). BDO/EO may be considered for promotion as Additional Chief Executive Officer – a state cadre post – on fulfilling the essential and desirable qualifications for that post.

Engineering Cadre consisting of Junior Engineer (JE)/Technical Assistant (TA) → Assistant Engineer (AE) → District Engineer (DE). DE may be considered for promotion to a state cadre post on fulfilling the essential and desirable qualifications for that post.

Administrative Cadre comprising of Executive Assistants (General) (EA (G)–Grade → II → Executive Assistant (Grade-I) → Superintendent/Manager Addl. District Panchayat Raj Officer (ADPRO) → District Panchayat Raj Officer (DPRO). DPRO may be considered for promotion as Additional Chief Executive Officer – a state cadre post – on fulfilling the essential and desirable qualifications.

Finance and Accounts Cadre encompasses Accountant-cum-Cashier/ Executive Assistant Accounts – (Grade-II) → Executive Assistant (Accounts-Grade-I) (EA (A/c) Accounts Officer (A/c O) Senior Accounts Officer (Sr. A/c O). Sr. A/c O may be considered for promotion to the next higher grade in the state cadre on fulfilling the essential and desirable qualifications for that post.

Source: MoRP Roadmap

Note: Sahayak Gram Sachiv and GP Sachiv would evidently be more appropriate under the Administrative cadre.

the higher officers. It will further help coordination between GP and GK.

2.3.3 Recommendations for the GKs: State govt. has already sanctioned posts of GK Secretary and Nyay Mitra (Law Graduate) for the GK. These positions must be filled up urgently and incumbents given intensive and regular training.

Table 2.7: Model Panchayat Cadre for PRIs

Sl.	Post	Nature of Post	Unit per GP/PS/ZP					Total No. of Post	Salary per unit pm	Total Cost (p.a.) in Cr.
			GP (8398)	PS (534)	ZP					
					Large * (17)	Medium * (12)	Small * (09)			
1	2	3	4	5	6	7	8	9		
A Development Cadre										
1	PDO ¹	Regular	1	0	0	0	0	8398	35000	352.72
B Engineering Cadre										
2	District Engineer	Regular	0	0	1	1	1	38	50000	2.28
3	Assistant Engineer	Regular	0	1	2	1	1	589	44000	31.10
4	Junior Engineer	Regular	1 for 5	1	4	3	1	2327	30000	83.77
C Administrative Cadre										
5	GP Sachiv	Regular	1	0	0	0	0	8398	19000	191.47
6	Head Clerk	Regular	0	0	1	1	1	38	25000	1.14
7	LDC-cum-Tax Collector**	Regular	1	1	7	5	4	9147	17000	186.60
D Accounts Cadre										
8	Accountant	Regular	1	1	1	1	1	8970	22000	236.81
E I.T. Cadre										
9	I.T. Manager	Regular	0	1	1	1	1	572	30000	20.59
10	I.T. Assistant-cum-DEO ²	Regular	1	1	4	3	2	9054	17000	184.70
F Contractual Staff										
11	M.T.S ³	Contractual / Outsourced	1	1	(Maximum 3)			9046	11000	119.41
12	Peon-cum-Mali	do	0	0	(Maximum 2)			76	11000	1.00
13	Driver	do	0	0	(Maximum 3)			114	11000	1.50
G	Total							56767		1413

Note : 1. Panchayat Development Officer, 2. I.T. Assistant-cum-Data Entry Operator, 3. M.T.S. (Sweeper-cum-Peon-cum-Chaukidar)

* Large ZP = More than 15 Blocks, Medium ZP = 10 to 15 Blocks, Small ZP = Less than 10 Blocks

** LDC-cum-Tax Collector will serve both office work and tax collection in field.

2.3.4 Recommendations for the PS: Panchayat Samiti has just one orderly as its own staff. The BDO office is hardly available to it. Even BPROs do not work for the PS. The PS accordingly should have personnel with different skills as given in **Table-2.7**.

2.3.5 Recommendations for the ZP: (i) most positions sanctioned in the ZPs are vacant and available staff is not skilled for the contemporary work. Compassionate appointments and non-transferability of staff, who more often are locals, promote local nexus. This seriously affects performance of the ZPs. Staffing of ZP Patna is a typical case (**Table-2.8**) and obviously needs restructuring as per **Table-2.7** like any other ZP.

(ii) CEO of the ZP (DDC) is only part time and not able to devote required time to the ZP.

Accordingly, District Panchayat Raj officer (DPRO) should be notified as ACEO with the powers of CEO.

Box 2.9 **Need for Panchayat Development Officer (PDO)**

The GP is the Government at the grass roots as envisaged by State Govt. i.e. Panchayat Sarkar. It has Planning, Developmental, Regulatory and judicial functions. The GPs need to utilize over Rs.1.00 crore p.a. under various schemes etc. Evidently, the Chief Executives of GP should have both management and leadership qualities. Accordingly, PDO is proposed who should have degree in management or economics and have sound knowledge of IT applications, selected through open competition. Karnataka, Odisha, etc. have appointed these PDOs with impressive results.

Table 2.8: Existing Staffing of ZP, Patna

Post	Sanctioned	Working	Post	Sanctioned	Working	Post	Sanctioned	Working
Head Asstt. Cum Accountant	1	1	Homeopathy Doctor	1	1	Press Suptdt.	1	0
Asstt. Accountant	2	0	Unani Doctor	1	1	Head Compositor	1	0
U.D.A.	5	5	Ayurvedic Doctor	23	8	Compositor	2	0
Steno.	4	0	Misrak Attaar	23	0	Machine Man	2	0
Daftari	1	1	Asstt. Engr.	3	0	Pie Shorter	1	0
Choukidar	15	2	Jr. Engr.	7	1	Ply Boys	1	0
Peon cum Choukidar	23	0	Road Sarkar	7	0	Word Ditributer	1	0
Sweeper cum Maali	3	3	Car Driver	2	1	Amin	1	0
Khansama	3	0	Carpenter	1	1	Kuli	22	0
Peon	13	7	Roller Khalasi	1	1	Road Peon	12	0
Water Man	1	0	Navik	0	1	Part Time Sweeper	8	3

2.3.6 The tier wise PRI cadre would thus be as at Annexure -2.5

2.4 Capacity Building:

2.4.1 Though funds available to the PRIs from various sources are grossly inadequate for their functions, they are not able to utilize even that. Such unsatisfactory performance is primarily due to the capacity constraints related to skilled manpower, IT facility, equipments, office space etc.

2.4.2 The following are a few illustrations of the consequences of the low capacity:

(i) Current expenditure per GP in Bihar is around Rs 30 lakh per year i.e. mere Rs. 270 per capita. While this is grossly inadequate to meet the local needs, around Rs 14 lakh per GPs were lying unspent at the end of 2013-14;

(ii) Capacity constraint is resulting in continuous deprivation of Bihar from central resources viz. CSSs/ACAs. A comparative study of funds utilized by Bihar, UP and West Bengal (two neighboring states - one with weak PRIs and the other with strong PRIs) and the national averages under the MGNREGS and compared NBA brings this out very clearly (**Table-2.9 & 2.10**), even though Bihar is the poorest State.

(iii) In West Bengal, which performs much better in implementing both MGNREGS and NBA, a GP has seven to eight full time staff compared to less than one staff per GP in Bihar. **Incidentally running a mega programme like MNREGA with contractual staff is fraught with self-evident consequences.**

Table 2.9: Performance under MGNREGA in comparable States & India (11-12 to 13-14)

State/ India	% share of rural popln.	PCI	HHs got Emp. (lakh)	Avg. employment Person-days per year		BPL persons (rural)		Avg. yearly expenditure (Rs Cr.)	
				Total (crore)	Share of all India	No. (lakh)	Share (%)	Total	per BPL
India	100	39961	494	214.6	100%	2,167	100%	38,475	1,775
Bihar	11.1	16083	20	8.29	3.9%	320	14.8%	1,737	543
UP	18.6	19512	57	18.90	8.8%	479	22.1%	3,704	774
WB	7.5	37511	57	18.70	7.7%	141	6.5%	3,469	2,460

Table 2.10: Performances under NBA/SBM of comparable States & India (12-13 & 13-14)

(Rs. in Cr.)

State/ India	Allocation	Release	Expenditure	Expend as % of allocation	% of HHs with toilets	% of 'Nirmal' GPs
India	7755.0	4628.8	3634.5	46.9	30.7	11.7
Bihar	795.4	478.2	335.9	42.2	17.6	2.6
UP	1038.1	633.2	218.7	21.1	21.8	2.1
W.B	581.4	417.9	380.7	65.5	46.7	32.1

2.4.3 Bihar with 14.8% share of BPL persons generated 3.9% of the employment. If Bihar were to reach even the national level, annual expenditure would have been Rs 5,680 Cr. to an average achievement of Rs 1,737 Cr. Bihar is thus being deprived by at least Rs 3,943 Cr. per year under MGNREGS alone. **This loss evidently is many times more compared to the annual cost of strengthening the Panchayats. If all the CSSs are considered, deprivation of the state due to capacity constraint would be of a huge magnitude.**

2.4.4 14th FC conditionality for Performance Grant: The 14th FC has prescribed following eligibility condition for release of Performance Grant of Rs. 2101.78 Cr over 5 years to the GPs:

(a) The GP will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which the GP seeks to claim the Performance Grant.

(b) The GP will have to show an increase in its own revenues over the preceding year, as reflected in the audited accounts.

2.4.5 It is thus an imperative both from the viewpoints of the Principal of Subsidiarity and the Constitutional obligation & pragmatism that State Government takes all measures urgently to build capacity of the PRIs to the fullest extent. The first charge on the SFC transfers must, therefore, be for full capacity building of the PRIs.

2.4.6 Capacity Building and RGPSA:

(i) Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) scheme was launched by GoI with a view to enhancing capacities and effectiveness of the Panchayats and the Gram Sabhas. The Perspective plan of RGPSA (13-17) of Bihar and action plan are detailed in *Annexure-2.6*.

(ii) **Status of implementation of RGPSA:** In 2013, State Govt. approved a Plan for the years 2013-14 to 2016-17 estimated at Rs. 1629 Cr. On 75:25 sharing (GoI: GoB). In 2013-14, Rs. 8.61 Cr. was received from GoI, out of which Rs. 2.30 Cr. was spent. The balance is lying in Bank Account. In 2014-15, Rs. 54.52 Cr. was released as Central Assistance, but money could not be drawn. In brief, RGPSA was poorly implemented.

(iii) **RGPSA has since been delisted from the centrally assisted schemes. But the 5th SFC recommendations cover all essential components of RGPSA (*Annexure-2.6*)**

2.4.7 Capacity building through training:

2.4.7.1 Capacity building will require appropriate training infrastructure and arrangements, which include (i) Training Institutions, and (ii) Training Programmes. It may not be possible to immediately establish 38 District Panchayat Resource Centres (DPRCs) and therefore, the focus should be to have 9 Divisional level training centers. The State Panchayat Resource Centre (SPRC) at Patna can also function as the Divisional level centre for Patna division. There should be one Principal and at least three Faculty Members. Each division should have a pool of Resource Persons for conducting training at Block Panchayat Resource Centres (BPRCs). One dedicated officer under DPRO should identify trainees and coordinate with the training institutions as well as monitor the same. Similarly, there should be one Deputy Director for Capacity Building at the Panchayat Directorate.

2.4.7.2 Enabling the Panchayats will also require putting in place all rules and procedures, manuals (e.g., Office Management, Financial Management etc.) and their availability in all the Panchayats. It may be noted that the next PRIs election are due in March-June, 2016 and elected functionaries must receive induction training on a drive basis within 6 months. The projected cost details of the Training Programme and Training Institution may be seen in *Table-6.21* in Chapter VI.

2.4.7.3 Action suggested by MoPR in this regard is given in *Box-2.10*. This commission endorsed the same.

2.4.7.4 Capacity building of Elected Women Representatives (EWR): State Government has increased reservation for women in the PRIs to 50%. Obviously, many of them are holding for the first time with little knowledge, orientation and exposure to their expected functions. Besides, the EWRs face multiple deprivations on account of gender, social bias, household obligation, lower literacy, lack of confidence etc. Male members of their family often usurp their functions. For enabling EWRs to discharge their

Box 2.10

**Action Points suggested by MoPR
for Capacity Building through Training**

- Implement National Capability Building Framework (NCBF) in letter & spirit.
- Develop comprehensive CB strategy based on thorough Capacity Assessment to address gaps at the individual, institutional and environment levels.
- Increase reach of CBT through District / Block Training-cum-Resource Centers and outsourcing through PPP model.
- Promote alternative methods of training such as Interactive Self Learning materials/ Training films / other IEC inputs. Strengthen SIRDs, etc.
- Prepare perspective and annual training plans based on TNA etc.
- Include transformational leadership and own resource mobilization in the training programmes.

Source: MoRP Roadmap

responsibilities effectively, their special needs must be met as follows:

- Adequate training and capacity building of the EWRs.
- Leadership training programmes for the EWRs
- Training of other functionaries on gender issues
- Peer-to-peer and horizontal learning from success stories
- Sharing good practices and exposure visits
- Separate quorum for women's participation in Gram/Ward Sabhas.
- Linkages with SHGs at all levels of the PRIs.

2.4.8 Panchayat Sarkar Bhawan (PSB):

(i) PSBs are the physical symbols of 'Panchyat Sarkar' vision of State Govt.

(ii) Target of State Government is to construct PSB in all GPs with sitting space for the elected representatives and functionaries of the GP and GK, Court Room of GK, space for safe keeping of records, hall for meetings of GP/Standing Committees, reception room for the members of public, Service Centre for providing computerized services, store, pantry and toilets etc.

(iii) These Bhawans are to be utilized for disaster management during natural calamities.

(iv) Presently 1435 PSBs are sanctioned at a cost of Rs. 1237.17 Cr. 418 PSBs are complete, 133 Bhawans are in the last stages of completion. The remaining 868 are at different stage of execution.

(v) Lack of suitable sites has been the major hurdle and the committees headed by DMs have to identify alternative sites.

(vi) Funding has now become a major issue apart from the availability of suitable sites. (Table-6.25). Apart from State Budget/SFC transfers, resources could be secured through MPLAD, MLA & MLC fund, MNREGS, etc.

(vii) Box-2.11 gives suggestions made regarding PSBs during the Divisional level consultation meetings with the PRIs:

Box 2.11

**Suggestions made regarding PSBs
during the Divisional Meetings**

- a) PSBs are necessary for 'Panchayat Sarkar' vision to take shape and function. Often PSBs are away from the habitation and therefore vandalized. In such site selection, the GPs were not consulted.
- b) In the absence of GP personnel, PSBs are virtually deserted and are deteriorating.
- c) PSBs often are not being constructed since 2nd priority in the cluster of GPs, is not being considered.
- d) LEO is during slow work on PSB building. Monitoring & Evaluation is weak.

Accordingly:

- e) Have Multi-Tasking Staff (MTS) as Peon-cum-Chowkidar-cum-sweeper for PSBs.
- f) Repair old PSBs.
- g) Provide funds for O&M of PSBs
- h) If suitable site for PSB is not available, provide Rs 5 lakh for land acquisition. Moreover, have integrated and modular vertical building to reduce requirement for land and enable construction in modules.

i) Issue Circular on all aspects of managing & using PSBs.

2.4.9 Bihar Panchayat Strengthening Project (BPSP):

(i) The World Bank aided BPSP project aims "to strengthen state government capacity in promoting inclusive, responsive and accountable PRIs in six districts" viz., Patna, Nalanda, and Bhojpur, Saharsa, Supaul, and Madhepura.

- PRD proposes to extend the coverage to Patna, Bhojpur, Nalanda, Saharsa, Supaul, Madhepura, Samastipura, Gaya, Rohtas, Aurangabad, East Champaran, Darbhanga, Madhubani and Gopalganj districts.

(ii) It has the following components:

- Panchayat Sarkar Bhawan (PSB) - Construct and make functional PSBs in approx. 300 GPs: (Cost \$50.00 M)
- Capacity Building of the PRIs: - Build Panchayats' core institutional competencies to empower them to achieve substantive development outcomes. :(Cost \$27.50 M)
- Strengthen State Government capacity to manage a gradual decentralization and empowerment process: (Cost \$2.50 M)
- Panchayat Performance Grant: (Cost \$20.00 M)
- Project Management and Coordination :(Cost \$15.00 M).

(iii) Review comments by the World Bank on current status are at *Annexure-2.7*. Implementation of the BPS Project is heavily behind schedule and is in need of restructuring. **Perhaps a full time professional could be appointed on contract to head the BPS.**

2.4.10 Technical Support for Smart Panchayats (TSSP):

(i) TSSP is proposed on the pattern of Support Programme for Urban Reforms (SPUR) for support to the PRIs and the DPCs. Given the large no of the PRIs, TSSP should have one State level Team and 9 Divisional level Teams. Principal Secretary, PRD is expected to regularly review performance of the 9 Division level Teams also. Details of projected cost may be seen at *Table-6.23* in Chapter VI.

(ii) Following Five distinct key outputs are expected from TSSP: (a) Panchayat Governance, (b) Panchayat Finance, (c) Panchayat Planning and Infrastructure, (d) Local Economic Development, and (e) Social Development, Poverty Alleviation & Livelihoods.

(iii) Selection of TSSP Personnel would be done through a reputed HR Agency empanelled by GOI or UN agencies. The HR agency would be selected from such panels by a Committee of Principal Secretary (PRD), Principal Secretary (UDD) and Secretary of Finance Department.

2.5 Institutional processes and Accountability of the Panchayats:

2.5.1 Gram Sabha:

(i) There is unanimity that the Gram Sabha is soul of the Panchayats and in fact the whole

democratic framework and therefore, “**Active Gram Sabha: For Empowered People and Accountable Panchayats**” is a must. The GS is key to self-governance and to transparent and accountable functioning of the GP. The GS is the only forum that can ensure direct, participative democracy.

2.5.1.1 Functioning of the GS:

• BMA, 2006 provides specific functions to the GS (*Box-2.12*). It is however seen that meetings of the GSs are not held regularly and are marked by thin attendance, particularly of women and marginalised groups. There is little discussion on the proposals put forward for approval. Issues of common interest and of the marginalised sections are often not discussed. People do not perceive the GS as an empowered body that will resolve issues placed before it in an inclusive manner.

Box 2.12

Functions of the Gram Sabha (Sec. 9 of BPRA, 2006)

1. Rendering assistance in implementation of developmental schemes.
2. Identification of beneficiaries for implementation of developmental schemes .Provided that in case the Gram Sabha fails to identify the beneficiaries within a reasonable time, the Gram Panchayat shall identify the beneficiaries;
3. Procuring voluntary labour and contributions, in kind or in cash or both, for community welfare programmes;
4. Providing all assistance in the programmes of mass education and family welfare
5. Promoting of unity and harmony among all sections of society.
6. Seeking clarifications from Mukhiya, Up-Mukhiya and members of the GP about any particular activity, scheme, income and expenditure
7. Discussing and recommending appropriate action with regard to reports of the Vigilance Committee;
8. Such other matters as may be prescribed.

• Another reason why GSs are seen as ineffective is the dysfunctional relationship between the Panchayats and the GSs. The general perception is that the task before the GS is approval of the lists of beneficiaries, approval for issuance of utilization certificates and passing of the annual accounts. Panchayat heads bring their own supporters and potential

beneficiaries to attend the meetings so that while the quorum is completed, other electors keep away. Hence, a sense of cynicism has developed about efficiency of the GS meetings. In fact, ineffective GS is stated to be one of the primary causes behind rise of Left Wing Extremism in certain areas.

(ii) GS and Social Audit:

Social audit is a close corollary of energetic GS functioning. It would inculcate respect for downward accountability amongst elected representatives and government officials. If the GS keeps a close vigil, leakages and inefficiencies can be eliminated. The GS can (a) monitor and discuss attendance of government functionaries, functioning of schools, dispensaries, Anganwadi Centres, ration shops and other local institutions, (b) discuss reports of the Standing Committees of the GP. (c) go through the list of beneficiaries under schemes such as Indira Awaas Yojana (IAY), Antyodaya Anna Yojana (AAY) and National Old Age Pension Scheme. (d) Be an effective forum for familiarizing the electors with the Right to Information (RTI) for eliciting information not available in normal course.

(iii) Accordingly, empowering and enabling the GS must receive the highest attention as follows:

- Redefine powers of the Gram Sabha along the lines of PESA.
- Ensure effective functioning of the GS through regular and purposeful meetings, participation of the marginalised groups, attendance of official functionaries, preparation of minutes of the meetings and follow-up.
- Strengthen social audit and give proactive information to the Gram Sabha. The GS should be the forum for accountability not for the GP alone but for all village level delivery institutions such as the ICDS Centres, Health Sub-centres, Elementary Schools, PDS provider etc. Govt. Orders should mandate functionaries of these institutions to present reports on functioning of the respective facilities and record suggestions of the people. All the CBOs (*para 2.2.3.9*) like the watershed association etc. should also place their report before the GS.

Separate Mahila Sabha at Ward level should be constituted.

• The Sarpanch should present a report in the GS on the functioning of the GK in the presence of the Panches.

(iv) PRD could not indicate what needs to be done to enable the GSs to perform their functions and cost implication of the same.

2.5.2 Ward Sabha: PRD has proposed amendment in BPR, 2006 for empowering the Ward Sabha since the GPs are too large for effective participation of the people. PRD could not furnish status of functioning of the Ward Sabhas.

2.5.3 Social Audit: PRD could not report on whether social audit system is in place? If yes, how effective are these? If not, measures to be taken?

2.5.4 Standing Committees:

(i) The PRIs are to constitute following Standing Committees (*Table-2.11*) though election from among its members. If such committees are not constituted and made functional, the PRIs get identified with the elected chiefs and the major objective of democratic decentralization is defeated.

Table 2.11: Standing Committees of the PRIs (BPR, 2006)

Committees	GP (Sec. 25)	PS (Sec. 50)	ZP (Sec. 77)
1	2	3	4
General Standing Committee	x	✓	✓
Planning, Audit, Co-ordination and Finance Committee	✓	✓	✓
Production Committee	✓	✓	✓
Social Justice Committee	✓	✓	✓
Education Committee	✓	✓	✓
Committee on Public Health, Family Welfare & Rural Sanitation	✓	✓	✓
Public Works Committee	✓	✓	✓

(ii) State Government should notify the departmental officer, in each of the three tiers, to be the ex-officio Secretary and Members of the different Standing Committees. As per BPR 2006, (i) Panchayat Sachiv is Secretary of the Planning, Coordination and Finance Standing Committee of the GP and (ii) Executive Officer/Chief Executive Officer is the Secretary of the General Standing Committee and the

Finance, Audit & Planning Standing Committees of the PS/ZP. For all other Standing Committees, DM has to nominate suitable departmental officer, which is not done normally.

(iii) Information about all relevant schemes should be shared with the respective Standing Committee.

2.5.5 Accountability of the GP level Functionaries: Officials like Tola Sevak, Vikas Mitra, Krishi Salahakar, etc. should sit and sign attendance at the GP office. The villagers can then mention their problem to the GP functionaries for necessary follow up. There should be meeting at PS level where the Mukhias convey problems of their areas, which remain unaddressed at the GP level meeting, to the departmental officers in the presence of Pramukh and BDO.

2.5.6 Directorate of Local Fund Audit (DLFA):

(i) State Govt. decided in principle to constitute DLFA as recommended by the 13th FC. As an ad-hoc arrangement, 39 Senior Auditors from State Headquarters and Divisions were posted in Local Fund Audit Cell. This Cell audited 158 Local Bodies in 2013-14 leading to 18 Reports. Based on this experience, guidelines' including Model Audit Report Form has been circulated.

(ii) A.G. Office has recommended 551 posts as follows for DLFA:

Sl. No	Name of the post	No. of post
1	Director	01
2	Dy. Director	04
3	Asstt. Director (Sr. Audit Officer)	16
4	Audit Officer	50
5	Asst. Audit Officer	120
6	Senior Auditor	120
7	Auditor	240
	Total	551

Details may be seen in para 10.5.4

(iii) Decision of State Govt. on various aspects of DLFA like organizational structure, manpower, rules, audit manual etc. is awaited.

2.5.7 Ombudsman: PRD could not furnish information on the status of and measures to be taken for effective Ombudsman. As reported by UDD, it has drafted "Ombudsman Rules" and

shared with PRD for their opinion, which is awaited since more than a year. **Given the difference in the nature of municipalities and panchayats and the sheer no of the PRIs, separate Ombudsman is recommended for the PRIs as per Section 152 (5) of BPR, 2006.**

2.5.8 Rules being framed for the PRIs: *Box-2.13.*

<i>Box 2.13</i>	A. Rules framed for the PRIs
	<ul style="list-style-type: none"> • Panchayat Election Rules, 2006 (Amendurent,2007) • District Planning Committee Rules • Gram Katchahry Sachiv Rules, 2007& 2014 • State Election Commission Rules, 2008 • Panchayat Service Rules, 2010 • Gram Panchayat Rules,2011 • Panchayat Rules, 2012 & 2014 • Gram Sabha Rules, 2012 • Panchayati Raj Institution Rules, 2015
	B. Rules under formulation for the PRIs
	<ul style="list-style-type: none"> • Bihar Tax & Charges (imposition, determination & collection) Rules • Ward Sabha Meeting Rules

2.6. Implementation of e-Panchayat in Bihar

2.6.1 Necessity of e-Panchayat :

If the Panchayats are to perform efficiently and effectively all the mandated tasks which are increasing day by day, extensive use of IT is the only way particularly so when they are facing acute shortage staff. Moreover, there is a strong need to build a "digitally inclusive society" where the large sections of rural population are able to:

- Benefit from new technologies;
- Access and share information and services freely; and
- Participate in the development process more effectively.

The Panchayats being at the interface of rural citizens and governance structure are perhaps the most effective vehicles for inducing mass ICT culture at the grass roots.

2.6.2 Implementation of e-Panchayat Modules: Objectives of the 11 common core e-Panchayat Modules developed by MoPR for the whole Country may be seen at ***Annexure-2.8.***

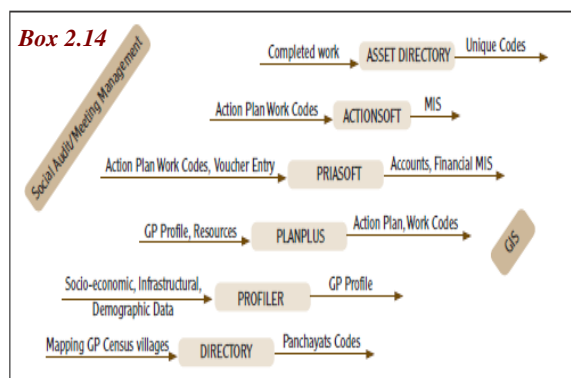
Status of implementation of these modules in Bihar is given in **Table-2.12**.

2.6.3 The aforesaid modules are parts of a composite e-Panchayat framework as shown in **Box-2.14**:

2.6.4 DPR of e-Panchayat: Detailed Project Report prepared by MoPR for Bihar could be used for operationalising e-Panchayat. The estimated costs may be seen at **Table-6.22**.

2.6.5 Phasing of Implementation of the DPR: MoPR has suggested phasing of implementation of the DPR on e-panchayat as follows:

- a) **RFP Phase** - RFP template provided by the MoPR will be customised to reflect the State-specific requirement. The outcome of this phase would be selection of the Service Agency (SA).
- b) **Deployment phase**– This phase would comprise installation and commissioning of the



hardware at all the PRIs as well as augmentation of ICT infrastructure at the State or the NIC Data Centre for hosting the State-specific software applications, which will be developed at State level. Trainings will be provided on usage of the software applications and one trained computer literate Panchayat Level Operator (PLO) will be provided at each PRI for

Table-2.12: Status of 11 Common Core Application Modules in Bihar

Financial Year		2013-14	2014-15	Status
1	PriaSoft (Closing of books after completion of entries.)	31 districts. 484 Blocks. 7683 GPs.	36 districts. 3 Blocks. 60 GPs.	Data not updated after 2014-15.
2	Service Plus (Not Implemented in Bihar).	Feasibility and infrastructure reports for the selected districts approved, formats of the services finalized and communicated to NIC Patna for definition of technical modifications.		
3	Area Profiler (Completing Local Government Profile)	All districts. 483 Blocks. 6942 GPs.	Not available	Data not updated after 2014-15.
4	Plan Plus (Uploading plans)	36 Districts. 512 Block. 8025 GPs.	26 ZP. 375 IP. 5367GP.	do
5	Local Govt. Directory (a) Completion of mapping	100% Village. Ward mapping in progress.	100% Village. 100% GP.	do
	(b) Updation of list of Panchayats.	-----	100% District, Block & GP.	-----
	(c) Mapping of GP to Assembly and Parliamentary Constituencies.	-----	Only name of PC/AC entered.	-----
6	National Panchayat Portals	NPP close to 100% for ZP. Blocks and GP level work under way.	Content uploaded 38 ZP. 522 IP. 5997 GP.	Data not updated after 2014-15.
7	Asset Directory	Entries in progress.	Not available	Data not available on website.
8	Social Audit	Guidelines of PRD is awaited	Not rolled out	-----
9	Training Management	Not rolled out	Not rolled out	-----
10	Action Soft	Work under Progress in all Districts, Blocks and GPs.	Not available	Data not available on website.
11	GIS	Not rolled out.	Not rolled out.	Website closed.

backlog data entry and provision of services, both G2C and G2G, on an ongoing basis.

c) **Operations and Maintenance Phase-** The manpower provisioned for data entry would continue to provide operational support for a period of three years. During which the Panchayat officials/ members are expected to enhance their skill sets and become sufficiently able to use all software applications.

2.6.6 Road Ahead for sustainable implementation of e-Panchayat: - (i) Although Bihar received e-Panchayat Puraskar in 2014, it has not been implemented on a systemic basis. As a result, after discontinuation of RGPSA, even the ad-hoc arrangement made by State Govt. to implement e-Panchayat has stopped functioning since April, 2015.

(ii) Following Actions need to be taken urgently for implementing e-Panchayat on a systemic and sustainable basis:

(a) Have a clear strategy and action plan for roll-out of e-Panchayat based on ISNA, BPR and DPR prepared by MoPR for Bihar.

(b) Use RFP prepared by MoPR (duly modified) for selecting Service agency.

(c) Provide ICT infrastructure and trained manpower to all GPs, PSs and ZPs.

(d) Connect all GPs with broadband since entries in the applications are to be made online and on real time basis.

(e) Deploy all 11 Core Common Applications within a time frame of say 2 years.

(f) Develop the identified State specific Applications. (List at **Annexure-2.8**)

(g) Create hand-holding facilities at district & block level, since available manpower at the GP and PS levels are not able to address problems of HW/SW and need continuous support.

(h) Leverage CSCs, wherever available as front-ends for citizen services as an option.

2.6.7 Taking RTPSA services from the Block HQs to the GPs: Service Plus module of e-Panchayat should be adopted instead of AdhikarSoft for the reason given in **Annexure-2.9**. In that case, RTPSA services can easily be taken from the Block HQs to the GPs.

2.7 Actions proposed in the paras above alone would fulfill the three key Panchayat agenda of Empowerment, Enablement and Accountability as mentioned in para 2.1.6.

Chapter III

Enabling the Urban Local Bodies to function as self governments

3.1 ULBs as self government:

3.1.1 Constitutional Provision: The 74th Amendment to the Constitution has given Constitutional status to the ULBs, provided it a complete framework and also imparted it certainty. Article-243 (W) envisions the ULBs as the institutions of self - governments and also the universal platform for planning and implementing programmes for economic development and social justice. (**Box 3.1**). It has deepened democracy and ensured social and political empowerment of the people, particularly the disadvantaged, through 140 ULBs and 3,305 elected representatives, over 50% of whom are women.

Box 3.1 **Constitutional provision for enabling the ULB**

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.

3.1.2 As per Census 2011, Bihar has 199 towns including 60 census towns. 55 new towns have been added since 2001. State Government has notified 140 towns as Municipalities u/s 3 of BMA, 2007 i.e. 11 Corporations, 42 Councils and 87 Panchayats.

Delimitation of the ULBs (done decades back) is now an imperative given the natural but haphazard growth of peri-urban and adjoining areas and the need for accelerating urbanization. UDD had initiated the process in 2013. But most of the ULBs have not responded.

Box 3.2 **Why is Patliputra urban area not a part of PMC?**

- Patliputra colony is officially a Housing Co-operative Society in Patna, formed in 1954 consisting of both residential and business settlements. It is not a part of Patna Municipal Corporation (PMC) though GoB had notified the Patliputra area along with other areas to be included within the limits of Patna through notification no. 10203 L.S.G. dated 05/10/1960, and notification no.1795, dated 09.03.1967, under PMC Act.
- Both the notifications were contested by the Patliputra Housing Society through title no 170/67 and 171/67 in the civil court, Patna. In 1995, the case was disposed off in favour of Government. The society moved to the court of District judge in 1995 through title no.70/95. The appeal petition was accepted and the order of the lower court was stayed till the final orders. Finally on 04.12.2014, Civil court, Patna dismissed the said petition.
- Accordingly, State Government has notified inclusion of three Panchayat namely Digha, Mainpura East and Mainpura West (Patliputra Colony) and requested State Election Commission to start the process of election of councilors.
- However, the matter has once again become sub-judice. Pataliputra colony remains rural area, gets the best civic services but does not pay taxes & fees.

3.1.3 Urban policy of Bihar: UDD has furnished elements of the possible Urban Policy of Bihar. (**Annex 3.1**). Evidently, **Bihar needs to formulate a comprehensive Urban Policy** since policy vacuum risks worsening urban scenario, a declining quality of life for citizens, and reluctance among investors to commit resources to the urban centers. **Box. 3.3** gives key lessons regarding urban policies.

- Governments need to be more sensitive to the threats and opportunities posed by rapid urban growth. These cannot be addressed by compartmentalized policy-making. Active support needs to be mobilized across the different spheres of government to ensure a **coordinated approach to planning and managing cities and towns**. The argument that well-functioning urban areas can help to unleash the development potential of nations is more persuasive than the argument that urban policy is about alleviating poverty and meeting basic needs.
- Implementation requires a sustained **technical process to develop the legal foundations, capable institutions and financial instruments to design and build more productive, liveable and resilient cities and towns**. In developing these capabilities, the public sector needs to work closely with local communities, private investors and other interests. Successful cities cannot be built by governments alone.
- Effective delivery requires **active collaboration between spheres of government** along with the devolution of appropriate responsibilities and resources to enable city authorities to respond to conditions on the ground and get things done, with support from the centre and in collaboration with other stakeholders. The active participation of cities is necessary to achieve many national policy goals.
- An important objective is to manage the peripheral expansion of cities in the interests of **more compact and inclusive urban growth**, with shorter commutes and less damage to surrounding agricultural land, fresh water sources and other ecosystems.
- Urban consolidation requires pro-active efforts to **increase the quantity and quality of land and property developed within the urban core and along transport corridors**, more intensive use of well-located vacant land, and upgraded urban infrastructure. It tends to go hand-in-hand with more mixed-use development and less segregation of land-uses.
- It is **less socially disruptive and more cost-effective to plan for urbanization by preparing the land and infrastructure in advance**, rather than trying to repair, redevelop or relocate informal settlements once they are established. Wherever possible, existing informal settlements should be formally recognized and upgraded.
- Urban policy requires a **broader territorial perspective on metropolitan regions, including stronger connectivity between cities, towns and rural areas**, to promote their distinctive strengths and to encourage mutually beneficial interactions between them in the interests of national prosperity and inclusive growth.

Source: UNHABITAT

3.1.4 Urbanization Scenario in Bihar:

(i) **Table 3.1** shows that urbanization in Bihar is way behind All-India in all its dimensions:

(ii) **Table 3.2** shows Bihar (11.29%) is among the least urbanized state in the country. Moreover Bihar's level of urbanization has barely moved over the decades.

(iii) Bihar's urbanization is largely fertility-driven. Over 50 percent increase in the urban population during 2001-2011 represented the difference between births and deaths. Incidentally, Bihar has the highest birth rate in the country. 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.

(iv) Rural Bihar continues to absorb most of the increase in total population. i.e. 85 percent between 2001 and 2011. 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.

(v) Primacy and increasing weight of towns in the population ranges of 20,000–50,000 and 50,000 – 100,000 are the main and unique characteristics of Bihar's urban system. Projection of urban population is given in **Table 3.3** and city size details of urban population is given in **Appendix 3.1**.

3.1.5 Imperatives of rapid urbanization:

(i) As mentioned above, urbanization is the lowest for Bihar and has increased from mere 9.59 % in 1981 to just 11.29% in 2011 as against 22.89% and 31.16% respectively for All India. Analysis in Chapter IV shows that rural areas inherently have higher poverty, lower PCI, lower socio–economic infrastructure, and do not attract investment & talent. Imperative of urbanization is evident from the flow chart at **Annex- 4.14**. **In fact both people and service providers do not wish to stay in the rural areas.**

Table 3.1: Urban Monitor

Economy	Bihar	India
Size of the economy (2013-14; GSDP @ current prices, Rs. crore)	3,43,054	1,04,72,807
Per capita GSDP (2013-14; @ current prices, Rs.)	31,229	74,380
CAGR: Per capita GSDP (2004/05 – 2013/14) %	16.48	13.32
Total tax receipts to GSDP ratio (2012-13) %	15.6	17.22
State's own tax receipts to GSDP ratio (2012-13) %	5.3	6.87
Urban demography		
Urban population (2011: million)	11.76	377.11
AEGR (2001-2011) %	3.06	2.76
Urbanization level (2011) %	11.29	31.15
Urban population density (2001: persons per sq.km.)	4811	3836
Urban poverty and housing		
Rural poverty level (2011-12) %	34.1	25.7
AEGR (2004/05 – 2011/12) %	-1.37	-4.6
Urban poverty level (2011-12) %	31.2	13.7
AEGR (2004/05 – 2011/12) %	3.95	-2.5
Slum population as a % of total population	10.52	17.37
Number of census houses used as residence, urban (million)	1.92	76.56
Urban human development goals		
Urban literacy (2011) %	76.86	84.11
Urban female literacy (2011) %	70.49	79.11
Urban IMR (2012) / 1000 live births	34	28
Urban service access (2011)		
Water supply (% HH with treated water supply within premises)	13.17	49.37
Sewerage (% HH with latrines connected to piped sewer)	7.21	32.68
Solid Waste collection (% HH covered)	33.5	75.8
Road density (km/sq. km)	4.29	4.03
% HH with waste water outlet connected to closed drainage	29.95	44.5
Urban labor market		
Urban work force (2011-12) %	10.28	28.91
Female urban work force (2011-12) %	8.71	19.95
Urban unemployment rate (UPSS approach; 2011-12) %	5.6	3.5
Municipal finance (SR14FC)		
Per capita own revenue (2012-13)	58	2540
Per capita revenue expenditure (202-13; Rs.)	56	1986

Source: Census, 2011

Table 3.2 Bihar: level of Urbanization

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(P) *	15.9	432.61	18.8	32.29
2031(P) *	21.6	600.00	34.2	40.00

Source: Census, 2011, * For projection, refer to

Appendix 3.1

Table 3.3 City Size class urban population projection (million)

City-size class	AEGR % (2001-11)	Projected Urban Population*			
		2016	2021	2026	2031
>1million	1.93	2.38	2.78	3.23	3.76
100,000-1 million	4.21	6.12	7.12	8.28	9.64
50,000-100,000	2.93	1.86	2.16	2.51	2.92
20,000-50,000	1.66	2.81	3.27	3.81	4.43
<20,000	4.59	0.52	0.60	0.70	0.82
Total (Million)	3.06	13.68	15.92	18.53	21.57

Source: Census, 2011

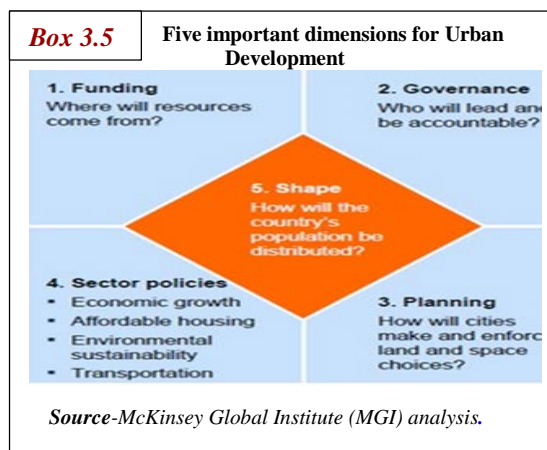
(ii) Further, graph at **Annex- 4.15 (i)** shows that over the decades, correlation between PCI and urbanization is increasing, which is both the cause (as the engine of growth, enabler of economies of scale in providing goods & services and promoter of social mobility) and the consequence of development. **Hence, Bihar has to make major conscious efforts to urbanize rapidly, provide quality infrastructure and services in cities & towns and thereby attract investment & talent.**

3.1.6 Future agenda for the ULB:

(i) Breaking out of the web of under-urbanization and under-development is central to Bihar’s urban Transition. It will be provided by creation of quality urban infrastructure capital, urban-led growth in areas which hold in comparative terms the maximum potential, urban sector reforms, and developing institutional capacities.

(ii) Five key output of SPUR (details in para 3.4.5) comprehensively cover action points for the ULBs in Bihar. These include; (a) **Urban Governance & Planning**, (b) **Municipal Finance**, (c) **Municipal Infrastructure**, (d) **Local Economic Development**, (e) **Social Development, Poverty Alleviation & Livelihoods**.

office space, etc.) and **Accountability** (through Ward Sabha, Social Audit, Ombudsman, etc.).



3.2 Functions:

3.2.1 Functions of the ULBs under the Constitution and BMA 2007 may be seen at **Annex – 3.2**. The ULBs evidently need to perform following categories of Functions as self-government under BMA.

(i) **Regulatory Functions:** Section 45 (1) (b) - perform such statutory or regulatory functions as may be provided under this Act or any other law.

(ii) **Planning functions :** (a) Section 45 (1) (a) - (iv) - Preparation of plans for development and

Box 3.4 Four Goals & Sub-Goals for Cities (World Bank)	
Goals	Sub Goals
(i) Livability	Low poverty and inequality, healthful environment (clean air & water and safe waste disposal), safety & security, and integration of various groups in urban society
(ii) Competitiveness	Growth and increased productivity of city output, broad-based employment, investments, and trade in response to market opportunities
(iii) Good Governance	Accountability, transparency and integrity of self-government.
(iv) Bankability	Sound financial management and credit worthy self-government.

(iii) WB identifies 4 goals for Cities (**Box 3.4**). MGI analysis identifies five important dimensions for Urban Development, i.e. funding, governance, planning, sectoral policies and shape as shown in **Box 3.5**.

(iv) At the 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,

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.

(iii) **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, ports and cultural activities, (f) aesthetic environment.

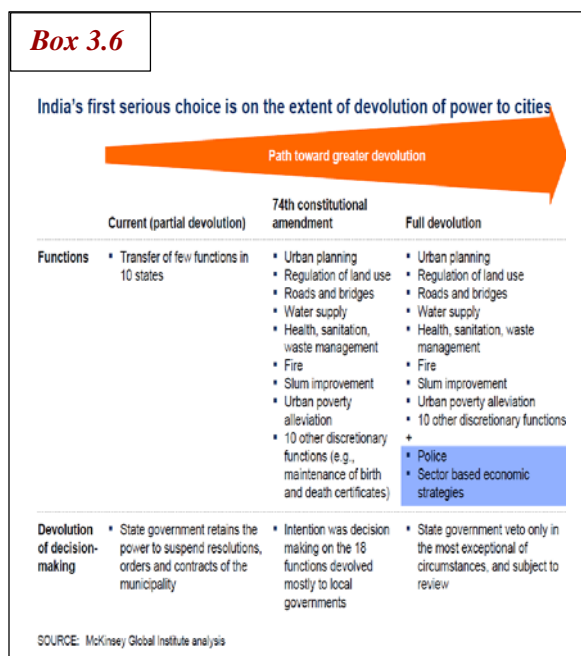
(iv) Communication & Transport System : Sec. 45 (v),(vi) - (a) Construction and maintenance of roads, footpaths, pedestrian pathways, transport terminals (both for passengers and goods), bridges, over-bridges, subways, ferries, and inland water transport system, and (b) transport system accessories including traffic engineering schemes, street furniture, street lighting, parking areas, and bus stops.

(v) 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.

3.2.2 Devolution of Functions:

(i) Devolution of functions: The ULBs in Bihar are an inferior tier of Government, almost entirely dependent on grants and subventions from State Govt. The ULBs have some powers in delivery of some functions, but decision on all key issues rests largely with State Government. There should be clear and true devolution of functions as shown in

Box 3.6.



(ii) Activity Mapping : No activity mapping has been done as reported by UDD.

(iii) Actual Devolution – Not reported by UDD.

(iv) Functions that the ULBs are able to perform: As reported by UDD, following functions are being performed by the ULBs: Solid Waste Management, Drainage, Sewerage, Water Supply, Planning & Development of Human Settlement, Markets and Slaughterhouses, Street Lighting, Parking, Bus Stops, Slum Upgradation and BSUP.

(v) Functions that the ULBs are unable to perform and the possible reasons:

Many ULB functions are performed by Government departments, e.g. (a) Water Supply by PHED except in Patna, (b) Urban Forestry and protection of Environment by Forest & Environment Department, (c) Fire Services by Home Department, (d) Promotion of Arts & Culture Department, (e) Primary Education by Education Department etc., apparently because the ULBs lack requisite capacity.

3.2.3 Parallel Bodies (PBs)

(i) Due to poor staffing and technical incapability of the ULBs, a number of PBs has been created as described in **Table 3.4 A** for performing various functions.

(ii) The aforementioned multiplicity of agencies seems to have led to overlap, ambiguity and wastage of resources. It is imperative that working relationship amongst these PBs and the ULBs be harmonized as per criteria given in **Box 3.7**.

Table 3.4 B: BUIDFT

Current Status - Project Approval					
Name of MC	Name of Market	TPC (Rs in Cr)	Equity (Rs in Cr)	Debt (Rs in Cr)	Current Status
Katihar	New Market Area	53	25	28	Board Approval done
Darbhanga	Rajender Market	28	21	7	Board Approval done
Biharsharif	Palika	14	9	5	Board Approval done
Gaya	Kedemath Market	56	31	25	Under Board approval*
Muzaffarpur	Tilak Medhan	11	7	4	Under Board approval*
Arrah	Jageevan Market	17	7	10	Under FS Presentation ¹
Arrah	Mirganj Area	17	7	10	Under FS Presentation ¹
Total		133	76	58	

* It represents, PMU has got oral approval from respective Municipal Corporation.
¹ It represents presentation of feasibility study of proposed development to respective Municipal Corporation.

Table 3.4 A : Parallel Bodies in Urban Sector

Parallel Body	Functions
BUIDCo (Bihar Urban Infrastructure Dev. Corporation)	Civic Services : Execute infrastructure related project
	Urban Transport
	Affordable Housing
	Commercial Market Development
	Nodal executing agency of State Government for implementing JNNURM, NGRBA, ADB and World Bank funded urban projects
BUSTL (Bihar Urban Transport Services Ltd.)	Responsible for operation of urban transport
BUDA (Bihar Urban Dev. Authority)	BUDA does technical monitoring of engineering works in the ULBs.
	Implementation of Central/State Schemes as state level coordinator. Incidentally, BUDA had over Rs. 950 crore undisbursed amount as on 31.3. 2015
BRJP (Bihar Rajya Jal Parshad)	Design, Construction and Maintenance of: (i)Water Supply Schemes, (ii)Sewage Treatment Plants, (iii)Storm water drainage etc
SPVs	UDD has recently decided to constitute SPVs for Smart Cities and Waste Processing respectively*

(iii) For integrated planning and implementation and avoiding scattering of limited manpower and infrastructure, the existing agencies including BUIDCO could be used as the SPV for smart Cities, Waste Processing and Metro Rail.

(iv) **BUIDFT** (Bihar Urban Infrastructure Development Fund Trust): State Government through BUIDCo has set up BUIDFT to develop a long term state – led and market – driven sustainable urban infrastructure financing mechanism. Three funds namely Urban Loan Fund (ULF), Grant and Credit Enhancement Fund (G&CEF) and Project Development Fund (PDF) are to be managed by BUIDFT with the assistance of a Project Management Unit (PMU) set up by a partner organization / consortium (AMC).

BUIDFT is to progressively increase external financing of ULB level capital projects in a sustainable manner, without a State Government guarantee through (a) catalyzing development of well-structured bankable projects, (b) building capacity in project appraisals and resource mobilization and (c) facilitating/incentivizing State and ULB level reforms that can be precursors for further investment flows. **Table 3.4 B** shows that BUIDFT is far from achieving its objective.

3.2.4 Status of the Regulatory Functions:

(a) Trade licensing: As reported by UDD, being issued by the ULBs

(b) Death & Birth Certificate: issued by the ULBs.

(c) Approving building plan & Habitat development: At present only approval of the building plan is being done.

(d) Building Byelaws: The Bihar Urban Planning and Development Act. & Rules, 2014 have been approved. But basic steps like Constitution of Planning Authorities, Identification of Area Development Schemes, etc. have not been taken.

(e) Other related Acts/ Rules viz; Bihar Apartment ownership Act 2006, Bihar Municipal Competent Authority for Sanction of Building Plan Rules 2014, Bihar Metropolitan Planning Committee Rules 2008 have also been notified.

(f) Municipal Police: In the Divisional level consultation meetings, strong suggestions came for every ULB being given police force(1-6) full time and EO being notified as Executive Magistrate ex-officio, to deal with the problems of encroachment, enforcement of various provisions of BMA 2007, etc. In fact UDD has asked all ULBs on 18th sept. 2015 to submit following information in this regard:

(i) Purpose of requirement of police force (Armed/Laathi/SAP/Home guards)

(ii) Which source of fund will be utilized to bear the expenses on it?

(iii) Will this deputation of police force (a) augment the resources of ULB and (b) support in implementation of provisions of BMA, 2007?

Box 3.7**Harmonizing the Role of Parastatals with Elected Municipal Bodies**

A key challenge is harmonizing the role of experts dominated parastatals with the elected municipal bodies representing people for whom the Plan is drawn. The roles and responsibilities of different institutions in such situations should be clarified along five principal dimensions:

- **Unique Purpose:** Each institution should have a clearly defined ‘unique’ purpose for itself, in line with people’s aspirations. Typically it should not overlap with any other institution at the same federal level
- **Measure of Effectiveness:** In line with the unique purpose, relevant measures of effectiveness should be put in place. These will not only help in creating external accountability for the institution as a whole, but will also provide guidance to the individual employees to discharge their duties.
- **Exclusive Decision Rights:** The decisions which the institution is empowered to take and which others are required to follow must be specified. These decisions rights must be reconciled with decision rights granted to other institutions.
- **Expertise and Capabilities:** Empowering any institution with certain decision rights alone is not enough. The critically necessary capabilities/expertise required by the institution to perform its functions and fulfil its purpose must be defined, along with processes for ensuring it will have these capabilities.
- **Inter-linkages within the Ecosystem:** Lastly, it is critical to understand the inter-linkages with other institutions in a complex, multi-institutional environment. A particular institution may have different types of relationships with other institutions. These could range from being a regulator, to having a contractual arrangement or serving as a technical advisor.

Source – 12th Five Year Plan, GoI

3.2.5 Status of the Planning Functions:**(A) Urban Strategic Planning:**

(i) The Working Group Report on Urban Strategic Planning for the 12th plan discusses (a) Critical issues; (b) Approach to and Principles of Urban Strategic Planning; and

(c) Recommendations to State, Regional and Local Bodies. Details are given in Chapter X (**Para 10.1.2**)

(ii) The Bihar Urban Planning and Development Act, 2012 and Rules, 2014 provide comprehensive framework for Spatial & Developmental Planning (**Box 3.8**).

(iii) Strategic Plan Preparation would require:

- Preparing State Spatial Strategy covering State Transportation Grids including High Speed Transit Networks and State priority Cities.
- Giving major thrust to Regional and Urban Planning.
- Preparing District, Metropolitan and City Spatial and Development Plans.
- Strategic Densification of Cities.
- Urban Renewal and Regeneration.
- Developing AKIC and EEC corridors along with GEM cities.

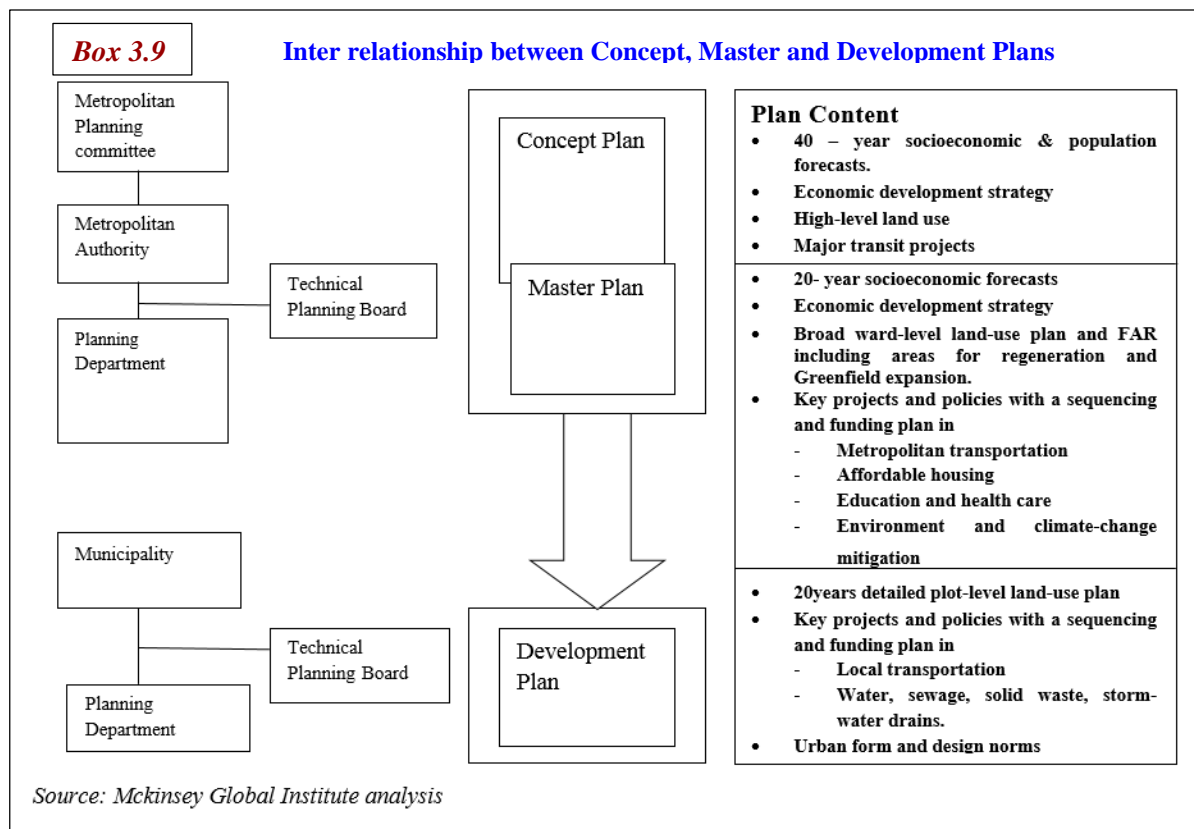
- Building Institutional Capacities and Networking.

Box 3.8**Salient aspects of Bihar Urban Planning & Development Rules 2014**

- Constitution of Bihar Urban and Planning Board
- Declaration of Planning areas and constitution of authorities
- Preparation of Land use maps and land use registers
- Preparation, content and approval of Development Plan
- Control of Development and Use of Land
- Area Development Scheme
- Levy, assessment and recovery of Planning Development charge
- Acquisition and disposal of land
- Constitution of fund
- Constitution of urban Arts and Heritage Commission for state.
- Provision for Tribunal

(B) Spatial Planning

(i) It usually comprises of Concept Plan, Master Plan and City Development Plan. Their inter-relationship is given in **Box 3.9**.



(ii) The status of each is as follows:

(a) **Concept Plan**- is not being prepared

(b) **Master Plan:** Master Plans have been under preparation for some towns including Patna for several years now, but are yet to be finalized and notified.

- Action is being taken for formation of Planning Area Authority and for declaring planning area for 15 main towns by the Bihar Urban Planning and Development Board.

- Development of satellites towns is under process to mitigate the increasing population pressure in the major towns.

- A critique of Draft Master Plan of Patna is given in **Box 3.10 and Annex. 3.3**.

(c) **City Development Plan (CDP):** CDPs have been prepared for 28 SPUR ULBs:

Box 3.10 Developing Greater Patna as a Smart, Competitive and Sustainable City

- Greater Patna needs to be restored to the glory of Patliputra as a major urban hub of the world. It has unique endowment of 4 major rivers viz. Ganga, Sone, Gandak and Punpun. It has a huge pool of

Contd.

young population when the world is greying. It is the entry point for several major religious & heritage circuits.

- The draft Master plan of Patna has been prepared with a limited horizon and aspiration. While the same could be finalized for the pressing operational purposes, an ambitious Master Plan is required to make it Smart, Competitive and Sustainable City through internationally reputed Consultants.

- Patna being the only major city of a densely populated State of Bihar with 1.8 million people and unique endowments as mentioned above, is ready for being developed as a great river city with entry point for tourists & devotees; a Health, Education & IT hub; and a major source of skilled work force for the whole world.

Why Patna couldn't qualify as Smart City:

Patna, the state capital city, couldn't qualify as Smart City since it scored low in each of the 4 sets of criteria, viz (a) Existing Service Level (40%), (b) Institutional Systems - Capacities (0%), (c) Self-financing (50%), (d) Past track record of reforms (0%). SPUR program apparently couldn't make significant difference because of the internal capacities and other problems of PMC.

Recommendations on Spatial Planning:

(i) Given the imperatives of accelerated but planned urbanization, **all ULBs must prepare Master Plan, CDP, GIS maps and also DPRs for the priority projects.** The SFC is recommending sufficient funds to engage reputed national & international experts for the purpose. The objective is that every Divisional HQ develops as a Smart City, every District HQ as an AMRUT City and every other town is ready for planned growth and attains the SLBs.

(ii) Urban and Regional Development Plans Formulation and Implementation (URDPFI) guidelines of MoUD, GoI could be the main reference document for Spatial Planning. **(Annex- 3.4)**

(iii) 12th Five Year Plan (2012-17) has suggested reforms and desired outcomes related to Water Supply and Sewerage & Sanitation as at **Annex- 3.5.** These need to be implemented.

(iv) **Urban Bihar needs a proper Land Use Policy (Box 3.11)** and proper estimation of space requirement for a sustainable growth of urban areas. Methodology for 4 major components viz residential space, Commercial space, Community space and Infrastructure space for assessing the urban space requirement is detailed in **Annex. 3.6**

(v) Frame Regulation on Fringe Area Development.

(C) Industrial & Economic Corridors; Central

Box 3.11

Land Use Policy

(i) State needs a clear land use and conversion policy to ensure planned and sustainable urbanization.

(ii) Pro-active efforts are needed to:

- Increase the quantity and quality of land and property developed within the urban core and along transport corridors,
- More intensive use of well-located vacant land
- Upgraded urban infrastructure.

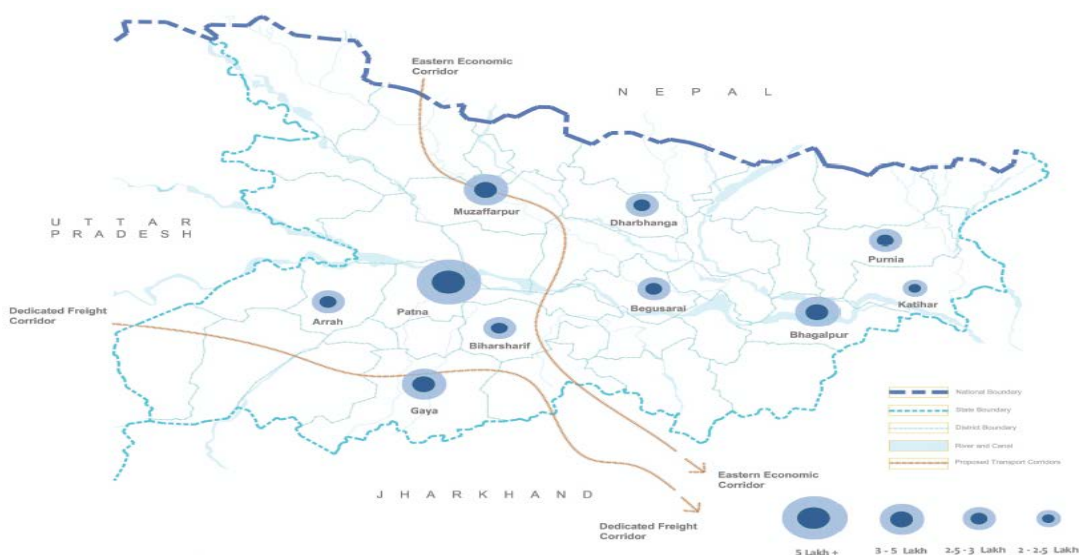
(iii) All efforts must go hand-in-hand with more mixed-use development and less segregation of land-uses

Government proposes to develop (i) Amritsar-Kolkata Industrial Corridor (AKIC), and (ii) Eastern Economic Corridor (EEC), which pass through Bihar (map below). These two corridors could provide urban-led growth stimulus to Bihar's economy (**Table 3.5**).

Table 3.5 Districts covered by AKIC & EEC

Corridor	District covered	Popln. (million)	% of Bihar urban Popln.
AKIC	5 (Kaimur, Rohtas, Aurangabad, Gaya, and Nawada)	1.52	13.0
EEC	6 (East Champaran, Muzaffarpur, Patna, Samastipur, Nalanda and Nawada)	4.20	35.7
Total	11	5.72	48.7

Route of AKIC and EEC



(D) Development Plan:

(iii) **Integrated District Plan:** Article 243ZD of the Constitution (**Box 2.3**) envisages a Committee for District Planning to prepare development plan for the district as a whole, which will have regard to “(i) matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation; (ii) the extent and type of available resources whether financial or otherwise; (b) consult such institutions and organizations as the Governor may, by order, specify.” But it is yet to happen.

Recommendations on the Development Plan:

Development Planning by the ULBs and the PRIs for their jurisdiction is detailed in **Chapter X (Para 10.2.2)**.

(E) Role of the State Planning Board:

The Working Group on Urban Strategic Planning for the 12th Plan has suggested that “The State Planning Board (SPB) should (a) oversee preparation of the Spatial Development Plans for the State in a timely manner as prescribed;(b) approve plans of DPCs and MPCs;(c) prepare or get prepared plans by default when there is no functional Planning Authority; and (d) act as arbitrator for conflicting land uses between plans”. The 5th SFC endorses this.

3.2.6 Status of the Civic Services:

3.2.6.1 Service Level Benchmarks (SLBs):

Under the Citizen’s Charter (**Annex 3.7**) SLBs are available for: Property Tax, Registration, Births/Deaths Certificate, Water Supply, Sewerage, Drainage, Solid Waste Management, Grievances and Suggestions, Building Approvals, Licenses, Accounting System and Personnel Information System. The UDD website has appraisal formats to assess status of different civic services provided by the ULBs.

3.2.6.2 UDD has reported status of implementation of the SLBs as in **Table 3.6**. Information available regarding status of various civic services is given below.

Table 3.6 : Implementation of the SLBs (UDD)

Functions	Actual Status reported by UDD
Solid Waste Management	Extent of availability of services differs in different ULBs. Street Light, Market, Slum up-gradation, Planning, solid waste management are fully managed by the ULBs. Infrastructure facilities are being developed to extend water supply and drainage system in all ULBs.
Drainage & Sewerage	
Water Supply	
Slum upgradation and provision of BSUP	
Markets and Slaughterhouses	
Planning & Development of human settlement	
Street Lighting, Parking, Bus stops	Functional in Patna and proposed in Gaya & Muzaffarpur through BUTSL
Public Transport	

3.2.6.3 Percentage of HH covered by civic services:

(i) Service levels as per census 2011 are given in **Graph 3.1**.

(ii) City size and access to basic services: **Table 3.7** shows that bigger the city size, better are the basic services.

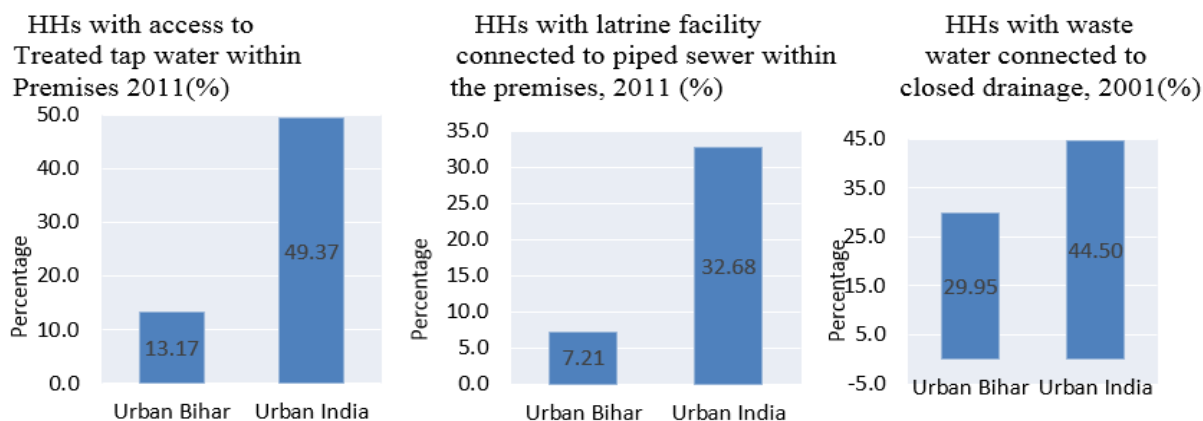
3.2.6.4 Water Supply:

(i) **Graph 3.1** shows that 13.17% HHs have access to tap water within premises in Bihar. It is far below the national level of 49.37%. Citizen Charter’s targets 100% coverage within 10 years and it is a major challenge. **Table 3.7** shows that the city with more population has higher percentage of HHs connected to tap water.

(ii) Some action taken by State Govt:

- Transfer of Bihar Rajya Jal Parshad (BRJP) under UDD.
- Implementation of big water supply projects in 31 cities at a cost of Rs 427.46 Crores through BRJP having 65 Tanks, and 628 KM long pipeline to ensure 24 x 7 water supply.
- Under JnNURM –UIG, water supply project worth Rs. 711.81 crore approved for Patna, Khagaul, Phulwari sharif, Danapur and Bodh Gaya.
- Under JnNURM – UIDSSMT, water supply project in Muzaffarpur approved

Graph 3.1: Service levels as per census (2011)



- Plan to ensure continuous Water Supply in 100% HH. Plan prepared for 6 lac HH. Remaining 10 lakh HH to be covered in next 5 years.

3.2.6.5 Solid Waste Management:

(i) Central Government notified MSW 2000 Rules under the Environment (Protection) Act, 1986 which are applicable to all Municipalities in India. These Rules cover collection, segregation, storage, transportation, processing and disposal of Municipal Solid wastes.

(ii) Some action taken by State Government:

- State Government is providing grants to all 141 ULBs on a regular basis, for purchase of modern municipal equipment.
- ULBs can also hire workers on daily wage as per requirement.
- City Sanitation Plan has been prepared for 40 cities in the State.

- Target was to door to door collection in 2000 wards by June 2016 and all wards by March 2017. However, door to door collection in 879 wards out of 3193 wards. i. e. less than 1/3rd has been done though, Swachhata Anudan provides @ Rs, 1200/family/year.
- Work plan has been prepared for scientific management of waste generated with – in the ULBs limits. 23 solid waste management cluster are being developed.
- 81 acres of land at Rama Chak Bairia has been made available to PMC for solid waste disposal and waste-to-energy plant. This plant is being executed by BUIDCo in PPP mode. But the execution of the work is very slow, as noted by UDD.
- SWM storage regional landfill sites are to be provided in all ULBs by December, 2017.

Table 3.7 City Size and coverage of basic services (%of HH)

City Size	Tap water within premises		Piped sewer connected to latrines		Connected to closed drainage	
	Bihar	India	Bihar	India	Bihar	India
>1 million	50.8		19.6		61.3	
100,000 – 1million	13.1		6.1		29.2	
50,000 – 100,000	8.7		3.3		18.8	
20,000 – 50,000	4.1		3		16.3	
10,000 – 20,000	5.1		2.9		13.1	
5,000 – 10,000	3.1		3.4		17.3	
<5,000	5.1		2.1		12.9	
Total Urban	16.7	49.4	7.2	32.7	29.9	44.5

Source: Census, 2011

3.2.6.6 Sewerage & Sanitation:

(i) **Graph 3.1** that shows that 7.21% HHs have access to latrine facility connected to piped sewer system in Bihar against 32.68% for All India. Citizen Charter's targets 100% coverage within 10 years based on GIS maps and contour.

(ii) Some action taken by State Government:

- Rajgir project completed; Bodhgaya likely to be completed in March, 2016.
- Projects ongoing in Buxar, Begusarai and Hajipur.
- DPRs for 46 towns prepared at an estimated cost of Rs 6357 cr.
- Funding pattern for individual toilets under Swachh Bharat Mission is Central Share: State Share = Rs 4000/HH : Rs 8000/HH.
- DPRs of Arrah & Chhapra, Bhagalpur & Patna and Gaya considered under NMCG, AMRUT and ADBs Tranche 2 respectively.
- Other cities to be proposed to MoUD/EAP.
- Sewerage projects are being implemented in stages in 8 cities of the State.
- Families without toilet facility to be provided enhanced grant of Rs.8000/-. Thus each family will get Rs. 12000/- including GOI grant. Estimated expenditure will be Rs. 600 crore in 4 years.

Box 3.12

Namami Gange Project

- An Integrated Ganga Conservation Mission called "Namami Gange" includes: (i) rehabilitation and upgradation of existing STPs along river Ganga (ii) Ensuring 100% sewerage infrastructure (iii) Interception & Diversion (I&D); River Front Development; Crematoria; Dhobi Ghats & Community Toilets (iv) In situ sewage treatment in open drains (v) Support for preparation of DPRs etc.
- This Project is being implemented in 23 towns of Bihar (Ara, Bhagalpur, Buxar, Chapra, Hajipur, Munger, Patna, Danapur, Begusarai, Katihar, Jamalpur, Mokama, Fatuah, Barh, Phulwari Sharif, Sultanganj, Dumraon, Barhiya, Lakhisarai, Kahalgaon, Naugachia, Bakhtiyarpur, Sonapur.
- GoB has recommended inclusion of 9 more towns, (Manhar, Maner, Teghra, Khagaria, Khagaul, Revil ganj, Dighwara, Manihari, Bihat in the project.
- 6 Projects worth Rs. 2175 Cr already sanctioned.

3.2.6.7 Drainage

(i) **Graph 3.1** shows that 29.95% HHs are connected to closed drainage in Bihar against 44.50% for All India. Citizen Charter's targets 100% coverage within 10 years along with 0% incidence of water logging/flooding with special provision of 40% for the ULBs along river. It again seems a major challenge for the ULBs. Only Rajgir is covered with 100% drainage network.

(ii) Some action taken by State Government:

- Drainage Projects of 5 towns (Patna, Gaya, Muzaffarpur, Darbhanga & Danapur) proposed for funding in 2016-17 at a cost of Rs 450 Cr. under AMRUT.
- Storm Water Drainage System is being implemented in stages in 6 cities viz Bodh Gaya, Buxar, Begusarai, Hajipur, Munger and Rajgir.
- DPRs for 59 more cities are prepared, to be financed under different programmes.
- Rs 3621 Cr. worth projects for 26 towns are ready & funding being explored.
- Drainage Master Plans to prepared for 55 towns in next 1 year.
- At least one major Drain will be constructed in each town from State Plan.

3.2.6.8 Street-lighting

(i) **Current Status:**

- Approx 1,24,000 street lights in all ULBs against requirement of 14,60,000 i.e. less than 10%.

(ii) Some action taken by State Government:

- 100 street lights installed in Patna. 5000 street lights in 10 important cities are being done by BUIDCo.
- Principal Main Road & Main Roads of all ULBs to be covered with LED street lights in 3 years at a cost of Rs 142 Cr.
- 15% of MMNVY fund proposed to be earmarked for Street Lights.

3.2.6.9 Internal Roads & Streets:

Information not available.

3.2.6.10 Library/Museum: The ULBs do not own/manage Library/Museum. The new Museum set up in Patna is managed by State Government.

3.2.6.11 Market and Slaughter houses:

Information not available.

3.2.6.12 Fire Prevention:

Information not available.

3.2.6.13 Cattle Pounds:

Information not available.

3.2.6.14 Riverfront, Park & Green Cover:

Some action taken by State Government:

- At least one Neighborhood Park (3 to 5 acres) to be developed in every town.
- Patna Park Development & Maintenance Society constituted.
- MMNVY, State Plan, 4th SFC & 14th FC funds will be used for park development.
- A new policy framed for systematic development of 70 parks in Patna.
- An international level ultramodern “Budha Smriti Park “in Patna constructed.
- Facilities in Parks developed in all cities of State. 6 new parks constructed by BUIDCo in Patna.
- Satyagraha Park in Motihari being constructed at a cost of Rs. 2.20 crore, It would have a large statue of Mahatma Gandhi
- Rs. 71 crore project prepared for development of the bank of Falgu river in Gaya and integrated development of ponds in the city.
- DPR is being prepared for beautification of historical lake “Moti Jheel” in Motihari.

- River Front Development Project at a cost of Rs. 261 crore is being implemented in Patna along Ganges. 20 important ghats being developed, 5 meter wide Pathway in the length of 6.5 km from Collectorate ghat to Nauzar ghat being constructed with street lights, walkway and civic amenities. Ganga museum, Dolphin museum, Promenade and Electric Crematorium are under construction. An overview is given in **Box 3.13**

3.2.6.15 Crematorium etc.

Some action taken by State Government:

- Three Electric Crematoria in Patna and one in Hajipur functional round the clock, Plan to build electric crematorium in other five ULBs in PPP mode.
- Electric Crematorium for animals (Rs. 3.57 Cr) at Rama Chak Bairia in PMC.
- Modernization of 38 burial grounds /places under Mukti Dham Yojna.

3.2.6.16 Earmarking services for outsourcing:

(i) UDD has reported that it has not earmarked any service for outsourcing by the ULBs and it is for the ULBs to decide on outsourcing of such services. Some ULBs are out-sourcing management of solid waste. The coverage in these ULBs is very limited and user charges are not being levied.

Box. 3.13

Riverfront Development in the city of Patna

Patna Planning Area (PPA) has natural endowment of 4 major rivers viz. Ganges, Sone, Gandak, and Punpun. These river sides are among the most ignored parts of the city and are dirty, abused, derelict, and plagued by environmental issues: unstable landfills, contaminated soils and water, lost habitats, disturbed artifacts, trapped sedimentary pollutants, etc. Patna must be brought on the map of riverfront cities like London, Sydney, New York, through restoration and development.

Activities required

- Linkages from the city to the riverfront
- Restructuring Land Use
- Development of cultural precinct in Government areas
- Improved cross sections of roads with emphasis on pedestrian safety and non-MV usage.
- Improved MV movement
- Parking facilities
- Ferry terminals
- Bus and Para transport stops
- Signage
- Urban utilities and drainage
- Improved infrastructure for floating restaurants
- Strengthening of riverbanks through soil bio engineering
- Riverside Promenade, Ghats, Plazas and Parks
- Buildings for Social Infrastructure -Museums, Art Gallery, Conservatory, Conference facilities and Youth Centre
- Local produce markets
- Lighting, Street Furniture & Public Art
- Heritage Management & Conservation
- Public amenities
- Riverfront management infrastructure
- Reorganization of cremation activity
- Dhobi Ghat

(ii) Experience of large scale outsourcing of collection and disposal of solid waste in the past in PMC is not encouraging. (Box 10.17). But many lessons could be drawn from PMC.

(iii) Advantages of PPP over traditional EPC option is given in Box 10.16. Further, pros & cons of different private involvement option are given in Table 3.8.

73 percent. Urban Bihar has only 325 km of surfaced roads per 1 million population as compared to 889 km for urban India.

(iii) **Urban Transport Policy:** The framework of National Urban Transport Policy contains various aspects of Urban Transport as given in Box 3.14.

Table 3.8 Pros and cons of the different private involvement options

<i>Option</i>	<i>Typical duration</i>	<i>Examples</i>	<i>Pros</i>	<i>Cons</i>
Service contract	6 months to 2 years	Several contracts in the water sector of Mexico City: i) consumer census, mapping the network, metering; ii) regularization of billing; iii) loss detection and reduction.	Can inject good technical expertise	Unlikely to greatly improve performance where overall management is weak
Management contract	3-5 years	Waste collection in: Caracas, Seoul, Bangkok, Jakarta, Lagos	Gains in managerial efficiency	Gains can be difficult to enforce; public entity remains responsible for investment
Lease	10 to 15 years	Water supply in Guinea (Conakry and 16 other towns, in 1989)	Commercial risk borne by the private sector, giving strong performance incentives	Administratively demanding; public entity remains responsible for investments
Greenfield projects	15 to 30 years	Design-build-operate Solid Waste in Hong Kong: for refuse transfer stations and a chemical waste plant.	Good way of getting efficient delivery of bulk services, with private investment	Not a good solution if supporting distribution systems are in bad shape, or traffic levels are uncertain
Concession	25 to 30 years	Water and sewerage concession began in Manila in 1997; Concession schools in Colombia, Bogotá, 1999	Potential for high efficiency in operations and investment	Requires considerable commitment and regulatory capacity
Divestiture	Indefinite, but may be limited by a license	Privatization of utilities like electricity, Telecommunications, etc.	Potential for high efficiency gains	Requires credible regulatory framework

3.2.7 Urban Transport and Traffic:

(i) According to a 2008 Report on Traffic and Transportation Policies and Strategies in Urban Areas in India (MOUD), urban bus transport carried only 22 percent of the total traffic load in the country. Patna, which has a public transport system among the 30 cities covered by the survey, has the lowest public transport accessibility index and other indices (Annex 3.8). Table 3.9 shows the index for 5 comparable cities. Bihar has evidently a long way to go in Urban Transport.

(ii) In 2011, Bihar's urban roads network was 9,975 km, of which surfaced roads constituted about 43 percent of the total as against all-India average of

Box 3.14

Salient features of Urban Transport Policy

- Capacity to plan for sustainable urban transport
- Coordinated planning for urban transport
- Integrated land use and transport planning
- Allocation of road space to focus on people and equity
- Investment in public transport and non-motorized modes
- Strategies for parking space and freight traffic movement
- Regulatory mechanisms for a level playing field
- Innovative financing to raise resources
- Cleaner fuel and vehicle technologies
- Best practices in sustainable transport

Table 3.9: Transport Performance Index of Patna vis a vis comparable cities

Index	Patna	Bhopal	Varanasi	Kanpur	Hyderabad
Public transport accessibility	0.00	0.95	0.00	0.71	1.62
Service accessibility	48.00	45.00	46.00	42.86	6.08
Congestion index	0.23	0.20	0.41	0.33	0.37
Walk ability	0.65	0.47	0.33	0.59	0.68
City bus transport supply	0.00	12.82	0.00	5.64	31.88
Safety	0.19	0.08	0.16	0.05	0.06
Para transit	88.80	79.70	64.49	19.30	76.60
Slow moving vehicle	0.14	0.08	0.14	0.09	0.03
On street parking interference	0.21	1.09	1.21	1.14	1.24

Source: Ministry of Urban Development and Wilbur Smith Associates

State Government also needs to formulate its own Urban Transport Policy, which is vital to the urban planning and development.

(iv) Some action taken by Government regarding urban transport:

- BUTSL incorporated for managing public transport in the urban areas.
- City Mobility Plans for 11 corporation towns to be prepared in next one year.
- Purchase of 1098 Buses at a cost of Rs. 267.81 Crore in 19 towns of state viz Patna (phase I and phase II), Bodh Gaya, Purnia, Darbhanga, Katihar, Bhagalpur, Biharsharif, Madhepura, Aurangabad, Siwan, Muzaffarpur, Jehanabad, Gaya, Munger, Bhabua, Begusarai, Bairgania and Ara under JnNURM-UIG urban transport plan.
- Metro rail project envisaged to provide better and rapid transport facilities in Patna and surrounding areas. RITES Ltd. has already prepared a draft project report with route length of 31 km in two stages and is to cost Rs.14,845 crore.
- Construction of modern Bus stands at a cost of Rs. 115.35 Crore in 37 towns.
- Inter-state Bus Terminal in Patna being constructed at a cost of Rs.300.06 crore. 25 acres of land acquired for the project.
- Implementation of Ultra Modern Electronic Traffic Signal project at a cost of Rs. 26.06 crore to address traffic jam in Patna.
- 50 Bus Stands under construction.
- Bus Stands in all remaining towns to be taken up in next 2 years.

- Projects worth Rs 83.57 Cr. to be taken up under AMRUT over next 5 years for construction of footpath, cycle track, procurement of e-Rikshaw etc.

(v) **Multimodal Transport System** is yet to be thought of in Bihar. Its salient aspects are given in **Annex – 3.9**

3.2.8 Slums in Bihar:

(i) BMA, 2007 mandates provision of basic infrastructure in slums irrespective of the land tenure.

(ii) Major issue in Upgrading of Urban slum and squatter areas are (a) Upgrading as part of urban development policy, (b) Actual needs of slum and squatter households, (c) Financing, affordability and cost recovery, (d) Security of tenure and allocation of land and (e) Standards of physical development. (*UN-HABITAT*)

3.2.8.1 Slum Population:

(i) UDD has reported that physical survey was conducted in 28 largest towns in December, 2010 and thereafter Government approved Bihar Slum Policy, 2011. (**Box 3.15**) Data for 1847 slums in the 28 largest cities is available on request. The survey is now 5 years old and evidently needs updation besides coverage of all ULBs. Census 2011 data could be used for slums improvement in the meantime.

(ii) Slum population in Bihar has more than doubled in the Census decade of 2001 – 2011 from 5.2 lakh in 2001 to 12.4 lakh in 2011.

Box 3.15 Bihar Slum Policy 2011

The Bihar Slum Policy has been developed within the framework of the National Slum Policy with the following key objectives:

- To integrate slum settlements and the resident communities into the urban area by creating awareness amongst public and Government of the underlying principles that guide slum development and improvement and the options that are available.
- To strengthen legal and policy framework to facilitate slum development and improvement on a sustainable basis.
- To establish a framework for involving all stakeholders for efficient and smooth implementation of the Policy objectives.
- To ensure allocation of adequate resources for slum development and provision of basic services.

Usually slums are concentrated in large cities. But in Bihar the largest proportion of slum population is reported from small & medium towns in the population range of 20,000–50,000 persons (20.7% of the total) and 50,000–1,00,000 persons. (**Table 3.10**)

3.2.8.2 Slums in Bihar vs. All India:

The slums of Bihar in the most spheres are in a worse condition compared to All-India as is evident from **Table 3.11**.

Table 3.10: Distribution of slum population: Bihar-2011

City size	No. of ULBs reporting slums	%age of urban Pop.
>1 million	1	4.6
1,00,000 – 1 million	21	13.9
50,000 – 100,000	19	18.3
20,000 – 50,000	39	20.7
<20,000	5	23.7
Total	85	10.52

3.2.8.3 Action taken by State Govt

(i) UDD has reported that in Phase 1, 1402 slums in the 28 largest cities are being provided drinking water through hand pumps, individual toilets, paved internal roads, street lights and drains. Depending on the availability of space, community toilets and community halls may also be provided. Infrastructure is to be provided over the next 3 years with 80% contribution from Government and 20% from DFID.

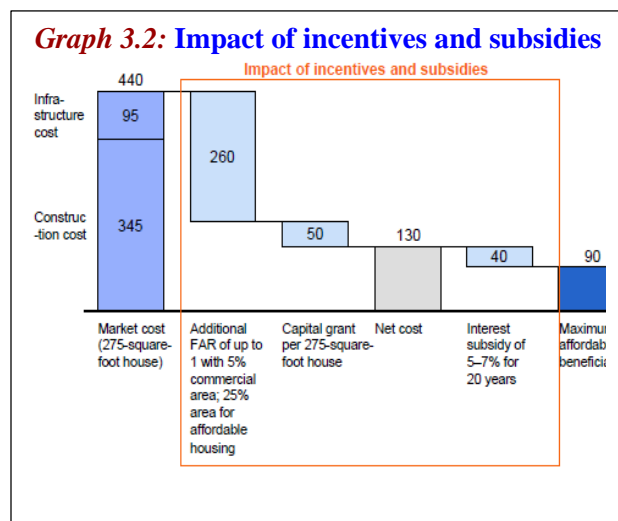
(ii) Govt. has Approved 32 projects in 28 cities under IHSDP. Total 28,623 housing units are under construction. DPRs for 29 District headquarters are under approval under RAY. **Evidently, the ongoing efforts need to be scaled up.**

Table 3.11 Services and shelter characteristics of Slums 2011

Service and shelter characteristics	Bihar		India	
	Slums	Urban	Slums	Urban
Access to latrine connected to piped sewer	9	13.2	42.5	49.4
Waste water connected to closed drainage	4.4	7.2	24.5	32.7
House classified as good	19.2	29.9	36.9	44.5
Attributes of Slums in Bihar vs. India				
Condition of Structure				
Good	37.5		57.7	
Liveable	43.4		37.1	
Dilapidated	8.8		3.9	
Source of drinking water				
Tap water from treated source	10.5		64.5	
Tap water from untreated source	3.5		8.6	
Covered well	0.7		0.8	
Uncovered well	2.4		2.2	
Hand pump	68.9		12.5	
Tap water from treated source	10.5		64.5	
Access to latrine				
Septic tank	35.6		31.0	
Open defecation	38.1		18.7	

Source: Census of India 2011

(v) **Redevelopment of slums** : Slums, whether on Central /State Government land or ULB land, or Private Land, should be taken up for “in-situ” redevelopment. PMAY has provided a strategy for slum redevelopment using land as resource. It also requires combination of incentive and subsidies that can bridge the affordability gap for slum redevelopment as shown in *Graph 3.2*.



3.2.8.4 Poverty Alleviation:

(i) With the urbanization, weight of poverty historically borne by the rural areas, is shifting to cities and towns in Bihar too. (*Table 3.12*)

Table 3.12 Rural vs. Urban Poverty

Poverty indices	2004-05 (Million)	2011-12 (Million)	% Change (04-05 to 11-12)
Total Poor	40.16	37.72	-2.45
Rural Poor	37.19 (92.6%)	33.79 (89.6%)	-3.39
Urban Poor	2.98 (7.4%)*	3.93(10.4%)*	+0.95

Source: NSSO, 61th, 2004-05 and 68th round 2011-12* %share in pop

(ii) Urban poverty also is multi-dimensional and relate to the various forms of deprivations, disadvantages and risks and are manifested in lack of access of the poor to basic services, shelter and livelihood and to health, education, social security, empowerment and voice.

(iii) In the past, different anti-poverty strategy comprising of a wide range of poverty alleviation and employment generating programmes has been implemented. But results are unsatisfactory. In 2013-14, GoI launched National Urban Livelihood Mission (NULM). Mobilizing beneficiaries for

skill training and other community mobilization related interventions are being undertaken under NULM in 42 towns in Bihar. Formation of 42 town level federations of SHGs and one state level federation each of SHGs of Street Vendors and Rickshaw Pullers is ongoing. UDD is engaged with the banks for financial inclusion and also seeking convergence with other departments. These efforts need to be scaled up manifold

Below is the list of NULM towns:

* Patna, Gaya, Bhagalpur, Muzaffarpur, Bihar Shariff, Darbhanga, Purnea, Ara, Begusarai, Katihar, Munger, Chhapra, Danapur, Saharsa, Sasaram, Hajipur, Dehri, Siwan, Betiah, Motihari, Bagha, Kishanganj, Jamalpur, Buxar, Jehanabad, Aurangabad, Lakhisarai, Nawada, Jamui, Araria, Madhubani, Sitamarhi, Gopalganj, Supaul, Samastipur, Shekhpura, Madhepura, Arwal, Bhabhua, Khagaria, Banka, Sheohar.

(iv) Safeguard for Street Vendors:

Survey of vendors as a first step towards effective implementation of the Street Vending Act is ongoing in the 42 NULM towns. Following the bio-metric survey, identity cards will be issued and financial inclusion initiated. UDD has written to the District Magistrates to not remove encroachments till completion of the survey. Vending Zones will be identified, as required and all basic facilities will be provided therein and spaces will be allocated to the surveyed vendors. This function would be carried out by the Town Vending Committees. The progress as of April 2015 is as follows: (a) survey ongoing in 41 towns, (b) 82352 street vendors have been estimated in 42 towns and survey completed of 35600, (c) 30 Town Level Federations formed, (d) data for RSBY completed for 19479 vendors, (e) 8917 bank accounts opened under Jan Dhan Yojana, (f) Town Vending Committees constituted in 11 towns.

3.2.9 Status of the Agency Functions:

A. State Schemes: UDD is yet to report status in the format at *Table 3.13A*. It has, however, reported that Mukhya Mantri Nagar Vikas Yojna (MMNVY) includes construction of drains, road and street, water supply, park and other project of

Table 3.13A: State Scheme Transfers (Rs Crore)

	No. of ULBs*	2009-10		2010-11		2011-12		2012-13		2013-14	
		Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.
MMNVY		Response from UDD were not received									
Others(Specify)											

Table 3.13B: Central Scheme Transfers (Rs Crore)

	2010-11		2011-12		2012-13		2013-14		2014-15	
	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.
JNNURM	595.00	58.15	641.23	71.86	38.40	37.65	195.00	44.32	--	--
NULM/SJSRY	6.40	2.98	5.33	2.10	90.83	35.80	70.00	7.84	--	--
RAY	Scheme not Started						10.00	0.00	--	--
Other (EAP)	0.00	0.00	10.00	7.50	58.00	0.00	60.00	60.00	--	--
Total	651.40	101.13	736.56	81.46	297.23	103.69	445.00	202.15	--	--

Source: UDD, Bihar

community importance in the main towns with the objective of environmental protection. Rs. 1368.30 crore has been provided since 2008-09.

B. Central Schemes: *Table 3.13B* shows that progress under various Central Schemes have been very unsatisfactory.

3.2.10 Recent initiatives of Union Government: (Smart City, AMRUT, etc.)

(i) MoUD has restructured JnNURM and Mission Cities schemes into AMRUT and Smart Cities respectively. Bihar has been allocated only 3 Smart and 26 AMRUT cities due to the faulty criteria of urban population and number of statutory towns, which evidently go against the low urbanized (and also low income) states and is iniquitous. Urbanization is the engine of growth and for the national GDP to grow faster, the most populous and low income States like Bihar and UP have to grow even faster. Moreover, it is easier to build Smart Cities outside already densely populated cities. More appropriate criteria should be such that States with low urbanization get larger numbers as Smart Cities and AMRUT Cities.

(ii) State Government in any case needs to make full use of both Smart City & AMRUT schemes, Experience of JnNURM and Mission Cities in Bihar has not been encouraging. (Table 3.13B)

3.2.10.1 Smart Cities:

(i) Muzaffarpur, Bhagalpur and Biharsharif have finally been selected by MoUD to be developed as 3 Smart Cities in Bihar. Incidentally, estimated investments are Rs 1027 Cr, Rs 1332 Cr and Rs

4494 Cr respectively and vary widely in Per Capita. (ii) Some changes are required (*Annex 3.10*) in the MoUD guidelines on Smart Cities such as scoring criteria and conditions precedent for the first level of City Challenge Competition to make them more clear and relevant. These include (a) Addition of some mission outcomes, (b) Replacement of existing sub-criteria with more appropriate ones (c) Change in scoring criteria for non-JnNURM cities etc.

Box 3.16

What is a Smart City?

(A) Smart Cities in the 12th Five year plan:

The smart cities of our vision would be engines of growth as they would increasingly compete for investments nationally and internationally too. Therefore, cities must provide world class infrastructure and services at affordable costs to give a competitive edge to the economic activities they host. Besides, cities should be able to provide basic services to migrant workers, their families and other vulnerable sections of society including women and children. The future vision of our cities should facilitate transition from “informality” of large number of workers towards more formal livelihood in line with their aspirations.

(B) Smart City in the recent GoI guidelines: 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.

(C) Some other definition: A smart sustainable city (SSC) is an innovative city that uses information and communication technologies (ICTs) and other means to improve quality of life, efficiency of urban operation and services, and competitiveness, while ensuring that it meets the needs of present and future generations with respect to economic, social and environmental aspects.

Source: International Telecom Union (Smart Cities)

(iii) The purpose of Smart City mission is to drive economic growth and improve quality of life of people by enabling local area development and harnessing technology, especially technology that leads to Smart solutions and outcomes (**Box 3.17**).



Para 5.3.3 of URDPFI provides good details of Smart City. (**Appendix 3.4**).

3.2.10.2 Atal Mission for Rejuvenation and Urban Transformation (AMRUT):

(i) AMRUT evidently is for urban transformation to enable better living and to drive economic growth by ensuring basic infrastructure and sanitation for 500 cities in the country.

(ii) 26 cities of Bihar appear in AMRUT list. Following towns also need to be included: (a) Sitamarhi town has a population of over one lakh with notified Municipalities, and (b) Bodh Gaya qualifies as a Heritage city under HRIDAY Scheme.

(iii) **Reforms mandated under AMRUT are listed in Box 3.18.**

Box 3.18	Reforms required under AMRUT
	1. e-Governance – It includes Digital India initiatives, Digital ULBs, coverage with E-MAAS.
	2. Constitution and professionalization of municipal cadre – establishment of municipal cadre & cadre linked training, policy for engagement of interns in ULBs and implementation, preparation of policy for Right-sizing the number of municipal functionaries, generation of internal resources and expenditure on salaries.
	3. Augmenting double entry accounting – Migration to double entry accounting system, appointment of internal auditor & publication of annual financial statement on website.
	<i>Contd.</i>

4. Urban Planning and City level Plans – Preparation of Master Plan using GIS, Preparation of Service Level Improvement Plans (SLIP), State Annual Action Plans (SAAP), Establish Urban Development Authorities, Make action plan to progressively increase Green cover in cities to 15% in 5 years, Develop at least one Children Park every year in AMRUT cities, Establish a system for maintaining of parks, playground and recreational areas relying on People Public Private Partnership (PPPP) model, Make a State level policy to implement the parameters given in National Mission for Sustainable Habitat.
5. Devolution of funds and functions – Ensuring transfer of 14th FC devolution to ULBs, appointment of State Finance Commission (SFC) and making decisions, implementation of SFC recommendation within time, Transfer of all 18 functions to ULBs.
6. Review of Building by-laws – Periodic revision of building bye laws, Formulating policy and action plan for roof top and rain water harvesting architecture in all buildings, single window clearance for all approvals to give building permissions.
7. Set-up financial intermediary at state level – To establish and operationalize financial intermediary-pool finance, access external funds, float municipal bonds.
8. (a) Municipal tax and fees improvement – Periodic revision of property tax, levy charges and other fees, Post Demand Collection Book (DCB) of tax details on the website, etc. (b) Improvement in levy and collection of user charges – Separate accounts for user charges, Make action plan to reduce water losses to less than 20%, etc.
9. Credit rating – To complete credit ratings of all ULBs.
10. Energy and Water audit – Provide incentives for green buildings, optimizing energy consumption in street lights, Making STPs and WTPs more energy efficient.
11. Swachh Bharat Mission – Elimination of open defecation, waste collection, transportation of waste, scientific disposal.

(iv) A comparative statement under JNNURM and AMRUT reforms are given in **Annex 10.15**. Reforms suggested both under JNNURM and AMRUT evidently are preconditions for any concerted effort towards desirable urban development.

3.2.10.3 Developing Districts and Divisional Headquarters as AMRUT and Smart Cities:

(i) Bihar has the highest population density (1,106 people per sq km) and paradoxically a very low level of urbanization (10.5% as per 2011 census).

Urbanisation and urban hubs being the engines of growth, makes it compelling for Bihar to develop its remaining 7 Divisional HQs as Smart Cities and 28 (38-3-7) District HQs as AMRUT cities. Moreover, the remaining ULBs should be planned and developed to absorb increasing influx of people from the rural areas and provide decent livelihood and living to their citizens and migrants.

(ii) There are two ways to fund (Table 3.14) the above proposal:

(a) Funding as per the MoUD. It would imply a huge outlay, which is improbable, or

(b) Besides using MoUD funds, leveraging State

grants, FC/SFC transfers, own revenue of the ULBs and Borrowing for 3 purposes:

- Preparing Master Plan, CDP, GIS maps, DPRs,
- Implementing AMRUT reforms
- PPP in a big way for creating and maintaining infrastructure & services.

(iii) Funding proposed by UDD/SPUR for 23 AMRUT cities/towns do not match with their CDPs/CIP as given in Table 3.15. Interesting variations in total per capita investment in various services etc. could be seen in Annex 3.11.

(iv) The SFC funding recommendations are given in Table 3.14 and is based on developing all Cities/Towns in a planned manner. Investment required can be met through convergence and leveraging of resources from Central/State Schemes, 14th FC & 5th SFC transfers, Own revenue, PPP, Borrowing etc. (para 7.7.4 (ii))

Table: 3.14 Proposed funding for Smart Cities, AMRUT and other Towns for 2015-20 (Rs Cr)

Sr. No.		City & Town type	No.	Per city				Additional fund for AMRUT/city				Total for all cities			
				GoI	GoB	ULB	Total	GoI	GoB	ULB	Total	GoI	GoB	ULB	Total
1	2	3	4	5	6	7	8=	9	10	11	12=(9+	13=	14=	15=	16=
				(50%)	(50%)		(5+6+7)	(50%)	(30%)	(20%)	10+11)	(5+9)*4	(6+10)*4	(7+11)*4	13+14+15
A.	¹ Divl HQs (9) as Smart Cities	Type 1 (Bhagalpur, Muzaffarpur)	2	500 (50%)	500 (50%)	0	1000	64	38	26	128	1128	1076	52	2256
		Type 2 (Patna)	1	0	485 (50%)	485 (50%)	970	64 (50%)	38 (30%)	26 (20%)	128	64	524 (6+10)*4	512 (7+11)*4	1100
		Type 3 (Gaya)	1	0	220 (60%)	150 (40%)	370	64 (50%)	38 (30%)	26 (20%)	128	64	260	176	500
		Type 4 (Darbhanga, Purnea)	2	0	130 (60%)	90 (40%)	220	64 (50%)	38 (30%)	26 (20%)	128	128	340	232	700
		Type 5 (Munger, Saharsa, Chhapra)	3	0	90 (70%)	30 (30%)	120	64 (50%)	38 (30%)	26 (20%)	128	192	372	186	750
B.	Biharsharif Dist HQs as AMRUT (38-9=29)	Smart city type 1	1	500 (50%)	500 (50%)	0	1000	64	38	36	128	564	538	26	1128
		Type 1	12	64 (50%)	38 (30%)	26 (20%)	128					768	456	312	1536
		² Type 3	16	0	100 (80%)	25 (20%)	125					0	1600	400	2000
C.	³ N. Parishads (42-25 = 17)	AMRUT city type 2	4	64 (50%)	38 (30%)	26 (20%)	128					256	152	104	512
		Non-AMRUT	13	0	50 (80%)	10 (20%)	60					0	650	130	780
	⁴ N. Panchayat (87-2 = 85)	Non-AMRUT	85	0	25 (80%)	5 (20%)	30					0	2125	425	2550
Total			140									3164	8093	2555	13812

Note: (1) indicates Already selected Smart City (3) & to be developed Smart City (7) are also covered under AMRUT city scheme. (2) indicates These are non-selected AMRUT cities. (3) shows 25 overlapped Dist HQs - Araria, Arwal, Aurangabad, Bettiah, Bhabhua, Buxar, Chhapra, Gopalganj, Hajipur, Jamui, Jehanabad, Khagaria, Kishanganj, Lakhisarai, Madhepura, Madhubani, Motihari, Nawada, Saharsa, Samastipur, Sasaram, Sheikhpura, Sitamarhi, Siwan, Supaul. & (4) shows Sheohar & Banka are overlapped Dist HQ. Amount rounded off to nearest 10.

Table: 3.15 Sectoral allocation proposed by UDD for 23 AMRUT Cities vs Investment Assessment in CDPs (Rs Cr.)

Sector	UDD			CDP/CIP			UDD as % of CDP	HPEC norms for 23 Cities
	Amount	% of Total	Per Capita	Amount	% of Total	Per Capita		
Water Supply	2587.38	22%	4,020	2488.92	11%	3,867	104%	3771
Sewerage & Sanitation	5745.26	48%	8,926	4105.30	18%	6,378	140%	2405
Drainage	3314.28	28%	5,149	2048.30	9%	3,182	162%	3348
Urban Transport	80.57	1%	125	6472.95	29%	10,056	1%	18975
Park & open spaces	173.89	1%	270	0.00	0%	-	-	276
Solid waste Mgt	0.00	0%	-	842.78	4%	1,309	-	-
Social Infrastructure	0.00	0%	-	1932.62	9%	3,003	-	-
Slum improvement	0.00	0%	-	1716.91	8%	2,667	-	-
Heritage & Tourism	0.00	0%	-	639.66	3%	994	-	-
Economic Dev.	0.00	0%	-	1146.67	5%	1,781	-	-
Environment	0.00	0%	-	837.76	4%	1,302	-	-
Others	0.00	0%	-	275.89	1%	429	-	-
Total	11901	100%	18490	22508	100%	34968	-	-

Note: Cost of services as per HPEC norms = (PMC pop × HPEC CI 1B city norms) + (22 other cities pop × HPEC CI 1C city norm)

(v) **Table 3.15** shows that:

- 30% more amount has been allocated to sewerage and drainage sector by UDD than CDP (i.e. Rs 9060 Cr. vs 6153 Cr.).
- UDD has allocated 1% (80.57 cr.) to urban transport, while CDP has allocated 30% (6473 cr.) of the total amount.
- UDD has covered only 5 sectors: Water supply, sewerage and sanitation, drainage, parks and open spaces and urban transport. CDPs have covered all sectors.

3.2.11 Urban Housing:

(i) Bihar has 2.70 million urban housing units vis-a-vis All India total of 110.14 million: (a) Residential 73.1%, (b) non residential 20.2% and (c) vacant units 6.2%. Overall urban housing situation shows (Census-2011):

- 2.3% of the urban HHs do not have “exclusive” housing unit and share the unit
- 32.4% of the urban HHs have one room housing unit and another 30.8% two room units;
- 5.6 % of the urban HHs in Bihar have six rooms (+) housing units, compared to 3.3% at the all-India level;
- The average floor area of urban houses in Bihar is 32.4 square meters compared to 39.2 square meters, for all-India urban;
- 53.1 % of urban HHs in Bihar have housing units classified as good. 68.3% of urban HHs in Patna

live in units classified as “good”, 27.1% in livable, and 4.6% dilapidated.

- 69.5% of urban HHs have secure tenure, compared to the all-India average of 71.3 %.

(ii) Stock of urban housing vs. requirement

- The Report of the Technical Committee on Urban Housing Shortage (2012) estimated the housing shortage of India and states by using a combination of three factors, i.e. (a) obsolescence, (b) congestion and (c) homelessness and concluded that Bihar has a shortage of 1.19 million urban houses.
- Housing has a major role in facilitating urban development in Bihar which will see its urban population double between 2011 and 2031. New housing units are and will continue to be a small proportion of the existing stock; and the issue is how to better and efficiently use the existing housing stock to address the urban housing shortage.

(iii) Roles of Govt and private sector: While Government should take lead role in housing for poor through grants & subsidies, it should play the role of regulator and facilitator in the private housing market. **(Box 3.20).** UN – HABITAT recommendations as scaling up housing supply is at **Appendix 3.2.**

(iv) Government as a Provider of Housing: Following programmes of GoI are intended to providing Housing for All in urban areas.

(a) Rajiv Awaas Yojna (RAY) (2013-2022):

As reported by UDD, 29 DPRs have been approved for 27 towns by State Government. But MoUD has approved only seven projects, viz: Patna Phase 1, Patna Phase 2, Patna Phase 3, Gaya Phase I, Darbhanga Phase 1 and Katihar Phase 1 .Total project cost was 405.55 crore . **Now RAY has been replaced by “Housing for All Yojana” (PMAY)**

(b) IHSDP (Integrated Housing and Slum Development Programmer):

As reported by UDD, 32 Projects have been approved for 28 towns to construct 28,623 dwelling units at a cost of Rs. 757.88 Cr. The Project is to be completed by 31st March, 2017. 3323 units have been completed and transferred to the beneficiaries Work on the remaining units is going on.

(c) Pradhan Mantri Awas Yojana (PMAY) –

The PMAY Mission will be implemented during 2015-2022 through the four verticals (**Box 3.19**) giving option to beneficiaries, ULBs and State Government.

(d)As reported by UDD, during 2015-22, 30 sq. mt. Pucca House will be provided. An MOA has been signed between GoI and State Government. UDD has asked the ULBs to submit their Work Plan.

Box 3.19 PMAY Mission

“In-situ” Slum Redevelopment	Affordable Housing through Credit Linked Subsidy	Affordable Housing in Partnership	Subsidy for beneficiary-led individual house construction
<ul style="list-style-type: none">- Using land as a resource- With private participation- Extra FS/TDR/FAR if required to make projects financially viable	<ul style="list-style-type: none">- Interest subvention subsidy for EWS and LIG for new house or incremental housing- EWS: Annual Household income up to Rs.3 lakh and house sizes up to 30 sq. m- LIG: Annual Household Income Between Rs.3-6 lakhs and house sizes up to 60 sq. m	<ul style="list-style-type: none">- With private sector or public sector including Parastatal agencies- Central Assistance per EWS house in affordable housing projects where 35% of constructed houses are for EWS category	<ul style="list-style-type: none">- For individuals of EWS category requiring individual house- State to prepare a separate project for such beneficiaries- No isolated/ splintered beneficiary to be covered.

(v) Market as a provider of urban housing:

Housing need of Middle & High income groups are generally met by the market. REIT and RERD (**Box 3.20**) are the instruments to promote regulated and orderly growth through efficiency, professionalism

and standardization. It enforces accountability against builders and developers to reduce frauds and delays which in turn will enable the real estate sector to access capital and financial markets essential for its long term growth. REIT is proposed to encourage investors while attracting long term finance. RERD Bill, 2013, is a significant first step towards bringing in transparency and governance in the real estate sector.

Box 3.20 REIT (Real Estate Investment Trust)

- REITs are vertically integrated real estate companies that develop, own and actively manage commercial real estate. I-REITs (REITs in India) would issue securities, which would be listed on stock exchanges and REITs will invest in completed rent generating properties in India (to comprise minimum 90% of net asset value) and mortgage backed securities. Initially I-REITs are to be available only to high net worth individuals and institutions to develop the market. Gradually, it will be opened to retail investors.
- Budget 2014-15 has introduced tax incentives for the REIT regime, and also provided for relaxations in FDI regime. The SEBI has announced REIT regulations. Now entities registered and regulated under the SEBI (REITs) Regulations 2014 will be able to access foreign investments which were prohibited under the FEMA Regulations. REITs would reduce pressure on the banking system free up existing funds of Banks and encourage construction activities. REITs while attracting long term finance from foreign and domestic sources including NRIs would make available fresh equity to the sector.

The Real Estate (Regulation and Development) Bill, 2013

- The RERD Bill seeks to establish Real Estate Regulatory Authorities (RERAs) at the state level for regulation and development of the real estate sector. It aims at (a) ensuring consumer protection and (b) standardization in business practices and transactions in the real estate sector.
- The Bill contains provisions of registration of real estate projects and agents with RERA; functions and duties of promoters and allottees; establishment of RERA; establishment of fast track dispute resolution mechanism through adjudication; establishment of a Real Estate Appellate Tribunal; offences and penalties etc.
- These measures are expected to boost domestic and foreign investment in the sector and help achieve the objective of the Government to provide ‘Housing for All by 2022’, through enhanced private participation.

3.3 Functionaries:

It is clear from the Divisional level consultation meeting with the officials and elected representatives of the ULBs that available personnel are grossly inadequate in skills vis-à-vis the functional assignments and the needs of emerging technologies and modern management. The existing staffing was sanctioned in a very different situation.

3.3.1 Creation of Municipal Cadre:

- Section 43 (1) of BMA says “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.”
- Section 36 (1) of BMA says that “subject to the provision of section 41” and need for ensuring maximum possible economy in municipal administration, the Municipality shall have the following posts of Officers, **(Box 3.21)**
- GOI has recommended constitution of Municipal Cadres as in **Box 3.22**. **Box 3.23** gives status of

Box 3.22		Proposed Municipal Cadres	
Proposed Municipal Functional Groups		Municipal Services under the Municipal Cadre	
Municipal Administrative Service [MAS]		<ul style="list-style-type: none"> ▪ Municipal Executive Service ▪ Municipal Social Development Service ▪ Municipal Staff Services 	
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 Service 	

Source: Municipal Cadre in India, 2014: Joint Approach of MoUD GoI & WB

Box 3.23		Status of Municipal Cadres in India	
Status		States	
States completely created and implemented for over 5 years		<ul style="list-style-type: none"> ▪ Maharashtra ▪ Kamataka ▪ Tamil Nadu 	
States initiated municipal cadre and is under final stage of ratification/ratified		<ul style="list-style-type: none"> ▪ Madhya Pradesh ▪ Odisha 	
States that are yet to initiate municipal cadre in full form		<ul style="list-style-type: none"> ▪ West Bengal ▪ Bihar ▪ Assam 	

Source: Municipal Cadre in India, 2014: Joint Approach of MoUD GoI & WB

Municipal Cadre in various states. Details could be seen in **Appendix 3.3**

3.3.2 Model Staffing:

(i) A comparative statement of Model Municipal Staffing Structures proposed by UDD and by the 5th SFC (tentative) based on MoUD model are given in **Table 3.16** ULB/post wise details are given in **Annex 3.12 A to C**. Incidentally, total costs in both the cases are very similar.

(ii) Analysis of UDD Proposal on the Municipal Cadre:

This commission has analyzed staffing structure proposed by UDD. The positive thing is that the proposed staff strength is 37% of the existing sanctioned strength and 78% of the working strength. But there are following problems:

- Selection of posts is traditional and based on Administrative Sections viz Engineering, Street, Sweeping, Revenue & Accounts, and General etc. This does not adequately meet the needs of modern management and technological advancement.
- Position of Executive Engineer is proposed for Parishad at District HQ, whereas, this should be

Box 3.21		Municipality posts as per BMA, 2007	
(a) Municipal Corporation		(b) Municipal Council or Nagar Panchayat	
<ul style="list-style-type: none"> (i) Commissioner, LAS not below senior scale (ii) Controller of Finances and Accounts, a senior audit/accounts officer from AG or Bihar Finance Service. (iii) Internal Auditor, (iv) Chief Engineer, (v) Architect and Town Planner, (vi) Chief Health Officer (vii) Law Officer, (viii) Secretary, (ix) three Additional commissioners (> SDM of BAS) 		<ul style="list-style-type: none"> (i) Executive Officer, (ii) Finance Officer, (iii) Municipal Engineer, (iv) Health Officer, (v) Secretary, and (vi) such other officers as may be designated by State Government: State Government may reduce the number of posts or re-designate any of the posts. 	

Table 3.16: Interim recommendation of the 5th SFC for group A, B, C personnel

Sr. No.	Post	Nagar Nigam			Nagar Parishad		Nagar Panchayat	
		MoUD/SFC		UDD	MoUD/SFC	UDD	MoUD/SFC	UDD
		PMC	Except PMC					
1	Municipal Commissioner	1 (IAS)	1 (IAS/BAS)		...		...
2	Additional Commissioner	2	1	1	...	...	...
3	Engineer - in- Chief	1	1	1	...	...	...
4	Chief Engineer	1	...	...	...	...	...
5	Superintending Engineer	3	...	1	...	...	...
6	Chief Town Planner	1	...	...	...	...	...
7	Chief Finance Officer	1	...	1	...	...	...
8	Chief Social Development Officer	1	...	...	...	...	...
9	Chief Fire Officer	1	...	...	...	...	...
10	Dy. Commissioner	3	2	...	...	...	...
11	Assistant Commissioner	8	1	1	1 (EO)	1	1 (EO)	
12	Social Development officer	3	1	...	...	...	...
13	Executive Engineer	3/sec	2	1	1	1	...	
14	Assistant Engineer	16	1/lakh	...	1/lakh	...	...
15	Sanitary Officer	1/5 lakh	1	1	1	1	...	
16	Senior Town Planner	1	1	1/6000Pop	...	1/6000Pop	...	
17	Fire Officer	1	1	...	...	...	...
18	E-Governance Officer	1	1	1	1	1	...	
19	Revenue Officer	2	2	1	1	1	...	
20	Senior Account Officer	2	1	...	1	...	1	
21	Accounts Officer	1/2 Accountant	1/2 Accountant	...	1	...	...
22	Asst. Revenue Officer	1/2Rev Ins	1/2Rev Ins	1/2 wards	1	1	1	
23	Asst. SDO	1/2CO	1/2CO	...	1	...	...
24	Community Organizer	16	1/50K Pop	1/3 wards	2	1/10000pop	1	
25	Senior Assistant	1/3 Sec	1/3 Sec	1	1	...	...
26	Assistant	1/3 Sec	1/3 Sec	...	1/3 Sec	...	1	
27	Junior Assistant	1/20K pop	1/20K pop	16	1/20K pop	5	1/10K pop	
28	Sub Engineer	1/25K pop	1/25K pop	3	2	2	1	
29	Sanitary Supervisor	1/ lakh	1/ lakh	1/ward	1	1/4000 pop	1	
30	Sanitary Inspector	1/30K pop	1/30K pop	1/20 wards	1	1/15 wards	1	
31	Asst. Town Planner	1/2TPI	1/1 lakh Pop	2	1	1	1	
32	Town Planning Inspector (Building)	1/50K pop	1/50K pop	1/4000pop	2	1/4000pop	1	
33	Leading Fireman	1/50K pop	1/50K pop	...	1	...	1	
34	Fireman	2/50K pop	2/50K pop	...	2	...	2	
35	MIS Associate	1/10lakh	1	...	1	...	1	
36	GIS Associate	1/5lakh	...	3	...	2	...	
37	Rev Inspector	1/5 TA	1/4 TA	/4000 asses	1	1/4000 asses	1	
38	Tax Assistant	1/50K	1/4K HH	...	1/3K HH	...	1/2K HH	
39	Accountant	1/2lakh	1/1lakh	...	1/50K	...	2	
40	Amin	...	1/2lakh	...	1/2lakh	...	1/2Lakh	
41	Draftman	...	2	...	2	...	1	

(a) Note: Municipal Cadre in Bihar based on "Approach towards Establishing Municipal Cadres in India, MoUD (GoI) & World Bank"

(b) Abbreviations: (i) CO - Community Organizer, (ii) Pop. - Population, (iii) Sec - Section, (iv) TPI - Town Planning Inspector,

(v) TA - Tax Assistant, (vi) HH - Household, (vii) K - Thousands, (viii) 1/2CO indicates- 1 per 2 Community Organizer

(c) Functions/Posts for Outsourcing: (i) Fire Officer, (ii) Fire man, (iii) Community Organizer, (iv) DEOs,

(v) MIS Associate, (vi) GIS Associate, (vii) Rev Inspector, (viii) Draftman

uniform for all Parishads given the increased funding and functions. Similar is the case with the position of Supdt. Engineer for Div. HQ.

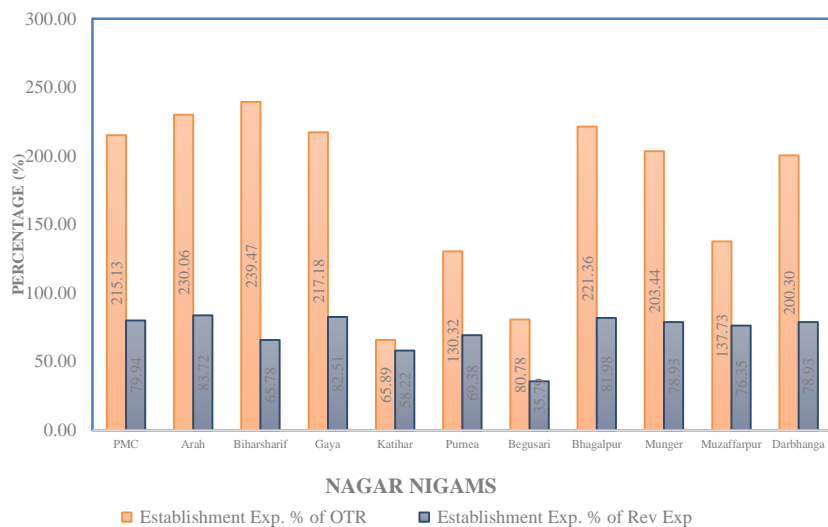
- Posts under e-Governance have not been included.
- Needs of Urban Transport have not been included
- Skilled posts under SWM, Water and Sanitation etc, which are the primary functions of the ULB, have not been included.
- No posts are proposed for Town Planning in Nagar Panchayats, which are bound to grow rapidly.
- No posts for Social Development have been included though Urban Poverty Alleviation, Slum Development etc are critical.

- There is no mention of Sanitation staffs in Group D, where-as, post of peon has been mentioned.

(iii) **This Commission largely recommends model manpower suggested by MoUD since (see Box 3.24 also)**

(a) Nigams like Patna, Arrah, Biharsharif, Gaya, Bhagalpur, Munger, Darbhanga etc. are presently spending more than 200% of their total revenue on establishment. Similarly, establishment expenditure is more than 50% of the total expenditure in almost all Nigams. (**Graph 3.3**). Position in PMC, Nagar Parishad and Nagar Panchayat is even worse. Such a situation is totally unsustainable and would continue to frustrate all efforts of the ULBs to provide even basic services to the people.

Graph 3.3: Establishment Exp as % of Total OTR and Total Expenditure (2010-15) of 11 Nagar Nigams



(b) MoUD model adequately meets the needs of professional manpower like Managers, Engineers, Accountants, Planners etc, which is a must given the imperatives of modern management and technological advancements.

(c) A lot of professional and other works could better be done through contracting/outsourcing as given in **Box 3.25**.

(iv) Overall cost of providing manpower in Group A, B, C is given in **Table 3.17**. It is based on 2011 Population. Detailed calculations are given at **Annex 3.12 A to C**.

(v) Group D unskilled posts have not been included for computing regular establishment cost, since these need to be outsourced and existing posts abolished as & when incumbents retire.

(vi) The recommendations are interim and the final recommendations would come as a

Table 3.17 Cost of model municipal manpower (Excluding Group D) (Rs. Cr.)

		1 Year	5 Year
Nagar Nigam	UDD	48.7	243.4
	MoUD	76.7	383.6
Nagar Parishad	UDD	89.92	449.60
	MoUD	62.91	314.57
Nagar Panchayat	UDD	66.45	332.27
	MoUD	62.69	313.47
Total	UDD	205.07	1025.27
	MoUD	202.3	1011.64

supplementary document on Model Municipal Cadre/Staffing given in Box 3.24 . These would include cadres, groups and services thereunder.

Box 3.24 5th SFC approach to the proposing Municipal Cadre for Bihar

- The proposed municipal staffing should be based on MoUD model and 2021 population projection.
- Establishment costs must not exceed 80% of own revenue. unlike the present spending of 150%. PMC is infact spending whopping 260%.
- Wherever feasible, outsourcing of services must be done for efficiency, responsiveness and economy.
- Adequate weightage is given to technical and professional manpower in consonance with modern management and technology, i.e. Urban Planning, Engineering, Finance, e-governance, Public Hygiene, etc.
- More skilled workers (Electrician, Plumber, Sewerline Jamadar, Drainage cleaner, Pipeline Mistri, Pump Operater, etc.) and less supervisors.
- Provision of PPP experts.
- Sr. E O (Group A) proposed for Nagar Parishad to lead the expanding urban agenda.
- Urban Professionals as City Managers to assist EO.
- Every Staff excluding group D staff must be proficient in computer application.
- If any ULBs raises more revenue, can employ more employee based on rational assessment with prior approval of State Government.
- Positions like Hakim, Vaidya, Yunani Chikitsak, etc. to be transferred to Health Department.

The above should also meet the needs of Smart/AMRUT/ Model cities and towns.

Box 3.25**Contracting/Outsourcing experts and services**

Experts empanelment / contract basis / consultants	Engagement of Agencies / individuals on Outsourcing at ULB level
<ul style="list-style-type: none"> ▪ Chartered accountants ▪ Financial analysts / Fiscal Management expert ▪ Public Finance expert / Economists ▪ Resource mobilization expert ▪ Green building / Initiatives expert / Construction ▪ Lake conservation expert ▪ Land use expert / Low cost housing expert ▪ Horticulture expert ▪ Disaster mgmt. expert ▪ Legal expert ▪ Transportation expert ▪ Heritage expert ▪ Energy expert ▪ Environment expert ▪ SWM / Liquid waste management expert ▪ Water Sewerage & Sanitation expert ▪ Strategy & policy expert ▪ Public Relations expert ▪ PPP expert ▪ Tourism advisor ▪ Livelihood expert ▪ Skill development / Employment generation expert ▪ Microfinance expert ▪ Gender expert ▪ Urban planning experts ▪ Architects ▪ Rehabilitation & Resettlement expert ▪ Poverty alleviation expert ▪ Project Management expert ▪ Public policy expert ▪ Climate change expert ▪ Migration mgmt. Expert ▪ HR, OD & Capacity Building expert ▪ Development Administration Expert ▪ Veterinary expert 	<ul style="list-style-type: none"> ▪ HR, Training & Capacity Building services ▪ IT ▪ GIS ▪ MIS ▪ Sanitation - garbage clearance / roads ▪ cleaning ▪ SWMP ▪ Housekeeping ▪ Security ▪ Courier services ▪ Front office [Citizen service center] services ▪ O&M service ▪ Computer maintenance service ▪ Vehicle maintenance service ▪ Cab/ taxi service ▪ Computer operator ▪ Drivers ▪ Security <p>PPP Mode agencies / units proposed</p> <ul style="list-style-type: none"> ▪ Municipal HR Management – to be headed by additional Commissioner – supported by HR professionals / agencies ▪ Urban e-governance unit – to be headed by Additional Commissioner – assisted by professionals/ agencies from IT, MIS, GIS and other technical talent pool ▪ Citizen Service Centers – to be assisted by professionals trained in computer operations and customer relations.

Source: Approach towards Establishing Municipal Cadres in India – MoUD, GoI, 2014.

3.3.3 Further, based on Divisional consultation meetings and consultation with various stakeholders, followings are suggested in regard to Municipal staffing:

- Given the requirements of modern management and emerging technologies, **Model Municipal Cadres as recommended by MoUD must be implemented to have requisite professional, technical etc. manpower. While doing so, it should be carefully determined as to which of the posts could be regular or contractual and which of the function should be outsourced.**
- Model staffing should provide basic minimum. Additional staff should be engaged by the ULBs as per their own revenue & carefully assessed needs, with prior approval of State Government.
- There should be comprehensive job description for each position, which should indicate required

job competencies and must have clearly defined and measurable performance indicators;

- Handbook for functionaries with job description should be made available and circulated.
- Capacity and productivity of staff at all levels be ensured through Performance Management System and intensive capacity building.
- Inservice training before promotion be made compulsory.
- Statewide database of employees be uploaded on website.
- Biometric attendance system be maintained at all ULB
- Local staff develop undesirable nexus. Local staff should therefore get transferred periodically as per govt. policy and invariably on promotion. New staff must be transferrable, say on completion of 3 years.

- Role and responsibilities of Executive Officer and City Manager should be well defined.
- Comprehensive training of EO and City Manager soon after appointment be a must.
- 4 staff (one Accountant, one JE and 2 Clerks) provided by UDD to the ULBs through an HR agency, are not up to the mark. Staff selection should, therefore, be done through SSC and or a nationally accredited specialist agency
- Pension & salary payment to the ULB employees from govt. budget amounts to perverse incentive. The ULBs must meet their entire establishment cost through own revenue.

3.3.4 Restructuring of Patna Municipal Corporation (PMC)

Consequent upon merger of PRDA and Patna Water Board with PMC, reputed Consultants (E&Y and ASCI) were engaged in 2010 for the restructuring of PMC. Important recommendations on staffing are given at *Annex. 3.13*. These recommendations are evidently irrational and irresponsible, since these recommend around 6% increase over the present sanctioned strength of 5,884, when the *Graph 3.4* shows that even with the existing depleted strength of 1883, PMC already spends more than double of its revenue on its establishment. Further, the share of establishment expenditure in total expenditure is around 80%. **If recommendations of E&Y/ASCI are accepted, establishment expenditure would go up to 570%** of own revenue.

It is totally unsustainable. Incidentally while E&Y/ASCI emphasizes outsourcing, it has suggested increase in already huge no. of posts.

3.4 Criticality of Capacity Building:

3.4.1 Though funds available with the ULBs are from various sources are grossly inadequate for their functions, they are unable to utilize even that. Some facts are given below:

(i) More than Rs 1,000 Cr. is lying unspent in P/L account of the ULBs as mentioned in letter No. 2740, dated: 28.05.2015 of UDD.

(ii) Unutilized funds for the last 4 years in 28 SPUR ULBs stand at Rs. 356 cr., Rs. 452 cr., Rs. 631 cr and Rs. 747 cr as on 31st March, 2012, 2013, 2014 & 2015 respectively. Evidently, unutilized funds are increasing each year.

(iii) BUDA has undisbursed funds of Rs. 954.6 cr as on 31st March, 2015. This situation is untenable.

(iv) Moreover, utilization of Central Scheme funds by the ULBs is highly unsatisfactory (*Table 3.18*). e.g. under JNNURM, the ULBs utilized only 14 % of the total allocation.

3.4.2 Such highly unsatisfactory performance is primarily due to (a) capacity constraints e.g. serious inadequacy of skilled man-power (*technical, accounting and other professional staff*), IT facility, equipments etc. (b) inability of the ULBs to prepare Master Plans/ CDPs/ DPRs and implement projects and (c) inability to contribute their financial share.

Graph 3.4: Establishment Exp as % of Total OTR and Total Expenditure (2010-15) for PMC

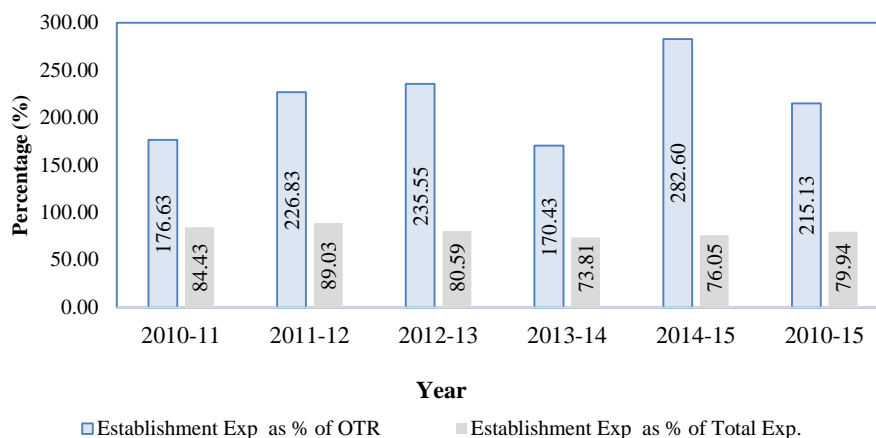


Table 3.18 Central Scheme Transfers (Rs Crore)

	2010-11		2011-12		2012-13		2013-14		2014-15	
	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.	Alloc.	Exp.
JNNURM	595.00	58.15	641.23	71.86	38.40	37.65	195.00	44.32	--	--
NULM/SJSRY	6.40	2.98	5.33	2.10	90.83	35.80	70.00	7.84	--	--
RAY	Scheme not Started						10.00	0.00	--	--
Other (EAP)	0.00	0.00	10.00	7.50	58.00	0.00	60.00	60.00	--	--
Total	651.40	101.13	736.56	81.46	297.23	103.69	445.00	202.15	--	--

Source: UDD, Bihar

It is an imperative both from the viewpoints of Subsidiarity & the Constitutional obligation and pragmatism that state government takes all measures urgently to build capacity of the ULBs to the fullest extent.

3.4.3 Capacity building becomes all the more important since the 14th FC has recommended release of Performance Grant to the ULBs subject to “(i) making available reliable data on local bodies’ receipt and expenditure through audited accounts; (ii) improvement in own revenues; and (iii) measuring and publishing service level benchmarks for basic services.”

First charge on the SFC transfers must, therefore, be for full capacity building of the ULBs.

3.4.4 Strengthening training:

3.4.4.1 Training imparted: As reported by UDD, training programmes of one week duration for officials of the ULBs including members of ESC were conducted in a phased manner. There were two exposure visits also. However, even basic information on training (**Table 3.19**) is not compiled. Training of newly appointed Executive Officers and City Managers appear to be sporadic and inadequate. Divisional level consultations with the ULBs clearly brought the strong need for training including exposure visits for all functionaries -elected or official.

Table 3.19 Training of the ULB functionaries

ULB	2011-12		2012-13		2013-14		Content
	Elected	Official	Elected	Official	Elected	Official	
Nigam							
Parishad	Information not received by UDD						
Panchayat							

3.4.4.2 School of Urban Planning and Architecture (SUPA):

Government evidently needs to create a robust institution for producing Urban Planning and Governance professionals in a large number since Bihar is bound to urbanize rapidly and there is an acute shortage of such professionals all over the country. Moreover, continuous training and capacity building of the elected and official functionaries is required. Ad-hoc arrangements for training and skill building has been ineffective and detrimental to inculcate professional culture in the Bihar ULBs. SUPA is thus urgently required having four fold objectives i.e. Academics, Research, Consultancy and Training.

Box 3.26 School of Urban Planning and Architecture (SUPA)

- DPR being prepared by the 5th SFC, proposes SUPA to perform functions of NIUA, IIHS, SPA etc. for synergy and economy.
- SUPA will follow standards of best International Institutions such as MIT School of Architecture and Planning, Berkley Institute of Urban and Regional Development, Georgia Tech School of City and Regional Planning.
- SUPA would impart knowledge and undertake research on Urban Governance, City Design and Development, Urban Finance, Environmental Policy and Planning, Land Economics, Real Estate and Housing, Transportation Systems, Building Technology, Architecture Design and other related sectors.
- SUPA would provide critical and objective analyses of trends and prospects for urban development, document and disseminate good practices and harness the resources of national, regional and global networks.

3.4.5 Support Programme for Urban Reforms (SPUR) Project

(I). Goal of the SPUR project : SPUR was started in August, 2010 with DFID support to run for 6 years, and covered 28 ULBs, which are expected to (i) become hubs for economic activities, (ii) directly improve quality of services received by 6.36 million urban citizens, of whom 2.83 million are poor. (iii) Benefit large numbers of people from nearby rural areas who depend on these cities. The project will promote state level institutions and improve financial and managerial capacities, as well as accountability of the ULBs.

(II) Five distinct key outputs were identified as under:

(A) Urban Governance & Planning – (i) Drafting policies, strategies & guidelines, (ii) Institutional re-positioning, (iii) Staffing of ULBs, (iv) Training & capacity building, (v) GIS mapping, (vi) IT interventions leading to e-Municipality, (vii) Grievance Redress; Citizen’s Charter, (viii) Creating & maintaining urban MIS.

(B) Municipal Finance - (i) Developing comprehensive Revenue Enhancement Plan (REP), (ii) Accounting Reforms & Migration to Double Entry Accounting, (iii) Revision of Manuals & Rules, (iv) Preparation of Minimum Accountability Achievement Plan; Comprehensive Fiduciary Risk Mitigation Plan; Outcome Budgeting Manual; Action Plan for Public Finance Management and (v) Internal audit.

(C) Municipal Infrastructure - (i) Prepare a bank of technically sound DPRs for seeking funding from various sources, (ii) Standard specifications for equipments; quality controls, design norms & standard drawings, (iii) Facilitate PPP in identified ULBs for SWM & infrastructure, (iv) Technical assistance to GoB to access funds from other sources – NGRBA, JNNURM, ADB, (v) Environmental profiling & service level benchmarking.

(D) Local Economic Development –(i) Preparation of Bihar Urban Economic Vision and Local Economic Development Framework; (ii) Urban Pro Poor Business/Micro Enterprise Development guidelines, (iii) Preparation of City Business Plans, (iv) Bihar Urban Street Vendor and

Livelihood Protection Act; Guidelines for Operationalizing the Bihar Vending Rules and Regulations, (v) Develop pilot vending zones in select ULBs; (vi) Market based skill training & Enterprise Development Centers and (vii) Designing PPP based projects for utilization of municipal lands for commercial/market development.

(E) Social Development, Poverty Alleviation & Livelihoods – (i) Facilitate development of State Slum Policy and related legislations, (ii) Capacity building of ULBs to address urban poverty; demonstrate Gender Mainstreaming, (iii) Community organizations and micro-planning for infrastructure, livelihoods and access to social welfare schemes (SVS and SHG), (iv) Technical assistance in planning and implementation of GoI supported schemes, (v) Effective linkages with Civil Society Forum and Ward Committees (proposed) and (vi) Create and maintain database on poor.

III. Achievements: Objective and design of the SPUR programme is no doubt praiseworthy. But, achievement as per Annual Review of SPUR (Sept, 2014) is not very encouraging. Moreover, the Review seems to be ‘evasive’ and doesnot objectively bring out its strength, achievements and shortcomings for replication or rectification. Actual implementation of the Work Plan of SPUR could be seen in *Annex- 3.14*. Divisional level meeting indicate that even 6 years of SPUR have not made significant improvements in the functioning or outcomes of the ULB including of PMC.

IV. Establishment of SPUR like Team:

• The ongoing SPUR programme is likely to end in March, 2016. This would provide an opportunity to have a new team with updated mandate with Young Professionals from reputed institutions under an experienced Team Leader. Such Young Professionals would have acquired recent technical knowledge and would stay full time at Patna. Any team after 6 years is prone to be gripped by complacency, staleness & diminishing return and at best would do 'Business-as-usual'. This Commission, therefore, recommends new SPUR like Support Team as follows.

- Principal Secretary/Secretary UDD will be ex-officio Team Director. The team would comprise of Team Leader and experts in Urban Governance, Urban Planning, Urban Architect, E-Gov., GIS, Municipal Finance, Urban Infrastructure, Procurement, PPP, Urban Transport, Social Development. Office support would be provided by Administrative Officer, Office Executive-cum-Computer Operator, Accountant and MTS.

a. Candidates for expert posts must have obtained relevant degree from reputed institutions.

b. They must have 3 years experience. It is relaxable in case suitable candidates with 3 years experience are not available.

c. Selection of candidates would be done by a nationally reputed HR Agency empanelled by GoI or UN Agencies. Committee chaired by Principal Secretary (UDD) with representatives from Panchayati Raj and Finance Departments and State Planning Board as Members would select the HR Agency.

d. Engagement would be on 3 years' contract, subject to their continued good performance and extendable as & when required.

e. Further details could be seen in **Annex 3.15**.

3.4.6 Accountability of the ULBs:

(a) Ward Committee and Ward Sabha:

Constitution of Ward Committees and their effective functioning needs to be incentivized. Further, there is a need to establish Area Sabhas and to create linkage between Area Sabhas and Ward Committees so as to ensure that accountability and participatory processes reach the last mile in a systemic manner. As reported by UDD, Ward Committee and Ward Sabha are yet to be made 'fully' functional. In a few ULBs, regular meetings are held with citizens.

(b) Resident Welfare Association (RWA), Delhi: RWA is a civic body that represents the interests of the residents of a specific urban or suburban locality in urban areas and could be experimented in Bihar ULBs.

(c) City Sanitation Task Force: It has to be constituted at ULB level, comprising 15 members (officials and nonofficial) with Chief Councilor as Chairman. But it has not yet been constituted.

(d) Social Audit: As reported by UDD, there is no system of social audit in the ULBs.

(e) Ombudsman: As reported by UDD, it has drafted "Ombudsman Rules" and shared with PRD for their opinion, which is awaited since more than a year. Given the difference in the nature of Municipalities and Panchayats, and huge number of PRIs, separate Ombudsman is recommended for the ULBs.

(f) Urban Regulator: Ch – X may be referred to.

3.5 Friction between elected and official functionaries:

Act have been amended in 2011 to clearly demarcate the power and functions of Chief Councilor and CMO.

Box 3.27	Issues in Friction between Elected and Official Functionaries
<p>(a) Mutual Respect (b) Selection and Award of Works. (c) Ambiguity in Role (d) Difference in perception</p>	

3.6 e-Municipality (Nagarseva):

3.6.1 Need for e-Municipality: e-Municipalities in the ULBs is absolutely necessary given (a) the ever-increasing and diverse responsibilities, (b) magnitude of transactions, record keeping & reporting and (c) limited manpower, which seriously affect their efficiency, transparency and accountability. The LBs also need to offer citizens services online and via mobile. **All important documents should be digitized.**

3.6.2 Features of e-Municipality:

All the ULBs will have their own website which will be sub-domain of a central web portal called as "Nagarseva.in". The application suite of e-municipality will be centrally implemented at the State Data Centre at Patna and will be accessed through the internet by the ULBs. The ULBs are being provided with computers, internet connectivity, human resources and training to run the services. The scheme also provides for manpower support for 5 years for handholding post- implementation. The system is so developed as to have integration with GIS base maps of the towns /cities as and when these get ready.

3.6.3 e-Municipality Modules: Table 3.20 indicates the modules under e-Municipality project.

advanced stage of finalization.

(e) The Data Centre hardware require for hosting the Solution is ready.

Table. 3.20 Modules under e-municipality project

Citizen service	Business services	Mgmt. services	Add-on services
<ul style="list-style-type: none"> ▪ Registration of Birth, Death and Marriage ▪ Water & Sewerage Connection ▪ Solid Waste Management ▪ Grievance Redressal ▪ RTI ▪ Web Portal ▪ Booking of Community Hall & Other Utilities ▪ Welfare Schemes 	<ul style="list-style-type: none"> ▪ Property Tax ▪ Professional Tax ▪ Vehicle Tax ▪ Issuance of Trade License ▪ Issuance of Health Licenses ▪ Hawker Licenses ▪ Advertisement ▪ Building Permission ▪ Land and Estate 	<ul style="list-style-type: none"> ▪ File Management ▪ Finance Management ▪ Budget Preparation ▪ Workflow and Document ▪ Human Resource Management ▪ Employee Self Service ▪ Payroll and Pension ▪ Audit ▪ Asset Management ▪ Fire & Emergency 	<ul style="list-style-type: none"> ▪ Engineering/ Project Management ▪ Material Management ▪ Contract Management ▪ Transportation/ Workshop ▪ e-Procurement ▪ Hospital Management ▪ School Management ▪ Lease & Sales

3.6.4 Status of e-Municipality:

(i) Software Development Agency (SDA) named **ABM Knowledge ware Ltd.** was assigned the contract in October 2013. Procurement of Hardware and Software for the State Data Centre, computers for the ULBs and other items like payment gateway etc are in progress. The Scheduled date of Completion of the Project is May, 2016.

(ii) Current status of project is as follows:

a) Requirement has been discussed with the ULBs for Citizen Facility Centre (CFC). The ULBs have to provide space with all the basic amenities.

b) Five modules viz. Web Portal with CMS, Birth & Death Registration, Advertisements & Hoardings, Workflow & Document Management System, General Administration (Audit, RTI, Stores Management, Q & A of Legislative Assembly, IT support, Legal Matters) need changes before being taken to User Acceptance Test.

c) Two modules viz Registration & Licensing and Rent, Lease & Sairat did not have completed Demo, but are ready for User Acceptance Test as per ABM Knowledge were Ltd. Complete review of the modules before Go-Live is essential.

(d) Two other modules viz Property Tax Return and Building Plan approval & Regulation are in the

(f) Requirements like SMS Gateway, Payment Gateway that require State Govt. approvals are in process.

3.6.5 Recommendations of the Review Committee:

- The Review Committee had suggested ;
 - (a) Immediate review of the project at Secretary level as SDA is not showing improvement in quality of work despite guidance during the last one year. SDA has an ad-hoc approach in this ambitious project and is more interested in deploying its own software “MAINNET”, though it does not meet the requirements of the contract, FRS and UDD.
 - (b) Cancel the contract and recover payments made against the inception report on which the approval was not given by the Core Committee.

3.6.6 Decisions of the meeting taken by Principal Secretary, UDD on 6.1.2016:

- i. The place and infrastructure for operations of System Administrator and DBA is being prepared at PMU- SPUR. UD&HD and for Helpdesk at Indira Bhawan.
- ii. DTPL is conducting training of manpower to be deployed at the ULBs by 15th Jan 2016. The IT Supervisors and DEO at PMC will be deployed on 11th Jan 2016.

- iii. All IT supervision will also report to IT Manager, UD & HD through emails so that he is made aware of all activities in the project.
- iv. Regarding CFC setup progress, the issues at Bhagalpur, Katihar and Darbhanga Municipal Corporation will be taken care by Secretary. DTL, SPUR will be coordinating and monitoring all actions required at PMC for Go – Live of e- Municipality.
- v. The formal UAT sign – off 5 priority modules to be put & processed for signing.
- vi. All files pertaining to e- Municipality should be put on priority and processed immediately.
- vii. Proposal for augmentation of trained and highly skilled IT manpower in all Municipalities is to be prepared by SPUR and ABM.
- viii. The attendance of developed manpower with their daily time sheet should be submitted by ABM every month duly signed and sealed by the Municipal Commissioner/ Executive Officer.
- ix. Make wide publicity about Right to Public Services (RTPS) through distribution of Pamphlets, series of advertisement, Billboards, etc.
- x. The ULBs should display the requirements of documents for each service (Birth & Death Certificate, Property Tax, Building Plan) etc.

including time frame for each service on the Board Placed at CFC.

- xi. Authorize “Vasudha Kendra” to provide citizen’s services through online portal of e- municipality.
- xii. The Progress of e-municipality project will be reviewed by the Principal Secretary every week on Tuesday at 3:30PM. All the stakeholders would attend the meeting.

3.6.7 At the Divisional level consultation meetings, with the ULBs it was recommended that (i) All e- Municipality modules must be implemented urgently, as it is the most important requirement for improving services, governance and financial management of the ULBs, and (ii) Nagar Seva (e- Municipality) should have access for customers as well.

3.6.8 Evidently, the e-Municipality project is seriously compromised and would need complete relook, particularly keeping in view the requirements of Smart/AMRUT Cities. (See Appendix 3.4).

3.7 Actions proposed in the paras above alone would fulfill the three key ULBs agenda of Empowerment, Enablement & Accountability as mentioned in para 3.1.6.

Chapter-IV

Socio-economic Scenario of Bihar and its implication for the SFC

This chapter is intended to assess (a) whether the continued GSDP growth of over 15% (**nominal**) is feasible, since projection of State Government revenue for distribution among the LBs and other fiscal parameters are based on this assumption, and (b) whether urbanization is engine of socio-economic growth for Bihar as well as and therefore the ULBs should get higher transfer from the 5th SFC. Moreover, Underdevelopment index (UDI) for districts and blocks has been computed for rational distribution of the 5th SFC and the 14th FC transfers among the Panchayats.

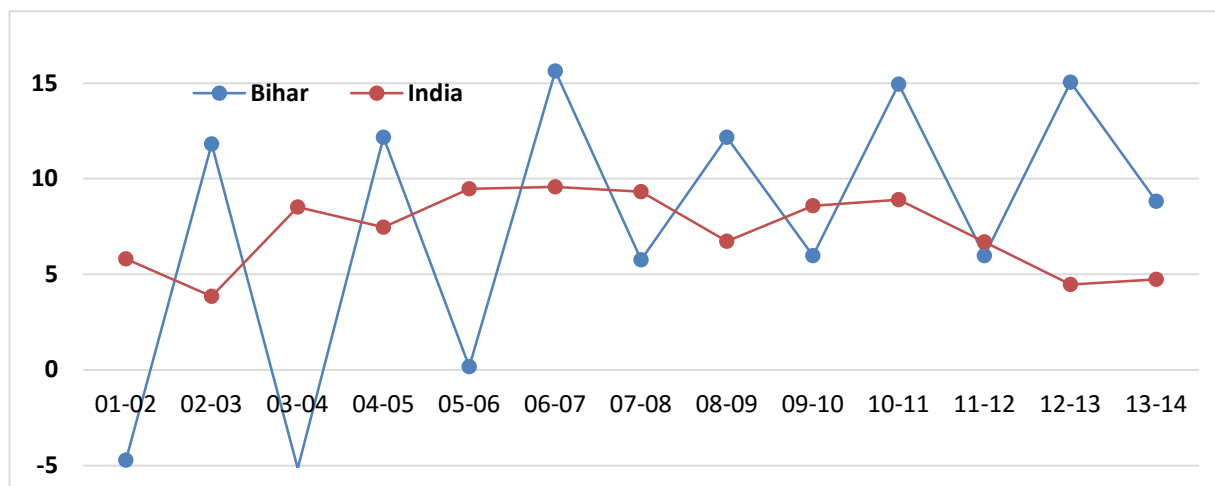
4.1 GSDP:

4.1.1 Growth rate of GSDP: - Although **real**

growth rate of GSDP of Bihar in recent years has been substantially higher (9.12%) than the national average (4.74%), GSDP per capita remains the lowest for Bihar at 37.37% of All India in 2013-14 (40% on NSDP basis) and comprises of subsistence agriculture, tiny manufacturing and largely informal services sector (*Annex-4.1 for details*).

4.1.2 *Graph 4.1* shows that GR is highly fluctuating though; it has smoothed since 2006-07 due to the declining share of erratic primary sector from 31.5% in 2004-05 to 19.8% in 2013-14 (*Graph-4.2*).

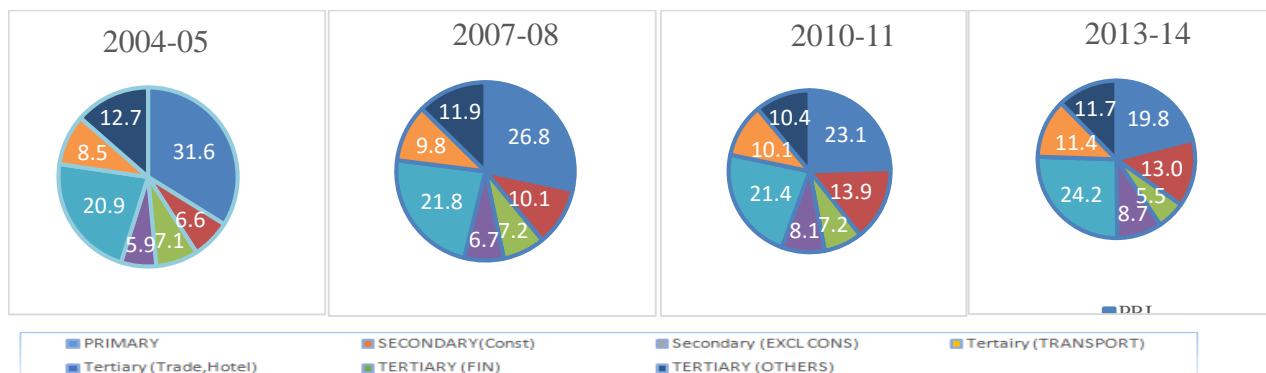
Graph 4.1: Growth Rate: Bihar vs. All India



Source:- CSO data table (as on 31.5.2014)

Note: - (i) GSDP are at 04-05 prices. (ii) Though data for 11-12 onwards are provisional, have been taken since authenticated by CSO.

Graph 4.2: Sub-sectoral share in GSDP of Bihar for different years

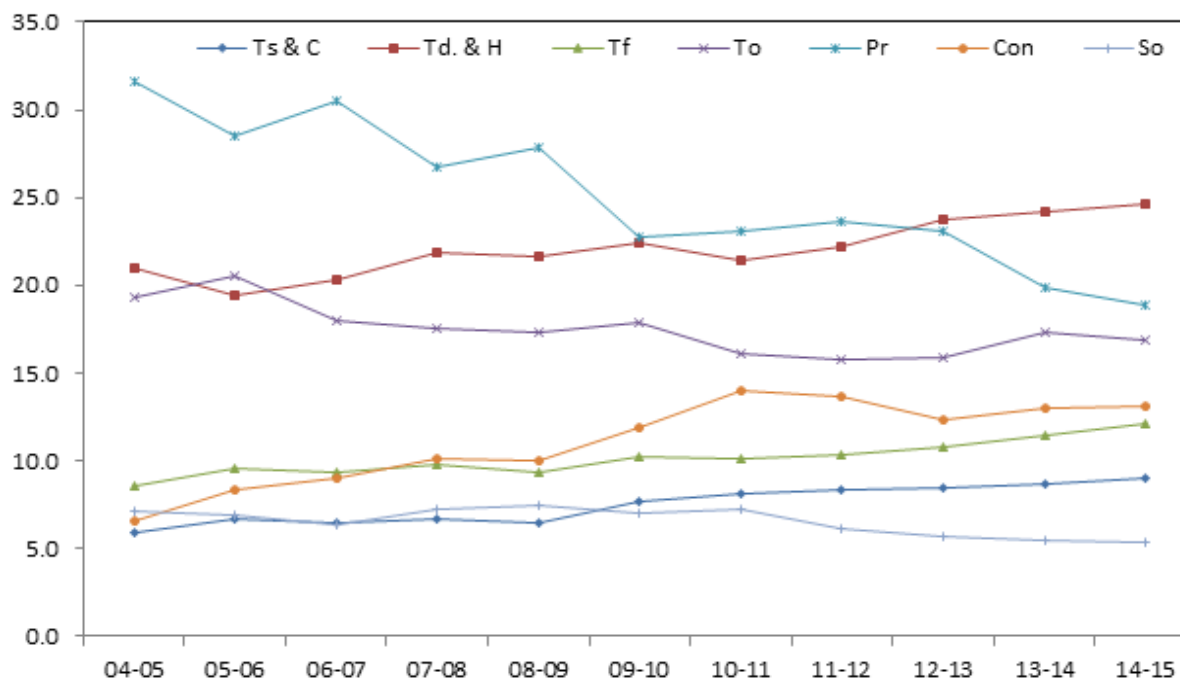


Source: CSO -2013-14

4.1.3 Composition of GSDP: Changes in the composition of GSDP of Bihar from 2004-05 to 2013-14 are shown in **Graph 4.3** (Details in **Annex- 4.2**). Sub-sectoral trends are analyzed below:

(ii) **Construction:** There was a boom in the construction sector (from 6.6% of GSDP in 2004-05 to 13% in 2013-14). However, contribution of institutional finance in financing construction activities has not been significant.

Graph 4.3: Trends in Sub-sectoral share (%)



Source: - DES Bihar

Note: - (i) Ts&c= Transport and communication, (ii) Td &H=trade &hotel, (iii) Tf = Tertiary Finance, (iv)To=Tertiary excluding trade & hotel, (v) Pr =Primary, (vi) Con= construction and (vii) So=Secondary excluding construction

A. Agriculture & Allied

(i) While percentage of people in rural areas, largely dependent on subsistence agriculture & allied activities, has stagnated around 90 percent ever since 1991, share of agriculture & allied sectors in GSDP has come down from 31.6% in 2004-05 to 19.8% in 2013-14, a major cause of the persisting poverty.

(ii) **Allied sector:** Both forestry and fishery are showing a stagnant share of 1%. Further mining & quarrying contributes only 0.1% in GSDP.

B Industry

(i) **Manufacturing:-** Share of manufacturing has declining from a low of 5.63% in 2004-05 to a lower 4.3% in 2013-14. Moreover, unregistered manufacturing is marginally higher at 2.8% than 1.5% of registered manufacturing in 2013-14.

(iii) The private sector in construction contributes 8.2% of GVA to GSDP which is almost double than that of public sector GVA (4.9%).

(iv) Given the huge backlog of infrastructure and the limitation of public resources, a major role of public-private partnership (PPP) is an imperative in infrastructure building. Private Sector on the other hand would have a major role in providing private housing.

C. Services

(i) Service sector remains the major driver of economic growth contributing 61.7% of GSDP in 2013-14 with a CAGR of 11% during 2004-05 to 2013-14 period.

(ii) Share of Banking & Insurance has doubled in ten years (from 3.3% to 6.1%) though over low

base. A very low CD ratio of only 36% in 2013-14 signifies that one key driver of the economy is not doing well.

(iii) Share of Trade & Hotel sector has risen from 20.9% in 2004-2005 to 24.2% in 2013 -14. Share of trade in GVA is 95% while Hotel& Restaurants contribute 5% only (**Table: 4.1**). Evidently, Public sector share in both the sub-sector is negligible.

(iv) Share of communication sector has increased from 1.4% in 2004 -05 to 4.4% in 2013 -14. But its growth rate has declined from 24.3% to 14.3% during this period.

(v) Share of Real Estate & Business Activities has increased marginally from 5.2% to 5.4%.

4.1.4. Overall, recent spurt in growth has not shown major structural changes (except sharp decline in agriculture) and all segment of GSDP have grown almost proportionately. This has significant poverty reduction and development

prospect. However, major investments made in recent past in socio-economic infrastructure etc. would now come into full play and drive the economy further. **Nominal Growth Rate of 15% and more is, thus, very much expected in coming years.**

4.2 Capital Formation and Factor productivity

4.2.1 Capital Formation and investment:-

- GCF comprises of (i) Fixed capital formation and (ii) Change in capital stock. Fixed capital formation determines the growth of economy and CIS only measures inventories.

- GR of GCF in Bihar is 21.6% during 2004-05 to 2011-12 i.e. almost double that of All India. But the lower private participation in comparison to All India (66% vs. 78%) indicates that Bihar is yet to attract comparable private investment. But, there is continuous increase in investment in Bihar as a percentage of All India. (**Table 4.2**).

Table: 4.1: Disaggregated Figures of GVA: Trade vs. Hotels

Year	Trade			Hotel & Restaurants			Trade & H & R		% of GVA		% Growth(CAGR)	
	Pub.	Pvt.	Total	Pub.	Pvt.	Total	% of Trade	% of H & R	Pub.	Pvt.	Pub.	Pvt.
04-05	136	15614	15750	2.7	771	774	95.3	4.68	0.84	99.16	-	-
13-14	298	40910	41209	2.5	1927	1930	95.5	4.47	0.70	99.30	9.00	11.27

Source: - DES Bihar

Table 4.2: Public Investment vs. Private investment (Rs. Crore)

YEAR	All India				Bihar				
	GCF	PUB	PVT.	PUB %	GCF	PUB	PVT.	PUB %	BIHAR % Of AI
04-05	1052231	240580	811651	22.9	16344	6728	9616	41.2	2.8
05-06	1223717	281995	941722	23	20362	8382	11981	41.2	2.97
06-07	1410754	324020	1086734	23	25918	9862	16056	38.1	3.04
07-08	1653438	382431	1271007	23.1	31164	15172	15992	48.7	3.97
08-09	1626220	429285	1196935	26.4	33683	14503	19180	43.1	3.38
09-10	1832050	449687	1382363	24.5	44482	15658	28824	35.2	3.48
10-11	2128284	467069	1661215	21.9	61181	21309	39872	34.8	4.56
11-12	2159417	471428	1687989	21.8	64098	21862	42236	34.1	4.64

Source:-DES, Bihar

Note:-Bihar GCF has been derived from its GFCF data using relation between GCF & GFCF of All India

4.2.2 Incremental Capital Output ratio

(ICOR):

ICOR is measured as the ratio of investment and GDP and reveals the existing technical conditions and structural configurations of the economy. The measure is used predominantly for determining production efficiency.

$$ICOR_{plan} = \sum_{t=1}^i GFCF_t / (Y_i - Y_0)$$

(i) GFCF is Gross Fixed Capital Formation i.e. Investment (ii) Y_0 is GSDP for the base year, (iii) Y_i is GDP for a particular year (iv) T_1 is first year GFCF and (v) T_i is GFCF for a particular year.

• Overall ICOR for Bihar is 4.27 [Table 4.3(i) & (ii)] which is about 24% lower than all India. It is a good sign.

Table 4.3 : (i) Sectoral ICOR (04-05 to 11-12)

Sectors	India	Bihar
1) Agri & Allied	5.32	4.29
2) Industry	6.48	5.22
3) Service	2.95	2.38
Total	5.3	4.27

Table 4.3: (ii) Methodology for calculating ICOR

Year	GSDP (Rs Cr)	GCF (Rs Cr.)	Calculation
04-05	7778100	-	ICOR = $\frac{\sum GCF}{GSDP_{04-05} - GSDP_{11-12}}$ 4.27
05-06	7646600	2036220	
06-07	8884000	2591806	
07-08	9377400	3116385	
08-09	10741200	3368276	
09-10	11315800	4448209	
10-11	13017100	6118114	
11-12	14356000	6409779	
Total	-	28088792	

Source- Planning commission

Notes: -ICOR is distributed sector wise as suggested by planning commission among the states for the 12th plan.

4.2.3. Investment Required: To support real GSDP growth target of over 10% in 2015-16 with current ICOR of 4.27, investment required 81,040 Crore i.e. 38.8% of GSDP. Shares of public and private investments in the total have

been computed on the basis of past trend i.e. 34:66. Higher growth rate would need higher level of investment as given in **Table-4.4**.

Table 4.4: Investment estimation for 2015-16 at various GR

Investment (Rs. Cr.)				
GR	Projected GSDP	Total	Public	Private
10%	208768	81040	30941	50099
12%	212564	97248	37129	60119
15%	218258	121560	46412	75148

Source- Planning commission

Note: -GSDP Projection has been done on the basis of 14-15 @ constant prices.

4.2.4 Total Factor Productivity (TFP): It measures efficiency of inputs in a production process. As per a World Bank Report (2012), Bihar GSDP grew at an average of 9.5% annually in 2004-09 during which capital stock grew by 22% but human capital grew by 0.26% only. Correlation between human capital and productivity in Bihar is the lowest among all the states. Average annual TFP growth in Bihar during 2004-05 was mere 28.6% (**Annex 4.3 A & B**).

4.2.5 Credit and Deposit pattern: (i) With the lowest density of banking facility i.e. approx 23,000 in Bihar vs. 12,000 persons per branch for All India, Bihar had the lowest share in both total credit & deposit i.e. 0.9% & 2.3% respectively though it has 8.1% of the population. Credit & Deposit ratio again was only 29.12% for Bihar as against 78.09% for All India in 2012. Per capita credit of Bihar was Rs. 4,156 as against Rs. 39,909 for All India [**Table 4.5(i)**]. **These indicate very low investment by the banking system in Bihar and it has caused a notional loss of Rs. 35,753 cr. in 2012 alone (Annex 4.4).**

(ii) But improvement can be seen in CD ratio in 2013-14. Evidentially, Urban areas have much larger per capita flow of both credits and Deposits [**Table 4.5(ii)**].

Table 4.5(i): Credit deposit ratio: Bihar vs. All India

Year	Bihar							All India.				
	Deposit			Credit			CDR	Deposit		Credit		
	Total (Cr)	% AI	PC (Rs.)	Total (Cr.)	% AI	PC (Rs.)		Total (Cr)	PC (Rs.)	Total (Cr)	PC (Rs.)	CDR
2009	86653	2.2	9119	23624	0.83	2486	27.2	3937337	33919	2857526	24617	72.5
2012	141308	2.3	14271	41151	0.9	4156	29.1	6174147	51106	4821527	39909	78

Source:-Quarterly statistics on deposits and credit of scheduled commercial banks. RBI 2014.

Table 4.5 (ii): Urban and Rural CD ratio

Area	Pop(Cr.)	Deposits	Per capita deposit(Rs)	Credit (Cr.)	Per capita credit(Rs.)
		(Cr.)			
Urban	1.2	135764	113137	45665	38054
Rural	9.2	47694	5184	21023	2285
total	10.4	183458	17640	66688	6412

Source: State Level Bankers' Committee.

Note: - Due to non-availability of semi urban population, its Credit& deposit have been logically combined with urban area for per capita credit & deposit calculation

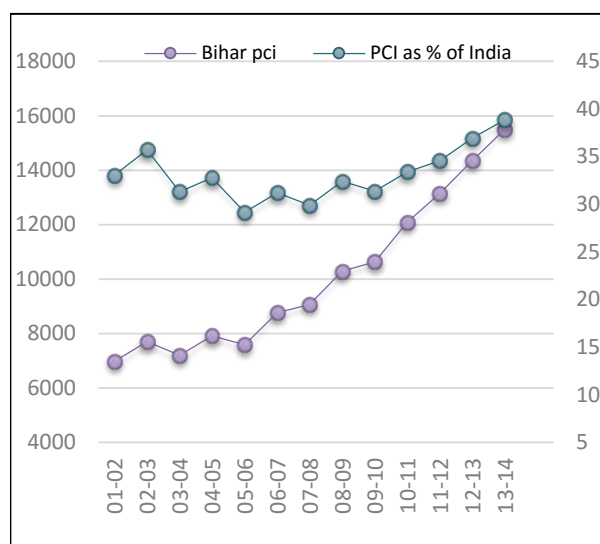
4.3 Income

4.3.1 Per Capita Income (PCI): PCI, which is the single best indicator of development, in the case of Bihar has been declining since long i.e. from 69% of All India in 1960-63 to 32% in 2005-06. But significant improvement can be seen during the 11th plan primarily due to good governance by State Govt. But, it is still very low

at 40% of All India in 2013-14 (on NSDP basis) [Graph 4.4(I) & (ii)]. Moreover, Graph 4.5 shows big differential between rural-urban PCI both for Bihar and India.

4.3.2 Even with the unprecedented GR of Bihar years required for catching up with All India in PCI can be seen in (Table 4.6).If TFR is also factored in, it would take many more years.

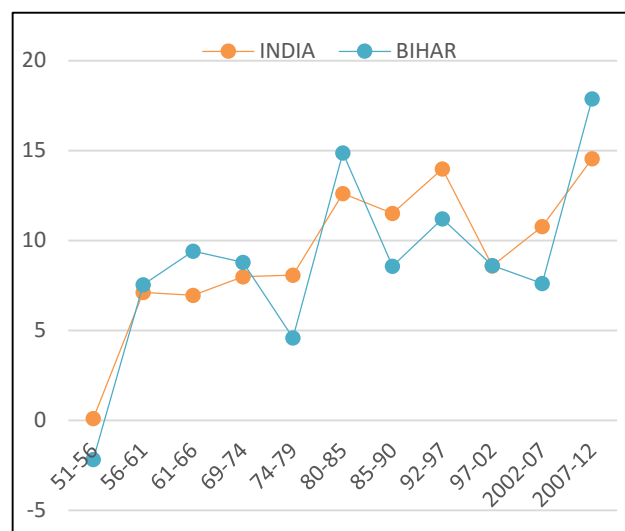
Graph 4.4(i): Bihar PCI as % of India



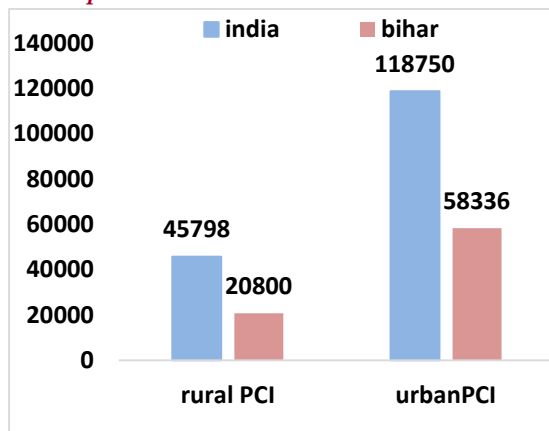
Source: CSO data book

Note-PCI is calculated on the basis of NSDP at constant price due to non-availability of comparable GSDP data, though NSDP favors richer states on account of depreciation applicable on industries.

Graph 4.4(ii): G.R. of PCI during the Plans (Bihar vs. India)



Graph 4.5: PCI –Urban vs. Rural 2011-12



Source: Urban – Rural Income Differential in Major States: Contribution of Structural Factors W.P. No. 2014-02-07 February 2014 IIMA

Table 4.6: Years for catching up on PCI

Nominal GR %		Time required for catching up with All India PCI	
Bihar	India	Without TFR	With TFR
15	10	23	28
17	10	16	19
20	10	12	12.5

Formula:

$$\text{State PCI} \left(1 + \frac{\text{GRs}}{100}\right)^y = \text{All India PCI} \left(1 + \frac{\text{GRAI}}{100}\right)^y$$

4.3.3 Convergence of PCI & need of Investment: If PCI is to converge in 10 years, real Growth Rate of Bihar (without factoring in

TFR) should increase from 12.11% in the 11th Plan (a very high base already) to 20%. It translates into additional central assistance of Rs 1,38,896 Cr. and private investment of Rs. 9, 94,178 cr. in five year plan (at 11-12 prices) as shown in **Table 4.7**.

4.3.4 Since this magnitude of private investment at the present stage (viz. urbanization, infrastructure) is improbable, most of the additional resource has to come from public investment or institutional finance. Unfortunately, resource projection for the State 12th Plan by Bihar at Rs 2, 72,47 Cr. was reduced by Planning Commission to Rs.2,28,451 Cr. instead of finding additional resources. Moreover, Per Capita Plan Expenditure (PCPE) projection by the 12th National Plan for Bihar was Rs 20,033 against All India average of Rs 31,328.

4.4 Poverty:-

4.4.1 Poverty Ratio: The latest planning commission data (2011-12) based on Tendulkar approach (2011-12) show major improvement in poverty ratio (**Table 4.8**). The rate of decline in poverty was 7.2% p.a. between 2004-05 to 2011-12 for All India while it was 6.6% for Bihar. This requires detailed analysis for policy & programme prescriptions.

Table 4.7: Investment required for different growth rate

GR (%)	Total (Pub.+Pvt.)	Public Investment				Private Investment		
		Total (Pub.)	State plan	Available	Additional Central Transfer	Total (Pvt.)	Banks, if CDR is 100	Others
1	2	3	4	5	6 (4-5)	7	8	9 (7-8)
13	10,35,933	3,77,468	2,72,478	2,72,478	0	6,58,465	1,00,000	5,58,465
20	15,64,158	5,69,980	4,11,374	2,72,478	1,38,896	9,94,178	1,00,000	8,94,178

Note: (a.) Col. 2, 3, 4 and 7 are based on assumptions of the 12th Plan of Bihar for 13% growth (b) Public Investment@36.44% [state plan investment @ 26.30% & others @ 10%] and Private Investment @ 63.56 of total. The Working Group set up by the Planning Commission for the 12th Plan on State Resources has also given similar composition.

Table 4.8: Rural & urban poverty ratio (Tendulkar): Bihar vs. All India

States	2004-05(%)			2009-10(%)			2011-12 (%)			Change (04-05 to11-12)			
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	CAGR
Bihar	55.7	43.7	54.4	55.3	39.4	53.5	34.1	31.2	33.7	21.6	12.5	20.7	-6.6
India	41.8	25.7	37.2	33.8	20.9	29.8	25.7	13.7	21.9	16.1	12	15.3	-7.3

Source: - Planning commission.

4.4.2 Rural vs. Urban Poverty: Reduction in rural poverty has been faster than urban poverty, in both Bihar and All India between 04-05 and 11-12. But reduction has been significantly higher for Bihar because of 24% hike in poverty line for rural. Interestingly, while rural poverty in 2009-10 (a drought year) remained at the same level (55.3%) as for 2004-05, urban poverty declined from 43.7% to 39.4%. **It means that urban areas can bear drought better than rural areas. (Table 4.8).**

4.4.3 Factors behind decline in poverty: The remarkable decline of 19.7% in poverty between 2009-10 and 2011-12 appears to be a result of high growth of 76.7% in production of major food crops in the State [Table 4.9(i) & 4.9(ii)]. MNREGA might have also contributed.

4.4.4 Poverty estimation- The principle and methodology of poverty estimation has always been a debatable issue. Detailed comparison of the two approaches (Tendulkar, Rangarajan and Lakadwala as well) is given at Annex-4.5(i).

4.4.5 The Rangarajan estimates of decline in poverty in Bihar is marginally higher i.e. 22.6% (from 63.9% in 09-10 to 41.3% in 11-12) as

Table 4.9 (i): Production of major food crops in Bihar and poverty Ratio

Items	Production (000'MT)				
	04-05	09-10	% GR	11-12	% GR
Rice	2625	3640	39	8238	126
Wheat	3280	4404	34	6517	48
Maize	1490	1544	4	2557	66
Pulses	47	460	-2	522	13
Oilseeds	116	141	21	174	24
Total	7983	10189	28	18008	77

Source:-DES, Bihar.

Table 4.9(ii): Food production & poverty level

	2009-10	2010-11
Increase in food production	5.60%	38.50%
decline in poverty level	10.68%	16.87%

Source:-DES, Bihar.

compared to Tendulkar estimates of 20.8 decline during the same period (from 53.5% to 33.7%).

But both confirm a high decline in poverty in 2009-10. Though 2009-10 being a drought year for Bihar is inappropriate for comparison; it has been taken since Rangarajan estimates for 2004-05 are not available. **Table 4.10.** The comparative poverty figures of Low income states (LISs) and India under these formulations are given in **Table 4.11**

Table 4.10: Decline in poverty ratio: All India vs. Bihar

	Tendulkar Estimates (in lakh & %)						Rangarajan Estimates (in lakh & %)					
	Bihar			India			Bihar			India		
	R	U	T	R	U	T	R	U	T	R	U	T
04-05	445.1	40.9	485.6	3266.6	807.6	4076.1	NA	NA	NA	47.7	42.5	46.2
%	55.7	43.7	54.5	41.8	25.7	37.2						
09-10	498.7	44.8	543.5	2782.1	764.7	3546.8	586.4	62.6	648.9	3259.3	1286.9	456.2
%	55.3	39.4	53.5	33.8	20.9	29.8	65.1	55	63.9	39.6	35.1	38.2
11-12	320.4	37.8	358.2	2166.6	531.2	2697.8	376.8	61.4	438.1	2605.2	1024.7	3629.9
%	34.1	31.2	33.7	25.7	13.7	21.9	40.1	50.8	41.3	30.9	26.4	29.5
Decline	124.7	3.1	27.4	1100	276.4	1378.3	209.6	1.2	210.8	654.1	262.2	916.3
%	21.6	12.5	20.8	16.1	12	15.3	25	4.2	22.6	8.7	8.7	8.7

Source: Planning Commission Report 2012 (based on Rangarajan Expert Group)

Note (i) - Rangarajan estimates for Bihar are not available for 04-05(ii)09-10 was a drought year for Bihar and therefore not appropriate base for comparison

Table 4.11: Poverty ratios in LISs

State	Bihar	Chhattisgarh	Jharkhand	MP	Orissa	Rajas	UP	All India
04-05	54.4	49.4	45.3	48.6	57.2	34.4	40.9	37.2
09-10	53.4	48.7	39.1	36.7	37	24.8	37.7	29.8
11-12	33.7	33.9	36.96	31.6	32.5	14.7	29.4	21.9

Source: - Planning commission.

4.4.6 The Rangrajan estimates of poverty for both Bihar and India is higher as compared to the Tendulkar estimates in 11-12 i.e. 41.3 vs. 33.7 and 29.5 vs. 21.9 respectively due to the higher poverty lines. The reasons for higher Poverty line by Rangarajan committee apparently are:-

- (i) 67% increase in the rural poverty line and 28% increase in the urban poverty line because of the shift from MRP to MMRP.
- (ii) Inclusion of additional expenses on fat and protein besides calorific value of expenditure.
- (iii) Inclusion of normative level of expenses on rent and conveyance, which were not included previously.

4.4.7 Bihar Task force on poverty estimation:

The Task Force set up by State Govt. in its report in May, 2015 has recommended MPI index for estimating poverty. MPI is the weighted average of basic indicators (**Table-4.12**). A person is considered poor if deprived in at least 1/3 of the weighted indicators. Intensity is denoted by the proportion of indicators in which one is deprived. The Task Force has not estimated either the poverty line or the percentage of people below BPL. A summary of its recommendation are given at **Annex-4.5(ii)**.

Table 4.12: MPI indicators

Health	Education	Income
1) Child Mortality	1) Years of Schooling	1) Fuel
		2) Floor & Sanitation
2) Nutrition	2) School attendance	3) Electricity
		4) Drinking water
		5) Asset ownership

Source- Task force report on Poverty elimination

4.4.8 Depth of poverty: - The much lower PCI of Bihar i.e. 40% of All India based on NSDP (around 37.4% based on GSDP) in 13-14, and the

high income disparities among the districts & social groups reflect the depth of poverty in Bihar. Patna district had the highest PCI of Rs.63,063, while, Sheohar had the lowest PCI of Rs.7,092 in 11-12. Much higher efforts are, therefore, required for reduction in poverty in Bihar particularly in the poorer districts and among the poorer social groups.

4.4.9 Land holding & size: - Fragmented land holdings (**Annex4.6**) are perhaps the most important determinant of poverty in Bihar. 90% of the land holdings are below 1 hectare, while 72% land holdings are below 0.5 hectares. It shows that agrarian economy is overwhelmingly subsistence.

4.5 Consumption pattern and Price Index

4.5.1 Monthly Per Capita Consumption Expenditure (MPCE):

MPCE in rural Bihar has increased by 24% (from Rs.780 to Rs.971) against All India increase of 22% (from 1053 to 1287) during 09-10 to 11-12. MPCE of rural Bihar is thus almost 75% of rural India in 11-12 and 60% of this expenditure incurred on food & beverage items. This shows another dimension of poverty. Conversely, urban MPCE is much higher for both Bihar and India and % of urban MPCE on food is much lower (**Table: 4.13 & 4.14**).

4.5.2 Price Index: Higher price index in rural India (CPI-AL) is due mainly to unrevised base year of 1986-87 for CPL -AL as against base year of 2001 for computing urban CPI-IW. The other reason perhaps is that higher expenditure on food has resulted in higher price index (CPI-AL) in rural areas. It may be noted that CPI – Combined gives 50% weightage to food & beverages items. More expenditure on these items causes increase in demand over supply.

Table 4.13: PCI and MPCE on food: Bihar vs. India.

Year	Bihar					India				
	PCI	MPCE		% on Food		PCI	MPCE		% on Food	
		Rural	Urban	Rural	Urban		Rural	Urban	Rural	Urban
09-10	18262	780	1238	64.7	52.94	55366	1053	1984	56.9	44.3
11-12	26533	971	1397	59.3	50.2	74667	1287	2477	52.9	42.6
% Change	45.3	24.3	12.8	5.4	2.74	34.9	22.2	24.8	4	1.7

Source:-NSSO survey 2011-12

Table 4.14: MPCE and poverty line (2011-12)
Rs.

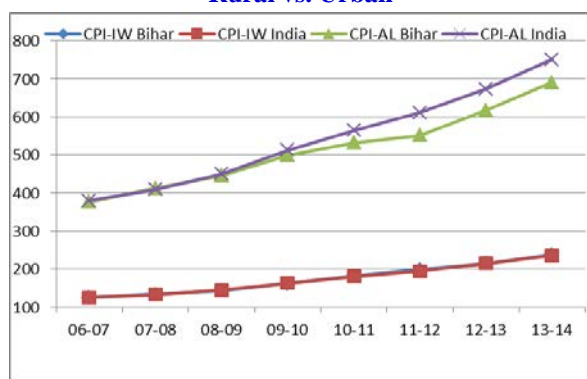
Recall period & poverty line	Bihar	MPCE	India	MPCE
	R	U	R	U
a)MRP	970	1396	1281	2477
Poverty line	778	923	816	1000
b) MMRP	1127	1506	1430	2630
Poverty line	971	1229	972	1407
% Difference	25	33	19	41

Source: Planning commission report

This raises prices and causes inflation.

Graph-4.6 shows that till 2008-09 All India and Bihar CPI-AL overlapped but since 2009-10 India overtook Bihar. The increase in urban price index (CPI-IW) of Bihar is comparable to All India till 2013-14. This shows positive aspect of

Graph4.6: Price index-Bihar vs. India and Rural vs. Urban



Source: Economic Survey of Bihar 2013-14

urbanization.

4.6 Employment

4.6.1 Employment:- Employment scenario of Bihar is unsatisfactory compared to the most states as shown in **Annex-4.7**. It shows that:

(a) Bihar economy is characterized by large no. of casual labor and self-employed.

(b) Bihar has the highest proportion of chronically unemployed, next to Kerala.

(c) Situation in employment has improved since 2004-05, but the relative position remains the same. Decrease (from 101 to 42) can be seen in the seasonal aspect of unemployment.

(d) Bihar has the highest proportion of under-employment (126) after Odisha (139) and Kerala (129).

(e) No. of visible underemployed is 149 vs.117 of All India, indicating casualty of work, while, invisible underemployment is highest after W.B. (115), indicating lack of quality work in Bihar.

4.6.2 Rural vs. Urban Employment: Bihar rural employment (275 vs. 399) is higher than urban employment as is the case of All India (253 vs. 355) **Table 4.15**. Migration of poor to the city, particularly during rural distress, could be a reason for higher urban unemployment (**Annex-4.8**). However, Urban people are less under-employed (103) than rural (137) indicating that quality of work is better in Urban areas (**Annex-4.9**).

4.6.3 Wages:- Bihar has the highest wage/day (Rs.412) for regular urban employment after Haryana (Rs.777) and Maharashtra (Rs.486). For regular work, both rural & urban have similar wages while casual laborers get higher wage in urban areas apparently due to higher productivity advantage (**Graph 4.7**). Urbanization evidently provides better income.

4.7 Migration: Migration from Bihar has increased substantially from 39 to 68 per thousand, during 2001 to 2011 (**Annex-4.10**). **This trend cannot be analyzed in since Census 2011 data are not available.**

Table 4.15: Rural vs. Urban Employment (2011-12)

	Rural				Urban			
	Bihar		AI		Bihar		AI	
	M/F	T	M/F	T	M/F	T	M/F	T
Employed	473	543	53	248	421	546	45	147
Unemployed	27	17	82	17	45	30	165	52
Underemployed	68	67	236	161	50	36	165	76

Source: NSSO 2011-12

Graph 4.7: Productivity advantage: Rural vs. Urban

Urban jobs will enjoy a sustained productivity advantage

Urban vs. rural productivity, GDP per worker
Thousand rupees, real 2008



SOURCE: India Urbanization Econometric Model

4.8 HDI

4.8.1 HDI data: - HDI of Bihar was 0.367 against 0.467 for All India in 07-08. Both have improved their HDIs in 13-14 (**Table 4.16**). MMR of Bihar & All India has also improved from (261) and (212) in 07-08 to (208) and (167) respectively in 13-14. Sex ratio of Bihar i.e. (916) against (940) for All India is particularly unsatisfactory (**Annex-4.11**). While both education and health indices of Bihar are at par with All India, there are serious quality concerns. Reluctance of both the people and the Service Providers (teachers, health workers, extension workers, etc.) to stay and serve in rural areas is an intractable problem. **Urbanization, which attracts both the people and the service providers, seem to be both medium & the long term solution.**

Table 4.16: HDI index: Bihar vs. India

	Bihar		India	
	07-08	13-14	07-08	13-14
EI	0.409	0.645	0.568	0.764
HI	0.563	0.727	0.563	0.724
II	0.127	0.677	0.271	0.831
HDI	0.367	0.683	0.387	0.773

Source: (i) 07-08:-Planning Commission, (ii) 13-14 :-5th SFC

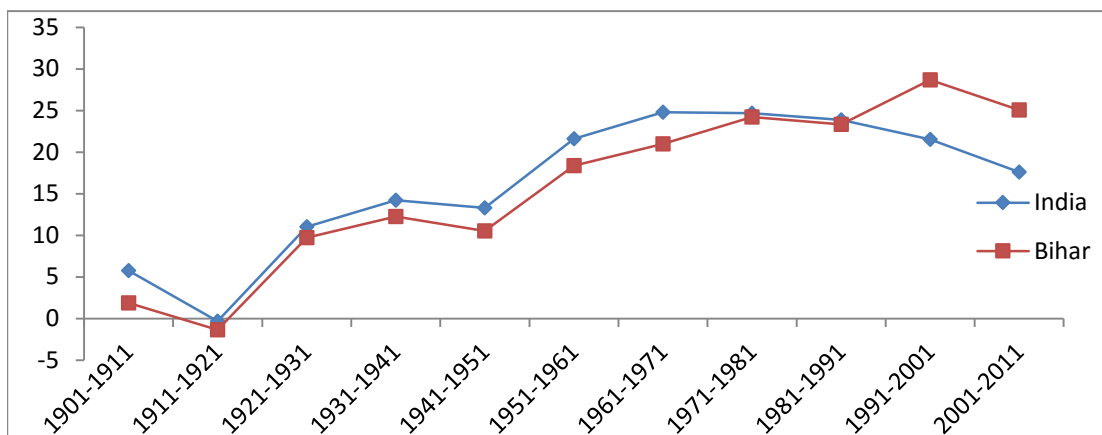
4.9 Population load

4.9.1 Population density (2011): Bihar has the highest population density (1102 per sq. km), being compounded by the highest TFR (3.7). All India averages are 368 & 2.5 respectively. This combined with very low urbanization (around 10% since 1991) results in (i) ever-increasing population load on already subsistence agriculture, and (ii) fragmentation and decreasing size of land holdings, making farming evermore un-remunerative and the poverty problem intractable. Furthermore, low skills and dearth of skill building institutions, do not assure ‘demographic dividend’ for Bihar.

4.9.2 Urban population:-Decadal growth of Population (Graph 4.8):

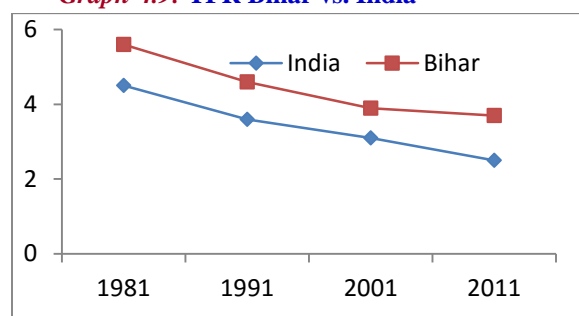
The transition from lower to higher decadal population growth of Bihar compared to All India occurred in 1991-2001, when it increased for Bihar & declined for All India. Till 1971, population growth of Bihar was lower than All India. During 1971-1981 and 1981-1991, population growth rate of Bihar equaled All India. During 2001-11 declines in population growth was higher for All India than Bihar and thus the population load of Bihar continues to be a major concern.

Graph 4.8: Population growth of Bihar vs. All INDIA



4.9.3 The transition from 1991 to 2001 in Bihar may be attributed to (a) Stagnant TFR for Bihar, whereas, TFR for All India declined by 0.5 (*Graph 4.9*), (b) Lower female literacy, (c) Lower female work participation rate, and (d) Relative increase in sex ratio (*Table 4.17*).

Graph-4.9: TFR Bihar vs. India



Source: Census of India 2011

4.9.4 Dependency ratio: High dependency ratio of Bihar (i.e. 900 of which 769 are young dependents and 131 old dependents) compared to All India (652,510 and 142 respectively) as shown in Table 4.18, coupled with the lowest (56.7% vs. 63.5%) working-age population is also hindering development of Bihar. Incidentally, decline in dependency ratio during 2001-2011 is higher for All India (100) than Bihar (50) (*Table 4.18*).

4.10 Infrastructure Index:

4.10.1 Planning Commission: - Rank of Bihar in infrastructure, as estimated by Planning Commission, was 20th in 2008-09. Per Capita Consumption of Power, for example, in Bihar was 1/7th of All India in 2008-09 (*Annexure 4.18*).

Table 4.17: Key Female indicators (Bihar vs. India)

Year	Total fertility Rate		Sex ratio		% Change in Population		Literacy rate (F)		Workforce participation rate (F)	
	Bihar	India	Bihar	India	Bihar	India	Bihar	India	Bihar	India
1981	5.7	4.5	948	934	25.7	24.5	16.5	29.7	13.87	19.67
1991	4.4	3.6	907	927	18.5	23.8	22	39.29	11.8	22.27
2001	4.3	3.1	921	933	29.6	21.9	33.6	53.67	18.8	25.63
2011	3.7	2.5	916	940	25.1	18.3	53.6	65.46	19.1	39.7

Table 4.18: Dependency ratio and working population: Bihar vs. India.

Year	Population				Dependency ratio		
	Total (lakh)	Working/100		Dependency ratio			
	2001	2011	2001	2011	2001	2011	old
Bihar	830	1041	543	567	950	900	132
AI	10288	12106	616	635	752	652	142

Source- Census 2011

Infrastructure no doubt is the key to economic growth, cost & quality of governance and private investment. Moreover, there is strong correlation between Infrastructure, PCI and Poverty (**Table 4.19**).

Table 4.19: Correlation between Infrastructure, PCI & Poverty

Correlation Between	99-2000	07-08	08-09
Infra Index and PCI	0.7895	0.8623	0.8506
Infra Index and Poverty Ratio	0.6386	0.8727	0.8208
PCI and Poverty Ratio	0.8193	0.739	0.7481

4.10.2 5th SFC: Composite Infrastructure Index (CII), has been calculated by the 5th SFC for 14 major states using the Principal Component Analysis (PCA) technique. This infrastructure index is based on parameters related to agriculture, communication, banking, electricity and transportation (**Table: 4.20**). The rank of Bihar is at the bottom (**Table:4.21**)

Table 4.20: Variables used for formulating infrastructure index

Variable	Source
Agriculture:- Gross irrigated area/gross cultivated area	Directorate of Economics and Statistics, Ministry of Agriculture
Communication:-i) Tele density/100 population ii)total internet subscribers per 100 population	Department of Telecommunications-The Indian Telecom Services performance Indicators July-September,2014
Banking:- Rural bank branches/1000 population	Reserve Bank of India
Electricity:- Per capital consumption of Electricity	On the working of state power Utilities & electricity department, Annual report 2013-14
Transportation Index:- Rail route length per 1000 population – length of national highways and state highways/1000 population	Ministry of road, transport and highways, Annual Report, 2012-13, pp. 76-78

Table 4.21: Composite infrastructure index based on PCA and ranking of states

Type of state	S.N.	States	Agri Index	Commun. Index	Banking Index	Electricity Index	Transport Index	\sum all indicators for a state	Infra index	Rank
High income states	1	Gujarat	1.0521	2.0755	0.2255	1.9157	3.3779	8.6466	0.674	2
	2	Haryana	2.2137	1.5648	0.3008	1.8719	2.0441	7.9952	0.623	5
	3	Maharashtra	0.2891	1.6764	0.1274	1.3406	2.7989	6.2325	0.486	7
	4	Punjab	2.5761	2.8628	0.5027	2.0861	1.557	9.5847	0.747	1
Middle income states	5	AP	1.1437	1.5253	0.2157	1.2817	2.0547	6.2212	0.485	8
	6	Karnataka	0.6493	2.1323	0.3181	1.1865	3.869	8.1552	0.635	4
	7	Kerala	0.2135	2.4376	0	0.5763	1.8106	5.038	0.392	10
	8	TN	1.4226	2.8918	0.2476	1.4321	2.399	8.3931	0.654	3
	9	WB	1.405	0.5315	0.1351	0.5388	0.9352	3.5455	0.276	13
Low income states	10	Bihar	1.5504	0	0.0501	0	1.079	2.6795	0.209	14
	11	MP	0.6679	0.4516	0.1012	0.6741	2.4031	4.2979	0.335	11

4.11 Industrialization (Manufacturing)

4.11.1 Annexure-4.13 shows the status of manufacturing in Bihar vs. All India by various indicators as per the Annual Survey of Industries.

• **Table 4.22** shows that the industries in Bihar

are normally of small size compared to all-India in terms of per factory fixed capital, net value added, and number of employees. This structural feature of industries in Bihar is also validated by net value added per employee.

Table 4.22: Productivity of workers (2012-13)

Characteristics	Bihar	India	% share of Bihar in AI
Workers per factory (Number)	30	45	66
Fixed capital per factory (lakh)	193	982	20
Net value added per factory(Lakh)	38.97	383.55	10
Employee per factory (Number)	35	58	60
Net value added per employee (Number)	1	7	17

Source: ASI 2012-13

- The share of Bihar in fixed capital remained almost the same i.e. 0.29 and 0.30 over 08-09 to 12-13, but there is a decline in working capital by 0.06%. During the same period, number of factories and person engaged has increased by 0.37 and 0.25 % points respectively (**Table 4.23**).

Table 4.23: Number of factories, working capital and persons employed

Characteristics	2008-09			2012-13		
	Bihar	All India	% share of Bihar in AI	Bihar	All India	% share of Bihar in AI
Number of Factories	1775	155321	1.14	3345	222120	1.51
fixed capital (Cr)	3033	1055966	0.29	6467	2180260	0.30
Working capital(Cr)	1471	311233	0.47	2483	603411	0.41
Persons Engaged(Number)	73659	11327485	0.65	116396	12950025	0.90
Net value added(Cr)	3184	527766	0.6	1302	851949	0.15

Source: ASI 2012-13 & 2008-09

Table 4.24: Profitability of Industries

Key Parameters	2008-09		2012-13	
	Bihar	India	Bihar	India
Input/output Ratio (%)	88.2	81.3	94.3	83.3
Emolument/output Ratio (%)	1.51	3.96	2.01	3.95
Material, fuel/output Ratio (%)	0.52	0.6	0.74	0.55
capital invested per workers(Lakh)	9.3	17.5	11.8	31.3

Source: ASI 2012-13 & 2008-09

- Bihar has an input-to-output ratio of 88% in 2008-09 and 94% in 2012-13 which are higher than All-India figures of 81% and 83% respectively. However, in terms of the capital investment per labor in both the years, Bihar is far behind. Similarly, emoluments-to-output ratio is much less in Bihar in both the years. Interestingly, fuel-to-output ratio in Bihar, which

was lower than All India ratio in 2008-09, became greater than All India in 2012-13 (**Table 4.24**).

4.12 Urbanization

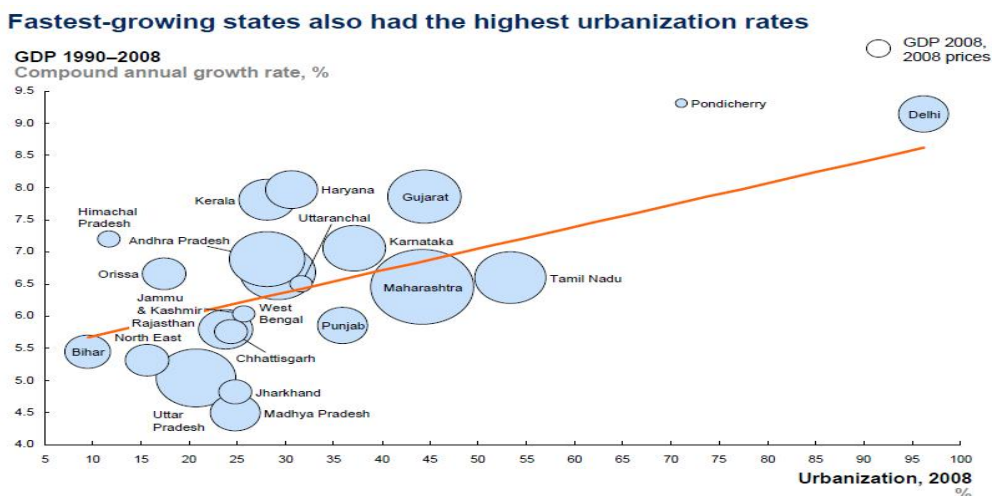
4.12.1 Urbanization in Bihar:-The preceding analysis would show that Bihar continues to be overwhelmingly rural (around 90 % ever since 1991) and the rural areas inherently have higher poverty, lower PCI, lower socio - economic infrastructure and do not attract investment & talent.

4.12.2 Imperative of urbanization:

(i)Imperative of urbanization is evident from the flow chart in **Annex-4.14**. Further, Graph at **Annex-4.15(i)** shows that over the decades, correlation between PCI and urbanization is increasing for the states. It may be reiterated that Urbanization is both the cause (as engine of

growth, enabler of economies of scale in providing goods & services and promoter of social mobility) and the consequence of development. **Graph-4.10** again shows that developed states have higher urbanization. The same trend can also be seen globally [**Annex-4.15 (ii)**].

Graph 4.10: Interstate urbanization and growth rate



(ii) **Annex 4.16** shows that urbanization is at the core of Productivity.

(iii) **Annex 4.17** shows that, more urbanization means lower demographic growth and faster population stabilization. Districts that are more urbanized have lower fertility rates. Patna has the lowest fertility rate (2.7 percent), and lowest natural growth rate (16.4 percent).

iv) **Annex 4.18** shows that, more urbanization means more economic growth. Districts that are more urbanized are those that have higher shares of incomes, higher economic density, higher percentage of workers with regular wages (a strong indicator of stability in the labor market), and higher level of wages.

v) **Annex-4.19(A)** and **(B)** show that more urbanization means better amenities, infrastructure, education and skill sets, and public service delivery.

4.13 District & Block level disparities and UDI

4.13.1 Inter-District Disparity: Annexure-4.20 gives variables used as well as sources of data for developing Under Development Index (UDI) at district level. Results of district UDIs are given in **Annexure-4.21(i).**

4.13.2 Inter-Block disparity:

(i) Based on data availability and significance of variables, seven indicators were chosen by planning Commission for BRGF ranking Block-wise

(ii) Result of Block level UDIs of Bihar is given in **Annex- 4.21 (ii).**

(iii) Nineteen Blocks have negative UDI ranging between (-) 0.0128 to (-) 1.2887. These UDIs have been normalized as follows. Evidently, most of these blocks are District HQ Blocks (**Table:4.25**).

Table 4.25: Normalized UDI for certain Blocks

UDI		Blocks covered
Actual		Normal
-0.0128 to -0.6679	0.0343	Gaya Town, Musahri, Jagdishpur, Jamalpur, Dinapur.
-0.4732 to -0.3182	0.0429	Munger, Bihta, Arrah, Phoolwari
-0.299 to -0.1292	0.1176	Siwan, Chapra, Sasaram, Buxer, Katihar, Dehri
-0.0332 to 0.1176	0.1342	Hajipur, Biharsarif, Darbhanga.
-1.2887	0.0128	Patna Rural

Source: 5th SFC

4.13.3 While District and Block level composite UDI could be used for 'Block Funding' out of the 5th SFC and 14th FC transfers, indicator-wise indices could be used for sectoral intervention down to the Block level.

Chapter-V

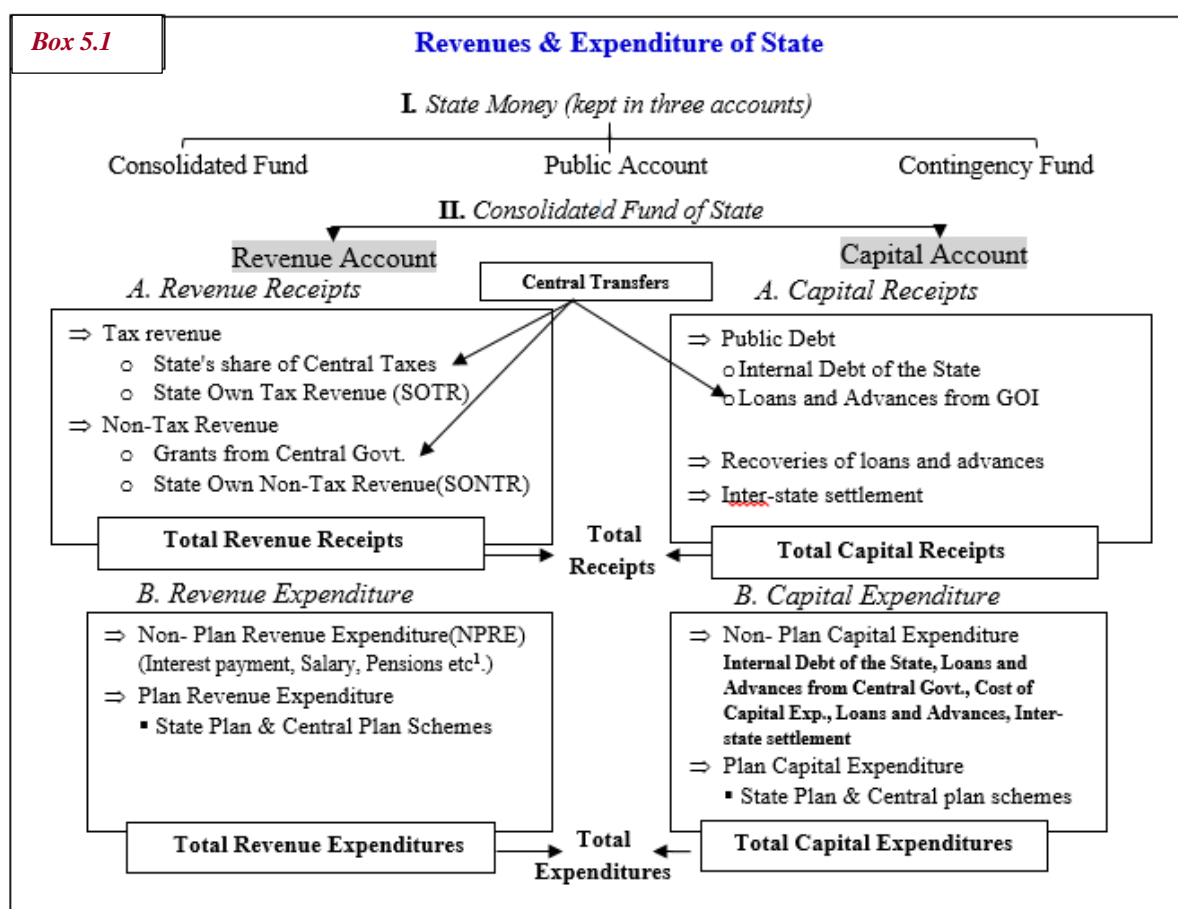
Taxes and Consolidated Fund of the State

5.1 Introduction:

5.1.1 In order to determine devolution and grants to be given to the LBs, the divisible pool of taxes, duties etc. and the Consolidated Fund of State (CFS) needs to be projected for the period 2015-16 to 2019-20 both on receipt and expenditure sides. (See **Box 5.1**) For this, the 5th SFC have gone through the methodologies adopted by the 12th, 13th & 14th UFCs and the 12th Plan. **Comparison of the methodologies is at Annex-5.1.**

State Govt. to the 13th UFC, the 5th SFC has made its own logical projections.

5.2 Methods of projections of Revenue & Expenditure: Alternative methodologies of projecting revenue and expenditure are given in **Box 5.2** and **Box 5.3** respectively. Since projections through Macro-econometric models are data intensive and need to be tested over a period, we have used Growth Rate Method.



¹Other items in NPRE are much less significant.

5.1.2 The 5th SFC further went through the projections made by Bihar Govt. to the 13th and the 14th UFCs and that made by the 13th and the 14th UFC (**Annex-5.2**). As expected, the revenues projected by Bihar Govt. were less than the actuals, whereas, the expenditures projected were higher than the actuals. Therefore, while the 4th SFC had used for its recommendations the projections of the

5.3 Basic features of the projections of Receipts and Expenditures by the 5th SFC:

(i) **Base Year:** 2013-14 (A) is used as the base year, as it is the latest available Actuals from Bihar Budget. It may be noted that (a) for receipts, Actuals are much closer to RE as compared to BE, while (b) for expenditure, RE of expenditure has always been greater than BE. However Actual expenditure have been lower than both BE and RE.

Box 5.2	Method 1:
Projections through Growth Rate	
<ul style="list-style-type: none"> Value of a variable (say, X_t) is linked to the previous year's value (X_{t-1}) by a growth rate (g). i.e. $X_t = (1+g) \cdot X_{t-1}$ Growth rate can be obtained broadly using two methods: <ul style="list-style-type: none"> (i) Buoyancy : normally applied for tax and non-tax revenues which are largely dependent on GSDP Buoyancy "b" = % change in value of a variable / % change in GSDP Change in revenue between years t & t-1: $\Delta R = R_t - R_{t-1}$, Correspondingly, change in GSDP: $\Delta X = X_t - X_{t-1}$ Then, Buoyancy of revenue: $b = (\Delta R / R_{t-1}) / (\Delta X / X_{t-1})$ Accordingly, Growth rate of revenue: $g(R) = (\Delta R / R_{t-1}) = b * g$, Where, $g = (\Delta X / X_{t-1})$ (ii) CAGR, YoY etc. normally applied for items expected to grow at historical rates $CAGR = \{(End\ Value - Start\ Value) \wedge (1 / Compounding\ years)\} - 1$ $YoY = \{(Value_t - Value_{t-1}) / Value_{t-1}\}$ 	

Box 5.3	Method 2:
Projections through Macro-econometric models	
<ul style="list-style-type: none"> Projections based on the trends or buoyancies do not take into account the interdependence of the fiscal variables with other key sectors of the economy. A macro-econometric model has the capacity to capture complex and dynamic interrelationships among the economic variables and is therefore suitable analytical tool for studying issues of fiscal transfers since projections for five years are an integral part of the institutional framework of determining transfers under the aegis of the Finance Commission. It is useful for determining sustainable levels of public debt and fiscal deficit, monetization of deficit, impact of globalization, and the economy's growth prospects in the medium term. Macro-econometric model can be used to devise a framework to forecast and simulate revenues and expenditure of govt. based on the relevant interrelations among key real, fiscal, trade, and monetary Aggregates and ensuring that the relevant definitions and identities are satisfied. 	

(ii) GSDP growth rate: Reliable projection of GSDP is critical to correctly projecting receipts and expenditure. Any underestimation of GSDP for example would result in loss of opportunity of raising debt within the permissible RD/FD limits and thus in raising much needed resources for bridging the development deficit. Moreover, most of the financial indicators depend on GSDP viz debt, deficits, borrowing, tax effort etc.

For our purposes, nominal GSDP growth has been taken conservatively at 15% comprising of 10% real growth and 5% inflation, as projected by the 12th National Plan for Bihar. **Table 5.1** shows that GSDP of Bihar has grown earlier at much higher

Source: A Macro-Fiscal Modeling Framework for Forecasting and Policy Simulations, MSE, May 2012

rates and surpassed the growth rates projected (7.6 % & 15%) by the 11th & 12th National plans for Bihar (also see **Graph-4.1**).

Our GSDP projections for 14-15 & 15-16 came very close to the State Budget figures and are thus dependable. Incidentally, different GSDP estimates has been made for 2013-14 in the Budgets of 14-15 and 15-16 respectively. (**Table 5.2**)

(iii) Projections of Receipts: As explained in **Para 5.2** above, projection through GR (buoyancy) method has been used as in **Box 5.4**:

Table 5.1: GSDP growth over years

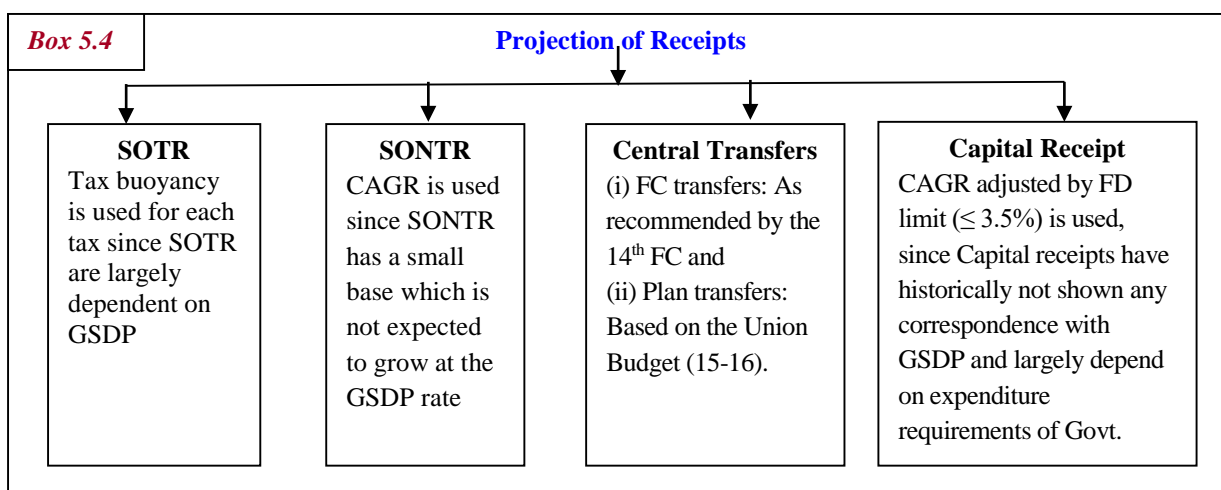
Year	05-06	06-07*	07-08	08-09	09-10	10-11	11-12	12-13	13-14	CAGR**
GSDP Growth (%)	6.05	22.12	12.85	25.16	14.51	24.94	19.51	21.74	17.05	19.16

* 2006-07 was the year of economic transition for Bihar; ** CAGR between 06-07 to 13-14; *Source: CSO as on 27.02.2015*

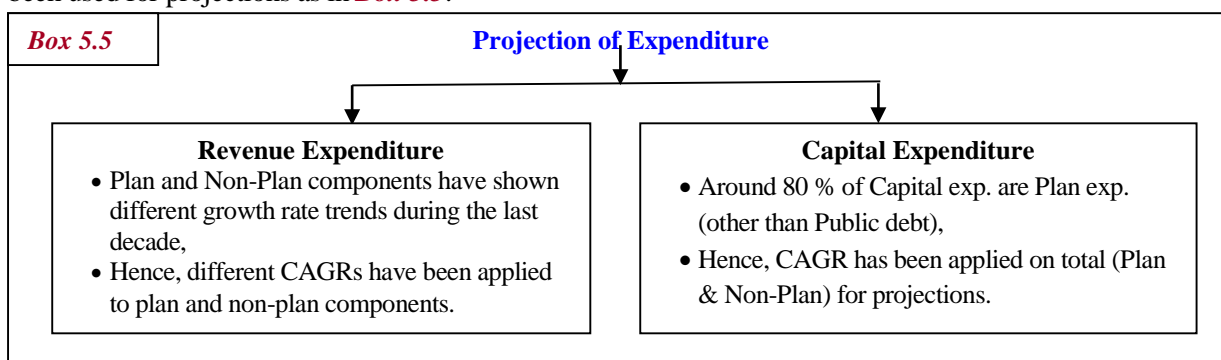
Table 5.2: Projection of GSDP of Bihar

Year	13-14*	13-14 (Bgt. 14-15)	13-14 (Bgt.15-16)	14-15*	14-15 (Bgt.14-15)	14-15(P)	15-16 (Bgt.15-16)	15-16(P)	16-17(P)	17-18(P)	18-19(P)	19-20(P)
GSDP (In Cr.)	343663	314155	343054	402283	383709	395212	455451	454494	522668	601068	691229	794913

* Data from C.S.O as on 27.02.2015; Bgt.: Data from Bihar Budget documents ; (P): Projections @ 15% annual growth, base year 13-14*



(iv) **Projections of Expenditure:** CAGR have been used for projections as in **Box 5.5:**



(v) Expenditure projections have not excluded grants & devolution given to the LBs in 2013-14 (based on the recommendations of the 4th SFC), Further, these grants & devolution constituted only 2.25% of NPPE, whereas, Salary (31%), Pension (22%) and Interest (13%) constituted major portion of NPPE. These evidently provide ample scope to the 5th SFC for substantially increasing grants & devolution to the LBs than that recommended by the 4th SFC (Refer **Annex-5.3**).

5.4 Projection of Receipts for 2015-20:

5.4.1 SOTR: For projections of SOTR, growth is derived from buoyancies of the individual taxes (**Table 5.3**).

5.4.1.1 Buoyancies of the major taxes (Details at **Annex-5.4**)

- Bihar's overall buoyancy in taxes has surpassed All India average (i.e. 1.49 vs 1.43) during 10-13.
- For some major taxes (viz Sales Tax, State Excise, Taxes on Vehicles), Bihar has shown higher buoyancies than All India.

- Buoyancies of Sales tax and Stamps & Registration fees in Bihar have improved after 2010, apparently due to the revision in tax rates and the improvements in systems & procedures.
- State Excise, Taxes on Vehicles and Land Revenue have shown slight fall in buoyancies post 2010.
- Taxes on Professions, Trades etc. have shown zero buoyancy during 10-13 as collection of profession taxes was made since 2011 only.
- Taxes on Goods & Passengers have shown negative buoyancy post 2010, primarily due to the arrears in payments by the tax payers.
- Based on buoyancies during 2010-13 and GSDP growth rate of 15% (a conservative figure given the past trend of GSDP growth), growth path for the major taxes are derived as given in **Table 5.4**. **Considering that economy is likely to improve after the slowdown in 11-13, buoyancies of the taxes would also improve.**

Table 5.3: Buoyancies of the State Taxes (Details at Annex-5.4)

Items		Collection(In Rs. Crores)			Tax Buoyancies		
		06-07(A)	10-11(A)	13-14(A)	06-13	06-10	10-13
State's Own Tax Revenue (1 to 3)		4033	9870	19961	1.64	1.42	1.49
1	Taxes on Commodities and Services(i to vii)	3502	8630	16999	1.60	1.43	1.41
	i) Sales Tax	2081	4557	8453	1.27	1.17	1.24
	ii) State Excise	382	1523	3168	3.02	2.93	1.57
	iii) Taxes on Vehicles	181	455	837	1.50	1.48	1.22
	iv) Taxes on Goods and Passengers	783	2006	4349	1.89	1.53	1.70
	v) Taxes and Duties on Electricity	63	65	141	0.52	0.04	1.70
	vi) Entertainment Tax	12	22	44	1.05	0.79	1.39
	vii) Other Taxes and Duties	0	2	6	7.94	5.76	2.81
2	Taxes on Property and Capital Tran's (i to ii)	530	1238	2914	1.87	1.31	1.97
	i) Land Revenue	75	139	202	0.71	0.84	0.66
	ii) Stamps and Registration Fees	455	1099	2712	2.06	1.39	2.13
3	Taxes on Income (i+ii)	0	0	48	0.00	0	0
	i) Agricultural Income Tax	0	0	0	0.00	0	0
	ii) Taxes on Professions, Trades,etc.	0	0	48	0.00	0	0

Table 5.4: Growth Rate of the State Taxes (in %)

Items		CAGR (10-13)	GR- GoB	GR-14 th FC	GR- Buoyancy	Proj. GR (5 th SFC)
1	Taxes on Commodities and Services(i to vii)					
	i) Sales Tax	23	20	As Tax-GSDP ratio for Bihar(6.68) was below All India (8.26) , higher buoyancy of 1.5 was taken for Bihar to arrive at normative growth rates of 25% for 15-16, 16-17 & 17-18 ; 20% for 18-19 & 17% for 19-20	18.6	19
	ii) State Excise	28	20		23.5	24
	iii) Taxes on Vehicles	23	15		18.3	18
	iv) Taxes on Goods and Passengers	29	20		25.4	25
	v) Taxes and Duties on Electricity	29	3		25.4	25
	vi) Entertainment Tax	25	5		20.9	21
	vii) Other Taxes and Duties	43	5		42.1	20
2	Taxes on Property and Capital Tran's (i to ii)					
	i) Land Revenue	13	10	9.83	10	
	ii) Stamps and Registration Fees	35	20	32.01	32	
3	Taxes on Income (i+ii)					
	i) Agricultural Income Tax	0	0	0.00	0	
	ii) Taxes on Professions, Trades,etc.	30	5	0.00	25	

(i) GR-Buoyancy: Growth rate as derived from buoyancy;(refer Table 5.3)
(ii) Proj.GR(5th SFC):Growth rate considered by the 5th SFC based on buoyancy (except for a few items)
(iii)GR-GoB :Growth rate used by Bihar Govt. in their projections for the 14th FC
(iv) GR-14th FC: Growth rate as taken by the 14th FC for their assessment of state finances for the grant period 2015-20

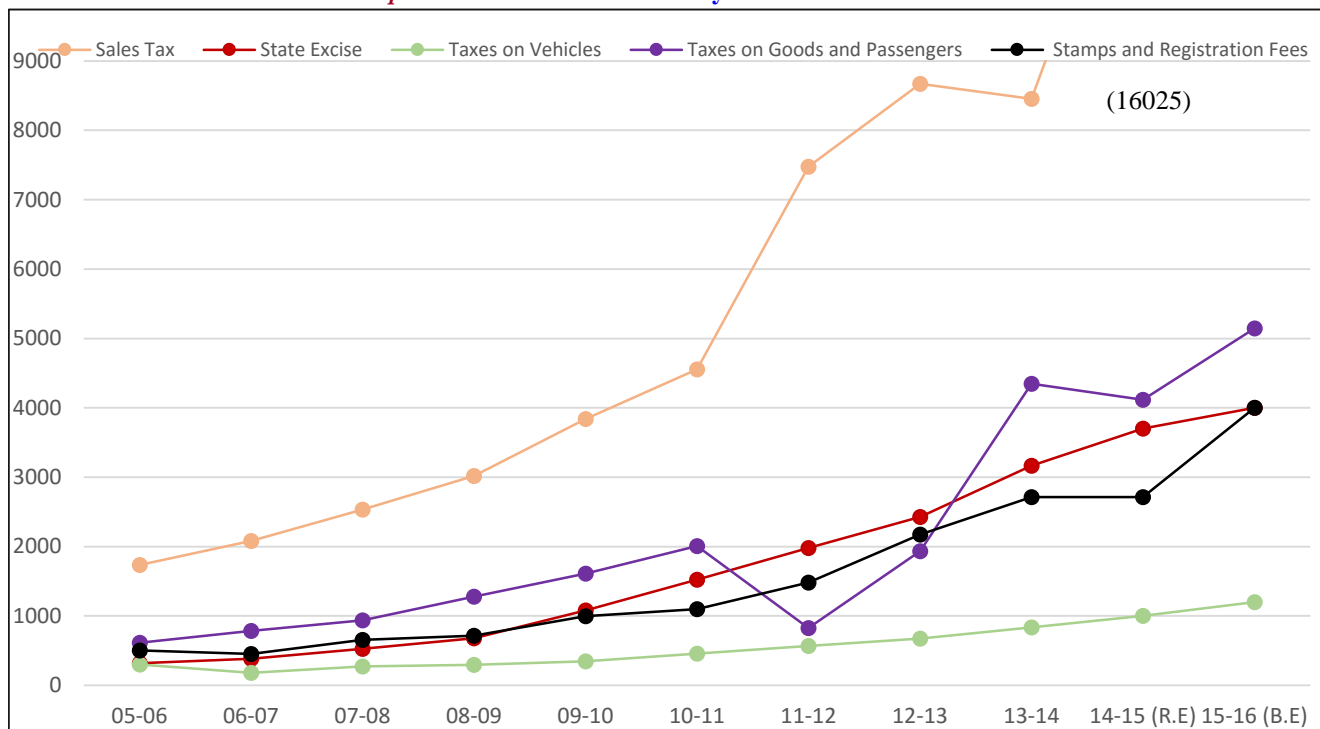
5.4.1.2 Growth rate of the State taxes: Details at Annex 5.5

• Evidently, growth rates used by State Govt. for their projections to the 14th FC are less even than CAGR and is not based on logic. Further, projections of SOTR by the 14th FC was made at the aggregate level, and item-wise projections might have yielded different results.

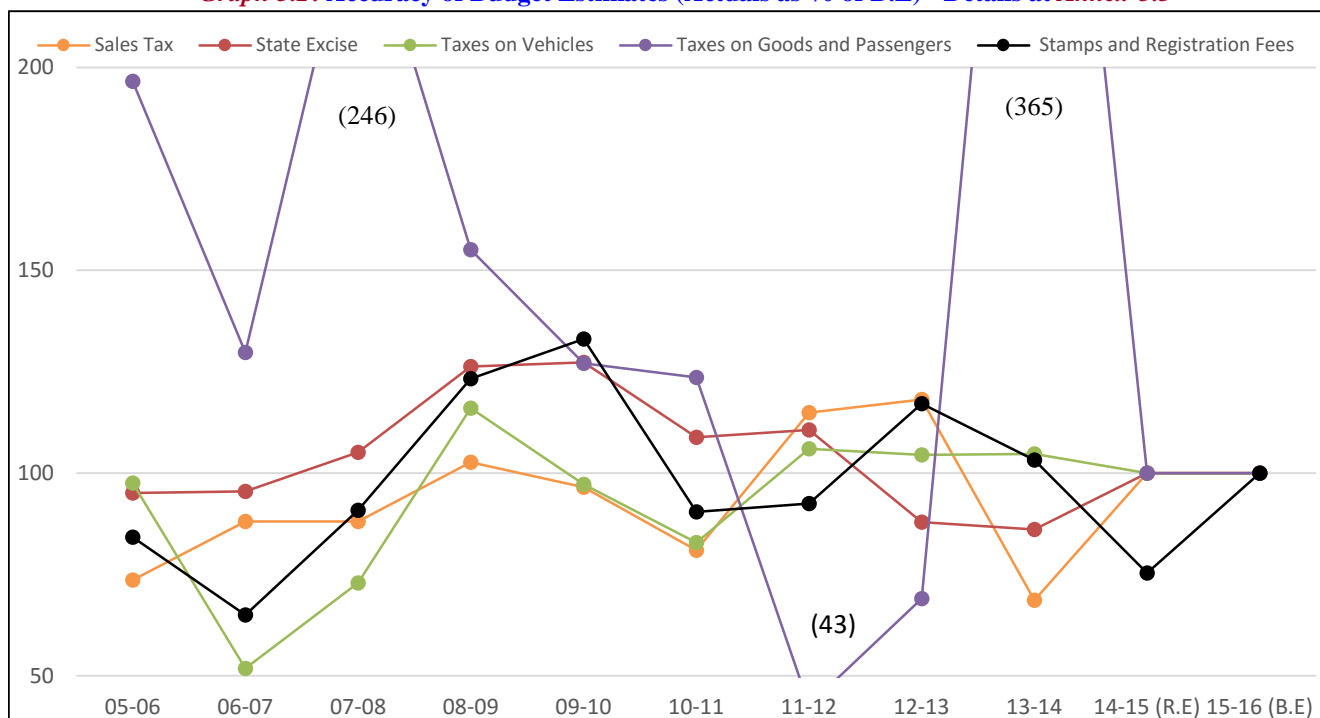
5.4.1.3 Projection of SOTR for 15-16 to 19-20: (Table 5.5)

• **Graph 5.1** shows steady increase in all taxes till 10-11, after which Sales Tax and Taxes on Goods & Passengers have shown major fluctuations.
• **Graph 5.2** shows that the State has been achieving BE tax targets till 14-15 (RE). But there was a major dip in Actual collection vs. BE of Sales tax in 13-14. This should be a major

Graph 5.1: State Taxes over the years - Details at Annex-5.5



Graph 5.2: Accuracy of Budget Estimates (Actuals as % of B.E) - Details at Annex-5.5



concern for Govt., particularly in view of its magnitude and the likely rollout of GST.

- Incidentally, our projections of total SOTR for 15-16 nearly tallies with 15-16 (B.E). But there

are major differences w.r.t sales tax, stamps & registration fees and goods & passenger tax, basically due to the lower figures of the base year 13-14 (**Table 5.5**).

Table 5.5: Projection of State's Own Tax Revenue (SOTR)

Items		13-14(A)	Gr. Rate (Table)	15-16 (B.E)	15-16 (P)*	16-17(P)	17-18(P)	18-19(P)	19-20(P)
State's Own Tax Revenue (1 to 3)		19961		30875	30141	37119	45781	56548	69954
1	Taxes on Commodities and Services(i to vii)	16999		26520	25097	30520	37134	45208	55067
	i) Sales Tax	8453	19%	16025	11970	14245	16951	20172	24005
	ii) State Excise	3168	24%	4000	4871	6040	7489	9287	11515
	iii) Taxes on Vehicles	837	18%	1200	1166	1376	1624	1916	2261
	iv) Taxes on Goods and Passengers	4349	25%	5147	6795	8494	10618	13272	16590
	v) Taxes and Duties on Electricity	141	25%	103	221	276	345	431	539
	vi) Entertainment Tax	44	21%	33	64	78	94	114	138
	vii) Other Taxes and Duties	6	20%	12	9	11	13	16	19
2	Taxes on Property and Capital Tran's (i to ii)	2914		4300	4970	6507	8530	11195	14706
	i) Land Revenue	202	10%	300	244	268	295	325	357
	ii) Stamps and Registration Fees	2712	32%	4000	4726	6238	8235	10870	14348
3	Taxes on Income (i+ii)	48		55	74	93	116	145	182
	i) Agricultural Income Tax	0	0%	0	0	0	0	0	0
	ii) Taxes on Professions, Trades,etc.	48	25%	55	74	93	116	145	182

5.4.2 SONTR: The State has a tiny base of SONTR, though it has improved significantly from Rs. 511 Cr. in 06-07 to Rs. 1545 Cr. in 13-14. Receipts from items of Non-Ferrous Mining & Metallurgical Industries and Interest Receipts etc. are its major components.

For projections of SONTR, rather than applying growth rate to each item, combined CAGR of **16%** has been applied on the base year amount of 2013-14 considering the small base of each unit and the widely varying CAGRs. (**Table 5.6**)

• The difference of 1,317 Cr. between 15-16(P) and 15-16(B.E) is primarily on account of the long pending pension dues from Jharkhand Govt. The same entry of Rs. 2000 Cr. is coming every year in B.E & R.E figures of the State Budget

since 2010-11 and the same has not been realized till now.

• Since our estimates are based on 13-14(A), dues from Jharkhand Govt. are not reflected in our projections.

5.4.3 Central Transfers: In view of (a) the paradigm changes in the recommendations made by the 14th FC regarding the central transfers, (b) dismantling of Planning Commission, and (c) restructuring of CSS etc., it would be tenuous to project all Central Transfers logically. **Aggregate transfers from the Centre to Bihar have decreased from 9.40% to 8.18% of All India in 14-15 B.E to 15-16 B.E (Annex-5.6).** Hence, we have projected the central transfers conservatively as follows.

Table 5.6: Growth Rate of SONTR

Sl.No	Items	06-07(A)	10-11(A)	13-14(A)	CAGR (10-13)
		(Rs. Cr.)			
1	Interest Receipts, Dividends and Profits	177	240	272	4.26%
2	General Services	62	47	452	112.69%
3	Social Services	78	70	55	-7.88%
4	Economic Services	195	628	766	6.84%
of which	Non-Ferrous Mining And Metallurgical Industries	128	406	569	11.92%
Total SONTR		511	986	1545	16.15%

Table 5.7: Projection of SONTR for 15-16 to 19-20 (Cr.)

	13-14(A)	GR (%)	14-15(R.E)	15-16(B.E)	15-16(P)	16-17(P)	17-18(P)	18-19(P)	19-20(P)
SONTR	1545	16	3097	3396	2079	2412	2797	3245	3764

• **State's share in central taxes:** Same as that projected by the 14th FC for 16-17 to 19-20 period has been taken. As for 15-16, the 14th FC has projected Rs. 579282 Cr. as tax share for the States but the Union Budget 15-16 has estimated the same at Rs. 523958 Cr. Our projections for 15-16 are based logically on Union Budget 15-16 as provided in **Table 5.8**. i.e. 9.787% of Rs 2,09,774 (projected service tax) and 9.665% of Rs 3,14,184 (projected tax share).

• **Grants:** The grant amount is projected as follows:

a) *Non-Plan grants:* As recommended by the 14th FC provided in **Table 5.9**.

b) *Plan grants:* Central plan transfer should be more than 15% to support the targeted growth rate (15%) of the 12th Plan for Bihar. However, for our projections, conservative growth rate of 15% on 15-16(B.E) figures of Plan grants has been applied (**Table 5.10**).

5.4.4 Capital Receipts:

• Capital receipts of State Govt. have increased continuously over the years. Around 95% of capital receipts are in the form of Internal debt

Table 5.8: Projection of State's share in central taxes for 15-16 to 19-20 (Rs. Cr.)

Sl.No.	Items	15-16*	15-16	16-17	17-18	18-19	19-20
1	Total projected tax Devolution to States	523958	579282	668425	772304	893430	1034745
2	Projected Service tax	209774	256116	303721	360174	427119	506508
3	Tax devolution other than Service tax (1-2)	314184	323166	364704	412130	466311	528237
4	Bihar's Share(9.665%) in taxes other than service tax	30366	31234	35249	39832	45069	51054
5	Bihar's share in service tax(9.787%)	20531	25066	29725	35250	41802	49572
6	Total tax devolution to Bihar(4+5)	50896	56300	64974	75083	86871	100626

Source: The 14th FC report and Union Budget 15-16 documents.

*15-16, Tax devolution and service tax are taken from the Union Budget 15-16 document.

Note: For 15-16, the tax devolution to Bihar based on Union Budget 15-16 reduces by 5404 Cr. as compared to the projections of the 14th FC.

Table 5.9: Projection of Non-Plan Grants for 15-16 to 19-20 (Rs. Cr.)

Sl.No	Items	15-16	16-17	17-18	18-19	19-20
1	LB-Rural Basic grant	2269	3142	3630	4200	5675
2	LB-Urban Basic grant	257	356	411	475	642
3	LB-Rural Performance grant	-	412	466	530	694
4	LB-Urban Performance grant	-	105	119	135	177
5	SDRF grant	469	492	517	543	570
6	Total Non-Plan grants (14th FC)	2995	4507	5143	5883	7757

Source: The 14th FC report

Table 5.10: Projection of Plan Grants for 15-16 to 19-20

							In crores
(15-16 B.E)			Projected Plan grants				
Total grants	Non-Plan grants	Plan grants	Gr.Rate	16-17	17-18	18-19	19-20
1	2	(col.1- col.2)= 3	4	5	6	7	8
18171	2995	15176	15%	17452	20070	23080	26542

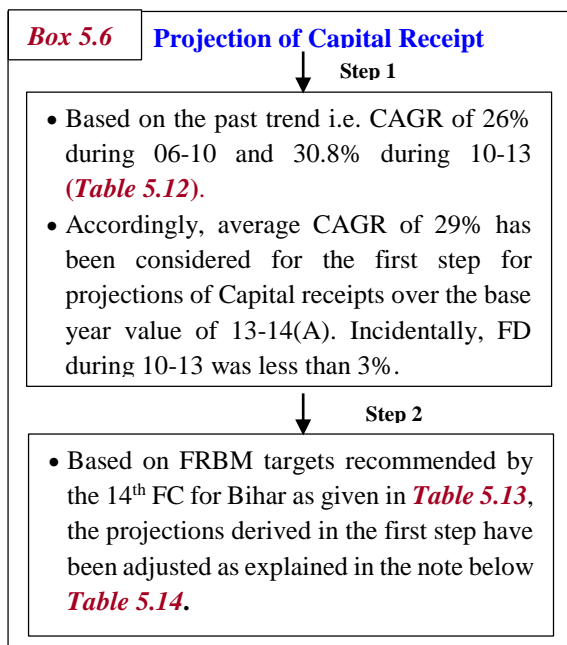
* For 15-16 (B.E) , data are from Bihar Budget 15-16 which are based on estimated plan allocations to Bihar as per Union Budget 15-16

Table 5.11: Total projected Central transfers for 15-16 to 19-20

		In Crores.				
Sl.No.	Items	15-16	16-17	17-18	18-19	19-20
1	Share in Central taxes (Table 5.8)	50896	64974	75083	86871	100626
2	Grants (a+b)	18171	21959	27778	33889	41345
	a Non-Plan Grants (Table 5.9)	2995	4507	5143	5883	7757
	b Plan Grants (Table 5.10)	15176	17452	20070	23080	26542
3	Total Central transfers(1+2)	69067	86933	102861	120760	141971

and Loans from GOI, and largely dependent on expenditure requirements of State govt.

• For projections of Capital receipts, we have taken a comprehensive view by taking into account expenditure needs of Govt. We have followed a two-step methodology given in **Box 5.6**.



5.4.5 Consolidated Fund of the State:

Table 5.15 gives the breakup and projections of the CFS.

5.5 Projection of Expenditures

5.5.1 For expenditure projections, we have used CAGR:

- Separately for plan and non-plan components (Salary, Pension, Interests, etc.) for Revenue Exp.
- Combined for Capital Exp., since 80% of Capital Exp. are Plan exp. (excluding Public debt).

5.5.2 Expenditure projections are generally based on the expenditure pattern of the last five years. However, keeping in mind the imperative of State Govt. to sustain and augment growth rate, greater emphasis has to be given on the economic services by utilizing the enhanced FRBM limits.

5.5.3 Accordingly, we have

- a) maintained expenditure on Social and General Services and Loans & Advances at the current level,
- b) allowed expenditure on Economic Services to grow at higher rates,
- c) maintained (not reduced) expenditure on General Services to provide resources for good governance and O&M, and
- d) increased expenditure on Public debt in proportion so as to meet the needs of increased debt servicing.

5.5.4 Projection of Revenue Expenditure:

Generally CAGR has been considered as the growth rate. However, for the items which have shown exceptionally high CAGR (> 40%), normative growth rate of 20% has been adopted. Similarly, for items showing negative CAGR, 10% growth has been considered (Details at **Annex-5.7**).

Table 5.12: Capital Receipts over the period 06-07 to 13-14

Sl.No	Items	06-07(A)	10-11(A)	13-14(A)	CAGR (06-13)	CAGR (06-10)	CAGR (10-13)
		(In Crores and % of GSDP)			(In %)		
1	Public Debt	2358 (2.3%)	6032(3.0%)	9907(2.9%)	22.8	26.0	30.9
	A. Internal Debt	2355(2.3%)	5251(2.6%)	9357(2.7%)	21.8	22.0	44.9
	B. Loans from GOI	3(0.0%)	782(0.4%)	549(0.2%)	110.5	295.0	-63.0
2	Recovery of loans	7(0.0%)	12(0.0%)	15(0.0%)	11.5	13.0	-8.0
3	Others	0(0.0%)	0(0.0%)	0(0.0%)	0.0	0.0	0.0
Total Capital Receipts		2365(2.3%)	6044(3.0%)	9922(2.9%)	22.7	26.0	30.8

Note: Figures in bracket show amount as % of GSDP

Table 5.13: Fiscal adjustment path as recommended by the 14th FC (% of GSDP)

Sl. No	Items	2015-16	2016-17	2017-18	2018-19	2019-20
1	Revenue deficit	0.00%	0.00%	0.00%	0.00%	0.00%
2	Fiscal deficit	3.50%	3.25%	3.50%	3.50%	3.50%
3	Outstanding debt	25.02%	24.79%	24.84%	24.89%	24.93%

Table 5.14: Projection of Capital Receipts for 15-16 to 19-20

(In Cr.)						
Sl.No	Items	15-16 (P)	16-17(P)	17-18(P)	18-19(P)	19-20(P)
1	Capital Receipts(@ 29% Gr. Rate)	16511	21300	27477	35445	45724
2	GSDP	454494	522668	601068	691229	794913
3	Targeted F.D(@ 3.5% of GSDP for all years except 3.25% for 16-17)	15907	16987	21037	24193	27822
4	F.D (@ Current proj.)	8627	5254	6846	10220	14969
5	Gap (3-4)	7280	11732	14191	13973	12853
6	Revised Capital receipts (5+1)	23791	33032	41668	49418	58576

***Explanation:**

Sl.no 1: Capital receipts is derived by applying growth rate of 29% over base year value of 9922 Cr. (13-14 A).

Sl.no.3: FD level is arrived by applying recommended targets of 3.5%, 3.25%, 3.5%, 3.5% and 3.5% for 15-16, 16-17, 17-18, 18-19 and 19-20 respectively.

Sl.no.4: FD level at projected Capital receipts (Sl.no 1) is arrived.

Sl.no. 5: Gap is found by FD level in Sl.no.3- Sl. no.4

Sl.no.6: Revised Capital receipts = Capital receipts in Sl.no.1 + Gap found in Sl. no. 5

Table 5.15: Projection of CFS for 15-16 to 19-20

Items	13-14	14-15	15-16	Projections (In Crores)				
	(A)	(R.E)	(B.E)	15-16	16-17	17-18	18-19	19-20
Consolidated fund of State (A to E)	78841	110488	121064	125079	159496	193107	229971	274266
A. SOTR (Table 5.5)	19961	25663	30875	30141	37119	45781	56548	69954
B. SONTR (Table 5.7)	1545	3097	3396	2079	2412	2797	3245	3764
C. Share in Central taxes (Table 5.8)	34829	38082	50896	50896	64974	75083	86871	100626
D. Central Grants (Table 5.11)	12584	28903	18171	18171	21959	27778	33889	41345
E. Capital Receipts (Table 5.14)	9922	14743	17725	23791	33032	41668	49418	58576

Table 5.16: Past & Projected Total Expenditure of State Govt. (as % of TE)

Expenditure Heads	10-11	11-12	12-13	13-14	14-15	15-16	Projections				
	(A)	(A)	(A)	(A)	(R.E)	(B.E)	15-16	16-17	17-18	18-19	19-20
General Services	31%	30%	28%	29%	25%	28%	26%	25%	25%	24%	24%
Social Services	32%	32%	35%	35%	40%	35%	33%	33%	33%	34%	34%
Economic Services	31%	29%	29%	31%	32%	33%	34%	35%	36%	36%	36%
Public Debt	4%	5%	4%	4%	3%	3%	4%	5%	5%	4%	4%
Loans and Advances	2%	3%	3%	1%	1%	1%	2%	2%	2%	2%	1%

Note: Difference in percentage expenditure of 15-16 (B.E) vs. 15-16 (P) is due to greater share for Economic Services in our projection on account of increased FRBM limits.

- Projected revenue expenditure for 15-16 is slightly (< 3%) lower than 15-16 (BE) (**Table 5.17**), since the base used for our projections are Actuals of 13-14, which was lower than that Budgeted. Moreover, historically Actuals have been lower than BE (**Annex-5.5**).

Table 5.17: Projection of Revenue Expenditure for 15-16 to 19-20

Items	(A)	(B.E)	Projections (Rs. Cr.)					
	13-14	15-16	15-16	16-17	17-18	18-19	19-20	
Revenue Expenditure(A+B+C+D)	62477	91208	88712	105110	124719	148198	176345	
A	General Services	22018	30259	29810	34668	40369	47063	54933
of which	i) Interest payments	5459	7221	7797	8966	10311	11858	13636
	ii) Pensions	9482	12980	13654	16384	19661	23594	28312
	iii) Others	7078	10058	8360	9318	10396	11612	12984
B	Economic Services	14060	22861	20484	24532	29468	35504	42903
D	Social Services	26395	38084	38414	45905	54877	65625	78502
C	Assignment to LBs	4	5	4	5	5	6	6

* Details of projections are at Annexure 5.7

5.5.5 Capital expenditure: The two step method of projection of Capital receipts has been taken for Capital expenditure also as given in **Box 5.7**.

Box 5.7 Projection of Capital Expenditure

↓ Step 1

- Based on CAGR (**Table 5.18**). Only for the items showing exceptionally high (>100%) or negative CAGR, growth rate have been taken at 25% & 10% respectively.
- For critical items, viz. Agriculture, Health, Education and Urban development, growth rate of 50% has been taken, which is consistent with CAGR during the period 2010-13 (**Para 5.4.4**).

↓ Step 2

- Based on the recommended FRBM targets for Bihar by the 14th FC (**Table-5.13**), the projection derived in the first step have been adjusted as explained in the **Table-5.19**. The revised capital expenditure (**Table 5.20**) thus obtained are appropriated among General, Economic & Social services and other items (**Table 5.21**).
- In appropriating, the level of “Social services” & “Loans and Advances by State” is maintained as that in the initial projections of the first step, while the level of Economic & General services and Public debt have been increased proportionally.

5.5.6 Total Expenditure: It is the total of Revenue and Capital expenditures (**Table 5.22**) as computed in **Table 5.17** and **Table 5.21** respectively.

- The projections made by the 5th SFC are realistic and keep in view the past expenditure pattern and the spending capacity of the Govt. Further, there is enough cushion in the total receipts so as to cover contingencies
- For 15-16, our projections are based on enhanced FD limits (of 3.5%) as recommended by the 14th FC, while 15-16 B.E figures are as per the existing FD limits of 3%.
- PCRE for Bihar has been one of the lowest among the States. Lower revenue expenditure not only affects public services, but it has also made Bihar ineligible for Revenue deficit grants from the successive UFCs.
- Interestingly (and unfairly), the “equalization” exercise of the 14th FC is based on factoring in additional expenditures such that States with low fiscal capacity are enabled to achieve 80% of the All-States' average PCRE (excluding interest, pension and CSS transfers) by the terminal year (i.e. 2019-20) of the award period.
- As per our calculation of PCRE (**Annex-5.8**), taking into account (a) revenue expenditure as assessed by the 14th FC, and (b) the projected

Table 5.18: Initial Projection of Capital Expenditure for 15-16 to 19-20 – Annex-5.7

Items	(A)	(B.E)	Projections(Rs. Cr. and %)				
	13-14	15-16	15-16	16-17	17-18	18-19	19-20
Capital Expenditure(A+B+C+D+E)	17928	29477	29000	35574	43877	54433	67950
A General Services	1332(7.43%)	4115(13.96%)	2082(7.18%)	2602(7.32%)	3253(7.41%)	4066(7.47%)	5083(7.48%)
B Economic Services	10810(60.30%)	16693(56.63%)	16483(56.84%)	20294(57.05%)	25077(57.15%)	31118(57.17%)	38805(57.11%)
C Social Services	1857(10.36%)	4044(13.72%)	3444(11.88%)	4556(12.81%)	6083(13.86%)	8185(15.04%)	11089(16.32%)
D Public Debt	3119(17.40%)	3895(13.21%)	4466(15.40%)	5343(15.02%)	6408(14.61%)	7702(14.15%)	9275(13.65%)
E Loans and Advances by State	807(4.50%)	728(2.47%)	2524(8.70%)	2776(7.80%)	3054(6.96%)	3359(6.17%)	3695(5.44%)

* Figures in bracket shows % of Capital Expenditure

Table 5.19: Fiscal Deficit at Current projection of Revenue and Expenditure for 15-16 to 19-20

Sl.No		15-16	16-17	17-18	18-19	19-20
A.	Revenue Expenditure	88712	105110	124719	148198	176345
B.	Capital Expenditure	29000	35574	43877	54433	67950
C.	Revenue Receipt	101288	126464	151439	180553	215689
D.	Debt Servicing	7797	8966	10311	11858	13636
E.	Fiscal Deficit (A+B-C-D)	8627	5254	6846	10220	14969
F.	GSDP	454494	522668	601068	691229	794913
G.	Fiscal Deficit (%)	1.90%	1.01%	1.14%	1.48%	1.88%

Table 5.20: Adjustments to Projections (based on CAGR) of Capital Expenditure for 15-16 to 19-20

Items	Projections (In Crores)				
	15-16	16-17	17-18	18-19	19-20
Capital Expenditure (as derived in first step)	29000	35574	43877	54433	67950
GSDP	454494	522668	601068	691229	794913
Fiscal Deficit (@ current expenditure level)	1.90%	1.01%	1.14%	1.48%	1.88%
Gap(w.r.t FD@ 3.5% of GSDP for all years except 3.25% for 16-17)	1.60%	2.24%	2.36%	2.02%	1.62%
Gap in real terms(@ 3.5% of GSDP)	7280	11732	14191	13973	12853
Revised Capital Expenditure(@ 3.5% of GSDP)	36280	47306	58068	68406	80802

Table 5.21: Adjusted Projections of Capital Expenditure for 15-16 to 19-20

Items	(A)	(B.E)	Projections(In Crores)				
	13-14	15-16	15-16	16-17	17-18	18-19	19-20
Capital Expenditure(A+B+C+D+E)	17928	29477	36280	47306	58068	68406	80802
A General Services	1332(7.43%)	4115(13.96%)	2960(8.16%)	3922(8.29%)	4868(8.38%)	5769 (8.43%)	6818(8.44%)
B Economic Services	10810(60.30%)	16693(56.63%)	21774(60.01%)	28962(61.22%)	35608(61.32%)	41453(60.60%)	48290(59.75%)
C Social Services	1857(10.36%)	4044(13.72%)	3444(9.49%)	4556(9.63%)	6083(10.48%)	8185(11.96%)	11089(13.72%)
D Public Debt	3119(17.40%)	3895(13.21%)	5592(15.41%)	7113(15.04%)	8492(14.62%)	9695(14.17%)	11051(13.68%)
E Loans and Advances by State	807(4.50%)	728(2.47%)	2524(6.96%)	2776(5.87%)	3054(5.26%)	3359(4.91%)	3695(4.57%)

Table 5.22: Projection of Total (Revenue + Capital) Expenditure for 15-16 to 19-20

Items	(A)	B.E	Projections (In Crores)				
	13-14	15-16	15-16	16-17	17-18	18-19	19-20
Total Expenditure (A to E)	80405	120685	124992	152416	182787	216604	257147
A General Services	23351	34374	32770	38590	45237	52832	61751
B Economic Services	24871	42129	42258	53494	65076	76957	93703
C Social Services	28253	39554	41845	50438	60924	73757	87430
D Public Debt	3120	3895	5592	7113	8492	9695	11051
E Loans and Advances	807	729	2523	2775	3052	3357	3692
F Assignment to LBs	4	5	4	5	5	6	6

population based on 2011 census & TFR, PCRE for Bihar was the lowest among all the states and also lower than the targeted 80%, in the terminal year 2019-20. i.e. (a) 68.64% of All India **including** interest payment, pension & CSS transfers and (b) 74.81% of All India **excluding** interest payment, pension & CSS transfers.

- Inability of State Govt. to increase its revenue expenditure (net of interests , pensions and CSS transfers) have put the State in low Deficit category, whereas, states like West Bengal have significant revenue expenditure and are recipient of RD grants.

- “Assignment and Compensation to LBs” usually have separate Head in Budget Accounts and devolution & grants recommended by the SFCs are accounted under this Head in states like West Bengal. In Bihar, the same is accounted under the Heads of “Urban development” and “Rural development”. If NPRE under these heads

are netted with devolution & grants recommended by the SFCs, resultant PC-NPRE obtained under these Heads are quite low as compared to other states as given in the **Table 5.23(A)** and **Table 5.23(B)**. Also see **Annex-5.9** for details (**Confirmation not received from Finance Dept.**).

- State Govt. should, therefore, shift funds transfer through devolution & grants under the Head of “Assignment and Compensation to LBs” and further increase revenue expenditure to the comparable levels under the Heads “Urban development” and “Rural development”. These measures would ultimately increase the much needed revenue expenditure of the State.

5.6 Status of Revenue & Fiscal Deficits and Debt:

5.6.1 State Govt. is likely to have increasing revenue surplus (**Table 5.24**).

Table 5.23 (A): Comparison of expenditure on Heads of “Urban Development & Housing” and “Rural Development” as per 2012-13(A)

States	Budget	GSDP	Popln	NPRE- Rural Development				NPRE- Urban Development				NPRE- Comp. & Assign. To LBs			
				Exp.	% Bud	% GSDP	PC	Exp.	% Bud	% GSDP	PC	Exp.	% Bud	% GSDP	PC
Bihar	69207	296153	10.95	2205	3.19%	0.74%	201	425	0.61%	0.14%	39	4	0.01%	0.001%	0.33895
West Bengal	95358	612701	9.38	1610	1.69%	0.26%	172	1575	1.65%	0.26%	168	509	0.53%	0.083%	54.2336
All States	1534255	9388876	125.38	19831	1.29%	0.21%	158	10949	0.71%	0.12%	87	32214	2.10%	0.343%	256.928

Table 5.23 (B): Netting Grants from the 13th FC and the 4th SFC from NPRE component of Heads ‘Rural Development’ and ‘Urban Development’

States	Budget	GSDP	Popln	NPRE*- Rural Development				NPRE*- Urban Development			
				Exp.	% Bud	% GSDP	PC	Exp.	% Bud	% GSDP	PC
Bihar	69207	296153	10.95	363	0.52%	0.12%	33	8	0.01%	0.00%	1
West Bengal	95358	612701	9.38	1610	1.69%	0.26%	172	1575	1.65%	0.26%	168
All States	1534255	9388876	125.38	19831	1.29%	0.21%	158	10949	0.71%	0.12%	87

NPRE*-Rural Dev. & NPRE*-Urban Development is arrived by subtracting grants to PRI and ULB from the 13th FC and 4th SFC. (Rs. 1841.69 Cr. & Rs. 416.64 Cr. respectively)

Table 5.24: Projection of Revenue/ Fiscal Deficit

Items	(A)	(R.E)	B.E	Projections (In Crores)				
	13-14	14-15	15-16	15-16	16-17	17-18	18-19	19-20
Revenue Receipts	68919	95745	103338	101287	126464	151439	180553	215690
Capital Receipts	9922	14743	17725	23791	33032	41668	49418	58576
Revenue Expenditure	62477	100255	91208	88712	105110	124719	148198	176345
Capital Expenditure	17928	31932	29477	36280	47306	58068	68406	80802
Debt Servicing	3120	3606	3895	7797	8966	10311	11858	13636
GSDP	343054	383709	455451	454494	522668	601068	691229	794913
Revenue Deficit(+)/Surplus(-)	-6441	4510	-12130	-12575	-21353	-26719	-32355	-39345
Fiscal Deficit(+)/Surplus(-)	8367	32836	13452	15908	16987	21038	24193	27821
Fiscal Deficit as % of GSDP	2.44%	8.56%	2.95%	3.50%	3.25%	3.50%	3.50%	3.50%

* Data for row 13-14(A), 14-15(R.E) & 15-16(B.E) are from Bihar budget 15-16

5.6.2 Moreover, there is ample scope for higher borrowing within the enhanced F.D ceiling of $\leq 3.5\%$ as recommended by the 14th FC (**Table 5.13**). Debt: GSDP ratio for Bihar is currently under 20%, which can be raised to 25% as per the 14th UFC. State Govt. should accordingly amend FRBM Act 2009, to avail enhanced FD & Debt ceilings.

5.7 Assessing capacity of State Govt. to spare resources for the LBs

(A) Devolution

5.7.1 **Table 5.24** shows that there is enough cushion for enhanced devolution to the LBs (than that recommended by the 4th SFC) considering:

- Large revenue surplus,
- Expenditure projections have already included the existing devolution (7.5%), and

c) Projections of GSDP are conservative and Actuals would most likely be higher, given the better prospects of the National and State Economy in the coming years.

5.7.2 **Table 5.25** shows the projected devolution to the LBs based on our projections of the State’s Own Taxes. Different scenarios have been considered starting from the 4th SFC’s recommended level of devolution of 7.5% going upto 12% with increments of 0.5%.

5.7.3 Projections of the incremental financial burden on the State Budget have further been made in **Table 5.26**. It shows the scenario of varying devolution and consequential incremental financial burden on State govt. for 2015-20 over the 4th SFC’s recommended devolution at **7.5%** of divisible pool.

Table 5.25: Scenarios of Devolution to the LBs.

Sl. No.	Items	Projections (Rs. Cr.)							
		15-16 B.E	15-16	16-17	17-18	18-19	19-20	Total	
1	SOTR	30875	30141	37119	45781	56548	69954	239544	
2	Entertainment tax & Sairats	33	64	78	94	114	138	489	
3	Taxes excluding Ent. Tax & Sairats (1-2)	30842	30077	37042	45686	56434	69816	239055	
4	CoC	980	967	1161	1393	1671	2006	7198	
5	Divisible Pool (3-4)	29862	29110	35881	44294	54762	67811	231857	
6	Devolution %	7.5	2240	2183	2691	3322	4107	5086	17389
		8.0	2389	2329	2870	3543	4381	5425	18549
		8.5	2538	2474	3050	3765	4655	5764	19708
		9.0	2688	2620	3229	3986	4929	6103	20867
		9.5	2837	2765	3409	4208	5202	6442	22026
		10.0	2986	2911	3588	4429	5476	6781	23186
		10.5	3136	3057	3767	4651	5750	7120	24345
		11.0	3285	3202	3947	4872	6024	7459	25504
	11.5	3434	3348	4126	5094	6298	7798	26664	
	12.0	3583	3493	4306	5315	6571	8137	27823	

CoC: Cost of collection of taxes and duties; 15-16 B.E data are based on Bihar Budget documents

Table 5.26: Incremental Financial burden on the State Budget.

Year	Devolution (%), Financial Burden (Rs. Cr.)								
	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
15-16 B.E	149	299	448	597	747	896	1045	1194	1344
15-16	146	291	437	582	728	873	1019	1164	1310
16-17	179	359	538	718	897	1076	1256	1435	1615
17-18	221	443	664	886	1107	1329	1550	1772	1993
18-19	274	548	821	1095	1369	1643	1917	2190	2464
19-20	339	678	1017	1356	1695	2034	2373	2712	3051

(B) Grants

5.7.4 SOTR of Bihar is low as percentage of the CFS as compared to other States (*Annex 8.5*) and therefore, even a higher devolution of 8.5%-12% of SOTR would be low. Accordingly, total transfers to the LBs need to be “normalised” through enhanced Grants out of CFS.

5.7.5 As discussed in *Chapter-VI* and *Chapter-VII*, Grants have been recommended largely for capacity building of the LBs, lack of which has led to serious underutilization of GOI schemes and also low generation of own revenues.

5.7.6 Grants recommended by the 5th SFC will be part of Non-Plan Revenue Expenditure (NPRE) of State Govt. In view of the continuous (projected) revenue surplus over the award period, higher Grants can easily be accommodated. Further, the 4th SFC had recommended Grants of around **Rs. 233 Cr.** per year in addition to devolution. Additional financial burden due to the 5th SFC recommendations on Grants over the 4th SFC

recommendation on Grants for 2015-20 is given in *Table 9.14* (Refer *Annex-9.1*).

5.8 Relative Tax Capacity and Tax Effort of Bihar:

5.8.1 A Conceptual framework for measuring Relative Tax Effort is given at *Annex-5.10*. The 5th SFC has computed the same for the State categories i.e. HIS, MIS, LIS-1, LIS-2 and Bihar on the basis of two measures:

(i) **Income Measure:** Three criteria (a) Tax per Capita, (b) Tax Revenue: GSDP, (c) Tax Revenue: GSDP weighted by inverse of PCI have been used. The results at *Annex-5.11* show that:

- Per capita Tax has remained proportional to PCI over the years for all State categories.
- Tax revenue as ratio to GSDP is tending to equalize over years for all State categories.
- Tax: GSDP weighted by inverse of PCI is consistently higher for the poorer states.

(ii) **Tax Yield Measure:**

- The 5th SFC has used three approaches (*Box 5.8*)

i.e. (a) World Bank and IMF approaches to compute Total Tax Effort, and (b) Mahesh C Purohit approach to compute Tax Effort of individual taxes viz. Sales Tax, Excise Duty, Stamp Duty and MV Taxes, which account for 95% of the total tax revenues.

Box 5.8	Formula for computing relative Tax Effort
<p>(a) World Bank formula for total tax effort using traditional Regression methodology (2012)</p> <p>• $Tax/GSDP = \alpha + \alpha1*GSDPPC + \alpha2*DEMOG + \alpha3*TRADE + \alpha4*AGRI + \alpha5*GOVERNANCE QUALITY + \varepsilon$,</p> <p>(b) IMF Approach for total tax effort using Stochastic Frontier Model: (2013)</p> <p>$Log (Tax/GSDP)_{it} = \alpha + \beta1*log (GSDPPC)_{it} + \beta2*log (GSDP_AGRI)_{it} + \beta3*log (PE_Education)_{it} + \beta4*log (CPI)_{it} + v_{it} - u_{it}$</p> <p>(c) Mahesh C Purohit formula for individual tax efforts (2006)</p> <p>• Sales Tax: $log (Sales\ tax) = a + b * log (GSDP) + \varepsilon$,</p> <p>• Excise Duty: $log (Excise) = a + b * log (BEER + IMFL + C_LIQR) + \varepsilon$,</p> <p>• Stamp & Registration Fee: $log (STAMP_DT) = a + b * log (GSDP) + \varepsilon$,</p> <p>• Motor Vehicle & Passengers and Goods Tax: $log (MVT_P\&GT) = a + b1 * log (Multi\text{-}axel) + b2 * log (LMV_Goods) + b3 * log (Buses) + b4 * log (Taxis) + b5 * log (LMV_Passenger) + b6 * log (2_Wheeler) + b7 * log (Cars) + b8 * log (Jeeps) + b9 * log (Omni Buses) + b10 * log (Tractors) + b11 * log (Trailers) + b12 * log (Others) + \varepsilon$.</p>	

5.8.2 The results at **Annex-5.12** show that:

(i) Total Tax Effort (WB/IMF):

(a) As per WB approach, Bihar has shown increasing trend in total Tax Effort i.e. from 60% in 2000-01 to 91% in 2013-14. There is still a scope for Bihar to achieve its assessed capacity (i.e. from 91% to 100%) and further to the highest (129%) among the States.

(b) As per IMF approach, Bihar has decreasing trend in Total Tax Effort i.e. 74.85% in 2005-06 to 56.78% in 2013-14.

(ii) Tax Effort of individual taxes (M C Purohit):

a) Sales Tax: Bihar has fluctuating trend in Sales Tax Effort i.e. 100% in 2000-01 to 95% in 2009-10 and then to 97% in 2013-14. It evidently has a scope to achieve its assessed capacity (100%) and further to the highest (104%) among the States.

b) Excise Duty: Bihar has shown increasing trend in State Excise Duty Effort i.e. 95% in 2000-01 to 104% in 2013-14. Though it has achieved its assessed capacity (100%), there is still a scope for achieving the level of the highest (112%) among the States.

c) Stamp & Registration Fee: Bihar has already achieved more than its assessed capacity (100%), reached the level of the highest (106%) among the States.

d) Motor Vehicle & Passenger and Goods Tax: Bihar has achieved its assessed capacity (100%), though there is still a scope to increase its MV Tax Effort to achieve the highest (103%) level among the States.

5.8.3 Scope of raising additional revenue by Bihar: **Table 5.27** shows that,

(a) Additional tax revenue of **Rs. 8830 Cr.** could be raised if Bihar achieves the highest level achieved by a State, as per the *World Bank* approach.

(b) Additional tax revenue of **Rs. 17560 Cr.** could be raised if Bihar achieves the highest level achieved by a State, as per the IMF approach.

(c) Additional tax revenue of **Rs. 1135 Cr.** could be raised if Bihar achieves the highest level achieved by a State in each of the major individual taxes as per *Mahesh C Purohit* approach.

5.8.4 Incidentally, *M C Purohit* approach is too mechanical/simplistic, whereas, WB/IMF approaches capture factors affecting tax effort.

Table 5.27: Scope of raising additional revenue by Bihar

	Total Tax Effort (WB)			Total Tax Effort (IMF)		Sales Tax			Excise Duty	MV_P>
Target (%)	100	102	129	100	83	100	99	104	112	103
Gap (Rs. Cr.)	2090	2555	8830	17560	10665	320	195	830	230	75

Major differences are, therefore, seen in WB/IMF and *M C Purohit* results.

- IMF approach using Stochastic Frontier Model is closer to real life as compared to WB approach using traditional Regression method. Both the methods have, however, limitations and therefore, the estimated tax effort is to be used to assess the feasibility of raising additional revenues, given the tax mix policy and collection effort attained at the average level, rather than be the measure of actual performance.

5.9 Impact of GST on Finances of the State and the LBs.

5.9.1 A framework of GST is given at *Annex-5.13*.

5.9.2 Prima facie, Bihar being a consuming state, should benefit from the GST regime. However, *Annex-5.14* shows that loss or gain would depend on RNR adopted. RNR (SGST) for Bihar works out to 14.72%. If State Excise Duty collection becomes zero due to the likely prohibition, RNR for Bihar would increase to 27.23%.

5.9.3 Everything else remaining the same, RNR of 18% (10% SGST and 8% CGST) for example would lead to a loss of Rs.1,198.24 crore p.a. for Bihar, but a gain of Rs.9,058.39 crore p.a. for Maharashtra (*Annex-5.14*) since there would be low gains for low income states like Bihar from service tax and CVD/SAD relative to the high income states like Maharashtra etc. High income states have high taxable service tax and manufacturing base.

5.9.4 If RNR of 27% (14% SGST and 13% CGST) is adopted, losses of Bihar would come down to Rs. 159.20 crore, but gains of Maharashtra would increase to Rs. 21,347.40 crore (*Annex-5.15*). Incidentally, SGST of 11% meets the requirements of all states except Bihar (14.63%) and Chhattisgarh (11.36%).

5.9.5 The proposed GST regime would have impact on UFC transfers as well (*Annex-5.16*). Central Govt. may argue that since States also would now levy tax on manufacturing, services and imports (CVD/SAD), it need not share Union Excise Duty, Service Tax and CVD/SAD components of its taxes/duties with the States. It may be noted from *Annex-5.16* that the **divisible**

share of service tax was Rs. 43,764 Cr. for GOI in 2013-14. Bihar being a poor state would get approx. 9.79% of service tax as UFC transfers. Bihar, therefore, would have incurred a loss of 9.79% of Rs. 43,764 = 4283.20 Cr. on service tax transfer alone. Similar losses would have occurred on account of no transfer of Union Excise Duty (Rs. 4651 Cr.) and CVD/SAD (Rs. 3056 Cr.) respectively.

5.9.6 Reduced CGST of 8% (if overall RNR is 18%) would, moreover, reduce the divisible pool of Central taxes/duties for UFC transfers and thereby adversely affect the poorer states which get proportionally higher share in the divisible pool. Incidentally, ICAI has computed median rates for CENVAT at 12%, Service Tax at 12% and residuary VAT at 12.5%. Overall rate would be 25% to 30%.

5.9.7 GST Network: Robust GST network would benefit all states by reducing leakages through tools such as matching input tax credit, data mining and pattern detection and providing risk based scrutiny by tax authorities. However, the same could have been done in VAT regime as well. In any case, GST regime though may benefit all states through robust GSTN, it would benefit much more the high income states (having higher manufacturing & service tax base) and fiscal inequality among States would accentuate.

5.9.8 Impact of GST on the LBs:

(a) As pointed out by the Task Force Report on GST, 2009 (*Annex-5.17(A)*), for efficient functioning of GST, the LBs should have mutual interest in GST so that they do not have to impose any cascading taxes like cess, entry tax or octroi. Their losses needed to be compensated adequately either in the form of piggy back tax (some % in SGST component to be given to the LBs) or compensation based on an objective formula.

(b) Select Committee Report on GST has pointed out (*Annex-5.17(B)*) that the LBs play an important part in planning and enabling infrastructure availability to its citizens. Therefore, consideration should be given while drafting the SGST laws and provisions of devolution of taxes to the LBs should be made to protect and preserve the interest of LBs.

5.10. Impact of the recommendations of the 7th Pay Commission on the State Finances:

5.10.1 Salary & Pension expenditures of State Govt. have more than doubled between 07-08 and 11-12 i.e. from Rs.8,680 Cr. to Rs.19,312 Cr. primarily due to the implementation of the 6th Central Pay Commission recommendations. As a ratio of GSDP, it increased from 7.64% in 07-08 to 7.81% in 11-12.

5.10.2 Since decision of State Govt. as a follow-up to the 7th Central Pay Commission recommendation is difficult to predict, it is not feasible to forecast impact of the pay revision on the State finances.

5.10.3 As per GoI (Mo Finance), recommendations of the 7th Pay Commission is

likely to impact Salary and Pension expenses of Central Govt. by 30% in 16-17 and 8% thereafter.

5.11 LB Window in the State Budget: A summary of the LB window is given at **Annex-5.18**. The LB window appears to be incomplete as figures for 13-14 (Actuals) are not available and data for some important heads are not given. e.g. NGRBA in 2012-13 & 2013-14, CS + SS in 2012-13 etc. Moreover, it is irrational that Non-Plan Expenditure increased by 60% in 2013-14 (RE) and further by 25% in 2014-15(RE), whereas, Plan Expenditure increased by 64% in 2013-14 (RE) and then by 350% in 2014-15(RE). Changes in some items also are irrationally high or low. **It is expected that the LB window would improve in future.**

Chapter VI

PRIs Finances: Review and Forecast of Revenue and Expenditure

6.1 Computing Resource Gap:

6.1.1 The primary purpose of this Chapter is to project resource gap of the PRIs for the award period of the 5th SFC i.e., 2015-16 to 19-20. This evidently would require review and forecast of Revenue and Expenditure of the PRIs based on logical approaches. The framework in **Box 6.1** gives an overview of the same.

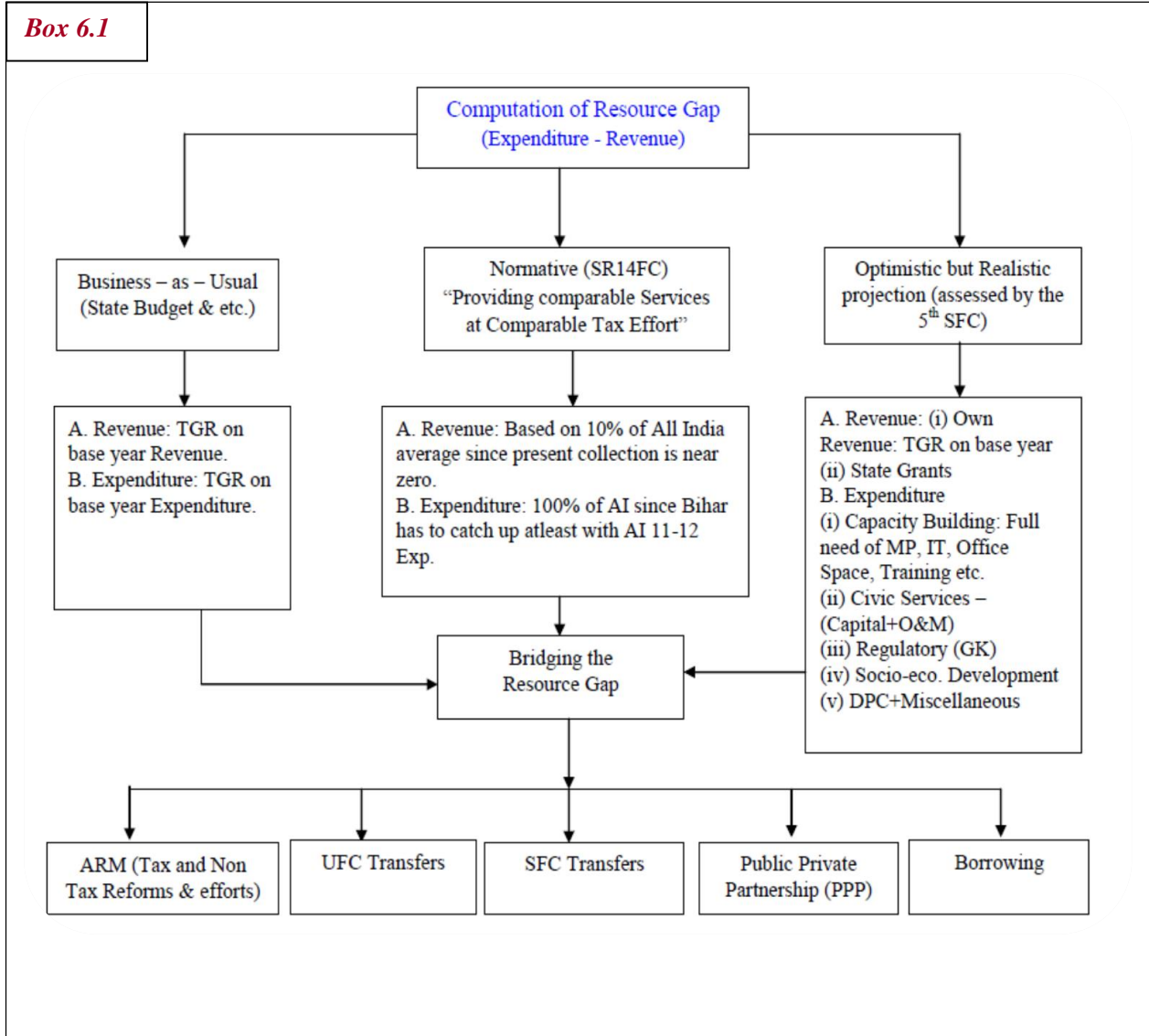
6.1.2 There could be 3 methodologies for computing resource gap of the LBs as given in **Box-6.1** below:

(i) **Business as usual:** This essentially means

computing revenue and expenditure as per TGR based on State Budget and scanty information available from the PRIs.

(ii) **Principle of Equalization:** both Revenue & Expenditure should be comparable to All India averages, which is available in the Report on LB Finances commissioned by the 14th FC (SR 14FC).

(iii) **Making optimistic but realistic assessment:** of Revenue and Expenditure so as to enable the PRIs to function as LSGs and deliver the expected services.



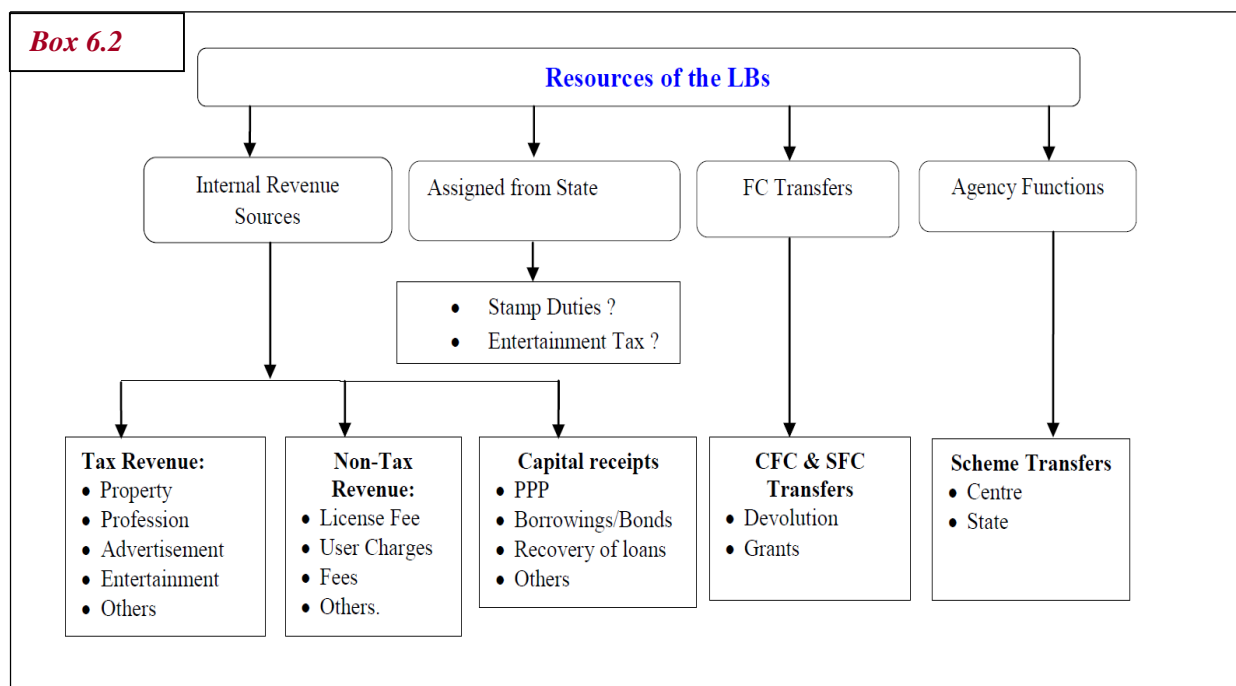
6.2 Resources of the PRIs:

Resources of the PRIs come primarily in three ways i.e., own revenue, FC/SFC transfers, and Scheme transfers for agency functions as shown in the flowchart below (**Box-6.2**). Historically, most of the PRIs revenue comes by way of Agency functions and FC/SFC transfers. Own revenue of the PRIs in Bihar is way below All-India Average.

6.2.1 Powers of the PRIs to realize tax & non-tax revenue:

a) **Constitution:** As per Article 243H, 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-6.3**)

b) **Powers of the PRIs to realize tax & non-tax revenue under the State Acts:** As per Section 27(1, 2), 55(1, 2, and 3) & 82(1, 2, and 3) of BPR, 2006, the PRIs have power to realize tax and non-tax revenue as given in **Table-6.1**. However, Rules for the same have to be framed and enforced urgently.



Box 6.3

Powers of the LBs to realize tax & non-tax under the Constitution

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 there-from, as may be specified in the law.

Table 6.1: Taxation Power of the PRIs in Bihar (BPRA, 2006)

Gram Panchayat	Panchayat Samiti	Zila Parishad
<p>a. Tax: Section 27. (1):- (a) Tax on occupants of holdings; (b) Tax on Professions, trades, callings and employments</p> <p>b. 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>a. 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>b. 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>a. 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>b. 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>

c) **Mobilising revenue:** *Box-6.4* below gives a schematic framework of assessment and collection of revenue by the PRIs.

6.2.2 Assigned taxes from State Govt.: State Govt. can assign any tax (partially or fully) to the LBs.

Box 6.4

Assessment and Collection of Taxes etc.

- Prepare details about assessed tax, collection made and arrears, in respect of each tax and non-tax revenue, for each level of Panchayats, through the permanent SFC Cell in the State Government.
- Analyse data collected for identifying broad trends among Panchayats and for identifying champions and innovations. Compile such good practices.
- Undertake a campaign to overcome the large slack in revenue collection.
- Prepare a compendium of the relevant legal provisions and executive orders in respect of the administration of taxes by PRIs, incentivisation programmes, innovations, recommendations of the SFC etc.
- Assist the SFC to lead policy work for: (a) exploring appropriate tax and non-tax revenue assignments; (b) ways and means of administering and enforcing them including manpower and training; and (c) achieving a greater linkage between revenue collection and spending decisions at the local level.
- Rationalise the number and type of taxes, and assign at least a few important taxes to each level of Panchayat.
- Re-examine the current rates of taxation and consider an upward revision, remove maximum limits fixed on tax as also the conditionalities that hamper or restrict taxation powers of Panchayats. Do not abolish taxes in Panchayat domain (for example, some States have abolished house tax).
- Incentivise tax and non-tax efforts of Panchayats by reworking the formulae for devolution of funds and also provide disincentives for the non-performing PRIs. Fix user charges on a rationale basis and provide incentives to PRIs for enforcement.

Source: MoPR, GoI

6.2.3 FC Transfers: The FC transfers comprise of (a) Grants from the UFC, and (b) Devolution & Grants from the SFC. These transfers can be tied or untied (**details in Chapter. VIII**)

6.2.4 Resources for the Agency Functions: Funds also flow to the LBs under State and Central schemes for specific purposes.

6.2.5 Resources under Capital receipts: These comprise of PPP, Borrowings/Bonds, Recovery of loans, etc.

6.3 Review of Resources (2010-15) :

6.3.1 Own Revenue Sources:

(i) Information not received from PRD in the format below. (**Table-6.2**)

(ii) It is learnt that near zero collection of own revenue is made by both the GPs and the PSs. Some revenues are being generated by the ZPs.

6.3.1.1 Measures taken by state government:

- The PRIs are not able to realize tax or non-tax revenue due to the absence of relevant Rules, clear Guidelines and related manpower. Their lands etc. cannot be used for productive purposes, being mostly un-demarcated, encroached or disputed.

• Accordingly ;

(i) State Govt. should notify Rules for collection of

holding tax etc. by the PRIs,

(ii) State Govt. should issue clarification and circulate a model Bye-law to enable the Panchayats to collect non-tax revenue against services provided.

(iii) The Panchayats should mobilize revenue by (a) creating economic assets like market, shops, community hall etc. (b) developing natural assets like horticulture, social forestry, fishery etc. on their own community land, which may be given on lease.

6.3.2 Assigned taxes from State Govt.: Information not received from PRD.

6.3.3 FC Transfers: As per the 13th FC and the 4th SFC recommendations, following amounts should have flown to the PRIs (**Table-6.3**). Status of funds actually received by the PRIs is awaited from PRD.

6.3.4 Resources for the Agency Functions:

Given the recent restructuring of the CSS/ACA schemes, it would be even more important to the review allocations to the PRIs under different schemes.

6.3.5 Capital Receipts: The PRIs in Bihar have nil Capital receipts as per SR14 FC. Actual status from PRD is awaited.

Table: 6.2 Own Revenue Sources of the PRIs

Revenue Source	2010-11			2011-12			2012-13			2013-14			2014-15		
	Arr	Asses	Rzd	Arr	Asses	Rzd	Arr	Asses	Rzd	Arr	Asses	Rzd	Arr	Asses	Rzd
A. Tax															
Property tax															
Profession tax															
Sairat															
Entertainment tax*															
B. Non-tax															
User charge															
License fees															
Tolls															
Others (specify)															
Total															

Table 6.3: Transfers from the 13th FC and the 4th SFC*In Cr.*

Sl	Years Items	10-11		11-12		12-13		13-14		14-15		10-15	
		(R)	(A)	(R)	(A)	(R)	(A)	(R)	(A)	(R)	(R.E)	(R)	(R.E)
The 13th FC													
1	Basic grant	461	456	535	584	625	657	741	758	877	828	2614	3282
2	Performance grant	0	0	183	268	429	528	506	726	597	168	1286	1691
3	Total transfer to PRIs	461	456	718	852	1054	1185	1247	1484	1474	996	3900	4973
The 4th SFC													
4	Divisible pool	6,436	9,377	7,227	12,010	8,114	15,637	9,110		10,226		32999	37025
5	7.5% of Devolution	483	703	542	901	609	1,173	683		767		2475	2777
6	Share of PRIs (70%)	338	492	379	631	426	821	478		537		1732	1944
7	Grants to PRIs	180	180	180	180	180	180	180		180		721	541
8	Tied amount for PRIs (out of devolution)	318	318	318	318	318	318	318		318		1272	954
9	Untied amount for PRIs (out of devolution)	20	174	61	313	108	503	160		219		460	990
10	Total transfer to PRIs	518	673	560	811	606	1,001	659		717		2454	2485
Composite FC Transfers to PRIs (3+10)		979	1,128	1,278	1,663	1,660	2,186	1,906	1,484	2,191	996	6,354	7,458

*(R): Recommendations by the FCs, 'A' - As per budget, R.E.: Revised Estimate.**Note: PRD to confirm and furnish details about Actuals.***Table 6.4: Central scheme transfers** *Rs. Cr.*

Sl.	Schemes	10-11	11-12	12-13	13-14	14-15 (B.E)
1	BRGF				805.48	3974.17
2	MGNREGS					1600
3	IAY					2700
4	IGNOAPS					
5	SSA					4000
6	MDM					1282.29
7	Literacy Mission	Information not received from PRD				
8	NRHM					1200
9	ICDS					
10	NRDWP					
11	TSC					
12	RKVY					715
13	NRLM					208
14	RGPSY					300
15	NEGAP					23.06
16	Others (specify)					
17	Total					

*Source: Department of Planning, Govt. of Bihar.***Table 6.5: State scheme transfers** *Rs. Cr.*

Scheme	10-11			11-12			12-13			13-14			14-15		
	ZP	PS	GP	ZP	PS	GP	ZP	PS	GP	ZP	PS	GP	ZP	PS	GP
Lohia Sanitation															
MMGVY	Information not received from PRD														
Others (specify)															
Total															

6.4 Forecast of Revenue: (2015-20):

Sources of revenue of the LBs are given in **Box-6.2**, whereas, **Box-6.1** includes possible methodology for projecting revenue as follows:

6.4.1 Business-as-usual: The LB window of State Budget has no data on revenue. Own revenues of GPs & PSs are negligible and therefore have not been projected. For ZPs, the Commission has calculated own revenue based on ZP, Patna data. i.e., (i) for ZP, Patna: own revenue of Patna ZP for 13-14 and (ii) for other ZPs: 10% of own revenue of Patna ZP * 37 ZPs with annual increase of 10%. For State Grant, the Commission has projected annual increase of 10% over the base year of 15-16. Accordingly, projection for

the next five years is given in **Table-6.6**.

6.4.2 Normative approach (based on SR14FC data): As per SR14FC, revenue of the PRIs in Bihar from internal sources has been near zero and they are dependent entirely on FC and Scheme transfers. For assessing revenues and computing resource gap, following steps have been followed.

6.4.2.1 Own Revenue Sources (ORS):

Step 1: CAGR (2007-2011) of All-India PC ORS taken from SR14FC and used for projecting ORS for 12-13 to 15-16. (Refer **Table-6.7**)

Step 2: Projection of PC ORS for Bihar made on the basis of 10% of the projected All-India PC ORS in 15-16 and then increased by CAGR of

Table 6.6: Projections of total revenue of the PRIs

Rs. Cr.

Sl.	Items	15-16	16-17	17-18	18-19	19-20	15-20
1	Own Revenue	92	102	112	123	135	564
2	14th FC Transfers	2269	3554	4097	4729	6368	21017
3	State Grant	203	223	246	270	297	1239
Total Revenue (1+2+3)		2564	3879	4455	5122	6800	22820

Table 6.7: All India PC Own Revenue Sources (2007-2015)

Sl.	Items	Village Level (GP)						
		2	3	4	5	6	7	8
Year		2007	2011	CAGR	12-13	13-14	14-15	15-16
Own Revenue		44	64	10	70	77	85	93
1	Property taxes	22	30	8	33	36	39	42
2	Other taxes	10	15	11	17	19	21	23
3	User charges and non-tax	11	18	13	20	23	26	29
		Intermediate Level (PS)						
Own Revenue		11	19	15	22	25	29	34
1	Property taxes	2	2	-1	2	2	2	2
2	Other taxes	4	7	15	9	10	11	13
3	User charges and non-tax	4	10	21	12	14	17	21
		District Level (ZP)						
Own Revenue		44	81	16	94	110	128	149
1	Property taxes	2	3	0	3	3	3	3
2	Other taxes	27	52	18	62	73	86	101
3	User charges and non-tax	14	26	16	30	35	41	47
		Total						
Own Revenue		99	164	13	186	211	240	272
1	Property taxes	27	35	7	38	40	43	46
2	Other taxes	42	75	16	87	101	117	136
3	User charges and non-tax	30	54	16	62	72	83	96

All-India. Refer table 6.8 (a).

Step 3: Projection of PC ORS for Bihar made on the basis of Growth Rate of 10% only, since CAGR for attaining PC ORS of All India level in 19-20 would be too high. Refer Col. 2 of **Table-**

6.8 (b).

Step 4: Projecting Rural population for Bihar: Methodology of the SR14FC has been followed i.e. adding yearly increase in rural population to the current years' for the next years' value as

Table 6.8 (a): PC ORS Projection for Bihar (2015-2020)

Sl.	Items	CAGR	PC (AI)	PC (Bihar)				
	Year		15-16	15-16	16-17	17-18	18-19	19-20
	1		2	3	4	5	6	7	8
Village Level (GP)								
Own Revenue		10	93	9	10	11	12	14
1	Property taxes	8	42	4	5	5	5	6
2	Other taxes	11	23	2	3	3	3	3
3	User charges and non-tax	13	29	3	3	4	4	5
Intermediate Level (PS)								
Own Revenue		15	34	3	4	4	5	6
1	Property taxes	-1	2	0.22	0.22	0.21	0.21	0.21
2	Other taxes	15	13	1	1	2	2	2
3	User charges and non-tax	21	21	2	2	3	4	4
District Level (ZP)								
Own Revenue		16	149	15	17	20	23	27
1	Property taxes	0	3	0	0	0	0	0
2	Other taxes	18	101	10	12	14	17	19
3	User charges and non-tax	16	47	5	5	6	7	9
Total								
Own Revenue		13	272	27	31	35	40	45
1	Property taxes	7	46	5	5	5	6	6
2	Other taxes	16	136	14	16	18	21	24
3	User charges and non-tax	16	96	10	11	13	15	17

Table 6.8 (b): PC ORS Projection for Bihar (2015-2020)

Sl.	Items	Estimated GR *	Projected GR	PC (Bihar)				
	Year			15-16**	16-17	17-18	18-19	19-20
	1			2	3	4	5	6	7	8
Village Level (GP)								
Own Revenue		95	10	9	10	11	12	14
1	Property taxes	92	10	4	5	5	6	6
2	Other taxes	97	10	2	3	3	3	3
3	User charges and non-tax	100	10	3	3	4	4	4
Intermediate Level (PS)								
Own Revenue		104	10	3	4	4	4	5
1	Property taxes	76	10	0.22	0.24	0.26	0.22	0.37
2	Other taxes	105	10	1	1	2	2	2
3	User charges and non-tax	115	10	2	2	2	3	3
District Level (ZP)								
Own Revenue		107	10	15	16	18	20	22
1	Property taxes	78	10	0	0	0	0	0
2	Other taxes	109	10	10	11	12	13	15
3	User charges and non-tax	106	10	5	5	6	6	7
Total								
Own Revenue		102	10	27	30	33	36	40
1	Property taxes	90	10	5	5	6	6	7
2	Other taxes	106	10	14	15	16	18	20
3	User charges and non-tax	106	10	10	11	12	13	14

follows (See **Part A and Part B**):

Step 5: Tier wise Projection of Total ORS of Bihar for 2015-20 (Refer **Table-6.9**) is made by multiplying PC ORS of Bihar (see **Table-6.8 b**) with population (see Step 4).

6.4.2.2 Assigned Taxes: The Commission did not receive information from PRD and therefore not included revenues from the assigned taxes in the assessment.

6.4.2.3 FC/ SFC transfers:

(a) 14thFC: The 14th FC has recommended (**Annexure-9.1 of 14th FC Report**) a grant of Rs. 21,018 Cr. for the GPs of Bihar for providing core civic services as given in **Table-6.10**.

(b) 5th SFC Transfers: Refer to the recommendations in **Chapter IX. (para 9.7)**

6.4.2.4 Scheme transfers: Since (a) there has been restructuring of CSSs in the Union Budget

Part A

Rural population		Growth rate (%)		Yearly increase in Population
2001 Census	2011 Census	Decadal	Yearly	
743,16,709	923,41,436	24.25	2.43	18,02,473

Part B

Yr.	2012	2013	2014	2015	2016	2017	2018	2019	2020
Rur. Popln. (In Cr.)	9.41	9.59	9.77	9.96	10.14	10.32	10.5	10.68	10.86

Table 6.9 Tier wise total ORS Projection for Bihar (2015-2020)

Sl.	Items	Tier wise projection of total ORS							
		Year	Projected GR	15-16	16-17	17-18	18-19	19-20	15-20
		1	2	3	4	5	6	7	8
Village Level (GP)									
	Own Revenue	10	93	105	117	131	147	592	
1	Property taxes	10	41	46	52	58	65	263	
2	Other taxes	10	23	26	29	32	36	146	
3	User charges and non-tax	10	29	32	36	41	45	183	
Intermediate Level (PS)									
	Own Revenue	10	36	40	45	50	56	226	
1	Property taxes	10	2	2	3	3	3	14	
2	Other taxes	10	13	15	16	18	20	82	
3	User charges and non-tax	10	20	23	26	29	32	130	
District Level (ZP)									
	Own Revenue	10	150	168	188	211	236	953	
1	Property taxes	10	2	3	3	4	4	16	
2	Other taxes	10	101	113	126	141	158	638	
3	User charges and non-tax	10	47	53	59	66	74	299	
Total									
	Own Revenue	10	279	313	350	392	438	1771	
1	Property taxes	10	46	52	58	65	72	293	
2	Other taxes	10	136	153	171	192	214	866	
3	User charges and non-tax	10	96	108	121	135	151	612	

Table 6.10: Grants for the GPs of Bihar by the 14th FC Rs. Cr.

Year	15-16	16-17	17-18	18-19	19-20	15-20
Total	2269	3554	4097	4729	6368	21018
a. Basic grant	2269	3142	3630	4200	5674	18916
b. Performance grant	0	412	466	530	694	2102

15-16 B.E, (b) it is still not clear which schemes will be operative, and (c) resources under schemes usually come along with the agency functions, Commission has not considered scheme transfers while calculating revenue or resource gap.

6.4.2.5 Total Revenue projection based on Normative Approach (Refer to **Table-6.9** for Own Revenue & **Table-6.10** for 14th FC Transfers) can be summed up in **Table-6.11**.

6.4.3 5th SFC Approach: Optimistic but realistic approach as follows has been adopted since Bihar LBs have to catch up in 2019-20 with at least All India level of 2015-16.

6.4.3.1 Own Revenue: Since information was not received from PRD about own revenue of the GPs and PSs of Bihar, this Commission has adopted same methodology as explained in *para-6.4.2.1*. It took only 50% of GP & PS figures from

Table-6.9 due to very low capacity of the GPs & PSs in collecting taxes and fees. For ZPs, this Commission has calculated own revenue based on Patna ZP data. i.e., (i) For ZP Patna: - own revenue of ZP, Patna for 13-14, and (ii) For other ZPs: - 10% of own revenue of Patna ZP * 37 ZPs with annual increase of 10%.

6.4.3.2 14th FC Transfers: Figures as per Recommendation of the 14th FC (**Table-6.10**)

6.4.3.3 State Grants: Taken from the LB window of State Budget (**Table-6.6**) for 15-16 with annual increase of 10% subsequently.

6.4.3.4 Total Revenue projection based on 5th SFC Approach for 2015-20 may be seen in **Table-6.12**.

6.5 Expenditure of the PRIs

6.5.1 Items of Expenditure:

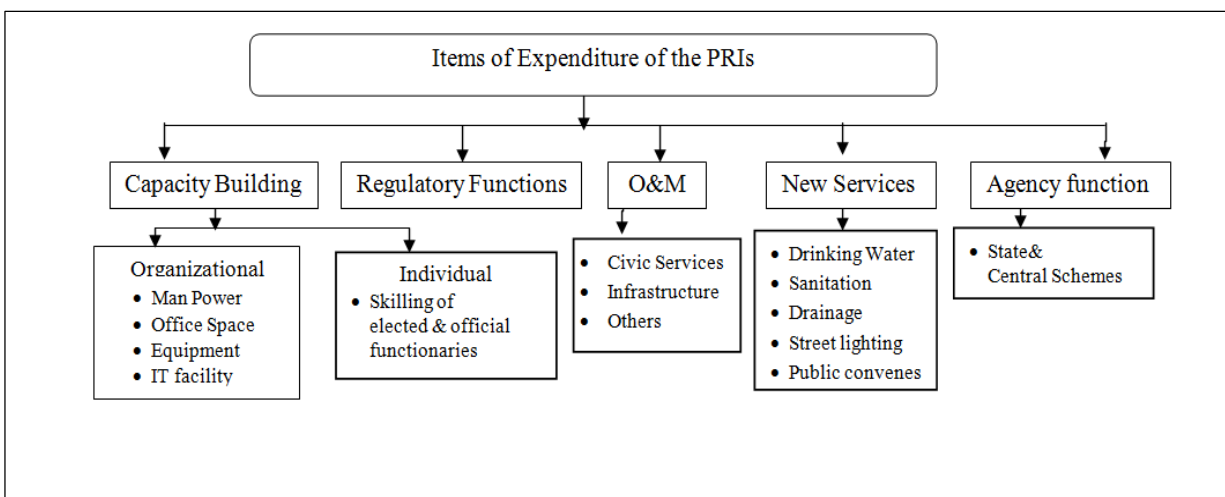
Box 6.5 shows the major items of expenditure.

Table 6.11: Projection of Total Revenue as per SR14FC *Rs. Cr*

Sl.	Year	15-16	16-17	17-18	18-19	19-20	15-20
1	Own Revenue	279	313	350	392	438	1771
2	14th FC Transfers	2269	3554	4097	4729	6368	21017
3	Total*	2548	3867	4447	5121	6806	22788

Table 6.12: Projection of Total Revenue as per 5th SFC *Rs. Cr.*

Sl.	Items	15-16	16-17	17-18	18-19	19-20	15-20
1	Own Revenue (a+b+c)	157	174	193	213	237	974
a.	GP	47	53	59	66	74	297
b.	PS	18	20	23	25	28	114
c.	ZP	92	102	112	123	135	564
2	14 th FC Transfers	2269	3554	4097	4729	6368	21017
3	State Grants	203	223	246	270	297	1149
	Total (1+2+3)	2629	3951	4536	5212	6902	23140



6.6 Review of Expenditure of the PRIs (2010-15)

6.6.1 Time Series Analysis of expenditure of the PRIs: PRD is yet to furnish information. Refer to **Table-6.13**.

6.6.2 Business-as-usual (based on the State

Budget etc.): Since little information is available on PRIs expenditure, we have taken State Govt. Grant from the LB window of State Budget as proxy for expenditure for the respective years. A summary of the LB window of the State Budget is given in **Table-6.14**.

Table 6.13: Review of Item wise Expenditure *Rs. Cr.*

		10-11	11-12	12-13	13-14	14-15
I	Capacity Building					
a	Man Power					
b	Office Space					
c	IT					
d	Training					
e	Other					
II	Regulatory					
a	GK					
b	Village Policing					
III	O & M					
a	Civic Services					
b	Infrastructure					
IV	Civic Services					
a	Drinking Water					
b	Sanitation					
c	Drainage					
d	Street lighting					
V	Socio-eco development					
VI	Other					

Table 6.14: Local Body Window of the State Budget (Panchayats) *Rs. Cr.*

		12-13 (A)	13-14 (R.E)	13-14 (A)	14-15 (B.E)	14-15 (R.E)	15-16 (B.E)
PRD transfers to the LBs		2485	3106	2674	4210	4093	4578
1	Non-Plan	1842	2107	1867	2523	2523	3329
	A FC Grants	1151	1247	1037	1474	1474	2269
	B SFC Grants	672	815	813	1004	1004	1014
	C G.K	18	45	18	45	45	45
2	Plan	644	999	807	1687	1570	1249
	A B.R.G.F	491	361.1	486	759	759	759
	B R.G.P.S.Y	0	0	0	233	233	184
	C Salary Exp	92	195	128	181	64	203
	D M.M.G.Y	61	193	193	14	14	103
	E Panchayat Sarkar Bhawan	0	250	0	500	500	0

Table 6.15 Projections of Expenditure as per budget*Rs. Cr.*

Sl.	Items	% increase p.a.	15-16	16-17	17-18	18-19	19-20	15-20
1	Plan		928	473	524	580	639	3144
a	BRGF*		-	-	-	-	-	-
b	RGPSA*		-	-	-	-	-	-
c	MMGY	10	212	234	257	283	311	1296
d	Salaries	10	215	240	267	297	329	1348
e	PSBs	0	500	500	500	500	500	2500
2	Non Plan		2289	3576	4121	4756	6397	21138
a	FC Grants		2269	3554	4097	4729	6368	21018
b	GK	10	20	22	24	26	29	121
	Total (1+2)		3216	4049	4645	5336	7036	26282

6.7 Forecast of Expenditure (2015-20):

- Item-wise projection of expenditures can be made based on **Box-6.5**. But the Commission is yet to receive required data from PRD.
- For assessing expenditure and resource gap, following alternative projections are made:

6.7.1 Business-as-usual: This Commission has assessed expenditure for the LB window items based on State Budget (**Table-6.15**) excluding that for BRGF and RGPSA, which have since been dropped by Central Govt.

6.7.2 Normative (SR14FC): SR14FC has projected only O & M expenditure on civic services. For projection of the total expenditure of the PRIs, this Commission has assessed expenditure on Capacity building (Manpower, Training, e-Panchayat, TSSP), Regulatory functions (GK) etc. also (Refer to **Table-6.24** &

6.26).

6.7.2.1 Expenditure on O&M: Computation of O&M expenditure is based on revenue expenditure as per SR14FC as follows:

Step 1: Derived All India tier wise PC Revenue Expenditure (2007-08 & 2011-12) on basic services as per SR14FC and computed CAGR to project PC Revenue Expenditure for subsequent years (2015-20).

Step 2: Projected All India tier wise PC Revenue Expenditure for 2015-20 based on computed CAGR. Refer **Table-6.16**.

Step 3: Total Revenue Expenditure Projection for Bihar based on PC All India Revenue Expenditure (as per Step 2 above) multiplied by population projections of Bihar (para 6.4.2.1) for respective years **Table-6.17**. O & M expenditure would be as in **Table-6.18**. Details may be seen at **Annexure-6.1**

Table 6.16: PC-All India Rev. Exp. on core services (2007-08 & 2011-12)

Sl.	Items	2007-08			2011-12			CAGR		
		G.P	P.S.	Z.P.	G.P	P.S.	Z.P.	G.P	P.S.	Z.P.
	PC Revenue Expenditure	59	21	49	123	55	69	20	28	9
1	Roads and Bridges	16	7	14	31	20	22	19	30	12
2	Water Supply	11	2	5	21	4	7	17	17	8
3	Buildings/Community assets	14	3	3	24	10	6	15	34	19
4	Street Lighting	5	0	0	11	0	0	25	0	0
5	Sanitation, Storm Water drainage and solid waste	7	0	1	16	2	3	25	50	29
6	Other means of communication	1	3	1	3	7	2	43	21	17
7	Other maintenance Expenditure	7	5	25	17	14	29	25	28	4

Table 6.17: PC-All India Rev. Exp. on core services (2015-20)

Sl.	Items	15-16	16-17	17-18	18-19	19-20	15-20
		Village Level (GP)					
PC Revenue Expenditure		262	318	387	473	578	2912
1	Roads and Bridges	63	75	90	107	127	663
2	Water Supply	39	46	53	62	73	408
3	Buildings/Community assets	42	49	56	65	75	436
4	Street Lighting	28	35	43	54	67	321
5	Sanitation, Storm Water drainage and solid waste	39	49	61	76	95	443
6	Other means of communication	10	15	21	30	43	182
7	Other maintenance Expenditure	40	50	63	78	98	458
Sl.	Items	Intermediate Level (PS)					
PC Revenue Expenditure		203	232	266	307	353	2104
1	Roads and Bridges	85	99	116	136	160	869
2	Water Supply	16	17	18	20	22	160
3	Buildings/Community assets	48	57	69	82	99	509
4	Street Lighting	0	0	0	0	0	0
5	Sanitation, Storm Water drainage and solid waste	5	6	6	7	8	63
6	Other means of communication	8	10	11	12	14	96
7	Other maintenance Expenditure	41	44	46	48	51	408
Sl.	Items	District Level (ZP)					
PC Revenue Expenditure		140	163	190	221	258	516
1	Roads and Bridges	73	86	100	118	138	101
2	Water Supply	16	18	20	22	24	176
3	Buildings/Community assets	26	30	34	39	44	4
4	Street Lighting	0	0	0	0	0	20
5	Sanitation, Storm Water drainage and solid waste	2	2	3	3	4	14
6	Other means of communication	2	2	2	2	2	170
7	Other maintenance Expenditure	22	26	32	38	45	0
Sl.	Items	Total					
PC Revenue Expenditure		605	714	844	1000	1189	5532
1	Roads and Bridges	221	260	306	361	425	1633
2	Water Supply	70	80	91	104	119	744
3	Buildings/Community assets	116	136	159	186	218	949
4	Street Lighting	28	35	43	54	67	341
5	Sanitation, Storm Water drainage and solid waste	46	57	70	87	107	520
6	Other means of communication	20	26	34	44	59	448
7	Other maintenance Expenditure	104	120	140	165	194	865

Step 4: Expenditure on Capacity building, Regulatory functions etc. also included (as projected in the **5th SFC approach**) to compute total expenditure (**Table 6.19**).

6.7.3 5th SFC Approach: Optimistic but

realistic approach has been adopted. Since the Bihar LBs have to catch up in 2019-20 with at least the All India level of 15-16, this Commission has made following projections:

6.7.3.1 O&M expenditure: is assessed as in **Table-6.18**.

Table 6.18: Tier wise O & M expenditure as per all India average (2015-20) Rs. Cr.

Sl.	Tiers	15-16	16-17	17-18	18-19	19-20	15-20
	1	2	3	4	5	6	7
1	G.P	2608	3225	3995	4960	6174	20962
2	P.S	2018	2353	2749	3217	3772	14108
3	Z.P	1397	1655	1960	2323	2753	10087
4	Total	6023	7232	8704	10500	12698	45157

Table 6.19: Total expenditure as per SR14FC (2015-20) Rs. Cr.

Sl.	Items	15-16	16-17	17-18	18-19	19-20	15-20
1	Capacity Building	285	966	935	1606	1585	5377
2	Regulatory (GK)	344	346	390	351	353	1784
3	O & M	6023	7232	8704	10500	12698	45157
Total (1+2+3)		6652	8544	10029	12457	14636	52318

Table 6.20: Tier wise Projected Cost on Manpower Rs. Cr.

Sl.	Tier	15-16*	16-17	17-18	18-19	19-20	15-20
1	GP		1280	1280	1280	1280	5120
2	PS		110	110	110	110	440
3	ZP		23	23	23	23	92
4	GK**						
5	Total	285	1413	1413	1413	1413	5652

* Amount for 15-16 as per Interim Report, if same would not be spend then utilize as untied fund.

** Honorarium to GK Secretary and Nyay Mitra is to be provided through State Budget as usual and therefore no projection made for GK personnel.

6.7.3.2 Expenditure on Capacity building: This commission has assessed expenditure on different items of Capacity building separately as per need viz. Manpower, Training, e-Panchayat (IT), TSSP. Details are given below:

(a) Manpower: Projection of manpower for all three tiers is based on Model Panchayat Cadre (Table 2.7).

(b) Training: All elected and official Panchayat functionaries must undergo compulsory training twice a year. Training cost can be divided into two parts;

(i) Training Institutions: Total Cost on Training Institutions for the PRIs is approx. Rs.150 Cr. for the next four years (2016-20) as follows:

- Block Resource Centers (BRCs) are to be functional in all 534 Blocks. Since BRCs were started in 120 Blocks earlier, provision has made only for remaining 414 Blocks @ Rs.10 lakh each =

Rs. 41.40 Cr.

- 38 District Panchayat Resource Centers (DPRCs) @ Rs. 2 Cr. each = Rs.76 Cr.

- One State Panchayat Resource Center (SPRC) at State HQ @ Rs. 5 Cr. = Rs. 5 Cr.

(ii) Training Programmes: The next PRI elections are due in March-June, 2016 and elected functionaries must get induction training on a drive basis within 6 months of the elections. Since total no. of elected representatives of the PRIs (Table-2.1) would be 2, 59,914 (including GKs), @ Rs. 4000 per member, training cost would be Rs. 104 Cr. p.a. in 16-17 & 17-18. @ Rs. 2500 per member = Rs. 65 Cr. p.a. would be required for subsequent (2018-20) years. i.e. Total cost for Training Programme would be Rs. 556 Cr. for four years.(2016-20).

(iii) Cost details of Training accordingly would be as in Table 6.21.

Table 6.21: Projected Cost on Training for PRIs & GK Functionaries Rs. Cr.

Sl.	Items	Unit cost	15-16*	16-17	17-18	18-19	19-20	15-20
1	Training Programme			104	104	65	65	338
2	Institution (a+b+c)			122	32	32	32	218
(a)	SPRC	5 Cr.X 1 = 1 Cr.		5	2	2	2	11
(b)	DPRC	2 Cr.X 38= 38 Cr.		76	20	20	20	136
(c)	BRC	0.10 Cr. X 414 = 41 Cr.		41	10	10	10	71
3	Total (1+2)			226	136	97	97	556

* Evidently it is not possible to spend any amount on Training in 15-16, hence Commission not projected for 15-16.

Table 6.22: Projected Costs of e-Panchayat Project Rs. Cr

No.	Items	15-16*	16-17	17-18	18-19	19-20	15-20
1	State ICT**		2	1	1	1	4
2	PRIs ICT**		16	66	69	53	204
3	Manpower (IT)		9	36	38	29	112
4	Capacity Building (IT)		4	7	7	4	21
5	Block Support Group		2	8	9	7	26
6	Program Management Unit		4	4	4	4	16
7	Total		32	118	124	94	367
8	Total -Manpower Cost***		23	82	86	65	255

* Evidently, it is not possible to spend any amount on e-Panchayat in 15-16.

** PRI (ICT) includes cost of ICT infrastructure at PRIs, whereas; State (ICT) Infrastructure is for State level.

*** Cost of Manpower (IT) has been excluded in the total cost of e-Panchayat, since IT manpower has already been included in Manpower projection for the PRIs. (Table-6.20).

(c) e-Panchayat: Cost details are given in **Table-6.22**.

(d) Technical Support for Smart Panchayat (TSSP):

(i) It is proposed to provide SPUR (Support

Programme for Urban Reforms) type support also to the PRIs and the DPCs. Five key outputs expected from TSSP are as in **Box 6.6**.

(ii) The cost projection for TSSP may be seen in the **Table 6.23**

Table 6.23: Expenditure on TSSP (2015-20)

Sl.	Name of Posts	No. of post for each Div.	Total No. of post	Unit Cost p.m.	Total Cost p.a. (Rs. Cr.)				
					16-17	17-18	18-19	19-20	16-20
	1		2	3	4	5	6	7	8
A.	Personnel								
1	Group Leader	1	10	100,000	1.20	1.20	1.20	1.20	4.80
2	Panchayat Governance Professional	1	10	70,000	0.84	0.84	0.84	0.84	3.36
3	Economist	1	10	70,000	0.84	0.84	0.84	0.84	3.36
4	Law Officer (G.K.)	1	10	60,000	0.72	0.72	0.72	0.72	2.88
5	Development Planner	1	10	60,000	0.72	0.72	0.72	0.72	2.88
6	Finance Consultant	1	10	50,000	0.60	0.60	0.60	0.60	2.40
7	Statistical Consultant	1	10	50,000	0.60	0.60	0.60	0.60	2.40
8	PPP Professional	1	10	50,000	0.60	0.60	0.60	0.60	2.40
9	Administrative Officer	1	10	30,000	0.36	0.36	0.36	0.36	1.44
10	Accountant	1	10	25,000	0.30	0.30	0.30	0.30	1.20
11	Assistant	1	10	20,000	0.24	0.24	0.24	0.24	0.96
12	IT Assistant-cum-DEO	4	40	17,000	0.82	0.82	0.82	0.82	3.26
13	MTS ¹	2	20	11,000	0.26	0.26	0.26	0.26	1.06
14	IEC				1.00	1.00	1.00	1.00	4.00
15	Office Space & Infrastructure*			#	0.66	0.66	0.66	0.66	2.64
16	Total:				9.76	9.76	9.76	9.76	39.04

Note: 1. Multi-Tasking Staff (Sweeper-cum-Peon-cum-Chaukidar) * Research and Consultancy fund would be managed by PRD for promoting quality of planning through DPCs. ** Rent, furniture, computer with internet connectivity, electricity and miscellaneous item.

Box 6.6**Five key outputs expected from Technical Support Team for Smart Panchayat**

- **Panchayat Governance**– (i) Drafting policies, strategies & guidelines, (ii) Institutional repositioning, (iii) Training & capacity building, (iv) GIS mapping, (v) IT interventions leading implementation of e-Panchayat.
- **Panchayat Finance** - (i) Developing comprehensive Revenue Enhancement Plan (REP), (ii) Accounting Reforms, (iii) Revision of Manuals & Rules, (iv) Preparation of Minimum Accountability Achievement Plan; Comprehensive Fiduciary Risk Mitigation Plan; Outcome Budgeting Manual; Action Plan for Public Finance Management, (v) Internal audit.
- **Panchayat Planning & Infrastructure** - (i) Prepare a bank of technically sound DPRs for seeking funding from various sources, (ii) Standard specifications for equipments; quality controls, design norms & standard drawings, (iii) Facilitate PPP in identified Panchayats, (iv) Environmental profiling & service level benchmarking.
- **Local Economic Development** – (i) Preparation of Bihar Rural Economic Vision and Local Economic Development Framework; (ii) Rural Pro Poor Business/Micro Enterprise Development guidelines, (iii) Preparation of Panchayat Business Plans, (iv) Market based skill development (v) Designing PPP based projects for utilization of PRIs lands for commercial/market development.
- **Social Development, Poverty Alleviation & Livelihoods** – (i) Facilitate development of State Poor Policy, (ii) Capacity building of PRIs to address Rural poverty; demonstrate Gender Mainstreaming, (iii) Community organizations and micro-planning for infrastructure, livelihoods and access to social welfare schemes ,(iv) Technical assistance in planning and implementation of GoI supported schemes, (vi) Create and maintain database on poor in Panchayats.

(e) Total assessed expenditure on Capacity Buildings thus can be summed up as in **Table 6.24**.

6.7.3.3 Panchayat Sarkar Bhawan (PSB): Report Card of the State Govt. (2015-16) has reported sanction of 1435 PSBs at a cost of Rs. 1237.17 Cr. so far. 418 PSBs are complete, 133 Bhawans are in the last stage of completion.

868 PSBs are in different stages of execution. Accordingly provision for remaining (8398-1435=6963) PSBs has to be made @ Rs. 1 Cr. per PSB. Approx. Rs. 7000 Cr. over four years would be required. While most of this provision needs to come from State Budget, this Commission has decided to recommend Rs. 2000 Cr. over four years as in **Table 6.25**.

Table 6.24: Projected Costs on Capacity Buildings of the GPs (2015-20) Rs. Cr.

Sl.	Items	15-16*	16- 17*	17-18*	18-19	19-20	15-20
1	Manpower *	285	707	707	1413	1413	4525
2	Training		226	136	97	97	556
3	e-Panchayat		23	82	86	65	256
4	TSSP		10	10	10	10	40
5	Total	285	966	935	1606	1585	5377

* Figures for 15-16 taken from interim report, Figures for 16-17 and 17-18 are also half of the requirement since it is unlikely that all positions would be filled up.

Table 6.25: Projected Costs on PSBs (2015-20) Rs. Cr.

Sl.	Items	15-16*	16- 17	17-18	18-19	19-20	15-20
1	PSBs	70	750	750	250	250	2000

* Figures for 15-16 taken from interim report,

6.7.3.4 Expenditure on the Gram Katchahry: Expenditure for proper functioning of the GK are assessed as in **Table-6.26**.

6.7.3.5 Gram Raksha Dal: Expenditure not assessed as requisite information is not available.

6.7.3.6 Expenditure on new Civic services: The 14th FC has provided Rs. 21,018 Cr. for the GPs in Bihar for civic services. Besides, various Central

and State schemes take care of civic services expenditure. We have, therefore, not considered expenditure requirement on new Civic Services in our assessment.

6.7.3.7 District Planning Committee (DPC): Following expenditure (**Table-6.27**) is assessed for strengthening of the DPCs.

Table 6.26: Expenditure on functioning of Gram Katchahry *Rs. Cr.*

Sl.	Items	Rate	15-16	16-17	17-18	18-19	19-20	15-20
1	Office support (Rent, Stationary, IT, etc.)*	Rs 50,000 x per GK p.a.	42	44	46	49	51	232
2	Furniture	Rs 50,000 per GK one time			42			42
3	Award for Dispute free village**	Rs 3 lakh p.a. for Sarpanch & Panches for 300 GK		10	10	10	10	40
4	Award for Cases filed & disposed * *	Rs 3 lakh p.a. for Sarpanch & Panches for 300 GK	10	10	10	10	10	50
a.	Honorarium to Secretary	Rs 10,000 x per GK pm	101	101	101	101	101	505
b.	Nyay Mitra	Rs 10,000 x per GK pm	101	101	101	101	101	505
c.	Executive Assistant	Rs 9,000x per GK pm	91	91	91	91	91	455
5	Total		345	357	401	362	364	1829

Note: (i) * 5% increase p.a. (ii) ** No. of GKs in a district for award for Cases filed & disposed and dispute free village respectively would be in proportion to total GKs in the District.(iii) Honorarium to Secretary, Nyay Mitra and Executive Assistant is to be provided through State Budget as usual.

Table 6.27: Cost of Strengthening the DPCs *Rs. Cr.*

Sl.	Name of Posts	Post per DPC	Total post	Unit Cost p.m.	Total Cost p.a. (Rs. Cr.)				
					16-17	17-18	18-19	19-20	16-20
	1	2	3	4	5.00	6.00	7.00	8.00	9.00
1	Team Leader	1	38	100,000	4.56	4.56	4.56	4.56	18.24
2	Developmental Planner	1	38	70,000	3.19	3.19	3.19	3.19	12.77
3	Economist	1	38	70,000	3.19	3.19	3.19	3.19	12.77
4	PPP Consultant	1	38	50,000	2.28	2.28	2.28	2.28	9.12
5	GIS Consultant	1	38	50,000	2.28	2.28	2.28	2.28	9.12
6	Database Manager	1	38	50,000	2.28	2.28	2.28	2.28	9.12
7	Statistical Consultant	1	38	50,000	2.28	2.28	2.28	2.28	9.12
8	Administrative Officer	1	38	30,000	1.37	1.37	1.37	1.37	5.47
9	Accountant	1	38	25,000	1.14	1.14	1.14	1.14	4.56
10	Assistant	1	38	22,000	1.00	1.00	1.00	1.00	4.00
11	IT Assistant-cum-DEO	4	152	17,000	3.10	3.10	3.10	3.10	12.40
12	MTS ¹	2	76	11,000	1.00	1.00	1.00	1.00	4.01
13	Research & Consultancy*				2.00	2.00	2.00	2.00	8.00
14	Office Space & Infrastructure**			200000	0.76	0.76	0.76	0.76	3.04
15	Total				30.44	30.44	30.44	30.44	121.75

6.7.3.8 Total Expenditure: Total assessed expenditure needs of the PRIs can be summed up as in **Table 6.28**.

6.8 Computation of the Resource Gap: Methodology for computing resource gap item-wise is given in **Annexure 6.2**. However, due to the unavailability of relevant data, it can't be used. Moreover, PRD has not furnished its own assessment of the gap.

6.8.1 Resource gap based on different approaches: Resource gap has been computed for different scenarios given in **Table 6.29**. Business-as-usual (Row 6, Col. 4) would be the least desirable option, being too low. Attaining all India level/Normative (Row 6, Col. 7) and the 5th SFC approach (Row 6, Col. 10) are close to each other and realistic and could be accepted. The remaining resource gap must be bridged by

adopting innovative approaches as given in **para 6.9**.

6.9 Bridging the Resource Gap remaining even after UFC/SFC transfers: (Details in Annexure 6.3)

6.9.1 Own Additional Resources (Tax and Non-Tax): The PRIs must make all efforts to raise their own revenues (tax & non-tax). Incidentally PRIs have to increase their own revenues as an imperative to fulfill Performance Grant (Rs. 2108 Cr.) conditionality of the 14th FC. Moreover, this would enhance their autonomy and accountability. Details of option available to the PRIs for rising own resources may be seen in **Chapter X**. Incidentally this Commission has recommended incentives for ARM and also for overall performance for five years. (Refer to **para 9.6.4**)

Table 6.28: Projection of Total Expenditure as per the 5th SFC for 15-20 Rs. Cr.

Sl.	Item	Ref. Table No.	15-16*	16-17	17-18	18-19	19-20	15-20
1	O & M	6.18	6023	7232	8704	10500	12698	45157
2	Capacity Building	6.24	285	966	935	1606	1585	5377
3	PSBs	6.25		750	750	250	250	2000
4	GK	6.26	344	346	390	351	353	1784
5	DPC	6.27		30	30	30	30	122
Total (1+2+3+4+5)			6652	9324	10809	12737	14916	54440

Table 6.29: Resource Gap of the PRIs in different scenarios (2015-20) Rs. Cr.

Sl.	Year	1			2			3		
		Business as usual			Normative			5th SFC		
		Rev.	Exp.	Res. Gap	Rev.	Exp.	Res. Gap	Rev.	Exp.	Res. Gap
	1	2	3	4	5	6	7	8	9	10
1	15-16	295	3216	2921	279	6652	6373	360	6652	6292
2	16-17	325	4049	3724	313	8544	8231	397	9324	8927
3	17-18	358	4645	4287	350	10029	9679	439	10809	10370
4	18-19	393	5336	4943	392	12457	12065	483	12737	12254
5	19-20	432	7036	6604	438	14636	14198	534	14916	14382
6	15-20	1803	26282	24479	1771	52318	50547	2123	54440	52317

Note : (i)**14th FC transfer are earmarked for providing civic services, therefore expenditure on civic services not considered for computing resource gap. (ii) Resource gap=Expenditure-Revenue.(iii) Reference Tables: (1) Business as usual: 6.6 for Revenue & 6.15 for Expenditure (2) Normative: 6.11 for Revenue & 6.19 for Expenditure (3) 5th SFC: 6.12 for Revenue & 6.28 for Expenditure.

6.9.2 Central and State Schemes: PRD and the PRIs have to make all efforts to utilize funds under Central and State Schemes. The 5th SFC is recommending sufficient funds for Capacity Building of the PRIs to enable them to do so.

6.9.3 Expenditure Management: Refer to Chapter X for details.

6.9.4 Borrowing: Borrowing particularly by the Zila Parishads has become increasingly necessary and feasible to finance long term investment plans, provided that debt service is ensured and does not jeopardize the fiscal stability of either the local or the higher levels of Government. Operational surpluses and own-capital revenues can be used for co-financing or repaying debt. Information about existing framework for market borrowing by the Panchayats was not received from PRD.

6.9.5 PPP:

(i) Bihar Infrastructure Development Enabling Act, 2006 provides ample scope and guidelines for implementation of PPP schemes by the LBs. However, information about PPP projects undertaken was not received from PRD.

(ii) It may be noted that GoI scheme of PURA promises holistic and accelerated development of compact areas around a potential growth centre in a Gram Panchayat (or a group of Gram Panchayats) through PPP framework for providing livelihood opportunities and urban amenities to improve the quality of life in rural areas (Box-6.7). This is yet to be implemented in Bihar.

Box-6.7 Provision of Urban Amenities in Rural Areas (PURA)

PPP is expected to harness private sector efficiencies in the management of assets and delivery of services.

An Illustrative list of amenities and economic activities to be provided under PURA are;

(A) Amenities to be provided under MoRD Schemes

1. Water, Sewerage, Drainage & Solid Waste Management
2. Construction and maintenance of Village Streets
3. Development of Skill and Economic Activities

(B) Amenities to be provided under Non-MoRD Schemes

1. Village Street Lighting, Electricity, etc.
2. Telecom

(C) Add-on Projects (Revenue earning, income generating)

1. Village linked tourism
2. Integrated Rural Hub, Rural Market.
3. Agri – Common Services Centre, Warehousing, etc.

Source: Ministry of Rural Development, GoI

6.10 An interesting case of ZP, Patna:

6.10.1 Table 6.30 shows that as per 2014-15 budget, total receipts of ZP Patna are higher than total expenditure, which prima facie is difficult to believe. Moreover, the Budget appears too ambitious, both on revenue (Rs. 209.73 Cr.) and expenditure (Rs. 208.53 Cr.) sides. Expenditure on salary is more than the ‘revenue’ on salary. Own tax revenue (Rs. 18.09 Cr.) is only 8.63% of total revenue (Rs.209.73 Cr.).

Table: 6.30 Budget (2014-15) of ZP, Patna (Items of Revenue & Expenditure above 20 lakhs) *Rs. lakhs*

Sl.	Revenue	Amount	Sl.	Expenditure	Amount
	Items			Items	
1	13th FC (Z.P)	6050.31	1	13th FC (Z.P)	6050.31
2	Communication (Road and Bridges)	4776.21	2	Communication (Road and Bridges)	4776.21
3	BRGF	4185.48	3	BRGF	4185.85
4	4th SFC	3210	4	4th SFC (Expenses)	3210
5	Salary	180	5	Salary and Allowances	431.89
6	Rozgar Guarantee Yojana Z.P.	250	6	Rozgar Guarantee Yojana Z.P.	250
7	PRIs Allowances (Received allotment)	200	7	PRIs Allowances (Expenses)	200
8	Own Tax Revenue		8	PWD (Expenses)	350
a	Maner Nirikshan Bhawan	40	9	Khagaul Dak Bungalow Shop	307.13
b	Newly Built Shop	120	10	Bakhtiyarpur Nirikshan Bhawan	300

Sl.	Revenue	Amount	Sl.	Expenditure	Amount
	Items			Items	
c	Paliganj Land Viduth Dept	30	11	Boundary wall Mokama Dak Bungalow	150
d	Loknayak Bhawan (26 Shops)	280	12	Masaurhi Dak Bungalow Shop	100
e	Sanlagna Bhawan Bandobasti	450	13	Bus stand Development (According to Attachment)	90
f	Rent Office Space Loknayak Bhawan	130	14	Central Land Water Dept	50
g	Land Acquisition Office		15	Housing Development (Provision)	50
(i)	Zila Parishad Land (Acquisition By Govt.)	600	16	20 Medical store Maintenance	50
(ii)	Road and Bridge Maintenance	36	17	Z.P Fax expense	0.5
(iii)	Buildings Renovation	80.3	18	Registartion Fee Loknayak (Refund)	46
h	Others	42.6	19	Z.P Aesthetic maintenance	26.4
i	Total Own Tax (a to h)	1808.9	20	Local Development Press	25.7
9	Interest income (1065.92 lakhs FD)	103.22	21	Marriage (Advance)	20
10	Road & Bridge Resources [#]	85	22	BRGF (Capacity Development)	50
11	BRGF (Capacity Development)	50	23	Road Maintenance	20
12	Road Cess	35	24	Bhita N. Bhawan Maintenance	20
13	Dak Bungalow (Non-Plan)	20	25	Others [#]	93.14
14	Others [#]	19			
15	Total Revenue	20973.12	26	Total Expenditure	20853.13

Note: - # Road & Bridge Resources is taken 85 lacs instead of 15 lacs as per rectification in Z.P. Patna (2014-15) Revenue-Expenditure report
Z.P Fax expense is taken as 0.50 lacs instead of 50 lacs

# Others (Revenue)	19.00	(a) Asambandh Anudan	15.00	(b) Others	04.00	# Others (Expenditure)	93.14	(d) Disbursement Expenes	10.00
(a) Asambandh Anudan	15.00	(b) Others Allowances	10.49	(c) Living Allowances	10.00	(e) Land and forest (Dak Bunglow)	10.00	(f) Z.P Fax expense	00.50
(b) Others	04.00	(c) Living Allowances	10.00	(g) Others	36.15				

6.10.2 Regular training of the key functionaries in Budget preparation is, therefore, urgently needed.

Chapter VII

ULB Finances: Review and Forecast of Revenue and Expenditure

7.1 Computing Resource Gap:

7.1.1 The primary purpose of this Chapter is to project resource gap of the ULBs for the award period of the 5th SFC i.e. 2015-16 to 19-20. This evidently would require review and forecast of Revenue and Expenditure of the ULBs based on logical approaches. The framework in **Box 7.1** gives an overview of the same.

7.1.2 There could be 3 methodologies for computing resource gap of the LBs as given in **Box 7.1**:

(i) Business-as-usual: This essentially means computing revenue and expenditure as per TGR based on the State Budget and available historical data.

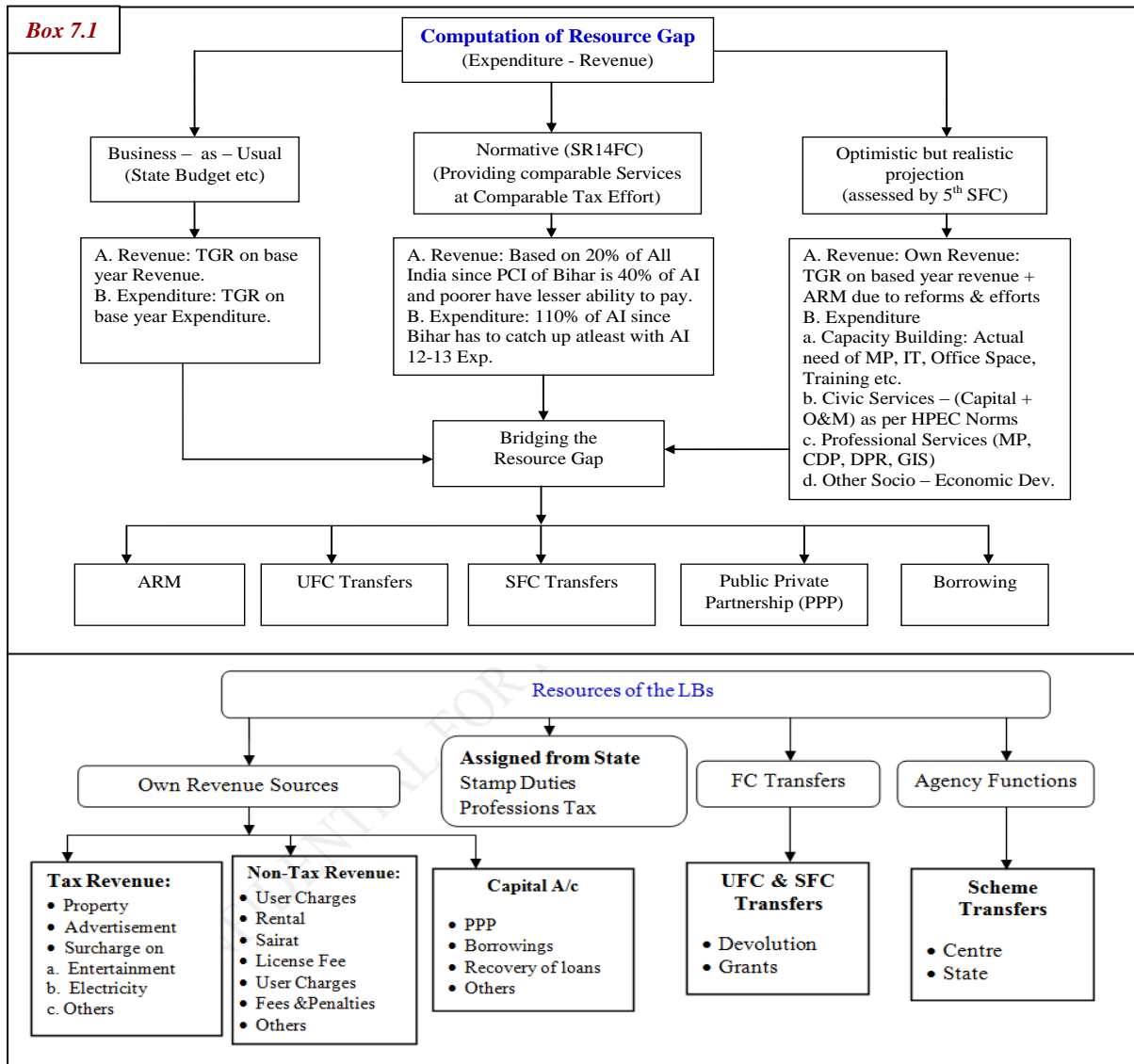
(ii) Principle of Equalization: both Revenue & Expenditure should be comparable to All India averages, which is available in the Report on LB

Finances commissioned by the 14th UFC (SR 14FC).

(iii) Making optimistic but realistic assessment: of Revenue and Expenditure so as to prepare the State for rapid and planned urbanization and draw talent and investment to spur socio-economic growth.

7.2 Resources of the ULBs

Resources of the ULBs come primarily in three ways i.e., own revenue, UFC/SFC transfers, and scheme transfers for the agency functions (flowchart below). Historically, most of the LB's resources comes by way of Agency functions and UFC/SFC transfers. Own revenue of the ULBs in Bihar is well below All India Average (i.e. 13.2% vs 32% in the total revenue.)



7.2.1 Powers of the ULBs to realize own revenue (tax & non-tax):

(i) **Constitutional Provision:** As per article 243X, the ULBs are to be authorized by the state legislature to realize tax and non-tax revenue. (**Box 7.2**)

Box 7.2
<p style="text-align: center;">Constitutional provision regarding tax & non-tax revenue of the ULBs</p> <p>243X. Power to impose taxes by, and Funds of, the Municipalities.—The Legislature of a State may, by law,—</p> <p>(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;</p> <p>(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;</p> <p>(c) provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and</p> <p>(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 there-from, as may be specified in the law.</p>

- HPEC has recommended introduction of (a) ‘Local Bodies Finance List’ in the Constitution, empowering the ULBs with ‘exclusive’ taxes e.g. property tax, profession tax, entertainment tax and advertisement tax,
- (b) constitutionally ensuring sharing of a pre-specified percentage of State’s revenues from taxes on goods and services with the ULBs on the basis of formula designed by SFC, and
- (c) provision of formula-based transfers and grants-in- aid to the ULBs from the divisible pool.

(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 given in **Box 7.3**. Details are given in **Annex – 7.1**

(iii) **Measures taken for higher own revenues:** UDD has reported to be taking the measures mentioned below. The measures actually taken evidently are far from satisfactory as SR14FC report indicates that percentage of own revenue in

total revenue is 13.2% for the Bihar ULBs vs 32% for All India. Recommendations of this Commission in this regard are given in Chapter X.

Box 7.3	Municipal Revenue: BMA - 2007	
Tax (Sec.127)	User Charges: (Sec. 128)	Fees and Fines (Sec129 to133)
Property tax on Lands and buildings.	Water-supply, drainage and sewage	Sec. 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
Fire Tax		Birth & death Certificates fees etc.
Tax on Advertisements	Other specific services (as specified in Act)	Sec. 130:
Surcharges on Entertainment Tax		Surcharges at 25% on tax or user charge, or fee or fines or on electricity consumption.
Congregation Tax		Sec. 131: Development Charge
Pilgrims/Tourists Tax		Details in Sec. 132-136 of Annex 7.1
Toll Tax		
Profession Tax		
Other Taxes (Specified in BMA)		

A. Revenue generation

- Incentivize revenue reforms.
- Strengthen internal controls for mitigation of revenue losses /leakages.
- Explore fully all own sources such as parking fee, trade license, road cutting charges, mobile transmission towers fees, user charges for civic services.
- Harness User charges fully.
- Monetize land, Buildings and shops for which nominal rent is being charged and that too not recovered fully.

B. Regulation etc.

- a) Formulate and Implement Tax Non-Tax Recovery Regulations effectively.
- b) Constitute Property tax Board or alternatively Urban Services Regulator.

C. Human Resource

- a) Appoint either outsourced firms or sufficient skilled staff for reaching at least 90% coverage and collection ratios.
- b) Ensure minimum productivity from Collectors engaged on 4% commission basis Minimum commission of Rs. 10,000 need to be earned each month during each 6 month period.

D. Use of Technology

- a) Online property filing system in 28 SPUR ULBs. It is proposed to cover the entire state.
- b) Facilitate ease of payment through on-line facility, mobiles and collection center set up in each ward.
- c) Computerized Integrated Revenue and Accounting systems for all the ULBs.
- d) GIS mapping in 28 SPUR ULBs. It is planned to cover the remaining ULBs.

7.2.2 Leveraging resources through PPP:

- (i) Bihar ULBs need around Rs.30,000 Cr. over 5 years for providing and maintaining core civic services (*Annex 7.2B*). This magnitude of funds from Government or the ULBs is improbable. PPP in a big way is, therefore, the only feasible option.
- (ii) Section 166 to 168 of BMA, 2007 provide for private sector participation in planning development, operation, maintenance and management of municipal infrastructure and services, (*Details in Annex – 10.7*).
- (iii) **Bihar State Infrastructure Development Enabling (BSIDE) Act, 2006:** Provides for rapid development of physical and social infrastructure in the State through attracting Private sector participation (PPP) in the designing, financing, construction, operation and maintenance of infrastructure and services. Schedule III of BSIDEA includes many item pertaining to the ULBs viz. (i) Water Supply, treatment and distribution (ii) Waste management (iii) Sewerage, drainage (iv) Public markets (v) Trade fair, convention, exhibition and cultural centers (vi) Public buildings (vii) Inland water transport (viii) Sports and recreation Infrastructure, public

gardens and parks (ix) Real estate (x) Any other Projects or sectors that may be notified by the Government.

(iv) UDD has stated that matching grant for PPP will improve implementation of projects in PPP. Accordingly, Rs. 970 cr. has been proposed by the 5th SFC for five years (2015-20) for promoting PPP.

(v) UDD has prepared Guidelines for the ULBs on PPP. But these have not been shared with the ULBs.

• Detailed recommendations of the 5th SFC on PPP is being given separately.

7.2.3 Borrowing:

(i) Borrowing by the ULBs has become increasingly necessary and feasible, particularly to finance long term investment plans, provided that debt service is assured and does not jeopardize the fiscal stability. Operational surpluses and own-capital revenues can be used for co-financing or repaying debt. (For details on borrowing, refer to *para 10.12.3 in Chapter X*).

(ii) Sections 106 to 125 of BMA, 2007 comprehensively cover all aspects of borrowing by the ULBs. However UDD has not yet framed u/s 106 of BMA, 2007 a comprehensive debt limitation policy, including short-term loans to be raised; laying down, inter-alia, the general principles governing the raising of loans; the limit of the loans having regard to its financial capacity; the rate of interest to be paid for such loans, and the terms and conditions, including the period of repayment thereof.

(iii) UDD should note that Mumbai Municipal Corporation has a debt ceiling which is 7 times of its own revenue. Further, a ceiling of 4 times of Own Revenue could be fixed for borrowing by ULBs in the Tamil Nadu as recommended by its 3rd SFC.

7.2.4 Assignment from State Govt: UDD has reported that 2% of State Stamp duty devolves to the LBs.

7.2.5 FC Transfers: Transfers from the Union and State Finance Commissions are made to the ULBs with a view to enabling them to provide comparable services to all citizens irrespective of place of their residence. These comprise of (a) Grants from the UFC, and (b) Devolution & Grants from the SFC. These transfers can be tied or untied. (*Details in Chapter –VIII*)

7.2.6 Schemes transfers: Funds also flow to the ULBs under State and Central schemes for specific functions/purposes.

7.3 Review of Resources of the ULBs (2010-15):

7.3.1 Total revenue of the ULBs:

(i) As reported by UDD, collection of data on Tax and non-Tax revenues and time series analysis of the same is not done by UDD. Consequently, UDD is yet to furnish information in the format given below (**Table 7.1 & 7.2**):

(ii) **Table 7.3** shows that between 07-08 to 12-13, Bihar has significantly enhanced total revenue vis a vis All India. But per capita revenue is still way behind All India.

(iii) UDD has estimated own revenue (excluding UFC/SFC transfers) of all the ULBs during 10-11 to 14-15 as given in **Table 7.4**, based on the data from 28 SPUR ULBs and the following methodology: (**UDD could not give actual figures.**)

Table 7.1: Tax – Revenue of the ULBs

Sr. No.		Rs Lac				
		10-11	11-12	12-13	13-14	14-15
1	Property Tax					
2	Water tax					
3	Fire tax					
4	Advertisements tax					
5	Entertainment tax					
6	Surcharge on electricity consume.					
7	Congregations Tax					
8	Pilgrims / tourists Tax					
9	Toll Tax					
10	Profession tax					
11	Other Tax (Specify)					
	Total					
	Unrealized Revenue (Accrual Basis)					

Table 7.2: Non – Tax Revenue of all ULBs format

Sr. No.	Item	Rs Lac				
		2010-11	2011-12	2012-13	2013-14	2014-15
a.	User Charges					
i	Water-supply, drainage and sewerage					
ii	Solid waste management					
iii	Parking of vehicles					
iv	Stacking of materials or rubbish on public streets					
v	Other specific services					
b.	Fees and fines					
1 i	License Fee					
ii	Registration Fee					
iii	Market Fee					
iv	Parking Fee					
v	Surcharge on tax					
vi	Animal Tax					
vii	Tax on Rickshaw/Thela					
viii	Development charges					
ix	Taxes on transfers of property					
2	Royalty from Minor Minerals					
3	Interest					
4	Dividend					
5	Income From Property					
6	Receipt from Transferred Institutions					
7	Other Income					

- Figures of 28 SPUR ULBs were categorized into Corporation and Council Towns
- Total income of council towns was estimated based on per capita income (PCI) of council towns covered under SPUR.
- PCI in Panchayat towns was assumed @ 50% of PCI of Council towns.
- Per capita total revenue increase @ 15%.

Estimated Own Revenue (**Table 7.4**) reported by UDD seems more reliable since it is based on individual census, whereas, the above figures of SR14FC are based on sample cities/ towns. Per Capita estimated by Total Revenue and Property Tax estimated by SPUR in 2012-13 is approx. 3 and 5 times respectively than that estimated in SR14FC Report.

(iv) SPUR has reported own revenue collections of 28 SPUR ULBs as given in **Annex 7.3**. Its summary is given in **Table 7.5**:

(v) 11 Nagar Nigams (2010-15): **Graph-7.1& Graph-7.2** based on data in **Annex 7.4** shows that Property Tax is the major source of Revenue i.e. ranging from 73.35 % in PMC to 49.91% in Biharshariff. In Begusari, it is just 34.91%. It is converse in the case of other taxes. Evidentially, both sets of Nigams have to have to learn from each other. Per capita total revenue of Patna and Muzzaffarpur Nagar Nigams logically the highest (more than Rs 200), and of Biharshariff, Begusarai and Purnia Nigams are the lowest (87, 107, 114 respectively) i.e. much below the per capita average revenue of all 11 Nigams (i.e. Rs 171).

Table 7.3: Total Municipal Revenue (excl. UFC transfer) estimated by SR14FC

Rs Cr.								
Items	Bihar				All India			
	07-08 Amount (Rs Cr.)	12-13		CAGR (%)	07-08 Amount (Rs Cr.)	12-13		CAGR (%)
		Amount (Rs Cr.)	PC (Rs)			Amount (Rs Cr.)	PC (Rs)	
Property Taxes	5	15	13	23.2	8159	15110	517	13.1
Other Taxes	1	1	1	3.3	10207	15801	578	9.1
Non Taxes	5	6	6	4	9134	19002	640	15.8
State Grant	14	41	37	23.9	6653	14809	631	17.4
Other Sources	0.1	1	1	80.2	1355	4234	174	25.6
Total	26.1	98	58	30.2	38709	74072	1681	12.7

Source – Municipal Finances and Service Delivery in India, (SR14FC); PC – Per Capita

Table 7.4: Own Revenue for 10-11 to 14-15 of all 140 ULBs (Rs Cr.) estimated by SPUR

Items	10-11		11-12		12-13		13-14		14-15 (Estimated)	
	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita
Property tax	54	46	70	59	79	65	94	75	114	90
Assigned Revenue	36	30	52	43	66	54	89	71	118	93
Other Self Generated Revenue	29	25	42	35	53	43	67	53	88	69
Total Revenue	119	101	164	137	199	162	250	200	321	252
Projected Urban Pop (Cr.)	1.18		1.20		1.22		1.25		1.27	

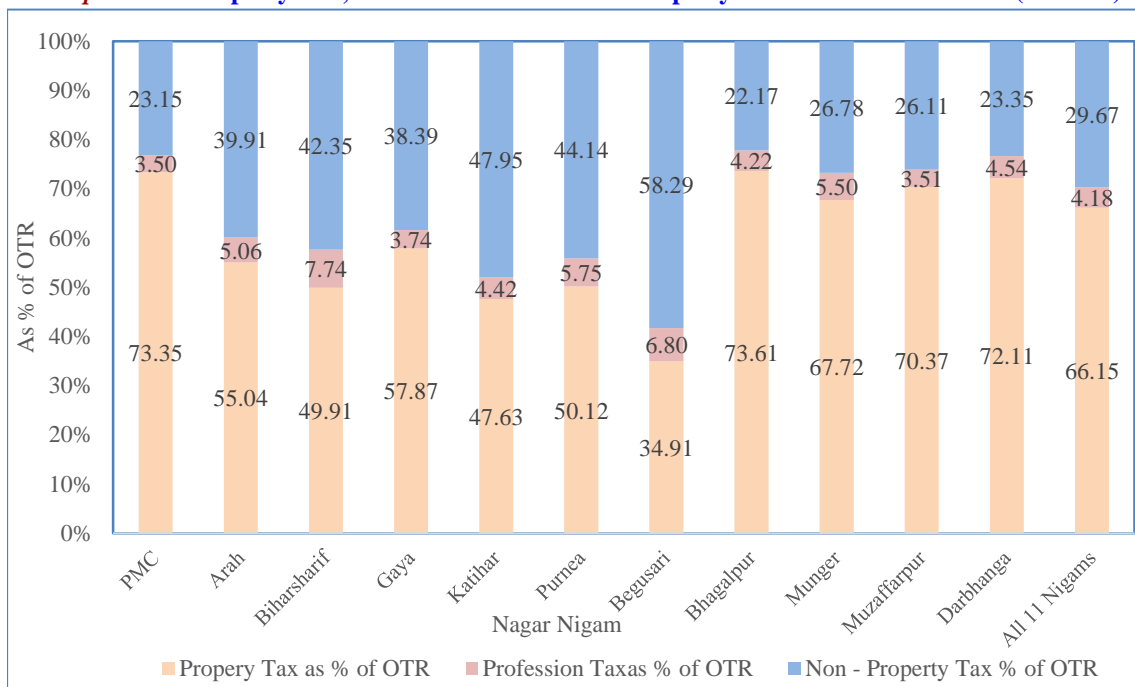
Table 7.5: Own Revenue for 28 SPUR ULBs estimated by SPUR

	2008-09		2013-14		2014-15		2015-16 (Est.)		Increase (08-09 to 13-14)		CAGR	
	Total (Rs Cr.)	PC (Rs)	Total (Rs Cr.)	PC (Rs)	Total (Rs Cr.)	PC (Rs)	Total (Rs Cr.)	PC (Rs)	Total (Rs Cr.)	PC (Rs)	Total	PC
Property Tax	36.08	58	77.45	113	75.33	106	130.74	180	94.66	122	20.19	17.56
Other SGI*	15.78	25	56.19	83	49.06	69	69.26	96	53.48	71	23.54	21.19
Total revenue	51.86	83	133.64	195	124.39	175	200.00	276	148.14	193	21.27	18.73

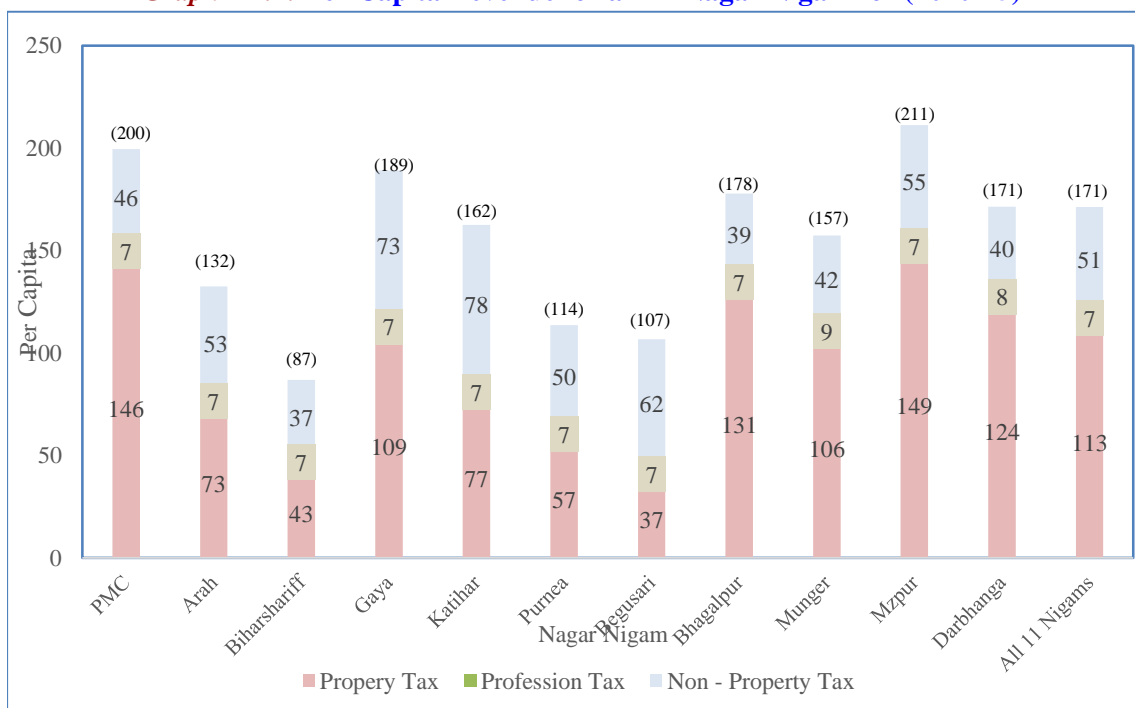
* indicates Self Generated Incomes

Note – Property tax contributes about 2/3 rd of Own revenue

Graph – 7.1: Property Tax, Profession taxes & Non-Property Tax as % of Total OTR (2010-15)



Graph – 7.2: Per Capita Revenue for all 11 Nagar Nigam for (2010-15)



7.3.2 Percentage of the O&M cost met through user charges: UDD has reported the position as given in **Table 7.6**

7.3.3 Productive use of public assets, lands etc.

Fixed Assets Registers of all assets including underground infrastructural assets with comprehensive physical survey have been prepared in 19 SPUR towns viz. Patna, Danapur, Khagaul, Hajipur, Gaya, Nawada, Bodhagaya, Aurangabad, Sasaram, Dehri, Bhagalpur, Munger, Jamalpur, Muzaffarpur, Sitamarhi,

Darbhanga, Motihari and Bettiah. **However, other than markets, no other assets are put to productive use.** The main problems are (i) ULB lands are undemarcated or encroached or disputed, and (ii) lack of clear rules and guidelines from govt.

- Data available from GIS mapping and surveys should be used for validation of information as per Fixed Assets Registers (FAR), being compiled by ULBs for accounting purposes. Moreover, as per GIS, a separate Thematic layer

should be created for Land and buildings owned by each ULB which should carry Property ID Number as per FAR. It is expected that the quality of FAR would improve with this initiative.

7.3.4 UFC and SFC transfers: *Table 7.7* shows that the ULBs utilized 72% of total transfer from the 13th UFC in 2010-11. Its utilization increased by 20% in the next year, but declined by 30% in 2012-13. However, the ULBs fully utilized the 4th SFC transfer except in 2010-11.

7.4.1 Business - as – usual: based on historical data:

It is based on Revenue for 13-14 & 14-15 as given by SPUR for all 140 ULBs. Since (a) CAGR of Own Tax Revenue (OTR) and Non-Tax is high negative, and (b) CAGR of Assigned Revenue and State Grants are high positive, and (c) CAGR of total Revenue is 23%, this Commission has taken annual increase of 25% for Property Tax and 20% for others.

Table 7.6: O&M expenses met through user charges

Civic Services	Charge Per Unit	Assessed Amount	Realized Amount	Cost of Maintenance	% O&M Cost Met	General response from UDD
Water Supply						Presently, User charge is not collected. Only in case of door to door collection of solid waste, fee is levied and collected by the outsourced agencies. UDD plans to set up an Urban Service Charges Advisory Board u/s 128 A of BMA, 2007. In Patna, Bhagalpur, Gaya and Darbhanga, major works for augmentation of water supply are in progress. These ULBs have plans to charge user fees, when water supply projects are commissioned. Urban Transport is not managed by the ULBs
Sewerage						
Solid Waste Management						
Drainage						
Street Lighting						
Urban Transport						
Urban Roads						
Traffic Support Infrastructure						

Table 7.7: 13th UFC and 4th SFC transfers to the Bihar ULBs

Rs Cr.											
Sl. No	Years → Items ↓	10-11		11-12		12-13		13-14		14-15	
		(R)	(A)	(R)	(A)	(R)	(A)	(R)	(A/RE)	(R)	(B.E)
Recommended by the 13th FC											
1	Basic grant	67.78		78.61		91.88		108.86		128.88	
2	Performance grant	26.88		63.05		74.37		178.67		87.73	
3	Total transfer to ULBs	94.66	67.78	141.66	128.42	166.25	106.36	287.52	302.56	216.61	
Recommended by the 4th SFC											
4	Divisible pool	6,436	9,377	7,227	12,010	8,114	15,637	9,110		10,226	
5	7.5% of Devolution	483	703	542	901	609	1,173	683		767	
6	Total Share of ULBs (30%)	145	211	163	270	183	352	205	450	230	554
a	Tied amount	72	72	67	67	37	37	37	37	37	37
b	Untied amount	72	139	95	203	145	315	168	413	193	517
7	Grants to ULBs	81	81	53	53	53	53	53	53	53	53
8	Total transfer to ULBs	226	17.45	216	251.53	236	264.27	258	325.32	283	

Source: 4th SFC Bihar Report, 13th UFC Report, Bihar Budget and UDD; R – Recommended, A – Actuals/Spent

7.4 Forecast of Resources of the ULBs (2015-20)

A framework of Resources of the LBs is given in *para 7.2*. Further, *Box 7.1* includes possible methodology for projecting resources. Based on these, resources are forecast as follows in different scenarios:

7.4.2 Normative approach: i.e. attaining All India level as follows.

(i) Forecast of Population: This method involves three steps:

(a) urban population of 2011 is divided into city-size categories and the respective shares of each city-size is maintained for the future years,

Table 7.8: Forecast of Revenue of all 140 ULBs based on Business-as-usual approach

	2013-14 (Actual)	2014-15 (Actual)	CAGR	15-16	16-17	17-18	18-19	19-20
Pop.(in Cr.) ---->>				1.210	1.234	1.259	1.284	1.310
1. OTR								
a. Property Tax	126.09	123.03	-2%	153.79	192.23	240.29	300.37	375.46
b. Other Tax	4.23	0.81	-81%	0.97	1.17	1.40	1.68	2.02
2. Non-Tax	80.77	72.44	-10%	86.93	104.31	125.18	150.21	180.25
3. Assigned Revenue								
a. Stamp Duty	175.47	280.13	60%	336.16	403.39	484.06	580.88	697.05
b. Profession Tax	19.37	25.14	30%	30.17	36.20	43.44	52.13	62.56
4. State Grants (Excluding SFC)	129.78	157.07	21%	188.48	226.18	271.42	325.70	390.84
Total	535.71	658.62	23%	796.50	963.48	1,165.79	1,410.97	1,708.18

Table 7.9: A City size class urban population growth rate

City – size class	> 10 lakh	1 – 10 lakh	0.5 – 1 lakh	0.200-0.50 lakh	<0.20 lakh	Total
AEGR %	1.93	4.21	2.93	1.66	4.59	3.06

Table 7.9: B: Forecast of the ULBs Population using 3% growth (in Cr)

	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Nigam	0.476	0.490	0.500	0.510	0.520	0.530	0.541	0.552	0.563
Parisad	0.374	0.385	0.393	0.401	0.409	0.417	0.425	0.434	0.443
Panchayat	0.257	0.265	0.270	0.276	0.281	0.287	0.293	0.299	0.305
Total	1.107	1.140	1.163	1.186	1.210	1.234	1.259	1.284	1.310

Note: Tier wise populations of 2010-11 are taken as reported by UDD.

(b) annual exponential growth rate (AEGR) of 2001 – 11 is used for 2015-16 urban population and the same is used as the base for projecting urban populations for 16-17 to 19-20 according to city – size categories and

(c) numbers of cities, towns and agglomerations are arrived at by dividing the projected urban populations by the average population size of cities and towns in each size-class category. The results of this method are shown in **Table 7.9 A.**

(ii) Forecast of Revenue:

Assumptions for revenue forecasts are as follows: The assumptions are summarized in the **Table 7.10.**

a.) Per Capita values for 2012-13 of All India ULBs Revenues are taken from SR14FC. It is multiplied by projected Bihar ULB population of 12-13 and assumed to be Bihar Municipal Revenue for 2012-13.

b.) It is further projected for the next 3 subsequent years (i.e. 13-14, 14-15 and 15-16) with the tier-wise CAGR of All India.

c.) 20% of this projected revenue for 15-16 is taken as estimated ULBs revenue for Bihar for 15-16 itself. For subsequent projections till 19-20, it is increased annually by 20%, 15% & 10% for Nigam, Parishad & Panchayat respectively.

d.) Population figures for 2011-12 reported by UDD are taken and projected further @ 3% annually.

7.4.3 Revenue Projected by UDD: UDD has made forecast of revenue of the ULBs as in Table 7.12 based on assumptions given in **Table-7.13**, without mentioning the base year and revenue therein. Moreover, per capita revenue growth assumed for Corporations (15%) is illogically lower than that of Councils & Panchayats (30%).

Table 7.10: Summary of assumptions for revenue forecast (Rs Cr.)

		Bihar ULBs																					
		Nigam (20%)						Parishad (15%)						Panchayat (10%)						Total			
		AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	15-16
Revenue	Pop.(in Cr.) ---->>>	PC	0.49		0.50	0.51	0.52	0.52	PC	0.39		0.39	0.40	0.41	0.41	PC	0.27		0.27	0.28	0.28	0.28	1.21
	Property Tax	813	398	0.14	454	518	590	118	206	79	0.09	87	95	104	16	70	19	0.09	20	22	24	2	136
	Other Tax	952	466	0.09	506	550	597	119	145	56	0.13	63	71	81	12	90	24	0.17	28	33	38	4	135
	Non-Tax	992	486	0.15	559	644	741	148	243	94	0.19	112	133	158	24	215	57	0.20	69	82	99	10	182
	State Grants	550	269	0.17	316	369	433	87	695	268	0.16	310	359	416	62	370	98	0.37	134	184	252	25	174
	Others	193	95	0.21	114	138	167	33	161	62	0.33	82	110	146	22	108	29	0.43	41	58	83	8	64
	Total (A)		1715		1950	2219	2528	506		559		654	768	904	136		226		292	379	497	50	691

Table 7.11: Forecast of Revenue of the ULBs based on SR14FC (Rs Cr.)

		Bihar ULBs																				
		Nigam					Parishad					Panchayat					Total					
		15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-20
Revenue	Pop.(in Cr.) ---->>>	0.52	0.53	0.54	0.55	0.56	0.41	0.42	0.43	0.43	0.44	0.28	0.29	0.29	0.30	0.30	1.21	1.23	1.26	1.28	1.31	6.30
	Property Tax	118	142	170	204	245	16	18	21	24	27	2	3	3	3	3	136	162	193	231	275	998
	Other Tax	119	143	172	206	248	12	14	16	18	21	4	4	5	5	6	135	162	193	230	275	994
	Non-Tax	148	178	213	256	307	24	27	31	36	42	10	11	12	13	14	182	216	257	305	363	1323
	State Grants	87	104	125	150	179	62	72	82	95	109	25	28	31	34	37	174	203	238	278	325	1218
	Others	33	40	48	58	69	22	25	29	33	38	8	9	10	11	12	64	74	87	102	120	447
	Total (A)	506	607	728	874	1048	136	156	179	206	237	50	55	60	66	73	691	817	968	1146	1358	4981

Table 7.12: Forecast of Revenue by UDD

Forecast of Total Revenue (15-16 to 19-20) (in Cr.)					
Particulars	15-16	16-17	17-18	18-19	19-20
Property tax	139.47	170.45	208.92	256.83	372.55
Assigned Revenue	156.12	206.77	273.92	362.97	565.93
Other Self Generated Revenue	117.68	157.43	211.61	285.70	455.77
Total Revenue	413.27	534.65	694.45	905.50	1394.25

Table 7.13: Assumed per capita revenue growth rates for 3 tiers

	Corporation	Council	Panchayat
Property tax	15%	30%	30%
Assigned Revenue	30%	30%	30%
Other Self Generated Revenue	20%	40%	40%

7.4.4 5th SFC Approach:

If Bihar ULB revenue has to catch up with All India ULB revenue (a) by 19-20, it needs to increase @ 83% p.a. and (b) if by 2024-25, @ 49.2% p.a. Since both the cases are improbable, optimistic but realistic approach has been adopted and it is expected that Bihar LBs revenue would catch up with at least All India level of 2012-13 by year 2015-16, with around 20% growth rate p.a. subsequently.

Table 7.14: Time frame for catching up with ULB Revenue of All India

	PC Total Revenue		CAGR for catching up by Bihar**	
	2012-13	CAGR (07-08 to 12-13)	By 2019-20	By 2024-25
India	1681*	12.7%		
Bihar	58*	30.2%	83%	49.2%

$$** PC Bihar ULB Revenue \left(1 + \frac{CAGR_B}{100}\right)^t =$$

$$PC All India ULB Revenue \left(1 + \frac{CAGR_A}{100}\right)^t$$

* refer to **Table 7.3** for details.

Assumptions:

(i) OTR:

- Estimates of OTR of 140 ULBs are based on the actuals of 28 SPUR ULBs. Since, actuals for 28 SPUR ULBs declined in 14-15 compared to 13-14, estimates for 140 ULBs show decline in OTR. **(Table 7.5).**

- Annual Population growth is assumed at 3% effective 15-16 until 19-20. **(para 7.4.2 (i))**

- Due to non-availability of data for ULBs other than 28 SPUR ULBs, each item of OTR has been projected for 2015-16 as per GIS-based demand and reforms already being carried out in 28 SPUR ULBs. Thereafter, forecasts are made for all 140 ULBs.

- **Property Tax:** All reforms specified in the Chapter X are assumed to be implemented effective 2016-17. While Per capita PT works out to Rs. 180 for 28 SPUR ULBs, Per Capita PT for the remaining ULBs is assumed to be Rs. 100 for 15-16. 20 % growth rate is assumed after 2016-17 for PT Per capita, whereas, for 2015-16 to 2016-17 period growth rate of 15% is taken.

- **Other Taxes:**

- These include Mobile Tax, Advertisement Tax, Betterment Tax and Surcharge on Entertainment Tax;

- For non-SPUR ULBs, contribution is assumed to be only 15% of total.

- Betterment Tax is assumed to be implemented effective 2016-17. Contribution from this levy would be Rs. 3Cr. 4 cr, 6 cr & 10 cr for 2016-17 to 2019-20;

- 10 % surcharge on the projected Entertainment Tax **(Table 5.5)** is to be assigned to the ULBs.

- While .5% surcharge on Electricity consumption could be levied, it is not included in our calculations for want of reliable information. In any case, it would work as a buffer for any shortfall in incremental revenue forecasts from 16-17 to 19-20.

(ii) Assigned Taxes (Table 7.15)

- Actual Professions Tax taken for 15-16 and CAGR of 30% taken for forecasts from 16-17 to 19-20 and rounded off;

- Stamp Duty at CAGR of 25% taken from 15-16 to 2019-20 and rounded off.

- 10 % of the Vehicle Taxes **(Table 5.5)** is proposed to be assigned to the ULBs.

(iii) 14th UFC transfers: The 14th has recommended grants for the ULBs of Bihar as in **Table 7.16**

(iv) 5th SFC Transfers: Refer to **Chapter IX.**

(v) Agency Functions: Since the agency functions are assigned along with funds, no forecasts have been made by the Commission.

Table 7.15: Forecast of ULBs Revenue based on optimistic but realistic approach

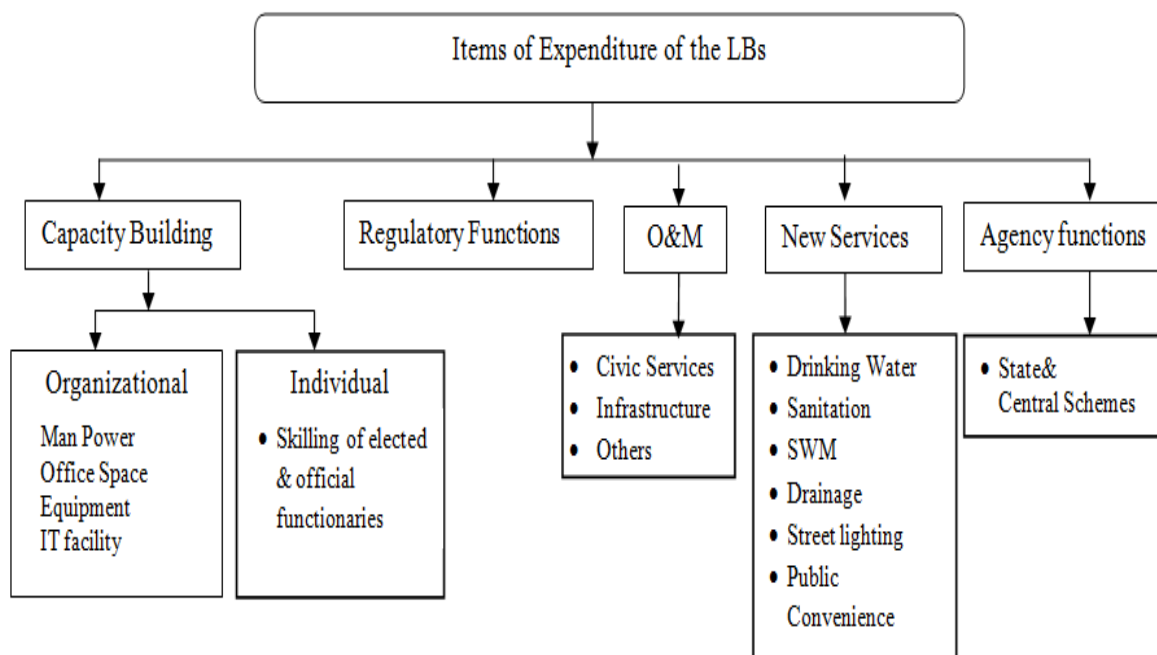
		2013-14 (Est.)	2014-15 (Est.)	CAGR (13-15)	15-16	16-17	17-18	18-19	19-20
Revenue	Pop.(in Cr.) ---->>	1.25	1.27		1.31	1.35	1.39	1.43	1.48
	1. OTR	163.70	162.17	-1%	249.27	473.65	585.27	721.19	893.69
	a. Property Tax	110.00	106.00	-4%	189.00	392.00	484.00	598.00	738.00
	b. Other Tax	7.70	8.17	6%	10.55	22.06	26.99	33.65	43.27
	2. Non-Tax	46.00	48.00	4%	49.72	59.59	74.28	89.54	112.42
	3. Assigned Revenue				278.06	463.08	570.02	704.05	871.75
	a. Stamp Duty	150.00	200.00	33%	250.00	310.00	385.00	480.00	600.00
	b. Professions Tax	19.37	22.17	14%	28.06	36.48	47.42	61.65	80.15
	c. Motor Vehicle Tax					116.60	137.60	162.40	191.60
	Total	462.85	541.41	17%	577	996	1230	1515	1878

Table 7.16: 14th UFC grants for the ULBs of Bihar

Sl.	Items	15-16	16-17	17-18	18-19	19-20	Total
1.	Urban Basic grant	256.83	355.63	410.90	475.34	642.28	2140.98
2.	Urban Performance grant	-	104.96	118.78	134.89	176.62	535.25
	Total	256.83	460.59	529.68	610.23	818.9	2676.23

7.5 : Expenditure:

7.5.1 Broad Items of Expenditure are as follows:



7.6 Review of Expenditure (2010-15):

7.6.1 Allocation for the ULBs in the State Budget:

(i) **Overall allocation:** Information furnished by UDD is given below. However, data appear suspect since UD's share as % of the total Budget declined by more than 3% in 09-10 as compared to 08-09.

(ii) **LB Window:** A summary of the LB window of the State Budget (*Table 7.18*) is given below. Evidently, the LB window is incomplete as figures for 13-14 (Actuals) are not available and NGRBA in 12-13 & 13-14, CS + SS in 2012-13 etc. Moreover, it is irrational that Non- Plan expenditure increased by 60% in 13-14 (RE) for

some important heads, data are not given. e.g. and further by 25% in 14-15 (RE), where-as, Plan expenditure increased by 64% in 13-14 (RE) and then by 350% in 14-15 (RE). Changes in same items also are irrationally high or low. **It is expected that the LB window would improve in future.**

7.6.2 Expenditure of the major ULBs:

(i) **Expenditure of 28 SPUR ULBs:** UDD has reported expenditure of 28 SPUR ULBs during 2010-15 as in *Annex 7.3*. It shows that total expenditure has increased from Rs. 137.76 cr in 10-11 to Rs. 314.19 Cr. in 14-15. Establishment expenditure accounts for almost 67% of the total in 14-15.

Table 7.17: Allocation of funds to the LBs (Rs cr.)

	08-09	09-10	10-11	11-12	12-13	13-14	14-15(BE)
(i) UDD Budget: a. Plan	980.48	1903	2327	2047	2587	3605	7947
b. Non- Plan							
(ii) Total Expenditure of GoB	13500	42796	50705	60180	69207	80405	116866
(iii) UD's share as % of total budget	7.3%	4%	5%	3%	4%	4%	7%

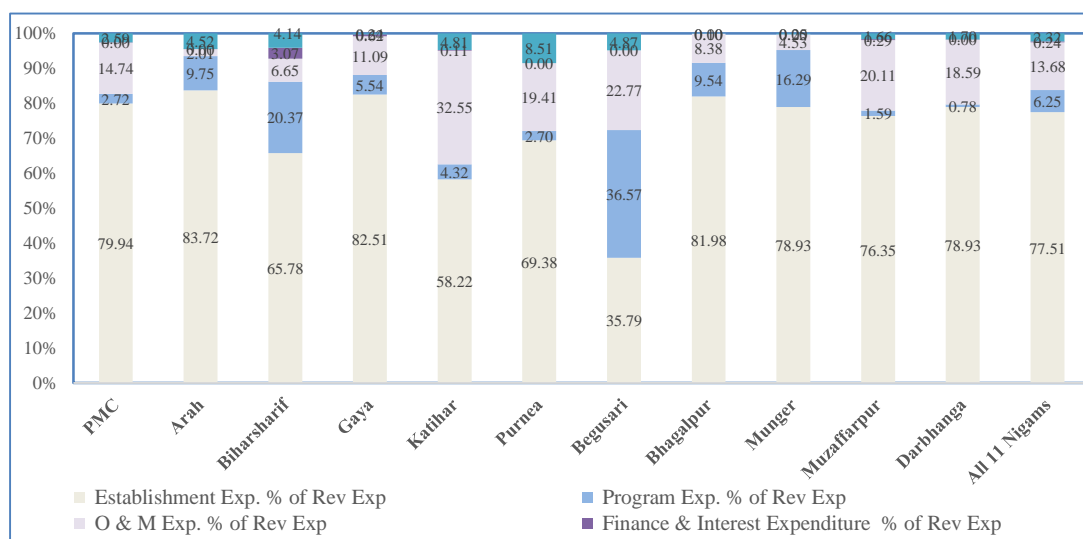
Source: Budget summary published on the website of Finance Department, GoB as reported by UDD.

Table 7.18: ULB Window of the State Budget (Rs Cr)

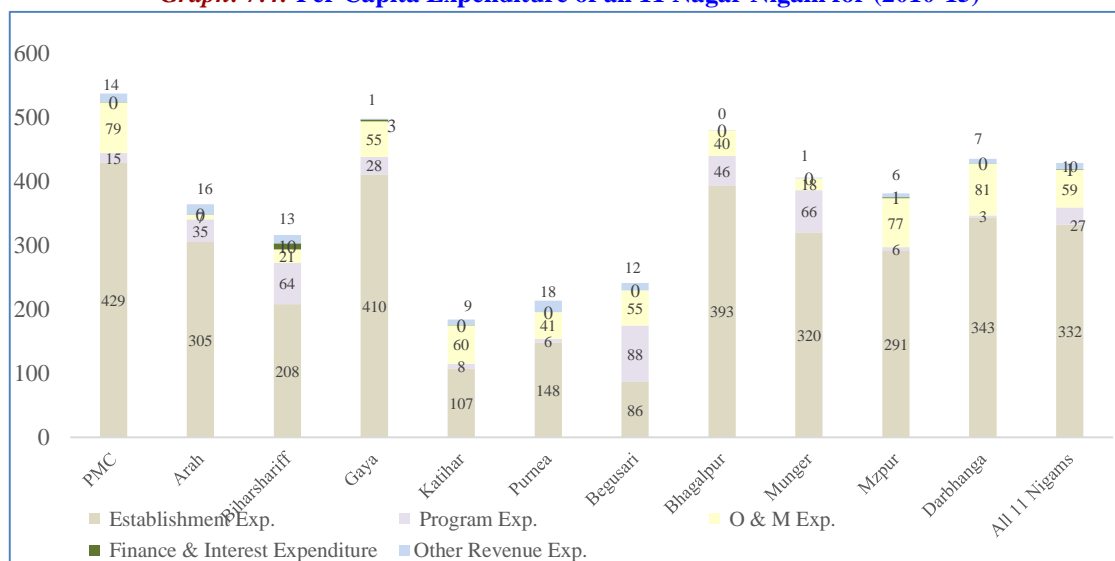
Items		12-13 (Actual)	13-14 (R.E)	13-14 (Actual)	14-15 (R.E)	15-16 (B.E)
UDD transfers to LBs		675	1094	0	3238	2730
1	Non-Plan	325	519	0	645	720
	A UFC Grants	60	184	0	217	257
	i M.Corp	26	79		92	109
	ii M.Council	21	63		73	86
	iii N.Panchayat	14	42		52	62
	B SFC Grants	264	323		407	435
	i M.Corp	106	149		165	177
	ii M.Council	92	112		139	149
	iii N.Panchayat	66	62		102	108
	C Professional Tax	0	12		22	28
	i M.Corp		8		9.42	11.94
	ii M.Council		0		7.32	9.44
	iii N.Panchayat		4		5	7
2	Plan	350	575		2593	2011
	A Water supply	32	53		200	200
	B Sanitation Work	18	47		95	150
	C NGRBA (state share 70:30)				200	51
	D I.D.S.M.T UIDSSMT (CS+SS)				444	145
	E Urban Information system				150	191
	F IHSPD				194	245
	G RAY				178	11
	H EAP	39	110		80	30
	I EAP-ADB	58	60		190	381
	J Civic Amenities	27	106		327	281
	K Master plan, DPR	0	2		10	4
	L MMSVY	146	132		201	0
	M Roads and Bridges	20	46		171	150
	N Others*	11	18	0.16	153	171
Education Dept. transfers to LBs					1308	1308
SC & ST welfare dept. transfers					386	442
BC & EBC welfare dept. transfers to LBs					1031	1617

** For 15-16 (BE) Others contains funds allocated for I.L.C.S (0.01), BPL List (0.01), Construction/Renovation of Buildings (10), Capacity Building (0.01), e-Governance (0.01), Strengthening of Housing Board and Completion of schemes (100), Monitoring/ Evaluation/ Supervision/ Establishment of resource centre and urban planning (1), Strengthening of Urban Poverty Alleviation Directorate (0.01), Establishment of Engineering cell (7), Allowances of Elected representative (3.2), SJSRY (49.7) and Capital expenditure in land acquisition for construction of houses (0.01).*

Graph: 7.3: Estab, Program, O&M and Other Exp. as % of Total Expenditure



Graph: 7.4: Per Capita Expenditure of all 11 Nagar Nigam for (2010-15)



(ii) **Expenditure of 11 Nagar Nigams (2010-11 to 2014-15):** *Graphs 7.3 and 7.4* based on data given in *Annex 7.4* show that (a) establishment expenditure accounts for 77.51% of total expenditure and is Rs 332 per capita, (b) expenditure on Program and O & M is mere 20% of the total expenditure and Rs 86 Per capita. Situation of Ara, Gaya, Bhagalpur and Patna Nigams is particularly bad.

7.6.3 Maintenance expenditure of Bihar ULBs vs All India: SR14FC has made comparison between Bihar and All India Municipal expenditure on Maintenance based on the sample cities (*Table 7.19*). It shows that PC Bihar Municipal ‘maintenance head’ expenditure is far behind All India. The situation has not improved between 09-10 and 12-13.

7.7 Forecast of Expenditure (2015-2020)

7.7.1 Business - as – usual: It is based on the State Budget and other historical data: Forecast of Expenditure as per CAGR based on the LB Window for 2011-12 to 2015-16 (BE) can’t be realistic; since (a) CAGRs of NGRBA, I.D.S.M.T, RAY, EAP are high negative, and (b) CAGR of Sanitation & Cleaning, Urban

Information, IHSDP and Others are high positive and (c) GOI is restructuring its CSSs/ACAs. We have, therefore, assumed annual increase of 15% over 2015-16 (BE) for 2016-17 and for the subsequent years till 19-20. (*See Table 7.20*)

7.7.2 Normative (Principle of Equalization):

Table 7.22 shows is Forecast of Expenditure for based on Normative approach in SR14FC i.e. providing comparable services at comparable tax effort. Following are the assumptions (*Table 7.21*):

- This is based on SR14FC Report on Municipal Finances and Service Delivery in India.
- It is assumed that expenditure of the ULBs of Bihar would reach atleast All India average of 2012-13 in 15-16.
- Per Capita values 2012-13 of All India ULBs Expenditure are taken from SR14FC. It is multiplied by projected Bihar ULB population of 12-13 and assumed to be Bihar ULBs expenditure for 2012-13.
- It is further projected for the next 3 subsequent years (i.e. 13-14, 14-15 and 15-16) with the tier-wise CAGR of All India.

Table 7.19: Municipal Revenue Expenditure in sample cities: Maintenance

	Bihar				All India			
	2009-10		2012-13		2009-10		2012-13	
	Amount	PC	Amount	PC	Amount	PC	Amount	PC
Water Supply	0	1	0	1	1655	122	2158	159
Building	0	1	0	1	178	13	254	18
Road	1	6	1	8	1395	90	1833	118
Others	2	14	1	12	5483	376	8717	598

Source – *Municipal Finances and Service Delivery in India, 14th FC Study Report*

• 110% of this projected Expenditure for 15-16 is taken as estimated ULBs expenditure for Bihar for 15-16 itself. For subsequent projections till 19-20, it is increased annually by 20%, 15% & 10% for Nigam, Parishad & Panchayat respectively.

• Population figures for 2011-12 are taken as reported by UDD and projected for subsequent years @ 3% annually.

Table 7.20: Forecast of ULBs Expenditure based on business-as-usual approach

	2011-12 (Act)	2012-13 (Act)	2014-15 (RE)	2015-16 (BE)	CAGR	15-16	16-17	17-18	18-19	19-20	15-20 Total
Pop.(in Cr.) ---->>						1.210	1.234	1.259	1.284	1.310	6
Water supply	65.0	31.9	200.0	200.0	0%	200.00	230.00	264.50	304.18	349.80	1808.62
Sanitation & Cleaning Work	49.0	18.2	95.0	150.0	58%	150.00	172.50	198.38	228.13	262.35	1356.47
NGRBA (state share 70:30)			200.0	51.3	-74%	51.30	59.00	67.84	78.02	89.72	463.91
I.D.S.M.T UIDSSMT (CS+SS)			444.0	144.8	-67%	144.75	166.46	191.43	220.15	253.17	1308.99
Urban Information system			150.0	191.0	27%	191.00	219.65	252.60	290.49	334.06	1727.23
IHSDP (CS+SS)			194.4	244.6	26%	244.59	281.28	323.47	371.99	427.79	2211.85
RAY			177.5	11.0	-94%	11.00	12.65	14.55	16.73	19.24	99.47
EAP		38.7	80.0	30.2	-62%	30.24	34.78	39.99	45.99	52.89	273.46
EAP-ADB		58.0	190.0	381.3	101%	381.34	438.54	504.32	579.97	666.97	3448.50
Civic Amenities	18.7	27.0	327.0	281.4	-14%	281.43	323.64	372.19	428.02	492.22	2544.99
MMSVY	148.0	145.7	201.0	0.0		0.00	0.00	0.00	0.00	0.00	0.00
Road and Bridge	0.0	0.0	171.0	150.0		150.00	172.50	198.38	228.13	262.35	1356.47
SJSRY	0.0	0.0	83.0	49.7		49.70	57.16	65.73	75.59	86.93	449.44
Others	57.6	30.9	79.9	125.3	57%	125.26	144.05	165.66	190.50	219.08	1132.74
Total			2592.8	2010.6	-22%	2010.61	2312.20	2659.03	3057.88	3516.57	18182.13

Source: Local Bodies Window, State Budget for respective year

Table 7.21: Summary of the above assumptions (Rs Cr.)

Bihar ULBs																								
		Nigam (20)						Parishad (15)						Panchayat (10)						Total				
		AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	AI	12-13	CAGR	13-14	14-15	15-16 (P)	15-16	AI	15-16
Expenditure	Establishment	1443	707	0.17	826	966	1129	1355	550	212	0.16	245	283	327	377	404	107	0.17	126	147	173	190	1311	1922
	Maintenance	972	476	0.10	525	580	640	768	333	128	0.19	153	183	218	251	384	102	0.21	123	148	179	197	883	1216
	Capital Exp	1586	777	0.17	905	1054	1228	1474	684	264	0.25	330	413	517	595	628	167	0.23	204	251	308	339	1460	2408
	Welfare Exp	202	99	0.10	109	120	131	158	115	44	0.16	51	60	69	80	121	32	0.20	39	46	56	61	192	298
	Other	3247	1591	0.19	1891	2249	2674	3208	90	35	0.03	36	37	38	44	70	19	0.00	19	19	19	20	2738	3273
	Total (B)		3650		4257	4969	5803	6963	1772	683		815	976	1171	1346	1607	426		510	612	734	808	6584	9117

Table 7.22: Forecast of Expenditure for Bihar ULBs based on SR14FC (Rs Cr.)

Bihar ULBs																						
		Nigam					Parishad					Panchayat					Total					
		15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-16	16-17	17-18	18-19	19-20	15-20
Pop.(in Cr.) ---->>		0.52	0.53	0.54	0.55	0.56	0.41	0.42	0.43	0.43	0.44	0.28	0.29	0.29	0.30	0.30	1.21	1.23	1.26	1.28	1.31	6.30
Expenditure	Establishment	1355	1626	1951	2342	2810	377	433	498	573	659	190	209	230	253	278	1922	2268	2679	3167	3747	13784
	Maintenance	768	921	1106	1327	1592	251	289	332	382	439	197	217	238	262	288	1216	1427	1676	1971	2320	8610
	Capital Exp	1474	1769	2123	2547	3057	595	684	787	905	1040	339	373	410	451	497	2408	2826	3320	3904	4594	17052
	Welfare Exp	158	189	227	272	327	80	91	105	121	139	61	67	74	81	90	298	348	406	475	555	2082
	Other	3208	3850	4620	5544	6653	44	51	58	67	77	20	22	25	27	30	3273	3923	4703	5638	6760	24298
	Total (B)	6963	8356	10027	12032	14439	1346	1548	1780	2047	2354	808	889	977	1075	1183	9117	10793	12785	15155	17976	65826

7.7.3 Forecast of Expenditure of the ULBs by UDD:

(i) Assumptions:

- Establishment expenditure is based on the Municipal Cadre Report of MoUD & PMC Restructuring Report of E&Y. Positions under section 36 of BMA, 2007, if not considered, are included.
- 10% annual increase is assumed in Establishment expenditure.
- O&M expenditure is based on per capita expenditure as estimated by HPEC adjusted to 2014-15 prices and inflation of 5% and population growth @ 2% p.a.
- 20 % increases is assumed in Programme, Administrative and Misc. expenditure.
- Interest expenditure is assumed to be nil as Capital expenditures are funded by Government Grants.

(ii) Forecast:

7.7.4 5th SFC Approach: Optimistic but realistic approach has been adopted by the 5th SFC since Bihar LBs have to catch up with at least the All India level of 12-13 by 2015-16.

(i) Assumptions:

- Manpower requirement is computed based on the Model Municipal Cadre (excluding Group D). (*para 3.3.2*). i.e Rs 206 Cr. p.a. with 5 % annual increase (*Annex 3.7*).
- Training cost is computed based on HPEC norms. i.e. 1.25% of total capital requirement with annual increment of 5 Cr. : 4792 Cr. × 1.25 % = 59.9 Cr. ≡ 60 Cr. p.a.
- Capital and O & M Exp on Civic Services (Rs 29,374 cr. over 5 years) are computed based on per capita norms of HPEC (*Annex 7.2B*), multiplied by the projected urban Population.
- Model Cities & Towns: (Smart Cities, AMRUT) etc. Details are given in *para 3.2.10 and Annex 7.5*. Resource required for the purpose could be met comfortably through convergence of own revenue, transfers from UFC & 5th SFC, Plan transfer and PPP etc. options as explained below.
- SPUR type Professional Services: is to be provided to all the ULBs. Rs 20 Cr. is provided for 15-16 with annual increase of 10% subsequently.

Table 7.23: Forecast of Expenditure 2015-16 to 2019-20 period (Rs Cr.)

Item	15-16	16-17	17-18	18-19	19-20
Establishment	237.11	260.82	286.90	315.59	347.15
O & M	199.97	214.17	229.36	245.66	263.09
Programme	78.11	93.73	112.48	134.97	161.97
Administration	30.41	36.50	43.80	52.55	63.07
Interest	0	0	0	0	0
Miscellaneous	6.68	8.01	9.62	11.54	13.85
Total Revenue Exp	552.28	613.23	682.15	760.32	849.12
Capital Expenditure	4791.91	5132.12	5496.50	5886.74	6304.66
Total Expenditure	5344.19	5745.35	6178.65	6647.06	7153.78

Source: UDD

Table 7.24: Forecast of ULBs Expenditure based on optimistic but realistic approach

Projection of ULB Expenditure based on need (5th SFC)					Rs. Cr.		
No.	Items	15-16	16-17	17-18	18-19	19-20	15-20
1	Capacity Building						
a	Man Power	206	227	249	274	302	1258
b	IT		2	2	2	2	8
c	Training Program	60	64	69	74	79	346
d	SUPA	5	15	20	25	35	100
e	Infrastructure						
f	Office Space	5	15	75	100	120	315
2	Civic Services						
a	Capital Expenditure	4792	5182	5605	6062	6556	28197
b	O & M	200	216	234	253	274	1177
3	SMART Cities/AMRUT	2156	2156	2156	2156	2156	10780
4	Professional Services	20	22	24	26	29	121
Total = (1+2+3+4)		7424	7875	8408	8944	9522	42173

Table 7.25 Funds likely to become available to the ULBs (2015-20)

	15-16	16-17	17-18	18-19	19-20	Total
1. OTR	249	474	585	721	894	2923
a. Property Tax	189	392	484	598	738	2401
b. Other Tax	11	22	27	34	43	137
2. Non-Tax	50	60	74	90	112	386
3. Assigned Revenue	278	463	570	704	872	2887
a. Stamp Duty	250	310	385	480	600	2025
b. Professions Tax	28	36	47	62	80	254
c. Motor Vehicle Tax		117	138	162	192	608
Total (1+2+3)	577	996	1230	1515	1878	6196
5. 14th FC Performance Grant	257	356	411	475	642	2141
6. 14th FC Basic Grant	-	105	119	135	177	535
Total 14th FC Transfer (5+6)	257	461	530	610	819	2676
7. 5th SFC Devolution	760	1290	1595	1970	2440	8055
8. 5th SFC Grants	235	620	725	1020	1125	3725
Total 5th SFC Transfer (7+8)	995	1910	2320	2990	3565	11780
State Plan (9)	2132	2345	2580	2838	3121	13016
Total (1 to 9)	3961	5712	6659	7953	9383	33668

• The total need for developing all Cities and Towns as models is **Rs.10,779 crore** (*Table 3.14*), whereas *Table-7.25* shows that the ULBs of Bihar as a whole would get approx. **33,668 Crore** from various sources viz State Budget (15505 Cr.), 14th FC transfers (2676.23 Cr.), 5th SFC transfers (Rs 11780 Cr.), own revenue (6196 Cr.) and Central/State schemes, Any gap in the individual ULB, has to be filled through PPP, ARM and borrowing options. Moreover, UDD will naturally take due care of this aspect while sub-allocating available funds among the ULBs.

7.8 Computation of the Resource Gap:

Requirement of resources from UDD as per the commission's format (*Annex-7.6*) is still awaited.

7.8.1 Resource gap based on different approaches: is given in *Table 7.26*. Business – as – usual (Row 1, Col 7) would be the least desirable option, being too low. Attaining All India level (Row 2, Col 7) would not be possible, being too high. Resource gap projected by UDD and the 5th SFC are close to each other and could

be accepted. The remaining resource gap must be bridged by adopting innovative approaches as *given in para 7.9*.

7.9 Bridging the Resource Gap remaining even after UFC/SFC transfers:

(i) Own Additional Resources (Tax and Non-Tax): The ULBs must make all efforts to raise their own revenues (tax & non-tax). Incidentally, one of the conditions imposed by the 14th UFC for performance grants is improvement in own revenues. This would also enhance their autonomy and accountability. *Chapter X* may be referred to for details of options available to the ULBs for raising own resources.

(ii) PPP & Borrowing: It is evident that for meeting the All India level of services, the Bihar ULBs would need huge amounts, which cannot be met through State budget, UFC/SFC transfers or own revenue. **Leveraging PPP in a big way for creation of infrastructure & services is a necessity.** Moreover, the possibility of market borrowing has to be explored (*Details in Chapter X*). This Commission has specifically provided Rs 970 Cr for leveraging PPP.

Table: 7.26 Projected Revenue and Expenditure (2015-20) in different Scenarios

Sr.	Approach	Ref Table	Revenue** (Rs Cr)					Ref Table	Expenditure (Rs Cr)				
			(4)	(5)	(6)	(7)	(8)		(9)	(10)	(11)	(12)	(13)	(14)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Year →		15-16	16-17	17-18	18-19	19-20		15-16	16-17	17-18	18-19	19-20
1	Business – as – usual	7.8	797	963	1166	1411	1708	7.20	2011	2312	2659	3058	3517
2	Normative (SR14 FC)	7.11	691	817	968	1146	1358	7.22	9117	10793	12785	15155	17976
3	UDD	7.12	413	535	694	906	1394	7.23	5344	5745	6179	6647	7154
4	5 th SFC	7.15	577	996	1230	1515	1878	7.24	7724	7875	8408	8944	9522

Note: ** 14th UFC Grant for 15-16 to 19-20 (Table 7.16) is added to the projected ULB total revenue.

Table: 7.27 Projected Resource Gap (2015-20) in the above Scenarios (Rs Cr.)

Sr.	Approach	(15) =	(16) =	(17) =	(18) =	(19) =	(20) = (15)
		(10) - (4)	(11) - (5)	(12) - (6)	(13) - (7)	(14) - (8)	to (19)
	Year →	15-16	16-17	17-18	18-19	19-20	15-20
1	Business – as – usual	957	888	964	1037	989	4835
2	Normative (SR14 FC)	8169	9515	11287	13399	15799	58170
3	UDD	4674	4749	4955	5131	4941	24451
4	5 th SFC	6894	6726	6958	7131	7140	34850

(iii) **Central and State Schemes:** UDD and the ULBs have to make all efforts to utilize funds under Central and State Schemes. The 5th SFC is recommending sufficient funds for Capacity Building of the ULBs to enable them to do so.

(iv) **Expenditure Management:** Refer to **Chapter X** for details.

7.10 An interesting case of Revenue & Expenditure of PMC:

7.10.1 Table 7.28 shows that in 2013-14 (A) (i) PMC had a big amount as cash & Bank balances, (ii) Total receipts are much higher than total

expenditure, (iii) Capital exp was much lower thus Capital receipts BE figures of 14-15 & 15-16 are not reliable and are perhaps very optimistic. It is borne by wide difference between SPUR/UDD data and PMC Budget.

7.10.2 Graph 7.5 shows that (a) Total tax revenue increased between 2010-11 to 2013-14 and then declined in 2014-15. It is a matter of serious concern, (b) Share of non- property tax is quite low and needs special efforts.

7.10.3 Graph 7.6 shows that (a) establishment expenditure has gone upto 81% of Total expenditure, (b) program exp is meagre and (c) O & M exp again is low:

Table 7.28: Patna Municipal Corporation (Rs Cr.)				
SL NO	Particulars	2013-14 (A)	2014-15 (BE)	2015-16 (BE)
A.	Cash & Bank balances	-	158.38	213.61
B = (i+ii)	Total Receipts	201.99	314.94	251.89
i.	Revenue Receipts	125.30	255.69	188.89
ii.	Capital Receipts	76.69	59.25	63.00
C = (iii+iv)	Total Expenditure	145.46	473.41	441.23
iii.	Revenue Expenditure	126.46	280.52	300.13
iv.	Capital Expenditure	19.00	192.90	141.10
D = A – B	Closing Cash & Bank balances	56.53	-0.09	24.27

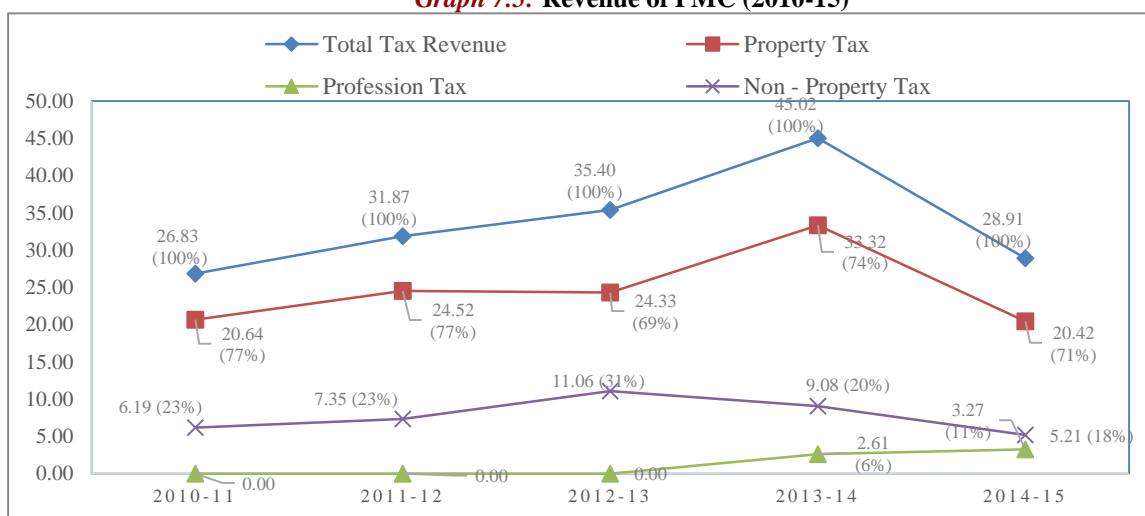
Details are in PMC Budget available at Annex 7.7

Table 7.29 Revenue & Expenditure of PMC (2010-15)

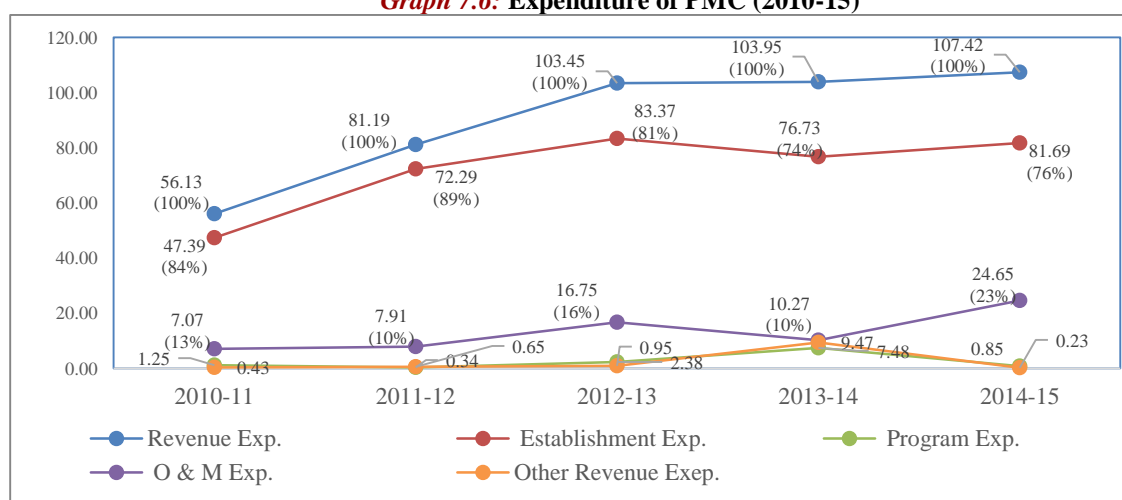
Sr. No.	Items	Revenue and Expenditure for (2010-15) of PMC (Rs Cr)							
		10-11	11-12	12-13	13-14		14-15		15-16
		SPUR Data	SPUR Data	SPUR Data	SPUR Data	PMC Budget	SPUR Data	PMC Budget	PMC Budget
A.	Total Tax Revenue	26.83	31.87	35.4	45.02	125.3	28.91	255.69	188.89
1	Property Tax	20.64	24.52	24.33	33.32		20.42		
2	Profession Tax	0	0	0	2.61		3.27		
	Assigned Revenues etc.					48.93		70	49
	Revenue Grants & contribution					34.84		49.54	44.25
3	Non - Property Tax	6.19	7.35	11.06	9.08		5.21		
	Capital Receipts					76.66		59.25	63
B.	Revenue Exp.	56.13	81.19	103.45	103.95	126.46	107.4	280.52	300.13
1	Establishment Exp.	47.39	72.29	83.37	76.73	89.85	81.69	139.86	168.81
2	Program Exp.	1.25	0.34	2.38	7.48		0.85		
3	O & M Exp.	7.07	7.91	16.75	10.27	33.9	24.65	80.37	97.29
	Capital Expenditure					18.9		167.85	134.95
4	Finance & Interest Exp.	0	0	0	0		0		
5	Other Revenue Exp.	0.43	0.65	0.95	9.47		0.23		
C.	Total Exp. as % of revenue	209.2	254.77	292.27	230.9		371.6		
D.	Est. Exp. as % of revenue	176.63	226.83	235.55	170.43		282.6		

Source: SPUR/UDD information, PMC Budget

Graph 7.5: Revenue of PMC (2010-15)



Graph 7.6: Expenditure of PMC (2010-15)



Chapter-VIII

Framework of Devolution and Grant

8.1 IGFT and the Principle of Equalization: The core issue before this Commission is to design an efficient and equitable intergovernmental fiscal transfer system (IGFT) between State government and the LSGs (i.e. LBs), besides suggesting measures for ensuring sound finances and governance of the LSGs. Such an IGFT system should evidently conform to the 'Principle of Equalization' i.e. providing comparable services at comparable tax efforts to every citizen irrespective of place of his residence in the proximate future. *Appendix-8.1* gives a conceptual framework.

8.2 Need for IGFT: IGFT is necessary to address the inevitable asymmetry in revenue assignments and expenditure responsibilities among different tiers of the government due to the efficiency and equity considerations. i.e.

(i) Higher tiers can generally impose & collect revenues more efficiently and hence have higher revenue assignments. Moreover, it enables the higher tiers to use the higher revenue for bridging fiscal capacity deficits of the poorer jurisdictions (i.e. "Equalization").

(ii) Lower tiers can generally provide public goods & services more responsively & efficiently and hence have higher expenditure responsibilities (Principle of Subsidiarity).

8.3 Such IGFT should:

(i) **Equalize vertically (improve revenue adequacy):** A vertical imbalance occurs when expenditure responsibilities of the LSGs do not match with their revenue raising powers. IGFT should reduce such imbalances.

(ii) **Equalize horizontally (inter-jurisdictional redistribution):** This is to enable all the LSGs to provide at least the basic level of public services. Horizontal imbalance occurs when own fiscal capacities to carry out same functions differ across LSGs, generally due to unequal distribution of revenue bases, variation in socio-economic characteristics of the population, disparities in economic opportunities and costs in provision of goods & services.

(iii) **Minimize inter-jurisdictional spillovers (externalities):** The LSGs' services, benefits and associated costs extend beyond the borders of its jurisdiction. However, the LSGs may be unwilling to provide an efficient level of such services as they believe the people residing outside their jurisdiction will benefit. IGFT should ensure that the LSGs provide such services smoothly.

(iv) **Influence efficiency of public service provision:** Efficiency of public services varies across the LSGs basically due to variation in costs of goods & services. IGFT should ensure reduction in such gaps and ensure efficient public service delivery.

(v) **Promote macro-economic stability:** Taxation and subsidies are important macro-economic parameters. IGFT design should ensure proper harmony between all parameters and should promote macro-economic stability.

8.4 Objective and Criteria for evaluating effectiveness of IGFT: *Table 8.1* and *Annex-8.1* give objective and criteria for evaluating effectiveness of IGFT.

8.5 Methods of IGFT: There could be four different ways of transfers-

(i) Derivation principle: Allocating amount to jurisdictions according to where the revenues are collected. It evidently is against the Principle of Equalization and not practiced.

(ii) Ad-hoc transfer: Allocation of fund without any pre-existing plan, mainly influenced by political decisions. It cannot be an option.

(iii) Historical Trend: Allocation based on Inter & Intra state trend may be a good feasible option.

(iv) Applying a rational formula: Ideal (viz. *Box 8.1*) but difficult to apply due to the unavailability of requisite and reliable data, etc.

8.6 Design of IGFT: There are two broad ways of IGFT from State Govt. to the LBs:

A. Based on the State Finance Commission (SFC) recommendations:

Table 8.1: Criteria to evaluate effectiveness of IGFT

Equity	LSGs with equal fiscal needs should be treated equally.
Neutrality	LSGs should not be able to influence the award of grants by manipulating their expenditure or tax decisions
Predictability & Flexibility	LSGs need to be able to budget and plan for the future but, at the same time, have the flexibility to respond to the changing circumstances
Simplicity & Transparency	The transfer mechanism or allocation formula should be easy to understand and easy to administer
Autonomy	LSGs should have independence to set priorities and manage services to respond to the local needs
Incentive for better Mgmt.	The transfer mechanism should provide incentive for sound fiscal management and discourage inefficient practices, rather than penalize LSGs for sound economic management
Accountability	The Grantor must be accountable for the design & operation of the transfer system and the recipients must be accountable to the grantor and its citizens for financial integrity and results.
Responsiveness	The Transfer mechanism should be flexible enough to accommodate unforeseen changes in the fiscal situations of the recipients.

Box 8.1

Formula for Transfer = (BS+D+I-R) +/- C

Where, **BS** is the basic services component
D is the development component,
I is the institutional support component,
R is the revenue-raising capacity correction, and
C is a correction and stabilization factor.

Basic Service Component (BS):

The purpose is to enable the LBs to provide basic services (water, sanitation, electricity, waste disposal etc.) including free basic services to households below poverty line.

- There could be two levels of support for each subsidized basic service:
 - A full subsidy for unserved households
 - A partial subsidy for households that actually receive services from the LBs.
- Conventionally partial subsidy has been set at one-third of the cost of the subsidy provided to the serviced households.

$$BS = \sum_{i=1}^n (Si1 * PW Si + Si2 * PWP Si + Si3 * PWF Si) + \sum_{j=1}^m (Sj1 * NPW Sj + Sj2 * NPWP Sj + Sj3 * NPWF Sj)$$

Where, S_i = Basic Service for poor i to n , S_j = Basic Service for non-poor j to m
PW= Poor without subsidy, **PWP**= Poor with partial subsidy, **PWF**= Poor with full subsidy
NPW= Non-poor without subsidy, **NPWP**= Non-poor with partial subsidy, **NPWF**= Non-poor with full subsidy

Institutional Support Component (I):

- Particularly important for the LBs, which are unable to raise sufficient revenue to fund the basic costs of administration and governance.
 - Supplements (does not fund fully) funding of the LBs for administration and governance cost.
 - It includes two elements: (i) Administrative capacity (ii) Local electoral accountability.
- I** = base allocation + [admin & governance support * population] + [council support * no. of seats]

Development Component (D):

It was set at zero when the current formula was introduced on April 1, 2005, pending an investigation of how best to capture the factor in the formula.

Revenue-Raising Capacity Correction (R):

- It is related to the LB's ability to raise additional resources to fund the cost of basic services and administrative infrastructure.
- The basic approach is to use the relationship between (a) the demonstrated revenue –raising capacity by the LBs that report information and (b) the objective LB information from statistics, to proxy revenue – raising capacity for all the LBs.
- The revenue that should be available to the LBs is then “corrected” by imposing a certain “tax” rate (say 5%): To be decided by the Govt.

Correction and Stabilization factor (C):

- The correction is based on the actual grant to each LB.

(i) Devolution: It is a constitutional ‘obligation’ to share State’s Own Tax Revenue (SOTR) with the LBs and is to be given as a percentage of SOTR.

(ii) Grants: Grants are ‘discretionary’ and are to be given out of CFS.

A conceptual framework of devolution & grant is given at *Annex-8.2*. Actual devolution and grants and inter-LB distribution through different SFCs etc. are given at *Annex-8.3*.

B. Other transfers from State Govt.

These are generally scheme transfers.

8.7 Devolution: A framework of devolution is given in *Box 8.2*.

Box 8.2

Framework of Devolution (Vertical Sharing)

- Estimating the size of the gap that is to be filled through IGFT.
- Needs-Resources Gap (G) might be defined as:

$$G = \sum (E_i - R_i)$$

Where, R_i = Own revenue at “normal” effort in LG_i .

E_i = Expenditure to provide a **minimum** acceptable level of governance and services in LG_i

- Vertical share: $VS = \alpha G / CR$

Where, α is the percent of the needs-resources gap that State Govt. and the SFC would like to cover with the transfer, and CR is the revenue raised by the State Govt.

8.8 Grants:

8.8.1 Purpose of Grants:

- Achieving ‘Equalization’.
- Increasing overall capacity of the LBs to deliver basic services.
- Encouraging spending on goods and services having positive social impact.
- Incentivizing Governance and Institutional Reforms.
- Incentivizing Additional Resource Mobilization (ARM).

8.8.2 Arguments for and against Grants:

a. Arguments for Grants: Effective use of Grants as a tool by a constitutional body such as the SFC could help in directing spending to the more desirable areas rather than low-priority

areas which often are dictated by electoral compulsions.

b. Arguments against Grants

- It cuts into fiscal space available for rule-based (untied) Devolutions.
- An increasing number of Grants fragments the transfer system and disperses scarce resources into sub-optimal investments.
- Award of Grants can be considered redundant as revenue disparities and cost disabilities amongst the LBs should already have been internalised in the Devolution formula.
- Grants in practice have been regressive, against its potent redistributive rule.
- ‘Uniform’ recommendations for Grants may not be appropriate given the LBs’ individual operating fiscal constraints and fiscal inequalities across them.
- If not well-designed, Grants will actually not provide additional resources for the intended purposes due to the ‘substitution effect’.
- The LBs may divert expenditures from other equally important purposes that have not been incentivized, leading to lopsided spending priorities.

8.8.3 Sometimes, purpose specific and/or conditional grants (See Annex-8.4) could be made with good reasons. However, grants should eventually be subsumed in the Devolution formula unless strongly justified otherwise (i.e. as an exception rather than the rule).

8.8.4 Performance Grants: The performance measures should capture the following aspects: (*Box 8.3*)

- Organizational performance

Box 8.3

Design of performance-based grants

High Incentives	Sufficient monetary value should be given to motivate desired behaviors by the LBs and the functionaries.
Periodic review	Incentive and performance indicators should be periodically revised and renegotiated between the government and the LBs.
Unambiguous	Performance should be measured unambiguously and be within the control and influence of the LBs.
Customization	Incentives should be tailor-made to suit specific situations

- Fiscal performance (spending, revenue generation, deficits)
- Accountability and transparency (accounts, audit)
- Financial management (viz. debt management)
- Cross-cutting issues (gender and child welfare, environment, employment, poverty)
- Service Delivery.

8.9 Approach adopted by the 5th SFC:

8.9.1 Principle of Equalization lies at the core of IGFT. While reasonable attempts have been made, achieving equalization is nearly an impossible task, inter-alia, due to the following constraints:

- Non-availability of requisite and reliable data on both revenue and expenditure
- Inadequate and widely varying capacities of the LBs (even to spend the allocated funds).
- Inability of the LBs to raise revenue prescribed under the Acts & Guidelines.

8.9.2 Approach adopted by the 5th SFC thus is as follows:

A. Devolution:

- Assess the historical trends in both Bihar and other major States and the ability of the State Govt. to spare resources out of its taxes, duties etc.
- The LBs should use the devolved amount according to the following priority (**Box 8.4**):

B. Grant:

- Assess needs and also ability of State Govt. to spare resources out of its CFS for giving grants to the LBs.

- The grant are to be provided for:

(i) Capacity Building: i.e. providing requisite Manpower, IT facility, Training infrastructure, Office space etc. in the LBs as per the prescribed norms.

(ii) Incentive for Additional Resource Mobilization (ARM)

(iii) Governance reforms

(iv) Leveraging private resources for spending on merit infrastructure and services.

(v) “**Special grants**” could be provided to address singular, exceptional, unanticipated or extraordinary events.

8.9.3 Devolution vs Grant:

- State taxes, duties etc. also are part of the CFS and distinction between Devolution and Grant is ‘notional’ but for the conditionality or purpose - specificity of the Grant and the larger pool of resources in the CFS.

- Ideally, the entire transfer should be made by way of Devolution as per an objective formula (e.g. **Box-8.1**) which is untied. However, given the imperatives of capacity building, incentivizing own revenue effort, governance reforms etc., Grants are unavoidable at this stage of evolution of the LBs.

Box 8.4		Use of the Devolved Funds	
Sl.No	PRIs	ULBs	
1	Implementing Reforms recommended in <i>Chapter-X</i> including maximization of own revenues (tax & non-tax); timely submission of accounts and internal audit; strengthening of Gram Sabha, Ward Sabha, Standing Committees, Social Audit.		
2	O&M of existing services and infrastructure (subject to a ceiling of 20% of the total devolution), since in the prevailing situation, there are many sources of funding for new services and infrastructure but very less for O&M.		
3	Supplementing grants if the amount for a particular grant component is not adequate for the purpose. (Table 9.12)		
4	Creating and replacing old facilities like piped drinking water, sanitation, nali-gali with focus on 7-point agenda of State Govt. and Smart Panchayats (Box 2.2) as per their plans formulated in consonance with Article 243ZD of the Constitution.	Creating and replacing old facilities like piped drinking water, sanitation, nali-gali and solid waste management with focus on 7-point agenda of State Govt. and development of Model Cities and Towns viz : (a) Divisional HQs on the lines of Smart Cities, (b) District HQs as AMRUT Cities and (c) remaining ULBs as model Towns, and be based on CDPs when prepared.	
5	Completion of projects remaining incomplete under JNNURM, BRGF and RGPSA due to lack of funds, if physical progress is more than 60%.		

8.9.4 SFC transfers to the LBs: A summary of transfers to the LBs by the preceding SFCs of Bihar vs other Low Income States (LIS) for 12-13 is given in **Table 8.2**.

• The average devolution in LISs (i.e. States comparable to Bihar) is 11.14%, which is way above the devolution in Bihar (7.5% of SOTR).

Table 8.2: Trend of SFC transfers to the LBs (2012-13)

States	Budget (A)	Popul.	GSDP	Per Capita			% of Budget			% of GSDP		
				Devolution	Grants	Total	Devolution	Grants	Total	Devolution	Grants	Total
				(In Cr.)								
Rajasthan	81264	7.15	459215	285	110	395	2.51%	0.97%	3.48%	0.44%	0.17%	0.62%
Uttar Pradesh	173720	20.8	768930	419	0	419	5.01%	0.00%	5.01%	1.13%	0.00%	1.13%
Odisha	47256	4.32	255459	148	86	234	1.35%	0.79%	2.14%	0.25%	0.15%	0.40%
Madhya Pradesh	83497	7.56	372171	198	24	222	1.80%	0.22%	2.02%	0.40%	0.05%	0.45%
Bihar	69207	10.95	313995	107	21	128	1.69%	0.33%	2.03%	0.37%	0.07%	0.45%
Average (LIS)	96043	10	476464	231	48	279	2.41%	0.50%	2.90%	0.48%	0.10%	0.59%

Note: Average (LIS) is arrived by taking weighted average (Weights of respective state's population).
Source: Budget document and SFC report of respective state, Census 2011 & CSO

From **Table 8.2**, it is evident that the total transfers (Devolution + Grant) recommended by the SFC as % of Budget for Bihar is 0.88% less than the LISs average. It is the highest at 5.01% for UP.

8.9.5 Trend of devolution:

(i) A summary of the recommendations of the preceding SFCs of Bihar vs other States is given in **Table 8.3** (Details at **Annex-8.3**):

(ii) Analysis of **Table 8.3** shows that:

• The SFCs of the LISs are continuously increasing devolution as a % of SOTR.

Table 8.3: Trend of Devolution as a % of SOTR

	1st SFC	2nd SFC	3rd SFC	4th SFC
Low Income State (LIS)				
Rajasthan	2.18%	3.05%	5%	7.05%
Uttar Pradesh	11%	12.50%	15%	N. A
Odisha	.....	10%	15%	N. A
Madhya Pradesh	3.42%	4%	N.A	N. A
Bihar	N.A	N.A	3%	7.50%
Middle Income State (MIS)				
Tamil Nadu	.....	9%	10%	10%
Kerala	.....	.....	25%	19.70%
West Bengal	16%	16%	7.87%	N. A
Karnataka	36%	40%	33%	N. A
High Income State (HIS)				
Punjab	.....	4%	4%	N. A
Haryana	.....	4%	4%	N. A
Maharashtra	.....	40%	N.A	N. A

• MISs have high devolution (10-35%), except WB (7.87%). Among HISs, Haryana & Punjab have low devolution (4%). Financial position of W.B & Punjab is known to be stressed. Haryana has high per capita taxes at 171.90% of All India Average and even the LBs have higher own revenue, and hence even 4% in Haryana amounts to a high per capita devolution.

8.9.6 As regards Bihar, **Table-5.25** clearly shows that Bihar can easily devolve 12% of the taxes/duties without strain on its finances. However, **in order to make the increases gradual, 8.5% devolution is recommended for the year 2015-16 and 9% for 2016-17 to 2019-20**. The 4th SFC had recommended 7.5% in a situation when the state finances were less robust and the LBs were still at nascency.

8.9.7 Trend of Grants: There is no clear trend/pattern in Grants recommended by any of the SFCs (**Table 8.3**). However, the sum total of devolution and grant in 12-13 ranged between 2.02% (M.P) to 5.01% (U.P) among the LISs, average of which was 2.90% (**Table 8.2**).

8.9.8 Recommendations of the total SFC transfers (Devolution +Grants):

(i) SOTR of Bihar is low (20% of Budget) as compared to All India average (40% of Budget). (**Annex-8.5**). As a result, devolved funds in Bihar (Rs. 107 per capita) are much lower as compared to other LISs (avg. of Rs. 231 per capita). Hence, **the 5th SFC is of the view that the total SFC transfers to the LBs (devolution + grants) should ideally be 5% of State Budget which is**

the position in the similar state of Uttar Pradesh (*Table 8.2*). However, the increase could be phased starting with 2.75% in 2015-16, 3% in 16-17 & 17-18 and 3.25% in 18-19 & 19-20 of the State Budget as given in *Table 8.4*.

(ii) Given (a) the huge underutilization of central schemes and resources due to the low capacity of the LBs, and (b) the need for reaching govt. services and judicial redressal to the people near their doorsteps etc., an outgo of 2.75% in 2015-16, 3% in 16-17 & 17-18 and 3.25% in 18-19 & 19-20 from the State Budget to the LBs would not be excessive. In fact it would ‘inter-alia’ institutionalize the “Panchayat Sarkar” vision of State Govt.

(iii) Accordingly, following is recommended on the total 5th SFC transfers (i.e. Devolution + Grant):

Table 8.4: Recommendation on total SFC transfers (15-20)

Year	15-16	16-17	17-18	18-19	19-20
% of State Budget	2.75	3.00	3.00	3.25	3.25

(iv) Based on *Table 8.4*, following (*Table 8.5*) can be recommended for Devolution & Grants (Alternative scenarios are given in *Annex-8.6*).

Table 8.5: Recommendation on Devolution & Grants (15-20)

Sl.No	Items	15-16 B.E	Projections (in %)				
			15-16	16-17	17-18	18-19	19-20
1	% of State Budget	2.75	2.75	3.00	3.00	3.25	3.25
2	Devolution (%of SOTR)	8.50	8.50	9.00	9.00	9.00	9.00
3	Devolution (% of State Budget)	2.10	1.98	2.03	2.06	2.14	2.23
4	Grants (% of State Budget)	0.65	0.77	0.97	0.94	1.11	1.02

Table 8.6: Arguments for and against higher share for the ULBs/PRI

Issues	Arguments For	Arguments Against
Higher Share for the ULBs	<p>a) Catalyze Urbanization i.e., engine of growth</p> <p>b) Economies of scale in providing goods and services.</p> <p>c) Social Mobility</p> <p>d) Urban areas grossly underfunded.</p>	<p>a) Higher Revenue raising capacity, due to the higher Tax base and higher PCI</p>
Higher Share for the PRIs	<p>a) 89% population resides in Rural Areas.</p> <p>b) Lower tax base and revenue raising capacity.</p> <p>c) Low income and low standard of living - encouraging migration and thus compounding urban problems.</p>	<p>a) Multitude of Central/State schemes provides enough resources. The problem is of capacity to spend.</p> <p>b) Diseconomies of scale in providing public goods and services.</p> <p>c) Both people and service provides inevitably want to stay in the urban areas.</p>

8.10 Inter LB (PRI vs ULB) distribution

8.10.1 Argument for and against higher transfer to the PRIs vs the ULBs are as follows (*Table 8.6* may also be referred to).

8.10.2 Imperatives of stimulating urbanization as the engine of growth and social mobility is evident from the flow Chart in *Annex-4.14*. Further, graph at *Annex-4.15* shows that over the decades, correlation between PCI and urbanization is increasing. Urbanization level in Bihar has stagnated around 10-11% since 1991 and partly explains its under-development. *Para 4.12* on Urbanization gives more evidence for this.

8.10.3 Ratio of transfer to ULBs vs. PRIs in some major states: *Annex-8.7* shows that ratio of transfers to ULB: PRI in the comparable state of UP is the highest at 60:40. The possible justification is the low urbanization of UP at 22% in 2011 (Refer *Table 8.7*). It is converse i.e., much higher for the PRIs in the states with higher urbanization: viz WB & Kerala (24:76), Haryana and Punjab (34:66), and Karnataka (30:70). TN lies in between (44:56).

Table 8.7: Trend and criteria of transfers in different states

Listing	4th Bihar SFC	4th UP SFC	4th WB SFC	4th Kerala SFC
A. Urbanization*	11.30%	22.28%	31.89%	47.72%
B. Devolution (as % of SOTR)	7.50%	12.50%	5% & progressive @12% per annum	3.5% (As GPF)+ 4.5% (As MF progressive at 0.5% per annum)+ 30% of Plan Size
C. Inter LBs share				
a. ULBs:PRIs	30:70	60:40	24:76	24:76
Criteria adopted	Population	Population & Socio-economic backwardness	Population, SC/ST families, Literacy, Rural population, PCI etc	Population, area, Deprivation Index & Tax efforts
D. Grants				
a. Grant to PRIs	GP - Rs. 12 Lp.a, PS - Rs. 1 Lp.a, ZP - Rs. 15 Lp.a	11.22% of CFS, Incentive grant to the PRIs generating > 5-10% of income from own revenue.	N.A	25 L/GP for 16 GP 15 L/GP for 58 GP
Criteria	N.A		N.A	Population & deprivation
b. Grant to ULBs	PMC - Rs. 5Cr.p.a, Other MC- Rs.1Cr.p.a, N.Panchayat-Rs.0.5 Cr.p.a		N.A	N.A
Criteria	N.A		N.A	N.A

8.10.4 Recommendation on inter LB (i.e. ULB vs PRI) distribution: As explained above, Bihar needs to transfer more resources to the ULBs. The similar state like UP (with low urbanization but much higher than that of Bihar) is giving 60% of the LB transfers to the ULBs. Accordingly, it is recommended to enhance the share of the ULBs from 30% in the 4th SFC period to 40% for the 5th SFC period. Only for 15-16, the existing ratio of 70:30 should continue.

8.11 Criteria for Inter and Intra LB Distribution: *Table 8.8* shows that population, area, deprivation (viz. socio-economic backwardness, number of BPL families) are criteria generally adopted by the SFCs.

8.11.1 Inter PRIs distribution:

(i) *Annex-8.7* shows that the ratio of distribution among the three tiers of the PRIs i.e. **GP: BP: ZP** has varied from 85:12:3 in Rajasthan to 60:32:08 in TN and have generally been around 70:20:10. **This Commission recommends the ratio of 70:10:20 (i.e. GP: BP: ZP).**

(ii) Argument for high transfers to the GP is given in *Box 8.5*.

(iii) Argument for higher transfers to the ZPs compared to PSs is that the PSs get sufficient manpower and scheme funds as the Blocks are the pivots of rural development. **The ZPs would, however, utilize this fund for taking up works of district importance based on Integrated District Plan prepared under Article 243ZD through DPC.**

Box 8.5

Arguments for high allocation to the GPs

- The GPs are better placed to deliver goods & services, being closer to the people: (i.e. Principle of Subsidiary)
- There is an urgent need to build capacity of the GPs: Poor capacity (organizational & individual) of the GPs is leading to highly unsatisfactory performance in implementation of even the Central/State schemes, and loss of huge amounts for the state.
- The BPs & ZPs have better own revenue raising opportunity/capacity.
- The BPs & ZPs should primarily play advisory and monitoring roles in planning, monitoring, coordination and implementation of schemes etc.

(iv) Although the 14th FC has recommended entire PRI grants to the GPs, the 5th SFC also recommends 70% of its transfers to the GPs since the 14th FC grants are specifically for funding new civic services. The 5th SFC transfers on the other hand are for O&M of the existing infrastructure and services, apart from Capacity Building of the GPs to enable them to utilize funds from Central/State schemes and UFC transfers.

8.11.2 Intra PRIs Distribution:

The 5th SFC recommends following criteria for intra PRI distribution. It may be noted that Under Development Index (UDI) has been calculated for Districts and Blocks only. Hence, 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. Details of UDI is given in *Chapter-IV (Annex-4.18 and Annex-4.19)*.

Table 8.8: Criteria for Intra PRI distribution

Criterion	Weight (%) assigned by the 5 th SFC		
	ZP	BP	GP
Population	50	50	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.
Area	10	0	
UDI	40	50	
Total	100	100	

8.11.3 Inter & Intra ULBs Distribution:

- The issue here is the needs of the big cities as the engines of growth vs. the lower resource raising capacity of the smaller towns. (**Box 8.6**) Special needs of the bigger cities, even though having higher revenue raising capacity, are higher since the bigger cities only would compete with the cities within and outside India for talent, investment, job etc., which Bihar urgently needs.

- Accordingly, the criteria given in **Table 8.9** are recommended for Inter & Intra ULB distribution, which give higher weights to the population in the bigger ULBs:

Box 8.6 Needs of the bigger vs smaller ULBs		
Issues	Argument for	Argument against
Higher share to the bigger ULBs	a. Greater economies of scale in providing goods & services. b. Greater need for supporting infrastructure given their potential for, job creation, investment etc. c. Better social mobility	a. Higher revenue raising capacity due to higher Tax base and higher PCI.
Higher share to the smaller ULBs	a. Lower Tax base and Revenue raising capacity. b. Comparatively lower standard of living.	a. Lower economies of scale in providing public goods and services. b. Lower potential for investment, job creation, etc.

Table 8.9: Criteria for Inter & Intra ULBs distribution

Sl. No.	Criterion	Inter ULBs	Weight assigned by 5 th SFC		
			MC	N Par	N Panch
1	Population	70%	1.5	1.3	1.0
2	Area	10%	1.0	1.0	1.0
3	No. of BPL Families*	20%	1.0	1.0	1.0

Further, if recent BPL data are not available, the BPL weightage be assigned to the Population and used for development of slum & poor areas.

8.12 Transfer of Plan funds: In Kerala, Plan funds are also transferred to the LBs on the recommendations of the SFC. But it appears premature in Bihar due to the lower planning abilities of the Bihar LBs.

Chapter-IX

Recommendations on Devolution and Grant

9.1 Introduction:

9.1.1 It must be reiterated that for the LBs to function as ‘self-governments’ as envisaged in the Constitution and as “Panchayat Sarkars” as envisioned by State Govt., they must be empowered, enabled and made accountable. Good governance, maximization of own revenue, sound planning, budgeting and expenditure management particularly in the ULBs are preconditions to enabling the cities and towns to provide opportunities to the people arising from urbanization. Similarly, if the villages are to be made more livable and productive and the Panchayats and Gram Katchahries are to contribute to the ‘सात-निश्चय’ of State Govt., they have to be managed professionally.

9.1.2 Further, though funds available to the LBs (both the PRIs and the ULBs) from various sources are grossly inadequate for their assigned functions, they are unable to utilize even that. Such unsatisfactory situation is primarily due to the capacity constraints e.g. deficiencies in skilled manpower, office space, IT facility etc. (**Para 2.4 & Para 3.4.2**) and non-implementation of much needed ‘reforms’ (**Chapter-X**). **Full capacity**

building and ‘reforms’ in the LBs is, therefore, at the core of our recommendations. Performance grant conditions of the 14th FC of audited accounts and increase in own revenue, make it all the more urgent and unavoidable.

9.2 Consolidated Fund of the State (CFS): Grants for the LBs would come out of the CFS (**Refer Box 5.1**). Projections of CFS for 2015-16 to 2019-20 are given in **Table 9.1** (Details in **Para 5.4**). Incidentally, the projected CFS for 15-16 is **Rs. 1,25,079 Cr.** as compared to 15-16 B.E figure of **Rs. 1, 21,064 Cr (Para 5.4.5)**. This increase is primarily due to the enhanced capital receipts on account of the higher FD limits recommended by the 14th FC for Bihar.

9.3 Divisible Pool of taxes etc.: The divisible pool is computed by deducting cost of collection and appropriated taxes (entertainment tax in the case of Bihar) from SOTR as given in the State Budget. Adjustments are to be made in the divisible pool in the case of deficiency or excess in the Actuals. **Table 9.2** gives projection of the divisible pool from 15-16 to 19-20. Detailed Projections of each item have been made in **Chapter-V (Para 5.4.1.3)**.

Table 9.1: Projection of CFS for 15-16 to 19-20

Items	13-14	14-15	15-16	Projections (In Crores)				
	(A)	(R.E)	(B.E)	15-16	16-17	17-18	18-19	19-20
Consolidated fund of State (A to E)	78841	110488	121064	125079	159496	193107	229971	274266
A. SOTR (Table 5.5)	19961	25663	30875	30141	37119	45781	56548	69954
B. SONTR (Table 5.7)	1545	3097	3396	2079	2412	2797	3245	3764
C. Share in Central taxes (Table 5.8)	34829	38082	50896	50896	64974	75083	86871	100626
D. Central Grants (Table 5.11)	12584	28903	18171	18171	21959	27778	33889	41345
E. Capital Receipts (Table 5.14)	9922	14743	17725	23791	33032	41668	49418	58576

Table 9.2: Projected divisible pool for 15-16 to 19-20

Sl.No.	Items	15-16	Projections (In Crores)					Total
		B.E	15-16	16-17	17-18	18-19	19-20	
1	SOTR	30875	30141	37119	45781	56548	69954	239544
2	Entertainment tax & Sairats	33	64	78	94	114	138	489
3	Taxes excluding Ent. Tax & Sairats (1-2)	30842	30077	37042	45686	56434	69816	239055
4	CoC	980	967	1161	1393	1671	2006	7198
5	Divisible Pool (3-4)*	29862	29110	35881	44294	54762	67811	231857
<i>CoC: Cost of collection of taxes and duties</i>								

*The divisible pool as per 15-16 B.E figure is **Rs. 29,862 Cr.**, as compared to **Rs. 29,110 Cr.** projected by the 5th SFC due to the enhanced FD limit by the 14th FC for Bihar (**See Para 5.7.2**).

9.4 Resource gap of the LBs:

9.4.1 Rigorous resource gap (RG) analysis for the LBs is not possible since required data (*Annex 6.3 & Annex 7.7*) are not available. However, based on certain assumptions, the same has been projected for the PRIs (*Para 6.8*) and the ULBs (*Para 7.8*) for the period 2015-16 to 2019-20. A summary is given in *Table 9.3*.

9.4.2 The Projected Resource Gap for the PRIs is relatively low as their resources include Civic Services grant recommended for the Bihar GPs by the 14th FC totaling **Rs. 21,018 Cr.** Similarly, the projected resource gap for the ULBs is relatively low as they are expected to raise far more own revenue and also leverage PPP and Borrowing in a big way.

9.5 Devolution:

9.5.1 Table-5.25 (Para 5.7.2) gives scenarios of varying devolution from 7.5% to 12% for 2015-16 to 2019-20 period as reproduced in *Table 9.4*.

9.5.2 Devolution for 15-16 to 19-20: Based on the scenarios of varying % of devolution (*Table 9.4*), devolution of 8.5% in 2015-16 and 9% in 2016-17 to 2019-20 of the divisible pool is recommended as given in *Table 9.5 (Details in Para 8.9.6)*. **In case the Actuals of SOTR is less than the projections, the devolution would evidently be based on the Actuals.**

9.5.3 Inter LBs Share: The devolved funds would be shared among the PRIs and the ULBs in the ratio of **70:30** for the year 2015-16 and **60:40** for the subsequent years as given in the *Table 9.6 (justification given in Para 8.10)*.

Table 9.3: Resource Gap of the LBs for 15-16 to 19-20

Sl. No.		Business-as-usual			Normative (SR14FC)			5th SFC assessment		
		Rev.	Exp.	RG	Rev.	Exp.	RG	Rev.	Exp.	RG
2015-16	PRI	295	3216	2921	279	6652	6373	360	6652	6292
	ULB	1054	2011	957	948	9117	8169	834	7427	6593
2016-17	PRI	325	4049	3724	313	8544	8231	397	9324	8927
	ULB	1424	2312	888	1278	10793	9515	1457	7878	6421
2017-18	PRI	358	4645	4287	350	10029	9679	439	10809	10370
	ULB	1696	2659	963	1498	12785	11287	1760	8411	6651
2018-19	PRI	393	5336	4943	392	12457	12065	483	12737	12254
	ULB	2021	3058	1037	1756	15155	13399	2125	8947	6822
2019-20	PRI	432	7036	6604	438	14636	14198	534	14916	14382
	ULB	2527	3517	990	2177	17976	15799	2697	9525	6828
Total (2015-20)	PRI	1803	26282	24479	1771	52318	50547	2123	54438	52315
	ULB	8721	13557	4836	7656	65826	58170	8872	42188	33316

Table 9.4: Scenarios of varying devolution to the LBs

Sl. No	Items	15-16*	Projections (In Crores)						
		B.E	15-16	16-17	17-18	18-19	19-20	Total	
1	Divisible Pool	29862	29110	35881	44294	54762	67811	231857	
2	Devolution	7.5%	2240	2185	2690	3320	4105	5085	17385
		8.0%	2390	2330	2870	3545	4380	5425	18550
		8.5%	2540	2475	3050	3765	4655	5765	19710
		9.0%	2690	2620	3230	3985	4930	6105	20870
		9.5%	2835	2765	3410	4210	5200	6440	22025
		10.0%	2925	2910	3590	4430	5475	6780	23185
		10.5%	3135	3055	3765	4650	5750	7120	24340
		11.0%	3285	3200	3950	4870	6025	7460	25505
		11.5%	3435	3350	4125	5095	6300	7800	26670
12.0%	3585	3495	4305	5315	6570	8135	27820		

*15-16 B.E data are based on Bihar Budget documents

Note: - Amount rounded off to the nearest multiple of 5.

Table 9.5: Devolution to the LBs

Items	15-16 (BE)	Projections					Total
		15-16	16-17	17-18	18-19	19-20	
Divisible Pool (Rs Cr)	29862	29110	35881	44294	54762	67811	232610
Devolution (%)	8.5	8.5	9	9	9	9	8.5 to 9
Devolution (Rs Cr)	2540	2475	3230	3985	4930	6105	20790

Table 9.6: Inter LBs share in the devolved funds (Details in Annex-9.1)

	15-16	16-17	17-18	18-19	19-20	Total
Devolution	2540	3230	3985	4930	6105	20790
PRI's	1780	1940	2390	2960	3665	12735
ULBs	760	1290	1595	1970	2440	8055

Note: - Amount rounded off to the nearest multiple of 5.

Table 9.7: Inter PRI's distribution of the devolved funds

	15-16	16-17	17-18	18-19	19-20	Total
Devolved Funds	1780	1940	2390	2960	3665	12735
GPs (70%)	1245	1355	1670	2075	2565	8910
PSs (10%)	180	195	240	295	365	1275
ZPs (20%)	355	390	480	590	735	2550

Note: - Amount rounded off to the nearest multiple of 5.

9.5.4 Inter PRI's: Devolved funds to the PRI's would be distributed among GP: PS: ZP in the ratio of 70:10:20 (justification given in *Para 8.11.1*). Thus distribution of the devolved funds for 15-16 to 19-20 among GPs, PSs and ZPs would be as given in *Table 9.7*.

9.5.5 Allocation of the devolved funds among different tiers of the PRI's would be as per *Para 8.11.2 & Table 8.8*. Corresponding formula of distribution is given in *Box 9.1*. Allocation of the devolved funds among ZPs and PSs is provided in *Annex- 9.2(A) and Annex- 9.2(B) respectively*.

9.5.6 Inter & Intra ULBs distribution: The devolved funds for 2015-20 for the ULBs as projected in *Para 9.5.2* would be distributed among the ULBs as per criteria given in *Para 8.11.3 and Table 8.9* and as formulated in *Box 9.2*. Detailed ULB wise distribution of devolved funds is given in *Annexures 9.3(A), 9.3(B) and 9.3(C)*.

9.5.7 State Govt. has announced conversion of the GPs with more than 12000 population into Nagar Panchayats. But its implementation may take time and therefore, is not considered in our Report.

9.5.8 Use of the devolved funds: The devolved funds would evidently be given to the LBs (which are self-governments) as "Block Funds". The 5th SFC recommends the devolved funds to be used by

the LBs for the purposes given in *Box 9.3* (See *Para 8.9.2 also*) in that priority.

9.6 Grants:

9.6.1 Grants: SOTR of Bihar is low (i.e. 20% of CFS/State Budget) as compared even to the other LISs (*Annex-8.5*). The recommended devolution

Box 9.1 Distribution of the Devolved funds among different tiers of the PRI's

- I. Devolved funds to all the LBs = D
 - II. Share of the PRI's (60%) = 0.6*D
 - III. Share of GP:BP:ZP = (70:10:20)
 - (i) All GPs = 0.42*D, (ii) All BPs = 0.06*D,
 - (iii) All ZPs = 0.12*D
 - IV. Each ZP (as share of total amount for all ZPs i.e. 0.12 * D) = $\frac{1}{2} \left(\frac{ZPp}{Tp} \right) + \frac{1}{10} \left(\frac{ZPa}{Ta} \right) + \frac{2}{5} \left(\frac{ZPudi}{Tudi} \right)$
 - V. Each BP (as share of total amount for all BPs i.e. 0.06 * D) = $\frac{1}{2} \left(\frac{BPp}{Tp} \right) + \frac{1}{2} \left(\frac{Budi}{Tudi} \right)$
- Where, p = Population, a = Area,
udi = Under Development Index, T = Total
- VI. Each GP:
- Step I – Distribute amount available to all the GPs (i.e. 0.42*D) among the Blocks as per UDI.
- Thus Block i gets, $Bi = (0.42 * D) \left[\frac{Biudi}{Tudi} \right]$
- Where, Biudi = UDI of Block i
- Step II – Each GP in a Block i gets = $\left(\frac{Bi}{\text{no.of GPs in Bi}} \right)$

Box 9.2 **Distribution of the Devolved funds among different tiers of the ULBs**

- I. Devolved amount to all the LBs = D
 II. Share of the ULBs (40%) = 0.4*D
 III. $Nagar\ Nigam = \frac{7}{10} \left(\frac{NP*1.5}{Tp} \right) + \frac{1}{10} \left(\frac{Na}{Ta} \right) + \frac{1}{5} \left(\frac{Nb}{Tb} \right) = N1$
 IV. $Nagar\ Parishad = \frac{7}{10} \left(\frac{Pp*1.3}{Tp} \right) + \frac{1}{10} \left(\frac{Pp}{Tp} \right) + \frac{1}{5} \left(\frac{Pb}{Tb} \right) = N2$
 V. $Nagar\ Panchayat = \frac{7}{10} \left(\frac{NPP}{Tp} \right) + \frac{1}{10} \left(\frac{NPP}{Tp} \right) + \frac{1}{5} \left(\frac{NPb}{Tb} \right) = N3$
 Where, (a) N1+N2+N3 = 0.4*D,
 (b) N = Nigam, (c) P = Parishad,
 (d) NP = Nagar Panchayat, (e) Population, (f) a = area,
 (g) b = no. of BPL families, (h) T = Total.

of **8.5% (Rs. 2450 Cr.)** for 15-16, therefore, amounts to only **2.10%** of the State Budget. As recommended in **para 8.9.8**, the total SFC transfers (Devolution + Grants) would be 2.75% in 2015-16, 3% in 16-17 & 17-18 and 3.25% in 18-19 & 19-20 of the State Budget. Accordingly, amount of grants would be as given in **Table 9.8**. **In case the Actuals of CFS is lesser than the projections, the Grant would evidently be based on the Actuals only.**

9.6.2 Inter LB Share of the available Grants:
 The ratio of Grant between the PRIs and the ULBs would be 70:30 in 2015-16 and 60:40 in the subsequent years as given in **Table 9.9** (justification given in **Para 8.10.4**).

Box 9.3

Use of the Devolved Funds

Sl.No	PRIs	ULBs
1	Implementing Reforms recommended in Chapter-X including maximization of own revenues (tax & non-tax); timely submission of accounts and internal audit; strengthening of Gram Sabha, Ward Sabha, Standing Committees, Social Audit.	
2	O&M of existing services and infrastructure (subject to a ceiling of 20% of the total devolution), since in the prevailing situation, there are many sources of funding for new services and infrastructure but very less for O & M.	
3	Supplementing grants if the amount for a particular grant component is not adequate for the purpose. (Table 9.12)	
4	Creating and replacing old facilities like piped drinking water, sanitation, nali-gali with focus on 7-point agenda of State Govt. and Smart Panchayats (Box 2.2) as per their plans formulated in consonance with Article 243ZD of the Constitution.	Creating and replacing old facilities like piped drinking water, sanitation, nali-gali and solid waste management with focus on 7-point agenda of State Govt. and development of Model Cities and Towns viz : (a) Divisional HQs on the lines of Smart Cities, (b) District HQs as AMRUT Cities and (c) remaining ULBs as model Towns, and be based on CDPs when prepared.
5	Completion of projects remaining incomplete under JNNURM, BRGF and RGPSA due to lack of funds, if physical progress is more than 60%.	

Table 9.8: Grants recommended for 2015-16 to 19-20 (Rs. Cr.)

Sl.No	Items	15-16 B.E	Projections					Total
			15-16	16-17	17-18	18-19	19-20	
1	SOTR	30875	30141	37119	45781	56548	69954	240277
2	Divisible pool	29862	29110	35881	44294	54762	67811	232610
3	Devolution	2540	2475	3230	3985	4930	6105	20790
4	CFS	121064	125079	159496	193107	229971	274266	977904
5	Devol. as % of CFS	2.10	1.98	2.03	2.06	2.14	2.23	2.03 to 2.23
6	Transfers to the LBs (devol. + grants) as % of CFS	2.75	2.75	3	3	3.25	3.25	2.75 to 3.25
7	Gap between 6 and 5 (% of CFS)	0.65	0.77	0.97	0.94	1.11	1.02	0.65 to 1.11
8	Recommended Grants(7*4)	790	965	1555	1810	2545	2810	9510
9	Total Transfers (3+8)	3330	3440	4785	5795	7475	8915	30300

Note: - Amount rounded off to the nearest multiple of 5.

Table 9.9: Inter LB Share of the total Grants (Rs. Cr.)

	15-16	16-17	17-18	18-19	19-20	Total
Total Grants	790	1555	1810	2545	2810	9510
PRIs	555	935	1085	1525	1685	5785
ULBs	235	620	725	1020	1125	3725

9.6.3 Grants would focus on Capacity Building and would be utilized for (a) Manpower, Training, e-Governance, Office Space, (b) GK, (c) Preparation of Master Plans/CDPs/DPRs/GIS Maps, (d) Developing Divisional and District Headquarters on the lines of Smart and AMRUT Cities, (e) SPUR Type Professional Services to the ULBs and the PRIs, (f) Promoting PPP, (g) Incentive for ARM and Performance Grants (**Para 8.9.2**), (h) Regulatory Bodies including Ombudsman, State Property Tax Board, Urban Regulator, (i) DLFA and internal audit (j) Professionalizing SFC Cell in Finance Deptt.

9.6.4 Distribution of Grants available to the PRIs: Total Grants of Rs. 5785 Cr. available to the PRIs would be distributed as in **Table 9.10** (composite picture in **Annex-9.1**). PRD would determine the norms based on letter and spirit of this commission's recommendations for disbursement of item-wise Grants among the PRIs. Being the first year of the SFC award, unused amount of Grants for 2015-16 would be disbursed as 'Block Fund' as per **para 9.5.7**.

(i) **Rs. 2720 Cr.** for Manpower (*Details in Para 6.7.3.2*).

(ii) **Rs. 305 Cr.** for e-Panchayat and Database Management. (*Details in Para 6.7.3.2*)

(iii) **Rs. 200 Cr.** for Training Programmes and **Rs. 180 Cr.** for State/Distt/Block Panchayat Resource Centres (*Details in Para 6.7.3.2*)

(iv) **Rs. 38 Cr.** for TSSP to provide SPUR type support to the PRIs. (*Details in Para 6.7.3.2*)

Table 9.10: Distribution of Grants among the PRIs (15-16 to 19-20) Rs. Cr.

		Need for 5 Years	Reference Table No.	15-16	16-17	17-18	18-19	19-20	15-20	
1	Devolution (In Cr.)			1780	1940	2390	2960	3665	12735	
2	Grants (In Cr.)			555	935	1085	1525	1685	5785	
	A.	Capacity building	6502	6.24	285	438	575	1010	1135	3443
	i	ManPower	5652	6.20	285	300	380	805	950	2720
	ii	e-Governance ¹	255	6.22	-	50	85	85	85	305
	iii	Training	556	6.21	-	80	100	110	90	380
		a) Programms ²	338	6.21	-	60	60	50	30	200
		b) Institutions	218	6.21	-	20	40	60	60	180
	iv	TSSP	39	6.23	-	8	10	10	10	38
	B.	GK	1829	6.26	-	100	80	80	80	340
	v	Office Support		6.26	-	80	60	60	60	260
	vi	Case Disposal		6.26	-	10	10	10	10	40
	vii	Dispute free Village		6.26	-	10	10	10	10	40
	C.	viii PSB/ZPB ³	2000	6.25	70	100	100	100	100	470
	D.	ix DPCs	122	6.27	-	20	20	20	20	80
	E.	Performance Grants			200	270	300	300	330	1400
	x	ARM			50	200	200	200	230	880
	xi	Overall Performance			150	70	100	100	100	520
	F.	xii Ombudsman			-	5	5	5	5	20
	G.	xiii DLFA/Internal Audit			-	1.80	4.80	9.80	14.80	31.20
	H.	xiv SFC Cell ⁴			-	0.20	0.20	0.20	0.20	0.80

Abbreviations : (i) TSSP: Technical Support for Smart Panchayats, (ii) GK: Gram Katchahry, (iii) PSB: Panchayat Sarkar Bhawan, (iv) ZPB: Zila Parishad Bhawan, (v) DPC: District Planning Committee, (vi) ARM: Additional Resource Mobilization., (vii) DLFA: Directorate of Local Fund Audit

Note: ¹e-Governance covers e-Panchayat for the PRIs.

²Training Programs includes exposure visit to reputed Panchayats. ³For ZPs without Bhawan.

⁴Professionalizing the SFC Cell in Finance Deptt.

(v) **Rs. 340 Cr.** for Gram Katchahry, of which **Rs. 260 Cr.** for office support, **Rs. 40 Cr.** for cases filed and disposed, and **Rs. 40 Cr.** for promoting dispute free village, under “मुख्यमंत्री ग्राम न्याय प्रोत्साहन योजना”. (Details in **Para 6.7.3.4**).

(vi) **Rs. 470 Cr.** for Constructing Panchayat Sarkar Bhawans and Zila Parishad Bhawans (Details in **Para 6.7.3.3**).

(vii) **Rs.80 Cr.** for strengthening DPCs (Details in **Para 6.7.3.7**).

(viii) **Rs. 880 Cr.** for ARM.

- This amount for ARM would be given to the PRIs as matching grant for ARM in the ratio of 1:4 to GPs, 1:3 to PSs and 1:2 to ZPs i.e., for every additional Rs. 100 raised by a GP as their own revenue, they will be given 4 times the amount raised i.e. Rs. 400.

- Unutilized ARM funds would be utilized by PRD for capacity building of the PRIs.

(ix) **Rs. 520 Cr.** for overall performance under “मुख्यमंत्री पंचायत प्रोत्साहन योजना” as follows:

- 10% of the GPs in a Block: to be decided by the Panchayat Samiti.

- 15% of the PSs in a District: to be decided by the Zila Parishad.

- 20% of the ZPs in the State: to be decided by PRD.

- The total amount of overall performance grants would be divided among GPs, PSs and ZPs in the ratio of **70:20:10** respectively and the best performers would be selected on the basis of objective parameters given in **Annex-9.4(A)**. The amount earmarked for the respective tier would be distributed equally among the best performers of the corresponding tier.

- Unutilized performance grants would be utilized by PRD for Capacity Building of the PRIs.

(x) **Rs. 20 Cr.** for Ombudsman.

(xi) **Rs. 31.20 Cr.** for DLFA and internal audit.

(xii) **Rs. 0.80 Cr.** for Professionalizing the SFC Cell in Finance Deptt.

9.6.5 Distribution of Grants available to the ULBs (2015-20): Total grant of **Rs. 3725 Cr.** available to the ULBs for 2015-20 would be distributed as given in **Table 9.11** (Composite

picture is at **Annex-9.1**). UDD would determine the norms based on letter and spirit of this Commission’s recommendations for disbursement of the item-wise grants among the ULBs. Being the first year of the SFC award, unused amount of Grants for 2015-16 would be disbursed as ‘Block Fund’ as per **para 9.5.7**.

(i) **Rs.1035 Cr.** for Manpower (Details in **Para 7.7.4**)

(ii) **Rs.50** for e-Municipalities and Database Management (Details in **Para 7.7.4**). Incidentally, the problem in e-Municipality is not funds, but weak implementation.

(iii) **Rs. 71 Cr.** for Training programmes (Details in **Para 7.7.4**) and **Rs. 89 Cr.** for SUPA (Details in **Para 7.7.4**).

(iv) **Rs. 25 Cr.** for Office space (Details in **Para 7.7.4**)

(v) **Rs 1408 Cr.** for enabling the ULBs to develop Model Cities and Town as follows (Details in **Para 3.2.10**):

- **Rs. 200 Cr.** for preparing Master Plans/ CDPs/ DPRs/ GIS Maps for all the ULBs. (Details in **Para 3.2.10**)

- **Rs. 970 Cr.** for engaging PPP partners in creation and O&M of infrastructure and services. (Refer **Annex 9.1** and **Para 3.2.10**)

- **Rs. 80 Cr.** for providing SPUR Type Professional services to all the ULBs.

- **Rs. 88 Cr.** for expenditure needs of the Reforms.

- Amount provided here is for specific components only. Refer **Para 3.2.10.3** for details.

(vi) **Rs. 835 Cr.** for incentivizing ARM:

- The amount of ARM would be provided to the ULBs as a matching grant for ARM in the ratio of 1:1 for Municipal Corporations, 1: 2 for Nagar Parishad and 1:3 for Nagar Panchayats. i.e. for every additional Rs. 100 raised by the Nagar Panchayats as their own revenue, they would be provided incentive of Rs.300.

- Unutilized ARM funds would be utilized by UDD for capacity building of the ULBs.

(vii) **Rs. 200 Cr.** for the best performing ULBs:

- 20% of the MCs, 15% of the Nagar Parishads and 10% of N Panchayats would be selected on

Table 9.11: Distribution of Grants among the ULBs (15-16 to 19-20) Rs. Cr.

		Need for 5 Years	Reference Table No.	15-16	16-17	17-18	18-19	19-20	15-20
Devolution (In Cr.)				760	1290	1595	1970	2440	8055
Grants (In Cr.)				235	620	725	1020	1125	3725
A.	Capacity building	1704		25	190	245	390	395	1245
i	ManPower	1258	3.14	20	130	200	340	345	1035
ii	e-Governance ¹		7.24	-	20	10	10	10	50
iii	Training	446		5	40	35	40	40	160
	a) Training Programms ²	346	7.24	-	10	17	22	22	71
	b) SUPA	100	7.27	5	30	18	18	18	89
B.	Office Space	315	7.24	5	5	5	5	5	25
C.	Model Cities & Towns ³	10795	3.15	130	182	232	382	482	1408
i	Preparation of MP/CDP/DPR/GIS			20	45	45	45	45	200
ii	Viability Gap Funding for PPP			20	100	150	300	400	970
iii	SPUR Type Professional services for all ULBs	121		20	15	15	15	15	80
iv	Exp needs of reforms ⁴			-	22	22	22	22	88
D.	Performance Grants			75	240	240	240	240	1035
i	ARM			35	200	200	200	200	835
ii	Overall Performance			40	40	40	40	40	200
E.	Regulatory Bodies ⁵			-	3	3	3	3	12

Abbreviations : (i) SUPA: School of Urban Planning and Architecture, (ii) MP: Master Plan, (iii) CDP: City Development Plan, (iv) DPR: Detailed Project Report, (v) GIS: Geographic Information System, (vi) PPP: Public Private Partnership, (vii) ARM: Additional Resource Mobilization..

Note: ¹e-Governance includes e-Municipality for ULBs. ²Includes exposure visit to reputed Municipalities.

³Amount provided here is for specific components only. Refer to **Para 3.2.10.3** for details.

⁴Needs of Reforms not implemented under JNNURM.

⁵Regulatory Bodies include (a) State Property Tax Board, (b) Urban Regulator, and (c) Ombudsman for the ULBs.

*DLFA, DPC, Professionalizing the SFC Cell etc., common to both ULBs and PRIs, are covered under grants for the PRIs (**Table 9.10**).

the basis of objective parameters given in **Annex-9.4(B)**, to be decided by UDD under “मुख्यमंत्री नगर निकाय प्रोत्साहन योजना”.

• The total amount would be divided among MCs, N Parishads and N Panchayats in the ratio of 1:2:4 respectively.

(viii) **Rs. 12 Cr.** for Regulatory Bodies which includes State Property Tax Board and Urban Regulator.

9.6.6 These Grants are to supplement to the normal State Budgetary Provisions.

9.6.7 It may be reiterated that the devolution amount could be utilized to supplement those component of the grants which need additional amounts (**Box 9.3**).

9.7 Total recommended transfers for the 5th SFC period (2015-16 to 19-20):

Summing up, the total recommended transfers to the LBs for the period 2015-16 to 2019-20 would be as given in **Table 9.12**, subject to SOTR/CFS being limited to the Actuals in the State Budget.

9.8 Impact of the Recommendations on the State Finances:

It may be reiterated that **given the huge underutilization of Central Schemes and resources due to the low capacity of the LBs and the need for reaching govt. services and judicial redressal to the people etc., an outgo of 2.75% in 2015-16, 3% in 16-17 & 17-18 and 3.25% in 18-19 & 19-20 from the State Budget to the LBs is**

Table 9.12: Recommended transfers to LBs for 15-16 to 19-20 (Annex-9.3)

Items		15-16		16-17		17-18		18-19		19-20		15-20	
		PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
Devolution (In Cr.)		1780	760	1940	1290	2390	1595	2960	1970	3665	2440	12735	8055
Grants (In Cr.)		555	235	935	620	1085	725	1525	1020	1685	1125	5785	3725
A.	Capacity building	285	25	438	190	575	245	1010	390	1135	395	3443	1245
	i ManPower	285	20	300	130	380	200	805	340	950	345	2720	1035
	ii e-Governance ¹	-	-	50	20	85	10	85	10	85	10	305	50
	iii Training	-	5	80	40	100	35	110	40	90	40	380	160
	a) Training Programms ²	-	-	60	10	60	17	50	22	30	22	200	71
	b) Institutions/SUPA	-	5	20	30	40	18	60	18	60	18	180	89
	iv TSSP	-	-	8	-	10	-	10	-	10	-	38	-
B.	GK	-	-	100	-	80	-	80	-	80	-	340	-
	i Office Support	-	-	80	-	60	-	60	-	60	-	260	-
	ii Case Disposal	-	-	10	-	10	-	10	-	10	-	40	-
	iii Dispute free Village	-	-	10	-	10	-	10	-	10	-	40	-
C.	Office Space/PSB/ZPB ³	70	5	100	5	100	5	100	5	100	5	470	25
D.	DPCs	-	-	20	-	20	-	20	-	20	-	80	-
E.	Model Cities & Towns ⁴	-	130	-	182	-	232	-	382	-	482	-	1408
	i Preparation of MP/CDP/DPR/GIS	-	20	-	45	-	45	-	45	-	45	-	200
	ii Viability Gap Funding for PPP	-	20	-	100	-	150	-	300	-	400	-	970
	iii SPUR Type Professional services for all ULBs	-	20	-	15	-	15	-	15	-	15	-	80
	iv Exp needs of reforms ⁵	-	-	-	22	-	22	-	22	-	22	-	88
F.	Performance Grants	200	75	270	240	300	240	300	240	330	240	1400	1035
	i ARM	50	35	200	200	200	200	200	200	230	200	880	835
	ii Overall Performance	150	40	70	40	100	40	100	40	100	40	520	200
G.	Regulatory Bodies ⁶	-	-	5	3	5	3	5	3	5	3	20	12
H.	DLFA/Internal Audit	-	-	1.80	-	4.80	-	9.80	-	14.80	-	31.20	-
I.	SFC Cell ⁷	-	-	0.20	-	0.20	-	0.20	-	0.20	-	0.80	-

Abbreviations: (i) SUPA: School of Urban Planning and Architecture, (ii) TSSP: Technichal Support for Smart Panchayat, (iii) GK: Gram Katchehry, (iv) PSB: Panchayat Sarkar Bhawan, (v) DPC: District Planning Committee, (vi) MP: Master Plan, (vii) CDP: City Development Plan, (viii) DPR: Detailed Project Report, (ix) GIS: Geographic Information System, (x) PPP: Public Private Partnership, (xi) ARM: Additional Resource Mobilization, (xii) DLFA: Directorate of Local Fund Audit, (xiii) SFC: State Finance Commission.

Note: ¹e-Governance covers e-Panchayat for PRIs and e-Municipality for ULBs.

²Training Programs includes exposure visit to reputed Panchayats and reputed Municipalities. ³For ZPs without Bhawan.

⁴Amount provided here is for specific components only. Refer to **Para 3.2.10.3** for details. ⁵Needs of Reforms not done under JNNURM

⁶Regulatory Bodies for the ULBs include (a) State Property Tax Board, Urban Regulator and Ombudsman, (b) Separate Ombudsman

for the PRIs and (c) DLFA, DPC etc. for both the ULBs and the PRIs. ⁷Professionalizing the SFC Cell in Finance Deptt.

not excessive. In fact this % is around the average of the LISs and considerably lower than that of similar state like UP.

9.8.1 Financial burden due to the increased devolution: Scenarios of varying devolution and consequential incremental financial burden on State Govt. over the 4th SFC recommended level of devolution of 7.5% can be seen in **Para 5.7.3**

(read with **Table 5.26**). The 5th SFC recommendations would create incremental financial burden on State Govt. due to the increased devolution (going up to 9% in 2019-20) over the 4th SFC recommended devolution as given in **Table 9.13**. In case prohibition is implemented, the loss in State Excise Duty would automatically get excluded from the divisible

pool and therefore not lead to increase in the financial burden.

Table 9.13: Incremental financial burden on the State Finances due to the increased devolution (Cr.)

Year	15-16	16-17	17-18	18-19	19-20
Devolution (%)	8.5	9	9	9	9
Additional Financial Burden	300	540	665	820	1015

*Inflation not taken into account

Note: - Amount rounded off to the nearest multiple of 5.

9.8.2 Financial burden due to the increased Grants:

The 4th SFC had recommended Grants of Rs. 233 Cr. per year in addition to the Devolution. **Table 9.14** gives incremental financial burden on the State Budget over the 4th SFC recommended Grants of Rs. 233 Cr. per year, due to the 5th SFC recommendation on Grants (See Para 5.7.6). In case prohibition is implemented, burden on account of loss of the State Excise Duty would at best be around 1% of Rs 4000 Cr = Rs 40 Cr p.a. only.

Table 9.14: Incremental financial burden on the State Finances due to the increased Grants (Cr.)

Year	15-16	16-17	17-18	18-19	19-20
Grants	790	1555	1810	2545	2810
Additional Financial Burden	557	1322	1577	2312	2577

9.8.3 Financial burden due to the overall Transfers:

State finances would have overall incremental financial burden as given in **Table 9.15** due to the recommendations of the 5th SFC and less if inflation and increased CFS are taken into account.

Table 9.15: Impact of overall Transfers (Devolution + Grants) on State Finances

Incremental Financial Burden	15-16	16-17	17-18	18-19	19-20	15-20
Due to devolution	300	540	665	820	1015	3340
Due to grants	557	1322	1577	2312	2577	8345
Total	857	1862	2242	3132	3592	11685

*In case prohibition is implemented, additional burden would be around Rs. 40 Cr. p.a. only.

9.9 It is emphasized that the total Transfers (Devolution + Grants) recommended by the 5th SFC are over and above the normal State Budgetary provisions for the LBs. Moreover,

since some schemes like BRGF and RGPSA have been discontinued by Central Govt., State Govt. may consider providing equivalent amount to the LBs in the State Budget, which would again be in addition to the 5th SFC transfers.

9.10 Grants amount not likely to be utilized in a year, would be given to the PRIs and the ULBs as 'Block Grants' (in the first week of the last quarter) as per formula given in **Box 9.1** and **Box 9.2** for Smart Panchayats and Model Cities/Towns respectively.

9.11 Resource Gap of the LBs after the 5th SFC transfers: (Table 9.16)

9.11.1 Out of the total resource gap of Rs 52315 Cr. for the PRIs, Rs 12735 Cr. would be available as devolution and Rs. 5785 Cr. as Grants (See para 9.4), leaving a resource gap of Rs 33795 Cr. Similarly, out of the resource gap of Rs 33316 Cr. for the ULBs, Rs 8055 Cr. would be available as devolution and Rs. 3725 Cr. as Grants, leaving a resource gap of Rs 21536 Cr. Thus, total resource gap for the LBs post 5th SFC transfers (devolution + grants) would be Rs. 55331 Cr. for 2015-20.

9.11.2 Bridging the Resource Gap: This Resource Gap inclusive of the 5th SFC transfers (**Table 9.16**) has to be filled through following sources:

(i) **Own Additional Resources (Tax and Non-Tax):** The LBs must make all efforts to raise their own resources (tax & non-tax). Incidentally, one of the conditions imposed by the 14th FC for performance grants is increase in own revenues. This would also enhance their autonomy and accountability. **Chapter-X** may be referred to for details of the options available to the LBs for raising own resources.

(ii) **PPP:** It is evident that for reaching All India level of infrastructure and services, the Bihar LBs would need huge amounts, which cannot be met through State Budget, FC/SFC transfers, Central Schemes and own revenues. Leveraging **PPP in a big way for creation and O&M of infrastructure and services is a necessity.** BMA, 2006 and Bihar Infrastructure Development Enabling Act, 2006 provide ample scope and guidelines for implementation of PPP

Table 9.16: Resource Gap of the LBs post 5th SFC transfers for 15-20 (Rs. Cr.)

year	LBs	5th SFC assessment			5th SFC transfer			Gap after 5th SFC transfer
		Rev.	Exp.	RG	Devol.	Grants	Total	
2015-16	PRI	360	6652	6292	1780	555	2335	3957
	ULB	834	7427	6593	760	235	995	5598
2016-17	PRI	397	9324	8927	1940	935	2875	6052
	ULB	1457	7878	6421	1290	620	1910	4511
2017-18	PRI	439	10809	10370	2390	1085	3475	6895
	ULB	1760	8411	6651	1595	725	2320	4331
2018-19	PRI	483	12737	12254	2960	1525	4485	7769
	ULB	2125	8947	6822	1970	1020	2990	3832
2019-20	PRI	534	14916	14382	3665	1685	5350	9032
	ULB	2697	9525	6828	2440	1125	3565	3263
Total (2015-20)	PRI	2123	54438	52315	12735	5785	18520	33795
	ULB	8872	42188	33316	8055	3725	11780	21536

schemes by the LBs (*Para 7.2.2*). Details on PPP may be seen in *Chapter-X*.

(iii) Borrowing: The possibility of market borrowing has to be explored seriously to finance long-term investment plans, provided that debt service is ensured and does not jeopardize the fiscal stability of either the local or the State Govt. Operational surpluses and own-capital revenues can be used for co-financing or repaying debt (*Para 7.2.3*). Details on borrowing may be seen in *Chapter-X*.

(iv) Central and State Schemes: The LBs have to make all efforts to fully utilize funds available under Central and State Schemes. The 5th SFC is recommending sufficient funds for Capacity Building of the LBs to enable them to do so.

(v) Expenditure Management: Sound Expenditure Management is necessary to ensure that available funds are utilized efficiently and effectively on improving service delivery and achieving LB's objectives through professionally planning resources & expenditure, controlling & executing expenditure and monitoring expenditure performance (Details in *Para 10.11*).

9.12 Release of funds to the LBs:

Recommendations of the 4th SFC, 13th FC and 14th FC are given in *Annex-9.4*. The 5th SFC recommends the following:

(i). As recommended by the 13th FC & the 14th FC, the 5th SFC transfers would be released directly into the bank account of the LBs

concerned through electronic fund transfer and core banking system. Where such facility is unavailable, other modes of expeditious transfer would be notified by State Govt.

(ii). Devolution amount for 2015-16 would be released to each PRI/ ULB in one installment based on R.E/Actuals of the preceding year i.e. 2014-15. In the subsequent years, while first allocation of 50% of devolved funds would be released based upon the R.E/Actuals of SOTR of the preceding year in April, the second installment shall be released by October of the year **subject to submission of accounts of the previous year, audited even through internal Audit.**

(iii). Grants as recommended by the 5th SFC for 2015-16 would be released in one installment based on the R.E/Actuals of the preceding year. In the subsequent years, while 1st installment would be released along with the 1st installment of the devolved fund (based on the RE/Actuals of the preceding year), the 2nd installment would be released only after securing utilization report of the 1st installment to the extent of 50%, **audited even through internal Audit.**

(iv). The details of Devolution and Grants received and utilized shall be placed before the respective Gram/ Ward Sabhas and on the website of the LB at least twice a year in December and May respectively

(v). In case some LBs fails to submit utilization report of 1st installment of Grants within a year

from the date of its release, 2nd installment due to them would be utilized by PR/UD Departments on Capacity Building of the LBs.

9.13 Uses of the Transferred (Devolution + Grants) Funds:

9.13.1 Salaries of at least the existing staffs of the ULBs and the ZPs must come from their own revenues. State Govt. could at best meet the arrears. It will make the LBs more autonomous and accountable and be consistent with the performance grant condition of the 14th FC.

9.13.2 Funds earmarked for Manpower by the 5th SFC is only for the sanction of new and filling of the vacant positions as per the Model Panchayat and Municipal Cadres (*Para 2.3 and Para 3.3.2 respectively*).

9.13.3 Funds for e-Governance must be used for operationalizing e-Panchayat and e-Municipality modules in a Mission Mode. This would also create and continuously update much needed database, which is virtually missing presently and leading to ill-informed decision-making in almost all spheres of the LBs.

9.14 Governance:

9.14.1 Enabling the LBs to function as the institutions of self-government through Capacity Building, Sound Finances & Governance and Accountability is at the core of our recommendations. Accordingly, the 5th SFC emphasizes implementation of the recommendations made in *Chapter-X* as precondition to the LBs becoming the self-governments and fulfilling their mandate.

9.14.2 Accordingly, the SFC Cell in Finance Department should have professionals on contract with degree from reputed institutions in Statistics and Economics respectively, with emoluments of Rs. 40,000-50,000 p.m. They would pursue reforms agenda with PRD and UDD, undertake required research and documentation and build database on PRIs & ULBs for use by Finance/Urban/ Panchayati Raj/Planning Departments and the future SFCs/UFCs.

Chapter X

Sound Finances and Governance in the LBs

10.1. Introduction:

10.1. Enabling the LBs to function as institutions of self governments through Capacity Building, Sound Finances & Governance and Accountability is at the core of our recommendations. Accordingly, the 5th SFC emphasizes the implementation of recommendation made in this Chapter as precondition to the LBs becoming self governments.

10.2. Planning:

10.2.1 Article 243ZD of the Constitution (**Box-2.6**): 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. DPC “in preparing the draft development plan, will have regard to—

(i) matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation;

(ii) the extent and type of available resources whether financial or otherwise;”

Sufficient manpower and allocation have been recommended by this Commission to make DPCs effective. (Para 6.7.3.7)

10.2.2 Urban Strategic Planning:

(i) The Working Group on Urban Strategic Planning of the 12th Five Year Plan has noted the following critical issues: Lack of Comprehensive Planning Approach, Rigid Planning Process, Lack of Plan-Finance Linkage, Inadequate Institutional Clarity, Lack of Capacity and Enabling tools

(ii) Accordingly, it has suggested that Urban Strategic Planning should be Vision led, Comprehensive and integrated, and have Urban-rural integration in a regional framework. It further suggests principles of Urban Strategic Planning. (**Box 10.1**)

Box 10.1

Principles of Urban Strategic Planning

- Smart growth
- Existing Cities- Strategic Densification
- Setting Priorities
- Development of New cities, Ring towns and Twin Cities
- Regional and Urban Planning as an instrument for guiding inclusive growth
- Integrated Land Use and Transport Planning
- Planning in consonance with the income distribution structure of the city
- Effective land management
- Strengthening the Institutional framework for regional and urban planning
- Creating capacity at city/town, state, central and institutional level

10.2.3 Recommendations of the 5th SFC:

• All LBs (PRIs & ULBs) must prepare plans for socio-economic development as envisaged under Art 243ZD of the Constitution, leading to integrated district plan for both the panchayats and the municipalities through the DPC.

• Each ULB must urgently prepare Master Plan and City Development Plan (CDP) using GIS, and corresponding Detailed Project Reports (DPRs), through outsourcing as requisite in-house skill is not available. (**Para 3.2.5**)

• Operationalize Patna Metropolitan Area Authority and constitute Patna Metropolitan Planning Committee.

• Create dedicated cadre in ULBs for implementation of BUPD Act including strengthening of TCPO.

• Have Regulation on Fringe Area Development.

• Have State level policy to implement the parameters given in National Mission for Sustainable Habitat. (**Box 3.3**)

• GIS mapping and Municipal Survey be completed for all ULBs in a time-bound manner.

- Recommendation of the Working Group on Urban Strategic Planning for the 12th Plan (**Box 10.2**) be implemented in right earnest.

Box 10.2

Recommendations of WG on Urban Strategic Planning for the 12th Plan

(I) State level Recommendations:

a) Legal Framework

- Revise the nomenclature of “Master Plan” to “Spatial and Development Plan”.
- States to revise “Town and Country Planning”, “Urban Development” and “Municipal Acts” to respond to the challenges of urbanization and to policy thinking appropriate to the times based on principles of urban strategic planning.

b) Plan Preparation

- Constitute/revamp State Planning Board (SPB)
- Constitute MPC/DPC to prepare Metropolitan/District Spatial Development Plan.
- Transfer planning function to local bodies
- Restructure the Role of the Development Authorities.
- Streamline the Procurement Process
- Establish institutional ownership for GIS data

(II) LBs level Recommendations:

a) Plan Preparation

- Prepare detailed SDPs reflecting Vision, Land Use (LU) and Development Control Regulations (DCRs)
- MPC/DPC’s spatial development plans to be prepared with sectoral participation
- Establish a Unified Metropolitan Transit Authority for Metropolitan Areas
- Specialised Cells in Metropolitan Areas.
- Create Comprehensive Database on Urban Services and E-Governance Systems, to aid the SDP preparation process.
- Empower Ward Committees in municipalities through “Area Sabha” structures
- Decentralise enforcement of the SDPs.
- Enable LBs to independently hire and recruit planning/technical resources

b) Plan Monitoring

Land Use Conversion (LUC) procedure needs to be amended to allow conversion only as per spatial plan zoning prescribed

- Implement Disclosure Law 2008 and Publish Performance Standards.

- The recommendations of the 14th Finance Commission will result in devolution of around Rs 21,018 crore to the GPs of Bihar over the

period 2015-20. Moreover, it is proposed to develop Panchayats as Smart Panchayats. (**Box 2.2**) It is accordingly recommended that appropriate guidelines on proper planning and delivery, based on model guidelines of MoPR, be issued by PRD.

- Given the problem of migration out of the rural areas, the upper two tiers of the Panchayats should plan and implement schemes for framing livelihood and overall economic development in coordination with the line departments.

10.3. Budgeting:

10.3.1 Budgeting is guiding, financing, executing, monitoring and evaluation tool that allocates funds and responsibilities, induces action by local entities and personnel to achieve the set goals.

- The budget process should consist of the following steps:

(i) Revenue forecast, (ii) Setting expenditure limit, (iii) Budget preparation, (iv) Budget negotiation, (v) Budget approval, (vi) Execution, (vii) Evaluation.

- Budgeting weaknesses include lack of participation and involvement of people in need assessment and priorities for inclusion in Budgets, unrealistic plans and estimates, over emphasis on financial outlays, no linkage of financial outlays with the verifiable outputs and outcomes, tardy execution and wide variations between budgets and actuals in respect of revenues as well as expenditures.

A. ULBs

10.3.2 BMA, 2007 (Annex - 10.1) and Budget preparation:

Relevant Sections are as follows:

Section 82(1) – CMO of the municipality shall prepare budget estimates each year of the income and expenditure.

Section 82(5) - Budget estimates should be presented to the Municipality by 15th of February.

Section 82(8) – A minimum of 25% of total financial resources for Budget Year should be earmarked towards provision of basic services to urban poor.

Section 82(9) - The budget estimate shall be prepared on cash basis following no deficit.

Section 84(1) - The municipality shall adopt the budget estimate by 15th March, and submit it to the State Government who shall return the same to the municipality before the 31st March with or without modifications.

Sections 2 & 3 of Bihar Municipal Budget Manual (BMBM) - 2013 provide the guiding principles for preparation of budget and various budget forms.

10.3.3 Most of the ULBs do not follow the timelines due to delay in information from the line departments and different perspectives of the elected body and the officials.

10.3.4 Recommendations:

- The Budget of the ULBs should be prepared timely using BMBM, be consistent with long & short term plans and include outputs and outcomes, besides financial outlays.
- As provided in BMA 2007, 25% of all available funds in the Budget year should be earmarked for Urban Poor. The Budget should indicate financial outlays under various schemes for Urban Poor also indicating specific outputs and outcomes.
- As provided in BMA 2007, approved budgets should not show any deficits.
- The ULBs should make every effort to find out needs and priorities of the citizens before preparation of Budgets. Draft Budgets should be posted on website for feedback and the approved budgets should also be uploaded on the website.

B. PRIs

10.3.5 BPR, 2006 and Preparation of Budget by the PRIs: Sections 29, 57 and 84 of the BPR, 2006 provide for approving budget of the estimated receipts and disbursements by GP, PS and ZP respectively. This, however, does not seem to be in practice in most cases.

10.3.6 Recommendations:

- There should be adequate capacity building of both the elected and official functionaries particularly that of the GPs, for preparing

budget and pursuing the same for expenditure control.

- PRD should provide necessary supervision and facilitation so that budgets are prepared and approved on time and also the documents for expenditure control.

- Since, almost the entire funds are received by the Panchayats as grants or for implementation of schemes from or via the State Government, all information on probable receipt of funds should be communicated to the Panchayats in time.

10.4. Accounting:

- The primary role of accounting system is to record and provide timely and accurate information on revenues, expenditures, assets and liabilities.

- The main types of accounting are; financial accounting, cost accounting, managerial accounting, and tax accounting. Accounting systems include single-entry and double-entry accounting and cash based or accrual-based systems, or combinations.

10.4.1 The 14th FC recommended that books of accounts should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, Finance Commission and any agency function assigned by the Union and State Governments.

A. ULBs

10.4.2 The ULBs are expected to maintain Accounts based on Double Entry Accounting System (DEAS) as per BMA, 2007.

10.4.3 Bihar Municipal Accounting Manual (BMAM): consistent with Section 87 of BMA, 2007 (*Annex - 10.2*) and the National Municipal Accounting Manual (NMAM), BMAM has been finalized and made available for use by the ULBs. UDD had directed all ULBs to migrate to DEAS from April 01, 2014 and in the meantime, maintain accounts on both cash and DEAS basis.

10.4.4 Status:

The strategy for migration from Cash accounting to DEAS was to engage CA firms for 2 years to prepare opening Balance Sheet as

on 1st April, 2014 and train and hand-hold Accounting staff, which were to be deployed by UDD and assigned to the ULBs. So far the experience in respect of the hired staff is not satisfactory: (a) they are not skilled, and (b) payment of their salary is in arrears for several months, even though salaries are paid to UDD in advance by the ULBs. The ULBs are generally not preparing accounts on updated basis, mainly due to non-availability of qualified and skilled Accounting staff.

10.4.5 Computerization of Accounting & MFIS:

Presently, Tally accounting software is used for DEAS in 28 SPUR ULBs. But, Municipal Financial Information System (MFIS) of RBI (*Annex - 10.3*) needs to be implemented, since it is based upon accounting codes as per NMAM, which is also the basis of BMAM.

10.4.6 Status of Financial Statement and Balance Sheet:

Opening Balance Sheets, Fixed Asset Register and Annual Accounts are already completed for 19 out of 28 SPUR ULBs upto FY 2011-12 and plans are under way to keep the accounts up-to-date for these 19 ULBs including PMC. Work in regard to DEAS in 35 ULBs is ongoing and contracts are being awarded for remaining 86 ULBs.

10.4.7 Recommendations on Accounting for the ULBS:

- All ULBs must migrate to Accrual based DEAS effective April 01, 2014 and make audited accounts of 14-15 available during first half of 16-17 in order to be eligible for Performance Grant for 16-17. There is also a penal provision under BMAR, 2014 if accounts are not completed and presented within 4 months of end of FY.
- Qualified accounts staff must therefore be appointed for the ULBs on a regular basis apart from engaging consultant CAs as an interim measure.

B. PRIs:

10.4.8 Provisions of the BPR, 2006 and current status

- The Panchayats are required to maintain accounts as per Section 30, 58 and 85 of the BPR, 2006. No separate rule has been framed under the existing BPR and at the best, the provisions of the BPR 1947 and Panchayat Samiti and Zilla Parishads (Budget and Accounts) Rules, 1964 are being followed.
 - The State Government has adopted the simplified format for accounts for PRIs prepared by C&AG in 2010. But there is need to issue procedural guidelines and reach that to every Panchayat. The accounts are not being maintained in the right manner and on time.
 - As in August, 2015, only 21 out of 38 ZPs (55%), 300 out of 534 PSs (56%) and 5,359 out of 8,398 GPs (64%) have closed their accounts for 2013-14.
 - Lack of clear guidelines, absence of adequate and trained manpower and supervision appear to be the main reasons. Maintenance of proper accounts is, however, essential for ensuring prudent utilization of public funds by following all the norms and for establishing accountability of the functionaries. With the huge increase in flow of funds to the Panchayats, the need for maintaining proper accounts has increased.
- 10.4.9** Moreover, the 14th FC has recommended that (a) books of accounts prepared by the LBs should distinctly capture income on account of own taxes and non-taxes, assigned taxes, devolution and grants from the State, grants from the Finance Commission and grants for any agency functions assigned by the Union and State Governments and (b) the States should take action to facilitate LBs to compile accounts.
- Since, status of maintenance of accounts is not satisfactory, **PRD should strengthen the accounting system through PRIASoft** for which this Commission has recommended IT personnel in the Panchayats.

10.4.10 Recommendations on accounts of the PRIs:

- PRD should come out with Rules to clearly prescribe procedural guidelines and circulate a Manual of Panchayat Finance,
- Creation & filling of posts related to accounts must be done urgently and the incumbents trained intensively.
- **Accounts of Panchayats should be computerized using PRIASoft urgently.** The same should be in place for all ZPs by 2016-17, all the PSs and GPs by the year 2017-18.
- PRD must have a robust system of supervision and facilitation for maintenance of accounts by the Panchayat so that any problem is known and solved concurrently.

10.5. Audit:

10.5.1 Audit includes evaluation of internal controls and testing the substance of past transactions and balances. It helps to ensure that funds are not subject to fraud, waste and abuse or to error in reporting.

- Three main types of audit include; (a) financial audit, (b) compliance audit and (c) management audit. The results are presented in an audit report, which may include an unqualified, qualified, or adverse opinion by the Auditor. Audits are conducted through external and/or internal auditors on an on-going basis.
- The 13th FC recommended that C&AG must be given Technical Guidance and Support (TG&S) over audit of all the LBs. His Annual Technical Inspection Report (ATIR) as well as the Annual Report of the Director of Local Fund Audit (DLFA) must be placed before the State Legislature. The 14th FC recommended that TG&S by C&AG should continue and States take action to facilitate the LBs in compiling accounts and having them audited in time.

A. ULBs

10.5.2 Status of Internal and External Audit:

- UDD has made available the Bihar Municipal Internal Audit Manual for training Municipal Auditors as well as outsourced CAs for conducting Internal Audits.
- Internal Audits are very useful as they are conducted on current basis and give an

immediate opportunity for remedial action as compared to Audits by C&AG, which is often carried out much after the events, by the time damage is done.

- Though Section 36 of BMA, 2007 provides for position of Internal Auditor in the ULBs, none is made available or appointed. Hence, Internal Auditors were engaged on contract in several ULBs. Internal audit is completed in 19 ULBs. UDD has now decided that Internal Audit would be undertaken in all 140 ULBs through CA firms.

- It has been observed that there is lack of coordination between Internal Auditors and audits by C&AG. Also, an institutional mechanism doesnot exist to deal with adverse reports either from Internal Auditors or Inspection reports from C&AG.

10.5.3 Recommendations regarding Audit of the ULBs:

- An Audit Committee under DMA be constituted reporting directly to Secretary, UDD;
- Copies of all Internal Audit reports be sent to C&AG for necessary action.
- Copies of all reports from Internal auditors as well as C&AG be sent to Audit Committee within 15 days of submission of report to the ULB;
- All ULBs must prepare Action Taken Report (ATR) in respect of each audit report and submit these reports alongwith ATRs within 30 days for approval by its Audit Committee and its ESC;
- Copies of all ATRs must also be sent to Audit Committee under UDD/ DMA within 45 days of submission of Internal audit report /Inspection Report by C&AG to the ULB;
- Audit Committee must take a follow up action u/s 95 to 97 of BMA, 2007 or refer to Ombudsman or Bihar Municipal Vigilance Authority u/s 44 of BMA, 2007;
- Audit Committee be the depository of all internal and external audit reports, preferably in digitised form for follow up actions in respect of each ULB and these documents be made available, on request, for public review.

Box 10.3**Common findings reported by the Internal Auditors**

- Huge amounts are lying in Advance Accounts unsettled for long time;
- Accounts not are being prepared timely.
- Substantial delay upto 3 months is occurring in deposit of Cash by tax collectors and cashiers.
- Huge amount of License fees, Market rent, Advertisement tax are outstanding/not deposited by bidders.
- Signature of recipients under SJSRY is missing from Payment vouchers.
- Actual revenue collection is much lower as against the budgeted revenue.
- Quarterly e-TDS return was not filed within due date.
- Fund and Scheme wise ledger have not been maintained.
- Mile meter / hour meter of vehicles were out of order. Insurance has either lapsed or not available in record. Fuel consumption varies substantially.
- Labour Cess, Royalty and Sales tax are not deposited timely.
- There is no Insurance cover for cash with cashier/accountant.
- ULBs do not have satisfactory and credible attendance system and controls on temporary and contract employees.
- Shortage and low skill of staff in all the ULB is hampering timely completion of works and utilization of available funds.
- Large number of Bank Accounts is being operated by most of the ULBs, making internal control difficult.

B. PRIs:**10.5.4 Status of Audit of Panchayats:**

Sections 31, 59 and 86 of the BPR, 2006 provide for conducting audit of accounts of the PRIs by the prescribed authority and also for taking up concurrent and special audit. State Government has declared the Examiner of Local Accounts (ELA), as the statutory auditor of Panchayats, vide notification dated 18th October 2006. The report submitted by ELA in August 2014, pertains to the year ending 31st March 2011. It shows that audit of 38 ZPs, 135 PSs and 313 GPs up to 2009-10 was conducted during 2010-11. The ELA is able to conduct audit of around 500 Panchyats only every year. This

calls for establishment of a Local Fund Audit System as mentioned below.

10.5.5 Local Fund Audit (LFA) System:

(i) State Government under section 91(1) of Local Fund Audit Act, 1925 (LFA) appointed the ELA as Auditor of the LBs. The audit is to be conducted under the LFA Act, 1925. The ELA functions as the sole auditor of the LBs under the supervision of AG (Audit), Bihar. The ELA is assisted by the Local Audit Department (LAD) in discharging his duties & responsibilities. Presently, LFA system is very weak and ineffective.

(ii) Action taken for strengthening of DLFA:

- State Govt. decided in principle to constitute Directorate of Local Fund Audit (DLFA) as recommended by the 13th FC. As an ad-hoc arrangement, 39 Senior Auditors from State Headquarters and Divisions, were posted in Local Fund Audit Cell. This Cell audited 158 LBs in 2013-14 leading to 18 Reports. Based on this experience, guidelines including Model Audit Report Form have been circulated.
- A.G. Office have recommended 551 posts as follows for DLFA:

S.No.	Post	No. of post
1	Director	1
2	Dy. Director	4
3	Asstt. Director (Sr. Audit Officer)	16
4	Audit Officer	50
5	Asst. Audit Officer	120
6	Senior Auditor	120
7	Auditor	240
	Total	551

(iii) Decision of State Govt. on various aspects of DLFA like organizational structure, manpower, rules, audit manual etc. is awaited.

10.6. Revenue Enhancement Plan:**A. ULBs**

10.6.1 Per Capita Income (PCI) from Internal Sources (Taxes and Non-taxes) in Bihar ULBs is much lower at Rs. 200 (2013-14) than All India average of Rs. 757 (2007-08) as per Table 3 of Memo to the 14th FC. Collection of Property Tax (PT) in 2012-13 from all 140

ULBs in Bihar was Rs. 100 crore, which is only 0.03% of GSDP of Bihar and much lower than the recommended level of 0.52% to 0.79% of GSDP (the 13th FC).

10.6.2 Progressive growth in Income from Internal Sources is one of the eligibility criteria to secure Performance Grant as per the 14th FC. The ULBs must, therefore, achieve annual growth of at least 20 % consistently in their income from internal sources. The ULBs must also meet the recommended benchmark of 100% of their Establishment Expenditure through own sources of income.

10.6.3 Use of REP template by larger ULBs

All 28 SPUR ULBs have been using a Revenue Enhancement action Plan (REP) Template using Excel. A specimen REP is included as *Annex 10.4*. REP is a road plan for achieving higher targeted revenue from Own/Internal sources

over short-term (monthly) and over long plan (3 to 5 years). The major steps involved in using the REP template are (See *Box 10.4* also):

- a) A Revenue Enhancement Committee (REC) is formed. It includes senior functionaries of ESC of ULB, senior revenue staff and is headed by MC/EO;
- b) REP considers and lists out each plan of action and decide who shall be accountable and also fix up the time frame for completion of action after consultation and agreement of its members; and
- c) Review results at the end of each month and make modifications in the REP, as necessary and agreed.

B. PRIs:

10.6.4 Status of own revenue of the Panchayats: The BPRA, 2006 provides for collection of both tax and non-tax revenues by

Box 10.4

Main Steps in Revenue Enhancement Plan (REP)

1. Develop baseline indicators on both current subscribers and current taxpayers. Estimate the actual number of beneficiaries and the potential number of taxpayers to compare performance before and after the implementation of any proposed revenue management plan of action.
2. Update databases (registers) of service subscribers and taxpayers, through third- party information, direct field surveys, and self-reporting requirements.
3. Expand street nomenclature to update addresses, which are needed for billing, collection, and enforcement of user charges, local taxes, and other revenue sources.
4. Upgrade the current billing and collection system for both user charges and local taxes (including hardware, software, office equipment, and staff training).
5. Update the property tax information on property owners, physical characteristics of the properties, valuations, and their corresponding tax assessments (i.e., the municipal cadastres), and make the updating automatic and electronic.
6. Implement a transparent system of incentives to reward early compliance with tax payments and user charges.
7. Implement a transparent system of disincentives (penalties) for late payment of user fees and local taxes.
8. Develop baseline indicators for actual and potential user charge collection by service, and actual and potential tax collections by tax source, to measure performance in local revenue collection efficiency.
9. Establish minimum standards in the provision of the different municipal services, determine actual standards, and evaluate performance in adherence to standards.
10. Compute the user fees (user charges) that reflect the actual cost of providing each service. This information constitutes basic input for monitoring and assessing performance in expenditure efficiency by municipal service.
11. Develop benchmarks, indicators regarding unit cost for main municipal services. The unit cost indicators should differentiate between construction costs (i.e., capital outlays per unit of public works) and associated operations and maintenance (O&M) costs.
12. Develop a system for the legal enforcement of user fees and local taxes, together with a system of appeals

(Source: World Bank Document on Municipal Finances)

the Panchayats. The GPs can impose tax on Holdings and on Profession, Trades, Callings and Employment. However, no Rule has yet been framed, there is no drive from PRD and there is inhibition among the Panchayats in taxing their people and, therefore, hardly any tax is collected.

10.6.5 Recommendation on augmenting revenue of Panchayats

(i) State Government should put in place rules and procedures for collection of property tax by the GPs.

(ii) The 14th FC has already recommended that the States should take steps to empower the Panchayats to collect tax on advertisement.

(iii) Section 27 (b) of the BPR, 2006 empowers the GPs to impose tax on Profession, Trade, Callings and Employment. However, no rule has been framed. GPs, therefore, cannot collect Profession tax. At present most of the taxes is collected from the public sector employers and the organized private sectors, which are mostly located in urban areas. Therefore, the net proceeds should be divided between urban and rural areas in the ratio 2:1. Moreover, since such people are mostly living in district and block headquarters and share of Profession tax for Panchayats may be divided equally between ZPs and PSs and share of each ZP and PS be decided in proportion to their population.

- The list of assesses should be shared with the respective ULBs and the ZPs for their knowledge and assisting the Commercial Tax Department to identify those who are eligible to pay tax but are outside the net.

(iv) Sharing land revenue with the GPs in Bihar was recommended as early as in 1959. Land revenue was an important source for the State Government in those days. Net proceeds of land revenue collected from any GP may be transferred to the GP.

(v) Overall supervision of the GP on tax collection will be useful for better realization of the same.

(vi) There is provision for collection of tolls, fees, user charges etc. by the Panchayats. PRD should come out with model bye-laws for being

adopted by the Panchayats. The process of adoption should be facilitated by PRD.

(vii) State Government should launch a drive for identification and documentation of all economic assets like lands, buildings, markets, water bodies etc. owned by Panchayats. These should be developed and managed for improving income of the Panchayats. Even if land is not available, Panchayats should be encouraged to plant trees along the roads and canals to improve their revenue base.

(viii) The Panchayats should be encouraged to develop infrastructures like markets, community centres, bus stands which are beneficial to the people and are also helpful in mobilizing revenue.

(ix) Services are the most visible activity of the Panchayats for the citizens and there should be enough emphasis in building capacities of their Panchayats for both improving services and recovering at least part of O&M charges.

Box 10.5 Assessment and Collection of Taxes etc. by the Panchayats

- Prepare details about assessed tax, collection made and arrears, in respect of each tax and non-tax revenue, for each level of Panchayats, through the permanent SFC Cell in the State Department.

Analyse data collected for identifying broad trends among Panchayats and for identifying champions and innovations. Compile such good practices.

- Undertake a campaign to overcome the large slack in revenue collection.

- Prepare a compendium of the relevant legal provisions and executive orders in respect of the administration of taxes by PRIs, incentivisation programmes, innovations, recommendations of the SFC etc.

- Assist the SFC to lead policy work for: (a) exploring appropriate tax and non-tax revenue assignments; (b) ways and means of administering and enforcing them including manpower and training; and (c) achieving a greater linkage between revenue collection and spending decisions at the local level.

- Rationalise the number and type of taxes, and assign at least a few important taxes to each level of Panchayat.

Contd.

Contd.

- Re-examine the current rates of taxation and consider an upward revision, remove maximum limits fixed on tax as also the conditionalities that hamper or restrict taxation powers of Panchayats.
- Do not abolish taxes in Panchayat domain (for example, some States have abolished house tax).
- Incentivise tax and non-tax efforts of Panchayats by reworking the formulae for devolution of funds and also provide disincentives for the non-performing PRIs.
- Fix user charges on a rationale basis and provide incentives to PRIs for enforcement.

Source: MoPR, GoI

10.6.6 Incentivizing Collection of Own Revenue by the Panchayats:

(i) The 14th FC has recommended performance grants for the GPs on condition that the revenue collected in the relevant year exceeds the amount collected in the previous year. In order to cross the initial barrier of collecting revenue, the incentive should be high enough to start with. The incentives should be given in the ratio of 1:4 for GPs, 1:3 for PSs and 1:2 for ZPs. i.e., for every additional Rs. 100 raised by a GP as their own revenue, they will be given 4 times the amount raised i.e. Rs 400. There should be annual public function in each district to

recognize performances of the GPs and to distribute performance grants so that there is more competition among the GPs in raising more revenue.

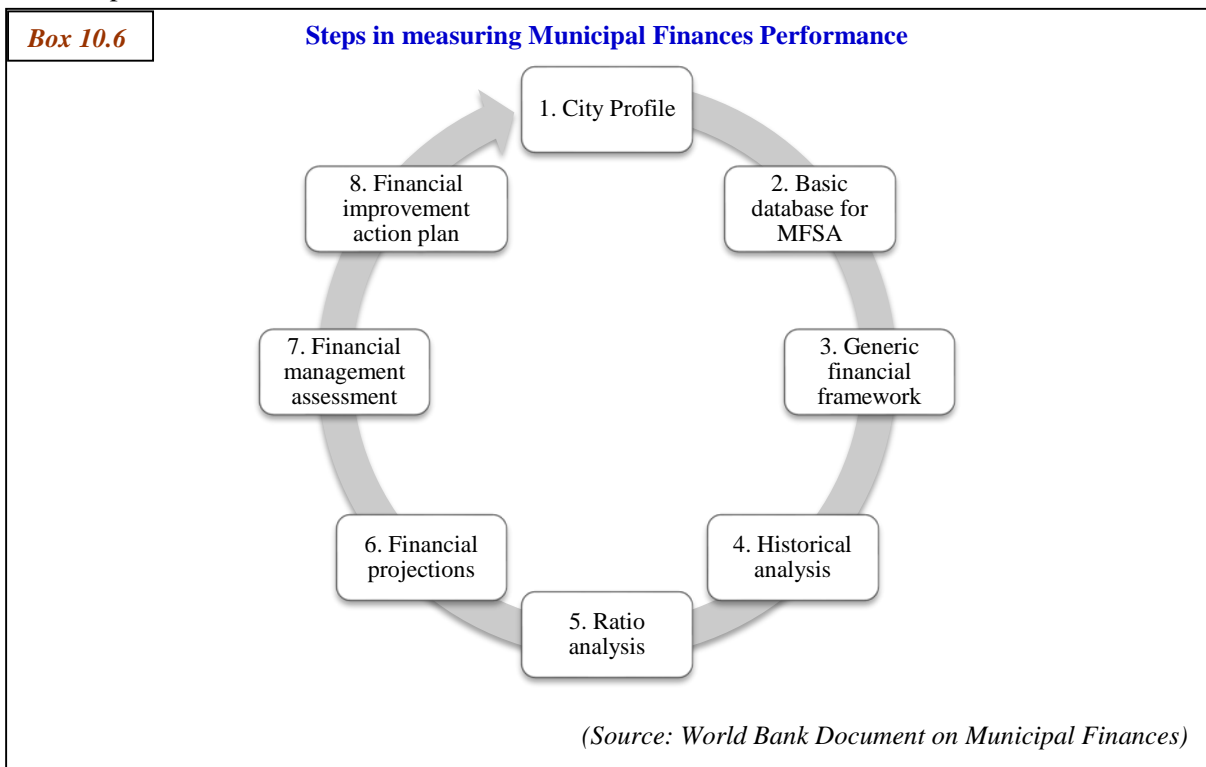
(ii) The proposed TSSP should monitor the steps mentioned above along with improving capacity of collection of both tax and non-tax revenues.

10.7. Municipal Finance Self-assessment (MFSA):

10.7.1 MFSA provides clear picture of financial situation of the municipality and helps to evaluate efficient and effective utilization of public funds. The details of ULBs with significant improvement in Public Finance Management given in *Annex - 10.16*

10.7.2 MFSA framework focuses on five main topics: (a) How to calculate a municipality's financial position; (b) Which financial ratios to select; (c) How to make financial projections; (d) How to appraise financial management; and (e) How to summarize lessons learned from the previous steps and incorporate them into a municipal finance improvement plan.

10.7.3 Steps involved in measuring MFSA are given in *Box 10.6*. The main modules of MFSA are:



- *Module 1.* Collect and organize relevant information on city finances and urban management issues (city profile) (steps 1 and 2).
- *Module 2.* Perform a historical analysis and create summary tables (revenue, expenditures, and financial situation) (steps 3–5).
- *Module 3.* Perform financial projections (step 6).
- *Module 4.* Evaluate financial management tools and processes and prepare a Municipal Finances Improvement Action Plan (steps 7 and 8).

10.7.4 Recommendation: At least all Municipal Corporations should carry out MFSA.

10.8. Revenue (Tax and Non-Tax) Reforms

(i) To begin with, the ULBs and ZPs are expected to at least achieve the benchmark of meeting (a) 100 % of their Establishment expenses, and (b) O&M expenses of their infrastructure & services, through income from Own Sources; with the ultimate aim of getting credit rating to enable them to borrow from the market. State Govt. has taken several steps to raise revenue of the ULBs (details in *Annex - 10.5*). These need to be monitored closely.

(ii) The AMRUT Scheme has recommended:

- Major stress on at least 90% coverage and collection of municipal tax and fees.
- To make a policy to periodically revise property tax, levy charges and other fees, achieve full potential of advertisement revenue by making a policy for destination specific potential having dynamic pricing module.
- To adopt a policy on user charges for individual and institutional assessments in which a differential rate is charged for water use and adequate safeguards are included to take care of the interests of the vulnerable.
- To establish and operationalize financial intermediary for pooled finance, accessing external funds, floating municipal bonds

10.9. Taxes of the LBs:

For taxes of the PRIs, *para 6.2.1* may be seen. Many of the following recommendations for the ULBs would be relevant for the PRIs as well.

10.9.1 Property Tax (PT): PT recognized is the major source of revenue for all LBs because the base is immobile and the tax is visible.

(i) Assessing PT rate: Assessment of PT involves at least three steps:

a. Identify the existing real estate properties, their size, use, location, and owners. This can be facilitated effectively with GIS base maps and fiscal cadastre. (Refer to *Para 10.10.6* and *Box 10.13* for details)

b. Assess the property value and tax base:

Assessment can be done in two ways

- Area Based Assessment (*Box 10.7*) is based on Annual Rental Value (ARV). The advantages of “Area based PT System” are its objectivity, transparency, fairness and lower compliance cost. Cities including Ahmedabad and New Delhi have adopted this system;

Box 10.7 Area based Property Tax System

ARV assessed $V = Ls + Bs$ (Plinth Area m^2)

*Tax Zone * Applicable Rs. Rate Per zone,

where; $Ls =$ land size (m^2)

$Bs =$ Building size (m^2) – Plinth Area

ARV: Annual Rental Value

Tax zone = District / Cluster of Neighborhood

Rate Differential per zone:

Developed/Undeveloped;

Land Quality; Proximity to

Infrastructure/Amenities;

Circle Rate as applicable, Age of property,

Paying capacity etc.

- Value-based assessments: which follow two main approaches: market value or rental value

c. Setting tax rate: PT rates could be set in different ways:

- Choose one rate for all assessed properties (the simplest way) or use different rates according to whether the government is taxing land or buildings or urban or rural land; according to location and type of infrastructure available; or according to use (residential, commercial, industrial) and affordability to pay etc.
- Put a cap on the local tax rate, as well as a limit on abatements and exemptions.

- PT rates may be updated annually using an inflation index that maintains the real value of the tax proceeds.

(ii) Status of Property Tax in Bihar:

Collection of PT is very low in Bihar at Rs 106 per capita as compared to All India average of Rs 486 in 14-15. PMC itself yielded only Rs.116 per capita PT in 14-15. The PT Per Capita is low since general rates for computation of ARV have not been revised since 91-92.

(iii) The 14th FC has recommended the followings:

a) States need to ensure PT reforms including objective determination of the base and its regular revision to adjust for inflation and strengthening of mechanisms for assessment, levy and collection.

b) State Governments should empower the LBs to levy PT on plinth area basis.

c) The assessment of properties may be done every four or five years and the LBs should introduce the system of self-assessment.

d) States should share information regarding PT among the municipalities State and Union Governments.

- The above reforms have already been incorporated through three amendments to BMA, 2007. Amendments included making Self-Assessment for all assesses so as to eliminate discretionary assessments by Tax Assessors and computation based on plinth area.

(iv) Recommendations by the 5th SFC:

a. Make a policy to periodically revise property tax, levy charges and other taxes. Property Tax general rates, which have not been raised since 1992, should at least be doubled effective April 01, 2016 to cover partially inflation costs of over 440%;

b. UDD should switch over to simpler and effective “Area Based Property Tax System” using differential PT Zonal rates for each city/town divided into 3 to 7 zones depending upon developed/undeveloped area; Land Quality; Proximity to Infrastructure/Amenities; Circle Rate as applicable, Paying capacity etc. Area based PT system can bring in significant additional resources.

c. Only in 35 out of 140 ULBs, Property Tax Recovery Regulations have been prepared. Remaining 105 ULBs should get these Regulations approved immediately.

d. All ULBs should strictly enforce the Recovery Regulations;

- All temporary/ contracted PT Collectors on 4% commission must meet minimum PT collection target of Rs. 2 lacs per month (with monthly average to be computed for each quarter) so that PT collectors earn at least subsistence monthly income of at least Rs.8,000. PT collectors should be made accountable for specific wards and urged to identify new assesses and recover all dues from them.

- All existing and new collectors should be made to sign a newly drafted agreement, duly vetted by Legal Dept., GoB, making all existing Contracts / Agreements redundant, to avoid irregularities in existing contracts.

e. Staff at various levels (CMO, EO, Revenue Staff, Collectors, Accountants and Internal Audits) should be trained on an on-going basis in various aspects of Revenue Administration, e.g. assessment, collection, recovery and enforcement.

f. Online filing of Self-Assessment Form and Online-Payment of Property Tax system with Payment Gateway should be made fully functional in all ULBs.

g. Statutory increase of 15% in rental value per sq. ft. is applicable in the cases of no increase during a period of 5 years as per section 127 (7) (iii) of BMA, 2007. This should be complied with.

h. The ULBs should be provided an integrated Revenue and Accounting Software system, replacing highly deficient existing PT software.

i. Internal control mechanisms at the ULBs should be strengthened through regular internal audits to ensure compliance of BMAR, 2014.

j. Property Title Certification System be introduced.

k. Property Tax Board, supported by Municipal Finance professionals, should be established on priority basis. It would also assist ULBs in recovering huge PT etc. dues

from the offices of State,/ Central Governments including Railways. (Refer **Box-10.8** for details)

Box 10.8

Roles and responsibilities of Bihar Property Tax Board

The Board will act as an advisor to the State Government in respect of optimizing assessment, collection and recovery of Property Tax by the ULBs as follows;

1. To undertake directly or through an agency, enumeration of all lands and buildings in each municipality once in five years to widen the tax net and maintain an updated database of properties in the ULBs in the state based on this periodical survey;
2. Suggest to State Government methods and procedures for review and updating the rental values or market values of lands and buildings every 5 years or earlier;
3. Suggest measures for making the Holding Tax system more buoyant;
4. To review and evaluate performance of each ULB in regard to assessment of land from Holding Tax against a pre-determined target and suggest improvements on a continuous basis;
5. Drawing from best practices elsewhere, suggest and ensure implementation of innovative methods of tax collection;
6. Ensure transparent procedure for valuation of properties in accordance with provisions in the BMA, 2007;
7. Based on the experience of tax administration in the State, suggest required changes in relevant Sections in the Act, Rules and Bye-laws from time to time;
8. Publish the annual work plan in the Official Gazette of the Government;
9. Render such advice on valuation of properties to a Municipality as the State Government may, from time to time, require it to do or as the Board may consider necessary for carrying out the purposes of this Act; and
10. Undertake directly or through any institution, training of officers and employees of Municipalities as the State Government may direct or as the Board may consider necessary for carrying out the purposes of these Rules

(Source: *The Bihar Property Tax Board Rules, 2013*)

l. The ULBs should use ABC principle and focus initially on multi-story buildings for residence and business and larger defaulters.

m. Target of PT Collection must be fixed on monthly basis and performance of Tax

Collectors, Wards or Circles be reviewed by MC/EO.

n. All ULBs must use Excel based monthly report (MIS) format for Income from Own Sources supplied by UDD and report actual performance regularly each month to UDD.

10.9.2 Vacant Land Tax:

- Vacant Land Tax can be seen from two perspectives. Decision would obviously be area-specific.

- a) Maximize use of scarce urban land, or
- b) Encourage vacant land from ecological & congestion angles.

- GIS data is available for 29 ULBs for vacant land tax and billing can be done. The remaining ULBs could use “Google Maps” to identify vacant lands and do billing.

10.9.3 Communication Towers Tax:

Collection from Tower Tax is irregular, insignificant and generally not enforced by the ULBs. Cell firms are also not obtaining registration. Some cell firms have filed cases in High & Supreme Courts. The ULBs must take recovery action under Bihar Communication Towers & Related Structures Rules, 2012 and Recovery Regulations.

10.9.4 Income from Municipal Licenses:

(i). Section 129 (b) & (c) of BMA, 2007 gives power to Municipalities to levy License fees. Sections 342 to 348 of BMA, 2007 cover the subject “Municipal Licenses” and the Schedule under section 342 covers 337 specifies licensing of non-residential premises.

(ii). Status in Bihar:

PMC has reviewed the standard Regulations and suggested significant amendments to UDD in September, 2013. Approval is awaited. The potential of License Fees is about Rs. 49 crores per annum for all ULBs including Rs. 15 crores from PMC alone.

(iii). Recommendations:

Section 342 has list of non-residential businesses prepared several decades ago. It does not include new industries and services. This schedule should, therefore, be appropriately amended.

10.9.5 Leases, Rental and Monetization of Land and Property:

(i). The ULBs own large number of properties at commercial locations but get negligible returns from the same, since the current rental charges are several times lower than comparable current market rates. Even the lower rates are not being recovered regularly and huge arrears exist. Moreover, the ULBs are generally not keeping updated inventory and files for each of the municipal property as mandated u/s 105 of BMA, 2007.

- This large pool of immovable properties can mobilize large sums for creation of much needed infrastructure in cities/towns.

(ii). Recommendations:

- All ULBs must prepare list of all rental properties with exhaustive details as advised by UDD;
- A specialist consultant be appointed to make recommendation about disposal of such properties in most transparent way and to yield maximum revenue e.g. using E-auction;
- Funds so realized be credited to Municipal Fund of the ULB under sub-head “Infrastructure Fund”
- Capital projects undertaken by the ULBs could use “Infrastructure Fund” as its own contribution for new projects.

10.9.6 Local Assets:

(i) Inventorying & periodically updating Fixed Asset Register (FAR), using transparent procedures for allocating assets for private use, aligning or classifying assets according to their role in delivering services, using the market value of assets for decision making, establishing a depreciation fund for funding asset replacement, monitoring key indicators (e.g., asset-related costs and revenues), introducing life-cycle management of infrastructure and buildings (starting from planning, operating and maintenance expenses for existing and new capital assets), using advanced instruments such as strategic asset management plans etc. must be implemented.

(ii) Fixed Asset Registers are completed for 18 ULBs including PMC and must be used.

(iii) Municipal staff must build expertise on regulatory, procedural, real estate and infrastructure operating details.

(iv) **PRI asset register should be available online by using ‘Asset Directory’ module of e-Panchayat.**

(v) Incidentally ownership of Govt. land vests with ZP even in urban areas. (Refer to Memo no. 5 UD/Misc.163/15 3967, dated 4th August 2015 of UDD).

10.9.7 e-Auction/e-Tendering of Sairat:

Income under this head is the highest after Property Tax. For 15-16, income from Sairat properties in 28 SPUR ULBs is expected to be about Rs. 27 crores as against only Rs 13.39 crores collected during 14-15. To minimize irregularities, improve transparency and optimize returns from Sairat properties, the ULBs must use e-Auction and /or e-Tendering as against conventional Tenders. State Govt. website “tenders.bih.nic.in” could be appropriately modified for use by the ULBs or alternatively, e-Auction agencies could be empanelled with UDD for use by the ULBs.

Box 10.10

Low Sairat yield from Mithapur Bus Stand, Patna

In 14-15, Income from Bus stand in Bettiah and Siwan was Rs.1.16 Cr. & Rs.1.05 Cr respectively. But income from Mithapur Bus stand at Patna was only Rs. 1.07 Cr, collected through staff and not through transparent tendering process.

10.9.8 Development Charges:

Section 59 of the Bihar Urban Planning and Development Act, 2012 and chapter VIII of Bihar Urban Planning and Development Rule, 2014 authorizes Local Authority to levy, assess and recover Development charges. This revenue should be fully harnessed and credited to Infrastructure Fund.

10.9.9 Road Cutting Charges:

The ULBs should frame Regulations and update road cutting charges and start using this important source of income.

10.9.10 Professions Tax:

(i).Article 276 of the Constitution provides for the levy of a tax on professions, trades, callings

and employments at a rate not exceeding Rs. 2,500 per tax payer per annum, fixed more than 25 years back. This tax can be a major source of income for the LBs if the ceiling is raised periodically and the tax is collected efficiently by Commercial Tax Department, who transfer 60% of yearly actual net collections to the ULBs next year.

(ii). For a reasonable estimation of the ceiling for professions tax, three methods could be considered; a) To index the ceiling on professions tax to the annual growth rate of per capita nominal GSDP, b) To consider the historic growth of professions tax, c) To index it to the per capita emoluments of public sector employees. This commission obviously recommends option “a”.

(iii). **Status in Bihar:**

a) Rs. 28.06 crore has been allocated to all ULBs for 15-16 by UDD based upon amount received from Finance Dept. as compared to Rs. 22.17 crores allocated during 14-15. This represents annual growth of 26.6%.

b) Profession tax has often been neglected being a small amount and also because of problems in collection. It causes substantial loss of revenue.

10.9.11 Advertisement tax:

For the ULBs, the advertisement tax has two components – (i) tax on hoardings and (ii) tax on advertisements on buses, cars, lamp posts and compound walls. This key source of revenue is poorly managed and utilized. Existing or a new SPV like that proposed under Smart City project, could be created in municipal corporations to manage this. Online collection and payment of hoarding tax should be made fully functional in all ULBs by 31st July 2016.

- Onetime Settlement plan should be introduced in all ULBs to collect dues and a share awarded to the employees.

10.9.12 Parking Charges:

Existing or a new SPV like that proposed under smart city project could be created in municipal corporations and councils and authorized to manage and utilize this significant source of revenue.

10.9.13 Surcharge on Entertainment tax:

Newer forms of entertainment such as boat rides, cable television, internet cafes etc. should be brought into the entertainment tax net by State Government. The ULBs should use Section 127 (g) of BMA, 2007 for augmentation of Income from Internal sources. Surcharge of 10% should be levied on Entertainment Tax and collected by State Government and transferred to the ULBs at the end of each quarter;

10.9.14 Income from Tehbazari:

License for Tehbazari should be given without charge to assist unorganized labor and poor. However, penal fine may be charged if the requisite license is not taken.

10.9.15 Congestion tax:

Congestion tax (used in London, Singapore, Milan etc) should be levied with the objective of reducing traffic congestion and pollution in cities like Patna, Gaya, Bhagalpur etc. The revenue thus generated can be used to expand and improve public transport.

10.9.16 Income from cess or royalty on minor minerals:

Since mining puts a burden on the local environment and infrastructure, it is appropriate that a reasonable portion of the income from royalties be shared with the LB concerned for ameliorating adverse effects of mining on the local population.

10.9.17 Income from Misc. Taxes:

Because of the high transaction costs, taxes yielding insignificant income and impacting urban poor like Cycle Tax, Rickshaw Tax should no longer be levied.

10.10. Non-Tax Revenue

10.10.1 User charges:

(i) Section 128 of BMA empowers Municipalities to levy user charges on following items:-

- a. Provision of water-supply, drainage and sewerage,
- b. Solid waste management,
- c. Parking of different types of vehicles in different areas and for different periods,

- d. Stacking of materials or rubbish on public streets for construction, alteration, repair or demolition work of any type, and
 - e. Other specific services rendered in pursuance of the provisions of this Act, at such rates as may be determined from time to time by regulations.
- (ii) **Box 10.10** gives 4 methods of computing User Charges. Option (d) obviously is more logical.

Box 10.10	Four Methods of Computing User Charges
<p>a. Marginal cost pricing: Ideal way to compute a user charge, as it approximates the market price in perfect competitive market, that is, the cost of producing an additional unit of the goods or service. Problem: This principle is difficult to apply because it requires complete information on the cost of the product/service, as well as the opportunity cost, that is, the value of the alternative use of resources if they were not used for the good or service being offered.</p> <p>b. Average cost pricing: It is more practical method that guarantees that all costs will be recovered. The prices are easier to calculate: all the financial costs required for providing a certain service are divided by the number of consumers or the volume sold, which produces the appropriate user charge.</p> <p>c. Average incremental pricing: It uses the average cost price but asks how much it would cost to serve an additional consumer.</p> <p>d. Multipart tariffs: Service and charge for each component according to its price elasticity. Multipart tariffs make it possible to set a fixed charge for basic consumption, with progressively higher charges for greater consumption, to help low-income customers through built-in subsidies in the tariff structure. Some of these pricing techniques may also consider higher unit-prices during peak hours of consumption (e.g., electricity supply), as well as separate fees for new connections to the existing network. These one-time fees usually cover part of the capital cost of the investments in the services' main infrastructure.</p> <p><i>(Source: World Bank Document on Municipal Finances)</i></p>	

(iii) Recommendations

A. ULBs

- a. The LBs to recover at least the operation and maintenance (O&M) cost of the services from the beneficiaries. The LBs must provide good level of civic services, to encourage payment of user charges.
- b. The ULBs to prepare a Subsidy Report for each service as mandated under **section 83 of BMA, 2007** and include the same in their Budget Estimates. This would highlight to all concerned the % of cost being recovered through user charges.
- c. ULBs to periodically review and update the charges and fees for the services.
- d. ULBs to create awareness amongst elected representatives, LB functionaries *and* general public on the importance of own revenues for the LBs and the need to pay for improved public services.
- e. ULBs to prepare separate accounts for user charges and attain atleast 90% billing and atleast 90% collection,

B. State Govt.

(iv) State Govt. should create State-level Urban Regulator in the context of **Section 128 A of BMA, 2007**. Such a Regulator, on the pattern of HPEC and MGI recommendations, could:-

- a. Set tariffs for various user charges like water supply, sold 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 municipal departments and agencies.

f. Create framework for public-private partnerships and act as arbitrator in disputes.

10.10.2 Income from Fines and Penalties:

- The ULBs have obligation of enforcing a large number of Rules and Regulations, with provision for fees, fines and penalties. However, there seems to be apathy in their enforcement.
- Collection of funds and penalties should be outsourced u/s 228 (2) of BMA, 2007, since the ULBs do not have necessary & skilled staff.

10.10.3 Income from Interest on surplus bank balances:

- The ULBs have large bank balances due to the unutilized grants. For the larger 28 ULBs, unutilized sum was Rs. 589 cr and Rs.796 cr as of March 31, 2014 and 2015 respectively. Banks should therefore be instructed by the ULBs to “Auto Sweep” their surplus balances to Fixed Deposits ensuring higher interest rates. This could increase Interest Income by approx Rs 50 cr for all 140 ULBs.
- Very large balances in a large number of bank accounts of BUDA should also change over to “Auto Sweep” practice.
- The LBs receive money from different source such as fines, fees, taxes, license permit etc. All receipts should be credited to the respective accounts and deposited in their bank accounts within 3 days. Accounts staff in the ULBs should prepare Bank Reconciliation Statements regularly and timely.

10.10.4 Stamp Duty Transfers:

Stamp duty is an assigned transfer from State Govt. under section 136 of BMA, 2007. In 2014-15, such transfers were Rs. 138 crores compared to Rs. 105.5 cores in 13-14 for 28 larger ULBs, showing high buoyancy. Income from Stamp Duty infact exceeded total Income from Internal sources in 2014-15.

10.10.5 Surcharge on Motor Vehicle Tax:

At least 10% Surcharge on total Motor Vehicle Tax levied and collected by State Gov. should be transferred to the ULBs for maintenance of roads within city/towns.

10.10.6 GIS Mapping and Fiscal Cadastre:

(i).GIS map can vastly improve the coverage ratio of Property Tax. (**Box 10.13**) It provides the ULBs with a visual spatial tool for identifying the location of properties and preparation of fiscal cadastre, which includes information on each property, viz physical description, a notation of ownership and the assessed value of land and improvements. Each property would get a unique tax identification number and allow a quick tracking of the properties.

(ii). Preparation of GIS Base Maps for 29 of the largest towns of the state has been completed. These maps show all utilities, landmarks, property footprints, slums, etc. with 52 layers in all and contours at 0.5m interval.

These are Patna, Gaya, Muzaffarpur, Bhagalpur, Begusarai, Purnea, Katihar, Darbhanga, Munger, Danapur, Phulwarisharif, Khagaul, Motihari, Bettiah, Sitamarhi, Kishanganj, Saharsa, Jamalpur, Nawada, Sasaram, Dehri, Aurangabad, Bodhgaya, Arrah, Biharsharif, Hajipur, Chhapra, Siwan and Rajgir.

(iii). GIS based property survey and reconciliation with municipal database is ongoing in 10 ULBs. Procurement is ongoing for GIS Base Maps for additional 40 towns.

(iv) GIS based PT systems has led a 2.5 times enhancement in PT potential. (**Box 10.11**)

Box 10.11

GIS and Property Tax

assessment in Purnea, Katihar & Patna ULBs

- Use of GIS data (offers promising potential) to augment PT coverage to near 100%
- In Purnea, 76,184 properties were identified through GIS survey against the municipal records of 29,618 properties. The estimated demand for PT post GIS survey in Purnea is Rs. 3.22 crores (excluding tax from Vacant land) against the current demand of Rs. 1.10 crores.
- In Katihar ULB, total holdings increased after GIS mapping from 22,217 to 41,179 and Property Tax demand increased from Rs. 3.78 crore to Rs. 9.77 crore, representing 158% increase.
- Holdings on Patna would increase from 1.90 lacs to approx 6 lacs post-GIS mapping

Recommendations: It is recommended that GIS mapping and property surveys be extended to all

remaining ULBs urgently. Besides, full potential of GIS maps in infrastructure planning, monitoring etc. be used.

10.11. Expenditure Management:

10.11.1 Expenditure management is to ensure that funds available are spent efficiently and effectively on improving service delivery and achieving organizational objectives by (a) planning resources and expenditure, (b) controlling and executing expenditure and (c) monitoring expenditure performance.

10.11.2 Efficiency in allocation & usage of funds: To improve use of resources, the LBs must promote three interrelated outcomes:

- a. Aggregate fiscal discipline: Ensuring that actual expenditures are consistent with actual total revenues, to keep spending within sustainable limits;
- b. Allocative efficiency: Consistency between budgets allocated to programs and activities that promote the strategic priorities of the communities; and
- c. Operational efficiency: Provision of public services at a reasonable quality and cost.

10.11.3 Possible Weaknesses in resource allocation and use are given in **Box 10.12**

Box 10.12	Weaknesses in Resource Allocation and Use
<ul style="list-style-type: none"> • Poor planning • Lack of links among policy making, planning, and budgeting • Poor expenditure control • Inadequate funding of operations and maintenance • Little relationship between budget as formulated and budget as executed • Inadequate accounting systems • Unreliability in the flow of budgeted funds to agencies and to lower levels of government • Poor cash management • Inadequate reporting of financial performance • Poorly motivated staffs <p><i>(Source: World Bank Document on Municipal Finances)</i></p>	

10.11.4 Establishment Expenditure

- The total establishment expenditure was Rs. 789.20 Cr i.e. 77.5% of the total revenue

expenditure of Rs. 1018.18 Cr. and 193.8% of own revenue of Rs 407.13 Cr. during 2010-15 for all 11 Nagar Nigams (Details in **Annex 7.4**). It may increase with the implementation of the award of the 7th Pay Commission. Atleast the ULBs and ZPs must, therefore, enhance their own revenues to cover 100% expenditure on establishment.

- Moreover, (a) all LBs must switch over to bio-metric attendance system, (b) salary and all statutory dues be computed through payroll software and (c) salary and related dues for all category of employees (regular, contract and temporary) paid directly in their Aadhaar linked Bank Accounts.

10.11.5 Fuel for Vehicles

Huge expenditure is incurred by the ULBs on fuel for vehicles with negligible financial controls. Bhagalpur and Gaya Municipal Corporations have installed GPS in all vehicles used for SWM for improved monitoring of vehicle movement and control on usage of fuel. GPS system should be installed on all vehicles by all ULBs.

10.11.6 Electricity Charges

(i) The LBs generally default in payment of electricity dues. Finance Department, therefore, often adjusts payments due to State Electricity Board (SEB) from the devolution sums payable to the ULBs. Under the circumstances, the ULBs generally do not care much about reduction of wastage in electricity. Following steps must be taken to reduce electricity charges:-

- Switch over to use of LED or solar systems;
- Switch over to Sensor based street lighting system with auto time switching systems and/or movement based street lighting system;
- Engage consultant to carry out energy audit at all the plants, pumps etc.

(ii) "Surcharge of 2.5% on electricity consumption" should be levied U/S 130 of BMA, 2007 to cover huge electricity charges payable to the SEB.

10.11.7 Cash Management

(i) Followings are the benefits of efficient cash management:

- It reduces operational risk and scope of mismanagement or fraud.
- It minimizes volume of idle cash.
- The balances are netted through a single account at bank that improves visibility of flow of funds and reduces risk in exposure to the banking system.

(ii) Cash-flow fluctuation: Accurately predicting the peaks and valleys of cash flows is one difficult aspect of cash management. Monthly cash forecast estimates and weekly cash positions helps monitor accuracy of the annual forecast. Computerized accounting systems and integrated financial management information systems can greatly facilitate preparation and monitoring of cash forecasts

10.11.8 Transfer of the funds to the LBs

Switch over from the present system of ‘Advances and Disbursement’ to a system of ‘Authorization’ as per MoPR letter No. N-11019/125/2009-Po 1.1, dated 23.02.2010. (Details at *Annex - 10.15*)

10.12. Financing Urban infrastructure:

10.12.1 Capital Investment Plan (CIP): Gestation period of new Civic services like water supply, sewerage systems etc generally take more than one year. Therefore, planning and managing capital expenditures and its financing require long-term perspective. *Box 10.13* below describes the CIP Process and its Evaluation tools. Computerized Database be created for both the PRIs & the ULBs and periodically updated for long & short term planning.

10.12.2 Estimated Costs: Based on the Report of Dr Ahluwalia Committee (HPEC), the ULBs in Bihar need estimated sum of **approx. Rs. 1,150 Crores** for annual O&M of existing Urban infrastructure & services and **around Rs 28,000 Crores** for new urban infrastructure assets and services over the next 5 years.

10.12.3 Sources of finance:

a. Own sources: The ULBs must atleast meet its establishment and O&M expenditure through own revenue so that other sources of revenue could be used for financing CIP.

Box 10.13

Capital Investment Plan (CIP)

- CIP is a multiyear (usually three to six years) program of capital investment projects, prioritized by year, with anticipated start and completion dates, annual estimated costs, and proposed financing methods.
- The process of CIP and budgeting is a dynamic and iterative one that generally involves four stages:
 - i. Financial planning
 - ii. Project identification and prioritization
 - iii. Program and project management
 - iv. Monitoring and evaluation
- **Evaluation of CIP:**
 - a. Net Present Value
 - b. Internal Rate of Return
 - c. Cost-benefit analysis
 - d. Sensitive Analysis

(Source: *The World Bank Guide on Municipal Finance*)

b. Borrowing: Sections 106 to 125 of BMA, 2007 provide terms under which the ULBs can borrow from the market or government Institutions. State Govt. may allow the larger municipal corporations to directly approach the markets while BUIDFT could assist medium and small municipalities, who may not have the capacity to access the markets directly.

Box 10.14

Steps in Borrowing

- Select projects that are worthwhile to finance with market resources.
- Make sure the ULBs have a good financial position (measured by a net operating surplus).
- Project their balance sheets and find out whether new borrowing is in line with the constraints imposed by the national legislation.
- Compare alternative forms of borrowing, including banks and capital markets.
- Understand when public-private partnerships are efficient ways to finance expensive infrastructure and what enforcement provisions are needed to be sure that the public sector gets its fair share.
- Follow SEBI's guidelines regarding assurance of Tax free Municipal Boards.
- For municipalities that are not used to borrowing in the market, institutions such as public investment banks and municipal development funds can assist in introducing them to the rigor of market-based finance.

- The ULBs in Bihar should use GoI's approved Pooled Finance Development Fund (PFDF) and Bihar Urban Infrastructure Development Fund (BUIDF) to provide credit enhancement to access market borrowings based on their credit worthiness through State-Level-Pooled Finance Mechanism.

- The ULBs presently with (i) professional and efficient management, (ii) consistent growth in revenue from Internal sources, (iii) effective accounting, audit and budgeting practices and (iv) meeting minimum service benchmarks, should be identified for initial credit rating prior to issuance of Municipal Bonds. Different municipal bonds are given in *Annex 10.14*.

c. Outsourcing: Creation and O&M of infrastructure and service should be outsourced wherever feasible. (*Table 3.8*)

d. Public Private Partnership (PPP): PPP should be leveraged in a big way (details in *Para 10.13*)

10.13. Public Private Partnership (PPP):

10.13.1 PPP is a long term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, whereas, remuneration is linked to performance. PPP is an imperative institutional process for

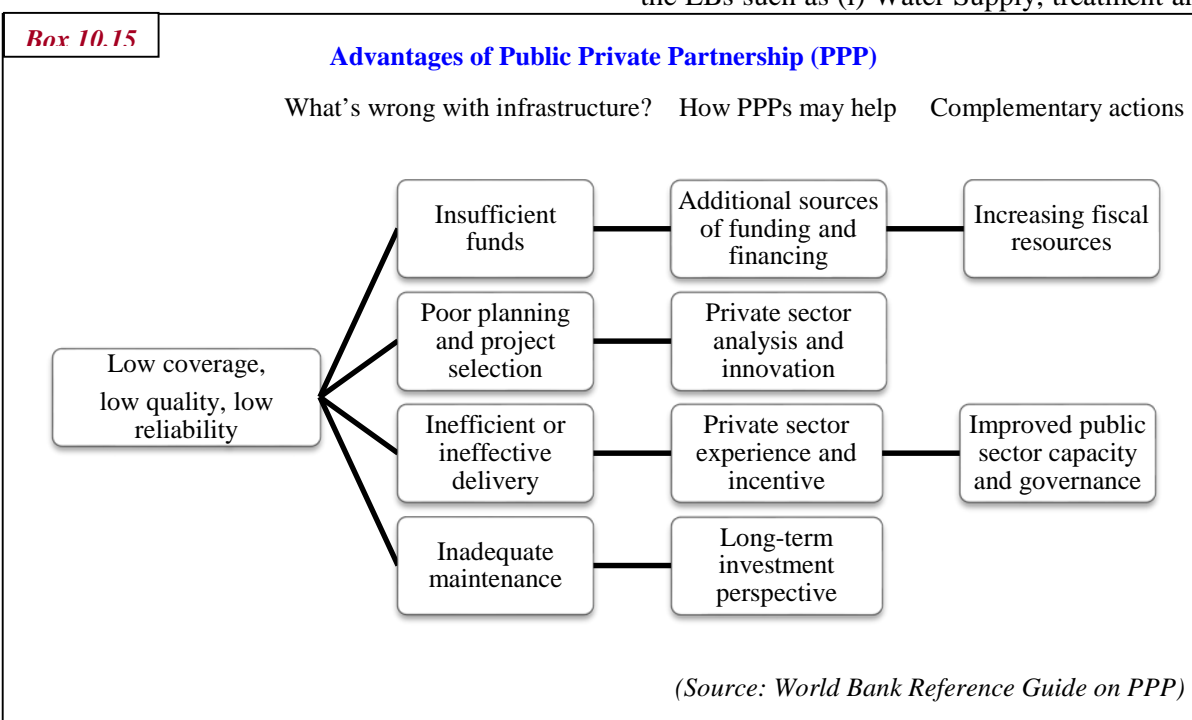
Governments and LBs for creation of infrastructure assets as shown in the *Box 10.15*.

10.13.2 Development and implementation of PPP projects:

PPP process starts by identifying a priority public investment project which are then screened for their potential as PPP projects. Candidate projects that survive the screening are then developed and appraised through an iterative process. After that, a draft PPP contract is prepared for further refining the PPP structure by setting out its details. Then comes the process of managing PPP transactions which includes marketing PPP, checking qualifications of bidders, inviting and evaluating proposals, interacting with bidders during the process, and identifying and finalizing the contract with the selected bidder. Having executed the contract, the PPP enters the final and the longest 'stage'—managing the contract throughout its lifetime. (Details at *Annex - 10.6*)

10.13.3 Bihar Infrastructure Development Enabling Act, 2006:

This Act provides for rapid development of physical and social infrastructure in the State and attracting private sector participation in the designing, financing, construction, operation and maintenance of infrastructure and services. Schedule III includes many item pertaining to the LBs such as (i) Water Supply, treatment and



distribution (ii) Waste management (iii) Sewerage (iv) Drainage (v) Public markets (vi) Trade fair, convention, exhibition and cultural centers (vii) Public buildings (viii) Inland water transport (ix) Sports and recreation Infrastructure, public gardens and parks (x) Real estate (xi) Any other Projects or sectors that may be notified by the Government.

10.13.4 Sections 166 to 168 BMA, 2007 provide for private sector participation in planning development, operation, maintenance and management of municipal infrastructure and services. (Details at *Annex - 10.7*)

10.13.5 PPP in SWM in PMC

(i) Experience of Patna Municipal Corporation (PMC) in SWM is given in **Box 10.16**

Box 10.16 Public Private Partnership (PPP) in SWM in PMC

In 2009, BUDA selected A2Z infrastructure Limited, New Delhi for SWM in PPP mode. The company had to perform daily door-to-door primary collection of waste, Mechanical street sweeping, Storm water Drain cleaning in nine wards (1-9) and 9 main roads of PMC, transportation of waste to landfill site. (The company was to be paid Rs 728 per M.T. of solid waste). Other components of the agreement were: to maintain workshop for O&M of vehicles, to maintain weigh bridge at landfill site, to install compost plant to convert bio degradable waste in to manures, refuse driven fuel plant, One 10 MW power plant at Bairia Rama Chak, the landfill site.

- The partnership company was to be allotted jobs in all 29 wards of NCC circle of the PMC.

The company also claimed that as per agreement, it was not given the three remaining circles (Kankarbagh, Patna city, Bankipore,) of PMC, and 20 more wards of New Capital Circles .But it was given jobs only for 9 wards of NCC.

- After these two successive failures, UDD has entrusted the job of hiring private agency in PPP mode to PMC itself instead of BUDA / BUIDCO.

- A2Z had begun work from Jan.2010 but discontinued by July 2011 on the ground of nonpayment for its services by PMC, which had by then reached Rs 7.62 crore (approx). But PMC had serious objections to the bills.

- Ultimately the matter was brought to Patna High Court by the company and court directed PMC to pay the dues. PMC moved double bench and the matter is sub-judice

Contd.

- Unfortunately the first serious attempt on PPP model to keep the city clean ended in court. After this failure, UDD directed BUIDCO to hire another agency on PPP model for SWM in the city of Patna. In 2012, BUIDCO selected a Consortium led by **Jindal ITF Urban Infrastructure Limited**. But the said consortium moved out of job before signing the agreement.

(ii) Lessons should be drawn from PPP in SWM in PMC: **Box 10.17** gives Key elements in successful contract management /PPP.

Box 10.17 Essential aspects in deciding the contract out SWM

- The ULB should identify services that can be effectively provided by the existing staff and available financial resources.

- Subsequently, services which would need to be outsourced due to limited in-house technical know-how, capability and/financial resources should be identified.

Benefits and potential issues with outsourcing services which the ULB cannot provide (as identified above) should be fully evaluated and understood. Justification for the need to contract out identified services should be prepared.

- Commercial/economic feasibility of the services to be contracted out should be ascertained and appropriate contract models and their benefits are to be assessed for each of the services to be contracted out.

- Where contract labour is hired, the ULB should ensure compliance with the provisions of the “Contract Labour Abolition & Regulation Act 1970”

- Sharing of all possible risks: technical, operational and financial between ULB and the operator should be detailed

- Where acquisition of land/ rehabilitation of the community are involved, the ULB should stand-in for the contractor in addressing such aspects.

- Contracts should specify the range of technology/technologies that can be adopted after the ULB undertakes a thorough assessment of available technologies for specific services.

- On ascertaining the benefit of outsourcing services, the ULB shall prepare a Terms of Reference for the contracted service.

(Source: *Municipal SWM Manual, CPH EEO*)

10.13.6 Some successful PPP projects in municipal services within India are given in Annex- 10.8

Governance Reforms:

10.14. Good Urban Governance:

10.14.1 According to UN-Habitat, Good Urban Governance is characterized by the following principals:

- **Sustainability** in all dimensions of urban development.
- **Subsidiarity** of authority and resources to the closest appropriate level.
- **Equity** of access to decision-making processes and the basic necessities of urban life.
- **Efficiency** in the delivery of public services and in promoting local economic development.
- **Transparency and Accountability** of decision-makers and all stakeholders.
- **Civic Engagement and Citizenship**
- **Security** of individuals and their living environment.

10.14.2 The institutional framework for urban governance needs a major overhaul if cities are to play a dynamic role in the next phase of State’s development. The present institutional structure needs to be strengthened and streamlined.

10.15. Reforms under JNNURM, AMRUT and 13th & 14th FC conditionalities

• A comparative statement of reforms under JNNURM & AMRUT is given at *Annex 10.9*.

• Unsatisfactory performance of the ULBs is more due to the human capital deficiency and governance issues than availability of finances, Infact the LBs are not able to spend even insufficient funds made available from State and Union Govt. *Annex - 10.10* would further show unsatisfactory implementation of JNNURM reforms, which irrespective of being conditionalities under that scheme, are imperative for sound functioning of any ULB. Nine conditionalities (*Annex – 10.11*) prescribed by the 13th FC for the LBs are yet to be implemented in true spirit.

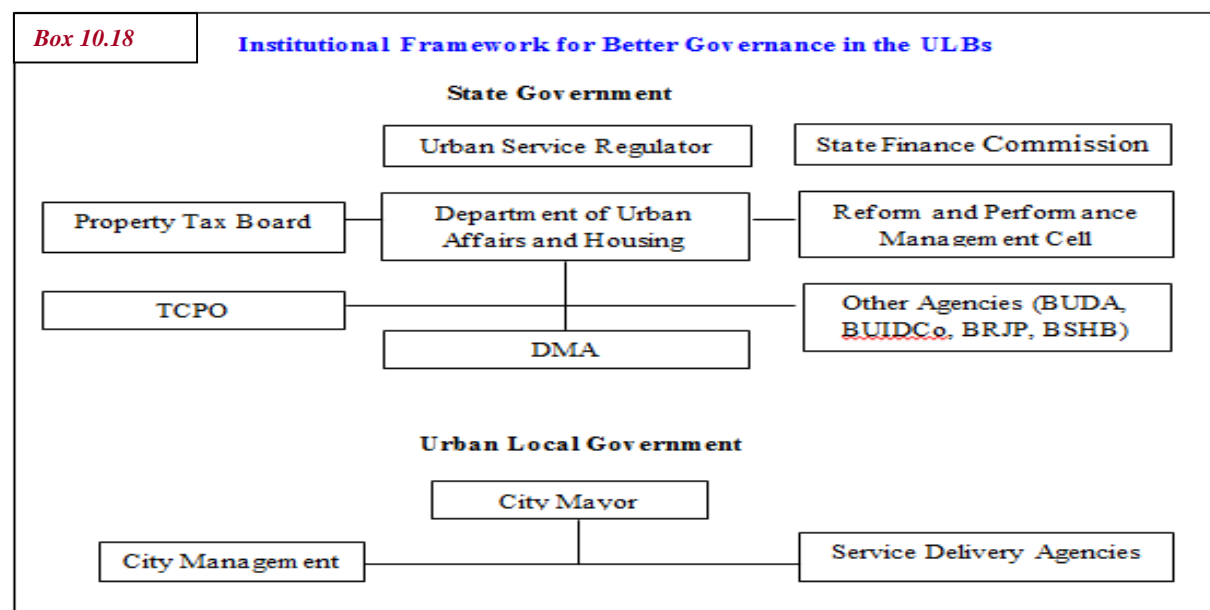
• The very desirable reforms prescribed under AMRUT (*Box 3.11*) deserve urgent action.

10.16. Municipal Administration

10.16.1 Directorate of Municipal Administration (DMA)

(i).UDD should operationalize the already Govt. approved DMA immediately for effective separation of the responsibilities of policy formulation and implementation and to provide better oversight and support to all 140 ULBs. Most other states have DMAs with a pool of technical and professional staff.

(ii).Moreover all 140 ULBs should be divided into Divisions or Zones based on equitable criteria and be served by a Divisional or Zonal DMA, who reports to DMA. Ideally, position of DMA and Zonal DMAs should be filled in by a proven successful CMO.



10.16.2 Recognition of Critical Role of Chief Municipal Officers i.e. MC/EO:

Experience shows that the position of CMO/EO is very critical for effective and efficient functioning of the ULB. Accordingly,

- a) Position of CMO/EO be filled in all ULBs.
- b) Minimum two years' term be ensured for CMO/EOs.
- c) All CMO/EOs including at Nagar Panchayats be at least BAS and intensively trained in all aspects of urban management at reputed institutions.
- d) Role of CMO/EOs be clearer to avoid conflict from any quarter, especially regarding execution of projects and day to day operations of the ULBs;
- e) Magisterial power be given to the Municipal Officer under 133 C.P.C.
- f) Parallel powers be given to Municipal Circle Officer regarding encroachment removal.
- g) Clear guidelines w.r.t. Section 75 (6) be given on the financial powers of EO.
- h) Performance Appraisals be measurable based on Indicators of Performance as given in **Box 10.19**.

Box 10.19	Check-list for Annual appraisal of CMOs
<p>The Performance Indicators at the end of each review period shall include:</p> <ul style="list-style-type: none"> • Actual performance of ULB against published benchmarks in municipal services • Actual Utilization ratio of Grants • Actual grants from State and Union lying unutilized at the end of last FY and its % to total Funds available for utilization; • Pending number of utilization certificates, • Actual annual growth % in Internal sources of Revenue during last FY; • Whether Accounts are up-to date all the time; • % of Income from Internal Sources % of total annual establishment expenditure during last FY • Number of Outstanding Audit Paras; • Whether Accounts are up-to date all the time; • % of Income from Internal Sources % of total annual establishment expenditure during last FY • Number of Outstanding Audit Paras; • Assessment of internal audit and C&AG audits; • % of actual Income and expenditure against corresponding budgeted Income and Expenditures; 	

10.16.3 Manpower:

- Restructure staffing urgently and equip all LBs (PRIs and ULBs) with relevant, adequate and skilled manpower as per proposed Model staffing detailed in Chapter-II & III. (**Para 2.3 & Para 3.3.2**) respectively, to meet the contemporary needs of technology and modern management. While doing so, it should be carefully determined as to which of the posts should be regular and contractual and which functions should be outsourced (**Refer to Para 3.3.2**).
- Vacant posts of technical, accounting and professional staff be filled in a Mission mode particularly in view of the SMART/AMRUT City schemes and big performance grant for the GPs by the 14th FC.
- Policy be made for right-sizing the number of municipal functionaries depending on population of the ULB, generation of internal resources, expenditure on salaries, etc.
- Payment of Pension and Salary by Govt. grant amounts to perverse incentive.
- Policy be framed for engagement of professional and technical staff as interns in the ULBs.
- Staff selection should be done through SSC and/or an accredited nationally acclaimed HR agency.
- Capacity and productivity of staff at all levels be ensured through Performance Management System and intensive need-based capacity building.
- Statewide database of employees be uploaded on website.
- Biometric attendance system should be made mandatory.
- To break local nexus of non-transferable staff, there should be clear guidelines on periodic transfers. New posts invariably be transferable.
- Adequate institutional training of Executive Officer and City Manager of the ULBs and PDO/BPRO/DPROs of the PRIs is a must immediately after appointment.
- Functions of Executive officer and City manager in the ULBs and of BPRO/DPRO in the PRIs be clearly defined.

- The PDO (and till PDO is in place, the Panchayat Sachiv) to have control over all GP level contractual staff (like Vikas Mitra, Tola Sahayak, IAY Sahayak etc.). Further, such staff must sign master attendance register kept in PSB. Their performance be jointly reviewed periodically by Pramukh, BDO, Mukhiyas and PDO.

10.16.4 Performance Management:

- (i) All Job descriptions should have performance indicators defined clearly and be measurable and handbook for functionaries be circulated.
- (ii) An ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the ULB is a must. The communication process includes clarifying expectations, setting objectives, identifying goals, developing a performance plan that directs the employee's efforts toward achieving specific results to support organizational excellence and employee success, Providing feedback, and reviewing results. Key elements details at **Box 10.20**.

Box 10.20	Key elements of Performance management
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- Clarity of Goal,
- Engagement of public and elected officials in priority setting, attention to performance reporting, and data-influenced decision making;
- A greater emphasis on results or outcomes than on inputs and procedural compliance;
- Engagement of top executives in performance management, with frequent monitoring of departmental performance, frequent feedback, but intervention in operating decisions rarely and only when necessary;
- Devolved decision authority, with operating decisions made at the departmental or unit level rather than by the governing body, top executives, or central administrative officials;
- Incentives and/or sanctions tied to performance results;
- Managerial flexibility in the use of resources and accountable for results; and
- Performance information that is relevant and actionable.

10.16.5 SPUR likes bodies at LBs (Para 3.4.5)

(i). The ongoing SPUR programme is likely to end in March, 2016. This would provide an opportunity to have a new team with an updated mandate. This Commission, therefore, recommends new SPUR like support team as given in **Para 3.4.5 (iv)** The Five key outputs expected are: Urban Governance, Urban Planning, Finance, Infrastructure, Local Economic Development and Social development, Poverty Alleviation & Livelihoods

(ii). Technical Support for Smart Panchayat (TSSP) (**Para 2.4.9**) : It is proposed to provide SPUR type support also to the PRIs and the DPCs. Five key outputs expected from TSSP again are: Panchayat Governance & Planning, Finance, Infrastructure, Local Economic Development and Social development, Poverty Alleviation & Livelihoods Details in **Box 6.5**.

10.16.6 Monitoring and Evaluation of the LBs:

Better monitoring and evaluation of the LBs is required through a professional cells in PRD/UDD and DMA. For instance while UDD has substantiated financial and non-financial data for 28 SPUR ULBs, even basic data was not made available to the 5th SFC for other ULBs. UDD should make their computerized MIS cell effective and be managed by professional and technical staff or outside specialized agency.

10.17. Delegation of administrative & technical powers

The Administrative Power of Municipalities has been defined under section 75 of BMA, 2007 with financial limits. However, these limits have been revised vide notification No. 2726 dated 10.09.2014 and No. 5635 dated 06-11-2014 subject to the condition that the scheme/project subject has already been approved in the ULBs' Budgets. Revised administrative and financial limits for sanctioning and making payment against the project/ contract are as in **Table 10.1**. Technical approvals have to be obtained by the ULB as per PWD code.

Table 10.1: Revised administrative and Financial limits

Municipality & Population	CMC (Rs Lakhs)	ESC (Rs Lakhs)	Board (Rs Lakhs)
Corporations >10 Lakhs	≤ 30	30 to 50	> 50
Corporations ≤ 10 Lakhs	≤ 20	20 to 40	> 40
Municipal Councils	≤ 10	10 to 20	> 20
Municipal Panchayats	≤ 5	5 to 10	> 10

10.18. Procurement of goods & services

(i) Followings are the critical steps which make procurement effective:-

- **Terms of Reference (ToR):** The ToR should be very specific in defining objectives, scope of works, and tasks to be completed, include very specific, measurable, time-bound outputs and provide a payment schedule corresponding to the tasks.
- **Selection of short listed companies and the final bidder:** Often the *procurer* takes the selection as a formality rather than a critical step, fail to find the best candidate and obtain substandard results (such as poor products, delays, or weak consultant reports etc). The selection committee must be comprised of experts and experienced members.
- **Lowest evaluated bidder:** The LBs need to be wary about selecting a contractor offering an unrealistically low price. Experience suggests that such a contractor will attempt to increase the bid price through a series of change orders or will provide goods or services below specified quality. Therefore, for obtaining quality services, procurement should be changed from Least Cost Selection (LCS) to Quality Cost Based Selection (QCBS) basis.
- **Accountability:** Ensure that officials undertaking such tasks carry out their responsibilities with due diligence that is owed to both the LBs and the people
- **Contracting:** The procurer LB must prepare its own contract (hiring a good lawyer, if needed), must ensure the best conditions and protect its own interest.

- **e-procurement:** The system enables the users to migrate to total electronic procurement mode which facilitates procuring Organizations to publish their Tender Enquiries, Corrigendum and Award of Contract details electronically. The primary objective is to provide a single point access to information on procurements and facilitate transparency. The ULBs in Bihar are mandated to follow e-procurement for procurements of goods & services above Rs. 1 lakh.

(ii) Recommendations:

- For procuring quality services e.g. implementation of DEAS, Preparation of Master Plans, CDP, DPRs, GIS maps etc, procurement should be changed from Least Cost Selection (LCS) to Quality cum Cost Based Selection (QCBS).
- A customized Procurement Manual and MIS with standard forms and templates should be made available to *the* ULBs by UDD.
- Clear legal procedures should be framed to implement financial penalties in the event of poor supplier performance.
- e-Tendering or e-Auction must be used for achieving greater transparency in procurement processes; and
- Websites of the ULBs and UDD should be used for making procurement information available to all interested parties.
- Regular testing and price benchmarking should be done to ensure achievement of value for money.
- All procurement should be made generally with 5 years' Annual Maintenance Contract (AMC) and wherever possible, follow DGS&D system.

10.19. Accountability and Transparency:

10.19.1 Involving community:

- i) Involving communities in setting key performance Indicators and reporting back to communities on performance, enhances accountability of the LBs and public trust in the local government system;
- ii) A monthly e-newsletter be issued by the LBs to stay in touch with and keep updated its citizens about all progress and initiatives.

iii) **Citizen's Charter** should be updated and disseminated regularly and each LB should have a notice board displaying the Citizen's Charter for that LB.

iv) PRD/UDD need a Communication Cell with a aim to build ownership of reforms and improve dialogue between the LBs and citizens. For specific initiatives, the focus will be on building credibility, clarifying objectives and expected results. All vehicles for communication from LBs and PRD/UDD should carry coherent messages with a unified theme. It could also be outsourced to a professional firm.

v) Ensure single window clearance for approval of Building Permissions, Mutation Certificates, Trade licensees, Mobile Towers Registration etc.

vi) Introduce Municipal Citizen Smart Card , which will be given to all taxpayers free of charge. It will be used when dealing with municipal transactions such as acquiring licences etc and paying taxes. Furthermore, in the future, it will be used for all government services offered by the Municipality. It also assures fast, efficient, and transparent service to the public.

10.19.2 Gram Sabha and Ward Sabha: The Gram Sabha and Ward committees play a major role in holding governmental authorities accountable. Active participation of citizens needs to be stimulated through proactive disclosure, greater accessibility to information and feedback channels. The ward Sabhas are to be made functional by holding elections which have not been held since approval of the Rules in 2013.

10.19.3 Corruption in the LBs:

(i) Corruption in the *LBs* should be seen in the holistic prospective, particularly when transfers/postings of functionaries and disciplinary actions, who are supposed to ensure compliance of rules and procedures, is outside the purview of the *LBs*.

(ii) Furthermore, the *LB* and some other Acts have provisions for action against its elected functionaries, which need to be enforced. However, it may be remembered that the *LBs as*

LSGs, being a necessity for deepening of democracy, is a very desirable end by itself.

(iii) Nevertheless, to deal with the complaints of corruption and maladministration, Ombudsman for oversight from above and effective social audit by the Gram/Ward Sabha from below, would be major steps.

(iv) Computerised accounts and transparent procurement process would also be necessary.

10.19.4 Ombudsman: Conditionality of the 13th FC requires that the State Government must put in place a system of independent LB Ombudsman, who will look into complaints of corruption and maladministration against the functionaries, both elected and official, and recommend suitable action.

Section 152 (5), BPR 2006 and Section 44 of BMA, 2007 provide for Ombudsman (Lok Prahari).

- This commission recommends urgently putting in place Ombudsman separately for ULBs and PRIs since nature of their work is substantially different and the PRI Ombudsman itself would have huge work load. Moreover, the Ombudsman Rules for the PRIs should provide for Dy Ombudsmen at Divisional level, given the large no. of PRIs. Recommendations of the 2nd ARC (Sixth Report) regarding Ombudsman are given at **Annex - 10.13**. Functions of the Ombudsman proposed by UDD is given in **Box 10.21**

Box 10.21	Functions of the Ombudsman proposed by UDD
<p>The Ombudsman shall perform all or any of the following functions: -</p> <ol style="list-style-type: none">1. Enquire into any allegation of corruption, misconduct, lack of integrity, or any kind of malpractice or maladministration or misdemeanor of any public servant contained in a complaint in the form an affidavit or on a reference from Government, or that has come to the notice of the Ombudsman and pass order as soon as possible but not later than three months;2. In case of delay beyond three months, the Ombudsman shall record the reasons of delay in writing for each such delay. Pass an order on the <p style="text-align: right;">Contd.</p>	

Contd.

allegation in the following manner, namely: -

- Where the complaint relates to a criminal offence committed by a public servant, he may, at his discretion, refer the matter to the appropriate authority for investigation and necessary punishment or may impose punishment within the powers vested in him under the Rules including recommendation for removal or dismissal of the public servant.
 - Where the irregularity causes loss or inconvenience to a citizen, direct the local government institution to give him compensation and to reimburse the loss from the person responsible for the irregularity;
 - Where the irregularity involves loss or misuse of fund of the local government institution, realise such loss from those who are responsible for such irregularity,
 - Where the irregularity is due to omission or inaction, cause to rectify the mistake.
2. In addition to the functions enumerated in sub-section (1), the Ombudsman may pass interim order restraining the local government institution from doing anything detrimental to the interest of the complainant if it is satisfied that much loss or injury will be caused to the complainant due to the alleged act.
3. The Ombudsman may by order, impose penalty in addition to compensation if it is of opinion that the irregularity involves corrupt practice for personal gain.

(Source: Draft Bihar Local Government Ombudsman Rules, 2011)

10.19.5 Friction between elected and official functionaries: As mentioned in *Para 3.5* the issues in friction are: (a) Mutual Respect, (b) Selection and Awards of Works, (c) Ambiguity in Role, (d) Difference in perception, **Box 10.22** may also be seen

10.20 Gram Katchahry (GK)

(i) The GK at the GP level in Bihar represents a quasi-judicial forum for resolution of disputes locally. Provisions regarding its election, duration, powers, functions etc. have been made in Sections 90 - 92 BPRA, 2006. (Details in **Para 2.2.4**)

Box 10.22 Issues of Urban Local Governance in India

1. Participation in the Decision-making process
2. Influence of Social and Economic Factors and Decision-making
3. Influence of Political Factors on Decision-making
4. Ineffective Women's Participation in Decision-making
5. Ignorance among Members/Authorities on Municipal Act/Provisions
6. Dissatisfaction among Members
7. Rule of Law and Transparency in the Conduct of Business
8. Rule of Law in the Decision-making Process
9. Delays in Convening Municipal Meetings
10. Violations in Recording minutes
11. Factionalism of Members
12. Transparency in the Planning and Implementation of Infrastructure Projects
13. Lack of Transparency in Sharing Information
14. Unfair Practices in the Publicity of Development Works
15. Discrimination in the Selection of Contractors

Source: LSE, 2007

(ii) Recommendations:-

- A committee of District Judge, District Magistrate (DM) and Superintendent of Police to review progress & problems of GK every quarter. Similarly, monthly review be made by Sub-DM and Sub-Divisional Police Officer.
- Judiciary and Police be sensitized to the need, functions & processes of the GK. Cases belonging to jurisdiction of GK be referred to GK by both Police & Judiciary. State Govt. to issue clear guidelines.
- GK Case Record Management be streamlined.
- Amount of civil jurisdiction of the GK be enhanced from Rs. 10,000 to at least Rs. 1.0 lac and then linked to inflation.
- Dispute resolution prize be given to the Sarpanches/Panches.
- Dalapati or some such personnel be made available to the GK for service of notice, execution of orders etc.

- Regular training of Sarpanches, Panches and GK Officials be conducted.
- Roles of GK Secretary and Nyay Sahayak be well defined.
- The PDO, proposed to be created in each GP, should have overall administrative responsibility of the GK.
- Voting right be given to Sarpanches in State Council Elections
- Impact assessment of GK vs. Judiciary and BLDRA be made and the local justice system improved.
- Para Legal Volunteers under Bihar Legal Service Authority be used to assist GKs in their functioning.
- Village volunteers trained for disaster management be designated as members of Gram Raksha Dal to enable them to perform duty under section 33 of BPR-2006.

Chapter XI

Recommendations for the future Union Finance Commissions and Union Govt.

11.1 The 13th UFC and the Local Bodies:

11.1.1 The 13thUFC took a big leap of faith by earmarking 2.28% of the divisible pool of the Central Taxes/Duties as grant for the Local Bodies. This recognized the fact that the LBs are not mere agents to receive grants for agency functions but they are self governments at the local level under the Constitution, eligible to receive part of the central divisible pool. Further, Performance Grant based on 9 conditionalities was a major step towards ensuring Transparency, Accountability, Prudent Financial Management and Institution Building. Such conditionalities rightly accompanied the major resource transfer.

11.1.2 However, given the enormity of resource needs of the local governments, earmarking 2.28% has not been able to initiate the expected virtuous cycle particularly on account of the deficient determination and guidance of the State Govts. particularly on governance and reforms. Most often the local governments, particularly the GPs, lack basic pre-requisite viz. manpower, IT facility, office space and equipments. Ministry of Panchayati Raj (MoPR) had, therefore, pleaded before the 13thUFC for grant of 4% of the divisible pool for the Panchayats as in **Table 11.1**:

Table 11.1 (Rs. crore)

(i)	Construction of Panchayat Ghars	23,587
(ii)	Providing staff for Panchayat as well as honoraria and sitting fees for elected representatives	87,730
(iii)	Office expenses and e-governance	11,650
	Total	1,22,967

11.1.3 Similarly, Ministry of Urban Development (MoUD) had pleaded for 3% for the ULBs for purposes given in **Table 11.2**:

11.1.4 While the total demand was Rs 2,48,838 crore for all the Local Governments, actual award by the 13th FC was Rs. 87,519 crore.

Table 11.2 (Rs. crore)

(i)	Per capita requirement of Rs.1578 p.a. for core services	63,893
(ii)	O&M for new assets funded under central schemes	20,000
(iii)	State schemes	16,400
	Impact of the Sixth Pay Commission	24,288
(v)	Capacity building	1,290
	Total	1,25,871

11.2 Representations before the 14th FC for a higher share of divisible pool for the LBs:

11.2.1 Memo to the 14th FC by MoPR : MoPR once again in its Memorandum to the 14th FC highlighted the challenges before the Panchayats in improving delivery of goods & services and the urgent need for putting in place required employees and physical infrastructures like office buildings, particularly for the GPs. Accordingly MoPR recommended :

- (a) increasing share of the Panchayats in the divisible pool to 4%.
- (b) raising expenditure to be made by the LBs as share of total public expenditure to 10%.

11.2.2 Memo to the 14th FC by MoUD: The Memorandum of MoUD made following important points:-

- i.** Fiscal transfers through the 14th FC are crucial for empowering the ULBs;
- ii.** The FC should recommend appropriate fiscal incentives to encourage states to notify “census towns” as statutory towns;
- iii.** The FC should prescribe nationally accepted expenditure norms for municipal services taking into account the HPEC norms.
- iv.** Expenditure needs of the ULBs are expected to increase over 2015-20 period on account of (a) annul escalation in the administrative costs such as salaries of staff, and (b) increase in O&M costs of services due to the capital investments made under JNNURM etc.

iv. 3 % of net proceeds of the Central taxes should be devolved to the ULBs. Sharing of the Central taxes will help in (a) linking the ULBs with the federal structure; (b) the ULBs will be able to share the buoyancy of tax revenues of the Central government; and (c) the tax sharing arrangement will help certainty and predictability of resource flows.

v. Performance linked grants should be selective and limited to areas of **critical** importance. Too many conditions drive away the value of this very potent instrument.

vi. The 14th FC should put in an incentive structure for the states for assigning the 12th Schedule functions to the ULBs and for the SFCs to suggest a mechanism for financing the same.

11.2.3 Evidentially, another leap by earmarking a higher share of the divisible pool from 2.28% to 5% to the LBs, coupled with firm insistence on compliance in letter & spirit of the conditionalities, is an imperative. In case State Government is found wanting in fulfilling the conditions, transfer to the LBs should not suffer. Rather equivalent amount should be withheld from the State transfers and passed on to the LBs.

11.2.4 The National Road Map for Panchayati Raj (2012-17) prepared by MoPR (key recommendations at *Annexure 11.1*) could be a good reference document for the future FCs as regards the PRIs. The full document is available at MoPR site. Similarly, recommendations of the HPEC set up by MoUD could be a relevant reference document for the ULBs.

11.3 Criteria for State allocations for the LBs:

11.3.1 Criteria for allocation among States should evidently be based on Equalization Principle which is at the core of fiscal federalism i.e. providing comparable services at comparable tax efforts for all citizen of the country irrespective of place of residence in a proximate time-frame. It is difficult to judge precisely the state specific requirements based on such principle because of inadequacy of data, varying capacity to raise own revenue, etc. The earlier FCs have, therefore, used proxy indicators like population, area, income distance etc. as given in the *Table 11.1* below:

Table 11.3: Proxy indicators used by FCs

Criterion	Weights (%) allotted for State LB Share		
	12 th FC	13 th FC	14 th FC
Population	40	50	90
Area	10	10	10
Distance from higher PCI	20	10	0
Index of devolution	10	15	0
Tax effort	20	0	0
SC/ST pop.	0	10	0
FC LB grants utilization	0	5	0
Total	100	100	100

11.3.2 Criteria used by the 14th FC do not include Per Capita Income or Income Distance, which seems to be a serious omission.

11.4 Nurturing of the SFCs by the UFCs and State Govts.:

11.4.1 Proper functioning of the SFCs is critical to growth of the LBs in the country. At the Union level, the UFCs are constituted in time and are provided necessary supports for their functioning. In addition, a healthy tradition has developed in accepting the recommendations in full and promptly acting upon the same by Union Government. Same culture has not yet developed in the States. State Government should similarly be duty-bound to timely constitute and consider the recommendations of the SFC and lay 'Action Taken Report' before the State Legislative Assembly, in a time bound manner.

11.4.2 The Select Committee of Rajya Sabha on GST was perturbed to know that "State Finance Commissions (SFC) in some of the States are either non-existent or even when exist, their recommendations were not accepted by the respective State Governments. The Committee understands that each tier of the Government draws its powers through the Constitution and there is a clear demarcation of fields through List I, II and III within which each tier has to function. Any encroachment by any of them would paralyze the whole system and defeat the very foundation of our Constitution. Hence, the Committee while not venturing into the domain of the State List desires that for the betterment of our States in general and country in particular it would be prudent to abide by the recommendations of the SFCs."

11.4.3 The future UFCs may consider introducing disincentive to the States for late or non-constitution of the SFCs or not acting timely on its recommendations without good justification. Such disincentive should not affect transfer to the LBs. Rather equivalent amount should be withheld from the State transfers and passed on to the LBs.

11.4.4 A Task Force, constituted by the MoPR, has recommended setting up a permanent secretariat for the SFC in each state, which is fully endorsed. This evidently would facilitate functioning of the SFCs by providing institutional memory, timely supply of relevant data, taking up relevant studies, promotional measures on the LB finances, etc. The posts and funds (Rs.5.0 crore over 5 years) involved are shown in *Annexure-11.2*.

11.4.5 The future UFCs should compile basic LB data relating to revenue and expenditure, devolution of 3Fs, best practices etc and also a comparative summary of recommendations of the SFCs over time (as done by the 13th FC).

11.5 Recommendations to Union Govt.:

11.5.1 Local Bodies Finance List in the Constitution : The HPEC set up MoUD has recommended introduction of a 'Local Bodies Finance List' in the Constitution, empowering the ULBs with 'exclusive' taxes e.g. property tax, profession tax, entertainment tax and advertisement tax; constitutionally ensuring sharing of a pre-specified percentage of State's revenues from taxes on goods and services with the ULBs on the basis of formula designed by SFC; and provision of formula-based transfers and grants-in-aid to ULBs from the divisible pool. The finances/funds of LBs should be predictable, regular and follow a clear devolution principle concomitant with their responsibilities, which in turn, should be aligned with the provision of Article 243W and the Twelfth Schedule.

11.5.2 GST and the LBs:

The Select Committee of Rajya Sabha on GST has observed as follows :

"3.19 As per the provisions of the Bill, while the

Parliament would pass law relating to CGST, every State Government has to pass a similar law relating to SGST. Hence, while drafting the SGST, the role of the drafters and the concerned State Governments becomes all the more important as they have a duty to protect the revenue sources of the Panchayats, Municipalities, etc, enshrined under Constitution of India. The Committee also feels that here the role of the GST Council is also very important, because while recommending to the Centre and State Governments for subsuming of the taxes, cesses and surcharges levied by the Union, the States and the local bodies in the goods and services tax under article 279 (4) (a), it may also ensure protection of revenue sources of local bodies under provisions of article 279 (4) (c) and (h)."

11.5.3 Property Tax:

Assessment and collection of Property Tax (PT), being very large in number, is labour intensive and is much more difficult compared to the collection of Income Tax. Union Govt. and States should, therefore, ensure that services like registration/renewals of vehicles, hotels, businesses, electric, gas and water connections/renewals is not carried through unless Property Tax is paid.

11.5.4 Raising ceiling of taxes on professions, trades, callings and employments:

Article 276 (2) in 1988 enhanced the ceiling to Rs. 2,500/- per annum to be paid by way of tax on professions, trades, etc. More than 25 years have passed since. Union Govt. may, therefore, amend the Constitution to raise the ceiling to Rs.25,000/- per annum with a provision for automatic increase every year corresponding to the inflation and rise in per capita income.

11.5.5 Taxation of properties of Union Govt.:

Article 285 of the Constitution prevents any State Government or a local authority from imposing any tax on the property of the Union. This is resulting in continuous revenue loss to the LBs. Union Govt. may, therefore, make appropriate amendment in the Constitution to allow taxing properties of the Union Government or to compensate the Local Governments for providing services to their properties.

11.5.6 Availability of decentralized database: Union Government should direct all its Ministries to monitor implementation of CSSs LB-wise and to compile and publish performance LB-wise. From the next Census 2021 onwards, all demographic and amenities data should be captured and published LB-wise also.

11.5.7 CSSs/ACAs and the LBs:

The guidelines of CSSs/ACAs generally lead to creation of parallel bodies with no accountability to the people through the LBs for receiving funds and managing programmes. The LB representatives are often associated as individual members but with no institutional linkage. Ownership of the local government is essential for both constitutional and pragmatic reasons. There should be 'Activity Mapping' of all the CSSs/ACAs followed by orders giving specific responsibilities to each tier of the LBs and corresponding devolution of funds and functionaries. All CSSs/ACAs guidelines need to be revised accordingly.

11.5.8 Synchronization of SFC Reports with the UFC award: The 13th UFC had recommended ensuring synchronicity of the SFCs with the Union FCs. The Constitution needs to be amended accordingly.

11.6 e-Governance in the LBs:

11.6.1 Computerization in the LBs is absolutely

necessary given their ever-increasing and diverse responsibilities, magnitude of transactions, record keeping/ reporting and limited manpower, which seriously affect their efficiency, transparency and accountability.

11.6.2 MoPR has developed 11 e-governance modules for the Panchayats (*Table 2.14*). It has also prepared for its smooth roll out Detailed Project Report (DPR) and Business Process Re-engineering (BPR) requirements for each state based on Information & Service Needs Assessment (ISNA). (available at www.panchayat.gov.in). These modules are very user-friendly, generic & nationally compatible, making whole information on Panchayats available online to any person anywhere in the world. These would automatically ensure comprehensive just-in-time data-base, repeatedly 'wished' by the UFCs and all others. Unfortunately lack of will, trained manpower and poor internet connectivity in Gram Panchayats have led to unsatisfactory roll out in the key States.

11.6.3 These modules can be adapted for the ULBs easily with minor modifications.

11.6.4 GOI may, therefore, push e-Governance in the LBs as a critical component of its Digital India Missio

