

Annexure 1

Grants for Municipalities: Recommendations of the Tenth Finance Commission (TFC)

(Rs. million)

State	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-2000
Andhra Pradesh	0.00	184.80	184.80	184.80	184.90	739.40
Arunachal Pradesh	0.00	0.30	0.30	0.30	0.30	1.20
Assam	0.00	35.50	35.50	35.50	35.50	142.00
Bihar	0.00	167.70	167.70	167.80	167.70	670.90
Gujarat	0.00	168.70	168.70	168.60	168.70	674.60
Haryana	0.00	41.50	41.50	41.40	41.40	165.80
Himachal Pradesh	0.00	5.10	5.10	5.10	5.20	20.50
Jammu & Kashmir	0.00	30.20	30.20	30.20	30.30	120.90
Karnataka	0.00	175.40	175.50	175.50	175.50	701.90
Kerala	0.00	63.60	63.60	63.60	63.50	254.30
Madhya Pradesh	0.00	154.40	154.40	154.30	154.30	617.40
Maharashtra	0.00	332.40	332.40	332.30	332.40	1329.50
Manipur	0.00	5.60	5.60	5.60	5.50	22.30
Mehhalaya	0.00	3.70	3.70	3.70	3.60	14.70
Mizoram	0.00	0.90	0.90	1.00	1.00	3.80
Nagaland	0.00	1.40	1.40	1.40	1.40	5.60
Orissa	0.00	47.80	47.80	47.80	47.70	191.10
Punjab	0.00	76.50	76.50	76.50	76.50	306.00
Rajasthan	0.00	108.00	108.00	107.90	107.90	431.80
Sikkim	0.00	1.40	1.40	1.50	1.50	5.80
Tamil Nadu	0.00	288.80	288.80	288.80	288.80	1155.20
Tripura	0.00	2.60	2.60	2.50	2.60	10.30
Uttar Pradesh	0.00	302.90	302.90	303.00	303.00	1211.80
West Bengal	0.00	300.80	300.80	300.80	300.80	1203.20
Total	0.00	2,500.00	2,500.00	2,500.00	2,500.00	10,000.00

Source: The Report of the Tenth Finance Commission

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Annexure 2

Share of Municipalities in State's Resources as Recommended by the first Finance Commission of States

States	Recommended Shares
┆ Andhra Pradesh	39.24% of state tax and non-tax revenue to all local bodies.
┆ Assam	2% of State tax for local bodies, both rural and urban. (The share of urban local bodies has not been specified).
┆ Himachal Pradesh	An amount equal to Rs. 12.2 crore as grants in lieu of octroi for 1996/97, to rise to Rs. 17.9 crore in 2000/01 and CSS grants to accrue to municipalities.
┆ Karnataka	5.4% of the total non-loan gross own revenue receipts for meeting the plan and non-plan requirements.
┆ Kerala	1% of State revenues (excluding from certain sources) be transferred to local bodies as non-statutory non-plan grants distributed between the rural and urban local bodies in proportion to their population.
┆ Madhya Pradesh	8.67% of the tax and non-tax revenues of State government.
┆ Maharashtra	25% to 100% of entertainment taxes collected from municipalities of different grades, 25% of vehicle tax and 10% of profession tax are recommended shares for local bodies.
┆ Manipur	Maintenance grant equal to Rs. 88.3 lakh to accrue to municipalities in 1996/97, which varies in subsequent years.
┆ Orissa	Rs. 179.5 crores is the projected transfer (grant) to urban local bodies between 1998/99 and 2004/05. (The deficit of Rs. 1,378 crores between the estimated income and expenditure and an additional requirement of Rs. 381.48 crore for improvement of core civic services should be met by the Eleventh Finance Commission).
┆ Punjab	20% of the net proceed for five taxes namely, stamp duty, motor vehicle tax, electricity duty, entertainment tax, and cinematograph shows should be transferred to municipalities, and the projected gap of Rs. 322 crore should be met by the Central Finance Commission.
┆ Rajasthan	21.8% the net proceeds of State taxes should be devolved on the local bodies; the division of these proceeds between rural and urban should be in the ratio of 3.4:1.
┆ Tamil Nadu	8% of the State's net tax revenue should be devolved on to the local bodies in 1997/98; this percentage should gradually increase in successive years to 9%, 10%, 11% and reaching 12% in 2001/02. The division of this amount between rural and urban should be on the basis of population as in the last Census.
┆ Uttar Pradesh	7% of the net proceeds of State's total tax revenue should be transferred to urban local bodies.
┆ West Bengal	16% of the net proceeds of all taxes collected by the State should be transferred to local bodies. Such funds should be released to the Districts. These proceeds should be divided between urban and rural based on population.

Source: Reports of the Finance Commission of States.

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Annexure 3

Grants for Municipalities: Recommendations of the Eleventh Finance Commission (EFC)

State	% share of state in the allocation of grant						Annual Share (Rs. lakh)	
	Urban Population	Urban Area	Distance from highest PC/GSDP +0.5 s.d.	Revenue effort in relation to Own revenue of the state	Non-primary sector GSDP	Index of decentralisation		State's share
	Weight 40%	Weight 10%	Weight 20%	Weight 5%	Weight 5%	Weight 20%		
Andhra Pradesh	8.60	8.09	8.98	7.54	7.32	7.22	8.23	3293.14
Arunachal Pradesh	0.05	0.00	0.05	0.00	0.00	0.01	0.03	13.67
Assam	1.19	1.29	1.08	0.55	0.50	1.00	1.08	430.84
Bihar	5.46	5.85	6.03	1.23	0.92	3.05	4.69	1877.94
Goa	0.23	0.60	0.18	0.03	0.07	0.19	0.23	92.73
Gujarat	6.85	8.03	6.33	6.16	7.13	5.75	6.63	2650.46
Haryana	1.95	1.51	1.64	0.85	1.87	2.18	1.83	732.80
Himachal Pradesh	0.22	0.42	0.03	0.13	0.12	0.24	0.19	77.84
Jammu & Kashmir	0.88	1.37	0.92	0.10	0.07	0.50	0.78	313.16
Karnataka	6.69	6.68	7.05	2.90	4.38	5.61	6.24	2496.39
Kerala	3.69	5.26	3.57	1.87	2.49	4.13	3.76	1504.91
Madhya Pradesh	7.38	12.37	7.90	3.22	4.41	8.25	7.80	3120.22
Maharashtra	14.69	9.74	12.86	29.38	32.67	16.44	15.81	6325.09
Manipur	0.24	0.23	0.28	0.03	0.02	0.20	0.22	87.92
Meghalaya	0.16	0.24	0.14	0.01	0.00	0.09	0.13	53.98
Mizoram	0.15	0.77	0.18	0.00	0.00	0.09	0.19	76.89
Nagaland	0.10	0.23	0.07	0.00	0.00	0.06	0.09	35.72
Orissa	2.04	3.98	1.95	0.55	0.53	1.71	1.99	799.20
Punjab	2.88	2.25	2.63	2.05	4.92	2.42	2.74	1094.53
Rajasthan	4.84	7.61	4.96	1.90	2.03	5.42	4.97	1988.32
Sikkim	0.02	0.00	0.01	0.00	0.00	0.01	0.01	4.16
Tamil Nadu	9.18	9.66	8.91	11.81	12.13	10.27	9.67	3867.34
Tripura	0.20	0.23	0.22	0.05	0.08	0.22	0.20	80.32
Uttar Pradesh	13.28	8.76	14.37	5.83	5.14	14.86	12.58	5032.64
West Bengal	8.99	4.81	9.65	23.80	13.20	10.07	9.87	3949.78
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	40,000.00

Source: Report of the Eleventh Finance Commission. June 2000.

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Annexure 4

Methodology adopted by the Eleventh Finance Commission (EFC) for determining the allocation of grant to States for Urban Local Bodies

Criteria	Weight as a % of the total allocation	Specifications of the criteria	Derivation of the share of each State
Urban population	40	1st criterion=State's urban population in the year 1991.	$S_{1i}=(0.4)*X*(P_i/P)$ where $S_1=\sum S_{1i}$ S_{1i} =Share of ith state with first criterion, (i varies from 1 to 25). P_i =Urban population of ith state. $P=\sum P_i$ = Total urban population of the country. $S_1=0.10*X$ =Total allocation based on the first criterion.
Geographical area	10	IIInd criterion=State's geographical urban area in the year 1991.	$S_{2i}=(0.1)*X*(A_i/A)$ where $S_2=\sum S_{2i}$ S_{2i} =Share of ith state with second criterion, (i varies from 1 to 25). A_i =Urban area of ith state. $A=\sum A_i$ =Total urban area of the country. $S_2=0.10*X$ =Total allocation based on the second criterion.
Distance from highest average per capita GSDP (Gross State Domestic Product)	20	IIIrd criterion = Distance from highest average per capita GSDP excluding primary sector. $D_i=G'+(0.5)sd-G_i$ where $G_i=\sum(G_{ij}/P_{ij})/3$ and j varies from 1 to 3 i.e. j=95/96, 96/97, 97/98 $G=\sum G_i$ (i varies from 1 to 25) D_i =Distance of the ith state of average per capita GSDP from highest average per capita GSDP. G_i =Average GSDP of the ith State. G_{ij} =Gross domestic product of ith state for jth year. P_{ij} =Urban population of ith state for jth year. G' =Highest average gross domestic product among all the states. G =Average gross domestic product of the country. sd =Standard deviation of G_i 's or of G_1, G_2, \dots, G_{25} .	$S_{3i}=(0.2)*X*D_i*(P_i/P)$ where $S_3=\sum S_{3i}$ S_{3i} =Share of ith state with third criterion, (i varies from 1 to 25). D_i =Distance of the ith state of average per capita GSDP from highest average per capita GSDP. $S_3=0.20*X$ =Total allocation based on the third criterion.

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Criteria	Weight as a % of the total allocation	Specifications of the criteria	Derivation of the share of each State															
Own revenue efforts of municipalities in a state, using state's own revenue as an indicator	5	IVth criterion =Own revenue efforts of municipalities in a state, using state's own revenue as an indicator. $RE_i = \Sigma(MOR_{ij}/SOR_{ij})/3$ and j varies from 1 to 3 i.e. J=95/96, 96/97, 97/98. RE_i =Revenue effort of all municipalities in ith state for the jth year. SOR_{ij} =Own revenue collected by the ith state for the jth year.	$S_{4i} = (0.05) * X * RE_i * (P_i/P)$ where $S_4 = \Sigma S_{4i}$ S_{4i} =Share of ith state with fourth criterion, (i varies from 1 to 25). RE_i =Revenue effort of all municipalities in ith state. $S_4 = 0.05 * X$ =Total allocation based on the fourth criterion.															
Own revenue efforts of municipalities in a state, using gross state domestic product as an indicator	5	Vth criterion=Own revenue efforts of the municipalities in a state, using GSDP as an indicator. $RE'_i = (\Sigma MOR_{ij} / \Sigma GSDP_{ik}) / 3$ and j varies from 1 to 3 i.e. j=95/96, 96/97, 97/98 and k varies from 1 to 3 i.e. k=94/95, 95/96,96/97. RE'_i =Revenue effort of all municipalities in ith state. MOR_{ij} =Own revenue collected by all municipalities in ith state for the jth year. $GSDP_{ik}$ =Gross state domestic product (excluding primary sector) of the ith state for the jth year.	$S_{5i} = (0.05) * X * RE'_i * (P_i/P)$ where $S_5 = \Sigma S_{5i}$ S_{5i} =Share of ith state with fifth criterion, (i varies from 1 to 25). RE'_i =Revenue effort of all municipalities in ith state. $S_5 = 0.05 * X$ =Total allocation based on the fifth criterion.															
Index of decentralisation <ul style="list-style-type: none"> └ Enactment of state municipal legislation in conformity with 74th Amendment. └ Intervention/restriction in the functioning of the municipal bodies. └ Assignment of functions to municipalities in the state municipal legislation vis-a-vis the twelfth schedule. └ Transfer of functions to municipalities by way of rules/ notifications/orders of state government └ Assignment of taxation powers to municipalities as 	20	The index has been constructed as follows-- Step 1: marks scored by the states in respect of each of the ten items have been converted on a scale of 1-100. Step 2: in respect of each indicator, states are grouped into four categories and marks are assigned, as follows: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Group</th> <th>Range</th> <th>Mks.</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>above(A.M.+0.5 sd)</td> <td>3</td> </tr> <tr> <td>B</td> <td>A.M.±0.5 sd</td> <td>2</td> </tr> <tr> <td>C</td> <td>Below A.M.-0.5 sd but above zero</td> <td>1</td> </tr> <tr> <td>D</td> <td>Zero</td> <td>0</td> </tr> </tbody> </table> Step 3: A.M. and sd of the total marks of the various states have been computed and states once again grouped	Group	Range	Mks.	A	above(A.M.+0.5 sd)	3	B	A.M.±0.5 sd	2	C	Below A.M.-0.5 sd but above zero	1	D	Zero	0	$A_{6i} = (0.2) * X * M_i * (P_i/P)$ where $S_6 = \Sigma S_{6i}$ S_{6i} = Share of ith state with sixth criterion, (i varies from 1 to 25). $S_6 = (0.2) * X$ = Total allocation based on the sixth criterion.
Group	Range	Mks.																
A	above(A.M.+0.5 sd)	3																
B	A.M.±0.5 sd	2																
C	Below A.M.-0.5 sd but above zero	1																
D	Zero	0																

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Criteria	Weight as a % of the total allocation	Specifications of the criteria	Derivation of the share of each State														
per state municipal acts		into four categories and marks assigned as follows:															
<ul style="list-style-type: none"> └ Levy of taxes by municipalities └ Constitution of the State Finance Commissions and submission of Action Taken Reports. └ Action taken on the major recommendations of the SFCs. └ Elections to municipalities. └ Constitution of district planning committees. 		<table border="1"> <thead> <tr> <th>Group</th> <th>Range</th> <th>Mks.</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>Above(A.M.+0.5 sd)</td> <td>4</td> </tr> <tr> <td>B</td> <td>A.M.±0.5 sd</td> <td>3</td> </tr> <tr> <td>C</td> <td>Below A.M.-0.5 sd but above zero</td> <td>2</td> </tr> <tr> <td>D</td> <td>Zero</td> <td>1</td> </tr> </tbody> </table> <p>Step 4: The marks so obtained have been used as weights to determine the index of decentralisation.</p>	Group	Range	Mks.	A	Above(A.M.+0.5 sd)	4	B	A.M.±0.5 sd	3	C	Below A.M.-0.5 sd but above zero	2	D	Zero	1
Group	Range	Mks.															
A	Above(A.M.+0.5 sd)	4															
B	A.M.±0.5 sd	3															
C	Below A.M.-0.5 sd but above zero	2															
D	Zero	1															

$S = X = S_1 + S_2 + S_3 + S_4 + S_5 + S_6$ where X is the total allocation for urban local bodies, and S is sum of shares in respect of all the six criteria.
 A.M = Arithmetic Mean
 Sd = Standard deviation

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Annexure 5

Urban Population Estimates, 2001

States	Urban Population (million)	Percent Urban
Andhra Pradesh	20.50	27.08
Arunachal Pradesh	0.22	20.41
Assam	3.39	12.72
Bihar	8.68	10.47
Chhatisgarh	4.18	20.08
Goa	0.67	49.77
Gujarat	18.90	37.35
Haryana	6.11	29.00
Himachal Pradesh	0.59	9.79
Jammu and Kashmir	2.51	24.88
Jharkhand	5.99	22.25
Karnataka	17.92	33.98
Kerala	8.27	25.97
Madhya Pradesh	16.10	26.67
Maharashtra	41.02	42.40
Manipur	0.57	23.88
Meghalaya	0.45	19.63
Mizoram	0.44	49.50
Nagaland	0.35	17.74
Orissa	5.50	14.97
Punjab	8.25	33.95
Rajasthan	13.21	23.38
Sikkim	0.06	11.10
Tamil Nadu	27.24	43.86
Tripura	0.54	17.02
Uttaranchal	2.17	25.59
Uttar Pradesh	34.51	20.78
West Bengal	22.49	28.03
Total	285.35	27.78

Source: Office of the Registrar General, India. Press Release 20 July, 2001.

In place of 'Total'
read this row as:

'All-India including
Union Territories'

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Annexure 6

Accounting Principles (ICAI)

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- ┆ The financial statements of urban local bodies (viz. Balance sheet and income and expenditure account) should be prepared on accrual basis, except that modified accrual basis should be followed in accounting for those items of revenue about whose recovery or timings of recovery there is a significant uncertainty. Such items of revenue pertaining to an accounting period should be accounted for as revenue of that period if recovered during the accounting period or within a reasonable period, say, two months of the close of the accounting period. Revenues not recovered during the said period should be accounted for as revenue of the period in which they are recovered.
 - ┆ Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
 - ┆ Provision should be made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Revenue should not be recognized unless (i) the related performance has been achieved; and (ii) no significant uncertainty exists regarding the amount of the consideration; and (iii) it is not unreasonable to expect ultimate collection.
 - ┆ The accounting treatment and presentation in the balance sheet and the income and expenditure account of transactions and events should be governed by their substance and not merely by the legal form.
 - ┆ In determining the accounting treatment and manner of disclosure of an item in the balance sheet and/or the income and expenditure account, due consideration should be given to the materiality of the item.
 - ┆ Notes to the balance sheet and the income and expenditure account should contain only the explanatory material pertaining to the items in the balance sheet and the income and expenditure account.
 - ┆ A statement of all significant accounting policies adopted in the preparation and presentation of the balance sheet and the income and expenditure account should be included in the urban local body's balance sheet. Where any of the accounting policies is not in conformity with accounting standards, and the effect of departures from accounting standards is material, the particulars of the departure should be disclosed, together with the reasons therefor and also the financial effect thereof except where such effect is not ascertainable.
 - ┆ If the information required to be given under any of the items or sub-items in these formats cannot be conveniently included in the balance sheet or the income and expenditure account itself, as the case may be, it can be furnished in a separate Schedule or Schedules to be annexed to and forming part of the balance sheet or the income and expenditure account. This is recommended where items are numerous.
 - ┆ Accounting policies and explanatory notes should form an integral part of the balance sheet.
 - ┆ The corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet and income and expenditure account should also be given in the balance sheet or income and expenditure account, as the case may be.
 - ┆ 'Provision' means any amount written off or retained by way of providing for depreciation, renewals or

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diminution in value of assets, or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.

- ┌ A cash flow statement should be annexed to the balance sheet showing cash flows during the period covered by the income and expenditure account and during the corresponding previous period.
- ┌ Apart from aggregate figures relating to revenues, expenses, assets and liabilities appearing on the face of the income and expenditure account and balance sheet, an urban local body should also present information required herein in respect of each major type of activity undertaken by it (hereinafter referred to as 'segment') if it meets the criteria specified in this behalf.
- ┌ Segment information should be provided in respect of an activity if it satisfies any of the following conditions:
 - Its revenue from sales to external and internal customers ('segment revenue') is 10% or more of the total revenue as reported in the income and expenditure account.
 - its expenses ('segment expense') are 10% or more of the total expenses as reported in the income and expenditure account.
 - its assets (segment assets) are 10% or more of the total assets of the urban local body.

The following information should be disclosed in respect of each reportable segment that meets one or more of the criteria specified above:

- Segment revenue
- Segment result
- Total carrying amount of segment assets
- Total amount of segment liabilities
- Total cost incurred during the period to acquire fixed assets.

A reconciliation between the information disclosed for reported segments and the aggregate information as reported in the financial statements should be presented. For example, segment revenue should be reconciled to the total revenue reported in the profit and loss account.

For the purpose of the above:

- Segment revenue is revenue reported in the income and expenditure account that is directly attributable to the segment and the relevant portion of total revenue of the entity that can be allocated on a reasonable basis to the segment. Segment revenue does not include extraordinary items, interest or dividend income and gain on sale of investments.
- Segment expense is the expense reported in the income and expenditure account that is directly attributable to the segment and the relevant portion of total expense of the entity that can be allocated on a reasonable basis to the segment. Segment expense does not include extraordinary items, interest expense and loss on sale of investments.
- Segment assets are those operating assets that are employed by a segment in its operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. In determining segment assets, related allowances/provisions that are deducted in reporting those assets in the balance sheet should be deducted.
- * Segment liabilities are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.
- Segment result is segment revenue less segment expense.

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