

Government of West Bengal
Finance Department
Budget Branch

**EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE
RECOMMENDATIONS MADE BY THE FIFTH STATE FINANCE
COMMISSION, WEST BENGAL, IN ITS INTERIM REPORT SUBMITTED TO
THE GOVERNMENT ON JANUARY 20th, 2023.**

The Fifth State Finance Commission (hereinafter referred to as the Commission) was constituted under Notification No. 132-FB dated 23rd May, 2022 to recommend on specific aspects of the finances of the Local Bodies and the aggregate distribution of State resources among the Local Bodies for the period 2020-21 to 2024-25. Now the Commission has submitted an Interim Report to the Hon'ble Governor on 20th January, 2023.

In pursuance of Article 243 I (4) and Article 243 Y (2) of the Constitution of India, the recommendations of the Commission in its Interim Report together with the Explanatory Memorandum on the action taken thereon are being laid on the table of the House. The recommendations of the Commission is contained in para 5 of the Interim Report of the Commission. The decisions of the Government on the recommendations of the Commission are indicated in the following paragraphs.

1. The Commission has recommended that for the purpose of vertical devolution a sum of Rs. 905 crore which constitutes 1.5% of the State's own Tax Revenue as available from Budget document may be fixed as the allocation for 2020-21 with a subsequent annual increase of 5% for the successive four years. [vide Para No. 5.01(i) of the Interim Report].

Decision of the Government:

The State Government agreed to devolve Rs. 1047.65 crore in 2023-24 and Rs. 1100 crore in 2024-25 to the Local Bodies by notionally increasing the base year value of Rs. 905 crore of 2020-21 annually @ 5% p.a. for two successive years. The State Government has already made grants to the Local Bodies on account of State Finance Commission and further fund for those three years will not be granted.

2. The Commission has recommended that the total untied fund allocation at the State level should be split into two segments — RLBs and ULBs. The rural-urban population ratio as per Census 2011 is 68:32. The Commission recommends this ratio as the ratio of allocation of funds between RLBs and ULBs. [vide Para No. 5.01(ii) of the Interim Report].

Decision of the Government:

The State Government accepted the recommendation of the Commission.

3. The Commission has recommended that the formula of 60:20:20 for inter-tier allocation of untied fund within the PRI Bodies. That is further to say, all GPs taken together would be allotted 60%, all PSs together 20% and all ZPs together 20% of the total untied fund earmarked for RLBs. [vide Para No. 5.01(iii) of the Interim Report].

Decision of the Government:

The State Government accepted the recommendation of the Commission.

4. The Commission has recommended to continue the incentive fund of 2% of the total untied fund of the State for each year. This fund should be kept at the disposal of the two Departments as per ratio detailed below and may be devolved upon the respective RLBs or the ULBs on the basis of their performance towards proper reflection of Accounts in the Audit Reports and better utilisation of fund:

(A) Panchayats and Rural Development (68%)

(B) Municipal Affairs (32%) [vide Para No. 5.01(iv) of the Interim Report]

Decision of the Government:

The State Government accepted the recommendation of the Commission.

5. The Commission has recommended that as regards Taxes on Professions, Trade, Callings and Employment and Taxes on Vehicles, 30% (Thirty percent) of such collections should be shared between the Panchayats and the Municipalities in the ratio of 68:32. [vide Para No. 5.01(v) of the Interim Report]

Decision of the Government:

The State Government accepted the recommendation of the Commission.

6. The Commission has recommended that till a full report is submitted, the Government may utilise the horizontal devolution matrix constituted by the 4th SFC. [vide Para No. 5.01(vi) of the Interim Report]

Decision of the Government:

The State Government accepted the recommendation of the Commission.

Howrah
13th February, 2023

CHANDRIMA BHATTACHARYA
Minister of State, Finance (Independent Charge)
Government of West Bengal