

Standing Committee Report Summary

Devolution of funds under Panchayati Raj System

- The Standing Committee on Rural Development and Panchayati Raj (Chair: Mr. Saptagiri Sankar Ulaka) presented its report on 'Devolution of funds under Panchayati Raj System' on July 29, 2025. Key observations and recommendations of the Committee include:
 - **Restructuring Finance Commission grants:** Rural Local Bodies (RLBs) receive financial devolution from the Central Finance Commission in the form of tied (60%) and untied grants (40%). Of the funds recommended by the 15th Financial Commission (2021-26), 70% had been released to states by November 2024. Tied grants can only be used for sanitation and the supply of drinking water. The Committee noted that if saturation has already been achieved in these categories through other schemes, funds are not released to the panchayats, as the tied grants cannot be reallocated. It recommended establishing a mechanism to allow the reallocation of tied grants as untied grants for optimal fund utilisation.
 - **Distribution of performance grants:** Performance grants are awarded to well-performing Panchayats and RLBs based on Central Finance Commission recommendations. The Committee observed that many Panchayats were unable to access these grants due to non-fulfilment of conditions, while others submitted misleading information to qualify. It recommended revising the ranking system to promote transparency and providing training for weaker Panchayats.
 - **Ensuring timely financial reporting:** Panchayats are required to prepare Gram Panchayat Development Plans (GPDPs). Uploading GPDPs to the eGramSwaraj portal is mandatory for the release of Central Finance Commission grants. The Committee observed that some states either did not upload GPDPs or uploaded fewer than required. It recommended providing regular training to Panchayat staffs and align GPDPs with block and district plans.
 - **Formation of State Finance Commissions:** States are required to constitute Finance Commissions every five years. These Commissions recommend resource sharing between state and local bodies. From 2024-25 onwards, establishing State Finance Commissions is a mandatory condition for accessing certain central grants. The Committee noted that only 25 out of 28 states have constituted State Financial Commissions.
 - **Devolution of powers to PRIs:** The Committee observed that despite constitutional mandate, devolution of functions, funds, and functionaries to Panchayati Raj Institutions (PRIs) remains incomplete. Many Panchayats operate with limited administrative authority, inadequate financial resources, and without effective planning control. The Committee recommended that states prepare a time-bound roadmap for devolution of powers. The Panchayati Raj Ministry is recommended to publish an annual "State of Devolution Report." The Committee also suggested the central government to link financial incentives under grants and schemes to actual progress.
 - **Autonomy in expenditure:** The Committee recommended that states ensure the regular, adequate, and transparent transfer of untied funds to Panchayats. It advised that Panchayats be given autonomy in the utilisation of these funds as per local needs, free from interference of higher administration. The Committee also recommended linking a portion of future transfers to performance indicators, such as responsiveness to community demands or completion of planned works.
 - **Holding regular Panchayat elections:** The Committee observed that delays or disruptions in Panchayat elections is a key barrier to effective fund utilisation and continuity of development work. The Committee recommended holding timely and regular elections. It also suggested that, in the interim, states may consider appointing nominated representatives or administrators with limited tenures and responsibilities.
 - **Enhancing own source of revenue:** Panchayats and RLBs rely heavily on grants. They can also raise their own revenue through property and local taxes. The Committee noted that despite several efforts, they have not been able to sufficiently develop their own sources of income. It recommended that Panchayats be provided with financial and technical assistance to enhance their capacity to generate revenue.
 - **Proper functioning of District Planning Committees (DPCs):** The Committee observed that many states have either not constituted DPCs or have allowed them to remain non-functional. It observed existing DPCs often suffer from: (i) irregular meetings, (ii) lack of administrative and technical support, (iii) poor integration of rural and urban development plans, and (iv) limited involvement of local representatives. The Committee recommended that states should ensure immediate constitution of DPCs and their operationalisation. It also recommended that DPCs should be empowered to prepare integrated district development plans. A portion of scheme fund allocations should be linked to DPC plans.

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