GOVERNMENT OF HARYANA

REPORT

OF

FOURTH STATE FINANCE COMMISSION

HARYANA

YOJANA BHAWAN PANCHKULA

JUNE, 2014

PREFACE

This is the report of the Fourth State Finance Commission of Haryana. The report is a result of a systematic and diligent effort in understanding the concepts and the spirit behind the 73^{rd} and 74^{th} Constitutional Amendments, the prevailing ground situation, and translation of these into the body of findings and recommendations. The report seeks to embody and actualize the aspirations in the said constitutional provisions and the legislations that are the framework of the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). Behind this document is an untold story of constant and untiring efforts to collect and sift through a large volume of data laden documents, reports, strengthened by views and opinions of various stake holders.

2. We must acknowledge the work done by the previous State Finance Commissions and this Commission would not hesitate to acknowledge the inspiration we have derived from the earlier reports which have also been of help in building the body of opinion before attempting the report. While we have attempted to build upon and indeed improve the content and design, it must be borne in mind that every report builds on another in the gradual construction of an edifice that ensures a sound and vibrant body politic.

3. Since the first report of the State Finance Commission, the levels of awareness both within and outside government have been increasing to some extent facilitating the appreciation of the role of the State Finance Commission. This has been of help in obtaining information required for such a seminal work. However, as will be seen in various parts of the report, this awareness is still in parts and levels low. What was surprising was that even higher levels of bureaucracy in some departments were wanting in awareness and appreciation of the role and purpose of such a Commission. We attribute this to be an impediment in the eventual devolution of real powers to local bodies.

4. The Haryana State Finance Commission has, in the light of its constitutional mandate and given terms of reference, attempted to faithfully reflect the spirit of the constitutional provisions and fulfill its role in the empowerment of these local body institutions. The Commission has been fully seized of the various strengths and weaknesses of these institutions and our recommendations duly incorporate the same with a view for long term strengthening of social and economic structures.

5. This report, therefore, gives emphasis to steps to reinforce structures and enable local bodies not only to fulfill their obligations but also ensure future growth.

6. In its recommendations, the Commission has kept in view the financial position of the State, the capacity of the rural and urban bodies to use the funds based on delegations currently available to these institutions and likely to be made in the period to be covered in the report. These recommendations will cover the period upto the year 2015-16 and thereafter till the report of the next Finance Commission comes into operation.

7. The design of our report differs slightly from the template design recommended by the CFC but does not lack in content and coverage. In our report we have covered all TOR items listed for the Commission. The report is, thus, structured in 15 chapters with annexures. Chapter 1 is introductory, referring to the constitution of the Commission, its TOR, design of the report and methodology adopted. Chapter 2 highlights the approach and issues of the Commission, difficulties faced and suggestions. Chapters 3 and 4 cover analysis and review of status of implementation of recommendations of previous CFCs and SFCs. Chapter 5 explains the physical features of the State, its economic scenario and plan strategy. Chapter 6 explains the position of state finances and its fiscal scenario. Chapter 7 refers to the development profile of PRIs and ULBs and functional decentralisation. Chapter 8 relates to norms and standards of public health services like, water supply, sewerage and storm water drainage etc. Chapter 9 deals with assessment of financial position of the PRIs and ULBs. Chapter 10 includes principles for financial devolution and shares of PRIs and ULBs and assignment of taxes and duties to local bodies. Chapter 11 deals with grants in aid to the local bodies. Chapter 12 embodies taxation powers of PRIs and ULBs and measures needed for internal resource generation by local bodies and suggestions. Chapter 13 explains the status of accounting and auditing of local bodies and training. In Chapter 14, we have discussed various issues and practices like empowerment of citizens, community participation, creation of database, privatisation of municipal services, public private partnership, taxation of central and state government properties, policy on municipalisation and recording of best practices etc. Chapter 15 contains summary of our conclusions and recommendations. Various annexures showing relevant and important information and data have also been added.

8. The full report of the Commission has been put in Haryana Finance Department website: www.finhry.gov.in

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2. The Commission is grateful to the functionaries of all the State Government Departments, Boards & Corporations and other establishments in general and the Departments of Panchayati Raj and Urban Local Bodies in particular, for rendering their timely help towards supply of the requisite data and information to the Commission. Support provided by the district and field level officers of the government departments as well as by the functionaries of the PRIs and ULBs, also helped the Commission very much in performing its task.

3. The Commission also pays its due thanks to the elected representatives of all the tiers of PRIs and ULBs, Ministers, MPs, MLAs of Haryana, prominent public persons and other stakeholders for rendering their valuable suggestions on the issues relevant to the Commission.

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5. The Commission is particularly indebted to Sh. R.K. Bishnoi, Director, Economic and Statistical Analysis Department Haryana and all his officers for providing infrastructural support for housing the office of the Commission in Yojana Bhawan and also documentary support which helped the Commission in arriving at suitable conclusions on the issues under its TOR.

Dr. Ram Bhagat Langayan, IAS (Retd.)
Member Secretary

L.S.M. Salins, IAS (Retd.)
Chairman

Subhash Sudha
Member

Dr(Prof.) Khazan Singh
Member

Brahampal Rana
Member

Shiv Lal Katyal
Member

ABBREVIATIONS

1.	ATR	-	Action Taken Report
2.	BOO	-	Build Operate Own
3.	BOOT	-	Build Operate Own Transfer
4.	BOLT	-	Build Operate Lease Transfer
5.	BPL	-	Below Poverty line
6.	C& AG	-	Comptroller and Audit General
7.	CAA	-	Constitutional Amendment Acts -
8.	CCG	-	Centre For Civic Governance
9.	CFCs	-	Central Finance Commissions
10.	CPRs	-	Common Property Resources
11.	CSS	-	Centrally Sponsor Schemes
12.	DEAS	-	Double Entry Accounting System
13.	DPCs	-	District Planning Committees
14.	EFC	-	Eleventh Finance Commission
15.	FRBM	-	Fiscal Responsibility & Budget Management
16.	GDP	-	Gross Domestic Product
17.	GIS	-	Geographic Information System
18.	GJU	-	Guru Jambeshwar University
19.	GOH	-	Govt. of Haryana
20.	GOI	-	Government of India
21.	GPs	-	Gram Panchayats
22.	GSDP	-	Gross State Domestic Product
23.	HIPA	-	Haryana Institute of Public Administration
24.	HIRD	-	Haryana Institute of Rural Development
25.	HODs	-	Head of Departments
26.	HPC	-	High Powered Committee
27.	HRDA	-	Haryana Rural Development Authority
28.	HRDF	-	Haryana Rural Development Fund
29.	IIPA	-	Indian Institute of Public Administration
30.	IMF	-	Indian Monetary fund
31.	IMFL	-	Indian Made Foreign Liquor
32.	IMR	-	Infant Mortality Rate
33.	LADT	-	Local Area Development Tax
34.	LBG	-	Local Bodies Grant
35.	LPCD	-	Liter Per Capita Per Day
36.	MCs	-	Municipal Council/Committee
37.	MIS	-	Management Information System
38.	MLA	-	Member of Legislative Assembly
39.	MLD	-	Million Liter Per Day
40.	MOF	-	Ministry of Finance
41.	MOU	-	Memorandum of Under Standing
42.	MP	-	Member of Parliament
43.	MTFRP	-	Medium Term Fiscal Reforms Programme
44.	NCR	-	National Capital Region
45.	NGOs	-	Non-government Organisations
46.	NIPFP	-	National Institute of Public Finance and Policy
47.	NIRD	-	National Institute of Rural Development
48.	NIUA	-	National Institute of Urban Affair
49.	NIUD	-	National Institute of Urban Development

50.	O & M	-	Operation and Maintenance
51.	PCI	-	Per Capita Income
52.	PGT	-	Passenger and Goods Tax
53.	PHED	-	Public Health Engineer Department
54.	PPP	-	Public Private Partenership
55.	PRIA	-	Participatory Research In Asia
56.	PRIs	-	Panchayati Raj Institutions
57.	PSs	-	Panchayat Samities
58.	RBI	-	Reserve Bank of India
59.	SC	-	Schedule Caste
60.	SFC	-	State Finance Commission
61.	TFC	-	Twelfth Finance Commission
62.	TGS	-	Technical Guidance & Supervision
63.	TRR	-	Total Revenue Receipts
64.	ULBs	-	Urban Local Bodies
65.	VAT	-	Value Added Tax
66.	ZPs	-	Zila Parishads

C O N T E N T S

CHAPTER – 1
CONSTITUTION OF STATE FINANCE COMMISSION

1.1 The 73rd and 74th Constitutional Amendments Acts (CAAs) brought in the year 1992 have been reckoned as historic landmarks in the evolution of democratic decentralisation and development of Panchayati Raj Institutions & urban local bodies in the country. These amendments were considered necessary to make the rural and urban local bodies more viable units of local governance so that these bodies could take on the responsibility of effectively performing the functions assigned for them in Schedules 11 and 12 of the Constitution.

1.2 Thus, in conformity with these CAAs, Haryana Government enacted (i) The Haryana Panchayati Raj Act, 1994, (ii) The Haryana Municipal (Amendment) Act, 1994, (iii) The Haryana Municipal Corporation Act, 1994. The state government also framed the Haryana Finance Commission Rules, 1994. Among other things, these CAAs provide for the constitution of a State Finance Commission within one year of the constitutional amendment and thereafter at the expiry of every fifth year to review the financial position of the Panchayats and Municipalities. Accordingly, in exercise of the powers conferred by Article 243-I of the Constitution of India and Section 213 of the Haryana Panchayati Raj Act, 1994, the Haryana Finance Commission Rules providing for the constitution of the State Finance Commission and regulating the qualification and appointment of its Chairman and other Members, were notified by the State Government on 5th May, 1994.

1.3 In pursuance of the provisions of Articles 243-I and 243-Y of the Constitution of India and Section 213 of the Haryana Panchayati Raj Act 1994 (Act 11 of 1994) and Rule 3 of the Haryana Finance Commission Rules, 1994, the Governor of Haryana constituted the 4th State Finance Commission Haryana under the Chairmanship of Sh. L.S.M. Salins, IAS (Retd.) vide notification no. 18/1/2010-POL (2P), dated 16th April, 2010. This was with the stipulation that other Members including Member Secretary would be appointed later on. Five Members, namely, Sh. B.B. Pandit, IA & AS (Retd.), Sh. Brahampal Rana, Sh. Subhash Sudha, Sh. Shiv Lal Katyal and Dr. Ram Bhagat Langayan, IAS (Retd.) were appointed on part time basis vide notification no. 18/1/2010-2 POL, dated 3rd April, 2013 with the stipulation that Dr. Ram Bhagat Langayan will also look after the work of Member Secretary. Prof. Khazan Singh Sangwan (Retd.) was appointed as Member vide notification no. 18/1/2010-2 POL, dated 28th June, 2013 in place of Sh. B.B. Pandit who did not join the Commission. Copies of notifications are at Annexures 1.1, 1.2, 1.3 and 1.4.

1.4 Sh. L.S.M Salins, IAS (Retd) joined the Commission as Chairman on 19.04.2010 and functioned as such on whole time basis till continuation of the Commission. Sh. Rajeev Ranjan, IAS, and Sh. Nitin Kumar Yadav, IAS assumed additional charge as Member Secretary of the Commission from time to time as per government orders. The post of Member Secretary remained vacant from 20.07.2012 to 24.01.2013. Dr. Ram Bhagat Langayan, IAS (Retd.) assumed charge as Member Secretary of the Commission on 10.04.2013 on part-time basis. Sh. Subhash Sudha joined as Member on 16.04.2013. Sh. Shiv Lal Katyal and Sh. Brahampal Rana joined as Members on 18.04.2013. Prof. Khajan Singh Sangwan (Retd.) joined as Member on 15.07.2013. Hence, the composition of 4th SFC is as under:-

• Sh. L.S.M. Salins, IAS (Retd.)	Chairman
• Sh. Subhash Sudha	Member
• Sh. Shiv Lal Katyal	Member
• Sh. Brahampal Rana	Member
• Prof. Khazan Singh Sangwan (Retd.)	Member
• Dr. Ram Bhagat Langayan, IAS (Retd.)	Member Secretary

Terms of Reference (TOR)

1.5 The Commission is mandated to make recommendations on following matters, as per its TOR mentioned in para 3 of the notification dated 16th April, 2010:-

(a) the principles which should govern –

(i) the distribution between the State and Zila Parishads, Panchayat Samitis and Gram 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 Zila Parishads, Panchayat Samitis and Gram 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 Gram Panchayats, Panchayat Samitis and Zila Parishads;

(iii) the Grants-in-aid to the Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State;

(b) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads;

(c) the principles which should govern-

i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls, and fees leviable by the State, which may be divided between them under Part IX A 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;

(d) the measures needed to improve the financial position of the Municipalities;

(e) In making its recommendations, the Commission shall have regard, among other considerations, to:-

(i) the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;

(ii) the resources of the State Government and demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on Plan schemes and other committed expenditure or liabilities of the State ; and

(iii) the requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing expenditure.

Tenure of the Commission

1.6 As per para 2 of state government notification dated 16th April, 2010, the Commission was required to submit its report by 31st March, 2011. But due to several procedural & practical problems and other compelling reasons, the Commission could not become fully functional till August, 2011. A considerable time was lost in getting office accommodation, setting up the office of the Commission, sanctioning and recruitment of the staff and arranging supporting facilities. Inadequate budgetary allocations also caused a lot of delays in purchase of office equipments like computers, furniture and other supporting logistics. In the absence of a permanent Finance Commission Cell in the State Finance Department and non-availability of the records of previous State Finance Commissions, this Commission had to start from scratch and considerable time was spent on re-designing of information formats, questionnaires etc in order to get primary and secondary data from all the concerned departments. Thus, keeping all the bottlenecks and challenges in view, the tenure of the Commission was extended by the state government initially upto 31st March, 2012 and then up to 31st March, 2013 further upto 31st March, 2014 and lastly upto 30th June, 2014. Copies of notifications are at Annexures 1.5, 1.6, 1.7 and 1.8.

Reference period of the Commission

1.7 The Commission noticed that the period to be covered by its report had not been mentioned in the notification dated 16.04.2010 while constituting the Commission. Since the Commission has to make recommendations on financial devolution to local bodies for a specific period of five years, it became necessary for the Commission to decide at its own level the time period to be covered by its recommendations.

1.8 It was observed that the constitutional provisions require the state government to constitute a State Finance Commission after every five years which is a clear indication of the fact that the report of the SFC should cover a period of five years. It was further noticed that the 2nd SFC covered a five year period i.e. 2001 – 02 to 2005 – 06 and the 3rd SFC also covered a five year period 2006 – 07 to 2010 – 11. **Thus, in view of the constitutional provisions, the Commission has decided that its report would cover a**

period of five years from 2011 – 12 to 2015 – 16, commencing from 1st April, 2011.

Suggestions

1.9 The Commission had gone through the state government notifications constituting the 1st, 2nd and 3rd SFCs and found that the TOR of these SFCs also suffered from the same lacunae of not mentioning the reference period to be covered by them. Thus, with a view to bringing clarity in the TOR of the subsequent SFCs, this Commission is constrained to advise the state government to make a specific mention in the TOR of a five year period to be covered by the report of the SFC.

1.10 As a normal practice, SFC should be constituted at least two to three years before the commencement of the period to be covered by its report. But we have noted that the 2nd and 3rd SFCs of Haryana were not constituted on time and consequently these Commissions submitted their reports at delayed stages when two to three years of the period to be covered by their reports had already expired or gone by. As reported by the State Finance Department, the recommendations of 2nd SFC, as accepted for the concluding year 2005 – 06, were extended for the years 2006 – 07, 2007 – 08 and 2008 – 09, the reference period of the 3rd SFC. Likewise, the recommendations of the 3rd SFC, as accepted for the concluding year 2010 – 11, have been extended for the years 2011 – 12 and 2012 – 13, the period to be covered by the 4th SFC.

1.11 Keeping in view the scenario of delayed constitution of 2nd and 3rd SFCs and late submission of reports, these Commissions had recommended that in case, for any reasons, the recommendations of the next SFC could not become available by the end of their concluding years, the recommendations made by them for the concluding year may be extended and made applicable till such time period the recommendations of the next SFC are available.

1.12 We observe that this Commission (4th in series) has also faced a similar situation of delayed constitution and three years i.e. 2011 – 12, 2012 – 13 and 2013 – 14 of its report have lapsed by the time its final report would be available. We further apprehend that the next SFC (fifth in series) may also face a similar situation of delayed constitution and thereby late submission of its report. In this scenario, we find merit in the suggestions of 2nd and 3rd SFCs made for extension of their recommendations till such time period the recommendations of the next SFC are available. **Thus, like 2nd and 3rd SFCs, this Commission also recommends that in case recommendations of next SFC (fifth in series) are not made available upto the concluding year 2015 – 16 of this Commission, the recommendations being made by this Commission for the year 2015 – 16 may continue to be applicable till such time the recommendations of the next SFC are available and implemented.**

Synchronisation in the period of Central Finance Commission and State Finance Commission

1.13 Subsequent to the 73rd and 74th CAAs, Central Finance Commissions are mandated to recommend grants to the States for supplementing resources of the rural and urban local bodies in the State **on the basis of recommendations of the Finance Commission of the State.** More often, this process gets disturbed and complicated due to diversity in the periods of the CFC and the SFC and non-availability of report of SFC on time to the CFC. The 11th, 12th and 13th CFCs have strongly advocated for the need to synchronize the periodicity of the CFC and the SFC so that the approach of the CFC for recommending grants for local bodies is guided by the approach and devolution criteria adopted by the SFC.

1.14 The onus lies on state governments which constitute the SFC. We realize that in a large quasi federal structure the task of synchronising the periodicity of CFC and SFC reports is easier said than done. This becomes even more difficult when different State Commissions take different time frames to produce their reports. In our case itself we have observed in earlier paragraphs the important constraints that occurred in the preparation of the report. We have no hesitation endorsing the view that SFCs are to be constituted a couple of years prior to the constitution of CFC so that ample time is available to produce reports that are meaningful and which can be harnessed by the CFC.

1.15 This Commission has noted that there is a one year gap in the reference periods of CFCs and SFCs of Haryana, as under:-

Central Finance Commission. (CFC)		**State Finance Commission (SFC)**	
Name of CFC	**Reference Period**	**Name of SFC**	**Reference Period**
10^{th} CFC	1995 - 2000	1^{st} SFC	1997 - 2001
11^{th} CFC	2000 - 2005	2^{nd} SFC	2001 - 2006
12^{th} CFC	2005 - 2010	3^{rd} SFC	2006 - 2011
13^{th} CFC	2010 - 2015	4^{th} SFC	2011 - 2016
14^{th} CFC	2015 - 2020	5^{th} SFC	2016 - 2021 (proposed)

The 14^{th} CFC stands constituted on 02.01.2013 with a reference period of five years i.e. 2015 – 16 to 2019 – 20. It is required to submit its report by 31.10.2014 so that its recommendations could be implemented w.e.f. 1^{st} April, 2015. The report of 4^{th} SFC of Haryana would cover a period of five years i.e. 2011 – 12 to 2015 – 16. Thus, there is a wide gap in the periodicity of these Commissions. Though the report of 4^{th} SFC would be available to the 14^{th} CFC before the latter submits its report by 31.10.2014, but their reference periods would altogether be entirely different. Synchronization in the periods of CFC and SFC could be possible only by making some adjustments in the timings of constitution of next SFCs and in their reference periods also. Through this measure, the recommendations of the 11^{th}, 12^{th} & 13^{th} CFCs to synchronize the periods of both the Commissions would also be implemented. **It is, thus, required that future SFCs need to be set up in such a manner that they could be in a position to make available their reports to the CFC at the time of latter's constitution.**

1.16 It has been noted that the report of 13^{th} CFC covers a five year period from 2010 – 11 to 2014 – 15, whereas the reference period of the 4^{th} SFC is 2011 – 12 to 2015 – 16. Hence, periods of these Commissions do not coincide. **In view of this diversity in periods, we observe that the recommendations of 4^{th} SFC on implementation of awards of 13^{th} CFC relating to rural and urban local bodies would be applicable only for four**

years from 2011 – 12 to 2014 – 15 as the year 2015 – 16 would be covered by the 14th CFC.

Interim Report

1.17 The State Finance Commission is a constitutional body. It has to accomplish its constitutional assignment in a time bound manner. But the major constraint confronting the Commission has been non-availability of information and exhaustive data on the status of finances of local bodies as well those of civic services being provided by these bodies. Besides this, due to non-availability of relevant records of previous SFCs, this Commission had to spend a lot of time on re-designing of information formats and questionnaires etc.

1.18 As per Haryana Finance Commission Rules, 1994, the State Finance Commission shall consist of a Chairman and Members. The state government vide notification dated 16th April, 2010 appointed only the Chairman with the proviso that other Members including the Member Secretary would be appointed later on. The state government appointed the Members at a very belated stage on **3rd April, 2013** and **28th June, 2013. The Commission would like to re-iterate that constitution of the full Commission is mandatory as per the constitutional provisions.**

1.19 All these developments, taken together, adversely affected the working of the Commission. Moreover, the decision making process of the Commission was occasionally hampered due to the absence of Members. More importantly, the report of the Commission without all the Members is not treated as valid.

1.20 The Commission received a comprehensive memorandum from the Department of Urban Local Bodies in August, 2012 demanding additional funds of Rs. 4,904.50 crore for up-gradation of various services and implementing various schemes of urban local bodies. Since Members had not been appointed by the state government, the Commission was of the opinion that a final decision on allocation of funds to PRIs and ULBs should be taken by the full Commission in its final report.

1.21 As reported by the State Finance Department, the recommendations of 3rd SFC, as accepted for its concluding year 2010 – 11, have been extended for implementation during 2011 – 12 and 2012 – 13 and, as a result, Rs. 355.75 crore and Rs. 408.25 crore have been released to the PRIs and ULBs during these years, as under:-

Funds transferred to Local Bodies (Rs. in crore)

Local Bodies	2011 - 12	2012 - 13
PRIs	231.24	265.36
ULBs	124.51	142.89
Total	**355.75**	**408.25**

1.22 The Commission deemed it necessary to submit an Interim Report covering a period of three years 2011 – 12, 2012 – 13 and 2013 – 14 as soon as all members were appointed to the Commission so that sufficient funds could be made available to PRIs and ULBs during 2013 – 14 to enable them to continue their on-going activities without financial hardships. The Interim Report would also meet the requirements of constitutional provisions and enabling acts of the local bodies as there would not be any gap years in implementation of recommendations of the SFC.

1.23 This Interim Report was submitted on 26th April, 2013. Some very brief highlights of the Interim Report are mentioned below. While recommending global sharing mechanism for financial devolution, the Commission treated the state's **net Own Tax Revenue (SOTR)** as the divisible pool. The Commission fixed the share of local bodies, both PRIs and ULBs, at **2.5 percent** of the divisible pool. The respective shares of PRIs and ULBs were fixed in the ratio of **65:35** in conformity with the rural-urban population ratio as per 2011 census. On this basis, the shares of PRIs and ULBs were worked out, as under:-

Financial Devolution to Local Bodies (Rs. in crore)

Particulars	2011 - 12	2012 - 13	2013 - 14
Divisible Pool (SOTR) (Net of 2% collection charges)	20,595.15	23,395.82	27,213.08
Share of Local Bodies (2.5%)	**514.88**	**584.90**	**680.32**
Share of PRIs (65%)	334.67	380.18	442.21
Share of ULBs (35%)	180.21	204.72	238.11

1.24 The financial devolution recommended in the Interim Report upto the year 2013-14 was purely adhoc and was **to form part of the funds already provided** to local bodies during 2011 – 12 and 2012 – 13 and are also adjustable against the total devolution made in this final report for these years.

1.25 The Commission considered the additional demands of funds of local bodies received through their respective memoranda and observed that a major part of their demands related to their various Plan Schemes being implemented through budgetary allocations for development of infrastructure. Some schemes related to the maintenance of basic public services for which no relevant justifications were provided. We feel that the financial devolution recommended in this final report seems to be sufficient to meet the expenditure needs of local bodies on establishment and operation & maintenance of public services and as such no special dispensation has been recommended for PRIs and ULBs on the basis of demands received through their respective memoranda.

Design of the Final Report

1.26 The 12th and 13th CFCs expressed serious concerns over the constitution of SFCs, their composition, quality of reports, methodology adopted and their credibility. These Commissions observed that the quality of SFC reports continue to be patchy. Further, the recommendations of SFCs do not follow a uniform pattern, thus, detracting from their usability. Often the reports are analytically weak. The SFCs themselves are not staffed with adequate and knowledgeable professionals. There are issues like inadequate data and norms for service delivery. Moreover, their recommendations are usually ignored. **In view of the above position, this Commission observes that SFCs need to be suitably strengthened for enhancing their credibility and acceptability and their works/reports streamlined in many ways including some standardisation in their methods and approaches.**

1.27 While taking cognizance of this issue, the 13th CFC constituted a task force to prepare a template for SFC reports. The template prepared by the task force was discussed in a conference on empowering PRIs on 22nd and 23rd December, 2008 conducted by the Institute of Rural Management and finalised on the basis of the inputs received. The 13th CFC has recommended that SFCs should consider this for adoption. The template is placed at Annexure 1.9.

1.28 The 13th CFC also endorsed a model template for adoption by SFCs designed on the lines of MOPR guidelines for estimating revenues and expenditures of local bodies with a view to introduce an element of symmetry across the SFCs in components of revenues and expenditures of local bodies. This model template is placed at Annexure 1.10.

1.29 These templates for SFCs reports and local body finances were also discussed in the National Workshop on Panchayat Finances and SFCs related issues organised by MOPR/GOI on 27.06.2011 in Vigyan Bhawan, Delhi. The general consensus arrived at was in favour of adoption of these templates by the SFCs as these would help in improving quality of SFCs reports and better analysis of finances of the local bodies.

1.30 The template designed for SFCs reports contains 13 chapters. Contents of each chapter have also been specified and enumerated. These cover vast areas/issues which would help in assessing needs as well as preparing SFCs reports more systematically and uniformly. Like-wise, the model template seems to be comprehensive for assessing financial position of Panchayats and Municipalities entailing all aspects of receipts and expenditures. It would work as a step forward for producing good quality data on local bodies on uniform pattern across the SFCs. **We are, therefore,**

generally in favour of adopting this template subject to some modifications suiting our requirements.

1.31 We have carefully looked into the design of the report of 3rd SFC of Haryana and noted the contents of each chapter. 3rd SFC report contains 14 chapters as against 13 in the template and covered most of the areas/issues mentioned in the template.

1.32 Model template on financial position of local bodies has been designed to have a uniform pattern of assessment of LBs resources across the SFCs and also to build a strong data base on LBs finances for use by CFCs and other stakeholders. We were not aware of this model template when we started our work. However, the information formats designed by the Commission for seeking information on finances and services of local bodies, both PRIs and ULBs, are comprehensive covering all aspects of incomes and expenditures of all tiers of PRIs and ULBs and more or less conform to the requirements laid down in the model template.

1.33 We are aware of the fact that these templates are just suggestive and indicative and, as such, not binding on SFCs. However, since these templates help in upholding the status and dignity of SFCs, quality of their reports and building of quality data base on finances and services of local bodies, we have, in principle, decided to adopt these in our report but subject to our requirements.

1.34 While analysing the template for our report, we realised that some of the chapters have become un-wieldy. We have had to, therefore, trim these so as to prevent them from becoming un-wieldy and un-compatible, carving out important segments and developing them into independent chapters. For example, maintenance of accounts of PRIs and ULBs and their audit, which is part of Chapter V of the template, has been taken out and put in as an independent chapter due to added attention given to it. The template does not include review of status of implementation of recommendations of CFCs. Since review of CFCs recommendations is very important for SFCs, we have done it in an independent chapter. Water supply, sewerage and storm water drainage are the basic functions of the local bodies, but presently these are being performed by the Public Health Engineering Department. As such, we have dealt with these functions in a separate chapter. On this basis, our report contains 15 chapters as against 13 chapters in the template.

Methodology

(a) Key Activities

1.35 The Commission has to work out its procedures for working and decide upon its approach and methodology in view of the issues and tasks enshrined in its TOR. The Commission held its first meeting on 30.06.2010 after the Chairman and the Member Secretary had assumed charge. None of the four Members had been appointed by then. Apart from adopting the rules of procedure, the tasks assigned to the Commission through its TOR were identified and reviewed. It was, however, observed that extensive data on the finances and the services of local bodies and the other issues related to the TOR of the Commission would be required. During the course of subsequent meetings the visions, expectations, initiatives and overall direction of Sh. L.S.M. Salins, Chairman of the Commission, were laid down to be incorporated in the report. The Commission held several meetings to formulate approach, strategy, review the progress of data collection and give final shape to its report. These meetings do not include meetings held with the state government departments, elected representatives and others at the headquarters and during field visits. The details of the meetings are given in Annexure 1.11.

1.36 At the outset, Chairman of the Commission addressed a demi-official letter on 30.05.2011 detailing the basic objectives of the Commission, issues in its TOR, nature of information/data to be required, its time schedule etc, to all the stakeholders i.e. all the Administrative Secretaries, Heads of Departments, Managing Directors of Boards and Corporations, Divisional Commissioners, Deputy Commissioners, Universities, research institutions, local bodies etc. Vide this letter, he appealed to them for extending full co-operation and help to the Commission in discharging its constitutional mandate. This communication also served as a general notice to the public and all the other stakeholders about the constitution of the Commission.

1.37 The Commission designed a comprehensive questionnaire covering all aspects of the TOR of the Commission and the basic issues before the Commission and circulated it on 26.09.2011 to all the MPs of Lok Sabha and Rajya Sabha from Haryana, all State Ministers and MLAs, opposition leaders, Chairpersons and members of all tiers of PRIs and ULBs, Administrative Secretaries, HODs, Chairpersons/MDs of Boards and Corporations, Divisional Commissioners, DCs, Universities, Government Colleges, Districts Bar Associations, NGOs, reputed research institutions dealing with rural and urban development, experts, intellectuals and eminent persons from various fields of public life and other stakeholders for eliciting their considered views and suggestions on the issues before the Commission. This questionnaire received all round recognition and appreciation for its comprehensiveness being rated as one of the best. The Commission received a large number of responses with quality inputs which helped the Commission in formulating its views and finalisation of its report.

1.38 The Commission prepared comprehensive formats for soliciting information/ data on various aspects of local finances i.e. income and expenditure of all tiers of PRIs and ULBs for a ten year period, actuals from 2006 – 07 to 2010 – 11 and projections from 2011 – 12 to 2015 – 16. These also included information on levels of civic services, physical assets, outstanding liabilities, budgetary support, staff strength and wage bills etc. These proformae are, by and large, on the pattern of model template recommended by the 13th CFC and on the lines of guidelines of MOPR/GOI. These were sent to all tiers of PRIs and ULBs through the Director General of Panchayat Department and Urban Local Bodies Department. Assistance of DCs, DDPOs and BDPOs was also taken. The Departments of Panchayats and Urban Local Bodies were asked to ensure that the requisite information, complete in all respects, is made available to the Commission within the stipulated time schedule strictly as per Commission's formats. Research wing of the Commission made all out efforts to expedite the process of preparation of the information by way of issuing of reminders, telephonic conversations, personal visits to the directorates and field offices in the districts and holding meetings with the departmental officers. As a result, the response from the urban local bodies has been a little bit encouraging. A number of urban local bodies supplied the requisite information to their directorate with copies to the Commission, which was compiled and consolidated at directorate level and sent to the Commission. Though the information was incomplete but was made usable after scruitiny. However, the Commission faced difficulties in respect of PRIs being large in number. Though the response was gratifying but the quality of information varied which was made usable by the Commission through cross checking. This has helped the Commission in analysing the financial position of local bodies and making suitable recommendations for strengthening their financial base.

1.39 Information on structural, functional and financial status of local bodies, their development profiles, funds requirements, follow up action on recommendations of previous CFCs and SFCs, status of accounts and audit of local bodies, capacity building, strengthening of municipal administration and allied matters, was sought from the Director Generals of Panchayats and Urban Local Bodies Departments. The information received helped the Commission in arriving at suitable conclusions.

1.40 The Commission required detailed information on the basis and rates of taxes, duties, tolls and fees etc. levied and appropriated by the state government. This information was sought from 14 revenue earning departments. The information received was analysed and used for making assessment of the state's financial position as well as to determine the position of state levies for their assignment to or appropriation by the PRIs and ULBs, as required under TOR of the Commission.

1.41 In order to analyse the economic scenario of the State and its plan strategy and sectoral plan allocations, requisite details were asked from the Department of Economic and Statistical Analysis. Like-wise, in order to study the fiscal position of the state government, resource availability with the state government and the fiscal reforms being undertaken, all the relevant information was sought from the Finance Department. The information so received helped the Commission in various ways and particularly to determine the divisible pool for sharing with the local bodies.

1.42 Information was also sought on status of water supply, sewerage, sanitation, solid waste management, storm water drainage and other public services, environmental improvement and pollution control, institutional credit etc. from all the concerned departments. The information so received helped the Commission in arriving at suitable conclusions on related issues.

1.43 On the pattern of the Central Finance Commission, this Commission also asked the Departments of Panchayats and Urban Local Bodies to submit comprehensive memoranda containing all the details of up-gradation of essential services, additional financial requirements thereon, their considered views on TOR of the Commission including sharing pattern of state revenues, criteria of CFCs for allocating grants for local bodies of the States etc. The inputs so received helped the Commission to make appropriate recommendations for empowering of local bodies.

(b) Consultations

1.44 The Commission also decided to have wide ranging discussions and interactions with experts, resource persons, eminent public men, officials of the state government and the local bodies, representatives of PRIs and ULBs, Chairpersons or Member Secretaries of previous SFCs in order to have a better understanding of the local finances, functioning of local bodies and other local issues.

1.45 The Chairman held discussions with Sh. A.N. Mathur, IAS (Retd.) Ex-Chief Secretary and Chairman of 3rd SFC and Sh. M.G. Madhwan, IAS (Retd.) Member Secretary of 1st SFC Haryana, representatives of Finance Commissions of other States, prominent persons in the spheres of financial relations, rural and urban development etc. These interactions helped the Commission to be familiar with the working of local bodies, approaches of other SFCs, policy initiatives at the central level and latest trends in fiscal relations.

1.46 With a view to have authentic feedback on structural, financial and functional status of rural and urban local bodies, the Commission had various rounds of discussions with the Administrative Secretaries and HODs of the Departments of Panchayats, Rural Development and Urban Local Bodies. Meetings were also held with Administrative Secretaries or HODs of various other departments like Public Health, Excise and Taxation, Finance, Planning, Transport, Revenue, Food & Supplies, Industries & Mining, Forests, Power, Town and Country Planning, Environment, Institutional Finance & Credit Control etc. These meetings helped the Commission by providing valuable materials on related issues. The details of these meetings may be seen in Annexure 1.11.

1.47 Accounting and Auditing are important areas in which local bodies need to develop their capacities. With a view to have updated knowledge in these spheres, the Commission made specific references to the Director Local Fund Audit of the State and the Principal Accountant General (Audit and Entitlements) and exchanged views with them. These interactions proved useful for the Commission in knowing on-going reform, efforts towards adoption of accrual based accounting system and getting valuable suggestions for improving standards of accounting and auditing of local bodies.

1.48 With the objective of enhancing its own understanding of local government finances and functioning of local bodies, this Commission organised a number of meetings with representatives of these bodies at divisional and district levels. In these meetings, elected representatives of all tiers of PRIs and ULBs, functionaries of the local bodies, officers of the Panchayats and Urban Local Bodies Departments from headquarters and districts levels participated. On these occasions, site visits were also organised. Such meetings and visits were very helpful to the Commission in getting first-hand knowledge of the ground level working of rural and urban local bodies as well as familiarization with the problems being faced by these bodies. The Commission received very valuable suggestions in all these meetings.

1.49 The Commission also had the benefit of receiving views on various issues relating to its TOR from a large number of eminent personalities from various walks of life who came to meet the Chairman, Member Secretary and other Members of the Commission.

1.50 The Commission visited States of Himachal Pradesh, Karnataka and Gujarat to know the working and status of their local bodies as also the approach and methodology adopted by their SFCs. Meetings were held with senior officers of the Departments of Panchayats, Urban Local Bodies and Finance. Interactions were also held with Chairpersons and Members of their State Finance Commissions. Visits were undertaken to Municipal Corporations of Bengaluru, Mysore, Ahmadabad and Surat and meetings were held at these places with the respective Municipal Commissioners/Mayors and other elected representatives of urban local bodies. Meetings were also held with Chairpersons of Zila Parishads and a few elected members of PRIs. The Commission also visited a number of nearby places to know the working of Gram Panchayats and Municipal Committees in these States. Consultations were also held with the Directors and other officers of their Institutes of Rural Development on their monitoring systems, capacity building and training efforts. The Commission also had the occasion to have a long interaction with the Minister of Panchayati Raj of Gujarat Government on status of PRIs and their empowerment. These visits and discussions were important for the Commission's work and enhanced its awareness about the problems of local bodies there.

1.51 The Commission also attended a National Workshop on Panchayat Finances on 27.06.2011 organised by MOPR/GOI in Vigyan Bhawan, New Delhi which was attended by Chairpersons of various SFCs and officers of Panchayats Departments of all the States. All issues relating to empowering PRIs and improving working of SFCs were discussed threadbare in this workshop. Deliberations in this workshop were relevant for improving quality of reports.

1.52 At the instance of the Commission, HIPA administration constituted a working group under the Chairmanship of Dr. P.K. Mahapatra, IAS, Director General HIPA with Dr. Manveen Kaur, Sh. A.K. Gulati, and Sh. M.M. Alam, Assistant Professors from HIPA as the Members for making suggestions on improving the status and working of urban local bodies. On a similar pattern, HIRD Nilokheri constituted a working group under the Chairmanship of Dr. Surat Singh, Director with Dr. Prit Pal Singh and Smt. Vimlesh Rathore as the Members for making suggestions on empowerment of PRIs. These groups made valuable suggestions which have been incorporated in Commission's report at appropriate places.

1.53 The Commission organised State level seminars on empowerment of PRIs and ULBs in collaboration with HIRD Nilokheri and HIPA Gurgaon with a view to understand the working of local bodies as well as the problems being faced by the elected representatives of these bodies. Seminar on PRIs was held on 22.03.2012 in HIRD Nilokheri and that on ULBs on 07.06.2012 in HIPA Gurgaon. In these seminars, a select group of elected representatives of all tiers of PRIs and ULBs, functionaries of these bodies and officers of Departments of Panchayats and Urban Local Bodies participated. Experts and resource persons from universities and research institutions were also invited. Prominent experts who addressed these seminars included Prof. Mukesh Mathur, NIUA Delhi, Dr. V.N. Alok, IIPA Delhi, Sh. Kuldeep Wahi, IAS, Member Secretary Delhi State Finance Commission, Sh. Gautam Sen, Advisor Finance, Govt. of Nagaland, Dr. Manveen Kaur, Trg. Faculty Coordinator HIPA, Dr. Surat Singh, Director HIRD Nilokheri, Dr. N.K. Bishnoi, Prof GJU Hisar. The exchange of views in these seminars gave valuable feedback to better understand the local issues and finances and provided significant inputs to the Commission's work.

1.54 The Commission organised two interactive sessions with experts and resource persons from reputed national level research institutes. First session was held in Haryana Bhawan Delhi on 24.07.2013 in which Dr. Tapas Sen, Prof. NIPFP, New Delhi, Dr. K.K. Pandey Prof. IIPA, New Delhi and Dr. Sandeep Thakur, Associate Prof. NIUA, New Delhi made their power point presentations. Second session was held in Yojana Bhawan, Panchkula on 15.08.2013 in which Dr. S.S. Gill, Director General CRRID Chanidgarh, Dr. Kulwant Singh, Assistant Prof. CRRID Chandigarh and Sh. Gian Singh Kamboj, Consultant 4th State Finance Commission Haryana, presented their papers on relevant issues. These interactive sessions have been of immense help to the Commission in knowing the latest trends in financial relations and fiscal transfers to the lower level governments.

1.55 The reports of earlier SFCs and CFCs provided extremely useful inputs to Commission's work. The Commission also consulted extensively reports of CFCs, other SFCs, State Administrative Reforms Commission, relevant World Bank reports etc. The Commission also used data from state budget documents, State Statistical Abstract, State Economic Survey, plan documents, accounts related documents, Annual Administrative Reports of various departments. The enabling Acts of PRIs and ULBs were also kept in view for the purpose.

1.56 Officers of the Research Wing of the Commission were sent to important national and state level research institutions and think tanks dealing with financial relations, rural and urban development, capacity building and training such as NIRD Hyderabad, NIUA Delhi, HIPA Gurgaon, IIPA Delhi, NIPFP Delhi, HIRD Nilokheri, CRRID Chandigarh. Information relevant to the tasks before the Commission were obtained from some of the documents produced by these institutions. The Commission received useful inputs from these institutions in regard to latest trends in local finances, rural & urban development and empowerment of local bodies.

1.57 The Commission assigned a study on analytical assessment of state finances to Dr. N.K. Bishnoi, Professor, GJU Hissar. The report deals with an in depth assessment of state resources for the award period of this Commission, trends in Haryana's economy and state finances, fiscal correction measures and suggestions for additional resource generation by the state government. Relevant suggestions made have been included in the report.

1.58 The Commission also made extensive use of materials available on the world wide web for obtaining latest material on various issues which are of relevance to it.

CHAPTER – 2
APPROACH AND ISSUES

Role of Finance Commission

2.1 The 73rd and 74th Constitutional Amendments Acts, 1992 (CCAs) made it mandatory for the States to enact new legislations for local self governance by the rural and urban local bodies. These new legislations are intended to devolve power, functions, responsibilities and finances to the local bodies with the objective of enabling them to function as effective and autonomous institutions of local governance. Consequent to these CAAs, Articles 243 I and 243 Y of the Constitution require every State to constitute a State Finance Commission after expiration of every fifth year.

2.2 Thus, the overall task of the State Finance Commission (SFC) is to discharge the mandate laid down in Articles 243 I and 243 Y of the Constitution, consistent with the principles of federal finance, taking into account the current and likely future macro economic and fiscal scenarios, so as to secure fiscal stability and adequate resource availability for the States and the local bodies.

2.3 State government notification dated 16th April, 2010, constituting the Commission, specifies its TOR. These TOR set before the 4th State Finance Commission four different types of tasks. The first core task of the Commission is to determine the principles for distribution of the net proceeds of the taxes, duties, tolls and fees leviable by the State between the state government and the local bodies, both rural and urban, and further their inter se allocation among all tiers of PRIs and ULBs. Second, the SFC has also to determine the taxes, duties, tolls and fees which may be assigned to or appropriated by the PRIs and the ULBs. Third, the SFC is also required to recommend grants-in-aids for all tiers of PRIs and ULBs from the Consolidated Fund of the State. Fourth, the Commission has to suggest measures needed to improve the financial position of the PRIs and ULBs.

2.4 Every SFC, as required by its TOR, has to keep certain specific matters in view while undertaking its core tasks. Thus, the 4th SFC has to take account of:-

i) the objective of balancing the receipts and expenditures of the State and for generating surplus for capital investment;

ii) the resources of the state government and demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State;

iii) the requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing their expenditure.

2.5 It is a well recognised fact that the current system of allocation of financial powers and responsibilities between the State and the local bodies leads to an inherent fiscal imbalance and makes the local bodies heavily dependent on state budgetary support. It is also well recognised that most local bodies especially PRIs do not have adequate resources or lack the motivation to raise the required funds to meet their expenditures. As a result, the local bodies do not perform their duties of providing civic services to the minimum desirable levels to their citizens. **With the advent of 73rd and 74th constitutional amendments, the Finance Commission has been reckoned as the sole arbiter ensuring a just and equitable distribution of state revenues between the State and the local bodies. The State Finance Commission has also been conceived as an instrument for devolving the necessary funds from the state level to the local bodies so as to place them on a sound financial footing.**

2.6 The basic objective of the CAAs is overall empowerment of local bodies so as to make them self reliant, vibrant, effective and professionally efficient instruments of self government. This makes the task of the Finance Commission quite complex and intricate as the fund requirements of local bodies to meet their functional responsibilities are far beyond the reach of their budgetary and other resources. **Thus, in this changed scenario, the State Finance Commission is called upon to make a realistic assessment of the**

resources of the local bodies and also to suggest a stable, predictable and dependable resource transfer package from the State to the local bodies with differentials in fiscal capacities and needs. Besides, the Finance Commission has also to ensure that the resources transferred to local bodies through the aegis of Finance Commission and their own revenue generation efforts are put to optimum use and judiciously utilised on providing better quality of public services to their citizens.

Approach of the Commission

2.7 The Finance Commission is required, by its TOR, to keep specific policy considerations in mind while deciding the rules of procedure for its working and also the contours of its approach in view of the issues before it.

2.8 The issues that we have to consider, therefore, directly emanate from the TOR of this Commission. In this Chapter we will outline the broad considerations that impact the Commission's approach to its core and policy task. We also discuss the main issues, our proposed approach and problems faced.

2.9 The overall approach of the Commission is to foster inclusive growth promoting fiscal federalism. This is the vision underlying the Commission's recommendations on inter-governmental fiscal arrangements and on the roadmap for fiscal adjustment. This vision has to be given effect to within the overall structure of inter-governmental fiscal arrangements.

2.10 Inclusive growth is the cornerstone of the State's development strategy. Haryana's economic growth has, indeed, been creditable. However, such growth must make a demonstrable difference to the lives of the poorest and most vulnerable sections of society. Haryana has the potential and the means to secure such a future for its citizens. The stress laid on inclusive growth in the Eleventh Plan has meant that such growth has been accompanied by a concerted effort to invest in the efficient and increasing delivery of public services. But to achieve this potential, it is necessary that resources be mobilised and deployed in such a manner that spur high rates of growth visible in the state economy. There has to be also improvement and increase in logistics, infrastructure and efficient administration in order to optimise gains from fiscal devolution. Growth with equity has been a cornerstone of the state fiscal policy. We agree and endorse it. However, there has to be emphasis on empowerment of local institutions to promote equity. This aspect is the recurrent theme underlying various chapters.

2.11 Fiscal consolidation promotes growth. By fiscal consolidation we do not mean a reduction in the role of the State. Rather the state government will continue to mobilise and deploy a significant proportion of resources to promote public welfare and embark upon measures to improve the quality and effectiveness of the process of public expenditure and resource mobilisation. We are of the view that these are feasible pathways for fiscal consolidation with high growth. In the present context, this also means providing the fiscal space to promote both public and private investment so as to secure the highest possible sustainable, green and inclusive rate of growth for the state economy. This prompts the Finance Commission to propose ways to incentivise such consolidation within the mandate and instruments at its disposal. We have been particularly mindful of this challenge in our recommendations with respect to future fiscal roadmap for the state government as well as the local bodies. We have also kept in view these contours of state's economy and its fiscal strategy while projecting resource availability with the State and the local bodies.

2.12 The work of the Finance Commission has become multi-dimensional in nature. Finance Commissions in the country have had to face three important challenges. First, there has historically been a high degree of vertical fiscal and functional imbalance between the State and the local bodies. Second, there is spatial inequality in the fiscal capacity and fiscal needs of different local bodies due to various reasons. Third, it is a fact that recent decentralisation has considerably enhanced the fiscal obligations of the third tier of government, but not the devolution of matching human and financial resources to discharge these obligations. These dimensions attracted our pointed attention which we have tried to properly address to in our report.

2.13 Added to this are the new domestic challenges that have emerged. The imperatives of urbanisation, industrialisation, empowerment of PRIs and ULBs and improved information systems have collectively increased the expectation and demand for public and merit goods. In meeting this demand, the challenge of sustainable development has to be kept firmly in mind so that present generations do not diminish the lives and capabilities of future generations. In making its award, the Finance Commission has to be mindful of the short and long term implications that these challenges pose for public finances and the need to foster the appropriate fiscal incentives to address these challenges.

2.14 The 73rd and 74th constitutional amendments gave new dimensions and institutional strength to the rural and urban local bodies, vis-à-vis, democratic decentralisation in the country. These amendments provide for devolution of specific powers, authority and funds to these bodies to strengthen their financial and functional status so that these bodies could generate resources at their own level to meet their expanding needs. Further, the new 11th and 12th Schedules, listing out 29 functions for PRIs and 18 functions for ULBs, have further enlarged the operational scope of the local bodies. These CAAs also envisage devolving to these bodies functions relating to preparation of plans for economic development and social justice as well as for implementation of various development schemes. The Commission has noted that despite after two decades of initiatives through constitutional efforts for enhancing the role of local bodies, the progress made by the state government towards functional transfer to these bodies through the process of activity mapping or otherwise does not seem to be tangible. Most of the basic functions, primarily meant for local bodies, are still being performed by line departments of the state government. Many local bodies also seem content in allowing departmental handling of responsibilities that ought to be theirs. These aspects need to be properly addressed. The Commission feels that it is now high time to reflect on the experiences gained and redesign strategies to achieve the constitutional mandate of empowering the local bodies, particularly PRIs. **At the same time, the Commission also recognises that delegation of functions**

to local bodies is a gradual and time consuming process which requires adequate strengthening and motivation of local bodies, administratively, technically, logistically and financially so as to enable them to take on the transferred responsibilities. The Commission has taken due note of the existing functional status of local bodies in the State and made suitable recommendations with the proviso that subsequent functional transfers to the local bodies should invariably be accompanied by proportional transfer of funds and functionaries.

2.15 Financial devolution is another key element of empowerment of local bodies through the process of democratic decentralisation. Subsequent to 73rd and 74th CAAs, conformity legislations have been enacted by almost all States including Haryana. The Commission has noted that the enabling legislations endow sufficient taxation powers to local bodies, but these do not seem to have been adequately administered due to political, administrative and economic reasons. Neither are the local bodies willing to exercise their given taxation powers for obvious reasons. It has also been given to understand that the taxation powers of local bodies have, to a great extent, been limited by the state government, directly or indirectly. On the other hand, the local bodies are reported to have in the past been pre-empted, slowly and gradually, of their major sources of revenue, by way of abolition, exemptions and concessions, without putting in place any viable and effective alternate compensatory measure to recoup the revenue losses so suffered. This tendency led to undermining of their authority and autonomy and developed in them overtime a highly dependency syndrome on government budgetary support and other external assistance, which cannot be continued as such for long. **There is, thus, an imperative need for the local bodies to raise adequate internal resources through more imaginative and effective tax administration, widening the tax net by tax mapping, enhancing collection efficiency, updating tax rates and service charges, better utilisation of common property resources and adoption of austerity and economy measures. The Commission has, in order to put local bodies finances on sound footing, made several suggestions in its report.**

2.16 The expenditure needs on maintenance and upkeep of existing assets of local bodies and operation and maintenance costs of public services being provided by these bodies have increased manifold over the years without matching resources. Salaries and wages eat away a big chunk of their resources leaving very little for maintenance of assets and services. The position of municipalities has become all the more precarious due to population influx putting extra strain on their existing infrastructure. On the resources side, rates of service charges have remained unrevised since long telling adversely upon the level and quality of public services. Central government has called upon the states to recover 100% cost of operation and maintenance of civic services through service charges, particularly pertaining to water supply, sewerage and storm water drainage. The 12th CFC had also recommended recovery of at least 50% of the O & M cost by way of water charges and other service charges. This Commission has observed in a later chapter that O & M cost of basic services, particularly the water supply and sewerage, being recovered in the State, ranges from 20 to 25 percent which, besides implying a high element of cross subsidisation in providing public services also inform the inability of authorities to recover dues or unwillingness of beneficiaries to pay. The Commission has analysed this situation and come to the conclusion that it may not be possible to recover full operational costs within the reference period of this Commission. Thus, the Commission’s broad approach is to progressively reduce the element of subsidy in a phased manner over the years. It would serve dual purposes of making users pay the cost of services being provided to them as well as safeguarding the interests of weaker sections of society by enabling targeting of benefits. Besides, the Commission has also suggested some measures for reduction in the cost of services and improving efficiency of expenditure incurred by local bodies through privatisation, public-private partnership, use of information technology and other measures.

2.17 The Commission is broadly required to follow a normative approach in making assessment of the availability of financial resources with the PRIs and ULBs as well as their expenditure needs for the provision of core civic services for the reference period of this Commission i.e. from 2011 – 12 to 2015 – 16.

This exercise is to be undertaken to workout normative gaps in resources of local bodies taking into account the likely additional expenditure on providing minimum desirable level of public services as also the additional resource mobilisation through own efforts based on capacity and potential. But for want of adequate and reliable data on the finances and the services of local bodies, time and resource constraints, the exercise of normative assessment of finances of local bodies and their fiscal needs could not be feasible. Alternatively, the Commission assessed the resources availability with local bodies and their financial needs following traditional approach based on past trends and future prospects. This has helped the Commission in identifying the resource gaps of PRIs and ULBs for the period 2011 – 12 to 2015 – 16. We have attempted to bridge the traditional gaps so worked out partly through the resource devolution criteria of the Commission and partly through recommending own revenue generation efforts of local bodies and fund flows from external sources.

2.18 Generally, allocation of functions and responsibilities between the state government and the local bodies should be made on the principles of subsidiarity i.e. in such a manner that these are entrusted to the lowest level where these can be efficiently performed. This ensures accountability, local participation and prioritisation of expenditure according to local needs. Like-wise, taxation powers need to be determined on the basis of the level at which these can be efficiently levied and collected. The experience all over Haryana has been that local authorities are more reluctant to levy taxes or to collect them and this tendency limits the extent to which taxation powers and functional responsibilities can be transferred to the local bodies. Consequently, their own resources fall short of their expenditure needs for adequately discharging the functions entrusted to them. This inadequacy of resources would largely be manifested in inability or low level of their services. The Commission tried to determine their expenditure needs on the basis of the funds required for satisfactory operation and maintenance of the existing civic services and those required for raising the level and coverage of these services to the levels which they should strive to reach by the end of 2015 – 16, the period to be covered by this Commission.

2.19 While working out the quantum of resource devolution to the local bodies, the Commission, as per its TOR, has also assessed the resource availability with the state government for its reference period 2011 – 12 to 2015 – 16. While doing so, the Commission has gone into the economic situation of the State and the status of government finances and the commitments thereon like impact of pay revision, committed liability of Eleventh Five Year Plan schemes, maintenance of capital assets, expenditure on civil administration and other committed and contingent liabilities. It helped the Commission in taking a realistic view of the magnitude and design of the devolution package from the state resources to the local bodies.

2.20 The Commission has observed that the pace of empowerment of local bodies, as envisaged in the CAAs, has not been satisfactory. The changes brought into local governance so far are not compatible with the expectations and aspirations of the constitutional amendments. These require total revamping of the governance with the three tier set up and a clear-cut demarcation of functions and responsibilities for different tiers of government. It is also equally imperative to intimately involve the local bodies in planning, execution, administration and general governance at the ground level. These institutions should be more and more self reliant, innovative and professionally trained and they should also be fully aware of their role, rights and obligations. They also need more professional help within and from without. They must strive hard to meet all their needs through their own efforts and spend their resources prudently and optimally. This Commission strongly feels that there has to be a firm belief and conviction in decentralised governance. In addition, there also has to be a drastic shift in the attitude of all the stake-holders, the central government, state government, the local bodies and especially the bureaucracy and the people so that the constitutional amendments could be properly operationalised for all round empowerment of local bodies. The mindset of employees at the local bodies level and those at state headquarters needs an overhaul to employ strategies consonant with the spirit of the CAAs.

2.21 The existing system of allocation of financial powers and responsibilities between the states and the local bodies has an inherent tendency of creating vertical and horizontal fiscal imbalances. Vertical imbalances arise from assignment of more resources to the states and larger constitutional responsibilities envisaged for local bodies. Horizontal imbalances arise from differential fiscal capacities and needs among local bodies as well as cost disabilities. Fiscal transfers in terms of tax devolution and grants-in-aid have a tendency of correcting these imbalances. Thus, the Commission, while taking cognizance of the most vulnerable considerations like needs, fiscal efficiency and cost disabilities, has designed such a scheme of fiscal transfers as to serve the objectives of equity, efficiency and social justice and which is also characterized by predictability, stability and transparency.

2.22 The Finance Commission has to devise the principles for vertical division of total fiscal transfers from the state government to the local bodies, both PRIs and ULBs. This implies that the Commission has to determine the design and magnitude of the divisible pool, its constituents and the criteria for its distribution. This may be in terms of revenue sharing and grants-in-aid. The Commission took stock of the current status of practices and procedures being followed by the SFCs of other States as also the previous SFCs of Haryana. Like the 3rd SFC, this Commission also treated net own tax revenue of the State as the sole component of the divisible pool as every citizen of the State has a stake in state taxes.

2.23 The Commission has to determine the share of local bodies in the divisible pool. There are two alternatives of revenue sharing i.e. specific tax sharing and global sharing. Under global sharing, all state taxes are pooled together and a fixed percentage thereof becomes the share of local bodies. Global sharing system has distinct advantages in being transparent, objective, certain and predictable. Which is why it is being followed by the CFCs and majority of SFCs. Hence, like the 3rd SFC, this Commission also decided to choose the global sharing mechanism for determining share of local bodies in the divisible pool, by virtue of which buoyancies of state taxes are shared by the local bodies. Since the divisible pool is predictable, local bodies are enabled to plan their priorities in advance. In addition, the Commission has also to determine the relative shares of PRIs and ULBs in the total local bodies share in the divisible pool. In the global sharing mechanism, the shares of PRIs and ULBs have been determined primarily on the basis of their population ratios in the total population of the State as per 2011 census. However, more weightage has been given to the Urban Local Bodies in financial devolution under step-2 applicable for the year 2015 – 16 as these bodies have to bear additional expenditure due to population shift to urban areas and industrialisation.

2.24 After having determined the relative shares of PRIs and ULBs in the divisible pool, the next step for the Commission is to suggest criteria for horizontal division of the shares of PRIs and ULBs district-wise and then among each tier of PRIs and ULBs. The 1st and 2nd SFCs of Haryana, by and large, adopted population as the only criterion for district-wise distribution of PRIs and ULBs shares and further among each tier of PRIs and ULBs. The 3rd SFC made a departure from earlier Commissions' approach as the criterion of population, though being natural and objective, did not amply address regional socio-economic disparities, fiscal efficiencies and incentives and disincentives in resource generation efforts. As such, the 3rd SFC adopted a composite index consisting of factors like population, area and other indicators of socio-economic backwardness like SC population, BPL population and literacy gap. This Commission attempted to compute a suitable composite index of backwardness and deprivation, but could not succeed due to lack of reliable data. Thus, like the 3rd SFC, this Commission also computed a composite index consisting of factors like population, area and other acceptable socio-economic indicators of backwardness and deprivation like literacy gap, Antodaya Anna Yojana (AAY) population and gender ratio and assigned certain weightages to each factor. The Commission selected such variables which are simple, measurable and easily understandable for which reliable data is available. Like 3rd SFC, for inter se distribution of PRIs and ULBs shares among each tier of PRIs and ULBs at all levels within the district, the Commission has taken population and area as the parameters with certain weightages.

2.25 As per its TOR, the Commission has also to identify state taxes and duties which can be transferred to or appropriated by the local bodies. After going through the basic structure of state taxes it was observed that the three most elastic and buoyant taxes i.e. State Excise Duties, Stamp Duty and Value Added Tax (VAT) are already being shared with the local bodies. It was further observed that the existing structure of local bodies is not capable to handle the operation of new assignable taxes. Hence, the Commission did not make any recommendation in this regard.

2.26 The Commission has not recommended any kind of general purpose grants to local bodies from the Consolidated Fund of the State in view of larger dispensations being recommended by CFCs for local bodies of the states for supplementing their resources. Moreover, the global sharing criteria of tax devolution supplemented by state plan/non plan grants is also intended to provide sufficient funds to local bodies to meet their financial needs. The Commission is also of the view that the role of grants should remain confined only to cater to the specific problems and needs of the local bodies. As such, the Commission has recommended some specific purpose grants for local bodies for maintenance of road and solid waste management, fire infrastructure, capacity building, maintenance of accounts and audit, creation of research cells etc.

2.27 The Commission is required to suggest measures for supplementing resources of the state government as well as the local bodies through various means including levy of user charges and adoption of measures to promote efficiency. There is also a need for economic pricing and closer targeting of various social and economic services provided by the State and the local bodies.

2.28 With additional funds becoming available to local bodies through their own efforts for resource mobilisation, transfers from the state government and other sources, it is necessary to ensure that funds are spent properly and efficiently. For this purpose, certain recommendations have been made for improving the systems of governance, including accounting, auditing and for greater transparency in their functioning.

2.29 However, the Commission's overall intention has been to suggest an effective and transparent scheme of revenue sharing with adequate scope for incentives and disincentives based on performances of local bodies in achieving national and state objectives. For this purpose, the Commission has devised an incentive mechanism to reward the efforts of performing local bodies in important economic and social indicators.

2.30 We have closely studied the observations and recommendations of the 13th Central Finance Commission concerning local bodies contained in Chapter 10 of its report. These touch upon and contain most useful material regarding several issues which are of relevance to our task. Accordingly, we have kept these in view while attending to our constitutional mandate.

2.31 The approach and methodology outlined above is, by and large, the outcome of the TOR, constitutional mandate, views and suggestions of all the stake-holders, aspirations of the citizens and particularly the wisdom of the Commission. We have tried our best to lay down a well conceived criteria for vertical and horizontal distribution of state resources to the lower level government. We are convinced that the revenue sharing criteria designed by us is consistent with the fiscal capacity and commitments of the state government and the expanding fiscal needs of the local bodies.

Difficulties

2.32 The 4th SFC was constituted vide government notification dated 16th April, 2010, but could not start functioning effectively till August, 2011 due to procedural and practical problems and other compelling reasons. The Commission was constituted in piece-meal and the Member Secretary, with additional charge, continued to be shifted frequently. All the remaining Members were appointed at a very belated stage on 3rd April, 2013 on part-time basis. Initially there was no technical staff available to the Chairman to fall back upon. It caused a serious setback to Commission's work.

2.33 The scope of enquiry of the State Finance Commission is complicated, comprehensive and much more wider compared to the Central Finance Commission which only deals with the sharing of national revenues with the States. Whereas the SFC, in addition to sharing of State revenues with the local bodies, has also to suggest measures to improve the financial position of the rural and urban local bodies, keeping in view their potential for raising resources and for reducing expenditure. Besides, the most typical task of the SFC is to create a proper nexus between two conflicting situations of resource constraint with the state government and expanding financial needs of the local bodies.

2.34 The nature and magnitude of Commission's work require it to be manned with technically qualified and research oriented staff. We are constrained to point out that the posts sanctioned by the state government were quite contrary to that proposed by the Commission. The Commission had also to struggle hard to arrange staff from various sources i.e. state government departments and the market through out-sourcing. It took considerable time to complete the process and select suitable persons for the job and the Commission had to fall back on the services of retired personnel for the basic tasks.

2.35 The Commission had also to face difficulties in getting office accommodation, setting up the office of the Commission and arranging supporting facilities. Inordinate delays occurred in the purchase of office equipments like computers including other electronic gadgets, furniture and other supporting logistics due to inadequate budgetary allocations. The basic and paramount requirements of the Commission for enhancing its efficiency were not duly appreciated by the lower levels of state bureaucracy.

2.36 The Commission required extensive data and information on finances, services, structural composition and other important aspects of local bodies and also on other issues referred to in its TOR for which comprehensive formats and questionnaires had to be designed. Since the records of previous SFCs were not made available, a lot of valuable time of the Commission was taken to re-design the necessary formats and questionnaires in order to get primary and secondary data from all the concerned quarters. If the record had been readily available, more time could have been spent on the cerebral part of the Commission’s work.

2.37 The Commission has observed that there is no central agency at the state level to collect, compile, process and analyse the statistical data from where it could be made available to the next Commission and the other stake-holders for use. The Commission, thus, had to face serious problems in getting dependable and authentic data on local finances, civic services and other aspects from the departments of Panchayats and Urban Local Bodies and other related departments. Research wing of the Commission made all out efforts to expedite the process of preparation and collection of data by issuing of reminders, telephonic conversations, personal visits and holding of meetings with the departmental officers. Despite all these efforts, the flow of information had not been encouraging, particularly, in respect of PRIs. The quality of the data/information received varied across the local bodies which had to be made usable after cross-checking and reconciling with data from other sources. The responsibility of policy making cannot be adequately discharged without solid data base. The Commission is of the view that collection and compilation of data on local bodies is the ongoing responsibility of the state government. This Commission has made specific references to remedy this state of affairs.

2.38 The 11th, 12th and 13th CFCs have laid stress on creation of strong data base on finances and services of local bodies accessible on electronic media and also earmarked certain funds for this purpose. The previous SFCs of Haryana had also made similar recommendations for strengthening of data base. But not much headway seemed to have been made in this regard. This is another area of serious concern to the Commission.

2.39 With a view to soliciting suggestions on the TOR and related issues, the Commission circulated a comprehensive questionnaire to all stake-holders. It is disheartening to note that the Commission did not receive any supportive response from Ministers, MPs, MLAs, and elected representatives of PRIs and

ULBs and also from government functionaries. This is a matter of serious concern attracting pointed attention of the Commission.

Suggestions

2.40 The 3rd SFC of Haryana had made various suggestions in regard to creation of data base and other allied issues. This Commission had gone through these recommendations and found merit in them and as such commends the same for implementation, which are repeated as under:-

- **The State Finance Commission should be constituted on time and in one-go with a full time Member Secretary and its composition should not be disturbed till submission of report. This may help the Commission in timely submission of its report.**
- **The Commission strongly feels the necessity of a permanent central agency in the State Finance Department or the Planning Department, fully equipped with qualified and technical manpower to work as repository of data on local bodies and also to review and monitor the progress of implementation of recommendations of SFCs and CFCs.**
- **In order to overcome the problem of statistical data on PRIs and ULBs, there is an urgent need of creation of statistical cells each in the departments of Panchayats and Urban Local Bodies, fully equipped with trained and dedicated manpower and modern electronic devices.**
- **The state government, through its agencies like HIPA and HIRD, should arrange such programmes as to create awareness among public representatives and government functionaries towards 73rd and 74th constitutional legislations and the statutory institutions like the Finance Commission and the local bodies.**

2.41 Though the Commission has dealt with these issues elsewhere at appropriate places in its report, yet a brief mention has been made here also. We are of the firm belief that with the creation of a central agency in Finance or Planning Department and statistical cells in Panchayats and Urban Local Bodies Departments, the successive SFCs would not face data problems and their work would get greatly facilitated as properly processed data would be available to them on time at the time of their constitution. A permanent secretariat for SFC is an integral part of the recommendations on the subject. This would also be a worthwhile investment. These suggestions are of a basic nature, effective and beneficial to the State in the long run.

CHAPTER – 3

STATUS OF IMPLEMENTATION OF RECOMMENDATIONS OF CENTRAL FINANCE COMMISSIONS (CFCs)

Historical Background

3.1 In a federation, there tends to be a constitutional imbalance in the allocation of financial resources and responsibilities between the Centre and the States. The Centre is beset with more elastic and buoyant sources of revenues, whereas the States have been assigned a variety of expanding functions. It is, thus, inevitable to transfer substantial resources from the Centre to the States and further allocation of the resources so transferred among the States with wide differentials in fiscal capability and needs. In this scenario, the Constitution of India, in Part XII provides for certain types of financial relations between the Centre and the States. Article 280 (1) of the Constitution enjoins on the President to constitute a Finance Commission at the expiration of every fifth year to recommend distribution of national revenues between the Centre and the States on the one hand and further among the States on the other.

3.2 Although principles of centre state fiscal relations and their delivery mechanisms were in place since adoption of the Constitution, but till the setting up of the Tenth Finance Commission, no separate provisions existed for financial transfers to local bodies. Examination of finances of local bodies was not covered in the TOR of the 10th CFC. Introduction of the 73rd and 74th Constitutional Amendments played a crucial role in the evolution and development of local bodies as the third level of governance. Insertion of new sub-clauses (bb) and (c) in clause (3) of Article 280 of the Constitution, subsequent to 73rd and 74th CAAs 1992, requires the Central Finance Commission to suggest the measures needed to augment the Consolidated Fund of a State to supplement the resources of the rural and urban local bodes in the State on the basis of the recommendations made by the Finance Commission of the State. This amendment in Article 280 of the Constitution significantly improved the status and authority of local bodies and also widened the scope of the CFC as now it is called upon to look into the finances of local bodies and to recommend grants for rural and urban local bodies.

I. Tenth Finance Commission (1995 - 2000)

Tenth CFC and the States

3.3 The Tenth Finance Commission, set up in June 1992, under the Chairmanship of Sh. K.C. Pant, was called upon, for the first time, to assess the finances of the Centre and the States on normative basis taking into account the tax potential and minimum desirable levels of public services. The objective was to bring a proper nexus in the capacity of the Centre and needs of the States. In making its recommendations, the Commission was to have regard, among other considerations, to not only balancing the receipts and expenditures on revenue account of the Centre and States but also generating surpluses for capital investment and reducing fiscal deficits. As such, its approach was guided by the paramount need to restore fiscal equilibrium in the economy.

3.4 Sharing of central taxes with the States has a long history. Two most important shareable central taxes had been Income Tax and Union Excise Duties. In case of Income Tax, the share of States varied from 55% to 77.5% from the First to the Tenth Finance Commissions and in case of Union Excise Duties it varied from 40% to 47.5%. An important development that took place was the enactment of the Constitution (Eightieth Amendment) Act, 2000 which provides for sharing the net proceeds of all central taxes and duties with the States.

3.5 The 10^{th} CFC suggested share of States in Income Tax at 77.5% and in Union Excise Duties at 47.5%. Its other recommendations related to revenue deficit grants, up-gradation grants, calamity relief and distinctly, for the first time, grants for local bodies. At the same time, the 10^{th} CFC also suggested an innovative alternative scheme for tax devolution whereby the share of States in aggregate central taxes was pegged at 29% through a constitutional amendment.

3.6 The 10th CFC recommended total transfers of Rs. 2,26,643.30 crore for all the States covering the period 1995 – 2000, including tax devolution at Rs. 2,06,343.00 crore and grants at Rs. 20,300.30 crore. The share of Haryana was Rs. 2,793.11 crore constituting 1.232% of the total devolution. It included Rs. 2,554.96 crore as tax devolution (1.238%) and Rs. 238.15 crore as grants (1.173%). Haryana was not given any share in revenue deficit and up-gradation grants. The position is shown in Table 3.1.

Table 3.1: Tenth CFC transfers to States (1995 - 2000) and Haryana share

Particulars	**Total transfers (Rs. in crore)**	
	All States	**Haryana**
Tax Devolution	**2,06,343.00**	**2,554.96 (1.238%)**
Grants-in-aid	**20,300.30**	**238.15 (1.173%)**
• Deficit Grants	7,582.68	-
• Up-gradation Grants	1,362.50	-
• Special Problems	1,246.00	40.00
• Relief Grants	4,728.19	98.93
• Local Body Grants	5,380.93	99.22 (1.844%)
Total Devolution	**2,26,643.30**	**2,793.11 (1.232%)**

Source: - Report of 10th CFC

Tenth CFC (1995 - 2000) and Local Bodies

3.7 As stated above, examination of finances of local bodies was not covered in the TOR upto the 10th CFC. Though the TOR of 10th CFC did not cover 73rd and 74th constitutional amendments, yet keeping in view the spirit of these amendments and likely changes in the status of local bodies, it recommended adhoc grants of Rs. 5,380.93 crore for rural and urban local bodies of the States for the period 1995 – 2000, consisting of Rs. 4,380.93 crore for PRIs and Rs. 1,000.00 crore for ULBs. It worked out to 1.38 percent of the divisible pool as estimated by the 10th CFC. Grants for PRIs were assessed at the rate of Rs. 100/- per capita (1971 census) and inter-se distribution was to be made on the basis of population ratios of the States. Provisions for ULB grants was made on adhoc basis to be distributed among the States on the basis of their inter-state ratio of urban slum populations. As per the guidelines of

MOF/GOI, these grants were to be utilised on capital works and not on salaries and wages.

3.8 The share of Haryana in total LBGs recommended by the 10th CFC was Rs. 99.22 crore of which Rs 82.64 crore was for PRIs and Rs. 16.58 crore for ULBs. It constituted 1.844% of the total LBGs for the States. Entire grant of Rs. 82.64 crore recommended for PRIs was received from the MOF/GOI and was transferred to the PRIs and distributed among PRIs as per the laid down criteria. However, in case of ULBs, against the allocation of Rs. 16.58 crore, grant of Rs. 12.44 crore was received and transferred to ULBs. The balance grant of Rs. 4.14 crore was not received from GOI as elections of ULBs were not held in time. The position is given in Table 3.2.

Table 3.2: Status of 10th CFC grants for Local Bodies (Rs. in crore)

Year	**Allocation by 10th CFC**		**Received from GOI**		**Released to LBs**	
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
1996-97	20.66	4.15	20.66	4.15	10.33	4.15
1997-98	20.66	4.15	20.66	4.15	15.49	1.04
1998-99	20.66	4.14	20.66	4.14	-	7.25
1999-2000	20.66	4.14	20.66	-	56.82	-
Total	**82.64**	**16.58**	**82.64**	**12.44**	**82.64**	**12.44**

Source:- State Finance Department

Note:- (i) The 10th CFC did not recommend any grant for the year 1995 - 96 for any State.

(ii) The grants of Rs. 4.14 crore for ULBs for the year 1999 - 2000 could not be released by GOI as elections of ULBs were not held on time.

II. Eleventh Finance Commission (2000 – 05)

EFC Devolution and the States

3.9 The Eleventh Finance Commission (EFC) was constituted by the GOI on 3rd July, 1998 under the Chairmanship of Prof. A.M. Khusro. The TOR of EFC covered, inter-alia, sharing of central taxes with the States, grants-in-aid to the States, local bodies grants and suggesting measures needed to augment resources of the States and the local bodies. The Commission was required to have regard to various considerations like normative assessment of finances of the Centre and the States and their committed liabilities including maintenance of capital assets, up-gradation of standards of services etc. The EFC was also required to design a scheme for restructuring of finances of both the Centre and the States so as to restore fiscal balances.

3.10 The EFC fixed share of States in central taxes at 29.5%. Indicative ceiling was fixed at 37.5% on all total transfers from the Centre to the States. While designing the scheme of fiscal transfers, the approach of EFC was guided by the objectives of correcting horizontal fiscal imbalances by equalising revenue capacities of the States so that they can provide basic public services at minimum acceptable levels. Hence, in its tax sharing mechanism, the EFC adopted various parameters and accorded certain weights, such as Population 15%, Area 7.5%, Income Criteria (distance method) 62.5%, Tax Effort 7.5% and Fiscal Discipline 7.5%.

3.11 The total devolution recommended by the EFC for the States was Rs. 4,34,905.40 crore for the period 2000 – 2005 including tax devolution at Rs. 3,76,318.01 crore and grants at Rs. 58,587.39 crore including deficit grant of 35,359.07 crore, up-gradation and special grants of Rs. 4,972.63 crore, calamity relief of Rs. 8,255.69 crore and LBGs of Rs. 10,000 crore.

3.12 Share of Haryana in total EFC transfers was Rs. 4,205.77 crore for 2000-05 including Rs.3,552.44 crore as tax devolution and Rs. 653.33 crore as grants. It constituted 0.967% of the total transfers. Haryana, being assessed as a revenue surplus State, did not get any share in deficit grants of Rs. 35,359.07 crore. The summary position of EFC devolution is given in Table 3.3.

Table 3.3: EFC Devolution and Haryana Share

Particulars	Total Devolution 2000-05 (Rs in crore)	
	All States	**Haryana**
Tax Devolution	**3,76,318.01**	**3,552.44 (0.944%)**
Grant-in-aid	**58,587.39**	**653.33 (1.115%)**
•Deficit grants •Up-gradation & Special Grants •Calamity Relief •Local Bodies	35,359.07 4,972.63 8,255.69 10,000.00	- 132.65 (2.668%) 336.95 (2.081%) 183.73 (1.837%)
Total Devolution	**4,34,905.40**	**4,205.77 (0.967%)**

Source: -Report of 11th CFC

3.13 The MOF/GOI formulated a scheme of Fiscal Reforms Facility for the States under which each State was required to draw up its State Specific Medium Term Fiscal Reforms Programme (MTFRP). The fiscal milestones fixed for each State were to be achieved by the year 2004 – 05. An Incentive Fund was set up to be drawn upon by the States in proportion to their fiscal performance. The GOH was released an incentive grant of Rs. 55.17 crore out of its share of Rs. 98.02 crore as it succeeded in achieving the fiscal targets within the time frame.

EFC and Local Bodies Grants (2000 – 05)

3.14 The TOR of EFC required it to recommend measures needed to augment the Consolidated Fund of the States for supplementing resources of the Panchayats and Municipalities on the basis of the recommendations of the SFCs. Where SFCs reports were not available, EFC could make its own assessment about the manner and the extent of augmentation.

3.15 The EFC recommended grants of Rs. 10,000 crore for rural and urban local bodies of the States for the period 2000 - 05, including Rs. 8,000 crore for PRIs and Rs. 2000 crore for ULBs. This aggregate grant of Rs. 10,000 crore constituted 0.78% of the shareable pool as estimated by the EFC.

3.16 Share of Haryana State in total LBGs was Rs. 183.73 crore including Rs. 147.09 crore for PRIs and Rs. 36.64 crore for ULBs. Table 3.4 depicts the picture:-

Table 3.4: Position of LBGs as recommended by EFC for Haryana (Rs. in lakh)

Year	Allocation by EFC		Released by GOI		Amount released to LBs	
	PRIs	**ULBs**	**PRIs**	**ULBs**	**PRIs**	**ULBs**
2000 - 01	2,941.75	732.80	1,470.88	366.40	735.44	366.40
2001 - 02	2,941.75	732.80	4,412.63	1,029.20	2,941.75	1,099.20
2002 - 03	2,941.75	732.80	2,941.75	732.80	3,677.19	732.80
2003 - 04	2,941.75	732.80	2,941.75	732.80	4,412.62	732.80
2004 - 05	2,941.75	732.80	2,941.75	732.80	2,941.75	732.80
Total	**14,708.75**	**3,664.00**	**14,708.75**	**3,664.00**	**14,708.75**	**3,664.00**

Source:- State Finance Department

Note: LBGs of Rs. 14,708.75 lakh for PRIs and of Rs. 3,664.00 lakh for ULBs allocated for 2000 - 05 were fully received from GOI and transferred to the LBs.

3.17 EFC listed out core civic services like, primary education, health, drinking water, street lighting and sanitation etc for utilisation of LBGs. These funds were otherwise untied with the proviso that they should not be used for payment of salaries and wages.

3.18 Specific state-wise amounts were earmarked for maintenance of accounts (Rs. 98.60 crore) and creation of data base of LBs (Rs. 200 crore). These amounts were first charge on the LBGs. Out of these, share of Haryana was Rs. 734.71 lakh, which included Rs. 491.95 lakh for creation of data base and Rs. 242.76 lakh for maintenance of accounts of PRIs. These amounts were received from GOI and transferred to the concerned quarters.

3.19 The EFC also suggested a number of measures for augmenting internal resources of local bodies which included levy of land taxes, surcharges/cess on state taxes, levy of profession tax etc. Suggestions were also made for local resource mobilisation including reform of property tax, substitution of octroi by tax and fixation of user charges in such a way as to cover full operation and maintenance cost.

3.20 EFC inducted some variables in the distribution criteria of LBGs with certain weightages like, Population 40%, Geographical Area 10%, Index of Decentralisation 20%, Income Criteria (distance method) 20% and Revenue Efforts 10%.

III. Twelfth Finance Commission (2005 - 10)

TFC and the States

3.21 The Twelfth Finance Commission (TFC) was constituted by the central government on 1st November, 2002 under the Chairmanship of Dr. C. Rangarajan on similar TOR. Besides, it was asked to suggest restructuring of public finances for restoring budgetary balance, achieving macro-economic stability and debt reduction alongwith equitable growth.

3.22 TFC attempted to suggest a scheme of resource transfers that could achieve equity and efficiency culminating in predictable and stable fiscal transfers. TFC believed that in the scheme of transfers, tax devolution plays a dual role of correcting vertical as well as horizontal fiscal imbalances, whereas, grants-in-aid tend to achieving a degree of equalization. Thus, TFC was guided by three main considerations, viz. needs, cost disabilities and fiscal efficiency.

3.23 TFC fixed share of States in divisible pool of central taxes at 30.5%. Indicative ceiling of total transfers from the Centre to the States was pegged at 38%.

3.24 TFC, thus, inducted into the revenue sharing mechanism important variable parameters and accorded appropriate weights to each as, Population 25%, Area 10%, Income Criteria (distance method) 50%, Tax Effort 7.5% and Fiscal Discipline 7.5%.

3.25 Based on above criteria, total transfers recommended by TFC for the States worked to Rs. 7,55,751.62 crore covering the period 2005 – 10 including, tax devolution at Rs. 6,13,112.02 crore and grants at Rs. 1,42,639.60 crore consisting of deficit grant of Rs. 56,855.87 crore, up-gradation and special grants of Rs. 44,783.73 crore, calamity relief of Rs. 16,000 crore and local bodies grants of Rs. 25,000 crore.

3.26 Share of Haryana in total transfers for the period 2005 - 10 was Rs. 8,042.44 crore constituting 1.064% of the total transfers. It included tax devolution at Rs. 6,596.46 crore (1.075%) and grants at Rs. 1,445.98 crore (1.014%). Haryana was not given any share in deficit grants, being considered as a revenue surplus state. Total picture of TFC devolution has been given in Table 3.5.

Table 3.5: TFC Devolution and Haryana Share (2005 - 10)

Particulars	**Total Transfers 2005 -10 (Rs. In crore)**	
	Total All States	**Haryana Share**
Tax Devolution	**6,13,112.02**	**6,596.46 (1.075%)**
Grants-in-aid	**1,42,639.60**	**1,445.98 (1.014%)**
• Deficit Grants	56,855.87	-
• Up-gradation and Special Grants	44,783.73	451.52 (1.008%)
• Calamity Relief	16,000.00	515.46 (3.222%)
• Local Bodies	25,000.00	479.00 (1.916%)
Total Transfers	**7,55,751.62**	**8,042.44 (1.064%)**

Source: -Report of 12th CFC

3.27 While reviewing the Fiscal Reforms Facility of 11^{th} CFC, TFC found that in some states, the scheme could not succeed much in restoring the fiscal balances upto the stipulated time frame. Therefore, as a measure of fiscal stability, TFC advised the states to enact Fiscal Responsibility legislations specifying annual fiscal milestones to be achieved in a phased manner. In compliance thereof, GOH enacted "Haryana Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which stipulated that (i) Revenue Deficit to be reduced to zero by 2008 – 09, (ii) Fiscal Deficit to be brought down to 3% of GSDP by 2009, (iii) Debt Liability to be contained to 28% of GSDP by 2010.

3.28 While going through the financial management of Haryana, TFC observed that GOH had fully complied with fiscal reforms facility of 11^{th} CFC and FRBM of 12^{th} CFC by timely achieving the annual fiscal targets set for the State.

TFC and Local Bodies Grants (2005 - 10)

3.29 The TOR of TFC had a single reference of recommending measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities on the basis of recommendations made by the State Finance Commission of a State. TFC noted that both the data furnished by the States and the SFC reports did not provide a sound basis for estimation of required augmentation of the Consolidated Funds of the States. It, therefore, recommended grants for local bodies on an adhoc basis.

3.30 TFC recommended aggregate grants of Rs. 25,000 crore for a five year period 2005 – 10 for local bodies of all the states consisting of Rs. 20,000 crore for PRIs and Rs. 5000 crore for ULBs. It represented 1.24 percent of the divisible pool as estimated by the TFC. The distribution of Local Body Grants between Panchayats and Municipalities was made in 80:20 ratio, not strictly based on rural-urban population ratio, being 73:27 as per 2001 census. This substantial increase in LBGs from Rs. 10,000 crore of EFC to Rs. 25,000 crore of TFC provided impetus to the process of decentralisation besides improving the standards of civic services.

3.31 Haryana's share in total LBGs was Rs. 479 crore forming 1.916% of the total LBGs of Rs. 25,000 crore. The PRIs share of Rs. 388 crore worked to 1.940% and ULBs share of Rs. 91 crore worked to 1.820%. The latest position is depicted in Table 3.6. It shows that the total LBGs of Rs. 479 crore allocated for the period 2005 -10 were received from the MOF/GOI and passed on to the PRIs and ULBs accordingly.

Table 3.6: Position of LBGs for Haryana 2005 - 10 (Rs. in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
A-Allocations by TFC	**95.80**	**95.80**	**95.80**	**95.80**	**95.80**	**479.00**
PRIs ULBs	77.60 18.20	77.60 18.20	77.60 18.20	77.60 18.20	77.60 18.20	388.00 91.00
B-Grants recd. from GOI	**95.80**	**95.80**	**95.80**	**86.70**	**104.90**	**479.00**
PRIs ULBs	77.60 18.20	77.60 18.20	77.60 18.20	77.60 ***9.10	77.60 27.30	388.00 91.00
C-Grants Passed on to LBs	**95.80**	**95.80**	**95.80**	**86.70**	**104.90**	**479.00**
PRIs LBs	77.60 18.20	77.60 18.20	77.60 18.20	77.60 9.10	77.60 27.30	388.00 91.00

Source: - State Finance Department

Note: - 2nd instalment of Rs. 9.10 crore for ULBs for the year 2008-09 was received in 2009 -10 due to Model Code of Conduct for elections.

3.32 TFC allocated LBGs to States on the basis of certain parameters viz. Population 40%, Geographical Area 10%, Income Criteria (distance method) 20%, Index of Deprivation 10% and Revenue Effort 20% (with respect to own revenue 10% and with respect to GSDP 10%).

3.33 The TFC did not impose additional conditions over and above the conditions stipulated by EFC as these handicapped the channelization of LBGs. TFC recommended that the grants for PRIs be utilised to improve service delivery in respect of water supply and sanitation schemes with the proviso to recover at least 50% of the recurring cost on O & M in terms of user charges. In case of ULBs, it was stipulated that at least 50% of the grants provided to each State, should be earmarked for solid waste management through public private partnership.

3.34 TFC did not earmark any grant for creation of database and maintenance of accounts and audit, but suggested that high priority be given to creation of data base and maintenance of accounts through the use of modern technology and management systems.

3.35 TFC also suggested wide ranging resource raising measures for PRIs like, making levying of taxes/fees and user charges obligatory, proper identification and utilisation of Common Property Resources, making revenue transfers to PRIs statutory in nature etc.

IV. 13^{th} Central Finance Commission (2010 - 15)

13^{th} CFC and the States

3.36 The 13^{th} Central Finance Commission (CFC) was constituted by the President on 13^{th} November, 2007 under the Chairmanship of Dr. Vijay L. Kelkar to make recommendations for the period 2010 – 15. As usual, 13^{th} CFC was also required to suggest a scheme of sharing of national revenues with the States, grants-in-aid to the States and measures needed for supplementing the resources of the local bodies. The Commission was also to review the financial position of the Centre and the States keeping in view the operation of State's debt consolidation and relief facility 2005 – 10 of the 12^{th} CFC and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

3.37 The Commission, inter-alia, was to have regard to the resources of the central government and the demands thereon, the objective of balancing revenue accounts for generating surplus for capital investment, taxation efforts to improve tax-GDP ratio, proper upkeep of capital assets, ensuring commercial viability of capital investment, the impact of the proposed Goods and Services Tax (GST), the need to improve the quality of public expenditure etc. As an additional TOR, the Commission was also required to review the roadmap for fiscal adjustment and suggest measures so as to sustain the gains of fiscal consolidation.

3.38 The overall approach of the Commission has been to foster inclusive and green growth promoting fiscal consolidation. Fiscal consolidation promotes growth as it tends to improve quality and effectiveness of the public expenditure and resource mobilisation. However, the tax devolution scheme of 13th CFC was guided by the objective of neutralising the vertical and horizontal fiscal imbalances. Four sets of considerations i.e. fiscal need, fiscal capacity, cost disabilities and fiscal efficiency, were given major thrust in tax sharing scheme.

3.39 The 13th CFC recommended share of States in central taxes at 32.0% every year for its award period 2010 – 15. The indicative ceiling on overall transfers to the States has been set at 39.5% of the gross revenue receipts of the Centre.

3.40 The 13th CFC recommended total transfers of Rs. 17,06,676 crore to the States for the five year period 2010 – 15, including tax devolution at Rs. 14,48,095 crore and grants at Rs. 2,58,581 crore. Grant component comprises of deficit grant Rs. 51,800 crore, performance incentive grant Rs 1,500 crore, local bodies grant Rs. 87,519 crore, calamity relief Rs. 26,373 crore, elementary education Rs. 24,068 crore, outcome improving related Rs. 9,446 crore, environment related grant Rs. 10,000 crore, roads and bridges Rs. 19,930 crore, special problems/state specific need grant Rs. 27,945 crore.

3.41 Certain variable parameters inducted into the distribution criteria for tax devolution and the weights assigned to each indicator are:- Population (1971 Census) 25%, Area 10.0%, Fiscal Capacity Distance 47.5% and Fiscal Discipline 17.5%.

3.42 On this basis, share of Haryana in the total transfers for the five year period 2010 – 15 worked to Rs. 19,470.30 crore constituting 1.140% of the total transfers. It includes Rs. 15,199.50 crore as tax devolution (1.048%) and grants at Rs. 4,270.80 crore (1.651%). Grant component includes local bodies Rs. 1,521.30 crore (1.738%), calamity relief Rs. 824.40 crore, elementary education Rs. 229 crore, outcome improving related Rs. 208.30 crore, environment related Rs. 220.80 crore, roads and bridges Rs. 267 crore and special problems or state specific need Rs. 1,000 crore. **Haryana has not been allocated any share in deficit grant of Rs. 51,800 crore and performance incentive grant of Rs. 1,500 crore. The entire position is given in Table 3.7.**

Table 3.7: 13th CFC Total Transfers (2010 -15) and Haryana Share

Particulars	Total Transfers 2010 -15 (Rs. in crore)	
	Total All States	**Haryana State**
A-Tax Devolution	**14,48,095.00**	**15,199.50 (1.048%)**
B-Grants-in-aid	**2,58,581.00**	**4,270.80 (1.651%)**
(i) Deficit Grant	51,800.00	-
(ii) Performance Incentives	1,500.00	-
(iii) Local Bodies	87,519.00	1,521.30
(iv) Elementary Education	24,068.00	229.00
(v) Relief Grant	26,373.00	824.40
(vi) Improving Outcomes	**9,446.00**	**208.30**
• Justice Delivery	5,000.00	124.20
• Incentive for UIDs	2,989.00	32.10
• Statistical Systems	616.00	21.00
• District Innovation Fund	616.00	21.00
• Employees and/ pension data base	225.00	10.00
(vii) Environment Related Grant	**10,000.00**	**220.80**
• Forests	5,000.00	8.80
• Water Sector Management	5,000.00	212.00
(viii) Roads and Bridges	19,930.00	267.00
(ix) Special Problems/ State Specific Needs	27,945.00	1000.00
Total Devolution (A+B)	**17,06,676.00**	**19,470.30 (1.140%)**

Source:-Report of 13th CFC

3.43 Break-up of special problem grants or state specific needs grant of Rs. 1,000 crore for Haryana is as in Table 3.8.

Table 3.8: Details of Special Problem Grants for Haryana

Sr. No.	Particulars	Amount (Rs. in crore)
(i)	**Mewat Water Region** • Drinking water supply • Industrial Trg. Institutes • Health Infrastructure	**300.00** 100.00 100.00 100.00
(ii)	Police Training	100.00
(iii)	Shivalik and Southern of the State including setting of RO Plant	300.00
(iv)	Fire Services	100.00
(v)	Health Infrastructure	200.00
	Total	**1,000.00**

Source: -Report of 13th CFC

3.44 The 13th CFC has recommended fiscal consolidation through the elimination of revenue deficit as the long-term target for both the Centre and States. It suggested that States should modify and reform their Medium Term Fiscal Plan and Fiscal Responsibility and Management legislation to achieve the fiscal targets so re-fixed. As per the guidelines of MOF/GOI, the GOH has amended its FRBM Act, 2005. Now the GOH has to attain zero revenue deficit target from 2011 – 12 and maintain the same till 2014 – 15, fiscal deficit to be brought down to 3% of GSDP from 2011 – 12 and maintain the same till 2014 – 15. The total debt liability to be retained at 22.4% of GSDP in 2010 – 11, at 22.6% in 2011 – 12, 22.7% in 2012 – 13, 22.8% in 2013 – 14 and 22.9% in 2014 – 15.

13th Central Finance Commission and Local Bodies Grants

3.45 As per its TOR, the 13th CFC is required to make recommendations on “the measures needed to augment the Consolidated Fund of a state to supplement the resources of the Panchayats and Municipalities in the State on the basis of recommendations made by the Finance Commission of the State” (TOR of 13th CFC).

3.46 The 13th CFC recognised the need to bolster the finances of local bodies through a buoyant and predictable source of revenue and also to make them more accountable in the discharge of their functions. The Commission favoured promoting decentralisation through larger devolution to local bodies as it would encourage state governments to accelerate their decentralisation efforts.

3.47 Thus, keeping in view its mandate and the constitutional design of supplementing resources of local bodies, the 13th CFC, for the first time, recommended share of local bodies, both rural and urban, at an average 2.28% of the relevant divisible pool. This was done to enable the local bodies to share the buoyancy of central taxes.

3.48 Based on this criteria, the 13th CFC recommended grants of Rs. 87,519 crore to all the States covering the period 2010 – 15 for supplementing resources of PRIs and ULBs, forming, at an average, 2.28 % of the total divisible pool. These include Rs. 56,335 crore as General Basic Grant, Rs. 29,826 crore as General Performance Grant and Rs. 1,357 crore as Special Area Grant.

3.49 The general basic grant is equal to 1.50% of the previous year divisible pool and all States have access to this grant. The general performance grant, effective from 2011 – 12, is 0.50% for 2011 – 12 and 1% thereafter. Only those States meeting the stipulations have access to the performance grant. Some portion of the basic grant has been carved out as Special Area Grant exclusively allocated for special areas on the basis of population ratios. An amount of Rs. 20/- per capita per year has been allocated as "special area basic grant" accessible by all States. A special area performance grant of Rs. 10/- per capita for 2011 – 12 and Rs. 20/- per capita for subsequent years has been allocated for those States meeting the stipulations.

3.50 The General Basic Grant and the General Performance Grant of Rs. 86,161 crore has been segmented into PRIs and ULBs on the basis of their population ratios as per 2001 census, with 73.18% as PRIs share and 26.82% as ULBs share. On this basis, PRIs share works at Rs. 63,053 crore and ULBs share at Rs. 23,108 crore. However, the special area grant of Rs. 1,357 crore has been allocated without any distinction between rural and urban.

3.51 The distribution criteria adopted by the 13th CFC for determining the share of States in general basic grant and general performance grant for local bodies is given in Table 3.9.

Table 3.9: 13th CFC Distribution criteria for local bodies grants 2010 - 15

Parameters	**Weight (%)**	
	PRIs	**ULBs**
• Population (1971 census)	50	50
• Area	10	10
• Income Criteria (Distance Method)	10	20
• Index of Devolution	15	15
• SC/ST Population ratio	10	-
• Utilisation Index (LBGs)	5	5
Total	**100**	**100**

Source:- Report of 13th CFC

3.52 Based on above criteria, the state-wise composite percentage shares of PRIs and ULBs in total LBGs have been worked out by the 13th CFC. In case of Haryana, the composite percentage share of PRIs is 1.26 and of ULBs 0.50. The composite percentage share of both PRIs and ULBs is at 1.77. The State wise position has been depicted in Table 3.10.

Table 3.10: State-wise composite Percentage Share

State	PRI (%)	PRI (Composite Percentage)	ULB (%)	ULB (Composite Percentage)	State Share (Composite Percentage)
Andhra Pradesh	8.29	6.07	8.30	2.23	8.29
Arunachal Pradesh	0.43	0.32	0.14	0.04	0.35
Assam	2.50	1.83	1.10	0.29	2.13
Bihar	7.86	5.75	3.15	0.84	6.59
Chhattisgarh	2.65	1.94	1.81	0.48	2.42
Goa	0.14	0.10	0.35	0.10	0.20
Gujarat	3.70	2.71	5.63	1.51	4.22
Haryana	**1.72**	**1.26**	**1.88**	**0.50**	**1.77**
Himachal Pradesh	0.88	0.65	0.36	0.10	0.74
Jammu & Kashmir	1.46	1.07	0.88	0.24	1.30
Jharkhand	2.41	1.76	1.84	0.49	2.25
Karnataka	7.14	5.23	8.62	2.31	7.54
Kerala	3.09	2.26	3.14	0.84	3.11
Madhya Pradesh	6.52	4.77	6.47	1.73	6.51
Maharashtra	**8.72**	**6.38**	**13.75**	**3.69**	**10.07**
Manipur	0.35	0.25	0.35	0.09	0.35
Meghalaya	0.50	0.36	0.35	0.09	0.46
Mizoram	0.32	0.23	0.41	0.11	0.34
Nagaland	0.48	0.35	0.33	0.09	0.44
Orissa	4.11	3.01	2.15	0.58	3.58
Punjab	1.78	1.31	2.72	0.73	2.04
Rajasthan	6.25	4.57	5.17	1.39	5.96
Sikkim	0.29	0.21	0.01	0.00	0.22
Tamil Nadu	4.89	3.58	10.26	2.75	6.33
Tripura	0.47	0.34	0.24	0.06	0.41
Uttar Pradesh	**15.52**	**11.36**	**12.78**	**3.43**	**14.79**
Uttrakhand	0.94	0.69	0.82	0.22	0.91
West Bengal	6.57	4.81	6.99	1.87	6.68
Total	**100.00**	**73.18**	**100.00**	**26.82**	**100.00**

Source:- 13th CFC Report

3.53 Accordingly, Haryana's share in total LBGs of Rs. 87,519 crore works to Rs. 1,521.30 crore (1.738%), for five year period 2010 -15 as shown in Table 3.11.

Table 3.11: Haryana Share in 13th CFC total LBGs 2010-15 (Rs in crore)

Particulars	Total LBGs (All States) 2010-15	Haryana Share					Total
		2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
(i) General Basic Grants	**56,335.00**	**141.60**	**164.30**	**192.00**	**227.50**	**269.30**	**994.70**
(a) PRIs (b) ULBs		101.17 40.43	117.38 46.92	137.17 54.83	162.54 64.96	192.40 76.90	710.66 284.04
(ii) General Performance Grants	**29,826.00**	**-**	**56.20**	**131.70**	**155.40**	**183.30**	**526.60**
(a) PRIs (b) ULBs		- -	40.15 16.05	94.09 37.61	111.02 44.38	130.96 52.34	376.22 150.38
(iii) Special Area Grant	**1,357.30**	**-**	**-**	**-**	**-**	**-**	**-**
(iv) Grand Total (i+ii+iii)	**87,518.30**	**141.60 (1.50%)**	**220.50 (2.00%)**	**323.70 (2.50%)**	**382.90 (2.50%)**	**452.60 (2.50%)**	**1521.30 (2.28%)**
(a) PRIs (b) ULBs		**101.17 40.43**	**157.53 62.97**	**231.26 92.44**	**273.56 109.34**	**323.36 129.24**	**1086.88 434.42**

Source:- Report of 13th CFC

Note: - Figures in brackets indicate percentages to the total divisible pool as worked out by 13th CFC.

3.54 The latest status of releases of Haryana share of LBGs is given in Table 3.12.

Table 3.12: Position of Haryana LBGs for 2010 - 15 (Rs. in crore)

Year	As allocated by 13th CFC		Received from MOF/GOI		Passed on to LBs	
	PRIs	**ULBs**	**PRIs**	**ULBs**	**PRIs**	**ULBs**
2010-11	101.17	40.43	101.16	40.52	101.16	40.52
2011-12	157.53	62.97	185.60	54.39	185.60	54.39
2012-13	231.26	92.44	242.77	91.58	242.77	91.58
2013-14	273.56	109.34				
2014-15	323.36	129.24				
G-Total	**1,086.88**	**434.42**				

Source: - State Finance Department

3.55 13th CFC has suggested incentive frame works for the States for drawal of their shares in LBGs. States are eligible to draw their shares of general basic grant in two instalments, by 1st July and 1st January of each year, subject to submission of utilisation certificate for the previous instalment. No other documentation would be required.

Broad Guidelines

3.56 However, States would need to meet the following conditions to draw their share in general performance grants:-

(i) Submission of a supplementary to budget documents for PRIs and ULBs separately furnishing requisite details. (ii) The C & AG must be given TG & S over the audit of all the local bodies and his Annual Technical Inspection Report as well as Annual Report of Director Local Fund Audit must be placed before the State Legislature. (iii) Appointment of an independent local body Ombudsman to look into complaints of corruption and mal-administration. (iv) Putting in place a system of electronic transfers of LBGs to the accounts of local bodies within five days of the receipt from the MOF/GOI. (v) Prescribing qualifications of Members of SFCs through proper legislation. (vi) All local bodies should levy property tax. (vii) Constitution of a state level Property Tax Board to suggest transparent procedure for assessment of property tax. (viii) Putting in place standards for delivery of essential services, particularly in respect of water supply, sewerage, storm water drainage and solid waste management. (ix) All Municipal Corporations must put in place a fire hazard response and mitigation plan for their respective jurisdictions.

3.57 In view of substantial increase in the volume of transfers to local bodies it was recommended that all States strengthen their local fund audit departments through both capacity building as well as augmentation of personnel.

3.58 The 13th CFC treated LBGs as untied to expenditure conditions. The reason being that the local bodies are called upon to meet the challenges of environmental degradation, population pressure, exhaustion of resources and revenue constraints. It has also been recommended that a portion of the local bodies grants be earmarked by States for re-vamping their fire services.

3.59 13th CFC made various suggestions for internal resource mobilisation by local bodies through own efforts, such as, full exploitation of their taxation powers provided in the acts, levy of property tax and profession tax and full exploitation of potential, recovery of maintenance cost for services like water supply, sewerage and solid waste management through appropriate user charges etc.

3.60 All government properties of both Centre as well as States should be subject to levy of user charges through suitable legislations. Necessary executive instructions should be issued that all the departments should pay appropriate service charges to the local bodies.

3.61 The Commission has also recommended that the state government should share a portion of their income from royalties with the local bodies on the basis of origin.

Conclusions and Recommendations

3.62 Tax devolution constitutes the major plank of total transfers made by the Central Finance Commission. In case of 13th CFC, tax devolution is 85% whereas grant component is 15%. This is in conformity with the demand of the States that the bulk of CFC transfers should be by way of tax devolution and role of grants-in-aid should only be supplementary.

3.63 Every CFC tended to induct factors like index of backwardness, relative poverty and low per capita income into the criteria of tax sharing. Similar criteria was followed by the CFC for allocating grants-in-aid among the States. The same considerations are given weightage to by the Planning Commission for allocation of block central assistance to the States. Similar yardsticks are adopted by various central agencies for other discretionary transfers also. Thus, all the criteria being applied for central transfers tend to favour the so-called backward States and discourage the efforts of fiscal efficiency and prudence put in by well managed States. As a result, the share of better performing States like Haryana in central transfers has been declining gradually. **Share of Haryana State in total central devolution has reduced to 1.14% in 13th CFC devolution from 1.19% in 4th CFC devolution.** Haryana share in central taxes is much less compared to its population ratio of 2.05% and area ratio of 1.35%.

In central transfers, relative shares of major States have increased over the CFCs. This is due to re-adjustment of weightage to factors of area, population, income etc. **We, therefore, suggest that the state government may look into the mechanism of central transfers and may take up the matter with 14th Central Finance Commission** for redressal. The shares of major States in total transfers of earlier CFCs is given in Table 3.13.

Table 3.13: State-wise share in total transfers by CFCs

States	**Shares (%)**						
	1st CFC	**4th CFC**	**8th CFC**	**10th CFC**	**11th CFC**	**12th CFC**	**13th SFC**
Haryana	**5.09 (Jt. Pb.)**	**1.19**	**1.11**	**1.232**	**0.967**	**1.06**	**1.14**
Andhra Pradesh	4.16	8.05	7.34	7.98	7.13	6.66	6.69
Bihar	11.78	6.91	10.70	10.88	13.04	13.14	10.13
Karnataka	1.42	7.48	4.38	4.64	4.53	4.16	4.36
MP	5.84	5.60	7.50	7.10	8.05	8.55	6.83
Rajasthan	5.35	4.52	4.25	5.03	5.42	5.17	5.72
U.P.	16.30	12.96	15.47	15.95	18.05	19.27	18.29
Punjab	5.09 (Jt. Pb.)	2.22	1.64	1.58	1.25	1.70	1.50

Source:- CFC Reports

3.64 Successive Central Finance Commissions adopted a revenue gap filling approach calculated either on normative basis or on trend basis while allocating deficit grants to States. Revenue deficit grants are recommended by the CFCs only to those States which are assessed by them as revenue deficit States. As a result, States assessed to be revenue surplus by CFCs are deprived of deficit grants. Haryana continues to be assessed as revenue surplus on non-plan revenue account by all the successive CFCs and hence remained deprived of its shares in deficit grants. The position may be seen in Table 3.14.

Table 3.14: Position of Deficit Grants to States (Rs. in crore)

Name of CFCs	**Total Deficit Grants for States**	**Haryana**
10th CFC (1995 - 2000)	7,582.68	-
11th CFC (2000 - 2005)	35,359.07	-
12th CFC (2005 - 2010)	56,855.87	-
13th CFC (2010 - 2015)	51,800.00	-

3.65 This Commission, while taking a serious note of this situation, attempted to carry out variance analysis of the forecast estimates of Haryana finances made by the State Finance Department as well as the CFCs and compared the results with the actual position depicted in the finance accounts for the relevant years. The variance analysis indicates that the financial forecasts made by the CFCs on normative basis were too far from the forecast estimates made by the state government as well as the actuals shown in the accounts for the corresponding periods. However, forecast estimates made by the State were based, more or less, on realistic assumptions and, thereby, more closer to the actuals for the corresponding periods. Right from the 7th CFC to the 13th CFC, Haryana continued to be assessed as revenue surplus state depriving it of deficit grant. Nevertheless, this Commission agrees that normative approach has distinct advantages as the revenues are assessed on the basis of fiscal capacities and potentials and expenditures are assessed on the basis of needs consistent with minimum acceptable levels of services and relevant cost norms and not driven by the historical trends. That is why successive CFCs have been adopting normative approach for assessing financial position of the States. But a distorting feature has been that the normative approach has neither been conceptualised nor adopted by States for assessing their financial position. Since normative approach tends to promote equity, efficiency, economy and better tax efforts besides ensuring minimum desirable level of public services, the State should attempt to adopt normative approach while forecasting its financial position. In addition, efforts should also be made to adhere to the assumptions of normative approach while implementing fiscal policies. The position of variance analysis is shown in Table 3.15.

Table 3.15: Variance Analysis of Non-Plan Revenue Surplus/Deficit of Haryana

(Rs. in crore)

	Total Revenue Receipts	**Total Non-Plan Revenue Exp.**	**Non-Plan Revenue Surplus (+)/ Deficit (-)**
0	1	2	3
a. Seventh Finance Commission (1979-84)			
State Forecast	1,648.49	1,419.98	+ 228.51
Commission's Estimates	1,364.41	999.35	+ 370.06
Actuals	2,141.21	1,891.61	+ 249.60
b. Eighth Finance Commission (1984-89)			
State Forecast	3,297.95	3,249.05	+ 48.45
Commission's Estimates	3,716.20	2,750.25	+ 965.95
Actuals	4,434.79	4,260.76	+ 174.03
c. Ninth Finance Commission (1990-95)			
State Forecast	No assessment made by the State		
Commission's Estimates	6,883.04	5,509.04	+ 1,374.00
Actuals	13,668.11	14,073.98	(-) 405.87
d. Tenth Finance Commission (1995-2000)			
State Forecast	15,099.02	21,377.55	(-) 6,278.49
Commission's Estimates	15,287.45	11,821.27	+ 3,466.18
Actuals	22,553.63	29,674.72	(-) 4,321.09
e. Eleventh Finance Commission (2000-05)			
State Forecast	40,789.99	50,882.05	(-) 10,093.06
Commission's Estimates	39,950.32	28,851.24	+ 11,099.08
Actuals	43,824.00	40,888.79	+ 2,935.21
f. Twelfth Finance Commission (2005-10)			
State Forecast (Pre-Devo)	53,547.41	62,176.33	(-) 8,628.92
Commission's Estimates	72,809.43	47,429.58	25,379.85
Actuals	91,527.44	74,556.71	16,970.73
g. Thirteenth Finance Commission 2010-15			
State Forecast (Pre-Devo)	1,36,291.33	1,55,278.56	- 18,987.23
State Forecast (Post-Devo)	1,64,233.33	1,55,278.56	8,954.77
Commission's estimates (Pre-Devo)	1,94,016.33	19,564.35	- 94,451.98
Commission's estimates (Post-Devo)	2,13,486.63	99,564.35	-1,13,922.28

Source: Reports of various Finance Commissions.

3.66 The quantum of aggregate grants for local bodies for all the States recorded substantial increase from Rs. 5,380.92 crore of 10th CFC to Rs. 10,000 crore of 11th CFC, to Rs. 25,000 crore of 12th CFC and to Rs. 87,519 crore of 13th CFC. But, as a proportion to the total divisible pool, LBGs recorded a fluctuating trend. As per 10th CFC, the aggregate local body grant constituted 1.38% of the total divisible pool. It declined to 0.78% in 11th CFC and further rose to 1.24% in 12th CFC. However, as per 13th CFC award, the local bodies grant, as proportion to total divisible pool, increased on an average to 2.28%. The 13th CFC envisioned larger requirement of funds by local bodies due to substantial decentralisation of funds and functions to local bodies, faster urbanisation and industrialisation that would take place during its report period 2010 – 15. **We too are also conscious of the expanding fiscal needs and static fiscal capacities of local bodies. We, therefore, observe that in the changed scenario, the quantum of LBGs for the States should be increased substantially from the existing level of 2.28% of the total divisible pool, so that the local bodies could be enabled to deliver minimum desirable levels of public services.**

3.67 The share of Haryana in 13th CFC total LBGs, both rural and urban, works to 1.738%. Haryana share has been fluctuating from 1.844% in 10th CFC to 1.837% in 11th CFC to 1.916% in 12th CFC and then to 1.738% in 13th CFC. This variation in relative share is attributable to alteration in the weights allotted to certain parameters and induction of new parameters. Six major States of Uttar Pradesh, Andhra Pradesh, Karnataka, Madhya Pradesh, West Bengal and Bihar corner about 50 percent share in total LBGs, whereas the remaining 22 States are left with the other 50 percent share. **We recognise the rationale and objective of the approach and criteria of the 13th CFC applied for distribution of LBGs among the States which is based on principles of equalisation, justice and efficiency. Though basic considerations like fiscal needs, fiscal capacity, cost disabilities etc. need to be kept in view for interse allocation of LBGs among States, better performing States like Haryana should be suitably and properly rewarded for their prudent efforts by way of incentives and other measures. There is, thus, a need to**

be as liberal in approach for achievers as towards those needing equalisation in view of several decades of preferential treatment.

3.68 The 13th CFC retained population and area as criteria with weights of 50% and 10% as these are natural and objective indicators of the actual financial and physical needs of the local bodies. 13th CFC valued population as the best indicator of local bodies needs and as such weightage to the factor of population has been increased to 50% as against 40% by the 11th CFC and the 12th CFC. This is a welcome step. Income distance (per capita) method with 10% weight in case of Panchayats and 20% in case of ULBs works inversely i.e. higher the per-capita income, lower the share and vice-versa. As per the income distance method, Panchayats in Haryana scored 1.12 compared to Uttar Pradesh 21.02, Bihar 13.94, West Bengal 7.26, Maharashtra 7.06, Madhya Pradesh 5.76. In case of Municipalities, Haryana score is 1.34 compared to UP 16.25, Maharashtra 13.02, Tamil Nadu 11.25, West Bengal 8.37. Haryana's lower score in income distance criteria is at low ebb as it ranks very high in per capita income. SC/ST proportion in population criteria has been adopted, as a proxy for deprivation, with 10% weightage only for Panchayats. Score of Panchayats in Haryana under this criteria has been 1.53 compared to UP 14.73, West Bengal 9.37, MP 8.75, Bihar 6.15, AP 7.08. This is objective criteria based on relative shares in SC/ST population. 13th CFC used index of utilisation of CFC local body grants as criteria with 5% weightage as a measure of signal to States for timely releases to the local bodies. The score of Haryana Panchayats and Municipalities under this criteria has been at the top i.e. 4.49 and 4.68 respectively. It indicates that LBGs recommended by all previous CFCs have been drawn down in full from MOF/GOI and released on time to PRIs and ULBs and utilised for the intended purposes as per the requisite guidelines. Index of devolution with 15% weightage adopted by 13th CFC refers to the transfer of funds to local bodies from state's own resources as per the accounts figures booked under all concerned non-plan heads. The score of Haryana Panchayats and Municipalities under this criteria is far below at 0.57 compared to Andhra Pradesh 14.64, Karnataka 20.93, Maharashtra16.26 and UP 14.03. The main reason for lowest scale under devolution index may be booking of CFCs and SFCs grants and other general and compensatory grants for local bodies under relevant plan heads and also non-release of grants to local bodies till finalisation of CFC report. We have noted that GOH has transferred bulk of grants to local bodies on plan account which has not been taken into account by the 13th CFC. **We feel that this criterion of 13th CFC needs to be reviewed. The 13th CFC could have avoided making distinctions between plan and non plan for the purpose of fund transfers to local bodies. At the same time we also advise the state government to carefully go through the recommendations of CFC and the guidelines of MOF/GOI and implement the same in letter and spirit particularly in regard to budgetary mechanism of releases of grants and utilisation thereof.**

3.69 It is worth mentioning that 11th CFC had used Index of Decentralisation as one of the criteria with 20% weightage. It referred to assignment of more functions and powers to local bodies through legislation. The score of Haryana PRIs and ULBs under this criteria had been as low as 1.760 and 2.189. The 12th CFC used Index of Deprivation as a factor with 20% weightage which took into account intra-state disparities in public service of drinking water supply, sanitation, provisions for latrines and drainage. PRIs and ULBs in Haryana scored 1.415 and 1.442 against more than 8 in many other States. The 12th CFC also used Revenue Efforts as criterion with 20% weightage. The score of Haryana PRIs and ULBs in revenue efforts had been low at 2.978 and 2.012 as against more than 10 in many States. **This analysis indicates that performance of Haryana PRIs and ULBs in revenue efforts, functional and financial decentralisation and provisions for drinking water and sanitation etc. has not been upto the mark. These are the areas of concern to which the state government must pay due attention for bringing the required improvements, otherwise the state government would continue to suffer in allocation of LBGs. We further advise the state government to also implement non finance recommendations of the CFC and ensure judicious and optimum use of fund transfers to the local bodies.**

3.70 As regards utilisation of LBGs, the 10th CFC stipulated that no portion of LBGs be spent on salaries and wages. 11th CFC listed some core services, like primary education, health, drinking water, street lighting and sanitation for operations and maintenance. The 12th CFC recommended that grant for PRIs be utilised to improve service delivery in respect of water supply and sanitation. It stipulated that at least 50% of the grant for ULBs be earmarked for solid waste management through public private partnership. The 13th CFC treated LBGs as untied to expenditure conditions. However, it stipulated that a portion of the grants for ULBs be earmarked for revamping of fire services. **We noticed that the LBGs recommended by previous CFCs were fully drawn by Haryana Govt which were transferred to local bodies and utilised for intended purposes. We further expect that the untied grants recommended by 13th CFC for local bodies should be utilised for improving service delivery mechanisms in respect of basic civic services being provided by the PRIs and ULBs.**

3.71 The 13th CFC has recommended that local body grants would be released by MOF/GOI in two tranches, in July and January every fiscal year. Release of any instalment would be subject to a utilisation certificate for the previous instalment drawn in the formats designed by the MOF/GOI. Further, funds are to be transferred to the PRIs and ULBs within stipulated period of five days from the receipt from the MOF/GOI where banking facilities are available and within 10 days where banking facilities are inaccessible. Any delay would cause payment of interest on bank rate. 13th CFC has also laid down various conditionalities for the States to be eligible to draw drown their respective shares in LBGs (specified in para 3.56 of this Chapter). Certification of compliance of conditionalities by the State government would be sufficient. No additional documentations would be required. These issues were discussed by the Commission with the Departments of Finance, Panchayats and Urban Local Bodies. Finance Department has reported that necessary steps have been taken to adhere to the time schedule for release of grants to local bodies as recommended by 13th CFC and instructions issued to the Departments of Panchayats and Urban Local Bodies to strictly comply with the recommendations of 13th CFC and follow the guidelines of the MOF/GOI in these regards. Both the Departments have reported that LBGs are being transferred on time as per the schedule to the accounts of each unit of PRIs and ULBs electronically. It has been further reported that the Departments of Panchayats and Urban Local Bodies are regularly furnishing utilisation certificates in the prescribed formats to the Finance Department which are being submitted to the MOF/GOI on time accompanied by all the requisite certifications. Consequently, State share in LBGs allocated for the years 2010 – 11, 2011 – 12 and 2012 – 13 has been fully drawn from the MOF/GOI, released to the PRIs and ULBs as per their respective shares during the given time frame and utilised for improving the service delivery levels of public services.

3.72 As regards compliance of other eligibility conditionalities, the Commission has been informed that all possible steps have been taken to put in place the stipulated requisitions. A supplementary to budget documents for local bodies is submitted to the state legislature from the year 2010 – 11 furnishing requisite details. The C & AG has been entrusted the TG & S over audit of the local bodies w.e.f 06.06.2012. A Lokayukta has since been appointed in the State who also hears complaints of malpractices against elected representatives and functionaries of local bodies. The Commission has been informed that Ombudsmen have been appointed at district levels under MGNREGS as per one of the stipulations under the scheme. Grants are being transferred to PRIs and ULBs electronically within the stipulated time period of five days from the receipt from the MOF/GOI. As required under Article 243 I and section 213 of PRIs Act 1994, the GOH through proper legislation (vide notification dated 05.05.1994) has prescribed proper qualifications for the Chairperson and Member of the SFC. GOH has empowered all local bodies to levy Property Tax or House Tax and procedures for assessment have also been prescribed. A Property Tax Board has been constituted in the State vide notification No. 1/6/2011-RI, dated 07.09.2012 to assist municipal bodies to put in place an independent and transparent procedure for assessing Property Tax. Water Supply, Sewerage and Storm Water Drainage are being handled by the

State Public Health Engineering Department which has been instructed to fix standards of delivery of these services. Instructions have also been issued to all Municipal Corporations vide notification dated 27.02.2013 to put in place a fire hazard response and mitigation plan. It indicates that all the conditionalities stipulated by 13th CFC for being eligible for LBGs stand complied with.

3.73 This Commission re-iterates the recommendations of the 13th CFC in regard to channelization of LBGs from the Centre to the State and further transfers to PRIs and ULBs, submission of utilisation certificates and eligibility conditions and commends the same for implementation. However, Departments of Finance, Panchayats and Urban Local Bodies should ensure online transfers of LBGs within the stipulated period of five days from the receipt from MOF/GOI with provisions for penal interest on per day basis in case of delay. Further, the Departments of Panchayats and Urban Local Bodies should seek utilisation certificates from the PRIs and ULBs in the prescribed formats and furnish the same to the State Finance Department for onward submission to the MOF/GOI with all the requisite certifications. Though the eligibility conditions have been complied with, we observe that the GOH should ensure that these should continue to be complied with till the award period of 13th CFC.

3.74 Creation of data base and maintenance of accounts of local bodies have been areas of concern for the CFCs and SFCs. 11th CFC had earmarked certain amounts for creation of data base and maintenance of accounts of local bodies. 12th CFC accorded high priority to creation of data base and maintenance of accounts through the use of modern technology and management systems. Though 12th CFC did not earmark specific funds for this purpose, it suggested that States assess the requirements of local bodies on this account and earmark funds out of their share in LBGs. 13th CFC also reiterated similar observations on this issue. Similar recommendations were made by the 2nd and 3rd SFCs of the State. As a result of our discussions with the Departments of Panchayats and Urban Local Bodies, we have noticed that no serious efforts seem to have been made by these departments for creation of data base and maintenance of accounts either at local body level as well as directorate level.

3.75 We regret to note that two recommendations made by a number of SFCs and CFCs as enumerated above have failed to move the state government into realizing the gravity and seriousness which compelled the Commissions to make the suggestions. A modern data base that is periodically updated is a sine qua non for any modern organization. It is a must for these two departments which are dealing with large sums of money and large number of development works spread over the State. Similarly, maintenance of accounts in a modern format at several levels from the directorate downwards upto the local bodies level has been felt necessary in order to ensure quality of accounts base and transparency. It appears that no serious efforts have been made either due to lack of trained staff or facilities for capacity building. **This is a matter of serious concern which should form a major agenda of the state government. We are in agreement with the observations of 3rd SFC that these are essential areas in which local bodies need to develop their capacities. We, accordingly, commend for implementation the suggestions of the 12th CFC and also of the 3rd SFC for earmarking specific funds out of LBGs for creation of an elaborate cell exclusively for maintaining of data base and a cell to supervise the systematic implementation of a modern system of account keeping in local bodies.**

3.76 As per recommendation of 11th CFC, the TG & S of maintenance of accounts and audit of local bodies was to be entrusted to the C & AG. The 12th CFC had observed that five major States including Haryana had not implemented this. As such the 12th CFC emphasized the need to implement this recommendation of 11th CFC. 13th CFC had observed that only 18 states including Haryana have entrusted audit of all tiers of PRIs and ULBs to the Technical Guidance and Supervision (TG & S) to the C & AG. 13th CFC further observed that still majority of local bodies are not maintaining upto date and audited accounts. Further, the Annual Technical Inspections Report of the C & AG as well as the Annual Report of the Director of Local Fund Audit should be placed before the State legislature. We have separately discussed this issue in length in Chapter 13 of our report.

3.77 A number of far reaching recommendations have been made by previous CFCs for generation of internal resources of local bodies. 10th CFC did not make specific recommendations on this issue. 11th CFC recommended some measures to augment resources of Panchayats and Municipalities like imposition of taxes on land/ farm income, surcharges/cesses on state taxes, levy of profession tax, improving tax collection efficiency, assignment of a suitable tax with buoyant revenues in lieu of octroi, levy of user charges and their periodic revisions. 12th CFC suggested various measures of supplementing resources of local bodies like, enhancing taxing powers, identification of common property resources vested in Panchayats, levy of user charges, etc. 13th CFC has, while re-emphasizing the resource raising measures of 12th CFC, recommended sharing of royalties on origin basis, levy of other user charges with proper legislation, taxing government properties, levy of profession pax etc. In addition, the previous SFCs also, while endorsing resource raising measures of CFCs, recommended other areas for mopping up resources by the local bodies. As per our discussions with the concerned departments, effective steps are yet to be taken in this regard. However, some initiatives were taken for reforms in some local taxes and rates. It has been reported that a surcharge at the rate of 5% has been levied on VAT i.e. on tax payable by the dealer, w.e.f 02.04.2010, the proceeds of which are assigned to the PRIs and ULBs. Property tax was streamlined and linked to capital cost. Rates of property tax were revised and procedures rationalised. Property Tax was abolished w.e.f 01.04.2008 without putting in place any viable compensatory source of revenue to the local bodies. 3rd SFC had also expressed serious concern over this type of treatment impinging on revenue base of the local bodies and observed that depriving of local bodies of their major sources of revenues would be a step retrogatory to tax efforts and fiscal management of local bodies leading to substantial reduction in share of local bodies grants recommended by the subsequent CFC. The state government has subsequently re-imposed property tax. We would like the state government to resolve all the modalities of implementation in a time bound manner to enable urban local bodies to collect property tax. The local bodies have to be encouraged to be as financially autonomous as possible.

3.78 The TOR of 13th CFC required it to recommend grants for local bodies on the basis of the recommendations made by the Finance Commission of a State. As such, 13th CFC grants for local bodies are to be distributed among each unit of PRIs and ULBs as per the criteria suggested by this Commission. Panchayat Department has reported that 13th CFC grants for PRIs are released to the GPs, PSs, and ZPs in the ratio of 75:15:10. Grants for ULBs are distributed among municipal bodies as per the criteria decided by the Local Bodies Department. 3rd SFC had observed that GPs have direct responsibility for maintaining the civic services in rural areas. PSs and ZPs have either no role to play or have just supervisory role to play. On this basis, 3rd SFC recommended that the entire grant for PRIs should be released only to the GPs and distributed among GPs on the basis of the criteria suggested by the SFC for interse distribution of tax devolution. We do not support this contention of 3rd SFC that PSs and ZPs have no role to play in providing civic services. PSs and ZPs are also constitutional bodies like GPs and they have been assigned important functions of economic planning and social justice and as such these bodies have legitimate rights in the allocation of CFC and SFC grants for PRIs. We, therefore, recommend that CFC and SFC grants for PRIs should be released to all tiers of PRIs i.e. GPs, PSs, and ZPs in the ratio of 75:15:10, and distributed among them on the basis of the criteria suggested by this Commission for interse distribution of tax devolution. Grants for ULBs should also be distributed among municipal bodies on the basis of the criteria suggested by this Commission for tax sharing.

3.79 The 13th CFC has observed that under the 10th CFC award, 33.54% of PRIs grants and 16.61% ULBs grants were not drawn. From 11th CFC award 17.48% PRIs grants and 12.40% ULBs grants were not drawn. Under 12th CFC award 7.42% PRIs grants and 10.57% ULBs grants remained undrawn. It shows that amount not drawn remained significant. Such situation was not found desirable. It is creditable to note that performance of Haryana State in this regard remained upto the mark. Cent per cent allocations made by all these CFCs for Haryana LBGs were fully drawn.

3.80 We have noted that the reference periods of 13th CFC and 4th SFC do not coincide. The period of 13th CFC is 2010 – 11 to 2014 – 15 and that of the 4th SFC 2011 – 12 to 2015 – 16. On this basis, the year 2010 – 11, the first year of 13th CFC was the concluding year of the 3rd SFC and the year 2015 - 16 which is the concluding year of 4th SFC would fall under the domain of TOR of 14th CFC. **Due to this non-synchrocity in the reference periods, we recommend that our award on implementation of recommendations of 13th CFC in regard to local bodies would be applicable only for four years from 2011 – 12 to 2014 – 15 and the recommendation for the year 2015 – 16 would be covered by the TOR of the 14th CFC and similarly recommendations for grants for local bodies of the States would be made by the 14th CFC for the year 2015 – 16.**

CHAPTER – 4

STATUS OF IMPLEMENTATION OF RECOMMENDATIONS OF STATE FINANCE COMMISSIONS (SFCs)

4.1 Consequent to 73rd and 74th Constitutional Amendments Acts 1992, Articles 243 I and 243 Y, envisage constitution of a State Finance Commission at the expiration of every fifth year to review the financial position of the PRIs and ULBs. Section 213 of the Haryana Panchayati Raj Act 1994 and Rule 3 of the Haryana Finance Commission Rules, 1994 are the related sections requiring constitution of State Finance Commission (SFC) in accordance with the constitutional provisions. These enactments have other important provisions also, as:-

- The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as Members thereof and the manner in which they shall be selected.
- The Commission shall determine their procedure and shall have such powers in the performance of their functions as the Legislature of the State may, by law, confer on them.
- The Governor shall cause every recommendation made by the Commission together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.

4.2 SFCs have to play a vital role in the scheme of fiscal decentralisation while arbitrating on the claims to resources by local bodies and the state governments for ensuring greater stability and credibility to the transfer mechanism. Local bodies, both rural and urban, are now reckoned as important units of local governance. Under the new fiscal arrangement, substantial transfer of resources from the State to the local bodies with wide differentials in fiscal capacities and needs constitutes the main task of the SFC. Thus, the Finance Commission works as the sole arbiter ensuring a just and equitable distribution of state revenues between the State and the local bodies and among the local bodies.

Terms of Reference (TOR) of SFCs

4.3 Though the TOR of the SFC have been elaborated in Chapter 1 of this report, yet we deem it proper to make a brief mention here also. The SFC is mandated to determine the principles governing the distribution of net proceeds of state taxes, duties, tolls and fees between the State and the local bodies, both rural and urban, among all tiers of local bodies; determination of taxes and duties to be assigned to or appropriated by these bodies; recommend principles governing grants-in-aid to them; and also to recommend measures needed to strengthen their financial base. In making its recommendations, the SFC is to have regard to the resources of the state government and the demands thereon i.e. expenditure on civil administration, maintenance of capital assets and other committed liabilities of the State and the requirements of the local bodies, their potential for raising resources and reducing expenditures. There has been no change in the TOR of the subsequent SFCs of Haryana.

Constitution of SFCs

4.4 The first State Finance Commission of Haryana was constituted on 31.05.1994 under the chairmanship of Dr. Kamla Verma covering the four year period 1997 – 2001 commencing from 1st April, 1997. It submitted its report in March 1997 taking a period of about three years. The report of the Commission together with the explanatory memorandum on the Action Taken Report (ATR) was placed before the state legislature on first September, 2000, after three and half years of submission of report.

4.5 The 2nd SFC of Haryana was constituted on 6th September, 2000 under the Chairmanship of Sh. Suraj Bhan Kajal, covering the period of five years from 2001 – 2006. The report was submitted on 30th September, 2004, taking a time of more than four years. The Action Taken Report (ATR) was placed before the state legislature initially on 13th December, 2005, then on 16th September, 2006 and lastly on 6th March, 2007, after 15 months of submission of its report and that too in piece-meal.

4.6 The 3rd SFC was constituted under the chairmanship of Sh. A.N. Mathur, IAS (Retd.) in four stages on 22nd December, 2005, 16th January, 2006, 4th December 2006 and 28th May 2007. Its reference period was five years from 2006 – 07 to 2010 – 11. It submitted its final report on 31st December, 2008 taking a period of a little more than three years. The ATR was placed before the state legislature on 1st September, 2010 after about one year and nine months of submission of its final report.

4.7 Now the 4th SFC has been constituted under the chairmanship of Sh. L.S.M. Salins, IAS (Retd.) on 16th April, 2010 with a reference period of five years from 2011 – 12 to 2015 – 16. The other Members including the Member Secretary were appointed on 3rd April, 2013, after about three years. Interim Report was submitted on 26.04.2013. It submitted its final report to the state government in June, 2014 taking a time of more than four years.

Financial Devolution Revenue Sharing Mechanism

4.8 There are three approaches commonly used by SFCs for sharing of state revenues with local bodies i.e. determination of a fixed amount in monetary terms; sharing of specific taxes and duties; and global sharing of state revenues i.e. fixation of some percentage in state revenues to be the share of local bodies. The current trend among CFCs and most of the SFCs is the option of global sharing as this mechanism has certain distinct advantages.

4.9 The 1st SFC and 2nd SFC of Haryana adopted the approach of specific tax sharing and fixed some percentages as share of PRIs and ULBs in individual tax and non tax sources. The position has been elaborated in Tables 4.1 and 4.2:-

Table 4.1: Revenue Sharing Mechanism of 1st SFC (1997- 2001)

Panchayati Raj Institutions (PRIs)			Urban Local Bodies (ULBs)		
Particulars	**Share of PRIs**	**Status**	**Particulars**	**Share of ULBs**	**Status**
A- Tax Sharing			**A- Tax Sharing**		
• Royalty on Minor Minerals	20%	Not Accepted	• Vehicle Tax	20%	Accepted
• Conversion Charges (CLU)	10%	-do-	• Entertainment Duty	50%	25%
• Stamp Duty	7.5%	3.0%	• Show Tax	100%	Accepted
• Cattle Fair	100% to PSs	Accepted	• Tax on Electricity	Increase from one paisa to 5 paisa per unit	Accepted
• HRDF	Fee increase from 1% to 2%	Accepted to be used as before	• Royalty on Minerals	20%	Not Accepted
B. Grant-in-aid			**B. Grant-in-aid**		
• Maintenance Grant	Rs.10 lakh per block	Accepted Not Implemented	• Gen. Grants for MCs • Gen. Grants for MC Faridabad	• Rs. 50/- per capita • Rs. 50/- per capita	• Not Accepted • Not Accepted
• Repair Grant	One time grant of Rs. 25 lakh for ZPs and PSs buildings	Not Accepted	• Loan Waiver	Rs. 35.16 crore	Accepted
• Specific Purpose Grant	Various slabs	Accepted Not Implemented	• Strengthening of LB Directorate	Rs. 0.18 crore	Not Accepted
• Development Grant	Rs. 50 per capita	Not Accepted			
• Incentive Grant	Cash Awards	Accepted Not Implemented			

Source: - 2nd SFC Report

Table 4.2: Revenue sharing Mechanism of 2nd SFC (2001 - 2006)

Panchayati Raj Institutions (PRIs)			Urban Local Bodies (ULBs)		
Particulars	**Share of PRIs**	**Status**	**Particulars**	**Share of ULBs**	**Status**
Tax Sharing			**Tax Sharing**		
• Royalty on Minor Minerals	20% of net receipts	Accepted partially	• Vehicle Tax	20%	Accepted partially
• Stamp Duty	3%	Not Accepted	• Entertainment Duty	50%	-do-
• Conversion Charges (CLU)	10% to GPs	Not Accepted	• Royalty on Minor Minerals	20%	-do-
• Cattle Fairs	100% to PSs	Accepted	• Tax on Electricity	5 paisa per unit	Accepted
• LADT	65%	Accepted	• LADT	35%	Accepted
Grants-in-aid			**Grants-in-aid**		
• Maintenance Grant	Rs.10 lakh per Block	Accepted	• Dev. Grants	Rs. 50 per capita per annum	Accepted partially
• Repair Grant	Rs. 25 lakh one time	Not Accepted	• Loan Waiver	Rs. 5.92 crore	Not Accepted
• Development Grant	Rs. 50 per capita per annum	Accepted partially			
• Incentive Grant	Cash Awards	Not Accepted			

Source: - 3rd SFC Report

4.10 However, the 3rd SFC did not support the source specific revenue sharing mechanism of the 1st SFC and the 2nd SFC on the understanding that this approach prevented the LBs from taking benefits of the buoyancies of the major state taxes. As such, the 3rd SFC made a significant departure from the earlier specific tax sharing system and adopted global sharing mechanism under which all state taxes are pooled together and a certain proportion thereof becomes the share of local bodies.

4.11 As per the 3rd SFC, own tax revenue of the State, net of collection charges and other divisible taxes, constituted the divisible pool. The share of local bodies, both PRIs and ULBs, was fixed at 4% of the net divisible pool (net own tax revenue). The local body share of 4% in divisible pool was further divided between PRIs and ULBs in 65:35 ratio.

4.12 On the basis of above criteria of revenue sharing, the total financial devolution recommended by the 1st SFC for PRIs and ULBs for the four year period 1997 – 2001 worked to Rs. 869.31 crore, consisting of Rs. 567.48 crore for PRIs and Rs. 301.83 for ULBs. As against this, a total financial devolution of Rs. 99.49 crore including Rs. 34.13 crore for PRIs and Rs. 65.36 crore for ULBs was accepted by the state government of which total funds of Rs. 66.36 crore (7.63%) were transferred to the local bodies, including Rs. one crore to PRIs and Rs. 65.36 crore to ULBs. As the state government took three and half years to place the ATR before the state legislature, no funds could be transferred during first three years of 1st SFC report and as such it was only in the year 2000 – 01 that funds of Rs.66.36 crore could be transferred to the local bodies. The position is depicted in Table 4.3.

Table 4.3: Summary of Devolution of 1st SFC to PRIs & ULBs (1997 - 2001) (Rs. in crore)

Components	As per Recommendation of 1st SFC		Recommendations as accepted by the state govt.	Devolution as implemented by state govt.
	2000 -01	1997-2001	2000-01	2000-01
i) Tax Sharing	**81.09**	**290.80**	**42.62**	**31.02**
PRIs ULBs	41.25 39.84	144.00 146.80	12.60 30.02	1.00 30.02
ii)Grants-in-aid	**128.95**	**525.17**	**21.53**	**-**
PRIs ULBs	103.34 25.61	423.48 101.69	21.53 -	- -
iii)Others	**53.34**	**53.34**	**35.34**	**35.34**
Loan waiver for ULBs	53.16	53.16	35.16	35.16
Local Govt. Deptt.	0.18	0.18	0.18	0.18
Total Devolution to PRIs & ULBs (i+ii+iii)	**263.38**	**869.31**	**99.49**	**66.36 (7.63%)** ***** Shows %age of funds devolved to total devolution recommended by Ist SFC.
PRIs ULBs	144.59 118.79	567.48 301.65	34.13 65.18	1.00 65.18
Local Govt. Deptt.	-	0.18	0.18	0.18

Source:- State Finance Deptt.

4.13 The 2nd SFC, as per its source specific scheme, recommended a total financial devolution of Rs.1,117.51 crore covering the period of five years 2001 - 06, consisting of Rs. 696.22 crore for PRIs and Rs. 421.29 crore for ULBs. It included a devolution of Rs. 231.05 crore for the year 2005-06 comprising of Rs. 124.68 crore as tax devolution which constituted about 3% of the net own tax revenue of the State. Against the total devolution of Rs. 1,117.51 crore, only funds worth Rs. 100 crore (8.95%) were actually transferred to the local bodies i.e. PRIs (Rs 50 crore) and ULBs (Rs. 50 crore). The 2nd SFC took about four years to submit its report and the state government further took more than one year on ATR. First four years of its report had already gone and as such its recommendations for the year 2005 - 06 could be implemented and those too only partially. The over-all position has been shown in Table 4.4.

Table 4.4: Status of Financial Devolution of 2nd SFC to local bodies (2001-06) (Rs. in crore)

Components	**As recommended by 2nd SFC**		**As accepted by state govt.**	**As Implemented by state govt.**
	2001-06	**2005-06**	**2005-06**	**2005-06**
i)Tax Devolution	**520.83**	**124.68**	**46.00**	**46.00**
PRIs	223.35	53.31	15.00	15.00
ULBs	297.48	71.37	31.00	31.00
ii) Grants-in-aid	**590.76**	**106.37**	**54.00**	**54.00**
PRIs	472.87	85.12	35.00	35.00
ULBs	117.89	21.25	19.00	19.00
iii) Other Measures	**5.92**	**-**	**-**	**-**
PRIs	-	-	-	-
ULBs	5.92	-	-	-
iv) Total Devolutions	**1117.51**	**231.05**	**100.00**	**100.00 (8.95%)** ***** Shows % age of funds devolved to total devolution recommended by 2nd SFC.
PRIs	696.22	138.43	50.00	50.00
ULBs	421.29	92.62	50.00	50.00

Source: - State Finance Department

4.14 The 3rd SFC, as per its global sharing mechanism, recommended share of local bodies at 4% of the net own tax revenue of the State. On this basis, the total financial devolution to local bodies worked to Rs. 2,540.44 crore for five year period 2006 – 07 to 2010 – 11, including Rs. 1,651.27 crore for PRIs (65%) and Rs. 889.17 crore for ULBs (35%). The state government, through its ATR, accepted the share of local bodies in the net own tax revenue at 2% in 2006 – 07, 2007 – 08, 2010 – 11 and at 3% in 2008 – 09 and 2009 – 10. On this basis, against the total devolution of Rs. 2,540.44 crore, funds worth Rs. 1,304.60 crore (51.35%) were transferred to local bodies during

2006 – 07 to 2010 – 11, including Rs. 847.99 crore to PRIs and Rs. 456.61 crore to ULBs. The position has been shown in Table 4.5.

Table 4.5: Tax Devolution to Local Bodies as per 3rd SFC (2006-11) (Rs. in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
As Recommended by SFC (4%)	**371.20 @ 4%**	**440.00 @ 4%**	**502.00 @ 4%**	**573.00 @ 4%**	**654.25 @ 4%**	**2540.44**
PRIs (65%) ULBs (35%)	241.28 129.92	286.00 154.00	326.30 175.70	372.45 200.55	425.25 229.00	1651.27 889.17
As Implemented by GOH	**185.60 @ 2%**	**201.40 @ 2%**	**302.60 @ 3%**	**330.13 @ 3%**	**284.87 @ 2%**	**1304.60 (51.35%)** ***** Shows %age of funds devolved to total devolution recommended by 3rd SFC.
PRIs ULBs	120.64 64.96	130.91 70.49	196.69 105.91	214.58 115.55	185.17 99.70	847.99 456.61

Source: - State Finance Department

Distribution criteria and approach of SFCs

4.15 While recommending revenue sharing mechanism, the basic objective of all the previous SFCs was to suggest a scheme of fiscal transfers which could serve the purpose both of equity and efficiency and result in predictable and stable transfers. However, the principle of equalisation had also been the guiding factor for fiscal transfers. While suggesting certain devolution both by way of sharing of taxes and grants-in-aid, the SFCs attempted to ensure that local bodies have access to elastic sources of revenue. The 1st and 2nd SFCs in their scheme of source-wise sharing of state revenues, recommended that district-wise distribution of local bodies share be made on the basis of decentralised planning formula which takes into account population, area and other factors related to backwardness. PRIs share was to be distributed among GPs, PSs and ZPs in the ratio of 75:15:10 within the districts, and interse distribution among GPs and PSs was made on population ratios. ULBs share was to be distributed among MCs on the basis of population, area and other appropriate factors.

4.16 The 3rd SFC had a little bit different outlook in recommending district-wise shares of PRIs and ULBs in total financial devolution. It attempted to compute district-wise composite indices of deprivation and backwardness which could reflect rural-urban development gaps so as to ensure fair distribution of LBs shares at district level, but could not succeed due to lack of requisite data. Alternatively, the 3rd SFC adopted a composite index comprising variables like population, area, BPL population and literacy gap, as suitable criteria and allotted certain weights as below:-

COMPOSITE INDEX

Parameters	Weightage (%)
Population (Rural/Urban)	40.0
Area (Rural/Urban)	25.0
BPL Population (Rural/Urban)	25.0
Literacy Gap (Rural/Urban)	10.0
Total	**100.0**

4.17 On the basis of the above parameters and weights allotted to each of these, the 3rd SFC computed district-wise composite indices of PRIs and ULBs for allocation of their respective shares, as given in Table 4.6.

Table 4.6: District-wise Composite Indices of PRIs and ULBs (3rd SFC)

Sr. No.	District	Composite Indices		S.No	District	Composite Indices	
		PRIs	**ULBs**			**PRIs**	**ULBs**
1.	Ambala	4.300	5.304	11.	Faridabad	4.516	17.072
2.	Panchkula	1.704	2.968	12.	Gurgaon	3.121	5.616
3.	Y. Nagar	4.425	6.016	13.	Rewari	3.897	2.374
4.	Kurukshetra	4.227	3.559	14.	Mahendergarh	4.521	1.931
5.	Kaithal	5.407	4.563	15.	Bhiwani	8.511	5.088
6.	Karnal	6.015	5.677	16.	Jind	6.564	3.495
7.	Panipat	3.547	5.718	17.	Hisar	7.840	6.590
8.	Sonipat	5.783	5.225	18	Fatehabad	5.160	2.691
9.	Rohtak	3.609	5.367	19.	Sirsa	6.637	5.877
10.	Jhajjar	4.111	3.248	20.	Mewat	6.104	1.620

Source: - 3rd SFC Report

4.18 The 3rd SFC further suggested that PRIs share be allocated between GPs, PSs and ZPs in the ratio of 75:15:10. Interse share of GPs and PSs within the districts were allocated on the basis of ratios of population and area with 80% weight to population and 20% weight to area.

4.19 All the previous SFCs of Haryana considered the issue of assignment of some state levies to the local bodies but did not make any recommendation in this regard as these bodies were not making desired recoveries from their existing sources nor they were utilising fully their enabling taxation powers. Besides, these bodies do not have necessary expertise and capability to take on the responsibility of newly assigned levies.

4.20 The 1st SFC and 2nd SFC, in their schemes of resource transfers, recommended certain development grants, special grants, maintenance grants for local bodies for improving the level of public services. The 3rd SFC had a different view point and observed that the role of grants should be confined to meeting only the specific needs of local bodies. It, therefore, did not recommend any grants for meeting the salaries and other unpaid liabilities of local bodies.

4.21 However, the 3rd SFC earmarked Rs. 45 crore for various purposes, like capacity building Rs. 12.00 crore, creation of data base and maintenance of accounts Rs. 10.00 crore, strengthening of Engineering Wings of Panchayat and Urban Local Bodies Departments Rs. 8.00 crore, upgradation of fire services Rs. 5.00 crore and meeting pension liabilities of employees of urban local bodies Rs. 10.00 crore. This recommendation of 3rd SFC has not been accepted.

Measures for Additional Resource Mobilisation

4.22 The 1st SFC made elaborate suggestions for internal resource generation by local bodies. In compliance thereof, the state government imposed some new levies like, fire tax, driving license tax, profession tax and vehicle registration tax w.e.f 16.05.2000. House Tax was delinked from rental value and linked to annual capital value w.e.f 13.12.2001. Rates of house tax (property tax) were also revised to 2.5% of capital value on residential buildings and 5% on other buildings. Tax on consumption of electricity was increased from one paisa to five paisa per unit. But the levy of profession tax was rolled back in February, 2004.

4.23 The 2nd SFC suggested a series of measures for internal resource augmentation by local bodies, strengthening of data base and maintenance of accounts, capacity building, privatisation of services, taxation of government properties, proper use of common property resources, constitution and composition of SFCs etc. The state government did not accept these recommendations. Instead of augmenting the resource base of local bodies by way of levy of new taxes, updating rates of existing levies and effecting recoveries of user chargers, the state government abolished house tax from 01.04.2008 on residential properties pre-empting local bodies of a major source of revenue.

4.24 Based on the recommendations of a study group of experts, the 3rd SFC, suggested effective measures for strengthening the resource base of PRIs and ULBs and other issues related to empowerment of local bodies. It further recommended re-levy of house tax, imposition of profession tax and better management of common property resources. It also stressed for levy of fees like valorisation fees, impact fees, betterment fees etc. The state government considered these issues but did not implement them. However, house tax was re-levied w.e.f. 21.06.2012 with renewed design yielding tangible recoveries.

Functional Decentralisation

4.25 Functional devolution is a key element of empowerment of local bodies. All the previous SFCs considered this issue but could not make required recommendations as functional transfer is a gradual process to be carried out in a phased manner keeping in view the administrative, structural and technical capacities of the local bodies, particularly the PRIs. Urban local bodies are doing their usual duties. It is the PRIs which need empowerment through democratic decentralisation.

4.26 Though a good beginning has been made by the state government in the direction of democratic decentralisation, the pace of progress is very slow. The state government delegated certain functions of supervisory and monitoring nature of 16 departments to the PRIs on 23.05.1995. Thereafter, in 2001, certain functions and responsibilities were transferred to the PRIs alongwith control over functionaries. As per the MOU signed with MOPR/GOI on 22.08.2005, all the department were directed to prepare activity mapping charts of their departments. In compliance, 10 major departments prepared activity mapping with transfer of functions, funds and functionaries which was circulated on 17.02.2006. As recommended by the 3rd SFC, state government has constituted a committee under the chairmanship of the Chief Secretary to review and monitor the progress regarding transfer of functions to PRIs and ULBs vide Notification No.4/7/2008-IV-ERAMU/FD, dated 22nd April,2010. This committee is also to take policy decisions on all the issues related to the Central as well as the State Finance Commissions and timely implementation of their recommendations.

4.27 As suggested by the 2nd SFC, its recommendations on fiscal transfers, as accepted for the year 2005 – 06, were extended for the years 2006 – 07, 2007 – 08 and 2008 – 09. Like wise, as recommended by the 3rd SFC, its recommendations on financial devolution, as accepted for the year 2010 – 11, have been extended for the years 2011 – 12 and 2012 – 13. Consequently, the estimated financial devolution to local bodies, both PRIs and ULBs, on account of extension of recommendations of 3rd SFC, as accepted by the state government, has been indicated by the Finance Department at Rs. 355.75 crore for 2011 – 12 and Rs. 408.25 crore for 2012 – 13. The break-up has been given in Table 4.7.

Table 4.7: Estimated Financial Devolution to Local Bodies (Rs. in crore)

Local Bodies	**2011 - 12 (Ests.)**	**2012 - 13 (Ests.)**
PRIs	231.24	265.36
ULBs	124.51	142.89
Total	**355.75**	**408.25**

Observations of CFCs on functioning and composition of SFCs

4.28 The 11th CFC was the first Commission to have expressed its serious concern over the poor state of functioning of the SFCs and the low quality of their reports. It suggested that state governments take steps to enhance the credibility of SFCs and status of their reports.

4.29 The 12th CFC made elaborate recommendations regarding constitution and composition of SFCs and acceptability of their recommendations. The 12th CFC observed that delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, qualifications of persons chosen, delayed submission of reports and delayed tabling of ATRs in the state legislatures defeated the very purpose of this institution. The 12th CFC made following suggestions in this regard:-

- States should follow the central legislation and rules prescribing qualifications for chairpersons and members and frame similar rules.
- Members should be experts drawn from specific disciplines as, Economics, Public Finance, Public Administrations and Law. At least one member with specialisation in the matters related to PRIs and another well versed in municipal affairs be appointed.
- Chairperson and all Members including Member Secretary should be full time.
- States should avoid delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, tabling of reports (ATRs). SFCs should be constituted at least two years before submission of their reports. ATRs be placed before state legislatures within six months after receiving reports.
- SFCs reports should be readily available to the next CFC on time. As the periodicity of CFC is predictable, the States should time the constitution of their SFCs.
- The national convention of accepting the principal recommendations of the CFC without modifications should be followed at the state level in respect of SFCs reports.
- The SFCs should follow a normative approach while assessing the financial position of the local bodies rather than making forecasts on historical trends. Normative assessment would help upholding status, quality and acceptability of SFC report.

4.30 The MOPR/GOI also expressed growing concern about the functioning and reports of SFCs and observed that SFCs reports are analytically weak; SFCs are not staffed with knowledgeable professionals; data at their disposal is inadequate and sub-standard; and their recommendations are often ignored. As such, the 12th CFC made many significant recommendations in this regard. Accordingly, MOPR/GOI formulated some suitable guidelines covering all aspects of the SFCs for ensuring a minimum benchmark, which also facilitate the CFC in giving its award more scientifically. These guidelines were circulated to all the States vide letter No. 38012/3/TFC/2008, dated 27th April, 2009.

4.31 The 13th CFC also considered major issues relating to the functioning of SFCs, their synchrocity with CFCs, quality of SFCs reports and their timely implementation and observed as under: -

- States should ensure that SFCs are appointed on time. The SFC period be synchronised with CFC period and ATRs be placed in state legislatures in a timely manner.
- States should ensure timely constitution of their SFCs and their reports be available to CFC well in time.
- The 13th CFC found SFCs reports patchy and not following uniform pattern. It designed a template for SFCs reports and recommended that SFCs consider this for adoption.
- State government should ensure that recommendations of SFCs are implemented without delay and that ATRs are placed promptly before their legislatures.

4.32 The 3rd SFC of Haryana, in its report, had also touched upon all aspects of status of SFCs and their reports and expressed concern over the casual and lukewarm treatment given to the SFCs. It valued the recommendations of 12th CFC in regard to SFCs as well founded and timely and as such commended the 12th CFC recommendations for implementation in their right spirit and perspectives.

Conclusions and Suggestions

4.33 On scrutiny, we found that all the previous SFCs of Haryana suffered in their functioning due to reasons beyond their control. The 1st SFC was constituted on 31st May, 1994 and submitted its report on 31st March, 1997, after about three years. ATR was placed on 1st September, 2000 after more than three years. The 2nd SFC, constituted on 6th September, 2000, submitted its report on 30th September, 2004, after more the four years. ATR was placed on 13th December, 2005 taking a time of more than one year. The 3rd SFC was constituted on 22.12.2005 and submitted its report on 31.12.2008, after about three years. The ATR was placed before the legislature on 1st September, 2010 after about two years. We also noticed that the accepted recommendations of the 1st and 2nd SFCs made for their respective concluding years, were also not fully implemented. We further noticed that main recommendations of previous SFCs including financial devolutions were not accepted and also those that were accepted were only partially implemented and no reasons were assigned for non-acceptance of SFCs recommendations. The Members of previous SFCs were not drawn from specified disciplines.

4.34 Now this is the 4th SFC constituted on 16.04.2010. It should have been constituted two and half years earlier. Chairman was appointed on 16.04.2010. The other Members including the Member Secretary were appointed on 3rd April, 2013, after about three years of constitution of the Commission.

4.35 We find that States have not yet appreciated the importance of this constitutional institution in terms of its potential to carry the process of democratic decentralisation further and evolve competencies at the cutting edge level by strengthening the Panchayats and Municipalities. SFCs across the States are constrained by conceptual and functional inadequacies. SFCs are perceived more as a constitutional formality than as an effective institution of restructuring state local financial relations with a view to augmenting financial power of local bodies. Such conceptual limitation leads to an acute functional inadequacy where States in general have been showing lackadaisical approach towards constitution and composition of SFCs, creation of updated database and implementing recommendations of SFCs. Due regard is not paid to the recommendations of SFCs. The national convention of accepting the principal recommendations of CFC without modification is not being followed by the States. Even the accepted recommendations are not fully implemented. This defeats the very purpose of constituting the SFCs and also undermines the status and authority of SFC and also adversely affects the functioning and the quality of SFC report.

4.36 In fact the SFC recommendations play an important role in the award of the CFC. As such the situation needs a sea change. The States have the basic responsibility toward enhancing the credibility and acceptability of the reports of SFCs. The SFCs, therefore, need to be strengthened and their works/reports streamlined in many ways including some standardisation in their methods and approaches.

4.37 We observe that SFC is a statutory body and its recommendations are based on technical analysis of finances of local bodies and the state government As such, its recommendations should be honoured, accepted and implemented so that no violations of constitutional provisions and the existing enabling acts of the local bodies take place as has been done in regard to the previous SFCs.

4.38 We have come to the conclusion that the recommendations of the 12th CFC, the guidelines of MOPR/GOI and the template designed by the 13th CFC on functioning and status of reports of SFCs are sufficient to enhance the credibility of SFCs and their reports. We, therefore, endorse these recommendations for implementation by the state government. We also endorse the observations of the 3rd SFC made in this regard for implementation.

4.39 We summarise our recommendations in regard to SFCs, as under:-

- **Full Commission should be constituted in one go and its composition should not be disturbed till completion of its task as**

frequent changes in its composition adversely affect the continuity of its thought and approach.

- **The Chairperson and all the Members, including the Member Secretary should be appointed on full time basis so as to pay adequate attention to the issues of information collection and analysis, office management and related activities.**

- **A person having experience in public affairs may be appointed as Chairman, whereas Members should be drawn from the specified fields of Economics, Public Administration, Public Finance, Law and Accounts. At least one Member each with specialisation and experience in panchayats and municipal affairs should be appointed in SFC. As such, the SFC must be constituted with persons of eminence and competence. Their qualifications, salary and allowances etc. should be prescribed on the pattern of Act/Rules for the CFC.**

- **The SFCs should be equipped with sufficient trained staff including those conversant with finance, accounts, policies, schemes and programmes of the government and related matters.**

- **The ATR on the recommendations of the SFC should be placed in the state legislature within six months of the submission of report. It should be followed with an annual statement on the devolutions made to the local bodies and the implementation of other recommendations though an appendix to the budget documents.**

4.40 We also suggest that keeping in view the circumstances in the 4th SFC by way of its piece-meal constitution, the state government should constitute the next SFC, fifth in series, immediately after submission of report by the 4th SFC. This step would help the next SFC in utilising the existing infrastructure and literature available with the 4th SFC and further enabling the 5th SFC in timely submission of its report.

4.41 The MOPR/GOI and the template designed with its collaboration has suggested that the tenure or term of the SFC should be 18 months. We have some reservation about this contention. This may be valid in case of CFC as there is a permanent Finance Commission Division (FCD) in the MOF/GOI which prepares all the feedback material on continuous basis for use by the next CFC and also provides the requisite logistical support on the basis of which the next CFC gets on the job right from its constitution. The SFCs have to struggle hard for their existence and it takes more than a year before it becomes functional. We have seen that in the given scenario all the earlier SFCs of Haryana faced the similar problems and took more than three years in submitting their reports. Similar is the situation with SFCs of many other states. **We are, therefore, of the opinion that the tenure of the SFC should at least be of three years.**

4.42 We have examined the resource availability with the state government for our award period and found that the GOH had fully achieved the fiscal milestones fixed in its Fiscal Responsibility and Budget Management (FRBM) Act 2005. The 13th CFC has advised the States to redesign and reform their fiscal responsibility legislations and to achieve the fiscal targets so re-fixed by the fiscal 2014 – 15. These fiscal parameters have already been achieved by the GOH despite meeting additional financial implications of the Sixth Pay commission, committed liability of Eleventh Plan schemes and other contingent liabilities. We further hope that the state finances would be able to meet the entire liability of financial devolution being suggested for local bodies in this report without jeopardising the position of fiscal parameters. This financial devolution is of moderate size meeting the basic minimum requirements of local bodies. **We are, therefore, hopeful that the GOH would fully implement all the major recommendations of this Commission, particularly on financial devolution without any modifications and would comply with the central tradition of implementing all the major recommendations of the CFC.**

4.43 The 3rd State Finance Commission had recommended constitution of a High Powered Committee under the chairmanship of Chief Secretary comprising of Administrative Secretaries of various departments involved in PRIs and ULBs to monitor the implementation of recommendations of the SFCs. We find that this has not yielded desired results, perhaps due to pre-occupations of the Chief Secretary, the concerned Secretaries of Finance, Planning, Panchayati Raj and Urban Local Government etc. with their already hectic work schedules. **Rather, we find more merit in the practice and innovation adopted by the Government of Karnataka whereby a Monitoring Group under the aegis of the outgoing State Finance**

Commission has been constituted. Such an external High Powered Monitoring Group endowed with authority has been actively involved in liaisoning with the heads of government departments and the political heads to ensure that all recommendations of the SFC are considered during the given time period, accepted and fully implemented. Accordingly, this Commission endorses this practice established in Karnataka and recommends constitution of an external Monitoring Group to monitor the implementation of the recommendations of various State Finance Commissions and Central Finance Commissions.

CHAPTER – 5
DEVELOPMENT PROFILE OF HARYANA

Physical Features

5.1 Haryana is a landlocked State in northern India surrounded by Uttar Pradesh on the east, Punjab on the west, Himachal Pradesh on the north and Delhi, Rajasthan on the south west. The State, carved out of erstwhile Punjab in 1966, comprises for the most part an alluvial plain forming part of the Yamuna River Basin. This river straddles the eastern side of the State. The foothills of the Shivalik mountains forms its north by north-eastern promontory. The Aravalli Range is along the southern and south-western part of the State. The State with its riverine tracts and well integrated irrigation system is known for its rich and varied agricultural production forming one of the granaries of the nation.

Geographical Features

5.2 Comprising an area of 44, 212, sq.km. which is only 1.3% of the total geographical area of the country, Haryana that had a net GSDP of Rs.540 crore in 1967 has now (2013) a GSDP of Rs.3,08,943/- crore (current prices) indicating remarkable growth. The State has not only been one of the leading contributors to food security through the success of the Green Revolution but has also been remarkably successful in what are known as White & Blue Revolutions.

Demographic Profile

5.3 At the time of its formation in 1966, Haryana's population was 75.90 lakh. As per the published results of the 2011 census, the population is presently 253.51 lakh which is 2.09 % of the nation's population. It is pertinent to note that with 1.3 % of the total area and 2.09 % of the total population of the country, the contribution of Haryana to the national growth is remarkable in many more ways than is normally acknowledged. For example, the State is not only famous for agriculture, animal husbandry, milk products and pisciculture with among the highest yields, its people demonstrated resilience and hardworking capabilities in developing even desert tracts into cultivable land.

The people have contributed to the armed forces and para-military organisations in large numbers comprising a significant percentage of these forces.

5.4 The current trend of demography is towards urbanization. 165.09 lakh persons i.e. 65.12% of the state population now lives in rural areas, while 88.42 lakh i.e. 34.88% of the population lives in urban areas. This trend towards urbanization is increasing. Density of population is 573 persons per sq.km. The gender breakup comprises 134.95 lakh males and 118.57 lakh females. In percentage terms, these are 53.23% and 46.77% respectively. The box below gives a comparison of population, urban and rural percentages compared to the national figures.

		HARYANA	**INDIA**
Population	Total	2,53,51,462	12,105,69,573
	Rural	1,65,09,359	8,334,63,448
	% age to Total	65.12	68.85
	Urban	88,42,103	3,771,06,125
	% age to Total	34.88	31.15
	Male	1,34,94,734	6,231,21,843
	% age to Total	53.23	51.47
	Female	1,18,56,728	5,874,47,730
	% age to Total	46.77	48.53
Sex Ratio (Females per thousand Males)	Total	879	943
	Rural	882	949
	Urban	873	932
Density of Population (persons per sq. km.)		573	382

Administrative features with focus on urban and rural administration

5.5 Haryana is divided into 4 divisions, 21 districts, 57 sub-divisions, besides tehsils and sub tehsils. For development purposes, the State now comprises of 124 development blocks covering 6,841 villages within the said districts. These villages are governed by 6,083 Gram Panchayats, 124 Panchayat Samitis and 21 Zila Parishads. The Zila Parishad and Blocks Samiti jurisdictions are coterminous with the districts and blocks respectively. Urban areas are administered through 78 municipal bodies comprising of 9 Corporations, 14 Municipal Councils, and 55 Municipal Committees. The population is represented in a 90 member single camera house of representatives (Vidhan Sabha).

Inter - district disparities

5.6 In Haryana, there is a are wide range of intra-state regional disparities or inter-district imbalances as reflected in economic & social indicators as well as in the sectors of agriculture, industries, education, health, water supply, sanitation and social services. Table 5.1 makes the position clear as far as a few indicators are concerned. Bhiwani is the biggest district having 10.81% of the total area and Faridabad the smallest with 1.68% of the area of the State. On the other hand, on population basis, Faridabad is the largest district with 7.10% of the total population and Panchkula the smallest with 2.20% of the total population of the States.

Table 5.1: Inter District Disparities (%)

District	Population	Area	Literacy	Density of Pop. Per sq. km
Ambala	4.45	3.56	81.75	717
Bhiwani	6.45	**10.81**	75.21	342
Faridabad	**7.14**	**1.68**	81.70	**2442**
Fatehabad	3.72	5.74	67.92	371
Gurgaon	5.97	2.84	**84.70**	1204
Hisar	6.88	9.01	72.89	438
Jhajjar	3.78	4.15	80.65	523
Jind	5.26	6.11	71.44	494
Kaithal	4.24	5.24	69.15	464
Karnal	5.94	5.70	74.73	597
Kurukshetra	3.81	3.46	76.31	630
Mahendragarh	3.64	4.30	77.72	486
Mewat	4.30	3.39	**54.08**	723
Palwal	4.11	3.09	69.32	767
Panchkula	**2.21**	2.03	81.88	625
Panipat	4.75	2.87	75.94	951
Rewari	3.55	3.61	80.99	565
Rohtak	4.19	3.95	80.22	608
Sirsa	5.11	9.67	68.82	**303**
Sonepat	5.72	4.80	79.12	697
Yamuna Nagar	4.79	4.00	77.99	683
Haryana State	**-**	**-**	**75.55**	**573**

5.7 The decadal growth rate of the population of Haryana between 1991 and 2001 census was 28.43 per cent which has shown a declining trend at 19.90% during the decade 2001 – 2011. This growth rate of population continues to be high for the State. However, this higher growth rate can be attributed to some extent to substantial migration as well. Similarly, density of population has shot up to 573 per sq. km. in 2011 census from 478 per sq. km. in 2001. Again the NCR factor has affected the substantial increase in density of population. Faridabad is the most densely populated district in the State having 2,442 persons per sq. km. and Gurgaon with 1,204 persons per sq. km. has the second highest position.

5.8 Another major indicator of intra regional disparities is that of urban population. As per 2011 census, urban population has gone upto 34.88% of the total population. In Faridabad district, 79.51 percent of the population lives in urban areas, followed by Gurgaon (68.82 percent), Panipat (46.05 percent) and Ambala (44.38 percent). On the other hand, Mewat district (11.39%), Mahendragarh (14.41%) followed by Fatehabad (19.06%) and Bhiwani (19.66 %) have the lowest urban populations. The inter district disparities based on decadal difference have been displayed in Table 5.2.

Table 5.2: Inter District Disparities

Sr. No.	State/District	Population 2011			Percentage decadal growth rate of population		Sex- Ratio (Number of Females per 1000 Males)		Population density per sq. km.	
		Persons	Males	Females	1991-01	2001-11	2001	2011	2001	2011
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
	HARYANA	**2,53,51,462**	**1,34,94,734**	**1,18,56,728**	**28.43**	**19.90**	**861**	**879**	**478**	**573**
1	AMBALA	11,28,350	5,93,703	5,29,647	25.78	11.23	868	885	644	717
2	BHIWANI	16,34,445	8,66,672	7,67,773	22.49	14.70	879	886	298	342
3	FARIDABAD	18,09,733	9,66,110	8,43,623	58.88	32.54	826	873	**1,744**	**2,442**
4	FATEHABAD	9,42,011	4,95,360	4,46,651	24.76	16.85	884	902	318	371
5	GURGAON	15,14,432	8,16,690	6,97,742	44.15	**73.14**	850	**854**	717	1,204
6	HISAR	17,43,931	9,31,562	8,12,369	27.11	13.45	851	872	386	438
7	JHAJJAR	9,58,405	5,14,667	4,43,738	23.06	**8.90**	847	862	480	523
8	JIND	13,34,152	7,13,006	6,21,146	21.36	12.13	852	871	440	494
9	KAITHAL	10,74,304	5,71,003	5,03,301	21.02	13.55	853	881	408	464
10	KARNAL	15,05,324	7,97,712	7,07,612	23.06	18.14	865	887	506	597
11	KURUKSHETRA	9,64,655	5,10,976	4,53,679	23.32	16.86	866	888	540	630
12	MAHENDRAGARH	9,22,088	4,86,665	4,35,423	19.16	13.48	**918**	895	428	486
13	MEWAT	10,89,263	5,71,162	5,18,101	45.67	38.65	899	**907**	526	723
14	PALWAL	10,42,708	5,54,497	4,88,211	34.21	25.76	862	880	606	767
15	PANCHKULA	5,61,293	2,99,679	2,61,614	50.91	19.83	**823**	873	522	625
16	PANIPAT	12,05,437	6,46,857	5,58,580	38.58	24.60	829	864	763	951
17	REWARI	9,00,332	4,74,335	4,25,997	25.34	17.64	899	898	480	565
18	ROHTAK	10,61,204	5,68,479	4,92,725	21.00	12.88	847	867	539	608
19	SIRSA	12,95,189	6,82,582	6,12,607	23.59	15.99	882	897	**261**	**303**
20	SONIPAT	14,50,001	7,81,299	6,68,702	22.39	13.35	839	856	603	683
21	YAMUNANAGAR	12,14,205	6,46,718	5,67,487	29.19	16.57	862	877	589	687

**For calculation of sex ratio total of males and others as males used*

State Economy

5.8 The state economy grew at an average annual growth rate of 8.8% from 2004 – 05 to 2012 – 13 while the Indian economy grew at around 8.4% in the same period. Over the past four decades, the state economy has experienced a significant structural transformation. The relative contribution of various sectors, i.e. agriculture & allied (primary sector), industries (secondary sector)) and services (tertiary sector) have changed significantly. The relative share of agriculture & allied sector has drastically decreased from 60.7% in 1969-70 to 16.3% in 2011 – 12. Similarly, the contribution of industries and service sectors in GSDP have increased from 17.6% to 28.9% and from 21.7% to 54.8% respectively in the same period. The graph below shows the relative contribution of various sectors in GSDP at three different points of time (1969 – 70, 2002 – 03 and 2011 – 12).

5.10 The structural position of GSDP, annual growth rates of GSDP and growth trends have been shown in Table 5.3 and graphs.

Changing Composition of GSDP in Percentage Terms

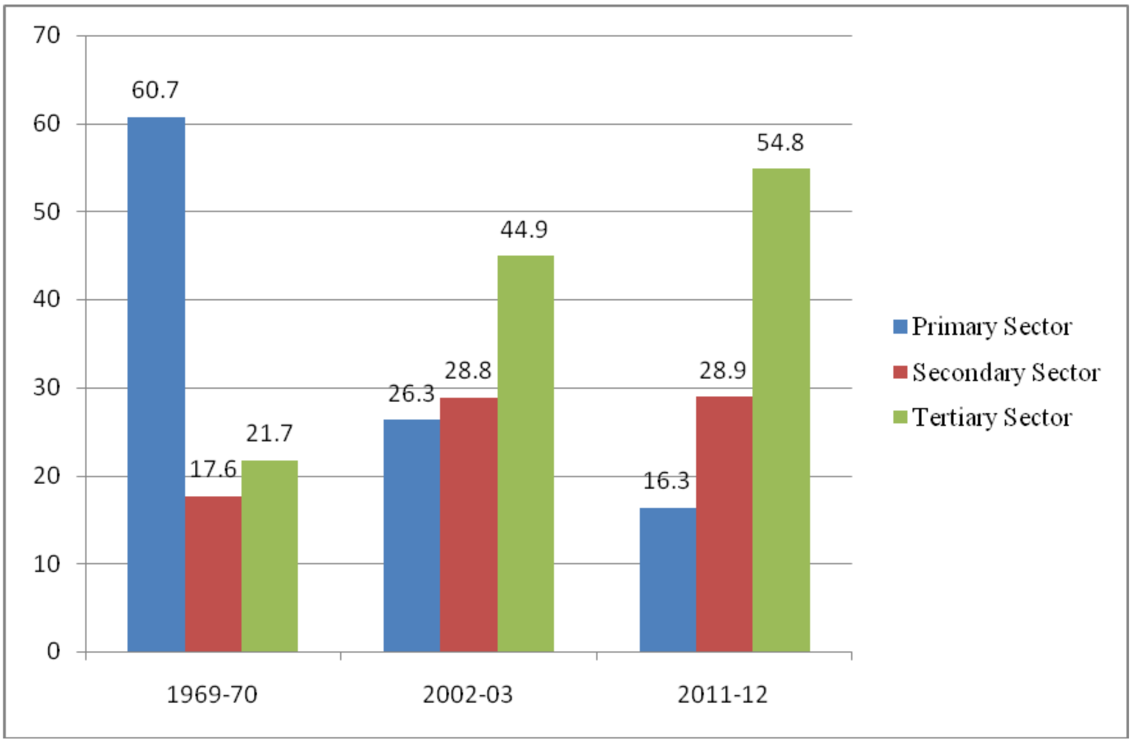
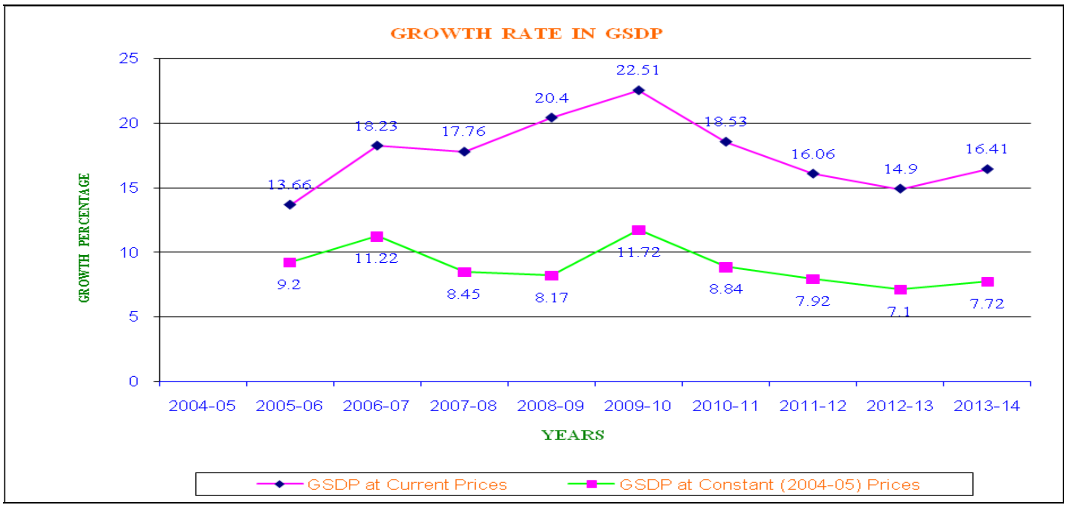


Table 5.3: Annual Growth Rate of Gross State Domestic Product (GSDP) In Haryana as Compared with all India at Current and Constant (2004 - 05) Prices

Year	HARYANA				ALL INDIA			
	GSDP (Rs. in crore)		% Growth over previous year		GSDP (Rs. in crore)		% Growth over previous year	
	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices
2004-05	95,795	95,795			29,71,464	29,71,464		
2005-06	1,08,885	1,04,608	13.66	9.20	33,90,503	32,53,073	14.10	9.48
2006-07	1,28,732	1,16,344	18.23	11.22	39,53,276	35,64,364	16.60	9.57
2007-08	1,51,596	1,26,171	17.76	8.45	45,82,086	38,96,636	15.91	9.32
2008-09	1,82,522	1,36,478	20.40	8.17	53,03,567	41,58,676	15.75	6.72
2009-10	2,23,600	1,52,474	22.51	11.72	61,08,903	45,16,071	15.18	8.59
2010-11	2,65,034	1,65,960	18.53	8.84	72,66,967	49,37,006	18.96	9.32
2011-12	3,07,606	1,79,097	16.06	7.92	83,53,495	52,43,582	14.95	6.21
2012-13	3,53,440	1,91,821	14.90	7.10	94,61,979	55,03,476	13.27	4.96
2013-14	4,11,429	2,06,638	16.41	7.72				



5.11 The GSDP of the State at constant (2004 – 05) prices grew from Rs. 1,79,097 crore in 2011 – 12 to Rs. 1,91,821 crore in 2012 – 13, thus recording a growth of 7.10% as against 4.96% in national GDP. Similarly, at current prices, the GSDP of Haryana in 2011 – 12 was Rs. 3,07,606 crore which shot up to Rs. 3,53,440 crore in 2012 – 13, recording a growth of 14.90% over the previous year. During the same period, the growth of national GDP was 13.27% which is again lower than the state's GSDP growth rate. The position has been shown in Table 5.3.

5.12 The structural composition of the state economy indicates that the primary sector still continues to be the dominant sector despite the fact that its contribution to GSDP has declined from 26.3% in 2002 – 03 to 16.3% in 2011 – 12. The contribution of secondary and tertiary sectors has remained more or less static during the years 2002 – 03 to 2011 – 12. The tertiary sector is continuously growing since 1969 – 70. Its share was 21.7% in 1969 – 70 then increased to 44.9% in 2002 – 03 and it has increased to 54.8% in 2011 – 12.

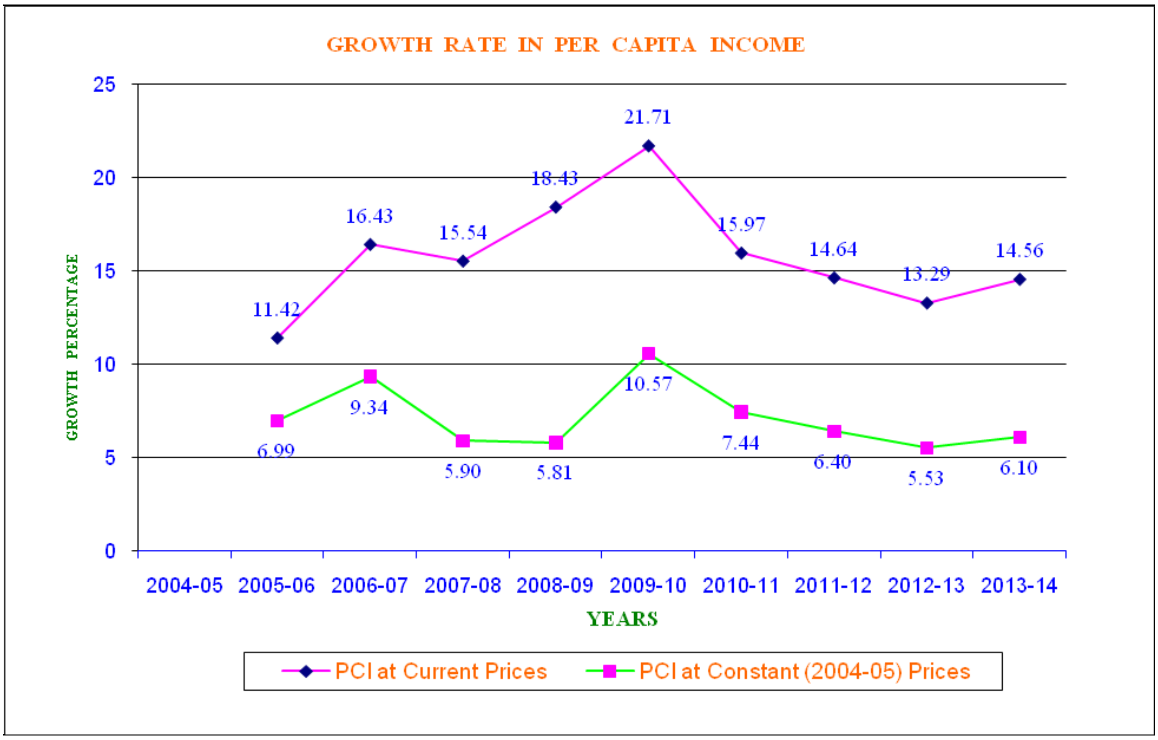
5.13 Per capita income is another important indicator to assess economic growth as well as the living standards of the people. During the year 1966 – 67, the per capita income of Haryana (at current prices) was only Rs. 608. Since then, the per capita income has increased manifold. The comparative position per capita income has been depicted in the Table 5.4.

5.14 The per capita income of the State at constant (2004 – 05) prices was Rs. 66,410/- during 2012 – 13 as against Rs. 62,927 during 2011 – 12, thus, indicating an increase of 5.53 percent during 2012 – 13. Similarly at current prices, the State per capita income was Rs. 1, 23,554 in 2012 – 13 as compared to Rs. 1, 09,064 during 2011 – 12 showing an increase of 13.29 percent during 2012 – 13. It is pertinent to mention here that the per capita income of the State has always remained much higher than All India level in the recent past. The per capita income of India in 2012 – 13 was Rs. 39,143 and Rs. 68,747 at constant (2004 – 05) and current prices respectively. During the same period PCI of Haryana was Rs. 66,410 and Rs. 1,23,554 at constant (2004 – 05) and current prices respectively.

Table- 5.4: Comparative Statement of per Capita Income of Haryana with all India

Year	HARYANA				ALL INDIA			
	Per Capita Income (Rs.)		% Growth over previous year		Per Capita Income (Rs.)		% Growth over previous year	
	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices	At Current prices	At Constant (2004-05) Prices
2004-05	37,972	37,972			24,143	24,143		
2005-06	42,309	40,627	11.42	6.99	27,131	26,015	12.38	7.75
2006-07	49,261	44,423	16.43	9.34	31,206	28,067	15.02	7.89
2007-08	56,917	47,046	15.54	5.90	35,825	30,332	14.80	8.07
2008-09	67,405	49,780	18.43	5.81	40,775	31,754	13.82	4.69
2009-10	82,037	55,044	21.71	10.57	46,249	33,901	13.42	6.76
2010-11	95,135	59,140	15.97	7.44	54,151	36,342	17.09	7.20
2011-12	1,09,064	62,927	14.64	6.40	61,564	38,037	13.69	4.66
2012-13	1,23,554	66,410	13.29	5.53	68,747	39,143	11.67	2.91
2013-14	1,41,540	70,464	14.56	6.10				

Source: Economic & Statistical Organisation, Haryana



Plan Investment Strategy

5.15 A major contributory factor for reforming the State economy has been the large scale investments made during various five year plans with special emphasis on infrastructural development. The plan investment has substantially increased from Rs. 225.00 crore in Fourth Plan (1969 – 74) to Rs. 90,000 crore in the Twelfth Plan (2012 – 17).The approved outlay for Eleventh Plan (2007 – 12) was Rs. 35,000 crore. The outlay of 12th Plan (2012 – 2017) shows a growth of 157% over the previous five year plan outlay. The details of outlays under five year plans have been given in Table 5.5

Table- 5.5: Investment under Five Year Plans

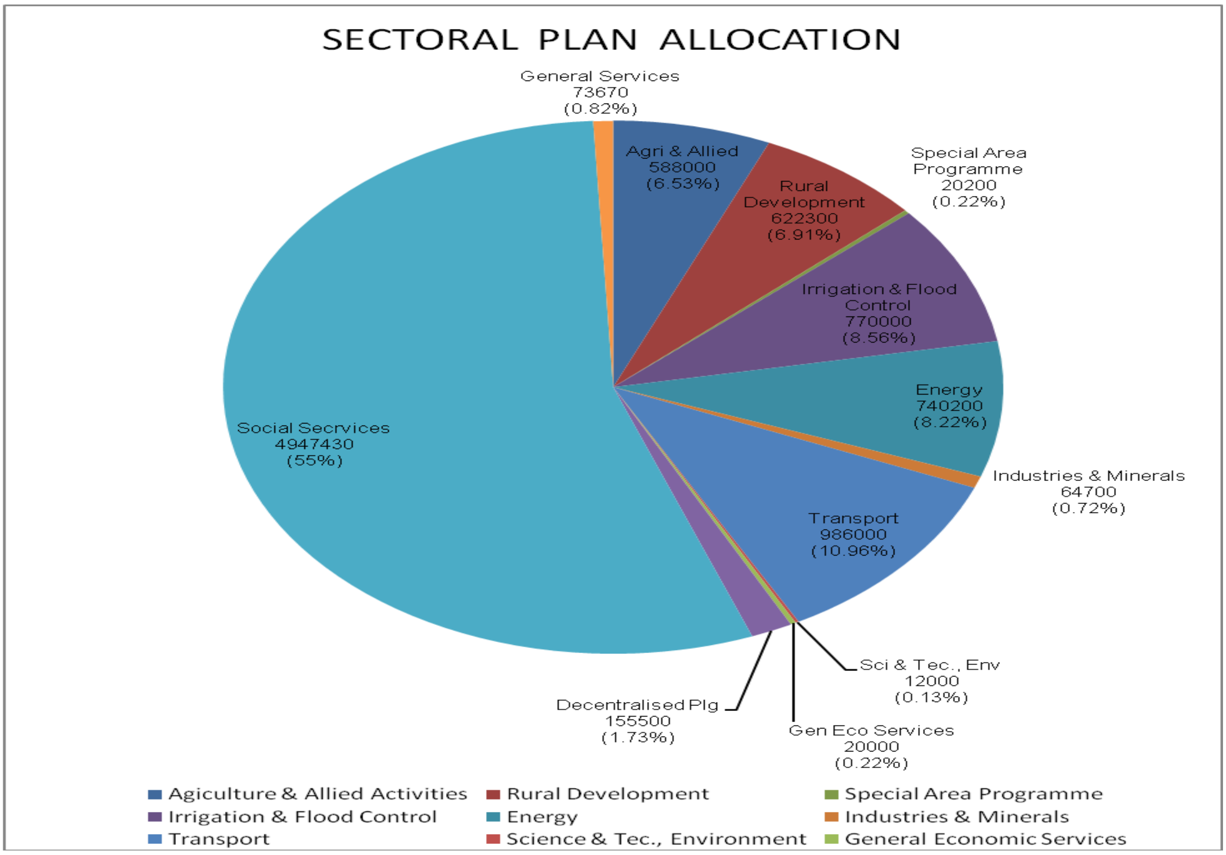
Plan Period	Plan Investment (Rs. in crores)	Growth rate (%)
Fourth Plan (1969-74)	225.00	-
Fifth Plan (1974-79)	601.35	167%
Sixth Plan (1980-85)	1800.00	200%
Seventh Plan (1985-90)	2900.00	61%
Eighth Plan (1992-97)	5700.00	97%
Ninth Plan (1997-2002)	11600.00	104%
Tenth Plan(2002-07)	12000.00	4%
Eleventh Plan (2007-12)	35000.00	192%
Twelfth Plan (2012-17) (Approved outlay)	90000.00	157%

5.16 As mentioned above, the State Plan outlay for 12th Five Year Plan 2012 – 17 is Rs. 90,000 crore. This outlay excludes an amount of Rs. 73,570 crore for State Public Enterprises (PSEs) and Rs. 13,190 crore for Local Bodies (LBs) to be met out from their own resources. The Net State Plan Outlay is 157% higher than the outlay of 11th Five Year Plan. The highest priority still continued to be accorded to the social services sector with proposed outlay of Rs. 49,474.30 crore constituting 54.97% of the total proposed outlay of 12th Five Year Plan. The second highest priority has been given to the development/improvement of infrastructure of irrigation, power, roads & road transport by earmarking an outlay of Rs. 24,962 crore which is 27.74% of the total proposed outlay during the 12th Five Year Plan.

5.17 The sectoral plan allocation from Ninth FYP onwards have been given in Table 5.6.

Table – 5.6: Sectoral Plan Allocation Rs. in lakh

SECTORS	NINTH PLAN		TENTH PLAN		ELEVENTH PLAN		TWELFTH PLAN	
	1997-02 (Actual)	% Share in the plan	2002-07 (Actual)	% Share in the plan	2007-12 (Approved)	% Share in the plan	2012-17 (App)	% Share in the plan
Agr. & Allied Activities	47,620	5.96	59,330	4.57	1,63,882	4.68	5,88,000	6.53
Rural Development	29,111	3.65	60,790	4.68	12,6,842	3.62	6,22,300	6.91
Special Area Programme	6,559	0.82	10,616	0.82	12,740	0.36	20,200	0.22
Irrigation & Flood Control	1,59,196	19.93	1,63,448	12.59	4,16,500	11.90	7,70,000	8.56
Energy	1,54,798	19.38	2,00,146	15.42	4,71,346	13.47	7,40,200	8.22
Industries & Minerals	44,901	5.62	65,300	5.03	38,952	1.11	64,700	0.72
Transport	58,125	7.28	1,45,632	11.22	4,33,535	12.39	9,86,000	10.96
Sci. & Tech., Environment	762	0.010	1,696	0.13	1,988	0.06	12,000	0.13
General Eco. Services	1,689	0.21	4,350	0.34	9,034	0.26	20,000	0.22
Decentralised Planning	4,850	0.61	8,243	0.64	1,29,293	3.69	1,55,500	1.73
Social Services	2,81,447	35.24	56,1304	43.24	16,69,744	47.71	49,47,430	54.97
General Services	9,554	1.20	17,109	1.32	26,144	0.75	73,670	0.82
GRAND TOTAL	**7,98,612**	**100**	**12,97,964**	**100**	**35,00,000**	**100**	**90,00,000**	**100**



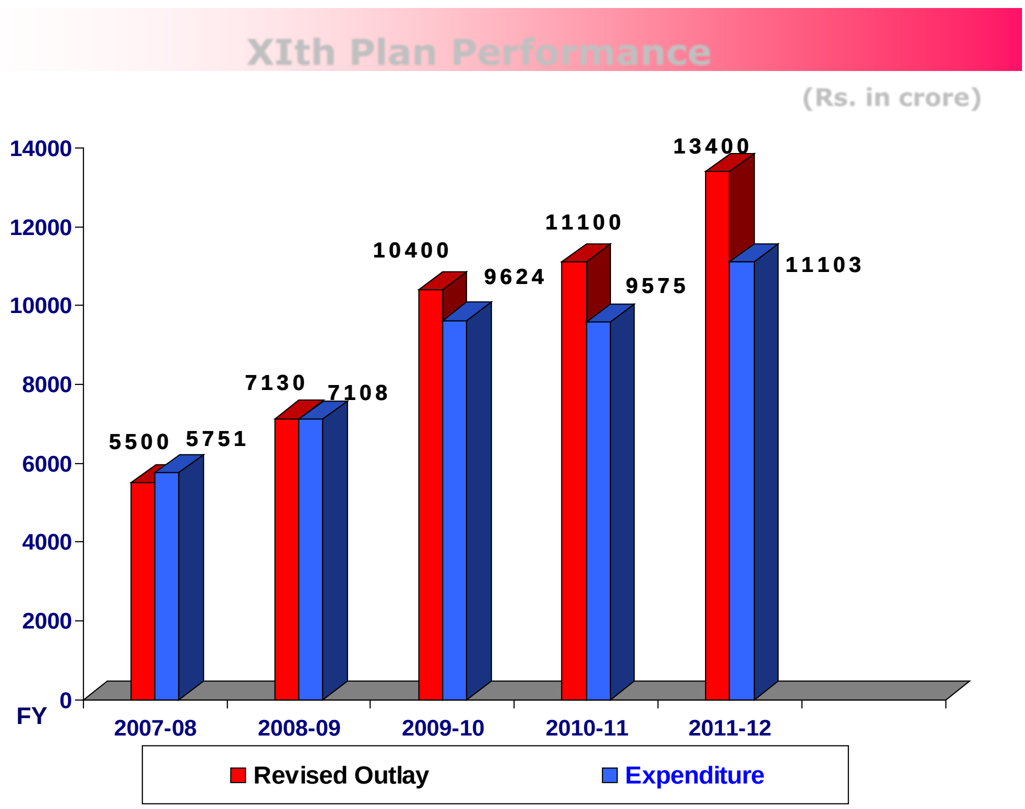
5.18 The plan perfomance under annual plans from 2007 – 08 onwards has been shown in Table 5.7.

Table – 5.7: Annual Plan 2007-08 to 2013-2014 (Rs. in crore)

Annual Plan	Approved Outlay	Revised Outlay	Expenditure
2007-08	5,300	5,500	5,751.18
2008-09	6,650	7,130	7,108.28
2009-10	10,000	10,400	9,624.44
2010-11	11,100	11,100	9,574.67
2011-12	13,200	13,400	11,102.64
2012-13	14,500	14,424.17	12,520.87
2013-14	18,000*		

* Proposed Outlay

Note : All the above figures exclude outlays of PSUs and Local Bodies



5.19 Haryana has been able to achieve remarkable milestones in various sectors of the economy. In the realm of agriculture itself while total production has been growing, improved practices and introduction of new varieties has brought about greater yields and corresponding remuneration for the farmers.

5.20 The forward looking policy with regard to land acquisition has ensured the interests of the agriculture land holding community. Milestones have been achieved in the field of infrastructure with several power projects being implemented, or, as in the case of Haryana's first nuclear plant, in the process of being set up. The industrial policy of 2005 as implemented has continued to be attractive to industrialists. However, downturn in the global economy has impacted the steady growth of industrialization. Nevertheless the State continued to be industrial hub due to its excellent infrastructure, satisfactory labour relations and improved power. This part of the national capital region witnessed impressive investment in housing infrastructure. Efforts have been made, as will be seen in the following chapters, to improve delivery of services to all sections of the population. Constitutional amendments pertaining to devolution of power and functions to Local Bodies through State and Central Finance Commissions have played an important role in filling the gaps in delivery of services.

CHAPTER – 6

FINANCIAL POSITION OF THE STATE GOVERNMENT

1. Background

6.1 As per its TOR, the Finance Commission, in making its recommendations on financial devolution to local bodies, shall have regard, among other considerations, to (i) the objective of balancing the receipts and expenditures of the State and for generating surplus for capital investment and (ii) the resources of the state government and the demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State. But at the same time, the TOR of the Commission also requires it to have regard to the financial needs of the PRIs and ULBs, their potential for raising resources and for reducing expenditure. It, thus, implies that resource availability with the state government and needs of the local bodies would be the guiding factors for the Commission in designing its revenue sharing scheme. As such, the Commission would need to strike a proper balance between two sets of situations, i.e. resource constraints with the state government and the expanding financial needs of the local bodies. Thus, this situation warrants the Commission to undertake a pragmatic view of state fiscal scenario.

6.2 Local bodies play a key role in the development process. A committed financial approach is, therefore, necessary to enable the local bodies to meet the objectives of development and social justice. Thus, assignment of adequate revenue resources to local bodies is extremely important which can be ensured through the process of democratic decentralisation of financial powers. Achieving this, however, requires a firm commitment to fiscal discipline and prudent arrangement of state finances. It, thus, becomes the foremost endeavour of the Finance Commission to make an analytical study of state finances so as to pursue right kind of fiscal policies in consonance with the fiscal roadmaps suggested by the Central Finance Commissions.

6.3 Accordingly, in view of the above, this Commission has attempted to analyse the financial situation of the state government for the period 2006 – 07 to 2010 – 11 and to make an assessment of the receipts and expenditures of the state government on revenue account for its reference period 2011 – 12 to 2015 – 16. However, while doing so, the Commission took cognizance largely of the budget documents, state plan documents, reports of CFCs and SFCs, reports of RBI on state finances, publications of the Planning Commission, State Economic Survey, reports of C & AG and other related documents. The information and data supplied by the State Finance Department to the Commission and the resources documents submitted by the state government to the 12th and 13th CFCs and resources forecast submitted to the Planning Commission for 12th Five Year Plan, were also used by the Commission for the intended purpose. Besides this, the Commission also relied upon the fiscal reform measures propounded by the CFCs, like, Medium Term Fiscal Reforms Facility (MTFRF) of the 11th CFC, Fiscal Responsibility and Budget Management (FRBM) Act 2005 of the 12th CFC, modified fiscal roadmap suggested by the 13th CFC and other debt relief measures and incentive schemes of these Commissions.

6.4 The Commission sponsored a study on analytical assessment of state finances on normative basis for its reference period 2011 – 12 to 2015 – 16 to Dr. N.K. Bishnoi, Prof. GJU, Hisar. These findings on state finances have also been of immense help to the Commission.

2. General Fiscal Scenario

6.5 The Commission has noted that Haryana has been a pioneering State in carrying out sectoral reforms. The State, since its reception in 1966, has made phenomenal progress in transformation of its economy, particularly on economic, financial, infrastructural and social fronts. The average annual economic growth rate of Haryana has been quite impressive at 6.4 percent during the period from 1966 - 67 to 2004 – 05. During last seven years (2005 – 06 to 2011 – 12), the state economy entered a higher growth trajectory and grew at an average annual growth rate of 9.4 percent, higher than the growth rate of Indian economy at 8.4 percent.

6.6 The overall view of state finances is that the financial management of the State continues to be reckoned as among the best in the country. The broad trends in state finances do not indicate any persistent fiscal imbalances or major problem of sustainability. Haryana remained a revenue surplus state upto 1987 – 88. It was in the year 1988 – 89 that the revenue deficit appeared for the first time. Some disturbing trends crept into state finances during nineties which adversely affected the financial position of the State. Certain policy decisions of the central government and expenditure commitments at the state level adversely impacted upon the state finances causing short and long term disruptions in major fiscal indicators. These included liability of Fifth Pay Commission on central pattern, introduction of prohibition, economic recession, decline in central devolution, higher maintenance and operational expenditure due to inflation and other unforeseen contingencies. Consequently, expenditures on salaries, pensions, interest payments increased manifold, whereas there had been severe decline in revenue receipts. As a result, the revenue expenditure increased disproportionately and outpaced the growth in revenue receipts. The fiscal situation of the State remained under stress since nineties and continued to incur revenue deficits till the fiscal 2004 - 05. These adverse trends in state finances led to siphoning of capital funds i.e. borrowings to meet revenue or consumption expenditure. As a result, the debt liability vis-à-vis, interest liability increased sharply. Due to this fiscal stress, the development process in the State got impacted to a large extent.

6.7 Consequently, the state government resorted to several effective corrective measures to restore fiscal balances by virtue of which state revenue account turned into surplus and, thereby, the State remained revenue surplus from 2005 – 06 to 2007 – 08. But due to slow down in state economy and Sixth Pay Commission liability the State again incurred revenue deficits from 2008 – 09 to 2011 – 12. Over the last 25 years (1988 – 89 onwards) Haryana has confronted revenue deficit for 21 times and it could have revenue surplus only four times in 1993 – 94, 2005 – 06, 2006 – 07 and 2007 – 08. The position has been explained in Table 6.1.

Table 6.1 : Status of deficit Indicators (Rs. in crore)

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit
1986-87	(-) 162.81	171.01	38.39
1987-88	**(-) 16.36**	**217.04**	**66.93**
1988-89	**1.85**	**289.10**	**128.54**
1993-94	(-) 80.45	479.87	58.17
1994-95	390.83	534.55	47.61
1995-96	346.83	685.96	130.23
1998-99	1540.20	2,240.44	1,243.45
1999-2000	1,185.29	2,132.20	775.09
2003-04	273.71	2,933.10	820.45
2004-05	258.04	(-) 1,205.92	(-) 1,028.58
2005-06	**(-) 1,213.42**	**285.86**	**(-) 1,814.17**
2006-07	(-) 1,590.28	(-) 1,178.70	(-) 3,443.76
2007-08	(-) 2,223.87	1,263.85	(-) 1,081.92
2008-09	**2,082.42**	**6,557.80**	**4,218.89**
2009-10	4,264.72	10,090.66	7,354.13
2010-11	2,746.51	7,258.43	3,939.87
2011-12	1,457.30	7,153.35	3,152.54

Source: - State budget documents

3. Position of Revenue Account

6.8 Revenue account is the most important segment of state finances. It embodies total revenue receipts comprising share in central taxes, own tax revenue, own non-tax revenue and grants-in-aid. Revenue expenditure comprises of development and non-development expenditure on operation and maintenance of plan and non-plan schemes. Surplus on revenue account is indicative of sound fiscal management and is the first source of funding capital expenditure. The position on revenue account of the State has been depicted in Tables 6.2 to 6.5.

Table 6.2 : Position on Revenue Account 2006-07 to 2011-12 (Rs. in crore)

Items	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
I. Total Revenue Receipts (a+b+c+d)	**17,952.43**	**19,750.54**	**18,452.31**	**20,992.66**	**25,563.68**	**30,557.59**
(a) Share of Central Taxes	**1,295.75**	**1,634.42**	**1,724.62**	**1,774.37**	**2,301.75**	**2,681.55**
(b) State own Tax Revenue	**10,927.68**	**11,617.76**	**11,655.28**	**13,219.60**	**16,790.37**	**20,399.46**
Sales Tax/VAT	6,853.24	7,720.98	8,154.73	9,032.37	11,082.01	13,383.69
State Excise Duties	1,217.10	1,378.81	1,418.53	2,059.02	2,365.81	2,831.89
Stamps and Registration	1,764.98	1,763.28	1,326.39	1,293.57	2,319.28	2,793.00
Vehicle Tax	223.66	233.79	239.30	277.07	457.36	740.15
PGT/LADT	738.41	379.39	370.29	391.45	387.14	429.32
Electricity Duty	98.28	107.45	106.31	119.58	130.27	166.43
Others	32.01	34.06	39.73	46.54	48.50	54.98
(c) Own Non-Tax Revenue, of which	**4,590.76**	**5,097.08**	**3,228.45**	**2,741.40**	**3,420.94**	**4,721.65**
Interest Receipts/Dividends	654.25	763.25	784.55	677.49	691.81	866.60
Urban Development					974.54	1039.35
Transport (Bus Fare)	571.18	622.56	645.04	699.57	761.73	852.96
Mines & Minerals	136.83	215.74	195.97	247.49	82.59	75.53
(d) Grants-in-aid	**1,138.27**	**1,401.48**	**1,833.96**	**3,257.29**	**3,050.62**	**2,754.93**
Non-Plan	129.37	251.68	523.37	1617.33	1765.98	1246.51
State Plan	630.29	639.00	731.32	920.37	749.74	674.54
CSS	378.25	510.80	579.27	719.59	534.90	833.88
II. Total Revenue Exp.	**18,974.47**	**21,238.54**	**25,368.71**	**31,305.55**	**28,310.19**	**32,014.89**
Non-Plan	13,999.05	14,626.38	17,440.50	20,771.73	22,058.68	24,222.91
Plan	4,975.42	6,612.16	7,928.21	10,533.82	6,251.51	7,791.98
(a) Of which Committed Exp. (i to iii)	**7,357.78**	**8,076.78**	**10,202.62**	**13,368.17**	**15,935.93**	**16,802.86**
i) Salaries	3,919.39	4,433.50	6,249.54	8,241.27	9,523.10	9,597.89
ii) Pensions	1,173.33	1,297.51	1,614.17	2,390.37	3,094.27	3,204.16
iii) Interest Payments	2,265.06	2,345.77	2,338.91	2,736.53	3,318.56	4,000.81
(b) Grants to Local Bodies	538.22	933.60	1,257.22	814.42	1,699.53	
III. Revenue Deficit (I – II)	**(-)1,590.28**	**(-) 2,223.87**	**2,082.42**	**4,264.72**	**2,746.51**	**1,457.30**
IV. State Plan Size (Exp.)	4,232.64	5,751.18	7,108.28	9,624.44	9,574.67	11,102.64

Source: Budget Documents

Table 6.3 : Total Revenue Receipts as percentage of GSDP

Classification	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Own Tax Revenue (OTR)	9.02	8.64	7.59	7.32	6.11	6.34	6.63
Own Non-Tax Revenue (ONTR)	2.26	3.57	3.36	1.77	1.23	1.29	1.54
Share in Central Taxes (SCT)	1.10	1.01	1.08	0.95	0.80	0.29	0.87
Grants-in-aid (GIA)	1.02	0.88	0.92	1.00	1.47	1.15	0.90
Total Revenue Receipts (TRR)	**12.72**	**13.95**	**13.02**	**10.11**	**9.45**	**9.65**	**9.93**

Source: Budget Documents

Table 6.4 Haryana: Tax Buoyancy of Haryana State

Taxes	2000-01 / 2011-12	2000-01 / 2006-07	2005-06 / 2011-12
Land Revenue	- 0.47	- 0.92	- 0.57
Stamps and Registration fees	1.02	1.75	- 0.35
Sales Tax/VAT	1.01	1.24	0.66
State Excise	0.53	0.51	0.59
Taxes on Vehicles	0.92	1.09	0.76
Taxes on Goods and Passengers	- 0.56	0.86	-2.12
Taxes and Duties on Electricity	3.24	5.31	0.49
Other Taxes and Duties	-1.37	-0.86	-1.72
OTR	**0.85**	**1.58**	**0.40**

Source: RBI State Finances

Table 6.5 : Revenue Receipts (Major States) as percent of GSDP

	Own Tax Revenue			Own Non-Tax Revenue		
States	**2009-10**	**2010-11**	**2011-12**	**2009-10**	**2010-11**	**2011-12**
Andhra Pradesh	7.17	8.05	8.35	1.59	1.89	1.82
Bihar	4.56	4.86	4.80	0.94	0.58	1.14
Chhatisgarh	7.17	7.09	7.25	3.06	3.40	3.18
Goa	5.96	6.07	5.71	5.86	5.73	5.08
Gujarat	6.25	6.76	NA	1.27	1.00	NA
Haryana	**6.11**	**6.34**	**6.63**	**1.23**	**1.43**	**1.39**
Jharkhand	5.77	5.60	6.57	3.12	2.93	2.70
Karnataka	8.86	9.39	9.41	0.96	0.87	0.79
Kerala	7.59	7.91	8.15	0.80	0.81	0.77
Madhya Pradesh	7.61	7.84	NA	2.81	2.31	NA
Maharashtra	6.56	7.14	NA	0.93	0.87	NA
Odisha	5.48	5.44	5.44	1.96	1.70	1.68
Punjab	5.01	7.59	7.87	2.82	2.87	1.21
Rajasthan	6.23	6.00	NA	1.73	1.79	NA
Tamil Nadu	7.72	8.98	9.42	1.06	0.86	0.79
Uttar Pradesh	8.85	6.84	7.44	3.55	2.31	1.79
West Bengal	4.17	4.49	5.04	0.60	0.61	0.58

Source:- RBI State Finances

6.9 The conclusions drawn from the position on revenue account of the State, as depicted in above tables, are as under:-

- Total Revenue Receipts (TRR) have increased to Rs. 30,557.59 crore in 2011 – 12 from Rs. 17,952.43 crore in 2006 – 07, showing an aggregate increase of 70.21 percent while the total revenue expenditure has gone up to Rs. 32,014.89 crore in 2011 – 12 from Rs. 18,974.47 crore in 2006 – 07, recording an overall increase of 68.73 percent. This shows a healthy trend as the revenue receipts have grown higher by 1.48 percent over the revenue expenditure (Table 6.2).
- During the period from 2006 – 07 to 2011 – 12, revenue receipts grew at a little higher average annual growth rate of 14.04 percent as against a

growth of 13.75 percent in revenue expenditure during the same period (Table 6.2).

- Another notable feature is that the central devolution (share in central taxes + central grants) recorded a marked increase of 123.75 percent during
  2006 – 12 as against a growth of 61.88 percent in own revenue receipts (OTR+ONTR) of the State during this period. The total central devolution witnessed almost double average annual growth rate of 24.67 percent during this period as against an average growth of 12.38 percent in own revenue receipts during the same period (Table 6.2).
- Expenditure on salaries and pensions went up to Rs. 12,802.05 crore in 2011 – 12 from Rs. 5,092.72 crore in 2006 – 07, recording an overall growth of 151.38 percent, reflecting average annual growth rate at 30.28 percent (Table 6.2).
- Thus, the revenue account recorded a marked deterioration resulting in a revenue deficit of Rs. 1,457.30 crore in 2011 – 12 from a surplus of Rs. 1,590.28 crore in 2006 – 07 (Table 6.2).
- There had been a relatively significant fall in TRR between 2006 – 07 and 2011 – 12. The TRR which was around 14 percent of GSDP in 2006 – 07 shrunk to 13 percent in 2007 – 08. This ratio continued to decline to 9.65 percent in 2010 – 11 and further to 9.93 percent in 2011 – 12 (Table 6.3).
- The fall in state's own revenue receipts (OTR+ONTR) becomes even more inexplicable in the light that economic activities in this period (2006 – 2011) continues to flourish at its trend rate. GSDP grew at about 18 percent in 2006 – 07 and 2007 – 08 and it further grew at 20.04, 22.5 and 18.5 percent in 2008 – 09, 2009 – 10 and 2010 – 11 respectively. As against this own revenue receipts grew at an average annual growth rate of 12.38 percent during this period (Table 6.2).
- The tax buoyancies in Haryana have been above one thereby implying that taxes grew faster than the GSDP but from 2005 – 06 to 2011 – 12 the dip in growth in almost all taxes is quite visible. The buoyancy of OTR

during 2000 – 01to 2006 – 07 is 1.58 but it came down sharply to 0.4 only during the period 2005 – 06 to 2011 – 12. More importantly there is no individual tax that could attain the buoyancy value of one or above in this period (Table 6.4).

- The 13th CFC has categorized Haryana among the better performing states in mobilisation of tax revenue from own sources. The Planning Commission has also rated Haryana as the topmost State in revenue mobilisation during the 11th Five Year Plan (2007 – 12). As per the report of Working Group of the Planning Commission, Government of India, 2012 on state finances, Haryana State mopped up Rs. 64,123 crore during 11th Plan which was 192.1% of the targeted amount of Rs. 33,374 crore. The rating of other general category states in resources realisation has been at Punjab 87.5%, Andhra Pradesh 87.8%, Maharashtra 92.3%, Gujarat 95.6%, Madhya Pradesh 95.8%, Rajasthan 105.8%, Karnataka 107.2% and Odhisa 122.9%.
- Haryana has been placed at 13th position in the country in 2009 – 10 in regard to OTR efforts. Its position has improved to 11th and 9th in 2010 – 11 and 2011 – 12 respectively. This signals that things were abnormal and bouncing back to normal with time. Similarly, the ONTR rank of Haryana improved from 11th position in 2009 – 10 to 7th in 2011 – 12 (Table 6.5).

4. Position of key fiscal Indicators

6.10 The position of key fiscal indicators has been given in Table 6.6, as under:-

Table 6.6:- Position of key fiscal indictors

Fiscal Indicators	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1 Total Revenue Receipts (TRR) (Rs. in crore)	**13,853.31**	**17,952.43**	**19,750.54**	**18,452.31**	**20,992.66**	**25,563.68**	**30,557.59**
(i) Revenue Deficit (RD) (Rs. in crore)	(-) 1,213.42	(-)1,590.28	(-) 2,223.87	2,082.42	4,264.72	2,746.51	1,457.30
- RD as ratio to GSDP (%)	(-) 1.12	(-) 1.23	(-) 1.47	1.14	1.92	1.04	0.47
(ii) RD as ratio to TRR (%)	**+ 8.76**	**+ 8.86**	**+11.26**	**11.28**	**20.32**	**10.74**	**4.77**
(2) Gross Fiscal Deficit (GFD) (Rs. in crore)	285.86	(-) 1178.70	1,263.85	6,557.80	10,090.66	7,258.43	7,153.35
- GFD as ratio to GSDP %	0.3	(-) 0.9	0.8	3.6	4.5	2.75	2.33
3. Consolidated Debt Liability (Rs. in crore)	31,895.00	32,588.00	31,348.00	36,392.00	43,7 66.00	50,970.00	50,688.34
- Debt as ratio to GSDP (%)	29.29	25.31	20.68	19.94	19.71	19.29	16.48
Debt as ratio to TRR	**230.23**	**181.52**	**158.72**	**197.22**	**200.48**	**199.38**	**165.88**
4. Salary and Pensions (Rs. in crore)	4,728.00	5,092.00	5,731.00	7,864.00	10,631.00	12,617.37	12,805.02
- As ratio to TRR (%)	34.13	28.37	29.01	42.62	50.64	49.36	41.89
5. Interest Payments (Rs. in crore)	2,100.00	2,265.00	2,346.00	2,339.00	2,737.00	3,318.56	4,000.81
- As ratio to TRR (%)	15.16	12.62	11.88	12.68	13.04	12.98	13.09
6. Tax/GSDP ratio (%)	9.02	8.64	7.59	7.32	6.11	6.34	6.63
7. Ratio of tax collection charges (%)	1.25	1.22	1.25	1.63	1.75	1.48	1.19

Source:- Budget at a glance

6.11 The Revenue Deficit (RD) is the most critical indicator of the fiscal health of the State as it reflects the excess of revenue expenditure over the revenue receipts and the surplus on revenue account indicates soundness of fiscal management. Fiscal Deficit (FD) measures the excess of total expenditure over current receipts of the government. In a crude sense fiscal deficit determines the increase in government liability due to budgetary operations in a period. Another important indicator, namely, the Primary Deficit (PD) captures the net impact of fiscal operations on the future indebtedness of the State. It is simply the difference between FD and interest payment. The rationale of the concept is that the interest payment is the outcome of accumulated past liability. If there is surplus in PD the public liability shall decline and vice versa.

6.12 The salient features of key fiscal indicators, as analysed by the Commission, are as under:-

- State remained revenue surplus during 2005 – 06, 2006 – 07 and 2007 – 08 which constituted 8.76%, 8.86% and 11.26% of the TRR respectively during these years. Thereafter, Haryana confronted revenue deficits from 2008 – 09 onwards which declined from 20.32 percent of TRR in 2009 – 10 to 10.74% in 2010 – 11 and 4.77% in 2011 – 12 showing substantial improvement.
- In terms of percentage to GSDP, revenue surplus which was 1.47% in 2007 – 08 turned into revenue deficit at 1.14%of GSDP in 2008 – 09 and increased slightly to 1.92% in 2009 – 10 and then reduced to 1.04% in 2010 – 11 an further declined to 0.47% in 2011 – 12. This is a sign of improvement.
- Fiscal Deficit, as percentage to GSDP, rose to 3.6% in 2008 – 09 and further to 4.5% in 2009 – 10 from 0.3% in 2005 – 06 due to Sixth Pay Commission liability but declined to 2.75% in 2010 – 11 and further to 2.33% in 2011 – 12, showing a little improvement.
- Ratio of salary expenditure including pensions to revenue receipts (TRR) has sharply increased to 42.62% in 2008 – 09 and further rose to 50.64% in 2009 – 10 from 28.37% in 2006 – 07 due to pay revision liability. But it started declining to 49.36% in 2010 – 11 and further to 41.89% in 2011 – 12.
- Interest payment liability, as ratio to TRR, which was 15.16% in 2005 – 06 started declining and remained in the vicinity of 12 to 13 percent from 2006 – 07 to 2011 – 12 which is well within the manageable limit.
- Though the consolidated debt liability of the State recorded a growth of about 59% i.e. from Rs. 31,895.00 crore in 2005 – 06 to Rs. 50,688.34 crore in 2011 – 12 but as a proportion to TRR it declined from 230.23% in 2005 – 06 to 165.88% in 2011 – 12.
- The consolidated debt as a ratio to GSDP has been substantially reduced from 29.29% in 2005 – 06 to 16.48% in 2011 – 12 which is well within the permissible limit.

- The Tax-GSDP ratio witnessed a drastic downfall from 9.02% in 2005 – 06 to 6.63% in 2011 – 12. This is a matter of serious concern as state OTR could not consolidate the gains of economic expansion.
- The state annual plan expenditure recorded a marked growth of 270.47 % from Rs. 2,997 crore in 2005 – 06 to Rs. 11,103 crore in 2011 – 12. On an average, the plan performance of the State in the past remained in the vicinity of 90%. During 2006 – 07, plan performance touched a new height at 110.08%.

6.13 Comparative position of key fiscal indicators of Haryana with other States is given in Table 6.7.

Table 6.7 : Comparative Position of fiscal and social indicators 2010 – 11

State	RD/ GSDP	GFD/ GSDP	PD/ GSDP	Debt/ GSDP	CO/ GSDP	Dev./ GSDP	SSE/TE
Non-Spl. Category	**0.1**	**2.5**	**0.6**	**27.5**	**2.2**	**10.5**	**-**
1. Andhra Pradesh	- 0.4	2.0	0.4	23.7	1.9	11.2	38.9
2. Bihar	-3.0	1.9	-0.2	29.8	4.3	15.4	38.2
3. Chattisgarh	-2.9	-0.3	-1.4	14.5	2.5	14.3	50.2
4. Goa	-2.0	1.7	-0.3	29.4	3.8	13.9	33.5
5. Gujarat	1.0	2.9	1.1	27.9	1.9	9.3	39.9
6. Haryana	**1.0**	**2.7**	**1.5**	**17.5**	**1.5**	**8.8**	**39.6**
7. Jharkhand	0.1	4.4	2.4	25.5	3.9	16.1	46.4
8. Karnataka	-1.1	2.8	1.3	24.5	3.5	13.6	39.9
9. Kerala	1.3	2.8	0.7	30.3	1.2	7.4	33.4
10. Madhya Pradesh	-2.5	1.9	0.1	27.8	3.2	14.6	39.0
11. Maharashtra	0.1	1.8	0.3	21.6	1.7	8.0	41.4
12. Odhisa	-2.0	0.3	-1.2	24.1	2.2	12.0	42.3
13. Punjab	2.4	3.2	0.7	33.2	1.1	7.1	22.5
14. Rajasthan	-0.3	1.3	-1.0	30.7	1.6	10.3	42.4
15. Tamil Nadu	0.5	3.2	1.7	22.1	2.4	10.6	40.2
16. Uttar Pradesh	-0.6	3.0	0.5	40.9	3.5	13.2	37.7
17. West Bengal	3.6	4.1	1.2	40.7	0.5	8.0	41.9

II. Spl. Category	-2.3	2.9	0.1	38.6	5.3	20.1	-
18. Arunachal Pradesh	-0.2	-0.1	-0.5	42.6	20.2	49.3	28.1
19. Assam	-0.1	1.9	0.1	25.4	1.9	11.6	39.5
20. Himachal Pradesh	1.0	3.4	-0.2	18.3	3.3	18.1	37.3
21. J & K	-0.9	4.3	0.2	58.7	11.1	29.9	29.1
22. Manipur	-14.1	5.9	2.1	64.7	20.01	41.4	31.6
23. Meghalaya	-1.8	2.4	0.6	30.8	4.1	23.1	36.7
24. Mizoram	0.4	10.6	6.5	77.0	10.2	47.2	38.6
25. Nagaland	-7.3	2.8	-0.7	53.0	10.1	29.3	28.3
26. Sikkim	-2.5	5.6	2.3	43.4	8.0	30.4	30.9
27. Tripura	-4.7	1.4	-1.1	35.0	6.1	18.9	38.4
28. Uttrakhand	0.0	2.4	0.5	28.1	2.4	11.7	42.5
All States	**-0.0**	**2.1**	**0.5**	**23.8**	**2.0**	**9.4**	**39.0**

Source: - RBI State Finances 2012-13

RD:- Revenue Deficit, GFD:- Gross Fiscal Deficit, CO:- Capital Outlay, SSE:- Social Sector Expenditure, TE:- Total Expenditure, GSDP:- Gross State Domestic Product.

5. Initiatives for fiscal and structural reforms

6.14 In recognition of the need for fiscal restructuring, the state government embarked upon a host of fiscal restructuring and consolidation measures consisting of revenue augmentation, expenditure compression and debt containment. It has undertaken the following major reform measures:-

- Organisational structure and staffing pattern of government departments and organisations have been reviewed and rationalised. Surplus staff has been redeployed for efficient use of their services.
- Economy measures have been enforced and various steps taken to contain growth in non-productive expenditure. All the schemes, plan and non-plan, have been reviewed for redundancy, closer or merger.
- With a view to mop up resources, measures for simplification of rules and procedures have been adopted for better compliance of state taxes. Uniform tax rates have been adopted and sale tax based incentives phased out to achieve harmonization of taxes. Other measures like

optimum recovery from existing sources, toning up of tax administration etc. have also been taken up.

- Haryana is the first State in the country to have adopted the VAT system of taxation w.e.f. 1st April, 2003. It has paid rich dividends in terms of substantially higher collections.
- Stamp duty rates have been reduced from 15% to 7% in urban areas and from 12% to 5% in rural areas for public convenience and better recoveries. District Evaluation Committees have been set up to determine reserve cost of properties for registration purposes.
- Other measures like review of user charges in economic, social and other services, review of explicit and implicit subsidies and grants-in-aid were taken up for better targeting and phasing out.
- The state government has also initiated sectoral and institutional reforms for revamping strategic sectors like, power, irrigation, roads, water supply, education, health etc.
- Complete transparency has been introduced in budgetary process and fiscal operations. The recommendations of the Committee on Disclosure Norms in state budgets have been implemented. Major economic and fiscal indicators have been displayed in the document "Budget at a Glance".
- An innovative education policy has been launched focusing on re-orientation of the education system. It would also help encouraging private investment and self-financing in higher education.
- A new industrial policy has been formulated to facilitate investment in infrastructure sectors so as to attract foreign and private investment. This policy would help generate employment opportunities in the private sector besides encouraging self-employment opportunities.
- The State has also adopted a new information technology (IT) policy which would be educative as well as cost effective. Besides, an Information Commission has also been set up for bringing transparency in administration and other state operations.

- The innovative Excise Policy launched since 2006 – 07 has worked successfully yielding rich dividends and is reviewed from time to time to achieve twin objectives of preventing dominance of liquor mafia or social degeneration on the one hand and securing optimum revenue for the government on the other.
- The state government has constituted a Resource Mobilisation Committee under the chairmanship of the Chief Minister to suggest ways and means for augmenting state resources and plugging leakages. The actions taken on the measures suggested are reviewed by the Committee from time to time.
- The state government has introduced the new Contributory Pension Scheme w.e.f. 01.01.2006 and all employees recruited thereafter are covered under this scheme. This measure would reduce pension liability in future.

6.15 The Commission has been informed that the state government has prepared a Special Economic Stimulus Package Fund for infrastructure development on fast track basis in the fields of health, education, water supply and sanitation, housing, government buildings, irrigation etc. Steps have also been taken to accelerate the work on major infrastructure projects and implementation of development schemes. As per the modalities for execution of projects under Economic Stimulus Package to meet the challenge of economic recession, a budget provision of Rs. 428 crore was made in 2011 – 12 and of Rs. 420 crore in 2012 – 13.

6.16 The Commission has noted that the state government has also taken several steps to contain its debt stock and debt serving charges. It has implemented debt swap schemes and other debt relief schemes enunciated by the central government and the Central Finance Commissions. These measures intend to reduce interest payment liability of the State. Besides, the state government has also constituted “Consolidated Sinking Fund” and “Guarantee Redemption Fund” to meet payment obligations of state debt as well as guarantees. This has led to containment of debt stock and reduction of interest cost. A guarantee fee @ 2% has also been imposed.

6.17 The Commission has noted that the state government formulated its "Medium Term Fiscal Reforms Policy" in 2004 – 05 in accordance with the recommendations of Eleventh Central Finance Commission and the guidelines of the MOF/GOI with a view to achieving the fiscal milestones fixed for the State. As per the recommendations of the Twelfth Central Finance Commission, the state government has also enacted "Haryana Fiscal Responsibility and Budget Management (FRBM) Act, 2005, envisaging elimination of revenue deficit by 2008 – 09, containing fiscal deficit to 3% of GSDP, targeting debt liability to 28% of GSDP and reducing interest payment liability to 15% of the total revenue receipts. As required under FRBM Act, 2005, GOH is bringing out additional budget document "Statements of Fiscal Policy and Disclosures. Like-wise, another budget document "Budgetary Transfers to Local Bodies" is also brought out as required by the 12th CFC.

6.18 This Commission has further noted that the state government has also resorted to various other measures of fiscal consolidation consisting of revenue augmentation, expenditure compression and debt containment. These measures, in essence, envisage a target based framework to ensure that government finances are managed with a view to achieving equitable long-term macroeconomic stability with attainment of medium term growth targets of the state's economy. All these measures, taken together, have virtually led to significant fiscal corrections and are expected to further improve the financial position of the State. Consequently, the key fiscal indicators remained within the limits envisaged in state's FRMB Act, 2005. However, revenue deficit could not be brought to zero level by 2008 – 09 due to Sixth Pay Commission liability.

6.19 The Commission has also considered the revised roadmap for fiscal consolidation suggested for the states by the 13th Central Finance Commission. This revised roadmap requires the state government to attain zero revenue deficit target from 2011 – 12 and maintain the same till 2014 – 15, reducing fiscal deficit to 3% of GSDP from 2010 - 11 and maintaining the same till 2014 – 15 and containing outstanding debt liability as percentage of GSDP to 22.4% in 2010 – 11, 22.6% in 2011 – 12, 22.7% in 2012 – 13, 22.8% in 2013 – 14 and 22.9% in 2014 – 15. The Commission has also noted that in view of the revised fiscal roadmap, the state government has further amended its existing FRBM Act, 2005. It has been further observed that the fiscal targets, envisaged in the revised fiscal roadmap, have almost been achieved by the state government. However, the revised target under FRBM for attaining revenue deficit to zero level could not be achieved due to impact of pay/pension revision and slow down in the economy in the past years. As for future prospects, zero level revenue deficit is expected to be achieved by the state government by the year 2014 – 15. However, the other fiscal milestones fixed in the revised fiscal roadmap in regard to revenue deficit, fiscal deficit, debt liability and interest payment have already been achieved and as such are within manageable limits.

6. Results of study on Economic Analysis of State Finances

6.20 The Commission sponsored a study on economic analysis and normative assessment of state finances to Prof. Narender Kumar Bishnoi, Chairman, Economics and Business and Analytics Haryana School of Business and Head, Business Development Group, Guru Jambheshwar University of Science and Technology, Hisar. The summary of findings and recommendations of the study are given below.

Findings

6.21 The main findings of the study report are as under:-

- Haryana being amongst the highest per capita income states in the country ranks fourth in per capita income after Chandigarh, Goa and Delhi.
- The achievements of the State in terms of human welfare related indicators are not satisfactory being ranked at 17th place in terms of HDI 2008.
- Regional disparities in Haryana are rising rapidly. Per Capita Income of Gurgaon in 2008 – 09 was Rs. 3,35,000 as against Rs. 38,700 in Mahendergarh.

- The GSDP increased almost by 20% from the year 2008 – 09 onwards whereas increase in revenue receipts had been modest at 13.8% in 2009 – 10 over the already low base in 2008 – 09.
- The total wage bill went up from 3.8% of GSDP in 2007 – 08 to 4.8% after Sixth Pay Commission liability but the total revenue expenditure remained almost unchanged in terms of GSDP meaning, thereby, that mainly the non-wage expenditure was restricted. The capital expenditure also came down to around 1.5% of GSDP since 2008 – 09 onwards from around 3% of GSDP.
- As a result, the fiscal deficit soared to 4.5% of GSDP in 2009 – 10.
- The public debt peaked at 26% of GSDP in 2003 – 04. Presently public debt is below 18% of GSDP. State guarantees were above 14% of GSDP in 2000 – 01 but since then there has been a downward march and at present these are almost negligible.
- Interest payment liability came down from 2% of GSDP in 2005 – 06 to 1.3% in 2008 – 09. It is still below 1.5% of GSDP.
- The TRR which was 14% of GSDP in 2006 – 07 constantly came down to 13% in 2007 – 08, to 10% in 2008 – 09 and further to 9.3% in 2010 – 11.
- Central transfers (SCT+GIA) improved from 2.12% of GSDP in 2005 – 06 to 2.44% in 2012 – 13.
- The capital outlay has been less than 3% of GSDP from 2005 - 06 to 2011 – 12. In fact, over the last two years it has gone below 2% of GSDP, perhaps due to control over burgeoning revenue and fiscal deficits.
- Position of the State in terms of OTR/GSDP ratio is not comfortable. This ratio in states like Karnataka, Andhra Pradesh, Kerala and Tamil Nadu is above 8% whereas Haryana is among the worse performing states with OTR/GSDP ratio at about 6.5%.
- In general, states spend 30 to 45 percent of their total expenditure on social sector. Haryana ranks in between with around 40%.

- The committed expenditure (interest payment, administrative services and pension payments) of the States constitutes between 20 to 40% of the revenue expenditure. Haryana has done certainly better containing this ratio below 30%.
- Given the GSDP growth rate at 16.7% and keeping the fiscal deficit at 3% of GSDP per annum, the debt/GSDP ratio would stabilize at 20.96% by the year 2050 – 51 while the interest burden shall remain around 1.6% of GSDP and 12% and 15% of total expenditure.
- If the GOH could have maintained its fiscal deficit at 3% of GSDP, it could increase its capital expenditure by Rs. 666.04 crore in 2010 – 11, Rs. 1,598.08 crore in 2011 – 12 and Rs. 3,488.96 crore in 2012 – 13 according to the analyst. In this way the GOH missed an opportunity to mobilize an additional amount of Rs. 5,753.08 crore over the last three years.
- The importance of this amount can be visualized by the lost opportunity of GOH to set up 19 additional medical colleges one each in all the districts where at present no medical college is available.

Assumptions for growth rates

6.22 The study report assumed different yardsticks for projecting revenues and expenditures of the State for the award period of this Commission i.e. upto 2015 – 16, as under:-

- The benchmarks for estimation in the study report have been taken from the Haryana FRBM Act, 2005 in which GOH has undertaken to maintain fiscal deficit at 3% of GSDP and maximum debt/GSDP ratio at 26%.
- The GSDP growth has been projected at 16.7% per annum.
- Revenue expenditure, except interest payment, has been projected as per average trend rate from 1993 – 94 to 2011 – 12. For interest payment, fiscal deficit is assumed to be maintained at 3% of GSDP and average cost of interest at 10%.
- OTR/GSDP ratio assumed by 13th CFC for Haryana is 8.6%, whereas in the study report this ratio has been taken at 8.1%.

- Regarding estimation of ONTR, profits and dividends have been projected to grow at 5% per annum. Interest receipts have been projected at GSDP growth rate to maintain interest receipt/GSDP ratio.
- For central grants, GIA/GSDP ratio has been maintained.
- For all other variables in revenue receipts, trend growth rates from 1993 – 94 to 2011 – 12 have been adopted.
- Capital expenditure has been estimated presuming capital receipts accruing in response to fiscal deficit at 3% of GSDP.

Recommendations

6.23 The Study report contains following recommendations:-

- The fiscal position encourages GOH to run fiscal deficit at 3 percent of its GSDP so that it could get more resources to be used for various priority activities.
- The OTR and ONTR need to be improved substantially. The government should set up two independent Commissions of experts to suggest measures to augment the tax revenue and non tax revenue of the State.
- The functioning of the state PSUs is far from satisfactory. The government is duty bound to take steps to improve the functioning and performance of the PSUs. If some of the PSUs cannot be made viable they can be privatized or wound up as the case may be.
- The GOH should establish a dedicated fund on the pattern of sinking fund that shall take care of the periodic hike in the wage bill. A predetermined fraction of the wage bill shall be transferred to this fund in such a manner that new pay Commission award including the arrears can be met out of this fund in future.
- The GOH needs to prepare a strategic action plan to address the issue of regional disparities. Ironically, despite Haryana doing exceedingly well in industry and service sectors the image of the State remains mired as a regressive society. Therefore, it is suggested that massive development of infrastructure including multilane good quality highways for improving the connectivity of the interior parts of the State with Delhi, Chandigarh

and Jaipur, development of aerotropolis in the less developed areas (airport connectivity based metropolis housing globally linked knowledge sector) shall go a long way in overcoming the image deficiency and attracting new investment in the less developed regions of the State.

- The GOH would do well to improve higher education more proactively. In fact, the requirement is to develop internationally competitive institutions of higher education. The locations of these institutions should be in the socially regressive districts rather than in already developed ones. Rationale behind this suggestion is that the research evidences prove that presence of intellectuals and creative persons give a big boost to the modernization of society and economy. Therefore, such institutions shall help shift of population from low productivity agriculture sector to high productivity industry and services. As a side effect, the desperation in the vast section of population for being left out of the market economy shall also be addressed in an indirect manner.
- GOH should shed its conservative approach of fiscal management and capital expenditure on education, medical care infrastructure development needs to be enhanced on a massive scale to upgrade the facilities to internationally competitive level for the State as a whole.

7. Observations of the Commission

6.24 The Commission has carefully gone through the economic situation and fiscal scenario of the State including the fiscal correction measures embarked upon by the state government. Besides, the findings of the study report and the suggestions made therein have been reckoned as timely and should be kept in view by the state government while reframing its future fiscal roadmap in consonance with its FRBM Act and fiscal milestones fixed by the Central Finance Commission.

6.25 In view of the above, following observations are also made to keep state finances on right fiscal path:-

- As observed by the 13th CFC, it is important for the state government to improve its OTR/GSDP ratio to 8.6% from 2013 – 14 onwards from existing level of 6 to 6.5%. Tax growth needs to be made compatible with GSDP trend rate or slightly higher than the GSDP growth rate.

- Tax revenue constitutes a major portion of TRR and, as such, tax potential needs to be fully exploited through comprehensive tax reforms aiming at widening the tax base, rationalising tax structures, enhancement of enforcement capabilities, developing better management information systems through use of IT, withdrawal of tax based exemptions/ concessions, toning of tax administration etc.
- Effective steps should be taken to increase growth in own non-tax revenue by improving cost recoveries in public services through appropriate revision of user charges in the sectors of irrigation, drinking water, sewerage, medical/technical/higher education, health services from time to time. Bus fares and electricity tariffs should also be updated from time to time to meet impact of increase in input costs. LBs need to be given autonomy in fixing fees and user charges.
- Explicit and implicit subsidies, grants-in-aid, incentives and subventions need to be better targeted for intended purposes/beneficiaries and further phased out to eliminate their continuance in perpetuity.
- These is a need for restructuring expenditure policy. The focus should be on adequate funding of infrastructure sectors including irrigation, power and public works. Similarly, the outlay for social sector including health, education, housing, water supply and sewerage etc. should be substantially enhanced to improve social indicators.
- Revenue expenditure, particularly the non-plan, needs to be kept at a bare minimum by way of privatisation or outsourcing of some services, encouraging contractual appointments, redeployment of works charged staff and by adopting all possible austerity measures, especially in runaway fuel consumption by adoption of innovative measures etc.

8. Estimation of Financial Resources of the State

6.25 As per its TOR, the SFC has to keep in view the financial position of the State, particularly on revenue account, for determining the quantum of financial devolution to the local bodies. Therefore, the Commission is required to assess the resources availability with the state government for its reference period from 2011 – 12 to 2015 – 16. The resources availability, as assessed by the Commission in consultation with the state finance department, has been indicated in Table 6.8.

Table 6.8 : Forecast of Financial Resources **(Rs. in crore)**

Particulars	Base Year 2010-11 Actual	2011-12 Actual	2012-13 RE	2013-14 BE	2014-15 Ests.	2015-16 Ests.
A State Revenue Account						
1. Central Taxes	**2,301.75**	**2,681.55**	**3,170.29**	**3,483.90**	**4,180.68**	**5,016.82**
2. Own Tax Revenue (a to g)	**16,790.37**	**20,399.46**	**24,289.81**	**28,784.34**	**33,457.65**	**38,912.97**
(a) Sales Tax (VAT)	11,082.01	13,383.69	16,450.00	19,288.61	22,760.56	26,857.46
(b) Excise Duties	2,365.81	2,831.89	3,000.00	4,000.00	4,480.00	5,017.60
(c) Goods & Passenger Tax	387.14	429.32	470.00	520.00	572.00	629.20
(d) Stamps and Reg.	2,319.28	2,793.00	3,350.00	3,850.00	4,427.50	5,091.62
(e) Vehicle Tax	457.36	740.15	770.00	850.00	918.00	991.44
(f) Electricity Duty	130.27	166.43	183.00	201.40	221.54	243.70
(g) Others	48.50	54.98	66.81	74.33	78.05	81.95
3. Own Non-Tax Revenue (a to g)	**3,420.94**	**4,721.65**	**4,868.35**	**5,162.48**	**5,559.47**	**5,990.64**
(a) Interest Receipts	691.81	866.60	1,025.15	1,097.85	1,152.74	1,210.38
(b) Transport	761.73	852.96	1,010.00	1,315.00	1,446.50	1,591.15
(c) Irrigation	202.39	583.28	194.68	213.81	230.91	250.00
(d) Urban Development	974.54	1,039.35	1,150.00	1,200.00	1,320.00	1,452.00
(e) Mines & Geology	82.59	75.53	75.00	150.00	162.00	175.00
(f) Water Supply and Sewerage	40.03	42.96	42.00	44.11	48.52	53.37
(g) Others	667.85	1,260.97	1,371.52	1,141.71	1,198.80	1,258.74
4. Central Grants (a to c)	**3,050.62**	**2,754.93**	**5,495.62**	**6,349.61**	**6,984.58**	**7,683.01**
(a) Non-Plan	1,765.98	1,246.51	2,323.78	2,737.98	3,011.78	3,312.95
(b) Plan	749.74	674.54	1,523.66	1,600.63	1,760.70	1,936.76
(c) CSS	534.90	833.88	1,648.18	2,011.00	2,212.10	2,433.30
5. Total Revenue Receipts (1+2+3+4)	**25,563.68**	**30,557.59**	**37,824.07**	**43,780.33**	**50,182.38**	**57,603.44**
B- Capital Account (6+7)	241.05	303.36	456.64	317.29	348.39	380.58
6. Recovery of Loans and Advances	233.05	294.12	444.46	304.82	335.30	366.83

7. Other Capital Receipts	8.00	9.24	12.18	12.47	13.09	13.75
8. Total Revenue Exp. (i to ix) of which	**28,310.19**	**32,014.89**	**40,987.45**	**46,223.56**	**51,046.94**	**56,423.13**
N.P	22,058.68	24,222.91	29,810.62	32,419.81	35,804.32	39,364.76
Plan	6,251.51	7,791.98	11,176.83	13,803.75	15,242.62	17,058.37
(i) Salary	9,523.10	9,597.89	11,131.64	12,792.44	14,583.38	16,625.06
(ii) Pensions	3,094.27	3,204.16	3,500.00	3,820.00	4,431.20	5,140.20
(iii) Interest Payment	3,318.56	4,000.81	5,112.45	6,301.65	6,931.82	7,625.00
(v) Maintenance of Capital Assets	889.91	1,640.17	1,466.61	1,566.90	1,754.93	1,965.52
(vi) Social Security Pension	1,441.35	1,468.59	1,579.04	1,649.50	1,781.46	1,923.98
(vii) Subsidies (RE)	2,939.84	3,576.58	5,129.13	4,260.25	4,601.07	4,969.16
(viii) Grants to Local Bodies	710.02	928.38	2,057.75	2,195.89	2,371.56	2,561.29
(ix) Others	6,393.14	7,598.31	11,010.83	13,636.93	14,591.52	15,612.92
9. Capital Exp. (i to ii)	**4,752.97**	**5,999.41**	**5,425.84**	**6,850.03**	**7,877.53**	**9,059.16**
(i) Capital Outlay	4,031.10	5,372.34	4,677.62	5,766.49	6,631.46	7,626.18
(ii) Disbursement of Loans & Advances	721.87	627.07	748.22	1,083.54	1,246.07	1,432.98
10. Revenue Deficit (8 - 5)	**2,746.51**	**1,457.30**	**3,163.38**	**2,443.23**	**864.56**	**(-) 1,480.31**
As %age to GSDP	1.04	0.47	0.90	0.59	0.18	(-) 0.26
11. Fiscal Deficit (8+9 – 5 to 7)	**7,258.43**	**7,153.35**	**8,132.58**	**8,975.97**	**8,380.61**	**7,084.52**
As %age to GSDP	2.74	2.33	2.30	2.18	1.74	1.25
12. GSDP	**2,65,034**	**3,07,606 (QE)**	**3,53,440 (AE)**	**4,11,429 (PE)**	**4,81,372 (Ests.)**	**5,68,019 (Ests.)**
13. Tax/GSDP Ratio (%)	**6.34**	**6.63**	**6.87**	**7.00**	**6.95**	**6.85**

Source: - State Budget Documents. (Budget at a glance)

*** Note:-** GSDP Growth Rate:- 2011-12= 16%, 2012-13 = 15%, 2013-14 = 16.5%
2014-15 = 17.0%, 2015-16 = 18.0%

6.26 The financial resources as depicted in Table 6.8 upto the year 2013 – 14 are based on the budget documents for 2013 – 14. Resources availability for the years 2014 – 15 and 2015 – 16 has only been assessed which is, more or less, based upon the guidelines of the Planning Commission for 12th Five Year Plan. While projecting resources availability upto the year 2015 – 16, the fiscal targets envisaged in the revised fiscal roadmap suggested by the 13th Central Finance Commission, have also been kept in view. However, some adjustments have been made where deemed necessary. The Commission has found these estimates more reliable as these have been formulated keeping in view past trends, current developments and future potentials. Prior to undertaking this exercise, the Commission also over-viewed the resources estimates submitted by the state government to the 13th CFC and also the normative assessment of state resources made at its own level by the 13th CFC, but these estimates were not found suitable for this exercise and as such not acceptable to the Commission.

6.27 Amongst the various issues that were deliberated upon, it was desired that the methodology and assumptions underlying the estimates of state resources for various items need to be finalised. Accordingly, the Commission decided on adopting the following methodology and assumptions for estimation of state resources for its award period i.e. upto the financial year 2015 – 16:-

General Assumptions

- Estimates of revenue receipts have been made at prevailing rates of taxes/tariffs/cesses i.e. at 2012 – 13 level. No revision on this front has been assumed for the forecast period.
- All estimates of receipts and expenditures have been made at current level of prices i.e. at the prices of the corresponding years.
- Cost escalation or inflation rate has been assumed moderate at 5% per annum wherever is applicable.
- Certain exceptions have been made to those items which are neutral to inflation like debt servicing charges etc.
- In fact, for estimation of financial resources for its award period 2011–12 to 2015 –16, the Commission should have taken financial year 2010 –11 as the base year. This could not be done as actual figures of receipts and expenditures for the year 2011 – 12, revised estimates for 2012 – 13 and budget estimates for 2013 – 14, have been made available. As such budget estimates for the year 2013 – 14 have been taken as the basis for projecting resources estimates for the years 2014 – 15 and 2015 – 16. However, these budget estimates have been updated in view of latest trends observed upto September, 2013 and further non-recurring items of receipts and expenditures have been excluded from future projections.

- For projecting GSDP estimates, the Planning Commission assumed growth rate at 17.51% for Haryana 12th FYP (2012 – 17), where as the 13th CFC and Prof. N.K. Bishnoi suggested trend growth rate of GSDP at 16.7% upto the years 2014 – 15 and 2015 – 16. State government projected GSDP at 16.5% for the year 2014 – 15. It is pertinent to mention here that the Commission needed only nominal GSDP and not the constant GSDP for its intended purposes. It is also worthwhile to record here that nominal GSDP of the State has been growing above 19% during previous years. Keeping all these aspects in view, the Commission decided to go midway and as such adopted GSDP growth rate of 17% in 2014 – 15 and 18% in 2015 –16.

Projection of Receipts

- Share of central taxes has been projected to grow at 20% per annum which is in line with the stipulation of the Planning Commission for 12th FYP, but a little higher than 18% suggested by the working group of the Planning Commission.
- State's Own Tax Revenue (OTR) has been projected at 16.5% per annum as against 14% suggested by the state government and 23.5% adopted in the study report on state finances. The 13th CFC and the Planning Commission have projected OTR on average tax buoyancy worked out by them. The 13th CFC assumed tax/GSDP ratio at 8.6% and the working Group of the Planning Commission at 6.7%, whereas Prof. N.K. Bishnoi assumed this ratio at 8.6%.
- However, different growth rates have been adopted for different taxes as, VAT 18%, Excise Duties 12%, Stamps and Registration 15% and other taxes 10%.
- A growth rate of 11% has been adopted by the Commission for Own Non-Tax Revenue (ONTR) as against 6.5% suggested by the state government and 10% suggested by the Working Group of the Planning Commission and 12% suggested by the Planning Commission.

- Other items of ONTR have been projected at 10% and 8% on trend basis.
- Central grants have been projected at 10% per annum as suggested by the 13th CFC and the Planning Commission.
- A trend growth rate of 10% has been applied to project capital receipts.

Projection of expenditure

- Revenue expenditure observes an average trend growth rate of 11% as against 14.5% adopted in the study report.
- Expenditure on salaries, pensions and interest payments has been projected at growth rates of 14%, 16% and 10% respectively in conformity with the guidelines of the Planning Commission for 12th FYP.
- Expenditure on maintenance of capital assets is projected to grow at 12% in view of price escalation.
- Social security pensions, subsidies and grants-in-aid have been projected at 8% per annum.
- Other non-plan expenditure is assumed to grow at 7% per annum.
- A growth rate of 15% has been applied on capital expenditure just to increase outlays on social services.

6.28 The salient features of state finances as assessed on the basis of the above assumptions are as under:-

- The total revenue receipts have been estimated to increase to Rs. 57,603.44 crore in 2015 – 16 from Rs. 25,563.68 crore in 2010 – 11, recording an overall growth of 125% with compounded annual growth rate of 15%.
- The revenue expenditure records an average annual growth rate of 11% to Rs. 56,423.13 crore in 2015 – 16 from Rs. 28,310.19 crore in 2010 – 11. However, during this period revenue expenditure records an overall growth of 99%.
- The projected scenario of state finances shows signs of improvement as growth of revenue receipts (125%) outpaces the growth in revenue

expenditure (99%). In other words, average annual growth rate of 15% in revenue receipts is higher over growth of 11% in revenue expenditure.

- Consequently, revenue account of the State shows substantial improvement as revenue deficit of Rs. 2,746.51 crore in 2010 – 11 is expected to turn into a revenue surplus of Rs. 1,480.31 crore in 2015 – 16.
- The revenue deficit as percentage to GSDP which was 1.04 percent in 2010 – 11 is estimated to deplete gradually upto 0.18% in 2014 – 15 and ultimately, it is likely to turn into a surplus of 0.26 percent of GSDP in 2015 – 16.
- Similarly, the fiscal deficit is likely to reduce to 1.25% of GSDP in 2015 – 16 from 2.74% in 2010 – 11.
- Own Tax Revenue (OTR), which is an important segment of TRR, is likely to improve slightly to 6.85% of GSDP in 2015 – 16 from 6.34% in 2010 – 11. OTR/GSDP ratio needs to be improved to 8.6% as stipulated by the 13th CFC. However, efforts have been made to relate OTR growth rate (16.5%) to GSDP growth rate.

6.29 Table 6.8 reveals that the total revenue receipts of Rs. 57,603.44 crore would be available to the state government during the year 2015 – 16, consisting of central taxes at Rs. 5,016.82 crore (8.7%), Own Tax Revenue at Rs. 38,912.97 crore (67.6%), Own Non-Tax Revenue at Rs. 5,990.64 crore (10.4%) and Grants-in-aid at Rs. 7,683.01 crore (13.3%). Total Revenue Expenditure has been estimated at Rs. 56,423.13 crore for 2015 - 16 including Non-Plan Expenditure at Rs. 39,364.76 crore (70%) and Plan Expenditure at Rs. 17,058.37 crore (30%). Consequently, the Revenue Account of the State for the year 2015 – 16 shows substantial improvement with revenue surplus at Rs. 1,480.31 crore which constitutes 0.26 percent of the GSDP.

6.30 While forecasting balances on revenue account of the State upto the year 2015 – 16, the Commission has closely examined the committed liabilities of the State including expenditure on salaries & wages, pensions, interest payments, maintenance of capital assets and other pressing demands. Focussed plan strategy of the State in its 12th Five Year Plan for building of socio- economic infrastructure has also been kept in view. The Commission is hopeful that the resources of the state government would be sufficient to take on the liability of financial devolution suggested in this report without distorting the trends of key fiscal indicators. With these expectations, the Commission is of the firm view that the state government would be accepting and implementing the recommendations of this Commission in letter and spirit, which are just and modest.

9. Other issues impacting on state finances

6.31 As per the template suggested by the 13th CFC for the design of reports of SFCs, the SFC is also required to analyse the situation of such other issues impacting on state finances, as implications of recommendations of previous SFCs, funds directly transferred to the implementing agencies by the GOI outside the state budgets, impact of state guarantees and direct absorption of liabilities of local bodies. The latest status is given in following paras.

Financial implications of recommendations of previous State Finance Commissions (SFCs)

6.32 The overall status of the recommendations of earlier SFCs along with financial implications has been explained in detail in Chapter 4 of this report. However, the summary position has been given in Table 6.9.

Table 6.9 : Financial implications of recommendations of previous State Finance Commissions (SFCs) (Rs. in crore)

Particulars	PRIs	ULBs	Total
I. First SFC (1997-2001)			
As Recommended	567.48	301.83	869.31
As Implemented	1.00	65.36	66.36 (7.63%)
II. Second SFC (2001-06)			
As Recommended	696.22	421.29	1,117.51
As Implemented	50.00	50.00	100.00 (8.95%)
III. Third SFC (2006-11)			
As Recommended	1,651.27	889.17	2,540.44
As Implemented	847.99	456.61	1,304.60 (51.35%)

Source: - State Finance Department

6.33 Table 6.9 reveals that the state government did not pay due attention to the recommendations of earlier SFCs. The 1st SFC recommended financial devolution of Rs. 869.31 crore for local bodies covering the period 1997 – 2001 against which funds of Rs. 66.36 crore only were transferred, which constituted 7.63 percent of the total devolution. Likewise, funds worth Rs. 100 crore were transferred to local bodies against total devolution of Rs. 1,117.51 crore recommended by the 2nd SFC for the period 2001 – 06, which constituted 8.95% of the total devolution. However, in case of 3rd SFC, the total transfers of Rs. 1,304.60 crore formed 51.35 percent of the total devolution of Rs. 2,540.44 crore recommended for local bodies for the period 2006 – 11.

6.34 Besides financial devolution, the 3rd SFC also recommended special dispensation of Rs. 45 crore for various purposes, like capacity building. Rs. 12 crore, creation of data base and maintenance of accounts. Rs. 10 crore, strengthening of engineering wings of Panchayats and Urban Local Bodies Departments Rs. 8.00 crore, upgradation of fire services. Rs. 5.00 crore and meeting pension liabilities of urban local bodies Rs. 10.00 crore. This recommendation of 3rd SFC was not accepted by the state government.

6.35 The 3rd SFC further recommended creation of an Incentive Fund to reward the efforts of performing local bodies doing relatively better in fiscal management, internal resources generation, better management of common property resources, implementation of national and state level programmes and other core areas like enrolment at primary level, small family norms, environmental improvement, sanitation, conservation of water and energy resources, awareness about community mobilisation, protection of women foeticide and other emerging areas. The corpus of the Fund was fixed at the amount equal to 10 percent of the annual devolution recommended by the Commission for local bodies. The entitlement of each unit of local bodies was related to the relative performance in the identified economic and social indicators. This recommendation of the Commission was also not accepted by the state government.

6.36 As regards measures for internal resource generation by the local bodies suggested by previous SFCs, the state government had not implemented these also.

6.37 Thus, the survival of local bodies is largely dependent upon budgetary support from the state government. Any scheme of devolution of resources from State level to these institutions would have to be very limited due to budgetary constraints. Thus, there is a need for greater efforts to be put in by local bodies for internal resource generation.

Funds transferred by the Government of India to state implementing agencies outside the state budget

6.38 GOI has been transferring a sizeable quantum of funds directly to state implementing agencies for the implementation of various schemes/programmes in the social and economic sectors. As these funds are not routed through the state budget/state treasury system, the annual accounts do not capture the flow of these funds and, to that extent, the state's receipts and expenditures as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to state implementing agencies during 2009 – 10 and 2010 – 11 are presented in Table 6.10.

Table 6.10 : Funds transferred directly to state implementing agencies by the GOI

(Rs. in crore)

Sr. No.	Programme/Scheme	Central Share	
		2009-10	**2010-11**
1	Member of Parliament Local Area Development Scheme (MPLADS)	9.39	23.09
2	National Rural Employment Guarantee Scheme	117.89	141.12
3	Indira Awas Yojana	52.26	59.75
4	Swaranjayanti Gram Swarozgar Yojana	24.71	28.04
5	Desert Development Programme	27.22	22.51
6	Integrated Wasteland Development Programme	3.84	3.06
7	District Rural Development Agency (Administration)	11.45	18.31
8	Backward Region Grant Fund	30.23	26.75
9	Sarva Shiksha Abhiyan	273.07	419.52
10	National Programme for education of girls at elementary level	2.45	1.72
11	Kasturba Gandhi Bal Vidhalaya	0.47	0.85
12	National Rural Health Mission	174.45	250.19
13	National Horticulture Mission	56.00	51.50
14	Micro-Irrigation Scheme	2.12	0
15	Pradhan Mantri Gram Sarak Yojana	283.72	157.75
16	National Food Security Mission	28.65	0
17	Scheme for Central share support to State extension programme for extension reforms	7.38	0
18	Mid day meal	0	103.96
	Total	**1,105.30**	**1,308.84**

Source:- State Finance Accounts 2010-11

6.39 Table 6.10 shows that GOI directly transferred funds worth Rs. 1308.84 crore to the state implementing agencies (central share) during 2010 – 11 which was 18 percent higher over Rs. 1,105.30 crore transferred during 2009 – 10. State implementing agencies included organisations/institutions including non-governmental organisations which are authorised by the state government to receive funds from the Government of India for implementing specific programmes in the State.

6.40 As these funds are not routed through the state government accounts, the direct transfer of funds from GOI to the state implementing agencies runs the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation was not in place and timely reporting about the status of expenditure by these implementing agencies was not being done. The expenditure in the finance accounts was understated to that extent.

6.41 A big chunk of funds is transferred to rural and urban areas each year through various central schemes for creation of community assets as well as for strengthening of economic and social infrastructure. These resources should also be kept in view by the SFCs while recommending financial devolution for local bodies.

State Guarantees to Public Sector Undertakings and Local Bodies

6.42 State guarantees are provided to State Public Sector Undertaking (PSUs) i.e. Statutory Corporations, Govt. Companies, Cooperative Banks/Societies, Municipal bodies and Panchayati Raj Institutions to enable them to procure loan assistance from financial institutions for financing infrastructural projects. In addition to the budgetary support through loans, subsidies and equity, the state government also facilitates the financing of state PSUs and other institutions by way of issuing guarantees and letters of comfort. Guarantees constitute contingent liabilities on the State's Consolidated Fund in case of defaults by the borrowing entities. Thus, in the event of invocation of guarantees or defaults by the borrowing agencies to honour guarantees, the State is required to meet their debt related liabilities.

6.43 The position of state guarantees has been consolidated in Table 6.11. It indicates that the total state guarantees outstanding as on 31.03.2009 were at Rs. 4,575 crore, consisting of Rs. 4,563 crore for PSUs and Rs. 12 crore for Municipal Corporations. These constituted 2.51 percent of the GSDP. During the subsequent years i.e. 2009 – 10 and 2010 – 11, the level of outstanding guarantees slightly declined, meaning thereby, that the borrowing institutions continued to liquidate or pay back their liabilities of guarantees as per their respective maturity profiles.

Table 6.11 : Statement of outstanding state government guarantees Rs. in crore)

Category	Outstanding as on 31.03.09	Outstanding as on 31.03.10	Outstanding as on 31.03.11	Outstanding as on 31.03.12	Guarantee fee received		
					2009-10	2010-11	2011-12
A. Statutory Corps/ Govt. Companies/ Coop. Banks /Societies	4,563	4,565	4,528	5,602	20.97	0.55	5.37
B. Municipalities /Corps.	12	-	-	-	0.09	-	-
C. Panchayati Raj Institutions	-	-	-	-	-	-	-
Total (A+B+C)	**4,575**	**4,565**	**4,528**	**5,602**	**21.06**	**0.55**	**5.37**
Guarantees as ratio to GSDP (%)	**2.51**	**2.04**	**1.71**	**1.82**			

Source: - Finance Accounts 2010-11 and RBI-State Finances

6.44 It has been noted that the bulk of outstanding guarantees pertains to PSUs. The Municipal Corporations used to procure institutional finance against state guarantees in the past. Now this practice is reported to have been dispensed with and, as a result, the total state guarantees of Rs. 12 crore outstanding on 31.03.2009 stands discharged and, as on 31.03.2011,there are no guarantees outstanding against Municipal Corporations. The Municipal Committees and Councils did not avail the facility of state guarantees for obtaining loan assistance from financial institutions. As regards PRIs, these bodies do not undertake to finance major infrastructural projects and hence these are not utilising institutional finance nor obtaining state guarantees.

6.45 The 12th CFC had noted that the magnitude of outstanding guarantees of state governments increased from Rs. 1,540.8 billion as on 31.03.2009 to Rs. 1,838.1 billion as on 31.03.2010 which constituted 2.8 percent of GDP. With a view to contain the fiscal risks associated with guarantees, 12th CFC recommended that all States should impose a limit or ceiling on their contingent liabilities through their FRBM Acts and that States set up Guarantee Redemption Fund (GRF).

6.46 The issue of state guarantees was taken up with the Finance Department. It was revealed that certain measures have been taken to contain the fiscal risk of invocation of guarantees, as under:-

- There had not been any occasion or instance in the past where guarantees have been invoked and in default thereof, the state government had to discharge the guarantees related liability.
- The state government constituted a “Guarantee Redemption Fund (GRF)”during 2003 - 04 to meet the contingent liabilities of guarantees. The balance in GRF was Rs. 69.87 crore as on 31.03.2012 and Rs. 75.24 crore as on 31.03.2013. As there had not been any instance of invocation of guarantees, the entire amount stood invested.
- The state government has imposed a guarantee fee or commission at the rate of 2 percent of the maturity amount which is paid by the borrowing agency to state account at the time of withdrawal of loan amount. The guarantee fee received during 2009 - 10 was Rs. 21.06 crore, during 2010 – 11, Rs. 0.55 crore and during 2011 – 12, Rs. 5.37 crore.
- The state government has also constituted a “Consolidated Sinking Fund (CSF)” during 2003 - 04 and authorised the RBI to maintain the CSF that provides a cushion for amortisation of repayment liability of market borrowings. The balance in CSF which was Rs. 523.85 crore as on 31.03.2011 increased to Rs. 714.97.85 crore as on 31.03.2012 and further rose to Rs. 925.81 crore as on 31.03.2013.
- As reported by the RBI, 25 States including Haryana have put in place ceilings (statutory or administrative) on the guarantees (outstanding or incremental) laying down limits within which the government may stand guarantee on the security of the Consolidated Fund of the State. The Haryana State Finance Department has also laid down certain guidelines regulating the operation of guarantees, which are being strictly followed.
- It has been reported that the procedure for extending guarantees is being gradually modified to the extent that the borrowing agencies as well as financial institutions are constantly persuaded to seek or sanction loans

against hypothecation of the assets/stocks/inventories rather than against state guarantees.

6.47 After taking stock of current scenario of state guarantees, the Commission observes that the measures taken by the state government for regulation of state guarantees seem to be in order and sufficient. The Commission further observes that the future incidence of state guarantees is not likely to have adverse impact on finances of local bodies as well as on state finances. As such, the Commission has come to the conclusion that no relief or dispensation is required to be provided or recommended for local bodies on this account.

Direct absorption of liabilities of local bodies by the State

6.48 The template suggested by the 13th CFC has also desired the SFCs to study and review the position regarding direct absorption by the state government of the liabilities of the local bodies on account of salaries, pensions, debt servicing, repayment of loans, provident funds etc. The matter was taken up with the Departments of Panchayati Raj and Urban Local Bodies. The Commission has been informed that there is no cadre staff at PRIs establishments. Funds are, therefore, needed by the PRIs only for operation and maintenance of their local level obligatory and general functions/services and other development activities which are funded partly from their own resources and partly from funds flowing to them from other sources. Further, it has also been noticed that PRIs do not utilise institutional finance as these bodies do not undertake major infrastructural projects. In view of the above, it is concluded that the state government does not directly finance any such pending liabilities of the PRIs.

6.49 In terms of Haryana Municipal Services Rules, 1982, there is a vast cadre of different posts borne on municipal establishments. The municipal cadres consist of administrative, technical, non-technical, clerical, supervisory posts etc. The total expenditure on establishment constitutes between 65 to 70% of the total expenditure. Besides, a contributory pension scheme has also been introduced covering all municipal employees and, as a result, 50%

municipal share has also to be paid by the concerned municipal committee besides other retiral benefits. The municipal corporations and other well performing councils also procure institutional loans against state guarantees or hypothecation of stocks resulting in substantial debt related liabilities. The entire expenditure on salaries, pensions, loan repayment, debt servicing charges, operation and maintenance of municipal services and other developmental activities are discharged by the concerned municipality through their own resources and other untied transfers from various sources. Such liabilities of urban local bodies are, thus, not the direct responsibility of the state government.

6.50 The Commission was informed that pending or overdue liabilities of local bodies on these accounts used to be directly funded in the past by the state government through additional budgetary support on case to case basis. This was not a usual means of financing specific expenditure needs of local bodies. The Commission has been further informed that after enactment of conformity legislations subsequent to 73rd and 74th CAAs, no particular incidence of financing outstanding liabilities of local bodies has come to the notice of the state government.

6.51 The Commission has also tried to analyse various budget documents, particularly expenditure heads 3604, 2215 and 2217 through which budgetary support is channelized to the PRIs and ULBs on regular basis for various purposes. The position of budgetary support to local bodies has been indicated in Table 6.12, as under:-

Table 6.12 : Budgetary Support to Local Bodies (Rs. In crore)

Particulars	2010-11 Actuals	2011-12 Actuals	2012-13 BE	2013-14 BE
A- Panchayati Raj Institutions (PRIs)				
(a) Compensations and Assignments (i to iii)	**6.30**	**0.42**	**0.42**	**0.42**
i) 3604 - in lieu of Land Holding Tax	0.20	0.20	0.20	0.20
ii) 3604 - in lieu of Income loss from ferries	0.43	0.22	0.22	0.22
iii) 2515 - in lieu of abolition of House Tax	5.67	-	-	-
(b) Share in State Taxes/Duties (i+ii)	**99.34**	**169.44**	**216.21**	**234.43**
i) 3604- Share in State Excise	37.34	48.04	80.53	78.40
ii) 2515- Share in Surcharge on VAT	62.00	121.40	135.68	156.03
(c) Finance Commission Devolution (i+ii)	**236.43**	**394.53**	**497.62**	**586.95**
i) Central Finance Commission Devolution	101.17	157.53	231.26	273.56
ii) 2515 - State Finance Commission Devolution	135.26	237.00	266.36	313.39
(d) 2515- Other Transfers (i+ii)	**88.38**	**2.55**	**4.25**	**10.24**
i) 2515 - Matching Grant-Govt. Share	8.38	2.55	4.25	10.24
ii) 2515 - Spl. Dev. Works in Rural Areas	80.00	-	-	-
Total-A- Panchayati Raj Institutions (PRIs)	**430.44**	**566.94**	**718.50**	**832.04**
B- Urban Local Bodies (ULBs)				
(a) Compensation and Assignments (i)	**0.12**	**0.12**	**0.12**	**0.12**
i) 3604 - in lieu of abolition of Profession Tax	0.12	0.12	0.12	0.12
(b) Share in State Taxes and Duties (i+ii+iii+iv)	**294.80**	**591.04**	**1,154.60**	**1,291.11**
i) 3604 - Share in State Excise	43.15	40.65	143.90	100.00
ii) 3604 - Share in LADT	-	-	-	-
iii) 2217 - Commission (2%) on Stamp Duty	3.65	-	468.00	567.00
iv) 2217 - Share in Surcharge on VAT	248.00	550.39	542.70	624.11
(c) Finance Commission Devolution (i+ii)	**80.12**	**190.72**	**239.60**	**278.09**
i) 2217- Central Finance Commission	40.43	62.97	92.45	109.34
ii) 2217- State Finance Commission	39.69	127.75	147.15	168.75
(d) Other Transfers (i+ii+iii+iv)	**113.14**	**154.80**	**690.68**	**666.76**
i) 2217 - Spl. Dev. works in Municipal Areas	37.30	127.36	356.38	409.84
ii) 2217- Dev. of satellite and counter magnet towns	-	1.70	85.00	90.00
iii) 2217- Grants to HUDA for NCR satellite around Delhi	75.35	25.74	236.80	154.42
iv) 2217- Strengthening of Fire Services (Sharing Basis)	0.49	-	12.50	12.50
Total B- Urban Local Bodies (ULBs)	**488.18**	**936.68**	**2,085.00**	**2,236.08**
C- G. Total (A+B) PRIs +ULBs	**918.62**	**1,503.62**	**2,803.50**	**3,068.12**

Source:- State Budget Documents

6.52 Table 6.12 indicates that budgetary support to PRIs and ULBs has substantially increased to Rs. 1,503.62 crore in 2011 – 12 from Rs. 918.62 crore in 2010 – 11. It is likely to go to Rs. 2,803.50 crore in 2012 – 13 and further to Rs. 3,068.12 crore in 2013 – 14. It would also be seen that funds are transferred to local bodies through various sources under multifarious schemes. There is no indication that budgetary allocations have been made to meet specific outstanding liabilities of local bodies.

6.53 The Commission has noted that own tax and non-tax sources of local bodies are inadequate to meet their own expenditure requirements particularly on account of salaries, pensions, proper operation and maintenance of basic services being provided by these bodies. But sufficient untied funds are transferred to local bodies to meet their consumption needs through various channels such as, devolutions of CFC and SFC, shares in state excise duties/surcharge on VAT/stamp duty, compensatory grants etc. which are utilized by these bodies as per their priorities. However, the Commission observes that funds flow to local bodies through existing channels is sufficient to meet all their financial needs and they do not have to depend on additional budgetary support on these accounts.

6.54 The 2nd and 3rd SFCs of Haryana had confronted some specific problems of urban local bodies and accordingly recommended some relief measures to clear their outstanding liabilities on salaries, pensions and debt repayments. This Commission had also asked the Departments of Panchayati Raj and Urban Local Bodies to indicate financial implications of outstanding liabilities of local bodies. The requirements indicated by the Urban Local Bodies Department seemed to be purely infrastructural and plan related, hence, not requiring specific relief package from the Commission.

CHAPTER - 7

DEVELOPMENT PROFILE OF LOCAL BODIES AND FUNCTIONAL DECENTRALISATION

1. Development Profile of Local Bodies
A. Profile of Panchayati Raj Institutions in Haryana

7.1 As per 2011 census, the total population of Haryana is 253.51 lakh of which rural population is 165.09 lakh constituting 65.12% of the total population. Bhiwani district has the largest rural population forming 7.95% of the total rural population and Panchkula district is the smallest with only 1.50% of the total rural population. For administrative purposes, the entire State has been divided into 4 divisions overseeing functioning of 21 districts.

7.2 There is a three tier system of Panchayati Raj Institutions (PRIs) in the State comprising of Gram Panchayat (GP) at the village level, Panchayat Samiti (PS) at the block level and Zila Parishad (ZP) at the district level. There are 6,841 villages, 6,083 Gram Panchayats, 124 Panchayat Samitis and 21 Zila Parishads in the State. There are 515 GPs having 2 villages and 172 GPs having more than 2 villages under them. There are 59 single villages having two GPs and 10 single villages having more than 2 GPs. It is further observed that Yamuna Nagar is the largest district having 636 villages and 441 gram panchayats whereas Rohtak is the smallest district with 143 villages and 141 GPs. The average population per village works to 2,413 persons. The distribution of Gram Panchayats, villages and rural population district-wise is set out in Table 7.1.

Table 7.1: District wise details of GPs, Villages and Population

S. No	Name of District	No. of GPs	No. of Villages as per 2011 census	% to total number of Villages	Total rural Population	% age to rural population	Male	Female
1	Ambala	405	470	6.87	6,27,576	3.80	3,51,703	2,95,873
2	Panchkula	121	219	3.20	2,48,063	1.50	1,33,153	1,14,910
3	Yamuna Nagar	441	636	9.30	7,41,376	4.49	3,93,957	3,47,419
4	Kurukshetra	382	415	6.06	6,85,430	4.15	3,61,020	3,24,410
5	Kaithal	270	269	3.93	8,38,293	5.08	4,45,931	3,92,362
6	Karnal	372	434	6.34	10,50,514	6.36	5,57,110	4,83,404
7	Panipat	167	186	2.72	6,50,352	3.94	3,49,642	3,00,710
8	Sonipat	323	332	4.85	9,96,637	6.04	5,38,750	4,57,887
9	Rohtak	141	143	2.09	6,15,040	3.73	3,32,034	2,83,006
10	Jhajjar	249	260	3.00	7,15,066	4.33	3,84,219	3,30,847
11	Faridabad	111	149	2.17	3,70,878	2.25	1,98,103	1,72,775
12	Gurgaon	210	242	3.53	4,72,179	2.86	2,51,462	2,20,717
13	Mewat	308	439	6.41	9,65,157	5.85	5,06,086	4,59,071
14	Palwal	239	280	4.09	8,06,164	4.88	4,28,907	3,77,257
15	Rewari	351	403	5.89	6,66,902	4.04	3,49,710	3,17,192
16	Mahendragarh	344	370	5.40	7,89,233	4.78	4,16,358	3,72,875
17	Bhiwani	461	444	6.49	13,13,123	7.95	6,96,212	6,16,911
18	Jind	300	306	4.47	10,28,569	6.23	5,50,519	4,78,050
19	Hisar	309	269	3.93	11,90,443	7.21	6,34,139	5,56,304
20	Fatehabad	245	245	3.58	7,62,423	4.62	4,00,814	3,61,609
21	Sirsa	334	330	4.82	9,75,941	5.91	5,14,177	4,61,764
	Total	**6,083**	**6,841**		**1,65,09,359**	**100.00**	**87,74,006**	**77,35,353**

Source:- Panchayat Department

Structural Arrangements prior to 73rd Constitutional Amendment

7.3 It would be useful to have an idea about the status of PRIs before the promulgation of Haryana PRIs Act, 1994. The Gram Panchayat Act was passed for the first time in 1952 by the erstwhile State of Punjab and Panchayats have been functioning at village level since then under the provisions of this Act. The other two tiers viz. Panchayat Samitis and Zila Parishads were formed under the Panchayat Samiti and Zila Parishad Act, 1961 and this structure continued to function till 1973 when, on the recommendations of an adhoc committee, Zila Parishads were abolished in Haryana. Elections to the Pachayat Samitis were not held regularly and continued to be frequently postponed. The institution of Gram Panchayat, however, continued to have elections despite frequent delays.

7.4 Procedurally, Zila Parishads stood abolished and the Panchayat samitis were not effective and fully operational. The Panchayat Samitis consisted of 16 members elected by Panches and Sarpanches of Gram Panchayats in the Block, 2 members representing cooperative societies, 1 member representing the market committees in the Block. There existed a provision for 6 co-opted members in addition to MLAs who were “Associate” members without any voting rights. The Sub-Divisional Magistrate and the Block Development officers were also co-opted as ex-officio members. The Gram Panchayat at village level consisted of 4 to 10 member Panches and the Sarpanch was elected from amongst the members. Reservation for Women and Scheduled Castes was provided for. The PRIs which came into existence in the early sixties went through a period of stagnation during 1965 – 85. In Haryana the importance of these institutions continued to rapidly decline. The role of Panchayat Samitis was largely confined to channelizing some grants and giving some technical support in the field. While the structure of Gram Panchayats was more or less intact, the resources at their disposal were quite meagre.

7.5 Due to inherent weaknesses in the PRIs, the trend towards centralisation of powers and functions at state level led to growth of departmental hierarchies particularly in fields like education, health and public health which in earlier times fell in the domain of the local bodies. Primary and middle schools, which fell in the domain of Local District Board prior to 1957, were provincialised and, hence, the entire burden of expanding education facilities at their levels was taken over by the state government. Similar is the position in respect of health infrastructure net work which is manned and funded by the state government. In respect of water supply the entire programme of providing water facilities not only in rural areas but even in municipal areas barring Faridabad Municipal Corporation, has been taken over by the Public Health Engineering Department (PHED).

Structural Arrangements of PRIs after 73rd Constitutional Amendment

7.6 The 73rd Constitutional Amendment Act, 1992 infused vitality and strength to the PRIs. It mandated a three tier system at the village level, block level and district level. Reservation for Scheduled Castes, Scheduled Tribes and women have been ensured in every panchayat in proportion to their population. At least one third of the total seats are required to be reserved for women, including those seats reserved for Scheduled Castes and women. Seats on a similar basis have also been reserved in respect of posts of Chairpersons at each of these levels.

7.7 Constitutional amendments embody two other major provisions, one relating to elections and other relating to constitution of Finance Commissions. As regards the provision for elections, it has been provided that the new PRIs must be constituted at all these levels before the expiry of a period of 6 months from the date of its dissolution, if and when it occurs. The other provision provides for the constitution of Finance Commissions in States within one year of the commencement of the 73rd constitutional amendment and, thereafter, at the expiration of every fifth year. These two provisions are the milestones of the new and revitalised Panchayati Raj System.

7.8 As a sequel to the 73rd constitutional amendment, the Haryana government enacted the Haryana Panchayati Raj Act, 1994. This provides for a three tier system. As a result, the Zila Parishads were constituted after more than two decades. Members of the Zila Parishad are now elected directly under the new Act. It further provides for the co-option of Chairman of all PSs within the district as ex-officio members and Members of Parliament and Members of Legislative Assembly whose constituencies lie within the district are associated as ex-officio members. These now have a right to vote in meetings except in the case of election of the President and Vice President. Likewise, members of the Panchayat Samitis are to be elected directly from territorial constituencies within the Panchayat Samiti areas. One member of Panchayat Samitis is elected per population of 4,000 and the number of elected members vary between 10 and 30. MLAs whose constituencies fall wholly or partly in the PS area, and all the sarpanches of the GPs, are co-opted as members. In the case of GPs, the Sarpanch is directly elected by village voters by secret ballot and six to twenty Panches are elected from wards in a panchayat area. The Chairman and the Vice-Chairman in the Zila Parishad and Panchayat Samitis are to be elected indirectly by and from amongst its elected members.

7.9 A special feature of the new enactment is the reservation for women and Scheduled Castes, not only in respect of election of Panches and members of PSs and ZP, but also with regard to election of Sarpanches and Chairpersons of PSs and ZPs. It may be stated that four historic elections to the PRIs were held in Haryana in December 1994, March 2000, April 2005 and June 2010 under the supervision and control of the State Election Commission. More than 50% of the elected Sarpanches and Chairpersons at the ZP and PS level belonged to the reserved categories. The position on general elections held in June, 2010 has been depicted in Table 7.2.

Table 7.2: Composition of PRIs (2010)

Sr. No.	Office	Total No. of Seats	Elected Members	General		Scheduled Caste		Backward Class
				Men	Women	Men	Women	
1.	Sarpanches of Gram Panchayats	6,083	6,083	3,264	1,587	797	435	-
2.	Members of Gram Panchayats	58,857	58,857	24,889	15,342	6,349	6,424	5,853
3.	Charipersons of Panchayat Samitis	119	119	45	51	10	10	3
4.	Members of Panchayat samitis	2,772	2,772	1,341	715	356	241	119
5.	Presidents of Zila Parishads	21	21	10	7	1	3	-
6.	Members of Zila Parishads	374	374	172	99	19	33	21
	Total	**68,226**	**68,226**	**29,721**	**17,801**	**7,532**	**7,146**	**5,996**

Source: - Panchayat Department

B. Profile of Urban Local Government in Haryana

7.10 Urban Local Bodies are important institutions of self governance providing municipal services and civic amenities in urban areas. Presently, there are 78 Urban Local Bodies in Haryana consisting of 9 municipal corporations, 14 municipal councils and 55 municipal committees.

7.11 Haryana has made rapid strides towards urbanisation since 1966. The decadal growth rate of the urban population in Haryana is higher than that of the rural population. The urban population increased from 61,15,304 in 2001 to

88,42,103 in 2011, registering an absolute increase of 27,26,799 persons. In this way, the share of urban population has increased from 29.00% in 2001 to 34.88% in 2011. Decadal growth of 9.85% has been recorded in rural areas and 44.60% in urban areas.

7.12 Nearly one half of the State falls in the National Capital Region (NCR) around Delhi and this area is experiencing a high rate of urbanisation. 13 districts of Haryana fall in the NCR. Out of the total population of 2,53,51,462, population of NCR area is 1,35,88,337. Rapid urbanisation necessarily implies that Urban Local Bodies have to provide additional civic amenities and services.

7.13 In the last 50 years (1961 – 2011) during which total population grew more than three times, the urban population has grown about seven times. The urban population recorded a marked decadal growth of 50.84% during the period 1991 – 2001 as against the overall growth of only 28.43%. Urban population ratio increased from 29.00% in 2001 to 34.88% in 2011. This steep increase pointedly underscores the need for systematic planning for proper urban growth. Table 7.3 depicts the position.

Table 7.3: Status of urban population

Census Year	**No. of cities/ towns**	**Growth of urban population**		
		Total population (in lakh)	**Urban population (In lakh)**	**Percentage of urban population to total population**
1901	54	46.23	5.74	12.42
1911	36	41.75	4.50	10.78
1921	39	42.56	4.81	11.30
1931	41	45.60	5.65	12.39
1941	45	52.73	7.06	13.39
1951	62	56.74	9.69	17.08
1961	**61**	**75.91**	**13.08**	**17.23**
1971	65	100.36	17.73	17.67
1981	81	129.22	28.27	21.88
1991	94	164.63	40.54	24.62
2001	106	210.83	61.15	29.00
2011	**154**	**253.51**	**88.42**	**34.88**

7.14 The position regarding the number of towns, the decennial population growth and scenario of urban population is given in Table 7.4.

Table 7.4: Decennial growth of urban population (1951-2011)

Year	No. Of Towns	Total Population (in lakh)	Decennial Growth 10%)	Urban Population (in lakh)	Decennial Growth (%)
1951	62	56.74	-	9.69	34.98
1961	61	75.91	33.79	13.08	34.98
1971	65	100.36	32.21	17.73	35.55
1981	81	129.22	28.76	28.27	59.45
1991	94	164.63	27.40	40.54	43.40
2001	106	211.44	28.43	61.15	50.84
2011	154	253.51	19.90	88.42	44.60

7.15 The district-wise share of rural and urban population as per census of 2001 and 2011, in percentage terms, has been shown in Table 7.5.

Table 7.5: District-wise share of rural and urban population (%)

	State /Districts	**Population Share of total Population (2001)**		**Population Share of total Population (2011)**	
	State	**Rural**	**Urban**	**Rural**	**Urban**
	Haryana	**71.08**	**28.92**	**65.12**	**34.88**
S. No.	**Districts**				
1.	Panchkula	55.51	44.49	45.13	54.87
2.	Ambala	64.98	35.02	55.62	44.38
3.	Yamuna Nagar	62.27	37.73	61.06	38.94
4.	Kurukshetra	73.89	26.11	71.07	28.93
5.	Kaithal	80.61	19.39	78.03	21.97
6.	Karnal	73.85	26.15	69.73	30.27
7.	Panipat	59.47	40.53	54.03	45.97
8.	Sonipat	74.85	25.15	69.48	30.52
9.	Jind	79.70	20.30	77.18	22.82
10.	Fatehabad	82.64	17.36	80.96	19.04
11.	Sirsa	73.72	26.28	75.25	24.75
12.	Hisar	74.10	25.90	68.27	31.73
13.	Bhiwani	81.03	18.97	80.20	19.80
14.	Rohtak	64.94	35.06	57.98	42.02
15.	Jhajjar	77.83	22.17	74.61	25.39
16.	Mahendergarh	86.51	13.49	85.57	14.43
17.	Rewari	82.21	17.79	74.18	25.82
18.	Gurgaon	64.42	35.58	31.18	68.82
19.	Mewat	92.49	7.51	88.62	11.38
20.	Faridabad	22.20	77.80	20.56	79.44
21.	Palwal	80.82	19.18	77.35	22.65

Evolution of local government

7.16 The first municipal committee was established in Gohana in Haryana in 1883. The beginning of local self government during British rule can be traced to the institution of municipal committees which were constituted to carry out local improvements under the supervision of the Divisional Commissioners. It was in 1882 that municipal committees were enlarged and powers were given at district headquarters. The 1884 Act made provision for people’s representation in the municipal committees and the number of non-official and elected members were also increased. The Punjab Municipal Act of 1911 was further amended in 1929, envisaging the extension of the elected representatives. The Punjab government passed the East Punjab Local Authorities (Restriction of Functions) Act, 1947 which empowered the state government to assume functions of local authority if it was not capable of discharging the functions assigned to it.

7.17 The Haryana Municipal Act, 1973 was enacted in 1973 to regulate the functioning of Urban Local Bodies in Haryana. Besides, a large number of rules and byelaws were framed on various subjects like municipal accounts, delimitation of wards, management of municipal properties and construction of buildings to facilitate the working of municipal committees. Earlier the municipal bodies were categorised as A, B, C type of municipalities. As per present classification, the municipalities are in three classes. Municipal Committee for urban population not exceeding 50,000; Municipal Council for population exceeding 50,000, but not exceeding 5,00,000; and Municipal Corporation with population exceeding 5,00,000. The factors taken into account for determination of municipal area are population of the area, density of population therein, revenue generation for local administration, percentage of employment in non-agriculture activities, economic importance, or such other factors as the State may deem fit.

Administrative Structure of ULBs

7.18 The functioning of municipal councils and committees is regulated under the Haryana Municipal (Amendment) Act, 1993 and municipal corporations by a separate Haryana Municipal Corporation Act, 1994. These Acts empower the state government to assume functions of a local authority if it was not capable of discharging the functions duly assigned to it.

7.19 Under the Haryana Municipal Act, 1994, a large number of powers are still vested in the government. To quote a few, the authority for the constitution of the committee, deciding its jurisdiction, nomination of councillors, removal of President/Members, constitution of municipal services etc, vest in the state government.

7.20 Section 38 of the said Act empowers the government to constitute municipal services including those of Administrators/Chairmen, E.Os, M.Es, T.Ps and Secretaries at state level and one or more other municipal services at district level in connection with the affairs of the municipalities, recruitment to which may be made by either state government or the Director Local Bodies or the Deputy Commissioners as provided in the rules.

7.21 In terms of Haryana Municipal Services (Integration, Recruitment and Conditions of Services) Rules, 1982, the following categories of posts fall under the state level municipal services:-

Name of Service	**Appointing Authority**
Administrators	State Government
Executive Officers	-do-
Secretaries	-do-
Municipal Engineers	-do-
Asstt. Town Planners	-do-
Junior Engineers	Director Local Bodies
Superintendents	-do-
Accountants	-do-
Chief Sanitary Inspectors	-do-
Fire Station Officers	-do-

7.22 Besides, there are about 18 categories of Haryana municipal district level services. Broadly, these categories include staff like Technical Inspectors, Non Technical Inspectors, Draftsmen, Head Clerks/ Assistants, Stenographers, Drivers, Clerks, Supervisors, Peons, Mates/Malis, Sanitary Inspectors, Station Fire Officers, Chief Foremen, Drivers, Firemen and other Class IV employees and Sweepers. Traditionally, the staff in municipality is grouped on functional basis with the numerical strength depending on work load.

7.23 Main functions of the municipalities are tax collection, fee collection, fire management, engineering, development works, sanitation, rent collection, management of municipal properties, arrangements for street lightning, gardening and general supervisory roles concerning administration and accounts.

2. Functional Decentralisation to Local Bodies

7.24 Functional devolution to local bodies is instrumental for their empowerment through the process of democratic decentralization. Thus, it is necessary to empower them through transfer of local level functions. The functional domain of local bodies has considerably expanded with the inclusion of 11^{th} and 12^{th} Schedules in the Constitution. Now the State Legislature has been empowered to transfer functions and responsibilities listed in newly created 11^{th} and 12^{th} Schedules to the rural and urban local bodies. The 11^{th} Schedule lists 29 functions for PRIs and 12^{th} Schedule lists 18 functions for ULBs. The Commission observed that the state government has taken a number of steps for empowering local bodies both, PRIs and ULBs, through the process of democratic decentralisation.

A. Functional Transfers to PRIs

7.25 The scope of functions to be devolved on the PRIs under the new set up is indeed very wide. The Eleventh Schedule lists 29 items which fall under the purview of the Panchayati Raj Institutions. The Haryana Panchayati Raj Act, 1994 broadly enumerates these items and Section 21 of the Act specifically provides for sub items under each of these broad heads which have been made the responsibility of the Gram Panchayats. A perusal of this list would indicate that apart from regulatory, maintenance and general civic functions, the panchayats are required to undertake developmental and promotional functions in the spheres of agriculture, animal husbandry, rural and cottage industry, education, health and social & cultural upliftment of their areas. The 29 functions enlisted in the Eleventh Schedule are as follows :

1. Agriculture, including agriculture extension.
2. Land improvement, implementation of land reforms, land consolidation and soil conservation.
3. Minor irrigation, water management and watershed development.
4. Animal husbandry, dairying and poultry.
5. Fisheries.

6. Social forestry and farm forestry.
7. Minor forest produce.
8. Small scale industries, including food processing industries.
9. Khadi, village and cottage industries.
10. Rural housing.
11. Drinking water.
12. Fuel and fodder.
13. Roads, culverts, bridges, ferries, waterways and other means of communication.
14. Rural electrification, including distribution of electricity.
15. Non-conventional energy sources.
16. Poverty alleviation programme.
17. Education, including primary and secondary schools.
18. Technical training and vocational education.
19. Adult and non-formal education.
20. Libraries.
21. Cultural activities.
22. Markets and fairs.
23. Health and sanitation, including hospitals, primary health centres and dispensaries.
24. Family welfare.
25. Women and child development.
26. Social welfare, including welfare of the handicapped and mentally retarded.
27. Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.
28. Public distribution system.
29. Maintenance of community assets."

7.26 Likewise, a similar list has been provided under Section 75 of the Haryana Panchayati Raj Act 1994 under each of these broad heads, which further contains provisions for the preparation and consolidation of annual plans and performance of such other functions by Panchayat Samiti, as may be entrusted to it by the Government or the Zila Parishad. The Zila Parishad has been largely given supervisory and co-ordinational role and Section 137(I) of the Act provides that the Zila Parishad shall advise, supervise and co-ordinate the functioning of the Panchayat Samitis in the district.

Delegation of Functions & Duties to PRIs

7.27 A mechanism was provided through a Haryana Government notification no. DPN-PA-95/23517-726, dated 23.05.95 to delegate certain duties and functions of supervisory and monitoring nature to the three levels of PRIs with regard to 16 important departments, namely, Development and Panchayats, Food and Supplies, Welfare of SC/BC, Water Supply and Sanitation, Forests, Women and Child Development, Agriculture, Animal Husbandry, Power, Social Defence and Security, Horticulture, Ayurveda, Health, Education, Irrigation and Rural Development. Further, recognising the role of PRIs in planning and implementation of rural development schemes, certain functions and responsibilities in respect of 12 departments were transferred in 2001 to PRIs alongwith control over functionaries also. Further, to strengthen the process of decentralization, activity mapping of various departments was prepared and circulated on 17.0.2.2006 under which, funds, functions and functionaries were to be devolved to the PRIs. It has been reported that a number of activities of 10 departments, namely, Food and Supplies, Social Justice and Empowerment, Women and Child Development, Public Health, Animal Husbandry, Health, Irrigation, Forests, Agriculture and Education, have been transferred to the PRIs alongwith funds and functionaries. Under this activity mapping matrix dated 17.02.2006, concerned departments have been advised to create a Panchayat window in the budget of the department. Pursuant to activity mapping, five departments namely, Food and Supplies, Social Justice and Empowerment, Women and Child Development, Public Health and Animal Husbandry have issued instructions to implement the decisions.

7.28 In compliance, thereof, Food and Supplies Department constituted block and district levels Vigilance Committees to ensure fair distribution of PDS items. The Chairman of the Panchayat Samiti has been designated as Chairperson of the block level committee. Under Social Justice and Empowerment Department, pensions to senior citizens, widows, handicapped, destitutes etc. are distributed through gram panchayats. Animal Husbandry Department has constituted a committee for recording procurement of milk and members of PRIs have been incorporated in the committee. A village level committee has been constituted by the Women and Child Development Department with a lady sarpanch or lady panch to ensure greater participation of PRIs in service delivery. Public Health

Engineering Department has transferred collection of water charges to gram panchayats. In addition to it, PHED has also transferred single village six tube wells based schemes to the PRIs along with funds for operation and maintenance. Till date 2,764 tube-wells located in 1,506 habitations have been handed over to gram panchayats. Further, the state government has also constituted a high powered committee under the chairmanship of Chief Secretary to review the progress under activity mapping of departmental functions.

7.29 With a view to empower PRIs, the state government has recently introduced new initiatives, as under:-

- In order to have effective participation of PRIs in the development process, the Haryana Panchayati Raj Finance, Budget and Accounts Rules, 1996 were amended from time to time and latest on 26.04.2012 whereby financial powers of Panchayati Raj Institutions for execution of development works have been increased as per details given below:-
  - Gram Panchayat From Rs. 3.00 lakh to Rs. 5 lakh for each work
  - Panchayat Samiti From Rs. 5 lakh to Rs. 10 lakh for each work
  - Zila Parishad From Rs. 10 lakh to Rs. 15 lakh for each work
- Gram Panchayats have been empowered to appoint safai karmis for cleanliness in the villages and for the said purpose 10,296 safai karmis have been appointed all over the State.
- Most of the Centrally Sponsored Schemes such as, Sampoorna Gramin Yojana, Indira Awas Yojana, Drinking Water and Rural Sanitation, National Rural Employment Guarantee Scheme and other national level schemes catering to rural areas are being implemented through active participation of the PRIs.
- A new scheme of developing Model Villages was launched to provide city like amenities in select villages and the GPs have been given the duty of providing basic services and their maintenance through funds flowing from the state government. The civic amenities to be provided in Model Villages comprise of pavement of streets, drainage for disposal of waste water, pipelines for supply of drinking water including lateral connections for

household, street lights, construction of retaining walls and other facilities. So far 98 villages have been identified for developing as Model Villages.

- On the pattern of Haryana Urban Development Authority, a Haryana Rural Development Authority (HRDA) has been set up to meet housing, environmental and other civic infrastructural needs of the rural areas. The objective is to provide urban-like facilities, preventing migration to cities, utilizing youth energies to creative activities with public participation and involvement of PRIs. The basic objective is to promote regulated and planned growth in villages and their peripheries.

- State Government has decided to allot residential plots of 100 yards to the SC and BPL families in the villages. Basic infrastructure facilities such as internal roads/streets, drinking water pipelines, drainage facilities, power supply, community building sites will be provided in these colonies. In the first phase, 3,75,753 families have been allotted plots in 4,900 villages where shamlat land was available.

- In order to facilitate proper participation of PRIs in the development process, state government, in a major policy decision during 2006 – 07, allowed honoraria to the elected representatives of PRIs, the latest rates of which are as under:-

    - Sarpanches and Panches have been sanctioned honoraria @ Rs.2,000/- and Rs. 600/- p.m. respectively.

    - Honorarium for Chairperson of Panchayat Samiti is Rs. 6000/- p.m.; Vice Chairperson and Member of the Panchayat Samitis have been allowed honoraria @ Rs.2,500/- p.m. and Rs. 1,250/- p.m respectively.

    - Honoraria in respect of Presidents and Vice-Presidents of Zila Parishads have been fixed at Rs. 7,500/- and Rs. 6,000/- p.m. respectively. The Members of the Zila Parishads have been allowed an honorarium @ Rs. 2,500/-p.m.

7.30 Apart from the above, the following new decisions/ steps are being taken up by the government for empowerment of PRIs:-

- The President, Zila Parishad would now henceforth be the Chairman of DRDA and Deputy Commissioner the Executive Chairman. ACRs of Block Development and Panchayat officers are now initiated by the chairpersons of block samitis.
- All funds/ grants-in-aid under all the schemes are transferred directly to GPs through on line mode.
- Administrative approval for all the works (except HRDF) is given by GPs without any capping.
- The GP or PS or ZP, as the case may be, shall be competent to accord administrative approval of works from their respective funds, without any capping. For works estimated upto Rs. 10 lakh, the GP will have the discretion to either execute the works itself (directly or through a local contractor) or entrust the work to the PR Engineering Wing; and for works estimated beyond Rs. 10 lakh, the GP shall get the work executed through the Panchayati Raj Engineering Wing, which may get the work executed either departmentally or through a contractual agency. The ZP shall excute the works itself or get it done through a contractor or entrust the works to the Panchayati Raj Engineering Wing upto an estimated cost of Rs. 15.00 lakh. The work beyond these limits shall be got excecuted through the engineering Wing.
- Members of Zila Parishads and Panchayat Samitis shall have the power to inspect the development works in their respective wards.
- To further boost the resources of panchayats, the state government has formulated a scheme whereby the gram panchayats would facilitate the recovery of power bills in the panchayats and also get regularized illegal kundi connections in the villages. In lieu of this, the GPs would be incentivized to the extent of 20% of the enhanced power bill recovery and Rs. 200/- per new regular connection.
- In view of the limited resources of income and poor financial position of Panchayat Samitis and the Zila Parishads, it has been decided that a grant to the tune of Rs. 50.00 lakh every year would be given to each PS and Rs. 10.00 lakh per year to each member of ZP from the District Plan Funds.

B. Functional Devolution to Urban Local Bodies

7.31 In conformity with the 74th Constitutional Amendment, the state government has enacted the Haryana Municipal (Amendment) Act, 1994, which provides for specific areas of responsibility of the municipalities and their power to raise revenues, through obligatory as well as discretionary taxation measures. Provision has also been made for transfer of 18 functions as mentioned in the 12th Schedule of the Constitution. These local bodies are required to discharge the following functions, as provided in Section 66A of the Haryana Municipal Act, 1973:-

a) The preparation of plans for economic development and social justice.

b) The performance of functions and implementation of schemes in respect of the following matters, namely:

i) urban planning including town planning;

ii) regulation of land use and construction of buildings;

iii) planning for economic and social development;

iv) roads and bridges;

v) water supply for domestic, industrial and commercial purposes;

vi) public health sanitation, conservancy and solid waste management;

vii) fire services;

viii) urban forestry, protection of the environment and promotion of ecological aspects;

ix) safeguarding the interests of weaker sections of society including the handicapped and mentally retarded;

x) slum improvement and up-gradation;

xi) urban poverty alleviation;

xii) provision of urban amenities and facilities such as parks, gardens, playgrounds;

xiii) promotion of cultural education and aesthetic aspects;

xiv) burial grounds, cremations, cremation grounds and electric crematoriums;

xv) cattle ponds, prevention of cruelty to animals;

xvi) vital statistics including registration of births and deaths ;

xvii) public amenities including street lighting, parking lots, bus stops and public conveniences;

xviii) regulation of slaughter houses and tanneries.

7.32 State government has over-riding powers to take over any of the functions relating to maintenance or construction of water works, sewerage works or roads for a period not exceeding ten years, in case the government is satisfied that the committee has neglected to perform its duties. Under such powers, provided under Section 67 of the Haryana Municipal Act, 1973, the maintenance and provision of water supply and sewerage was taken over by the state government from the ULBs w.e.f. 01.04.1993 and handed over to the Public Health Engineering Department except in the case of Faridabad Municipal Corporation. The functioning of the Municipal Councils and Committees is regulated under the Haryana Municipal Act, 1973, whereas the Municipal Corporations are being governed by a separate Haryana Municipal Corporation Act, 1994.

7.33 The Commission has been informed that out of the aforesaid 18 functions, 12 functions have already been transferred to the ULBs. The remaining 6 functions have not yet been transferred. However, the ULBs are being involved in implementation of these functions. As such the municipalities are not presently performing the following functions:-

i) Preparation of plans for economic development and social justice;
ii) Urban planning including town planning;
iii) Urban forestry, protection of environment and ecology;
iv) Water supply for domestic, industrial and commercial purposes;
v) Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
vi) Promotion of cultural, educational and aesthetic aspects.

Observations and Suggestions

7.34 The Commission observes that though a good beginning has been made by the state government in the direction of democratic decentralisation through devolution of functions to the local bodies, but the pace of progress has been very slow. The Commission further feels that the delegation orders remained on paper only due to lack of political will, apathy of bureaucracy, incapacity of elected representatives of local bodies, absence of cooperation among different tiers of local bodies and lack of healthy interface between elected representatives and functionaries. Perusal of delegation orders further reveals that these delegations do not go far enough and have not succeeded in making much dent toward functional decentralisation. What, in fact is needed is the firm conviction and belief in decentralized governance. Many more responsibilities need to be assigned to local bodies for making them true units of local governance. **Thus, the Commission suggests that all those schemes falling within easy**

implementation capacity of the PRIs should be wholly transferred to them. Further, a much more comprehensive exercise needs to be carried out to identify and transfer all those schemes of local relevance to the PRIs along with funds and functionaries which are presently being implemented by the line departments.

7.35 Though the state government has constituted a high level committee under the chairmanship of the Chief Secretary to monitor the implementation of activity mapping matrix and to review the progress, yet the impact is not encouraging. Meetings of the committee are rarely held. The Commission has been informed that the first meeting of the committee was held in 2008 and the second meeting in 2010. It has been further reported that no meeting of the committee could be held after 2010. The Commission views this situation very seriously. **The Commission suggests that the committee should hold its meetings frequently at least once in six months and the decisions taken should be strictly implemented in a time bound manner. As a follow up, each department covered under the activity mapping should issue relevant instructions and guidelines to the subordinate offices indicating the schemes/funds allocated to the PRIs and the role assigned to them so that the departmental officers and elected representatives of local bodies could clearly understand their precise role in the new set up.**

CHAPTER 8

NORMS AND STANDARDS OF PUBLIC HEALTH SERVICES-WATER SUPPLY, SEWERAGE AND STORM WATER DRAINAGE

8.1 This Chapter sets out to examine the norms and standards of water supply, sewerage & other municipal (public health engineering related) services and the growing expenditure on the same in order to throw light on the scope and burden of services on the State which will have to be borne by LBs in course of time. The United Nations General Assembly Resolution (2010) recognized the right to safe and clean drinking-water as a “human right that is essential for the full enjoyment of life”. The Human Rights Council Resolution (2010) recognized that the right to water and sanitation is derived from the right to an adequate standard of living which is contained in several international treaties with references to the WHO Guidelines for Drinking-Water Quality. This Commission observes that addition of Schedules 11 and 12 subsequent to 73rd and 74th CAAs has substantially enhanced the functional responsibilities of local bodies. Besides, greater emphasis being laid on urbanisation and industrialisation is also causing heavy strain on urban infrastructural services. Due to financial constraints, the municipal bodies have not been able to maintain a satisfactory level of infrastructure development and civic services. They have been depending on state budgetary support even for meeting the operational and maintenance costs of their essential services.

8.2 Water supply, sewerage and storm water drainage are the core functions of urban local bodies. As these functions were not being discharged satisfactorily by the municipal bodies due to their poor financial position, lack of technical expertise and weak institutional capacity, state government took over these functions w.e.f. 1993 for operation, maintenance and augmentation besides infrastructure creation. Municipal bodies are now concerned only with local sanitation and disposal of solid waste and garbage. However, in rural areas public services are skeletal and the function of water supply is being transferred to PRIs in a phased manner.

8.3 Since the core functions of water supply, sewerage and storm water drainage are carried out by the Public Health Engineering Department (PHED), the Commission sought basic information relating to these functions from the PHED for assessing financial requirements for their proper operation and maintenance. It has been reported that the PHED has drawn out a composite plan with a design period of 30 years, upto the year 2033, by examining the actual financial requirements of each of the municipal towns. The observations of the Commission regarding these functions are, thus, based on the data furnished by the PHED. However, for other basic public services, assessment of financial requirements has been made in another chapter.

Water Supply

8.4 Water is such a precious commodity that sustains life. The critical importance of assured potable water supply is gauged from the fact that both urban and rural populations are steadily growing while, on the other hand, groundwater is depleting and canal supplies are limited. Whereas basic demand is growing, lifestyle changes are also sending expectations soaring. Rural consumers are expecting standards of services in terms of quantity, time and quality what urban consumers have been enjoying since long. In fact, consumers of both areas are clamouring for more supply putting strains on both supplies & infrastructure.

8.5 Haryana has always lacked adequate water resources equitably spread across the breadth of the State. The main source: River Yamuna flows at the eastern end of the State nourishing that belt. The western & southern parts, though having seasonal rivers & streams, were basically arid and desert like with deep ground water sources, much of it brackish or non-potable. An enormous investment was required to quench the thirst of more than two thirds of Haryana. The State embarked upon a very ambitious plan of action to build a canal system to promote agriculture and provide safe drinking water. The network is augmented by a large number of deep bore-wells. Now all the villages/outlying habitations are covered with supply of piped potable water.

8.6 There are, therefore, two types of drinking water supply schemes which are being executed in rural and urban areas. In areas where ground water is sweet, tube-well based schemes are executed and water pumped into the distribution system after proper chlorination. In areas where ground water is saline, canal based schemes are implemented. In Haryana only piped water supply schemes are being executed.

Status of Water Supply in rural areas

8.7 At the time of formation of Haryana in 1966, drinking water facilities existed in only 170 villages covering a population of 2.20 lakh persons. These were schemes supplying water @ 20 liters per capita per day (lpcd). After the formation of Haryana, great emphasis was laid on providing water supply in all the villages and initially the standard norm was kept @ 40 lpcd. However, a survey in 1992 revealed around 3,623 villages as deficient where water supply fell below the approved norm of 40 lpcd. These were given special attention and the quantum of water supply restored to 40 lpcd by 1999. In a survey of December 2004, 1,971 villages were identified as deficient villages where water supply was less than 40 lpcd. Out of these, water supply in 1,844 villages was improved by 31.03.2011, leaving a balance of 127 deficient villages. During the financial year 2011 – 12, PHED augmented water supply facility in 943 habitations.

8.8 Various state and central schemes are being implemented in rural areas for augmenting water supply. National Accelerated Rural Water Supply Programme was introduced in 1977 – 78 to supplement the state government efforts by augmenting drinking water supply allowance to a level of 55 lpcd. Under the National Drinking Water & Sanitation decade (1981 – 91), all the 6,759 villages were provided with at least one safe source of drinking water by 31st March 1992. The Desert Development Programme (DDP) introduced in 1989 meant for the arid belt of Hisar, Bhiwani, Sirsa, Fatehabad, Rohtak, Jhajjar, Mahendergarh and Rewari districts is helping to supply drinking water upto a level of 70 lpcd including 30 lpcd for the cattle population.

8.9 Since 2000 – 2001, PHED launched a NABARD sponsored programme for augmentation of drinking water supply adopting a norm of 70 lpcd for non desert districts. NCR Planning Board (NCRPB) loan was sought in November, 2004 for augmentation of water supply facilities in the villages falling under the National Capital Region and a norm of 70 lpcd was followed for such schemes.

8.10 The present status of water supply in villages is given in Table 8.1.

Table 8.1: Status of Water Supply in villages

Water Supply Status (in lpcd)	No. of Villages
Less than 40 lpcd	127
41 to 54 lpcd	2,052
55 to 69 lpcd	1,820
70 lpcd and above	2,805
Total number of Villages	**6,804**

8.11 Following norms and standards have been adopted for drinking water supply in rural areas:-

Non Desert Areas	40/55 lpcd
Desert districts of Hisar, Sirsa, Bhiwani, Fatehabad, Rewari, Mahendragarh, Rohtak and Jhajjar	70 lpcd

As per the estimates given by the PHED, a sum of Rs. 435 crore would be required for upgrading all the habitations in non desert areas to a level of 55 lpcd upto 2015 – 16. Like-wise, an amount of Rs. 570 crore would be required for raising water supply status of villages falling in DDP area upto 2015 – 16.

8.12 However, as a matter of policy, no drainage facilities are being provided by the PHED in rural areas.

Efforts to improve water supply situation in rural areas

8.13 Haryana was one of the early states which decided to go in for piped supply of potable water to every village. Government of Haryana has embarked upon a number of schemes to strengthen the water supply status in rural areas, some of which are as follows:

Transfer of Village Tube-well Water Schemes to PRIs

Under this scheme, operation and maintenance of upto 6 tube-wells per single village has been handed over to Gram Panchayats. The energy charges are paid by the PHED. In addition, monthly charges are also paid to Gram Panchayats for operation and maintenance of schemes in order to encourage the Panchayats for taking over more schemes. Monthly charges effective from 2012 – 13, are given in Table 8.2: -

Table 8.2: Monthly charges paid to Gram Panchayat w.e.f. 2012 – 13

Sr. No.	Type of Schemes	Monthly charges w.e.f. 2012-13 (In Rs.)
1.	Single Village One Tube-well Scheme	11,000/-
2.	Single Village Two Tube-wells Schemes	15,000/-
3.	Single Village Three Tube-wells Schemes	20,000/-
4.	Single Village Four Tube-wells Schemes	24,000/-
5.	Single Village Five Tube-wells Schemes	29,000/-
6.	Single Village Six Tube-wells Schemes	33,000/-

Till date 2,764 tube-wells located in 1,506 habitations have been handed over to Gram Panchayats.

Haryana State Rural Water Policy 2012 (HSRWP – 2012) for metered water supply

Currently the rate fixed by the government for un-metered water supply in rural areas is Rs 20/- per tap. The state government has formulated a scheme under this policy for conservation of water and prevention of wastage and reduction in non-revenue water in rural areas. This has provision of converting unmetered water connections into metered water connections. Water will be charged on the basis of volumetric consumption. Beneficiaries are expected to install meters at their own cost. 50% of rural households have been targeted to be provided metered water supply @ 70 lpcd in DDP and 55 lpcd in non DDP areas by the end of 12th Five Year Plan i.e. upto 31-03-2017. There is a provision of providing incentives to Panchayats, who are able to cover 75% of the village households with metered water connection. Implementation of this policy has already started from 7th June 2012.

Setting up of Village Water & Sanitation Committees:

As per revised guidelines of Government of India, Village Water and Sanitation Committees have been notified on 08.05.2012 in all the districts of Haryana. These Committees have been entrusted with the task of encouraging the public to take water connections in rural areas. The revenue collected through water charges would be given to the Panchayats for maintenance and development of works.

Water and Sanitation Support Organisation

An organisation called “Water & Sanitation Support Organisation” has been setup to provide capacity building. Emphasis has been laid on building community participation and handing over the management of water supply system including water quality testing to Panchayats. Further, a special Water Conservation Award has been instituted under which cash prizes are given to the Gram Panchayats as an incentive.

Water Supply in Urban Areas

8.14 Only 37 towns had partial access to piped potable water supply at the time of formation of Haryana State. The state government has followed an effective policy as part of its social development goals to extend drinking water supply infrastructure across all cities besides increasing the quantum of supply. At present, all the 79 notified towns in Haryana are fully or partially covered with piped potable water supply. The norms being followed for water supply in urban areas is 135 lpcd + 15% losses. Out of these 79 towns, water supply services in 77 towns are being maintained by the PHED. Water supply schemes in Panchkula are maintained by HUDA and in Faridabad and Gurgaon by their respective Municipal Corporations. The seven new Municipal Corporations, constituted on 17.03.2010, have not yet taken up the charge of water supply, sewerage and storm water drainage due to shortage of technical staff and funds. The status of water supply in the towns is given in Table 8.3.

Table 8.3: Water Supply Status

Water Supply Status (in lpcd ranges)	**No. of towns**
More than 135 lpcd	31
110 to less than 135 lpcd	25
70 to less than 110 lpcd	23
50 to less than 70 lpcd	0
Below 50 lpcd	0
Total number of towns	**79**

Sewerage Facilities in Haryana

8.15 Sewerage facilities in rural areas of Haryana are almost nil. This task is challenging in rural areas due to various constraints. There is, thus, an imperative need for greater focus on this aspect.

8.16 At the time of formation of Haryana, partial sewerage facilities existed in 16 towns only. At present, out of 79 notified towns, sewerage services in 76 towns are being maintained by the PHED. Sewerage schemes in Panchkula are being maintained by HUDA and in Faridabad and Gurgaon towns by their respective Municipal Corporations although several HUDA sectors are getting facilities by HUDA STPs. The other seven newly constituted Municipal Corporations have not yet taken up sewerage schemes in their areas. The existing facilities are being covered by HUDA or PHED. There is an ever increasing demand for improving sewerage facilities in existing towns and also for extending these facilities to the towns bereft of these facilities.

8.17 As reported by the PHED, 28 sewerage treatment plants (STPs) have been set up in 23 towns that are far below the actual requirements. Even in these towns, only 50% of the area has been covered by sewerage facilities. **The Commission observes, that more sewerage treatment plants are required to be installed in the remaining areas in a phased manner.** During the 12th Five Year Plan, a sum of Rs. 1,283.75 crore has been earmarked for improvement of sewerage facilities in the towns.

8.18 The present status of sewerage facilities in urban areas is given in Table 8.4.

Table 8.4: Status of Sewerage Facilities

Area covered with sewerage facilities (%)	No. of Towns
Less than 50%	53
Above 50%	26
Total number of towns	**79**

The norm presently being followed for establishing sewerage systems and storm water drainage is based on 80% of water supply norms.

Storm Water Drainage

8.19 Storm Water Drainage facilities are fewer in Haryana with most cities/towns being without these facilities. Only certain parts of planned sectors have been provided with storm water drainage. It is estimated that only 10% of some towns have been covered with storm water drainage facilities.

8.20 The status of water supply, sewerage and storm water drainage services in urban areas is given in Table 8.5.

Table 8.5: Level of services in urban areas

Services	As on 31.03.2006	As on 31.03.2011
A. %age of population covered by water supply		
(a) Municipal water supply	81%	87%
(b) Private hand pumps, wells etc.	-	-
B. Designed capacity of municipal or urban water supply system	658 MLD	833 MLD
(a) Actual water supply	562 MLD	710 MLD
(b) Per capita water supply	104 lpcd	118 lpcd
C. Percentage of population covered by sewerage system	52%	60%
D. Percentage area covered by surface and storm water drainage	16%	22%

- **MLD = million litre per day**
- **LPCD = Litre per capita per day**

Water Supply and Sewerage Charges

8.21 The services of water supply and sewerage are highly subsidized. The status of prevailing rates of water supply and sewerage charges effective from 09.03.2011 are as follows:-

Monthly charges
Rural Areas Rs.20/- per tap

Urban Areas

Water and Sewer Connection Fee	
a) Water Connection Fee i) Domestic ii) Commercial/Institutional iii) Industrial	 Rs. 1,000/- Rs. 1,000/- Rs. 2,000/-
b) Sewerage Connection Fee i) Domestic ii) Commercial/Institutional **iii)** Industrial	 i) Rs. 500/- ii) Already included in the water connection fee at a(ii) iii) Already included in the water connection fee at a(iii)
Water Charges Domestic	 Rs. 1.00 per kilo litre
Industrial/Commercial/Institutional	Rs. 4.00 per kilo litre
Un-metered supply	
Domestic	Rs. 48.00 per month
Sewerage Connection	
Waste Water Disposal Charges	
Domestic	25% of water charges
Industrial/Commercial/Institutional	25% of water charges
Commercial/Industrial/Institutional sewer connections of waste water shall be charged @ Rs. 2.50 per kilo litre of waste water generated by use of water from their own source (the waste water discharged in sewerage system shall be taken @ 70% of the total water consumed by the consumer from their own sources).	

The above rates have been made applicable w.e.f. 09.03.2011. Before this, the rates were revised in 2006.

Capital Investment for creation of infrastructure

8.22 As already seen from the above, ever since the inception of Haryana, substantial infrastructure has been created in rural and urban areas for providing water supply, sewerage systems, storm water drainage as well as for sewerage treatment plants. The total cost of infrastructure created upto 31.03.2012 is as under:-

Components	**Cumulative capital investment as on 31.03.2012 (Rs. in crore)**
Rural Water Supply	3,603.44
Urban Water Supply	1,528.04
Sewerage and Sanitation	1,159.59
Special Component for Scheduled Castes	350.00
Total	**6,641.07**

Economic Stimulus Package

8.23 Under Economic Stimulus Package, work for 100% coverage of water supply and sewerage in 14 towns of Haryana namely, Ambala city, Assandh, Bhiwani, Charkhi Dadri, Ellenabad, Fatehabad, Hansi, Kaithal, Kalayat, Mahendergarh, Narnaul, Sirsa, Tohana and Uchana have been taken up during the year 2010 costing Rs. 1,085.20 crore. An expenditure of Rs. 616.27 crore has been incurred upto 31.03.2012 and this project is likely to be completed in 2013 – 14. Further, 7 more projects have been approved by NCRPB for water supply schemes in Panipat, Nuh, Samalkha, Pataudi and for sewerage schemes in Punhana, Nuh and Hathin which would be completed by 31.03.2015.

8.24 The position of staff strength and establishment expenditure has been given in Table 8.6.

Table 8.6: Staff strength and establishment cost

Year	**Total staff strength (nos.)**	**Establishment cost (Rs. in crore)**
2006-07	21,666	195.65
2007-08	21,635	214.46
2008-09	21,623	293.72
2009-10	16,840	367.42
2010-11	17,975	425.26

8.25 The position in regard to income (water and sewerage charges) and expenditure (O & M) during 2006 – 07 to 2011 – 12, as supplied by PHED, is given in Table 8.7.

Table 8.7: Income and Expenditure (Rs. in crore)

A. Income	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Rural Water Supply	4.02	2.40	1.92	1.90	2.74	3.02
Urban Water Supply	19.44	20.94	19.14	19.62	21.96	24.15
Sewerage	1.96	1.50	1.68	1.62	1.67	1.84
Fees & Fines	1.62	1.58	3.12	1.44	1.33	1.50
Others	7.58	11.24	5.44	4.66	12.68	12.45
Total – A – Income	**34.62**	**37.66**	**31.30**	**29.24**	**40.38**	**42.96**

B. Expenditure						
Establishment	**195.65**	**214.46**	**293.72**	**367.42**	**425.26**	**489.05**
Operation and Maintenance (O &M)	**196.01**	**293.78**	**381.53**	**381.09**	**438.52**	**434.03**
• Rural w/s and Sewerage	116.83	161.69	169.13	207.46	279.64	291.40
• Urban w/s and Sewerage	64.08	97.67	113.75	122.29	148.07	131.71
• Other - Suspense	15.10	34.42	98.65	51.34	10.81	10.92
Total–B– Expenditure	**391.66**	**508.24**	**675.25**	**748.51**	**863.78**	**923.08**
Revenue Gap (A-B)	**357.04**	**470.58**	**643.95**	**719.27**	**823.40**	**880.12**

8.26 The position in regard to arrears outstanding as on 31.03.2011 on account of water and sewer charges has been given in Table 8.8.

Table 8.8: Arrears outstanding as on 31.03.2011 (Rs. in crore)

Particulars	**Arrears as on 31.03.2006**	**Demand during 2006-07 to 2010-11**	**Amount realised**	**Arrears outstanding as on 31.03.2011**
Water Charges	7.15	129.36	101.09	35.42
Sewer Charges	0.38	17.46	8.42	9.42
Storm Water Charges	-	-	-	-
Total Arrears	**7.53**	**146.82**	**109.51**	**44.84**

8.27 The position in respect of recovery of Operation and Maintenance (O & M) cost of urban water supply and sewerage is given in Table 8.9.

Table 8.9: Recovery rate of Operation and Maintenance (O & M) cost of Urban Water Supply and Sewerage (Rs. in crore)

Particulars	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Income from urban w/s and sewerage charges	21.40	22.44	20.82	21.24	23.63	25.99
Operation and Maintenance (O & M) Expenditure	64.08	97.67	113.75	122.29	148.07	131.71
Income as percentage of O & M Expenditure	33.40	22.98	18.30	17.36	15.96	19.73

Note:-
- Income and O & M cost include only from urban w/s and sewerage.
- Income from rural w/s is just marginal and O & M cost is much higher.
- Recovery of O & M cost from urban w/s and sewerage on average is about 20%.

8.28 The position in regard to projections of income and expenditure from 2011 – 12 to 2015 – 16 has been given in Table 8.10.

Table 8.10: Projections of Income and Expenditure from 2011-12 to 2015-16

(Rs. in crore)

Sr. No.	Items	2011-12 (Actual)	2012-13 (RE)	2013-14 (Ests.)	2014-15 (Ests.)	2015-16 (Ests.)
A.	**Income**					
	Rural water supply	3.02	3.32	3.65	4.02	4.42
	Urban water supply	24.15	26.57	29.23	32.15	35.36
	Sewerage	1.84	2.02	2.22	2.44	2.69
	Others	13.95	10.09	9.01	7.71	6.16
	Total A. Income	**42.96**	**42.00**	**44.11**	**46.32**	**48.63**
B.	**Expenditure**					
	Establishment	**489.05**	**514.57**	**566.03**	**622.63**	**684.89**
	Maintenance	**434.03**	**607.10**	**664.40**	**730.84**	**803.60**
	Rural water supply	291.40	405.25	442.50	486.75	535.42
	Urban water supply	131.71	198.45	217.50	239.25	263.18
	Others	10.92	3.40	4.40	4.84	5.00
	Total B. Expenditure	**923.08**	**1,121.67**	**1,230.43**	**1,353.47**	**1,488.49**
	Gap (A – B)	**(-) 880.12**	**(-) 1,079.67**	**(-) 1,186.32**	**(-) 1,307.15**	**(-) 1,439.86**

Norms of service levels and maintenance of services

8.29 For working out financial requirements for providing core civic services and their proper maintenance, certain physical norms have to be adopted. The Zakaria Committee, which was the first committee to go into this issue, submitted its recommendations as far back as in 1963 laying down physical norms for water supply and sewerage. For water supply, it suggested a provision of 72 lpcd + 15% losses for C class towns, 110 lpcd+15% losses for B class and 135 lpcd+15% losses for A class towns/cities. This committee also suggested norms based on capital cost for operation and maintenance expenditure on water supply and sewerage which, of course, are subject to wide variations depending upon location and other factors. However, the norms and standards presently being followed by the PHED for providing water supply and sewerage services in rural and urban areas are as under:-

Rural Areas

Water Supply

- Non desert areas = 40/55 lpcd
- Desert districts/areas = 70 lpcd

Urban Areas

- Water Supply = 135 lpcd + 15% losses
- Sewerage & Storm Water Drainage = 80% of Water Supply Norms

8.30 The maintenance norm followed by the central government and CFCs in terms of capital cost is 5% of capital cost in plain areas, 7.5% in hilly areas and 8.5% to 9% in desert areas. The weightage average being adopted is 6.25% of the capital cost.

Observations and Recommendations

8.31 The Commission observes that a gigantic infrastructure has been created by the state government in the sectors of water supply, sewerage and storm water drainage in rural and urban areas at a huge economic cost of Rs. 6,641.07 crore as on 31.03.2012. These durable capital assets need to be properly maintained so that these could be optimally utilised and could deliver satisfactory levels of public services. It is, therefore, imperative that adequate funds be provided for proper upkeep and maintenance of capital assets created in the field of water supply, sewerage and storm water drainage. The financial requirements for operation and maintenance of the capital assets created at a cost of Rs.6,641.07 crore works at Rs. 415.06 crore for the year 2011 – 12 following a norm of 6.25% of the capital cost. The Commission has further noted that the expenditure incurred on O & M of water supply and sewerage services during 2010 – 11 has been reported at Rs. 434.03 crore against the normative requirement of Rs. 415.06. But the O & M expenditure of Rs. 434.03 crore incurred by the PHED includes expenditure of 315.51 crore on energy charges alone constituting 73% of the total O & M expenditure. On this basis funds being made available for maintenance of these services are quite inadequate. **This situation needs special attention. Since these services are presently being handled by PHED, sufficient funds should be made available for O & M in state budget and pro-rata adjustment should be made for energy charges while making budgetary provisions for O & M expenditure.**

8.32 The central government and Central Finance Commissions have paid special attention to water supply, sewerage and sanitation, particularly in rural areas. The 12th Central Finance Commission observed that the PRIs should take over the assets relating to water supply and sanitation. It further recommended that at least 50% of the O & M cost of water supply and sewerage should be recovered in the form of user charges. However, as per the central government policy, full O & M cost of water supply and sewerage should be recovered from the consumers in the form of user charges. This Commission has observed that in Haryana O & M cost of water supply and sewerage in rural and urban areas is being recovered to the extent of 8% to 10% only. In rural areas, O & M cost is much higher and water charges being recovered are negligible. However, in urban areas the recovery of O & M cost of water supply and sewerage is about 20% or even less than that. This situation should attract the pointed attention of the state government. **This Commission, therefore, suggests that concerted efforts need to be put in to recover the O & M cost of water supply and sewerage at least to the extent of 50% as suggested by the 12th Central Finance Commission. The element of subsidization should be eliminated in a phased way to achieve the recovery level upto 100% as per the policy guidelines of the central government.**

8.33 The Commission has noted that there exists a huge gap between the operation and maintenance costs and the revenues collected from consumers in the form of user charges. The user charges are fixed by the state government keeping in view the paying capacity of the consumers as well as the political scenario. However, we feel the state government has grossly underestimated the paying capacity of rural consumers and in the process sent a wrong signal to them resulting in encouraging wastage of a precious commodity. If costs are recovered citizens will learn the value of the facility and conserve water. As such the user charges have become unviable and need to be updated for inflationary rise in input costs. It has been reported that the user charges fixed by the PHED in 2006 have been revised latest in 2011, after five years. The Commission feels that the yawning gap between user charges and O & M cost needs to be eliminated by all means by way of revenue realisation and expenditure compression. **This Commission, therefore, suggests that user charges for water supply and sewerage should continue to be revised periodically and updated at least 5**

to 10% each year in tune with cost escalation so as to ensure that full cost of O & M could be recovered by way of user charges. Besides, effective steps should also be taken to compress operation and maintenance costs by using automation of equipments, plugging of water wastage and pilferage/leakages, providing meter connections, privatisation and outsourcing of water supply and sewerage services so as to achieve dual objectives of cost reduction and quality improvement. PRIs should also be incentivized to promote conservation of water.

8.34 The Commission, after due consideration, has decided to update user charges, as given in Table 8.11.

Table 8.11: User charges as proposed

RURAL: Monthly charges as per Metered Supply + Registration charges @ Rs 100/- per tap

URBAN

WATER AND SEWER CONNECTION FEE	
a) Water Connection Fee 1.Domestic 2.Commercial/Institutional 3.Industrial	 Rs. 2,500/- Rs. 25,000/- Rs. 25,000/-
b) Sewerage Connection Fee i) Domestic ii) Commercial/Institutional iii) Industrial	 i) Rs. 2500/- ii) Rs 10,000/- iii) Rs 10, 000/-
WATER CHARGES	
Metered Supply	
Domestic	Rs.5.00 per kilo litre
Industrial/Commercial/Institutional	Rs. 10.00 per kilo litre
Un-metered supply	
Domestic	Rs. 60.00 per month
Sewerage Connection	
Waste Water Disposal Charges	
Domestic	25% of water charges
Industrial/Commercial/Institutional	25% of water charges
Commercial/Industrial/Institutional sewer connections of waste water shall be charged @ Rs. 5.00 per kilolitre of waste water generated by use of water from their own source (the waste water discharged in sewerage system shall be taken @ 70% of the total water consumed by the consumer from their own sources).	

8.35 The Commission, vide its questionnaire, sought views of all stake holders and the PHED on recovery of some portion of capital cost of water supply and sewerage projects from the consumers. On the basis of the inputs received, **the Commission concluded that since these projects are highly capital intensive, it may not be desirable to recover any portion of the capital cost from the beneficiaries. The Commission further observes that the entire cost on building and upgradation of infrastructure should be borne by the state government.**

8.36 The Commission also sought views of the PHED and the elected representatives of local bodies on transfer of functions of water supply, sewerage and storm water drainage to the local bodies, both PRIs and ULBs. It was reported that the function of operation and maintenance of water supply and sewerage only should be transferred to the local bodies along with funds and functionaries, but the new capital works should continue to be carried out by the PHED as local bodies lack in expertise and resources. The Commission is aware of the objectives of the constitutional amendments empowering the local bodies by way of functional decentralisation. But at the same time it has also to ensure that the quality and level of public services should not deteriorate in the process. **After due deliberations the Commission has concluded that the functions of water supply and sewerage should continue to be carried out by the PHED in those local bodies that have not as yet developed the capacity or resources to take over these responsibilities. A case to case review should be carried out by the PHED in conjunction with the district authorities and the elected representatives of the local bodies in a systematic and time bound manner as there would be many local bodies with proactive public representation.**

8.37 Another suggestion that this Commission would like to make - that has been alluded to in other relevant chapters is the need to take cogent steps to improve sustainability of the environment by installation of local sewage treatment plants where large composite treatment plants are not feasible. In select locations in both urban and rural areas, local stand alone STPs should be installed that would improve the local environment. Such plants are now technologically feasible and available. These would ensure that high cost solutions are avoided where low cost solutions are feasible. Moreover, till high capacity plants become feasible and installed, which may take years, such low cost solutions for local sewage treatment would ensure pollution control. Many GPs and municipal bodies would be able to generate sufficient funds to partially meet the ensuing costs. This is a felt necessity as many villages have serious problems of flowing waste water and faecal disposal in open drains that need to be collected and treated in local units.

CHAPTER – 9
FINANCIAL POSITION OF LOCAL BODIES – PRIs & ULBs

9.1 The objective of 73rd and 74th CAAs was to make the local bodies, both the PRIs and ULBs, effective institutions of self government. For achieving this objective, availability of adequate financial resources is absolutely necessary. In this chapter the Commission has attempted to analyse the state of finances of the PRIs and ULBs and to make an assessment of their incomes and expenditures for its reference period i.e. upto the year 2015 – 16. This exercise is essential for the Commission in order to determine the quantum of financial devolution to be suggested for the local bodies in terms of tax sharing and grants-in-aid.

9.2 Assessing the finances of local bodies is indeed a challenging task because of their being large in number with poor data base and diverse nature of their expenditure needs and fiscal capacities. However, efforts have been made to know the extent to which the local bodies, both PRIs and ULBs, have to generate their own revenues to meet their current expenditure responsibilities and also the degree of their dependence on external resources.

9.3 In the process, the Commission had requested the Departments of Panchayati Raj and Urban Local Bodies as well as all the district authorities to provide information and data on all aspects of incomes and expenditures of all tiers of PRIs and ULBs as per the prescribed formats and questionnaires in order to make realistic assessment of their expenditure needs for the reference period of this Commission. But it is painful to point out that despite all possible efforts made by the secretariat of the Commission, no reliable and authentic information on finances of local bodies could be received. However, the information culled out by the Commission from budget documents and other sources has been used for the requisite exercise.

A. Financial Position of Panchayati Raj Institutions (PRIs)

9.4 The main sources of income of gram panchayats broadly include tax revenue, non-tax revenue, grants-in-aid and other external assistance. House tax (also popularly called 'chulhah tax') is the only source of own tax revenue whereas the non-tax revenue comes from lease/auction of panchayat lands and other common property resources (CPRs) like trees, ponds, woodlands, rivers, pathways, grazing lands, minerals etc. Besides, income from shared taxes, various types of compensatory, conditional, un-conditional and matching grants are given to the PRIs for community development. Looking at the present picture, a big chunk of funds comes to the PRIs from district plans, Haryana Rural Development Fund (HRDF), poverty alleviation programmes and special programmes. The position has been depicted in the following paras.

(a) Own Sources of Gram Panchayats

9.5 The position in regard to income from own sources of gram panchayats is given in Table 9.1.

Table 9.1: Income from Own Sources of Panchayats (Rs. in crore)

Year	Tax Revenue	Non-Tax Revenue			Grand Total (2+5)
	House Tax	Panchayat Land (Lease Money)	Other Common Property Resources (CPRs)	Total Non-Tax Revenue (3+4)	
1	2	3	4	5	6
2006-07	7.45	86.91	35.80	122.71	130.16
2007-08	6.60	158.68	36.00	194.68	201.28
2008-09	-	181.41	36.70	218.11	218.11
2009-10	-	160.95	38.25	199.20	199.20
2010-11	-	168.16	40.00	208.16	208.16
2011-12	6.01	204.40	43.50	247.90	253.91

Note:- House Tax was abolished w.e.f. 01.11.2007 and re-imposed w.e.f. 24.02.2011

9.6 Among various enabling provisions contained in PRIs Act, 1994, gram panchayats are presently levying house tax only at the rate of Rs. 10/-, 20/- and 30/- per household. Though the annual demand from house tax is reported to be about Rs. 15.00 crore, the recovery is minimal, even less than 50%, and that too is often tagged to preparation of ration cards, issuance of caste and domicile certificates, distribution of essential commodities etc. The state government abolished house tax on 01.11.2007 and re-introduced it on 24.02.2011. As such there had not been any recovery from house tax during 2008 – 09, 2009 – 10 and 2010 – 11. Recovery during 2011 – 12 has been reported at Rs. 6.01 crore.

9.7 The major source of non-tax revenue of gram panchayats is lease money from shamlat (panchayat) land which constituted 82 percent of the total tax and non-tax revenue during 2011 – 12. Income from lease money differs from district to district depending upon the extent of shamlat land, level of encroachment and various other factors such as availability of irrigation facilities and soil fertility. The other common property resources in the villages contribute about 18 percent to the total income of gram panchayats. During 2011 – 12 income from CPRs has been reported at Rs. 43.50 crore.

(b) Income from Shared Taxes

9.8 The PRIs also get some specific shares in some of the state taxes which are shared with the local bodies as per the provisions contained in their respective acts or rules. These shared taxes are excise revenue from sale of liquor and surcharge on VAT and formerly Local Area Development Tax (LADT). The share of PRIs in these taxes cannot be termed as tax revenue of PRIs since these are the state taxes shared with PRIs as a compensatory measure. The net proceeds from LADT were being shared between PRIs and ULBs in 50:50 ratio. Since operation of LADT has been struck down by the High Court w.e.f. 2008, PRIs did not get any share from this source from 2008 – 09 onwards. The state government levied a surcharge on VAT w.e.f. 02.04.2010 at the rate of 5% in lieu of abolition of house tax on residential properties. The entire surcharge amount is shared between PRIs and ULBs in 20:80 ratio effective from the year 2010 – 11. Excise revenue is shared with PRIs on the basis of sale of liquor in panchayat areas. The share of PRIs in these shared taxes has been given in Table 9.2.

Table 9.2: Share of PRIs in Shared Taxes (Rs. In crore)

Year	Local Area Dev. Tax (LADT)	Excise Revenue	Surcharge on VAT	Grand Total
2006-07	129.64	6.57	-	136.21
2007-08	157.27	8.00	-	165.27
2008-09	-	24.02	-	24.02
2009-10	-	38.55	-	38.55
2010-11	-	37.34	62.00	99.34
2011-12	-	48.04	121.40	169.44

(c) Grants/Subsidies to PRIs

9.9 PRIs are provided various types of grants and subsidies which can be classified into three groups; (i) compensatory grants due to abolition of certain levies or taxes; (ii) conditional or tied grants which are scheme specific or provided to achieve certain objectives; (iii) un-conditional grants for community development. The main components of grants to PRIs are CFC grants, SFC grants, schematic grants from the Centre and the State and other grants through miscellaneous schemes like sanitation, ferry ghat, cattle fairs, revenue earning etc. Compensatory grants have remained almost static despite multiple growth in state revenues. Subsidies and matching grants are also provided to PRIs under various schemes, like construction of SC/BC chaupals and other public utility buildings. The position of grants including matching grants and subsidies, both Plan and Non-Plan, has been given in Table 9.3.

Table 9.3: Position of Grants and Subsidies (Rs. In crore)

Year	CFC Grants	SFC Grants	Other Grants	Subsidies/Matching Grants	Total Grants and Subsidies
2006-07	77.60	120.64	84.70	7.94	290.88
2007-08	77.60	130.91	127.04	8.96	344.51
2008-09	77.60	196.69	160.49	15.00	449.78
2009-10	77.60	214.58	252.95	9.61	554.74
2010-11	101.17	185.17	86.29	11.92	384.55
2011-12	157.53	237.00	0.42	2.55	397.50
2012-13	231.26	266.36	0.42	4.25	502.29

(d) Haryana Rural Development Fund (HRDF) and District Plan Funds

9.10 The development works to be financed from HRDF are identified by the district administration with the participation of local representatives. Funds released under HRDF are utilised for the development of roads, establishment of dispensaries, making arrangements for water supply, provision for sanitation and other public facilities for the welfare of village communities.

9.11 Substantial funds are also made available to the district authorities under decentralised planning/district plan funds for financing schemes of local importance such as pavement of streets, construction of dispensaries, panchayat ghars, community centres, drinking water, digging of ponds, repair of wells and street lights etc. The position in regard to flow of funds from these sources has been depicted in Table 9.4.

Table 9.4: Flow of Funds under HRDF and District Plan Fund (Rs. in crore)

Year	HRDF	Decentralised Planning or District Plan Fund	Total
2006-07	201.85	20.00	221.85
2007-08	165.49	35.00	200.49
2008-09	270.13	100.62	370.75
2009-10	440.85	275.07	715.92
2010-11	277.62	152.13	429.75
2011-12	305.38	232.13	537.51
2012-13	335.92	294.41	630.33

(e) Haryana Rural Development Authority (HRDA)

9.12 Haryana Rural Development Authority (HRDA) has been established w.e.f. 29.10.2007 with the objective to promote regulated and planned growth in and around villages and also to provide urban like facilities in rural areas on the pattern of HUDA for urban areas. HRDA plays an important role in providing basic infrastructural facilities under Mahatma Gandhi Gramin Basti Yojana. HRDA provides funds to each district according to requirements. An amount of Rs. 210.20 crore has been provided to the corpus of HRDA by the state government during the period 2007 – 08 to 2011 – 12 out of which an amount of Rs. 121.11 crore was allocated to the districts under Mahatma Gandhi Gramin Basti Yojana, as shown in Table 9.5.

Table 9.5: Flow of Funds under HRDA (Rs. in crore)

Years	Accrual to corpus of HRDA	Amount Released
2007-08	25.10	-
2008-09	25.10	10.00
2009-10	69.66	79.17
2010-11	28.94	24.94
2011-12	61.40	7.00
Total	**210.20**	**121.11**

(f) Poverty Alleviation Programmes

9.13 Special beneficiary oriented schemes are being implemented by the Rural Development Department through District Rural Development Agencies. The largest sources providing funds for rural development comprised of centrally sponsored schemes like Desert Development Programme (DDP), Swaranjayanti Gram Swarozgar Yojana (SGSY), Integrated Watershed Development Project (IWDP) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Indira Awas Yojana (IAY), Member Parliament Local Area Development Scheme (MPLADS), Employment Assurance Scheme (EAS), Rashtriya San Vikas Yojana (RSVY) now Backward Region Grant Fund (BRGF) and various components of Jawahar Gram Samridhi Yojana (JGSY). Each of these schemes operates under a number of set guidelines. Funds allocated under these schemes are not transferred to the PRIs. However, involvement of PRIs is ensured in implementation of these schemes.

Overall Position of Funds Availability to PRIs

9.14 The position of funds availability to the PRIs from all sources referred to above is indicated in Table 9.6.

Table 9.6: Flow of Funds to PRIs from Various Sources (Rs. in crore)

Programmes	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Own Sources (Tax and non-tax)	130.16	201.28	218.11	199.20	208.16	253.91
Shared Taxes	136.21	165.27	24.02	38.55	99.34	169.44
Grants & Subsidies	290.88	344.51	449.78	554.74	384.55	397.50
HRDF & District Plan Funds	221.85	200.49	370.75	715.92	429.75	537.51
HRDA	-	25.10	25.10	69.66	28.94	61.40
Grand Total	**779.10**	**936.65**	**1,087.76**	**1,578.07**	**1,150.74**	**1,419.76**

9.15 The above table would reveal that availability of funds to PRIs from various sources vary from year to year particularly under grants & subsidies and HRDF & district plan funds. Allocation of funds from these sources is, more or less, subjective due to pulls and pressures. Large variations are also witnessed in share of PRIs in shared taxes, particularly from 2008 – 09 due to abolition of LADT and House Tax.

Assessment of Own Revenues of PRIs upto 2015-16

9.16 As per the guidelines of the CFCs, this Commission is required to project resources availability for the PRIs from own sources on normative basis for its reference period i.e. from 2011 – 12 to 2015 – 16. But due to non-availability of basic data on fiscal capacity and resource potential of PRIs, the Commission could project resource availability for PRIs only on trend basis taking, however, into account the past trends, current developments and future prospects. The position of own revenue of PRIs, as assessed by the Commission from 2011 – 12 to 2015 – 16, has been depicted in Table 9.7.

Table 9.7: Projection of Own Revenue of PRIs (Rs. in crore)

Sources	2010-11 Actual	2011-12 Actual	2012-13 Ests.	2013-14 Ests.	2014-15 Ests.	2015-16 Ests.
(a)Own Sources	**208.16**	**253.91**	**286.58**	**312.43**	**340.78**	**371.83**
• House Tax	-	6.01	9.96	10.45	10.98	11.53
• Panchayat Land (Lease Money)	168.16	204.40	230.94	254.03	279.45	307.40
• Other Common Property Resources (CPRs)	40.00	43.50	45.68	47.95	50.35	52.90
(b) Shared Taxes	**99.34**	**169.44**	**217.21**	**234.43**	**269.60**	**310.03**
• Excise Revenue	37.34	48.04	80.53	78.40	90.16	103.68
• Surcharge on VAT	62.00	121.40	136.68	156.03	179.44	206.35
G. Total (a+b)	**307.50**	**423.35**	**503.79**	**546.86**	**610.38**	**681.86**

9.17 House Tax has been re-levied w.e.f. 24.02.2011. As such recovery during 2011 – 12 has been nominal. Full recovery from house tax started from the year 2012 – 13, which has been projected at the rate of 5% for future years. Lease money from panchayat land and other CPRs have been projected to grow at 10% and 5% each year respectively. Share of PRIs in shared taxes has been estimated in tune with the growth trends assumed in excise revenue and proceeds from VAT.

Expenditure Requirements of PRIs and Revenue Gap

9.18 The main items of expenditure for PRIs are establishment i.e. salaries & wages and operation & maintenance of civic services like pavement of streets, construction of culverts and panchayat ghars, street lights, sanitation, drainage, village ponds and management of other common property resources. Other areas of operation of PRIs include functions which fall under their domain by way of devolution.

9.19 As a matter of fact, the Commission is required to assess expenditure requirements of PRIs and to work out their revenue gaps on normative basis so as to determine the size of financial devolution for them. As already stated, neither the Department of Panchayati Raj nor any district level administration could supply any information on expenditure requirements of PRIs. In this situation it has not been possible for the Commission to do the needful.

9.20 Moreover, the Commission notes that there exists a skeletal cadre of staff under PRIs control and most of the other functionaries are working either on deputation or transfer basis from government departments drawing their salaries from their respective parent departments. As reported by the Panchayati Raj Department, the total staff at GPs strength is 17,313 as on 31.03.2012 (10,296 sweepers and 7,017 chowkidars). Besides, 295 personnel of various categories exist on ZPs strength. The annual liability on account of salaries and wages has been estimated at Rs. 92.00 crore. The Commission has further noted that apart from the regulatory and general functions, none of the other demarcated functions assignable to PRIs have been transferred to them. The Commission is also cognizant of the doctrine of functional decentralisation that is based on transfer of 3 Fs i.e. functions, functionaries and funds.

9.21 The Commission has observed that the state government has taken a series of measures to strengthen rural infrastructure, improve delivery of services and widen the access to housing, particularly for the poor and disadvantaged. Still, the Commission is aware that the level of basic services including environmental upkeep in villages needs substantial improvement. The Commission is also aware that sufficient untied funds are flowing to the PRIs which can be judiciously utilised by the PRIs keeping in view their priorities. The Commission has kept all these aspects in view while recommending financial devolution for them including the need to generate additional resources through their own efforts for meeting their constitutional obligations.

B. Financial Position of Urban Local Bodies

9.22 The urban local bodies have now been entrusted with various constitutional, statutory and obligatory functions. The municipal acts also envisage enough resource raising powers to the municipal bodies by levying taxes, tolls, fees, cesses etc. In its efforts to understand in depth the problems of municipal finances, the Commission has carried out a study of all aspects of municipal finances including internal and external sources of income and expenditure pattern for the period from 2006 – 07 to 2010 – 11 and estimation of their income and expenditure requirements for its reference period from 2011 – 12 to 2015 – 16. While doing so, the Commission has kept in view that neither all the ULBs are endowed with similar sources of income nor with similar expenditure liabilities. Depending upon locational and other factors, revenue potential or fiscal capacity and expenditure needs differ from one class of ULBs to another and even from one ULB to another.

9.23 Urban local bodies mainly derive their income from own sources of tax and non-tax revenues, shared taxes, grants from the Centre and the State, contributions and loans from the state government and other financial institutions. The summary position of municipal revenues for the period 2006 – 07 to 2011 – 12 is given in Table 9.8.

Table 9.8: Summary Position of Revenue Receipts of Municipalities (Rs. in crore)

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
(a) Shared Taxes	137.84 (29.65%)	166.27 (31.83%)	9.90 (1.53%)	10.90 (1.39%)	291.15 (23.33%)	591.04 (28.69%)
(b) Own Revenues	196.43 (42.26%)	215.33 (41.22%)	453.78 (70.34%)	577.82 (73.55%)	703.38 (56.36%)	1,123.09 (54.53%)
• Tax Revenue	99.39	131.55	350.18	272.34	469.16	713.51
• Non-Tax Revenue	97.04	83.78	103.60	305.48	234.22	409.58
(c) Grants-in-aid	130.58 (28.09%)	140.83 (26.95%)	181.46 (28.13%)	196.83 (25.06%)	253.39 (20.31%)	345.64 (16.78%)
(d) Grand Total	**464.85**	**522.43**	**645.14**	**785.55**	**1,247.92**	**2,059.77**

9.24 The total revenue receipts of the ULBs have increased more than four times to Rs. 2,059.77 crore in 2011 – 12 from Rs. 464.85 crore in 2006 – 07. The sectoral analysis of revenue receipts does not indicate particular growth trends due to abolition and imposition of some levies from time to time and discretionary transfers to local bodies. As a result, shares of different sectors witnessed large variations from year to year. The above table further reveals that contribution of shared taxes to the total income of municipalities remained in the vicinity of 29 to 31 percent and that of grants-in-aid to about 25 to 28 percent, while the contribution of own tax revenue remained at about 50 percent.

Tax Revenue of ULBs

9.25 The position of tax revenue of ULBs has been displayed in Table 9.9.

Table 9.9: Position of Own Tax Revenue and Shared Taxes of Municipal Bodies

Rs. in crore

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
(a) Own Tax Revenue	**99.39**	**131.55**	**350.18**	**272.34**	**469.16**	**713.52**
• House Tax	42.56	43.43	33.98	23.95	66.00	117.32
• Motor Tax	5.53	5.55	6.10	5.10	7.78	23.03
• Fire Tax	3.62	3.99	3.10	3.29	4.71	17.68
• Driving Licence Tax	1.53	1.35	1.82	2.33	5.38	5.37
• Entertainment Tax	0.15	0.05	0.08	0.06	0.06	0.07
• Addl. Stamp Duty	37.72	69.35	297.91	228.64	364.85	533.30
• Electricity Tax	8.28	7.83	7.19	8.97	20.38	16.75
(b) Shared Taxes	**137.84**	**166.27**	**9.90**	**10.90**	**291.15**	**591.04**
• LADT	129.64	157.27	-	-	-	-
• Excise Revenue	8.20	9.00	9.90	10.90	43.15	40.65
• Surcharge on VAT	-	-	-	-	248.00	550.39
(c) Total Tax Revenue (a+b)	**237.23**	**297.82**	**360.08**	**283.24**	**760.31**	**1,304.56**

9.26 Tax revenue comprises of house tax, motor tax, fire tax, driving licence tax, stamp duty and electricity tax. House tax was the main source contributing about 43% with recovery at 42.56 crore in 2006 – 07. Recovery from house tax reduced substantially due to its abolition on residential buildings w.e.f. 01.04.2008. It showed improvement in 2011 – 12 due to its re-imposition w.e.f. 21.06.2012 with enhanced rates, accounting for 16.44% of the total own tax revenue with a recovery at Rs. 117.32 crore in 2011 – 12. Fire tax was levied in 2001 – 02 at the rate of 1% of house tax. Fire tax has become a good source of income as now it is levied at 10% of the house tax. It is further informed that share of municipal bodies in stamp duty being levied at 2% has increased substantially from Rs. 37.72 crore in 2006 – 07 to Rs. 533.30 crore in 2011 – 12. Similarly, recovery from electricity tax has almost doubled to Rs. 16.75 crore in 2011 – 12 from Rs. 8.28 crore in 2006 – 07. Additional stamp duty and electricity tax have been included in the category of own tax revenue as these taxes have been levied as per provisions contained in municipal acts.

9.27 Local Area Development Tax (LADT), excise revenue and surcharge on VAT have been put in the category of shared taxes. LADT levied in the year 2000 has been withdrawn in 2008 due to court decision. Surcharge on VAT has been levied w.e.f. 02.04.2001 at the rate of 5% and the surcharge amount is shared between ULBs and PRIs in 80:20 ratio. Excise revenue is shared with ULBs and PRIs on the basis of sale of liquor in their jurisdictions.

Non-Tax Revenue of ULBs

9.28 Position of non-tax revenue of municipalities has been shown in Table 9.10.

Table 9.10: Position of Non-Tax Revenue of Municipalities (Rs. in crore)

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Development charges	38.21	30.87	32.15	53.39	25.58	69.18
Teh Bazari	2.88	2.91	3.00	6.29	43.33	64.24
Licence Fees	1.13	1.09	1.46	2.84	11.42	14.14
Fees and Fines	2.09	1.57	2.14	2.72	3.58	8.01
Rent	17.86	15.30	21.76	21.21	25.70	39.17
Interest Receipts	3.04	6.56	7.23	10.15	20.18	47.82
Misc. (sale of assets etc.)	31.83	25.48	35.86	208.88	104.43	167.02
Total: Non-Tax Revenue	**97.04**	**83.78**	**103.60**	**305.48**	**234.22**	**409.58**

9.29 The basic elements of non-tax revenue of municipal bodies are development charges, teh bazari, licence fees, interest receipts, rent, sale of assets etc. From the above table it is observed that non-tax revenue showed no regular trend and remained, more or less, static upto the year 2008 – 09. Substantial improvement is witnessed during 2009 – 10 to 2011 – 12. Development charges follow a regular trend with substantial improvement during 2011 – 12. Like-wise, rent and interest receipts also witnessed improvement from 2010 – 11 onwards. Income from sale of assets follows no regular trend and, thus, this source is fluctuating.

Grants-in-aid to ULBs

9.30 The position of grants-in-aid to municipal bodies is given in Table 9.11.

Table 9.11: Position of Grants-in-aid to Municipal Bodies (Rs. in crore)

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
CFC (12^{th} & 13^{th})	18.20	18.20	18.20	18.20	40.43	62.97
SFC (3^{rd})	64.96	70.49	105.91	115.55	99.70	127.75
Others: Plan and Non-Plan	47.42	52.14	57.35	63.08	113.26	154.92
Total: Grants-in-aid	**130.58**	**140.83**	**181.46**	**196.83**	**253.39**	**345.64**

9.31 The main sources of grants-in-aid to municipal bodies are devolution from Central and State Finance Commissions and other tied and untied grants from central and state governments. Grants from Finance Commissions are formula based and follow a regular pattern. Other grants are scheme specific.

Flow of Funds to Municipal Bodies through Centrally Sponsored Schemes

9.32 There are various centrally sponsored and central sector schemes which have been launched for urban development. Municipal bodies are getting substantial funds through these schemes which include:- Jawahar Lal Nehru National Urban Renewal Mission (JNNURM), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), Integrated Housing and Slum Development Programme (HSDP), Integrated Low Cost Sanitation (ILCS), Rajiv Gandhi Awas Yojana (RAY), Rajiv Gandhi Shahri Bhagidari Yojana (RGSBY), Urban Solid Waste Management (USWM), Rajiv Gandhi Development Mission (RGDM), Development of Satellite and Counter Magnet Towns (DSCMT) etc.

Projection of Municipal Revenues for the Period 2011 – 12 to 2015 – 16

9.33 The Commission has to make projection of revenue receipts of the municipal bodies for its reference period 2011 – 12 to 2015 – 16. The revenue projections made by the Commission have been shown in Table 9.12.

Table 9.12: Projections of Municipal Revenues (2011-12 to 2015-16) (Rs. in crore)

Source	2010-11 Actuals	Projections				
		2011-12 Actuals	2012-13 Ests.	2013-14 Ests.	2014-15 Ests.	2015-16 Ests.
Total Revenue Receipts (A+B+C)	**1,247.92**	**2,059.77**	**2,170.88**	**2,409.81**	**2,709.91**	**3,039.97**
A. Tax Revenue (a+b)	**760.31**	**1,304.55**	**1,350.55**	**1,504.29**	**1,716.74**	**1,959.98**
(a) Shared Taxes	**291.15**	**591.04**	**686.60**	**724.11**	**832.73**	**957.40**
• Excise Revenue	43.15	40.65	143.90	100.00	115.00	132.00
• Surcharge on VAT	248.00	550.39	542.70	624.11	717.73	825.40
(b) Own Tax Revenue	**469.16**	**713.51**	**663.95**	**780.18**	**884.01**	**1,002.58**
• House Tax	66.00	117.31	129.04	141.95	156.14	171.75
• Fire Tax	4.71	17.68	19.45	21.39	23.53	25.88
• Vehicle Licence Tax	5.38	5.37	5.64	5.92	6.22	6.53
• Addl. Stamp Duty	364.85	533.30	468.00	567.00	652.00	750.00
• Electricity Tax	20.38	16.75	17.58	18.47	19.40	20.36
• Motor Tax	7.78	23.03	24.18	25.39	26.66	28.00
• Entertainment Tax	0.06	0.07	0.06	0.06	0.06	0.06
B. Non-Tax Revenue	**234.22**	**409.58**	**410.33**	**439.98**	**472.11**	**506.83**
• Development Charges	25.58	69.18	72.64	76.27	80.08	84.08
• The-Bazari	43.33	64.24	67.45	70.80	74.35	78.08
• Licence Fees	11.42	14.14	14.84	15.58	16.37	17.18
• Fees & Fines	3.58	8.01	8.40	8.80	9.25	9.70
• Rent	25.70	39.17	41.13	43.18	45.34	47.61
• Interest Receipts	20.18	47.82	22.15	23.25	24.42	25.64
• Misc-Sale of Assets etc.	104.43	167.02	183.72	202.10	222.30	244.54
C. Grants-in-aid	**253.39**	**345.64**	**410.00**	**465.54**	**521.06**	**573.16**
• CFCs	40.43	62.97	92.44	109.34	129.24	142.16
• SFCs	99.70	127.75	147.15	168.75	185.62	204.18
• Others	113.26	154.92	170.41	187.45	206.20	226.82

9.34 As a matter of fact, for making projections of municipal revenues for its reference period 2011 – 12 to 2015 – 16, the Commission should have adopted 2010 – 11 as the base year. But since actuals for the year 2011 – 12 and budget estimates for the year 2012 – 13 were available, the projections have been made for the years 2013 – 14, 2014 – 15 and 2015 – 16, taking 2012 – 13 as the base year. Projections have been made on existing rates of taxes and fees and current level of prices. Inflation rate has been assumed at 5% per annum. Growth of shared taxes i.e. excise revenue and surcharge on VAT, has been assumed at 15% per annum and grants-in-aid at 10% per annum as per the guidelines of the Planning Commission. However, different yardsticks have been adopted for individual taxes. Non-tax revenue has been assumed to grow normally at 5% to 7% per annum, depending on the nature of non-tax sources. However, past trends, current developments and future potentials have, by and large, been taken into account while making revenue projections. On this basis, the revenue receipts of ULBs have been projected to grow at 12% per annum in normal cases.

9.35 It is worthwhile to mention that financial devolution of 13th CFC for ULBs has been taken as per the existing allocations made year-wise upto the year 2014 – 15 and a step up of 10% has been given for the year 2015 – 16 as this year would be covered by the 14th CFC. As regards SFC grants for ULBs, 10% step up each year has been given on the financial devolution recommended by the 3rd SFC for its concluding year 2010 – 11.

Expenditure of Urban Local Bodies

9.36 The summary position of municipal revenue expenditure, as supplied by the Urban Local Bodies Department and gathered from other sources/documents, for the period from 2006 – 07 to 2011 – 12, has been depicted in Table 9.13.

Table 9.13: Expenditure of Urban Local Bodies (2006-07 to 2011-12) (Rs. in crore)

Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Salary & Wages	101.30	90.81	118.59	165.71	172.78	221.47
Retiral Benefits and Pension Share	14.28	11.82	12.03	12.51	14.63	15.50
Developmental	75.44	83.93	101.33	226.76	143.77	243.68
Operation & Maintenance	126.59	134.80	161.96	186.25	214.20	246.32
Others	32.44	34.24	42.26	75.90	59.16	89.25
Grand Total	**350.05**	**355.60**	**436.17**	**667.13**	**604.54**	**816.22**

9.37 The above table reveals that expenditure on establishment i.e. salaries & wages and pensionary benefits, as a ratio to total expenditure, has reduced to

29.% in 2011 – 12 from 33% in 2006 – 07, whereas in absolute terms, expenditure on establishment has increased substantially to Rs. 236.97 crore in 2011 – 12 from Rs. 115.58 crore in crore in 2006 – 07. As verified from the department, there is no pending liability on account of salaries and pensions. Development expenditure, on the other hand, has gone up to 29.85% in 2011 – 12 as a proportion to total expenditure from 21.55% in 2006 – 07. In absolute terms development expenditure has increased to Rs. 243.68 crore in 2011 – 12 from Rs. 75.44 crore in 2006 – 07. The above table further reveals that operation and maintenance expenditure, as a ratio to total expenditure, has reduced to 30.18% in 2011 – 12 from 36.16% in 2006 – 07, whereas in physical terms, O & M expenditure has substantially increased to Rs. 246.32 crore in 2011 – 12 from Rs. 126.59 crore in 2006 – 07.

Assessment of Municipal Expenditure from 2011 – 12 to 2015 – 16

9.38 The Commission is required to make normative assessment of municipal expenditure for its reference period i.e. from 2011 – 12 to 2015 – 16. But due to non-availability of norms being applied for providing civic services and for their operation and maintenance from the Urban Local Bodies Department, the Commission had to project expenditure requirements of municipalities at its own level on trend basis by adopting traditional approach. The expenditure requirements, so worked out, have been given in Table 9.14.

Table 9.14: Expenditure Requirements of ULBs for the period 2011 – 12 to 2015 – 16

(Rs. in crore)

Components	**Base Year**	**Projections for the period**				
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Salary & Wages	172.78	221.47	254.70	292.70	336.83	387.16
Pension Liability	14.63	15.50	17.85	20.50	23.57	27.10
Developmental	143.77	243.68	292.42	350.90	421.08	505.30
Operation and Maintenance of w/s & sewerage, roads, sanitation, street lights, fire services and other CPRs	214.20	246.32	295.58	354.70	425.64	510.75
Others	59.16	89.25	98.18	108.00	118.80	130.68
Grants-in-aid	253.39	345.64	410.00	465.54	521.06	573.16
Grand Total	**857.93**	**1,161.86**	**1,368.73**	**1,592.34**	**1,846.98**	**2,134.15**

9.39 The above table would reveal that expenditure on salaries & wages and pensionary benefits has been projected to grow at 15% each year upto 2015 – 16 to take care of incremental growth in price index & staff strength and normal growth. A growth rate of 20% per annum has been applied on developmental works and operation & maintenance of public services, community assets and other common property resources to ensure their proper upkeep and maintenance so that the existing civic infrastructure could provide improved level of services. A growth rate of 10% per annum has been applied on other misc. expenditure. Expenditure from grants-in-aid has been related to the receipts as no separate account is maintained in this regard.

9.40 The Commission has observed that civic infrastructure in municipal areas needs substantial improvement to enable it to deliver desirable level of services. There are wide development gaps across municipalities which are required to be bridged in a planned way. It has been reported that the Department of Urban Local Bodies has prepared City Development Plans covering all municipal bodies in the State in order to identity the infrastructural service gaps between the existing and desired levels in the sectors of roads, drainage, water supply, sewerage etc. and to provide additional funds for providing minimum acceptable levels of public services. Besides, the other requirements for solid waste management, slum development, storm water drainage etc. have also been worked out in the city development plans which are proposed to be met by state allocations under various state and centrally sponsored scheme.

9.41 As stated earlier, the Commission is required to assess additional financial needs of ULBs on account of upgradation of service levels to the minimum desirable levels. As the Department of Urban Local Bodies has not supplied information on norms for providing civic services and for their proper operaton and maintenance, the Commission could not do the needful. However, in lieu thereof, the Commission has attempted to provide sufficient cushion by way of projecting O & M requirements for its award period on higher scales.

Over-all Position of Finances of Local Bodies

9.42 In the first part of this chapter, the Commission made attempts to estimate the financial requirements of all tiers of PRIs for its reference period. Since, no reliable and usable information could be received on expenditure patterns of PRIs, expenditure requirements could not be assessed. However, an attempt has been made to project receipts and expenditures of ULBs on the basis of some assumptions. The position of finances of ULBs has been given in Table 9.15.

Table 9.15: Overall Position of Finances of ULBs (Rs. in crore)

Items	2011-12	2012-13	2013-14	2014-15	2015-16
Total Revenue Income from all sources	2,059.77	2,170.88	2,409.81	2,709.91	3,039.97
Total Revenue Expenditure	1,161.86	1,368.73	1,592.34	1,846.98	2,134.34
Surplus (+) Deficit (-)	+897.91	+802.15	+817.47	+862.93	+905.63

9.43 The overall financial position of ULBs reveals a unique feature of having substantial surpluses on their revenue account during each year of Commission's award period. These surpluses are mainly attributable to sharp increase in their share from additional stamp duty being collected at the rate of 2%. Earlier share of ULBs used to be paid at the collection points and as such, it is apprehended that proper accounts were not being maintained in this regard. Now the figures of ULBs share in additional stamp duty, carried from state budget, are extremely higher. This issue needs to be gone into carefully by the Urban Local Bodies Department. The second reason for higher income is share of ULBs at 80% in surcharge on VAT being levied at the rate of 5% from the year 2010 – 11 onwards with income of Rs. 550.39 crore in 2011 – 12 rising to Rs. 825.40 crore in the year 2015 – 16. The third reason is recovery from sale of assets i.e. land and buildings. The Commission, therefore, expects that these surpluses would be utilised partly on upgrading the level of public services in the form of their proper upkeep and maintenance and partly on creating additional infrastructural facilities during the Commission's award period.

Finances of Municipal Corporation Faridabad (MCF)

9.44 Presently, there are 9 municipal corporations in the State, namely, Faridabad, Gurgaon, Panchkula, Ambala, Karnal, Yamunanagar, Panipat, Rohtak and Hisar. The Commission has attempted to review the financial position of municipal corporations i.e. income and expenditure for the period from 2006 – 07 to 2010 – 11. The Commission noted that the sources of revenues and expenditure heads of municipal corporations are almost similar to those of municipal committees and councils. The Commission had asked all the municipal corporations to supply information about their sources of incomes and expenditures as per the prescribed formats. It has been reported that Municipal Corporations of Faridabad, Gurgaon and Panchkula are functioning properly. The other six newly created corporations have yet to start functioning. Information on income and expenditure of these newly created corporations are included in the income and expenditure of committees and councils. Only Municipal Corporation Faridabad could supply some information which needed further clarifications. However, the summary position of finances of MCF has been given in Table 9.16 (a) and (b).

Table .9.16 (a):- Financial Position of Municipal Corporation Faridabad (MCF) for 2006-07 to 2010-11 (Rs. in crore)

Items	2006-07	2007-08	2008-09	2009-10	2010-11
A. Total Revenue Receipts	**169.69**	**232.06**	**281.25**	**267.53**	**276.46**
Shared Taxes	49.92	40.58	41.32	57.97	48.92
Own Tax Revenue	39.08	45.57	42.24	50.36	55.29
Own Non-Tax Revenue	69.89	94.63	118.91	57.63	64.29
Grants-in-aid	10.80	51.28	78.78	101.57	107.96
B. Total Revenue Expenditure	**163.95**	**216.93**	**298.73**	**302.76**	**309.53**
Establishment	51.33	53.59	62.34	86.55	102.57
O & M Exp. on civic services	90.31	108.80	138.20	74.72	139.43
Assigned Schemes	18.09	50.75	92.88	133.08	59.83
Misc. – others	4.22	3.79	5.31	8.41	7.70
Position on Revenue Account (A - B)	**+5.74**	**+15.13**	**-17.48**	**-35.23**	**-33.07**

Table 9.16 (b) : Summary of Financial Projections of MCF from 2011-12 to 2015-16

Rs. in crore)

Items	Base Year	Projections				
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
A. Total Revenue Receipts	**276.46**	**307.64**	**342.49**	**382.91**	**428.22**	**479.01**
Shared Taxes	**48.92**	**56.25**	**64.70**	**74.40**	**85.56**	**98.39**
Own Tax Revenue	55.29	61.92	69.36	77.68	87.00	97.44
Own Non-Tax Revenue	64.29	70.72	77.80	87.13	97.59	109.30
Grants-in-aid	107.96	118.75	130.63	143.70	158.07	173.88
B. Total Revenue Expenditure	**309.53**	**345.37**	**385.57**	**430.62**	**490.48**	**548.18**
Establishment	102.57	117.95	135.65	155.98	179.38	206.28
O & M Exp. on civic services	139.43	153.37	168.71	185.58	213.42	234.75
Assigned Schemes	59.83	65.81	72.40	79.63	87.59	96.35
Misc.- others	7.70	8.24	8.81	9.43	10.09	10.80
Position on Revenue Account (A-B)	**- 33.07**	**(-) 37.73**	**- 43.08**	**- 47.71**	**- 62.26**	**- 69.17**

9.45 The analysis of finances of ULBs reveals that municipalities and councils are better placed than the MCF in regard to resource mobilisation as revenue account of MCF has shown persistent deficits each year from 2008 – 09 to 2011 – 12. Similar position of revenue deficits is likely to prevail during future years upto 2015 – 16. This position calls for strenuous efforts for resource generation and expenditure compression through own efforts. Financial position of MCF has further aggravated due to handling of function of water supply and sewerage which is becoming extremely expensive due to huge demand, higher operation and maintenance costs and subsidised recovery of charges being about 20% of the supply cost.

9.46 The Commission has also observed that MCF requires much larger investment for building and strengthening urban infrastructure due to mounting problems of slums and drinking water. But at the same time MCF has still greater scope for garnering additional resources because of much higher industrial growth and fiscal potential. The Commission, therefore, observes that MCF should make attemps to exploit fully its available resource potential to optimum level.

Observations and Recommendations

9.47 The Commission is fully convinced that own tax and non-tax revenues of local bodies, both PRIs and ULBs, are insufficient to meet their financial obligations to the satisfaction of their citizens. Ultimately these bodies would have to go in for higher level of resource generation through their own efforts. With this in view, the Commission has recommended constitution of an Incentive Fund at the district level each for PRIs and ULBs to reward the better performing local bodies in their resource raising efforts. The Commission has also attempted to recommend a balancing package of financial devolution for PRIs and ULBs besides tangible resource raising measures needed to improve their financial position. The Commission further expects substantial subventions for local bodies of the State from the 14^{th} CFC.

CHAPTER – 10

PRINCIPLES OF FINANCIAL DEVOLUTION AND SHARE OF LOCAL BODIES

1. General Observations

10.1 As per its TOR, the Commission is mandated to make recommendations as to the sharing of state revenues with the Panchayati Raj Institutions and the Municipal Bodies, determination of the taxes and duties to be assigned to these bodies and also to suggest measures needed to improve the structural, functional and financial status of Panchayats and Municipalities. However, while doing so, the Commission shall have regard, among other considerations, to the resources of the state government and the demands thereon particularly in respect of expenditure on civil administration, maintenance of capital assets, operational expenditure on plan schemes and other committed liabilities of the State. Besides, the Commission is also required to keep in view the requirements of Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs), their potential for raising resources and for reducing expenditure. It, thus, implies that resource availability with the state government and needs of the local bodies are the guiding factors for the Commission in designing its scheme of revenue sharing.

10.2 In any federation, the need for fiscal transfer arises because of a mismatch between expenditure and revenue assignments between different levels of the government. In Indian federation also vertical fiscal imbalances have persisted due to the fact that revenue powers assigned to the central government are more elastic and buoyant in nature as compared to the state's resources, whereas the functions assigned to the States are much larger. A similar vertical imbalance between expenditure and tax assignments with respect to States and Local Bodies exists. Tax and non-tax powers assigned to the local bodies have a narrow base and low revenue potential and are less elastic and buoyant as compared to revenue resources of the state government. The local bodies are, thus, not in a position to discharge the functions assigned to them with their own revenues. These are faced with chronic fiscal gaps of varying magnitudes. Inclusion of 11 and 12 Schedules in the Constitution, subsequent to 73rd and 74th amendments, has further compounded the problem of fiscal gaps and mismatches.

10.3 The 73rd and 74th constitutional amendments gave new dimensions and institutional strength to the rural and urban local bodies vis-à-vis democratic decentralisation in the country. These amendments provide for devolution of specific powers, authority, and funds to these bodies to strengthen their financial status so that these bodies could generate resources at their own level to meet their expanding needs. But this has not happened to the necessary extent as major recommendations of previous Commissions have not been fully accepted by the state government. Thus, assignment of adequate revenue sources to these bodies is extremely important.

10.4 This Commission has noted that the local bodies do not enjoy a sound financial position. The enabling legislations endow sufficient taxation powers to local bodies, but these have not been adequately administered due to several reasons. This tendency has led to undermining of the authority and power of the local bodies and developed in them over time a highly dependent approach on government budgetary support. Thus, substantial transfer of resources from the State to the local bodies and their allocation among the local bodies with wide differentials in fiscal capacities and needs constitutes an important task of the Commission.

10.5 The 12th and 13th CFCs have suggested that the SFCs should adopt normative approach while assessing revenues and expenditures of local bodies. Consequently, the SFC is required to compute fiscal gaps of the local bodies, both PRIs and ULBs, on normative basis taking into account the likely additional expenditure on providing minimum desirable level of public services as also the additional resource mobilisation through own efforts based on capacity and potential. The normative fiscal gaps, so worked out, are to be bridged partly through financial devolution and partly from their own revenue generation efforts.

10.6 This Commission has noted that the successive CFCs have been computing revenue gaps of the States for determining the volume of fiscal transfers for the States either on traditional basis or on normative basis. Under traditional approach, which is based on past trends, very little efforts are made to identity the real causes of revenue gaps or deficits, whether these arise due to lower tax efforts or laxity in tax administration or due to extravagance in expenditure or unduly ambitious spending programmes or due to lack of natural resources or due to sheer poverty and costliness of inevitable functions. This traditional or historical approach tends to reward the impecunious policies of the so called poor or backward states and to discount the efforts of better performing states. This Commission believes that the normative approach definitely has an edge over the traditional approach as under normative approach revenues are assessed on the basis of fiscal capacities and potentials and expenditures are assessed on the basis of needs consistent with minimum acceptable level of services and the relevant cost norms and not driven by the past trends.

10.7 This Commission has further noted that the States have neither conceptualised nor adopted the concept of normative approach while assessing their finances as the financial results of the normative approach are far from the realties and do not coincide with the financial accounts of the States. The variance analysis carried out by this Commission of the projections of Haryana finances by the successive CFCs clearly amplifies that the normative projections made by the CFCs had put Haryana in the category of revenue surplus states where as the accounts rendered by the Accountant General showed revenue deficits for the corresponding periods. It deprived Haryana State from the deficit grants recommended by the successive CFCs as it was assessed as a revenue surplus state.

10.8 But the major problem before the Commission is non-availability of information and data on the status of finances of the local bodies and the civic services being provided by these bodies. The Commission, in its anxiety for computing normative fiscal gaps of local bodies, designed the requisite information formats on the basis of the template suggested by the 13th Central Finance Commission and asked the Departments of Panchayati Raj and Urban Local Bodies to furnish the required information covering all aspects in a time bound manner. However, with all the best efforts put in by the Commission through all possible means, the Commission could get some partial and incomplete information on municipal finances and services which, in its present form, was neither dependable nor usable. The Urban Local Bodies Department was asked to reconcile the same as per the guidelines given by the Commission which has not been done so far. Despite various meetings, the Panchayati Raj Department could only furnish some information on finances and services of PRIs till writing of this report. Due to these constraints, the Commission could not be able to work out the fiscal gaps of the local bodies on normative basis. However, the Commission could work out revenue gaps of local bodies only on trend basis on which quantum of financial devolution could be based. Hence, in the given scenario, the financial devolution suggested in this report is based on value judgement of the Commission.

2. Criteria of financial devolution

10.9 The perspective of design of fiscal transfers has, by and large, been determined by the 73rd and 74th constitutional amendments which aim at making local bodies instruments of effective self governance capable of undertaking programmes of social and economic development. The Commission's approach is, thus, based on the understanding that, over time, more and more functions, functionaries and funds would be transferred to local bodies consistent with their capacity building.

10.10 The Commission is of the opinion that the bulk of fiscal transfers to the local bodies should be through tax sharing and the role of grants-in-aid be supplementary. It would help both the rich and poor local bodies. Higher devolution through tax sharing would enable local bodies to meet their financial needs without grants-in-aid. This system would encourage economy in expenditure and efficiency in tax collection besides higher tax efforts. Grants-in-aid are determined by the Finance Commission once in five years and as such they remain static. As a result, the local bodies do not get compensated for higher fiscal gaps or deficits that may subsequently arise due to price escalation or other factors. As against this, higher tax devolution imparts a measure of flexibility in the finances of local bodies as buoyancies in state taxes would automatically be shared with the local bodies through tax sharing.

10.11 Majority of analysts agree that a good fiscal transfer system should serve the objectives of equity and efficiency and should be characterised by predictability and stability. Since the local bodies differ in composition, size, location and fiscal capacities, the real concern and long-term perspective of the SFC should be to ensure vertical and horizontal fiscal equalisation between panchayats and municipalities on the one hand and within the panchayat tiers and municipal classes on the other. The concept of equalisation in fiscal transfers helps promoting equity and efficiency besides neutralising deficiency in fiscal capacity. It also enables local bodies to provide a minimum acceptable level of public services. **Thus, this Commission proposes to evolve a sharing mechanism so that a fine blend of equity and efficiency objectives can be achieved in fiscal transfers. Only this kind of devolution mechanism we opine can promote autonomy. Besides this, a system of rewards and punishments or incentives and disincentives has also to be developed and the SFC has to initiate and evolve this mechanism. We have been mindful of all these considerations while finalising our scheme of revenue sharing and determining the magnitude of fiscal transfers to local bodies.**

10.12 Two approaches have commonly been used for sharing of revenues with the lower level governments. One is that of sharing of revenues in specific taxes. The other is that of what has come to be known as global sharing, which means a specific share of local bodies in the total divisible pool instead of shares in specific taxes. The Central Finance Commissions have now moved from specific tax sharing between the Centre and States to a system of global sharing in the net tax proceeds of the central government. Majority of SFCs have also adopted the principle of global sharing of the divisible pool of state revenues with the local bodies.

10.13 The system of global sharing has distinct advantages. It permits the States to levy tax on more buoyant and elastic tax sources and guarantees a regular and predictable flow of revenues to local bodies without affecting their autonomy to use devolved funds. Under global sharing, local bodies automatically share the buoyancy in state's tax revenues. This system also has the advantages of transparency, objectivity, predictability and regularity. It is also helpful in annual budgetary exercises both at the State and local body levels. While the state government can plan its expenditure commitments on account of devolution to local bodies on a firmer basis, local bodies would also be able to plan their budgets according to the expected flow of funds with a considerable degree of certainty and predictability. That is why experts have also advocated global sharing mechanism.

10.14 The 1st and 2nd SFC of Haryana adopted specific tax sharing mechanism in their scheme of revenue sharing. However, the 3rd SFC discarded the criteria of earlier SFCs on the grounds of its being arbitrary, not based on proper rationale and having an inbuilt tendency of generating a sense of financial irregularities among local bodies. Thus, the 3rd SFC, while making a significant departure from the earlier systems of sharing of specific taxes, had recommended/adopted global sharing of state revenues.

10.15 This Commission, in its Interim Report, has also adopted global sharing mechanism in its scheme of revenue sharing on the pattern suggested by the 3rd SFC. **Hence, this Commission is in agreement with the approach and line of reasoning adopted by it in its Interim Report and, as such, has again decided to adopt the global sharing technique in vertical sharing of state revenues in which all state taxes are to be pooled and a proportion thereof would be the share of local bodies.**

3. Composition of divisible pool

10.16 While recommending revenue sharing criteria, the Commission is, interalia, required to determine the constituents of the divisible pool. The divisible pool, as per TOR of the Commission, comprises of the proceeds of taxes, duties, tolls and fees leviable by the State. The total revenue receipts of the State comprises of four parts i.e. share of central taxes, own tax revenue, own non-tax revenue and grants-in-aid. The Commission has found wide variations across States in defining components of the divisible pool. A few SFCs treated total revenue receipts as the divisible pool. Some SFCs used only own revenue receipts i.e. tax and non-tax revenue, as the divisible pool. However, majority of SFCs have treated own tax revenue as the sole component of the divisible pool. 3rd SFC of Haryana gave due thought to this aspect and decided own tax revenue to be the main component of divisible pool of state revenues to be shared with the local bodies on the grounds that the citizens of the State have a logical stake over tax sources.

10.17 This Commission rated the reasoning of the 3rd SFC as valid and justifiable. It further observed that since CFC reserves certain portion of divisible pool of central taxes as specific grants for the local bodies, share of the State in central taxes should not be made shareable with the local bodies. As regards grants-in-aid received from the central government, bulk of these is scheme specific and, as such, should not form part of the divisible pool. The non-tax revenue of the State is termed as recovery of the cost of the goods and services being rendered by various state government departments and as such should also remain outside the divisible pool. **This Commission, therefore, observes that it is the own tax revenue of the State only which should be taken as the acceptable component of the divisible pool in the scheme of revenue sharing.**

13th Finance Commission grants for local bodies

10.18 The 13th Finance Commission recommended grants of Rs. 1,521.30 crore for Haryana's local bodies covering the period 2010 – 15, which constitute 1.738% of the total local body grants of Rs. 87,519 crore. Out of the total LBGs of Rs. 1,521.30 crore, PRIs account for Rs. 1,086.89 crore (71.44%) and ULBs Rs. 434.41 crore (28.56%). The annual break-up of Haryana LBGs is in Table 10.1.

Table 10.1 : Haryana Share in 13th CFC Local Body Grants (2010 - 15)

Particulars						
	2010 - 11	**2011 - 12**	**2012 - 13**	**2013 - 14**	**2014 - 15**	**Total 2010 - 15**
PRIs	101.17	157.53	231.26	273.56	323.36	1,086.89
ULBs	40.43	62.97	92.44	109.34	129.24	434.41
Total	**141.60**	**220.50**	**323.70**	**382.90**	**452.60**	**1,521.30**

Source:- Report of 13th CFC

10.19 After going through the components of 13th CFC grants for local bodies and their sharing pattern, this Commission observes that these grants have to be passed on to the local bodies during the years 2011 – 12, 2012 – 13, 2013 – 14 and 2014 – 15 which are covered under this Commission's report and utilised strictly as per the guidelines of the MOF/GOI and the conditionalties imposed by the 13th CFC. **It is further observed that 13th CFC grants should not form part of the divisible pool.** However, these grants would be over and above the financial devolution being recommended by this Commission and other budgetary support to the local bodies.

10.20 This Commission has observed that some States levy surcharges/cesses to raise resources. Various successive CFCs have suggested that the surcharges and cesses should not be levied by the States except to meet emergent requirements and that too only for limited periods. **This Commission observes that this source should not be resorted to as a normal revenue raising measure to fill up budgetary gaps or to compensate the lower level governments for their revenue losses due to abolition or withdrawal of certain levies or concessions and exemptions. However, in case it becomes necessary to levy some surcharge/cess to meet specific purposes, the proceeds of such surcharge/cess should not from part of the divisible pool.**

10.21 It has been brought to the notice of the Commission that the proceeds of some state taxes like State Excise Duties, Stamps Duty, Value Added Tax (VAT) etc. are already being shared with local bodies in accordance with the provisions existing in their respective tax laws. In view of this, it is important for the Commission to study the structure and sharing pattern of such shared taxes so as to have a clear picture of the taxes forming part of the divisible pool.

State Excise Duties

10.22 The proceeds of state excise duties are shared with the Panchayati Raj Institutions and Municipal Bodies. As per State Excise Policy for 2013 – 14, the existing share of local bodies is Rs. 5/- per bottle of C.L. of 750 ml, Rs. 7/- per bottle of IMFS of 750 ml. or equivalent and Rs. 3/- per bottle of beer of 650 ml. capacity or equivalent. The share of local bodies i.e. PRIs and ULBs, depends on the sale of liquor in their respective jurisdictions. This is subject to the condition that the local bodies would not impose any tax/levy or octroi on C.L. and IMFL within their jurisdiction. This transfer is treated as compensatory in nature and payment to PRIs and ULBs is made from the concerned expenditure head "3604" of the state budget. The ratio for sharing the said proceeds between GPs: PSs: ZPs is 70: 20: 10. The share of local bodies is shown in Table 10.2.

Table 10.2: Sharing of Excise Revenue (Rs. in crore)

Years	2010-11 Actuals	2011-12 Actuals	2012-13 RE	2013-14 BE	2014-15 Ests.	2015-16 Ests.
PRIs	37.34	48.04	80.53	78.40	90.16	103.68
ULBs	43.15	40.65	143.90	100.00	115.00	132.00
Total	**80.49**	**88.69**	**224.43**	**178.40**	**205.16**	**235.68**

*** CL = Country Liquor**
*** IMFS = Indian Made Foreign Siprit**

Stamp Duty

10.23 Stamp duty is an important and elastic source of state revenue and is imposed on transfer of immovable properties in rural and urban areas. The stamp duty rate effective from 01.03.2004 was 6%. The state government reduced stamp duty rate to 5% w.e.f. 04.06.2008 by amending the Indian Stamp Act, 1899. Municipalities and Panchayats are empowered to levy an additional duty in the form of surcharge ranging from 1% to 3% on transfer of properties in their jurisdiction. Municipal bodies are levying additional stamp duty at the rate of 2% on sale deeds in their jurisdiction but the Panchayats are not presently levying any such duty. Thus, stamp duty rates effective from 04.06.2008 are 5% in rural areas and 7% in urban areas. Earlier, the share of municipalities used to be paid to them at the registration point and it did not form part of the state budget. But the payment system has now been modified w.e.f. 01.04.2012 by way of which the share of municipalities forms part of the state budget and payment is made from the concerned budget head "2217". The share of Municipalities has been shown in Table 10.3.

Table 10.3 : Share of Municipalities in Stamp Duty (Rs. in crore)

Years	**2010-11 Actuals**	**2011-12 Actuals**	**2012-13 RE**	**2013-14 BE**	**2014-15 Ests.**	**2015-16 Ests.**
ULBs	3.65	3.80	468.00	567.00	652.00	750.00
PRIs	-	-	-	-	-	-
Total	**3.65**	**3.80**	**468.00**	**567.00**	**652.00**	**750.00**

Surcharge on VAT

10.24 Haryana switched over to Value Added Tax (VAT) system of taxation w.e.f. 01.04.2003 by enacting the HVAT Act, 2003. VAT, like sales tax, is an indirect tax. It has the additional merit of being non-cascading and transparent. VAT is a buoyant and major source constituting about 65% of the total own tax revenue. An additional tax in the nature of surcharge at the rate of 5%, to be paid by the dealer, was levied w.e.f. 02.04.2010 by amending HVAT Act. The amount of surcharge forms part of the Consolidated Fund of the State and shared between ULBs and PRIs in the ratio of 80:20. Share of PRIs is paid from expenditure head

"2515" and share of municipal bodies is paid from expenditure head "2217" of the state budget.

10.25 Prior to that, the state government levied Local Area Development Tax (LADT) w.e.f. 05.05.2000 as a measure compensatory to urban local bodies in lieu of abolition of octroi from 01.11.1999. The entire net proceeds from LADT were being divided between PRIs and ULBs in the ratio of 50:50. During 2007 – 08, net proceeds of Rs. 314.54 crore were transferred to the PRIs and ULBs. Now the LADT stands repealed w.e.f. 14.03.2008 by the Hon'ble High Court considering this levy as non-compensatory in nature and also as restriction on free flow of trade and commerce. Thereafter, the state government introduced another act the "Haryana Tax on Entry of Goods into Local Area Act, 2008" which also met the same fate and was declared as unconstitutional and void on Ist October, 2008 by the High Court.

10.26 Now an additional tax in the nature of surcharge on VAT has been levied at the rate of 5% w.e.f. 02.04.2010 and made sharable with the local bodies just to compensate the local bodies for the losses on account of withdrawal of LADT and abolition of House (Property) Tax. The position of sharing of surcharge amount is shown in Table 10.4.

Table 10.4 : Share of Local Bodies in Surcharge on VAT (Rs. in crore)

Years	**2010-11 Actuals**	**2011-12 Actuals**	**2012-13 RE**	**2013-14 BE**	**2014-15 Ests.**	**2015-16 Ests.**
PRIs	62.00	121.40	135.68	156.03	179.44	206.35
ULBs	248.00	550.39	542.70	624.11	717.73	825.40
Total	**310.00**	**671.79**	**678.38**	**780.14**	**897.17**	**1031.75**

10.27 Now it is quite obvious that three main state taxes i.e. VAT, Excise Duty and Stamp Duty stand shared with the local bodies in accordance with their respective Acts/Rules. The 1st and 2nd SFCs did not make any specific recommendations about their sharing with local bodies. However, 3rd SFC took cognizance of the sharing mechanism of such shared taxes and observed that in case their sharing is brought under the purview of the SFC, it may deem to be contrary to the existing provisions and this step may require suitable amendments in their respective Acts or Rules. 3rd SFC further observed that in case these taxes are allowed to be shared with the local bodies as before, the proceeds of these shared taxes should be excluded from the divisible pool. After due deliberations, the 3rd SFC concluded that such shared taxes should not form part of the divisible pool of state own taxes and their sharing with the local bodies should be continued as before.

10.28 This issue has been considered by this Commission in depth. It has been observed that the centre-state fiscal relations and its delivery mechanisms were in existence since adoption of the Constitution and, at the national level, the Central Finance Commission is the sole statutory authority to recommend sharing of central taxes with the States. Consequent to 73rd and 74th constitutional amendments, the State Finance Commission has been conceived as the sole arbiter to recommend sharing of state revenues with the local bodies. But the developments taking place in sharing state revenues with the local bodies have indicated that the institution of Finance Commission has not been recognised by state government officials in its right perspective. Sharing of proceeds of State Excise Duties and Stamp Duty has been decided by the state government at its own level without referring the matter to the State Finance Commission. The situation got further aggravated when the state government decided at its own level to share the surcharge on VAT with the local bodies w.e.f. 02.04.2010 when the constitution of the 4th SFC was in pipeline and was ultimately constituted on 16.04.2010. This Commission has viewed this step as a serious lapse on the part of the state government and a big jolt to the authority and status of a constitutional body like the Finance Commission.

10.29 This Commission has had to grapple with this piquant situation. The proceeds from all the three state taxes i.e. VAT, State Excise Duties and Stamp Duty, estimated at Rs. 22,800 crore in 2012 – 13, constitute 94 percent of total own tax revenue of Rs. 24,290 crore. Like-wise, the tax proceeds of Rs. 27,139 crore estimated from these taxes during 2013 – 14 constitute 94 percent of the estimated own tax revenue of Rs. 28,784 crore. This situation clearly amplifies that in case own tax revenue is taken as the sole constituent of the divisible pool, 94 percent of the divisible pool stood already shared with the local bodies. What would remain at the disposal of the Finance Commission for sharing is just a marginal 6 percent of the divisible pool i.e. Rs. 1,428 crore in 2012 – 13, Rs. 1,692 crore in 2013 – 14, Rs. 1,967 crore in 2014 – 15 and Rs. 2,288 crore in 2015 – 16.

10.30 **However, taking a holistic view of the situation, this Commission has decided to treat the Own Tax Revenue (OTR) only, including all the taxes already being shared, as the acceptable component of the divisible pool in its scheme of revenue sharing as the citizens of the State, being ultimate beneficiaries, have logical claim over tax sources of the State. However, following the pattern adopted by the Central Finance Commission and various SFCs, the state own tax revenue constituting the divisible pool should be discounted for tax collection charges and other incidental charges at the rate of two percent each year.**

10.31 On this basis, the divisible pool, worked out by the Commission for the period covered in this report, is shown in Table 10.5.

Table 10. 5: Magnitude of divisible pool (Rs. in crore)

Particulars	**2011-12 Actuals**	**2012 -13 RE**	**2013-14 BE**	**2014 -15 Ests.**	**2015 -16 Ests.**
A. Own Tax Revenue	20,399.46	24,289.81	28,784.34	33,457.65	38,912.97
B. Deduct-Collection and other incidental charges (at the rate of 2%)	407.98	485.80	575.69	669.15	778.26
C. Total Divisible Pool (Net OTR)	**19,991.48**	**23,804.01**	**28,208.65**	**32,788.50**	**38,134.71**

4. Share of local bodies in the divisible pool

10.32 After having decided the composition of the divisible pool, the Finance Commission has also to determine the share of local bodies in the divisible pool and the relative share of PRIs and ULBs. But before undertaking this exercise, the Commission has to take a firm decision on non-SFC individual sharing of State Excise Duties, surcharge on VAT and Stamp Duty being done by the state government at its own level without having referred the matter to the SFC.

10.33 This Commission is aware of its constitutional mandate and is fully committed to accomplish the same in a most acceptable manner in the overall public interest. The intention of the Commission is not to put the state government into an embarrassing position at this stage by making such recommendations in regard to sharing of state revenues with local bodies as require amendments in state laws or rules. But at the same time this Commission further observes that there should not be duplication or overlapping in regard to sharing of state taxes. Global sharing includes all state taxes in the divisible pool and this leaves no scope for sharing of individual taxes as is being presently done in respect of State Excise Duties, Stamp Duty and surcharge on VAT.

10.34 We, therefore, further, sincerely advise the state government to avoid taking such unilateral decisions, particularly in regard to the sharing of state revenues with the local bodies, which squarely fall in the domain of the State Finance Commission. However, in case it becomes necessary to share the proceeds of existing state levies or new levies with the local bodies to meet their emergent needs, such issues should be brought to the knowledge of the State Finance Commission and mentioned specifically in its Terms of Reference for making appropriate recommendations.

10.35 In view of such a critical situation, it becomes a little difficult for the Commission to fix share of local bodies in the divisible pool under global sharing approach particularly in a situation where 94 percent of state own tax revenue already stands shared with local bodies. The Commission also recognizes the fact that bringing all state taxes under the ambit of SFC for sharing with local bodies would require amendments in state tax laws or rules, as the case may be. Discontinuation of individual non-SFC sharing of state taxes through required amendments in tax laws or rules is bound to take considerable time ranging from six months to one year as various procedural and operational formalities would have to be observed for shifting to the new system of revenue sharing under global sharing.

10.36 After due consideration, the Commission has decided to recommend two alternative Steps of revenue sharing with local bodies, as under:-

Step – 1:- Under Step – 1, share of local bodies, both PRIs and ULBs, would be fixed in certain percentage of divisible pool by way of global sharing approach and non-SFC sharing of State Excise Duties, Stamp Duty and surcharge on VAT would continue as before. Step – 1 would remain in operation for first four years of Commission’s award i.e. from 2011 – 12 to 2014 – 15.

Step – 2:- Under Step – 2, the share of local bodies, both PRIs and ULBs, in the divisible pool would be determined under global sharing approach at a certain percentage of the divisible pool. Under Step – 2, the non SFC sharing of State Excise Duties, Stamp Duty and surcharge on VAT would be discontinued. This step would be applicable for the year 2015 – 16 only, **the concluding year** of the award period of this Commission.

10.37 In view of the position explained above, this Commission has attempted to bring all state taxes under its domain for sharing with local bodies and to discontinue the existing non-SFC individual sharing of State Excise Duties, Stamp Duty and surcharge on VAT. Under this global sharing technique, the whole system of financial devolution would undergo some alternations i.e. composition of divisible pool, share of local bodies in the divisible pool and also inter se shares of PRIs and ULBs. However, while shifting to the amended global sharing criteria of revenue sharing, care would need to be taken to ensure that local bodies, both PRIs and ULBs, are not put to any losses. In other words, these bodies should continue getting financial devolution under Step – 2, (without non-SFC sharing) equal to what these bodies could have got in the existing system (with non-SFC sharing). Step – 2 has been suggested only for the financial year 2015 – 16 because Action Taken Report (ATR) by the state government on SFC recommendations and the proposed amendments in existing acts or rules of the already shared taxes, would take substantial time after submition of report by this Commission.

5. Step – 1: Share of local bodies (for 2011 – 12 to 2014 – 15)

10.38 The Commission has noted that the share of local bodies recommended by various SFCs shows large variations from as low as 2% in Sikkim (3rd SFC), 2.75% in Himachal (3rd SFC), 3.5% in Rajasthan (3rd SFC) and Kerala (4th SFC), 4.0% in Punjab (4th SFC), 5.0% in MP (3rd SFC), 6.00% in U.P. (3rd SFC), 7.5% in Bihar (4th SFC) and WB (3rd SFC), 10.0% in Uttaranchal (2nd SFC) and Assam (3rd SFC), 10.39% in A.P. (2nd SFC), 15.0% in Orissa (3rd SFC), 40.0% in Maharashtra (2nd SFC) and Karnataka (2nd SFC). This variation reflects the financial situations prevailing in different states and variations in the extent of decentralisation of powers of local bodies besides funds flow to local bodies from other sources. These shares of local bodies, though not comparable as the components of the divisible pool being at variance across SFCs., these, however, do help in making decisions on fixing shares of local bodies in the divisible pool.

10.39 This Commission has noted that the 1^{st} and 2^{nd} SFCs of Haryana adopted source specific scheme of revenue sharing with the local bodies. However, the financial devolution of Rs. 210.04 crore recommended by the 1^{st} SFC for its concluding year 2000 – 01 constituted about 3% of the own tax revenue of the State. Like-wise, financial devolution of Rs. 231.05 crore recommended by 2^{nd} SFC for its concluding year 2005 – 06 also formed about 3% of own tax revenue of the State. The 3^{rd} SFC, in its interim and final reports, while adopting the global approach of revenue sharing, recommended share of local bodies, both PRIs and ULBs, at 4% of net own tax revenue of the State for its reference period 2006 – 07 to 2010 – 11. This enhanced share of local bodies at 4% was recommended by the 3^{rd} SFC keeping in view the expanding functional domain of local bodies, withholding operation of Local Area Development Tax, abolition of House (Property) Tax and price escalation.

10.40 This Commission is faced with a piquant situation as surcharge at the rate of 5% on VAT levied by the state government w.e.f. 02.04.2010 has been made shareable with the local bodies in its entirety. This is a substantial amount going to ULBs and PRIs in the ratio of 80:20. This source alone constitutes about 2.70 percent of the divisible pool i.e. net own tax revenue. This measure is said to have been tapped by the state government to compensate the local bodies for losses due to abolition of House Tax on residential properties, the total proceeds from which were Rs. 85.92 crores during 2007 – 08 i.e. Rs. 8.50 crore from rural areas and Rs. 77.42 crore from urban areas. In view of this, the amount of surcharge going to local bodies is much higher, particularly in the situation when House Tax has been re-levied w.e.f. 21.06.2012.

10.41 Like-wise, proceeds of State Excise Duties and Stamp Duty are already shared with local bodies. Thus, such non-SFC devolution to local bodies is estimated at Rs. 764.28 crore in 2011 – 12, Rs. 1,370.81 crore in 2012 – 13, Rs. 1,525.54 crore in 2013 – 14, Rs. 1,754.33 crore in 2014 – 15 and Rs. 2,017.43 crore in 2015 – 16 **which works to about 5.5% of the net own tax revenue of the State as compared to 1.77% of net own tax revenue worked out by the 3^{rd} SFC for its reference period 2006 - 07 to 2010 – 11.** This

Commission has further noted that the total SFC and non-SFC devolution made by the 3rd SFC for its reference period 2006 - 07 to 2010 – 11 amounted to Rs. 3,809.20 crore which constituted 5.31% of the net own tax revenue of the State. The position has been explained in Table 10.6.

Table 10.6: **Total SFC and non-SFC Financial Devolution to Local Bodies by 3rd SFC**

(Rs. in crore)

Components	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total 2006-11**
• Net Own Tax Revenue (net of 1.25% collection charges) as assessed by 3rd SFC (Inclusive of shared taxes)	10,791.08	12,431.64	14,115.14	16,136.75	18,229.30	71,703.91
ii) Estimated share of LBs in state own taxes • Taxes already shared (State Excise and LADT) • Devolution by 3rd SFC at 4% (Inclusive of shared	 275.29 (2.55%) 371.20 (3.44%)	 331.54 (2.67%) 440.00 (3.54%)	 218.70 (1.55%) 502.00 (3.57%)	 220.58 (1.37%) 573.00 (3.55%)	 **222.65 (1.22%)** **654.24 (3.59%)**	 1,268.76 (1.77%) 2,540.44 (3.54%)
Total share of LBs in net State Own Tax Revenue as assessed by 3rd SFC	**646.49 (6.00%)**	**771.54 6.21%)**	**720.70 (5.11%)**	**793.58 (4.92%)**	**876.89 (4.81%)**	**3,809.20 (5.31%)**

10.42 During their meetings with this Commission, the elected representatives of PRIs & ULBs and officers of the Departments of Panchayati Raj and Urban Local Bodies strongly advocated for substantial enhancement in the share of local bodies. The intention of the Commission is also to provide substantial enhancement in the aggregate devolution (SFC and non-SFC) beyond 5.31% of the 3rd SFC. **Thus, taking into account the current scenario of tax sharing, funds flowing to the local bodies from the state budget and other sources, status of functional decentralisation, fiscal capacities of local bodies and the resources availability with the state government, this Commission has come to the conclusion that the share of local bodies, both PRIs and ULBs, should be at 2.5 percent of the divisible pool i.e. the net own tax revenue. On this basis, the share of local bodies has been shown in Tables 10.7 and 10.8.**

Table 10.7: Share of local bodies (at 2.5% of divisible pool) (Rs. in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011-12 to 2015-16
Divisible pool (Net Own Tax Revenue)	19,991.48	23,804.01	28,208.65	32,788.50	38,134.71	1,42,924.35
Global Share of Local Bodies (at 2.5% of divisible pool)	499.79	595.10	705.22	819.64	953.37	3,573.12

Table 10.8: Total SFC and non-SFC devolution to local bodies by 4th SFC 2011-12 to 2015-16)

(Rs. in crore)

Components	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011-16
• **Own Tax Revenue (net of collection charges @ 2%) as assessed by 4th SFC (Net Divisible Pool)**	19,991.48	23,804.01	28,208.65	32,788.50	38,134.71	1,42,924.35
ii) Estimated share of LBs in State Net OTR						
• Non SFC share in state taxes already shared (VAT, Excise Duties and Stamp Duty)	764.28 (3.83%)	1,370.81 (5.76%)	1,525.54 (5.41%)	1,754.33 (5.35%)	2,017.43 (5.30%)	7,432.39 (5.20%)
• SFC share of LBs @ 2.5% of the divisible pool (net OTR)	499.79	595.10	705.22	819.64	953.37	3,573.12
Total Devolution (non-SFC + SFC)	**1,264.07 (6.32%)**	**1,965.91 (8.23%)**	**2,230.76 (7.91%)**	**2,573.97 (7.85%)**	**2,970.80 (7.79%)**	**11,005.51 (7.70%)**

10.43 The salient features of the comparative analysis of the financial devolution of the 3rd SFC covering the period 2006 – 07 to 2010 – 11 and that of the 4th SFC covering the period 2011 – 12 to 2015 – 16 given in Tables 10.6 and 10.8, are as under:-

- On the face of it, the share of local bodies at 2.5% recommended by this Commission would seem to be relatively lower than that of 4% by the 3rd SFC.
- The total devolution of Rs. 3,573.12 crore made by the 4th SFC at the rate of 2.5% of the divisible pool for the period 2011 – 12 to 2015 – 16, works to 40.65%

higher over the total devolution of Rs. 2,540.44 crore of the 3rd SFC made at the rate of 4% of the divisible pool for the period 2006 – 07 to 2010 – 11.

- The total SFC + non SFC devolution of the 4th SFC at Rs. 11,005.51 crore for the five year period 2011 – 12 to 2015 – 16 works to **188.92%** higher over the total SFC and non-SFC devolution of Rs. 3,809.20 crore of the 3rd SFC for the five year period 2006 – 07 to 2010 – 11.
- While viewing from another angle, the total SFC + non SFC devolution of Rs. 11,005.51 crore of the 4th SFC constitutes 7.70% of the net own tax revenue of the State compared to a devolution of Rs.3,809.20 crore of the 3rd SFC which constituted 5.31% of the net own tax revenue of the State i.e. higher by 2.39%.

10.44 It is further explained that the share of local bodies at 2.5 percent of the divisible pool made by this SFC is in addition to their share in State Excise Duties, Stamp Duty, surcharge on VAT, CFC grants and other state and central transfers to these bodies. This Commission feels that the total SFC and non-SFC devolution depicted in Table 10.8 would be sufficient to meet the financial requirements of the PRIs and ULBs in providing minimum desirable level of public services. This Commission further hopes that the devolution recommended in this report would be well within the reach of state finances. This devolution would also form the basis for determining the size of local bodies grants for Haryana by the 14th Central Finance Commission.

Distribution of Local Bodies Share between PRIs and ULBs

10.45 After having decided upon the composition of divisible pool and share of local bodies in the divisible pool, the next issue is to determine the relative shares of PRIs and ULBs in the local bodies share. Large variations have been noticed across SFCs in shares of PRIs and ULBs such as, Punjab (3rd SFC) 67:33, Rajasthan (4th SFC) 75.70:24.30, Tamil Nadu (2nd SFC) 58:42, UP (3rd SFC) 40:60, Andhra Pradesh (2nd SFC) 65:35, Uttranchal (2nd SFC) 60:40, Assam/Goa (1st SFC) 75:25 and Orissa/Karnataka (2nd SFC) 80:20.

10.46 The 11th CFC assigned more weightage to PRIs by splitting local body grants between PRIs and ULBs in the ratio of 80:20 on the reasoning that the ULBs had a greater access to tax and non-tax resources of their own and, therefore, it is the PRIs which require substantial support. The 12th CFC also favoured the PRIs by allocating local body grants to PRIs and ULBs in the ratio of

80:20 as against rural-urban population ratio of 73:27 as per 2001 census, on the plea that lower share to ULBs would encourage them to augment their own resources depending upon their capacity and needs. However, the 13th CFC adopted a balanced approach and, with a view to providing a uniform per capita entitlement to the rural and urban sectors, strictly adhered to national rural-urban population ratio of 73:27 as per 2001 census for segmenting General Basic and General Performance grants among PRIs and ULBs.

10.47 The 1st and 2nd SFCs of Haryana adopted source specific criteria of sharing state revenues with the local bodies and, as such, they did not apply rural-urban population ratio for fixing respective shares of PRIs and ULBs in local body share. The 3rd SFC of Haryana, however, noted a marked decadal growth of 50.83 percent in urban population as per 2001 census as against the overall growth of 28.43 percent and, further, that the urban population constituted 28.92 percent of the total population. Consequently the 3rd SFC recommended shares of PRIs and ULBs in 65:35 ratio as against the rural-urban population ratio of 71:29. The enhanced share of ULBs was intended to cater to the needs of mounting population pressure on urban infrastructure.

10.48 This Commission is aware of the emerging scenario of major transformation in the state's economy due to large scale investments made for infrastructural development. Rapid industrialisation and urbanisation has a visible impact on demographic structure in the State since last two decades. Consequently, the urban population witnessed a marked decadal growth of 44.25 percent as per 2011 census as against the overall growth of 19.90 percent and the proportion of urban population further rose to 34.79 percent in 2011 from 28.92 percent in 2001. This necessitated proper up-gradation of urban infrastructure to enable it to cater to the needs of mounting population pressure. But even a cursory look at the overall funds allocations for infrastructure development shows that a big chunk of budgetary and other resources is earmarked for creation of urban infrastructure. Further, the ULBs also corner a major share at 80 percent in surcharge on VAT as against urban population ratio at 34.79 percent. This is a very substantial amount being put at ULBs disposal or invested in ULB. This Commission feels that it is the rural infrastructure which also needs to be properly developed wherein adequate urban-like facilities could be provided for the rural population. This measure would also help checking migration of population to the cities. This Commission is also aware that the state government is making concerted efforts for creation of rural infrastructure but still it may take a long time to deliver much needed urban-like facilities.

10.49 The approach of the Commission is based on the principles of equity, efficiency, justice and promotion of inclusive growth. Like the 13th CFC, this Commission is also of the opinion that every citizen of the State should have equal opportunities in availing the basic public services irrespective of the sector he or she lives in. Thus, by adopting a balancing approach, this Commission has come to the conclusion that the share of local bodies in global sharing technique should be apportioned between PRIs and ULBs exactly in accordance with the rural-urban population ratio of 65:35 as per 2011 census i.e. share of PRIs at 65 percent and of ULBs at 35 percent. On this basis, the shares of PRIs and ULBs, in financial terms, have been shown in Table 10.9.

Table 10.9 : Share of PRIs and ULBs (Rs. in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011-16
Total Share of LBs (at the rate of 2.5%)	499.79	595.10	705.22	819.64	953.37	3,573.12
Share of PRIs (65%)	324.86	386.82	458.39	532.76	619.69	2,322.52
Share of ULBs 35%)	174.93	208.28	246.83	286.88	333.68	1,250.60

District-wise distribution of shares of PRIs and ULBs

10.50 The shares of PRIs and ULBs in the total share of local bodies have been determined primarily on the basis of their population ratios as per 2011 census. Now the Commission has also to evolve a criteria for district level distribution of shares of PRIs and ULBs and then among each tier of PRIs and ULBs.

10.51 This Commission is conscious of the need to ensure a certain degree of predictability in the devolution criteria, both in terms of general acceptability as well in the need to nurture incentives. Since the local bodies differ in composition, size, location and fiscal capacities, the distribution criteria of the Commission should properly address the issues like socio-economic backwardness, fiscal capacities and financial needs of the local bodies.

10.52 There is a plethora of socio-economic indictors which are inducted into the distribution criteria by the CFCs and SFCs. But this Commission proposes to adopt such variables which are simple, measurable, easily understandable and which, in real terms, reflect the physical and financial needs of the local bodies and for which reliable data is available at district levels. We also hope to draw attention to the parameters of social deprivation so that efforts are made towards their redressal.

10.53 The functionaries and elected representatives of local bodies, faculty members of research institutes and experts from universities, who met the Commission, suggested that population, area, literacy gap, index of backwardness, revenue efforts etc. be considered as criteria, though their perceptions on the weights to be assigned to each parameter varied largely. The 12th and 13th CFCs computed composite indices consisting of population, area, per capita income, index of deprivation and backwardness, tax effort and SC/ST population and assigned suitable weights to each factor. The 1st and 2nd SFCs of Haryana adopted a decentralised planning formula based on a composite index of backwardness for distribution of funds. The 3rd SFC of Haryana, in its interim report, followed decentralised planning formula, as amended in 2007 – 08, comprising of factors and weights such as population 40%, SC population 25%, number of villages/towns 25% and literacy gap 10%. However, in its final report, the 3rd SFC, made some modification in the selection of indicators and computed a composite index comprising parameters and weights, such as population 40%, area 25%, BPL population 25% and literacy gap 10%. This criteria was also, more or less, based on the decentralised planning formula of 2007 - 08. Now with the constitution of District Development and Monitoring Committees w.e.f. 11.11.2012, district plan funds worth Rs. 294.41 crore budgeted for the year 2012 – 13 have been allocated to the districts purely on the basis of population ratios.

10.54 This Commission, in its Interim Report, adopted parameters and weights as, population (2011 census) 40%, area 25%, literacy gap 15%, Antodya Anna Yojana (AAY) population 10% and gender ratio 10%, for distribution of local body share at district level.

10.55 This Commission observes that the criterion of population and geographical area being neutral, objective and transparent meet general acceptance and are good indicators of the fiscal needs of the local bodies. Population factor needs to be given relatively higher weightage as expenditure requirement for growth and development are directly correlated with the size of population. The area index addresses the cost disadvantages to the local bodies for provision of basic services. Hence, a moderate weightage needs to be assigned to this indicator for maintaining equitable distribution. **Consequently, this Commission has decided to retain the population and area as parameters with 40% weight to population and 25% to area.** But this Commission further observes that these indicators alone do not properly address the important issues like the socio-economic disparities, fiscal performance of local bodies and the incentive mechanism for internal resource generation.

10.56 This Commission was inclined to compute a comprehensive index of backwardness or deprivation as a criteria for devolution using relevant parameters, but despite best efforts the requisite data did not appear credible and usable. However, the Commission has observed that illiteracy or literacy gap and medical facilities gap are also indicators of social backwardness as well as indicative of fiscal needs as these indicators have great bearing on human resource development index. We have, accordingly chosen literacy gap as the most suitable parameter for this purpose. Thus, the areas having more number of illiterates should be supported for their social advancement. **We have accordingly adopted literacy gap as criteria for financial devolution with 15% weight.**

10.57 The factors of Antodya Anna Yojana (AAY) population, BPL population and SC/ST population are also important indicators of socio-economic backwardness and low fiscal capacity. AAY population consists of poorest of the poor. The State has around 11,90,542 AAY persons of which 9,77,381 (80%) reside in rural areas and 2,13,161 (18%) in urban areas. Hence these require special attention. **As such AAY population has been adopted as one indicator for financial devolution with 10% weight.**

10.58 The Commission also proposes to induct a parameter of incentive mechanism into the distribution criteria to reward the better performing local bodies at district level. Gender composition of population again is a key indicator to monitor the social fabric of society. Haryana State has charted an increase in the overall sex ratio from 861 in 2001 to 877 in 2011, where a positive change in sex ratio is observed especially in the urban areas as compared to its rural counterparts. Declining Child Sex Ratio, assuming alarming proportions, has now become a matter of serious concern to policy makers. Prevention of female foeticide should now become among the main agendas of the State. **We have, accordingly, adopted Gender Ratio with 10% weight as one parameter in the distribution criteria as a measure of incentive for better performing local bodies.**

10.59 Hence, due to lack of a comprehensive index of backwardness and deprivation, this Commission has decided that a composite index with parameters like population, area, literacy gap, AAY population and gender ratio can be viewed as an acceptable criteria of distribution of PRIs and ULBs shares at the district levels. These criteria are expected to address the financial needs, fiscal capacity and development gaps of the local bodies. Hence, this Commission recommends the following criteria for district-wise distribution of local bodies shares into PRIs and ULBs:-

Criteria of Financial Devolution

Parameters	**Weight (%)**
Population (Rural/Urban)	40.0
Area (Rural/Urban)	25.0
Literacy Gap (Rural/Urban)	15.0
Antodya Anna Yojana (AAY) Population	10.0
Gender / Sex Ratio	10.0
Total	**100.0**

10.60 The district-wise indices of shares of PRIs and ULBs have been given at Annexures 10.1 and 10.2. The composite indices of PRIs and ULBs and district-wise allocations are given in Table 10.10.

Table 10.10: District-Wise Distribution of Share of PRIs and ULBs

Sr. No.	District	PRIs						ULBs					
		Composite Index	Year-Wise Allocation (Rs. in Crore)					Composite Index	Year-Wise Allocation (Rs. in Crore)				
			2011-12	2012-13	2013-14	2014-15	2015-16		2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Ambala	3.765	12.232	14.565	17.260	20.060	23.333	5.148	9.005	10.722	12.707	14.769	17.178
2	Panchkula	1.855	6.027	7.177	8.504	9.884	11.497	3.397	5.942	7.075	8.384	9.745	11.335
3	Yamunanagar	4.268	13.864	16.509	19.563	22.737	26.447	5.646	9.877	11.760	13.936	16.197	18.840
4	Kurukshetra	4.148	13.476	16.046	19.015	22.100	25.706	3.718	6.504	7.745	9.178	10.667	12.407
5	Kaithal	5.415	17.591	20.946	24.821	28.848	33.555	4.287	7.500	8.930	10.583	12.300	14.307
6	Karnal	5.852	19.011	22.637	26.825	31.177	36.264	5.224	9.138	10.880	12.894	14.986	17.431
7	Panipat	3.589	11.660	13.884	16.453	19.123	22.243	5.950	10.409	12.394	14.687	17.071	19.855
8	Sonipat	5.321	17.286	20.583	24.392	28.349	32.975	5.158	9.023	10.744	12.732	14.798	17.212
9	Rohtak	3.578	11.623	13.840	16.401	19.061	22.172	4.717	8.251	9.824	11.642	13.531	15.738
10	Jhajjar	3.998	12.987	15.464	18.325	21.298	24.774	3.067	5.366	6.389	7.571	8.800	10.235
11	Faridabad	2.167	7.039	8.382	9.933	11.544	13.428	10.739	18.786	22.367	26.507	30.808	35.834
12	Gurgaon	2.870	9.323	11.101	13.155	15.290	17.785	9.427	16.490	19.634	23.268	27.044	31.455
13	Rewari	3.991	12.964	15.437	18.293	21.260	24.730	2.868	5.017	5.974	7.080	8.228	9.571
14	Mahendergarh	4.734	15.378	18.311	21.699	25.220	29.335	2.172	3.800	4.524	5.362	6.231	7.248
15	Bhiwani	8.185	26.591	31.662	37.521	43.608	50.724	4.461	7.804	9.291	11.011	12.798	14.885
16	Jind	6.443	20.931	24.923	29.534	34.326	39.927	3.554	6.218	7.403	8.773	10.197	11.860
17	Hisar	7.435	24.154	28.761	34.083	39.612	46.076	6.236	10.909	12.989	15.393	17.891	20.810
18	Fatehabad	5.060	16.439	19.575	23.197	26.960	31.359	2.776	4.856	5.782	6.852	7.964	9.263
19	Sirsa	7.279	23.648	28.158	33.368	38.782	45.109	5.263	9.207	10.962	12.991	15.099	17.562
20	Mewat	5.668	18.413	21.925	25.981	30.196	35.123	2.345	4.103	4.885	5.789	6.729	7.826
21	Palwal	4.379	14.224	16.937	20.071	23.327	27.133	3.844	6.724	8.006	9.488	11.028	12.827
	TOTAL	**100**	**324.86**	**386.82**	**458.39**	**532.76**	**619.69**	**100**	**174.93**	**208.28**	**246.83**	**286.88**	**333.68**

Distribution of PRIs share among GPs, PSs and ZPs

10.61 This Commission has noted that the functional domains of all the three tiers of PRIs i.e. GPs, PSs and ZPs, are not independent of each other. Rather the PSs and ZPs are super-imposing bodies exercising control over GPs. Whatever maintenance or development works are carried out by the PRIs in rural areas, they fall in the functional domain of any of the GPs. Therefore, GPs, have larger claims on PRIs share compared to the PSs and ZPs. Relying on this perception, all three previous SFCs of Haryana distributed PRIs share among GPs : PSs : ZPs in the ratio of 75:15:10. The previous SFCs, in their sharing mechanism, gave due shares to the PSs and ZPs also recognising their respective roles towards infrastructure development. The representatives of all the three tiers of PRIs staked their higher claims in PRIs share during their meetings with the Commission.

10.62 While considering this issue, the Commission noted that as per the "Revised District Plan Scheme" applicable from the financial year 2012 – 13, apart from funds earmarked under Scheduled Caste Special Plan (SCSP) component, the remaining allocations would be made to each Zila Parishad for rural areas on the basis of Rs. 10 lakh per Zila Parishad Member and at the rate of Rs. 50 lakh for each Panchayat Samiti. It is hoped that this system will continue in the coming years also. **This Commission is, therefore, of the opinion that these exclusive shares of PSs and ZPs in district plan funds would be sufficient to meet their demands for higher shares in Commission's devolution. Thus, while agreeing to the reasoning of the 2nd and 3rd SFCs, this Commission has decided that the PRIs share at the district levels should continue to be allocated among GPs : PSs : ZPs in the ratio of 75:15:10 respectively and hence, no change is proposed in the sharing criteria of the 3rd SFC.**

10.63 Like the 3rd SFC, this Commission further suggests that the shares of GPs and PSs within the districts, should be allocated on the basis of the ratios of population and area as per 2011 census with 80% weight to population and 20% weight to area. The calculations pertaining to the relative shares of GPs, PSs and ZPs in the ratio of 75:15:10 and their inter-se shares should be made by the concerned department of the state government and transfers be made to the PRIs accordingly.

Share of Municipal Committees/Councils/Corporations in ULBs share

10.64 The Commission has noted that in urban areas, municipal bodies consist of municipal committees, municipal councils and municipal corporations. Their functional and financial domains are independent of each other and these are not super-imposing bodies. The 1st and 2nd SFCs had used population as the only basis for allocating the inter se shares of municipal bodies within the district. But the 3rd SFC made some departure from the criteria of previous SFCs and suggested that the inter se shares of municipal bodies at the district level should be calculated on the basis of the ratios of population and area as per 2001 census with 80 percent weight to population and 20 percent weight to area. **This Commission is in agreement with the criteria of calculating inter se shares of ULBs suggested by the 3rd SFC and commends the same for implementation. In other words, the respective shares of urban local bodies within the district should be calculated by the concerned department of the state government on the basis of population ratio (2011 census) with 80 percent weight and area ratio with 20 percent weight and the inter se shares so worked out be assigned to concerned ULB accordingly.**

Overall magnitude of financial devolution as per Step – 1

10.65 On the basis of the approach and criteria adopted by this Commission, the total financial devolution (SFC + non SFC + 13th CFC) suggested for the local bodies, both PRIs and ULBs, for five year period 2011 – 12 to 2015 – 16, has been depicted in Tables 10.11 (A & B).

Table 10.11 : A : Total Devolution for Local Bodies (Rs. in crore)

Component	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011 -16
1. Global Sharing (SFC devolution @ 2.5%)	499.79	595.10	705.22	819.64	953.37	3,573.12
2. non-SFC Devolution	**764.28 (3.83%)**	**1,370.81 (5.76%)**	**1,525.54 (5.41%)**	**1,754.33** (5.35%)	**2,017.43** (5.30%)	**7,432.39 (5.20%)**
• Surcharge on VAT	671.79	678.38	780.14	897.17	1031.75	4,059.23
• State Excise Duties	88.69	224.43	178.40	205.16	235.68	932.36
• Stamp Duty	3.80	468.00	567.00	652.00	750.00	2,440.80
3. Total Devolution (1+2) (SFC + non-SFC)	**1,264.07 (6.32%)**	**1,965.91 (8.23%)**	**2,230.76 (7.91%)**	**2,573.97** (7.85%)	**2,970.80 (7.79%)**	**11,005.51 (7.70%)**
4. CFC Grants	**220.50**	**323.70**	**382.90**	**452.60**	**-**	**1,379.70**
5. G. Total (3+4)	**1,484.57**	**2,289.61**	**2,613.66**	**3,026.57**	**2,970.80**	**12,385.21**

Table 10.11: B: Share of PRIs and ULBs (Rs. in crore)

Components	PRIs						ULBs					
	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2015-16	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2015-16
1. Global Sharing (4th SFC)	**324.86**	**386.82**	**458.39**	**532.76**	**619.69**	**2,322.52**	**174.93**	**208.28**	**246.83**	**286.88**	**333.68**	**1,250.60**
2. Non-SFC devolution	**169.44**	**216.21**	**234.43**	**269.60**	**310.03**	**1,199.71**	**594.84**	**1,154.60**	**1,291.11**	**1,484.73**	**1,707.40**	**6,232.68**
• Surcharge on VAT	121.40	135.68	156.03	179.44	206.35	**798.90**	550.39	542.70	624.11	717.73	825.40	3,260.33
• State Excise Duties	48.04	80.53	78.40	90.16	103.68	**400.81**	40.65	143.90	100.00	115.00	132.00	531.55
• Stamp Duty	-	-	-	-	-	**-**	3.80	468.00	567.00	652.00	750.00	2,440.80
3. Total Devolution (1+2)	**494.30**	**603.03**	**692.82**	**802.36**	**929.72**	**3,522.23**	**769.77**	**1,362.88**	**1,537.94**	**1,771.61**	**2,041.08**	**7,483.28**
4. CFC Grants	**157.53**	**231.26**	**273.56**	**323.36**	**-**	**985.71**	**62.97**	**92.44**	**109.34**	**129.24**	**-**	**393.99**
5. G. Total (3+4)	**651.83**	**834.29**	**966.38**	**1,125.72**	**929.72**	**4,507.94**	**832.74**	**1,455.32**	**1,647.28**	**1,900.85**	**2,041.08**	**7,877.27**

6. Step– 2: Share of Local Bodies (for 2015-16 only)

10.66 This Commission has already observed that non-SFC sharing of State Excise Duties, surcharge on VAT and Stamp Duty has become a case of duplication and overlapping as these taxes are shared individually by the state government at its own level as well as under global sharing also by the SFC. Since at the state level, SFC has been instituted as a constitutional body to recommend sharing of state revenues with the local bodies, sharing of state taxes with the local bodies should be brought under the domain of SFC and covered under global sharing approach. This Commission further observes that as the divisible pool consists of all state taxes and their sharing with local bodies is done on global sharing basis, there is no justification for continuing with non-SFC individual sharing of these taxes. The Commission, while taking cognizance of its constitutional mandate, should make attempts to bring all state taxes under its ambit for sharing with local bodies and to discontinue the existing non-SFC individual sharing of State Excise duties, surcharge on VAT and Stamp Duty. However, while doing so, the Commission would need to review the structural composition of shared taxes, their sharing pattern and enabling provisions in the respective acts or rules so that appropriate amendments could be recommended for discontinuation of non-SFC sharing of state taxes.

10.67 The position, presently obtaining in regulation of State Excise Duties, surcharge on VAT and Stamp Duty, is explained as under:-

State Excise Duties:- Sharing of proceeds of State Excise Duties with the PRIs and ULBs was introduced during nineties with the stipulation that local bodies would not impose any tax or octroi or levy on sale of liquor. The share of PRIs and ULBs depends on the sale of liquor in their respective jurisdiction and forms part of the state budget. Payment to PRIs and ULBs is made through expenditure head "3604". Share of local bodies in excise revenue is estimated at Rs. 235.68 crore during 2015 – 16, consisting of Rs. 103.68 crore for PRIs and Rs. 132.00 crore for ULBs. In fact, sharing of state excise revenue is compensatory in nature which was introduced before 73rd and 74th CAAs when there was no provision for SFC. Since the institution of SFC has come into existence, the non-SFC sharing of excise revenue should be done away with as this source would be a component of the divisible pool under global sharing. **This Commission, therefore, recommends that non-SFC sharing of excise revenue may be discontinued and further that since sharing of excise revenue is governed under the enabling provision in the State Excise Policy being framed on year to year basis, necessary amendments may be made only in excise policy of the State by issuing executive orders.**

Surcharge on VAT:- The state government, vide notification No. Leg.3/2010, dated 2nd April 2010, amended HVAT Act, 2003 and inserted Section 7-A after Section 7 and imposed an additional tax, in the nature of surcharge, at the rate of 5% to be paid by the dealer. The amount of surcharge forms part of state budget and shared between PRIs and ULBs in the ratio of 20:80. Share of PRIs is paid from expenditure head "2515" and that of municipal bodies from head "2217". The share of local bodies has been estimated at Rs. 1,031.75 crore during 2015 – 16, comprising of Rs. 206.35 crore for PRIs and Rs. 825.40 crore for ULBs. The HVAT (amended) Act, 2010 does not provide for sharing of surcharge amount with the local bodies. In fact, this measure is reported to have been adopted in lieu of abolition of House (Property) Tax. The Commission observes that since levy of House/Property Tax has been restored and that too with a bigger magnitude, there appears to be no justification of continuation of sharing of surcharge amount with local bodies and particularly in a situation where its sharing would be covered under global sharing. **This Commission, therefore, recommends that sharing of surcharge amount may be discontinued by issuing executive orders as its sharing has not been provided in the amended HVAT Act, 2010.**

Stamp Duty:- Stamp Duty is governed by Indian Stamp Act, 1899 and is imposed on transfer of immovable property in rural and urban areas. Vide Section 41 (b) of PRIs Act, 1994, a Gram Panchayat is empowered to impose an additional duty not exceeding 2% in the form of a surcharge on transfer of property in its jurisdiction. Like-wise, a municipal committee, vide Section 69 (c) of Haryana Municipal Act, 1973 and a Municipal Corporation under Section 87 (c) of Municipal Corporation Act, 1994 is authorised to levy a duty ranging from 1% to 3% on transfer of immovable property within municipal area in addition to the duty imposed under Indian Stamp Act, 1899. Municipal bodies are presently levying additional Stamp Duty @ 2% in municipal areas whereas Gram Panchayats are not levying any such duty. The share of municipal bodies is estimated at Rs. 750 crore in 2015 – 16. Earlier the share of municipalities used to be paid to them at registration point and as such it did not form part of state budget. But the payment system has been modified w.e.f. 01.04.2012 and share of ULBs now forms part of state budget and paid to them through budget head “2217”. This Commission has observed that since this is a municipal levy being imposed as per provisions in municipal acts, being collected by the state government and further appropriated by the municipal bodies, the share of municipalities should not form part of the state budget. It does not require any amendments in municipal acts. **This Commission, therefore, recommends that the share of municipalities should be paid either through showing deduct entry under concerned receipt head “0030” and not through expenditure head “2217”or by reverting back to the earlier system i.e. by making payment at the collection/registration point. This should be done through issuing executive orders. However, the share of municipalities in Stamp Duty would form part of own tax revenue of municipalities.**

Composition of Divisible Pool

10.68 Under Step – 2, State Own Tax Revenue (OTR), net of collection and other incidental charges at the rate of 2% would comprise the divisible pool and the individual sharing of State Excise Duties, surcharge on VAT and Stamp Duty would be discontinued.

Share of Local Bodies, both PRIs and ULBs

10.69 While recommending Step – 2, the Commission has tried to ensure that the local bodies, both PRIs and ULBs, should not be put to losses. After due deliberation, the Commission has decided to fix share of local bodies at 7% of the divisible pool (net of MCs share of Rs. 750 crore in Stamp Duty). On this basis, the share of local bodies has been shown as per Table 10.12.

Table 10.12: Share of Local Bodies in the Divisible Pool (Rs. in crore)

Particulars		F.Y. 2015 – 16
A.	Own Tax Revenue	38,912.97
B.	Deduct-Stamp Duty Share	(-) 750.00
C.	Own Tax Revenue (Net of stamp duty share)	38,162.97
D.	Deduct collection charges (at 2%)	(-) 763.26
E.	Divisible Pool	37,399.71
F.	Share of Local Bodies (at 7%)	2,617.98

Share of PRIs and ULBs in Local Body Share

10.70 The Commission observes that under Step – 1, the share of PRIs and ULBs in the non-SFC devolution from State Excise Duties, surcharge on VAT and Stamp Duty works in the ratio of 16:84 i.e. PRIs 16% and ULBs 84%. But in total SFC + non-SFC devolution, share of PRIs and ULBs works in 31:69 ratio i.e. 31% for PRIs and 69% for ULBs. It has been further noticed that the balance in non-SFC sharing of surcharge on VAT tilted in favour of ULBs with 80% share as against PRIs with 20% share. Like-wise, Stamp Duty share is being given to ULBs only and the PRIs are being deprived of it. Further, sharing of excise revenue also favours ULBs due to higher sale of liquor from urban areas. It shows that the whole system of non-SFC sharing tilted against PRIs. The Commission further noticed that under Step-1, the shares of PRIs and ULBs in global sharing of the divisible pool have been recommended in 65:35 ratio, strictly in accordance with rural – urban population ratio as per 2011 census. Now, the Commission has to strike a proper balance in these conflicting situations by ensuring that both levels of local bodies i.e. PRIs and ULBs, are not put to financial hardship in financial devolution under Step – 2. **Keeping the whole scenario in view the Commission has decided that the share of local bodies in the financial devolution for 2015 – 16 should be divided between PRIs and ULBs in the ratio of 50:50 i.e. 50% for PRIs and 50% for ULBs as against rural / urban population ratio of 65:35 as per 2011 census.** Under this sharing system, weightage has been given to ULBs due to mounting strain on urban infrastructure on account of population shift and higher emphasis being laid on urbanisation and industrialisation. The Commission is hopeful that this mechanism of financial devolution, based on principle of global sharing at 7% of net OTR with share of PRIs and ULBs in 50:50 ratio, would be justified, fair and acceptable to all stake holders. It is beneficial for both, PRIs and ULBs, as they get comparatively higher devolution. On this basis, shares of PRIs & ULBs in total share of LBs for the year 2015 – 16 have been worked out in Table 10.13.

Table 10.13: Shares of PRIs and ULBs in total share of LBs for 2015 – 16

Rs. in crore

Particulars	Year 2015 – 16
Divisible Pool (Net OTR)	37,399.71
Share of LBs (at 7%)	2,617.98
Share of PRIs (50%)	1,309.99
Share of ULBs (50%)	1,308.99

Criteria of district level distribution of share of PRIs and ULBs

10.71 The Commission recommends the same criteria for district level distribution of PRIs and ULBs share as recommended under Step – 1, as under:-

Criteria of Financial Devolution

Parameters	Weight (%)
Population (Rural/Urban)	40.00
Area (Rural/Urban)	25.00
Literacy Gap (Rural/Urban)	15.00
Antodya Anna Yojana (AAY) Population	10.00
Gender/Sex Ratio	10.00
Total	**100.00**

Distribution of inter se share of PRIs and ULBs

10.72 The Commission recommends that the shares of GPs and PSs within the district should be allocated on the basis of population and area ratios as per 2011 census with 80% weight to population and 20% weight to area. The relative shares of GPs, PSs and ZPs would be in the ratio of 75:15:10. The respective shares of ULBs within the district would be on the basis of population with 80% weight and area with 20% weight.

Composite Indices of PRIs and ULBs and district-wise allocations

10.73 The composite indices of PRIs and ULBs and district-wise allocations are given in Table 10.14.

Table 10.14: District-wise distribution of share of PRIs and ULBs

Sr. No.	District	PRIs		ULBs	
		Composite Index	Allocation for 2015-16 (Rs. in Crore)	Composite Index	Allocation for 2015-16 (Rs. in Crore)
1	**2**	**3**	**8**	**9**	**14**
1	Ambala	3.765	49.287	5.148	67.386
2	Panchkula	1.855	24.285	3.397	44.464
3	Yamunanagar	4.268	55.865	5.646	73.907
4	Kurukshetra	4.148	54.299	3.718	48.673
5	Kaithal	5.415	70.879	4.287	56.123
6	Karnal	5.852	76.602	5.224	68.379
7	Panipat	3.589	46.984	5.950	77.890
8	Sonipat	5.321	69.654	5.158	67.521
9	Rohtak	3.578	46.834	4.717	61.740
10	Jhajjar	3.998	52.330	3.067	40.152
11	Faridabad	2.167	28.364	10.739	140.574
12	Gurgaon	2.870	37.567	9.427	123.396
13	Rewari	3.991	52.237	2.868	37.544
14	Mahendergarh	4.734	61.965	2.172	28.433
15	Bhiwani	8.185	107.145	4.461	58.394
16	Jind	6.443	84.338	3.554	46.527
17	Hisar	7.435	97.327	6.236	81.634
18	Fatehabad	5.060	66.241	2.776	36.338
19	Sirsa	7.279	95.286	5.263	68.893
20	Mewat	5.668	74.192	2.345	30.702
21	Palwal	4.379	57.314	3.844	50.317
TOTAL		**100**	**1308.99**	**100**	**1308.99**

10.74 As stated earlier, financial devolution under Step – 2, is recommended for the financial year 2015 – 16 only as various procedural and operational formalities would have to be observed for shifting to the new system of revenue sharing under global mechanism.

7. Release of back log

10.75 The reference period of 4th SFC is five years i.e. from 2011 – 12 to 2015 – 16. The State Finance Department has reported that as report of 4th SFC was not available by end 2012 – 13, the recommendations of the 3rd SFC on financial devolution, as accepted for its concluding year 2010 – 11, have been extended for implementation during 2011 – 12 and 2012 – 13. Consequently, funds worth Rs. 764.00 crore i.e. Rs. 355.75 crore in 2011 – 12 and Rs. 408.25 crore in 2012 – 13, have been passed on to the PRIs and ULBs by the state government. The amount of Rs. 764.00 crore consists of Rs. 496.60 for PRIs and Rs. 267.40 crore for ULBs. This Commission, as per its revenue sharing scheme, has recommended a devolution of Rs. 1,094.89 crore to the local bodies during two years 2011 – 12 and 2012 – 13, i.e. Rs. 711.68 crore for PRIs and Rs. 383.21 crore for ULBs. On this basis, additional funds of Rs. 330.89 crore i.e. Rs. 215.08 crore to PRIs and Rs. 115.81 crore to ULBs, are required to be released to them to clear the back-log.

10.76 In its Interim Report, the Commission had recommended that amount of the back log be transferred to the PRIs and ULBs during 2013 – 14 over and above their respective shares in financial devolution recommended for 2013 – 14. We have been given to understand that this back-log has not been cleared by the state government till the writing of this report. It is also informed that the amount of back log indicated in para 10.75 is at a little variance of the amount of back log mentioned in our interim report due to a slight change in the divisible pool.

10.77 This Commission reconsidered the issue of distribution of back-log and came to the conclusion that these funds amounting to Rs. 215.08 crore and Rs. 115.81 crore should be transferred to the PRIs and ULBs respectively in a phased manner during 2014 – 15 and 2015 – 16 over and above their respective shares in financial devolution recommended by this Commission for PRIs and ULBs for these years. Further that these funds should be distributed among all tiers of PRIs and ULBs within the district as per the criteria laid down by this Commission for global sharing of state own tax revenue.

8. Assignment of Taxes and Duties to Local Bodies

10.78 As per its TOR, the Commission has also to indentify such state taxes, duties and tolls which can be transferred to or appropriated by the local bodies. We are of the opinion that before making any recommendations on this issue, the Commission would need to examine the prevailing status on structural composition of state and local taxes, their fiscal capacities, collection efficiencies, administrative structure of local bodies, functional decentralisation to local bodies and distribution pattern of state resources.

10.79 The Commission has noted that position on above parameters varies from state to state. The SFCs of Madhya Pradesh and Uttar Pradesh did not favour assignment of any taxes, duties, tolls and fees to local bodies as structural composition of local bodies was not capable of handling this operation. However, several SFCs like Maharashtra, West Bengal, Tamil Nadu, Kerala and Karnataka have recommended assignment of certain state levies to the local bodies to strengthen their finances as local bodies in these states were well structured and the level of functional decentralisation was comparatively higher.

10.80 After going through the basis and structures of state taxes, the Commission has observed that the three most elastic and buoyant taxes i.e. State Excise Duties, Stamp Duty and Value Added Tax (VAT) are already being shared with the local bodies as per their respective Acts or Rules. The volume of transfers from these three shared taxes/duties to local bodies is much bigger in size. As observed by this Commission earlier the total non-SFC transfers going to local bodies from these taxes constitute about 5.5% of the net own tax revenue of the State. Further, assigning any additional taxes and duties to local bodies will result in reduction in own tax revenue receipts of the State and ultimately to that extent the divisible pool would also get reduced correspondingly. Besides, this measure would also require additional expenditure on strengthening of collection machinery.

10.81 The 1st and 2nd SFCs of Haryana adopted individual tax sharing criteria and as such these Commissions did not consider this issue. However, the 3rd SFC followed global sharing mechanism under which local bodies share the buoyancies of all state levies. The 3rd SFC also did not favour assignment of any more state taxes/duties to local bodies as funds flow through global sharing mechanism and other sources was considered very substantial to meet the financial needs of local bodies.

10.82 This Commission also obtained views and suggestions on this issue from the public representatives and functionaries of local bodies as well as the departments of Panchayati Raj, Urban Local Bodies and the Finance and Planning through questionnaire and district level meetings. Views of major revenue earning departments were also obtained. The response received was not positive.

10.83 The Commission has further observed that the existing structure of local bodies in the State is not strong enough to handle properly the operation of newly assigned taxes/duties. Functional decentralisation and collection efficiency are at low levels. Many local bodies are not able to collect even half of their own revenue demand. They are not levying and collecting even those taxes and duties which they are empowered to levy as per their respective acts or rules. In this situation, there seems to be no justification for assigning any more state levies to the local bodies.

10.84 This Commission, while taking cognizance of the whole situation, further observes that the fiscal needs of local bodies on operation and maintenance of public services are expected to be entirely met by way of financial devolution on global sharing basis and partly by way of internal resource generation measures suggested by this Commission. **Therefore, in the given scenario, we do not propose or recommend assignment of any state taxes, duties, tolls and fees to the local bodies during our award period. However, the devolution of functions, if any, decided to be made by the state government to the local bodies during subsequent years should be accompanied by matching funds and functionaries.**

9. Other observations and recommendations

10.85 We have looked at the whole gamut of the resources of the local bodies. Our approach has been largely guided by the consideration that “own fiscal domain” of local bodies should be expanded and their resources be supplemented through external transfers to the extent necessary. It is hoped that while considering the recommendations of this Commission, the state government will take a holistic view of these and that decisions on specific recommendations about tax and non tax resources, tax sharing and other devolutions will not be taken in a truncated or isolated manner. **This Commission further expects the state government to ensure that appropriate decisions on SFC recommendations are taken in a time bound manner and to place the ATR before the state legislature within the stipulated time period.**

10.86 The recommendations on improving the financial base of local bodies made in this report are of moderate size which, according to our expectations, are sufficient to meet the requirements of these bodies for establishment, proper maintenance of basic civic services, upgradation of civic infrastructure and fulfilment of other fundamental duties. **It is, thus, hoped that all the major recommendations on financial devolutions made in this report would be accepted by the state government without modifications following the tradition at the central level.**

10.87 We have given comprehensive recommendations for reforming tax and non-tax regimes of PRIs and ULBs, some of which require changes in the relevant laws and rules. Suggestions for improvement in fiscal management as well as organisational streamlining consistent with economy in expenditure and efficiency in administration have been given. These measures are expected to help in improving the financial health of local bodies. It is hoped that follow up action on these recommendations would be taken up expeditiously.

10.88 We are aware that the present fiscal scenario at the central and state government levels is marked by high and persistent ratios of revenue and fiscal deficits and an over-all environment of financial crunch. Thus, improvements in financial position of local bodies and larger transfers to them are linked with improvements in the financial position of the state government. We have attempted to outline the main components of a strategy for fiscal reforms that the state government needs to adopt. The state government is also itself committed to a reforms package to improve its finances. What is needed are firm, target oriented and time bound actions to meet these commitments.

10.89 The SFC is faced with piquant situations. It has to strike a balance between two conflicting situations i.e. resource crunch at State level and expanding fiscal needs of local bodies. The SFC has to take into account not only the needs of the local bodies but also the capacity and commitments of the state government. We have, thus, tried to strike a proper balance between fiscal capacity of the state government and the expenditure needs of the local bodies and to evolve such a package of fiscal transfers which is acceptable to both the stake-holders i.e. the local bodies as well as the state government.

10.90 This Commission observes that the entire tax devolution recommended in this report for local bodies for the years 2011 – 12 to 2015 – 16 is in the nature of entitlements for panchayats and municipalities as envisaged in the constitution and, as such, should be transferred as untied funds to the local bodies and should be utilised by the PRIs and ULBs as per their priorities. However, the state government may issue certain directives for utilisation of devolved funds and keep a watch through effective monitoring. A tendency generally observed is that the state government often earmarks funds for specific purposes or even deducts certain amounts at source for specific purposes. This tendency needs to be held in check as it conflicts with the principles of the fiscal autonomy of local bodies.

10.91 The recommendations of this Commission are meant to take effect from the financial year 2011 – 12 and will remain valid upto the year 2015 – 16 as per the decision taken. This report should, therefore, be viewed in continuity of the interim report of this Commission.

10.92 In normal circumstances, SFCs should take at least two years to finalise recommendations and submit their reports. The state government would also require time to consider the report of SFC. It would, therefore, be appropriate that the next SFC is appointed at least two years before the concluding year of the extant SFC period. It is, therefore, required that the next SFC be constituted just after this Commission submits its report. It is also necessary that the full Commission is appointed in one go and necessary infrastructure put in place at the earliest so that its working is not adversely affected. The creation of the SFC cell on the lines recommended by us would be of great help in this regard and also a cost and time saving measure in the long run.

CHAPTER – 11

PRINCIPLES GOVERNING GRANTS-IN-AID TO LOCAL BODIES

Purpose and nature of grants-in-aid

11.1 Our Terms of Reference (TOR) require us to make recommendations as to the principles which should govern the grants-in-aid to the rural and urban local bodies from the consolidated fund of the State. In the realm of financial endowments, grants-in-aid occupy an important place. These also form an important component of Finance Commission transfers. The primary aim of grants-in-aid to local bodies is to meet expenditure requirements of their certain obligatory and basic functions. These are largely revenue gap filling mechanisms rather than umbrella allocations for a set of specific responsibilities devolved upon local bodies.

11.2 In the public policy space, several kinds of grants exist. Grants may be sanctioned under special statutes or these may be built into administrative measures as part of instruments of public policy. These can be classified into general purpose grants based on some formula or criteria and specific purpose grants tied to some designated schemes or projects. These can also be conditional grants, further classified into matching and non-matching grants. Grants can be either statutory or non-statutory. Statutory grants are compulsory transfers. These may be of the nature of compensations in lieu of abolition or withdrawal of certain taxes and duties and also called per capita grants. Non-statutory grants are based on specific needs of local bodies. Grants also include up-gradation grants meant for up-gradation of levels of public services Special grants are given to meet expenditure on specific, exceptional and special problems faced by the local bodies. There may also be deficit grants to meet non-plan gaps in the finances of local bodies and also the incentive grants to reward the better performing local bodies in revenue collection, delivery of services and other economic and social objectives.

Observations of SFCs

11.3 This Commission has observed that the pattern and objectives of grants-in-aid suggested by SFCs differ across States. Some SFCs stipulated that grants-in-aid distribution policy should satisfy the principles of equalisation of allocations i.e. transfers should be made in such a way as to reduce imbalances and equalise the financial status and service levels of local bodies. Grants-in-aid also help making corrections for cost disabilities faced by local bodies. Some SFCs opined that the grants-in-aid should be related to fiscal capacity and performance of local bodies in collection of their tax and non-tax revenues. Others were of the opinion that removal of regional imbalances, financial requirements and paying capacity should be the basis for providing grants-in-aid. Beside this, basic public services transferred to local bodies should also form a guiding factor in allocation of grants. A few SFCs observed that the system of grants-in-aid, being discretionary, should be done away with as this system is arbitrary and not based on proper rationale and it also tended to generate a sense of financial irresponsibility on the part of local bodies. However, some SFCs recommended specific purpose grants and incentive grants for local bodies.

11.4 This Commission has noted that 1st and 2nd SFCs of Haryana, while adopting specific tax sharing mechanism for making financial devolution, also recommended grants for local bodies, like maintenance grants, repair grants, development grants, Incentive grants, specific purpose grants and relief grants etc. These grants amounted to Rs. 504.10 crore of the 1st SFC and Rs. 449.71 crore of the 2nd SFC.

11.5 The 3rd SFC also examined this issue but did not recommend any kind of general purpose grants-in-aid for local bodies on various grounds. Firstly, local bodies were already getting larger grants from various sources including CFC and SFC. Secondly, fiscal transfer to local bodies on global sharing basis through tax devolution would better serve their growing responsibilities on O & M of core services and their other sundry financial needs rather than through grants-in-aid. Thirdly, such a system of fiscal transfers not only ensures higher devolution but would also enable the local bodies to meet their needs without grants-in-aid. However, the 3rd SFC recommended capacity building and up-gradation grants of Rs. 45.00 crore for various state owned institutions.

Observations of 4th SFC

11.6 This Commission, in its Interim Report, did not recommend any grants for local bodies from the Consolidated Fund of the State. In our final report, we gave due thought to the issue of grants-in-aid to the local bodies. We found merit in the reasoning of the 3rd. SFC. We further observe that the bulk of resource transfers to local bodies should be done through tax sharing and the role of grants-in-aid should be supplementary. This system tends to encourage economy in expenditure and efficiency in tax efforts. We are also of the considered view that the instrument of grants-in-aid should not be used as a general means of transfers to local bodies, except in a very special and exceptional circumstances. Grants should rather be a selective tool to achieve certain perceived goals.

11.7 The main observation of this Commission in regard to special, specific and exceptional grants is that such grants should be a one time arrangement only and not a general or a usual means of resource transfer to local bodies. Such grants should be based on certain objective and transparent considerations and should take into account the fiscal needs and capacities of local bodies.

11.8 Another specific purpose grant may be capital grants needed for meeting expenditure on infrastructure projects which require huge investment, beyond the capacity of local bodies to mobilise. It has been reported that Haryana Urban Development Infrastructure Development Board (HUIDB) has been constituted and declared as a nodal agency for tapping institutional finance by local bodies for undertaking capital intensive projects. We, therefore, observe that the needs of local bodies for capital funds would be well served by this mechanism.

11.9 We have, thus, not recommended any kind of general purpose grants to local bodies from the Consolidated Fund of the State particularly in view of larger dispensations being recommended by CFCs for local bodies of the States for supplementing their resources. Further, the global sharing criteria of tax devolution is intended to provide sufficient funds to local bodies to meet their fiscal needs. This Commission further observes that the role of grants-in-aid should remain confined only to cater to the specific and exceptional problems and needs of the local bodies.

Special and specific purpose grants

11.10 This Commission further feels that in some special and exceptional circumstances need for specific purpose grants may arise. These may be in the form of deficit grants, up-gradation grants, incentive grants and subventions for meeting the outstanding liabilities including debt liabilities of the local bodies. We feel that such grants may go a long way to redress the problem of service gaps and rectify the fiscal imbalances among the local bodies.

Deficit grants

11.11 Deficit grants are directed to meet the non-plan revenue gaps or deficits of local bodies. The Finance Commission has to work out the pre-devolution non-plan revenue deficits of local bodies assessed on normative basis for its award period. Based on the analogy of 13th CFC, this Commission is also required to assess post-devolution normative non-plan revenue deficits of local bodies after taking into account their respective shares in state taxes in order to determine the quantum of deficit grant. The normatively assessed post-devolution non-plan revenue deficit for the local bodies also signifies the existence of a vertical imbalance still required to be corrected and met by the SFC.

11.12 This is a highly technical exercise requiring expertise and accurate data on all aspects of finances of local bodies. Despite all possible efforts, the Commission could not get reliable and authenticated information on receipts and expenditures of local bodies from the concerned departments, in the absence of which it became difficult for the Commission to work out the revenue gaps of the local bodies. Assessment of normative revenue deficits of local bodies by the Commission at its own level based on certain assumptions may not have served the intended purpose. In this situation, the Commission decided not to recommend deficit grants for local bodies for its award period. The Commission, however, observed that the revenue or fiscal gaps of local bodies would be met partly through CFCs/SFCs fiscal transfers and partly through additional resource generation efforts of local bodies.

Requirements for up-gradation of standards of public services

11.13 Our TOR do not make a specific mention of financial requirements of local bodies for up-gradation of standards of civic services and special problems being faced by these bodies. We realised that up-gradation grants are important for local bodies to narrow down the inter district regional disparities in the level of services, which cannot be up-graded to the desired levels by the local bodies from their own resources.

11.14 This Commission, on the pattern of Central Finance Commission, asked the Departments of Panchayati Raj and Urban Local Bodies to submit their respective memorandums containing details of up-gradation of essential services and additional financial requirements thereon relating to the award period of this Commission. The requisite information has not been received from the Panchayat Department till writing of this report. However, the Urban Local Bodies Department, vide its memorandum dated 21.08.2012, demanded additional funds of Rs. 4,571.50 crores for up-gradation of various services and implementing various schemes of urban local bodies, as storm water drainage Rs. 1,536.12 crore, solid waste management Rs. 394.45 crore, municipal roads Rs. 2,495.95 crore and street lights Rs. 144.98 crore. The Department of Urban Local Bodies has further informed that it has prepared City Development Plans for 74 towns of Haryana in order to work out infrastructure gaps in these services. For implementation of these schemes, total fund requirement has been assessed at Rs. 4,571.50 crore, which is proposed to be funded partly from central schemes and partly from state transfers.

11.15 While considering this demand, the Commission has observed that a big part of this demand relates to development of urban infrastructure, which basically forms part of capital plan expenditure to be met from the state budget. Further, the Commission has been informed that the state government has decided to launch a state-wide urban infrastructure development programme namely Rajiv Gandhi Urban Development Mission Haryana (RGUDMH) on mission mode approach in all the urban local bodies with the objective to strive for integrated development of the city/town in a holistic manner within a time frame of five years from 2010 – 11 to 2015 – 16, with focus on efficiency in urban infrastructure, service delivery mechanism, community participation and accountability of urban local bodies. The basic components of this project are urban sanitation, cleanliness, solid waste management, water supply/sewerage/storm water and other civic infrastructure including drains, roads, street lights, community centres/toilets, parks etc. The Commission has been further informed that as per the guidelines of the state government, the share of ULBs in surcharge on VAT is also being utilised for funding the projects under RGUDMH. The Commission, therefore, feels that the share of ULBs in surcharge on VAT is substantial to supplement efforts towards funding projects under RGUDMH including storm water, solid waste management, municipal roads and street lights. Therefore, there appears to be no justification for recommending any grant to local bodies for this purpose. Hence, no dispensation has been recommended for urban local bodies on this account.

Grants for meeting pending liabilities of municipalities

11.16 During our visits to the districts, representatives and functionaries of some municipal bodies had highlighted the need for grants to meet their pending liabilities. The Department of Urban Local Bodies, through its memorandum dated 21.08.2012, informed that some ULBs are moving in a vicious circle of accumulated liabilities of Rs. 173.24 crore as on 31.03.2012 pending with some municipal bodies comprising of Rs. 13.93 crore on account of salary, pensions, gratuity and provident fund, Rs. 135.36 crore as loan liability and Rs. 23.75 crore as unspecified. The Department has urged the Commission to recommend suitable dispensations for liquidation of these pending liabilities.

11.17 The Commission noted that 1st and 2nd SFCs of Haryana had recommended loan waivers of Rs. 32.50 crore and Rs. 5.92 crore respectively for some municipal bodies as a one time measure. 3rd. SFC also recommended a special grant of Rs. 10.00 crore for meeting pension liability of municipal employees pending with municipal bodies.

11.18 On examination, the Commission found that some municipalities could not meet their committed liabilities on salaries, pensions, gratuity and provident fund from their own tax and non-tax revenues. Non-payment of salaries and other dues has a crippling effect on the performance of employees which, in turn, adversely affects the efficiency of local bodies. These pending payments need to be properly verified and cleared on priority.

11.19 At the same time, the Commission also noted large funds being devolved to the urban local bodies from various sources. The guidelines issued by the state government for utilisation of share of ULBs in surcharge on VAT also empower the ULBs to meet expenditure on salary, retiral and pensionary benefits from the amount of surcharge on VAT. The Commission is, therefore, of the opinion that in such a situation any relief package to meet pending liabilities of urban local bodies may lead to slackness in their efforts for resource generation and expenditure compression. This measure may also tend to increase their dependence on state budgetary support. This Commission further suggests that these pending liabilities should be liquidated by the concerned local bodies from the untied funds being received from other sources. As such the Commission did not find any justification to recommend any dispensation for this purpose.

11.20 The Commission further noted that out of the total loan liability of Rs. 135.56 crore outstanding as on 31.03.2012, municipal corporations account for Rs. 132.38 crore and councils/committees Rs. 3.18 crore. In corporations, Faridabad Municipal Corporation has a bulk loan liability of Rs. 129.40 crore. The Commission considered this outstanding loan liability of local bodies for recommending some suitable debt relief package in terms of grants or re-scheduling or swapping these loans by low cost loans etc. But for want of requisite details from Urban Local Bodies Department regarding terms and conditions of lending, repayment schedule, name of financial institutions, purpose of loaning, reasons of pendency etc., the Commission could not arrive at certain conclusions. The Commission understands that these loans have not been obtained from financial institutions against state government guarantees as there are no state guarantees outstanding as on 31.03.2012 against municipal bodies. The Commission, therefore, suggests that the entire loan liability be liquidated from the common pool of resources of the concerned local bodies. If need be, the concerned local bodies could take recourse to the Haryana Urban Infrastructure Development Board for tapping institutional funds to discharge the pending loan liability.

Grants for maintenance of municipal roads and Solid Waste Manangment

11.21 A proper road infrastructure is vital, not only for economic development, but also for better delivery of services. We hope that enhanced provision for maintenance of roads will help in sustaining road connectivity.

11.22 This Commission has noted that 11th and 12th CFCs also recognised the importance of proper maintenance of roads and recommended specific grants for this purpose. The 13th CFC has also recommended a grant of Rs. 267.00 crore to Haryana for proper maintenance of state roads.

11.23 The Department of Urban Local Bodies, in its memorandum submitted to the Commission, has also requested for substantial grants-in-aid for proper maintenance and upkeep of municipal roads. This Commission has also noted the increased expenditure undertaken by the ULBs for maintenance of roads and recognises the fact that a vital infrastructure such as roads should not suffer due to poor maintenance.

11.24 This Commission has, therefore, decided to recommend grants for maintenance of municipal roads in addition to the normal maintenance expenditure being incurred by the ULBs. Accordingly, we obtained data on municipal road length from the Urban Local Bodies Department. The total municipal road length as on 31.03.2011 has been reported at 8,818 km, comprising of 5,521 km with municipal corporations and 3,306 km with municipal councils and committees. The Commission observed that municipal corporations have enough and easy access to revenue sources and as such they are in a position to provide for proper maintenance of their roads. It is the municipal councils and committees which need to be supported for this purpose. There are, thus, 3,306 km of municipal roads (councils/committees) for which maintenance grant has been recommended. The Commission has proceeded on the assumption that roads newly built thereafter would not require even normal maintenance or repair during our award period.

11.25 The Commission obtained norms for maintenance of roads adopted by the Public Works Department from the ULBs Department. The prevailing norm has been reported to be between Rs. 1.50 lakh to Rs. 2.00 lakh per km for ordinary repair depending upon the location and terrain etc. We have, thus, taken a median value i.e. Rs. 1.75 lakh per km of road length as the norm for ordinary repair. Accordingly, this Commission recommends a grant of Rs. 57.85 crore for proper maintenance and upkeep of municipal roads. This is in addition to the normal expenditure being incurred on municipal roads by the urban local bodies. The repairs should conform to standards and survive for the period of 5 years. Work audit should invariably be conducted.

11.26 Solid Waste Management is an essential and obligatory function of municipal bodies. The Commission has observed that inadequate attention towards this function has resulted in problems of health, sanitation and environmental degradation. With rapid pace of urbanisation, the situation is becoming more and more critical with passage of time. Existing imfrastrucure is not in a position to keep pace with population growth. Lack of financial resources, institutional weakness, improper choice of technology and public apathy towards solid waste management has made this service far from satisfactory. The Commission has been informed that the Department of Urban Local Bodies has prepared service level benchmarking for 68 municipalities which have not been covered either under centrally sponsored schemes or JNNURM and UIDSSMT. The Commission is, thus, of the opinion that the problem of solid waste management is more important than maintenance of roads which needs immediate attention. Hence, the Commission suggests that the municipalities may utilise the specific grant of Rs. 57.78 crore for the development of solid waste management in their respective areas rather than on maintenance of municipal roads.

Upgradation of fire services

11.27 Rapid industrialisation and urbanisation in the State has put tremendous strain and pressure on urban infrastructure. This has increased fire hazards also. It is, thus, important to strengthen and upgrade the existing fire safety services in terms of manpower, fire fighting equipments, public awareness programmes, vehicles etc.

11.28 The Department of Urban Local Bodies has submitted a proposal at a cost of Rs. 333.02 crore for up-gradation of municipal fire services like, fire units, fire station buildings, other fire fighting apparatus/tools/appliances and setting of independent directorate of fire services. The Department of Urban Local Bodies has reported that only 53 municipalities in the State have 59 fire stations. Presently there are 81 water tenders, 11 foam tenders, 27 small water tenders, 10 rescue tenders, 10 water browsers and 2 hydraulic platforms in these fire stations. As per norms of M/o Home Affairs, GOI, there should be a fire station for every 10 sq km in urban areas and 50 sq km in rural areas and one fire unit per population of 50,000. On this basis, there should be 507 fire units as against existing 180 fire units. The total financial requirement has been assessed on the basis of GOI norms.

11.29 This Commission has noted that the 13$^{th.}$ CFC has recommended Rs. 100 crore as grant for Haryana ULBs for up-gradation of fire services. In addition, the 13th CFC has also recommended that a portion of LBGs be earmarked by the

States for re-vamping of fire services. The Commission considers this as substantial support to the ULBs for up-gradation of fire safety measures. The 3rd. SFC had also recommended a grant of Rs. 5.00 crore for up-gradation of fire service in the State. We regret to observe that this recommendation of 3rd SFC is reported not to have been accepted.

11.30 It has been reported that the state government has decided to set up a separate Directorate of Haryana Fire Services, but it has not yet started working due to non-sanction of posts. An amount of Rs. 60.00 crore has been demanded on this account. The Commission is informed that this entire demand would be met from the state budget after an independent fire directorate starts working.

11.31 The State is undergoing a rapid pace of urbanization. Being one of the most developed states of the country, industrial and commercial investments are also of a high order. Risk of fire hazards and man-made disasters are thus high. In case of any untoward event the role of fire services becomes critical. The current skeletally manned fire services are perceptibly inadequate in all areas of the challenge. This Commission felt that the state government has inordinately neglected this critical service in its overall urban development thrust. Not only has the setting up of a directorate and recruitment of a dedicated corps of personnel not been accomplished but it appears no sincere efforts have been made for intensive training of existing man-power, creation of adequate citizens awareness or training of citizen volunteers from among various government departments and members of the public. We urge the state government to consider the matter with the seriousness it deserves. This Commission recommends a special and one time grant of Rs. 10 crore for the following purposes:-

a) Training and capacity building of fire service personnel.

b) Building up a strong training infrastructure within the State for capacity building and training of civil volunteers and fit government employees from other departments.

c) Building a comprehensive public awareness initiative on a sustainable basis to educate both industry and citizens of the need for prevention and regarding handling of emergencies.

We realize this amount is to draw attention of all concerned to this imperative need and ensure that these activities are built into future budgets of the fledging directorate.

Grants for capacity building

11.32 The Commission, during its touring at district level, felt there was acute deficiency of role awareness, skill up-gradation and systematic training of the elected representatives and functionaries of local bodies as well as government functionaries. The Commission further noted that capacity building, training and skill up-gradation are essential areas of empowerment of local bodies where capacities need to be developed with focussed attention on conflict resolution and management. Presently there are three premier institutions in the State, viz. HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon which are primarily responsible for imparting training to the functionaries and elected representatives of local bodies as well as government employees. These institutions should design suitable training programmes for creation and up-gradation of the right type of skills with the help of renowned institutes and NGOs within India and abroad. The training modules could consist of identification of target groups, assessment of their training needs, selection of course contents, training materials and teaching aids etc. These institutes can also be asked to undertake research work on municipal administration including PRIs besides research in quality of citizen services provided. With a view to strengthening the capacities of these institutions towards these ends, this Commission recommends a grant of Rs. 15.00 crore i.e. Rs. 6.00 crore for HIRD Nilokheri, Rs. 3.00 crore for SCDTC Nilokheri and Rs. 6.00 crore for HIPA Gurgaon. These grants should be released to the related institutions by the Finance Department through their respective administrative departments.

Grants for strengthening of data base

11.33 During interactions with representatives of local bodies, the Commission felt an urgent need for creation and strengthening of reliable data bases with local bodies at all levels. At present, there is no dependable mechanism for maintenance and collection of data at any level. The data base should be designed with sufficient scope for subsequent extension fully equipped with trained and dedicated manpower and duly linked with electronic devices. The Commission recommends a grant of Rs. 10.00 crore for creation and strengthening of data bases at all levels of local bodies i.e. Rs. 5.00 crore for PRIs and Rs. 5.00 crore for ULBs. The Commission further suggests that the Departments of Panchayati Raj and Urban Local Bodies should assess requirements of each of the local bodies for computerisation and other related ingredients and earmark sufficient additional funds, if need be, from their shares in tax devolution and the funds so earmarked should be treated as first charge on SFC's tax devolution recommended on global sharing basis.

Grants for maintenance of accounts and audit

11.34 This Commission has in another chapter also highlighted the need for better management of local bodies through improvement of accounting practices and audit. In the area of accounting, we have felt it necessary to have trained persons in the fields of accounts and financial management. These are two separate though inter-related areas affecting governance, efficiency and responsibility to the government as well as citizens. We certainly feel that empowerment of local bodies through funds, functions and functionaries (3Fs) are effectively possible by restructuring certain areas of Municipal and Panchayati Raj financial administration. There is a need for creating appropriate cadres and hiring qualified MBAs and CAs to improve the efficiency of services and administrative quotient in these local bodies. Many important urban local bodies in India have hired suitable MBAs and CAs. Our visits to municipal corporations in Gujarat and Karnataka reveal that investment in such highly qualified personnel yield both immediate and long term positive results. This has been true for PRIs in Karnataka also.

11.35 We have also made detailed recommendations on audit related matters elsewhere in this report. We would only state here in brief that effective audit, whether of accounts, social or works (technical audit) are *sine qua non* for current and future levels of devolution of funds and administrative powers. The Commission, therefore, recommends a token grant of Rs. 20.00 crore comprising Rs. 10.00 crore each for PRIs and ULBs for setting up of a cadre of qualified personnel equipped with modern tools of management and information technology to ensure revamping of the management of accounts and improving of audit standards. We know that the local bodies have been empowered to hire such qualified persons from the open market to ensure maintenance of accounts on the accrual basis of accounting. However, this facility has not been tapped from the local market for reasons best known to the local bodies. We trust this amount would incentivize local bodies to take advantage of this facility and encourage the state government to meanwhile incorporate suitable budgetary provisions along with creation of special cadres.

Grants for setting up of cells for research and analysis of public finance and policy

11.36 The Commission has observed that universities in the State have generally been engrossed in routine academic theory with little attention to applied aspects of government economic policies and implications or impact studies at the field level. It is felt that these institutions need to play some role in analysis of fiscal matters and evaluation of governance at all levels.

11.37 We do not sense any urgency or perceived need by bureaucratic levels in government for independent objective socio economic analysis and impact analysis of government policies or even the need for external inputs and think tanks to enable decision makers to assess various options of policy. Even various ministries in Government of India have access to such facilities. We hear that the State is likely to set up a state of the art Institute of Fiscal Policy (IFP) with advanced centre on planning and evaluation. This is a welcome move. However, due to increasing level of decentralization, along with regular setting up of Finance Commissions to augment decentralization and resource mobilization in favour of local bodies, independent analytical assignments to universities would be a helpful facility to both local bodies and Finance Commissions. It is only by constant independent monitoring and supervision of implementation of various schemes, projects, activities of local bodies that devolved funds can be usefully spent and policies fine tuned.

11.38 The Commission, therefore, felt that institutionalized structures are required within the concerned departments of universities for regular analysis of impact of programme design and implementation with their ramifications at district and grassroot levels. Such research cells would be of invaluable help to all stake holders especially local bodies including Finance Commissions in offering studies, recommendations and critiques. This Commission strongly recommends that as in developed countries, universities start setting up formal structures for institutionalizing research into public finance policy of the State and impact of programmes. To kick start this effort, a sum of Rs. 75.00 lakh is recommended i.e. Rs. 25 lakh for each of the three universities in the State i.e. KUK, MDU Rohtak and GJU, Hisar. We are certain the long term benefits to local bodies and government departments would be invaluable by the setting up of such cells. Such initiatives, we feel, would be invaluable to policy makers in government to improve governance. With more decentralisation becoming a reality with each passing year, the entire gamut of governance is likely to witness a sea change over the coming decades.

Total volume of grants- in-aid to local bodies

11.39 The total quantum of grants-in-aid as recommended by this Commission for its award period 2011 - 2016, is indicated in Table 11.1.

Table 11.1: Grants-in-aid to local bodies (Rs. in crore)

Particulars	Amount
• Maintenance of municipal roads and Solid Waste Management	57.85
• Up-gradation of fire infrastructure	10.00
• Capacity building	15.00
• Strengthening of data base	10.00
• Maintenance of accounts and audit of local bodies	20.00
• Creation of cells for research and analysis of public finance and policy in universities	0.75
Total	**113.60**

Incentive Mechanism (Grants)

11.40 As stated earlier, the Commission's overall intention has been to suggest an effective and transparent scheme of revenue sharing with adequate scope for incentives and disincentives based on performances of local bodies in achieving national and state objectives. For this purpose, the Commission has designed an incentive mechanism to reward the efforts of performing local bodies in important economic, fiscal and social indicators. Incentive grants encourage local bodies to initiate effective fiscal correction measures and to deliver quality public services.

11.41 Studies of local finances reveal that larger fiscal transfers in terms of grants-in-aid have an inherent tendency of generating adverse fiscal implications as efforts of local bodies towards raising more of their own revenues get distorted. The Commission would, therefore, have to be more vigilant so as to guard local finances from having been impacted by adverse effects of the design of fiscal transfers to the local bodies.

11.42 This Commission has noted that $1^{st.}$ and $2^{nd.}$ SFCs of Haryana, in their schemes of revenue sharing, recommended incentive grants in terms of cash awards for better performing PRIs amounting to Rs. 6.68 crore and Rs. 17.89 crore respectively, which were not accepted by the state government. Though the 3^{rd} SFC discarded the system of incentive grants followed by the earlier SFCs, but specifically recommended incentive funds at district level separately for PRIs and ULBs. Broad contours of these funds were required to be laid down by the state government after identification of emerging areas and norms/targets to be achieved each year besides working out detailed guidelines and performance criteria to reward better performing local bodies.

11.43 The subject of incentive grants has been of considerable interest to this Commission. We feel that an important role has to be played by this line of endowment. Enabling local bodies achieve important fiscal and social objectives by not only approximating important milestones but also surpassing them can be effectively done through infusion of incentive grants. The recommendation of 3^{rd} SFC for incentive funds at district level each for PRIs and ULBs underscores our line of thought. It is our resolve to help the State tackle various challenging social issues by giving emphasis to such efforts. Local bodies vary in size, fiscal capacities and cost disabilities to discharge their responsibilities. An incentive fund to benefit the performing local bodies will encourage laggards to achieve or even cross milestones laid down for social development.

11.44 Thus, keeping in view the above line of thoughts, this Commission has built into its revenue sharing criteria two sets of incentive mechanisms for rewarding performing local bodies at the district level. Firstly, the Commission has adopted Gender Ratio with 10% weightage as one parameter among the criteria for tax devolution as a incentive measure for better performing local bodies. Gender composition of population is a key indicator to monitor the social fabric of society. Secondly, on the analogy and pattern of the $3^{rd.}$ SFC, this Commission recommends creation of Incentive Fund at the district level each for PRIs and

ULBs as a mechanism to encourage them to adopt vigorous efforts for revenue raising and improve basic social indicators. Details of this incentive mechanism are spelt out in the following paragraphs.

11.45 The annual corpus of the Incentive Fund each for PRIs and ULBs would be a specified amount equal to 10 percent of their annual entitlements in tax devolution which would be retained in the Incentive Fund and released only to those local bodies which perform better than the suggested norm during the preceding year. Fifty percent of the annual accruals in the Incentive Fund may be earmarked for those local bodies which are able to increase their own tax and non-tax revenues by more than 10 percent over the preceding year. Calculation of own tax and non-tax revenue should not include income raised through sale of assets, fiscal transfers from the central and state governments, loans raised and other non-recurring items of receipts. The other eligibility criteria under this incentive mechanism is a minimum recovery of 60 percent of the total annual demand against own tax and non-tax revenues beginning with the financial year 2011-12. The minimum recovery percentage would have to be raised by 5 percentage points each year upto 80 percent in the year 2015-16, the concluding year of the award period of this Commission so as to be eligible to draw down the Incentive Fund. However, the amount of arrears of tax and non-tax revenue pending in courts due to litigation should be excluded from the annual demand.

11.46 The other 50 percent part of the annual corpus of the Incentive Fund should be earmarked and released to those local bodies, at all levels, which keep up to or exceed the standard norms to be fixed by the state government in respect of emerging core areas. This Commission has identified several socio-economic indicators in this regard that need to be kept in mind while assessing performance under targeted milestones. These include: fiscal management, implementation of national and state programmes and other core areas as enrolment at primary level, dropout levels among girls, small family norms, Infant Mortality Rate, sanitation, conservation of water and energy resources, prevention of foeticide and infanticide among other emerging areas to be identified by the state government.

11.47 However, the state government should finalize the socio-economic indicators or parameters to be included in the incentive mechanism and determine norms or targets to be achieved each year and also to work out guidelines and performance criteria to reward the performing local bodies. The fund would be non-lapsable and the amounts remaining undistributed at the end of the year due to below normal performance of local bodies, should be brought forward and added to the total divisible corpus of the succeeding year.

11.48 The position of annual corpus of the Incentive Fund each for PRIs and ULBs at the rate of 10 percent of total annual shares of these bodies in tax devolution has been depicted in Table 11.2.

Table 11.2 : Annual corpus of Incentive Fund (Rs. in crore)
(10% of tax devolution)

Year	PRIs	ULBs	Total
2011-12	33.47	18.02	51.49
2012-13	38.02	20.47	58.49
2013-14	44.22	23.81	68.03
Sub-Total	**115.71**	**62.30**	**178.01**
2014-15	51.47	27.71	79.18
2015-16	59.94	32.27	92.21
Total	**227.12**	**122.28**	**349.40**

11.49 This Commission further observes that the first three years i.e. 2011 - 12, 2012 – 13 and 2013 – 14 of its award period would have gone by the time report is proposed to be submitted to the state government. As such the amount of Rs. 178.01 crore accruing to the fund during these years would not be disbursed to the performing local bodies. As the incentive fund is non-lapsable, the opening balance in the fund at the beginning of the year 2014 - 15 would be Rs. 178.01 crore for both PRIs and ULBs. This amount including the accretions during the subsequent years should be released to the performing local bodies as per the criteria laid down by the state government. The undisbursed amount in the fund as on 31.03.2016 would be treated as lapsed.

Channelization, utilisation and monitoring of Finance Commission devolutions to the local bodies

11.50 Grants-in-aid referred to in above paras have been recommended for achieving specific objectives. Hence, all the concerned institutions and agencies, for whom grants have been recommended, are required to design their action plans within the indicated ceilings and to submit their proposals to their respective administrative departments for approval. The Finance Department would release the requisite funds to the concerned implementing agencies on quarterly basis as per the phasing to be indicated by the implementing agencies. The second and subsequent instalments would be released after obtaining utilisation certificates to be submitted by the implementing agencies in the formats prescribed by the Finance Department. This is to ensure that the SFC funds are released timely and properly and efficiently utilised for the intended purposes.

11.51 The Commission is not mandated to recommend measures for utilisation of funds devolved to the local bodies. But since a big chunk of budgetary funds is transferred to local bodies through various channels including Finance Commissions, it becomes necessary to ensure that the requisite funds are transferred to these bodies timely besides the funds so transferred are properly utilised and effectively monitored.

11.52 This Commission has observed that devolution of funds to local bodies is often irregular and dilatory. In some cases funds are released at the fag end of the financial year. This affects proper budgeting and timely utilisation of transferred funds. The system of release of funds to local bodies, therefore, needs to be streamlined and the requisite funds should be transferred to these bodies in a time bound manner.

11.53 The 3rd SFC had recommended constitution of a High Powered Committee under the Chairmanship of Chief Secretary comprising with Finance Secretary and Planning Secretary as the Members and the Director of Economic and Statistical Analysis Department as the convenor to take policy decisions on all issues related to the Finance Commission, timely implementation of their recommendations, review and monitoring of financial devolutions to the local bodies. In our view this committee has not served the intended purposes having met only once. We have already suggested in para 4.43 of Chapter 4 of this report constitution of an external Monitoring Group on Karnataka pattern. Such an external High Powered Monitoring Group endowed with authority would better ensure proper utilisation and effective monitoring of SFC devolutions and other recommendations. Accordingly, we re-iterate constitution of an external Monitoring Group on Karnataka pattern for the said purpose.

CHAPTER – 12

TAXATION POWERS OF LOCAL BODIES AND MEASURES OF ADDITIONAL RESOURCE MOBILSATION

12.1 As per its terms of reference, the Commission is required, among other things, to recommend measures which are needed to improve the financial position of the local bodies, both the PRIs and ULBs, to enable them to function as effective instruments of self governance. During discussions at various levels, the Commission deliberated upon threadbare all aspects of finances of local bodies including sharing of state resources with the local bodies, assignment of some state levies to these bodies, budgetary support and other grants-in-aid flowing to these bodies as also internal resource generation by these bodies at the local level. The consensus arrived at has been in favour of improving the resources of these bodies at the local level by own efforts in such a way that they do not have to depend too much on state budgetary support and are able to raise resources to the extent possible by their own efforts. The working groups constituted by the Commission to suggest measures of resource augmentation have also strongly advocated for such a policy of raising resources at the local level to ensure financial autonomy of local bodies and reduce their dependence on government grants. Based on the discussions and suggestions which emerged during these deliberations with the elected representatives, the Commission has decided to recommend certain measures in this regard. However, while making recommendations on internal resource mobilisation by the local bodies, care has been taken to ensure that they serve as elastic sources of revenue and generate sizable resources to the local bodies without creating any hardship to the poorer sections of society.

12.2 The Commission, as per its mandate, shall also have regard, among other considerations, to the financial requirements of the Panchayats and the Municipalities, their fiscal capacities and potential for raising resources. Thus, the Commission has considered it necessary to look into the tax structure and taxation powers of these bodies as enshrined in their respective enabling legislations as well as the taxable capacities so that suitable recommendations could be made for improving the financial resources of these bodies.

1. Taxation Powers of Local Bodies
A. Taxation Powers of Panchayati Raj Institutions

12.3 The functioning of all the three tiers of PRIs in the State i.e. ZPs, PSs and GPs is governed by the Haryana Panchayati Raj Act, 1994, which was enacted after the 73rd Constitutional Amendment. This Act envisages wide powers for the PRIs to levy taxes and fees, as the state legislature has powers to impose. Section 41 of the 1994 Act makes it obligatory for GPs to impose a house tax within their jurisdiction and also empowers them to levy fee on tehbazari from the shopkeepers in fairs other than cattle fairs, service fee including fee on cleaning of streets and lighting of streets and sanitation, fee for registration of animals sold in the sabha area and water rates where it is supplied by the gram panchayat. The gram panchayats are also empowered to levy duty on transfer of property in the form of surcharge on the stamp duty, not exceeding two per centum, if so authorized by the state government. Section 45 of the Act also empowers the GPs to impose a special tax for construction of any public work of general utility. Section 88 of Panchayati Raj Act, 1994 empowers the Panchayat Samitis to impose any tax which the legislature of the State has power to impose under the Constitution, of course, subject to general direction and control of the state government. Section 91 of the Act provides for levy of fees by the Panchayat Samitis on similar lines. Sections 147 and 149 give similar powers to the Zila Parishads for the imposition of taxes and fees respectively.

B. Taxation Powers of Urban Local Bodies

12.4 The Haryana Municipal Act, 1973 empowers the ULBs (councils and committees) to broadly impose two categories of taxes, namely, obligatory taxes and discretionary taxes. Sections 69 and 70 of the said Act detail various such taxes. Section 69 classifies all those obligatory taxes which the ULBs shall impose and it is obligatory for ULBs to impose these taxes. Section 70 classifies all those discretionary taxation measures which are recommendary in nature and ULBs may impose these taxes as circumstances so permit. However, Section 71 of this Act gives over-riding powers over Sections 69 and 70 and it authorizes a ULB to levy any tax, toll or fee which the state legislature can impose. As far as municipal corporations are concerned, their taxation powers have been defined under Section 87 of the Haryana Municipal Corporation Act, 1994. All the taxes enlisted in the said statutes are subject to the sanction of the state government.

12.5 Obligatory / Compulsory taxes include property or house tax, fire tax and a duty on the transfer of immovable properties within municipal limits. A perusal of the discretionary taxes levied by ULBs informs that taxes can be levied on professions, trades, vehicles, animals, electricity, fire services, sanitation, driving licence and development related works among other things. These taxes are to be levied only with the previous sanction of the state government. These powers are common to all three levels of municipal bodies.

12.6 A brief description of obligatory and discretionary taxes is given below.

(a) Obligatory Taxes

(a) A tax payable by the owner of buildings and lands which shall not be less than two and a half per centum and more than fifteen per centum as the State Government may, by notification, direct, of the annual value of such buildings and lands;

(b) such other tax, at such rates as the state government may, by notification, in each case, direct;

(c) a duty on the transfer of immovable properties situated within the limits of the municipality, in addition to the duty imposed under the Indian Stamp Act, 1899, as in force for the time being in the State of Haryana, on every instrument of the description specified below and at such rate, as the state government may, by notification, direct, which shall not be less than one per centum and more than three per centum on the amount specified below against instruments:

(i) **Sale of immoveable property**:- The amount or value of the consideration for the sale as set forth in the instrument.

(ii) **Exchange of immoveable property**:- The value of the property or the greater value as set forth in these instruments.

(iii) **Gift of immoveable property**:- The property as set forth in the instrument.

(iv) **Mortgage with possession of immoveable property**:- The amount secured by the mortgage as set forth in the instrument.

(v) **Lease in perpetuity of immoveable property:-** The amount equal to one-sixth of the whole amount or value of the rent which would be paid or delivered in respect of the first fifty years of the lease.

The said duty shall be collected by the Registrar or Sub-Registrar in the shape of non-judicial stamp papers at the time of registration of the document and intimation thereof shall be sent to the committee immediately. The amount of the duty so collected shall be paid to the committee concerned.

B. Discretionary Taxes

The ULBs may impose in whole or in any part of the municipalities any of the following taxes, tolls and fees, namely;

(i) A tax on professions, trades, callings, and employments;

(ii) a tax on vehicles, other than motor vehicles, plying for hire or kept within the municipality;

(iii) a tax on animals used for riding, draught or burden, kept for use within the municipality, whether they are actually kept within or outside the municipality;

(iv) a tax on dogs kept within the municipality;

(v) a show tax;

(vi) a toll on vehicles entering the municipality, (Vide Haryana Act No.14 of 2000);

(vii) a tax on boats moved within the municipality;

(viii) a tax on the consumption of electricity at the rate of not more than five paise for every unit of electricity consumed by any person within the limits of the municipality;

(ix) A fire tax, a sanitation tax, a tax on driving licences, a development tax etc.

(x) a fee with regard to pilgrimages, drainage, lighting, scavenging, cleansing of latrines, providing internal services and

(xi) with the previous sanction of the State Government, any other tax, toll or fee which the Legislature has powers to impose in the State under the Constitution of India.

In practice, the ULBs are only imposing obligatory taxes and out of discretionary taxes, dog tax, show tax, etc. are also being generally imposed by the ULB's.

Observations and Suggestions

12.7 This Commission has observed that subsequent to the 73rd and 74th Constitutional Amendments, all the conformity legislations enacted by the state government endow sufficient taxation powers to the local bodies, but these do not seem to have been adequately administered due to political, administrative and economic reasons. Neither are the local bodies willing to exercise their given taxation powers for obvious reasons. It has also been given to understand that the taxation powers of local bodies have, to a great extent, been limited by the state government, directly or indirectly. On the other hand, the local bodies have continued to be pre-empted, slowly and gradually, of their major sources of revenue by way of abolition, exemptions and concessions without putting in place any viable compensatory measure. This tendency has led to undermining the authority and autonomy of local bodies and developed in them overtime a dependency syndrome. **There is, thus, an imperative need for the local bodies to fully exercise all their enabling taxation powers enshrined in their respective legislations and exploit their taxable capacity and potential to the fullest extent. The Commission is hopeful that by these measures the financial position of the local bodies will improve considerably.**

12.8 There appears to be a delimma in regard to the taxation powers of the PRIs and ULBs. During their interaction with the Commission, the elected representatives of PRIs and ULBs informed that all their taxation powers are subject to the prior sanction of the state government and the local bodies are not allowed either to impose taxes or levies or to increase the rates of existing taxes or fees. On enquiry, the functionaries of the local bodies and the state government revealed that the local bodies are free to exercise all their taxation powers but the elected representatives are not willing to do that. The Commission gave due thought to these issues and observed that the taxation powers of local bodies are certainly limited by the prior approval of the state government as is clearly evidenced from the enabling provisions. **In view of this, the Commission is of the firm view that local bodies should be imparted full freedom to levy taxes, duties, fees etc. within limits prescribed by law subject to floor or ceiling rates fixed by the state government. But at the same time local bodies should also be willing to exercise their given powers.**

12.9 It has also been noted that there is no clear-cut line of demarcation in the taxation powers between the State and the local bodies as exists between the Centre and the States. **It is, therefore, suggested that there has to be a clear demarcation of tax sources between the State and the local bodies either through consensus or a constitutional provision or suitable state legislation. Since this subject comes under the ambit of the state government, it should initiate such supportive measures in the desired directions. These measures would go a long way toward enhancing financial autonomy of local bodies.**

2. Measures of additional resource mobilisation for Local Bodies

12.10 As already stated, the Commission as per its TOR, is mandated to suggest measures for internal resource generation by the local bodies themselves.

The Commission has analysed their taxation powers in the foregoing paras of this Chapter and made suitable recommendations. The Commission has also attempted to explore other resource raising measures for improving the financial health of local bodies which have been categorized as measures common to, both PRIs and ULBs, and others relating to PRIs and ULBs separately.

Measures common to PRIs and ULBs

12.11 While analysing tax structure of the state government and the pattern of budgetary support to local bodies, the Commission has come across some state levies which are already being shared with the local bodies. After going through their existing structure, the Commission has decided to make suitable modifications in their sharing pattern conforming to the principles of financial devolution and global sharing approach adopted by the Commission for sharing of state taxes with the local bodies. These have been explained in this part of the Chapter.

State Excise Duties (revenue from sale of liquor)

12.12 The revenue earned from sale of liquor is shared with the PRIs and ULBs at the rate of Rs. 5/- per bottle of country liquor of 750 ml, Rs. 7/- per bottle of IMFL of 750 ml. and Rs. 3/- per bottle of beer of 650 ml. This transfer is treated as compensatory in nature and payment is made to the PRIs and ULBs from the state budget on the basis of sale of liquor within their jurisdictions. The share of local bodies, both PRIs and ULBs, was Rs. 88.69 crore in 2011 – 12 and is estimated at Rs. 178.40 crore during 2013 – 14. This source was put in place before 73rd and 74th Constitutional Amendments when there was no provision for SFC. **Now since excise revenue has been taken as one component of the divisible pool of state taxes, the Commission in Chapter – 10 of this report has recommended discontinuation of sharing of excise revenue with the PRIs and ULBs by making necessary amendments in state excise policy. As such no hike in the share of local bodies in excise revenue is proposed.**

Surcharge on VAT

12.13 The state government has levied an additional tax, in the nature of surcharge, at the rate of 5% on Value Added Tax (VAT) w.e.f. 2nd April, 2010. The amount of surcharge forms part of the state budget and shared entirely between

PRIs and ULBs in the ratio of 20:80. The share of local bodies in surcharge on VAT was Rs. 671.79 crore in 2011 – 12 and Rs. 678.38 crore in 2012 – 13. This measure was put in place in lieu of abolition of property (house) tax. Since levy of property/ house tax has been restored and proceeds from VAT including surcharge has been made part of the divisible pool of state taxes, **the Commission finds no justification of continuing with sharing of surcharge amount with local bodies. Hence, no upward revision in the rate of surcharge on VAT is recommended.**

Stamp Duty

12.14 The Haryana Municipal Act, 1973 empowers the urban local bodies to levy an additional duty on stamp duty ranging from 1% to 3% on transfer of immovable property in urban areas. Presently municipalities are levying additional stamp duty at the rate of 2% in municipal areas whereas gram panchayats are not levying any such duty. The share of municipal bodies has been at Rs. 468 crore in 2012 – 13 and is likely to be Rs. 567 crore in 2013 – 14. Earlier the share of municipalities used to be paid to them at registration point and as such it did not form part of the state budget. But the payment system has been modified w.e.f. 01.04.2012 and share of local bodies now forms part of the state budget and paid to them through the Department of Urban Local Bodies.

12.15 This additional duty was levied at 2% in July, 1973 for the first time which was increased to 3% in January, 1989. This duty was again reduced to 2% w.e.f. 25th February, 2004 which is still in operation. It comprises the most important source of revenue for ULBs. Like-wise, a gram panchayat is also empowered to impose such duty not exceeding 2% on transfer of immovable property in its jurisdiction. Keeping this in view, the 1st SFC recommended this levy to be at 7.5% for PRIs and ULBs. The 2nd and 3rd SFCs recommended it to be at 3% for each of the PRIs and ULBs. This Commission considers this levy as a potential source for the PRIs and ULBs which should be fully exploited as per the provisions contained in their respective Acts. **Keeping this in view, this Commission recommends that this additional duty on stamp duty should be increased by the ULBs to 3% from existing 2% which is in conformity with the provisions in Municipal Act. This measure is likely to generate additional**

income in the vicinity of about Rs. 250 crore to Rs. 275 crore per annum coupled with value incremental effect.

12.16 The elected representatives of PRIs, during their interaction with the Commission, strongly pleaded for their share in stamp duty on parity with municipal bodies. The Commission, while finding their demand as justified, considered this issue and **recommends that the gram panchayats should be permitted to levy additional duty on stamp duty at the rate of 3% on sale and transfer of immovable properties in their jurisdiction. Necessary amendment may be made in Panchayat Act, 1994 while doing so, if so warranted.** It is worthwhile to mention here that the Commission had tried to obtain figures of revenue from stamp duty from rural and urban areas, but this information was not made available. As such, the Commission could not work out the additional annual income likely to be generated for panchayats from this source. However, the Panchayat Department should workout the share of panchayats on this basis. The Commission is further of the view that since Panchayat Samitis and Zila Parishads have also specific role to play in panchayati raj administration, these institutions should also get their due shares from this source. **The Commission, therefore, recommends that the additional revenue accruing to the PRIs from levy of additional duty at 3% should be distributed at the district level among GPs, PSs and ZPs in the ratio of 75:15:10 and further share of PSs and ZPs be fixed on the basis of population ratios as recommended by this Commission in its revenue sharing scheme.**

12.17 This Commission has further observed that since this is a levy of local bodies being imposed as per provisions contained in municipal and panchayat acts, the share of local bodies **should not form part of the state budget. We feel that the former system of collection and transfer of local bodies shares to them at the level of Registrar or Sub-Registrar should be reverted back. It not only saves time and ensures immediate transfers of revenue to the local bodies but is also symbolic of their fiscal autonomy. It is important to ensure that centralisation is avoided where possible. It is, thus, recommended that the share of PRIs and ULBs should be paid by making payment at the collection/ registration point.**

Tax on consumption of Electricity (Electricity Tax)

12.18 Among the discretionary taxes, there is a provision in Municipal Act to levy a tax at the rate of five paise per unit of electricity consumed within the municipal limits. Electricity Tax is levied as a measure of compensation for use of land and other properties of ULBs by the power utilities. The revenue accrued to ULBs during 2011 – 12 amounted to Rs. 16.75 crore. This levy is collected by the power utilities and is adjusted against the power bills on street lighting and other public utilities which consume power.

12.19 Electricity Tax was levied w.e.f. 01.07.1992 in all the municipalities uniformly at the rate of one paise per unit. Subsequently, the rate of electricity tax was revised from one paise to five paise per unit w.e.f. 16.05.2000. No further revision has been effected since then. The representatives of ULBs during their meetings with the Commission had urged the Commission for upward revision in the rate of Electricity Tax. After careful consideration, the Commission is of the view that some elastic source of revenue coupled with faster delivery and regular flow should be assigned to the municipalities. **Thus, the Commission recommends that electricity tax needs to be enhanced to 10 paise per unit from the existing 5 paise per unit with a view to improve the financial position of municipalities.**

12.20 The elected representatives of PRIs during discussions with the Commission strongly pleaded for levy of electricity duty on power consumed within jurisdiction of panchayats also on the pattern similar to ULBs. The Commission sought information on number of units consumed in panchayat areas but the same could not be supplied by the Panchayats Department and power utilities. The Commission found merit in the arguments of representatives of PRIs as the land and other properties of the panchayats are used by the power utilities for electrification purposes. **The Commission, therefore, recommends that presently Electricity Tax at the rate of five paise per unit should be levied on electricity consumed in panchayat areas due to large quantities of power supplied and consumed by rural areas of the State. This will also bring about some parity in responsibilities of consumers in rural areas to pay for public services and the tax rate be subsequently increased to 10 paise per unit on similar lines as recommended for municipalities.**

12.21 During field visits, the Commission has been informed that power utilities are charging commercial rates for the energy consumed for street lighting, water supply and other public utilities in panchayat and municipal areas. The Commission feels that these are the basic civic amenities being provided by the local bodies. Thus, there is no justification for charging commercial rates. **The Commission, therefore, recommends that power consumed for street lights, water supply and other public utilities in panchayat and municipal areas should be charged on bulk supply or domestic rates rather than on commercial rates.**

Share in Royalty on Minor Minerals

12.22 Mineral administration throughout the country is governed by a central "Mines and Minerals Act, 1957". Section 15 of this Act empowers the States to frame their own rules for the regulation of minor minerals. Rates on royalty on major minerals are fixed by the central government, while rates of royalty on minor minerals are fixed by the state government. As reported by the Department of Mines and Geology, major minerals in the State are negligible. However, minor minerals like, sand, road metal, masonry stone, slate stone, boulder gravel, brick earth, saltpetre, granite, marble etc. are available in Haryana.

12.23 The revenue collected from mining contracts during the year 2009 – 10 has been reported at Rs. 248.66 crore which came down to Rs. 78.38 crore during 2010 – 11. During 2011 – 12, the revenue collected upto September, 2011 was only Rs. 8.35 crore. It was due to closure of mining operations in the entire State of Haryana on account of various court orders or on technical grounds. The state government revised rates of royalty on minor minerals during 2005 – 06 but these rates could not be operative as the matter is reported still pending in the courts for adjudication. The Department has further reported that from the year 2013 – 14 the process of contracts of mining has started but the mining operations have not yet started. Hence, it has shown its inability to indicate the annual revenue likely to be available from royalty on minor minerals.

12.24 The representatives of PRIs and ULBs, during their meetings with the Commission, pleaded for granting some share to these bodies from royalties on minor minerals. As regards sharing a part of royalty on minerals with rural and urban local bodies, the Department of Mining and Geology has reported that as per the state policy, royalty from minerals forms part of state resources which are utilised for development of rural and urban areas. The Department has suggested that royalty amount should rather be spent on eco restoration of the mining areas.

12.25 This Commission has noted that 1st and 2nd SFCs of Haryana had recommended share of panchayats and municipalities in royalty on minor minerals at 20%. **After carefully considering the matter, this Commission recommends that 10% of the income from royalty on minor minerals should be the share of PRIs and ULBs. As regards share of PRIs, it is recommended that this may form a pool of resources at the district level for further disbursement to the panchayats in accordance with set guidelines to be framed by the Panchayat Department. In order to ensure equitable distribution, it could well be provided that share of various panchayats could be worked out partly on the basis of origin and partly on the basis of transit route or other suitable criteria to be evolved by the state government.**

Teh Bazari

12.26 The income from teh bazari can be generated by local bodies, both PRIs and ULBs, from the shop keepers by organising fairs and festivals in their respective areas. Appropriate rates can be fixed depending upon the location and occasion. Presently, income from teh bazari is being collected in the State by those municipal bodies only which have locational advantages of organizing fairs and festivals in their respective areas. The ULBs received income of Rs. 3.00 crore from teh bazari in 2008 – 09 which went up to Rs. 43.13 crore in 2010 – 11 and further to Rs. 64.24 crore in 2011 – 12. **The Commission observes that teh bazari can be a substantial source of income to ULBs in case it is properly utilised and fees or charges of teh bazari are revised from time to time.**

12.27 The Commission has been informed that teh bazari is not being collected in rural areas by the panchayats. It has been observed that various fairs and festivals are organized in a large number of villages. The Commission, therefore, feels that, in lieu thereof, some fees or charges should be levied and collected by the concerned panchayats in the form of teh bazari to augment their incomes. The Panchayat Department should initiate action in this regard and fix suitable fees to be charged from shop keepers depending upon the location and occasion.

(b) Measures of Additional Resource Mobilisation specific to PRIs

12.28 The Commission observes that presently the PRIs are exploiting a few sources of revenue and that too to a very limited extent. They have not been able to recover even certain obligatory taxes and there is also a marked reluctance on the part of elected representatives to impose additional levies. The Commission considers it necessary that PRIs should make serious and consistent efforts to mobilise resources at their own level so as to discharge the responsibilities entrusted to them under the new dispensation. With this in view the Commission held district level discussions with the elected representatives of PRIs and other stake-holders. A few concrete suggestions came up during discussions on which observations of the Commission are given in following paras.

House Tax (Chullah Tax)

12.29 Section 41 (i) of Haryana Panchayati Raj Act, 1994 provides for levy of a house tax by the gram panchayat. The panchayats in Haryana, presently, impose house tax under Section 117 of the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996. The house tax, which is being imposed by the panchayats are in slabs of Rs. 30, Rs. 20 and Rs. 10 per annum depending on the category of occupier or owner. In case of the land owner or shopkeeper, rate of house tax is Rs. 30/-, in case of a tenant of land or an artisan Rs. 20/-, and in case of an unskilled labourer, Rs. 10/-.

12.30 The Commission has observed that since the formation of the State, house tax rates were revised in 1996 only. The 2nd SFC considered this issue and recommended that rates of house tax should be revised every five years and that recovery of this tax should be maintained by the panchayats at their level. The 3rd SFC also considered this issue, but since the house tax on residential buildings had been abolished w.e.f. 01.11.2007, it recommended that the state government should consider some other viable and acceptable tax source for PRIs in lieu of house tax.

12.31 It has been reported that the annual demand of house tax in villages is assessed at Rs. 15.00 crore, but recovery is less than 50% of the demand and that too often attached to issuance of caste/domicile certificates, electricity connections, nomination for elections etc. Recovery remains low as there is no effective collection mechanism. Panchayat Department has also reported income from house tax at Rs. 7.45 crore in 2006 – 07 and at Rs. 6.60 crore in 2007 – 08. Panchayat Department has further informed that house tax in villages has been re-imposed on rates as existed in 2007 – 08 vide notification number S.O.4/HA.11/1994/S.209/2011, dated 10.01.2011 and enabling provisions have been made in Panchayat Act, 1994 and the rules framed there under.

12.32 During discussions with the Commission, elected representatives pleaded for substantial enhancement in house tax rates ranging from Rs. 50/- to Rs. 100/- per annum. The Commission feels that the instrument of tax inculcates a sense of belonging among the citizens besides improving the financial autonomy of the PRIs. **The Commission therefore recommends that the rates of house tax should be revised with immediate effect, as under:-**

- **For land owner or shopkeeper: - From Rs. 30/- to Rs. 100/- p.a.**
- **For tenant of land or an artisan:- From Rs. 20/- to Rs. 50/- p.a.**
- **For un-skilled labourer:- From Rs. 10/- to Rs. 25/- p.a.**

It is further recommended that house tax rates should be revised every five years to make it relevant to cost escalation. Further, no exemption should be granted for katcha dwellings since even a small levy imparts a sense of dignity and participation to the residents.

Development Tax

12.33 This is a revenue measure that should be seriously considered in view of long term arbitrary development that takes place in response to commercial opportunities. It is seen that around cities with or without industrial or commercial opportunities – especially cities in the NCR with commercial/industrial scope – commercial and residential structures tend to mushroom on private land holdings abutting roads or nearby areas. The gram panchayat is institutionally a passive or mute observer to the chaotic and adhoc nature of development. It is presently the District Town Planner who is empowered to take cognizance in case of violation of building norms or of approved area layouts. Most of what happens by way of action regularization or demolition is without any say of the local authority – the gram panchayat, The GP is not formally involved though it is one of the important stakeholders in the matter. In case of construction on private property within the village residential area (lal dora) the decisions taken, if any, has an important bearing on services being provided within the GP. So even if the DTP is involved or otherwise, the present scheme of things do not allow any say by the GP regarding approvals. **It is in this area – the traditional village habitat boundary (lal dora) that the GP should be fully and solely involved in its role as a regulatory and competent authority authorized to approve the building plans and give completion certificates – both with the help of expert guidance and support. Development tax if imposed could be a direct source of revenue for the gram panchayat. As far as construction of structures outside the lal dora but inside the village boundary, the DTP could continue to play the regulatory authority in conjunction with the GP with the revenue from the Development Tax being transferred to the GP. The advantage or perhaps necessity of such an arrangement is that the DTP is competent to see that the structures conform to the Controlled Area norms and as they would be part of the overall urbanization process should also adhere to the required engineering standards.**

Management of Common/Panchayat lands and other Common Property Resources (CPRs)

12.34 In Haryana, common/panchayat lands and other Common Property Resources (CPRs) are very important for the rural community and a major source of income for the panchayats. CPRs are non-exclusive resources in which groups of people at village level have access and right of use. These exist in the form of village common lands, wood lands, grazing grounds, common waste lands, rivers, village ponds, tanks, wells, streams, pathways, mineral resources etc. These contribute to rural development, meeting needs of rural communities and supplementing their income.

12.35 The Commission sought information from Panchayat Department on total village common lands, cultivable and non-cultivable, land on lease, land under encroachment, cases filed in the courts, steps taken for protection of panchayat land and other CPRs. Department could not give any information on any points except that gram panchayats, at present have 8,52,341 acres of panchayat land out of which 2,10,811 acres are cultivable and 6,41,530 acres non-cultivable. Non-cultivable land includes pathways, ponds, roads, abadi, forests, mountains, grazing grounds, rivers and drains etc. The income derived by gram panchayats from cultivable common lands was Rs. 204.40 crore during 2011 – 12 and Rs. 230.94 crore during 2012 – 13. Income from other CPRs was was 40.00 crore during 2011 – 12 and Rs. 43.50 crore during 2012 – 13.

12.36 The Commission has observed that these panchayat lands and other CPRs are not being optimally managed and protected. Over the years, major parts of CPRs have been encroached upon or privatized through legal and illegal means. Panchayats are unable to protect their common lands due to their in effective and restricted powers and dilatory legal procedures. Availability of common lands is fastly reducing due to their being allocated on pattas to landless labourers, rural industrialisation, setting up of special economic zones, development of residential colonies, allotment of plots to BPL families etc.

12.37 The Commission has noted that Section 7 of Village Common Lands Act, 1961 has conferred proprietary rights on common lands to panchayats. The said Act, as amended in 1992, also provides for penalty on unauthorized possession of common lands. Section 7 (5) of the Act envisages even imprisonment upto two years in case of illegal possession of panchayat land. It shows that the existing legal provisions are sufficient enough for protection of village common lands and the panchayats are now fully empowered to take action on removal of encroachments over panchayat lands. **In view of this, the Commission suggests that laws pertaining to removal of encroachments on CPRs should be made more stringent and efforts be made to enforce them strictly so that the disputed cases of unauthorized possession may be speedily disposed of. Village and block level functionaries should be made responsible for pursuing such cases.**

12.38 The Commission has received some useful suggestions from various stake-holders for conservation, management and development of CPRs, action on which is required to be taken as under:-

- The village common land and other CPRs should be physically identified, properly recorded and demarcated through fencing etc. and displayed on notice board of each panchayat with necessary details for general information of the residents so as to avoid encroachments.

- Management and development of CPRs should be essential components of village and district level plans and should also form part of the training modules for PRIs functionaries and representatives. Mass campaigns should be undertaken for increasing people's awarences about the importance and protection of CPRs.
- Concerted efforts should be made for commercial exploitation of common lands by setting up commercial complexes, rural industries, industrial sheds etc. where sufficient land is otherwise available for local requirements. A big part of the area should be utilized for plantation, afforestation, fishing activities, horticulture, floriculture etc. for augmenting income of panchayats. Panchayats should also impose some charges for use of CPRs. Fines may also be imposed on defaulting persons. Income from these sources should be utilised for proper management and development of CPRs.
- The auction system for leasing out panchayat lands should be transparent and objective. Representatives of PRIs should be present at the time of auction of shamlat lands to avoid corruption and connivance.

Conversion charges – Change of Land Use (CLU)

12.39 The Town and Country Planning Department not only prepares the development plans and checks the unauthorised constructions but also grants the permission for change of land use to regulate the proposals for development as per the zoning regulations stipulated for each zone. Normally, an area upto a distance of 8 km. beyond municipal limits is declared as controlled area. A limited area is earmarked for urbanisation for future and the rest of the area is declared as rural zone. Out of the total 478 controlled areas declared so far, 235 controlled areas have been declared during the period from 2005 to 2012. Permission for change of land use is granted keeping in view the provisions of the development plan.

12.40 As per the existing policy, the department is charging a scrutiny fee @ Rs. 10/- per sqm. Besides, conversion charges are charged for change of land use depending upon the location, nature of land and the activity proposed. The Commission has been informed that the charges for change of land use effective from 1974 were revised manifold in 1996 which remained in operation till 17.06.2003. These rates were reduced on 18.06.2003 and further revised in 2006 and then revised w.e.f. 30.07.2010 which are still in operation. The annual income from conversion charges has been reported at Rs. 285.53 crore in 2010 – 11 and at Rs. 298.15 crore in 2011 – 12.

12.41 The elected representatives of PRIs had pleaded for a substantial share in conversion charges from change of land use. The 1st and 2nd SFCs of Haryana had also recommended share of gram panchayats in conversion charges at 10% and 3% respectively. This Commission also feels that it would be appropriate if some percentage of this income is devolved to gram panchayats. **It is, therefore, recommended that 10% of income from change of land use (CLU) may be devolved on the gram panchayats. We further feel that the system of transfer of the share of panchayats so worked out would be much simpler with the collecting agency continuing to be the state government.**

Issue of various certificates

12.42 We have observed that even simple activities and responsibilities that can be implemented at the GP level are being done by government functionaries at the district level. These include issue of birth and death certificates, marriage certificates, domicile certificates and caste certificates. These records can easily be maintained at the level of GP officers with appropriate safeguards. Certificates can than be issued by the panchayats to the village applicants for which fees varying from Rs. 25/- to Rs. 100/- can be charged for different kinds of certificates. It would be easier to enable and empower panchayats to issue certificates of the above kinds. We do not see any great difficulty in allowing them to do so. A state like HP has already done this long ago. Interactions with functionaries and elected representatives of PRIs of Himachal Pradesh inform that the GPs are satisfactorily discharging these duties and earning revenue. We strongly recommend this measure in Haryana.

12.43 The Commission has also received some general suggestions during field visits for improving resources base of the PRIs which are reproduced below for appropriate action.

- PRIs should impose tax or fee on advertisements, hoardings, cable operators, micro wave towers, public schools, coaching centres, technical and medical management colleges and commercial institutions and other establishments like shops, restaurants, hotels etc. located in their jurisdiction.

- GPs should impose token tax on hawkers and other traders for selling their goods in villages.
- The activities like poultry, fisheries, hatcheries and other non-farming activates taking place in their areas should be brought under PRIs for levy of fees etc.
- Panchayats should construct shops, banquet halls, housing colonies etc. on panchayat lands to raise revenues.
- Some shares of income from river ghats, minor minerals, change of land use (CLU) should also be given to the PRIs.

(C) Measures of Additional Resource Mobilisation specific to ULBs

12.44 At present, urban local bodies in the State depend heavily on funds devolved by the state and central governments through various channels. The contribution of revenue from ULBs own sources continues to be quite low primarily due to a narrow and less elastic resource base. Full potential of even the available base has not been adequately exploited due to a number of reasons. To achieve an adequate degree of fiscal autonomy for ULBs, it is imperative to raise the level as well as proportion of resources generated by own efforts. The working group constituted on revenue generation and elected representatives have also advocated for greater internal resource generation efforts by the ULBs. In view of the above, this Commission has attempted to make some suggestions to improve resource base of the ULBs.

Property Tax (House Tax)

12.45 Property or House Tax is the most important revenue source of ULBs in the country. Nearly 30% to 40% of municipal revenue is generated by this tax alone. Normally, this tax is levied in terms of annual rental value. Many states have delinked property tax from rental value and switched over to area linked scheme based on plinth area costs. The other alternative of property tax based on capital value of property is also being followed in various states. This system is based on floor area.

12.46 In Haryana also property or house tax is the most important revenue source of ULBs and constitutes about 45 to 50% of their own revenues. In view of the fact that property tax would continue to be a major source of tax revenue to municipalities, it was necessary to streamline the system of assessment. Haryana switched over to capital value system w.e.f. 13.12.2001 and property tax was levied at the rate of 2.5% of the annual value on residential buildings and 5% on commercial, industrial and institutional buildings. However, various types of properties related to religious, educational and charitable institutions, all residential buildings owned by disabled etc. were exempted from house tax. On the basis of these rates, the collections from house tax accrued to municipalities were Rs. 42.56 crore in 2006 – 07 and Rs. 43.44 crore in 2007 – 08.

12.47 The state government abolished property tax on residential buildings w.e.f. 01.04.2008. This step reduced income of ULBs from property tax to Rs. 33.98 crore in 2008 – 09 and further to Rs. 23.96 crore in 2009 – 10.

12.48 GOH, vide notification no. S.O.47/H.A.24/1973/S.84/2012, dated 21.06.2012, has re-imposed property tax on buildings and lands within the limits of municipalities, at the following rates:-

Type of property	House tax rate
• Self occupied houses with plot size upto 250 square yards and flat size upto 500 square feet.	Re. 1/- per square yard
• Vacant land upto 250 square yard	Re. 0.50/- per square yard
Vacant land more than 250 square yard	
• Residential properties	Collector rate x 0.00015 per square yard
• Institutional and Industrial plots	Collector rate x 0.00020 per square yard
• Commercial plots	Collector rate x 0.000375 per square yard
• Constructed houses on plot size of more than 250 square yards and flats of more than 500 square ft.	Collector rate x 0.00075 per square yard
• Institutional and Industrial properties (self occupied)	Collector rate x 0.001 per square yard
• Commercial properties upto 50 square yards	Collector rate x 0.001125 per square yard
• Other commercial properties	Collector rate x 0.001875 per square yard

This notification dated 21.06.2012 provides for rebate and exemption from property tax on various types of properties i.e. 100% rebate on religious properties, residential buildings owned by ex-servicemen or families of deceased soldiers, war widows, vacant plots for horticulture purposes etc., 50% rebate on self occupied properties including vacant residential plots and 25% rebate on old properties more than 25 years etc.

12.49 The Commission has noted that consequent to re-imposition of property tax w.e.f. 21.06.2012, the income of municipalities has gone up to Rs. 117.32 crore in 2011 – 12. The Commission further observes that large scale rebates and exemptions from property tax would lead to considerable revenue loss to the municipalities which may adversely affect the level and quality of civic amenities being provided by them. **The Commission, therefore, suggests that rebates and exemptions from property tax should be minimized and property owners of most categories must be made to pay an affordable amount on their properties. It may also be ensured that all non-domestic properties attached to brick kilns, rice shellers, stone crushers, petrol pumps, stud farms and small & large scale industries are covered under tax net.**

Profession Tax

12.50 Profession Tax is another tax measure that is constitutionally recognized. Kerala, Maharashtra and Tamil Nadu have empowered gram panchayats to levy and collect this tax. In erstwhile Andhra Pradesh, this tax is levied and collected by the state government and shared with the local bodies. 11th CFC had suggested that states levy such a tax as a supplementary source of income for local bodies besides increasing its rate. 12th and 13th CFCs also echoed this recommendation. Haryana had imposed this tax in 2001 at the rate of Rs. 2,500 per annum on hotels, restaurants, banquet halls, petrol pumps, nursing homes, gas agencies, private schools, colleges, furniture showrooms, milk dairies, and industrial units. In 2004, this levy was rolled back perhaps due to the low quantum of revenue collected. **In keeping with the spirit of empowerment and devolution of powers to panchayati raj institutions and urban local bodies, this tax may be revived and allowed to be imposed by local bodies on such commercial entities including private schools/colleges that have high fee structures as compared to those private schools that are arguably commercial but are charging nominal amounts as fees. It should be left to the local bodies to levy or not levy the tax on such institutions given the**

financial position of such schools as assessed by the local authority. As far as other institutions and commercial or industrial units, the local bodies should be allowed to tax these. As mentioned by the 11th and 12th CFCs, the rates need to be revised upwards by constitutional amendment.

12.51 The Commission further suggests that profession tax should be collected by the Excise and Taxation Department and shared with local bodies, both PRIs and ULBs. 50% of the receipts from profession tax collected from urban areas should be shared with ULBs on origin basis and the rest on population basis. However, the income from profession tax coming from rural areas of a district should be distributed between GPs, PSs, and ZPs in the ratio of 75:15:10 and inter se shares of GPs and PSs be fixed on population basis.

Fire Tax

12.52 Fire Tax is related to property tax. It is levied on non-residential properties in urban areas. Fire tax is collected along with property tax and is utilised for strengthening of fire infrastructure in municipal areas. Earlier the rate of fire tax was 1% of the property tax. The state government notification dated 21.06.2012 empowers the ULBs to collect fire tax at the rate of 10% of property tax on non-residential properties. The collection from fire tax during 2008 – 09 was Rs. 3.10 crore. There was no collection in 2009 – 10 due to suspension of collection of this tax. However, during 2010 – 11, the revenue from fire tax was Rs. 4.71 crore which further increased to Rs. 17.67 crore in 2011 – 12 due to re-imposition of property tax on enhanced rates. The Commission observes that if collected properly, fire tax could be an important source of revenue for municipalities. **This Commission, therefore, suggests that all properties in urban areas, residential and non-residential, institutional or commercial, should be included for imposition of fire tax irrespective of the type of property. This is because of higher density of population in residential areas, especially in the old inner city areas where various types of economic activities generate fire hazards.**

Vacant Land Tax

12.53 Vacant Land Tax can be a good source of income of ULBs. The main objective of this tax is curbing of speculation on land and promotion of housing.

This source is not properly exploited by urban local bodies. The Commission came across some suggestions about levy of vacant land tax in urban areas. **After consideration, the Commission suggests that a vacant land tax should be levied by ULBs at reasonable percentage of the capital value of the property. It is further suggested that vacant land should be clearly defined which should include open land and un-built plots. Lands being used for purposes of marriage parties, receptions and entertainment purposes and parking etc. should be taxed at higher rates.**

Vehicle Tax (Motor Tax)

12.54 Vehicle Tax was initially levied by urban local bodies vide government notification no. 9/26/2000-501, dated 16th May, 2000 under Section 70 of Haryana Municipal Act, 1973. This tax is collected by the registration authority at the time of new registration /payment of token tax and paid to the concerned municipalty by the registering authority. The existing rates prevailing since 16th May, 2000 are as under:-

Type of Vehicle	Tax (in Rs.)
• Moped	50/- (lumpsum)
• Scooter/Motor cycle	100/- (lumpsum)
• Car	500/- (lumpsum)
• Other vehicles, LTV, Taxi, Maxi Cab, Auto Rickshow, Truck, other vehicles	5% of token tax

12.55 Motor tax accrued to ULBs amounted to Rs. 5.53 crore in 2006 – 07 and to Rs. 7.78 crore in 2010 – 11. This can be a substantial and regular source of income to ULBs. Rates of vehicle tax have not been revised since 2000. **The Commission feels that motor tax for all kinds of vehicles should at least be doubled so as to improve resources of the municipal bodies.**

Non- Tax Sources

12.56 Municipal Local Bodies are also collecting various charges, fees and fines in lieu of services rendered. Municipal charges or fees comprise of development charges, licence fee, tehbazari, fee for issue of birth and death registration, parking fee, malba charges etc. The objective is to introduce an element of control and regulation. The beneficiaries should also bear or pay a part of the cost of public services provided for their benefit. Fines are also imposed for violation of certain bye-laws of the municipalities and are charged by way of composition of an offence. While the non-tax revenue may not constitute a big part of total revenues of municipal bodies, they play a vital part in internal resource generation of municipalities.

12.57 The Commission has been informed that rates of certain charges and fees etc have not been revised since long. This also applies to licences issued under dangerous and offensive trade bye-laws, building bye-laws and host of other bye-laws. The Department of Urban Local Bodies has informed that certain fee/charges were revised during 2000 – 01 and 2001 – 02. **The Commission is of the firm opinion that rates of fees/charges must be updated periodically to boost revenues. Besides, the user charges should also continue to be updated from time to time so as to cover at least the maintenance cost. This would rather inculcate among the citizens a habit to pay for the services being availed by them. The Commission, therefore, observes that the state directorate should review the fees/charges periodically for their updation so as to augment revenues of municipalities.**

12.58 With a view to improving the financial position of ULBs and the quality of services, attempts should be made to move towards the goal of full cost recovery of services. Initially, recovery of full costs of operation and maintenance of providing the services should be attempted. An element of cross-subsidy to the poorer sections may be provided by charging higher rates from the better off consumers and industrial users.

12.59 There are some non-tax fees or levies which can be charged for improved level of services. These are known as valorisation fee, impact fee and betterment levies. Valorisation refers to such situations where local bodies need to recover costs for providing improved level of services, either on a one time basis or over a period of time. Impact fees are levied on new constructions which impose a cost on local bodies. A large building may require a road adjacent to it to be broadened to accommodate the increased traffic. Betterment levies are similar to valorisation but are usually levied to recover full cost, whereas valorisation recovers partial costs. These are such levies which may not be resisted to by the general public but would lead to augment revenues of the municipal bodies.

CHAPTER – 13

AUDIT AND ACCOUNTS OF LOCAL BODIES AND TRAINING

13.1 With substantial increase in the volume of fiscal and functional transfers to the rural and urban local bodies and their growing agency functions, a proper and strong audit and accounting framework is essential to ensure accountability, transparency and effective control over expenditure and income of these bodies. In the changed scenario of constitutional amendments, auditing and accounting have become important and essential areas in which local bodies need to develop their capacities.

13.2 The Commission, with a view to analyse the quality of accounting and auditing of local bodies, solicited vital feedback from all the concerned quarters i.e. Director Local Audit, Director General Panchayats, Director General Urban Local Bodies, Principal Accountant General (Audit) and Principal Accountant General (Accounts and Entitlement) and the State Finance Department. Besides, the Commission has also gone through the relevant recommendations of Second Administrative Reforms Commission (SARC) and Haryana Administrative Reforms Commission and guidelines of the Comptroller and Auditor General of India (C & AG) in this regard. In addition, views and suggestions of the divisional and district level officers and functionaries & elected representatives of the PRIs and ULBs were also obtained by the Commission during its field visits. The material and information so received from these sources and the discussions held with them helped the Commission immensely in analysing the existing situation of accounting and auditing of local bodies and thereby framing its recommendations on improving their standards.

Urban Local Bodies

13.3 There are three types of ULBs in the State, namely municipal committees, municipal councils and municipal corporations. As per Article 243 Z of the Constitution of India, the legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the municipalities and the audit of such accounts. Presently, the audit and budgeting of accounts of ULBs is governed by the Punjab Municipal Accounts Code, 1930. The accounts are maintained by the ULBs in the proformae prescribed in the said Accounts Code. The accounts of ULBs are maintained on cash based single entry system of accounting. However, it has been reported that as per provisions of National Municipal Accounting Manual Rules, (NMAM), the Local Bodies Department has directed all the ULBs in the State to introduce accrual based double entry system of accounting. Action seems to have been taken on this as the new Haryana Municipal Accounts Code 2012, on the analogy of NMAM recommended by the Govt. of India, is reported to have been notified on 28.03.2012.

13.4 The accounts of ULBs are audited by Director, Local Audit who is statutory auditor and is under the administrative control of the Finance Department. The C & AG of India also conducts audit of accounts as far as utilisation of government grants and loans is concerned.

13.5 There is a pre-audit system also called the Resident Audit Scheme, which is in force in all ULBs. Under the pre-audit system, day to day audit of accounts is conducted. Presently the audit of all the municipal committees and councils is being conducted on day to day basis under pre-audit system w.e.f. July, 2011 as per provision of Rule XVII.17 of the Municipal Accounts Code, 1930. The audit of municipal corporations is also being conducted on day to day basis under pre-audit system as per the provisions of Section 168(3) of the municipal corporation Act, 1994. The Local Audit Department has reported that accounts of 9 corporations, 14 councils and 5 committees are audited under pre-audit system.

13.6 The Commission has been informed that the existing pre-audit system of ULBs has been modified vide Government memo no. 14/79/2007-3FA, dated 05.02.2010 vide which monetary limits have been laid down up-to which the cases will not be liable for pre-audit. This modified scheme has been introduced w.e.f 01.04.2010 in areas where Resident Audit Scheme was operative. This modified pre-audit system has been introduced in 45 committees.

13.7 The State is divided into several audit circles for the audit of accounts which are carried out under the post audit system as per provisions contained in the departmental manual. But audit of expenditure made out of grants is undertaken for timely issue of utilisation certificates. The Local Audit Department has to ensure that there is no split-up of the same expenditure so as to ensure that the modified pre-audit scheme is not put to misuse.

13.8 The existing system of accounts and audit suffers from various short-comings. Pre-audit system envisages raising of objections on continuing basis and every payment/claim is approved by audit before actual payment is made. Objections raised are intimated by the Resident Auditor to the head of the concerned local body. A draft audit report on the accounts of the local body for the preceeding year is submitted to the approving authority at the close of the year. The approving authority, in case of municipal corporations, is the Director Local Audit and in case of councils and committees, it is the concerned Zonal Deputy Director. Copies of audit reports are sent to various authorities for information and compliance. The Commission has noted that despite ample enabling provisions in the Accounts Code specifying time limits for disposal and compliance at various levels, a casual approach is adopted by the concerned authorities to settle objections and there appears to be no proper system for monitoring the compliance of audit reports. Same is the position with regard to the post audit system. The state government, in Urban Local Bodies Department, constituted two committees one at divisional level and another at district level, in January 1982 to examine and discuss the annual accounts and reports of the committees and to suggest appropriate measures. These committees remained almost non-functional and could not make the desired progress.

Panchayati Raj Institutions

13.9 There is a three tier system of PRIs in the State, namely Gram Panchayats, Panchayat Samitis, and Zila Parishads. The accounts of these PRIs are maintained as per provisions contained in Haryana Panchayati Raj Accounts, Finance, Budget and Works Rules, 1996. The formats of various accounts books have been prescribed in the said Rules. Presently, the accounts of PRIs are maintained on cash based single entry system. As per recommendations of Central Finance Commission and guidelines of MOPR/GOI, the Model Accounting System is yet to be introduced in all PRIs by substituting the existing accounting formats prescribed in the Rules.

13.10 As per Article 242 J of the Constitution, the legislature of the State is empowered to make provisions in respect of maintenance of accounts by the panchayats and auditing of such accounts. Rule 108 of the Haryana Panchayati Raj, Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996 provides for placing the audit report of GPs, PSs and ZPs before the concerned GP, PS and ZP respectively. In the case of PS and ZP, Rule 108 (2) also provides for constitution of a committee by the government for examination of these reports. The recommendations of this committee shall be binding on the PS and ZP. Rule 109 stipulates that the government will exercise overall supervision on the work of these committees.

13.11 Audit of accounts of PRIs is conducted under the post-audit system by the Director Local Audit. In case of Gram Panchayats, it is conducted every two years; and in case of Panchayat Samitis and Zila Parishads, on half yearly basis. Under this system, objections raised are sent to the concerned authority and in case of compliance, they are settled on the spot. After due vetting by various functionaries of the Directorate of Local Audit, the audit report is sent to various authorities concerned for information and compliance. In case of PS and ZP, it is also sent to the Secretary, Development and Panchayats, Divisional Commissioners and Deputy Commissioners. The Commission has been informed that despite enabling provisions, the disposal of audit objections is very slow. Public Accounts Committees have not been constituted for scrutinizing the audit reports, as provided in the Rules.

Views of Local Audit Department

13.12 The Commission sought the views and suggestions of the Local Audit Department, being the statutory auditor, on the issues related to maintenance of accounts of PRIs and ULBs and audit of these accounts. It has been reported that in most of the cases, the accounts of PRIs and ULBs are found incomplete and not maintained in the prescribed formats. In some cases, proper records are not produced before the audit parties. Records are often found incomplete and more often, clarifications, as required, are not provided. Timely action is not taken by the PRIs and ULBs to settle the irregularities pointed out through audit objections/requisitions/audit paras by the Local Audit Department which are required to be replied within three months from the date of receipt of audit reports/notes by the auditee institutions i.e. PRIs and ULBs. The Local Audit Department has, further, reported that post audit for the period upto March 2011 of

MCs where modified pre-audit system has been introduced w.e.f July, 2011 and of the PRIs is lying pending due to shortage of staff particularly the auditors. It was reported that out of the total 285 sanctioned posts of Auditors, 136 posts are lying vacant since over two years. Similarly, against another 118 sanctioned posts of Senior Auditors, Audit Officers and other senior officers, 24 posts are lying vacant. However, sincere efforts are reported to have been made to clear the back-log on priority basis by utilising services of existing staff.

13.13 Following suggestions have been given by the Director Local Audit Department:-

- Annual accounts of all the PRIs and ULBs need to be disclosed and published on line to ensure transparency and accountability.
- Various bye-laws of PRIs and ULBs that are not being enforced effectively need to be enforced to work as measures of budgetary control as well as to raise revenues of these bodies.
- Prompt action needs to be taken on audit reports on the accounts of PRIs and ULBs by the concerned authorities and requisite replies to audit objections should be supplied within the stipulated time period of three months.
- The Local Audit Department should be allowed to recruit Auditors and Senior Auditors from the market through outsourcing or to engage retired Auditors on contract basis.

Views Of Principal Accountant General (Audit)

13.14 The Commission also sought views and suggestions of the Principal Accountant General (Audit), Haryana on the status of accounting and auditing systems of PRIs and ULBs and ways and means for improvement, which are as under:-

- As per the recommendations of the 11^{th} CFC, the state government vide notification dated 18.02.2010 (revised), has entrusted the responsibility of only Technical Guidance and Support (TG&S) in respect of audit of the local bodies to the C&AG. Thus, their role is confined to giving TGS to the audit staff of the State Local Audit Department. As such, only audit test check based on sample selection of few PRIs and ULBs is undertaken by following periodicity of audit viz, annual, biennial and triennial. It is not possible for them to audit all the units of PRIs and ULBs due to shortage of manpower. PAG (Audit) office has no specific criteria for determining the number of audit personnel for state's PRIs and ULBs. However, audit schedule is planned on the basis of total number of units of local bodies, availability of manpower resources, work load and expenditure involved. Moreover, training to the audit staff of the Local Audit Department is imparted from time to time in terms of the TGS entrusted to the CAG of India.

- For exercising proper control and securing better accountability, the formats for preparation of budget and accounts and data bases of finances of PRIs were prescribed by C&AG in 2002. These formats were further simplified in 2007 for easy adoption at grass root level, but despite imparting training to PRIs staff and instructions issued by state government these formats have not yet been adopted by the field units.
- As prescribed by the 13^{th} CFC, the Ministry of Urban Development, GOI, issued data based formats for adoption by ULBs vide letter dated 05.04.2011. The Principal Accountant General (Audit) has also requested State Finance Department vide letter dated 08.06.2011, for adoption of the data based formats for ULBs.
- Annual Technical Inspection Report, now known as Annual Administrative Report (AAR) of PRIs and ULBs for the years 2008 – 09 and 2009 – 10 is under finalisation.

13.15 Following suggestions have been made by the Principal Accountant General (Audit) for improving the standards of accounting and auditing of Local Bodies:-

- All three tiers of PRIs should adopt the formats prescribed by the C&AG and sufficient trained staff provided to the GPs for maintaining accounts and other records such as Assets/Property Registers, Demand and Collection Register, Receipt Book Issue Register, MB Issue Register and Muster Roll Issue Registers as one Gram Sachiv is not able to maintain records of 4 to 6 Gram Panchayats.
- Timely distribution of grants by DRDA, DDPO, ZPs and PSs and their timely utilization at grass root level may be ensured.

- The state government should strengthen its Local Audit Department through capacity building and by way of providing trainings through its training institutes so as to ensure good governance and accountability in local bodies.

Recommendations of Central Finance Commissions (CFCs)

13.16 The 11th CFC made following recommendations:-

- The C & AG of India should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the tiers of PRIs and ULBs and the State Local Audit Department should work under the technical and administrative supervision of C&AG of India. The report of the C&AG relating to audit of accounts of panchayats and municipalities should be placed before a committee of state legislature constituted on the same lines as Public Accounts Committee. In compliance, the MOF/GOI, while issuing guidelines for utilisation of local body grants, required the states to send a request to the C&AG to assume the responsibility for exercising control and supervision over proper maintenance of accounts and audit of PRIs and ULBs (para 8.19).
- Gram Panchayats, which do not have trained accounts staff, may contract out the upkeep of accounts to an outside agency. The C&AG may lay down the qualifications and experience for the agency/person so contracted out. Director Local Audit, under the directions of C&AG, may do the supervision over the quality of work of such agency/person. The 11th CFC also earmarked a sum of Rs. 242.76 lakh for maintenance of accounts of GPs in Haryana (para 8.19 (e)).

13.17 The 12th CFC, while taking cognizance of this problem, observed that only 19 states entrusted Technical Guidance and Supervision(TG & S) over local bodies to C & AG of India, but five major states, viz. Haryana, Punjab, Gujarat, Andhra Pradesh and Arunachal Pradesh had not yet implemented recommendations of 11th CFC. Hence, 12th CFC had emphasised the need to implement these recommendations of 11th CFC.

13.18 The 13th CFC, while emphasizing the need for proper and updated accounting and auditing standards, observed as under: -

- 18 states including Haryana have entrusted TG & S of maintenance of accounts and audit of PRIs & ULBs to the C & AG. Four states have partially entrusted this responsibility to the C&AG and three states have not entrusted any audit to the C & AG. Another three states are exempt from the purview of the 73rd and 74th Amendments (para10.118 and Annex-10.4).
- In six states, viz. Andhra Pradesh, Karnataka, Maharashtra, Rajasthan, Kerala and Tamil Nadu, the C & AG's Audit Report on local bodies is prepared under section 14/19 (3) of the C&AG's Duties, Power and Conditions of Services (DPC) Act and laid in the respective assemblies. Karnataka PRIs Act and Kerala's Municipal Act also provide for laying of report of local bodies in the state legislature. In West Bengal, the Examiner of Local Accounts' report on PRIs is laid before the state legislature. There is no provision for laying of reports in state legislature as per the TG & S arrangement. A separate legislature committee has been formed in Kerala and West Bengal for considering the C & AG's reports (para 10.120).
- The accounts of local bodies should be prepared and audited on regular basis in a uniform manner across all States. The C & AG be entrusted with TG & S for all local bodies. The Annual Technical Inspection Report of the C & AG as well the Annual Report of the Director Local Fund Audit should be placed before state legislature (para10.121).
- State Governments should appropriately strengthen their Local Fund Audit Departments through capacity building as well as personnel augmentation (para 10.167).

Recommendations of State Finance Commissions (SFCs) of Haryana

13.19 The 1st, 2nd and 3rd SFCs of Haryana, after making their critical analyses of the system of accounting and auditing of PRIs and ULBs, made effective recommendations, as under :-

- All the recommendations made by 11th and 12th CFCs regarding entrusting the responsibility of Technical Guidance and Supervision(TG & S) of maintenance of accounts and audit of PRIs and ULBs to the C & AG of India and other issues related thereto may be implemented in their right perspective.

- A state level Public Accounts Committee for municipal finances should be constituted to be headed by the Administrative Secretary, Urban Development Department with the power to call for and scrutinise the accounts of any municipality, examine the audit report and make suitable recommendations.
- The Committee envisaged under Rule 108 of the Haryana PRIs Rules, 1996 should be constituted at state level with regard to audit of accounts of ZPs and PSs.
- Accrual based double entry system of accounts may initially be adopted in municipal corporations and municipal councils. These local bodies may be authorised to engage the services of charted accountants and other required accounts personnel.
- The system of pre-audit may be streamlined and applied on a selective bases.
- The working of the Director, Local Audit may be examined and suitably strengthened to ensure objective scrutiny of accounts of local bodies.

13.20 This Commission was given to understand that the recommendations of 11th CFC regarding entrustment of Technical Guidance and Supervision (TG & S) of proper maintenance of accounts and audit of all PRIs and ULBs to C & AG of India, was examined by a joint committee constituted by the state government. This committee did not find any justification for entrusting the responsibility of supervision and administrative control to C & AG of India as proper arrangements already existed to carry out their audit under the constitutional provisions. It was, however, agreed that C & AG may provide technical guidance regarding auditing standards, audit planning, professional training, prescribing procedure for verifying proper utilisation of grants given to local bodies and other matters relating to strengthening the local fund audit.

13.21 The matter regarding entrustment of TG&S of accounts and audit of PRIs and ULBs to C & AG of India was taken up with the State Finance Department. The Commission was informed that in pursuance of the recommendations of the 11th CFC and guidelines of GOI regarding transfer of TG & S to C & AG of India and the request made by the Principal Accountant

General (Audit and Accounts), the following decisions were taken vide notification No.14/78/2003-3FA, dated 20.12.2011:-

- Entrust the Test Audit of ULBs and PRIs to C & AG under section 20 (i) of C & AG (Duties, Powers and Conditions of Services) Act, 1971, without payment of any audit fee for that test audit, by the auditee institutions i.e. ULBs/PRIs, the audit of which is being conducted by the Director, Local Audit Department, as statutory auditor. The C & AG will also provide technical guidance to the Director, Local Audit Department with regard to ULBs and PRIs without affecting the administrative control of Finance Department over Director, Local Audit Department and the status of Director, Local Audit Department vis-à-vis his responsibility as statutory auditor of these institutions.
- The office of C & AG will conduct audit of some of ULBs and PRIs and Director Local Audit Department will continue to audit these institutions/bodies as per his statutory responsibilities, as is being done at present.
- The Director, Local Audit Department will adopt the guidelines/standards of audit as may be prescribed by C & AG and will forward some of the inspection reports of audit of ULBs and PRIs being conducted by him as Statutory Auditor at present to the Accountant General (Audit) who may make suggestions, if required, for improvement in the system of reporting.
- Any serious irregularity such as system defects, serious violation of rules, frauds etc. noticed by Director, Local Audit Department will be intimated to the Accountant General (Audit) Haryana.
- The Director, Local Audit Department will develop a system of internal control in his organisation considering the technical guidance and support rendered by the office of the Accountant General (Audit) Haryana.
- The Comptroller & Auditor General of India will also undertake training and capacity building of the staff of Director, Local Audit.
- The annual technical Inspection report of C & AG as well as the annual report of the Director, Local Audit will be placed before the state legislature and the Comptroller and Auditor General or his representative will have the right to report to the state legislature the results of audit at his discretion.

- Audit by the C & AG does not include the Certification of Accounts as per clause 152 & 153 of Chapter 10 of the regulations on Audit and Accounts 2007 issued by C & AG of India.

Findings and Recommendations

13.22 After analysing the whole scenario, it has been gathered that the existing system of accounting and auditing suffers from multifarious deficiencies, particularly, relating to accounting formats, reporting and disposal of objections, lack of trained accounts persons and auditing staff, inadequate training facilities, lack of motivation and promotional avenues, short-coming in implementation etc.

- It has been noted that accounts of PRIs and ULBs are not maintained in prescribed formats and these are generally found incomplete. There is acute shortage of trained accounts personnel in local bodies, particularly, in PRIs. Although the 12^{th} CFC and 13^{th} CFC recommended hiring of accountants from the private sector and this was also endorsed by the 3^{rd} SFC, but this recommendation does not seem to have been implemented. We do not see any reason as to why such sagacious recommendations of these reputed institutions have been swept under the carpet. There does not appear any problem in hiring accountants from the market besides retired government servants being easily available in the districts. Proper and timely up-keep of accounts will certainly facilitate proper and timely audit of various accounts.
- The Commission has further noted that post audit of local bodies was lying pending due to shortage of auditors and other staff in the Department of Local Audit. Against the total sanctioned strength of 403 Auditors, Senior Auditors and other officers, 160 posts are lying vacant for more than two years. This number of sanctioned posts may belong to an era when development works and financial transfers to local bodies were much lesser. A cursory look at the current situation indicates the need for more qualified auditors and accountants for accurate and timely audit as existing staff is unable to meet the growing work load. We find that there is a serious shortage of auditors and the need to have in house audit cannot be emphasized enough. These ought to be complemented by independent external auditors.

- The Commission has tried to ascertain the actual number of audit paras of both PRIs and ULBs awaiting disposal or settlement. Despite efforts, this information was not made available as no such record is maintained by the Local Audit Department at the head quarters and no follow-up action is taken by the department for compliance reports. However, as per the monthly progress reports of resident audit schemes, the total number of audit paras upto September, 2012 has been reported at 7786. But the information on number of audit paras pending for disposal is not available.
- We have been informed that though audit of accounts of local bodies is upto date, but the responses from the local bodies i.e. PRIs and ULBs, have not been forthcoming for years. It is quite apparent that responses from the Departments of Panchayats and Urban Local Bodies have been slack to the point of being highly objectionable. It appears that these departments have not paid due attention to an area which can result in large scale savings and prevention of financial irregularities if audit objections are promptly addressed by the field offices as well as by the directorates.
- The Commission has further noticed that accounting and auditing are the potential and critical areas where the local bodies need to develop their capacities. The training facilities in these areas are barely sufficient which need to be considerably improved.

13.23 The Commission is also of the firm view that with the decentralisation of 3Fs (Functions, Funds and Functionaries) envisaged under the 73rd and 74th Constitutional Amendment Acts and growing agency functions of local bodies, there is a pertinent need to ensure that local funds are used judiciously and functionaries are made accountable. This requires a proper and strong accounting and auditing framework for ensuring effective control over finances of local bodies. The Commission has gone through the steps taken by the state government vide notification dated 20.12.2011 for improving the standards of accounting and auditing of the PRIs and ULBs and also the suggestions made by the 13th CFC, Principal Accountant General (Audit) and the State Local Audit Department etc. Now the Commission is of the firm belief that a headway seems to have been made in the right direction which may go a long way in mitigating the short-comings in audit and accounting frameworks and ensuring proper utilisation of local resources through checks and balances. Indeed, a strong and vibrant accounting and auditing system is a sine qua non for any organisation which deals with finances. **This is also a necessary corollary to the concept of best practices in financial discipline. Therefore, separate strong and well qualified accounts and audit cadres are needed to discharge the growing responsibilities devolved on PRIs and ULBs.**

13.24 In view of the above, the Commission makes the following recommendations in this regard:-

- Adoption of the National Municipal Accounts Manual (NMAM) by the local bodies calls for institutionalising the existing arrangements under which C&AG provides TG&S over maintenance of accounts of local bodies as well as for providing functional independence to local fund audit. It is, therefore, recommended that accrual based double entry system should be introduced in all the urban local bodies as per the provisions of NMAM. On the analogy of NMAM, the New Municipal Accounts Code may be formulated and implemented in all ULBs, as recommended by the GOI and notified by the Urban Local Bodies Department on 28.03.2012.
- Similarly, Model Accounting System as prescribed by the MOPR/GOI be introduced in all tiers of PRIs by substituting the existing accounting formats prescribed in Haryana Panchayati Raj Accounts, Finance, Audit, Budget and Works Rules, 1996.
- Annual accounts of PRIs and ULBs should be disclosed and published on line to ensure transparency and accountability.
- The Annual Technical Inspection Report, now known as Annual Administrative Report (AAR) of C & AG and Annual Report of Local Fund Audit should be placed before the state legislature on a regular basis. If necessary, relevant legislation may be introduced to institutionalise this procedure.
- Prompt action needs to be taken on audit reports on the accounts of PRIs and ULBs by the concerned authorities and replies to audit objections be ensured within a stipulated period of 3 months.
- All the bye-laws of PRIs and ULBs need to be enforced strictly to enable these bodies to earn more and to make them self sustaining.

- Data base formats prescribed by the Ministry of Urban Development should be adopted by all the ULBs. Similarly, all the tiers of PRIs should adopt the formats as prescribed by the C & AG and sufficient trained staff be provided to Gram Panchayats.
- State government should appropriately strengthen their Local Fund Audit Department through capacity building as well as personnel augmentation. All the posts of Auditors, Senior Auditors and other Audit Officers presently lying vacant, should be immediately filled up on a time bound basis. Since audit personnel to be obtained from the market through outsourcing would require fresh training, the better option would be to engage retired government auditors on contract basis. Where these are not available, appropriate training be given to persons who may be employed from the market.
- This Commission, not only re-iterates the recommendations and observations on hiring of accountants and auditors from private sources made by the 12th CFC, 13th CFC and 3rd SFC but also further goes on to record that it is imperative that measures be taken to either recruit accountants and auditors within six months or hire the contractual services of young and retired persons.
- A big chunk of the budget of ULBs is spent on capital works and operation and maintenance of civil works. It is recommended that the system of cost audit may be initially introduced in municipal corporations and municipal councils in order to reduce cost. The services of cost accountants may be engaged on contract basis to initiate the system and train the staff. A small cadre can be built up and deployed for service throughout the state.
- Since local bodies play a key role in the development process and their functional domain stands substantially enlarged due to constitutional amendments, the system of works audit should be introduced to effect transparency and accountability in their operations
- A committee on local bodies on the lines of Public Accounts Committee should be formed to bring to light the irregularities and loss suffered by local bodies.

Social Audit

13.25 Social audit is referred to as a process in which details of the resources, both financial and non financial, used by the public agencies for development initiatives are shared with the people, often through a public platform. Social audits allow people to enforce accountability and transparency, providing the ultimate user an opportunity to scrutinize development initiatives. Social audit has a potential for making a meaningful impact on the effectiveness of the programme delivery system. Public works and programmes put to public scrutiny under the system of social audit would help reduce costs, timely completion of projects and improve quality of works, besides checking mal-practices and leakages.

13.26 The primary grass-root level institutions in rural areas are the Gram Sabha and the Gram Panchayat. The 73rd Constitutional Amendment has given wide powers and responsibilities to the gram sabhas to supervise and monitor the functioning of gram panchayat and government functionaries and to also examine the annual statements of accounts and audit reports. These provisions indirectly empower the gram sabhas to conduct social audit in addition to other functions.

13.27 The instrument of social audit has been adopted by various states in different modules for inspecting works and accounts of the gram panchayats. In Karnataka, the system of Panchayat "Jamabandhi" has been adopted for enhancing efficiency, transparency and responsibility of GPs. Every year, from 16th August to 15th September, all GPs are required to arrange for Jamabandhi with the association of members of gram sabha. In Kerala, Task Forces have been constituted by gram sabha consisting of gram sabha members, members of GPs and government functionaries for monitoring the working of GPs. In other States, various types of checks and balances have been applied for scrutiny of expenditures of panchayats.

13.28 In Haryana, various measures have been adopted to monitor the development works and also to prevent mal-practices and nepotism in the working of institutions, as under:-

- The most important development is the constitution of a separate Directorate of Social Audit. The Department of Rural Department has reported that an independent Social Audit Unit has been created by the state government vide memo no. MGNREGA-FM-2012/6166, dated 26.07.2012 to conduct social audit in gram panchayats in compliance with the provisions contained in GOI notification no. G.S.R. 495 (E), dated 30th June, 2011, vide which "Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011, have been framed. This is an important step forward liable to be reckoned as one of the best practices to be emulated. The Social Audit Unit shall be responsible for (a) building capacities of gram sabhas for conducting social audit, identify, train and deploy suitable resource persons at all levels; (b) prepare social audit reporting formats, resource materials, guidelines and manuals for the social audit process; (c) facilitate verification of records with work sites, smooth conduct of social audit of gram sabha and host the social audit reports including action taken reports in the public domain. In order to facilitate conduct of social audit, the Social Audit Unit shall verify (a) the muster rolls, entry and payments made (b) the work site and assess the quantity with reference to records and also quality of works done, (c) the cash book, bank statements and other financial records to verify the correctness and reliability of financial reporting. (d) the invoices, bills, vouchers or other related records for procurement of materials. The state government shall facilitate conduct of social audit of the works taken up in every gram panchayat at least once in six months and a summary of findings of such social audits conducted during a financial year shall be submitted by the state government to the C & AG of India. The state government shall be responsible to take follow up action on the findings of the social audit. The State Employment Guarantee Council shall monitor the action taken by the state government and incorporate the Action Taken Report in the annual report to be laid before the state legislature by the state government. The Directorate of Social Audit Unit would be independent of the Directorate of Rural Development, but would be directly reporting to the Administrative Secretary of Rural Development Department.

- Village level committees have been constituted for performing social audit of works done by the PRIs. However, due to frequent complaints, the Vigilance Department of the State has also been conducting technical checks of the works from time to time independent of the Departments of Panchayati Raj and Rural Development.

- The 13th CFC recommended appointment of Ombudsmen in order to regulate local bodies grants. The state government has in place the Lokayukta in the state who, apart from others, also hears complaints against representatives of local bodies and their functionaries.
- The guidelines of MGNREGS provide for appointment of Ombudsmen at the district level to resolve complaints on the working of gram panchayats and other agencies relating to rural development. The Commission has been informed that Ombudsmen have been appointed in 13 districts and the process is on in the remaining districts.

13.29 This Commission is of the view that the time has come to move beyond mere audit of accounts. There are several realms emerging in the world of audit. The concept of social audit has gained sufficient prominence the world over. This has been introduced in the MGNREGS. The state government has done commendable work in creating a separate Social Audit Cell independent of the Directorate of Rural Department. This has to be now complemented with other kinds of audit which may be considered by the state government in order to bring about total transparency in the administration of rural development projects. Value for money audit is gaining currency and should be considered by the state government.

13.30 The Commission is of the view that a well in-built social audit system should be put in place in all GPs through the forum of gram sabha to prevant corruption and nepotism in the working of local bodies. This will pave the way for social justice also. All the documents of GPs relating to financial transactions, physical works, accounts, audit reports etc. should be kept for social audit during gram sabha meetings. Such an oversight will ensure financial correctness resulting in economy in expenditure and minimum wastage of funds and materials. However, while social audit may look at the muster roll and payments made and review the material and records, the technical aspects of the works would need to be reviewed by the core team of the headquarters not only to ensure compliance with specifications but also other aspects like structural soundness etc. Therefore, it would be advisable to set up such a technical evaluation cell at the headquarters independent of the technical line department of Chief Engineer. Such a cell could be under the control of Rural Department or Local Audit Department.

Training

13.31 The Technical Guidance and Supervision (TG&S) system for maintenance of accounts and audit of local bodies, as per 11th CFC report, was to be entrusted to the C & AG. The components of TG&S include (i) setting audit standards and audit planning; (ii) adoption of improved audit methodologies; (iii) training in audit and accounts; and (iv) annual transactions audit by random selection and supplementary audit of institutions audited by the State Director of Local Audit Department. Thus, training forms an important part of the new arrangements envisaged by CFCs on accounting and auditing of local bodies. The component of training in accounts and audit assumes larger importance with wide expansion in the domains of local bodies consequent to constitutional amendments and introduction of improved methodology and techniques in the areas of accounting and auditing.

13.32 In compliance of the recommendations of the CFCs and guidelines of the GOI of India, the state government, vide its notification dated 20.12.2011, has entrusted the Technical Guidance regarding maintenance of accounts and audit of local bodies to the C & AG of India with the stipulation that the C & AG will also undertake training and capacity building of the staff of Local Audit Department.

13.33 As a follow up, office of PAG (Audit) formulated training programmes and imparted training to the PRIs staff from 19.07.2010 to 23.07.2010 in HIRD Nilokheri on new accounting formats and adoption of double entry system of accounting. Similarly, Panchayat Department and Local Audit Departments are also arranging training programmes. 19 Panchayat auditors attended training on 9.12.2010, 16.12.2010 and 23.12.2010 in HIRD Nilokheri. Besides, capacity building training camps were also held on 27.05.2011 and 16.11.2011 at Jind. In-house training programmes are also being arranged from time to time. A cursory look at the above indicates that such trainings for the auditors was a one time measure. There is a need for periodical trainings for up gradation of skills and inculcating other qualities in the trainees. Training has to be organised on a more regular and comprehensive basis. We feel there is shortage of qualified accounts and management personnel in PRIs and ULBs. Majority of existing staff is either not qualified or well versed with computers and other office tools and as such they are not expected to deliver the desired level of services. This Commission takes serious note of this situation and observes that all efforts be made to improve the position.

13.34 Presently, there are three state owned premier Institutes i.e. HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon for imparting training to the representatives of local bodies and their functionaries. Actually, there is no such faculty in HIRD and SCDTC dealing with accounts and audit. The existing faculty in HIPA dealing with these areas is hardly sufficient to serve the purpose. Besides, there is also an Accounts Training Institute of the State at Panchkula, regularly imparting training to the accounts personnel of the departments. The 3rd SFC had recommended special grant of Rs. 12.00 crore for strengthening capacities of these institutions. But this recommendation is reported not to have been accepted by the state government. These aspects have drawn peculiar attention of the Commission. However, this issue has been dealt with in detail in Chapter 14 of this report under the heading “Capacity Building and Empowerment”.

13.35 The Commission has noted that though some progress has been made towards imparting training in the matters of accounts and audit, still more efforts need to be made in this direction. Training modules should be drawn for skill up-gradation jointly by the Panchayat Department, Urban Local Bodies Department, Local Audit Department as well as the C & AG of India. Besides, these departments should be suitably strengthened in terms of trained manpower and infrastructural logistics so as to cope with the requirements of new standards and methodology in the sphere of accounting and auditing.

CHAPTER – 14
OTHER KEY ISSUES AND RECOMENDATIONS

14.1 As we unravelled the complex issues pertaining to local bodies within the broad frame work of our TOR, several measures, comprising both actionable points and policy related matters began to manifest themselves. We included these aspects covering both the state level as well as the various tiers of local bodies in this portion of our report.

14.2 In order to ensure that the constitutional mandate is complied with in letter and spirit, both state government and local bodies have to deal with their responsibilities that flow from the concerned constitutional provisions. They certainly have to sometimes take such steps that may be unpopular at times. This Commission has the responsibility of making such recommendations that, in the ultimate analysis, would strengthen local bodies and state institutions in the long run and thereby facilitate compliance with constitutional mandate. Therefore, the recommendations of the State Finance Commission and the Central Finance Commission are to be seen as a facilitating mechanism that could be used to strengthen the case of the local bodies and state level authorities in such decisions that may be misconstrued by a public long inured by a dole distribution approach to development.

14.3 The Commission undertook field visits and held discussions with the elected representatives and functionaries of local bodies, both PRIs and ULBs, in order to solicit their views on various issues relevant for the task of the Commission. In this process the Commission has come across various such critical issues which have great bearing on the organisational, managerial and operational efficiencies of local bodies. The Commission has, thus, considered it necessary to take stock of such basic issues and to recommend suitable redressal measures for improving operational efficiency of local bodies.

Capacity Building, Training and Empowerment

14.4 Schedules 11 and 12 of the Constitution, enlisting 29 functions for PRIs and 18 functions for ULBs, have considerably enhanced the functional scope of these bodies. As such these bodies are required to take up the tasks of planning and project formulation, implementation and monitoring. Therefore, capacity building, skill upgradation, training and empowerment of local bodies are the focus areas where capacities need to be developed for enabling these bodies to discharge their responsibilities in a people-friendly, efficient and professional manner. Thus, the local bodies need greater role clarity and elected representatives greater awareness of their responsibilities and powers. These objectives can be achieved only through suitably designed training programmes for upgrading and creating right type of skills.

14.5 Presently there are 78 ULBs in Haryana including 9 municipal corporations, 14 municipal councils and 55 municipal committees having 13,071 employees. Similarly, there are 6,083 gram panchayats, 119 panchayat samitis and 21 zila parishads. In addition, there are 68,226 elected representatives of PRIs and 2,405 elected representatives of ULBs, who need to be trained, reoriented and motivated in their areas of responsibilities. Besides, officials of parastatal bodies who are directly or indirectly concerned with the providing and maintenance of civic infrastructure and services also need to be trained.

14.6 Training such large numbers of local bodies and parastatal officials and elected representatives poses a major challenge. At present there are only sporadic and scattered arrangements for different types of training programmes, which, in the opinion of the Commission, are highly inadequate and lack the needed institutional, organizational and technical strengths required to address the human resource development and training needs for management and development of local bodies. It is now high time to move in the direction of evolving comprehensive capacity building and training policy and institutional arrangements for decentralised planning and create training infrastructure of appropriate capacity and competence for the purpose.

14.7 The Commission is of the opinion that the strategies for capacity building in local bodies should be based on realistic assessment of the functions earmarked for them. Training and capacity building efforts must aim at making delivery of services quick, cost effective and responsive to people’s requirements. These should focus on a wide range of target groups including all levels of officials, elected representatives and NGOs. The strategy should be related to the demand driven needs of local bodies, agencies, parastatals and NGOs engaged in rural and urban management. **For this purpose an apex state level mechanism**

linked to a decentralised net work of training institutions needs to be developed.

14.8 Suitable training modules of short, medium and long duration have to be developed keeping in view the requirements of different target groups. The objective should be to develop specific project/programme level skills. The training programme should cover different areas to enable local bodies to perform their tasks of governance, service delivery and future planning in a better way and further should cover, among others, areas like, spatial planning, providing of core services, housing and infrastructure, environmental improvements, financial management and local administration. Training in computers for MIS and e-governance should also be an important component of the programmes. Emphasis needs to be given on soft skills aimed at conflict resolution interface among local body representatives and between these and employees.

14.9 Training modules prepared by the GOI and NGOs can also be used for the purpose. However, the Commission observes that training of officials, elected representatives and other stakeholders should be a continuous process consisting of foundation courses, refresher courses, re-orientation courses, seminars, workshops, study tours etc. The major issues for consideration in this regard are:- identification of target groups and assessing their training needs, preparation of course contents, background training materials and teaching aids etc.

14.10 At present, there are two premier institutes in Haryana providing training facilities for officials and non-officials of local bodies. Haryana Institute of Public Administration (HIPA), Gurgaon is the nodal training institute for providing in-service training facilities for IAS/HCS/other gazetted officers and ministerial staff of the state government departments, boards and corporations. The other is Haryana Institute of Rural Development at Nilokheri for providing training facilities in rural development. The Commission arranged thought provoking seminars in collaboration with these institutes for functionaries and representatives of ULBs and PRIs in their premises. But it was found that these institutes lack in various ways. **The Commission is, therefore, of the opinion that these institutes should be strengthened by way of additional manpower and infrastructural logistics so as to enable them to cater to the capacity building and training**

needs of PRIs and ULBs. It is further suggested that HIPA should be entrusted the task of providing training to the officials and non-officials of urban local bodies and HIRD that of the Panchayati Raj Institutions. Keeping in view the importance of capacity building and training towards empowerment of local bodies, the Commission, in Chapter 11 of its report, has recommended a sum of Rs. 15.00 crore for strengthening the capacity of three premier institutions i.e. Rs. 6.00 crore for HIRD Nilokheri, Rs. 6.00 crore for HIPA Gurgaon and Rs. 3.00 crore for SCDTC Nilokheri. These institutes can also undertake research work in the field of rural and urban development and serve as centres for documentation and information on municipal administration as well as for Panchayati Raj Institutions. However, the Departments of Panchayati Raj and Urban Local Bodies should adequately provide for undertaking and strengthening the various training programmes.

14.11 The need of an independent state level Urban Training Institute or Academy has been expressed in various seminars, workshops and other fora. In discussions which the Commission held with functionaries and elected representatives of ULBs on different occasions, the need for such an institution was frequently voiced and stressed. The Commission finds this suggestion highly relevant and urgent. **The Commission, therefore, recommends that a state level Urban Management, Training and Research Academy should be set up in the State at the earliest. The proposed academy should be an autonomous professional body with eminent experts in all fields of urban management and finance.**

14.12 The Commission feels that the existing centraliced system for identifying and meeting local needs should be changed. Constitution of District Planning Committees is the right initiative in this direction. But there is a need for devolving adequate powers to DPCs so that they may play their constitutional role of strengthening local autonomy more effectively. Setting up of Municipal and Village Development Funds is another initiative to focus on filling the infrastructure gaps in rural and urban areas. Empowerment of the common citizen as a primary stakeholder is essential for strengthening local bodies and improving governance systems. The Right to Information Act (RTI) is an effective instrument for this purpose. Public awareness campaigns need to be launched educating citizens on their rights and responsibilities. The NGO movement should also be strengthened for greater community empowerment. The government systems should be transparent and open to public scrutiny to bring about more accountability and confidence in the decisions taken. Further, the development schemes of the central government aimed at infrastructure improvement at local levels should be implemented based on local realties.

Community/Citizens' Participation

14.13 An empowered community is the result of empowered citizens. Effective and inclusive community participation means that all people can participate in local decision making processes. Community participation in development programmes can achieve greater functional efficiency, corruption free environment and transparency in operation and implementation.

14.14 The role of civil society assumes varied forms of community or group efforts ranging from neighbourhood groups and community based organisations to different forms of citizen or consumer forums to voluntary associations and non-government organisations of various types and sizes. These may be functioning independently or in coordination with others at the regional, national and even international levels.

14.15 Participation implies a commitment to change and development. It should emanate from citizens' willingness, desires and entitlements for development. Participation is not automatic and given. It has to be promoted, sparked and sustained. Ensuring participation will result in infusing of skills, development of knowledge, social engineering, confidence building and mainstreaming shared values.

14.16 Citizens' participation is a pre-requisite for sustaining people friendly and environment friendly development. It is, thus, a key element in the development process. Community participation is being increasingly recognized not only as a means of participative democracy and empowerment of the poor, but also as an instrument of improving the quality and efficiency of delivery of services.

14.17 The involvement of user groups right from the stage of project design and planning to its execution and operation can help in reducing cost of construction as well as delivery of services. Communities can be encouraged on local benefit – accruing basis to meet part of capital cost through contribution of money and labour. Operation and maintenance of facilities like hand pumps, public taps, community parks, street lights etc. can be handed over to the user groups.

14.18 Consequent to interactions with elected representatives of the local bodies on various occasions, the Commission had a feeling that the spirit of community participation needs to be promoted for making PRIs and ULBs effective at the grass root level. Concerted efforts should be made to constitute "citizens committees", comprising residents of the local area so that people can have a say in areas like maintenance of parks and roads, cleaning of drains, better street lighting and proper collection of garbage. The state government should provide financial assistance and the requisite back up.

14.19 The Commission has noted that presently various organisations/ associations, NGOs, community groups, self-help groups (SHGs), youth clubs, cooperatives as well as government sponsored groups like NSS, Nehru Yuva Kendras, Aganwadis, Mahila Mandals etc. are actively involved in development work at the grass root level. Various financial institutions, donor agencies and government departments/ organisations are also promoting user/beneficiary groups like Water user Associations for specific programmes/schemes. Various associations have been successful in programmes like watershed management, resource conservation, domestic savings, credit schemes etc. Though the Commission considers these organisations as important and helpful for sustained growth efforts and equitable development, yet their reach and coverage is inadequate and uneven. **The Commission feels that this is undoubtedly an area of high priority in terms of both policy and action. What is needed is the adoption of such initiatives as policy measures and their replication, multiplication and encouragement on a much larger scale through systematic efforts and institutionalization of arrangements.**

Citizens' Empowerment

14.20 Empowerment of citizens is a critical element to enable local bodies to function and deliver efficiently. The Commission has noted that most citizens are ignorant of their rights, responsibilities and aspirations. They are also not aware of the procedures and systems of local governance. Since many citizens do not pay taxes or user charges, they do not feel that have a say in the system of local governance.

14.21 The Commission has further observed that powerlessness is an important aspect which obstructs empowerment of citizens and prevents them from demanding their due and also from enjoying to the fullest of their lives as human beings. Therefore, one of the important ingredients of empowerment of citizens relates to the ground reality of who has the effective decision making power and who has a voice at the local level.

14.22 Among the various steps taken by our country to empower its citizens and transform the nation, the 73rd and 74th CAAs can be easily termed as monumental. Enclosed within these wide ranging measures comprise ways to empower citizens in particular and democratic institutions in general. Empowerment of institutions cannot be complete without empowerment of all sections of society especially disadvantaged sections – based on gender, caste, creed, physical or other disabilities, age or class. There are a number of other forms of marginalization that manifest themselves that need to be addressed. Institutions can be strengthened with inclusivity of these sections in the mainstream. To this end we have identified some important areas that need to be addressed at various tiers of governance.

14.23 During its visits to other States, this Commission observed that the concept of citizens' charter has become popular in the recent past as a means for providing responsive administration. Several government departments and organisations in the country have announced citizens' charters appropriate to their functions and activities. Such charters should be adopted by the local bodies in the State on a wide scale to make their working transparent, responsive and people friendly. A citizens' charter is a documented commitment on the description and standards of services that are provided and, more so, about grievance redressal arrangements and solving the problems of citizens in a time bound manner. This process would be instrumental in speeding up the disposal of requests as well as effective redressal of citizens' grievances. The objectives of citizens' charter are (i) to provide information to citizens' about the departments of local bodies, which are responsible for providing different types of facilities to citizens; (ii) to make the citizens aware about procedures and as to how and where their complaints are to be registered; (iii) to provide quick redressal of grievances; and (iv) to fix responsibility of employees for attending promptly to public grievances and to punish those who fail to do so.

14.24 We learn that the departmental citizens' charters are more bureaucratic showpieces on walls with little effort to ensure translation of intentions into actions. The government has, therefore, to ensure that senior departmental officials at the directorate are made answerable to lapses in adherence to schedules given in the citizens' charters. It is in this context it seems the government has introduced, and rightly so, the Right to Services Act as a citizens' empowerment measure. These two instruments along with the Right to Information Act provisions really strengthen the citizens against the whims of lower and higher echelons of bureaucracy which may tend to deny them their dues as citizens. The Commission, therefore, recommends that efforts be made to eunsure devolution of services to local bodies in order to make the services more citizen friendly.

14.25 There are various other ways also which can be explored for empowerment of citizens like, launching of public awareness campaigns to educate citizens about their rights and responsibilities, opening of public debates in the media on relevant issues etc. Government training institutions such as HIPA & HIRD are important platforms for organizing informed discussions and motivating elected representatives to discharge their responsibilities. Right to Information Act (RTI), Right to Education Act, Food Security Act are also the viable instruments for the purpose. **The legislations already made are enough to deliver the goods. But merely making legislations and announcing policies does not serve the purpose. Effective implementation of citizens-centric laws and policies is a must to empower them. The only need is strict and forceful implementation of existing legislations at grass root level. This can be achieved if the key elements for making community participation citizen centric are properly understood and efforts are made for enriched community participation.**

Formation and functioning of District Planning Committees (DPCs)

14.26 The process of decentralisation of planning was initiated in the country around the eighties. In Haryana, Decentralized Planning Scheme was introduced in 1985 – 86 for preparation of district level plans keeping in view people's aspirations and needs at local level and also enlisting active participation of local people and officials in the formulation, implementation and monitoring of such plans. A composite formula based on population and indicators of social and economic backwardness was evolved to allocate funds to different districts for district sector plans. Implementation and monitoring of these schemes suffered due to lack of coordination between the line departments. The role of locally elected representatives was almost marginal.

14.27 Subsequent to 74^{th} constitutional amendment, Article 243 D mandates the setting up of a District Planning Committee (DPC) in every district. It provides that "there shall be constituted in every State at the district level a District Planning Committee to consolidate the plans prepared by Panchayats and municipalities in the district and to prepare a draft development plan for the district as a whole". Such a committee was expected to integrate rural and urban spatial planning at the district level and take care of matters of common interest of the rural and urban local bodies. DPCs were expected to take a comprehensive and integrated view of development plans within a district.

14.28 In pursuance of the constitutional mandate, GOH, in Urban Local Bodies Department, constituted DPCs in all the 21 districts vide notification dated 5^{th} August, 1997. The Deputy Commissioner of a district was the chairperson of DPC. This DPC was empowered to approve various development works of locally felt needs. Funds were released to DCs for execution of development works.

14.29 Subsequenly, the decentralised planning scheme introduced in 1985 – 86 was discontinued. A new District Plan Scheme has been introduced from the year 2007 – 08 which has been further amended in the year 2008 – 09. Under this scheme funds are allocated to the districts on the basis of certain prescribed criteria containing parameters and weightage as: population 40%, SC population 25%, no. of villages 25% and literacy gap 10%. Funds are released for execution of development works approved by the respective DPCs, which can also be utilized to meet resource gaps of different departments at district level. 25% of the total funds are to be spent on schemes exclusively benefiting scheduled castes in the districts.

14.30 The DPCs were not equipped to review and monitor the implementation and functioning of the district plan schemes. As a result, the DPCs became redundant and defunct in the districts. Thus, with a view to ensuring proper and timely utilisation of district plan funds, the GOH (in Planning Department) constituted District Development and Monitoring Committees (DDMCs) in all the districts vide notification number DESA (DP) – 2012/27409, dated 11^{th} October, 2012. DDMC is to coordinate for effective implementation and monitoring of district development works being implemented by different departments including district plan schemes of the Planning Department. DDMC is headed by the Minister incharge for District Grievances and Redressal Committee. DC and ADC are the Vice Chairman and Member Secretary of the DDMC respectively. Other members of DDMC are MPs and MLAs of the district, Mayors / Senior Dy. Mayors/Dy. Mayors of Municipal Corporations, all Chairmen of Councils and Committees in the district, President, Vice President of Zila Parishad, Chairperson of Panchayat Samitis in the district, Commissioners of Municipal Corporations, all Sub-Divisional Officers (Civil), City Magistrate, DDPO, Planning Officer in the district.

14.31 As a precursor to the formation of DDMCs in the State, budgetary allocation of Rs. 294.41 crore has been made for the year 2012 – 13 under modified district plan scheme, out of which Rs. 145.00 crore have been earmarked under Scheduled Caste Special Plan (SCSP) component. DDMCs would also allocate a part of this provision to the PRIs and ULBs which would be calculated at the rate of Rs. 10.00 lakh for each zila parishad member to be allocated to the Zila Parishad for rural areas and Rs. 50.00 lakh for each panchayat samiti/municipal council and committee. The works under this allocation will be decided and implemented by the PRIs and ULBs concerned subject to monitoring by the DDMC to ensure that the guidelines of the district plan scheme are followed by these bodies. The rest of the provisions under the scheme would be decided by the DDMC according to the norms prescribed in the guidelines. For determining the share of different districts under the scheme, population ratio of the district to the total population of the State as per 2011 census has been taken as the criteria of distribution.

14.32 The Commission has noted that DPC is headed by the Deputy Commissioner and DDMC by the Minister incharge of Grievances Committee. As of now there does not seem any coordination between the two and in the present scenario DPCs have become non-functional. This situation needs to be corrected and revamped as per constitutional requirements. **There is a dire need to strengthen the role of DPCs in an effective way to bring about the desired outcome as well as achieving desired goals. It is further suggested that DPCs should have powers to review the progress of programme implementation. The Commission is hopeful that this scheme may prove a major milestone in the development process in the years to come.**

14.33 The elected representatives of PRIs and ULBs during their meetings with the Commission in the field have strongly protested against functioning of DPCs. They alleged that meetings of DPCs are held very rarely and further that public representatives are not given due weightage in the functioning of DPCs. **The Commission views this situation as against the spirit of constitution of DPCs and recommends that since these are constitutional entities, there is a pertinent need to expedite their functioning and encourage public participation in grass-root planning and programme implementation. The DPCs should be made active and these committees should hold regular meetings. DPCs should take quarterly review meetings and find out measures to solve the grievances.**

14.34 The Commission has noted that a part of district plan funds is allocated to panchayat samitis and municipal bodies at the rate of Rs. 50.00 lakh each per year. These bodies differ in fiscal capacities, size, location and cost disabilities. As such the Commission observes that equal share to better endowed and naturally deprived local bodies is not desirable. Public representatives in discussions with the Commission have also pleaded for suitable amendment in the existing distribution criteria. **The Commission is of the opinion that district plan funds should be distributed in different tiers of local bodies on the basis of population ratios and other indicators of backwardness and deprivation as may be considered necessary.**

14.35 Another issue which requires attention is the M.P. Local Area Development Scheme (M.P. LADS) under which an amount of Rs. 5.00 crore is allocated to each Member Parliament to be spent in his/her constituency on local area development schemes of his/her choice. These schemes are executed through DCs and fall outside the prescribed budgetary process. These are not parts of the district plans. Irregularities and lapses in the implementation of these schemes are often reported. Such schemes create conflicts of interest at local levels and often result in sub-optimal use of resources as these do not form part of the integrated district area development plans. **It would be appropriate to integrate works under MPLADS with the district plan and execute them through concerned PRIs and ULBs. It is further suggested that the State Planning Board/State government should ensure that all the district plans are incorporated in the state plans.**

Creation of data base and e-governance

14.36 In order to discharge its constitutional mandate, the SFC requires extensive time series data and other information on finances, services, structural composition, expenditure pattern, assets formation and maintenance and other important aspects of local bodies. The Commission has observed that there are no proper and regular arrangements for collection, compilation and consolidation of the relevant data, neither at state government level nor at departmental and local bodies levels to provide feed-back to the forth coming SFC and other stake holders. The Commission, thus, had to face difficulties in getting dependable and authentic data on various aspects from the Departments of Urban Local Bodies and Panchayati Raj. The responsibility of policy making cannot be adequately discharged without solid data base.

14.37 Successive CFCs have emphasised the need for creation of strong data base on finances and services of local bodies accessible on electronic media and also earmarked certain funds for this purpose. Previous SFCs of Haryana had also made similar recommendations for strengthening of data base. But not much headway seemed to have been made in this direction. This is another area of serious concern to the Commission. This Commission is of the view that collection and compilation of statistical data on local bodies is the ongoing responsibility of the state government.

14.38 The 3rd SFC of Haryana had also made various suggestions in regard to creation and strengthening of data base on local bodies. This Commission has also made similar suggestions in Chapter – 2 of its report, which are repeated as under:-

- **The Commission strongly feels the necessity of a permanent central agency in the State Finance Department or the Planning Department exactly on the pattern of Finance Commission Division in the Ministry of Finance, Government of India fully equipped with qualified and technical manpower to work as repository of data on local bodies and also to review and monitor the progress of implementation of recommendations of SFCs and CFCs.**
- **In order to overcome the problem of statistical data on PRIs and ULBs, there is an urgent need of creation of Statistical Cells each in the Departments of Panchayats and Urban Local Bodies, fully equipped with trained and dedicated manpower and modern electronic devices.**

14.39 The Commission further observes that Information Technology (IT) is a broad term covering many aspects of managing and processing information and data. The critical role of IT, as instrument for progress and development, has now been acknowledged all round. It is now realised greater impacts can be achieved through electronic governance, modernizing of office environment and working methods. In simple terms, e-governance means providing a secure, reliable, participative and friendly interface between the government/local bodies and citizens through electronic networks. The application of IT implies use of communication networks like internet, state wide area network access to various services providers, convergence of citizen friendly services, deployment of software and IT professionals to enable effective remedies for various citizens' needs.

14.40 The Commission is, therefore, of the opinion that local bodies, particularly municipal bodies, should adopt IT and electronic governance for providing high standards of information, administration and services to people. Geographical Information System (GIS) is another vital component of Information Technology. It is suggested that GIS be used by all municipal corporations and large sized municipal councils. Therefore, introduction of computerization in local bodies is urgently required not only for preparing a data base on physical, administrative and financial aspects of their working but also as an effective tool of monitoring and management with a view to improving efficiency and reducing costs. **It is, therefore, recommended that a comprehensive and time bound programme of computerization of local bodies should be taken up on priority basis.**

14.41 The Commission is hopeful that the measures suggested above would go a long way to create and strengthen the process of data base for use by the successive SFCs and other stake holders. These measures would also greatly facilitate timely and efficient use of devolved funds besides being time and cost effective.

Privatisation of Municipal Services

14.42 The Commission has observed that in most states, municipal services are not being provided at satisfactory levels due to weak financial position of the municipal bodies. Growth of municipal revenues has not been commensurate with steady rise in input costs of services and establishment. It is in this context that the role of private sector in maintaining certain civic services assumes significance. The basic objectives of privatisation are cost efficiency or economy in the cost of providing civic services and improvement in operational efficiencies of services, besides, supplementing resources of urban local bodies for expansion of civic services. Privatisation of municipal services has a tendency of attracting private capital into urban infrastructure projects. The focus of privatisation is, thus, on efficiency, economy, effectiveness and efficacy to improve governance. A number of municipal corporations and councils in the country have gone in for privatisation of some of their functions and services. These include sanitation, waste management/solid waste removal, transportation, maintenance of street lights and municipal roads, cleaning of public toilets, development and maintenance of parks, gardens and recreational places etc.

14.43 The Commission has further noted that Bengoluru, Navi Mumbai, Kochi, Vadodara and Rajkot etc. are some municipal bodies which have successfully gone in for privatisation of such public services. Besides outsourcing or contracting out, various other forms of public private partnership have also been adopted by some ULBs. NGOs, Community Groups and Cooperatives have also been involved in many cities in the maintenance of parks, squares, crossings, gardens, garbage disposal etc. Apart from contracting out a service on an ongoing basis, one time tasks like designing and construction of specific infrastructure facilities like roads, water supply, distribution net work etc. can also be contracted out. The Commission also feels that privatisation is more important in case of new services and expansion in the coverage of existing services.

14.44 The Commission further feels that with rapid urbanisation the demand for civic services is rising. Since tax payers or residents resist any increase in taxes or user charges, the scope for expansion in civic services remains limited to grants-in-aid from the State. Hence, involvement of private sector investment in core civic services may help improving levels of public services to a great extent. But there is apprehension that employees unions may resist any such move for privatisation as it would lead to retrenchment of existing staff. **The state government would, therefore, have to frame a suitable policy so that the services of employees rendered surplus are properly utilised for other functions till the process of absorption is completed.**

14.45 Thus, keeping in view the positive results of privatisation in terms of cost effectiveness and efficiency improvement, this Commission strongly recommends privatization of services like street lighting, solid waste management, construction/ maintenance of toilets, garbage collection and disposal, street cleaning, maintenance of roads/gardens/parks/play grounds in all the major municipalities. The pre-requisites to regulate the process of privatisation of municipal services are preparation of model bye laws and guidelines, a strong regulatory mechanism and oversight system, appropriate institutional and legal frame works so that a strict watch could be kept on private service providers for obtaining quality service levels at minimal cost. Community participation can also be a cost effective measure of maintaining and operating civic services.

Public Private Partnerships (PPP)

14.46 Public Private Partnership (PPP) broadly refers to a long term contractual partnership between public and private sector agencies specially targetted towards financing, designing, implementing and operating infrastructure facilities and services that are traditionally provided by the government and its entities. PPPs aim at to take advantage of the strength of the public sector through state governance, citizens' support and those of private sector by their enhanced operational efficiency, innovative technology, managerial effectiveness so as to deliver a higher standard of services to the people with better value for money. The other important features of PPP are allocation of risks to the partner best able to manage them, thus, minimising costs while improving the performance. Public sector assumes social, environmental and political risks whereas the private sector shares financing, construction and commercial risks.

14.47 With growing emphasis on urbanisation, economic liberalization and reforms, there appears to be a pertinent need to upgrade and expand infrastructural services in municipal areas. Therefore, in view of lack of financial resources, and technical expertise in municipalities, it has become necessary to go in for more and more public-private partnerships for improving municipal services. This Commission has been informed that in order to facilitate and promote increasing role of PPP in creation of new infrastructure assets as well as for the management of existing ones, GOH has notified an explicit and comprehensive PPP policy on 18.11.2010. A separate PPP cell in the Finance Department has also been set up for scrutiny and implementation of PPP mode. Further, a committee of secretaries on infrastructure (COSI) has also been set up to facilitate infrastructure development under PPP mode. The main objective of the policy is to create an enabling environment and to facilitate private sector participation in upgrading, developing and expanding the physical and social infrastructure in the State. This mode has also to provide a broad framework and conducive environment so that the strengths of the private sector in terms of their efficiencies, flexibility and innovativeness are utilised to provide better infrastructure and services at minimal cost.

14.48 The Commission has come across various types of PPP arrangements which are being commonly adopted for building and expansion of infrastructures and services. Under BOT (Build, Operate and Transfer) arrangement, a private firm or consortium develops a new infrastructure project, operates and maintains the same for contract period and them transfers the same to the government as per agreed terms. Under DB (Design Build), the private sector designs and constructs the project at a fixed price and transfers the facility. BTO (Build Transfer Operate) is another mode where private sector designs and builds the facility and then transfers the same to the public owner at the conclusion of the construction. Under BOO (Build Own Operate), the developer is authorized to finance, construct, own, operate and maintain the facility from which the total investment is recovered by collecting user levies from facility users. DBO (Design Build Operate) system provides for ownership in private hands and a single contract is let out for design, construction and operation of the infrastructure project. With the DBFO (Design Build Finance Operate) approach, the responsibility for designing, building, financing and creating and maintaining are bundled together and transferred to private sector partner. In BOT (Build Operate Transfer) arrangement, private partner obtains his return on total investment from the public authority through annuity. Joint venture is also another alternative to full privatisation in which the infrastructure is co-owned and operated by both public and private operators.

14.49 The Commission observes that since big infrastructural projects involve high costs, long gestation periods and low returns, these projects should be taken up under PPP arrangements, which should include water supply, STPs sanitation, construction of roads/by passes/flyovers/ commercial centres, recreational facilities, public conveniences, community centres etc. PPP arrangements should also cover efforts made by voluntary organizations like RWAs and NGOs in areas like garbage removal and collection, solid waste disposal, tree plantation, maintenance of parks, neighbourhood watch etc. However, for this purpose, appropriate policies, legal frame work, tariff regulation arrangements and incentive systems should also be evolved and put in place by the government so as to achieve the desired objectives of cost effectiveness, efficiency improvement and resources generation etc.

Taxation of Central and State Governments Properties

14.50 Taxation of properties of central and state governments has assumed greater importance for raising municipal revenues. Previous SFCs of Haryana have been recommending levy of some tax or service charges on central and state government properties situated within municipal limits. During the course of discussions with the Commission, the representatives of Urban Local Bodies Department informed that no progress has been made in this direction. The Commission also sought details of government properties situated in municipal limits in the State, but no such information has been supplied by the Department till writing of this report. The Commission, in its internal discussions, has considered this issue and decided to make some observations in this regard.

Central Government Properties

14.51 Article 285 of the Constitution of India provides for exemption of central government properties from all taxes levied by the state governments or any other authorities in the State. The state governments have continuously been pressing for bringing union properties under the ambit of municipal tax laws, particularly in view of the fact that many union properties such as ports, air ports and hotels etc. are used for commercial purposes and not for administrative functions. Based on recommendations of the Local Finance Enquiry Committee made on 1st May 1954, the GOI decided to pay service charges to the local bodies on central government properties. However, detailed guidelines were issued by the MOF/GOI on 29th March, 1967 for mode of calculation of service charges as well as determination of the annual value of the property. It was laid down that service charges equivalent to 75% of the property tax realized from private individuals shall be leviable with respect to large and compact colonies, but where some services are being provided by the local bodies, service charges should be paid at 50% of the normal property tax rate and in those cases where no civic services are directly availed of, the payment will be restricted to one third of the normal rate of property tax. However, public sector undertakings and other industrial undertakings constituted into private limited companies would be required to pay all the usual taxes like any other private individual.

14.52 Keeping in view the above background, the Commission took up this matter in its various meetings with the functionaries of Urban Local Bodies Department and also with the elected representatives of local bodies during field visits. It was reported that no serious efforts seemed to have been made to identify the government properties and to recover service charges from central government properties. The Department of Urban Local Bodies has not been able to furnish information regarding service charges to be recovered by the concerned municipalities. **The Commission observes that there exist huge properties in various parts of the State belonging to various central government departments and in case sincere efforts are made to identify such properties and to recover service charges, substantial income can be generated by the local bodes. It is further suggested that Urban Local Bodies Department should conduct a survey to identify central properties located in the State,**

determine their annual value and calculate service charges due to various municipalities and initiate recovery process following due course.

State Government Properties

14.53 The Haryana Municipal Act, 1973 and Haryana Municipal Corporation Act, 1994 provide for levy of a tax on rateable value of lands and buildings within the municipal areas including state government properties. However, the Commission has been informed that certain categories of government properties have been given exemption from the tax. The Commission sought certain information from the Urban Local Bodies Department in respect of outstanding arrears recoverable from various government departments. But the requisite information could not be made available by the Department. The Commission is of the firm view that substantial arrears of property tax are due to be paid to municipal bodies by various state government departments and public sector undertakings and no concrete steps have been taken by the Department to recover arrears. This is a matter of serious concern. The Commission is of the view that **the state government should ensure that property tax payable to local bodies is paid in time in future apart from clearing all the outstanding arrears within a year. It is further suggested that a system may be devised by the state Finance Department to make payments of property tax direct to the Urban Local Bodies Department from the budgetary allocations of the defaulting departments and other undertakings.**

Policy on Municipalisation

14.54 As per 2011 census, urban population in Haryana has been reported at 88.21 lakh in 154 cities/towns (including 78 ULBs) which constitutes 34.79% of the total population of 253.53 lakh. Decennial (2001-2011) growth rate of urban population of the State has been 44.25% against the total growth rate of 19.90%.

14.55 The Haryana Municipal (Amendment) Act, 1973 specifies some criteria for municipalisation. Section 2 (A) of the said Act, which contains the classification of municipalities provides for three classes of municipalities. Municipal Corporation is for a larger urban area with the population exceeding five lakh, Municipal Council for a transitional area with the population exceeding 50,000 but below five lakh and Municipal Committee for a smaller urban area with population upto

50,000. Industrial townships with certain level of services and military cantonments can be excluded from municipal administration. The power of declaring any area as a municipal area or municipality vests with the state government. As per the provisions in the Act, factors like population of the area, density of population, local revenue generated, percentage of employment in non-agricultural activities, economic importance of the area and such other relevant factors are taken into consideration while declaring an area as a municipality. Under Section 3 of the Act, a notification proposing an area to be a municipality is issued inviting objections and after consideration of these objections, orders are passed declaring a local area to be a municipality. The powers of abolishing a municipality also vest with the state government under Section 8 of the Act.

14.56 The state government, vide letter no. 53/278-08-3C1, dated 22.01.2009 framed and circulated guidelines and criteria for constitution and abolition of municipalities in the State. For constitution of municipal committee, the guidelines are:-

- The population of that area should not be less than fifteen thousand and not exceed fifty thousand.
- Density of population should be at least 400 persons per sq. km. for such census town.
- The income of that municipality should be sufficient to meet out all expenditures on administration, operation and maintenance and other mandatory obligations. The expenditure on these heads should not be more than 80% of the total income of the municipality.
- The people of the area should predominantly be engaged in non-agricultural activity (say 60%).
- Where local panchayats/residents want to constitute a municipal committee, the gram panchayat shall pass a resolution to that effect, followed by recommendations of the Deputy Commissioner. In case, the gram panchayat does not pass such resolution, then the Deputy Commissioner shall give his findings with reasons for constitution of municipality in the area.

For abolition of a municipality, the guidelines are:-

- Where a local municipality/residents want to constitute a gram panchayat, the municipal committee shall pass a resolution to that effect followed by recommendations of the Deputy Commissioner. In case the municipal committee does not pass such resolution, the Deputy Commissioner shall give his findings with reasons for constitution of a gram panchayat in the area.

14.57 Similar guidelines/criteria have been framed by the state government for inclusion and exclusion of limit of any municipality in the State vide letter no. 53/278-08-3C1, dated 03.03.2009. These guidelines would also be considered by the similar committee constituted for the purpose of constitution/ abolition of any municipality vide letter no. 53/278-08-3C1, dated 22.01.2009.

14.58 Urban area was also specially defined for the 2011 census. The criteria was the same as adopted during 2001 census. As per this definition, an urban unit includes all places like a Corporation, Municipality, Cantonment Board and Notified Town Area Committee as also other places which satisfy the following criteria:-

- A minimum population of 5,000;
- At least 75% of male working population is engaged in non-agricultural pursuits, and;
- A density of population of at least 400 persons per sq. km.

The first category of urban units is known as Statutory Towns which are notified under law by the state government and have local bodies like corporations, councils and committees etc. irrespective of their demographic characteristics. The second category of towns is known as Census Town. These were indentified on the basis of 2001 census.

14.59 With a view to making appropriate observations on municipalisation policy, the Commission sought relevant information and data on various related aspects of municipalisation as emerged out of 2011 census. But the Department of Urban Local Bodies could not supply the requisite information till the writing of this report. **However, the Commission has been informed that as per 2011 census, four cities/towns namely, Hodal, Charkhi Dadri, Mandi Dabwali and Gohana, having municipal committees, have crossed population of 50,000 and as such these towns qualify for being converted into municipal councils. A view has to be taken as to whether these four towns can be converted into municipal councils. The Commission is of the view that the state government should examine this issue on a case to case basis as per the enabling provisions under the Municipal Act and also as per the guidelines/criteria laid down by the state government. We also understand that residential areas have also been developed by HUDA and, thus, such areas have immense economic potential, especially being situated on**

national and state highways or on other focal points. The state government should also consider declaring such areas as municipal areas.

Empowerment of Local Bodies: PRIs & ULBs

PRIs

14.60 The responsibility for preparation of plans for economic development and social justice and its implementation in relation to 29 subjects listed in 11th Schedule has been assigned to the PRIs. The state government is expected to transfer these functions to the PRIs together with funds and functionaries. It is, further, necessary to clearly identify what would be done by the different tiers of PRIs at each level. This should be based on the rule that what can be done at the lower level should be done at that level only and not at a higher level. **The Commission, therefore recommends, that the functional domains of all the three tiers of PRIs as also the nature of inter-linkages between them should be clearly identified in law and rules.** Detailed instructions and guidelines should be issued by the concerned departments to their field officers in this regard. Furthermore, departmental functionaries required to implement the programmes at the panchayat level must be placed under their supervision and control. The role of the block samitis and zila parishads must also be identified more clearly so that gram panchayats can be screened from their interference. A World Bank report on fiscal decentralisation to PRIs suggests that thought should be given to defining more clearly the role of the districts and blocks as either primarily deconcentrated arms of the state government or as autonomous governments representing the preferences of their constituencies. The report further says that panchaysts should be freed from implementing programmes of state or union governments. States should avoid devolving responsibilities to Panchayats for schemes designed completely by a higher level government, transferring to local government staff that they did not recruit and cannot ask them to spend their resources maintaining assets that they did not create. The World Bank also suggested a re-think on the three tier structure of rural governments, observing that three tiers of rural local governments below the state level with overlapping responsibilities, as in India, is costly, invites duplication of effort, and confuses the accountability objectives of the governments decentralisation programme. These are thought provoking and all the more to ensure role clarity among the three tiers of PRIs.

ULBs

14.61 The performance of ULBs depends on how well the city development plans have been accessed in regard to future demand. All the cities need to prioritize their investment plans by taking care of future demand as they strive to meet the growing challenges of urbanization and need for transforming cities into engines of economic growth while offering healthy & nourishing environment for its citizens. ULBs require a satisfactory state of their finances, greater expenditure on services that they provide to the citizens. Four ingredients: "financial management, improving internal systems, service delivery and e-governance", form key areas of evaluation for empowerment of ULBs. Accountability & transparency in operations form the requisites for the success of these bodies. To ensure these the government may issue orders highlighting following factors:

i) All ULBs should display all vital information pertaining to development projects especially receipt of funds and how they are being spent, in their offices for the information of the public.

(ii) All relevant records should be open to inspection;

(iii) Members of public should also be able to obtain photocopies of documents pertaining to development projects as also matters of general public interest by paying a nominal charge;

(iv) Citizens charter should be linked to right to services so that delays can be tied to identifiable employees or officials;

14.62 No audit – social or work – should be within the domain of the implementing authority, however distant from the site of work. In the case of the state government, the Social Audit Directorate is under the Finance Department. Here too, it should be looked after preferably by a non state officer (on deputation) who would be outside the pale of the administrative hierarchy.

14.63 It is for the state authorities to select more professional trainers and grass root level motivators to handle training, capacity building, and handholding wherever necessary to augment faculty of HIRD and HIPA. This work is long term in nature and the number of peoples' representatives large and widespread. Training and motivation methods are changing. It may be better to have professional assistance to support HIPA/HIRD in house expertise. One important area of concern that we observe is the apparent disconnect between people's elected representatives and the employees of local bodies and other government department staff. Unless there is collusion between them, normal interpersonal interaction is usually one of distrust. It is usually because of lack of mutual appreciation of each other's roles that such situations recur. It would require regular training to improve the state of affairs. A more cooperative attitude on the part-rather than collusion – will benefit citizens, reduce costs.

Role of NGOs

14.64 The government has to have a clear policy in place to help promote empowerment related issues of LBs through select NGOs of repute. It would not be possible for LBs or even the district authorities to select NGOs. It would rather be beneficial for this work to be done by the state government through its administrative department. The department can best lay down the work to be done, the problem areas to be addressed, select through a transparent process those NGOs who meet standards that need to be maintained, payment related matters etc. The Centre can always help in these matters to identify those NGOs who are able to deliver given goals.

14.65 The role of NGOs would be in capacity building of elected representatives, capacity building of government functionaries, laying down methodologies for social audit, evaluation of projects. In addition, we have also separately indicated the need for PPP for various grass root and other infrastructure projects. The role of NGOs in helping identify possible ways of harnessing carbon credit related projects would also be welcome. Besides, government departments could be asked to identify business organized NGOs for getting corporate houses to invest in various projects under their Corporate Social Responsibility (CSR) funds. All these and many more initiatives can be effectively done for and on behalf of local bodies.

14.66 Social audit and technical audit are now universally acceptable and recognized means of ensuring quality and transparency of development works. In the context of local bodies, due to the number of projects underway at any point of time, it must be a necessary corollary to have financial audit, social audit and works audit. The state government has to facilitate this by ensuring adequate systems and personnel in place.

14.67 It is perceived that creation of special cadres would be of help in the process of empowerment. At present, BDO cadre are the senior personnel responsible for management of PRIs and other development works undertaken by PRI. Similarly, ULBs have Municipal Secretaries who function as Executive Officers (EOs) of municipal bodies. These cadres were set up decades ago with qualifications commensurate to the settings then existing. Conditions today are very different and complex. There is a need for better management practices, expertise in rural and urban development related issues, and better training in conflict management to name only a few of the requirements. While BDOs or EOs cadres would challenge these assumptions and the implication of their inadequacy, the problem of re-training the existing personnel would be rather difficult. The government would find it perhaps more useful to either integrate new better qualified personnel into existing cadres or establish new cadres making the existing ones 'dying' cadres. The new personnel would be equipped with qualifications in management besides specialization in rural and urban problems, trained in financial management and able to maintain accounts in the modern accepted methods of book keeping. These people would be assets to the local bodies in effecting economy, bringing about better fiscal management, better planning of projects, etc.

Functioning of Gram Sabha and Ward Sabha

14.68 Gram sabhas are supposed to act as a watchdog to protect community assets and common property resources. A strong and vibrant gram sabha is the only bulwark against corruption, embezzlement of funds and exclusion of the poor and marginalized from decision making process. Concerted efforts are, therefore, required to make gram sabhas as the hub of all activities in the village. Article 243 (b) of the Constitution defines gram sabha as consisting of all persons registered as voters in the electoral roll relating to the village within the area of the panchayat at the village level. Article 243 A states that the gram sabha may exercise such powers and perform such functions at the village level as the legislature of a state may, by law, provide. However, if one looks critically at legislative provisions, one will find that the gram sabha has, by and large, been given very little importance. For instance provisions doing away with the need for quorum for adjourned meetings of gram sabha reinforce the tendency to view gram sabha meetings as a mere formality. Therefore, to make PRIs the effective bedrock of democracy, gram sabha should be given a greater role in managing financial resources given to panchayats in addition to the routine functions. Further, the gram sabha can facilitate governance as the gram sabha could be an effective forum where elected representatives of panchyats and higher tier of government can explain their plans of action and development strategies and get spontaneous feedback on implementation of the programmes.

14.69 The Commission recommends following measures for making gram sabhas effective:-

- **The gram panchayat should be allowed to take up only those projects/works as have been approved by the gram sabha in the Annual Action Plan.**
- **The quorum of one-tenth must be revived for the general meeting of the gram sabha to ensure people's participation.**
- **The list of the beneficiaries of various types of pensions and other schemes including those of BPL/IAY and 100 yard plots be finalised by the gram sabha.**
- **The budget of gram panchayat must be approved by the gram sabha and in case of differences between them, the matter be referred to the Panchyat Samiti whose decision will be final in this context.**
- **The gram sabha shall conduct social audit of the performance of the gram panchayat. It shall be assisted by its social audit committee constituted by the gram sabha and consisting of a retired government servant/ex-service man, a representative each of Sakshar Mahila Samooh, Self Help Groups, Nehru Yuva Kendra and members of panchayat samiti and zila parishad representing the gram panchyat area.**
- **Ward Sabhas should also be constituted in gram panchayats having more than two villages and gram panchayats having a population of more than 5,000. Its meetings should be chaired by the panch from the ward and it should be held before the gram sabha meeting which should consider the recommendations of the ward sabha in the meeting of the gram sabha.**
- **The proceedings of the gram sabha should be videographed.**

Environmental Improvement

14.70 It is observed that global environment factors have their impact on the country. Recent reports suggest a bleak picture unless remedial measures are taken. While macro measures have their own importance, the fight to restore ecological balance can be fought effectively on the ground level by local bodies.

We believe the ULBs and PRIs are important in this effort to improve the ecology. These bodies can not only play a significant role in tackling the green house effects but can earn revenues by aggressive steps to promote afforestation and gain carbon credits. This will need appropriate help from the state government directorates concerned including the Forest Department. Large areas of uncultivable common lands in villages and open waste land in urban areas can be mapped and harnessed to raise revenues through carbon credits and other means. The local bodies need to be tasked for effective monitoring and harnessing of their potential resources. Other large vacant areas unsuitable for afforestation can be harnessed for solar power generation for local use with extra power generation going into the grid. Kerala and Tamil Nadu are two states that have shown the way in this regard in pursuing local and sustainable power generation. In fact these states have also encouraged local individual households to generate their own power and sell suplus power into the grid. Haryana needs to take similar steps.

14.71 Another important issue is the harnessing of methane and other greenhouse gases to help the environment. While community gobar gas plants have been installed in a few places in the State, it is now necessary to take up the matter on a war footing so that as many local bodies as possible have such plants installed. There could be revenue generation for the local bodies by sale of natural gas for cooking and other common pusposes. PRIs and ULBs could be incentivized for setting up such local plants at various places. Besides, they could be incentivized for proper maintenance of these plants.

14.72 All of the above point to the different ways in which non conventional methods can generate resources besides improving the environment.

Recording of Best Practices

14.73 Haryana can be considered as one of the states taking initiatives towards strengthening local governance besides adoption of various best practices developed in the State and other places. Some of the best practices being adopted are enumerated as under: -

- **Conformity Legislations :** Consequent to the 73rd and 74th CAAs, 1992, all the conformity legislations have been enacted by GOH for empowerment of local bodies viz, Haryana Panchayati Raj Act 1994 providing for a three tier system in PRIs, Haryana Municipal (Amendment) Act, 1994, Haryana Municipal Corporation Act 1994 and Haryana Finance Commission Rules, 1994.

- **Constitution of permanent State Election Commission:** Subsequent to enactment of conformity legislation, a permanent statutory State Election Commission has been constituted by GOH on 18.11.1993 to conduct elections of all units of PRIs and ULBs in the State. This Commission has regularly conducted four historic elections of PRIs in December 1994, March 2000, April 2005 and June 2010 under its supervision and control and those of ULBs from time to time in 1994, 2000, 2005 and 2010. Presently, there are 68,226 elected representatives of all units of PRIs and 2405 that of ULBs. The total number of elected representatives of SC, BC and women in PRIs is 20,624.
- **Reservation for SC, BC and Women:** One of the most vital features of Panchayati Raj system in Haryana has been regular conduct of elections and empowerment of weaker sections of society including women. It has made reservations for SCs, BCs, and women not only for getting elected to panchayats and municipalities but also for executive posts like chairpersons and vice-chairpersons. About 50% elected representatives of PRIs and ULBs belonging to reserved categories reveals the impact of reservation policy in Haryana State.
- **Constitution of State Finance Commission (SFC):** Section 213 of PRIs Act 1994 and Rule 3 of Haryana Finance Commission Rules, 1994 provide for constitution of SFC after expiration of every five years to review the financial position of PRIs and ULBs and to recommend principles for sharing of state revenues with the local bodies. GOH has complied with these provisions and as a result, the 1st SFC was set up on 31.05.1994, 2nd SFC on 06.09.2000, 3rd SFC on 22nd December, 2005 and 4th SFC on 16.04.2010. All these SFCs have made comprehensive, effective and balanced recommendations for financial, functional and administrative empowerment of PRIs and ULBs in the State.
- **Functional Decentralization:** Eleventh and Twelfth Schedules of the Constitution envisage 29 functions for PRIs and 18 functions for ULBs. As per the provisions made in PRIs and ULBs Act, all these functions are

required to be transferred to these bodies by the state government for their effective functioning. GOH has delegated certain duties and functions of supervisory and monitoring nature of 16 important departments to the three levels of PRIs. Further, to strengthen the process of decentralization, a detailed activity mapping of ten important departments was prepared and circulated on 17.02.2006 for ensuring role clarity and under which funds, functions and functionaries have been devolved to the PRIs. Like-wise, 14 functions have already been transferred to the ULBs so far.

- **Constitution of District Planning Committees (DPCs) :** In pursuance of the constitutional mandate, GOH has already constituted DPCs in all the 21 districts vide notification dated 5th August, 1997. DPCs are empowered to approve various development works of local level needs. GOH has gone one step further. With a view to ensure proper and timely utilization of district plan funds, District Development and Monitoring Committees (DDMCs) have also been constituted in all the districts on 11th October, 2012.
- **Constitution of Gram Sabha and Ward Sabha:** GOH has established gram sabha at gram panchayat level and ward sabha for each constituency of Gram Panchayat for effective and greater people's participation. Gram sabhas and ward sabhas have been strengthened by giving several mandatory powers such as identification and prioritization of beneficiaries for all government programmes, approval of development plans, generating proposals and determining priorities of schemes, promoting adult education, preventing social evils etc.
- **Honoraria of elected representatives of local bodies:** In order to facilitate proper participation of PRIs in the development process, the GOH in a major policy decision during 2006-07 initiated incentive scheme of granting honoraria to the elected representatives of PRIs and ULBs. The amounts of honoraria have been revised from time to time. The latest rates of honoraria per month are as under:-

PRIs	ULBs
Gram Panchayat	**Municipal Committee**
• Sarpanch Rs. 2,000/- • Panch Rs. 600/-	• President Rs. 2,500/- • Vice- President Rs. 2,000/- • Member Rs. 1,000/-
Panchayat Samiti	**Municipal Council**
• Chairperson Rs. 6,000/- • Vice- Chairperson Rs. 2,500/- • Member Rs. 1,200/-	• President Rs. 3,000/- • Vice- President Rs. 2,000/- • Member Rs. 1,500/-
Zila Parishad	**Municipal Corporation**
• President Rs. 7,500/- • Vice- President Rs. 6,000/- • Member Rs. 2,500/-	• Mayor Rs. 5,000/- • Sr. Dy. Mayor Rs. 3,000/- • Dy. Mayor Rs. 2,000/- • Member Rs. 1,500/-

- **Enhancement in Financial Powers of PRIs:** With a view to have effective participation of PRIs in the development process and decentralization of financial powers, GOH has enhanced the financial powers of the PRIs in respect of administrative approval and technical sanction for execution of development works, as under :-
- **Gram Panchayat** from Rs. 3.00 lakh to Rs. 5.00 lakh for each work
- **Panchayat Samiti** from Rs. 5.00 lakh to Rs. 10.00 lakh for each work
- **Zila Parishad** from Rs. 10.00 lakh to Rs. 15.00 lakh for each work
- **Channelization of Funds:** GOH has been giving more and more untied funds to PRIs and ULBs to enable them to perform their functions effectively. In order to streamline funds flow to the local bodies, direct releases of government funds through banks has been introduced.
- **Constitution of Haryana Rural Development Authority (HRDA):** On the pattern of Haryana Urban Development Authority (HUDA), GOH has also set up Haryana Rural Development Authority (HRDA) to meet housing, environmental and other civic infrastructural needs of the rural areas. The objective is to provide urban-like facilities in rural areas and to promote regulated and planned growth in villages.
- **Display of strategic information:** LBs have to install display boards on the outskirts of village and municipal boundaries containing vital information and data about population, area, density of population, receipt of funds, expenditure incurred, works undertaken and other demographic and social indicators.

- **Information Technology (IT):** The IT policy envisages state wide internet connectivity upto block level and in due course, upto the village level. This initative would take governance and delivery of services to a higher threshold level.
- **Special Economic Stimulus Package Fund:** GOH has created a special Economic Stimulus Package Fund for infrastructure development on fast track basis in the fields of health, education, water supply and sanitation, housing, government buildings, irrigation etc. Steps have also been taken to accelerate the work on major infrastructure projects and implementation of development schemes. It would help generate employment opportunities and other facilities in areas falling under local bodies.
- **Separate Directorate of Social Audit:** The foremost initiative is creation of an independent Directorate of Social Audit. This is an important step forward liable to be reckoned as one of the best practices to be emulated. The Social Audit Department would build capacities of gram sabhas for conducting social audit, identify, train and deploy suitable resource persons, prepare social audit reporting formats, guidelines and manuals for social audit process, facilitate verification of records with work sites, smooth conduct of social audit of gram sabha etc.
- **Other best practices:** There are several initiatives being taken by individual unit of PRIs and ULBs which may be termed as best practices and should be adopted by local bodies at all levels. Some of these are formation of Park Development Committee, Sanitation Ward Development Committee, issue of birth and death certificates by the ULBs and measures of internal resource generation by the local bodies. Sweepers have been appointed in all villages to ensure cleanliness and hygiene. Incentives have been given by various social sector related departments for achievements in social indicators.

Other Recommendations

14.74 The Commission arranged seminars and undertook field visits in order to solicit views and suggestions of elected representatives, functionaries of local bodies, experts from research institutes and other stakeholders on issues before the Commission. Study groups of experts were also constituted to make general recommendations for empowerment of PRIs and ULBs. The Commission also circulated a comprehensive questionnaire for obtaining views of all stake holders. The inputs and recommendations so received are as under: -

PRIs

- Gram Panchayat or the concerned body (PS/ZP) should be empowered to levy state entry tax.
- Tax on mining should be in the purview of the GP concerned and some fixed percentage of it should be determined for the PS and ZP or substantial share in royalty on mining activity should go to the PRIs.
- The transportation of raw materials, like sand etc. for construction activities to the urban areas, be taxed by the GP as it damages the roads and other infrastructure of the village. The GP needs to be empowered through legislation to impose taxes on this activity.
- The gram panchayats need to be empowered through legislation to give sanction for the change in the use of agriculture land for certain purposes.
- District Planning Committees need to be made meaningful. Presently, MPs and MLAs decide the work to be taken up and the area in which funds are to be utilized. DPC members from PRIs & ULBs should have the authority to decide the work and areas for such works.
- HRDF share should also be given to the zila parishads and the percentage of it could be decided by the state government.
- Zila parishad should have some fixed share in the toll taxes being collected in the rural area.
- Zila parishad needs to be strengthened by providing regular staff including its own SDOs and JEs.
- PRIs should be encouraged to construct shops, banquet halls under revenue earning scheme to enhance the income of PRIs.
- Some share of income from Yamuna river ghats may be given to zila parishads.
- PRIs should be authorized to levy tax on microwave towers, public schools, coaching centers, engineering, medical and management colleges located in their jurisdictions.
- GP should be allowed to levy additional stamp duty at the rate of 2% on registration of immovable properties in their areas as provided in PRIs Act.
- Banjar (uncultivable) and wastelands should be converted into fertile lands.
- Gazette Notifications of the Documents related to activity mapping are essential for devolution of funds, function and finances (3 F’s).
- Minimum 15% of the State Plan Funds should be allocated to PRIs as untied funds.
- Incentives should be given to the well performing panchayats and it needs to be given publicity so that these achievements could be replicated in other panchayats also.
- Common lands should be put to more purposeful use by diversification of agricultural activities like floriculture, horticulture, etc.
- There is a need of a planner at village level or cluster level for certifying the ownerships and for discouraging encroachments of village land.

- To make the gram panchayats functional and vibrant one Gram Sachiv must be put in place for only two panchayats.
- Every panchayat should have its own well equipped office with basic infrastructural facilities like file cabinet, chest, table, chair, computer. It should be made mandatory that all the meetings are held in Panchayat Office.
- The mindset of the elected representatives and inhabitants of rural areas needs to be changed through proper orientation and extension work for enabling the gram panchayats to raise their own resources.
- The faculty strength of HIRD should be increased in various specialized fields to cater to the increasing demand for training, research, extension and policy inputs.
- It has been brought to the notice of the Commission that husbands of most of the elected female representatives, particularly of gram panchayats, take active part in meetings of gram sabhas and gram panchahats, also sign the official documents and even appear before the higher authorities on their behalf. This tendency needs to be curbed at the earliest and some disciplinary action should be taken against the defaulters.

ULBs

- The rates of conversion charges and license fee levied for change of land use (CLU) should be increased in proportion to market potential value and 50% of the proceeds be devolved to the concerned municipality.
- Malls and bazaars are crowded with vehicles and the owners charge huge vehicle parking fees. Municipalities should develop parking areas near such places for raising their own resources.
- ULBs should be given a fixed share in labour cess as municipalities provide basic civic amenities to the labour colonies. Like-wise municipalities should also be provided share in toll tax.
- Suitable measures should be initiated for conservation of energy and water in public places and meters should be installed at suitable places.
- Sewer connections should be regularized in unauthorized colonies by levying appropriate charges.
- Avenues for local taxation should be explored and identified and brought under tax net. Revenue generated from local economic base like fuel tax, entertainment tax etc. should be paid back to ULBs for efficient local service delivery. Existing rates of electricity tax, liquor tax, mobile cess, cable tax, advertisement tax, etc. should be revised through suitable indexing.
- Licensing policy for municipal areas should be liberalized in order to reduce pressure of unauthorised colonizers in controlled areas.
- Municipal assets like land, buildings and other commercial properties should be identified and listed and suitable guidelines be prepared for their proper valuation in order to mobilise optimum revenue. There should be effective management system for municipal assets. Municipal Valuation Committee could be set up to expedite this process.
- Planning and implementation of infrastructure projects including city development plan and detailed project report should be carried out through consultation process involving various stake-holders in order to effect transparency, accountability and responsiveness.

- The role of parastatal bodies should be properly recognised so that these could play supporting and complementary role to strengthen urban governance system.
- ULBs should initiate steps to introduce double entry accounting system to promote transparency and accountability in the financial management and decision making.
- Municipal administrative structure and personnel management need to be streamlined and rationalised by recruiting qualified and technical manpower particularly in the areas of finance, accounting, urban planning, public health etc.
- Taxes and user charges should be collected by initiating effective collection drives, using e-collection, collection at door-steps, mutual resolution of disputes, lok adalats, attractive incentives and penalties etc.
- E-governance should be introduced at appropriate levels in local governance system for improving working efficiency of ULBs. The Management Information System (MIS) should be introduced by using GIS, GPS etc. for development of database.
- A separate institution should be set up to address capacity building for all stake holders related to functioning of ULBs.

Common to both PRIs and ULBs

- There is need for empowerment of those representiatives of ULBs and PRIs who represent areas falling in university or overlapping university campuses, HUDA sectors or cantonments or similar externally administrered areas. This resulted in their being unable to spend funds for development as jurisdiction of other institutions have their own control over development. This is a serious issue and government needs to look into it so that empowerment of local bodies representatives becomes meaningful in such cases.

- The Commission has noted that Housing Board colonies have not been transferred to urban local bodies in several cases; hence their development aspects cannot be catered to by the local bodies. This matter also needs resolution in a time bound manner.

- Representatives of many GPs informed that funds are not being distributed on the basis of population or appropriate factors; rather these are distributed equally. This has resulted in some poor villages without adequate sources of income getting comparatively less whereas others with good revenue potential getting more funds than they actually need. The government ought to rectify this by adopting the socio economic indicators for funds distribution recommended by this Commission.

- The Commission has written extensively about inadequacy of training and lack of refresher courses. The state level training institutions are not in a position to make intensive inroads into this problem area. The Commission has separately called for a rigorous policy in favour of training, capacity upgradation, motivation, conflict management and resolution techniques and grievane redressal with better public response/ relations. These would make the elected representatives and the employees of government and PRIs more responsive and effectual in public service.

- In order to make life easier for citizens, effective compliance with Right to Services recently passed by the state legislature along with devolution of services to local bodies will ensure greater transparency and better services for the people. Training as mentioned above in all its various dimensions are required for making devolution of services and discharge of responsibilities and duties more meaningful for citizens.
- This Commission in an observation of services pertaining to registration of vehicles and renewal of driving licenses rendered by the district administration of Gurgaon under “Sampark” scheme observed that people from various parts of the city had to come to a crowded mini secretariat where the registration of vehicles and renewal of driving licenses or issue of new licenese was done. It is felt that such services ought to be spread to different accessible points in the city so that effective service can be rendered in the minimum time and with the least discomfort to citizens. This efficiency of service can be harnessed to charge the citizens most of whom are well off with higher charges for delivery of services. In fact, premium services rates charged by private corporations for services and sales rendered has many takers. Such means can be adopted even by the local authorities. In fact, the next step would be to transfer routine renewals to the local municipal authorities or even the local panchayat samitis in order to make the delivery of services local and empower the LBs.

CHAPTER – 15

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. Background

15.1 In the previous chapters a whole gamut of issues has been expounded on by the 4th State Finance Commission within the framework of its terms of reference. We have, in the course of each chapter, made a series of recommendations that, we feel, are necessary to augment the powers of the local bodies (LBs) besides those suggestions that are crucial to actualize the spirit of the 73rd and 74th constitutional amendments. In this Chapter we take the opportunity of making a summary of all the important recommendations and suggestions so as to facilitate and enable the state authorities and others concerned to follow up on actions that are recommended.

2. Mandate, Role and Approach of the Commission

15.2 In pursuance of the provisions of Articles 243 I and 243 Y of the Constitution and Section 213 of PRIs Act, 1994 and Rule 3 of Haryana Finance Commission Rules, 1994, the Governor of Haryana constituted the 4th State Finance Commission Haryana vide notification no. 18/1/2010-POL-(2P), dated 16th April, 2010.

15.3 The 4th SFC, as per its TOR, is to make recommendations on sharing of state revenues with the local bodies, both PRIs and ULBs, determination of state taxes and levies which may be assigned to these bodies, grants-in-aid to them and also to suggest measures to improve their financial position.

15.4 In view the constitutional provisions, the reference period of the 4th SFC report would be five years from 2011 – 12 to 2015 – 16, commencing from 1st April, 2011.

15.5 The Finance Commission has been reckoned as the sole arbiter ensuring a just and equitable distribution of state revenues between the State and the local bodies. The SFC has also been conceived as an instrument for devolving the necessary funds from the state level to the local bodies.

15.6 The SFC also called upon to make a realistic assessment of finances of local bodies and to suggest a stable, predictable and dependable resource transfer package for local bodies. Besides, the SFC has also to ensure that resources transferred to local bodies are put to optimum use and judiciously utilised on providing better quality of public services.

15.7 The basic approach of the Commission has been to foster inclusive growth and to promote fiscal federalism. The approach applied is based on the principles of equity, efficiency and justice.

15.8 The Commission's overall intention has been to suggest an effective and transparent scheme of revenue sharing with adequate scope for incentives and disincentives based on performance of local bodies in achieving specific objectives.

15.9 Fiscal transfers in terms of tax devolution and grants-in-aid have a tendency of correcting vertical and horizontal fiscal imbalances. The Commission adopted such a scheme of revenue sharing as to serve the objectives of equity and efficiency resulting in predictable and stable transfers.

15.10 The Commission's strategy emphasised the need for devolution of specific powers, authorities and funds to local bodies through resource transfer and their own revenue generation efforts.

15.11 The Commission believes total budgetary support to local bodies cannot be continued for long due to resource constraints. There is, thus, an imperative need for the local bodies to raise adequate internal resources through all possible means.

15.12 The Commission adopted global sharing approach in its scheme of revenue sharing which has distinct advantages of being transparent, objective and certain.

3. Status of State Finance Commission (SFCs)

15.13 The Commission noticed that the period to be covered by its report has not been mentioned in the notification dated 16.04.2010 constituting the Commission. With a view to bringing clarity in the TOR of the Commission, state government should make a specific mention in the TOR of a five year period to be covered by the report of the SFC.

15.14 The SFC should be constituted at least two years before the Commencement of the period to be covered by its report so that its report could be available before commencement of its reference period. The next SFC (5^{th} SFC) should be constituted immediately after submission of report by this Commission.

15.15 This Commission has already submitted its interim report covering the period 2011 – 12 to 2013 – 14. The recommendations made by this Commission for the year 2015 – 16 may be made applicable till such time the recommendations of the next SFC are available and implemented.

15.16 Since there is diversity in the periods of CFC and SFC, there is a need for synchrocity in the period of CFC and SFC. It is, thus, required that SFC should be constituted in such a way that they could be in a position to make available their reports to the CFC at the time of latter's constitution.

15.17 Full Commission should be constituted in one go and its composition should not be disturbed till completion of its task as frequent changes in its composition adversely affect the continuity of its thought and approach.

15.18 The Chairperson and all the Members, including the Member Secretary should be appointed on full time basis so as to pay adequate attention to the issues related to the Commission. Members should be drawn from the specified fields and they should be persons of eminence and competence.

15.19 The SFCs should be equipped with sufficient trained staff including those conversant with finance, accounts, policies, schemes and programmes of the government and related matters.

15.20 The ATR on the recommendations of the SFC should be placed in the state legislature within six months of the submission of its report. It should be followed with an annual statement on the devolutions made to the local bodies and the implementation of other recommendations.

15.21 All the major recommendations of this Commission, particularly on financial devolution should be fully implemented without any modifications complying with the central tradition of implementing all the major recommendations of the CFC.

15.22 A Monitoring Group should be constituted on Karnataka pattern to monitor the implementation of recommendations of SFCs and CFCs.

4. Functional Decentralisation

15.23 This Commission recognises that delegation of functions to local bodies is a gradual and time consuming process which requires adequate strengthening of local bodies so as to enable them to take on the transferred responsibilities. It is, thus, recommended that subsequent functional transfers to the local bodies should invariably be accompanied by proportional transfer of funds and functionaries alongwith proper administrative support.

15.24 All those schemes falling within easy implementation capacity of LBs should be wholly transferred to them. Further, a much more comprehensive exercise needs to be carried out to identify and transfer all those schemes of local relevance to the local bodies which are being presently implemented by government departments.

15.25 There is an imperative need for bifurcation of the functional domains between the state government and the local bodies similar to the division of subjects that exists between the Centre and the States in the form of the Union and the State lists. A third list for local bodies should be inserted in the Constitution.

15.26 High level Committee set up under the Chairmanship of Chief Secretary to monitor the implementation of activity mapping matrix should hold its meetings frequently at least once in six months and the decisions taken should be strictly implemented in a time bound manner. As a follow up, each department covered under the activity mapping should issue relevant instructions and guidelines to the subordinate offices indicating the schemes/funds allocated to the local bodies.

5. Water Supply, Sewerage and Storm Water Drainage

15.27 Since services of water supply, sewerage and storm water drainage are presently being handled by PHED, sufficient funds should be made available in state budget for O & M of these services.

15.28 Concerted efforts need to be put in to recover the O & M cost of water supply and sewerage at least to the extent of 50% as suggested by the 12th Central Finance Commission. The element of subsidization should be eliminated in a phased way to achieve the recovery level upto 100% as per the policy guidelines of the central government.

15.29 User charges for water supply and sewerage should be revised periodically at least 5 to 10% each year in tune with cost escalation so as to ensure that full cost of O & M could be recovered by way of user charges. Besides, effective steps should also be taken to compress operation and maintenance costs by using automation of equipments, plugging of water wastage and pilferage/leakages, providing meter connections, privatisation and outsourcing of water supply and sewerage services so as to achieve dual objectives of cost reduction and quality improvement. PRIs should also be incentivized to promote conservation of water. Hence, the Commission recommends following rates of water and sewer charges:-

User charges as proposed

RURAL

Monthly charges as per Metered Supply + Registration charges @ Rs 100/- per tap

URBAN

WATER AND SEWER CONNECTION FEE	
b) Water Connection Fee 1.Domestic 2.Commercial/Institutional 3.Industrial	 Rs. 2,500/- Rs. 25,000/- Rs. 25,000/-
b) Sewerage Connection Fee j) Domestic ii) Commercial/Institutional iii) Industrial	 iii) Rs. 2500/- iv) Rs 10,000/- iii) Rs 10, 000/-
WATER CHARGES	
Metered Supply	
Domestic	Rs.5.00 per kilo litre
Industrial/Commercial/Institutional	Rs. 10.00 per kilo litre
Un-metered supply	
Domestic	Rs. 60.00 per month
Sewerage Connection	
Waste Water Disposal Charges	
Domestic	25% of water charges
Industrial/Commercial/Institutional	25% of water charges
Commercial/Industrial/Institutional sewer connections of waste water shall be charged @ Rs. 5.00 per kilolitre of waste water generated by use of water from their own source (the waste water discharged in sewerage system shall be taken @ 70% of the total water consumed by the consumer from their own sources).	

15.30 Since projects of water supply and sewerage are highly capital intensive, it may not be desirable to recover any portion of the capital cost from the beneficiaries. The entire cost on building and upgradation of infrastructure should be borne by the state government.

15.31 The functions of water supply and sewerage should continue to be carried out by the PHED in those local bodies that have not as yet developed the capacity or resources to take over these responsibilities. A case to case review should be carried out by the PHED in conjunction with the district authorities and the elected representatives of the local bodies in a systematic and time bound manner as there would be many local bodies with proactive public representation.

15.32 In view of increase in population in rural areas and attempts to set up infrastructure keeping in view the envirornment concerns, we have recommended that PHED explore modern small scale STPs developed in the private sector for treating sewage. This will promote health and address environmental concerns impacting productivity and economy.

6. Taxation Powers of Local Bodies

15.33 There is an imperative need for the local bodies to fully exercise all their enabling taxation powers enshrined in their respective legislations and exploit their taxable capacity and potential to the fullest extent.

15.34 The local bodies should be imparted full freedom to levy taxes, duties, fees etc. within limits prescribed by law subject to floor or ceiling rates fixed by the state government. But at the same time local bodies should also be willing to exercise their given powers.

15.35 There should be a clear demarcation of tax sources between the State and the local bodies either through consensus or a constitutional provision or suitable state legislation. Since this subject comes under the ambit of the state government, it should initiate such supportive measures in the desired directions.

7. Financial Position of Local Bodies

15.36 Financial resources of local bodies, both PRIs and ULBs, have been assessed on traditional basis for the period 2011 – 12 to 2015 – 16 as reliable information from the departments could not be available. Revenue gap of PRIs could not be worked out in the absence of any information on expenditure of PRIs. As such, the Commission could work out revenue gap only of municipal bodies only for the period 2011 – 12 to 2015 – 16. The position has been shown in following tables.

Projections of Own Revenue of PRIs (Rs. in crore)

Sources	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
(d)Own Sources	**208.16**	**253.91**	**286.58**	**312.43**	**340.78**	**371.83**
• House Tax	-	6.01	9.96	10.45	10.98	11.53
• Panchayat Land (Lease Money)	168.16	204.40	230.94	254.03	279.45	307.40
• Other Common Property Resources (CPRs)	40.00	43.50	45.68	47.95	50.35	52.90
(e) Shared Taxes	**99.34**	**169.44**	**217.21**	**234.43**	**269.60**	**310.03**
• Excise Revenue	37.34	48.04	80.53	78.40	90.16	103.68
• Surcharge on VAT	62.00	121.40	136.68	156.03	179.44	206.35
G. Total (a+b)	**307.50**	**423.35**	**503.79**	**546.86**	**610.38**	**681.86**

Overall Position of Finances of ULBs (Rs. in crore)

Items	2011-12	2012-13	2013-14	2014-15	2015-16
Total Revenue Income from all sources	2,059.77	2,170.88	2,409.81	2,709.91	3,039.97
Total Revenue Expenditure	1,161.86	1,368.73	1,592.34	1,846.98	2,134.34
Surplus (+) Deficit (-)	+897.91	+802.15	+817.47	+862.93	+905.63

15.37 Own tax and non-tax revenues of local bodies, both PRIs and ULBs, are deficient to meet their financial obligations to the satisfaction of their citizens. Larger dependence on state budgetary support by way of shared taxes and grants & subventions cannot be continued for long. Ultimately these bodies would have to go in for higher level of resource generation through own efforts.

15.38 Constitution of an Incentive Fund at the district level each for PRIs and ULBs has been recommended to reward the better performing local bodies in their resource raising efforts.

15.39 The Commission has also recommended a balancing package of financial devolution for PRIs and ULBs besides tangible resource raising measures needed to improve their financial position.

8. State Finances

15.40 The state government should improve its OTR/GSDP ratio to 8.6% from 2013 – 14 onwards from existing level of 6 to 6.5%. Tax growth needs to be made compatible with GSDP trend rate or slightly higher than the GSDP growth rate.

15.41 Tax potential needs to be fully exploited through comprehensive tax reforms aiming at widening the tax base, rationalising tax structures, enhancement of enforcement capabilities, developing better management information systems through use of IT, withdrawal of tax based exemptions/ concessions, toning of tax administration etc.

15.42 Effective steps should be taken to increase growth in own non-tax revenue by improving cost recoveries in public services through appropriate revision of user charges in the sectors of irrigation, drinking water, sewerage, medical/technical/higher education, health services from time to time. Bus fares and electricity tariffs should also be updated from time to time to meet impact of increase in input costs. LBs need to be given autonomy in fixing fees and user charges.

15.43 Explicit and implicit subsidies, grants-in-aid, incentives and subventions need to be better targeted for intended purposes/beneficiaries and further phased out to eliminate their continuance in perpetuity.

15.44 These is a need for restructuring expenditure policy. The focus should be on adequate funding of infrastructure sectors including irrigation, power and public works. Similarly, the outlay for social sector including health, education, housing, water supply and sewerage etc. should be substantially enhanced to improve social indicators.

15.45 Revenue expenditure, particularly the non-plan, needs to be kept at a bare minimum by way of privatisation or outsourcing of some services, encouraging contractual appointments, redeployment of works charged staff and by adopting all possible austerity measures.

9. Financial Devolution and Share of Local Bodies

15.46 The Commission has decided to adopt the global sharing approach in vertical sharing of state revenues in which all state taxes are to be pooled and a proportion thereof would be the share of local bodies.

15.47 Own Tax Revenue (OTR) only, including all the taxes already being shared, has been taken as the acceptable component of the divisible pool in its scheme of revenue sharing. The state own tax revenue constituting the divisible pool has been discounted for tax collection charges and other incidental charges at the rate of two percent each year.

15.48 Since reliable and usable data on finances of local bodies was not made available, fiscal gaps of local bodies, particulary the PRIs, could not be worked out and as such the fincial devolution recommended in this report is based on value judgement.

15.49 The Commission has observed that under global sharing approach all the state taxes constitute the divisible pool, there is no justification for continuation of non-SFC sharing of excise revenue and surcharge of VAT which have been made shareable with the local bodies by the state government at its own level. In view of this development, the Commission has recommended two steps of sharing of state revenues with the local bodies.

15.50 Under Step – 1, the share of local bodies, both PRIs and ULBs, has been recommended to be at 2.5 percent of the divisible pool i.e. the net own tax revenue. However, the non-SFC sharing of excise revenue and surcharge on VAT would continue as before. Step – 1 would remain in operation for the first four years of Commission's award i.e. from 2011 – 12 to 2014 – 15.

15.51 Under Step – 1, the share of local bodies should be apportioned between PRIs and ULBs exactly in accordance with the rural-urban population ratio of 65:35 as per 2011 census i.e. share of PRIs at 65 percent and ULBs at 35 percent.

15.52 A composite index with parameters like population, area, literacy gap, AAY population and gender ratio has been adopted as an acceptable criteria of distribution of PRIs and ULBs shares at the district levels. The following criteria has, thus, been recommended for district-wise distribution of local bodies shares into PRIs and ULBs:-

Criteria of Financial Devolution

Parameters	Weight (%)
Population (Rural/Urban)	40.0
Area (Rural/Urban)	25.0
Literacy Gap (Rural/Urban)	15.0
Antodya Anna Yojana (AAY) Population	10.0
Gender / Sex Ratio	10.0
Total	**100.0**

15.53 The PRIs share at the district level should continue to be allocated among GPs : PSs : ZPs in the ratio of 75:15:10 respectively.

15.54 The shares of GPs and PSs within the districts, should be allocated on the basis of the ratios of population and area as per 2011 census with 80% weight to population and 20% weight to area.

15.55 Shares of urban local bodies within the district should be calculated by the concerned department of the state government on the basis of population ratio (2011 census) with 80 percent weight and area ratio with 20 percent weight.

15.56 Under Step – 1 the financial devolution recommended for local bodies relating to the period 2011 – 12 to 2015 – 16 on global sharing basis at the rate of 2.5% of divisible pool with shares of PRIs and ULBs in ratio of 65:35 has been shown below:-

Share of PRIs and ULBs (Rs. in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total 2011-16
Total Share of LBs at 2.5% of divisible pool	499.79	595.10	705.22	819.64	953.37	3,573.12
Share of PRIs (65%)	324.86	386.82	458.39	532.76	619.69	2,322.52
Share of ULBs 35%)	174.93	208.28	246.83	286.88	333.68	1,250.60

15.57 Under Step – 2, the share of local bodies, both PRIs and ULBs, has been recommended at 7% of the divisible pool i.e. net own tax revenue. Under Step – 2, the non-SFC sharing of excise revenue and surcharge on VAT would be discontinued. Step – 2 would remain in operation for the year 2015 – 16 only, the concluding year of the award of the Commission.

15.58 Under Step – 2, the share of local bodies in the financial devolution for 2015 – 16 should be divided between PRIs and ULBs in the ratio of 50:50 i.e. 50% for PRIs and 50% for ULBs as against rural/urban population ratio of 65:35 as per 2011 census.

15.59 Under Step – 2, the share of local bodies calucated at 7% of the divisible pool with shares of PRIs and ULBs in the ratio of 50:50 has been given below:-

Financial Devolution for the year 2015 – 16 (Rs. in crore)

Component	Year 2015-16
Divisible Pool (Net OTR)	37,399.71
Share of Local Bodies (at 7%)	2,617.98
Share of PRIs (50%)	1,308.99
Share of ULBs (50%)	1,308.99

The resort to Step – 2 will restore the devolution as per the constitutionally approved methodology according to which SFC becomes the arbiter of devolution of state revenues to Local Bodies.

15.60 The district-wise distribution of shares of PRIs and ULBs has been given on next page:-

District Wise Distribution of Share of PRIs and ULBs

Sr. No.	District	PRIs Composite Index	PRIs Year-Wise Allocation (Rs. in crore)					ULBs Composite Index	ULBs Year-Wise Allocation (Rs. in crore)				
			2011-12	2012-13	2013-14	2014-15	2015-16		2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Ambala	3.765	12.232	14.565	17.260	20.060	23.333	5.148	9.005	10.722	12.707	14.769	17.178
2	Panchkula	1.855	6.027	7.177	8.504	9.884	11.497	3.397	5.942	7.075	8.384	9.745	11.335
3	Yamunanagar	4.268	13.864	16.509	19.563	22.737	26.447	5.646	9.877	11.760	13.936	16.197	18.840
4	Kurukshetra	4.148	13.476	16.046	19.015	22.100	25.706	3.718	6.504	7.745	9.178	10.667	12.407
5	Kaithal	5.415	17.591	20.946	24.821	28.848	33.555	4.287	7.500	8.930	10.583	12.300	14.307
6	Karnal	5.852	19.011	22.637	26.825	31.177	36.264	5.224	9.138	10.880	12.894	14.986	17.431
7	Panipat	3.589	11.660	13.884	16.453	19.123	22.243	5.950	10.409	12.394	14.687	17.071	19.855
8	Sonipat	5.321	17.286	20.583	24.392	28.349	32.975	5.158	9.023	10.744	12.732	14.798	17.212
9	Rohtak	3.578	11.623	13.840	16.401	19.061	22.172	4.717	8.251	9.824	11.642	13.531	15.738
10	Jhajjar	3.998	12.987	15.464	18.325	21.298	24.774	3.067	5.366	6.389	7.571	8.800	10.235
11	Faridabad	2.167	7.039	8.382	9.933	11.544	13.428	10.739	18.786	22.367	26.507	30.808	35.834
12	Gurgaon	2.870	9.323	11.101	13.155	15.290	17.785	9.427	16.490	19.634	23.268	27.044	31.455
13	Rewari	3.991	12.964	15.437	18.293	21.260	24.730	2.868	5.017	5.974	7.080	8.228	9.571
14	Mahendergarh	4.734	15.378	18.311	21.699	25.220	29.335	2.172	3.800	4.524	5.362	6.231	7.248
15	Bhiwani	8.185	26.591	31.662	37.521	43.608	50.724	4.461	7.804	9.291	11.011	12.798	14.885
16	Jind	6.443	20.931	24.923	29.534	34.326	39.927	3.554	6.218	7.403	8.773	10.197	11.860
17	Hisar	7.435	24.154	28.761	34.083	39.612	46.076	6.236	10.909	12.989	15.393	17.891	20.810
18	Fatehabad	5.060	16.439	19.575	23.197	26.960	31.359	2.776	4.856	5.782	6.852	7.964	9.263
19	Sirsa	7.279	23.648	28.158	33.368	38.782	45.109	5.263	9.207	10.962	12.991	15.099	17.562
20	Mewat	5.668	18.413	21.925	25.981	30.196	35.123	2.345	4.103	4.885	5.789	6.729	7.826
21	Palwal	4.379	14.224	16.937	20.071	23.327	27.133	3.844	6.724	8.006	9.488	11.028	12.827
	TOTAL	**100**	**324.86**	**386.82**	**458.39**	**532.76**	**619.69**	**100**	**174.93**	**208.28**	**246.83**	**286.88**	**333.68**

15.61 The Commission has also decided that backlog amounting to Rs. 215.08 crore and Rs. 115.81 crore should be transferred to the PRIs and ULBs respectively in a phased manner during 2014 – 15 and 2015 – 16 over and above their respective shares in financial devolution recommended by this Commission for PRIs and ULBs for these years. Further that these funds should be distributed among all tiers of PRIs and ULBs within the district as per the criteria laid down by this Commission for global sharing of state own tax revenue.

15.62 The Commission does not recommend assignment of any specific state taxes, duties, tolls and fees to the local bodies during its award period.

10. Grants-in-aid to Local Bodies

15.63 The Commission recommends one time grants-in-aid of Rs. 113.60 crore for the following purposes:-

15.64 **Maintenance of Municipal Roads and Solid Waste Management:-** The Commission recommends a grant of Rs. 57.85 crore for proper maintenance and upkeep of municipal roads and development of solid waste management.

15.65 **Upgradation of Fire Services:-** A special and one time grant of Rs. 10 crore has been recommended for augmentation of fire services infrastructure.

15.66 **Capacity Building:-** The Commission recommends a grant of Rs. 15.00 crore i.e. Rs. 6.00 crore for HIRD Nilokheri, Rs. 3.00 crore for SCDTC Nilokheri and Rs. 6.00 crore for HIPA Gurgaon for strengthening of their capacities to organise comprehensive courses for local bodies representatives, employees and government functionaries.

15.67 **Strengthening the Data Base of PRIs and ULBs:-** The Commission recommends a grant of Rs. 10.00 crore for creation and strengthening of data bases at all levels of local bodies i.e. Rs. 5.00 crore for PRIs and Rs. 5.00 crore for ULBs. Departments of Panchayati Raj and Urban Local Bodies should assess requirements of each of the local bodies for computerisation and other related ingredients and earmark sufficient additional funds, if need be, from their shares in tax devolution.

15.68 Maintenance of Accounts and Audit of Local Bodies:- The need for better management of local bodies through improvement of accounting practices and audit has been strongly felt. The Commission recommends a grant of Rs. 20.00 crore comprising of Rs. 10.00 crore each for PRIs and ULBs for setting up of a cadre of qualified personnel equipped with modern tools of management and information technology to ensure revamping of the management of accounts and improving of audit standards.

15.69 Setting up of Cells for Research & Analysis of Public Finance and Policy:- The Commission has observed that universities in the State need to play some role in analysis of applied aspects of government economic policies, fiscal matters and evaluation of governance at all levels. A sum of Rs. 75.00 lakh is recommended i.e. Rs. 25.00 lakh for each of three universities in the State i.e. K.U. Kurukshetra, MDU Rohtak and GJU, Hisar for this purpose. Long term studies would be invaluable to both state government and SFC/CFC.

15.70 The summary of the grants-in-aid recommended for various purposes is shown below:-

Particulars	**Amount (Rs. in crore)**
• Maintenance of municipal roads and Solid Waste Management	57.85
• Up-gradation of fire infrastructure	10.00
• Capacity building	15.00
• Strengthening of data base	10.00
• Maintenance of accounts and audit of local bodies	20.00
• Creation of cells for research and analysis of public finance and policy in universities	0.75
Total	**113.60**

11. Incentive Mechanism

15.71 The Commission recommends creation of Incentive Fund at the district level each for PRIs and ULBs as a mechanism to encourage them to make vigorous efforts for revenue raising and improve basic social indicators.

15.72 The annual corpus of the Incentive Fund each for PRIs and ULBs would be 10 percent of their annual entitlements in tax devolution which would be released only to those local bodies which perform better than the suggested norms during the preceding year. Fifty percent of the annual accruals in the Incentive Fund may be earmarked for those local bodies which are able to increase their own tax and non-tax revenues by more than 10 percent over the preceding year. The other eligibility criteria is a minimum recovery of 60 percent of the total annual demand against own tax and non-tax revenues beginning with the financial year 2011 – 12. The minimum recovery percentage would have to be raised by 5 percentage points each year upto 80 percent in the year 2015 – 16, the concluding year of the award period of this Commission so as to be eligible to draw down the Incentive Fund.

15.73 The other 50 percent part of the annual corpus of the Incentive Fund should be earmarked and released to those local bodies, at all levels, which keep up to or exceed the standard norms to be fixed by the state government in respect of emerging core areas. These include: fiscal management, implementation of national and state programmes and other core areas as enrolment at primary level, reversal of dropout levels among girls, small family norms, Infant Mortality Rate, sanitation, conservation of water and energy resources, prevention of foeticide and infanticide and other emerging areas to be identified by the state government.

12. Channelization, utilisation and monitoring of Finance Commission devolutions to the local bodies

15.74 All the concerned institutions and agencies, for whom grants have been recommended, are required to design their action plans within the indicated ceilings and to submit their proposals to their respective administrative departments for approval. The Finance Department would release the requisite funds to the concerned implementing agencies on quarterly basis as per the phasing to be indicated by the implementing agencies.

15.75 Since a big chunk of budgetary funds is transferred to local bodies through various channels including Finance Commissions, it becomes necessary to ensure that the requisite funds are transferred to these bodies timely; also the funds so transferred are properly utilised and effectively monitored.

15.76 This Commission has observed that devolution of funds to local bodies is often irregular and dilatory. In some cases funds are released at the fag end of the financial year. This affects proper budgeting and timely utilisation of transferred funds. The system of release of funds to local bodies, therefore, needs to be streamlined and the requisite funds should be transferred to these bodies in a time bound manner.

15.77 As the high powered committee headed by the Chief Secretary has not served the intended purposes, the Commission re-iterates the constitution of an external Monitoring Group on Karnataka pattern endowed with authority to better ensure proper utilisation and effective monitoring of SFC/CFC devolutions and other recommendations.

13. Measures of Additional Resource Mobilisation for Local Bodies

(a) Measures Common to PRIs and ULBs

Additional Stamp Duty

15.78 The Commission recommends that additional duty on stamp duty should be increased by the ULBs to 3% from existing 2% which is in conformity with the provisions in Municipal Act.

15.79 The gram panchayats should be permitted to levy additional duty on stamp duty at the rate of 3% on sale and transfer of immovable properties in their jurisdiction. Necessary amendment may be made in Panchayat Act, 1994 while doing so, if so warranted.

15.80 The additional stamp duty should not form part of the state budget and the former system of collection and transfer of local bodies shares to them at the level of Registrar or Sub-Registrar should be reverted back. It not only saves time and ensures immediate transfers of revenue to the local bodies but is also symbolic of their fiscal autonomy. The share of PRIs and ULBs should be paid to them by making payment at the collection/ registration point.

Tax on consumption of Electricity (Electricity Tax)

15.81 The Commission recommends that electricity tax needs to be enhanced to 10 paise per unit from the existing 5 paise per unit with a view to improve the financial position of municipalities.

15.82 The Commission also recommends that electricity tax at the rate of five paise per unit should be immediately levied on electricity consumed in panchayat areas. The tax rate be subsequently increased to 10 paise per unit on similar lines as recommended for municipalities.

15.83 The power consumed for street lights, water supply and other public utilities in panchayat and municipal areas should be charged on bulk supply or domestic rates rather than on commercial rates.

Share in Royalty on Minor Minerals

15.84 The Commission recommends that 10% of the income from royalty on minor minerals should be the share of PRIs or ULBs. As regards share of PRIs, it is recommended that this may form a pool of resources at the district level for further disbursement to the panchayats in accordance with set guidelines to be framed by the Panchayat Department. In order to ensure equitable distribution, share of various panchayats could be worked out partly on the basis of origin and partly on the basis of transit route or other suitable criteria to be evolved by the state government.

Teh Bazari

15.85 The Commission observes that teh bazari can be a substantial source of income to ULBs in case it is properly utilised and fees or charges of teh bazari are revised from time to time.

(b) Measures of Additional Resource Mobilisation specific to PRIs

House Tax (Chullah Tax)

15.86 The Commission recommends that the rates of house tax should be revised with immediate effect, as under:-

- For land owner or shopkeeper: - From Rs. 30/- to Rs. 100/- p.a.
- For tenant of land or an artisan: - From Rs. 20/- to Rs. 50/- p.a.
- For un-skilled labourer: - From Rs. 10/- to Rs. 25/- p.a.

It is further recommended that house tax rates should be revised every five years to make it relevant to cost escalation. Further, no exemption should be granted for katcha dwellings since even a small levy imparts a sense of dignity and participation to the residents.

Development Tax

15.87 The GP should be fully and solely involved in its role as a regulatory and competent authority authorized to approve the building plans and give completion certificates – both with the help of expert guidance and support. Development tax should be imposed for being a direct source of revenue for the gram panchayat. As far as construction of structures outside the lal dora but inside the village boundary, the DTP could continue to play the regulatory authority in conjunction with the GP with the revenue from the development tax being transferred to the GP.

Management of Common/Panchayat lands and other Common Property Resources (CPRs)

15.88 The Commission suggests that laws pertaining to removal of encroachments on CPRs should be made more stringent and efforts be made to enforce them strictly so that the disputed cases of unauthorized possession may be speedily disposed of. Village and block level functionaries should be made responsible for pursuing such cases.

15.89 It is imperative that some powers be delegated to the panchayats for dealing with small scale encroachments and impostion of penalties. In addition, cases under the Village Common Lands Act should attract heavy penalties for encroachment of common property resources of the Gram Panchayats.

15.90 The village common land and other CPRs should be physically identified, properly recorded and demarcated through fencing etc. and displayed on notice board of each panchayat with necessary details for general information of the residents so as to avoid encroachments.

15.91 Management and development of CPRs should be essential components of village and district level plans and should also form part of the training modules for PRIs functionaries and representatives. Mass campaigns should be undertaken for increasing people's awarences about the importance and protection of CPRs.

15.92 Concerted efforts should be made for commercial exploitation of common lands by setting up commercial complexes, rural industries, industrial sheds etc. where sufficient land is otherwise available for local requirements. A big part of the area should be utilized for plantation, afforestation, fishing activities, horticulture, floriculture etc. for augmenting income of panchayats. Panchayats should also impose some charges for use of CPRs. Fines may also be imposed on defaulting persons. Income from these sources should be utilised for proper management and development of CPRs.

15.93 Panchayats having waste land should also be encouraged to set up solar power generation plants. Individual solar power generation by households should also be encouraged as in the cases of Kerala & Tamil Nadu.

15.94 The auction system for leasing out panchayat lands should be transparent and objective. Representatives of PRIs should be present at the time of auction of shamlat lands to avoid corruption and connivance.

Conversion charges – Change of Land Use (CLU)

15.95 It is recommended that 10% of income from change of land use (CLU) may be devolved on the gram panchayats. The system of transfer of the share of panchayats so worked out would be much simpler with the collecting agency continuing to be the state government.

Issue of various certificates

15.96 Birth and death certificates, marriage certificates, domicile certificates and caste certificates should be issued by the panchyats to the village applicants for which fees varying from Rs. 25/- to Rs. 100/- can be charged for different kinds of certificates on the pattern being followed in Himachal Pradesh. It would be easier to enable and empower panchayats to issue certificates of the above kinds.

Other Recommendations

15.97 The Commission has also received some general suggestions during field visits for improving resources base of the PRIs which are reproduced below for appropriate action.

- PRIs should impose tax or fee on advertisements, hoardings, cable operators, micro wave towers, public schools, coaching centres, technical, medical and management colleges, commercial institutions and other establishments like shops, restaurants, hotels etc. located in their jurisdiction.
- GPs should impose token tax on hawkers and other traders for selling their goods in villages.

- The activities like poultry, fisheries, hatcheries and other non-farming activates taking place in their areas should be brought under PRIs for levy of fees etc.
- Panchayats should construct shops, banquet halls, housing colonies etc. on panchayat lands to raise revenues.
- Some shares of income from river ghats, minor minerals, change of land use (CLU) should also be given to the PRIs.

(C) Measures of Additional Resource Mobilisation specific to ULBs

Property Tax (House Tax)

15.98 The Commission suggests that rebates and exemptions from property tax should be minimized and property owners of all categories must be made to pay an affordable amount on their properties. It may also be ensured that all non-domestic properties attached to brick kilns, rice shellers, stone crushers, petrol pumps, stud farms and small & large scale industries are covered under tax net.

Profession Tax

15.99 In keeping with the spirit of empowerment and devolution of powers to panchayati raj institutions and urban local bodies, profession tax may be revived and allowed to be imposed by local bodies on such commercial entities including schools that have high fee structures as compared to those private schools that are arguably commercial but are charging only nominal amounts as fees. It should be left to the local bodies to levy or not levy the tax on such institutions given the financial position of such schools as assessed by the local authority. As far as other institutions and commercial or industrial units, the local bodies should be allowed to tax these. As mentioned by the 11th and 12th CFCs, the rates need to be revised upwards by constitutional amendment.

Fire Tax

15.100 This Commission suggests that all properties in urban areas, residential and non-residential, institutional or commercial, should be included for imposition of fire tax irrespective of the type of property. This is because of higher density of population in residential areas, especially in the old inner city areas where various types of economic activities are generated resulting in corresponding fire hazards.

Vacant Land Tax

15.101 The Commission suggests that a vacant land tax should be levied by ULBs at a reasonable percentage of the capital value of the property. It is further suggested that vacant land should be clearly defined which should include open land and un-built plots. Such lands being used for purposes of marriage parties, receptions and entertainment purposes and parking etc. should be taxed at higher rates.

Vehicle Tax (Motor Tax)

15.102 The Commission feels that motor tax for all kinds of vehicles should at least be doubled so as to improve resources of the municipal bodies.

Non- Tax Sources

15.103 The Commission is of the firm opinion that rates of fees/charges must be updated periodically to boost revenues. Besides, the user charges should also continue to be updated from time to time so as to cover at least the maintenance cost. This would rather inculcate among the citizens a habit to pay for the services being availed by them. The Commission, therefore, observes that the state municipal administration should review the fees/charges periodically for their updation so as to augment revenues of the municipalities.

15.104 Attempts should be made to move towards the goal of full cost recovery of services. Initially, recovery of full costs of operation and maintenance of providing the services should be attempted. An element of cross-subsidy to the poorer sections may be provided by charging higher rates from the better off consumers and industrial users.

15.105 There are some non-tax fees or levies which can be charged for improved level of services. These are known as valorisation fee, impact fee and betterment levies. These are such levies which may not be resisted to by the general public but would lead to augmentation of revenues of the municipal bodies.

14. Other Issues and Recommendations
Audit and Accounts of Local Bodies

15.106 Accrual based double entry system should be introduced in all the urban local bodies as per the provisions of NMAM. On the analogy of NMAM, the New

Municipal Accounts Code may be formulated and implemented in all ULBs, as recommended by the GOI and notified by the Urban Local Bodies Department on 28.03.2012.

- Similarly, Model Accounting System as prescribed by the MOPR/GOI be introduced in all tiers of PRIs by substituting the existing accounting formats prescribed in Haryana Panchayati Raj Accounts, Finance, Audit, Budget and Works Rules, 1996.
- Annual accounts of PRIs and ULBs should be disclosed and published on line to ensure transparency and accountability.
- The Annual Technical Inspection Report, now known as Annual Administrative Report (AAR) of C&AG and Annual Report of Local Fund Audit should be placed before the state legislature on a regular basis. If necessary, relevant legislation may be introduced to institutionalise this procedure.
- Prompt action needs to be taken on audit reports on the accounts of PRIs and ULBs by the concerned authorities and replies to audit objections be ensured within a stipulated period of 3 months.
- All the bye-laws of PRIs and ULBs need to be enforced strictly to enable these bodies to earn more and to make them self sustaining.
- Data base formats prescribed by the Ministry of Urban Development should be adopted by all the ULBs. Similarly, all the tiers of PRIs should adopt the formats as prescribed by the C&AG and sufficient trained staff be provided to gram panchayats.
- State government should appropriately strengthen their Local Fund Audit Department through capacity building as well as personnel augmentation. All the posts of Auditors, Senior Auditors and Audit Officers presently lying vacant, should be immediately filled up on a time bound basis. Since audit personnel to be obtained from the market through outsourcing would require fresh training, the better option would be to engage retired government auditors on contract basis. Where these are not available, appropriate training be given to persons who may be employed from the market.
- Accountants and auditors should be hired from private sources and measures be taken to either recruit accountants and auditors within six months or hire the contractual services of young or retired persons.

- We have suggested setting up of new managerial cardres on the pattern of Karnataka & Gujarat for handling the higher level of accounts and managerial responsibilities necessitated by high volumes of financial devolution and number of development programmes being implemented.
- The system of cost audit may be initially introduced in municipal corporations and municipal councils in order to reduce costs. The services of cost accountants may be engaged on contract basis to initiate the system and train the staff. A small cadre can be built up and deployed for service throughout the state.
- Since local bodies play a key role in the development process and their functional domain stands substantially enlarged due to constitutional amendments, the system of works audit should be introduced to effect transparency and accountability in their operations
- A committee on Local Bodies should be formed on the lines of Public Accounts Committee to bring to light the irregularities and loss suffered by local bodies.

Social Audit

15.107 A well in-built social audit system should be put in place in all GPs through the forum of gram sabha to conduct social audit so as to avoid corruption and nepotism in the working of local bodies. All the documents of GPs relating to financial transactions, physical works, accounts, audit reports etc. should be kept for social audit during gram sabha meetings. Such an oversight will ensure financial correctness resulting in economy in expenditure and minimum wastage of funds and materials. However, while social audit may look at the muster roll and payments made and review the material and records, the technical aspects of the works would need to be reviewed by the core team of the headquarters not only to ensure compliance with specifications but also other aspects like structural soundness etc. A technical evaluation cell should be set up at the headquarters independent of the technical line department of Chief Engineer of Panchayati Raj. Such a cell could be under the control of Rural Department or Local Audit Department. Steps should be taken to ensure the Social Audit Directorate functions independenly.

Training

15.108 The Commission has noted that though some progress has been made towards imparting training in the matters of accounts and audit, still more efforts need to be made in this direction. Training modules should be drawn up for skill up-gradation jointly by the Panchayat Department, Urban Local Bodies Department, Local Audit Department as well as the C & AG of India. Besides, these departments should be suitably strengthened in terms of trained manpower and infrastructural logistics so as to cope with the requirements of new standards and methodology in the sphere of accounting and auditing.

Capacity Building, Training and Empowerment

15.109 The strategies for capacity building and training must aim at making delivery of services quick, cost effective and responsive to people's requirements. For this purpose an apex state level mechanism linked to a decentralised net work of training institutions needs to be developed.

15.110 Training modules prepared by the GOI and NGOs can also be used for the purpose. Training of officials, elected representatives and other stakeholders should be a continuous process consisting of foundation courses, refresher courses, re-orientation courses, seminars, workshops, study tours etc. The major issues for consideration in this regard are:- identification of target groups and assessing their training needs, preparation of course contents, background training materials and teaching aids etc.

15.111 The two premier institutes i.e. HIRD Nilokheri and HIPA Gurgaon should be strengthened by way of additional manpower and infrastructural logistics so as to enable them to cater to the capacity building and training needs of PRIs and ULBs. It is further suggested that HIPA should be entrusted the task of providing training to the officials and non-officials of urban local bodies and HIRD that of the Panchayati Raj Institutions.

15.112 The Commission further recommends that a state level Urban Management, Training and Research Academy should be set up in the State at the earliest. The proposed academy should be an autonomous professional body with eminent experts in the field of urban management and finance.

Community/Citizens' Participation

15.113 The Commission feels that community participation is an area of high priority in terms of both policy and action in the working of local bodies. What is needed is the adoption of community /citizen initiatives as policy measures and their replication, multiplication and encouragement on a much larger scale through systematic efforts and institutionalization of arrangements.

Citizens' Empowerment

15.114 Empowerment of citizens is a critical element to enable local bodies to function and deliver efficiently. The legislations already made in this regard are enough to deliver the goods. But merely making legislations and announcing policies does not serve the purpose. Effective implementation of citizen-centric laws and policies is a must to empower them. The need is for strict and forceful implementation of existing legislations at grass root level. This can be achieved if the key elements for making community participation citizen centric are properly understood and efforts are made for enriched community participation.

Formation and functioning of District Planning Committees (DPCs)

15.115 There is a dire need to strengthen the role of DPCs in an effective for achieving desired goals. DPCs should have powers to review the progress of programme implementation. If empowered properly, DPCs may prove to be a major milestone in the development process in the years to come.

15.116 Since DPCs are constitutional entities, there is a pertinent need to review their functioning and encourage public participation in grass-root planning and programme implementation. The DPCs should be made open to democratic discussion and decision making. These committees should hold regular meetings. DPCs should take quarterly review meetings and find out measures to solve grievances.

15.117 The Commission is of the opinion that district plan funds should be distributed among different tiers of local bodies on the basis of population ratios and other indicators of backwardness and deprivation.

15.118 It would be appropriate to integrate works under MPLADS with the district plan and execute them through concerned PRIs and ULBs. It is further suggested that the State Planning Board/state government should ensure that all the district plans are incorporated in the state plans.

Creation of data base and e-governance

15.119 The Commission strongly feels the necessity of a permanent central agency in the State Finance Department or the Planning Department exactly on the pattern of Finance Commission Division in the Ministry of Finance, Government of India which should be fully equipped with qualified and technical manpower to work as repository of data on local bodies and also to review and monitor the progress of implementation of recommendations of SFCs and CFCs.

15.120 In order to overcome the problem of statistical data on PRIs and ULBs, there is an urgent need of creation of Statistical Cells each in the Departments of Panchayats and Urban Local Bodies, fully equipped with trained and dedicated manpower and modern electronic devices.

15.121 Local bodies, particularly the ULBs, should adopt IT and electronic governance for providing higher standards of information, administration and services to the people. It is, therefore, recommended that a comprehensive and time bound programme of computerization of local bodies should be taken up on priority basis.

Privatization of Municipal Services

15.122 Keeping in view the positive results of privatisation in terms of cost effectiveness and efficiency improvement, this Commission strongly recommends privatization of services like street lighting, solid waste management, construction/ maintenance of toilets, garbage collection and disposal, street cleaning, maintenance of roads/gardens/parks/play grounds in all the major municipalities. The prerequisites to regulate the process of privatization of municipal services are preparation of model bye laws and guidelines, a strong regulatory mechanism and oversight system, appropriate institutional and legal frame works so that a strict watch could be kept on private service providers for obtaining quality service levels at minimal cost. Community participation can also be a cost effective measure of maintaining and operating civic services.

15.123 The state government would have to frame a suitable policy so that the services of employees rendered surplus are properly utilised for other functions till the process of absorption is completed.

Public Private Partnerships (PPP)

15.124 The Commission observes that since big infrastructural projects involve high costs, long gestation periods and low returns, these projects should be taken up under PPP arrangements, which should include water supply, STPs, sanitation, construction of roads/by passes/flyovers/ commercial centres, recreational facilities, public conveniences, community centres etc. PPP arrangements should also cover efforts made by voluntary organizations like RWAs and NGOs in areas like garbage collection and removal, solid waste disposal, tree plantation, maintenance of parks, neighbourhood watch etc. However, for this purpose, appropriate policies, legal frame work, tariff regulation arrangements and incentive systems should also be evolved and put in place by the government so as to achieve the desired objectives of cost effectiveness, efficiency improvement and resources generation etc.

Taxation of Central Government Properties

15.125 The Commission observes that there exist huge properties in various parts of the State belonging to various central government departments and in case sincere efforts are made to identify such properties and recover property tax, substantial income can be generated by the local bodes. It is further suggested that Urban Local Bodies Department should conduct a survey to identify central properties located in the State, determine their annual value and calculate service charges due to various municipalities and initiate recovery process following due course.

15.126 The Commission is of the view that the state government should ensure that property tax on state government properties payable to local bodies is paid in time in future apart from clearing all the outstanding arrears within a year. It is further suggested that a system may be devised by the State Finance Department to make payments of property tax direct to the Urban Local Bodies Department from the budgetary allocations of the defaulting departments and other undertakings.

Policy on Municipalisation

15.127 The Commission has been informed that as per 2011 census, four cities/towns namely, Hodal, Charkhi Dadri, Mandi Dabwali and Gohana, having municipal committees, have crossed population of 50,000 and as such these towns qualify for being converted into municipal councils. A view has to be taken as to whether these four towns can be converted into municipal councils. The Commission is of the view that the state government should examine this issue on a case to case basis as per the enabling provisions under the Municipal Act and also as per the guidelines/criteria laid down by the state government. The Commission also understands that residential areas have also been developed by HUDA and, thus, such areas have immense economic potential, especially being situated on national and state highways or on other focal points. The state government should also consider declaring such areas as municipal areas.

Functioning of Gram Sabha and Ward Sabha

15.128 The Commission recommends following measures for making gram sabhas effective:-

- The gram panchayat should be allowed to take up only those projects/works as have been approved by the gram sabha in the Annual Action Plan.
- The quorum of one-tenth must be revived for the general meeting of the gram sabha to ensure people's participation.
- The list of the beneficiaries of various types of pensions and other schemes including those of BPL/IAY and 100 yard plots be finanlised by the gram sabha.
- The budget of gram panchayat must be approved by the gram sabha and in case of differences between them, the matter be referred to the Panchyat Samiti whose decision will be final in this context.
- The gram sabha shall conduct social audit of the performance of the gram panchayat. It shall be assisted by its social audit committee constituted by the gram sabha and consisting of a retired government servant/ex-servoce man, a representative each of Sakshar Mahila Samooh, Self Help Groups, Nehru Yuva Kendra and members of Panchayat Samiti and Zila Parishad representing the gram panchyat area.
- Ward Sabhas should also be constituted in gram panchayats having more than two villages and gram panchayats having a population of more than 5,000. Its meetings should be chaired by the panch from the ward and it should be held before the gram sabha meeting which should consider the recommendations of the ward sabha in the meeting of the gram sabha.
- The proceedings of the gram sabha should be videographed.

Environmental Improvement

15.129 There is a need to restore ecological balance. The urban local bodies and PRIs are important in this effort to improve the ecology. These bodies can not only play a significant role in tackling the green house effects but can earn revenues by aggressive steps to promote afforestation and gain carbon credits. The local bodies need to be tasked for effective monitoring and harnessing of their potential resources. Other large vacant areas unsuitable for afforestation can be harnessed for solar power generation for local use with extra power generation going into the grid. Another important issue is the harnessing of methane and other greenhouse gases to help the environment. Gobar gas plants should also be installed for revenue generation for the local bodies by sale of natural gas for cooking and other common pusposes. PPP option should be encouraged for better management of these installations.

15. Recording of Best Practices

15.130 **Conformity Legislations :** Consequent to the 73rd and 74th CAAs, 1992, all the conformity legislations have been enacted by GOH for empowerment of local bodies viz, Haryana Panchayati Raj Act 1994 providing for a three tier system in PRIs, Haryana Municipal (Amendment) Act, 1994, Haryana Municipal Corporation Act 1994 and Haryana Finance Commission Rules, 1994.

15.31 **Constitution of permanent State Election Commission:** Subsequent to enactment of conformity legislation, a permanent statutory State Election Commission has been constituted by GOH on 18.11.1993 to conduct elections of all units of PRIs and ULBs in the State. This Commission has regularly conducted four historic elections of PRIs in December 1994, March 2000, April 2005 and June 2010 under its supervision and control and those of ULBs from time to time in 1994, 2000, 2005 and 2010. Presently, there are 68,226 elected representatives of all units of PRIs and 2405 that of ULBs. The total number of elected representatives of SC, BC and women in PRIs is 20,624.

15.132 **Reservation for SC, BC and Women:** One of the most vital features of Panchayati Raj system in Haryana has been regular conduct of elections and empowerment of weaker sections of society including women. It has made reservations for SCs, BCs, and women not only for getting elected to panchayats and municipalities but also for executive posts like chairpersons and vice-chairpersons. About 50% elected representatives of PRIs and ULBs belonging to reserved categories reveals the impact of reservation policy in Haryana State.

15.133 Constitution of State Finance Commission (SFC): Section 213 of PRIs Act 1994 and Rule 3 of Haryana Finance Commission Rules, 1994 provide for constitution of SFC after expiration of every five years to review the financial position of PRIs and ULBs and to recommend principles for sharing of state revenues with the local bodies. GOH has complied with these provisions and as a result, the 1st SFC was set up on 31.05.1994, 2nd SFC on 06.09.2000, 3rd SFC on 22nd December, 2005 and 4th SFC on 16.04.2010. All these SFCs have made comprehensive, effective and balanced recommendations for financial, functional and administrative empowerment of PRIs and ULBs in the State.

15.134 Functional Decentralization: Eleventh and Twelfth Schedules of the Constitution envisage 29 functions for PRIs and 18 functions for ULBs. As per the provisions made in PRIs and ULBs Act, all these functions are required to be transferred to these bodies by the state government for their effective functioning. GOH has delegated certain duties and functions of supervisory and monitoring nature of 16 important departments to the three levels of PRIs. Further, to strengthen the process of decentralization, a detailed activity mapping of ten important departments was prepared and circulated on 17.02.2006 for ensuring role clarity and under which funds, functions and functionaries have been devolved to the PRIs. Like-wise, 14 functions have already been transferred to the ULBs so far.

15.135 Constitution of District Planning Committees (DPCs): In pursuance of the constitutional mandate, GOH has already constituted DPCs in all the 21 districts vide notification dated 5th August, 1997. DPCs are empowered to approve various development works of local level needs. GOH has gone one step further. With a view to ensure proper and timely utilization of district plan funds, District Development and Monitoring Committees (DDMCs) have also been constituted in all the districts on 11th October, 2012.

15.136 Constitution of Gram Sabha and Ward Sabha: GOH has established gram sabha at Gram Panchayat level and ward sabha for each constituency of gram panchayat for effective and greater people’s participation. Gram sabhas and ward sabhas have been strengthened by giving several mandatory powers such as identification and prioritization of beneficiaries for all government programmes, approval of development plans, generating proposals and determining priorities of schemes, promoting adult education, preventing social evils etc.

15.137 Enhancement in Financial Powers of PRIs: With a view to have effective participation of PRIs in the development process and decentralization of financial powers, GOH has enhanced the financial powers of the PRIs in respect of administrative approval and technical sanction for execution of development works, as under :-

Gram Panchayat	from Rs. 3.00 lakh to 5.00 lakh for each work
Panchayat Samiti	from Rs. 5.00 lakh to 10.00 lakh for each work
Zila Parishad	from Rs. 10.00 lakh to 15.00 lakh for each work

15.138 Channelization of Funds: GOH has been giving more and more untied funds to PRIs and ULBs to enable them to perform their functions effectively. In order to streamline funds flow to the local bodies, the system of direct releases of government funds through banks has been introduced.

15.139 Constitution of Haryana Rural Development Authority (HRDA): On the pattern of Haryana Urban Development Authority (HUDA), GOH has also set up Haryana Rural Development Authority (HRDA) to meet housing, environmental and other civic infrastructural needs of the rural areas. The objective is to provide urban-like facilities in rural areas and to promote regulated and planned growth in villages.

15.140 Display of strategic information: GOH has directed the installation of display boards on the outskirts of village and municipal boundaries containing vital information and data about population, area, density of population, receipt of funds, expenditure incurred, works undertaken and other demographic and social indicators.

15.141 Information Technology (IT): The IT policy envisages state wide internent connectivity upto block level and in due course, upto the village level. This initative would take governance and delivery of services to a higher threshold.

15.142 Special Economic Stimulus Package Fund: GOH has created a special Economic Stimulus Package Fund for infrastructure development on fast track basis in the fields of health, education, water supply and sanitation, housing, government buildings, irrigation etc. Steps have also been taken to accelerate the work on major infrastructure projects and implementation of development schemes. It would help generate employment opportunities and other facilities in areas falling under local bodies.

15.143 **Separate Directorate of Social Audit:** The foremost initiative is creation of an independent Directorate of Social Audit. This is an important step forward liable to be reckoned as one of the best practices to be emulated. The Social Audit Directorate would build capacities of gram sabhas for conducting social audit, identify, train and deploy suitable resource persons, prepare social audit reporting formats, guidelines and manuals for social audit process, facilitate verification of records with work sites, smooth conduct of social audit of gram sabha etc.

15.144 **Other best practices:** There are several initiatives being taken by individual units of PRIs and ULBs which may be termed as best practices and should be adopted by local bodies at all levels. Some of these are formation of Park Development Committee, Sanitation Ward Development Committee, issue of birth and death certificates by the ULBs and measures of internal resource generation by the local bodies. Sweepers have been appointed in all villages to ensure cleanliness and hygiene. Incentives have been given by various social sector related departments for achievement in social indicators including health related matters.

16. Other Recommendations

15.145 Study groups of experts were constituted to make general recommendations for empowerment of PRIs and ULBs. The Commission also circulated a comprehensive questionnaire for obtaining views of all stake holders. The inputs and recommendations so received are as under: -

PRIs

- Gram Panchayat or the concerned body (PS/ZP) should be empowered to levy state entry tax.
- Tax on mining should be within the purview of the gram panchayat concerned and some fixed percentage of it should be determined for the PS and ZP or substantial share in royalty on mining activity should go to the PRIs.
- Transportation of raw materials, like sand etc. for construction activities to the urban areas be taxed by the gram panchayat as it damages the roads

and other infrastructure of the village. The gram panchayat needs to be empowered through legislation to impose taxes on this activity.

- The gram panchayats need to be empowered through legislation to give sanction for the change in the use of agriculture land for certain purposes.
- District Planning Committees need to be made meaningful. Presently, MPs and MLAs decide the work to be taken up and the area in which funds are to be utilized. DPC members from PRIs & ULBs should have the authority to decide the work and areas for such works.
- HRDF share should also be given to the zila parishads and the percentage of it could be decided by the state government.
- ZP should have some fixed share in the toll taxes being collected in the rural area.
- ZP needs to be strengthened by providing regular staff including its own SDOs and JEs. There is also a need to debureaucratize these bodies which give overwhelming powers to DCs.
- PRIs should be encouraged to construct shops, banquet halls under revenue earning scheme to enhance the income of PRIs.
- Some share of income from Yamuna river ghats may be given to ZP.
- PRIs should be authorized to levy tax on microwave towers, public schools, coaching centers, engineering, medical and management colleges located in their jurisdictions.
- GP should be allowed to levy additional stamp duty at the rate of 2% on registration of immovable properties in their areas as provided in PRIs Act.
- Banjar (uncultivable) and wastelands should be converted into fertile lands.
- Gazette notifications of documents related to activity mapping are to be published. These are essential for devolution of funds, functions and finances (3 F’s).
- Minimum 15% of the state plan funds should be allocated to PRIs as untied funds.
- Incentives should be given to well performing panchayats and their achivements need to be given publicity so that these could be replicated in other panchayats also.

- Common lands should be put to more purposeful uses by diversification of agricultural activities into areas like floriculture, horticulture, etc.
- There is a need of a planner at village level or cluster level for certifying the ownerships and for discouraging encroachments of village land.
- To make the gram panchayats functional and vibrant one Gram Sachiv must be put in place for only two panchayats.
- Every panchayat should have its own well equipped office with basic infrastructural facilities like file cabinet, chest, table, chair, computer. It should be made mandatory that all the meetings are held in panchayat office.
- The mindset of the elected representatives and inhabitants of rural areas needs to be changed through proper orientation and extension work for enabling the gram panchayats to raise their own resources.
- The faculty strength of HIRD should be increased in various specialized fields to cater to the increasing demand for training, research, extension and policy inputs.
- It has been brought to the notice of the Commission that husbands of most of the elected female representatives, particularly of gram panchayats, take active part in meetings of gram sabhas and gram panchahats, also sign the official documents and even appear before the higher authorities on their behalf. This tendency needs to be curbed at the earliest and some disciplinary action should be taken against the defaulters.

ULBs

- The rates of conversion charges and license fee levied for change of land use (CLU) should be increased in proportion to market potential value and 50% of the proceeds be devolved to the concerned municipality.
- Malls and bazaars are crowded with vehicles and the owners charge huge vehicle parking fees. Municipalities should develop parking areas near such places for raising their own resources.
- ULBs should be given a fixed share in labour cess as municipalities provide basic civic amenities to the labour colonies. Like-wise, municipalities should also be provided a share in toll tax.

- Suitable measures should be initiated for conservation of energy and water in public places and meters should be installed at suitable places.
- Sewer connections should be regularized in unauthorized colonies by levying appropriate charges.
- Avenues for local taxation should be explored and identified and brought under tax net. Revenue generated from local economic base like fuel tax, entertainment tax etc. should be paid back to ULBs for efficient local service delivery. Existing rates of electricity tax, liquor tax, mobile cess, cable tax, advertisement tax, etc. should be revised through suitable indexing.
- Licensing policy for municipal areas should be liberalized in order to reduce pressure of unauthorised colonizers in controlled areas.
- Municipal assets like land, buildings and other commercial properties should be identified and listed and suitable guidelines be prepared for their proper valuation in order to mobilise optimum revenue. There should be an effective management system for municipal assets. Municipal Valuation Committee could be set up to expedite this process.
- Planning and implementation of infrastructure projects including city development plan and detailed project report should be carried out through consultation process involving various stake-holders in order to effect transparency, accountability and responsiveness.
- The role of parastatal bodies should be properly recognised so that these could play supporting and complementary role to strengthen urban governance system.
- ULBs should initiate steps to introduce double entry accounting system to promote transparency and accountability in the financial management and decision making.
- Municipal administrative structure and personnel management need to be streamlined and rationalised by recruiting qualified and technical manpower particularly in the areas of finance, accounting, urban planning, public health etc.
- Taxes and user charges should be collected by initiating effective collection drives, using e-collection, collection at door-steps, mutual resolution of disputes, lok adalats, attractive incentives and penalties etc.

- E-governance should be introduced at appropriate levels in local governance system for improving working efficiency of ULBs. Management Information System (MIS) should be introduced by using GIS, GPS etc. for development of database.
- A separate institution should be set up to address capacity building for all stake holders related to functioning of ULBs.

Common to both PRIs and ULBs

- There is need for empowerment of those representiatives of ULBs and PRIs who represent areas falling under university or overlapping university campuses, HUDA sectors or cantonments or similar externally administrered areas.
- Housing Board colonies and developed HUDA sectors should be transferred to urban local bodies in a time bound manner.
- Funds should be distributed among various levels of local bodies on the basis of population ratio and other appropriate factors.
- The state level training institutions should frame a rigorous policy in favour of training, capacity upgradation, motivation, conflict management and resolution techniques and grievance redressal with better public response/ relations. These would make the elected representatives and the employees of government and PRIs more responsive and effectual in public service.
- Along with devolution of services to local bodies, effective compliance with Right to Services legislation recently passed by the state legislature will ensure greater transparency and better services for the people.
- Services pertaining to registration of vehicles and renewal of driving licenses ought to be spread to different accessible points in the city so that effective services can be rendered in the minimum time and with the least discomfort to citizens. This efficiency of service can be harnessed to charge the citizens a little more most of whom are well off with higher capacity for bearing cost of delivery of better services. Such means can be adopted even by the local authorities without state intervention.

File Name:- Computer/New Volume (D:))/ 4th SFC/Final Report of 4th SFC 2013-14/All Final Chapters 2014

Annexure-1.1

HARYANA GOVERNMENT
POLITICAL AND PARLIAMENTARY AFFAIRES DEPARTMENT
NOTIFICATION

The 16th April, 2010

No. 18/1/ 2010-POL (2P)- In pursuance of the provisions of the article 243 I and 243 Y of the Constitution of India and section 213 of the Haryana Panchayati Raj Act,1994 (Act 11 of 1994) and rule 3 of the Haryana Finance Commission Rules ,1994, the Governor of Haryana hereby constitutes the 4th State Finance Commission Haryana consisting of **Sh. L.S.M. Salins, IAS (Retd.) as the Chairman**. The other members, including Member-Secretary of the Commission will be appointed later on.

2. The Chairman of the Commission shall hold office from the date on which he assumes office up to 31st March, 2011.

3. The Commission shall make recommendations relating to the following matters:-

(a) the principles which should govern –

(i) the distribution between the State and Zila Parishads, Panchayat Samitis and Gram 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 Zila Parishad, Panchayat Samitis and Gram 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 Gram Panchayats, Panchayat Samitis and Zila Parishads;

(iii) the Grants-in-aid to the Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State;

(b). the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads;

(c) the principles which should govern-

(i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls, and fees leviable by the State, which may be divided between them under part IX A 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;

(d) the measures needed to improve the financial position of the Municipalities;

4. In making its recommendations, the Commission shall have regard, among other considerations, to:-

(i) the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;

(ii) the resources of the State Government and demands thereon particularly in respect of expenditure on civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State ; and

(iii) the requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing expenditure.

URVASHI GULATI
Chief Secretary, Government Haryana

No. 18/1/2010-2POL **Dated, Chandigarh the 16th April, 2010.**

Annexure: 1.1 (a)

HARYANA GOVERNMENT
POLITICAL & PARLIAMENTARY AFFAIRS DEPARTMENT
ORDER

Consequent upon the appointment of Sh. L.S.M. Salins, IAS (Retd.) as Chairman of the 4th State Finance Commission Haryana vide Haryana Government Notification No. 18/1/2010-2 Pol dated 16th April, 2010, the Governor of Haryana is pleased to fix the terms and conditions of his appointment as under: -

1. **Tenure of Office**

   The tenure of office shall be from the date on which be assumed office upto 31st March, 2011.

2. **Pay and Allowances**

   He will draw the salary equivalent to the salary drawn by the chief Secretary to Government, Haryana minus the pension-P.E.G. (Pension equivalent to gratuity) being drawn by him.

3. **Travelling Allowance**

   He will be entitled to the travelling allowance as admissible to a Chief Secretary to Government Haryana.

4. **Headquarter**

   The headquarter of Sh. L.S.M. Salins, IAS (Retd.), Chairman, 4th State Finance Commission will be at Chandigarh.

5. **House Rent Allowance**

   He will be entitled to house rent allowance as per admissibility at the time of his retirement from Government Service.

   This issues with the concurrence of the Finance Department conveyed vide their U.O. No. 12/48/2005-1 F.G.I./1081(10) dated 20-05-2010.

Dated Chandigarh — URVASHI GULATI
The 26-05-2010 — Chief Secretary to Govt Haryana

No. 18/1/2010-2 Pol, Dated, Chandigarh, the 28th May, 2010

Annexure: 1.2

HARYANA GOVERNMENT
POLITICAL & PARLIAMENTARY AFFAIRS DEPARTMENT
NOTIFICATION
The 3rd April, 2013

No. 18/01/2010-2Pol- In pursuance of the provisions of the article 243 I and 243 Y of the constitution of India and section 213 of the Haryana Panchayati Raj, Act, 1994 (Act 11 of 1994) and rule 3 of the Haryana Finance Commission Rules, 1994 as amended from time to time, the Governor of Haryana is pleased to appoint the following persons as Members of 4th State Finance Commission, Haryana: -

1. **Shri B.B. Pandit, IA&AS(Retd.), D-2, Block-10, New Moti Bag, New Delhi-110023.**
2. **Shri Brahampal Rana, H.No. 3, Municipal Colony, Ambala Cantt., VPO Samlehri, Ambala.**
3. **Shri Subhash Sudha, Ex-Chairman, Municipal Council, H.No. 7, Sector-7, Urban Estate, Kurukshetra.**
4. **Shri Shiv Lal Katyal, Advocate, H.No.292, Old Housing Board Colony, Rohtak.**
5. **Shri Ram Bhagat Langayan, IAS (Retd.) S/O late Shri Jage Ram, Village Sundana, Rohtak. He will look after the work of Member Secretary also.**

2 The Headquarter of the newly appointed members shall be at their place of residence.

3 Other terms & conditions of the appointment of the members will be as under:-

i. **Tenure of the office**: The tenure of the Members shall be from the date on which they assume office and upto the remaining tenure of the Commission.

ii. **Pay and allowances**: They will be given honorarium at the rate of Rs. 15,000/- only per month.

iii. **TA/DA** : They will be entitled to draw daily allowance/traveling allowance as admissible to Grade – I employees of the State Government.

4 This issues with the concurrence of the Finance Department conveyed vide their U.O. No. 12/48/2005-1FGI dated 1st April, 2013.

Dated Chandigarh the
3rd April, 2013

P.K. CHAUDHERY
Chief Secretary to Government Haryana

No. 18/01/2010-2Pol Dated, Chandigarh the 3rd April, 2013

Annexure: 1.3

HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT
NOTIFICATION
The 28th June, 2013

No. 18/01/2010-2Pol- In pursuance of the provisions of the article 243 I and 243 Y of the constitution of India and section 213 of the Haryana Panchayati Raj Act, 1994 (Act 11 of 1994) and rule 3 of the Haryana Finance Commission Rules, 1994 as amended from time to time and in modification of the Government notification issued vide No 18/01/2010-2Pol, dated 3rd April, 2013, the Governor of Haryana is pleased to appoint Shri Khazan Singh Sangwan, Prof (Retd.) VPO Dohki, District Bhiwani in place of Shri B.B. Pandit, IA&AS (Retd.) who has not joined, as Member of 4th State Finance Commission, Haryana.

2 The terms & conditions as fixed vide No. 18/01/2010-2Pol dated, 3rd April, 2013 will be applicable to Sh. Khazan Singh Sangwan.

Dated Chandigarh
the 28th June, 2013

P.K. CHAUDHERY
Chief Secretary to Government Haryana

Annexure:1.4

HARYANA GOVERNMENT
POLITICAL & PARLIAMENTARY AFFAIRS DEPARTMENT
NOTIFICATION
The 21st November, 2013

No. 18/01/2010-2Pol- In pursuance of the provisions of the article 243 I and 243 Y of the constitution of India and section 213 of the Haryana Panchayati Raj, Act, 1994 (Act 11 of 1994) and rule 3 of the Haryana Finance Commission Rules, 1994 as amended from time to time and in partial modification of the government notification issued vide No. 18/1/2010-2Pol, dated 3rd April, 2013, the Governor of Haryana is pleased to substitute clause 3 (ii) as under: -

"3 (ii) They will be given honorarium at the rate of Rs. 25000/- only per month".

2 This issues with the concurrence of the Finance Department conveyed vide their U.O. No. 12/48/2005-IFG-I/28011(13) dated 19.11.2013.

Dated Chandigarh the
21st November, 2013

P.K. CHAUDHERY
Chief Secretary to Government Haryana

Annexure: 1.5

HARYANA GOVERNMENT
Political & Parliamentary Affairs Department
NOTIFICATION
The 21st February, 2011

No. 18/01/2010-2Pol-The Governor of Haryana is pleased to extend the term of the 4th State Finance Commission, Haryana as constituted vide Haryana Government Notification No. 18/01/2010-2Pol, dated 16.04.2010 up to 31st March, 2012.

URVASHI GULATI
Chief Secretary to Government Haryana

No. 18/01/2010-2Pol Dated, Chandigarh the 21st February, 2011.

Annexure: 1.6

HARYANA GOVERNMENT
Political & Parliamentary Affairs Department
NOTIFICATION
The 12th March, 2012

No. 18/01/2010-2Pol- The Governor of Haryana is pleased to extend the term of the 4th State Finance Commission, Haryana as constituted vide Haryana Government Notification No. 18/01/2010-2Pol, dated 16.04.2010 up to 31st March, 2013.

URVASHI GULATI
Chief Secretary to Government Haryana

No. 18/01/2010-2Pol Dated, Chandigarh the 12th March, 2012

Annexure: 1.7

Political & Parliamentary Affairs Department
NOTIFICATION
The 13th March, 2013

No. 18/01/2010-2Pol- The Governor of Haryana is pleased to extend the term of the 4th State Finance Commission, Haryana as constituted vide Haryana Government Notification No. 18/01/2010-2Pol, dated 16.04.2010 up to 31st March, 2014.

P.K. Chaudhery
Chief Secretary to Government Haryana

No. 18/01/2010-2Pol Dated, Chandigarh the 13th March, 2012

Annexure: 1.8

HARYANA GOVERNMENT
POLITICAL & PARLIAMENTARY AFFAIRS DEPARTMENT
NOTIFICATION
The 28th April, 2014

No. 18/01/2010-2Pol- The Governor of Haryana is pleased to extend the term of the 4th State Finance Commission as constituted vide Haryana Government Notification No. 18/01/2010-2Pol, dated 16.04.2010, up to 30.06.2014.

S.C. CHAUDHERY
Chief Secretary to Government Haryana

No. 18/01/2010-2Pol Dated, Chandigarh the 28th April, 2014

Annexure: 1.9 and 1.10

Template for Reports of the State Finance Commissions

Chapter I — Introduction
- a. Constitution of the Commission
- b. Terms of Reference
- c. Design of the Report

Chapter II — Approach and Issues

Chapter III — Status of Implementation of Previous State Finance Commission Recommendations
- a. Action Taken on Recommendations Relating to Devolution of Finances
- b. Action Taken on Other Recommendations

Chapter IV — State Finances (review over a period of 5 years)
- a. Critical analysis of State Finances
- b. Impact of Implementation of Recommendations of Previous State Finance Commissions on State and Local Finances
- c. Direct Transfers to Local Bodies (LBs) by State Government as well as line departments; Nature and Size of Transfers' Actual Outgo to LBs
- d. Direct Absorption by States of Local Body Expenditures (Salaries, Pensions and Other Liabilities)
- e. Guarantees Provided by State Governments on Behalf of LBs

Chapter V — Review of the Status of Decentralized Governance and Devolution (separately for rural and urban local bodies)
- a. Functional Devolution and Activity Mapping
  Progress towards the delegation envisaged in Articles 243 G and 243 W : this may be assessed (a) in terms of formal notifications issued (b) linked to financial transfers as outlined in Section C of Chapter IV
- b. Financial Accountability
  Quality of accounts maintained, whether technical guidance and supervision of C&AG has been availed, audit arrangements in place, status of audit of accounts and disposal of audit objections
- c. Administrative Issues
- d. Role of Parastatals in Managing Functions Listed in XIth and XIIth Schedules and Linkages Between them and the Respective Local Bodies

Chapter VI — Assessment of the Physical Services Provided by the Local Bodies – Level of Services – Availability, Access, coverage and Quality
- a. A Quantitative Estimate of Service Deficits with a Brief Account of the Reasons for the Deficit
- b. An Inventory of Assets; Current Use and Valuation
- c. Basic Services to slum Settlements' Availability, Coverage, Access, quality

Chapter VII — Assessment of Finances of PRIs
(To be done for Zilla Panchayats, Block Panchayats and Gram Panchayats separately)
Analysis of all revenue sources in terms of trends, performance and efficiency as well as estimates of untapped tax potential to be avoided

A. Tax Revenue
    a. Taxes on Buildings and Land
    b. Taxes on Non-motorized Vehicles
    c. Taxes on Advertisements and Hoardings
    d. Pilgrim Tax
    e. Entertainment Tax
    f. Other
    g. Unrealised Revenue(accrual basis)

ii. Non – Tax Revenue
    a. User Charges
    b. Fees
    c. Royalty on minor minerals
    d. Dividend
    e. Interest
    f. Other

B. Transfers from State Government

    Trend analysis as well as a description of the nature of the transfers to be provided. Aslo criteria for estimating transfers including grants.

    a. Assigned Taxes
    b. Share in State Taxes
    c. General Purpose Grants
    d. Special Purpose Grants
    e. Transfers for Agency Functions

C. Transfers from the Central Government
    a. Finance Commission Grants and impact – whether such flows were an additionality to State government flows.
    b. Agency Functions

D. Capital Account Receipts & Debt Status

E. Expenditure on Revenue

    Expenditure analysis; component of regulatory and enforcement expenditures, operations and maintenance costs, interest payments and expenditure on services in weaker section areas/slum settlement including area improvement/slum improvement and upgradation and adequacy of such expenditures

    a. Administration
    b. Civic Functions
        i. Water Supply
        ii. Street Lighting
        iii. Sanitation
        iv. Solid Waste Disposal
    c. Expenditure on Maintenance of Community Assets
    d. Expenditure on Schemes assigned by the State government
    e. Expenditure on schemes assigned by the Central government
    f. Expenditure on Interest

F. Expenditure incurred directly by State government on behalf of Local bodies (Salaries, Pension and other liabilities wherever applicable)

G. Deferred Expenditure – including unpaid bills, Annuity payments

H. Capital Expenditure
I. Net Budgetary Position
J. Review of Fiscal and Financial Management

Chapter VIII Assessment of Finances of Urban Local Bodies

(To be done for Nagar Panchayats, Municipal Councils, and Municipal corporation separately)

Analysis of all revenue sources in terms of trends, performance and efficiency as well as estimates. Of untapped tax potential to be provided

A. Revenue

i. Tax Revenue

Receipts from all sources to be analyzed with respect to trend, performance and efficiency. Estimates of untapped potential to be provided.

a. Taxes on Buildings and Land
b. Taxes on Non- motorized Vehicles
c. Taxes on advertisements and Hoardings
d. Pilgrim Tax
e. Entertainment Tax
f. Any Other Tax
g. Unrealised Revenue (Accrual Basis)

ii. Non – Tax Revenue

Receipts from all sources to be analyzed with respect to trend, performance and efficiency. Estimates of untapped potential to be provided

a. User Charges
b. Fees
c. Royalty on Minor Minerals
d. Dividend
e. Interest
f. Other

B. Transfer from State Government

Trend analysis as well as a description of the nature of the transfers to be provided. Also criteria for estimating transfers including grants.

a. Assigned Taxes
b. Share in State Taxes
c. General Purpose Grants
d. Special Purpose Grants
e. Transfers for Agency Functions

C. Transfers from the Central Government

a. Finance Commission Grants and Impact – whether such flows were an additionality to State Government flows
b. Agency Functions

D. Capital Account Receipts & Debt Status

a. Source of Receipts eg Loans from State Government, Development Institutions, Market Borrowings, Schematic Transfers, JNNURM, Other ACA etc.
b. Trend of Such Receipts
c. Purpose of Such Receipts

E. Expenditure on Revenue Accounts

Expenditure analysis; component of regulatory and enforcement expenditures, operations and maintenance costs, interest payments and expenditure on services in weaker section area/slum settlements including area improvement/ slum improvement and upgradation and adequacy of such expenditures.

a. Administration
b. Civic Functions
    i. Water Supply
    ii. Street Lighting
    iii. Sanitation
    iv. Solid Waste Disposal
c. Expenditure on Maintenance of Community Assets
d. Expenditure on Schemes Assigned by the State Government
e. Expenditure on Schemes Assigned by the Central Government
f. Expenditure on Interest

F. Expenditure Incurred Directly by State Government on Behalf of Local Bodies (Salaries, Pensions and Other Liabilities Wherever Applicable)

G. Deferred Expenditure – Including Unpaid Bills, Annuity Payments,

H. Capital Expenditure

I. Net Budgetary Position

J. Review of Fiscal and Financial Management

Chapter IX Recording of best practices

A. Rural Local Bodies
a. Zilla Panchayats
b. Block Panchayats
c. Gram Panchayats

B. Urban Local Bodies
a. Municipal Corporations
b. Municipal councils
c. Nagar Panchayats

Chapter X Assessment of the Gap in Financial Resources and Scheme of Devolution

A. Assessment of the Gap

Normative adjustment mode as well as assumptions for the same, population projections for the reference period, functional domain and norms for services, financial norms for services, volume of financial requirements for five years

a. Rural Local Bodies
    i. Zilla Panchayats
    ii. Block Panchayats
    iii Gram Panchayats
b. Urban Local Bodies
    i. Nagar Panchayats
    ii. Municipal councils
    iii. Municipal Corporations

B. Strategy for Bridging Normative Vertical Gap

i. *Approach to tax and non tax domain – how can tax and non tax revenue collection efficiency be improved? What incentive should be put in place? How much more can be mobilized by better application of the existing tax domain?*

ii. Other approaches – Market; PPP etc.

C. Scheme of Devolution

a. Assigned Taxes

b. Share in State Taxes

c. Share of the PRIs and Inter se Distribution

d. Share of the ULBs and Inter se Distribution

e. Grants – in – aid : Specific Purpose or General Purpose; Timing; Conditionality

Chapter XI General Observations and Concluding Remarks

a. Implementation Strategy

i. Improving Data Base

ii. Capacity Building and Training

iii. Computerization and E-Governance

iv. Suggestions for the National Finance Commission

Chapter XII Monitoring & Evaluation System

Whether local bodies have in place a framework to monitor the levels of service provided by them in their jurisdiction in comparison to the minimum standards notified.

Chapter XIII Summary of Recommendations

Annexure: 1.11

Meetings of the 4^{th} SFC

(a) Commission's own meetings		(b) Meetings with Departments	
Date	**Sequence of Meeting**	**Date**	**Name of the Department**
30.06.2010	1^{st} Meeting	08.01.2012	Panchayats & R.D. Department
29.07.2010	2^{nd} Meeting	25.01.2012	Urban Local Bodies
20.09.2010	3^{rd} Meeting	17.04.2012	Urban Local Bodies
10.11.2010	4^{th} Meeting	19.04.2012	Panchayati Raj Department
20.12.2010	5^{th} Meeting	26.04.2010	Transport Department
30.01.2011	6^{th} Meeting	26.04.2012	Revenue Department
23.05.2011	7^{th} Meeting	27.04.2012	Mines & Geology Department
07.07.2011	8^{th} Meeting	30.04.2012	Power Department
01.09.2011	9^{th} Meeting	01.05.2012	Excise and Taxation Department
26.09.2011	10^{th} Meeting	01.05.2012	Local Audit Department
19.10.2011	11^{th} Meeting	10.05.2012	Forest Department
16.11.2011	12^{th} Meeting	11.05.2012	Town & Country Planning Department
14.12.2011	13^{th} Meeting	04.07.2012	Food & Supplies Department
29.12.2011	14^{th} Meeting	07.11.2012	Public Health Engineering Deptt.
10.02.2012	15^{th} Meeting	08.11.2012	Urban Local Bodies Deptt.
04.04.2012	16^{th} Meeting	03.07.2013	Local audit Deptt.
13.06.2012	17^{th} Meeting	27.08.2013	MC Panchkula and M. Council Nariangarh
13.08.2012	18^{th} Meeting	13.09.2013	Economic and Statistical Analysis Department

(a) Commission's own meetings		(b) Meetings with Departments	
22.10.2012	19th Meeting	22.10.2013	Urban Local Bodies Department
23.01.2013	20th Meeting	07.11.2013	Public Health Engg. Department
02.04.2013	21st Meeting		Panchayat Department
18.04.2013	22nd Meeting		
06.09.2013	23rd Meeting		
27.11.2013	24th Meeting		
10.03.2014	25th Meeting		
19.05.2014	26th Meeting		

(c) Meetings with individuals

Date	Name
19.10.2011	Dr. N.K. Bishnoi, Prof. GJU,Hisar
25.01.2012	Dr. N.K. Bishnoi, Prof. GJU,Hisar
15.02.2012	Sh. Aditya Prasad Bahadur, PPP Expert, ADB
21.02.2012	Dr. Surat Singh, Director HIRD, Nilokheri
12.03.2012	Dr. Manveen Kaur, Faculty Training Coordinator, HIPA, Gurgaon
28.06.2012	Dr. N.K. Bishnoi, Prof. GJU,Hisar
16.08.2012	• Dr. Surinder Kumar, Prof. RBI Chair, CRRID, Chandigarh • Dr. Kulwant Singh, Asstt. Prof., CRRID, Chandigarh
03.10.2013	Dr. N.K. Bishnoi, Prof. GJU,Hisar
05.11.2012	Sh. Gautam Sen, Advisor Finance, Govt of Nagaland

(d) Seminars and Interactive Sessions	
22.03.2012	Seminars in HIRD Nilokheri on Empowerment of PRIs
07.06.2012	Seminar in HIPA Gurgaon for empowerment of ULBs
24.07.2013	Interactive session in HB, Delhi with Resource Persons: • Dr. Tapas Sen, Prof. NIPFD, New Delhi. • Dr. K.K. Pandey, Prof. IIPA, New Delhi. • Dr. Sandeep Thakur, Prof. NIUA, New Delhi. • Sh. Gian Singh Kamboj, Consultant, 4th SFC, Haryana
14.08.2013	Interactive Session in Yojana Bhawan, Panchkula with Resource Persons. • Dr. S.S. Gill, Director General CRRID, Chandigarh. • Dr. Kulwant Singh, Asstt.Prof., CRRID, Chandigarh • Sh. Gian Singh Kamboj, Consultant, 4th SFC, Haryana
(e) Divisional and District Level Meetings	
Date	**Place**
05.09.2012 to 07.09.2012	Gurgaon Division, Gurgaon Distt.:- Gurgaon, Palwal, Mewat, Rewari, Mahendergarh and Faridabad
23.05.2013	District Kaithal at Kaithal
21.01.2014	District Kurkshetra, at Kurukshetra
(f) Visits to Other States	
Date	**Name of the State**
30.11.2011 to 04.12.2011	Karnataka
31.01.2012 to 06.02.2012	Gujarat
26.02.2014 to 27.02.2014	Himachal Pradesh

ANNEXURE 10.1

DISTRICT-WISE ALLOCATION OF FUNDS FOR PRIs DURING THE FINANCIAL YEAR 2011-12 to 2015-16

Sr. No.	District	Total Population	Population (Rural)			Literacy Gap (Rural)			Area (Rural)			Gender Ratio (Female per thousand Males)			AAY Population			Composite Index	Year-Wise Allocation (Rs. in Crore)				
			Rural	Prop. (%)	Wtd. Prop.	Illiterates	Prop.	Wtd. Prop.	Rural	Prop. (%)	Wtd. Prop.	Total	Prop. (%)	Wtd. Prop.	Rural	Prop.	Wtd. Prop.						
			40%			15%			25%			10%			10%				2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Ambala	1128350	627576	3.80	1.521	119603	3.07	0.461	1505	3.50	0.875	890	4.818	0.482	41774	4.27	0.427	3.765	12.232	14.565	17.260	20.060	23.333
2	Panchkula	561293	248063	1.50	0.601	49564	1.27	0.191	852	1.98	0.495	855	4.629	0.463	10283	1.05	0.105	1.855	6.027	7.177	8.504	9.884	11.497
3	Yamunanagar	1214205	741376	4.49	1.796	162608	4.17	0.626	1683	3.91	0.978	882	4.775	0.477	38070	3.90	0.390	4.268	13.864	16.509	19.563	22.737	26.447
4	Kurukshetra	964655	685430	4.15	1.661	160077	4.11	0.616	1469	3.42	0.854	899	4.867	0.487	51839	5.30	0.530	4.148	13.476	16.046	19.015	22.100	25.706
5	Kaithal	1074304	838293	5.08	2.031	231466	5.94	0.891	2232	5.19	1.298	879	4.759	0.476	70250	7.19	0.719	5.415	17.591	20.946	24.821	28.848	33.555
6	Karnal	1505324	1050514	6.36	2.545	244350	6.27	0.941	2460	5.72	1.430	885	4.791	0.479	44612	4.56	0.456	5.852	19.011	22.637	26.825	31.177	36.264
7	Panipat	1205437	650352	3.94	1.576	144330	3.71	0.556	1215	2.83	0.706	858	4.645	0.464	28057	2.87	0.287	3.589	11.660	13.884	16.453	19.123	22.243
8	Sonipat	1450001	996637	6.04	2.415	192222	4.94	0.740	2057	4.78	1.196	846	4.580	0.458	50071	5.12	0.512	5.321	17.286	20.583	24.392	28.349	32.975
9	Rohtak	1061204	615040	3.73	1.490	118217	3.04	0.455	1706	3.97	0.992	856	4.634	0.463	17297	1.77	0.177	3.578	11.623	13.840	16.401	19.061	22.172
10	Jhajjar	958405	715066	4.33	1.733	132100	3.39	0.509	1787	4.16	1.039	860	4.656	0.466	24628	2.52	0.252	3.998	12.987	15.464	18.325	21.298	24.774
11	Faridabad	1809733	370878	2.25	0.899	75760	1.95	0.292	700	1.63	0.407	870	4.710	0.471	9634	0.99	0.099	2.167	7.039	8.382	9.933	11.544	13.428
12	Gurgaon	1514432	472179	2.86	1.144	76695	1.97	0.295	1142	2.66	0.664	877	4.748	0.475	28523	2.92	0.292	2.870	9.323	11.101	13.155	15.290	17.785
13	Rewari	900332	666902	4.04	1.616	111246	2.86	0.428	1563	3.63	0.909	907	4.910	0.491	53432	5.47	0.547	3.991	12.964	15.437	18.293	21.260	24.730
14	Mahendergarh	922088	789233	4.78	1.912	152505	3.92	0.587	1869	4.35	1.087	895	4.845	0.485	64815	6.63	0.663	4.734	15.378	18.311	21.699	25.220	29.335
15	Bhiwani	1634445	1313123	7.95	3.182	282381	7.25	1.087	4727	10.99	2.748	885	4.791	0.479	67368	6.89	0.689	8.185	26.591	31.662	37.521	43.608	50.724
16	Jind	1334152	1028569	6.23	2.492	268393	6.89	1.034	2669	6.21	1.552	868	4.699	0.470	87518	8.95	0.895	6.443	20.931	24.923	29.534	34.326	39.927
17	Hisar	1743931	1190443	7.21	2.884	312272	8.02	1.203	3920	9.12	2.279	876	4.742	0.474	58172	5.95	0.595	7.435	24.154	28.761	34.083	39.612	46.076
18	Fatehabad	942011	762423	4.62	1.847	221177	5.68	0.852	2508	5.83	1.458	903	4.888	0.489	40483	4.14	0.414	5.060	16.439	19.575	23.197	26.960	31.359
19	Sirsa	1295189	975941	5.91	2.365	283795	7.29	1.093	4175	9.71	2.427	896	4.851	0.485	88915	9.10	0.910	7.279	23.648	28.158	33.368	38.782	45.109
20	Mewat	1089263	965157	5.85	2.338	342540	8.79	1.319	1463	3.40	0.851	907	4.910	0.491	65360	6.69	0.669	5.668	18.413	21.925	25.981	30.196	35.123
21	Palwal	1042708	806164	4.88	1.953	213700	5.49	0.823	1300	3.02	0.756	878	4.753	0.475	36280	3.71	0.371	4.379	14.224	16.937	20.071	23.327	27.133
TOTAL		**25351462**	**16509359**	**100.00**	**40**	**3895001**	**100**	**15**	**43001**	**100.00**	**25**	**18472**	**100.000**	**10**	**977381**	**100**	**10**	**100**	**324.86**	**386.82**	**458.39**	**532.76**	**619.69**

* **Wtd. stands for weighted**

** **Prop. stands for proportion**

ANNEXURE 10.2

DISTRICT-WISE ALLOCATION OF FUNDS FOR ULBs DURING THE FINANCIAL YEAR 2011-12 to 2015-16

Sr. No.	District	Total Population	Population (Urban)			Literacy Gap (Urban)			Area (Urban)			Gender Ratio (Female per thousand Males)			AAY Population			Composite Index	Year-Wise Allocation (Rs. in Crore)				
			Urban	Prop. (%)	Wtd. Prop.	Illiterates	Prop.	Wtd. Prop.	Urban	Prop. (%)	Wtd. Prop.	Total	Prop. (%)	Wtd. Prop.	Urban	Prop. (%)	Wtd. Prop.						
			40%			15%			25%			10%			10%				2011-12	2012-13	2013-14	2014-15	2015-16
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Ambala	1128350	500774	5.664	2.265	53736	4.28	0.642	69	5.71	1.427	872	4.734	0.473	7254	3.403	0.340	5.148	9.005	10.722	12.707	14.769	17.178
2	Panchkula	561293	313230	3.542	1.417	32182	2.56	0.384	46	3.80	0.951	882	4.788	0.479	3539	1.660	0.166	3.397	5.942	7.075	8.384	9.745	11.335
3	Yamunanagar	1214205	472829	5.347	2.139	63072	5.02	0.753	85	7.04	1.760	870	4.723	0.472	11115	5.214	0.521	5.646	9.877	11.760	13.936	16.197	18.840
4	Kurukshetra	964655	279225	3.158	1.263	37741	3.00	0.451	61	5.05	1.263	865	4.696	0.470	5786	2.714	0.271	3.718	6.504	7.745	9.178	10.667	12.407
5	Kaithal	1074304	236011	2.669	1.068	44632	3.55	0.533	85	7.02	1.755	886	4.810	0.481	9615	4.511	0.451	4.287	7.500	8.930	10.583	12.300	14.307
6	Karnal	1505324	454810	5.144	2.057	64798	5.16	0.774	60	4.96	1.241	888	4.821	0.482	14280	6.699	0.670	5.224	9.138	10.880	12.894	14.986	17.431
7	Panipat	1205437	555085	6.278	2.511	89647	7.14	1.071	54	4.42	1.106	864	4.691	0.469	16924	7.940	0.794	5.950	10.409	12.394	14.687	17.071	19.855
8	Sonipat	1450001	453364	5.127	2.051	55516	4.42	0.663	65	5.37	1.342	868	4.712	0.471	13451	6.310	0.631	5.158	9.023	10.744	12.732	14.798	17.212
9	Rohtak	1061204	446164	5.046	2.018	64963	5.17	0.776	39	3.19	0.797	885	4.805	0.480	13738	6.445	0.644	4.717	8.251	9.824	11.642	13.531	15.738
10	Jhajjar	958405	243339	2.752	1.101	29079	2.32	0.347	47	3.88	0.970	863	4.685	0.469	3848	1.805	0.181	3.067	5.366	6.389	7.571	8.800	10.235
11	Faridabad	1809733	1438855	16.273	6.509	188932	15.04	2.256	43	3.55	0.888	871	4.729	0.473	13070	6.132	0.613	10.739	18.786	22.367	26.507	30.808	35.834
12	Gurgaon	1514432	1042253	11.787	4.715	128066	10.20	1.529	112	9.25	2.312	842	4.571	0.457	8808	4.132	0.413	9.427	16.490	19.634	23.268	27.044	31.455
13	Rewari	900332	233430	2.640	1.056	28088	2.24	0.335	31	2.56	0.640	872	4.734	0.473	7746	3.634	0.363	2.868	5.017	5.974	7.080	8.228	9.571
14	Mahendergarh	922088	132855	1.503	0.601	19009	1.51	0.227	30	2.48	0.619	891	4.837	0.484	5139	2.411	0.241	2.172	3.800	4.524	5.362	6.231	7.248
15	Bhiwani	1634445	321322	3.634	1.454	48647	3.87	0.581	52	4.25	1.063	879	4.772	0.477	18887	8.860	0.886	4.461	7.804	9.291	11.011	12.798	14.885
16	Jind	1334152	305583	3.456	1.382	49960	3.98	0.597	33	2.69	0.672	879	4.772	0.477	9076	4.258	0.426	3.554	6.218	7.403	8.773	10.197	11.860
17	Hisar	1743931	553488	6.260	2.504	97604	7.77	1.166	63	5.21	1.303	860	4.669	0.467	16988	7.970	0.797	6.236	10.909	12.989	15.393	17.891	20.810
18	Fatehabad	942011	179588	2.031	0.812	32908	2.62	0.393	30	2.44	0.610	903	4.902	0.490	10031	4.706	0.471	2.776	4.856	5.782	6.852	7.964	9.263
19	Sirsa	1295189	319248	3.611	1.444	54679	4.35	0.653	102	8.45	2.113	895	4.859	0.486	12096	5.675	0.567	5.263	9.207	10.962	12.991	15.099	17.562
20	Mewat	1089263	124106	1.404	0.561	28586	2.28	0.341	37	3.06	0.764	903	4.902	0.490	4020	1.886	0.189	2.345	4.103	4.885	5.789	6.729	7.826
21	Palwal	1042708	236544	2.675	1.070	44187	3.52	0.528	68	5.62	1.404	882	4.788	0.479	7750	3.636	0.364	3.844	6.724	8.006	9.488	11.028	12.827
TOTAL		**25351462**	**8842103**	**100**	**40**	**1256032**	**100**	**15**	**1211**	**100**	**25**	**18420**	**100**	**10**	**213161**	**100**	**10**	**100.000**	**174.93**	**208.28**	**246.83**	**286.88**	**333.68**

* **Wtd. stands for weighted**

** **Prop. stands for proportion**