



INTERIM REPORT
OF
SIXTH STATE FINANCE COMMISSION
WEST BENGAL

July, 2025

Bikash Bhavan, Salt Lake
Kolkata - 700 091



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1.00 INTRODUCTION

- 1.01 Governor of West Bengal constituted The Sixth State Finance Commission (henceforth mentioned as 6th SFC) in accordance with the provision of Constitution of India as laid down in Article 243-I and 243-Y which has been notified by the Finance Department vide Notification No.1196-FB dated 17th December 2024.
- 1.02 As per The Constitution (Seventy-third Amendment) Act, 1992, Governor of a State is to constitute a Finance Commission after every five years from the enactment year to review the financial health of the Local Self Government and to submit recommendations to the Governor.
- 1.03 Under Article 243-I of the Constitution of India, The State Finance Commission, so formed, should review the financial aspects of the Panchayats and make recommendations as to—
- (a) The principles which should govern-
 - i) The distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under Part IX of the Constitution of India and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
 - ii) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats;
 - iii) The grants –in-aid to the Panchayats from consolidated Fund of the state;
 - (b) The measures needed to improve the financial position of the Panchayats;
- 1.04 Under Article 243 -Y the Constitution directs that State Finance Commission shall review the financial position of the Municipalities and make recommendations to the Governor –
- (a) The principals which should govern-
 - (i) The distribution between the State and Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under Part IXA of the Constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
 - (ii) The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Municipalities;
 - (iii) The grants-in- aid to the Municipalities from the Consolidated Fund of the State;
 - (b) The measures needed to improve the financial position of the Municipalities;

1.05. The Notification issued by Govt. of West Bengal regarding formation of 6th SFC depicts that apart from the Constitutional mandate, The Commission shall have regard, among other considerations, to –

- (i) the resources of the State Government and the demands thereon on account of expenditure on administration, development and debt-servicing ;
- (ii) the resource raising powers of the Panchayats and Municipalities ;
- (iii) the responsibilities entrusted upon the Panchayats and Municipalities by Statutes and Government Orders ;
- (iv) awards given by the Central Finance Commission to the local bodies ;
- (v) grants given by the State Government to the local bodies beyond the recommendation of the State Finance Commission and the Central Finance Commission.

1.06. Following is the constitution of the 6thSFC as notified vide Notification No. 1196-FB dated 17th December 2024 covering a period of 5 (five) years commencing on the 1st day of April 2025.

1. Dr. H.K Dwivedi, IAS (Retd.)	Chairman
2. Smt. Barnali Biswas, IAS (Retd.)	Member
3. Shri Asis Chakraborty, WBCS (Exe.) (Retd.)	Member
4. Smt. Ruma Mukherjee, Bank Professional	Member
5. Dr. Ajay Bhattacharyya, IAS (Retd.)	Member-Secretary

The Commission started functioning from 2nd of January 2025 with its office at Bikash Bhaban, 4th floor with skeleton staff.

This preliminary report is prepared in accordance to the Notification issued by the Finance Department, Govt. of West Bengal.

2.00 Background Work

2.01 The Commission started studying the reports of the earlier SFCs, their recommendations and corresponding Action Taken report of the Government. Similarly report of the 14th and 15th Central Finance Commission as well as its recommendations is also under review.

2.02 According to seventy third amendment of The Constitution of India, Finance Commission is to be formed by every State. In West Bengal The First State Finance Commission (SFC) was constituted in the year 1994 and submitted report in 1995, Second was formed in the year 2000 and submitted report in 2002, Third was constituted in the year 2006 and submitted report in 2008, Fourth was constituted in the year 2013 and submitted report in the year 2016, Fifth was constituted in the year 2022 and submitted report in the year 2023.

2.03 The aim of State Finance Commission was to spell out principles which should govern the distribution of resources between the State and the Panchayat and Municipal bodies and suggest means through which own resources of these local self-governing bodies could be increased. It was felt that, as the Local Bodies had been given the status of Self-governments, they should have access to some funds which would have status of 'Entitlement'.

2.04 The First Finance Commission recommended that 16% of net proceeds of all taxes collected by the State in a year were to be transferred to Local Bodies as untied funds, without any pre-condition. Within a district, allocation was to be divided between Panchayats, Municipalities and Special Areas on the basis of respective total population. Distribution between three tiers of Panchayat would be 30% to all Zilla Parishads, 20% to all Panchayat Samities and 50% to all Gram Panchayats collectively. Distribution between Gram Panchayats, Panchayat Samities, Zilla Parishads and Municipal bodies would be based on population, level of non-literacy and proportion of SC/ST population. The Commission recommended the creation of a common 'Incentive Fund' in a district, by setting aside 2% of total Entitlement due to a district in a year. A Local Self Government (LSG) would earn bonus if it could increase its own income by at least 5% in a financial year to earn a bonus of two-third of the incremental part.

The First Finance Commission considered two criteria for Financial Devolution to Local Self Governments —1) Population and 2) Backwardness. Degree of Backwardness of a district was determined on the basis of 5 criteria- a) area, b) degree of literacy, c) proportion of backward population, d) proportion of rural population, e) paucity of bank deposit on per capita basis. 50% weightage was given to population and 10% weightage was given to each of 5 criteria mentioned above.

2.05 The Second Finance Commission considered 50% weightage to population and 50% to backwardness as criteria for financial devolution. The Commission used 7 indicators for inter-district comparison of backwardness viz. Density of Population (7%), Proportion of rural population (7%), Proportion of ST population (8%), Proportion of SC + minority population (7%), Non-literate population (7%), Infant mortality rate (7%), Per capita net District domestic product (7%). Intra district allocation was to be split into District Municipal Fund and District Panchayat Fund on the basis of proportion of the rural and urban population. Sub-allocation of District Panchayat Fund would be 60:20:20 respectively for GPs, PSs and ZPs.

This Commission recommended that the Entitlement Fund should be kept at 16% of net proceeds of all taxes collected by the State in a year and to be transferred to Local Bodies as untied funds, with a minimum allocation of Rs. 700 crores. Out of this 16% proceeds, 0.32% to be earmarked as Incentive fund to be reserved at the State level. Another 0.04% was to be earmarked for the Hill areas. Remaining 15.64% was to be made available for devolution among all districts, including Kolkata.

2.06 The Third Finance Commission recommended 5% of the State's net own tax revenue to be devolved to the LSGs which stands at Rs 800 cr. for 2008-09 with a 12% annual increase for successive years. Horizontal distribution of fund among Panchayat Raj Institutions (PRI) and Urban Local Bodies (ULB) in the ratio of population i.e. 76:24. Among three tier PRIs, vertical devolution was recommended in the ratio of 12%, 18% and 70% to ZP, PS and GP respectively. Recommendation was made for a 2% of total untied fund as incentive fund. For Hill Area PRIs, 0.726% of total untied fund was recommended as Special Allocation Fund.

2.07 The Fourth State Finance Commission recommended an amount of Rs.1103.80 crore as the devolution amount for the first year with a successive increase of 15% per annum for the rest period. Devolution index for the PRIs was developed on the basis of four criteria- total population 50%, area 10%, backwardness 30% and urban population 10%. For ULBs the criteria were population 50%, area 20% and backwardness 30%. An incentive grant of 4% of untied grant was also recommended. Recommendation for vertical devolution among the three tier PRI bodies was in the ratio of 36:40:24 in favour of ZP, PS and GP respectively. This was because of the fact that the 14th Central Finance Commission recommended to devolve fund to the Gram Panchayats and ULBs only and no fund for Panchayat Samity and Zilla Parishad. Thus the Commission wanted to make a balance in the fund devolution.

2.08 The Fifth State Finance Commission followed similar principles for devolution. Area, population and backwardness were the three criteria in equal weightage for generation of devolution index. The Commission recommended an amount of Rs. 905.00 crore as the fund for devolution with 5% increase in subsequent years. Horizontal distribution among PRIs and ULBs was recommended in the ratio of 68:32 which is the

population ratio of the PRIs and ULBs as per census 2011. Vertical devolution among the three tiers of PRI bodies i.e. Gram Panchayat, Panchayat Samity and Zilla Parishad in the ratio of 60:20:20. The Commission recommended 2% incentive fund of the total untied fund of the State to be given to PRIs and ULBs in the ratio of their population as per census 2011 i.e. 68:32. In the same population ratio, 30% of the taxes collected by the State on account of Professions, Trade Callings and Employment and Taxes on Vehicles was recommended for the Panchayats and Rural Development (P&RD) and Urban Development & Municipal Affairs (UD&MA) Departments.

2.09 The Fifteenth Central Finance Commission (15th CFC) has recommended a sum of Rs. 17199.00 crore for RLBs and Rs. 8792.00 crore for the ULBs during the period of 2021-26. It recommended horizontal devolution among RLBs and ULBs in the ratio of 67:33 for two years i.e. 2021-22 and 2022-23, 66:34 for next two years i.e. 2023-24 and 2024-25 and 65:35 during 2025-26. Unlike 14th CFC, 15th CFC considered vertical devolution to all three tiers of Panchayati Raj Institutions. 15th CFC recommended that 40% of the total grant would be untied grants, rest as tied grant. Out of the 60% tied grant, 50% should be spent for sanitation and treatment of household waste for maintenance of Open Defecation Free (ODF) status. Rest 50% for drinking water, rainwater harvesting and water recycling. Similarly for ULBs, 40% of total grant to be treated as untied grant and rest 60% as tied. Out of this 60% tied grant, 50% is earmarked for sanitation and solid waste management and rest 50% for drinking water, rainwater harvesting and water recycling.

3.00 Present Approach

3.01 There are 3339 number of Gram Panchayats, 345 number of Panchayat Samities and 21 number of Zilla Parishads (including 1 Mahakuma Parishad) in the rural Bengal and 118 Municipalities, 7 Municipal Corporations and 3 Notified areas. To develop a method for devolution of fund collection of huge data are required from different Departments as well as from all the local bodies about their present situation on different aspects. The earlier Finance Commissions also collected data from the Local Governments by developing a questionnaire and collating the data obtained thereof. This commission has also primarily adopted similar method and a draft questionnaire is being developed.

3.02 The Commission, during this short period of time, could not make field visits to obtain any information directly from the local bodies. However the Commission discussed the basic issues of the PRIs and ULBs with the concerned Departments i.e. Panchayat & Rural Development Department and Urban Development & Municipal Affairs Departments. To have an all round idea about functioning and present status of activities of local Governments, senior officers of the line Departments like Health, Education, Women & Child Development etc were consulted particularly keeping in mind the major issues mentioned in the Local Sustainable Development Goals. Different Departments have been asked to provide some basic data on the PRIs and ULBs about the basic activities of their Departmental work which are directly or indirectly related to the basic activities of the local Governments. Information have been received from Health Department, Education Department, WCD Department, Agriculture, Animal Husbandry, Fisheries, PHE Departments apart from Panchayat & Rural Department and UD & MA Department.

3.03 Commission has decided to form two expert groups – one for the Rural areas and the other for the Urban areas namely Indian Statistical Institute (ISI) for the Rural Local Governments and Centre for the Study of Social Science (CSSS) for the Urban Local Bodies. These professional organizations have been entrusted to analyse the data so obtained from different Departments for generating a common index for devolution of fund as well as to find out new ways to improve the financial strength of the PRIs and ULBs.

3.04 Some very basic financial, infrastructural and administrative information which are available only with the local bodies are to be collected and thus development of a questionnaire is under process. Data gap identified from the information received from different Departments are to be incorporated in the questionnaire to give it a final shape. It is expected that this finalisation of the questionnaire will be done shortly.

3.05 During the previous SFCs, data from the local self Governments were collected by sending set of questions and the replies were received mostly in physical mode and some through mails. It is learnt that handling of such huge quantity of documents and their corresponding compilation was a very cumbersome

and tedious job. Keeping those documents as well as fetching data from them for further use is next to impossible. This commission thus decided to develop a portal for the Commission. Accordingly the Commission has engaged two software personnel, one senior and one junior, who under the guidance of IT advisor of Finance Department are working on it. Once this portal is developed, the PRIs and the ULBs are to enter data directly in the portal and thus compilation and further monitoring can be done easily by generating MIS from the portal. All the information can be updated annually by the Local Governments. It is planned that this portal can be used for monitoring purpose both by the P&RD and UD&MA Departments in the years to come. Development of the portal, collection of data through it and finally analysis of such data to get a scientific, logical devolution index requires time and thus result of this can only be reflected in the final report of the Commission.

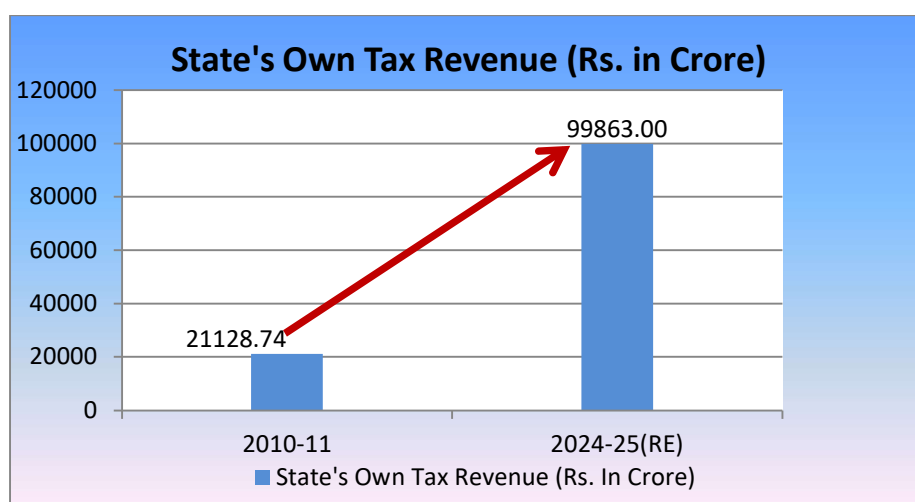
4.00 Present Financial Scenario of West Bengal

4.01 Post Covid several macroeconomic challenges still persist and rising debt levels, inflationary pressures, and fiscal deficits are still impacting government finances. Despite these challenging macroeconomic conditions, West Bengal has shown remarkable resilience due to overall improvement in revenue mobilisation and prudent fiscal management. Massive investments during the last 14 years in infrastructure projects and welfare and development schemes, have yielded positive spin offs.

4.02 In this Interim Report, this Commission has tried to briefly analyze and compare the growth of different financial parameters of the State and their year-to-year growth in the last fifteen years since 2010-11, covering the period of the last three State Finance Commissions.

4.03 Revenue Profile

The tax revenue has shown a consistent rise from Rs. 21,129 crore in 2010-11 to Rs. 99,863 crore in 2024-245(RE), an increase of approximates 4.7 times over the last 15 years.



During the period, the State's Own Tax Revenue as a percentage of GSDP has improved from 4.58% to 5.45% in 2022-23(A). The State Government has undertaken various reforms to further increase the collection of revenue.

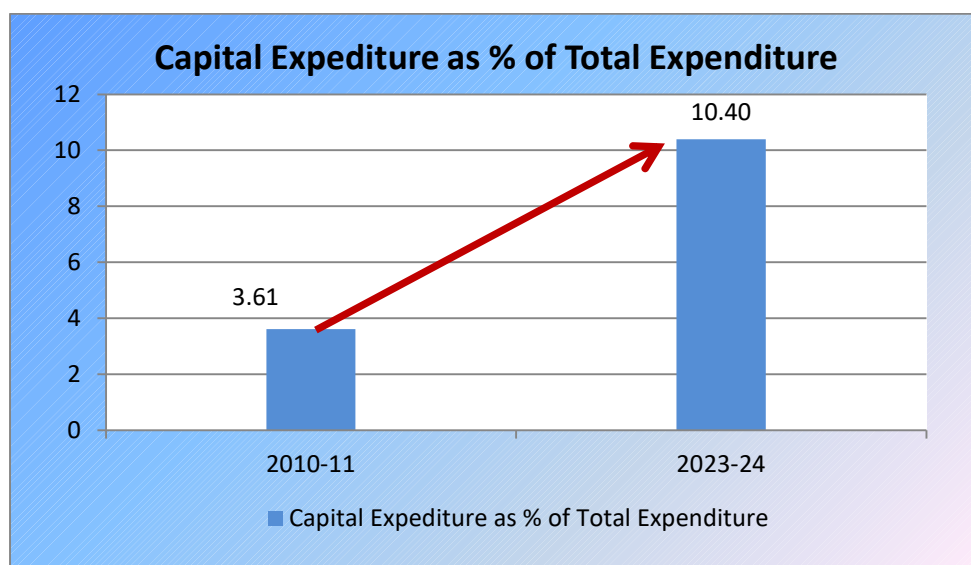
Similarly, there has been an overall increase in non-tax revenue, although this growth has been moderate due to Government policy of not burdening the users of public services through increase in user charges. The State's own non-tax revenue for financial year 2010-11 was ₹2380.50 crore and rose to ₹3238.14 crore in 2023-24. The collection figure of non-tax revenue is ₹3286.42 crore as per Revised Estimates of 2024-25 and ₹9360.41 crore as per Budget Estimates of 2025-26.

4.04 It can thus be concluded that over the years, West Bengal has maintained a stable fiscal position largely due to steady growth in tax revenue, which has become the dominant and most reliable source of income.

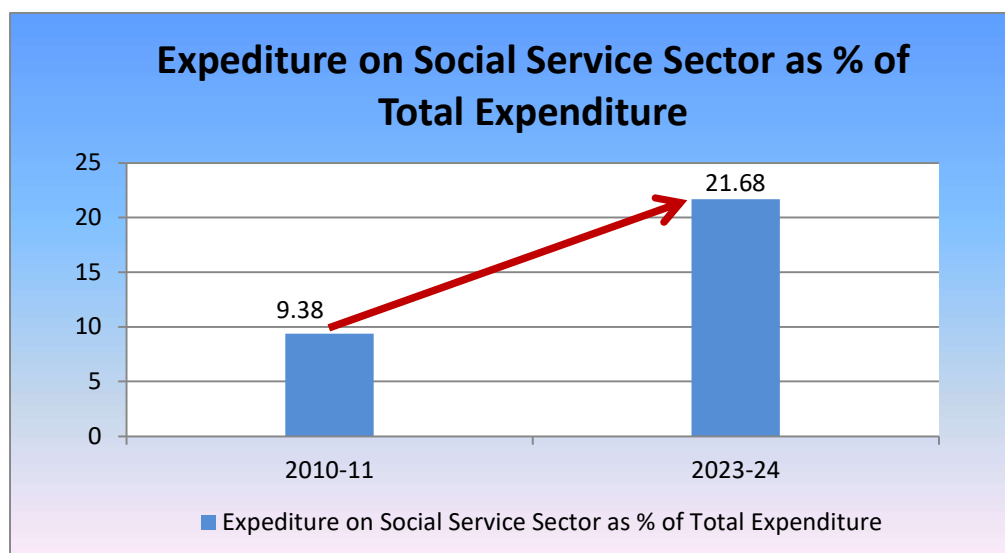
Overall stability in revenue receipts helps the government to forecast its expenditure more accurately and also ensures a uniform devolution to the local bodies of the State.

4.05 Expenditure Profile

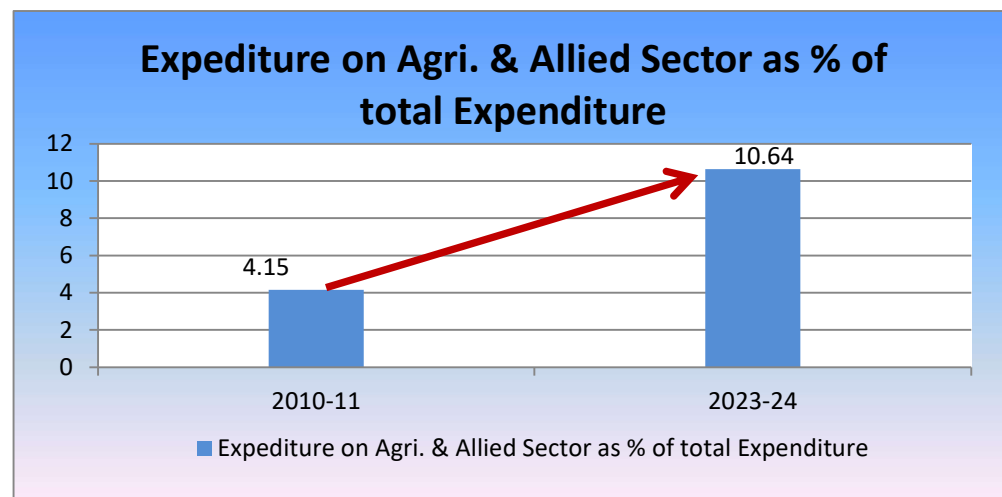
The State has focused extensively on improving its infrastructure through increased capital expenditure. The capital expenditure has grown more than 8-fold from 2010-11 to 2022-23. The share of capital expenditure in the State's total expenditure has been increasing substantially in the last fifteen years. Capital expenditure as percentage of total expenditure grew from 3.61% in 2010-11 to 12.18% in 2018- 19 and 10.40% in 2023-24.



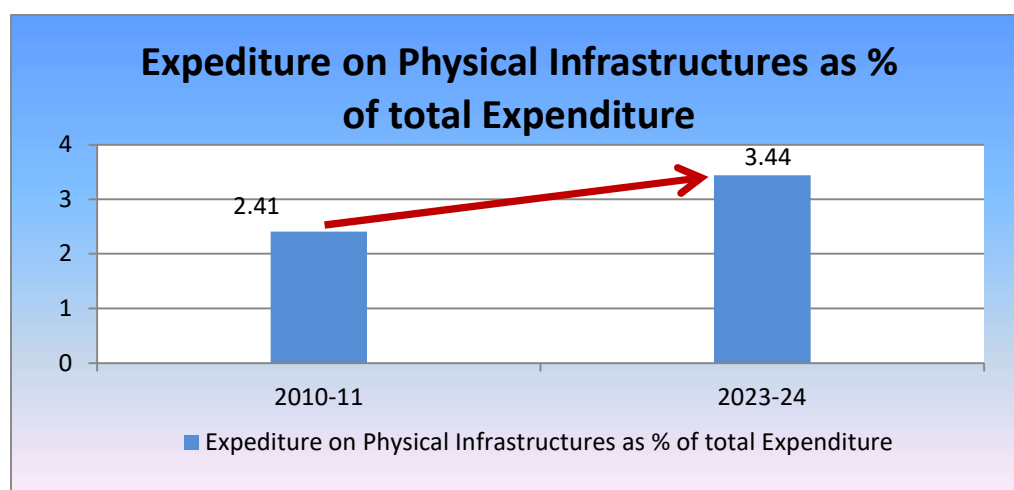
The expenditure on social service sector increased more than nine times during the period from 2010-11 to 2023-24. The total expenditure on social service sector in 2010-11 was ₹6,845.61 crore which grew to ₹77,795.64 crore in 2022-23 and ₹62,015.13 crore in 2023-24.



The overall increase of expenditure in agriculture and agri-allied sectors, including rural development, increased more than ten times on actual figures during the period 2010-11 to 2023-24. The total expenditure on agriculture and agri-allied sector was ₹3,029.39 crore in 2010-11, which increased to ₹25,291.00 crore in 2018-19, ₹20,756.84 crore in 2020-21 and ₹30,447.37 crore in 2023-24 respectively.



The overall growth of expenditure on physical infrastructure has increased about five and a half times during the period from 2010-11 to 2023-24. The total expenditure on physical infrastructure in 2010-11 was ₹1,758.92 crore which increased to ₹10,638.77 crore and to ₹9,828.85 in 2018-19 and 2023-24 respectively.



4.06 Fiscal Health and Challenges

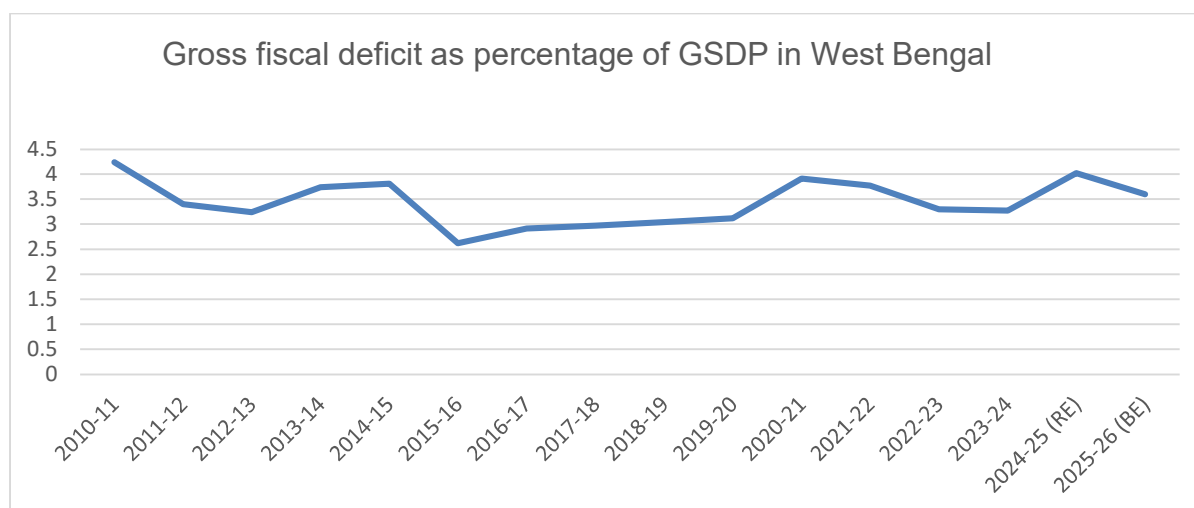
In the last one and half decade, West Bengal has made rapid strides towards developing the State's fiscal environment into one that is sustainable, resilient and dynamic. The State has taken various reforms which

have resulted in the State keeping its borrowings at sustainable levels. The fiscal deficit only showed an uptick during the COVID-19 years as the State prioritized social welfare and health of its residents. However, Post-Covid the borrowings were brought back to sustainable levels.

Along with increase in capital expenditure, the State has managed to retain its debt profile within sustainable levels and has made improvements in key fiscal indicators such as Fiscal Deficit, Debt-GSDP, Interest Payment-State's Own Tax Revenue (IP-SOTR), and Interest Payment-Revenue Receipt (IP-RR).

The Fiscal Deficit has been brought down from a high of 4.24% in 2010-11 to sustainable levels. In 2015-16, it declined to 2.62% and stayed around 3% till 2019-20. However, due to the impact of Covid-19, the fiscal deficit had gone up to around 4% of GSDP in 2020-21. It has again declined to 3.26% in 2022-23. The trend of the State's Fiscal Deficit over the years is as shown in fig. 1.

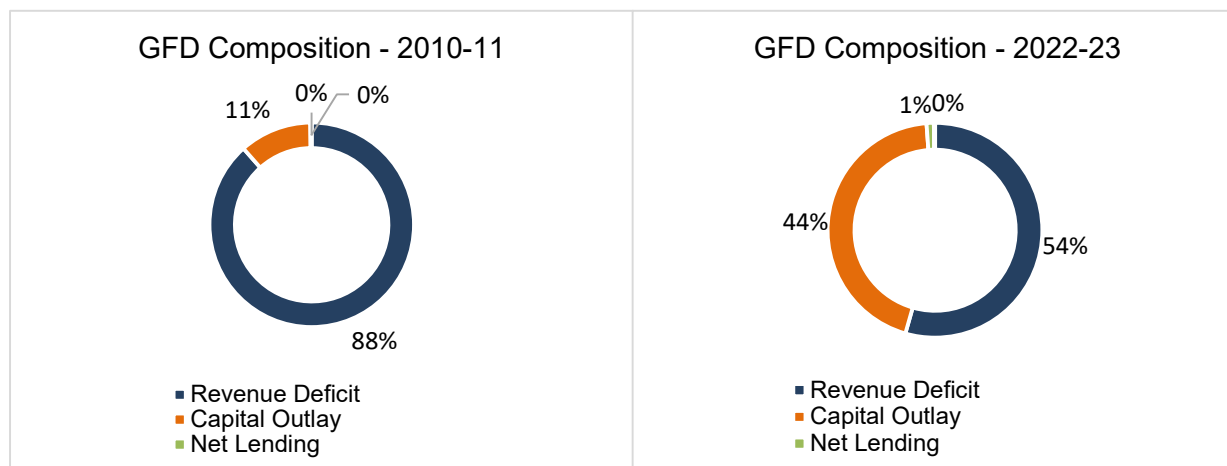
Figure 1 : Gross Fiscal Deficit (as % of GSDP)



Source: Finance Department, GOWB

Fiscal Deficit (i.e. net borrowings) is good for the economy if the borrowings which finance the Fiscal Deficit is used for creation of productive assets like highways, roads and bridges and other infrastructure projects that boost economic growth and result in job creation. In 2022-23, close to 45% of the borrowings were used in such investments as compared to only 11% in 2010-11. This indicates that the quality of the borrowing by the State has improved over the years. Further, the share of borrowings which are used to finance revenue expenditure, has come down significantly from 88% in 2010-11 to about 54% in 2022-23. This has created much needed fiscal space for the Government which is reflected in increased capital expenditure. The composition of Gross Fiscal Deficit in the years 2010-11 and 2022-23 are shown in fig. 2.

Figure 2: GFD composition in West Bengal



The improvements in the quantity and quality of annual borrowings, coupled with sustained economic growth over the years, have translated in decline in the growth rate of debt stock.

Despite a steady rise in State’s own tax and non-tax revenues, achieving fiscal consolidation has been a challenge. The volatility of non-tax revenues along with high proportions of committed expenditures, particularly pensions and interest payments have consistently consumed a large portion of the State's earnings in the recent years. However, this committed expenditure as percentage of SOTR is also gradually declining for the State over the past years.

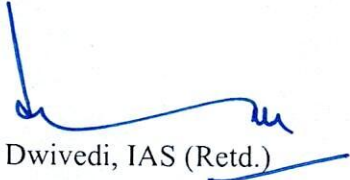
Considering the above scenario, SFC is of the opinion that even though most of the expenditure budget of the PRI bodies and ULBs is driven by the mandates from higher level governments, the fiscal autonomy of the PRIs and the ULBs is to be safe guarded. The grants of the respective State and Central Finance Commissions can ensure the much needed latitude for these local bodies to exercise the diverse need of ‘self-government’ going beyond the mandatory ‘core’ functions and the upper-tier ‘assigned’ functions’.

5.00 Recommendations

5.01 Present scenario of the financial issues of the Government is Stated in a nutshell above. On the basis of that the 6th SFC at this stage recommends that the following policies may be considered by the Government till the final report of the Commission is prepared.

- 1) 6th SFC recommends that the Devolution Formula of the 5th SFC, followed till financial year 2024-25 accepted by the State Government, may also be continued for the year 2025-26.
- 2) The Commission recommends to devolve the grant in two major segments-one for Rural Local Bodies and the other for the Urban Local Bodies. This distribution should be based on the ratio of population as per census 2011 which is 68:32.
- 3) The Commission further recommends the vertical devolution meant for the rural areas among the three tiers of Rural Local Bodies i.e. Gram Panchayat, Panchayat Samity and Zilla Parishad in the ratio of 3:1:1 (i.e. 60%, 20% and 20% respectively).
- 4) The Commission recommends to continue with the 2% incentive fund of the total untied fund of the State till the final report of this Commission is submitted. This incentive fund is to be given to the PRIs and ULBs in the ratio of their population as per census 2011 i.e. 68:32
- 5) Similarly, in the same population ratio, 30% of the taxes collected by the State on account of Professions, Trade Callings and Employment and Taxes on Vehicles are devolved to the P&RD and UD&MA Department.

All the above recommendations are made for the financial year 2025-26. This principle may be followed by the State Government in the subsequent year(s) till the final report of the Commission is submitted. The horizontal devolution matrix that is now being followed may be continued by the Government.


Dr. H. K. Dwivedi, IAS (Retd.)

(Chairman)


Smt. Barnali Biswas
(Member)


Smt. Ruma Mukherjee
(Member)


Shri Asis Chakraborty
(Member)


Dr. Ajay Bhattacharyya
(Member- Secretary)

Government of West Bengal

Finance Department

Budget Branch

EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE SIXTH STATE FINANCE COMMISSION, WEST BENGAL, IN ITS INTERIM REPORT SUBMITTED TO THE GOVERNMENT ON 22.8.2025.

The Sixth State Finance Commission (hereinafter referred to as the Commission) was constituted under Notification No. 1196-FB dated 17th December, 2024 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 2025-26 to 2030-31. Now the Commission has submitted an Interim Report to the Hon'ble Governor on 22.8.2025.

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 are contained in para 5.00 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 the Devolution Formula of the 5th SFC, followed till financial year 2024-25 accepted by the State Government, may also be continued for the year 2025-26. [vide Para No. 5.01(1) of the Interim Report].

Decision of the Government:

The State Government accepted and agreed to devolve Rs. 1155.00 crore in FY 2025-26 to the Local Bodies by notionally increasing the base year value of Rs. 1100.00 crore of FY 2024-25 annually @ 5% p.a.

2. The commission recommends to devolve the grant in two major segments-one for Rural Local Bodies and the other for the Urban Local Bodies. This distribution should be based on the ratio of population as per census 2011 which is 68:32. [vide Para No. 5.01(2) of the Interim Report].

Decision of the Government:

The State Government accepted the recommendation of the Commission.

3. The Commission further recommends the vertical devolution meant for the rural areas among the three tiers of Rural Local Bodies i.e. Gram Panchayat, Panchayat Samity and Zilla Parishad in the ratio of 3 : 1 : 1 (i.e. 60%, 20% and 20% respectively). [vide Para No. 5.01(3) of the Interim Report].

Decision of the Government:

The State Government accepted the recommendation of the Commission.

4. The Commission recommends to continue with the 2% incentive fund of the total untied fund of the State till the final report of this Commission is submitted. This incentive fund is to be given to the PRIs and ULBs in the ratio of their population as per census 2011 i.e. 68:32. [vide Para No. 5.01 (4) of the Interim Report]

Decision of the Government:

The State Government accepted the recommendation of the Commission.

5. In the same population ratio, 30% of the taxes collected by the State on account of Professions, Trade Callings and Employment and Taxes on Vehicles are devolved to the P&RD and the UD&MA Department. [vide Para No. 5.01(5) of the Interim Report]

Decision of the Government:

The State Government accepted the recommendation of the Commission.

Howrah
1st September, 2025

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