EXPLANATORY MEMORANDUM

AS TO THE ACTION TAKEN ON THE
RECOMMENDATIONS
MADE BY THE
FIFTH STATE FINANCE COMMISSION
IN ITS REPORT SUBMITTED
TO THE STATE GOVERNMENT

MARCH 2018
FINANCE REVENUE & EXPENDITURE DEPARTMENT
GOVERNMENT OF SIKKIM, GANGTOK.
EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE FIFTH STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE STATE GOVERNMENT

The Fifth State Finance Commission (hereafter referred to as Commission) was constituted by the Governor on 17th August 2016 to review the financial position of the Panchayat & Municipalities; to give recommendation to improve the financial position of the Panchayats as well as the Municipalities; to examine the resources of the local bodies; maintenance and upkeep of the Capital assets created by local bodies or transferred by the Government to the local bodies; to work out a factor for determination of devolution of taxes; duties; grants-in-aid; to indicate the basis and, to make available the estimates and expenditure of each tier of local bodies during the period 2020-2025. The Commission submitted its report to the Government on 24th August 2017 covering all aspects of its mandate.

The report of the Commission (hereafter referred to as the Report) covering the periods of five year commencing from April 1, 2020 together with this Explanatory Memorandum of the Commission is being laid on the Table of the House. The summary of the main recommendations of the Commission relating to the sharing of net proceeds, fees and levies to be devolved to the PRIs and ULBs for the period 2020-2025 including the State Level Capacity Building fund and the Special Incentive Grant for special support to a certain number of PRIs and ULBs as contained in Para 9.5, Para 9.6 and Para 9.7 of the Report of the Commission.

The Government has carefully examined the main recommendations of the Commission. The action to be taken on these recommendations is detailed below.

9.1 In this report, the Commission has striven to make recommendations for appropriately increasing the devolution of resources to the institutions of local self-government. However, the Commission has emphasized on enhancing local resource
mobilization through various initiatives such as optimization of collection of local taxes, fees and charges, and also undertaking local entrepreneurship initiatives such as local tourism, commercial cropping and local markets and so on.

**Action Taken:**

The Government accepts the recommendation as it is desirable but is constrained due to limited scope of resource mobilization. The matter is to be pursued with the 15th Finance Commission and Central Government Agencies.

9.2 The financial strengthening of Panchayati Raj Institutions and Urban Local Bodies is unsustainable if appropriate financial and functional accountability mechanisms are not in place. Therefore, the Commission has also looked into incentivisation and accountability aspects to make appropriate recommendations in this regard.

**Action Taken:**

The prescribed procedure is already in place and the Government accepts the recommendation. However, the State is constrained due to its small resource base to provide appropriate powers and financial resources to fulfil people’s expectations and Constitutional mandates. The Government approves the recommendation for pursuing the matter with the 15th Finance Commission and Central Government Agencies as recommended by the Government Committee.

9.3 The institutions of local self-government need to be more efficient and also scale up their efforts so as to meet the enhanced expectations of their people. Therefore, it is imperative that the LGIs should be provided appropriate powers and financial resources to fulfil people’s expectations and the Constitutional mandate. The Commission has taken note of the financial deficiency of the LGIs and therefore recommends that this issue needs to be adequately addressed.
Action Taken: 

The Government accepts the recommendation and to scale up the efforts to provide the Local Government Institutions (LGIs) with appropriate powers and devolutions. However, the issues involved are too large in so far as addressing the financial deficiencies of the LGIs. The Government agrees with the recommendation of the Commission to pursue these matters with the 15th Finance Commission and Central Government Agencies.

9.4 The Commission recommends that the preparation of an output oriented Responsibility Matrix. This matrix will map the responsibility of the PRIs and the ULBs as well as responsibility of the State government in relation to responsibilities of the PRIs/ULBs.

(Para 5.16)

Action Taken: 

The Government accepts the recommendation for immediate implementation by the administrative departments concerned.

9.5 The Commission recommends that an amount of at least 4.5% of the net proceeds of State’s taxes, fees and levies should be devolved to PRIs and ULBs for the period of 2020-2025. This resource should be made available to PRIs and ULBs in the beginning of each financial year.

(Para 5.26)

Action Taken: 

The Government accepts the recommendation of the Commission for devolving at least 4.5% of the net proceeds of the State’s taxes, fees and levies to the PRIs and ULBs for the period 2020-2025 subject to the actual collection. It is apprehended that the sharing pattern of 70:30 in between PRIs and ULBs shows diminishing trend on actual flow of funds. This is illustrated with the recommended devolution of fund arriving at 621.89 lakhs for the financial year 2020-21 against the devolved fund of RS. 714.03 lakhs recommended
by 4th State Finance Commission for 2019-20. The distribution formula totally based on population would adversely affect the flow of funds to sparsely populated Gram Panchayats. Hence, the Government approves the sharing pattern of 75:25 in between the PRIs and ULBs in lieu of 70:30.

9.6 The Commission recommends that an amount of 0.5% of the net proceeds of the State’s Own Resources should be allocated for the State Level Capacity Building Fund. This Fund should be utilized by RM&DD and UD&HD for accessing specific capacity inputs from the market.

(Para 5.28)

**Action Taken:**

The Government accepts the recommendation.

9.7 The Commission recommends that an additional 0.5% of the net proceeds should be allocated as Special Incentive Grant for special support to a certain number of PRIs and ULBs which are constrained by topography as well as inaccessibility and other peculiarities.

(Para 5.31)

**Action Taken:**

The Government accepts the recommendation.

9.8 The Commission recommends for the formation of a SFC Cell within FRED for the monitoring of resource transfer and resource utilization, as per recommendations of this Commission.

(Para 5.32)

**Action Taken:**

The recommendation is ideal and desirable but the State is constrained with non-availability of required man power. Therefore, the present Finance Commission Division of the Finance Revenue and Expenditure Department will continue to manage and function as State Finance Commission Cell.
9.9 The Commission recommends for enhanced collection of taxes, fees and levies by PRIs and ULBs which may vary in different PRIs and ULBs in different regions.

(i) The nodal departments should fix a minimum and maximum amount for different rates at State or regional levels.

(ii) While LGIs must be encouraged to deliberate upon innovative sources for generating their own resources, these charges must not be imposed irrationally.

(iii) The nodal departments should continuously monitor tax/charge collections and review and revise their rates at least once in two years.

(Para 6.6)

*Action Taken:*

*The Government accepts the recommendation.*

9.10 The Commission recommends that the institutionalization of local social entrepreneurship by the PRIs and the ULBs must be encouraged by the State Government.

(i) The State government should provide infrastructure and facilities available with them on concessional or subsidized rates to the PRIs and the ULBs for carrying out any activities related to their own resource mobilization.

(ii) The Commission recommends that those PRIS and the ULBs that are not in a position to access appropriate sources for generating their own revenue, due to their remoteness or certain peculiar circumstances, should be considered for remedial or compensatory measures by the State Government. (Remote areas like Karji-Mangnam Panchayat in West Sikkim, Sakyong-Pentong Panchayat in North Sikkim and Gyalshing Municipal Council in West Sikkim are some of the classic examples of such situation).

(iv) The Commission recommends that the RM&DD in rural areas and UD&HD in urban areas in consultation with respective departments must identify/map constructions like Rural Marketing Centres and Tourism Wayside Amenities
that are either underutilized or abandoned. Such infrastructure must be handed over to the respective LGIs for optimal utilization.

(v) The Commission recommends that the terms and conditions associated with any such transfer and services associated with it should not be financially detrimental to financial or non-financial functions of PRIs.

(vi) The terms and conditions of aforementioned transfers should be mutually agreed between the agency of state government and the PRIs.

(Para 6.7)

**Action Taken:**

The Government accepts the recommendation.

9.11 The Commission recommends that PRIs/ULBs and local corporates should develop project partnerships as part of the Clause 1 of Section 135 of the Indian Companies Act 2013.

(i) An institutional arrangement must be made to optimize and pool the available CSR resources and distributed in every district.

(ii) The pooled resources should be appropriately managed for development expenditure through the District Planning Committee in the district.

(iii) The detailed guidelines for such pooling and distribution of resources should be discussed and agreed between Representatives of Corporates and the nodal departments (RM&DD and UD&HD).

(iv) The operation and management and the guidelines in this regard should be notified and published before the commencement of the financial year 2020.

(Para 6.9)

**Action Taken:**

The Government accepts the recommendation. Rural Management and Development Department and Urban Development and Housing Department may formulate operation and management guidelines in consultation with Commerce and Industries Department and Energy and Power Department and, notify them before the commencement of financial year 2020.
The Commission recommends a collective of GPs to federate to develop joint business opportunities with a clear-cut division of labour and sharing of resources.

(i) The Commission recommends the State to provide appropriate technical guidance and support in this regard such as organic farming for floriculture and horticulture. The role of the GPs and the ZPs would be in marketing the farm produce collectively.

(Para 6.10)

**Action Taken:**

*The Government accepts the recommendation however, without disturbing the existing parameter laid down in the Organic Mission and Village Tourism.*

(ii) The Commission recommends promoting village tourism through the concept of home stays by forming clusters of interested GPs. The PRIs will play a role as a marketing agent of these home stays and therefore ensure the quality of services provided to the tourists.

**Action Taken:**

*The Government accepts the recommendation.*

(iii) The Commission recommends for the implementation of a participatory consolidation process under the GPDPs within the control of the DPC. Financial federation of GPs will usher healthier relations between GPs and ZPs.

**Action Taken:**

*This is not viable as each of the GPUs as well as ULBs are independent entities.*

(iv) The Commission recommends that intra-organization coordination for this is important. This is visualized between PRIs and ULBs for proper development of rurban business models and ultimately, coordination should be maintained to keep the supply chain intact between UD&HD, RM&DD, PRIs and ULBs and a holistic development model will be created.

**Action Taken:**
Organic Mission and Village Tourism are already in place and may be strengthened.

9.13 For the purpose of incentivizing the PRIs and the ULBs, the Commission recommends for an increase in the current honorarium rates keeping in mind the workload, social obligations, and inflation of the elected representatives and government officials. The Commission suggest that the honorarium amount should be arranged from the Consolidated Fund of the State.

(Para 7.4)

Action Taken:

The Government has already announced the enhancement of honorarium and the present system of financial assistance from the consolidated fund of the State should continue via devolution.

9.14 The Commission recommends incentivizing coordination between GPs, ZPs and ULBs. This includes:

(i) Regular meetings of Gram Sabhas with due processes of participation and decision making, and documentation.

(ii) Similarly, the UD&HD must ensure regular meetings of the Area Sabhas, on the lines of meetings of Gram Sabhas.

(iii) The nodal departments RM&DD and UD&HD must support every PRI and ULB respectively, to prepare an annual calendar of their activities.

(iv) The joint deliberation and planning meetings must take place among the GPs of a BAC, along with ZP members from the BAC, at least once in every quarter.

(v) Similarly, the Secretary of District Planning Committee must ensure that representatives of ZPs and ULBs do meet at least twice in a year to discuss the emerging development opportunities and challenges.

(Para 7.5)

Action Taken:
The Government accepts the recommendation. The Administrative Departments’ concerned may coordinate and provide the required support.

9.15 The Commission recommends the creation of Panchayats and Municipal Cadres, and Directorate of ULBs. Under this, the Commission recommends:

(i) The nodal departments (RM&DD and UD&HD) must review staffing at every Panchayat and Municipality and suggest the redressal measures in terms of redeployments and recruitments, if necessary.

(ii) The expeditious implementation of the recently created panchayat Cadre under Sikkim Panchayat Subordinate Services Rules.

(iii) The creation of a Municipal Cadre.

(iv) The creation of a separate Directorate of ULBs.

(Para 7.6)

**Action Taken:**

The Government accepts the recommendation. The Panchayat Cadre is already in existence and the formation of Municipal Cadre is under process. The Administrative Departments may initiate necessary action.

9.16 The Commission recommends that the Capacity Building arrangements in the State should be reviewed to explore their convergence for undertaking integrated capacity building approaches. For this purpose, the Commission recommends that:

(i) There must be a separate training institution or a separate division in SIRD, with exclusive mandates to periodically build capacities of the elected representatives and functionaries of the ULBs.

(ii) The RM&DD and the UD&HD should separately review/create the Training NEED Assessments for the elected representatives and functionaries of the PRIs, the ULBs and the DPCs, with reference to the projected development challenges during 2020-25.

(iii) On the basis of the Training Needs Assessment above, RM&DD should prepare a 5 year training plan for the PRIs, UD&HD for the ULBs. In the case
of the DPCs, the RM&DD and UD&HD should jointly prepare capacity building plans.

(iv) The RM&DD and the UD&HD should jointly review all capacity building structures and arrangements to suggest an integrated framework in capacity building for elected representatives, functionaries of the PRIs and ULBs and people residing in the PRIs and the ULBs. This framework must be ready and implemented before commencement of the financial year 2020.

(v) The State Capacity Building Framework must be ready for implementation by 2020. It should include:

- Calendar of all routine trainings with deadlines of their completion.
- Specific learning exposure visits with clear-cut expected results, and
- Capacity inputs outsourced to other specialized departments of the State Government and other capacity building agencies including the market.

(vi) The State Capacity Building Framework must be implemented in letter and spirit with the use/pooling of already available resources from Central and State Governments under different schemes, and Capacity Building Fund.

(vii) Flowing from the above point, the accountability of implementation of this State Capacity Building framework must be fixed with the Directorate of Panchayats in RM&DD and the Directorate of Municipalities in UD&HD as proposed by this Commission.

(Para 7.8)

**Action Taken:**

*The Government accepts the recommendation.*

9.17 The Commission recommends that the strategies for capacity and training and capacity building efforts must aim at making delivery of services quick, cost effective and responsive to people’s requirements.

(Para 7.10)

**Action Taken:**
The Government accepts the recommendation and the Administrative Departments concerned may take necessary steps.

9.18 The Commission recommends more such state level training centres for capacity building and developing soft skills of the citizens for increasing employment opportunities for them. For this purpose, linkages with national level institutions can also be considered for improved quality.

(Para 7.11)

Action Taken:

The Government accepts the recommendation and the Administrative Departments concerned may take necessary steps.

9.19 The Commission recommends for an unambiguous and efficient accountability mechanism for all financial expenditures done at the level of the PRIs and the ULBs as well as expenses incurred by nodal departments for the PRIs and the ULBs. All such expense related data should be made available in one place for scrutiny of State audit authorities.

(Para 7.12)

Action Taken:

The Government accepts the recommendation. The UD&HD may also develop uniform accounting software for all the ULBs as done by the Panchayati Raj Institutions with “PRIASoft” Accounting Software which has Audit Tools feature.

9.20 The Commission expresses its concerns on state of accountability system in institutions of local self-government and recommends the following:

(i) Mandatory annual audit of GPs, ZPs, ULBs and the DPCs must be undertaken as per standard operating procedures for the financial audit, as suggested by the Comptroller and Auditor General of India.

(ii) The Audited Statement of a Unit (GP/ZP/ULB/DPC) must be publicly displayed in its office for public scrutiny and comments.
(iii) The audit observations should result in necessary corrective actions.

(Para 7.13)

**Action Taken:**

*The Government accepts the recommendation. As per the recommendation of the 13th Finance Commission annual auditing of Local Bodies are mandatorily being carried out by both office of the Accountant General and Directorate of Local Fund Audit under FRED and reports thereof placed before the State Legislative Assembly.*

9.21 The Commission has already made recommendations for preparation of a contemporary Responsibility Matrix. In order to ensure the functioning of all LGIs, result based monitoring is necessary. For this purpose, the Commission recommends that:

(i) The RM&DD must prepare and implement a Result Based Monitoring System on the basis of Responsibility Matrix for PRIs and the DPCs.

(ii) The UD&HD must do similar exercise for the ULBs.

(iii) Both nodal departments must assign the responsibility of implementation of the Result Based Monitoring (RBM) at different levels to exclusively designated officers.

(iv) The existing infrastructure/systems for e-governance should be used for the RBM so that quarterly data is available to nodal departments.

(v) The nodal departments must annually publish a summary report on experiences of RBM for public consumption and use.

(Para 7.14)

**Action Taken:**

*In view of the administrative constrains reported by the concerned administrative departments the Responsibility Matrix has not been implemented to the desired effect. The concerned administrative departments may initiate required action for preparation of Responsibility Matrix broadly prescribed by the Commission.*
9.22 The Commission recommends the Central Government to address the following issues that are too large for the State to handle:

(i) Issues of Connectivity:-

(a) All weather road connectivity- Hampered road connectivity leading to a lack of coordination and communication between institutions of local self-government call for a need for all weather road connectivity.

(b) Internet connection- The Commission recommends the Central Government to pitch in for funding to improve the internet connectivity.

(ii) Strategic linkages by government for professional capacity building:-

The Commission suggests that specialized institution should be established by Central Government. These should focus on building professional capacity building skills.

(iii) Disaster mitigation/ management:-

The Commission recommends the Central Government to install Doppler weather radar for improving weather reports and updates. This would benefit not just Sikkim but also neighbouring States.

(iv) Special UD&HD training institutes:-

The Commission recommends that the Centre must support the State’s initiative by providing funds to create institutions for training.

(v) Infrastructural support:-

The Commission recommends for separate offices as well as a town hall should be constructed for each of the ULBs of the State.

(Para 8.1)

Action Taken:
The Government accepts the recommendation and agrees with the Commission that the issues are too large for the State to handle. These issues are to be pursued with the Central Government Agencies and 15th Finance Commission.

9.23 The Commission therefore requests the 15th Finance Commission to look into recommendations elaborated in section 8.1 above and suggest the appropriate measures for institutionalization of such special supports from Central Government for the PRIs and the ULBs in Sikkim.

(Para 8.2)

**Action Taken:**

The Government accepts the recommendation and agrees to pursue with the Central Government Agencies and 15th Finance Commission.

9.24 In addition to the above, the Central Finance Commission should also consider the following needs of local self-governments in Sikkim.

(i) Grants for Zilla Panchayats:

The ZPs in Sikkim play important roles in Sikkim. Being the only second tier of two tier system of Panchayati Raj Institutions in Sikkim, the ZPs are the only elected bodies to take care of any development needs above the Gram Panchayat. Moreover, ZPs in Sikkim have historically been quite active in rural development planning in the district. Somehow these bodies did not receive any grant from the Fourteenth Finance Commission. Due to absence of Central financial supports, the ZPs in Sikkim are in dire need of resources to play their constitutionally mandated roles. It has also affected the efficiency in functioning of the PRI system as a whole. This Commission would therefore urge the 15th Finance Commission to consider the financial needs of ZPs and make appropriate recommendations for them.

**Action Taken:**
The Government accepts the recommendation. The RMDD may analyse the flow of fund to Zilla Panchayats as per the recommendation of 13th FC and the resulting gap due to discontinuation by the 14th FC with present status on their actual requirement of fund to be incorporated in the Memorandum for placing before the 15th Finance Commission and to any other agencies of the Central Government.

(ii) Infrastructural support:

After discussions with ULBs and UD&HD of Sikkim, it was found that no ULBs have buildings/separate offices for their proper functioning. Currently, they are renting out buildings belonging to private owners and other Government offices. Hence, there is a need to build their offices in order to improve their efficiency and effectiveness. However, the cost for these buildings is not in the capacity of the State to spend. The Central Government can support them in providing funding for the same. Thus, it is proposed that the 15th Finance Commission should suggest appropriate institutional mechanism for financial supports to construct the separate offices for each of the ULBs in the State.

(Para 8.3)

Action Taken:

The Government accepts the recommendation. The UD&HD may prepare a detailed project report immediately so that this may be placed before the 15th FC for consideration or any other agencies of the Central Government.

Pawan Chamling
Chief Minister-Cum- Minister In-Charge
Finance, Revenue & Expenditure Department