ACTION TAKEN REPORT ON THE FIRST PART OF THE REPORT OF THE FOURTH STATE FINANCE COMMISSION

1. DEVOLUTION

General Purpose Fund

1. The Commission has pointed out that there is clear justification to increase the share of taxes which LGs can legitimately claim from the State Government. But considering the fiscal stress which the State is faced with, the Commission has merely recommended that the status quo-ante be restored and the LGs be given 3.5% of SOTR using the t-2 method i.e., for devolution in a particular year, the tax collection figures of two years back for which finalized figures of Accounts are ready would be reckoned so as to arrive at the final figures. For 2011-12, the amount would be Rs.617 crore. There are several Gram Panchayats (GPs) which are not able to meet their establishment costs and obligatory expenses (for which Maintenance or Development Funds cannot be used) with their own revenues plus General Purpose Fund (GPF). There are about 300 such GPs as per the data submitted by them. In order to avoid collapse of normal administrations due to fiscal incapacity, the Commission has recommended gap funding to such GPs and set apart a lumpsum of Rs.25 crore from General Purpose Fund from the share of GPs. The gap fund would be allotted to eligible GPs by Government after getting certified figures of the gap in the previous year specially prepared by the Director of Local Fund Audit and the distribution be made proportionate to the gap. **(11.1.4)**

Action Taken

Recommendation has been accepted. A provision of ` 617.08 crore, 3.5% of SOTR of 2009-10 has been made in the budget for 2011-12 towards General Purpose Grant to LGs.

Provisions of ` 81.0264 crore, ` 57.7853 crore, ` 17.50 crore, ` 22.80 and ` 437.9683 crore for Corporations, Municipalities, District Panchayats, Block Panchayats and Grama Panchayats respectively have been made in the Budget for 2011-12.

2. The Commission has recommended to divide the GPF among GPs, Municipalities and Corporations in the ratio 75.93:10.02:14.05, after setting apart Rs.125 lakh per District Panchayat (DP) and Rs.15 lakh per Block Panchayat (BP). Inter-se distribution of GPF is given in Annexure 10(a). The gap funding may be reduced from the shares of GPs and the remaining amounts distributed as per population which is the existing system. An allocation of Rs.50 lakh as fiscal support grant to Idamalakkudy GP is also made from the GPF allocation for GPs. (The allocation for Idamalakkudy GP from GPF given in Annexure 10(a) is inclusive of this amount). **(11.1.6)**

Action Taken

Recommendation accepted and allocation as suggested by the Commission has been adopted in the distribution of General Purpose Fund for 2011-12 among LGs

3. The Commission has recommended to give additionally an amount equivalent to the collection of Entertainment Tax during the last year of the tax to each eligible Gram Panchayat, Municipality and Corporation when ever the Goods and Services Tax is introduced and the Entertainment Tax is merged with it. **(11.1.7)**

Action Taken

Suggestion has been accepted by the Government in principle.

Maintenance Fund

4. In the case of Maintenance Fund, the Commission has made a normative recommendation of going back progressively to the recommendation of SFC-II which was accepted and implemented for two years from 2004-05 i.e. restricting the Maintenance Fund to 5.5% of SOTR calculated in the same manner as for General Purpose Fund. While translating this into actual figures it is seen that there would be a sudden jump in the first year. Since 2011-12 is going to be a difficult year for the State Government due to implementation of the recommendations of the Ninth Pay Commission and the proposed restrictions on borrowings by the Government of India the Commission has recommended progressive increase over three years as given below. For the Financial year 2011-12, the Commission has recommended an amount of ` 793 crore as Maintenance Fund.

2011-12	4.5% of SOTR (t-2)
2012-13	5% ‘’
2013-14	5.5% ‘’
2014-15	5.5% ‘’
2015-16	5.5% ‘’

(11.1.8)

Action Taken

Recommendation has been accepted. A provision of ` 792.85 crore has been made in the budget for 2011-12 towards grant to LGs for Maintenance of Road and Non-Road assets.

5. The Commission has recommended to earmark 2/3rd of the Maintenance Fund for road maintenance and the remaining 1/3rd for non-road maintenance. The Commission has further

recommended to allow Rural LGs to take up infrastructure to the tune of 40% of their Development Fund allocation under general sector. **(11.1.9)**

Action Taken

Recommendation accepted. Accordingly ` 528.52 crore has been earmarked for the maintenance of Road assets and ` 264.33 crore for maintenance of Non Road assets in the Budget for 2011-12.

6. The Commission felt that time has come for switchover to a distribution formula taking into account the asset base of LGs. Since the data can be fine tuned only with intense effort which would take at least nine months, the Commission has recommended that the maintenance funds be distributed in the first year according to available data with the proviso that once the data are streamlined any shortfall or excess with reference to the final data should be made good in the 2nd year i.e., 2012-13. Thereafter the distribution on the basis of the final assets base could be continued during the period of the award.

(11.1.10)

Action Taken

Suggestion has been accepted.

7. The Commission has recommended the following in respect of use of Development Fund and Maintenance Fund for roads.

i) A connectivity plan has to be prepared in all districts by utilizing the technical support of NATPAC. It is learned that a scientific road mapping exercise using GIS technique has been successfully implemented by West Bengal Rural Development Agency. It is suggested that NATPAC would tie up with this agency to utilize its know-how in demarcating roads. The prioritization should be done by the LGs based on mutually agreed objective criteria.

ii) Development Fund and Maintenance Fund should be used only for construction or upgradation of black topped or concrete roads. For earthen roads the own fund of LG or schemes like MGNREGS/AUEGS be utilized.

iii) Once a road is taken up it should be completed in all respects before another roadwork is taken up.

iv) LSGD may come out with high quality standards and specifications to ensure the longevity of roads.

v) Third party quality assurance system may be put in place in partnership with Engineering Colleges and Polytechnics akin to the system in place for PMGSY

vi) Whenever Funds are given under Disaster Relief for repair of flood affected roads the proportionate share should be given to roads owned by LGs. The share could be determined by the District Collectors after objective assessment of the damage.

(11.1.11)

Action Taken

Suggestion has been accepted.

Development Fund

8. The Commission has recommended an allocation of 25% of the proposed plan size in 2011-12 as Development Fund to LGs and thereafter increase it in relation to the Plan size assumed by SFC based on the historical trends. The recommended Development Fund for the five years of the award period is as detailed below:

Year	Share of the assumed Plan Size	Actual allocation
2011-12	25%	Rs.2750 crore
2012-13	27.5%	Rs.3388 crore
2013-14	28.5%	Rs.3933 crore
2014-15	29.5%	Rs.4559 crore
2015-16	30%	Rs.5193 crore

(11.1.14)

Action Taken

Recommendation relating to financial year 2011-12 has been accepted. An amount of ` 2750 crore has been earmarked towards expansion and Development Fund of LGs in the Budget (Appendix IV) for 2011-12.

9. Even while the yearly step-up is strongly recommended, it would be subject of course to the free plan outlay available each year. However under no circumstance should any year's allocation be less than 25% of the plan size assumed by the Commission for that year. **(11.1.15)**

Action Taken

Suggestion has been accepted.

10. The recommended amounts would be inclusive of the devolution from the Thirteenth Finance Commission (FC-XIII) (and 2015-16, the first year of the Fourteenth Finance Commission) and the amounts flowing to LGs from the proposed World Bank supported project namely 'Kerala Local Government Strengthening and Service Delivery Project'. **(11.1.16)**

Action Taken

Suggestion has been accepted.

11. In the case of grants from UFC, should the State get higher grants from Government of India than the amount projected by the FC-XIII either due to buoyancy in central tax revenues or through non performance of other States in respect of the mandatory performance conditions leading to Kerala getting a share of such forfeited grants, the additionality should be passed on to LGs over and above the figures recommended by SFC-IV. The Commission has also recommended that even if the State fails to get the performance grant, the total should not be reduced. **(11.1.17)**

Action Taken

Suggestion has been accepted in principle.

12. The Commission has recommended that while the State non-Plan and World Bank Project streams of the Development Fund may continue to be devolved in ten equal instalments as of now, the stream from the UFC Grant may be given in two instalments as stipulated by the FC-XIII. Also it is clarified that only the non-Plan stream would be reckoned for the minimum mandatory expenditure of 80% which if not achieved leads to proportionate cut in future allocation. **(11.1.18)**

Action Taken

Recommendation has been accepted in principle.

13. The formula for distribution of non-SCP/TSP portion of Development Fund should be as outlined below:-

(Weightage in % by type of LG)

Criteria	GP	BP	DP	ULGs
Population (Excluding SC/ST)	50	50	50	50
Deprivation Index	30	30	30	30
Tax effort	10	-	-	10
Area	10	20	20	10

The Commission has recommended an increase of funds to the extent of 12% during 2011-12 over the previous year both for SCP and TSP. During the subsequent years of the award period, the Commission has suggested that the outlay for SCP and TSP be jointly fixed by LSGD, Finance Department and State Planning Board. SCP and TSP portion of Development fund has been recommended to be distributed on the basis of SC and ST population respectively. **(11.1.19)**

Action Taken

Suggestion has been accepted.

Deprivation Index

14. The calculation of the Deprivation Index is described in Chapter VIII. The Commission has recommended a weightage of 30% for this criterion and is applicable equally to all tiers. **(11.1.20)**

Action Taken

Recommendation has been accepted.

Tax Effort criterion

15. The Commission has recommended to distribute a maximum of 10% of the total devolution under Development Fund to LGs on the basis of the tax effort criterion. This amount has to be distributed among the GPs and ULGs that increase their own revenue mobilization over the previous year at least by 10%. Out of the 10% set aside for tax effort criterion, the actual amount to be devolved under this criterion may be calculated as a ratio of the number of LGs that increased their OTR over previous year to the total number of LGs under each category. Excess amount that may arise on the basis of this criterion may be distributed on the basis of population. The formula for inter-se distribution recommended by the Commission is given in Chapter X of the Report. **(11.1.21)**

Action Taken

Recommendation has been accepted.

16. The responsibility for collection of the data on taxes should be with the Director of Panchayats and the Director of Urban Affairs who should provide certified figures of tax collection (t-2) before 31st December of every year to the SFC Cell in the Finance Department which will be responsible for providing the LG wise allocation to the State Planning Board for incorporation in the Plan. **(11.1.22)**

Action Taken

Suggestion has been accepted.

17. The Commission has recommended to enhance the minimum allocation to a GP from Rs.51 lakh to Rs.70 lakh, the special allocation given to Guruvayur Municipality from Rs.14.64 lakh to Rs.20 lakh and the special allocation given to GPs in Sabarimala, viz., Erumeli, Chittar, Ranni - Perunad, Vadasserikkara, Seethathode and Naranamuzhi from Rs.7.32 lakh to Rs.10 lakh. Setting apart of funds for providing awards for the best LGs would be continued to be met from the Development Fund as of now.

(11.1.23)

Action Taken

Recommendation has been accepted and provision has been made in the Budget for

2011-12.

Horizontal share of TSP Fund Inter-tier Distribution

18. The Commission has recommended to restructure the inter tier distribution of TSP Funds among PRIs as 60:20:20 as in the case of SCP Fund. **(11.1.24)**

Action Taken

Recommendation has been accepted.

Biodiversity register

19. The Commission has recommended to make mandatory for the Panchayats to constitute Biological Diversity Management Committees and to prepare People's Bio Diversity Registers (PBRs) as per the spirit of the Biological Diversity Act, 2002 and each Gram Panchayat shall spend the required amount (up to Rs.100000) for preparation of the Biodiversity Register from the Development Fund.

(11.1.25)

Action Taken

Recommendation has been accepted.

Special Support for Vulnerable Gram Panchayats

20. The Commission has recommended a special grant of Rs.25 lakh to each one of the 16 GPs listed out in Appendix 8A and a grant of Rs.15 lakh to each of the 58 GPs listed out in Appendix 8B of the Report. **(11.1.26)**

Action Taken

Recommendation has been accepted.

2. AUGMENTING OWN REVENUE OF LOCAL GOVERNMENTS

a) Property Tax

21. The Commission has recommended urgent action for operationalising the new property tax regime. It is also recommended that a biennial inflation neutralisation may be made compulsory as recommended by SFC II. In case of deflation Government may do well to make suitable downward adjustments as well. **(11.2.1)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

22. The Commission has recommended to frame Rules expeditiously enabling the LGs to levy a Surcharge not exceeding 50% of the Property Tax to meet any extra-ordinary expenses incurred by them towards any scheme or project or plan. **(11.2.2)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

23. The data base of tax shall be computerized and uploaded in the public domain as a proactive disclosure of information to the tax payers. Creation of a GIS based property tax database to provide additional information about properties, their change in usage, additional construction etc will be of much help to streamline the assessment. It may be useful to note that the Kolkatha municipal corporation has created a GIS database of Property Tax and the assessment of tax etc. is being done with the help of a special software; there was 30 percent year on year increase in property tax as a result of enterprise wide approach of IT implementation. **(11.2.3)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

24. The Commission has recommended that Government may look into the possibility of bringing the land developed for non-agricultural purpose into the property tax domain, as the change in land use pattern is gaining unusual momentum all over the State in recent times. For this purpose the present definition for "property" in section 203 (1) as "building (including the land appurtenant there to) situated within the area of the village Panchayat" is insufficient. Property for the purpose of Sec. 203 of Kerala Panchayat Raj Act and 233 of Kerala Municipality Act needs to be clearly redefined. **(11.2.4)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

25. As the land value varies grossly from place to place, the Commission has recommended that the Government may fix only the minimum rate and the LGs be given freedom to determine the rate according to the land value etc. of the particular LG. **(11.2.5)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

26. The Commission has recommended to establish a Property Tax Board on the lines of the West Bengal Central Valuation Board for overall policy guidance and supervision of local government zonation and classification process for assessment of Property Tax. The establishment charges of the Board shall be fixed by Government and it is to be functioned as a no-profit-no-loss basis with the service charges collected from the LGs concerned. The Board shall engage sufficient personnel as and when required on contract basis. The five yearly enhancement or revision as the case may be, shall also be done with the help of the Board as is the case with new constructions. **(11.2.6)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

27. The Commission has made a suggestion that when the ownership of a property which was assessed under property tax is changed, 50% of the property tax may be levied as a cess on transfer of property from the seller. So also when the occupier of a property is changed that shall be got registered in the Gram Panchayat/ULG and a registration fee equivalent to 25 % of the property tax shall be imposed on the new occupier. **(11.2.7)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

28. The Commission has recommended to take urgent steps to frame new Taxation and Finance Rules to enable speedy collection of revenue dues. **(11.2.8)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

29. The Commission has recommended to give incentives to those who pay taxes in advance by giving a 1% concession. It has also been recommended to discontinue the practice of exempting penal interest at the fag end of the financial year through Government Orders. **(11.2.9)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

b) Profession Tax

30. The Commission has suggested to launch a drive to enumerate all professionals and institutions and to map the data suitably. **(11.2.10)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

c) Entertainment Tax

31. The Commission has recommended to introduce computerised ticketing and a seat-based tax system to streamline collection of Entertainment Tax from cinema theatres. Simultaneously a study to classify theatres may be got done, introduced as appropriate to the location and class of the theatre.

(11.2.11)

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

32. Entrance fees are collected in many tourist centres like Periyar Tiger Reserve (PTR), Periyar Lake, Pookkode Lake, Edakkal Caves etc., and certain agricultural farms. Houseboats are plying in backwaters and lakes. But the provisions in the Local Authorities Entertainment Tax Act and Rules are not sufficient to bring these activities under entertainment tax. Huge fees are collected for boat-rides, elephant-rides etc. These entertainments also are to be brought under ET Act. Other new areas of taxation for entertainment may also be explored. ET Act and Rules need a re-visit and comprehensive updation. **(11.2.12)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

d) Advertisement Tax

33. The Commission has suggested to periodically revise the minimum rates of advertisement tax in Corporations, Municipalities, Special Grade Panchayats and other Panchayats taking into account the cost of advertisement in the competing advertisement media and the cost incurred by the society from the proliferation of hoardings. Considering the negative externalities of the hoardings, the Commission has suggested that the rate of tax of hoardings may be increased substantially so as to have a deterrent effect upon the advertisers. The Commission has also suggested to prescribe an optimum size of a hoarding and

larger size may be taxed double the rate so as to disincentives and discourage larger hoardings.
(11.2.14)

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

e) Service Tax

34. The Commission has recommended for the immediate issue of Service Tax Rules. **(11.2.15)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

f) Non Tax Revenue

35. The Commission has recommended to suitably update the fee structure and to rechristen the title of the Rules as KPR (Regulation of Trades, Services and Industries) Rules, instead of the present archaic title of 'Licensing of Dangerous and Offensive Trades and Industries Rules'. **(11.2.16)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

36. The Commission has recommended to delete proviso 2 of Rules 18 and to enable the LGs to impose fees for installation of machinery and to consider the feasibility of unifying table III and IV.
(11.2.17)

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

37. The Commission has suggested that home-stays, being an important part of responsible tourism, has to be got registered by the LGs. **(11.2.18)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

38. The Commission has suggested to expedite the issue of new Kerala Panchayat Building Rules which is in the anvil. **(11.2.19)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

39. As per the present Kerala Municipality Building Rules 1999, Rule 15A, a development permit or a building permit issued shall be valid for three years from the date of issue. On application submitted within the valid period of the permit, extension can be granted twice for a further period of 3 years each with 10% of the permit fee. The application submitted within one year of the expiry of the permit can be granted with a renewal fee of 50% of the permit fee once for a period of three years. **(11.2.20)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

40. As per the present Rules the total valid period of the permit shall not exceed nine years. There are instances of delay caused due to some unforeseen contingencies. In the case of such buildings even though the construction is started within the valid period of permit and within the Rules, Local Government cannot regularise the construction and to bring it under regular assessment of tax for the sole reason that the period exceeded nine years. The Commission has recommended to levy a compounding fee of three times the permit fee in force at the time of regularization. **(11.2.21)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

g) Campaign for Resource Mobilisation

41. The Residents' Association Movement is very strong in Corporation and Municipal areas throughout the State. The Local Governments may rope in the Residents' Associations to create tax consciousness among the residents and launch a campaign for tax awareness and compliance. The Banglore experiment initiated by Janagraha could be suitably adopted. **(11.2.22)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

42. Another way of doing this is by institutionalising a kind of *quid pro quo* for the additional resource mobilisation done by the Residents Association. For example, the Residents Associations that have consistently registered high rate of growth in revenue collection from their area may be allowed to use a portion of the revenue for repairing the roads or installing mercury lamps or whatever way they

would like to spend money for common purpose. **(11.2.23)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

43. As an exercise in naming and showing of defaulters of tax/non-tax payments by publishing their names on the website of the local government concerned may be initiated. **(11.2.24)**

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

3. BORROWINGS, PPP PROJECTS AND BONDS

44. The Commission has made the following recommendations on borrowings, PPP projects and Bonds.

A Borrowing

1. The present rules issued under the Kerala Local Authorities Loans Act are too brief and procedural. The Rules need to be expanded to cover aspects like borrowing capacity, process for determining viability of projects, safeguards to ensure proper repayment of loans and measures needed in cases of default.
2. Only projects which can be funded from the potential revenue stream or from escrowing of Service Tax should be allowed for borrowing purposes.
3. By and large schemes which involve repayment from Government transfers should be avoided. If a LG is particular to take an annuity based project with the option to repay the loan using the transferred funds, the project period should not at any rate exceed the tenure of that LG. It is not fair to burden future generations of LGs by committing their funds for repayment of loans borrowed by the current batch of LGs.
4. The proposal for borrowing needs to be accompanied by a Detailed Project Report (DPR), the preparation of which could be got done by professionals or agencies accredited through a transparent process by KLGDF. The DPRs should clearly state the future cash flows and the repayment schedule.

5. A State level Technical Advisory Group should be constituted under KLGDF for vetting the DPRs. This professional expert group should not take more than a month for vetting and its comments should be presented before the State level Committee for approval of PPP Projects.
6. A master database of the borrowings should be available with the LSGD and also the Director of Local Fund Audit. It should also be made available in the public domain through the website of LSGD.
7. There should be centralized monitoring of all schemes where Government has permitted borrowing. This should be on a quarterly basis to enable Government to act immediately on default.

B PPP Projects

1. Government should come out with detailed guidelines on PPP Projects for LGs. An Expert Group or Institution could be assigned the task of developing detailed guidelines and suggest a policy framework which could be considered by Government and a decision taken.
2. There should be a professional cell consisting of empanelled experts / agencies within LSGD for analyzing the proposals received from the LGs before it is submitted to the BOT sanctioning Committee.
3. KILA should undertake a capacity building exercise on PPP Projects.
4. As in the case of projects implemented with borrowed funds there should be a system for monitoring the PPP Project during their lifetime. Periodic assessment should be made for adherence to the terms of concession. Here also it is necessary to have a centralized data base of all projects so that even the public are informed of the concessions and their tenure.

C Issue of Bonds

1. An action plan should be put in place to improve the credit rating of Thiruvananthapuram and Kochi Corporations with definite time limits. This could be got prepared, implemented and monitored by KLGDF.
2. KLGDF should conduct credit rating of the remaining three City Corporations viz., Kollam, Thrissur and Kozhikode and also Municipalities which have the potential for raising Bonds like Kottayam and Kannur.

(11.3.1)

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.

4. STREAMLINING ACCOUNTS

45. The Commission has made the following recommendations on accounting:

1. An Account Cadre as noted below to be put in place in all LGs immediately.

Gram Panchayats	-	1 Accountant	
Block Panchayats	-	1 Accountant	
District Panchayats	-	2 Accountants	
Municipalities	-	2 Accountants	(3 in big Municipalities and 1 in small Municipalities with population less than 50000)
Corporations	-	5 Accountants	

(Posting at the entry level to be made with a qualification of at least B. Com. at a grade equivalent to Upper Division Clerk).

2. Accountant General may be requested to launch a special drive to verify the accounts of LGs as a one-time exercise. For this purpose staff from the Directorate of Local Fund Audit, Performance Audit Authority and Finance Inspection Wing may be seconded.
3. There should be a system of monthly passing of accounts by the Finance Standing Committee. Simple formats may be developed for this purpose.
4. The monthly accounts passed by the Finance Standing Committee should be consolidated at the District level by the Deputy Director of Panchayats in the case of Gram Panchayats, at the State level, by the Commissioner of Rural Development for Block Panchayats and District Panchayats and by the Director of Urban Affairs for ULGs. All these should be submitted to the State Performance Audit Authority. Information Kerala Mission may be asked to develop a simple software for the submission, collation and analysis of the data on monthly accounts.
5. Severe punitive action may be taken against those officials who commit serious errors and lapses in account keeping.
6. The software used by SFC-IV may be examined for adoption. This will ensure uniformity and accessibility at any stage.

(11.4.1)

Action Taken

Recommendation has been accepted. The implementation of the recommendation on the Accounting Cadre shall be subject to the condition that the same should be implemented with the

own resources of the Local Governments concerned and should not result in additional financial commitment to the State Government.

5. REVIVING RECOMMENDATIONS OF FIRST THREE SFCs

46. The recommendations of the earlier SFCs which need to be reaccepted and implemented without delay are listed below:

1. Undertake delimitation of Revenue villages to ensure that a GP, Municipality or Corporation contains only whole number of Revenue Villages.
2. In respect of Advertisement Tax, Government may fix the minimum rate chargeable and leave it to the LG concerned to fix the rates accordingly. There should be a system of authenticating advertisements. The penal provision for unauthorized advertisements should be fixed at least five times of normal tax.
3. Similarly for License/Permit fees the freedom to fix the fee above a mandatory minimum fixed by Government may be given to LGs.
4. Cable Television and Internet may be brought under the Entertainment Tax net.
5. All GPs, Municipalities and Corporations should conduct systematic tax mapping on a GIS platform and assign unique premises number to each premise.
6. Plinth area-wise property tax may be implemented with effect from 1st April 2011 for revision and immediately in the case of new buildings. A cap on increase of tax may be reviewed; if it is not possible, rectification may be spread out over the next assessments.
7. Conversion tax may be realized at the rate of 5% of the capital value in the case of conversion of paddy lands. If the conversion is without prior permission, ten times the rate should be realized.
8. In the case of licenses and permits which are to be renewed periodically, 25% of the fee may be collected as fine for delays beyond a grace period of 10 days; this penalty may be increased by 25% for every additional fortnight of delay.
9. GPs may be given same powers which Municipalities and Corporations have under Section 376 of the Kerala Municipality Act for auctioning the right to set up temporary shops in public lands.
10. A Demand-Collection-Balance (DCB) statement of all revenue items should be prepared and discussed in meetings of LGs once in a quarter. The summary should be presented in the Grama Sabhas and Ward Sabhas.

11. Legislative provision may be introduced for indexing non-tax revenue items and taxes like Property Tax and Advertisement Tax. Two yearly revisions are recommended for non-tax items and Advertisement Tax based on Consumer Price Index for Non-manual Workers for Thiruvananthapuram in the case of urban LGs and Consumer Price Index for Agricultural Labourers for the State in the case of GPs. For property tax five yearly revisions may be done.
12. Unpermitted diversion of funds should be penalized by charging a penalty of 2% per month from the persons responsible.
13. A Statement of revenue collection and arrear position of LGs should be placed by the Government in the Assembly by 30th September of the succeeding financial year.
14. List of major defaulters of property tax should be published in the website of the LG concerned.
15. There should be a single account for crediting of the own source revenues of LGs.
16. Welfare pensions may be distributed centrally after the selection of beneficiaries is made by the LG concerned.
17. Before ordering any exemption/reduction in tax which is in the domain of LGs, Government should obtain the consent of the LGs concerned.
18. An Accounts Cadre should be set up in all LGs. (This is explained in the main Report).
19. An Empowered Committee under the Chief Secretary may be set up consisting of the Secretaries in charge of LSG, Finance and Law Departments to follow up the accepted recommendations and implement them fully. The Committee may be given secretarial support by SFC Cell now under the Finance Department

(11.5.1)

Action Taken

The matter has been referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination.