

GOVERNMENT OF HARYANA

**REPORT
OF
3rd STATE FINANCE COMMISSION
HARYANA**

**CHANDIGARH
DECEMBER, 2008**

PREFACE

The enactment of the 73rd and 74th constitutional amendments is a historic step in the evolution and development of the Panchayati Raj System and the Urban Local Bodies. The subsequent enactment of the Haryana Panchayati Raj Act, 1994, the Haryana Municipal Amendment Act, 1994 and the Haryana Municipal Corporation Act, 1994 and the formulation of the Haryana Finance Commission Rules were a logical sequel to these constitutional amendments. In pursuance of the constitutional provisions, the 1st SFC was constituted on 31st May, 1994 and the 2nd SFC on 6th September, 2000. The Third State Finance Commission has been constituted by the State Government vide notification dated 22nd December, 2005.

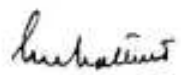
2. The rural and urban local bodies are now functioning as autonomous institutions. The resource base of these bodies requires to be substantially augmented in order to enable them to be viable units of local administration. Though the enabling acts provide for higher powers for these bodies to levy taxes and fees, yet they could not exercise their given powers due to economic and political reasons. Thus, the survival of these bodies is largely dependant on budgetary support from the state govt. Since state commitments are rising year after year, any scheme of devolution of state resources to these institutions would have to be, at best, very limited. Thus, we hope that the state govt. would make sincere efforts to bolster their resources to fully implement the scheme of resource transfer being suggested by the Commission.

3. The Commission's recommendations on funds transfer to local bodies take into account the delegation of functions made or likely to be made in the period covered under this report, particularly the role envisaged for all the tiers of Panchayati Raj Institutions. While doing so, the Commission has kept in view the financial position of the State and the organizational capacity of the rural and urban local bodies to absorb the transferred funds for proper and meaningful utilization. We are of the firm view that the empowerment of local bodies has to be a gradual process and subsequent devolution of functions to the grass root levels would be accompanied by proportional transfer of funds as well as staff. We further hope that the State Government would expedite this process with a view to accomplish the constitutional requirement both in letter and spirit.

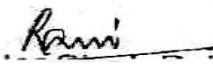
4. The Commission acknowledges valuable help extended by Sh. Hardeep Kumar, IAS, Member Secretary under whose overall supervision the onerous task could be accomplished. We place on record the valuable contribution of

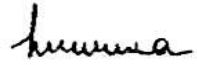
Sh. Gian Singh Kamboj, Consultant in the Commission, for providing sage advice and other important ingredients in drafting and finalisation of the report. We would also like to express our appreciation for the hardwork put in by our research team including Sh. Raj Kumar, Research Officer, Sh. Ajay Thakur and Sh. Manjeet Singh Assistant Research Officers who rendered valuable help in collection, compilation and analysis of data and preparation of notes for the consideration of the Commission. Mention is also made of the support provided by Sh. D.R. Kairon, HCS, Under Secretary, Sh. M.L.Ahuja Under Secretary (Retd.) and Sh. Mehar Singh Saini, Assistant for handling administrative accounts matters. We would also like to thank all our officers and officials for their efforts put in for smooth functioning of the Commission. Our thanks are also due to all government functionaries for extending requisite help and cooperation in terms of the supply of information required by the Commission and giving valuable suggestions on various issues. We would also pay our due thanks to Dr. Surat Singh Director HIRD Nilokheri, Dr. N.K. Bishnoi, Chairperson, Economic and Business Analytics, GJU Hisar, Dr. Avtar Singh and Prof. M.R. Kulkarni of HIPA Gurgoan, Dr. O.P. Bohra, Economist NIRD Hyderabad, Prof. Mukesh P. Mathur NIUA Delhi and Prof. K.K. Pandey IIPA Delhi for providing valuable inputs on overall empowerment of local bodies.


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


A.N. Mathur, IAS(Retd.)
Chairman


Som Dutt
Member


Rajinder Singh Ballah
Member


Hardeep Kumar, IAS,
Member Secretary


Pritam Singh Balahara
Member


Mohan Singh Malik
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 Commission
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 Jambheshwar 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 Administrations
24.	HIRD	-	Haryana Institute Rural Development
25.	HODs	-	Head of Department
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 Grants
35.	LPCD	-	Liters Per Capita Per Day
36.	MCs	-	Municipal Council/Committee
37.	MIS	-	Management Information System
38.	MLAs	-	Member of Legislative Assembly
39.	MLD	-	Million Liters Per Day
40.	MOF	-	Ministry of Finance
41.	MOU	-	Memorandum of Understanding
42.	MPs	-	Member of Parliaments
43.	MFRP	-	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 Index
52.	PGT	-	Passenger and Goods Tax
53.	PHED	-	Public Health Engineer Department
54.	PPP	-	Public Private Partenership
55.	PRIA	-	Participating 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 Aided Tax
66.	ZPs	-	Zila Parishads

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CHAPTER – 1

CONSTITUTION OF STATE FINANCE COMMISSION

1.1 In the federal polity of India, local bodies, both rural and urban, are reckoned as important units of local governance. Despite various enabling legislations for empowerment, these Institutions of local self government could not deliver the public services satisfactorily due to their poor financial base and weak organizational capability. In order to strengthen the third tier of local governance, 73rd and 74th Constitutional Amendment Act 1992 was brought in to enable these bodies to acquire institutional capability. Under the new fiscal arrangement, Article 243 I and 243 Y of the constitution require every State Govt. to constitute, once in five year, a State Finance Commission to decide upon revenue sharing between State and local bodies.

1.2 Pursuant to these Constitutional Amendment Acts (CAAs), Haryana Govt. enacted Panchayati Raj Act 1994, the Haryana Municipal Amendment Act 1994, Haryana Municipal Corporation Act, 1994 and Haryana Finance Commission Rules 1994. In pursuance of section 213 of the Haryana Panchayati Raj Act, 1994 (Act II of 1994) and rule 3 of Haryana Finance Commission Rules, 1994, the Governor of Haryana constituted the Third State Finance Commission in four stages vide notifications Nos. (i) 18/1/2005-Pol (2P), dated 22nd December 2005, (ii) 1/11/2006-ISII, dated 16th January, 2006, (iii) 18/1/2005-POL(2P), dated 4th December 2006, and (iv) 18/1/2005-POL(2P), dated 28th May 2007, with the following composition :-

- | | |
|----------------------------------|------------------|
| 1. Sh. A. N. Mathur, IAS (Retd.) | Chairman |
| 2. Sh. Som Dutt | Member |
| 3. Sh. Rajinder Singh Ballah | Member |
| 4. Sh. Pritam Singh Balhara | Member |
| 5. Sh. Prem Prakash | Member |
| 6. Sh. Hardeep Kumar, IAS | Member Secretary |

Copies of notifications are at appendices 1.1 to 1.8.

1.3 Since the full Commission was constituted by the state govt. in piece-meal, Sh. A.N. Mathur, IAS (Retd.), Chairman joined on 22-12-05, and Members namely, Sh. Som Dutt Joined on 7-12-06, Sh. Rajinder Singh Ballah on 11-12-06, Sh. Pritam Singh on 10-01-07 and Sh. Prem Prakash on 01-06-07. Sh. Hardeep Kumar, IAS, Special Secretary Finance (Budget) assumed additional charge of the Member Secretary of the Commission on 16-01-06. As Sh. Prem Prakash left the Commission on 11/08/08 to join as Member of Haryana Public Service Commission, Sh. Mohan Singh Malik was appointed as Member of State Finance Commission vide notification No. 18/1/2005-2POL dated 5th September, 2008 and he joined the Commission on 25-09-2008. Chairman of the Commission was appointed on whole-time basis whereas all the four Members were appointed on part time basis.

TERMS OF REFERENCE

1.4 The Terms of Reference of the Third State Finance Commission, as mentioned in para 3 of the Notification dated 22nd December, 2005 are reproduced as under:-

1. (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;
2. (a) 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;
 - (b) the measures needed to improve the financial position of the Municipalities;
3. 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.

1.5 The Commission, vide Para 2 of the notification dated 22-12-05, was mandated to complete its task by 31st December, 2006. But it could not become operational effectively till January, 2007, when other Members of the Commission were appointed. Office accommodation was allotted to the Commission on 16-05-2006. Renovation work completed by September, 2006 and staff was posted in December, 2006. As such the Commission could become functional only in January, 2007. The Commission was constituted in four phases taking a time of more than two years. Besides, considerable time was wasted in allocating suitable office accommodation, getting it renovated, sanctioning of posts, recruitment of technical staff, making budgetary allocations and arranging other supporting logistics. As relevant records of previous SFCs were not made available, requisite information formats and questionnaires etc. had to be designed afresh which consumed a lot of time. The Commission has also to struggle hard to elicit reliable and usable data from the departments, particularly the departments of Panchayats and Urban Development. Keeping in view these constraints, the State Govt.

extended the tenure of the Commission, first up to 31st December 2007 and later upto 31st December, 2008.

INTERIM REPORT

1.6 The Commission received a communication No. PRA-1-2008/5448, dated 25th Feb, 2008, from the state govt. (in panchayat deptt.) seeking additional funds for PRIs for the year 2008-09 for development of rural infrastructure. The state govt. also requested the Commission to submit an interim report containing recommendations on fiscal transfers upto the year 2008-09. The Commission also received a memorandum from Urban Development Department seeking additional funds for strengthening of municipal administration.

1.7 The Commission considered the request of funds for PRIs & ULBs and observed that major part of the request related to funds required under various plan schemes being implemented through budgetary allocations for development of infrastructure. Some funds were requested for providing and maintenance of basic civic amenities for which no relevant and reliable statistics were provided to justify the demand.

1.8 The Commission submitted its interim report on 29th Feb, 2008 covering the period 2006-07, 2007-08 and 2008-09 falling under its reference period. While deciding financial devolution, the Commission adopted the global sharing scheme under which Own Tax Revenue of the State, net of proceeds from State Excise and LADT and further discounted for tax collection charges at the rate of 1.25%, was taken as the divisible pool out of which the share of local Bodies, both rural and urban, was fixed at 4% of the net Own Tax Revenue. The respective shares of PRIs and ULBs were decided in the ratio of 65:35. On this basis the share of Local Bodies was worked out as under:-

Financial Devolution to Local Bodies (Rs. in crore)

Particulars	2006-07	2007-08	2008-09
Total Divisible pool	8846.72	10370.73	11712.44
Share of Local Bodies (4%)	353.86	414.82	468.50
PRIs share (65%)	230.00	269.62	304.52
ULBs share (35%)	123.86	145.20	163.98

1.9 The financial devolution recommended in the interim report was considered sufficient to meet the expenditure needs of local bodies on establishment and operation and maintenance of civic amenities and as such no special dispensation was recommended for PRIs and ULBs on the basis of demands raised in their respective memorandums.

1.10 This financial devolution was purely adhoc and forming part of the total devolution made in the final report. **It is therefore, suggested that the funds transferred to PRIs and ULBs during 2006-07, 2007-08, 2008-09 on the basis of interim report should be adjusted against the financial devolution being recommended for these years in the final report.**

REFERENCE PERIOD

1.11 On the face of it, we found that the TOR of SFC did not make specific mention of the reference period to be covered by its recommendations. The TOR of earlier SFCs also suffered from this lapse and as such they determined at their own level the time period to be covered by their awards. Report of the 1st SFC covered four year period i.e. 1997-98 to 2000-01 and that of 2nd SFC covered five year period i.e. 2001-02 to 2005-06.

1.12 As per the constitutional provisions, every State Govt. is required to constitute, once in five years, a State Finance Commission. It clearly amplifies that the recommendations of a SFC are applicable for a period of five years following the concluding year of the previous Commission. Since the 2nd Commission covered five year period 2001-02 to 2005-06, the 3rd SFC is, therefore, required to make recommendations for next five year period i.e. 2006-07 to 2010-11.

1.13 **We are aware of the constitutional mandate that the recommendations of a SFC cover a period of five years. Hence, in the fulfillment of this constitutional mandate, the Commission has decided that the report of this Commission will cover the five year period form 2006-07 to 2010-11.**

1.14 Since the 2nd SFC had also faced a similar situation of delayed constitution, it had recommended that in case for any reason the recommendations of the next SFC could not be available by the end of 2005-06, the recommendations made by

the 2nd SFC would continue to be in force till such time the recommendations of the next Commission are available and implemented. We have been advised by the State Finance Department that since the report of 3rd SFC are not available by end 2005-06, the recommendations of the 2nd SFC, as accepted by the State Govt. for the year 2005-06, have been extended for implementation initially for the year 2006-07 and then for 2007-08 and 2008-09. The 3rd SFC also faced a similar situation of delayed constitution. In view of this, we foresee that successive SFC may also face similar situation. **As such, like 2nd SFC, this Commission also recommends that in case recommendations of next SFC are not available to the Govt. by the end of 2010-11, the recommendations being made by this Commission for the year 2010-11 may be extended for implementation till such time the recommendations of the next SFC are available and implemented.**

1.15 We are also aware that the reference period of report of Twelfth Finance Commission is 2005-10 and that of 3rd SFC 2006-11. The period of these two Commissions do not synchronise. **In view of diversity of period, we recommend that our award for implementation of the recommendations of 12th Finance Commission in regard to local bodies would be applicable only for four years from 2006-07 to 2009-10 as the year 2010-11 would be covered by the 13th National Finance Commission.**

ROLE OF SFC

1.16 There is a constitutional mismatch between the allocation of financial powers and responsibilities between the States and the local bodies. The States are endowed with buoyant sources of revenue whereas local bodies are left with meager and less elastic sources coupled with wide range of functions. Thus, the whole system of allocation of financial powers between the State and the local bodies leads to an inherent fiscal imbalance and makes the local bodies heavily dependent on the State Govt. for financial support. With the growing importance of development administration, local bodies are reckoned as important units of local govt. But these bodies are not growing in the right direction due to their poor financial base. **The Finance Commission is reckoned as the sole arbiter which**

can ensure a just and equitable distribution of state revenues between the state and the local bodies.

1.17 The 73rd and 74th constitutional amendments are landmarks in the evolution and development of local bodies. The basic objective of these CAAs is empowerment of local bodies so as to enable them to function as vibrant units of local government. Financial and functional devolution constitutes the key element of empowerment of local bodies through the process of democratic decentralisation. **Thus, under the new fiscal arrangement, substantial transfer of resources from the state to the local bodies with wide differentials in fiscal capabilities and needs constitutes the main task of the Finance Commission.**

At the national level the Central Finance Commission recommends grants to the states for supplementing resources of local bodies and also suggest measures of augmentation of their own sources of revenue. At the State level, the SFCs also make recommendations for revenue sharing with the local bodies. **Besides, the State Finance Commission also attempts to ensure that the funds available to the local bodies through resource transfer and their own revenue generation efforts are properly and effectively utilized.**

1.18 In terms of article 243(I) and 243(Y) of the constitution, the SFC is to recommend:-

- The principles governing the distribution between the state and local bodies the net proceeds of taxes etc. leviable by the state and interse allocation of such proceeds between different tiers of PRIs and the Municipalities.
- The determination of tax, duties, tolls and fees which may be assigned to or appropriated by the local bodies.
- Grants-in-aid from the consolidated fund of the state.

Besides, the SFC is also expected to recommend measures needed to improve the financial position of the Panchayats and the Municipalities. Thus, importance of the SFC in the scheme of fiscal decentralization is that besides arbitrating on the claims to resources by the state govt. and the local bodies, its recommendations would impart greater stability and predictability to the transfer mechanism.

1.19 The task of SFC is quite complex as there exists a mismatch. The task of the SFC is further complicated also as it has to strike proper balance between two conflicting situations of constraint of budgetary resources before the state Govt. and mounting expenditure requirements of local bodies. Thus, to achieve the objectives of fiscal equity and efficiency, the SFC would require to work out a balanced strategy addressing various issues like sharing of state revenues with the local bodies i.e. PRIs and ULBs, redetermination of taxes/duties to be assigned to or appropriated by local bodies, grants to these institutions, issues of financial autonomy of these institutions, particularly levy of user charges, the overall financial and technological effectiveness of these institutions. Thus, the task of SFC comprises :-

- Critical analysis of financial position of PRIs and ULBs.
- Evaluation of their financial and technical capability to deliver on their assigned functions.
- Assessment of their tax base or tax potential.
- Suggest measures for improving functioning of local bodies including ways to augment their own resources and effective utilization thereof.
- Ways to improve standard of accounts, their audit and training of elected representatives.
- Suggest measures of support to be extended to them by the State Govt.
- Assessment of the financial position of the State Govt. and the commitments there on.

1.20 Thus, the basic task of the SFC is of empowerment of PRIs and ULBs, financially, administratively, legislatively and technologically so as to enable them to meet the aspirations of the people they represent and to enable them to undertake schemes aimed at development and social justice as also to improve the quality of life of their citizens.

APPROACH OF THE COMMISSION

1.21 The approach of the Commission is guided by the mandate of the constitutional provisions and its Terms of Reference (TOR). The Commission has, therefore, to decide upon the rules of procedure for its working in view of the issues before it.

1.22 In the Indian federal polity, the local bodies, both rural and urban, are reckoned as vibrant units of local governance as these are expected to perform core civic functions. But despite various enabling legislations for their empowerment, these bodies could not become viable units of self- government due to their poor financial base and weak organisational capacities. Hence specific powers, authorities and funds would need to be devolved to these bodies to enable them to be effective units of decentralised governance. **Thus, the Commission worked out a composite strategy of revenue sharing, augmentation of internal resources of these bodies and tapping institutional finance for creating civic infrastructure.**

1.23 There exists a mismatch in the allocation of financial powers and responsibilities between the states and local bodies. While the states have been given wide financial powers, the local bodies are left with less elastic sources of revenues and expanding responsibilities. This tendency has led to vertical and horizontal fiscal imbalances between the states and the local bodies. Vertical imbalances arise from assignment of more resources to the states and larger responsibilities to the local bodies. Horizontal imbalances stem from differential capacities and needs of local bodies and also the differences in the costs of providing services. Fiscal transfers in terms of tax devolution and grants-in-aid have a tendency of correcting these imbalances. **Thus, the Commission adopted such a revenue sharing mechanism as to serve the objective both of equity and efficiency resulting in predictable and stable transfers.**

1.24 While going through the constitutional amendments and the subsequent enactments, we are convinced that these enabling provisions devolve adequate powers and funds to the local bodies to enable them to be effective units of decentralized governance. But we have noted that these enabling provisions have not been fully implemented on economic and political considerations. As a fall out, these bodies have not been able to augment their resources from their meager and inelastic sources of revenues and, thus, are largely dependent upon the state budgetary support for their survival. This has led to undermining of the authority and power of local bodies. Consequently these bodies are not coming up to the

expectations of their citizens in terms of their answerability towards better performance. But we are also convinced that budgetary support cannot be continued for long due to resource constraints at state level. Hence, these bodies would need to augment their internal resources to be self reliant in undertaking their obligatory functions and providing core civic services to satisfactory levels.

1.25 The two landmark amendments of the constitution no doubt gave the much needed impetus to empowerment of local bodies, yet the pace of empowerment has been very slow. The operationalisation of the constitutional amendments requires action both by the Center and the States. The changes brought into the local governance so far are of cosmetic nature. What, in fact, is needed is a total revamping of the governance with three tier set up. The half hearted efforts in fact are doing more harm by creating confusion all around. The lack of clear cut demarcation of functions and responsibilities for the different tiers of government, the lack of basic information, budgetary and accounting practices at the local level and above all lack of firm conviction and belief in decentralized governance are proving to be major bottleneck. Despite one and half decades of initiatives through constitutional efforts for enhancing role of the local bodies, States are still groping in the dark to put in place suitable implementation mechanism. The Commission took serious note of these issues and have made effective recommendations at appropriate places in the report for their redressal.

1.26 The Commission has to project the receipts and expenditures of PRIs and ULBs from their own sources for the future years to be covered by its report and to work out normative gaps in their resources taking into account the likely additional expenditure on providing minimum acceptable levels of service delivery as also the additional resource mobilisation through their own efforts. The normative gaps so worked out would be met partly through the revenue sharing mechanism of the Commission and partly through own revenue efforts and fund flows to these bodies from external sources. But the non-availability of data on the finances of the local bodies and the levels of public services particularly the PRIs, became a serious concern in the absence of which no realistic assessment of the financial needs of the Panchayats and Municipalities for basic civic services and

developmental activities could be made nor could any information be generated on the flow of funds to the local bodies for implementation of various schemes for economic development and social justice. Hence, the financial devolution suggested by this Commission is based on value judgment and is in conformity with the devolution made by the last commission.

1.27 While formulating its scheme of fiscal transfers, the commission took note of large variations across the local bodies in structural composition, size, location fiscal capacities, financial needs for operation, maintenance and provision of civic amenities, cost disabilities and fund flows from outside etc and also the financial position of the state govt. and the demands thereon.

1.28 The Commission has made a significant departure from the earlier system of sharing of specific taxes, which, in our opinion was not based on proper rationale. Thus, the system of global sharing has been adopted under which all state taxes are pooled and fixed percentage thereof becomes the share of local bodies. The system of global sharing has distinct advantages in terms of its in-built transparency, objectivity and certainty. Under this system local bodies automatically share the buoyancies of state taxes and they are enabled to plan their priorities in advance as divisible pool is predictable.

1.29 The Commission has also tried to formulate a predictable and buoyant mechanism of revenue sharing and the interse distribution between the local bodies at all levels. The previous Commissions have, by and large, adopted population as the only criteria for interse distribution of local body share. Though population is an objective and neutral factor to assess financial needs of local bodies, but it does not take into account the social and economic disparities in regions or districts, fiscal performance of local bodies and the incentives for internal resource generation. Like the Twelfth Finance Commission, this Commission has also adopted a composite index consisting of the factors like population and other indicators of socio-economic backwardness like SC population, literacy gap etc. Due to non-availability of requisite data, the Commission could not compute an elaborate composite index of backwardness and deprivation which could have better catered to the inter-districts disparities and

thus, the financial needs of local bodies. But the major thrust of the Commission has been on expanding the fiscal domain of local bodies and encouraging them to raise their own resources by building a system of incentives and disincentives.

1.30 The Commission also 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 are not making desired recovery from their existing sources nor they are utilizing fully their enabling taxation powers. Besides, these bodies do not have necessary expertise and capability to take on the responsibility of newly assigned levies.

1.31 As regards grants-in-aid, the Commission has taken the view that their role should be confined to meeting only specific problems and needs of local bodies, if so warranted. Such grants should be based on objective and transparent criteria. We have not, therefore, recommended any grants either for meeting the salary arrears, if any, or for other un-paid liabilities.

1.32 Though we have made major departure from the devolution criteria of the last Commissions, yet we have tried to design a sharing scheme consistent with the fiscal capacity and commitments of the State Govt. and the expanding fiscal needs of the local bodies. At the same time, we have also tried to ensure that the funds devolved to the local bodies through various channels are properly and efficiently utilized.

1.33 The Commission met frequently to complete its task. The report covers all issues of its TOR and contains 14 Chapters. Chapter-1 explains TOR of the Commission, approach and methodology followed and problems faced. Chapters-2 and 3 refer to the recommendations of earlier SFCs and CFCs. Chapters- 4 and 5 deal with the development profile of state economy and financial position of the state. Chapters-6 to 10 contain profile of local bodies, both PRIs and ULBs, their functional and financial position, fiscal capacities and expenditure needs. Chapter-11 deals with the recommendations for financial devolution, share of local bodies and its distribution between PRIs and ULBs and interse distribution among all tiers of LBs. Chapter-12 contains measures for resource mobilization by LBs.

Chapter 13 contains suggestions on other issues and Chapter-14 deals with the summary recommendations.

METHODOLOGY AND PROBLEMS

1.34 The Commission held various meetings to decide upon the rules of procedure of its working and decided its methodology in view of the issues before it and the tasks assigned through its TOR, as under:-

- Comprehensive formats were designed for seeking primary and secondary data on various aspects of local finances, levels of civic amenities being provided, functional and financial domains, physical assets and working of local bodies, budgetary support and other related matters from the departments of Panchayats and Urban Development also involving district administration and all tiers of local bodies.
- This is for the first time that a comprehensive questionnaire covering all aspects of TOR of the Commission and the basic issues before the Commission was designed and circulated to the State Ministers, MPs, MLAs, elected representatives of rural and urban local bodies, universities, colleges, district bar associations, reputed institutions dealing with rural and urban development, eminent experts and professionals and other stakeholders to solicit their views and suggestions on functional, financial and institutional empowerment of local bodies.
- Information was also sought on status of water supply, sewerage, sanitation and other public services, basis and rates of state level and local taxes, resource mobilisation efforts, arrangement for capacity building etc., economic and financial position of the state and other relevant issues from the concerned departments.
- An analytical study on state finances was sponsored to Dr. N.K. Bishnoi, Chairperson, Economics and Business Analytics, Haryana School of Business, GJU Hisar, the findings of which, received in the month of November, 2008, helped the Commission a lot in analyzing the financial position of the State and making suitable recommendations for resource augmentation and proper allocation of plan funds.
- The Commission constituted a Study Group under the Chairmanship of Dr. Avtar Singh, IAS, Director HIPA with Prof. M.R. Kulkarni of HIPA, Dr. K.K. Pandey of IIPA and Dr. Mukesh Mathur of NIUA as Members to make suggestions on empowerment of Urban Local Bodies. The Group submitted its report on 06/10/2008 the finding of which

immensely helped the Commission in identifying the problems being faced by the Urban Local Bodies and suggesting remedial measures.

- Like-wise, at the instance of the Commission, Dr. Surat Singh, Director HIRD, Nilokheri organized a Group Discussion on 08th of August, 2008 on finances of PRIs and fiscal decentralization to the PRIs and the role of State Finance Commission for which experts from various Universities and faculty Members of HIRD were invited for participation. This Group Discussion helped the Commission knowing the functioning of PRIs and making suggestions for their functional and financial empowerment.
- The Commission, with the objective of enhancing its own understanding of local government finances, functioning of local bodies and the problems being faced by the elected representatives organized open house seminars on 27th August, 2008 for PRIs at HIRD Nilokheri and on 06th October, 2008 for ULBs at HIPA Gurgaon in which selected representatives of local bodies, both PRIs and ULBs, functionaries of these bodies and departmental officers from headquarter and field offices participated. The exchange of views in these seminars enlightened the Commission in a big way and helped in making effective recommendations.
- The Commission also proposed to visit some states to understand the status and working of their local bodies. Visits to other states could not be arranged due to paucity of time and other constraints. These visits could give us vivid insight into the problems which would not have been possible from a formal document. These could have also increased our awareness of the high cost of delivering community services in remote and inaccessible areas.
- The commission also decided to have wide ranging interactions with the experts, officials and representatives of PRIs and ULBs at different levels in order to have better understanding of the local finances, functioning of local bodies and other local issues.
- The Commission held various rounds of meetings with the Administrative Secretaries and HODs of the departments of Urban Development, Panchayats and Rural Development, Water Supply and Sanitation, Excise and Taxation, Planning and Finance and one round of discussions with the Administrative Secretaries to exchange views on issues related to them as also to seek their views on empowerment of local bodies.
- The Commission also used varied information or data published in State Budget documents, State Statistical Abstract, State Economic

Survey, Plan Documents, Accounts Documents, Annual Administrative Reports of various departments like Panchayats, Rural Development, Urban Development, Local Fund Audit etc. The Commission also studied the latest Acts governing the PRIs and ULBs.

- The Commission also consulted State and National Institutes like HIRD Nilokheri, HIPA Gurgaon, NIRD Hyderabad, NIPFP Delhi, IIPA Delhi, NIUD Bangalore, Foundation for Public Economics and Policy Research New Delhi, Amity School of Urban Development New Delhi and other NGOs like PRIA etc and also noted the observations made by the SFCs and CFCs on empowerment of local bodies.
- The Chairman of the Commission held various meetings with the Finance Commissions of other States and Secretaries of various Central Govt. depts. to be familiar with the working of local bodies, approaches of other SFCs and the policy initiatives at the central level.
- The Commission held eleven meetings to formulate its approach and strategy, to review the progress of data collection and to finalise its report.

DIFFICULTIES AND SUGGESTIONS

1.35 The 3rd SFC was constituted by the state Govt. in four stages taking a time of one and half year. Besides, considerable time was taken in providing office accommodation, recruitment of technical staff, making budgetary provisions and arranging other supporting logistics. As a result, the Commission could not become fully functional upto one and half year after its constitution on 22nd December 2005. Such go-slow approach and apathetic attitude of the state govt. undermined the status and efficiency of this constitutional body and adversely affected its functioning.

1.36 Finance Commission has to deal with complex issues and the time available to it is barely sufficient. Its task being highly technical in nature requires extensive data on various aspects of local bodies for which comprehensive formats and questionnaires have to be designed. As records of previous Commissions were not made available, this Commission had to start from scratch in designing the necessary formats and questionnaires which consumed major part of its valuable time.

1.37 Data collection and its analysis is another serious problem and time consuming process. There is no mechanism for collection of data at a centralised

place where it could be compiled, processed and made available to the next Commission for use. Much of its time spent on designing questionnaires and gathering data could be saved if data collection is carried out on a continuing basis by a central agency. **Thus, this Commission strongly feels the necessity of a permanent central agency 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.**

1.38 The Commission had also to face grave difficulties in obtaining reliable data on local finances from the departments of Panchayats and Urban Development. Despite concerted efforts put in through official letters, telephonic conversations, personal visits and meetings with the concerned administrative secretaries and HODs, no tangible and reliable information could be received particularly from the Panchayat Department. Most of the information received from the departments was sub-standard and incomplete and the Commission had to struggle hard to make that usable. **The Commission is of the firm belief that, as also observed by the 12th Finance Commission, collection and compilation of data on local bodies is an ongoing responsibility of the State Government and not of the Commission.** The Commission is, thus, constrained to express its serious concern over the inadequate data base on local finances and the poor response on Commission's references from these two departments.

1.39 The EFC and TFC had strongly stressed the need for creating data base on finances of the PRIs and ULBs at all levels accessible on electronic media and earmarked substantial funds as well. But we found that serious efforts have not been made by these departments to strengthen data base. This is another area requiring pointed attention of the Commission. **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 Development, fully equipped with trained and dedicated manpower and modern electronic devices.**

1.40 The Commission also expresses its serious concern over the poor response received from Ministers, MPs, MLAs and elected representatives of PRIs and ULBs and also the Administrative Secretaries and HODs on the issues raised in the questionnaire circulated by the Commission through various channels. However, the Commission received over-whelming response and support from the educational institutions, which were not otherwise directly related to the affairs of the local bodies. **The State Govt. should give serious thought to this issue and arrange such programmes as to create awareness among public representatives and government functionaries towards such constitutional bodies as the Finance Commission and the Local Bodies.**

1.41 As pointed out earlier, the Commission was constituted in phases and the Member Secretary was not appointed on full time basis. It hampered the pace of work of the Commission. This is a serious issue. The earlier SFCs have also expressed their concern over delayed constitution of the Finance Commissions and their adhocism. **We also suggest that the 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 the submission of the report. This may help the Commission in timely submission of its report.**

1.42 The arrangements suggested above will meet the long felt demand of reliable data base on local body finances as well as facilitate the work of successive SFCs. In the long term it will also be a time and cost saving measure. In fact, most of the time and resources of this Commission have been spent on collection of requisite data on local bodies, still greater efforts need to be put in to obtain usable data. We do hope, if the Statistical Cells and a Central Agency as proposed are created and the SFC is set up as suggested above, the successive SFCs would not face a similar situation.

CHAPTER - 2

STATE FINANCE COMMISSIONS- RECOMMENDATIONS AND STATUS OF IMPLEMENTATION

BACKGROUND

2.1 Consequent to 73rd and 74th constitutional amendments each state has to constitute a State Finance Commission (SFC) after expiry of every five years. The basic purpose of the SFC is to make recommendations as to the sharing of state revenues with the rural and urban local bodies, determination of the taxes, duties, tolls, fees etc. which may be assigned to or appropriated by the local bodies, principles for grants-in-aid to these bodies and to recommend measures needed to improve the financial status of Panchayats and the Municipalities. SFC is a constitutional body, the scope and task of which is embodied in Articles 243-I and 243-Y of the constitution.

FIRST STATE FINANCE COMMISSION, HARYANA (1997-2001)

2.2 As per the constitutional provisions, the First State Finance Commission of Haryana was constituted on 31.5.1994 with a reference period of four years from 1997 to 2001 commencing from 1st April, 1997. It submitted its report in March, 1997. The report of the Commission together with the explanatory memorandum on the action taken on recommendations of the Commission was placed by the State Govt. before the State Legislature on 1st September, 2000.

2.3 The summary position of recommendations of the Commission for devolution of State revenues to the PRIs and ULBs and as accepted by the State Govt. is as under:-

STATUS OF RECOMMENDATIONS OF 1st SFC ON FINANCIAL DEVOLUTION

A- PANCHAYATI RAJ INSTITUTIONS

Particulars	Share of Rural Local Bodies	Status (2000-01 only)
1	2	3
I. Tax Sharing		
(i) Royalty on Minor Minerals.	20% of net receipts to PRIs & ULBs	Not Accepted
(ii) Conversion charges/change of land use	10% of the net receipts to Gram Panchayats.	Not Accepted
(iii) Stamp Duty & Registration Fee	7.5% of the net proceeds to the PRIs	3% of net proceeds, but not implemented.
(iv) Revenue from Cattle Fairs.	The entire net income to be transferred to PSs instead of present 80%	Accepted and implemented
(v) Haryana Rural Dev. Fund (HRDF).	Levy of HRDF be increased from 1% to 2%.	To be used as before.
II. Grants in aid to PRIs		
(i) Maintenance Grants	Rs. 10 lakh per Block for 111 Blocks for maintenance of community assets.	Accepted but not implemented.
	Rs. 1 lakh for each Block for maintenance of PRIs buildings (10% step up for next years.)	Accepted but not implemented.
(ii) Repair Grants	One time special grant of Rs.25 lakh for repair of Zila Parishad/Panchayat Samiti buildings (one time only for 1997-98)	Not accepted
(iii) Specific Purpose grants	For Sanitation & Environmental improvement (GPs) 10% step up each year.	Accepted but not implemented.
(iv) Development grants	Rs. 50/- per capita per annum (1991 census) Rural population 1.24 crore (10% step up each year)	Not accepted
(v) Incentive Grants	Cash Awards to PRIs (Lakh Rs.)	Accepted but not implemented.
(vi) Tenth Finance Commission grants	As per TFC guidelines	The year 2000-01 not covered by 1st SFC

B- URBAN LOCAL BODIES

Rs. in crores

Particulars	Share of Local Bodies	Status (2000-01 only)
1	2	3
I. Tax Sharing		
i) Taxes on vehicles	20% of the net receipts	Accepted and implemented
ii) Entertainment Duty and Show Tax	50% of the net income from entertainment tax and the entire net income from Show tax to ULBs on the basis of origin.	25% of net proceeds of entertainment tax and entire show tax- implemented
iii) Royalty on Minor Minerals	20% of net income to PRIs and ULBs	Not accepted.
iv) Tax on consumption of Electricity in Municipal Areas	Tax on consumption of Electricity within the Municipal limits be raised from one paisa per unit to 5 paisa per unit.	Accepted and implemented
II. Grants to ULBs		
i) Grants to Municipal Councils/MCs	Rs.50/- per capita (1991 census) per annum.	Not accepted
ii) Grants to Faridabad Municipal Corp.	Rs.50/- per capita per annum	Not accepted
iii) Tenth Finance Commission Grants	As per TFC guidelines	The year 2000-01 not covered by 1 st SFC report
III. Liability of other recommendations		
i) Setting of Haryana Water Supply & Sewerage Board	The seed money i.e. Rs.8 to 10 crore be provided by State Govt. in next 3 to 4 years.	Not accepted
ii) Setting of Haryana Urban Development Finance Corp.	Share capital of Rs. 5 to 8 crore over next 3-4 years be provided by State Govt.	Not accepted
iii) Strengthening of Local Govt. Directorate.	Strengthening by way of an additional Town Planning Wing& Engg. Wing. (Rs. 8.00 lakh) and computerization (Rs. 10 lakh).	Accepted
iv) Relief-Waiver of outstanding liability.	a) A sum of Rs. 32.50 cr. (9.48 cr. Principal & Rs. 23.02 cr. Interest) outstanding against MCs from 1970-71 to 1995-96 be waived off.	Accepted and implemented
	b) Rs. 2.66 cr. worked out on the basis of 1% of income of the MCs as additional charges towards the Local Bodies Directorate is outstanding and be waived off.	Accepted and implemented

2.4 Financial implications of recommendations of 1st SFC are as under:

SUMMARY OF DEVOLUTION TO PRIs & ULBs

Rs. in crore

	As Recommendations per 1 st SFC of		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	41.25	144.00	12.60	1.00
ULBs	39.84	146.80	30.02	30.02
ii) Grants-in-aid	128.95	525.17	21.53	-
PRIs	103.34	423.48	21.53	-
ULBs	25.61	101.69	-	-
iii) Others	53.34	53.34	35.34	35.34
Loan waiver for ULBs	35.16	35.16	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
PRIs	144.59	567.48	34.13	1.00
ULBs	118.79	301.65	65.18	65.18
Local Govt. Deptt.	-	0.18	0.18	0.18

2.5 The 1st SFC made wide ranging recommendations in regard to sharing of state resources to the local bodies, transfer of village level functions to the PRIs, taxing powers of local bodies, improving internal resources through imposing new levies/fees, revision in rates of taxes, tolls, fees etc., simplification of procedures, rationalization of rates, economy in expenditure, identification of common property resources of PRIs. Besides, the Commission also suggested various measures regarding capacity building, training of elected representatives, creation and strengthening of data base, maintenance of accounts and their audit, administrative restructuring of PRIs, strengthening engineering wing of directorates etc.

2.6 While determining the share of local bodies in various taxes and levies, the approach and methodology adopted by the Commission was such as to meet the criteria of equity, elasticity and cost effectiveness. Apart from suggesting certain devolution both by way of sharing of taxes and levies as well as grants-in-aid, an attempt was also made to ensure that local bodies have access to elastic sources of revenue so as to reduce their dependence on state budgetary support. The Commission, in its scheme of sharing of state resources inter-se between the local bodies at various levels, used population, area and other factors related to the level of backwardness as the basis so as to bring about an acceptable level of equalisation with regard to the resource position of the local bodies. The intention of the Commission was to ensure a predictable and buoyant mechanism of revenue sharing which is at the same time transparent and effective.

2.7 The 2nd SFC analysed the status of implementation of recommendations of the 1st SFC and recorded its observations in its report, as under: -

- The report of 1st SFC was submitted in March 1997 and the ATR was laid before the legislature by the State Govt. in September 2000, thus, consuming a long time of about three years. As such no funds could be transferred to the local bodies during the first three years of Commission's period.
- The report of 1st SFC covered four year period i.e. from 1997-98 to 2000-01. But the State Govt. considered only one year i.e. 2000-01. It implies that the recommendations for first three years were neither accepted nor implemented.
- While most of the recommendations of 1st SFC were not accepted, but no reasons, whatsoever, were mentioned in the ATR placed before State legislature for non-acceptance of the recommendations.
- Even the recommendations accepted whatsoever for the year 2000-01 were not fully implemented. The total devolution of Rs.869.31 crore recommended for four years for PRIs and ULBs included Rs.263.38 crore for the year 2000-01, consisting of Rs.144.59 crore

for PRIs and Rs.118.79 crore for ULBs, against which devolution of Rs.99.49 crore was accepted, Rs.34.13 crore for PRIs and Rs.65.36 crore for ULBs. Against the accepted devolution of Rs.99.49 crore, only Rs.66.36 crore were transferred to the local bodies during 2000-01. ULBs were given the entire accepted amount of Rs.65.36 crore, but PRIs were given only Rs.1.00 crore against the accepted amount of Rs.65.36 crore.

- As regards measures for internal resource augmentation, the State Govt. imposed new levies like fire tax, driving license tax, profession tax and vehicle registration tax during the year 2000. House Tax was delinked from rental value and linked to annual capital value in 2001 and rates of this tax were also revised to 2.5 percent on residential buildings and to 5.0 percent on other buildings along with the simplification of assessment procedures. But the levy of profession tax was rolled back in Feb., 2004. Tax on electricity consumed in municipal areas was increased in 2000 from one paise to five paise per unit.

SECOND STATE FINANCE COMMISSION (2001-2006)

2.8 As a sequel to constitutional amendments, Haryana Govt. constituted the Second State Finance Commission on 6th September 2000 under the Chairmanship of Shri Suraj Bhan Kajal. The reference period of 2nd SFC was five years from 2001-02 to 2005-06. The Commission submitted its report on 30th September 2004. The Action Taken Report (ATR) on the recommendations of the Commission was placed before the state legislature initially on 13th December 2005, than on 16th September 2006 and on 6th March 2007.

2.9 The revenue sharing criteria recommended by 2nd SFC is as under: -

Source	Share of Local Bodies	Status (2005-06 only)
A- PRIs		
a) Tax sharing <ul style="list-style-type: none"> Royalty on minor minerals Stamp Duty Conversion charges (CLU) Cattle Fairs Local Area Development tax 	20 percent of net receipts to PRIs & ULBs 3 percent of net collections 10 percent of net proceeds to GPs Entire net income to PSs 65 percent of net collections	Partially accepted Partially accepted Not accepted Not accepted As per HPC findings
b) Grants-in-aid <ul style="list-style-type: none"> Maintenance grant Repair grant Development grant Incentive grant EFC grants for PRIs 	Rs.10.00 lakh per Block for community assets and Rs.1.00 lakh for maintenance of PRIs buildings Rs.25.00 lakh as one time grant Rs.50/- per capita per annum Cash Awards As per EFC guidelines	Accepted Not accepted Partially accepted Not accepted Not covered by SFC
B- ULBs		
<ul style="list-style-type: none"> Vehicle tax Entertainment duty Royalty on Minor Minerals Tax on electricity Development grant Local Area Development Tax Loan waiver of Rs.5.92 crore (one-time measure) EFC grants for ULBs 	20 percent of net income 50 percent of net income 20 percent to PRIs and ULBs Five paise per unit Rs.50/- per capita per annum 35 percent of net income Entire loan liability of Rs.5.92 crore to be waived off As per EFC guidelines	Partially accepted Partially accepted Partially accepted Accepted Partially accepted As per HPC findings Not accepted Not covered by SFC

2.10 The financial implications of recommendations of 2nd SFC covering the period 2001-02 to 2005-06 are as under: -

TOTAL DEVOLUTION TO PRIS FROM 2001-02 to 2005-06

Rs. in crore

Source	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
I. Tax Devolution	36.81	40.38	44.28	48.57	53.31	223.35
Royalty on Minor Minerals	12.00	13.20	14.52	15.97	17.57	73.26
Conversion charges – change of land use	0.20	0.22	0.24	0.27	0.30	1.23
Revenue from cattle fairs	1.21	1.21	1.21	1.21	1.21	6.05
Stamp Duty & Reg. Fee	11.70	12.87	14.16	15.57	17.13	71.43
Local Area Dev. Tax	11.70	12.88	14.15	15.55	17.10	71.38
II. Grants-in-aid to PRIs	87.80	93.37	99.78	106.80	85.12	472.87
Maintenance Grant	12.76	14.04	15.44	16.98	18.68	77.90
Sanitation Grant	4.95	5.45	5.99	6.59	7.25	30.23
Development Grant	37.50	41.25	45.38	49.91	54.90	228.94
Incentive Grant	2.93	3.22	3.55	3.90	4.29	17.89
One-time Grant	0.25	--	--	--	--	0.25
11th Finance Commission Grants	29.41	29.41	29.42	29.42	--	117.66
Total Devolution to PRIs (I+II)	124.61	133.75	144.06	155.37	138.43	696.22

Total Devolution to Urban Local Bodies during 2001-02 to 2005-06

Rs. in crore

Source	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
I. Tax Devolution	48.72	53.59	58.94	64.86	71.37	297.48
Entt. Tax & Show Tax	6.00	6.60	7.26	7.98	8.78	36.62
Taxes on vehicles	20.72	22.79	25.07	27.58	30.34	126.50
Royalty on Minor Minerals	12.00	13.20	14.52	15.97	17.57	73.26
Local Area Dev. Tax	10.00	11.00	12.09	13.33	14.68	61.10
II. Grants-in-aid	21.84	23.29	24.88	26.63	21.25	117.89
Municipal Councils/Municipal Committees	11.87	13.06	14.36	15.80	17.38	72.47
Municipal Corpn. Faridabad	2.64	2.90	3.19	3.51	3.87	16.11
11th Finance Commission	7.33	7.33	7.33	7.32	---	29.31
Total Devolution to ULBs (I+II)	70.56	76.88	83.82	91.49	92.62	415.37

**TOTAL FINANCIAL IMPLICATIONS OF COMMISSION'S
RECOMMENDATIONS FOR THE PERIOD 2001-02 to 2005-06**

Rs. in crore

Components	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
I. Tax Devolution	85.53	93.97	103.22	113.43	124.68	520.83
PRIs	36.81	40.38	44.28	48.57	53.31	223.35
ULBs	48.72	53.59	58.94	64.86	71.37	297.48
II. Grants-in-aid	109.64	116.66	124.66	133.43	106.37	590.76
PRIs	87.80	93.37	99.78	106.80	85.12	472.87
ULBs	21.84	23.29	24.88	26.63	21.25	117.89
III. Other Measures	-	-	-	5.92	-	5.92
Loan waiver to ULBs	-	-	-	5.92	-	5.92
IV-Total Devolution (I+II+III)	195.17	210.63	227.88	252.78	231.05	1117.51
PRIs	124.61	133.75	144.06	155.37	138.43	696.22
ULBs	70.56	76.88	83.82	97.41	92.62	421.29

2.11 The salient features of financial devolution recommended by the 2nd SFC for local bodies are as under :-

- Total devolution to the rural and urban local bodies during 2001-02, as per the Commission's recommendations, worked to Rs.195.17 crore, consisting of share in State taxes at Rs.85.53 crore and grants-in-aid at Rs.109.64 crore.
- The total devolution to the PRIs and ULBs during the five year period 2001-02 to 2005-06 worked to Rs.1117.51 crore comprising tax sharing of Rs.520.83 crore, grants-in-aid of Rs.590.76 crore and loan waiver of Rs.5.92 crore.
- The total tax devolution of Rs. 85.53 crore to the rural and urban local bodies recommended by the Commission for the year 2001-02 constituted 1.72% of the total own tax revenue of the State for the corresponding year.
- The total devolution of Rs. 195.17 crore including tax sharing, grants-in-aid and other financial benefits, to rural and urban local bodies recommended by the Commission for the year 2001-02 constituted 2.57% of the total revenue receipts of the State Govt. for the corresponding year.

RECOMMENDATIONS FOR AUGMENTATION OF INTERNAL RESOURCES OF LOCAL BODIES AND ON OTHER ISSUES

2.12 The Commission made wide ranging suggestions in regard to resource raising by local bodies, functional decentralization, strengthening of data base and maintenance of accounts and their audit, capacity building, privatisation of services, taxation of government properties, proper use of properties and other common resources of local bodies, creation of apex institution, strengthening the institution of SFC etc. The 2nd SFC also made effective recommendations on technological and institutional empowerment of these bodies, greater involvement and participation of public and elected representatives in policy making and decision implementation and strengthening of directorates of Panchayati Raj and Urban Local Bodies.

STATUS OF IMPLEMENTATION OF FINANCIAL DEVOLUTION RECOMMENDED BY SECOND FINANCE COMMISSION

2.13 The position in regard to the financial devolution recommended, accepted and implemented by the State Govt. is as under: -

Components	Rs. in crore			
	As recommended by 2 nd 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
PRIs	696.22	138.43	50.00	50.00
ULBs	421.29	92.62	50.00	50.00

2.14 The 2nd SFC, while recommending revenue sharing mechanism, adopted the same approach and criterion as used by the 1st SFC. The basic intention of

2nd SFC was to suggest a scheme of fiscal transfers that could serve the purpose both of equity and efficiency and result in predictable and stable transfers. However, the principle of equalization had been the guiding factor for fiscal transfers. The 2nd SFC recommended source-wise sharing of state revenues separately for PRIs and ULBs. PRIs share was to be distributed among GPs, PSs and ZPs in the ratio of 75:15:10 and district-wise distribution was to be made as per the decentralised planning formula which takes into account the factors related to backwardness. Within the districts, inter-distribution among GPs and PSs was based upon population ratio. ULBs share was to be distributed among MCs on the basis of population, area and other appropriate factors.

2.15 We make following observations in regard to the status of implementation of the recommendations of 2nd SFC, as under: -

- The 2nd SFC was constituted on 6th September 2000 and submitted its report on 30th September 2004 after more than four years of its constitution. The ATR alongwith memorandum was placed before the state legislature on 13th December 2005 i.e. after 15 months after submission of report. It shows that the recommendations for the first four years were not implemented.
- The 2nd SFC made recommendations for fiscal transfers covering the period of five years i.e. from 2001-02 to 2005-06, but the recommendations accepted by the State Govt. related to one year only i.e. 2005-06, that too at the far end. As such no funds were transferred to PRIs and ULBs during first four years.
- Major recommendations on financial devolution were not accepted and no reasons, whatsoever, were mentioned in the ATR placed before the state legislature for their rejection.
- The 2nd SFC recommended a total devolution of Rs.1117.51 crore covering five year period 2001-02 to 2005-06, including Rs.696.22 crore for PRIs and Rs.421.29 crore for ULBs. It included Rs.231.05 crore for the year 2005-06 comprising Rs.138.43 crore for PRIs and Rs.92.62 crore for

ULBs, against which the State Govt. accepted devolution of only Rs.100 crore, Rs.50 crore each for PRIs and ULBs. However, the entire amount of Rs.100 crore, as accepted, was transferred to the local bodies.

- As regards other recommendations in regard to augmentation of internal resources, strengthening of data base and maintenance of accounts, capacity building, privatization of services, taxation of govt. properties, proper use of properties of local bodies, creation of apex institution, constitution and composition of SFC etc, the state Govt. considered these only but not implemented. Instead of enhancing tax base of local bodies and updating rates of levies/fees of local bodies and effecting recoveries of user charges, the State Govt. abolished House tax w.e.f. 01-04-08, the major source to the MCs and Panchayats.
- With regard to devolution of functions and powers to PRIs, the state government decided that as per MOU signed between C.M. Haryana and Union Minister of Panchayati Raj on 22-08-05, all HODs and Administrative Secretaries were directed to prepare activity mapping of their departments and the Development & Panchayat Deptt. was to follow and monitor the progress. It has been reported by the Panchayat Deptt. that activity mapping has been completed in respect of 10 major departments and action is being taken by the respective departments.
- As recommended by the 2nd SFC, its recommendations on fiscal transfers, accepted for the year 2005-06, have been extended initially to the year 2006-07 and then to 2007-08. The quantum of devolution was increased from Rs.100 crore to Rs.125 crore in 2006-07 and to Rs.150 crore in 2007-08, including Rs.75 crore and Rs.100 crore for PRIs. It has been reported by the Panchayat Deptt. that the total share of PRIs has been utilised for the development of selected Modal Villages instead of distributing it among all tiers of PRIs.

2.16 The state excise revenue is being shared with the rural and urban local bodies as per the criteria laid down by the State Govt. in its excise policy. Though

the 2nd SFC did not consider sharing of state excise revenue with the local bodies, yet its sharing with the local bodies continued during its reference period as per the provisions in State Excise Policy.

2.17 Local Area Development Tax (LADT) was imposed by the State Govt. on 05-05-2000. As per the provisions contained in LADT Act 2000, the net proceeds of this tax are being shared with the local bodies on the basis of the criteria evolved by the State Govt. As the levy of this tax is reported to have been struck down by the High Court, the local bodies would be put to a great loss. We, therefore, suggest that the State Govt. should devise and put in place a viable alternative source to make good the loss of local bodies on account of withholding of operation of its tax.

RECOMMENDATIONS OF TWELFTH FINANCE COMMISSION ON STATUS OF SFCs

2.18 The Eleventh Finance Commission had expressed its displeasure over functioning of SFCs and the quality of their reports. Experiences in most of the states and also findings of different studies and reports brought out by reputed Institutes, find serious gaps in the functioning of SFCs. We have also carefully gone through the observations of TFC made in chapter 8 on local bodies regarding constitution and composition of SFCs and acceptability of their recommendations. These observations are quite revealing and appealing in the sense that casual and lukewarm approach is adopted by the States in the constitution and composition of SFCs and further state governments do not pay due regards to the awards of SFCs. The convention established at the national level of accepting the principal recommendations of the Finance Commission without modification is not being followed by the states. Even the accepted recommendations are not always fully implemented citing resource constraint and this defeats the very purpose of constituting the SFC. On the other hand, the funds transferred for the implementation of development schemes remain unspent either due to institutional/procedural constraints or diversion to meet other committed expenditure. This situation needs a change. The onus lies on the states. While the SFC has a major role to ensure the democratic decentralisation envisaged under the CCA becomes operational and effective,

the state, have the responsibility to enhance the credibility and acceptability of the SFC.

2.19 To enhance the creditability of SFC, it is necessary that the states should constitute SFC with people of eminence and competence, instead of viewing the formation of SFC as a mere constitutional formality. We find that the states have not yet appreciated the importance of this 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 PRIs and the Municipalities.

2.20 The TFC has observed that delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, the qualifications of persons chosen, delayed submission of reports and delayed tabling of the Action Taken Reports (ATR) in the legislature have defeated the very purpose of this institution. This tendency is a matter of serious concern not only for the Central Financial Commission which has to adopt SFCs reports as the basis for its recommendations but for the SFCs also whose credibility and acceptability are put to stake.

2.21 Thus, in matter of composition of the SFCs, the TFC has made some suggestions, as :-

- i) The states should follow the central legislation and rules which prescribe the qualifications for the Chairpersons and Members and frame similar rules.
- ii) Members should be experts drawn from specific disciplines such as Economics, Public Finance, Public Administration and Law. At least one Member with specialization in the matters related to PRIs and another well versed in municipal affairs should be appointed in the SFC so as to address the concerns of rural and urban local bodies.
- iii) Since the SFCs are temporary bodies and dedicated efforts are called for to discharge their task within time limit, all Members and the Chairperson should be fulltime.
- iv) The states should avoid delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, tabling of reports

(ATR) in the legislative as these disturb the continuity of approach and thought. It is desirable that SFCs are constituted at least two years before the required date of submission of their recommendations, and the dead line be so decided as to allow the state govt. at least three months time for tabling the ATR, probably alongwith the budget for the ensuing financial year.

- v) The SFCs reports should be readily available to the Central Finance Commission when the latter is constituted. As the periodicity of the constitution of CFC is predictable, the States should time the constitution of their SFCs suitably.
- vi) The convention established at the national level of accepting the principal recommendations of the Finance Commission without modification should be followed at the state level in respect of SFCs reports.
- vii) While estimating financial position of local bodies, the SFCs should follow a normative approach rather than making forecasts on historical trends. There are some adverse incentives associated with traditional approach. The normative approach is based on potential and buoyancies of the revenue sources where as expenditures are assessed on the basis of needs consistent with average or minimum levels of services and relevant cost norms. System of normative assessment would help upholding status, quality and acceptability of the SFC report.

2.22 We have looked into the constitution, composition, reference period, acceptability etc. of previous 1st and 2nd SFCs of Haryana. The 1st SFC was constituted on 31st May 1994 and it submitted its report on 31st March 1997, covering a period of four years 1997 to 2001. The ATR was placed before the legislature by the State Govt. on 1st September 2000. It indicates that the 1st SFC took about three years in submitting its report and State Govt. took another three and half year time for placing the ATR before legislature. The second SFC was constituted on 6th Sept., 2000 and submitted its report on 30th September, 2004,

covering the five year period 2001-02 to 2005-06. It took more than four years to submit the report. The ATR was placed before legislature on 13th December, 2005 taking a time of about one year and three months after submission of the report. It also indicates that the recommendations of previous Commissions were made applicable only for one year i.e. the concluding year of their reference period, for 2000-01 in case of 1st SFC and for 2005-06 in case of 2nd SFC. We have also noted that main recommendations of earlier SFCs were not accepted by the State Govt. and also those accepted were not fully implemented. Analysis of ATRs on recommendations of 1st and 2nd SFCs placed before legislature by the State Govt. reveals that no reasons, whatsoever, have been assigned for non-acceptance of most of the recommendations of SFCs.

2.23 As regards 3rd SFC, it has been constituted about two year later and that too in phases. Chairman was appointed vide notification dated 22-12-05, three Members were appointed on 04-12-06, almost after one year and another Member on 28-05-07 i.e. after about one and half year. Further, the Member Secretary was not appointed on full time basis, rather given additional charge of the Commission. All the four Members have been drawn only from the discipline of law, whereas other important disciplines like Economics, Public Administration, Public Finance etc. have been ignored. This type of treatment by the State Govt. undermines the status and authority of the SFC which is a constitutional body and also adversely affects the functioning and the quality of SFC report.

2.24 We feel that above recommendations made by CFC in regard to the treatment to SFCs are well founded and timely. **We, therefore, endorse these recommendations and further advice the state govt. to give a serious thought to these and replicate the same for implementation in their right spirit and perspectives.** It would be an effective step to the accomplishment of the objectives of CAAs towards empowerment of local bodies through the institution of the SFC. We further suggest that full Commission should be constituted in one go and its composition should not be disturbed till completion of its task. The Chairperson and all the Members of the Commission should be appointed on full time basis instead of part time basis. Besides, Member

Secretary should be posted on full time basis as overloaded Member Secretary would not be able to do full justice to his duties with the Commission. We further reiterate that the State Govt. should ensure ATR on SFCs awards is presented to the legislature within six months of the submission of report giving valid reasons for non-acceptance of the recommendations of the Commission. In our collective wisdom, we further advise that SFC should be constituted at least two years before the commencement of the period to be covered by it. The State Govt. would be well advised, in our opinion, to be seriously considering to appoint the 4th SFC immediately after submission of report by the 3rd SFC so that there is no delay in implementing the recommendations of 4th SFC as is likely to happen in case of 3rd SFC due to inordinate delay in its constitution by the State Govt. This step would also help in utilizing the existing infrastructure and literature available with the 3rd SFC.

2.25 While assessing resource availability with the State Govt. for our reference period i.e., upto 2010-11, we observed that even accounting for the liability of pay revision and maintenance of completed plan schemes, the fiscal parameters targeted to be achieved under FRBM Act would remain well within the prescribed ceilings. We, therefore, hope that the State Govt. would maintain the tradition of Central Govt. for accepting the recommendations of this Commission in total particularly on financial devolution. We further recommend that a high powered Committee under the Chairmanship of the Chief Secretary be set up with Finance Secretary and Planning Secretary as the Members and Economic and Statistical Advisor as the convenor to ensure that the recommendations of the SFC are accepted and implemented in their entirety and also to monitor the implementation of the recommendations of the State Finance Commission as well as of the Central Finance Commission.

CHAPTER - 3

CENTRAL FINANCE COMMISSIONS – STATE & LOCAL BODIES

HISTORICAL BACKGROUND

3.1 Federalism is the chief mark of the Indian constitution. In any federal polity, like India, transfer of resources and balancing of inter-governmental power as also addressing the problems of needs and demands is an essential function of governments. It is in this context that the Indian constitution, in part XII, has provided for certain types of financial relations between the Centre and the States for distribution of revenues and providing grants to states. Under the constitutional provisions, the Central Finance Commission is constituted after each five years to recommend distribution of revenues between the Union and the States. Though, the central-state fiscal relations and its delivery mechanism were in place since independence but no separate provisions existed for local governments. Upto the setting up of Tenth Finance Commission, the Central Finance Commissions were not required to look into the finances of local bodies. It is with the recent 73rd and 74th constitutional amendments that the CFC has been mandated to extend the exercise of revenue sharing to local bodies also.

TENTH FINANCE COMMISSION AND DEVOLUTION TO STATES (1995-2000)

3.2 The Terms of Reference of TFC were highly complicated as it was required, for the first time, to make normative assessment of revenues and expenditures of the Central as well as the State Government so as to narrow the gaps between the capacity of the Center and need of the States. As various unhealthy trends had crept into the finances of the Union and the States leading to higher fiscal deficits, the approach of TFC had to be guided by the paramount need to restore fiscal equilibrium in the economy. Sharing of central taxes with states has a long history, but only Income tax and Union Excise Duties were shareable. Consequent to constitutional amendments envisaging sharing of net proceeds of all central taxes and duties with states, the TFC, for the first time, had to suggest an alternative

scheme of tax sharing. Besides, the TFC had also to recommend grants to the states for supplementing resources of the local bodies. These additional duties assigned to TFC made its task complicated.

3.3 The TFC suggested that 77.5 percent of Income tax and 47.5 percent of basic Union Excise Duties be devolved to the states. At the same time, the TFC also suggested an innovative alternative scheme for tax devolution whereby 29 percent of the aggregate central tax revenue was made sharable with the states through a constitutional amendment.

3.4 The TFC recommended total transfers for the states amounting to Rs.226643.30 crore for the period 1995-2000, including tax devolution at Rs.206343.00 crore and grant of Rs.20300.30 crore. The share of Haryana state worked to Rs.2793.11 crore constituting 1.232 percent of the total devolution. It included Rs.2554.96 crore as tax devolution (1.238 percent) and Rs.238.11 crore as grants (1.173 percent). Haryana state was not given any share in the grants recommended for non-plan revenue gap and upgradation of services. The total picture is depicted in table 3.1 : -

Table- 3.1

Total transfers to states (1995-2000) & Haryana Share

Particulars	Total transfers 1995-2000 (Rs. in crore)	
	Total	Haryana
Tax Devolution	206343.00	2554.96 (1.238%)
Grants in aid	20300.00	238.15 (1.173%)
Deficit grants	7582.68	-
Up gradation of services	1362.50	-
Special problems	1246.00	40.00 (3.210%)
Relief grants	4728.19	98.93 (2.092%)
Local bodies	5380.93	99.22 (1.844%)
Total Devolutions	226643.30	2793.11 (1.232%)

TFC and LBGs (1995-2000)

3.5 Consequent to the Constitution (Seventy-third Amendment) Act, 1992, the new sub-clause (bb) and (c) were inserted in clause (3) of Article 280 of the Constitution relating to functions of Finance Commission, requiring 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 bodies in the State on the basis of the recommendations made by the Finance Commission of the State”

The insertion of these provisions in Article 280 has brought out a significant change in the functions, powers and authority of urban and rural local bodies. Before this enactment, these were the exclusive concerns of the State Government. After the amendment of Article 280 of the Constitution, the scope of work of the Finance Commission has widened and it is called upon to look into the finances of the urban and rural local bodies and make recommendations to augment the consolidated fund of the States to supplement the resources of the local bodies. Now the status and role of local bodies has become a matter of national concern.

3.6 Though these amendments, which came after setting up of the Tenth Finance Commission, could not form part of its Terms of Reference, yet the TFC, keeping in view the spirit of these amendments and likely changes in the status of local bodies, recommended adhoc grants of Rs.5380.93 crore for rural and urban local bodies of the States for the period 1995-2000, consisting of Rs.4380.93 crore for PRIs and Rs.1000 crore for ULBs. 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. Whereas the provision of Rs.1000 crore for ULBs was made on adhoc basis to be distributed among the States on the basis of their inter-state ratios of slum population. The Commission recommended that these amounts should be passed on to the rural and urban local bodies over and above their share of the assigned taxes, duties, tolls, fees,

transferred activity related budgets and grants. The share of Haryana State in the total allocation was Rs.99.22 crore including Rs.82.64 crore for PRIs and Rs.16.58 crore for ULBs, constituting 1.844% of the total allocation of Rs.5380.93 crore.

UTILISATION OF TFC GRANTS

3.7 According to the guidelines issued by Ministry of Finance, Government of India, the TFC grants were to be utilized on capital works/schemes. No part of these grants was to be utilised for salaries and wages. The local bodies were required to provide matching contribution. The State Governments were advised to draw up suitable schemes with detailed guidelines for utilization of the grants having due regard to the specific needs of local bodies.

TFC GRANTS FOR HARYANA STATE

3.8 The Commission did not recommend any grant to any State for the year 1995-96. The year-wise break-up of the TFC grants to Haryana State for the four year period i.e. 1996-97 to 1999-2000, is given in table 3.2 :-

Table- 3.2

Rs. in Lakh

Year	PRIs	ULBs	Total
1996-97	2066.00	414.00	2481.00
1997-98	2066.00	414.00	2481.00
1998-99	2066.00	414.00	2480.00
1999-2000	2066.00	414.00	2480.00
Total	8264.00	1658.00	9922.00

RELEASE OF GRANTS

3.9 The position regarding the release of grants by the Govt. of India to the State Government and their transfer to PRIs and ULBs is shown in table 3.3

TABLE- 3.3
STATUS OF TFC GRANTS

Rs. in lakh

Year	Allocation by the TFC		Amount received by the State Govt.		Amount released to LBs	
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
1	2	3	4	5	6	7
1996-97	2066.00	415.00	2066.00	415.00	1033.00	415.00
1997-98	2066.00	415.00	2066.00	415.00	1549.00	104.00
1998-99	2066.00	414.00	2066.00	414.00	-	725.00
1999-2000	2066.00	414.00*	2066.00	-	5681.00	-
Total	8264.00	1658.00	8264.00	1244.00	8264.00	1244.00

Source:- State Finance Department and Development and Panchayats Deptt.

* Could not be released by GOI as elections of ULBs were not held on time.

3.10 The above tables show that the entire grant of Rs.8264 lakh received for PRIs from the GOI during 1996-2000, was transferred to the PRIs and distributed among the PRIs as per the laid down criteria. However, in case of ULBs, against the allocation of Rs.1658 lakh, grant of Rs.1244 lakh was received from the GOI which was transferred to the ULBs and distributed as per the laid down criteria. However, the balance grant of Rs.414 lakh was not released to the State Govt. as elections of ULBs were not held as per the schedule.

ELEVENTH FINANCE COMMISSION (EFC) 2000-05

EFC DEVOLUTION TO THE STATES

3.11 Setting up of EFC was a continuation of the institutional process of devolution of resources in the constitutional framework of the country. EFC's TOR covered, inter alia, distribution of taxes between the Centre and the States, grants in-aid for various purposes, grants to LBs and the suggesting of measures needed to augment resources of the states and the local bodies. While doing this, the EFC was required to have regard to various considerations like normative assessment of the revenue resources of the Centre and the States and their expenditure commitments or committed liabilities including maintenance of capital assets, upgradation of standards of services etc. Under its additional TOR, the EFC was,

for the first time, required to design a scheme for re-structuring of finances of both the Centre and the States so as to restore the fiscal health of the country.

3.12 The EFC fixed share of states in all central taxes at 29.5 percent. It also fixed an indicative ceiling of 37.5 percent on all total transfers from the Centre to the States through various channels.

3.13 The EFC, in its scheme of fiscal transfers, inducted various parameters and accorded weights to each. The parameters and weights are: Population 10%, Area 7.5%, Income (Distance method) 62.5%, Tax effort 7.5% and Fiscal discipline 7.5%. The approach of EFC was so designed as to serve the basic objectives of fiscal transfers of correcting horizontal imbalances by equalising revenue capacities of the states so that they can provide basic public services at minimum acceptable levels.

3.14 As per the above criteria, the EFC recommended a total devolution of Rs.434905.40 crore to the states for the period of 2000-05 consisting of tax sharing at Rs.376318.01 crore and grants of Rs.58587.39 crores including deficit grant of Rs.35359.07 crore, upgradation and special grants of Rs.4972.63 crore, calamity relief Rs.8255.69 crore and LBGs of Rs.10000 crore.

3.15 Share of Haryana state in total EFC transfers worked to Rs.4205.77 crore for 2000-05 consisting of Rs.3552.44 crore as tax devolution and Rs.653.33 crore as grants. This constituted 0.967% of the total transfers, which substantially reduced from 1.232% of Tenth Finance Commission. Haryana state was not provided any share in deficit grants of Rs.35359.07 crores as Haryana was assessed as revenue surplus state on non-plan account. The position of EFC devolution and share of Haryana is given in table 3.4.

TABLE- 3.4
EFC TOTAL DEVOLUTION AND HARYANA SHARE

Particulars	Total devolutions 2000-05 (Rs. in crore)	
	Total	Haryana
Tax Devolution	376318.01	3552.44 (0.944%)
Grants in aid	58587.39	653.33 (1.115%)
Deficit grants	35359.07	-
Upgradation and special grants	4972.63	132.65 (2.668%)
Calamity relief	8255.69	336.95 (2.081%)
Local bodies	10000.93	183.73 (1.837%)
Total Devolutions	434905.40	4205.77 (0.967%)

3.16 In pursuance of the recommendations of EFC, the MOF/GOI drew up a detailed scheme of Fiscal Reforms Facility for the states and the fiscal milestones set for the states were to be achieved by the year 2004-05. Under this scheme, each state was required to draw up its state- specific Medium Term Fiscal Reforms Programme (MTFRP). The single monitorable fiscal objective was improvement of five percentage points in revenue deficit as a proportion to revenue receipts each year till 2004-05, the base year being 1999-2000. An incentive fund was set up to draw upon by the States in proportion to their fiscal performance. The state specific MTFRP was to be signed by the State Govt. with the MOF/GOI. The Govt. of Haryana entered into an agreement with MOF/GOI on March 22,2005. As a result, grant of Rs.55.17 crore was released to the State Govt. out of Haryana share of Rs.98.02 crore in incentive fund as State Govt. succeeded in reducing revenue deficit to 4.89% of Total Revenue Receipts in 2004-05 from 20.55% in 1999-2000.

3.17 As suggested by EFC, MOF/GOI designed a Debt Swap Scheme for the states to swap high cost central loans by low cost loans. Haryana Govt. adopted this scheme under which high cost central loans of Rs.3212 crore bearing interest at 13% and above were swapped upto 2004-05 reducing interest payment liability of Rs.200 crore per annum.

ELEVENTH FINANCE COMMISSION GRANTS FOR LOCAL BODIES (2000-05)

3.18 As per its TOR, the Eleventh Finance Commission (EFC) was required to make recommendations on the measures needed to augment consolidated funds of the States to supplement the resources of the panchayats and municipalities on the basis of the recommendations of the State Finance Commissions (SFCs). However, where SFCs were not constituted or did not submit their recommendations, EFC was required to make its own assessment in the matter.

EFC GRANTS FOR LOCAL BODIES AND OBJECTIVES

3.19 The EFC recommended grants of Rs.10,000 crore for the period 2000-05 to the States for rural and urban local bodies including Rs.8,000 crore for Panchayats and Rs. 2,000 crore for municipalities. These grants were part of a larger constitutional scheme of devolution of functions and responsibilities from the State to local bodies, and over and above the normal flow of funds to the local bodies from the States and the amounts that would flow from the implementation of the respective State Finance Commission recommendations.

3.20 The local body grants (LBGs) were to be utilized for maintenance of civic services in rural and urban areas including provision of primary education, primary health care, safe drinking water, street lighting, sanitation including drainage & scavenging facilities, maintenance of cremation & burial grounds, public conveniences and other common property resources. The projects were to be those which were not covered under other schemes of the GOI or the State Govt. No part of LBGs was to be used for payment of salaries and wages.

3.21 The Commission also considered maintenance of accounts of local bodies and their audit and creating of database as areas of great importance and earmarked specific funds of Rs.9860.72 lakhs for maintenance of accounts and Rs. 20000 lakhs for creation of database. These amounts were first charge on the LBGs. The remaining amount was to be utilized for maintenance of core civic services by LBs

3.22 As per EFC the State Governments were to identify steps to be taken for enhancing the Consolidated Fund of the States for supplementing resources of the LBs. In order to meet the growing needs of LBs, their tax base was to be optimized with a view to enable them to exercise their constitutional mandate.

ALLOCATION OF LBGs TO HARYANA BY EFC

3.23 Out of the total LBGs of Rs. 10,000 crore for all the States covering the period 2000-05, allocation to Haryana State was Rs. 18372.75 lakh, including Rs. 14708.75 lakh for PRIs and Rs. 3664.00 lakh for ULBs. The annual break-up was Rs. 2941.75 lakh for PRIs and Rs. 732.80 lakh for ULBs. The table 3.5 and 3.6 depict the position: -

TABLE- 3.5
POSITION OF LBGS RECOMMENDED BY EFC FOR HARYANA

Rs. in lakh						
Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
A. Allocation by EFC	3674.55	3674.55	3674.55	3674.55	3674.55	18372.75
PRIs	2941.75	2941.75	2941.75	2941.75	2941.75	14708.75
ULBs	732.80	732.80	732.80	732.80	732.80	3664.00
B.Grants recd. from GOI	1837.28	5511.83	3674.54	3674.55	3674.55	18372.75
PRIs	1470.88	4412.63	2941.74	2941.75	2941.75	14708.75
ULBs	366.40	1099.20	732.80	732.80	732.80	3664.00
C. Grants passed on to the Local Bodies	1101.84	4040.95	4409.99	5145.42	3674.55	18372.75
PRIs	735.44	2941.75	3677.19	4412.62	2941.75	14708.75
ULBs	366.40	1099.20	732.80	732.80	732.80	3664.00

Note: - LBGs of Rs. 18372.75 lakh allocated for 2000-05 were fully received from GOI and transferred to the LBs as and when received from the GOI.

TABLE - 3.6
EFC GRANTS- ALLOCATION AMONG PRIs

Rs. in lakhs

	2000-01	2001-02	2002-03	2003-04	2004-05	Total 2000-05
Gram Panchayats (GPs 75%)	2206.31	2206.31	2206.31	2206.31	2206.31	11031.55
Panchayat Samitis (PSs 15%)	441.26	441.26	441.26	441.26	441.26	2206.30
Zila Parishads (ZPs 10%)	294.18	294.18	294.18	294.18	294.18	1470.90
Total	2941.75	2941.75	2941.75	2941.75	2941.75	14708.75

3.24 The EFC laid down the following criteria to determine share of States in the total local body grants recommended by it: -

	<u>Criteria</u>	<u>Weightage</u>
(i)	Population	40%
(ii)	Index of decentralization	20%
(iii)	Distance from highest per capita income	20%
(iv)	Revenue efforts	10%
(v)	Geographical Area	10%

ALLOCATION FOR DATABASE AND MAINTENANCE OF ACCOUNTS

3.25 The EFC earmarked Rs.491.95 lakh for creation of database of local bodies in Haryana State including Rs.485.41 lakh for PRIs and an amount of 6.54 lakh for Urban Local Bodies. It also earmarked a provision of Rs.242.76 lakh for maintenance of accounts of village level panchayats and intermediate level panchayats in the State. Thus, the allocation to Haryana for creation of data base and maintenance of accounts of local bodies works to Rs.734. 71 lakh against the

total allocation of Rs.29860.72 lakh for all the States. The Commission estimated that on an average an amount of Rs.4000 per panchayat per annum was adequate to meet the expenditure on maintenance of accounts.

MEASURES FOR AUGMENTATION OF CONSOLIDATED FUND AND LOCAL RESOURCE MOBILIZATION

3.26 The EFC also suggested a number of measures for augmenting consolidated funds of the States, which could in turn supplement the resources of Local Bodies. These included levy of land taxes, surcharge/cess on State taxes, fuller use of profession tax. Suggestions were also made for local resource mobilization including reform of property tax, substitution of octroi by a tax and fixation of user charges in such a way as to cover full operation and maintenance cost.

TWELFTH FINANCE COMMISSION (TFC) 2005-10, THE STATES AND LOCAL BODIES

TFC AND THE STATES

3.27 The Twelfth Finance Commission (TFC) was constituted by the Central Govt. on 1st November, 2002 under the chairmanship of Dr. C. Rangarajan which submitted its report in November, 2004 covering the period 2005-10. As per its TOR, the TFC was required to make recommendations as to the principles governing the sharing of union taxes with the states, grants-in-aid to the states and the measures for supplementing the resources of the Panchayats and the Municipalities. The TFC was also required to review the financial position of the Union and the States and to suggest restructuring of public finances for restoring budgetary balance, achieving macro-economic stability and debt reduction alongwith equitable growth.

3.28 In making recommendations, the TFC was required to have regard to the resources of the Central and State Govts. and the demands thereon, the objectives of generating surpluses on revenue accounts for capital investment and reducing fiscal deficit, taxation efforts for improving tax- GSDP ratios, expenditure requirements for proper upkeep of capital assets, the need for ensuring

commercial viability of capital investment. The TFC was also required to review the fiscal reform facility of the Central Govt. and suggest measures for effective achievement of its objectives.

3.29 The TFC approach was guided by the constitutional provisions, mandate of its TOR and the prevailing fiscal and macro-economic scenario particularly the need to sustain the growth momentum. The commission's endeavour has been to recommend a scheme of transfers that could serve the objective both of equity and efficiency leading to predictable and stable fiscal transfers. The TFC was of the view 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 are mainly targeted towards achieving a degree of equalization. Thus, in deciding the criteria for tax devolution, approach of TFC dwelt upon three sets of considerations, viz, needs, cost disabilities and fiscal efficiency.

3.30 The TFC, in conformity of its approach, selected certain variable parameters to be built into its scheme of revenue sharing and assigned appropriate weights to each factor, viz, Population 25%, Area 10%, Income (distance method) 50%, Tax Effort 7.5% and Fiscal Discipline 7.5%.

3.31 As per the above distribution criteria, the TFC recommended a total transfer of Rs.755751.62 crore to the states covering the period 2005-10 consisting of tax devolution at Rs.613112.02 crore and grants-in-aid of Rs.142639.60 crore including deficit grant of Rs.56855.87 crore, upgradation and special grants of Rs.44783.73 crore, calamity relief Rs.16000 crore and Local bodies grants of Rs.25000 crore.

3.32 Out of total TFC transfers, share of Haryana state worked to Rs.8042.49 crore for five years 2005-10 constituting 1.064% of the total transfers. It consisted of tax devolution at Rs.6596.46 crore (1.075%) and grants-in-aid at Rs.1445.98 crore (1.014%). Being assessed as revenue surplus state, Haryana was not provided any share in deficit grants and upgradation of services in the sectors of education and health. The position of TFC devolution and share of Haryana state is depicted in table 3.7.

TABLE- 3.7
TFC DEVOLUTION (2005-10) AND HARYANA SHARE

Particulars	Total transfers 2005-10 (Rs. in crore)	
	Total	Haryana
Tax devolutions	613112.02	6596.46 (1.075%)
Grants in aid	142639.60	1445.98 (1.014%)
Deficit grants	56855.87	-
Upgradation and Special Grants	44783.73	451.52 (1.008%)
Calamity relief	16000.00	515.46 (3.222%)
Local bodies	25000.00	479.00 (1.916%)
Total Devolutions	755751.62	8042.49 (1.064%)

3.33 As per its TOR, the TFC reviewed the Fiscal Reforms Facility of EFC and observed that the scheme could not be effective in accomplishing the objective of eliminating the revenue deficits of the states. As a measure of fiscal sustainability of the states by progressive elimination of revenue deficits, reduction in fiscal deficits and prudent debt management, the TFC suggested that all states should enact fiscal responsibility legislations prescribing specific annual targets for reducing their revenue and fiscal deficits. Pursuant to this recommendation of the TFC, Haryana Govt. has notified the “Haryana Fiscal Responsibility and Budget Management (FRBM) Act 2005 on 6th July 2005, envisaging to bring down revenue deficit to zero by 2008-09, reducing fiscal deficit to 3% of GSDP by 2009, and targeting consolidated debt liability to 28% of GSDP by 2010. Concerted efforts seem to have been put in by the State Govt. to achieve the fiscal targets set in FRBM.

TWELFTH FINANCE COMMISSION (TFC) AND THE LOCAL BODIES (2005-10)

3.34 Like the (EFC), the TOR of Twelfth Finance Commission (TFC) also enjoined upon it to recommend 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 the recommendations made by the Finance Commission of the State.

3.35 In pursuant to its constitutional mandate and keeping in view the spirit of the 73rd and 74th amendments, and the clear need to provide an impetus to the decentralisation process, the TFC recommended grants of Rs.25000 crore covering the period 2005-10 to the states for supplementing resources of local bodies including Rs.20000 crore for panchayats and Rs.5000 crore for municipalities. The distribution of the total amount between the panchayats and municipalities has been in the ratio of 80:20, which is not strictly based on population ratios. The urban population of states as per 2001 census being 26.8 percent and rural population 73.2 percent. The TFC was of the view that the urban local bodies had a greater access to tax and non-tax resources of their own and, therefore, it is PRIs which require substantial support. This substantial increase in the local body grants to Rs.25000 crore from Rs.10000 crore recommended by the EFC will go a long way in improving the standards of civic services performed by the local bodies.

UTILISATION OF TFC GRANTS

3.36 While allocating local body grants, the TFC did not attach harder conditions with the flow of funds from the Centre to the States and their utilisation by the States. However, grants recommended for PRIs were to be utilised to improve the service delivery in respect of water supply and sanitation. The PRIs may take over the O & M of completed schemes under Swajaldhara and assets created through other schemes and utilize these grants for repairs/rejuvenation and maintenance to make them fully operational. Since entire cost of O & M of water supply would be difficult for PRIs to meet, it was suggested that at least 50% of the recurring cost in the form of user charges should be recovered. Hence, the TFC recommended that of the grants allocated for PRIs, priority should be given to the expenditure on O & M costs of water supply and sanitation.

3.37 In case of urban local bodies, TFC emphasized the need for public- private partnership to enhance the service delivery in respect of solid waste management. The municipalities were to concentrate on collection, segregation and transportation of solid waste. State governments may require MCs of towns of population over one lakh to prepare a comprehensive scheme including

composting and waste to energy programmes to be undertaken in the private sector for funding from TFC grant. It could also be utilized to meet the cost of collection, segregation and transportation only. Thus, TFC suggested that at least 50 percent of the grants for urban local bodies should be earmarked for these schemes.

3.38 TFC has not specifically earmarked any portion of grants for creation of database, maintenance of accounts and audit, like the EFC. However, it has been suggested that high priority should be accorded to creation of database and maintenance of accounts at the grass-root level. Some of the modern methods like Geographic Information System (GIS) for mapping of properties in urban areas and computerization for switching over to a modern system of financial management would help creating strong local Govts.

3.39 Thus, besides expenditure on the O & M costs of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas, PRIs and municipalities should give high priority to expenditure on creation of database and maintenance of accounts through the use of modern technology and management systems, wherever possible. However, State Govts. have been empowered to assess the requirement of each local body on above principles and earmark funds accordingly out of the total allocation made by TFC.

3.40 As regards release of local bodies' grants, TFC has suggested that Central Govt. should not impose any condition not recommended by the Commission. However, the normal practice of insisting on the utilisation of the amounts already released before further releases may continue and the grants may only be released to a state after it certifies that the pervious releases have been passed on to the local bodies. The amounts due to the State in the first year i.e. 2005-06 may, however, be released without such an insistence. The TFC has further suggested that the State Govts. should release the grants to the local bodies within 15 days from the date of release of grants by the Centre and in the case of delay by the states, a serious view should be taken by the Centre.

BROAD GUIDELINES

3.41 The broad guidelines in respect of grants for local bodies are summarised as under: -

- i) A sum of Rs.20,000 crore for Panchayats and Rs.5000 crore for municipalities be provided as grants-in-aid to augment the consolidate Fund of the States for the period 2005-10 to be distributed with interse shares as per criteria suggested.
- ii) The PRIs should be encouraged to take over the assets relating to water supply and sanitation and utilise the grants for repairs/rejuvenation as also the O & M costs. The PRIs should, however, recover at least 50 percent of the recurring costs in the form of user charges.
- iii) Of the grants allocated for panchayats, priority should be given to expenditure on the O & M costs of water supply and sanitation. This will facilitate panchayats to take over the schemes and operate them.
- iv) At least 50 percent of the grants for urban local bodies should be earmarked for the schemes of solid waste management through public- private partnership. The municipalities should concentrate on collection, segregation and transportation of solid waste. The cost of these activities whether carried out in house or outsourced could be met from the grants.
- v) States may assess the requirement of each local body in regard to creation of database and maintenance of accounts and earmark funds accordingly out of the total allocation.
- vi) State Govt. may distribute the grants recommended to the state among the local bodies including those in the excluded areas in the fair and just manner.

- vii) No conditionality over and above those recommended by the Commission be imposed by the Central Govt. for releasing the grants-in-aid.

CRITERIA OF DISTRIBUTION

3.42 The TFC adopted the following criteria to determine the share of States in the total local body grants: -

<u>Criteria</u>	<u>Weightage (%)</u>
i. Population	40.0
ii. Geographical Area	10.0
iii. Distance from highest per capita income state	20.0
iv. Index of deprivation	10.0
v. Revenue effort	20.0
- with respect to own revenue	10.0
- with respect to GSDP	10.0

3.43 Population and geographical area are natural, neutral and objective factors highlighting actual financial needs of each unit of local bodies and, thus, find general acceptance. The criteria of revenue effort induces the local bodies to generate internal resources, where as the income criteria tends to promote equalisation in fiscal transfers which neutralises deficiency in fiscal capacity. Index of deprivation takes care of intra-state disparities in levels of basic services, where as criteria of decentralisation induces states to enact legislations for financial and functional empowerment of local bodies.

3.44 The composite share of States in allocation of LBGs for PRIs and ULBs, as per the above criteria, has been depicted in table 3.8 and shares of states in allocation of LBGs for PRIs and ULBs (2005-10) have been given in **Annexures- I and II** .

TABLE- 3.8
COMPOSITE INDEX OF STATES IN ALLOCATION OF LBGs (2005-10)

Sr. No.	State	Panchayats Composite Index		Municipalities Composite Index	
		(Per cent)	Rs. in Crore	(Per cent)	Rs in Crore
1.	Andhra Pradesh	7.935	1587	7.480	374
2.	Arunachal Pradesh	0.340	68	0.060	3
3.	Assam	2.630	526	1.100	55
4.	Bihar	8.120	1624	2.840	142
5.	Chhattisgarh	3.075	615	1.760	88
6.	Goa	0.090	18	0.240	12
7.	Gujarat	4.655	931	8.280	414
8.	Haryana	1.940	388	1.820	91
9.	Himachal Pradesh	0.735	147	0.160	8
10.	Jammu& Kashmir	1.405	281	0.760	38
11.	Jharkhand	2.410	482	1.960	98
12.	Karnataka	4.440	888	6.460	323
13.	Kerala	4.925	985	2.980	149
14.	Madhya Pradesh	8.315	1663	7.220	361
15.	Maharashtra	9.915	1983	15.820	791
16.	Manipur	0.230	46	0.180	9
17.	Meghalaya	0.250	50	0.160	8
18.	Mizoram	0.100	20	0.200	10
19.	Nagaland	0.200	40	0.120	6
20.	Orissa	4.015	803	2.080	104
21.	Punjab	1.620	324	3.420	171
22.	Rajasthan	6.150	1230	4.400	220
23.	Sikkim	0.065	13	0.020	1
24.	Tamil Nadu	4.350	870	11.440	572
25.	Tripura	0.285	57	0.160	8
26.	Uttar Pradesh	14.640	2928	10.340	517
27.	Uttaranchal	0.810	162	0.680	34
28.	West Bengal	6.355	1271	7.860	393
		100.000	20000	100.000	5000

SHARE OF HARYANA IN TFC GRANTS FOR LBs

3.45 Share of Haryana in TFC grants of Rs.25,000 crore, as per the above criteria, works to Rs.479 crore, constituting 1.916 percent of the total. PRIs share at Rs.388 crore works to 1.940 percent, whereas municipalities share at Rs.91 crore works to 1.820 percent. The annual break-up of PRIs grants of Rs.388 crore and ULBs grant of Rs.91 crore is given in table 3.11.

TABLE- 3.11
ANNUAL ALLOCATION OF LBGS TO HARYANA

Rs. in crore			
Year	PRIs	ULBs	Total
2005-06	77.60	18.20	95.80
2006-07	77.60	18.20	95.80
2007-08	77.60	18.20	95.80
2008-09	77.60	18.20	95.80
2009-10	77.60	18.20	95.80
Total	388.00	91.00	479.00

3.46 The Status of Local Bodies Grants allocated by TFC, releases made by the GOI and further transfer to the Local Bodies is given in table 3.12. It shows that the total LBGs of Rs. 95.80 crore allocated each year from 2005-06 to 2007-08 have been received from the GOI and further transferred to the PRIs and ULBs as their respective share.

TABLE- 3.12
POSTION OF LBGs RECEIVED FROM GOI AND PASSED ON TO LBs

Rs. in crore						
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
A- Allocation	95.80	95.80	95.80	95.80	95.80	479.00
PRIs	77.60	77.60	77.60	77.60	77.60	388.00
ULBs	18.20	18.20	18.20	18.20	18.20	91.00
B- Grants recd. from GOI	95.80	95.80	95.80			
PRIs	77.60	77.60	77.60			
ULBs	18.20	18.20	18.20			
C-Grants passed on to LBs	95.80	95.80	95.80			
PRIs	77.60	77.60	77.60			
ULBs	18.20	18.20	18.20			

SUGGESTIONS OF TFC FOR AUGMENTING RESOURCES OF PRIs

3.47 TFC has recommended wide range of measures for augmenting the resources of PRIs and commended them for adoption by the States, as under:

- (i) Levy of certain major taxes and exploitation of non-tax revenue sources be made obligatory for the Panchayats. The minimum rates for all such levies be fixed by the State Government;
- (ii) A minimum revenue collection from the Panchayat taxes be insisted;
- (iii) Incentive grants related to revenue collection beyond a prescribed minimum be introduced by the State Government;
- (iv) User charges be made obligatory levies;
- (v) All common property resources vested in the village Panchayats may be identified, listed and made productive of revenue;
- (vi) Valuation of taxable lands and buildings should be done by a separate cell in the Panchayati Raj Department of the State Government and not left to the Panchayats;
- (vii) Powers to levy a tax/surcharge/cess on agricultural holdings should be given to the intermediate or district Panchayats;
- (viii) Revenue transfers from the states to panchayats in the form of revenue sharing/revenue assignment be made statutory in nature;
- (ix) State Governments should desist from unilaterally taking decisions in regard to revenues whose proceeds are to be transferred either in full or in part to the panchayats;
- (x) The quantum of revenue that a Panchayat can reasonably expect under the revenue sharing mechanism should be predictable;
- (xi) State Government should adhere to its commitment in regard to the grants-in-aid; all untied grants to the panchayats should be made statutory in nature;
- (xii) The maintenance of accounts by the Panchayats be standardized; Panchayat department officials should not be statutory auditors of the village Panchayats; the accounts of the intermediate and district

Panchayats be subjected to audit by Comptroller and Auditor General (C & AG);

(xiii) A performance audit system be adopted.

CONCLUSIONS AND RECOMMENDATIONS

3.48 The criterion for allocation of LBGs among States followed by EFC and TFC are reported to have been based on the principles of equity and efficiency. Some of the factors work inversely and some conversely. The share of Haryana in TFC grants for PRIs is 1.940 percent and for ULBs 1.820 percent. Six major States of Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Maharashtra, Bihar and West Bengal account for about 55 percent share in LBGs, whereas the remaining 22 States are left with about 45 percent share. We through our questionnaire sought views of State Departments on the approach and criteria adopted by the TFC for allocation of LBGs among the States. The Department of Finance, Panchayats, Urban Development etc. observed that the balance of approach followed by TFC for distribution of LBGs tilted in favour of States with weak and poor local bodies and against the States with efficient local bodies. They were of the view that the Finance Commission, being the sole constitutional arbiter, should have followed an approach based on justice and efficiency so that the efforts of the best performing local bodies are rewarded rather than being punished. **We considered above arguments and came to the conclusion that we, as a Commission, should not make any comments on this issue as we have also to make recommendations on sharing of state revenue with the local bodies on some considerations like, needs, fiscal capacities and cost disabilities etc. We, therefore, suggest that the State Govt. should stake its claim before the 13th Finance Commission for a just and fair treatment, if so warranted.**

3.49 Population and area are neutral factors for which weightage of 40% and 10% has been given. The states larger in population and area command higher share compared to others. Income (per capita) criteria with 20% weightage works conversely, lower the per capita income, higher the share. States like Haryana with higher per capita income stand to loose. As per Income criteria, in case of panchayats, Haryana scored 1.160 compared to UP 20.304, Bihar 12.750 and in

case of municipalities Haryana score is 2.012 against Maharashtra 14.297, UP 13.720 and Tamil Nadu 10.288. The performance of PRIs and ULBs in Haryana in regard to revenue efforts has not been so good for which 20% weightage has been accorded. In revenue efforts PRIs in Haryana scored low at 2.978 as against more than 10 in A.P., Kerela, M.P., Maharastra and U.P. Score of Municipalities in Haryana has been 2.012 against as high as 14.297 Maharastra, 13.720 U.P. and 10.288 Tamil Nadu. TFC used index of deprivation as a factor with 20% weightage. PRIs and ULBs in Haryana scored 1.495 and 1.442 against more than 8 in Bihar, M.P., U.P., West Bengal, Tamil Nadu etc. Index of deprivation takes into account intra-state disparities in public services of drinking water, sanitation, provisions of latrines and drainage etc. EFC had used Index of Decentralisation as one of the factor with 20% weightage and score of PRIs and ULBs of Haryana had been as low as 1.760 and 2.189. It refers to assignment of more functions and financial powers to the local bodies. This analysis indicates that performance of PRIs and MCs in Haryana in revenue efforts, functional and financial decentralization and provisions of drinking water and sanitation has been at low ebb and needs substantial improvement. **Haryana State will continue to suffer in the allocation of LBGs till effective steps are not taken to improve the position in these areas. We, therefore, advise that the measures suggested by TFC as well this Commission for resource raising, financial and functional empowerment of local bodies be followed in letter and spirit.**

3.50 TFC has made various suggestions regarding augmentation of resource base of PRIs and ULBs, powers of LBs to levy taxes and fees, identification of common property resources vested in panchayats, financial and functional transfers to LBs etc. TFC has particularly endorsed levy of profession tax and revision in its rates. Action is yet to be initiated by the State Govt. in regard to levy of taxes and fees and revision in rates of local taxes and fees. No steps have been initiated by the PRIs to recover at least 50 percent of the recurring cost of O & M in the form of user charges. However, some initiatives were taken for reforms in some local taxes and rates. Octroi was abolished and a new levy Local Area Development tax was imposed to compensate the loss of LBs. But this tax (LADT)

having been struck down by the High Court, sharing of its proceeds with the local bodies would come to cease. Property tax was delinked from rental value and linked to unit area cost, rates of property tax were revised and the procedure for assessment simplified and rationalised. But now the State Govt. has abolished this tax w.e.f. 01-04-08 pre-empting the local bodies of sizeable revenue. No mechanism seems to have been devised by the Govt. to off-set loss of local bodies on these accounts. **Depriving of local bodies of their major sources of revenues like this, in our opinion, would be a step retrogatory to the tax efforts of LBs and may lead to some reduction in the share of local body grants to be recommended by the 13th National Financial Commission. We raised these issues during our discussion with the departments of Finance, Panchayats and the Urban Development. We, therefore, advise the State Govt. to put in place some viable and alternative sources of revenue for local bodies and to follow and implement our recommendations made in regard to raising of resources of the local bodies.**

3.51 The TFC grants for PRIs are to be utilised to improve the service delivery in respect of water supply and sanitation and those for ULBs to enhance the service delivery in respect of solid waste management. Though the LBGs are being utilised for intended purposes, but some departure is reported to have been made in regard to utilisation of PRIs grants. Since the function of water supply and sewerage has been taken over by the water supply and sanitation department the State Govt. has allowed the PRIs to continue utilising the funds for schemes on sanitation alone till the service of water supply is transferred to PRIs for maintenance. We are not averse to this decision of the State Govt. but at the same time what we feel is that the status of water supply and sewerage in the State, particularly in the rural areas, needs substantial improvement and requires much larger funds for operation, maintenance and augmentation. **We are, therefore, of the opinion that the State Govt. should provide sufficient funds for water supply while making sectoral allocation so that the PRIs and ULBs in the State do not have to suffer in allocation of LBGs by the Central Finance Commission.**

3.52 As per the TFC, the LBGs are to be released to the local bodies within 15 days from the date of release of grants by the Centre and a serious view is to be taken in cases of delay. The State Finance Deptt. has taken steps to adhere to this time schedule and has directed the Departments of Panchayats and urban local bodies to strictly follow the guidelines of TFC/MOF and to arrange electronic transfer of LBGs to each unit of PRIs and ULBs within the stipulated time frame. Both the departments have reported that LBGs are being transferred on time to the accounts of PRIs and ULBs electronically. But the Accountant General (Audit) Haryana has reported some irregularities and the condition of release of grants to local bodies within 15 days has not been followed in some instances. **This Commission, thus, recommends that the Departments of Finance, Panchayats and Urban Development should ensure online transfer of LBGs to the accounts of each unit of PRIs and ULBs within the stipulated period of 15 days from the receipt from Central Govt. and in case of delay at any stage, penal interest on per day basis may be paid alongwith the grant amount. The MOF/GOI is also advised to bring transparency and efficiency in the system of release of LBGs to the States through online transfer and inform the State concerned.**

3.53 As per the guidelines of TFC and MOF, the states are required to submit utilisation of LBGs to the MOF/GOI in a prescribed format. It has been reported that the Departments of Panchayats and Urban Development are regularly furnishing utilisation certificates in proper form to the Finance Department for onward submission to the MOF/GOI. Besides, Accountant General Haryana has also designed specific formats for seeking utilisation of LBGs and directly reports to the MOF/GOI. **However, we suggest that the departments of Panchayats and urban development should seek utilisation certificates from the PRIs and ULBs in proper form and furnish the same to the State Finance Deptt., which should be sent to the MOF/GOI as per the guidelines and subsequent grants be released only on receipt of utilisation certificates of earlier grants.**

3.54 TFC grants for local bodies are to be distributed among each unit of PRIs and ULBs as per the recommendations of the State Finance Commission.

Panchayat Deptt. has reported that the TFC grants are released to the districts for further transfer to the PRIs i.e. GPs, PSs and ZPs in the ratio of 75:15:10 and credited in the accounts of PRIs through online system. Grants to ULBs are also being released as per the criteria decided by the Department. We have observed that the Gram Panchayats have the direct responsibility of maintaining the civic services in rural areas and the Panchayat Samitis and Zila Parishads have no role to play. **We, therefore, recommend that the entire grant for PRIs should be released to the Gram Panchayats and distributed among GPs on the basis of the criteria suggested by this Commission for interse distribution of tax devolution. Likewise, grants for ULBs be also distributed among MCs on the basis of the criteria suggested by this Commission for tax sharing.**

3.55 As per the TFC, high priority is to be given to creation of data base and maintenance of accounts of local bodies at the gross root level through the use of modern technology and management systems. TFC did not earmark specific funds for this purpose but has empowered the State Govt. to assess the requirement of each local body and earmark funds accordingly out of the total allocation made by TFC. We have noticed that no serious efforts seem to have been made by the Departments of Panchayats and Urban Development for creation of data base and maintenance of accounts at local body level as well as the directorate levels despite earmarking substantial funds by the EFC and re-iteration of the same by the TFC. **We feel that these are important and essential areas in which local bodies need to develop their capacities. We, thus, commend for implementation the suggestion of TFC of assessing the requirement of each local body by the respective departments and earmark funds accordingly for creation of data base and maintenance of accounts of the local bodies out of the total allocation.**

3.56 The EFC had recommended that 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. TFC has observed that only 19 states have entrusted Technical Guidance and Supervision (TGS) over local bodies to C & AG of India but five major states of

Haryana, Punjab, Gujarat, Andhra Pradesh and Arunachal Pradesh have not yet implemented this. Hence TFC has emphasised the need to implement this recommendation of the EFC by the remaining states. As reported, the State Govt. did not find any justification for entrusting the responsibility of supervision to C & AG of India as proper arrangements already existed to carry out their audit under the constitutional provisions. However, the State Govt. had no objection in C & AG of India prescribing the procedure for verifying proper utilisation of grants given to the local bodies by the Finance Commissions and in receiving technical guidance regarding auditing standards, audit planning, professional training and all other matters to strengthen the local fund audit. **We have considered this issue and came to the conclusion that since majority of states have implemented this recommendation of EFC, the Govt. of Haryana should reconsider this issue in its broader perspective and implement, if possible.**

3.57 The reference periods of TFC and Third State Finance Commission of Haryana do not synchronise. The period of TFC is 2005-10 and that of 3rd SFC 2006-11. **It is, therefore, recommended that our award on implementation of recommendations of TFC in regard to local bodies would be applicable only for four years from 2006-07 to 2009-10 as the year 2010-11 would be covered by the 13th Finance Commission.**

CHAPTER- 4

DEVELOPMENT PROFILE OF HARYANA

PHYSICAL FEATURES

4.1 Haryana State came into being on 1st November, 1966 and is situated in North West India covering an area of 44212 square kms. which constitutes 1.35% of the total geographical area of the country. Total population of the State at 211.45 lakh (2001 census) works to 2.05% of the population of the country. There is two tier system of governance. The administrative structure of the State comprises 4 Divisions, further sub-divided into 20 Districts, 48 Sub-Divisions, 70 Tehsils, 43 Sub-Tehsils, 119 Blocks, 6764 inhabited villages and 106 towns. The second tier i.e., local bodies, comprising of 77 Municipal Bodies(2 Corporations, 23 Councils and 52 Committes) and 6325 Panchayati Raj Institutions(6187 Panchayats, 119 Panchayat Samitis and 19 Zila Parishads), are working as viable units of local governance.

4.2 Haryana State is composed of three sub- regions; the Sub- Himalayan Area, the Indo- Gangetic Plain Area which runs in south easternly direction and an Arid Area located alongside the border with Rajasthan. The State has been divided into two broad agro- climatic zones. The eastern zone comprises districts of Ambala, Karnal, Panipat, Kurukshetra, Sonipat, Jind, Yamunanagar, Faridabad, Gurgaon, Kaithal and part of Rohtak, where nominal rainfall is more than 500 mm. The western zone comprises districts of Hissar, Sirsa, Bhiwani, Rewari, Mahendergarh with rainfall less than 500 mm. However, National Commission on Agriculture has divided the State into four zones on the basis of rainfall pattern.

4.3 This sub-region now known as Haryana, though had good potential for growth, but remained comparatively neglected part of composite Punjab. More than 80% area of the State is under agriculture and about 3.5% under forests. 71% of its population, living in 6764 villages, is rural and is largely

dependent on agriculture and allied activities. Cultivators comprise 36.03% of the working force, 15.26% agricultural labourers and 48.71% are non-agricultural workers in the State. There are about 17.28 lakh operational holdings and nearly 2/3 of the holdings are with small and marginal farmers with less than 2.5 hectares. The net area cultivated is about 38.09 lakh hectares and the net area irrigated is 82.3%. The traditional crops cultivated are foodgrains, sugarcane, oil seeds and cotton, though of late, rapid strides have been made in the field of horticulture and floriculture as well.

DEMOGRAPHIC AND SOCIAL INDICATORS

4.4 In the Indian polity, there are inter- State or regional imbalances among the States mainly due to inherent variation in natural resources, geographical and ecological situation, type and location of terrain, stages of development and other socio- economic factors. Population of Haryana State at 211.45 lakh(2001 census), constituting 2.05% of the total population of the country, indicates an annual average growth of 2.5% as against All India average growth at 1.95%. The urban and rural population worked to 29% and 71% as against the All India ratio of 27.8% and 72.2% respectively. Male and female population worked to 113.28 lakh and 97.55 lakh respectively and constituted 53.7% and 46.3% of the State's population as against All India figures of 51.7% and 48.3%. The sex ratio in the State worked lowest to 861 females per thousand males as against the All India indicator of 933 females per thousand males. The density of population was at 477 per square Kms. as against All India density at 324 per square Kms. The literacy rate (over-all) in the State stood at 68.59 percent as against the All India literacy rate of 65.20 percent. The male and female literacy percentage stood at 79.25 and 56.31 as against the All India level of 75.9 and 54.3 respectively. Rural and urban literacy rates worked to 63.82% and 79.89% as against the All India figures of 59.21% and 80.06% respectively. The total work force comprised of 38.60 lakh males and 15.0 lakh females.

INTER DISTRICT DISPARITIES

4.5 In Haryana, there are wide range of intra-state regional disparities or inter-districts imbalances in economic & social indicators as well in the sectors of agriculture, industries, education, health, water supply, sanitation and social services. Table 4.1 makes the position clear. Bhiwani is the biggest district having 10.81% of the total area and Panchkula the smallest with 2.03% area. On population basis Faridabad is the largest district with 10.40% of the population and Panchkula the smallest with 2.23% population ratio. Similarly the inter-district disparities are quite visible in economic and social indicators also.

TABLE- 4.1
INTER DISTRICT DISPARITIES (%)

District	Population	Area	BPL	Literacy	IMR	Density of Pop. Per sq. km
Ambala	4.81	3.56	5.83	75.31	58	644
Bhiwani	6.76	10.81	13.61	67.45	66	298
Faridabad	10.40	4.86	8.06	70.03	65	1020
Fatehabad	3.82	5.70	10.57	57.98	77	318
Gurgaon	7.86	6.14	10.13	62.91	76	599
Hissar	7.29	9.01	11.47	64.83	65	386
Jhajjar	4.21	4.15	7.98	72.38	64	484
Jind	5.64	6.11	14.26	62.12	75	440
Kaithal	4.49	5.25	11.04	59.02	78	408
Karnal	6.05	5.70	11.94	67.74	69	506
Kurukshetra	3.93	3.46	12.01	69.88	66	541
Mahendergarh	3.85	4.30	6.51	69.89	68	437
Panchkula	2.23	2.03	9.36	74.00	59	523
Panipat	4.59	2.90	6.95	69.17	67	763
Rewari	3.63	3.60	10.54	75.25	65	483
Rohtak	4.46	3.95	9.98	73.72	63	539
Sirsa	5.27	9.67	13.47	60.55	65	260
Sonepat	6.07	4.80	7.89	72.79	66	603
Yamuna Nagar	4.66	4.00	11.32	71.63	66	556
Haryana State	-	-		67.91	68	477

4.6 With a view to be well acquainted with the relative status of districts in terms of development, backwardness and deprivation, the Commission requested Dr. N.K. Bishnoi of GJU, Hisar to compute a composite District Development Index (DDI). Table 4.2 depicts the summary position of the DDI, as computed by him.

TABLE- 4.2
DISTRICT-WISE DEVELOPMENT INDEX

Sr. No.	District	Value	Rank	Status
1	Ambala	8.60	2	D
2	Bhiwani	1.20	15	UD
3	Faridabad	8.08	3	D
4	Fatehabad	0.61	17	UD
5	Gurgaon	3.93	9	MD
6	Hissar	2.68	13	UD
7	Jhajjar	3.09	11	MD
8	Jind	0.51	18	UD
9	Kaithal	0.97	16	UD
10	Karnal	4.69	7	MD
11	Kurukshetra	5.78	5	D
12	Mahendergarh	0.00	19	UD
13	Panchkula	10.00	1	D
14	Panipat	5.68	6	D
15	Rewari	2.88	12	MD
16	Rohtak	4.49	8	MD
17	Sirsa	1.68	14	UD
18	Sonepat	3.89	10	MD
19	Yamuna Nagar	7.52	4	D

Note : D : Developed

MD : Moderately Developed

UD : Under-Developed

4.7 The District Development Index (DDI) captures the level of development attained by the district in terms of 48 variables grouped into four categories i.e. productivity, equity, empowerment and sustainability. The results show that Panchkula is the most developed district in the state and Mahendergarh the most

backward. Developed districts are Panchkula, Ambala, Yamunanagar, Kurukshetra, Panipat and Faridabad. Moderately developed districts are Rohtak, Karnal, Sonapat, Jhajjar, Gurgaon and Rewari. These districts require good amount of investment. The under-developed or backward districts are Bhiwani, Fatehabad, Kaithal, Jind, Hisar, Sirsa and Mahendergarh which require special attention and specialized policy frame work. The conclusion is that inter-district disparities in the state are still high to be complacent. Effective and appropriate measures need to be initiated for integrated and expeditious development of backward areas. Proper policies need to be framed so that the development process in the state does not remain confined to isolated pockets but spreads far and wide.

STATE'S ECONOMY

4.8 The economic policy of the State envisages integrated development of all sectors of State's economy. Haryana is ranked among the major richest States of India. The State has witnessed a continuous sustainable economic growth ever since its inception in 1966. The State economy experienced a long term high growth rate of 6% per annum in the period 1980-96. During 8th Plan period (1992-97), the GSDP of the State recorded an average annual growth of 5.2% compared to the national GDP growth of 6.8%. During 9th Plan period (1997-2002), the GSDP witnessed average annual growth of 6.2% as compared to the national GDP growth of 5.5%. During 10th Plan (2002-07), the GSDP witnessed an higher average growth of 9.6% compared to a growth of 7.8% in national GDP. It indicates that the State economy continued to achieve higher growth from Ninth Plan onwards (6.2% in 9th Plan to 9.6% in 10th Plan) compared to growth in National GDP (5.5% in 9th Plan to 7.8% in 10th Plan). Table-4.3 indicates the performance of state's economy vis-à-vis the national economy.

TABLE- 4.3

**SECTOR-WISE AVERAGE ANNUAL GROWTH RATE OF GROSS STATE
DOMESTIC PRODUCT (GSDP) AT CONSTANT (1993-94 & 1999-2000) PRICES**

Sr. No	Sectors	Eighth Plan		Ninth Plan		Tenth Plan Period(2002-2007)											
		1992-97		1997-2002		2002-03		2003-04		2004-05		2005-06		2006-07		Tenth Plan Average	
		Hry	Ind	Hry	Ind	Hry	Ind	Hry	Ind	Hry	Ind	Hry	Ind	Hry	Ind	Hry	Ind
1	Primary	3.8	4.8			-1.5	-5.9	7.8	9.3	3.4	0.7	-0.9	5.8	9.6	4.0		
2	Secondary	5.9	8.3			8.6	6.9	10.1	7.8	11.4	10.5	11.7	10.6	10.5	11.5		
3	Tertiary	6.7	7.6			10.1	7.5	9.0	8.5	10.8	9.1	13.0	10.3	12.9	11.1		
4	Over-all Economy	5.2	6.8	6.2	5.5	6.4	3.8	9.0	8.5	9.1	7.5	9.2	9.4	11.4	9.6	9.6	7.8

Source:- ESO Haryana

*Hry. stands for Haryana

4.9 As per the quick estimates, the GSDP of the State at constant (1999-2000) prices grew to Rs. 92053 crore in 2006-07 from Rs. 82604 crore in 2005-06, recording a growth of 11.4% as against 9.4% in National GDP. At current prices, the GSDP is estimated at Rs. 1,26,475 crore in 2006-07 as against Rs. 1,06,385 crore in 2005-06 recording a growth of 18.9% as against 15.7% in National GDP. The sectoral analysis reveals that the GSDP at constant (1999-2000) prices from Primary, Secondary and Tertiary sectors recorded growth rates of 9.6%, 10.5% and 12.9% respectively in 2006-07 over 2005-06.

4.10 The Structural composition of the State economy revealed that primary sector, which includes agriculture, still continues to be the dominant sector despite the fact that its contribution has declined to 22.1% in 2006-07 from 42.5% in 1993-94. The contribution of secondary and tertiary sectors has increased to 30.2% and 47.7% respectively in 2006-07 from 26.2% and 31.3% in 1993-94. This indicates that the economy of the State is growing in the right direction, as pressure has shifted from agriculture to the industry and service sectors. Table-4.4 depicts the structural composition of the State's economy.

TABLE- 4.4
COMPOSITION OF GROSS STATE DOMESTIC PRODUCT BY BROAD SECTORS
(Percent)

At Current Prices				At Constant(1993-94 and 1999-2000) Prices		
Year	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
1	2	3	4	5	6	7
1993-94	42.5	26.2	31.3	42.5	26.2	31.3
1999-00	32.1	28.5	39.4	32.1	28.5	39.4
2000-01	30.6	27.8	41.6	30.7	27.7	41.6
2001-02	27.7	29.0	43.3	28.5	28.3	43.2
2002-03	25.5	30.5	44.0	26.4	28.8	44.8
2003-04	25.2	30.8	44.0	26.1	29.1	44.8
2004-05	23.1	31.9	45.0	27.4	29.8	45.5
2005-06	21.1	32.7	46.2	22.5	30.5	47.0
2006-07	21.7	32.0	46.3	22.1	30.2	47.7

Source:- Economic Survey of Haryana 2007-08

4.11 Per Capita Income is an important indicator of the standard of living. At current prices it has increased to Rs. 49038 in 2006-07 from Rs. 41988 in 2005-06 showing an increase of 16.8%. At constant(1999-2000 prices), the Per Capita Income of the State has risen to Rs. 35779 in 2006-07 from Rs. 32724 in 2005-06, showing an average growth of over 9%. Table- 4.5 indicates the position. The notable feature is that the Per Capita Income of the State at Rs. 35779 in 2006-07 stands much higher than the all India Per Capita Income of Rs. 22553. Haryana ranks at 2nd place in Per Capita Income next to Goa.

TABLE- 4.5
PER CAPITA INCOME OF HARYANA

Year	Per Capita Income (Rs.)		Percentage Increase Over the Previous Year	
	At Current Prices	At Constant (1999-2000) Prices	At Current Prices	At Constant (1999-2000) Prices
1	2	3	4	5
1999-00	23121	23121	-	-
2000-01	25484	25328	10.2	5.2
2001-02	27964	25557	9.7	5.1
2002-03	30380	26622	8.6	4.2
2003-04	33910	28484	11.6	7.0
2004-05(P)	37648	30502	11.0	7.1
2005-06(P)	41988	32724	11.5	7.3
2006-07(Q)	49038	35779	16.8	9.3

Source: Economic & Statistical Organisation, Haryana

P: Provisional Estimates

Q: Quick Estimates

PLAN INVESTMENT STRATEGY

4.12 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. 358.26 crore in Fourth Plan (1969-74) to Rs. 12980crore in the Tenth Plan (2002-07).The outlay approved for Eleventh Plan (2007-12) is Rs.35000 crore indicating a growth of 170% over the actual plan expenditure of Rs. 12980 crore during 10th Plan (2002-07) The position is explained in table 4.6.

TABLE- 4.6
INVESTMENT UNDER FIVE YEAR PLANS

<u>Plan Period</u>	<u>Plan Investment (Rs. in crores)</u>	<u>Percentage Increase</u>
Fourth Plan (1969-74)	358.26	-
Fifth Plan (1974-79)	677.34	89%
Sixth Plan (1980-85)	1595.47	135%
Seventh Plan (1985-90)	2510.64	57%
Eighth Plan (1992-97)	4899.19	95%
Ninth Plan (1997-2002)	7986.12	63%
Tenth Plan(2002-07)	12979.64	63%
Eleventh Plan(2007-12)	35000.00	170%
(Approved outlay)		
Annual Plan 2007-08		
Approved outlay	5300.00	
Revised outlay	5300.00	

4.11 The Plan strategy of the State encompasses faster and inclusive growth of its economy with the objective of social justice and welfare. While allocating sectoral outlays, special emphasis is laid on building and strengthening of economic and social infrastructure. As would be seen from Table 4.7, outlay on social services has grown faster to about 48% of the total outlay in 11th Plan from about 35% in Ninth plan. Economic infrastructure in the field of Irrigation, Power, Transport and Roads commands about 38 to 40 percent outlay.

TABLE - 4.7
SECTORAL PLAN ALLOCATION

Rs. in Lacs

SECTORS	NINTH PLAN		TENTH PLAN		ELEVENTH PLAN		ANNUAL PLAN	
	1997-02 (Actual)	% Share in the plan	2002-07 (Actual)	% Share in the plan	2007-12) (Approved)	% Share in the plan	2007-08 (App)	% Share in the plan
Agr. & Allied Activities	47620	5.96	59330	4.57	163882	4.68	19338	3.65
Rural Development	29111	3.65	60790	4.68	126842	3.62	20913	3.95
Special Area Programme	6559	0.82	10616	0.82	12740	0.36	2080	0.39
Irrigation & Flood Control	159196	19.93	163448	12.59	416500	11.90	71800	13.55
Energy	154798	19.38	200146	15.42	471346	13.47	84432	15.93
Industries & Minerals	44901	5.62	65300	5.03	38952	1.11	5917	1.12
Transport	58125	7.28	145632	11.22	433535	12.39	50478	9.52
Sci. & Tech., Environment	762	0.010	1696	0.13	1988	0.06	325	0.06
General Eco. Services	1689	0.21	4350	0.34	9034	0.26	1237	0.23
Decentralised Planning	4850	0.61	8243	0.64	129293	3.69	10000	1.89
Social Services	281447	35.24	561304	43.24	1669744	47.71	259517	48.97
General Services	9554	1.20	17109	1.32	26144	0.75	3963	0.75
GRAND TOTAL	798612	100	1297964	100	3500000	100	530000	100

4.12 Haryana State, since its inception in 1966, embarked upon massive sectoral reforms particularly in economic and social sectors. 'Green Revolution' and 'White Revolution', followed by sectoral reforms in the spheres of agriculture, power, irrigation, drinking water, communication, education, health care, housing, social security, upliftment and empowerment of women and weaker sections, gave new dimensions to the State's economy and improved the living status of its citizens.

4.13 Haryana has been the pioneer and leading State introducing modern agricultural practices, scientific and technical know-how, wide-spread expansion

of irrigation facilities and exploitation of under ground water. As a result, the food-grain production recorded marked improvement from 25.92 lakh tonnes in 1966-67 to 147.63 lakh tonnes in 2006-07, of which wheat alone accounted for 100.52 lakh tonnes. The production of oil seeds, which was stagnant at 0.92 lakh tonnes in 1966-67, touched a new height of 8.35 lakh tonnes in 2006-07. Similarly, the production of cotton, which was just 2.88 lakh bales in 1966-67, has gone upto 18.14 lakh bales in 2006-07. The Green Revolution also led to dramatic increase in the yields per hectare. Due to reforms in irrigation sector, availability of irrigation water increased tremendously as a result of which the net area irrigated to net area shown has increased from 37.8% in 1966-67 to **82.3%** in 2006-07.

4.14 Haryana State is heading towards new horizons of industrial growth and is emerging as an important destination point for industrial investment. The new industrial Policy of 2005 has played crucial role in this regard. The factors helping industrial growth are proximity to Delhi, supportive infrastructure, better law and order situation, cordial labour relations, higher purchasing power coupled with administrative efficiency and sustained efforts at all levels. From 4753 units in the year 1966-67, the number of small scale industrial units has gone up to 80,000. Similarly, the number of large and medium scale units has gone up from 162 to 1330. The new industrial policy aims at maximising employment potential through accelerated industrialisation and development of backward and rural areas by providing liberal incentives and subsidies.

4.15 Special attention has been paid to the development & expansion of social services particularly in the sphere of education and health, piped water supply and housing for the poor. Social security measures such as old age pension and improvement of the nutritional level of the deprived groups and children have been undertaken. The plan allocation to social sector has gone upto 47.71% of the total outlay in the Eleventh Plan from 13.61% in 4th Plan.

4.16 The Commission is aware of the reality that proper and adequate provision of basic civic amenities would be crucial for improved quality of life of

citizens, which has attracted special attention of the Commission. This has become all the more necessary due to rapid urbanisation and consequential growth of slums and unhealthy environment. The provision of these basic services falls within the domain of local bodies. As such, the Commission, keeping in view of resource constraints with the local bodies, has attempted to recommend adequate financial devolution to enable them to discharge their responsibilities more effectively and efficiently.

CHAPTER- 5

FISCAL SCENARIO OF THE STATE

5.1 In making its recommendations, the Commission shall have regard, among other considerations, to the resources of the State Govt. and the demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets and other committed liabilities of the state and also to the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment. But at the same time, the Commission has also to keep in view the financial needs of the rural and urban local bodies and their potential for raising resources and reducing expenditures. Thus, the Commission is mandated to recommend fiscal transfers to the local bodies keeping in view the resource availability with the State Government and the requirements of the local bodies. As such the Commission has attempted to examine the financial position of the State from 2001-02 to 2005 -06 and to assess the resource availability with the State for the years 2006-07 to 2010-11, the period to be covered by this report.

Over- View of State Finances

5.2 While carrying out this exercise, the Commission has, more or less, relied upon the budget documents, information supplied by the Finance Department, reports of 11th and 12th Finance Commissions, reports of RBI, publications of Planning Commission, reports of the C&AG and other related documents. The Commission also carefully noted the contents contained in the Medium Term Fiscal Reforms Plan (MTFRP) signed by the State Govt. with the Central Govt. and Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which were put in place to achieve the fiscal milestones set therein for the State.

5.3 As per the above documents, financial position of Haryana continued to be rated as one of the best in the country. Broad trends in State finances did not exhibit any persistent fiscal imbalance or major problems of sustainability. Revenue Deficit appeared for the first time in 1988-89. The fiscal position of the State had been under stress since then (nineties) partly due to policy changes at central level and partly due to mounting commitments at State Level. The position continued to worsen due to certain developments like, long era of terrorism in Punjab region, pay revision on central pattern (Fifth Pay Commission), introduction of prohibition in the State (1996), impact of economic recession on tax receipts, substantial decline in state share of

central taxes, higher maintenance and operational expenditure, mounting debt burden and other commitments. Expenditure on salaries, pensions, and interest payments increased manifold. Debt stock rose sharply. All this led to abrupt rise in revenue and fiscal deficits. Consequently, the capital funds i.e., borrowings were used to meet revenue or consumption expenditure which raised concerns about debt sustainability. Due to this fiscal stress, the development process in the State suffered a serious blow. However, the State Govt. took several steps to correct fiscal imbalances. Table 5.1 depicts the position of deficit indicators:-

TABLE- 5.1
POSITION OF DEFICIT INDICATORS

Year	Revenue Deficit		Fiscal Deficit		Primary Deficit	
	Rs. in crore	%age to GSDP	Rs. in crore	% age to GSDP	Rs. in crore	%age to GSDP
1987-88	(-) 16.36	(-) 0.2	217.04	2.8	(-)66.93	-0.8
1988-89	1.85	0.02	289.10	2.9	(-)128.54	-1.28
1993-94	80.45	0.4	479.87	2.2	(-)58.17	-0.3
1994-95	390.83	1.5	534.55	2.0	(-)47.61	-0.2
1995-96	346.83	1.2	685.96	2.3	(-)130.23	-0.4
1996-97	718.67	2.0	1099.41	3.1	(-)383.51	-1.1
1997-98	719.39	1.9	1127.54	2.9	(-)307.21	-0.8
1998-99	1540.20	3.0	2240.44	5.1	(-)1243.45	-2.8
1999-2000	1185.29	2.3	2132.50	4.1	(-)775.09	-1.5
2000-01	607.48	1.1	2265.20	4.5	(-)773.29	-1.3
2001-02	1055.95	1.6	2739.54	4.2	(-)1115.07	-1.7

Source : Budget Documents

5.4 Financial position of Haryana on Revenue Account from 2001-02 to 2005-06, as emerged from budget documents, is depicted in Table 5.2.

TABLE- 5. 2

POSITION ON REVENUE ACCOUNT 2001-02 TO 2005-06

Rs in crore

Items	2001-02	2002-03	2003-04	2004-05	2005-06
I- Total Revenue Receipts (a+b+c+d)	7599.31	8657.02	9843.47	11149.06	13853.31
(a) Share of Central Tax	449.01	756.59	600.75	619.38	1201.33
(b) State own Tax Revenue	4971.19	5549.68	6348.05	7440.15	9078.29
Sales Tax/ VAT	2944.81	3337.43	3838.00	4760.91	5604.45
State Excise Duties	875.39	878.72	923.28	1013.16	1106.86
Stamps and Registration	488.29	541.39	695.63	726.58	1339.73
Vehicle Tax	103.62	114.39	132.39	140.41	172.13
PGT/ LADT	498.56	652.75	660.36	715.16	757.60
Electricity Duty	29.48	0.87	59.06	61.74	61.53
Others	31.04	24.13	39.33	22.18	35.99
(c) Own Non-Tax Revenue, of which	1666.07	1807.85	2223.05	2544.37	2458.56
Interest Receipts	333.27	335.99	482.12	474.76	444.40
Lotteries	387.56	433.66	573.48	705.63	183.38
Transport(Bus Fare)	410.74	451.83	482.21	513.17	548.44
Mines & Minerals	140.03	118.88	76.98	92.73	152.60
(d) Grants- in- Aid	513.04	542.90	671.62	545.16	1115.13
Non- Plan	158.04	109.17	117.16	84.23	268.89
State Plan	194.86	213.91	337.71	200.82	510.87
CSS	159.52	219.82	216.75	260.11	335.37
II- Total Revenue Exp.	8655.26	9342.13	10117.18	11407.10	12639.89
Non- Plan	7458.91	8292.98	8992.83	9954.40	10625.09
Plan	1196.35	1049.15	1124.35	1452.70	2014.80
(a) Of which Committed Exp. (i to iii)	5314.51	5903.88	6168.35	6794.43	6838.16
i) Salaries	3033.00	3212.00	3290.00	3658.00	3725.00
ii) Pensions	657.04	745.91	765.70	901.93	1013.33
iii) Interest Payments	1624.47	1945.97	2112.65	2234.50	2099.83
(b) Grants to Local Bodies	93.59	85.95	145.12	226.40	445.28
III- Revenue Deficit (I-II)	1055.95	685.11	273.71	258.04	(-)1213.42
IV- State Plan Size	1766.87	1776.19	1865.79	2108.25	2996.77

Source : Budget Documents

5.5 The position of key fiscal indicators is given in table 5.3, as under:-

TABLE- 5. 3
POSITION OF KEY INDICATORS

Rs in crore

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(i) Revenue Deficit (RD)	1055.95	685.11	273.71	258.04	(-) 1213.42	(-)1590	(-)1495
- RD as ratio to GSDP (%)	1.60	1.75	0.03	0.03	(-) 1.2	(-)1.3	(-)1.0
(ii) Fiscal Deficit (FD)	2739.54	1471.07	2933.10	1205.92	285.86	(-)1179	1699
- FD as ratio to GSDP (%)	4.36	2.10	3.70	1.30	0.30	(-)0.9	1.2
(iii) Consolidated Debt Liability	25466.51	25871.45	27484.63	27529.08	31894.79	32588	(-)1495
- Debt as ratio to GSDP (%)	40.11	37.14	34.87	30.78	31.68	25.77	22.31
(iv)Salary and Pensions	3690.05	3957.91	4055.70	4559.93	4758.13	5093	5963
- As ratio to TRR (%)	48.54	45.72	41.21	40.90	34.35	28.37	30.37
(v) Interest Payments	1624.47	1945.97	2112.65	2234.50	2099.83	2265	2359
- As ratio to TRR (%)	21.37	22.48	21.46	20.04	15.16	12.62	12.02
(vi) Tax/ GSDP ratio (%)	8.26	8.46					
(vii)Ratio of tax collection charges(%)							

Source:- Budget at a glance

5.6 The analysis of the fiscal position given in above tables speaks very high of the prudent financial management of Haryana, as under:-

- Revenue receipts of the State recorded a growth of 82% to Rs. 13853 crore in 2005-06 from Rs. 7599 crore in 2001-02, far more outstripping the growth of 46% in revenue expenditure during the same period i.e, from 8656 crore in 2001-02 to Rs. 12640 crore in 2005-06.
- Revenue Account recorded a marked improvement resulting in a revenue surplus of Rs. 1213 crore in 2005-06 and of Rs. 1590 crore in in 2006-07 from a deficit of Rs. 1056 crore in 2001-02. In terms of ratio to GSDP, revenue account witnessed a surplus of 1.3% in 2006-07 compared to a deficit of 1.6% in 2001-02.
- Fiscal Deficit reduced drastically to 0.3% of GSDP in 2005-06 from 4.4% in 2001-02.
- Consolidated Debt Liability, as a proportion to GSDP, came down to 32% in 2005-06 and further to 25.26% in 2006-07 from 40% in 2001-02.

- Salary expenditure including pensions reduced from 48.54% of TRR in 2001-02 to 34.35% in 2005-06 and further to 28.37% of TRR in 2006-07.
- Interest payment Liability, as ratio to TRR, recorded a decline from 21.37% in 2001-02 to 15.16% in 2005-06 and further to 12.62% of TRR in 2006-07.
- Tax/GSDP ratio has been in the vicinity of 8 to 9 percent

5.7 Comparative position of fiscal indicators of Haryana with other States is given in Table 5.4.

TABLE- 5.4
COMPARATIVE POSITION OF FISCAL INDICATORS-2005-06

State	Revenue Deficit as ratio to GSDP (%)	Fiscal Deficit as ratio to GSDP (%)	Capital outlay as ratio to GSDP (%)	Social sector Exp. as ratio to Total Exp. (%)
Andhra Pradesh	0.03	3.7	3.4	30.8
Bihar	(-)0.13	6.1	3.4	38.4
Chhattisgarh	(-)3.12	1.0	3.4	44.2
Goa	0.17	4.6	4.5	30.9
Gujrat	0.18	2.9	3.2	32.1
Haryana	(-)1.20	0.3	1.6	32.0
Jharkhand	3.25	10.3	4.7	45.9
Karnatka	(-)1.35	2.2	3.4	33.4
Kerala	2.60	3.5	0.7	35.6
Madhya Pradesh	(-)0.03	4.2	6.1	32.5
Maharashtra	0.89	4.1	2.3	35.3
NCT Delhi	(-)4.11	-0.2	1.4	41.0
Orissa	(-)0.76	0.4	1.6	34.1
Punjab	NA	NA	NA	NA
Rajasthan	0.54	4.2	3.5	40.1
Tamil Nadu	(-) 0.92	1.1	1.9	36.9
Uttar Pradesh	0.49	3.9	3.4	33.6
West Bengal	3.24	4.2	0.7	28.2

Source:- IMF Working Paper 07/205

FISCAL AND STRUCTURAL REFORMS

5.8 The Commission has noted that the State Govt. embarked upon a host of fiscal restructuring measures. A composite strategy seemed to have been adopted consisting measures of revenue augmentation, expenditure compression and debt containment. Switching over to VAT system of taxation (first state in the country w.e.f. 01-04-2003), rationalization of stamp duty rates (w.e.f. 01-03-2004), simplification of tax rules and procedures, rationalisation of rates of taxes and duties, phasing out of tax based incentives, dynamic changes in policies on State excise(liquor) and mines & minerals, updating of user charges of public services, review and better targeting of subsidies, tightening of tax administration etc. led to tremendous tax compliance and better revenue realisations. Besides, measures like, rationalisation of organisational structure and staffing pattern, enforcement of austerity & economy measures, review of plan and non-plan schemes for redundancy etc. resulted in curtailing unproductive expenditures. Sectoral and Institutional reforms initiated by the Govt. helped in revamping of key sectors of power, irrigation, roads, water supply, education and health.

5.9 The State Govt. implemented earnestly the debt swap schemes launched by GOI and other debt relief schemes suggested by the 11th and 12th Finance Commissions and also constituted the 'Consolidated Sinking Fund' and 'Guarantee Redemption Fund', which led to containing debt- stock and reducing debt service charges i.e, interest cost.

5.10 As suggested by the Eleventh Finance Commission, the State Govt. formulated its "Medium Term Fiscal Reforms Policy" in 2004-05 in accordance with the guidelines of the MOF/GOI with a view to achieving the fiscal milestones set for the State and signed an MOU in this regard with the MOF/GOI. This measure led to substantial improvement in key fiscal indicators as a result of which the State Govt. received an incentive grant of Rs. 55.17 crore out of its quota of Rs. 98.02 crore.

5.11 As recommended by the Twelfth Finance Commission, the State Govt. has also enacted "Haryana Fiscal Responsibility And Budget Management (FRBM) Act, 2005, which is a right step towards fiscal restructuring which envisages 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 Total

Revenue Receipts. We have noticed that these fiscal targets have already been achieved by the State Govt.

5.12 The Commission sponsored a Technical Study on state finances to Dr. Narender K. Bishnoi, Chairperson, Economics and Business Analytics, Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, as there was no such expertise in the Commission. The main highlights of the study are:-

- The study report recognizes the prudent fiscal management of the State as performance under key fiscal indicators had been under control.
- The Revenue Account of the State showed substantial improvement over-time. The average growth in revenue receipts at 14.29% during the period 1993-94/2007-08 outstripped the growth of 13.11% in revenue expenditure during the same period. This trend greatly helped improving the deficit indicators and as a result the State is having revenue surplus since 2005-06 onwards and ratio of FD/GSDP improved to 1.2% in 2007-08 as against the FRBM target of 3.0%.
- The share of own Tax revenue in TRR showed a steady rise from 58.44% in 1993-94 to 68.40% in 2007-08. During this period own Tax Revenue grew at a healthy rate of 15.86% per annum. The buoyancy in own Tax Revenue between 1993-94/ 2007-08 has been at 1.11.
- The status of public debt and liabilities is not only within the limits prescribed under FRBM Act 2005, but also declining sharply; As per the FRBM Act 2005, the consolidated debt. is to be contained at 28% of the GSDP by 2008-09 and interest payments at 15% of the TRR. But, in fact, these ratios presently are at about 20% and 13% respectively, which shows that the targets of FRBM have already been achieved.
- The capital expenditure is unusually low. As per the comparative position for the year 2005-06, Haryana's capital expenditure had been as low as 1.6% of GSDP compared to about 3.5% of GSDP in States like Rajasthan, UP, AP, Bihar, Chhatisgarh, Gujrat, Karnatka, 6.1% in MP, 4.7% in Jharkhand and 4.5% in Goa.
- It has been suggested that capital expenditure can be increased by about Rs. 3000 crore per annum while keeping the level of fiscal deficit at 3% of GSDP.

- Expenditure on social services is much below the desirable limit. Government spending on social sector remained low at 32% of total expenditure in 2005-06 compared to 44% in Chhatisgarh, 46% in Jharkhand, 40% in Rajasthan, 38% in Bihar, 37% in Tamil Nadu etc. Major portion of capital expenditure has been going to economic services and social services remained neglected and thus, needs to be paid special attention.
- There is a need at least to recover running cost of public services calculated on opportunity cost principal.
- There is disconnect between the requirement of the economy and society on one hand and allocation of budgetary resources on the other.
- The modern organized economic activity is gravitating towards well developed locations such as Gurgaon and Faridabad while other areas lagged behind. Not much attempt has been made to address the issue of balanced regional development through fiscal measures. It requires a massive amount of capital expenditure in economic and social sectors in order to fasten and sustain the momentum of growth syndromes.
- The state Govt. should prepare a city centric region- wise master plan for next 20 years and identify the investment needs of different regions and spend the money to fulfil the uncovered gap. The ULBs and PRIs should be an integral part of the scheme. Similarly the State Govt. should also prepare a strategic action plan to improve its social indicators in a time bound manner.

5.13 The Commission gave due thought to the fiscal scenario of the State as outlined in above paras including the findings of the study report and came to the conclusion that:-

- Capital expenditure of the State is really low i.e., at 1.6% of GSDP. The low capital expenditure seen with low fiscal deficit and moderate interest payment clearly indicates that the GOH can increase their capital expenditure without any adverse impact on its fiscal parameters.
- It would also be appropriate to carry out effectiveness analysis of social welfare related schemes. Further higher capital expenditure on social services i.e. education, health, sanitation, water supply, sewerage etc. would go a long way in improving the social indicators and quality of life of the citizens of Haryana.

- There is still scope for enhancing tax growth through tax reforms, widening tax base, withdrawal of tax based exemptions/concessions, improving enforcement capabilities, developing better management information system through use of IT.
- Growth in non-tax revenue can be increased by improving cost recoveries in public services like electricity, transport, irrigation and drinking water charges, education, health etc.
- Revenue expenditure can be further compressed through restructuring of staffing pattern, contractual appointments, redeployment of work charged staff, review of schemes, privatisation or outsourcing of some services and phasing out of grants, subventions and subsidies through better targeting.

PROJECTIONS OF FINANCIAL POSITION OF THE STATE 2006-07 TO 2010-11

5.14 The Commission had requested the State Finance Department to submit forecast of its resources i.e., Income and Expenditure, particularly on Revenue Account for the period 2006-07 to 2010-11. The position on Revenue Account, as worked out in consultation with the Finance Department has been depicted in Table 5.5.

Table- 5.5
ESTIMATES OF FINANCIAL RESOURCES

Rs. in crore

Components	Base year 2005-06	Forecast				
		2006-07 (Pre-Act)	2007-08 RE	2008-09 BE	2009-10 Ests.	2010-11 Ests.
A- Total Revenue Receipt	13853.31	17952.43	19629.69	21695.32	24265.62	27162.05
(i) Share of Central Taxes	1201.33	1295.72	1533.42	1763.43	1975.00	2212.00
(ii) Own Tax Revenue	9078.29	10927.68	12589.00	14293.75	16239.75	18460.05
(iii) Own Non-Tax Revenue	2458.56	4590.76	4041.68	4043.87	4328.87	4630.00
(iv) Grants-in-aid	1115.13	1138.27	1465.59	1594.27	1722.00	1860.00
B-Total Revenue Exp.	12639.89	16362.15	18135.00	20280.84	23322.33	26820.68
- Non- Plan	10625.10	13908.03	14720.36	16144.29	1856.93	21350.82
- Plan	2014.80	2454.12	3414.64	4136.55	4756.40	5469.86
Committed Expenditure on	6858.27	7358.06	8322.19	10532.00	12065.00	13842.00
-Salaries	3725.31	3920.00	4649.00	6196.00	7311.00	8627.00
-Pensions	1033.13	1173.00	1314.00	1800.00	2016.00	2258.00
-Interest Payments	2099.83	2265.06	2359.19	2536.00	2738.00	2957.00
C- Revenue Account(A-B)	(+)1213.42	+1590.28	+1494.69	+1414.48	+ 941.92	+ 341.37
D- Total State Plan Size	2966.77	4232.64	5500.00	6650.00	7648.00	8795.00
E-GSDP at current prices	106385.0	126475.00	147576.00	172664.00	198563.00	228347.00
- Ratio of RD/TRR (%)	+ 8.76	+8.85	+ 7.61	+6.52	+3.88	+1.25
- Ratio of RD/GSDP (%)	+1.14	+1.26	+1.01	+0.82	+0.47	+0.15
- Ratio of Committed Exp/TRR (%)	49.50	40.96	42.40	48.55	49.72	50.96
- Ratio of Intt. Payment/TRR	15.16	12.61	12.02	11.69	11.28	10.88

5.15 The Projection of Own Tax Revenue of the State for the period 2006-07 to 2010-11 is given in table 5.6

TABLE- 5.6
FORECAST OF OWN TAX REVENUE

Rs. in crore

Components	Base year 2005-06	ESTIMATES				
		2006-07	2007-08	2008-09	2009-10	2010-11
Total Own Tax Revenue	9078.29	10927.68	12589.00	14293.75	16239.75	18460.05
Sales Tax/VAT	5604.05	6853.24	8408.00	9785.00	11252.75	12939.80
Excise Duties	1106.86	1217.10	1350.00	1485.00	1633.50	1796.85
PGT	426.49	425.13	335.00	385.25	423.50	466.40
LADT	331.11	313.28	100.00	100.00	100.00	100.00
Stamps & Reg.	1339.11	1764.96	2000.00	2100.00	2352.00	2634.00
Vehicle Tax	172.12	223.66	250.00	275.00	300.00	330.00
Entt./show Tax	13.54	13.52	18.00	22.50	26.00	30.00
Electricity Duty	61.53	96.28	106.00	120.00	130.00	140.00
Purchase Tax	1.16	5.64	7.00	7.50	8.00	8.50
Land Revenue	8.17	13.00	13.00	13.50	14.00	14.50

5.16 The financial projections depicted in Tables 5.5 and 5.6 covering the period 2006-07 to 2010-11 are based on the estimates of resources submitted by the Finance Department to the Twelfth Finance Commission and the Planning Commission, GOI for Eleventh Plan. On scrutiny we found that the receipt estimates submitted to the Twelfth Finance Commission were under- played while the expenditure estimates over- played, probably to indicate larger non- plan gaps. The 12th Finance Commission re-assessed state resources on normative basis at its own level. But we found that these normative estimates, made out on some impracticable assumptions, were far from reality and as such we did not adopt those for our exercise. However, the resources estimates submitted to the Planning Commission appeared to be more realistic as these were formulated keeping in view the past trends, current or latest developments and future prospects or potential. These estimates were also found to be in conformity with fiscal targets enshrined in the

FRBM Act 2005. However, the financial position of the State upto the year 2008-09 is based on the estimates of receipts and expenditures included in the Budget for the year 2008-09 and as such projections have been made only for the years 2009-10 and 2010-11. Since these estimates were found to be more reliable, the Commission accepted these estimates subject to some modifications that were deemed relevant and necessary.

5.17 The basic features of forecast of State Finances are, as under:-

- The revenue receipts are projected to grow to Rs. 27162 crore in 2010-11 from the base year (2005-06) figures of Rs. 13853 crore, recording growth of 104%.
- The revenue expenditure is estimated to be at Rs. 26821 crore in 2010-11 as against Rs. 12639 crore in 2005-06, showing a growth of 112%.
- Growth in expenditure outstrips the revenue growth as a liability of Rs. 1550 crore has been built into the expenditure estimates of 2008-09 on account of pay revision as per the Sixth Pay Commission.
- The revenue surplus is likely to deplete gradually from Rs. 1213 crore in 2005-06 to Rs. 341 crore in 2010-11 but these surpluses may turn into deficits due to arrear payments on account of pay revision.
- Tax revenue constitutes a significant part of state resources which needs to be exploited to full potential to match the expanding needs. Hence, tax growth has been related to the GSDP growth rate i.e., 15% per annum.

5.18 The Commission is cognizant of the fact that the Fiscal Responsibility and Budget Management Act 2005 provides a blue print for the State Govt. to undertake necessary reforms to move in the desired direction. Implementation of the fiscal programmes will create an appropriate enabling environment of higher investment in critical infrastructure and social sectors which, in turn, will spur economic growth. This is expected to result in a virtual circle of higher revenue receipts and increased capacity of the Govt. to spend more on desirable activities. What is required is that implementation of fiscal measures is closely reviewed and monitored. The Commission has noted that the measures of fiscal corrections contained in FRBM Act are very elaborate and the fiscal targets to be achieved upto 2008-09 and 2009-10 have already been achieved by the State Govt.

5.19 The Commission had rounds of discussions with the Finance Secretary on status of state finances and the likely availability of resources for sharing. The attention of the Commission was drawn towards the major commitments on state finances like the additional liability arising due to pay revision on account of Sixth Central Pay Commission, maintenance of capital assets and normal plan schemes, focussed emphasis on building of socio-economic infrastructure during eleventh plan etc. This necessitated the Commission to take into account the commitments of the State and to suggest a revenue sharing scheme which would keep a balance between the needs of local bodies and capacities of the state finances. Though the Commission is aware that the total liability of pay revision devolving on State Finances is bound to disrupt the fiscal trends, but it does not entail that the financial devolution made by the Commission would be beyond the reach of State Finances. **Since the financial devolution made by this Commission would be in the nature of entitlement and to strengthen & build up local bodies, the State Govt. would need to take a holistic view on this issue. Thus, we hope that the recommendations made by this Commission for revenue sharing with the local bodies would be fully accepted and implemented by the State Govt.**

CHAPTER-6

DEVELOPMENT PROFILE OF LOCAL BODIES

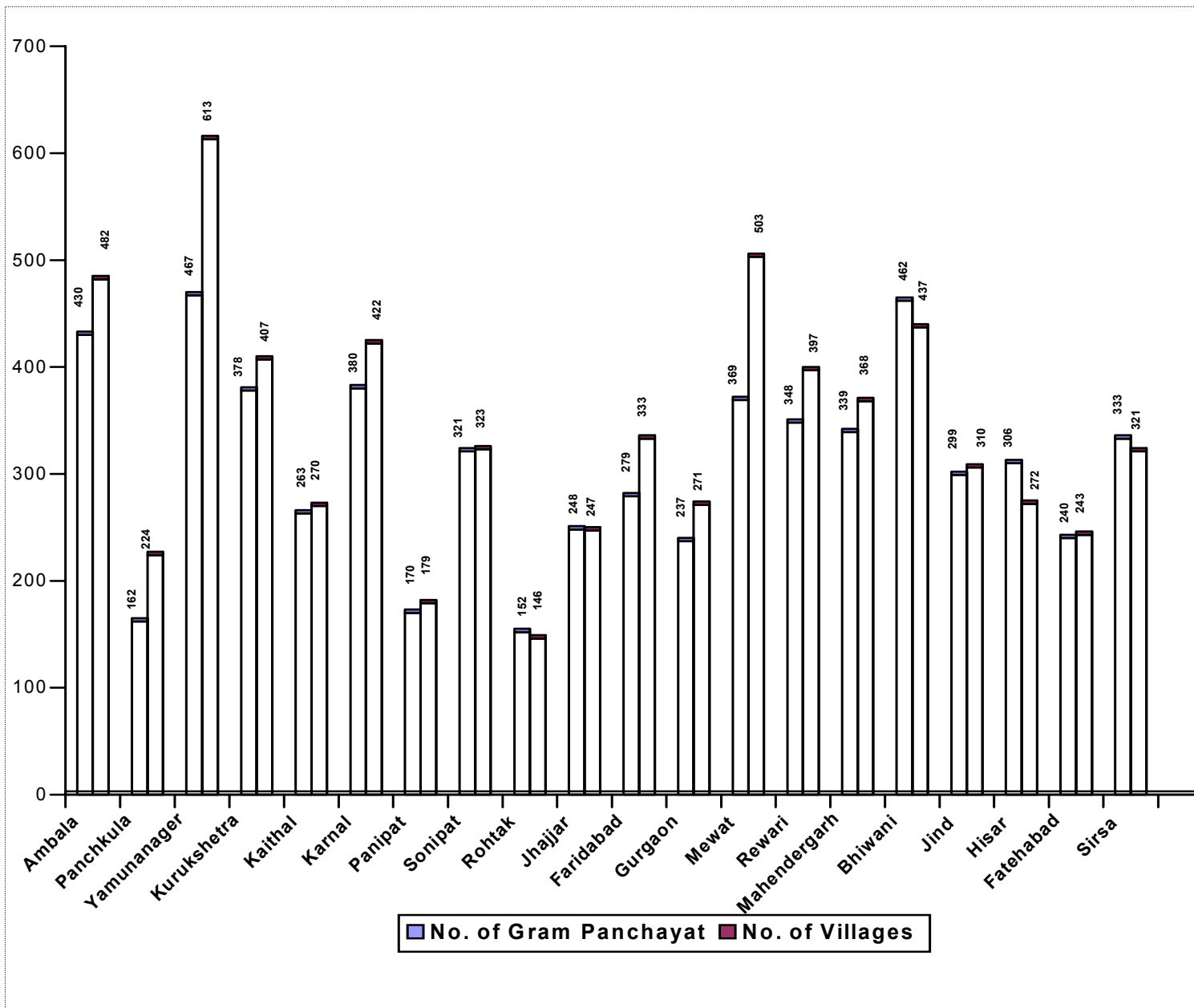
A- PROFILE OF PANCHAYATI RAJ INSTITUTIONS IN HARYANA

6.1 The population of Haryana, as per 2001 census, is 211.44 lakh of which 71% i.e. 150.29 lakh is the rural population. Amongst the districts, Bhiwani has the largest rural population forming 7.68% of the total rural population whereas Panchkula is at the tail end with only 1.73% of total rural population of the State. The administrative structure consists of 4 divisions, 20 districts, 6955 villages including 191 un-inhabited villages and 119 development blocks. The average population per village comes to 2161 persons. The position has been set out in table 6.1

Table- 6.1
No. of villages and population (2001 Censes)

Sr. No	Name of District	No. of GPs	No. of Vill.	% age to Total Vill.	Rural Pop.	%age to total Vill. Pop.	Male	Female
1.	Ambala	430	482	7.13	6,57,383	4.37	3,49,932	3,07,451
2.	Panchkula	162	244	3.31	2,60,016	1.73	1,44,642	1,15,374
3.	Y.Nagar	467	613	9.06	6,48,608	4.32	3,47,540	3,01,068
4	Kurukshetra	378	407	6.02	6,09,943	4.06	3,25,726	2,84,217
5	Kaithal	263	270	3.99	7,62,649	5.07	4,11,628	3,51,021
6	Karnal	380	422	6.24	9,36,341	6.23	5,01,890	4,34,451
7	Panipat	170	179	2.65	5,753,69	3.83	3,13,274	2,62,095
8	Sonipat	321	323	4.78	9,57,800	6.37	5,21,682	4,36,118
9	Rohtak	152	146	2.16	6,10,524	4.06	3,32,044	2,78,480
10	Jhajjar	248	247	3.65	6,84,975	4.56	3,69,458	3,15,517
11	Faridabad	279	333	4.92	7,80,291	5.19	4,20,534	3,59,757
12	Gurgaon	237	271	4.01	5,60,836	3.73	3,03,543	2,57,293
13	Mewat	369	503	7.44	9,23,400	6.14	4,87,656	4,35,744
14	Rewari	348	397	5.87	6,29,177	4.19	3,29,461	2,99,716
15	M.garh	339	368	5.44	7,02,885	4.68	3,65,343	3,37,542
16	Bhiwani	462	437	6.46	11,54,629	7.68	6,12,789	5,41,840
17	Jind	299	306	4.52	9,48,250	6.31	5,12,205	4,36,045
18	Hisar	310	272	4.02	11,38,999	7.58	6,14,605	5,24,394
19	Fatehabad	240	243	3.59	6,64,001	4.42	3,52,216	3,11,785
20.	Sirsa	333	321	4.75	8,23,184	5.48	4,36,820	3,86,364
	Total	6187	6764	100.00	1,50,29,260	100.00	80,52,988	69,76,272

Source:- Statistical Abstact of Haryana 2006-07



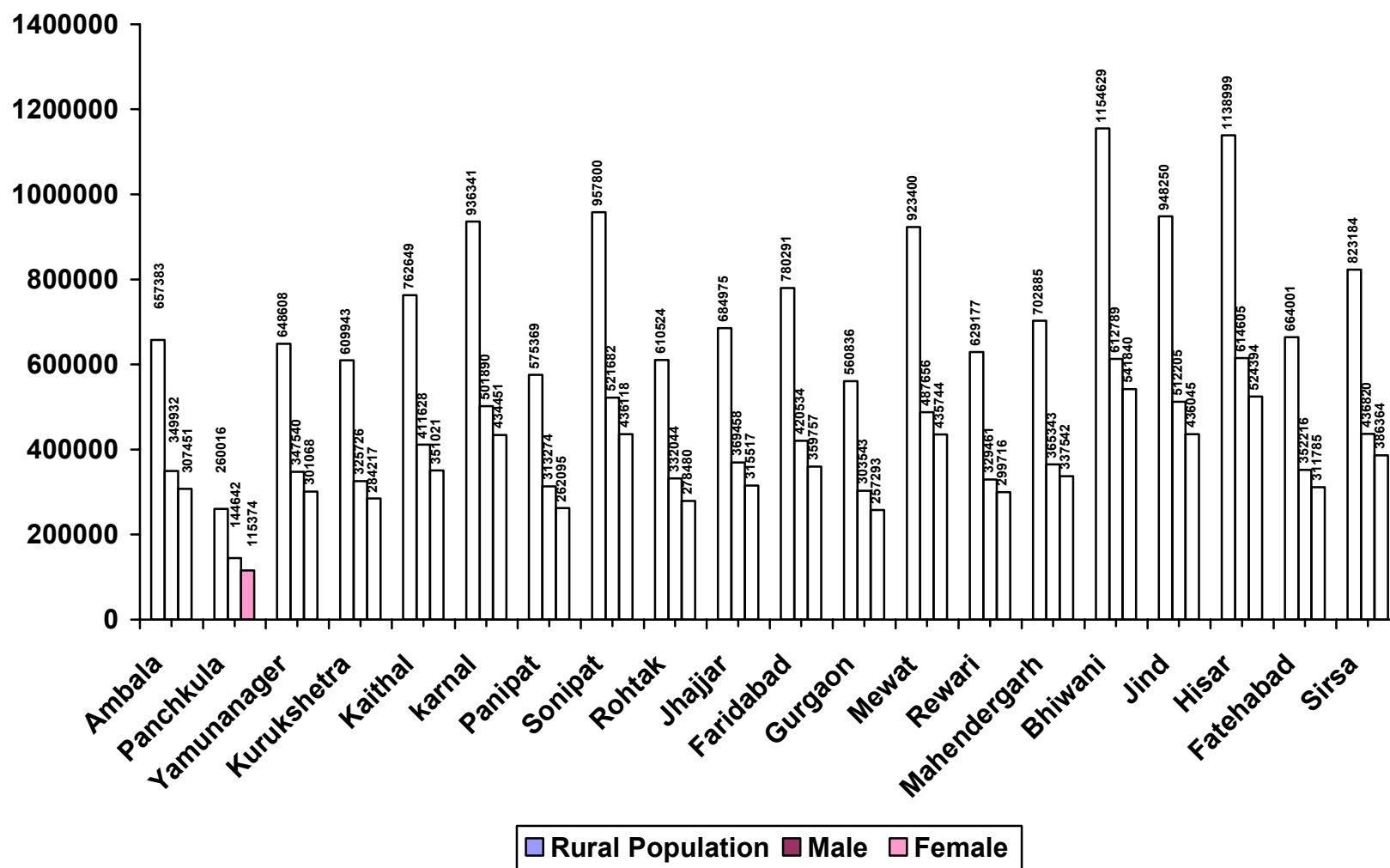
It will also be seen that YamunaNagar is the largest district having 517 Gram Panchayats and 613 villages forming 9.06% of the total villages in the State, whereas Rohtak is the smallest district with 146 villages and 151 Gram Panchayats forming 2.16% of the total villages. The graphic position is given in. 6.1.1 and 6.1.2.

STRUCTURAL ARRANGEMENTS PRIOR TO 73rd AMENDMENT

6.2 The Gram Panchayat Act was passed for the first time in 1952 by the erstwhile State of Punjab and the Panchayats at the village level have been functioning since then under the provisions of this Act. The other two tiers i.e. Panchayat Samitis and Zila Parishads, were formed under the Punjab Panchayat Samitis and Zila Parishads Act, 1961 and this structure, inherited by the Haryana State continued to function till the year 1973, when on the recommendations of an Adhoc Committee, the Zila Parishads were abolished in Haryana. Elections even to the Panchayat Samitis were not held regularly and continued to be postponed frequently and only the institution of Gram Panchayats continued to be more or less intact throughout this period.

6.3 While the Zila Parishads stood abolished, the Panchayat Samitis also functioned at a low key. Under the 1961 Act, the 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 and 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 members and the Sarpanch was elected from amongst its members. Reservation for women and scheduled castes was provided in the Panchayats.

Total Rural Population-Male & Female



6.4 The Panchayati Raj Institutions, which came into existence in early sixties, went through a period of stagnation during 1965-69 and relative decline during 1969-85 except for a few States like, Maharashtra, Gujarat, Karnataka and West Bengal where the institutions of PRIs were well structured and played an effective role in decision making and implementation of developmental programmes. In Haryana the importance of these institutions continued to rapidly decline. The role of Panchayat Samitis was largely confined to channelising a few meagre grants and giving some technical support in the field. While the structure of Gram Panchayats was more or less intact, the resources at its disposal were quite meagre, a major part coming from the poverty alleviation programmes and the Haryana Rural Development Fund (HRDF).

6.5 Another factor, which needs pointed reference, is the growth of departmental hierarchies particularly in the fields like education, health and public health, which earlier fell in the domain of the Local Bodies. Primary and middle schools, which fell in the domain of the Local District Boards prior to 1957, were provincialised and hence the entire burden of expanding educational facilities at these levels was taken over by the State Government. Similar is the position in respect of health infrastructure network which is manned and funded by the State Government. In respect of water supply, the entire programme of providing piped drinking water facilities, not only in rural areas but even in municipal areas, barring Faridabad Municipal Corporation, has been taken over by the State Public Health Department.

AFTER 73rd CONSTITUTIONAL AMENDMENT

6.7 The 73rd Constitutional Amendment Act, 1992 gave new dimension and strength to the Panchayati Raj Institutions. It provided for a 3 tier system from the village to the sub-district and district level. Seats are required to be reserved for scheduled castes and scheduled tribes in every panchayat in proportion to their population and one third of these reserved seats are meant for SC/ST women. Atleast one-third of the total seats are required to be reserved for women; including seats reserved for scheduled castes women. Seats on similar basis are also required to be reserved in respect of chairpersons at each of these levels.

6.8 Attention needs to be drawn to two other major provisions, one relating to elections and the other relating to the constitution of a Finance Commission. As regard the first provision, it has been provided that the new Panchayati Raj Institutions must be constituted at all the three 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 a Finance Commission 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 re-vitalised Panchayati Raj System.

6.9 In pursuance of the 73rd Constitutional amendment, the Haryana Government enacted the Haryana Panchayati Raj Act, 1994 which provides for a three tier system. As a result, the Zila Parishads were constituted afresh in the State after a lapse of more than two decades. While the earlier Act provided for indirect elections at the Zila Parishad and Panchayat Samiti level, under the new Act, the members of the Zila Parishads are to be elected directly. It further provides for the co-option of Chairman of all Panchayat Samitis within the district as ex-officio members and the Members of Parliament and Members of Legislative Assembly whose constituency lies within the district are to be associated as ex-officio members, who have a right to vote in the meetings except for election and removal of the President and Vice-President. Likewise, while the members of the Panchayat Samitis are to be elected directly from territorial constituencies within the Panchayat Samiti areas, one member of Panchayat Samiti is elected on the population of 4000 and the number of elected members will be 10 to 30 on the basis of population. MLAs representing constituencies, which comprise wholly or partly in the Panchayat Samiti area, as well as the Sarpanches of Gram Panchayats, are to be co-opted as Members. So far as Gram Panchayats are concerned, the Sarpanch is directly elected by Gram Sabha from amongst its voters by secret ballot and six to twenty panches to be elected from wards in a panchayat area in the manner prescribed. The Chairmen and the Vice-Chairmen in the Zila Parishads and Panchayat Samitis are to be elected indirectly by and from amongst its elected members.

6.10 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 Panchayat Samitis/Zila Parishads, but also with regard to the election of Sarpanches and

Chairpersons of Panchayat Samitis and Zila Parishads. Three historic elections to these bodies have been held in Haryana in December, 1994, March 2000 and April 2005 under the supervision and control of the State Election Commission. More than 50% of the elected Sarpanches and Chairpersons at the Zila Parishad and Panchayat Samiti level belonged to the reserved categories. Table 6.2 based on general elections held in April, 2005 depicts the position.

Table 6.2
Composition of PRIs (2005)

A	PANCHAYATS	Total.	%age	Women	%age
i	Panches				
	a) Total No. of Panchayats	6187			
	b) Total No. of Panches	60401	-	22294	36.90
	c) Total NO. of SC Panches	13094	21.67	6557	10.85
	d) Total No. of BC Panches	5951	9.85	-	-
	Total (SC, BC and Women)	34782	57.58		
ii	Sarpanches				
	a) Total No. of Sarpanches	6187	-	2112	34.14
	b) Total No. of SC Sarpanches	1226	19.81	460	7.43
	Total (SC and Women)	2878	46.51		
B	PANCHAYATS SAMITIS				
I	Members				
	a) Total No. of Panchayat Samitis	119			
	b) Total No. of Members	2833	-	962	33.95
	c) Total No. of SC Members	617	21.77	245	8.65
	d) Total No. of BC Members	126	4.45	-	-
	Total (SC, BC and Women)	1460	51.53		
ii	Chairpersons (PS)				
	a) Total No. of Chairpersons	119	-	60	50.42
	b) Total No. of SC Chairpersons	21	17.65	11	9.24
	Total (SC and Women)	70	57.89		
C	ZILA PARISHADS				
I	Members				
	a) Total No. of Zila Parishads	20			
	b) Total No. of Members	384	-	135	35.15
	c) Total No. of SC Members	82	21.35	33	8.59
	d) Total No. of BC Members	19	4.94	-	-
	Total (SC, BC and Women)	203	52.86		
ii	Chairpersons (ZP)				
	a) Total No. of Chairpersons	19	-	8	42.10

b) Total No. of SC Chairpersons	4	21.05	-	-
Total (SC and Women)	9	47.36		

Source: Panchayat Department Haryana.

B- PROFILE OF URBAN LOCAL GOVERNMENT IN HARYANA

URBANISATION PROCESS

6.11 Haryana's economy is basically a rural one but, it has also made rapid strides towards urbanization, particularly since its inception in 1966. The urban population in Haryana, which was around 12% to 17% till sixties, has gone up to 29.00% as per 2001 census due to rapid economic development and the ushering in of the green revolution in the State. Table 6.3 and graph depicts the position.

TABLE 6.3
GROWTH OF URBAN POPULATION

Census Year	Number of Cities/Towns	Total Population (in lakhs)	Urban Population (in lakhs)	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	61.14	29.00

HARYANA URBAN POPULATION

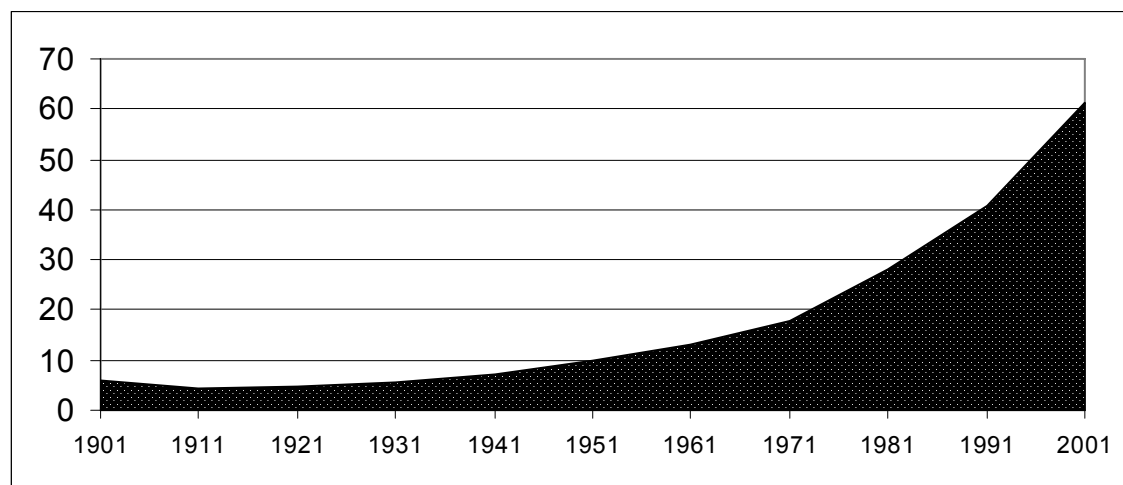


Fig 6.11.3

6.12 The position regarding the number of towns, the decennial population growth and scenario of urban population is given in table 6.4.

Table 6.4

Decennial growth of Urban Population (1951-2001)

Year	No. of Towns	Total Population (in lakhs)	Decennial Growth (%)	Urban Population (in lakhs)	Decennial Growth(%)
1951	62	56.74	-	9.69	--
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	28.06	61.14	50.81

It will be seen that during the 40 year period (1961-2001), while the total population has almost tripled, the urban population has grown about five times. The urban population recorded a marked decadal growth of 50.81% in the period 1991-2001 as against the over all growth of only 28.06%. In absolute terms, the urban population increased by about 21 lakh during the period 1991-2001 as against 12 lakh during the period 1981-91. If this trend of growth is any indication, the urban population is expected to become 34%

of the State population in the year 2011. This steep increase envisaged in urbanization in the coming years pointedly underscores the need for systematic planning for proper urban growth in all its multifarious aspects right from now onwards.

6.13 The decennial growth of urban population during the decade 1991-2001 was the maximum in Jhajjar (96.19%) and the minimum in Ambala (24.79%), as would be clear from Table 6.5

Table-6.5
DISTRICTWISE DECENNIAL GROWTH RATE OF URBAN POPULATION
(1991-2001)

Sr. No.	State/District	Urban Population (2001)			Decennial Growth Rate of Urban Population
		Total	Male	Female	
1.	Ambala	357028	193045	163983	24.79
2.	Panchkula	208395	112297	96098	87.68
3.	Y.Nagar	393022	211904	181118	41.89
4.	Kurukshetra	215511	116602	98909	40.02
5.	Kaithal	183482	98885	84597	51.80
6.	Karnal	337842	181478	156364	30.23
7.	Panipat	392080	215586	176494	86.98
8.	Sonipat	321375	174041	147334	52.68
9.	Rohtak	329604	176994	152610	29.98
10.	Jhajjar	195097	107017	88080	96.16
11.	Faridabad	1210428	663604	546824	70.06
12.	Gurgaon	309703	166961	142742	58.70
13.	Mewat	70217	37216	33001	-
14.	Rewari	136174	73573	62601	43.18
15.	M.garh	109636	58235	51401	29.13
16.	Bhiwani	270393	145464	124929	37.57
17.	Jind	241577	130077	111500	46.20
18.	Hisar	398118	215915	182203	38.86
19.	Fatehabad	142157	75646	66511	38.01
20.	Sirsa	293465	156425	137041	53.16
	Total	6115304	3310965	2804339	50.81

6.14 As per the definition adopted by the Census Commission, there were 106 towns in Haryana at the time of 2001 Census, with a population of 61.14 lakh. The areas conforming to the following standards have been treated as urban for census purposes:-

1. All statutory towns i.e. all places with a local authority like municipality, cantonment board, notified area committee, etc.
2. All other places, which satisfy the following requirements.
 - (a) a minimum population of 5,000;
 - (b) at least 75% of the male working population being engaged in non-agricultural pursuits and
 - (c) a density of population of at least 477 persons per Sq.Km.

Towns have also been classified on the basis of their population for the purpose of census into the following classes:

Class of Towns	Population range
I	1,00,000 and above
II.	50,000 to 99,999
III.	20,000 to 49,999
IV.	10,000 to 19,999
V.	5,000 to 9,999
VI.	up to 4,999

A class I town i.e. a town having a population of 1 lakh and above is termed as a city in census, irrespective of the fact that the town has a corporation or a municipality.

6.15 The number of Urban Local Bodies in Haryana at present is 76, consisting of one Municipal Corporation, 24 Municipal Councils and 51 Municipal Committees. If this census classification is adopted, the class-wise position of towns in Haryana would be as under:-

Class	Population Range	No. of Municipal Towns	2001 Population (in lakhs)	% to total
I	1 lakh & above (Corp.+Councils)	20	42.53	74.50
II	50,000 to 1,00,000	5	3.01	5.27
III	20,000 to 50,000	22	7.39	12.45
IV,V&VI	Less than 20,000	29	4.15	7.28
	Total	76	57.09	100.00

EVOLUTION OF LOCAL GOVERNMENT

6.16 The beginning of Local Self Government during the British rule can be traced to the institution of committees (not municipal committee) constituted to carry out local improvements under the supervision of the Divisional Commissioners. It was in 1862 that the municipal committees with enlarged powers were established 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 was also increased. The Punjab Municipal Act of 1911 was further amended in 1929, envisaging the extension of the elected element and introduced the election of non official President and Vice-President. **The first municipal committee of Gohana in Haryana State was established in the year 1885.** In the post-independence period, the Punjab Government passed the East Punjab Local Authorities (Restriction of Functions) Act, 1947 which empowered the State Government to assume functions of a local authority if it was not capable of discharging the functions duly assigned to it.

OVERALL HARYANA SCENARIO

6.17 A comprehensive Act called "The Haryana Municipal Act, 1973" was enacted in 1973 to regulate the composition, functions, taxation and allied matters of urban local bodies in Haryana. Besides, a large number of rules and bye-laws were framed on various subjects like municipal accounts, delimitation of wards, management of municipal properties and construction of buildings to facilitate the working of the municipal committees. Earlier the municipal bodies were categorised as A, B & C type of municipalities. The present Act classifies the municipalities in three classes as "Municipal Committee" with population not exceeding fifty thousand; "Municipal Council" with population exceeding fifty thousand but not exceeding five lakh and "Municipal Corporation" with population exceeding five lakh, to be governed by a separate Act (only Faridabad).

6.18 All the urban areas, as per census criteria, have not been covered under municipalisation and a rural area like Rania has been declared municipal area. The factors taken into account for determination of a municipal area are population of the area, the density of population therein, the revenue generated for local administration, the percentage of employment in non agricultural activities, the economic importance or such

other factors as the State may deem fit. As already indicated, the total population so covered, as per 2001 census, is 57.07 lakh with break up as follows:-

ULB's	No.	Population (in lakhs)	%age
i) Municipal Corporation	1	10.54	18.47
ii) Municipal Councils (above 50,000 Population)	23	34.99	61.29
iii) Municipal Committees (below 50,000 Population)	52	11.54	20.23
TOTAL	76	57.07	100.00

Note:- The 2nd Municipal corporation of Gurgaon has been constituted vide notification No. 18/1/95/2008-3C1 dated 02nd June, 2008.

6.19 In order to have a clear picture, the number of municipalities, population-wise, within the broader categorization of Municipal Councils and Municipal Committees is given below:-

MUNICIPAL COMMITTEES/ COUNCILS/ CORPORATION

Population Ranges	No.	Population Ranges	No.
Less than 5,000	-	50,000 less than 1,00,000	5
5,000 to less than 10,000	3	1,00,000 less than 1,50,000	11
10,000 to less than 20,000	26	1,50,000 less than 2,00,000	3
20,000 to less than 30,000	9	2,00,000 and above	5
30,000 to less than 40,000	9		
40,000 to less than 50,000	5		
TOTAL- 76	52		24

The above tables depict that out of 24 municipal committee, only three municipal committees are having a population in the range of 5,000 to 10,000. By far the largest

number of municipal committees (35) falls in the range of 10,000 to 30,000. On the other side largest number of municipal councils falls in the range of 1,00,000 to 1,50,000.

ADMINISTRATIVE STRUCTURE

6.20 Under the Haryana Municipal Act, a large number of powers are vested in the State Government. To quote a few, the authority for the constitution of committee, deciding its jurisdiction, nomination of councilors, removal of President/Members, constitution of municipal services etc. vest in the State Government. The Directorate of Local Bodies started functioning effectively only in the year, 1982. The Director, who is a senior IAS officer, is assisted in his work by one Joint Director, two Deputy Directors, a Superintending Engineer, a Chief Town Planner, a Fire Officer, an Accounts Officer and other staff consisting of about 196 class II, III and IV officials.

6.21 Section 38 of the Act empowers the State Government to constitute municipal services including those of Administrators/Chairmen, Executive Officers, Municipal Engineers, Assistant Town Planners and Secretaries at State level and one or more other municipal services at the district level in connection with the affairs of the municipalities, recruitment to which may be made by either the State Government or the Director Local Bodies or the Deputy Commissioners as provided in the rules.

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

Sr. No	Name of Service	Appointing Authority	Number of Posts		
			Sanctioned	Filled	Vacant
1.	Administrators	Government			
2.	Executive Officers	- do -	24	15	9
3.	Secretaries (Council)	- do -	24	10	14
4.	Secretaries (Committee)	- do -	43	30	13
5.	Municipal Engineers	- do -	24	11	13
6.	Astt. Town Planners	- do -	4	-	4
7.	Junior Engineers	Director, Local Bodies	83	71	12
8.	Superintendents	- do -	35	15	20
9.	Accountants	- do -	67	50	17
10.	Chief Sanitary Inspectors	- do -	20	11	9
11.	Fire Station Officers	- do -	24	23	1
Total			348	236	112

6.23 Besides, there are 18 categories of Haryana Municipal District Level Services, where the appointing authority is the Deputy Commissioner. 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, Tractor Drivers, Driver of Fire Brigade, Firemen and other class IV employees and sweepers. The number of posts which fall in this category i.e. district level services is around 11226. Traditionally, the staff in a municipality is grouped on functional basis with the numerical strength depending on work load.

6.24 Broadly, the functions of the municipalities are being categorized under tax collection, fee collection, fire management, engineering, development works, sanitation, rent collection of municipal properties, arrangements for street lighting, gardening and general supervisory roles concerning administration & accounts. The Faridabad Municipal Corporation has a separate entity. Its working is governed and regulated under a separate Act and the administrative structure and employees statistics enumerated above relate to councils and committees only.

CHAPTER-7

FUNCTIONAL DECENTRALISATION TO LOCAL BODIES

7.1 The 73rd and 74th constitution amendment acts provide the constitutional framework for democratic decentralization. Functional and financial devolutions constitute a key element of empowerment of local bodies through the process of democratic decentralization. Thus, empowering local bodies is a necessary condition to strengthen decentralization, the crucial factor for which is to empower them through transfer of local level functions. The functional domain of local bodies has considerably expanded with the inclusion of 11th and 12th schedules in the Constitution. Now the State Legislature has been empowered to transfer functions and responsibilities listed in newly created 11th and 12th Schedules to the rural and urban local bodies. The 11th Schedule lists 29 functions for PRIs and 12th Schedule lists 18 functions for ULBs. Before making financial devolution to these bodies, it is important for the Commission to know the extent of functional decentralization to the PRIs & ULBs.

A- FUNCTIONAL TRANSFERS TO PRIs

7.2 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, No. II of 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. 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.”

7.3 Likewise, a similar list has been provided under Section 75 of the Haryana PRIs Act 1993 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

7.4 The State Government in the Development and Panchayats Department vide Memo No. DPN-PA-95/23517-726, dated 23.05.95 has delegated 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. Thereafter, in recognition of the effectiveness of PRIs in planning and implementation of rural development scheme, it was decided in 2001 to transfer certain functions and responsibilities to the PRIs alongwith control over functionaries also. For instance, the entire administrative and financial control of primary schools alongwith staff has been transferred to the Zila Parishads. Similarly, in relation to the Health Department, the Zila Parishad has been empowered to monitor the progress of various National and State Health Programmes. Chairman of Panchayat Samitis have been given powers to record their remarks on the ACRs of staff of health centres.

7.5 Further, to strengthen the process of decentralization, activity mapping of various departments was prepared and circulated on 17-02-06 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.

7.6 With a view to empower the PRIs, the State Govt. has recently introduced new initiatives, as under:-

- With a view to have effective participation of PRIs in the development process, the Haryana Panchayati Raj Finance, Budget and Accounts Rules, 1996 were amended on 25.7.2006 whereby State Government increased the Financial Powers of Panchayati Raj Institutions for execution of development works as per details given below:-
 - Gram Panchayat From Rs. 1.25 lac to Rs. 3 lacs for each work
 - Panchayat Samiti From Rs. 3 lacs to Rs. 5 lacs for each work
 - Zila Parishad From Rs. 5 lacs to Rs. 10 lacs for each work
- Gram Panchayats have been empowered to appoint safai karmis for cleanliness in the villages and for the said purpose 11,000 safai karmis have been appointed.
- Most of the Centrally Sponsored Schemes such as, Samporna Gramin Yojna, Indira Awas Yojna, 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 has been launched to provide city like amenities in the villages and the GPs have been given the duty of providing basic services and their maintenance through funds flowing from the State Govt. 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 91 villages have been identified for developing as Model Village on which an amount of Rs. 400.00 crore is likely to be spent.

- On the pattern of Haryana Urban Development Authority, 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 pipeline, drainage, power supply, community building sites will be provided in these colonies.
- In order to facilitate proper participation of PRIs in development process, State Government in a major policy decision during 2006-07 allowed following facilities/ honorarium to the elected representatives:-
 1. Sarpanches and Panches, for the first time, have been sanctioned honorarium @ Rs.1000/- and Rs. 200/- p.m. respectively.
 2. Honorarium in respect of Chairpersons of Panchayat Samiti revised from Rs. 2000/- p.m. to Rs. 3000/- p.m. Vice Chairpersons and Members of the Panchayat Samiti, for the first time, have been allowed an honorarium @ Rs.500/- p.m.,
 3. Honorarium in respect of Presidents and Vice-Presidents of Zila Parishads was revised from Rs. 3000/-p.m and Rs. 2500/- p.m. to Rs. 4000/-- and Rs. 3000/- p.m. respectively. The Members of the Zila Parishads for the first time have been allowed an honorarium @ Rs. 1000/-p.m.

FUNCTIONAL DEVOLUTION TO URBAN LOCAL BODIES

7.7 About one third of the State falls in the National Capital Region (NCR) around Delhi and particularly this area is experiencing a high rate of urbanisation. The judicial pronouncements for shifting certain categories of industries from Delhi have given it a further momentum, resulting in migration of Delhi population in Haryana areas adjoining Delhi. The increased agricultural prosperity in the rural areas has created a thirst for better educational and health facilities and better housing and other environmental facilities. This rapid urbanization warrants the urban local bodies to provide for additional civic amenities and services. In conformity with the 74th constitutional amendment, the State Government has enacted the Haryana Municipal (amendment) Act 1994, which provides for three categories of municipalities based on population, a mix of elected and nominated members, adequate reservation for scheduled castes and backward classes and women for their wider and more effective participation. The amended Act also specifies the areas of responsibility of the municipalities and their power to raise revenue through obligatory as well as discretionary taxation measures. Provision has been made for delegation of a large number of functions and powers by the State Government including those mentioned in the twelfth 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 performances 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 purpose;
 - 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.

7.8 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 State Public Health Department except in case of Faridabad Municipal Corporation. The functioning of the municipal councils and committees is regulated under the Haryana Municipal Act, 1973, whereas the Municipal Corporation Faridabad is being governed by a separate Haryana Municipal Corporation Act, 1994 (amended thereafter).

7.9 The financial position of ULBs is weak and they are not able to take on the responsibilities of all the functions envisaged in the municipal act. As such the municipalities are not presently performing the following functions :-

- i) preparation of plans for economic development and social justice;

- ii) water supply for domestic, industrial and commercial purposes;
- iii) safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
- iv) Promotion of cultural, educational and aesthetic aspects.

OBSERVATIONS AND SUGGESTIONS

7.10 These delegation orders indicate the broad areas where further action needs to be taken by the subordinate offices. Each department should issue instructions to the subordinate offices clarifying the funds/schemes placed at the disposal of the Panchayati Raj Institutions and the role assigned to PRIs. In the absence of such guidelines neither the departmental officers nor the elected representatives are likely to understand their precise role in the new setup.

7.11 The Commission observes that devolution of functions and responsibilities would have to be a continuous process keeping in view the new role assigned to the local bodies, particularly the PRIs under the Constitutional amendment. The District Planning Committees have been established in the State and with delegation of more functions to the PRIs and ULBs and formulation of schemes at the grass root level, the local bodies are expected to make a larger contribution towards the up-liftment of the rural areas.

7.12 After perusal of above 'Delegation Orders', the Commission strongly feels that these delegations do not go far enough and many more responsibilities need to be devolved on the PRIs if these have to become true units of self-government as envisaged in the 73rd amendment to the Constitution. Instead of full scale delegations, the role envisaged is essentially that of a participatory nature. **What, further required is, that a number of schemes within easy implementation capacity of the panchayats should be wholly transferred to them. The Commission feels that a much more comprehensive exercise should be carried out and a number of schemes of local relevance being presently carried out by the line departments alongwith the allocations earmarked for them and the functionaries should be transferred to the PRIs.**

7.13 From the above, we understand that though a good beginning has been made by the State Government in the direction of democratic decentralisation, but the pace of progress is still very slow. What, infact is needed is firm conviction and belief in the decentralised implementation mechanism. We are aware that local issues are best addressed by local solutions. Functional transfer would mean community participation in the process of plan formulation and implementation. Involvement of local community plays an important role in making local bodies more effective at grass root level, as it would help in better project design, correct identification of beneficiaries, lowering of costs, providing resources for development works through monetary contribution and free labour etc.

7.14 We are also of the view that functional transfer is a gradual process to be carried out in a phased manner, keeping in view the administrative, structural and technical capabilities of the local bodies, particularly the PRIs. **Since, the matter is squarely in the purview of the State Govt., we would suggest that the functional transfer proposed in the activity mapping should be fully implemented and monitored and in future, transfer of any such functions and duties to the PRIs should be accompanied with funds and functionaries. We further suggest that the process of preparation of activity mapping of local level functions of other departments relating to rural and urban areas should be continued and all such activities falling in the domain of local bodies, rural and urban, should be transferred to them in a phased manner alongwith all the three Fs.**

7.15 The Commission has observed that there is no line of demarcation in powers, functions and responsibilities between the State Government and the local bodies, resulting in confusion all round. Neither the elected representatives nor the functionaries are clear about the role of PRIs. **There is, thus, 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 also be inserted in the Constitution or suitable State**

Legislation may be brought about to achieve the desired objectives. It requires initiative both by the Central as well as the State Government.

7.16 The rural and urban local bodies can not become effective instruments of decentralised governance unless they are endowed with specific powers, authority and funds. Though the enabling provisions fulfill this requirement and include all the items mentioned in the 11th and 12th schedules of the Constitution, yet many more responsibilities need to be devolved on local bodies if these have to become true units of self government. **Thus, to achieve the objective of providing decentralised governance, all the local level functions being presently performed by the line departments should be transferred alongwith funds and functionaries to the rural and urban local bodies in a phased manner, since the existing infrastructure of these bodies is not strong enough to take up the new assignments.**

CHAPTER - 8

TAXATION POWERS OF LOCAL BODIES

8.1 As per the TOR, the Commission, in making its recommendations, shall have regard, among other considerations to the fiscal capacities of the local bodies and their potential for raising internal resources. Hence, an attempt has been made by the Commission to be familiar with the financial powers of the local bodies as enshrined in their respective enabling acts so that an assessment of their enabling capacity to raise resources through own efforts could be made.

TAXATION POWERS OF PRIs

8.2 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.

8.3 Sections 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.

TAXATION POWERS OF ULBs

8.4 The ULBs are empowered to impose both obligatory as well as discretionary taxes. The obligatory taxes are those which the ULBs shall impose and it is obligatory on the part of the ULBs to impose these taxes as classified in section 69 of the Municipal Act, 1973. The discretionary taxation measures are recommendatory in nature and ULBs may impose these taxes if deemed fit and circumstances so permit to impose these taxes. These taxes are covered under Section 70 of the Municipal Act, 1973. Section 71 of this Act gives over-riding powers over section 69 and 70 and it authorizes a ULB to levy any tax, toll or fee which the State legislature can impose. The obligatory taxes take precedence over the discretionary taxes and a brief description of these 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, other than motor vehicles, or any other conveyances 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 fee with regard to pilgrimages, drainage, lighting, scavenging, cleansing of latrines, providing internal services and
- (x) 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

8.5 While going through the constitutional amendments and the subsequent enactments, we are convinced that these enabling provisions devolve adequate financial powers to the PRIs to enable them to be self-reliant in meeting their financial needs. We have also observed that these resource raising powers, as envisaged in the enabling acts, have not been largely exercised by the local bodies on political and economic considerations. No concrete steps seem to have been taken to impose the taxes and fees which they are authorised to levy and also to recover fully the taxes or fees presently levied. This has led to the undermining of authority and power of PRIs and made them highly dependent on state support. We are hopeful that in case the enabling taxing powers are fully exercised by the PRIs, their finances would be on sound footing and their dependence on State budgetary support would get reduced.

8.6 The representatives of PRIs and ULBs, while pleading before the Commission, clearly admitted that the State Government does not allow them either to impose the levies for which they are authorized or to raise the rates of existing taxes or fees. They strongly felt the need of near perfect autonomy of local bodies in taxation powers so as to enable them to raise enough resources to meet their obligations. **The Commission gave due thoughts to this issue and observes that the LBs should have full freedom to levy taxes and fees within limits prescribed by law subject to floor or ceiling rates fixed by the State Govt. But at the same time, the LBs should also be willing to exercise their given powers.**

8.7 The Commission also observed that there does not seem to be any clear-cut line of demarcation in the taxation powers between the state and the LBs as is between the Centre and the States. **It is, therefore, suggested that there has to be a clear demarcation of tax sources between State and LBs either through consensus or a constitutional provision or suitable State legislation to ensure legitimate sharing of taxes.**

8.8 But this aspect comes under the purview of the State Govt. and as such the State Govt. should initiate supportive measures in the desired directions. These measures would tend to enhance the financial autonomy of LBs staking claims of the local community and the elected representatives on accountability and answerability as they would be the ultimate beneficiaries.

Chapter- 9

FINACIAL POSITION OF THE LOCAL BODIES

9.1 As per its TOR, the Commission is required to review the financial position of the local bodies, both rural and urban and to assess their expenditure requirements and their potential for raising resources and reducing expenditures. Thus, in this chapter, the Commission has attempted to depict the salient features of income and expenditure of rural and urban local bodies.

A- FINANCIAL POSITION OF THE PRIs

9.2 In order to have an idea of the financial status of the PRIs, the Commission requested the Panchayat Deptt. to supply information on income and expenditures of all tiers of PRIs as per the formats designed by the Commission. Despite concerted efforts, the deptt. could not supply any information on finances of PRIs and as such the information given in following paras, though not so authenticated, has been gathered by the Commission at own level from various other sources.

9.3 The existing sources of income of Gram Panchayats broadly include income from shamlat land, house tax and other common property resources i.e. trees, ponds, woodlands, rivers, pathways, minerals etc. PRIs also get various compensatory, conditional, un-conditional and matching grants for community development. Funds are also released to PRIs under Haryana Rural Development fund (HRDF) and decentralised planning. The largest single source of funds for rural area is the poverty alleviation programmes and other special area programmes. The position is explained in following paras.

OWN SOURCES OF GRAM PANCHAYATS

9.3 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			Own Revenue 2+5	Shared Taxes			Grand Total 6+9
	House Tax	Shamlat Land	Other Sources	Total 3+4		Excise Revenue	LADT	Total 7+8	
1	2	3	4	5	6	7	8	9	10
2001-02	7.52	103.68	34.00	137.68	145.20	8.22	11.70	19.92	165.12
2002-03	8.60	86.12	33.50	119.62	128.22	7.21	12.88	20.09	148.31
2003-04	7.05	100.49	32.92	133.41	140.46	0.01	11.70	11.71	152.17
2004-05	7.42	108.82	33.50	142.32	149.74	21.48	22.50	23.98	193.72
2005-06	7.49	89.33	34.00	123.33	130.82	11.24	115.80	172.07	302.89
2006-07	6.31	89.65	35.80	125.45	131.76	6.57	129.64	136.21	267.97
2007-08	8.50	97.28	36.00	133.28	141.78	8.00	157.27	165.27	307.05

9.5 The only tax levied by GPs is the house tax. The prevalent house tax rate is Rs. 10/- , 20/- and 30/- per household. But the recovery of this tax is minimal and oftenly the recovery is tagged to the distribution of essential commodities like sugar and kerosene and at the time of preparation of new ration cards and issuance of caste and domicile certificates etc. The total recovery from house tax during 2005-06 was Rs. 7.49 crore which constituted only 5.72 percent of the total own income of PRIs. Now the State Govt. has abolished this tax w.e.f. 1st April, 2008 on residential buildings and as such, perhaps, no recovery would be coming from this source.

9.6 The major source of non-tax revenue is the lease money from shamlat land (common land) which constituted 68.28 per cent of the own income in 2005-06. The position of income from lease money differs widely from district to district, depending upon the extent of shamlat land, the extent of encroachments and various other factors such as the availability of irrigation facilities and soil fertility. The relative share of income from other common property resources is about 26 percent with income of Rs. 34.00 crore in 2005-06. The share in state excise and LADT has also been included here as these are the shared taxes and compensatory in nature. The proceeds of these two state

taxes are shared with local bodies as per their respective provisions. The operation of LADT act has also been struck down by the courts and as such this source may not now be available to the PRIs.

GRANTS TO GRAM PANCHAYATS

9.7 Various grants (Plan and non-plan), matching grants and subsidies are given to the PRIs which can be classified into three groups (i) compensatory grants due to abolition of certain levies, (ii) conditional grants, and (iii) unconditional grants for community development and grants through miscellaneous schemes like sanitation, ferry ghat, cattle fairs, revenue earning scheme etc. The other main components of grants to PRIs are CFC grants, SFC grants and schematic grants from the Centre and the States. The compensatory grants have remained static despite revenue receipts of the Government have registered progressive growth over the years. The State Government also provides subsidy and matching grants to PRIs under various schemes. Subsidy is provided for the construction of scheduled caste and backward class chopals. Matching grant is provided for the construction of public utility buildings and various other development schemes undertaken by the Panchayats. The position of grants including matching grants and subsidies, both plan and non-plan is depicted in Table-9.2.

TABLE - 9.2
GRANTS AND SUBSIDIES (PLAN AND NON-PLAN)

Rs. in crore

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Amount	47.87	34.42	74.01	165.11	255.11	290.48	344.51

HARYANA RURAL DEVELOPMENT FUND (HRDF)

9.8 For the purpose of present examination, the 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 community. The funds may also be utilized to meet the cost of administering it. The

development works are identified by district administration with the participation of local representatives.

9.9 Funds are also released to the district authorities under decentralised planning/ district plans 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 light etc. The position of release of funds under HRDF and Decentralised Planning is given in Table-9.3

TABLE - 9.3
FUNDS UNDER HRDF AND DECENTRALISED PLANNING

Rs. in crore

Years	HRDF	Decentralised Planning	Total
2001-02	148.93	10.00	158.93
2002-03	158.93	10.00	168.93
2003-04	148.60	15.00	163.60
2004-05	166.47	15.00	182.47
2005-06	152.01	20.00	172.01
2006-07	201.85	20.00	221.00
2007-08	165.49	20.00	185.00

POVERTY ALLEVIATION PROGRAMMES

9.10 Special beneficiary oriented schemes are being implemented by Rural Development Department through District Rural Development Agencies. The largest single sector providing funds for the development of rural areas is comprised of centrally sponsored schemes like Sampooran Grameen Rozgar Yojana (S.G.R.Y.), Desert Development Programme (D.D.P.), Swarnjayanti Gram Swarozgar Yojana (S.G.S.Y.), Integrated Wasteland Development Project (I.W.D.P.), Pardhan Mantri Gramodaya Yojana (P.M.G.Y.), Members of Parliaments Local Area Development Scheme (MPLADS), Employment Assurance Scheme (EAS) and various components of Jawahar Gram Samridhi Yojana (J.G.S.Y.). Each of these schemes operates under a number of set guidelines. While some of these schemes like D.D.P. & IWDP etc. are area development programmes and accordingly these are in operation in selected districts, the

other programmes like S.G.S.Y., J.G.S.Y. and E.A.S. largely follow the criteria of rural population below the poverty line. The position of flow of funds under poverty alleviation programmes is given in Table 9.4

TABLE-9.4
FLOW OF FUNDS UNDER VARIOUS SCHEMES

Sr. No.	Programme	Funds received during the Years (Rs. in crore)						
		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Wage Employment Program (SGRY, NREGA)	38.20	74.66	74.66	73.02	97.37	114.99	117.34
2.	Rural Housing IAY, PMGY	15.27	16.45	19.15	24.24	23.27	22.81	32.66
3.	Self employment Prog. SGSY, SGSY(Projects)	13.77	13.77	12.43	15.67	15.30	17.40	26.02
4.	Area Development DDP (Hot & Non Sandy), IWDP(100% Centrally),	107.57	22.41	27.78	26.57	29.57	21.79	33.81
5.	RSVY/ NFFWP/BRGF					10.72	22.50	25.80
6.	DRDA Administration			8.75	8.43	9.01	9.50	9.96
7.	MPLAD	45.51	34.37	31.48	19.02	27.11	26.65	30.94
	T O T A L	220.32	161.66	174.25	166.95	212.35	235.64	276.53

OVERALL POSITION OF FUNDS AVAILABLE TO PANCHAYATS

9.11 The overall position regarding availability of funds to panchayats from their own sources, various grants and subsidies under the central and state schemes, poverty alleviation programmes and allocation of funds under HRDF and decentralised planning is indicated in Table 9.5.

TABLE - 9.5
FLOW OF FUNDS UNDER VARIOUS SCHEMES

Rs. in crore

Scheme	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
i) Gram Panchayats own sources	165.12	148.31	152.07	193.72	302.89	267.97	307.05
ii) Grants & Subsidies	47.87	34.42	74.01	165.11	255.11	290.48	344.51
iii) HRDF	148.93	158.93	148.60	167.47	152.01	201.85	165.49
iv) Poverty Alleviation Programmes	220.32	161.66	174.25	166.95	212.35	235.64	276.53
v) Decentralized-Planning	10.00	10.00	15.00	15.00	20.00	20.00	20.00
Total	592.24	513.32	563.93	708.25	942.36	1015.94	1113.58
vii) Per capita (Rs.)	395	342	376	472	628	677	742

Evidently, the total amount available to PRIs including the Poverty Alleviation and Area Development Programmes was Rs. 592.24 crore in 2001-02 and it increased to Rs. 942.36 crore in 2005-06. During 2005-06, the amount under Poverty Alleviation Programmes formed 37.2 percent followed by HRDF 25.14, Grants and subsidies formed 8.08 percent, Panchayats own sources formed 27.88 percent and decentralized planning 1.68 percent. In terms of per capita provision, it works out to Rs. 395 in 2001-02 which increased to Rs. 628 in 2005-06 and further to Rs. 742 during 2007-08.

REVENUE PROJECTIONS OF PRIs

9.12 The Commission is required to make normative assessment of own revenues of the PRIs and their expenditure requirements on O & M of civic services being provided by them. Due to lack of technical expertise, reliable data base and logistical support, the Commission could make assessment of own revenue resources of the PRIs at its own level for its reference period 2006-07 to 2010-11 on traditional basis, however, keeping in view the past trends, recent developments and future potentials. The position of own tax and non-tax revenues of the PRIs is given in table 9.6

TABLE - 9.6
PROJECTION OF OWN REVENUE OF PRIs

Rs. in crore

SOURCES	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
House Tax	7.49	6.31	8.50	2.50	--	--
Shamlat Land	89.33	89.65	97.28	107.00	117.70	130.00
Other Sources	34.00	35.80	36.00	38.00	40.00	42.00
Share in State Excise	11.24	6.31	8.50	9.35	10.30	11.35
TOTAL	142.06	138.07	150.28	156.85	168.00	183.35

9.13 Income from house tax has not been projected from 2008-09 onwards as it has been abolished by the State Government w.e.f. 01/04/2008. Income from Shamlat lands has been projected to grow at 10% per annum and from other sources at 5%. Share of PRIs in excise revenues has been included in own revenues of the PRIs as it is compensatory in nature.

EXPENDITURE REQUIREMENTS OF PRIs

9.14 As already stated, Panchayat Department has not supplied any information on expenditure requirements of PRIs, neither on establishment nor on O & M of civics services. The Commission had to generate some workable estimates of expenditure requirements of PRIs for its award period.

9.15 The Commission has been informed that there is no cadre staff at PRIs establishment and the entire functionaries, whatsoever, are on deputation and the expenditure is met entirely by the State Government.

9.16 The Commission has also observed that apart from the regulatory and the general functions, none of the other demarcated functions which fall under the domain of PRIs, have been transferred to them. However, funds are needed by the PRIs for operation and maintenance of local village level services like pavement of streets, construction of culverts and panchayat ghars, street lights, sanitation, drainage, village ponds and management of common property sources. As such these bodies require adequate funds

for repair and maintenance of assets already created, sanitation and environmental improvement and other local level development activities.

9.17 Apart from regulatory and general functions, certain other functions demarcated for being devolved to the PRIs are the maintenance of community assets already created like schools, community health centres, stockman centres, water courses, public stand posts, chaupals etc. The amount available with the line departments for proper repair and maintenance of these assets is inadequate with the result that these assets are not put to optimal use and the quality of service being rendered is too poor. The Commission is, thus, of the view that some additional funds should be provided for proper maintenance of these assets. Presently, there are 18691 schools and 3200 health centres in rural areas. With a minimum provision of Rs. 20,000 per building, the additional requirement per annum works to Rs. 45.00 crore for maintenance of these community assets already created.

9.18 Besides cleaning of public streets and drains, panchayats are also responsible for maintenance of general sanitation in panchayat area. The panchayats generally remain confined to the cleaning of villages periodically on special occasions. The sanitary conditions in the villages are too bad which tell upon the health of the people. There are various central and state schemes being implemented in rural areas for improved sanitation. About 11,000 safai karmis have been appointed in the villages. Twelfth Finance Commission grant for PRIs is also being utilised for sanitation. It is estimated that an additional amount of Rs. 45.00 would be needed by the PRIs to meet the liability of safai karmis and to develop other infrastructure for sanitation.

9.19 The provision of basic civic services including environmental upkeep in villages is almost negligible. In big villages, sanitation and other public facilities are woefully inadequate. Pavement of streets and drainage facilities are the basic infrastructural prerequisites at village level requiring massive funds. Taking into account the funds being made available for villages from all sources, it has been proposed to provide additional funds of Rs. 50.00 crore per annum to the PRIs for adequate provision and maintenance of streets, drainage facilities, sanitation, environmental improvement, construction of community latrines and other basic infrastructural facilities.

9.20 Keeping these requirements in view, the Commission has assessed expenditure requirements of PRIs for the year 2006-07 at Rs. 243.00 crore at the rate of about Rs. 4.00 lac per Gram Panchayat per annum. This would work out to be about Rs. 150/- per capita, which is the basic minimum requirement. Future expenditure requirements have been projected to grow at 15 percent per annum from 2006-07 onwards to 2010-11. This assessment has been made on the presumption that the subsequent functional transfers to the PRIs would be alongwith funds and functionaries. The expenditure requirements of PRIs have been shown in table 9.7.

TABLE - 9.7
PROJECTED EXPENDITURE REQUIREMENTS OF PRIs

Rs. in crore

Item	Base Year	Forecast Period				
Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Amount	209.15	243.00	291.68	350.02	402.52	462.90

REVENUE GAP OF PRIs

9.21 The Commission is required to assess the revenue gap in own resources of all three tiers of PRIs to be bridged partly through SFC devolution and partly through own revenue generation efforts. The revenue gap, as assessed by the Commission at its own level, has been given in Table 9.8

TABLE - 9.8
REVENUE GAP OF PRIs

Rs. in crore

Years	Revenue income (own sources)	Revenue Expenditure	Revenue Gap
2006-07	138.07	243.07	-105.00
2007-08	150.28	291.68	-141.40
2008-09	156.85	350.02	-193.17
2009-10	168.00	402.52	-234.52
2010-11	183.35	462.90	-279.55
Total (2006-11)	796.55	1750.19	(-)953.64

B- FINANCES OF URBAN LOCAL BODIES

9.22 The Commission has carried out a detailed study of all aspects of municipal finances i.e. income from all sources including tax and non-tax revenues, transfers from Central and State Govts in the form of tax devolution and grants-in-aid and funds flow from outer sources, expenditure pattern, future projections of income and expenditure requirements for the period from 2006-07 to 2010-11. While carrying out this exercise, the Commission has kept in view that municipal bodies differ in size, location, fiscal capacities, expenditure pattern and needs, level of development.

9.23 The main source of municipal revenue is income from own sources which include tax and non-tax revenue. The other components of income of ULBs are shared taxes, grants, contributions and loans from State Government and other financial institutions. The pattern of growth of revenues of municipalities during the period 2001-02 to 2005-06 is given in Table-9.9.

TABLE - 9.9
RECEIPTS OF ULBs (COMMITTEES & COUNCILS)

Rs. in crore

Source	2001-02	2002-03	2003-04	2004-05	2005-06
a) Shared Taxes	21.03 (13.79%)	2.87 (1.72%)	35.50 (16.04%)	46.20 (17.38%)	122.23 (27.76%)
b) Own Revenue	100.01 (65.57%)	123.88 (74.29%)	148.40 (67.06%)	171.00 (64.33%)	206.87 (46.97%)
-Tax Revenue	39.37	68.28	94.91	101.02	114.62
-Non-Tax Revenue	60.64	55.60	53.49	69.98	92.25
c) Grants-in-aid	31.47 (20.63%)	40.01 (23.99%)	37.38 (16.85%)	48.61 (18.29%)	111.30 (25.27%)
GRAND TOTAL (a+b+c)	152.51	166.76	221.28	265.81	440.40

9.24 The above table reveals that the share of shared taxes, i.e. State Excise and LADT, in the total income of MCs, increased to 27.76% in 2005-06 from 13.79% in 2001-02, while the share of own revenue declined from 65.57% in 2001-02 to 46.97 % in 2005-06. Grants-in-aid constituted 25.27% in 2005-06 as against 20.63% in 2001-02 due to receipt of 2nd SFC grant of Rs. 50 crore in 2005-06.

TAX REVENUE

9.25 The over-all position of tax revenue of municipal committees/councils has been given in Table-9.10

TABLE - 9.10

DETAILS OF TAX REVENUE (MUNICIPAL COMMITTEES & COUNCILS)

Rs. in crore

Source	2001-02	2002-03	2003-04	2004-05	2005-06
A) Own-tax revenue	39.37	68.28	94.91	101.02	114.62
House Tax	11.12	30.27	48.31	44.94	41.77
Fire Tax	0.49	4.67	9.29	5.68	4.00
Profession Tax	1.57	2.05	2.18	0.03	--
Vehicle/Driving License Tax	3.22	3.10	3.39	3.96	5.51
Stamp Duty	20.16	22.32	26.16	42.16	56.75
Electricity Tax	2.81	5.87	5.58	4.25	6.59
B) Shared taxes	21.03	2.87	35.50	46.20	122.05
State Excise	21.03	2.87	5.50	6.70	6.25
LADT	--	--	30.00	39.50	115.80
GRAND TOTAL(A+B)	60.44	71.15	130.41	147.22	236.67

9.26 Tax revenue comprises house tax, fire tax, profession tax, vehicle tax, driving license tax, electricity tax and stamp duty. Share of ULBs in State excise and LADT also forms part of their own tax revenue. House Tax or Property Tax being the main source accounted for 28.24% of the total own tax revenue with a recovery of Rs. 11.12 crore in 2001-02. This tax showed substantial improvement during 2003-04 and onwards due to revision in the rates of property tax to 2.5% of the total value in case of residential and to 5% in case of other properties and also due to rationalisation in assessment system. Fire tax, vehicle tax and profession tax were levied during 2001-02, out of which profession tax was rolled back in 2004-05.

9.27 Stamp duty, electricity tax, state excise and LADT come in the category of shared taxes. Stamp duty is shared with ULBs on regular basis at a rate of 2% of the sale amount from Feb. 2004 (before that at 3%). This is a potential source showing substantial improvement in recovery a little less than three times, to Rs. 56.75 crore in 2005-06 from Rs.20.16 crore in 2001-02 due to boom in the values of real estates. Tax on consumption of electricity in municipal areas is levied at the rate of 5 paise per unit and is almost

adjusted against payment of electricity bills of street lighting. Proceeds from state excise and LADT are also shared with ULBs as per the provision in their respective acts or rules.

NON -TAX REVENUES

9.28 The broad position regarding non-tax revenues of municipal bodies is given in Table 9.11.

TABLE - 9.11
DETAILS OF NON-TAX REVENUE (MUNICIPAL COUNCILS & COMMITTEES)

Rs. in crore

Item	2001-02	2002-03	2003-04	2004-05	2005-06
Rent	11.49	13.63	13.95	15.43	15.71
Dev. Charges	9.82	13.62	9.34	14.12	24.58
Licence Fee	0.89	0.82	1.23	1.13	1.18
Tehbazari	1.94	2.11	1.80	2.15	2.64
Fee & Fines	1.05	1.73	1.71	1.74	1.42
Sale of Land	6.75	8.14	7.61	15.06	23.58
Interest on invst.	0.23	0.37	0.82	2.05	1.41
Water Charges	0.01				
Misc.	28.47	15.18	17.03	18.30	21.73
TOTAL	60.65	55.60	53.49	69.98	92.25

9.29 The above table indicates that the non-tax revenues have remained more or less stagnant comprising of rent, development charges, license fees, tehbazari, fee & fines, sale of land, interest on investment, rents etc. There is no recovery on account of water charges as this function is being performed by public health department. Development charges follow a regular pattern and depicted substantial improvement during 2005-06. However, sale of land is a fluctuating source and follows no regular trend.

GRANTS IN AID TO MUNICIPAL BODIES

9.30 The position of grants-in-aid to municipal bodies is given in Table-9.12

TABLE - 9.12
GRANTS-IN-AID TO MUNICIPAL BODIES

Rs. in crore

Source	2001-02	2002-03	2003-04	2004-05	2005-06
11 th & 12 th CFC	11.00	7.33	7.33	7.33	18.20
2 nd State Finance Com	-	-	-	-	50.00
Other State Plan+ Non Plan	20.47	32.68	30.06	41.29	43.10
Total	31.47	40.01	37.39	48.62	111.30

The ULBs receive grants from various sources like Central Finance Commission, State Finance Commission and schematic grants from the Central and State Governments, which, more or less, follow a regular pattern.

9.31 The Commission is also required to project the revenue receipts of the municipal bodies for its award period i.e. from 2006-07 to 2010-11. For this purpose, the year 2005-06 has been taken as the base year and projections have been made on existing rates of taxes and fees and the current level of prices assuming inflation rate at 5 percent per annum. Normal buoyancy has been assumed at 5% per annum. On this basis, the revenue receipts have been projected to grow at 10% per annum in normal cases. However, different yardsticks have been adopted for individual items of receipts while estimating the receipts. Non-recurring developments have been excluded from the projections, but the past trends, latest developments and future potentials have, by and large, been kept in view while making projections.

9.32 Proceeds from LADT have been retained at Rs. 100 crore each year from 2008-09 and onwards as operation of this tax has been struck down w.e.f. 2008-09. The receipts from House Tax have been reduced by about 50% as this tax on residential buildings has been abolished w.e.f. 01-04-2008. Other sources of tax and non-tax revenues have been projected on trend basis following traditional approach. TFC grants of Rs. 18.20 crore have been kept constant upto 2009-10 and for the year 2010-11 a step up of 10% has been given as this year would be covered by the 13th CFC. SFC grant of Rs. 50 core for 2005-06 has been kept constant upto 2008-09 and further projected by 10% per annum

as this entire period is covered by the award of 3rd State Finance Commission. The overall position of revenue projections of ULBs have been given in Table -9.13.

TABLE - 9.13
PROJECTIONS OF MUNICIPAL REVENUES (2006-07 TO 2010-11)

Rs. in crore

Source	Base year 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
I- Revenue Receipts (A+B+C)	440.42	476.88	527.90	469.87	500.39	535.34
A- Tax Revenue (a+b)	236.67	261.63	299.96	227.95	238.42	249.72
a) Shared taxes	122.05	137.84	166.27	109.90	110.90	112.00
i) Excise Revenue	6.25	8.20	9.00	9.90	10.90	12.00
ii) LADT	115.80	129.64	157.27	100.00	100.00	100.00
b) Own Tax Revenue	114.62	123.79	133.69	118.05	127.52	137.72
i) House Tax	41.77	45.12	48.72	26.30	28.41	30.69
ii) Fire Tax	4.00	4.32	4.66	5.03	5.44	5.87
iii) Vehicle/Driving/License Tax	5.51	5.95	6.44	6.94	7.50	8.09
iv) Stamp Duty	56.75	61.29	66.19	71.48	77.21	83.38
v) Electricity duty	6.59	7.11	7.68	8.30	8.96	9.68
B- Non-Tax Revenue (i to ix)	92.25	99.63	107.60	116.37	125.69	135.74
i) Rent	15.71	16.97	18.35	19.79	21.37	23.08
ii) Development Charges	24.58	26.54	28.67	31.13	33.64	36.31
iii) License fee	1.18	1.27	1.37	1.49	1.60	1.73
iv) Tehbazari	2.64	2.85	3.07	3.32	3.59	3.88
v) Fees and Fines	1.42	1.53	1.65	1.79	1.93	2.08
vi) Sale of Assets (Land etc.)	23.58	25.46	27.50	29.60	32.08	34.67
vii) Interest Receipts	1.41	1.55	1.64	1.77	1.92	2.07
viii) Other	21.73	23.46	25.34	27.37	29.56	31.93
C- Grants-in-aid	111.30	115.62	120.34	125.55	136.28	149.88
i) CFCs	18.20	18.20	18.20	18.20	18.20	20.00
ii) SFCs	50.00	50.00	50.00	50.00	55.00	60.50
iii) Others	43.10	47.42	52.14	57.35	63.08	69.38

EXPENDITURE OF MUNICIPAL BODIES (COMMITTEES/COUNCILS)

9.33 The Commission sought details of revenue expenditures of all types of ULBs from the Urban Development Deptt. in well designed formats for the period from 2001-02 to 2005-06. The summary position of expenditure given by the department has been shown in table-9.14.

TABLE - 9.14
EXPENDITURE OF MUNICIPALITIES

Rs. in crore

Head	2001-02	2002-03	2003-04	2004-05	2005-06
1. Establishment	70.35 (69.44)	69.66	77.17	84.10	93.71 (53.30%)
2. Development	15.20 (15.00)	31.16	42.44	51.30	47.57 (27%)
3. Others	15.75 (16.00)	21.43	26.65	28.05	34.53 (19%)
Total	101.30	122.25	146.26	163.45	175.81

9.34 The above table depicts that the expenditure on establishment as ratio to total expenditure has declined to 53.30% in 2005-06 from 69.44% in 2001-02, whereas in physical terms, expenditure on staff has increased substantially to Rs. 93.71 core in 2005-06 from Rs. 70.35 crore in 2001-02. However the deptt. has not reported any unpaid liability on account of staff and pensionary benefits. On the other hand, development expenditure, as ratio to total expenditure has increased to 27% in 2005-06 as against 15% in 2001-02. In absolute terms development expenditure has gone up by more than three times from Rs. 15.20 core in 2001-02 to Rs. 47.57 core in 2005-06. This head also includes a major part of maintenance expenditure which is incurred as per the availability of funds.

POJECTIONS OF MUNICIPAL EXPENDITURE (2006-07 to 2010-11)

9.35 The Twelfth Finance Commission had required the SFCs to make normative assessment of expenditure requirements of municipalities. The Commission had asked the Urban Development Department to provide the norms being applied for providing the civic services and for their operation & maintenance. The information received from the department, being not upto the mark, the Commission had to resort to its own strategy to workout the expenditure requirements of ULBs. The expenditure projections, so worked out, have been shown in table 9.15.

TABLE - 9.15
EXPENDITURE REQUIREMENTS OF ULBs

Rs. in crore

Components	Base year	Forecast period				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Establishment	93.71	104.95	117.55	131.65	147.45	165.14
Developmental	47.57	57.08	68.50	82.20	98.64	118.37
Others	34.53	36.95	39.54	42.30	45.26	48.45
Grants	111.30	115.62	120.34	125.25	136.28	149.88
Total	287.11	314.60	345.93	381.47	427.63	481.84

9.36 As stated above, establishment expenditure has been projected taking the financial year 2005-06 as the base and a growth rate of 12% has been applied for the future years taking into account the effect of dearness allowance, normal growth and increase in staff strength. The expenditure on development and other municipal works has been projected to grow at 20% per annum in order to provide adequately for proper upkeep and maintenance of existing civic services and to upgrade the civic infrastructure for providing quality services to the citizens. Other expenditure has been projected at the growth rate of 7 percent per annum. As regards grants-in-aid, receipts and expenditures have been treated at par as no separate accounts seem to have been maintained for this head.

9.37 The commission has noted that the service levels in the core areas being provided by the municipalities is quite low and need substantial upgradation for providing quality services of higher standards. The department of Urban development has prepared City Development Plans of all the municipalities in the state in order to identify the present level of services and the gaps between the existing and the desired levels upto the year 2011. On this basis the additional requirements for providing minimum acceptable levels of basic civic amenities have been worked out as under :

- **Strengthening/ Construction of Roads (Rs.54.00 crore per annum) :** There are about 4000 kms. of the existing municipal roads out of which 60% need major repairs as these get frequently damaged due to heavy traffic, flood and changing weather conditions. Hence to maintain 2400 kms. of road length (60%), funds of Rs. 36.00 crore are needed per annum at the rate of 10% of the construction cost

or Rs. 1.50 lakh per km. Like-wise, for construction of atleast 200 kms. of new roads per year, an amount of Rs. 18.00 crore is needed per annum @ Rs.9.00 lacs per km. (for a road width of 3.67 meter). In other words, a sum of Rs. 54.00 crore per annum is required for municipal roads.

- **Street Lights (Rs. 24.00 crore per annum)** : There are about 66,000 street lights in various municipalities which require frequent repairs and upgradation. Further, newly developed areas need to be provided with more street light points. Thus, for existing 4000 kms road length and 2000 kms unsurfaced roads, an amount of Rs. 24.00 crore per annum is required for providing street light points.
- **Community Toilets (Rs. 10.00 crore per annum)** : Due to continuous high rate of urbanization, heavy shift of population to cities is taking place, resulting in slums and requiring much larger housing and toilet facilities. It is estimated that 210 public toilets in all the ULBs are required to be constructed during next five years at a cost of Rs.10.00 crore each year.
- Other requirements for Solid Waste Management, Slum Development, Storm Water Drainage etc. have been worked out in the City Development Plans to be met from state allocations and through various centrally sponsored programmes.

9.38 On this basis, the additional requirement of funds has been worked out at Rs. 88.00 crore for the year 2006-07. A step up of 7% has been applied each year for projecting fund requirements for next years upto 2010-11. The position is given in table 9.17.

TABLE - 9.17
ADDITIONAL FUNDS REQUIREMENT OF MUNICIPALITIES

Rs. in crore

Items	Additional Requirement of ULBs					Total 2006-11
	2006-07	2007-08	2008-09	2009-10	2010-11	
Municipal Roads	54.00	57.78	61.82	66.15	70.78	310.53
Street Lights	24.00	25.68	27.48	29.40	31.46	138.02
Community Toilets	10.00	10.70	11.45	12.25	13.10	57.50
Total	88.00	94.16	100.75	107.80	115.34	506.05

OVERALL STATUS OF MUNICIPAL FINANCES

9.39 The overall picture of municipal finances i.e. revenue receipts, revenue expenditure and deficit/surplus on revenue account is given in Table 9.16.

TABLE - 9.16

Items	Overall Position of Municipal Finances (Rs. in crore)					Total 2006-11
	2006-07	2007-08	2008-09	2009-10	2010-11	
Total Income (Own Source) Tax+Non-Tax	361.26	407.56	344.32	364.11	385.46	1862.71
Expenditure	402.60	440.09	482.22	535.43	597.18	2457.52
Normal	314.60	345.93	381.47	427.63	481.84	1951.47
Additional	88.00	94.16	100.75	107.80	115.34	506.05
Deficit/Surplus	(-) 41.34	(-) 32.53	(-)137.90	(-)171.32	(-) 211.72	(-)594.81

RESOURCES GAPS OF PRIs AND ULBs

9.40 The position of resources gaps of the local bodies, both PRIs and ULBs, as worked out by the Commission, is given in Table 9.18.

TABLE - 9.18

RESOURCES GAP OF PRIs AND ULBs

Rs. in crore

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
Deficit of LBs	146.34	173.93	331.07	405.84	491.27	1548.45
PRIs	105.00	141.40	193.17	234.52	279.55	953.64
ULBs	41.34	32.53	137.90	171.32	211.72	594.81

C- FINANCES OF MUNICIPAL CORPORATION FARIDABAD

9.41 Faridabad is the first Municipal Corporation and the largest urban agglomeration in Haryana spread over an area of 207.88 sq. kms with a population of 10.55 lac (2001 census). In view of the emerging population trends, the City Development Plan, amended in 1991, is proposed to cater to a population of 17.5 lakh by the year 2011.

9.42 The Commission has attempted to analyse the financial position of MCF i.e. income and expenditure, for the period 2001-02 to 2005-06 on the basis of the information supplied by MCF. Here it would be worthwhile to mention that sources of revenues to MCF and items of expenditures are similar to those of municipal committees and councils as explained in previous paras. However, the summary position is given in table 9.19 and 9.20.

TABLE - 9.19
SUMMARY OF RECEIPTS OF MCF

Rs. in lakhs					
Name of Head	2001-02	2002-03	2003-04	2004-05	2005-06
Grant-in-aid	1736.82	396.79	473.62	270.06	1928.24
Own-Taxes	2603.72	3247.43	2599.79	4284.65	4515.98
Non - Tax	2958.91	2409.93	2184.02	3594.77	4119.20
Misc. Income	1017.42	3657.29	2338.63	2380.94	1088.27
GRAND TOTAL	8316.87	9711.44	7596.06	10530.42	11651.69

TABLE - 9.20
EXPENDITURE OF MCF

Rs. in lakhs

Name of Head	2001-02	2002-03	2003-04	2004-05	2005-06
General Salary +Pensioners contribution	3331.32	4127.89	3564.27	3930.11	4639.37
Contingency	112.49	132.14	106.07	116.74	171.19
Original Works	3927.94	4691.58	3053.68	4781.33	6771.58
(i)Street lights	175.07	416.24	608.46	426.65	650.87
ii) Office original works	-	20.60	5.70	15.89	91.58
(iii)Drainage	181.05	358.97	443.45	602.14	608.80
(iv)Library/Dispe../ School/Org.	-	40.16	10.48	-	15.62
(v)Water Supply	2729.69	1720.21	1284.09	1703.64	2350.74
(vi) Roads	637.86	1310.44	288.07	1407.79	1463.92
(vii) Slum Grants	30.34	58.06	47.27	31.04	-
(viii) Park Org. work	-	83.49	37.32	186.99	224.62
(xi) Org. Work for crusher Zone & T.P. School	-	156.56	70.24	81.12	5.37
(xii)Others	173.43	526.85	258.6	326.07	1360.06
Repayment of Loan	20.31	18.13	176.05	842.97	412.04
Miscellaneous	77.79	938.30	331.76	293.41	469.81
Total	7469.35	9908.04	7231.83	9964.56	12463.99
%age of General salary+ Pension to total expendt.	44.60	41.66%	49.28%	39.44%	37.22%
%age of Exp.on original Works to total exp.	52.59%	47.35%	42.22%	47.99%	54.33%

9.43 Summary position of projected income & expenditure, as provided by the MCF has been given in Tables 9.21 and 9.22.

TABLE - 9.21
SUMMARY OF PROJECTED RECEIPTS OF MCF

Rs. in lakhs

Head	2006-07	2007-08	2008-09	2009-10	2010-11
Grants-in-aid	2825.89	32344.30	35578.73	39136.60	43050.26
Own Taxes	4603.25	5020.00	3872.00	4259.20	4685.10
Own Non-tax revenue	8144.89	8382.10	9220.31	10142.34	11156.57
Misc.	1395.27	8495.30	9344.83	10279.31	11307.24
Total	16969.30	54241.70	58015.87	63817.45	70199.17

TABLE - 9.22
PROJECTED EXPENDITURE OF MCF

Rs. in lakhs

Head	2006-07	2007-08	2008-09	2009-10	2010-11
General Salary	5034.32	5498.95	6048.84	6653.72	7319.09
Contingencies	315.01	332.50	365.75	402.32	442.55
Original works	10332.98	46248.73	50808.19	55888.33	61477.16
Street Lights	729.33	1187.34	1306.67	1436.67	1580.34
Drainage	1104.17	1684.23	1786.65	1965.31	2161.84
Water Supply	3211.74	7927.64	8720.40	9592.44	10551.68
Roads	2678.04	9506.10	10456.71	11502.38	12652.62
Slum Grants	11.91	-	-	-	-
Others	2597.79	25943.42	28537.76	31391.53	34530.68
Miscellaneous	1091.02	2028.00	2230.80	2453.88	2699.20
Total	16773.23	54108.18	59453.58	65398.25	71938.07

9.44 The financial position of MCF is no doubt reckoned as much better than the municipalities, still greater efforts are needed to improve resources and contain non-development expenditure. As reported, arrears of property tax are piling up and only 65% of the total demand is being collected. MCF should make serious efforts in this direction.

9.45 The function of water supply and sewerage is being handled by the Public Health Department, except in Panchkula and MC Faridabad. The position of supply of potable drinking water is becoming an expensive affair due to larger demand and depletion in ground water level. Water charges having not been increased, the O & M cost of water

supply is being highly subsidised and recovery constitutes about 20 percent only of the supply cost.

9.46 Thus, the Commission is of the view that there is still greater scope for higher recovery from existing sources because of much higher industrial growth and potential for income generation. But at the same time, the MCF has much higher development commitments requiring larger investment in infrastructure. MCF is also facing a major problem of slums. This problem needs to be tackled on an urgent basis if Faridabad has to grow as a model satellite town. It is, therefore, necessary that MCF should fully utilise its resource raising potential at own level, besides substantial devolution from the state budget.

OBSERVATIONS AND RECOMMENDATIONS

9.47 The financial position of rural and urban bodies is extremely weak due to mismatch between their inadequate sources of revenues and their expanding needs. Their resource gaps would go on rising year after year and would need to be bridged in the form of entitlement, partly from state resources and central devolution and partly through their own resource generation efforts. In its scheme of revenue sharing, the Commission has kept all these aspects in view and as such the quantum of devolution recommended for local bodies is of much higher order compared to the previous SFCs. Besides, the Commission has also suggested far reaching resource generation measures for local bodies. Since state budgetary support to the desired extent can not be continued to these bodies for longer, they will have to make sincere efforts to tap resources at the local level.

9.48 With a view to ensure that the local bodies, both rural and urban, make serious efforts towards resource raising at their own level, the Commission has recommended constitution of an Incentive Fund at the district level each for the PRIs and ULBs, and the LBs with better performance in resource raising efforts would be suitably rewarded. Thus, the Commission has attempted to strike a proper balance between the fiscal capacities of the state and the expenditure needs of the local bodies and has evolved a package acceptable to both. We further believe that the gaps in the resources of local bodies, if still persist, will receive the attention of the 13th Central Finance Commission,

9.49 The departments of Panchayats and Urban development have not reported any kind of unpaid liabilities towards employees, retirees and loans received from the state government and the financial institutions. Thus, in the given situation, the Commission has not made any recommendations for liquidation of unpaid liabilities or any waiver of loans.

CHAPTER-10

NORMS AND STANDARDS OF EXPENDITURE FOR PUBLIC HEALTH SERVICES (WATER SUPPLY AND SEWERAGE)

10.1 73rd and 74th constitutional amendments enlarged the functional domain of local bodies so as to enable them to effectively function as the third tier of local governance. Water supply, sewerage and solid waste collection and disposal are the core functions of municipalities. But due to their weak institutional capacity and poor financial base, the function of water supply and sewerage was taken over by the State Govt. w.e.f. 02-04-1993. Now the municipalities are concerned only with local sanitation and disposal of solid waste and garbage.

10.2 In the last chapter, the Commission has assessed the expenditure requirements of PRIs and ULBs for other basic public services except the water supply and sewerage. Since this work is being carried out by the PHED, the Commission sought basic information in this respect from the PHED and used the data so obtained for making financial projections for the period to be covered by it.

WATER SUPPLY AND SEWERAGE

10.3 The status of water supply and per capita allowance in rural and urban areas is as under:-

RURAL AREAS

At the time of formation of Haryana, drinking water facilities existed in only 170 villages covering a population of 2.20 lac persons. These were schemes @ 20 liters per capita per day (lpcd). After the formation of Haryana, great emphasis was laid on providing water supply in the villages. The drinking water supply programme received a fillip with the launching of the International Drinking Water Supply & Sanitation Decade (1981-91) and by 31st March, 1992, all 6759 villages were provided with at least one safe source of drinking water. Later, based on a countrywide survey of 1992, as many as 3623 villages were identified as deficient villages where the water supply status had reduced below the approved norms of 40 lpcd. The State Government gave priority to the coverage of these deficient villages and all 3623 villages were updated to a level of at least 40 lpcd by 1999.

10.4 The slippage of villages into the category of deficient villages is a continuous process. In another survey of December 2004, another 1971 villages were identified as deficient villages. Out of these, water supply in 1103 villages was improved by

31.03.2007, leaving a balance of 868 deficient villages. 600 deficient villages are proposed to be improved during 2007-08 and remaining 268 villages during 2008-09.

10.5 The present status of water supply in villages is as follows:-

Water Allowance	No. of villages
Less than 40 lpcd	868
41 to 69 lpcd	4001
70 lpcd and more	1890
Total	6759

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

10.7 In the rural areas, for augmentation of drinking water supply, various Central and State schemes are being implemented. Under State Plan Schemes, drinking water supply is augmented to a level of 40/55/70 lpcd. **Accelerated Rural Water Supply Programme** is a 100% centrally sponsored programme, which was introduced in the year 1977-78, to supplement the effort of the State Government. The funds provided under this programme are utilized for augmenting the drinking water supply facilities to a level of 55 lpcd, besides coverage of rural schools. **Desert Development Programme** is also a 100% centrally sponsored programme, which was introduced in the year 1989, for providing drinking water supply in the desert districts, namely, Hisar, Bhiwani, Sirsa, Fatehabad, Rohtak, Jhajjar, Mohindergarh and Rewari @ 70 lpcd, out of which, 30 lpcd, is for catering to the drinking water needs of the cattle population.

URBAN AREAS

10.8 At the time of formation of Haryana, partially drinking water and skelton sewerage facilities existed in 37 towns and 16 towns respectively. Initially, the urban sector did not get the required attention and it was only after the launching of the International Drinking Water and Sanitation Decade that reasonable attention was given to the improvement of water supply and sewerage facilities in the towns, albeit slowly. During the last 7-8 years, the allocations for the water supply and sewerage sector in the urban areas have been stepped up considerably. The total investment which was only Rs. 3.00 core in 1966 has gone upto Rs. 2048 core as on 31st March, 2006.

10.9 At present, 73 towns are being maintained by the Water Supply and Sanitation Department and the services in Panchkula and Faridabad are being maintained by HUDA

and Municipal Corporation, Faridabad, respectively. The status of water supply and sewerage in the towns is as follows:-

Water Supply Status

Water Supply status (in lpcd)	Number of towns
Below 50 LPCD	1
50 to less than 70 LPCD	2
70 to less than 100 LPCD	35
100 to less than 130 LPCD	24
130 and above LPCD	13
Total	75

Sewerage Status

% age area covered with sewerage system	Number of towns
More than 50%	24
Upto 50%	30
No sewerage	21
Total	75

10.10 Norms and Standards presently being followed for drinking water in rural and urban areas are as follows :-

<u>Rural Area</u>	
Non Desert Area	40/55LPCD
Desert ditricts of Hisar, Sirsa, Bhiwani, Fatehabad, Rohtak, Rewari, Mohindergarh & Jhajjar	70LPCD
<u>Urban Area</u>	
Water Supply	135LPCD+15% losses
Sewerage & Storm Water	80% of Water Supply Norms

10.11 The improvement of water supply and sewerage facilities in the towns is being taken up under various Central and State Schemes. Under State Plan Schemes, improvement of water supply facilities is being taken up to achieve a level of 135 lpcd in the urban areas and to extend the water supply in recently approved colonies. Under sewerage programme, improvement of sewerage facilities is being taken up with an effort

to cover the entire area of the towns and construction of Sewerage Treatment Plants in various towns. Loans are also being taken from N.C.R. Planning Board for improvement of water supply and sewerage facilities in National Capital Region.

10.12 There are skelton storm water drainage facilities in some towns. In the earlier years, there was no provision for storm water drainage in the towns. However, during 1995 floods, there was a lot of damage to the infrastructure due to submergence. Consequently, some provisions were made for storm water drainage in the towns. On an average, 10% of the area in some towns has been provided with storm water drainage facilities.

10.13 The position of levels of Services being provided by PHED. i.e., Water Supply, Sewerage and Storm Water Drainage Services in urban areas is given in Table-10.1

Table-10.1
LEVEL OF SERVICES IN URBAN AREAS

	Services	31.3.2001	31.3.2006
A.	% age of population covered by water supply		
	a) Municipal water supply	68%	81%
	b) Private Hand Pumps, wells etc.	-%	-%
B	a) Designed capacity of Municipal or urban water supply system	Party-110 LPCD	135 LPCD
	b) Actual water supply	Party-135 LPCD	562 MLD
	c) Per capita water supply	68 LPCD	104 LPCD
C.	Percentage of population covered by sewerage system	42%	52%
D.	Percentage of areas covered by surface and storm water drainage.	10%	16%

- MLD Stands for Million Liters Per Day.
- LPCD Stands for Liters Per Capita Per Day.

10.14 The position of staff strength and establishment expenditure has been given in Table-10.2.

Table-10.2
SUMMARY OF EXPENDITURE ON STAFF AND MAINTENANCE

Year	Total staff strength	Total Exp. on Estt.	Rs. in Lakh
			Total Exp. on Water Supply & Sewerage
2001-02	21469	11964.20	19871.21
2002-03	21469	13817.10	27204.24
2003-04	21469	14219.32	33307.84
2004-05	21469	16815.17	28451.13
2005-06	21469	18186.70	31612.16

10.15 Position in regard to water charges and expenditure on maintenance during 2001-02 to 2005-06, as supplied by PHED, is given in Table-10.3

Table-10.3
INCOME AND EXPENDITURE –TOWNS / CITIES / VILLAGES

Rs. in lakhs

Items	2001-02	2002-03	2003-04	2004-05	2005-06	Average Per Year
A. Income	2870.37	3581.75	3731.17	3111.31	3283.87	3315.68
Rural Water Supply	299.63	330.90	565.05	593.48	564.64	470.74
Urban Water supply	1600.11	1480.38	1722.86	1684.25	1731.45	1647.61
Sewerage	208.78	157.78	152.42	144.37	174.35	167.54
Fees and fine etc.	25.69	66.16	107.63	130.00	158.87	97.67
Others	717.16	1546.54	1183.21	559.21	654.56	932.12
B. Expenditure	19873.21	27204.24	33307.84	28451.13	31612.16	28089.91
Establishment	11964.20	13817.10	14219.32	16815.17	18186.70	15000.50
Maintenance	7907.01	13387.14	19088.52	11635.96	13425.46	13089.45
GAP (A-B)	-17000.84	-23622.49	-29576.72	-25339.92	-28328.26	-24774.23

10.16 The position in regard to estimates of income and maintenance expenditure projected for the period from 2006-07 to 2010-11 has been given in Table -10.4.

Table-10.4
PROJECTION OF INCOME AND EXPENDITURE

Rs. in lakhs

Items	2006-07	2007-08	2008-09	2009-10	2010-11	Average Per Year
A. Income	3587.86	3920.51	4284.63	4683.22	5119.54	4318.15
Urban Water supply	1904.60	2095.05	2304.56	2535.02	2788.52	2325.55
Rural Water Supply	621.10	683.21	751.53	826.69	909.36	758.38
Urban Sewerage	191.79	210.96	232.06	255.27	280.79	234.17
Fees, Fines & Other	870.37	931.29	996.48	1066.24	1140.87	1001.05
B. Expenditure	34773.04	38250.31	42075.36	46282.83	50911.11	42458.53
Establishment	20005.37	22005.91	24206.49	26627.15	29289.86	24426.96
Maintenance	14767.67	16244.40	17868.87	19655.68	21621.25	18031.57
GAP (A-B)	(-)31185.18	(-)34329.80	(-)37790.73	(-)41599.61	(-)45791.57	(-)38140.38

10.17 The Govt. of India launched the Accelerated Urban Water Supply programme in the year 1994-95 for uplifting of existing water supply system to 70 LPCD in small towns having population less than 20,000 as per 1991 census. The 50% cost of the project for towns is met by the state govt. and the balance 50% by Central Government. Total 43

towns in the state of Haryana having population less than 20,000 as per 1991 census are eligible under this programme. Out of these 43 towns, schemes for 38 towns at an estimated cost of Rs. 79.69 crore have been approved by govt. of India. Till date out of 38 schemes 27 schemes have been completed by 30.6.2007 and the work on balance 11 schemes is in progress. The position of estimated cost and funds provided for these projects up to 2005-06 is given in Table-10.5

Table-10.5

Rs. in lakh

Sr. No	Name of Town	Present water Allowance	Estimated cost	GOI Assistance	State Plan Allocation	Total
1	Sohna	70 LPCD	77.30	38.65	42.30	80.95
2	Pataudi	70 LPCD	62.50	31.24	31.45	62.69
3	Narnaund	70 LPCD	93.00	46.50	46.45	92.95
4	Kanina	70 LPCD	51.00	25.51	25.65	51.16
5	Bawani Khera	70 LPCD	223.54	114.03	109.51	223.54
6	Taoru	70 LPCD	122.91	61.45	61.45	122.90
7	Ratia	70 LPCD	85.22	57.61	30.00	87.61
8	Uchana	70 LPCD	103.42	51.71	51.71	103.42
9	Kalanapur	70 LPCD	212.93	106.46	106.47	212.93
10	Assandh	70 LPCD	247.32	125.19	122.13	247.32
11	Naraingarh	70 LPCD	97.50	49.79	47.71	97.50
12	Sadhaura	70 LPCD	80.00	40.00	40.00	80.00
13	Nuh	70 LPCD	165.00	78.80	82.50	161.3
14	Meham	70 LPCD	252.50	126.25	126.25	252.50
15	Ferozepur Zhirka	70 LPCD	92.66	50.00	46.33	96.33
16	Kalanwali	70 LPCD	245.43	122.72	122.71	245.43
17	Beri	70 LPCD	398.30	199.15	199.15	398.30
18	Pinjore	70 LPCD	286.70	143.35	143.35	286.70
19	Hassanpur	70 LPCD	147.05	73.52	73.52	147.04
20	Kharkhoda	70 LPCD	121.53	60.76	60.77	121.53
21	Punhana	70 LPCD	165.25	82.62	82.63	165.25
22	Loharu	70 LPCD	114.44	57.22	57.22	114.44
23	Hathin	70 LPCD	212.28	106.14	106.14	212.28
24	Haily Mandi	70 LPCD	123.82	162.76	162.74	325.50
25	Ladwa	70 LPCD	325.53	82.50	82.50	165.00
26	Jhakhal	70 LPCD	165.00	197.90	197.89	395.79
27	Mohindergarh	70 LPCD	395.79	61.91	61.91	123.82

28	Indri	70 LPCD	88.00	44.00	44.00	88.00
29	Samalkha	70 LPCD	212.49	106.24	106.25	212.49
30	Farukh Nagar	70 LPCD	361.80	180.90	180.90	361.80
31	Kalyat	65 LPCD	544.18	272.09	272.09	544.18
32	Buria	70 LPCD	159.00	79.50	79.50	159.00
33	Ateli Mandi	45 LPCD	231.00	115.50	115.50	231.00
34	Bawal	65 LPCD	352.40	155.74	149.93	305.67
35	Radaur	70 LPCD	161.56	40.39	60.39	100.78
36	Chhachhrauli	70 LPCD	172.18	43.04	63.04	106.08
37	Nilokheri	70 LPCD	267.19	112.88	80.00	192.88
38	Tarori	70 LPCD	451.54	66.80	80.00	146.80
	Total		7669.26	3570.82	3552.04	7122.86

10.18 The service level of sewerage services in various towns is as under:-

Sr. No.	No sewerage system	Sewerage system upto 50%	Sewerage system more than 50%
1.	Assandh	Ambala City	Ambala Sadar
2.	Ateli Mandi	Barwala	Bahadurgarh
3.	Beri	Bawani Khera	Bhiwani
4.	Farukh Nagar	Bawal	Fatehabad
5.	Ferozepur Zirka	Charkhi Dadri	Gurgaon
6.	Hathin	Cheeka	Hansi
7.	Hodal	Ellenabad	Hisar
8.	Indri	Ganaur	Jind
9.	Julana	Gharaunda	Kaithal
10.	Kalanaur	Gohana	Kalka
11.	Kalayat	Haily Mandi	Karnal
12.	Kanina	Jagadhari	Naraingarh
13.	Kharkhoda	Jahjjar	Narwana
14.	Mohindergarh	Kalanwali	Pehowa
15.	Pataudi	Ladwa	Panipat
16.	Pinjore	Meham	Rewari
17.	Pundri	Narnaul	Rohtak
18.	Ratia	Narnaund	Sirsa
19.	Dadhaura	Nilokheri	Sohna
20.	Taoru	Nuh	Sonipat
21.	Tarori	Palwal	Thanesar
22.		Rania	Mandi Dabwali
23.		Radaur	
24.		Safidon	
25.		Samalkha	
26.		Shahbad	
27.		Siwani	

28.		Tohana	
29.		Uchana	
30.		Yamuna Nagar	

10.19 As per Govt. of India, full operation and maintenance cost on account of water supply & Sewerage is to be recovered from the consumers. The 12th Finance Commission observed that atleast 50% of the O&M cost of water supply and sanitation should be recovered in terms of user charges. However, at present only 20% of the total operation & maintenance expenditure is being recovered. The existing rates of water and sewerage charges are as under.

<u>Water Supply</u>	<u>Rural:-</u> Rs. 20 per tap	<u>Urban :- Unmetered Supply</u>	
		Per tap with ferrule 10mm. More than one taps with ferrule 10mm. No. of taps up to 12mm. ferrule No. of taps up to 15mm. No. of taps up to 20mm. ferrule No. of taps above 20mm. ferrule	Rs. 25/- Rs.48/- Rs. 120/- Rs. 150/- Rs. 180/- Rs. 240/-
		<u>Metered Supply</u>	
		Domestic Commercial/institutional Industrial	Rs. 1.00 per Kiloliter. Rs. 2.50 per kiloliter. Rs. 3.15 per kiloliter.
<u>Sewerage</u>		<u>Domestic:-</u>	
		Connection for Indian/European Water closet Connection for urinals	Rs. 6/- per unit. Rs. 1.80 per unit
		<u>Industrial/Commercial/Institutional</u>	
		Connection for Indian/European Water closet Connection for urinals	Rs. 6.25 per unit Rs. 1.85 per unit

OBSERVATIONS AND RECOMMENTATIONS

10.20 Certain physical and financial norms have to be followed for projecting maintenance requirements for these core services, which may vary from one region to the other even within the State, depending upon various factors such as location, topography, fiscal capacity, size of population etc. Zakaria committee was the first committee to suggest physical norms for water supply and sewerage. It suggested provision of 72+15% LPCD for C class town, 110+15% LPCD for B class and 135+15% LPCD for A class cities. This committee also suggested norms of expenditure for capital costs and for operation and maintenance. The Central Govt. as well as Central Finance Commissions adopted maintenance norms in terms of capital cost i.e. 5% of capital cost in plain areas, 7.5% in hilly areas and 8.5 to 9% in desert areas. The weighted average was taken at

6.25% of the capital cost. The Commission applied capital cost norm for projecting cost requirements for maintenance of water supply and sewerage.

10.21 As stated, except Municipal Corporation Faridabad and Panchkula town, the responsibility with regard to water supply and sewerage lies with the PHED in respect of 73 towns. The Commission has assumed that this existing arrangement would continue during its award period i.e. from 2006-07 to 2010-11.

10.22 The PHED has now 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 town against the broad prospective suggested by various committees. The Commission proposes to formulate its conclusions on the basis of the details so provided by the PHED.

10.23 The Commission has noted that provisions made for O&M of water supply and sewerage in state budget are inadequate and even departmental norms are rarely followed for the purpose. The recovery in terms of water charges is negligible, even below 20% of the O&M cost. The rates of water charges are highly un-economic and have not been revised since long on economic and political considerations. These inadequacies have attracted the pointed attention of the Commission. **In order to rectify the situation, the State Govt. should take effective policy decisions in terms of revision in tariff structure and larger plan allocations for this public service.**

10.24 The Twelfth Finance Commission had paid special attention to water supply service, sewerage and sanitation, particularly in rural areas. It had suggested that the PRIs should take over the assets relating to water supply and sanitation and utilise the grants for repairs/rejuvenation as also the O&M costs. The PRIs should recover at least 50% of the recurring O&M costs in the form of user charges. This recommendation was made by the 12th Commission keeping in view that water supply is being handled by the local bodies. But the position in Haryana is contrary since this service is being handled by the PHED. As a result the entire TFC grant of Rs. 77.60 crore allocated each year for PRIs for water supply is being utilised for sanitation only. This being the situation, the Commission is of the view that the State Govt. should allocate equal amounts to this core service in lieu thereof.

10.25 It is well known that the function of water supply and sewerage has been taken over by the PHED for operation, maintenance and augmentation. The Commission, through its questionnaire and discussions with public representatives, experts, functionaries and departmental officers, sought views on transfer of this function to the local bodies and the extent to which the O&M cost should be recovered in the form of

user charges as also the extent to which the capital cost be recovered from the beneficiaries through cross-subsidization or the general budget.

10.26 The PHED had argued that only O&M function of water supply and sewerage should be reverted back to the local bodies and new capital works should continue to be carried out by the PHED. But keeping in view the objectives of constitutional amendments, the function of water supply and sewerage should be performed by the local bodies. At the same time, the Commission has also observed that with the transfer of this service to the PHED, the status or level of the service improved considerably and its reversion to the local bodies may lead to deterioration in its quality and level. **After analysing all aspects of the issue, the Commission is of the opinion that the function of water supply and sewerage should continue to be handled by the PHED in view of weak organisational capacity and poor financial base of the local bodies. However, policy decision may be taken for delegation of this function to the local bodies in a phased manner alongwith funds and functionaries. But presently the State Govt. should provide adequate funds to the PHED for operation, maintenance and augmentation of this service.**

10.27 As regards recovery of O&M cost of water supply and sewerage, there are divergent views. As per Govt. of India Policy, full O&M cost of water supply and sewerage should be recovered from the consumers. The 12th Finance Commission set the target of recovery of O&M cost at 50%. However, at present, even less than 20% of O&M cost is being recovered. **The Commission is of the considered view that the charges for water supply and sewerage should continue to be revised periodically and at least 50% of the O&M cost should atleast be recovered and the element of cross subsidization be phased out in due course of time.**

10.28 The Commission has also considered the issue of recovery of some portion of capital cost on water supply and sewerage projects and came to the conclusion that since these projects are highly capital intensive, it may not be practicable to recover any portion of the capital cost from the beneficiaries and the entire capital cost on building and upgradation of infrastructure should continue to be borne by the State Govt.

10.29 Concerted efforts should be made to contain O&M cost by using automation of equipments, checking of wastage of water, repairing of leakages immediately, removal of public stand posts and providing meters on connections. Steps should also be initiated for outsourcing and privatization of water supply and sewerage services to achieve dual objectives of cost reduction and quality improvement.

CHAPTER- 11

PRINCIPLES OF FINANCIAL DEVOLUTION AND SHARE OF LOCAL BODIES

11.1 The Commission, as per its TOR, is mandated to determine the principles governing the distribution of state revenues with the local bodies and allocation between PRIs and ULBs of their respective shares of such proceeds and also the interse distribution between all tiers of PRIs and the municipalities, assignment of taxes/duties to local bodies, grants-in-aid to them and other devolutions which may be necessary.

11.2 The Commission is cognizant of the fact that in any federation the need for fiscal transfers arises due to mis-match between expenditures and revenue assignments between different levels of the Government. Revenue powers assigned to local bodies have a narrow base and are less elastic compared to revenue sources of the state govt. As such the local bodies have not been able to raise adequate resources to discharge their obligatory responsibilities of delivering public services to the satisfactory levels. This problem of mis-matches and fiscal gaps has further aggravated due to the enlarged functional domain of local bodies with the inclusion of schedules 11 and 12 in the constitution consequent to 73rd and 74th constitutional amendments.

11.3 The Commission has also noted that the financial position of rural and urban local bodies is not very sound. Though the enabling acts bestow sufficient powers to these bodies to levy taxes and fees but these provisions have not been adequately utilised. Besides, abolition of house tax by the state govt. and striking down operation of Local Area Development Tax has further eroded the resource base of these bodies. This has led to their larger dependence on State Govt. support which cannot be continued for long due to its own commitments. Since the rural and urban local bodies have now been reckoned as autonomous institutions, specific powers, authority and funds need to be devolved to these bodies to enable them to work as effective units of local governance.

11.4 The design of fiscal transfers has, by and large, been determined by the constitutional amendments which aim at making local bodies effective units of local government capable of undertaking programmes of social and economic development. Thus, the Commission intends to recommend a scheme of transfers that could serve the objectives both of equity and efficiency and result in fiscal transfers that are predictable and stable so as to enable the local bodies to plan their expenditure priorities well in advance. The concept of equalization has also been a guiding principle for fiscal transfers as it promotes equity as well as efficiency in resource use. Equalisation transfers neutralize deficiency in fiscal capacity and aim at providing citizens of each unit of govt. a comparable standard of services. Under such an approach fiscal gaps or fiscal transfers need to be determined on normative basis instead of merely filling up gaps arising from the projections of revenues and expenditures based on historical trends. The normative approach has a tendency of neutralizing adverse incentives of gap filling approach as local bodies are assessed in terms of revenues that they ought to raise given their respective capacities. Similarly expenditures are assessed on the basis of needs consistent with an average or minimum acceptable level of services and the relevant cost norms and not driven by the past history of expenditure. The Twelfth Finance Commission has also suggested that the SFCs should follow the normative approach while assessing the revenues and expenditures of local bodies.

11.5 As part of its strategy, the Commission has to work-out the fiscal gaps of the rural and urban local bodies on normative basis for the period covered by its report on the basis of likely income accruing to them from their tax and non-tax sources and from their own resource generation efforts, funds requirements by local bodies for maintenance of civic services at the existing level and the funds that would be required for providing civic amenities upto minimum acceptable levels. The normative fiscal gaps so worked out would be bridged in the form of entitlements partly through financial devolution and partly from their own revenue generation efforts.

11.6 Besides bridging fiscal gaps, transfers from higher levels to lower levels of government have various other objectives to be achieved which, among others, include the criteria of autonomy, revenue adequacy, equity, predictability, efficiency, simplicity and incentive. We have kept in view these objectives while determining magnitude of fiscal devolution and the distribution criteria. However, our attempt has been to maintain a balance between the financial resources of state government and the demands thereon on one hand and those of local bodies on the other.

11.7 The Commission had asked the departments of Panchayats and Urban Development to provide figures of income and expenditures of PRIs and ULBs, the current and upgraded status of existing civic services together with requirements for additional funds, the memorandums containing views of the departments on TOR of the Commission, priority areas, special problems and other relevant issues. Despite concerted efforts put in by the Commission, Urban Development department has furnished only partial and incomplete information on income and expenditures of Municipalities, which in the present form is neither dependable nor usable. As regards Panchayats department, no information on finances and public services could be received till writing of this report. On queries, it has been intimated that the department is unable to collect and compile information on finances of PRIs and level of public services due to shortage of budgetary provisions and competent staff. In view of this, it is not possible for the Commission to come out with convincing estimates of fiscal gaps of the PRIs and ULBs for want of detailed and updated data on these bodies. However, the Commission, on the basis of information generated at own level from other sources worked out the revenue gaps of the PRIs and ULBs on trend basis following the traditional approach. The other alternative left with the Commission for determining the magnitude of fiscal transfers is to use the projections and data recorded by the Second Finance Commission in its report. Hence, in the given situation, the Commission has also resort to value judgment method to decide the level of fiscal transfers.

11.8 While deciding the fiscal transfers to local bodies, the Commission has to address issues like composition of divisible pool, revenue sharing criteria, total share of local bodies in the divisible pool, shares of PRIs and ULBs in the total share of local bodies and distribution of PRIs share among all units of PRIs and interse shares of each unit and distribution of ULBs share among municipalities at all levels.

REVENUE SHARING CRITERIA

11.9 There are three approaches commonly used for sharing of state revenues with the local bodies i.e., sharing of specific taxes and duties, sharing of fixed amount in monetary terms and global sharing of state revenues. SFCs of some states like Maharastra, and Haryana adopted the system of sharing of specific taxes and fixed shares of local bodies in certain percentages. A few SFCs favoured a fixed amount in monetary terms as share of local bodies. Majority of SFCs have adopted global sharing of state revenues under which a fixed percentage of divisible state revenues forms share of local bodies. The Eleventh and Twelfth Finance Commissions have also switched over to global sharing mechanism from specific tax sharing between the Centre and States. Experts have also advocated for global sharing. The system of global sharing has distinct advantages in terms of its inbuilt transparency, objectivity and certainty. Under this system local bodies automatically share the buoyancies of state taxes and states become neutral in pursuing tax reforms without considering whether a tax is shareable or not. It also encourages local bodies for their own efforts of resource generation and to plan their priorities in advance as divisible pool is predictable, regular and stable.

11.10 Previous SFCs of Haryana adopted the system of sharing of specific taxes, which, in our opinion, was arbitrary, not based on proper rationale and had generated a sense of financial irregularities among local bodies. This issue was discussed thread-bare in our meetings with the representatives of LBs, experts from Universities & Research Institutions and the departmental officers and the system of Global Sharing had found general acceptance due to its inbuilt transparency and predictability. **We have, thus, made a significant departure**

from the earlier system of specific tax sharing and adopted global sharing mechanism under which all state taxes would be pooled and a certain proportion thereof would be the share of local bodies.

COMPOSITION OF DIVISIBLE POOL

11.11 As per the TOR of the Commission, the divisible pool shareable with the local bodies consists of the proceeds of taxes, duties, tolls and fees leviable by the state. Total revenue receipts of the State comprise of four parts i.e., share of central taxes, own tax revenue, non-tax revenue and grants-in-aid from the centre. Wide variations across the states have been seen in defining the components of divisible pool and the principles of sharing. A few SFCs treated the total revenue receipts as the divisible pool, whereas some other SFCs used only state own source revenue, i.e. tax and non-tax revenue, as the divisible pool. But the Commission noticed that most of the SFCs considered only the own tax revenue as the divisible pool. The Commission gave due thought to all the components of divisible pool and observed that since Central Finance Commission recommends specific grants for local bodies, the share of the state in central taxes and the grants-in-aid received from the Central Government should not form part of the divisible pool. After considering all aspects of the components of divisible pool, the Commission has come to the conclusion that own tax revenue is the most suitable component of state revenues which should alone form the divisible pool as the citizens of the state have logical stake over tax collections and they are the ultimate beneficiaries. **In view of this, we have adopted the own tax revenue as the most acceptable component of divisible pool in our scheme of revenue sharing.**

11.12 After having decided Own Tax Revenue as the sole component of divisible pool, the operational mechanism of state taxes has to be studied in order to identify as to which of the taxes should be treated as part of state own taxes and hence the divisible pool. It has been learnt that some state taxes like, State Excise Duties, Local Area Development Tax etc. are already being shared with the LBs as per the existing provisions. The previous SFCs did not make any

recommendations about their sharing with the local bodies. In case their sharing is brought under the purview of the Commission, it would be contrary to the existing provisions and this step may require suitable amendments in the respective Acts or Rules. However, in case these taxes are allowed to be shared with LBs as before, the proceeds of these taxes should be excluded from the category of own tax revenue and hence the divisible pool.

SHARING OF STATE EXCISE REVENUE

11.13 The Commission has noted that state excise revenue is already being shared with the rural and urban local bodies as per the provisions contained in the excise policy of the state. The share of local bodies at present is Rs. 1.50 per bottle of C.L. of 750 ml. liquor, Rs. 1.00 per bottle of beer of 650 ml. capacity or equivalent and Rs. 2.00 per bottle of IMFL of 750 ml. sold in the jurisdiction of Panchayats and Municipalities. Share of local bodies in excise revenue has been estimated in table -11.1.

TABLE- 11.1
SHARING OF EXCISE REVENUE

Rs. in crore

Years	2006-07	2007-08	2008-09	2009-10	2010-11
Panchayats	7.81	8.00	8.80	9.68	10.65
Municipalities	8.20	9.00	9.90	10.90	12.00
Total	16.01	17.00	18.70	20.58	22.65

1st and 2nd SFCs of Haryana did not make any recommendations in regard to sharing of excise revenue with the local bodies taking its sharing as an on-going process. **We have considered this issue and come to the conclusion that since the process of sharing of excise revenue was started in compliance with the provisions contained in excise policy of the state, its sharing with the local bodies should be continued as before and the respective shares of local bodies as shown above be transferred to them in full on regular basis as untied funds.**

SHARING OF LADT PROCEEDS

11.14 The Haryana Local Area Development Tax (LADT) Act 2000 came into force on 5th May 2000 as a measure compensatory to urban local bodies in lieu of abolition of octroi in the State from 1.11.99. Section 22 of the LADT Act envisages distribution of its proceeds amongst the local bodies to be utilised for improving infrastructure facilities so as to facilitate the free flow of trade and commerce in the state. A High Powered Committee (HPC) was constituted by the state govt. to suggest the modalities and mechanism of distribution of LADT proceeds amongst local bodies and utilization thereof. The HPC suggested that after retaining five percent of the proceeds as collection charges, the net proceeds be distributed among PRIs and ULBs in the ratio of 65:35 and PRIs share be distributed among GPs, PSs and ZPs in the ratio of 75:15:10. The HPC suggested that their respective shares be utilised for improving infrastructural development of roads, safe drinking water supply and sanitation, street lights, electricity in industrial areas. These recommendations of HPC are being implemented since the beginning. The 2nd SFC also agreed with the findings of HPC and commended the same for implementation, but the state govt. has changed the sharing pattern between PRIs and ULBs to 50:50 instead of 65:35 in view of higher growth in urban population.

11.15 The budget documents indicate the share of PRIs and ULBs in LADT proceeds in table – 11.2.

TABLE- 11.2
SHARING OF LADT PROCEEDS

Rs. in crore

Years	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
PRIs	115.80	129.64	157.27	100.00	100.00	100.00
ULBs	115.80	129.64	157.27	100.00	100.00	100.00
Total	231.60	259.28	314.54	200.00	200.00	200.00

The Excise and Taxation Deptt. has informed that the High Court has struck down the LADT Act and as such its operation has ceased causing sizeable loss to the PRIs and ULBs and no suitable alternative source has been put in place as a compensatory measure. **The Commission discussed this issue with the administrative secretaries of the departments of Finance, Panchayats, Urban Development and the Excise and Taxation but they could not suggest any viable measure in lieu thereof. The Commission considered all aspects of the issue and concluded that some allowance should be given to this aspect while determining the share of local bodies in the divisible pool. However, in case operation of LADT Act is restored by the Supreme Court, its proceeds should continue to be shared with the local bodies as before and it would be in addition to the package of devolution being recommended.**

TWELFTH FINANCE COMMISSION (TFC) GRANTS FOR LOCAL BODIES

11.16 TFC has also recommended grants of Rs.479 crore for Haryana local bodies for the period 2005-10, including Rs. 388 crore for PRIs and Rs. 91 crore for ULBs. The annual break up is Rs. 95.80 crore, Rs. 77.60 crore for PRIs and Rs. 18.20 crore for ULBs. **The Commission recommends that these grants should continue to be transferred to these bodies and utilised as per the guidelines of the MOF/GOI and this amount would be over and above the financial devolution being recommend by this Commission.**

DIVISIBLE POOL

11.17 In view of the position explained above, the divisible pool would consist of total own tax revenue of the state, net of excise revenue and LADT proceeds, as these taxes would continue to be shared with the local bodies as suggested above. However, the own tax revenue constituting the divisible pool should be discounted for tax collection charges on the pattern adopted by Central Finance Commissions and many SFCs. As per the Finance Deptt., the tax collection charges work out to 1.25 percent of the own tax revenue. Hence, the total

divisible pool worked out by the Commission for the period to be covered by this report is shown in table-11.3.

TABLE-11.3
DIVISIBLE POOL

Rs. in crore

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
(A). Own Tax Revenue (Net of Excise & LADT)	9397.30	11139.00	12708.75	14506.25	16563.20
(B). Collection Charges (@ 1.25%)	117.47	139.24	158.86	181.33	207.04
Total Divisible Pool (A-B)	9279.83	10999.76	12549.89	14324.92	16356.16

11.18 The next important issue, after having decided composition of divisible pool, is to determine the share of local bodies and the relative shares of PRIs and ULBs. The Commission has noted large variations across SFCs in recommended share of local bodies from 2% in Assam, 2.25% in Rajasthan, 3.5% in Kerala, 4% in Punjab, 8% in Tamil Nadu, 12.5% in Uttar Pradesh, 16% in West Bengal, 39% in Andhra Pradesh and 40% in Karnataka. This depended upon the financial situation in different states and local bodies, extent of functional decentralization and other channels of resource transfers.

11.19 The Commission in its interim report had recommended Local Bodies share at 4% of net own tax revenue of the state. The representatives of PRIs and ULBs in their meetings with the Commission made forceful pleas for substantial increase in the share of local bodies, probably to 20% share in the divisible pool as against 4% recommended in the interim report. Departments of Panchayats and Urban Development had also stressed for higher and stable transfers. It would be worthwhile to mention here that the Commission, while finalizing its interim report, had felt the need of substantial enhancement in LBs share in view of price hike, expanding functional domain of LBs, abolition of house tax and non-operation of LADT Act. The Commission also observed that the 2nd SFC of Haryana, through its specific tax sharing scheme, recommended share of PRIs

and ULBs at Rs. 231 crore for the year 2005-06 constituting about 3% of net own tax revenue. **Any further enhancement in the share of LBs from 4% was not considered desirable in view of the resource position of the state and the demands thereon. After careful look at the the given scenario, the Commission recommends that the share of LBs i.e. the PRIs and ULBs, in the divisible pool should be at 4% of the net own tax revenue. On this basis, share of LBs has been worked out in table-11.4.**

TABLE- 11.4
SHARE OF LOCAL BODIES

Rs. in crore					
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Divisible Pool	9279.83	10999.76	12549.89	14324.92	16356.16
Share of Local Bodies (at the rate of 4%)	371.20	440.00	502.00	573.00	654.24

11.20 It shows that share of local bodies at Rs. 371.20 crore for the year 2006-07 works to about 61% higher of the share of Rs. 231 crore recommended by 2nd SFC for 2005-06. This is in addition to the resource transfers to these bodies through State Excise, LADT, TFC grants and State & Central Schemes. This increase in share of LBs is expected to be borne by the state government and is considered sufficient to enable them to meet their obligations of improving the standards of civic services. This devolution would also be taken into account by the 13th Finance Commission while assessing financial needs of the state government and recommending local bodies grants for the state.

DISTRIBUTION OF LOCAL BODIES SHARE BETWEEN PRIs AND ULBs

11.20 The next issue to be addressed is determination of the relative shares of PRIs and ULBs. The Commission noted wide variations across SFCs in determining the respective shares of PRIs and ULBs, as Tamil Nadu 60:40, Andhra Pradesh 65:35, Punjab and JK 67:33, Rajasthan 77:23, Karnataka 80:20 and UP 40:60. The Twelfth Finance Commission divided the local body grants between PRIs and ULBs in the ratio of 80:20 against the rural-urban population ratio of 73:27 as per 2001 census. TFC assigned higher share to PRIs on the

ground that urban local bodies have greater access to tax and non-tax revenues of their own and it is the PRIs which require substantial support. The departments of Panchayats and Urban Development had argued that the Commission should strictly adhere to the rural-urban population ratio for determining shares of PRIs and ULBs. Representatives of PRIs stressed for their share at 80% on the pattern of TFC, whereas representatives of ULBs put their claim at 50% due to mounting pressure on urban infrastructure. While distributing LADT proceeds between PRIs and ULBs, the 2nd SFC Haryana assigned 65% share to PRIs and 35% to ULBs against the rural-urban population ratio of 71:29. Higher share to ULBs compared to population ratio was assigned due to larger growth in urban population on account of rapid industrialization and urbanisation.

11.21 The Commission has noted that urban population recorded a marked decadal growth of 50.81% as per 2001 census against the overall growth of 28.06% and the proportion of urban population grew to 29% in 2001 as against 17:23 % in 1961. The Commission is also of the view that the existing urban infrastructure is not capable to adjust the rising population pressure and in order to check the population shift, there is a need to develop rural infrastructure whereby urban-like facilities could be provided to the rural population. Though some efforts are being made by the state Govt. for creation of rural infrastructure by way of development of Model Villages, setting up of Haryana Rural Development Authority, higher plan allocations under district plans, state and central plans etc. but the Commission does not foresee much scope during the period of its award that any tangible rural infrastructure capable of delivering needed urban-like facilities could be developed. **After giving due thought to the issue, the Commission has decided that the local body share should be divided between PRIs and ULBs in the ratio of 65:35. The enhanced share to ULBs will, upto some extent, meet the requirement of mounting pressure on urban infrastructure.** On this basis, the respective shares of PRIs and ULBs in absolute terms would be as shown in table-11.5.

TABLE-11.5
SHARE OF PRIs AND ULBs

Rs. in crore

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
Total Share of LBs (at the rate of 4%)	371.20	440.00	502.00	573.00	654.25	2540.44
PRIs Share (65%)	241.28	286.00	326.30	372.45	425.25	1651.27
ULBs Share (35%)	129.92	154.00	175.70	200.55	229.00	889.17

DISTRICT-WISE DISTRIBUTION OF SHARES OF PRIs AND ULBs

11.22 In above paras, the Commission has decided that 4% of the divisible pool would be the share of local bodies of which relative shares of PRIs and ULBs would be 65:35. The next step would be to distribute the shares of PRIs and ULBs district-wise and then among each tiers of PRIs and ULBs. While determining the local body share in divisible pool, the Commission has, by and large, adopted population as the only criteria of distribution. Though population is an objective, neutral and transparent factor for assessing the physical and financial needs of the local bodies, but it does not take into account the significant economic & social disparities in different regions or districts of the state, fiscal performance of local bodies and the incentives for internal resource generation.

11.23 The Commission is aware that the local bodies in Haryana differ in structural composition. In rural areas, the PSs and ZPs are super bodies exercising control over GPs. But 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.

11.24 The Commission is also aware of the situation that local bodies also differ in size, location and fiscal capacities. The resource raising capacity of a smaller

body is limited and low compared to a bigger one and a smaller body needs to be compensated for its lower fiscal capacity. **Hence, the distribution criteria of the Commission should be such as to address the issues like socio-economic backwardness, fiscal capacities and financial needs of the local bodies.**

The Commission could not work out an effective index of backwardness and deprivation due to lack of reliable data. However, some efforts have been made in this direction to provide weightage to the backward and deprived LBs with the objectives of equity and efficiency.

11.25 TFC has used a composite index for distribution of local bodies grants amongst the states taking into account the factors of population, area, distance in per capita income, index of deprivation and tax effort. Some of the SFCs included important variables like tax efforts, per capita income, fiscal performance, rural/SC/BPL population, IMR, literacy gap in their distribution criteria besides population and area. The 2nd SFC of the state used decentralised planning formula for distribution of funds which is based on composite index of backwardness. The state govt. has also been using a composite index based on population and other indicators of socio-economic backwardness for distributing funds under decentralized planning. With the constitution of District Planning Committees (DPCs) in all the districts, the state govt. has made some changes in the criteria of distribution of district plan funds. The composite index now being used from the year 2007-08 includes the variables like, population, SC population, Number of Villages/Towns, and Literacy Gap. The Commission, in its interim report, adopted this criteria for distribution of district-wise shares of PRIs and ULBs assigning weightage Population 40%, SC Population 25%, Number of Villages/Towns 25% and Literacy Gap 10%.

11.26 The Commission attempted to compute district-wise composite index of deprivation which could rightly reflect rural-urban development gaps so as to ensure fair distribution of PRIs and ULBs share at district level, but could not succeed due to lack of requisite data. For this purpose, the Commission also analysed Economic Deprivation Index, Human Poverty Index and Human Development Index computed by HIPA and District Development Index

computed by Dr. N.K. Bishnoi, GJU, Hisar. It was observed that though these indices were well designed but unable to indicate district-wise rural-urban gaps in socio-economic development. **Thus, in the absence of any worthwhile composite index of deprivation, the Commission is of the broad view that the composite index comprising variables like population, BPL population, area and literacy gap can be considered as viable indicator properly reflecting the actual financial needs, fiscal capacity and socio-economic backwardness of the local bodies. The Commission, thus, recommends the following criteria of distribution of respective shares of PRIs and ULBs amongst the districts :-**

COMPOSITE INDEX

Constituents	Weight (%)
Population (rural/urban)	40.0
BPL Population (rural/urban)	25.0
Area (rural/urban)	25.0
Literacy Gap (rural/urban)	10.0
Total	100.0

11.27 The indices of district-wise shares of PRIs and ULBs have been given at annexures III & IV. The composite indices of PRIs and ULBs and district-wise allocations are given in table -11.6.

TABLE – 11.6
DISTRICT-WISE DISTRIBUTION OF SHARES OF PRIs AND ULBs

Sr. No.	District	PRIs						Municipalities					
		Composite Index	Year-wise Allocaion (Rs. in crore)					Composite Index	Year-wise Allocaion (Rs. in crore)				
			2006-07	2007-08	2008-09	2009-10	2010-11		2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Ambala	4.300	10.38	12.30	14.03	16.02	18.29	5.304	6.89	8.17	9.32	10.64	12.15
2	Panchkula	1.704	4.11	4.87	5.56	6.35	7.25	2.968	3.86	4.57	5.22	5.95	6.80
3	Yamunanagar	4.425	10.68	12.66	14.44	16.48	18.82	6.016	7.82	9.27	10.57	12.07	13.78
4	Kurukshetra	4.227	10.20	12.09	13.79	15.74	17.97	3.559	4.62	5.48	6.25	7.14	8.15
5	Kaithal	5.407	13.05	15.46	17.64	20.14	22.99	4.563	5.93	7.03	8.02	9.15	10.45
6	Karnal	6.015	14.51	17.20	19.63	22.40	25.58	5.677	7.38	8.74	9.97	11.38	13.00
7	Panipat	3.547	8.56	10.14	11.57	13.21	15.08	5.718	7.43	8.81	10.05	11.47	13.09
8	Sonipat	5.783	13.95	16.54	18.87	21.54	24.59	5.225	6.79	8.05	9.18	10.48	11.97
9	Rohtak	3.609	8.71	10.32	11.78	13.44	15.35	5.367	6.97	8.27	9.43	10.76	12.29
10	Jhajjar	4.111	9.92	11.76	13.41	15.31	17.48	3.248	4.22	5.00	5.71	6.51	7.44
11	Faridabad	4.516	10.90	12.91	14.73	16.82	19.20	17.072	22.18	26.29	30.00	34.24	39.10
12	Gurgaon	3.121	7.53	8.93	10.18	11.62	13.27	5.616	7.30	8.65	9.87	11.26	12.86
13	Rewari	3.897	9.40	11.15	12.72	14.52	16.57	2.374	3.08	3.6	4.17	4.76	5.44
14	Mahendergarh	4.521	10.91	12.93	14.75	16.84	19.23	1.931	2.51	2.97	3.39	3.87	4.42
15	Bhiwani	8.511	20.54	24.34	27.77	31.70	36.19	5.088	6.61	7.84	8.94	10.20	11.65
16	Jind	6.564	15.84	18.77	21.42	24.45	27.91	3.495	4.54	5.38	6.14	7.01	8.00
17	Hisar	7.840	18.92	22.42	25.58	29.20	33.34	6.590	8.56	10.15	11.58	13.22	15.09
18	Fatehabad	5.160	12.45	14.76	16.84	19.22	21.94	2.691	3.50	4.14	4.73	5.40	6.16
19	Sirsa	6.637	16.01	18.98	21.66	24.72	28.22	5.877	7.63	9.05	10.33	11.79	13.46
20	Mewat	6.104	14.73	17.46	19.92	22.73	25.96	1.620	2.11	2.50	2.85	3.25	3.71
TOTAL		100.00	241.28	286.00	326.30	372.45	425.25	100.00	129.92	154.00	175.70	200.55	229.00

DISTRIBUTION OF PRIs SHARES AMONG GPs, PSs AND ZPs

11.28 The Commission has noted that the PSs and ZPs do not have much direct responsibility for maintenance of civic services in rural areas. Most of the expenditure on maintenance of civic services and development works is done by the GPs. Thus, GPs have a larger claim on PRIs share compared to the PSs and ZPs. The 2nd SFC had recommended that the PRI share should be distributed between GPs, PSs and ZPs in the ratio of 75:15:10. This sharing mechanism was suggested in view of the fact that PSs and ZPs also have some role to play towards infrastructure development and maintenance. Hence, all units of PRIs should get their respective shares in the assigned functions and the funds. **As such, the Commission is in agreement with the view of 2nd SFC and, hence does not propose any change in the distribution criteria suggested by the 2nd SFC and recommends that PRIs share be allocated between GPs, PSs and ZPs in the ratio of 75:15:10.**

11.29 The Commission further recommends that the interse shares of GPs and PSs within the district should be divided on the basis of natural criterion of population and area with 80% weight to population and 20% weight to area. The shares of GPs, PSs and ZPs in the ratio of 75:15:10 and their interse shares based on population and area should be calculated by the State Govt. and the shares so worked out be transferred on regular basis to each unit of PRIs as untied funds. However, the State government in Panchayat Department may design a comprehensive scheme with specific performace criteria in core areas and earmark some funds for distribution among PRIs as a measure of incentives to the performing PRIs.

DISTRIBUTION OF ULBs SHARE AMONG MUNICIPAL BODIES

11.30 For interse distribution of ULBs share in individual municipal bodies, the 2nd SFC had used population as the basis. The Commission recognizes that

though population is a reliable factor, but area is also equally a good indicator of fiscal needs. **The Commission therefore, recommends that the interse-shares of each municipal body at the district level, should be worked out by the state govt. on the basis of their respective proportion of population and area assigning weightage of 80% to population and 20% to area and passed on to the local bodies as untied funds on regular basis. However, the Urban Development Department may introduce a suitable scheme of incentives and disincentives in the interse distribution of MCs share.**

TOTAL QUANTUM OF FINANCIAL DEVOLUTION

11.31 As per the principles of fiscal transfers referred to above, the total financial devolution from the state level to the rural and urban local bodies for the period 2006-07 to 2010-11 works as in table -11.7.

Table-11.7

A- Total devolution for LBs (PRIs & ULBs)

Rs. in crore

Component	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
Global Sharing	371.20	440.00	502.00	573.00	654.24	2540.44
State excise revenue	16.01	17.00	18.70	20.58	22.65	94.94
LADT proceeds	259.28	314.54	200.00	200.00	200.00	1173.82
TFC grants	95.80	95.80	95.80	95.80	-	383.20
Total	742.29	867.34	816.50	889.38	876.89	4192.40

B- Share of PRIs and ULBs

Rs. in crore

Component	PRIs					ULBs				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
Global Sharing	241.28	286.00	326.30	372.45	425.24	129.92	154.00	175.70	200.55	229.00
State Excise	7.81	8.00	8.80	9.68	10.65	8.20	9.00	9.90	10.90	12.00
LADT	129.64	157.27	100.00	100.00	100.00	129.64	157.27	100.00	100.00	100.00
TFC Grants	77.60	77.60	77.60	77.60	-	18.20	18.20	18.20	18.20	-
Total	456.33	528.87	512.70	559.73	535.89	285.96	338.47	303.80	329.65	341.00

DISTRIBUTION & UTILISATION OF UNRELEASED FUNDS

11.32 The Commission has been informed that local body share in excise, LADT and TFC grants has been transferred to PRIs and ULBs during 2006-07 and 2007-08 as per their respective shares. Since the reference period of 2nd SFC concluded on 31-03-06, the state govt. extended the recommendations of 2nd SFC for 2005-06, as accepted by the state govt., initially upto 2006-07 and then for 2007-08. During these two years, SFC grants of Rs. 275 crore, Rs. 125 crore in 2006-07 and Rs. 150 crore in 2007-08 were released to the local bodies i.e., Rs. 175 crore to PRIs and Rs. 100 crore to ULBs. As per global sharing recommended by the Commission for 2006-07 and 2007-08, the share of LBs works to Rs. 811.20 crore, i.e. for PRIs at Rs. 527.28 crore and for ULBs at Rs. 283.92 crore. On this basis, the amount unreleased to LBs works to Rs.536.20 crore i.e. for PRIs at Rs. 352.28 crore and for ULBs at Rs. 183.92 crore. **After due deliberations, the Commission is convinced that these un-released funds belong to LBs and should be transferred to the PRIs and ULBs as per their respective shares in a phased manner.**

11.33 The department of Panchayats and Urban Development, through their memorandums requested for some funds for various special purposes. The Commission considered their requests and recommends that the funds amounting to Rs. 45.00 crore should be released to the concerned authorities from the unreleased quota for the following purposes :-

- **Capacity Building (Rs. 12.00 crore) :-** Training and capacity building is an essential aspect of empowerment of LBs. Presently, there are three state owned Institutions i.e. HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon for imparting training to the representatives of LBs, their functionaries and the departmental employees. Hence, the Commission recommends Rs. 12.00 crore for strengthening their capacities

i.e. Rs. 5.00 crore for HIRD Nilokheri, Rs. 5.00 crore for HIPA Gurgaon and Rs.2.00 crore for SCDTC Nilokheri.

- **Data base and maintenance of accounts and audit (Rs. 10.00 crore) :-**
The Commission recommends Rs. 10.00 crore for strengthening of data base and maintenance of accounts of the local bodies i.e. Rs. 7.00 crore for PRIs and Rs. 3.00 crore for ULBs. The departments of Panchayats and Urban Development should assess the requirement of each unit of LBs at their own level for computerization and related aspects and earmark additional funds, if required, from the unreleased kitty.
- **Strengthening of Engineering Wings (Rs. 8.00 crore) :-** The Engineering services in Panchayat Deptt. and in municipalities being inadequate need substantial improvement particularly in view of substantial increase in work load. Hence, an amount of Rs. 8.00 crore is recommended for strengthening of engineering wings i.e. Rs. 5.00 crore for Panchayati Raj and Rs. 3.00 crore for municipal engineering services.
- **Upgradation of fire services (Rs. 5.00 crore) :-** The fire services in the existing 59 fire stations working in urban local bodies is very poor and needs upgradation to meet the expanding demand. The Commission recommends an amount of Rs 5.00 crore for upgradation of fire infrastructure in terms of vehicles, fire fighting equipments and manpower.
- **Pension Liabilities (Rs. 10.00 crore) :-** The Commission recommends an amount of Rs. 10.00 crore to meet the pension liabilities of employees of the municipalities keeping in view the demand raised by the urban development department.

11.34 The Commission has further decided that the balance unreleased funds of Rs. 491.20 crore may be released to the PRIs and ULBs on the basis of distribution criteria suggested by the Commission for tax sharing and should be utilised on priority development works to be selected by these bodies, particularly in the areas of sanitation, pavement of local streets/roads and drainage facility, maintenance of community assets, solid waste management, storm water drainage, slum development etc. However, the release of this back-log would be

over and above the respective shares of LBs in global sharing of state taxes recommended for these bodies for 2008-09, 2009-10, 2010-11.

ASSIGNMENT OF TAXES, DUTIES AND FEES TO LOCAL BODIES

11.35 The Commission, as per its TOR, is required to determine the taxes, duties, tolls and fees which may be assigned to or appropriated by the LBs and to make recommendations thereto. The Commission observes that this is a very sensitive and complicated issue and as such for making recommendations as to the assignment or appropriation of state levies by the local bodies, various important aspects, such as, structural composition of State as well as local taxes, administrative structure of local bodies, taxation powers of LBs and their utilization, collection efficiencies, functional domain of local bodies, fiscal capacities and needs of state and local bodies, sharing mechanism of state revenues etc. would need to be looked into.

11.36 We have noticed that the 73rd and 74th Constitutional amendments and subsequent enactments devolve sufficient financial powers to the local bodies to enable them to raise the needed resources, but these powers have not been fully exercised on political and economic considerations. Most of the local bodies are not able to collect even 50% of the demand of their existing tax and non-tax revenues due to administrative inefficiency and various other reasons. As such no more taxes/duties should be assigned to these bodies as they are unable to levy and collect even those taxes, duties, fees etc. for which they are already authorized.

11.37 We have also seen that a few state taxes and duties like State Excise, Local Area Development Tax, Stamp Duties and Tax on Electricity are already being shared with the local bodies as per the provisions contained in their respective acts or rules. Sharing of these taxes is over and above the financial devolution recommended by the State and Central Finance Commissions. Therefore, assignment of any more state levies to these bodies may not be desirable in view of their structural composition and the commitments on state finances.

11.38 Several SFCs like Maharashtra, West Bengal, Tamil Nadu, Karnatka etc., where local bodies are well structured and degree of functional decentralization is higher, have recommended assignment of some state taxes, duties, tolls and fees to the local bodies to strengthen their finances. But, in Haryana, functional decentralization is at the low ebb and as such the need for assignment of some state levies to LBs has not been felt.

11.39 The earlier SFCs of Haryana have been following specific tax sharing scheme. This Commission has discarded the devolution mechanism of the previous Commissions and in lieu thereof adopted the global sharing scheme under which all state taxes are pooled and a fixed percentage thereof is the share of local bodies. This system is objective, transparent and efficient under which the local bodies share the buoyancies of all State taxes. The quantum of financial devolution recommended on this basis is deemed sufficient to meet the fiscal needs of local bodies on O & M of public services.

11.40 The Commission has also recommended various effective measures for internal resource generation by local bodies which, if implemented, would improve the financial position of these bodies. **As such we do not make specific recommendations at this stage for assignment of any state levies to local bodies. However, the state government may consider any such proposal in due course of time to keep pace with the progress of functional decentralization taking place during the award period of this Commission.**

PRINCIPLES GOVERNING GRANTS-IN-AID

11.41 As per its TOR, the Commission is required to make recommendations relating to the principles governing grants-in-aid to the PRIs and the ULBs from the consolidated fund of the state. Grants-in-aid are recommended to fill up revenue gap of LBs to enable them to meet expenditure on basic functions. These can be conditional or specific purpose grants, further classified into matching or non- matching grants. There are also general purpose grants or block grants based on some criteria or formula. Grants can also be statutory and non-statutory. Statutory grants are compulsory transfers which may also be given

in lieu of abolition or withdrawal of certain taxes/duties or per capita grants. Non-statutory grants are generally need based.

11.42 We examined this issue in great detail and observed that before the setting up of State Finance Commission, the PRIs and ULBs were getting large grants from various sources for general and/or specific purposes like meeting expenditure on salaries, maintenance of local roads/streets, street lights and other important public services and even for un-paid liabilities. Accordingly, the successive SFCs have also been recommending larger transfers through grants-in-aid, like development grants, maintenance grants, incentive grants, repair grants, specific purpose grants etc. We found that the system of grants-in-aid was arbitrary and not based on proper rationale and also tended to generate a sense of financial irresponsibility on the part of local bodies.

11.43 We, therefore, do not favour the system of grants-in-aid being used as a general means of transfer to local bodies, except in a very special and exceptional circumstances. In fact, the tax devolution recommended by us is in the nature of non- conditional general grants to local bodies which, in normal circumstances, should be sufficient to meet O & M expenditure on establishment and provision and maintenance of core services by the PRIs and ULBs and hopefully, may leave some surplus for capital works, particularly in case of PRIs. For ULBs, to meet deficiency of resources for undertaking capital intensive projects, we have recommended existing Urban Infrastructure Development Fund as medium for tapping resources from the capital market, financial institutions and other external sources.

11.44 There may be some very special cases where grants-in-aid may become necessary. These may be for meeting outstanding un-paid liabilities on account of salary, pensions, gratuity, provident fund, electricity bills, repayment of loans or other dues. We had asked the departments of Panchayats and Urban Development to indicate such un-paid liabilities. We have been informed that no such liabilities are lying un-paid. We, therefore, do not find any justification for recommending any grants-in-aid to the LBs.

11.45 However, in case the need for very special, specific or exceptional grants arises, these grants should be a one time arrangement so that they do not generate fiscal profligacy on the part of local bodies, who should be normally in a position to meet their respective liabilities. Such grants should be based on objective and transparent considerations and should also take into account the fiscal needs and capacities of LBs. Hence, the role of grants-in-aid should remain confined to meeting only specific problems and needs of LBs.

11.46 We are, thus, of the considered opinion that the bulk of resource transfers to LBs should be done through tax sharing and the role of grants-in-aid should, as far as possible, be supplementary. Higher devolution through tax sharing would enable LBs to meet their needs without grants-in-aid and would encourage economy in expenditure and efficiency in tax efforts. We do not, therefore, recommend any grants-in-aid for LBs for meeting unpaid liabilities or for any other purposes.

UTILISATION OF FUNDS BY THE LOCAL BODIES

11.47 Though the TOR of the Commission do not require it to make recommendations on utilization of funds by the LBs, but since a large kitty of funds are devolved to them through the ageis of SFC, it becomes our duty to ensure that the funds devolved to these bodies are properly and efficiently utilised.

11.48 It has been observed that the transfer of funds to LBs is often irregular and dilatory and in many cases funds are released only to the favoured LBs. In some cases funds are released at the fag end of the financial year. This affects proper budgeting and timely utilization of the transferred funds. Thus, the system of release of funds to LBs needs to be streamlined. The Commission has also noticed a tendency that the State Govt. often earmarks funds for specific purposes or even deduct certain amounts at source for specific purposes. This tendency needs to be held in check as it is in conflict with the principles of the fiscal autonomy of the LBs.

11.49 The Commission has noticed that the 2nd SFC funds for PRIs have been diverted for development of selected modern villages instead of distributing those among all tiers of PRIs. This move deprives the PRIs of their legal right and share in State revenues and works contrary to the principle of their financial autonomy . In accounting parlance, this expenditure would not form a valid charge on the SFC devolution as it would not enter into PRIs accounts. **The Commission, thus, expresses its serious concern over this irregularity and advise the State Govt. to reverse this practice and SFC funds be transferred to the PRIs as untied funds to be utilized by them as per the decisions taken by them.**

11.50 The Commission would also like to re-iterate that the fiscal devolutions of the Commission are in the nature of entitlements for Panchayats and Municipalities envisaged in the Constitution and as such these should be treated as untied transfers and should reach the accounts of each unit of PRIs and ULBs in a time bound manner. It would help in proper budgeting and timely utilization of the transferred funds, besides enhancing autonomy of local bodies. **However, the State Govt. may provide suitable guidelines and keep proper watch on proper utilization of devolved funds through effective monitoring and through statutory and social audits.**

11.51 After carefully considering the whole issue, the Commission is of the firm opinion that a High Powered Committee may be constituted under the Chairmanship of the Chief Secretary with Finance Secretary and Planning Secretary as the Members and Economic and Statistical Adviser (ESA) as the Member Secretary or the Convenor to take policy decisions on all issues related to the Central as well as State Finance Commissions, timely implementation of their recommendations, their review and monitoring etc.

INCENTIVE MECHANISM

11.52 The Commission is required to devise such a mechanism of financial devolution as to ensure a balanced and healthy regional growth and to equip all LBs to discharge their fiscal obligation of balancing their resources and

expenditures. But at the same time, it is also required that the distribution mechanism should also provide adequate scope for incentives to performing LBs doing relatively better in fiscal management, internal resource mobilization, better utilization of available common property resources, implementation of national and state 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 State Govt. should frame certain guidelines or certain performance criteria at district level for rewarding the efforts of performing LBs in above areas.**

11.53 The Commission is also aware of the adverse fiscal implications of larger unconditional fiscal transfers as these slacken efforts of LBs to raise more of their own resources. Thus, the Commission has to ensure that the adverse incentive effects of design of fiscal transfers do not come about. As a guard against this tendency, **the Commission recommends creation of an Incentive Fund at district level each for the PRIs and ULBs and an amount equal to 10 percent of the annual entitlement of PRIs and ULBs may be retained in the Incentive Fund. Fifty percent of the annual accruals in the Fund may be allocated to those LBs, at all levels, showing better revenue performances to be measured in terms of at least 10 percent higher growth in their own tax and non-tax revenue over the proceeding year. The other eligibility criteria under this category is a minimum recovery of 60% of the total annual demand from own tax and non-tax revenue with 5 percentage points increase each year upto 75 percent by the end of award period of the Commission.** For working out the eligibility, income raised through sale of assets, transfers from the central and state govt; loans raised and other non-recurring items of receipts should be excluded. **The remaining fifty percent balance in the Fund should be allocated to all tiers of LBs which show higher performance over the standard norms to be fixed by the State Govt. in respect of each core areas of performance detailed above.** However, the State Govt. should identify emerging areas and determine norms or targets to be

achieved each year and to work out guidelines and performance criteria to reward the performing LBs. If any amount of the Incentive Fund remains undistributed at the end of the year, the balance should be brought forward and included in the next year's divisible pool.

11.54 This measure tends to reward the LBs showing better performance in revenue efforts and other core areas and would encourage LBs for more vigorous performance efforts in future.

CONCLUSIONS

11.55 While formulating its scheme of fiscal transfers, the Commission, realising the lack of data support from the departments, took an over-view of fiscal capacities of the local bodies, the status of core civic services and also the financial position of the state govt. It is hoped that the financial devolution recommended by the Commission is sufficient for meeting the expenditure needs on establishment and O&M cost of basic public services.

11.56 While doing so, the Commission also had a look at other sources of funds flowing to local bodies like, MPLAD schemes, district plans, state and central schemes, HRDF, Marketing Board, HUDA, HRDA, Model villages, Sarv Shiksha Abhiyan, JNNURM etc., under which substantial funds are channelised for development of rural and urban infrastructure. The Commission has also noted that substantial allocations have been made by the state govt. in its Eleventh Plan for socio-economic infrastructure development. The Commission is also cognizant of the fact that the function of water supply and sewerage, a core function of local bodies, is being executed by the state Water Supply and Sanitation Department, and the responsibility of maintaining of state highway roads, district roads, village roads and link roads lie on the state PWD deptt. and the State Marketing Board.

11.57 The Commission is also clear that civic infrastructure in Haryana villages and towns is critically in a bad shape and needs large scale improvement calling for massive investment and improved project management skills. It is also well recognised that due to its proximity with the national capital, forming major part of NCR and its innovative industrial policy, Haryana state is emerging as an

important hub of industrial investment calling for world class infrastructure in larger towns and in smaller towns and villages an infrastructure capable of ensuring good quality of life. Panchayats and Municipalities do not have enough resources and technical & financial expertise to provide such infrastructure and as such the Commission feels that the state govt. would have to come forward in a big way to provide such type of infrastructure. But at the same time the local bodies should not escape from their responsibility of operation and maintenance of the civic infrastructure through raising of local resources in terms of reforming their tax structure, updating service charges, better recovery of user charges and effecting economy in unproductive expenditures.

11.58 The other remedy lies in privatisation of some of the public services as it would help reducing cost and improving the quality of public services so privatised. Besides, the high cost projects should either be entrusted to parastatal bodies or be executed through public private partnerships as is the emerging trend these days.

11.59 While looking at the whole gamut of capacities of local bodies, the Commission could make effective recommendations on internal resource generation after ascertaining views of the elected representatives and other stakeholders. It is, thus, hoped that the state govt. will take a holistic view while considering the recommendations made in this report and the tradition at the central level of accepting all the major recommendations of the Commission without modification would be maintained.

11.60 We could not undertake outside visits to other states due to paucity of time. These visits could give us vivid insight into the problems which would not have been possible from a formal document. They could increase our awareness of the high cost of delivering community services in remote and inaccessible areas. However, we could hold discussions with the secretaries of various departments, which were helpful in obtaining the requisite clarifications on several issues.

11.61 Our report for the period 2006-07 to 2010-11 should be viewed, by and large, as continuation of the report of the last Commission. Though we have

made a major departure from the devolution criteria of the last Commission, but we have tried to design a devolution scheme consistent with the package of the last Commission for the year 2005-06 with sufficient room for price hike and expanding fiscal needs of the local bodies. We were also duty bound 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 keep a balance in evolving a package.

CHAPTER-12

RESOURCE MOBILISATION FOR LOCAL BODIES AND SUGGESTIONS

12.1 The TOR of the Commission require it to suggest measures needed to improve the financial position of local bodies, both rural and urban. The local bodies are now functioning as autonomous institutions. The resource base of these bodies requires to be substantially augmented in order to enable them to function as an effective and viable units of administration. Though the enabling acts provide for higher powers for these bodies to levy taxes and fees, but these powers have not been fully utilized. Even these bodies are not making desired recoveries from certain obligatory taxes. There is also a marked reluctance on the part of the elected representatives to impose additional levies. Hence, these bodies are not in a position to generate enough resources at their own level due to procedural modalities, public inconveniences and economic and political compulsions. Thus, survival of these bodies is largely dependent on state budgetary support. But due to budgetary constraints, state support as well as the Commission's devolution to these bodies would have to be at best very limited. It is, therefore, necessary that the PRIs and ULBs make sustained efforts to generate their internal resources at local level so that these bodies could become self supporting and do not have to depend upon state support for their survival.

12.2 The Commission held wide ranging consultations with the representatives and functionaries of PRIs and ULBs, experts, professionals and other stake holders on sharing of state resources with the local bodies. The Commission also constituted Study Groups of experts to advice on functioning of these bodies and their resource raising potentials. The common consensus that came out was that since these bodies are now saddled with wide responsibilities, full freedom should be given to them to raise resources at local level through own revenue generation efforts. The outcome emerging from the seminars organized by the Commission also pointed towards consistent efforts for internal resource

generation by these bodies so as to enable them to discharge their respective constitutional obligations entrusted to them under the new dispensation.

12.3 The Commission carefully considered the suggestions coming from the elected representatives, experts and the functionaries and decided to make some concrete and viable recommendations capable of generating sizeable resources for local bodies without harming the interests of economically weaker sections of the society. The recommendations so made have been grouped into three categories i.e measures common for both, the PRIs and ULBs, others relating to PRIs and ULBs independently.

A - MEASURES COMMON TO THE PRIs AND ULBs

12.4 There are some state taxes and fees which are already being shared with the PRIs and ULBs. The Commission had a look at the existing pattern of their sharing and decided to suggest suitable changes in their sharing pattern for the benefit of the local bodies, which have been indicated in the following paras.

STATE EXCISE REVENUE

12.5 State excise is a flexible and buoyant source of tax revenue of the State Govt., the net proceeds of which are shared with the PRIs and ULBs as per the provisions contained in the State annual Excise Policy. As per the existing provisions, the share of PRIs and ULBs is paid to them at the rate of Rs. 1.5/- per bottle of CL of 750 ml, Rs. 2/- per bottle of IMFL of 750 ml and Rs. 1.00/- per bottle of beer of 650 ml capacity on the basis of sale of CL, IMFL and beer in their respective jurisdiction. This is subject to the condition that local bodies would not impose any tax or levy on the sale of CL and IMFL within their jurisdiction.

12.6 It has been noted that the annual share of local bodies during 2005-06 amounted to Rs. 17.33 crore including Rs. 11.30 crore for PRIs and Rs. 6.43 crore for ULBs. These rates were fixed many years ago. **The Commission, after consultations with the Excise and Taxation Department, decided that the rates of sharing excise revenue should be doubled both for the PRIs as well the ULBs. This measure would substantially improve the funds availability with the local bodies without having any adverse impact on the**

local community. Excise revenue is, by and large, the function of drinking habits and economic status of the local community and the larger shares going to the local bodies due to doubling of rates would directly benefit the local community as these proceeds would be utilized for developing certain civic amenities in panchayat and municipal areas.

LOCAL AREA DEVELOPMENT TAX (LADT)

12.7 Local Area Development Tax was imposed by the State Govt. on 5-05-2000 as a compensatory measure to the urban local bodies in lieu of abolition of octroi in the State from 1.11.99. Section 22 of the LADT Act 2000 envisages distribution of its proceeds among local bodies for utilization on improving infrastructure facilities like development of roads, safe drinking water supply and sanitation, street lights etc. Since its imposition, the net proceeds of this tax are being shared between PRIs and ULBs on 50:50 basis. The share of PRIs and ULBs worked to Rs. 116 crore in 2005-06 and Rs. 130 crore in 2006-07 each for PRIs and ULBs. But now the operation of this tax is reported to have been struck down by the High Court and in lieu thereof no viable alternative source has been put in place to make good the loss of revenues to the local bodies.

12.8 The Commission discussed this issue with the departments of Excise and Taxation, Urban Development, Panchayats and Finance. Formal consensus was that some other levy like Entry Tax etc. should be levied the net proceeds of which be distributed between PRIs and ULBs on LADT pattern. **The Commission is of the view that in case operation of LADT is restored by the Supreme Court, its proceeds should continue to be shared with the local bodies as before. However, in case its operation is not restored, some other levy like Entry Tax be levied and the net proceeds be distributed among PRIs and ULBs on 50:50 basis.**

STAMP DUTY AND REGISTRATION FEE

12.9 Stamp duty is an important and elastic source of revenue to the State Govt. It is imposed on transfer of immovable property in urban and rural areas. Stamp duty was being charged at the rate of 12.5% in rural areas and 15.5% in

municipal areas upto Feb. 2004. Stamp duty rates were reduced w.e.f. 1-03-04 to 6% in rural areas and 8% in urban areas. In case of municipal areas, the municipalities are empowered to impose an additional duty ranging from 1% to 3% on transfer of immovable property in addition to the duty imposed under the Indian Stamp Act 1899. Under the above provisions, an additional duty of 2% was fixed in July 1973 as the share of municipalities which was increased to 3% in January 1989. Again the share of municipalities was reduced to 2% w.e.f. 25th Feb., 2004.

12.10 It has been noted that in Haryana PRIs do not get any share from stamp duty despite the fact that transactions of rural properties are much larger than the urban properties. Viewing it as a justifiable proposition, the first SFC recommended share of PRIs in net proceeds from stamp duty at 7.5%, which was not accepted by the State Govt. On similar lines, the 2nd SFC also fixed share of PRIs in stamp duty at 3%, which was also not accepted. The Commission was in agreement with the view point of earlier SFCs that this being a potential source, should be fully exploited and shared with both the PRIs and ULBs as per the provisions contained in Municipal Act. **Keeping this in view, it is recommended that share of municipalities in stamp duty should be increased to 3% from existing 2% which is in conformity with the provisions in Municipal Act.**

12.11 In view of the importance of the issue, the Commission tried to obtain figures of revenue being received from stamp duties from rural and urban areas, but this information was not made available. However, it was intimated that revenue from rural areas on account of stamp duty constitutes 80% and from urban areas 20%. **After careful consideration, the Commission recommends that 3% of the net proceeds of stamp duties coming from rural areas should be the share of PRIs.** This has been done for the sake of parity with the ULBs. The total collections from stamp duties during 2006-07 amounted to Rs. **1765 crore**, 80% of which works to Rs. **1412 crore** and share of PRIs at 3% would be about Rs. **42 crore**. **It is further recommended that the share of PRIs so worked out be distributed among the districts on the basis of the**

formula recommended by the Commission for sharing of State taxes. The share of GPs, PSs and ZPs would be in the ratio of 75:15:10 and further share of PSs and GPs be distributed on the basis of population and area and other considerations recommended by the Commission in its scheme of revenue sharing.

TAX ON CONSUMPTION OF ELECTRICITY

12.12 There is a provision in Municipal Act for levy of a tax on consumption of electricity within municipal area. Presently this tax is levied at the rate of five paise per unit of electricity consumed in municipal area. But in rural areas no such tax is levied within panchayat area at present.

12.13 The elected representatives of PRIs during discussions with the Commission put forth solid arguments for such dispensation for the PRIs also for the sake of Justice and equity as electricity tax is levied as a measure of compensation for use of land and other properties of the LBs by the power utilities. The Commission intended to have information on electricity consumed in panchayat area but this information was not available with the departments of Power and Panchayats. As a result, the annual financial implication of this measure could not be assessed.

12.14 After considering the matter, the Commission suggests that a tax at the rate of five paise per unit should also be levied on electricity consumed in panchayat area and transferred to the PRIs at district level to be further distributed among GPs, PSs and ZPs in the ratio of 75:15:10. Further distribution among PSs and GPs be made on population basis.

12.15 However, the Commission observes that this measure may complicate the maintenance of accounts of the PRIs. Besides, non-availability of information about consumption of electricity in panchayat area may also make the process of distribution difficult. **In view of these problems, it is suggested that the departments of Panchayats and Power utilities should jointly work out the modalities for levy, collection and distribution of the proposed electricity tax in panchayat areas, so that the PRIs could get adequate compensation**

in lieu of the land and other properties of panchayats being used by power utilities.

12.16 As suggested by the 2nd SFC, this Commission also recommends that in rural areas, power consumed for street lights and water supply should be charged on bulk supply rates or domestic rates rather than on commercial rates.

B - MEASURES SPECIFIC TO PRIs

12.17 The Commission held wide discussions with the elected representatives of the PRIs and experts on rural development on own revenue generation measures of the PRIs and the potential areas for tapping, which are discussed in the following paras.

HOUSE TAX (CHULLAH TAX)

12.18 Section 41(i) of Haryana Panchayati Raj Act 1994 provides for levy of house tax by the Gram Panchayat. The Panchayats in Haryana impose house tax under section 117 of the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works rules 1996 at the following rates:-

- Where the person liable to pay house tax is a land owner or shopkeeper
Rs. 30/- per annum
- Where the person liable to pay house tax is a tenant or an artisan
Rs. 20/- per annum
- Where the person liable to pay house tax is an unskilled labourer
Rs. 10/- per annum

12.19 Thus, the house tax imposed in the villages is Rs 30, Rs. 20 and Rs. 10 per annum depending upon the category of occupier or the owner. House tax rates were revised in 1996 only, since formation of the state. The 2nd SFC considered the issue of revision in the rates of house tax but found no justification for immediate revision. However, it 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.

12.20 The Commission has been informed that the annual demand of house tax in villages amounts to Rs. 15 crore or so, but recovery is less than 50% of the

demand and recovery is oftenly attached to issuance of caste/domicile certificates, electricity connections, nomination for elections etc. The Commission has noticed that recovery of house tax during 2005-06 and 2006-07 had been of the order of Rs.7.49 crore and Rs. 6.31 crore respectively. It was also informed that in the absence of any viable collection mechanism, recovery remained at low ebb, and on these considerations the state govt. abolished house tax on residential buildings w.e.f. 1-04-08. Since commercial properties in villages are negligible, the panchayats have almost been pre-empted of this source. No viable alternative source has been put in place to compensate the loss of PRIs on this account.

12.21 The general consensus emerging from discussions with the representatives of the PRIs was that the state govt. should compensate the PRIs of the revenue loss accruing due to abolition of house tax. **The Commission is also of the view that since the instrument of tax inculcates a sense of belongings among the citizens as well as improves the financial autonomy of the PRIs, the state govt. should consider some other viable and acceptable tax source for PRIs in lieu of house tax.**

MANAGEMENT AND DEVELOPMENT OF RURAL COMMON PROPERTY RESOURCES(CPRS)

12.22 Common Property Resources (CPRs) are non- exclusive resources in which groups of people at village level have access and right of user. These exist in the form of village common lands, woodlands, grazing grounds, common waste lands, rivers, village ponds, tanks, wells, streams, pathways, mineral resources etc. These resources are important for rural development and rural community for meeting their needs and supplementing their income.

12.23 Unfortunately, these resources are not being properly managed or protected and are generally found in an unsatisfactory condition. These resources have either been privatized or encroached upon or misutilised or allowed to go into degradation or disuse. Despite their acknowledged importance, CPRs in Haryana have yet to be transformed into viable economic resources.

12.24 Over the years, major portion of CPRs has become privatized through legal and illegal means. This has entailed serious social costs as access of people and animals has been restricted. Due to dilatory legal procedures and in-effective powers of PRIs, panchayats are unable to protect their common lands and often become helpless. In some cases elected representatives themselves or officials at all levels actively participate and connive in the process. Common lands are also allocated through pattas to landless labourers and marginal farmers, acquired for rural industrialisation, setting up of Special Economic Zones, development of residential colonies, allotment of plots to BPL families etc, with the result that their availability to the panchayats is fastly reducing.

12.25 As CPRs are very important for rural community and a major source of income for PRIs. The Commission sought information from the panchayats department on total village common land, cultivable and non-cultivable, land on lease, land under encroachment, cases filed in the courts, steps taken by the department for protection of CPRs etc. Department could not give any information on any aspect except that Gram Panchayats are having an ownership of 8.27 lakh acres of land at present, out of which cultivable land is 1.85 lakh acres and 6.42 lakh non-cultivable. The income accrued to PRIs during 2005-06 was Rs. 89.33 crore from shamlat lands and Rs. 34.00 crore from other CPRs.

12.26 Regulation and management of these lands is done in terms of the Punjab Village Common Land Act 1961 and rules made thereunder. With the enactment of this act, Panchayats were conferred proprietary rights on common lands. Gram Panchayats are empowered to take action for removal of encroachments over panchayat lands under section 7 of the said act. Amendments in this act carried out in 1992 provide for levy of penalty for any such unauthorized possession. Further, section 7(5) of the amended act is even more stringent envisaging imprisonment upto two years.

12.27 It shows that enabling acts or provisions have sufficient powers for protection of village common lands and to take strict actions against illegal

encroachment. What infact is needed is strict enforcement of the existing legal provisions. In case, encroachments are removed and possession is restored to panchayats, their incomes are likely to substantially increase.

12.28 Scientific policies for the conservation, management and development of CPRs are, therefore, urgently needed. Useful suggestions have been made in this regard in various seminars and workshops held at the state and national levels. **This Commission would like to emphasise, in particular, action on the following lines:**

- i. Proper registers giving details of the physical and qualitative aspects of CPRs like uses, production and productivity levels, water discharge, quality and nature of vegetation, economic returns, etc., should be maintained by GPs. These records should be regularly updated and inspected.
- ii. To the extent possible, CPRs should be physically demarcated through cost effective methods like natural fencing. Information about such lands can also be displayed on GP notice boards to inform village people and minimize encroachments.
- iii. Laws pertaining to encroachment on CPRs should be made more stringent and efforts should be made for speedy and time bound disposal of such cases. Village and block level functionaries should be entrusted with the responsibility of pursuing such cases.
- iv. The Government should review its policy of distributing village common lands to individuals, as this affects access of the poor to these common resources and reduces support areas needed by rural communities.
- v. The development of CPRs should be essential component of district and village plans. Action plans should be prepared for development of CPRs in each GP with the technical support of respective departments.
- vi. Scientific livestock management practices should be popularized and stallfeeding should be encouraged to prevent damage by animals. Regulated/rotational grazing of livestock should be practiced with

community participation. Social fencing should be encouraged as has been done in certain parts of the country.

- vii. Basic needs of the poor should have first charge on CPRs.
- viii. GPs may impose reasonable charges for use of CPRs. Fines may be imposed on defaulting persons. Income from these sources can be used for proper management and development of CPRs.
- ix. Management and development of CPRs should form an important component of the training modules for PRI functionaries and officials.
- x. Mass campaigns may be undertaken for increasing people's awareness about the importance of CPRs and their protection as well as community involvement in this task.
- xi. Efforts should be made for commercial exploitation of shamlat lands by setting up commercial complexes, rural industries and industrial sheds etc.
- xii. Maximum possible area should be utilized for plantation, afforestation, fishing activities, horticulture, floriculture etc for augmenting income of panchayats.
- xiii. Representatives of GPs/PSs/ZPs should be present at the time of auction of shamlat lands to ensure transparency and for checking corruption.

12.29 There are some other important suggestions which have been made by the elected representatives and experts. The Commission commends these for implementation, which are as under:-

- PRIs be authorized to levy tax or fee on advertisements, hoardings, cable operators, micro-towers, public schools, coaching centres, technical and commercial institutions and other establishment 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 activities taking place in their areas should be brought under PRIs for levy of fees etc.
- PRIs should consider imposing levies on pumping sets, tractors etc.

- Revenues of panchayats should be augmented by building housing colonies, shops, banquet halls etc.
- Some shares of income from Yamuna river ghats, minor minerals, change of land use etc should also be given to the PRIs.

C. - MEASURES SPECIFIC TO URBAN LOCAL BODIES

12.30 Urban Local Bodies in the state are presently heavily dependent on state support. The contribution of revenue from own resources is quite low due to narrow and inelastic resource base. In order to achieve fair degree of fiscal autonomy, it is imperative for ULBs to raise the proportion of revenue generation through own efforts. This would require, inter-alia, the steps in the following directions.

- Widening and deepening of the existing resource base (tax and non-tax) of ULBs through revision of rates, expansion of tax base etc;
- Larger share of ULBs in state taxes which have a local base or are of local nature;
- Tapping of institutional and external sources including market borrowings

12.31 The Working Group set up on augmentation of resources and the elected representatives of the urban local bodies have strongly advocated for raising internal resources by these bodies so as to ensure financial autonomy of these bodies. Thus, the Commission has decided to make some suggestions in this regard.

PROPERTY TAX

12.32 In India Property Tax (House Tax) is the most important source of revenue of ULBs. In many States property tax contributes upto one- half of municipal revenues. The concept behind this tax is that the local bodies provide infrastructure for use by property owners and duly recovers the cost of maintenance from them.

12.33 Despite its importance, revenues from property tax are much below their potential. There are large variations across the country in the incidence of this

tax. Tax laws and their implementation generally suffer from a number of problems relating to fixation of the tax base and rates, tax assessment, tax collection, exemptions, disputes and their resolution etc. This tax also often suffers from lack of simple, scientific and directionless methods of its determination. The process of assessment is plagued by arbitrariness and collusion between the tax assessors and property owners. The revenue potential of this tax is further undermined by the fact that even the assessed taxes are not collected fully due to laxity and other weaknesses in the revenue collection machinery of ULBs.

12.34 Major structural and administrative reforms have been carried out in property tax in a number of States like Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, West Bengal, Bihar etc which have already switched over to area linked system based on standardized plinth area cost, which is linked to factors like location of the building, quality of construction, use and age of property and carpet area of the building. This system is simple and transparent. Another system is based on capital value under which assessment of tax is based on prevalent market value of the property.

12.35 In Haryana, property tax is a major source of revenue to the ULBs and constitutes about 42% of their own revenue. During 2005-06, the annual collection from property tax was Rs.66.33 crore, including Rs. 41.70 crore for all municipalities and Rs. 24.63 crore for Municipal Corporation Faridabad. In view of its largest contribution in municipal revenue, steps were taken to streamline the assessment system to make it transparent and unbiased. Haryana state switched over to capital value system of assessment of property tax from rental value system on 13.12.2001. Now property tax in Haryana is 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 are exempted from house tax like buildings attached to religious, educational and charitable institutions, newly constructed residential buildings for 3years, all residential buildings owned by widows or handicapped, ex-servicemen, families of deceased soldiers, vacant plots etc.

12.36 Now the State govt. has abolished property tax on residential buildings w.e.f. 1-04-08 which has pre-empted the municipalities from their sizeable revenue without putting in place any viable alternative source of revenue. This step has certainly disturbed the priorities and developmental activities of the local bodies. The experts and elected representatives in their meetings with the Commission had advocated for suitable alternative source of revenue to the local bodies. The Commission also exchanged views with the urban development department regarding this issue and it was informed that no compensatory measure has still been put in place.

12.37 The Commission has noted that income from house tax to the local bodies from residential buildings works about 50% of the total and the other 50% comes from the non-residential buildings. **After giving due thought to the issue, the Commission urges the state govt. that the rate of house tax on other buildings should be doubled so as to compensate the local bodies of their loss on account of abolition of this tax on residential buildings.**

12.38 The Commission has seen that large scale exemptions given to property owners have led to property tax becoming an insignificant source of income for local bodies. The Commission strongly feels that the property owners must pay an affordable amount of tax on their properties each year if they expect quality civic amenities to be delivered by the municipalities. **The Commission, therefore, recommends that exemptions from property tax should be drastically reduced and the system improvement deemed necessary may be carried out. Property tax should also be levied on non-domestic properties attached with brick kilns, rice shellers, stone crushers, petrol pumps, stud farms and small and large scale industries. It should also be levied on vacant lands on which no building has been built.**

12.39 Special attention needs to be paid to computerisation of property tax and for providing a linkage between the records of buildings, water supply and the tax department to ensure coverage of all properties by property tax. In case of big municipalities, GIS technology and remote sensing data can be used for locating un-assessed properties.

PROFESSION TAX

12.40 Taxes on business, trade and professions are an important source of income of ULBs world over. This is the only tax mentioned in constitution for local bodies under Article 276. Profession tax is one of the few direct taxes which the state govt. can levy. It is broad based and can be imposed on a large number of people engaged in economic activities as salaried employees, professionals and self employed persons. The revenue potential of the tax is restricted by the ceiling put in the constitution, which at present is Rs. 2500/- per annum per person.

12.41 At present profession tax is levied in more than 15 States in India. Generally, this tax is levied and collected by ULBs. In some states, e.g. Kerala, Maharashtra, Tamil Nadu etc; GPs are also empowered to levy this tax. In states of Andhra Pradesh, Maharashtra and West Bengal, this tax is levied and collected by the State Govt. and is shared with the local bodies in varying proportions. This has reportedly led to substantial improvement in revenue collections

12.42 Some SFCs have also favoured imposition of profession tax by local bodies. Punjab Finance Commissions recommended that this tax should be levied and collected by the Excise and Taxation Department and the proceeds be shared with the local bodies. Eleventh Finance Commission had suggested the States to levy profession tax for supplementing resources of local bodies. It also suggested that rate of profession tax should be raised suitably from the existing ceiling of Rs. 2500/- per year and that Parliament should be empowered to fix the ceiling without going in for constitutional amendment every time. Twelfth Finance Commission also suggested to follow suggestions of Eleventh Commission and of some SFCs for levy of profession tax and enhancement of its ceiling.

12.43 Haryana Govt levied profession tax on behalf of ULBs in 2001 at the rate of Rs. 2500 per year on hotels, restaurants, banquet halls, petrol pumps, nursing homes, gas agencies, private schools and colleges, furniture show rooms, milk dairies, industrial units etc., but this levy was rolled back in 2004. The annual

income accruing to ULBs during 2003-04 amounted to about Rs. 3.00 crore.

12.44 The Commission is of the view that there is a good potential for raising revenue through profession tax to strengthen the resources of the state and the local bodies. **After careful consideration, this Commission recommends that profession tax should be levied and collected by the Excise and Taxation Department and shared with the local bodies, both the PRIs and ULBs. This tax should be broad based and slabs should not be too large. It is further recommended that 50% of the receipts from profession tax in urban areas should be shared with the ULBs on origin basis. In case of rural areas, 50% of revenue 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 interse shares of GPs and PSs be fixed on population basis.**

URBAN VACANT LAND TAX

12.45 Vacant Land Tax can be an important source of revenue for ULBs. The main objective of such a tax is curbing of speculation on land and promotion of housing. Both objectives are important for ULBs. This source is not exploited in Haryana.

12.46 The elected representatives favoured the proposal for levy of tax on urban vacant land. **After consideration, the Commission suggests that with a view to curbing speculation, promoting housing activities and improving financial health of ULBs, a vacant land tax may be levied by ULBs at the rate of 1.0 to 1.5% of the capital value.** Vacant land should be clearly defined. The tax should be levied on open land and un-built plots. Lands which are being used for purposes of marriage parties, receptions and entertainment purposes and parking etc. should be taxed at some more higher rates.

12.47 The Commission is aware that house tax on residential houses has been abolished. The Commission has not recommended its re-imposition. In view of this it has been suggested to levy tax on vacant urban land.

12.48 Often, there is resistance to levy new taxes. However, some non-tax fees can be levied which may not be too much resisted. These may be:-

- i) **Valorization**, which refers to situations where the local body has provided improved services and needs to recover these costs, either on a one-time basis or over a period of time. In such cases, the local body can apportion the cost of providing improved services according to the extent of use by various properties to which the services have been provided.
- ii) **Impact fees** are levied on those new constructions, which, albeit built with private funds, impose a cost on a local body. For instance, a large commercial building may require a road adjacent to it to be broadened to accommodate the increased traffic. In such a case, an impact fee could be charged to the commercial building either as a one-time fee or be spread over a period of time. Valorization charges could be levied on the other properties in the vicinity, which benefit from widening of the road. In India, impact fees are already levied by the Hyderabad Municipal Corporation.
- iii) **Betterment levies** are similar in concept to valorization charges but are usually levied to recover full costs, whereas valorization recovers partial costs.
- iv) **Exactions** are taken from developers in the form of land, to provide necessary public and community services. There are prescribed norms regarding exactions to guide local bodies.

NON TAX REVENUE (USER CHARGES)

12.49 All the civic services have a cost attached with them and these are used by the citizens very differently. It is, therefore, important to introduce user charges at affordable levels and the users should pay for the services being provided to them. We have noticed that service charges for certain activities were revised in municipal areas way back in 2001. We feel that this is high time to revise the rates of fees and user charges to enable the local bodies to at least meet the O&M cost. In Haryana, municipal charges or fee comprises development charges, license fee, fee for issue of births and deaths registration, parking fee, tehbazari etc. **The Commission is of the opinion that user**

charges should continue to be updated periodically so as to boost revenues.

12.50 With a view to improving the financial position of ULBs and the quality of services, the state should move towards the goal of full cost pricing of services. However, in the beginning it would be too much to expect the average consumer to pay the capital cost of the services. But attempts should be made to charge atleast the full operation and maintenance cost of providing these services. An element of cross-subsidy to the poor sections may be provided by charging higher rates from the better off consumers and industrial users. Water user charges based on metering is a highly desirable goal, but it would involve practical problems given the large number of users. It should, however, be certainly possible to charge water rates based on metering in case of bulk consumers and industrial units. In other cases, water tap charges may be adopted. Drainage and sewerage charges may be levied as a percentage of water charges. The user charges should be periodically revised to adjust for the rise in cost of providing the services.

CHAPTER – 13

OTHER ISSUES AND RECOMMENDATIONS

13.1 The Commission, in fulfillment of its mandate, had come across various critical issues which have great bearing on the operational efficiencies of the local bodies. The conceptual basis for setting up of local bodies is that these are institutions of local self government. Local issues are best addressed by local solutions. People's representatives are required to assess the civic needs of the community, raise resources and identify the suitable way of providing the civic services. But, overtime, authority and power of local bodies continued to be undermined due to obvious reasons and consequently, local bodies defaulted in performing their duties to people's expectations. It is in this background that some key issues need to be suitably addressed for improving administrative and managerial efficiencies of these bodies.

13.2 The Commission, for discharging its task, studied reports of the last few Central Finance Commissions, the reports of last two Haryana Finance Commissions, reports of other State Finance Commissions and other relevant documents. The Commission also undertook field visits and held discussions on various issues with the elected representatives, functionaries and departmental officers. The previous SFCs of Haryana have gone into various issues in great details to recommend measures for improving the working of local bodies. This Commission has, thus, decided to take into account only the important issues and that too in brief.

A- AUDIT AND ACCOUNTS OF LOCAL BODIES

13.3 In order to ensure proper control over expenditure and to prevent misuse of funds, a proper system of accounting is essential. Moreover, with substantial funds flow to the local bodies from various sources, a strong audit and accounting system is required.

ACCOUNTING SYSTEM OF PANCHAYATI RAJ INSTITUTIONS

13.4 Accounts of the Gram Panchayats are maintained as per Haryana Panchayati Raj Rules, 1995 and accounting formats prescribed under Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996. The C&AG has also devised model receipts and payments accounting formats for Panchayat Samities and Gram Panchayats on 16.10.2002. The model budget formats for PRIs too have been prescribed by the C&A.G. on 16.10.2002 separately on the recommendations of the Eleventh Finance Commission. This serves as a guide for preparation of annual budget by the PRIs.

AUDIT SYSTEM IN PRIs

13.5 Audit of accounts of PRIs in the State is conducted under the post-audit system by the Director, Local Audit Haryana. In the case of GPs, it is conducted every two years and with regard to ZPs and PSs, on half yearly basis by an audit party headed by a Senior Auditor. We have been informed that inspite of provisions in the relevant rules, very little disposal of audit objections takes place and the objections keep on piling up year after year. As provided in rules, Public Accounts Committees for scrutinizing the audit reports and other related matters, were never constituted, and with the result that there has been no worthwhile monitoring of audit reports of the Panchayati Raj Institutions to ensure their compliance.

ACCOUNTING SYSTEM OF URBAN LOCAL BODIES

13.6 The State Govt. is empowered to enact bye laws and make provisions regarding maintenance of accounts by the ULBs and audit of those accounts. The existing formats relating to transactions of finances and accounts of ULBs are contained in Haryana Municipal Accounts Code. Action is yet to be taken for the introduction of the budget and accounting formats prescribed by C&AG encompassing the accounts of ULBs on double entry system and accrual system of accounting. So far no action has been taken by the ULBs Department for amending the existing Municipal Accounts Code, 1930 nor the budgeting and

accounting formats prescribed by C&A.G. have been adopted. This needs to be done by them urgently.

AUDIT SYSTEM IN ULBs

13.7 There is a pre audit system also called the Resident Audit Scheme under which pre-audit is currently being conducted in respect of 25 municipal councils and three municipal committees in the State. Municipal Corporation Faridabad is also covered under the pre-audit scheme as provided under section 168(3) of Haryana Municipal Corporation Act, 1994. Under the pre-audit system, day to day audit of accounts is conducted. The remaining municipal committees in the State are covered under the post audit system by which accounts of municipal committees with annual income more than Rs. 5 lakh are audited biannually and municipal committees with annual income below Rs. 5 lakh are conducted annually as per provisions of the Municipal Accounts Code. The audit in such cases is conducted by the audit party headed by a Senior Auditor.

13.8 The existing system of accounts and audit of local bodies suffers from various shortcomings, particularly relating to accounting formats, reporting and disposal of objections etc. As has been said above, the 2nd SFC had gone into the details of these problems and recommended effective measures for proper redressal. This Commission generally is in agreement with the measures suggested by the 2nd SFC, but a few suggestions, deemed necessary, are made as under:-

- **An accrual based double entry system of accounts may initially be adopted in Municipal Corporation and Class-I Municipal Councils. The System as adopted in Tamil Nadu may be adopted with suitable modifications to suit the local conditions. These local bodies may be authorized to engage the services of chartered accountants and other accounts personnel that may be required for switching over to the new system on contract basis. After gaining experience about the functioning of the system, the question of extending it to other ULBs may be considered.**

- **The system of cost audit of expenditure incurred on execution of capital works and operation and maintenance of civic services may be started in Municipal Corporation and Class I Municipal Councils. The services of suitable cost accountants may be engaged on contract basis to initiate the system and train the concerned staff.**
- **The State Government may examine the working of Examiner, Local Fund Accounts with a view to strengthening its functioning and look for ways to ensure objective scrutiny of local body accounts.**
- **System of pre-audit be streamlined and applied on a selective basis.**
- **The State Government should take steps to implement the recommendations of the 11th Finance Commission for improvement in the maintenance of accounts by Gram Panchayats.**

13.9 The EFC had recommended that 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. TFC has observed that only 19 states have entrusted Technical Guidance and Supervision (TGS) over local bodies to C & AG of India but five major states of Haryana, Punjab, Gujarat, Andhra Pradesh and Arunachal Pradesh have not yet implemented this. Hence TFC has emphasised the need to implement this recommendation of the EFC by the remaining states. As reported, the State Govt. did not find any justification for entrusting the responsibility of supervision to C & AG of India as proper arrangements already existed to carry out their audit under the constitutional provisions. However, the State Govt. had no objection in C & AG of India prescribing the procedure for verifying proper utilisation of grants given to the local bodies by the Finance Commissions and in receiving technical guidance regarding auditing standards, audit planning, professional training and all other matters to strengthen the local fund audit. **We have considered this issue and came to the conclusion that since majority of states have implemented this recommendation of EFC, the Govt. of Haryana should reconsider this issue in its broader perspective and implement, if possible.**

B- SOCIAL AUDIT

13.10 Social audit is another instrument for effecting transparency in the functioning of institutions. Through social audit of public activities, works/ or programmes being undertaken by PRIs would be subjected to public scrutiny for their timely completion, costs, achievements and quality of works. The concept of social audit is useful in maintaining records correctly. It also ensures the quality of works besides plugging leakages in the system and reduces manipulation.

13.11 Different States have introduced systems of audit and inspection of works of Gram Panchayats with people's involvement. In the state of Karnataka Panchayat Jamabandi System has been initiated. It combines features of departmental audit with social audit in which Gram Sabha members are associated. In Kerala, the Committees (Task force) constituted by Gram Sabhas for performing monitoring functions include, besides Gaon Sabha members, members of the village Panchayat and staff and also technical persons. No individual or group is given the power to decide. Matters are decided by full committees of local governments which are open and can be attended by public. In West Bengal also certain types of checks on the spending by Panchayats have been envisaged.

13.12 The Commission recommends that the State Government should introduce the system of internal as well as public audit of works and accounts of Gram Panchayats. The committee (s) that may be constituted in this regard should include officials and non-officials and persons with technical knowledge. Some block officials should also be included. The audit report should be presented and discussed in open sessions of Gram Panchayat and Gaon Sabhas, so that they may play an effective role. Necessary changes may be made in the Panchayati Raj Act to facilitate the adoption of the proposed system.

C- CAPACITY BUILDING AND EMPOWERMENT

13.13 Capacity building, empowerment of local bodies, and skill upgradation are the basic areas in which capacities need to be developed. There are three major stakeholders in this effort, viz, local bodies, elected representatives, functionaries and the civil society or the State Govt. During its tour within the State, the Commission observed that there is a strong need to provide focus on strengthening the capacity of all the stakeholders and empowering them to create and sustain systems that are more responsive to people's needs.

13.14 The local bodies now enjoy a constitutional status and as such they are required to take up the tasks of planning and project formulation, implementation, monitoring, mobilization of local communities and resources etc. Local bodies thus, need greater role clarity and the elected representative's greater awareness of their responsibilities and powers. **The existing manuals for the elected representatives should be revised and updated to make them more focused on current realities. These objectives can be achieved only through suitably designed training programmes for upgrading and creating the right type of skills.**

13.15 Training programmes for the elected representatives and staff of both urban local bodies and Panchayati Raj Institutions, delivered through reputed training institutes in the state and outside will help build needed capacities. Modules of training prepared by the Government of India and NGOs can be used for the purpose. **The training of officials & non-officials of local bodies at different levels has to be a continuous process consisting of foundation courses, refresher courses, reorientation courses, seminars, workshops, study tours etc. at regular intervals.** The training modules could vary according to the needs of the job/role of the officials. The major issues which would require consideration are : identification of target groups and assessing their training needs, preparation of course contents, background training materials and manuals and teaching aids etc. The training has to be graded and

differentiated for various categories of employees keeping in view the nature of their jobs and functional responsibilities.

13.16 At present, not much training facilities are available for officials and non-officials of local bodies. **The Haryana Institute of Public Administration (HIPA) Gurgaon** is the 'Nodal' training institute in Haryana for providing in-service training facilities for IAS/HCS/other class I&II officers and ministerial staff of the State Government Departments, Boards and Corporations. State Government has also **set up a Haryana Institute of Rural Development at Nilokheri for providing training facilities in rural development**. But we feel that it may be necessary to set up an independent training institute for the functionaries and elected representatives of the urban local bodies. But keeping in view the financial constraints, **it is suggested that for the present the training of officials and non-officials of urban local bodies may be entrusted to HIPA, Gurgaon. Similarly, the training of both officials and non-officials of Panchayati Raj Institutions may be entrusted to Haryana Institute of Rural Development, Nilokheri.** These institutes can also undertake research and serve as centres for documentation and information on municipal administration as well as for Panchayati Raj Institutions.

13.17 To enable these institutes to undertake additional work load effectively, they will have to be strengthened by way of **additional man power and infrastructure facilities. Keeping in view the importance of training and capacity building towards empowerment of LBs, the Commission under Chapter 11 of its report has recommended an amount of Rs. 12 crore for strengthening the capacities of three premier institutions i.e, HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon. The funds earmarked are HIRD Nilokheri Rs. 5 crore, SCDTC Nilokheri Rs. 2 crore and HIPA Gurgaon Rs.5 crore.** The Commission is hopeful that with this financial assistance, requirements for capacity building would be fully met. However, it is suggested that the Urban Development Department as well as Panchayats and Development Department should examine this vital issue on an emergent basis

and should adequately provide for undertaking and strengthening the various training programmes.

13.18 Central Government development schemes aimed at small infrastructure improvements at local levels should be implemented based on local realities. **The grants should percolate downwards as per the recommendations of the District Planning Committees at the district level.** Devolution of adequate powers to the District Planning Committees is recommended so that they may play their constitutional role of strengthening local autonomy more effectively. The powers so far given to the DPCs in the state are deemed inadequate.

13.19 To improve the decision making capacity of local bodies, the state government should compile and disseminate information about available technological options, suitable executing agencies and about the sources and prices of products needed for providing infrastructure for civic services. A system of listing of fair prices and empanelling executing agencies be developed to remove information asymmetries that keep the local bodies from having the confidence to take up community projects.

13.20 The existing state Government systems for identifying and meeting local needs be changed fundamentally. Initiatives in this direction have been taken with the constitution of District Planning Committees. Another initiative is the setting up of Municipal and Village Development Funds to focus on filling the infrastructure gaps in rural and urban areas.

13.21 Government systems should be transparent and open to public scrutiny to bring about more accountability and confidence in the decisions taken by the state and local governments. Empowerment of the common citizen as a primary stakeholder is essential for strengthening local bodies and improving governance systems. The Right to Information Act is an effective instrument for this purpose. Public awareness raising campaigns are needed for educating citizens on their rights and responsibilities through open debates in the media with the participation of eminent public persons. The NGO movement also needs strengthening in the state for greater community empowerment.

D – EMPOWERMENT OF CITIZENS

13.22 The Commission is convinced that part of the reason that local bodies do not deliver arises from the failure of citizens to demand better services. Citizens, in their turn, do not demand their due because they do not know the procedures and cannot easily assess whether they have been shortchanged for reasons that could have been better handled by their local bodies. In some cases, of course, citizens have plain lost hope of having their grievances redressed. In other cases, since many citizens do not pay taxes or user charges, they do not feel that they have a say in the running of their local bodies and so fail to provide a critically important element in the system of local governance, i.e. answerability of their elected representatives and public servants.

13.23 The Commission is of the opinion that there should be a public awareness raising campaign to re-educate citizens about their responsibilities and rights. It would be a good idea to open public debates on these issues in the media, with eminent persons expressing their opinions. With the enactment of the Right to Information Act, it is now possible to advise citizens of the procedure to access the information they need to work with their local bodies.

E- COMMUNITY PARTICIPATION

13.24 Till recently community participation played an important role in activities of common interest, in rural areas and helped in creating community assets like roads, community centers, common facilities, etc. However, with the increasing flow of government funds community enthusiasm has waned to a large extent creating a dependency syndrome. Our interaction with elected representatives of PRIs has strengthened the feeling that the spirit of community participation needs to be revived and promoted for making PRIs effective at the grass root level.

13.25 Today many voluntary organizations/associations, NGOs, community groups, self-help groups (SHGs), youth clubs, cooperatives as well as

government sponsored groups like **Aganwadis, Mahila Mandal Dals**, etc. are actively involved in development work at the grass root level. The spread and strength of these groups is, however, not uniform across the States. National financial institutions have played a significant role in promoting the voluntary movement in the country. Various donor agencies and government departments/organizations are also promoting user/beneficiary groups like Water Users Associations for specific programmes/schemes. Voluntary associations have been successful in programmes like watershed management, resource conservation, savings, credit schemes, etc. They are, as a matter of fact, distinct but important and helpful partners for sustained growth efforts and equitable development.

13.26 Involvement of local communities can help in better project designs, correct identification of beneficiaries and lowering of costs. Local communities can also contribute resources for rural development works and programmes of common interest through monetary contributions or free labour. They can also be encouraged to contribute to the capital cost of projects on a sharing basis and be trained to take up the responsibility for maintenance.

13.27 The Commission feels that systematic efforts should be made for promoting community participation and greater involvement of the voluntary sector in the working of PRIs. In community mobilization through distinct groups, associations and formations the co-ordinating and guiding role of PRIs must be recognized and promoted.

F- CREATION OF DATA BASE

13.28 The Commission has observed that the data base of local bodies is very precarious. There is no reliable mechanism for collection of data at any level i.e. local body level, departmental level and government level. Despite all possible efforts put in by the Commission, no tangible data could be available from the departments of Panchayats and Urban Department. **It is the Commission's firm belief, which it shares with the previous Finance Commission and the Twelfth Finance Commission, that collection and compilation of data is an**

on-going responsibility of the government and not of the Commission. Without valid data, it is neither possible to plan effectively nor to prioritize expenditure. Local Bodies can not move ahead on development path without a good data base.

13.29 The EFC and TFC had strongly stressed the need for creating data base on finances of the PRIs and ULBs at all levels accessible on electronic media and earmarked substantial funds as well. But we found that serious efforts have not been made by these departments to strengthen data base. This is another area requiring pointed attention of the Commission. **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 Development, fully equipped with trained and dedicated manpower and modern electronic devices.**

13.30 As stated elsewhere also, there has to a permanent Central Agency in the State Govt. to provide feed back to successive SFCs on affairs of LBs on the pattern of Finance Commission Division in MOF/GOI. Previous SFCs had also made similar recommendations. In our interim report, we had suggested this Central Agency to be set up in Finance Department. But now coming across to various SFCs reports and the practices prevailing in many states, **we recommend that the proposed Central Agency should be created in the Economic and Statistical Organisation (ESO) of the State Planning Department, which is a store-house or repository of statistical data and well equipped with efficient technical manpower. This Agency should be headed by an Additional ESA, supported by two Dy. ESA's, one for PRIs and other for ULBs, and further assisted by Research Officers, Assistant Research Officers and the other subordinate staff. The Agency should be adequately equipped with qualified and technical manpower, modern techniques and other supporting logistics.**

13.31 The functions of this Agency would be as under:-

- To monitor the flow and utilization of financial devolution made by the Central and State Finance Commission.
- To act as data bank on LBs finances- collection and analysis of financial data on PRIs/ULBs on regular basis and document it.
- To conduct case studies on state and local finances and collect relevant documents, reports and other information from the state and central departments and institutions.
- To process the recommendations or reports of Central and State Finance Commissions, regulate the release of funds to LBs and their utilisation and to monitor/review the follow-up action or implementation of Commission's recommendations.
- To prepare feed-back material for use by the successive SFCs and the High Powered Committee and to assist them in the discharge of their functions.
- Any other responsibilities that may be assigned to it from time to time by the State Govt.

13.32 The arrangements suggested above will meet the long felt deficiency of reliable data base on LBs finances and would prove to be a reliable mechanism to facilitate the work of successive SFCs as well as to timely and efficient use of devolved funds. In the long perspective it will also be a time and cost saving measure.

G- PRIVATISATION OF MUNICIPAL SERVICE

13.33 Due to their poor financial state, ULBs are unable to provide quality civic services on the requisite scale. Privatisation of municipal services offers one way out of this situation. In our country we have a number of examples of privatisation of municipal services. Rajkot Municipal Corporation in Gujarat has contracted out a number of services like maintenances of street lights, solid waste removal, transportation, cleaning of public toilets, maintenance of gardens, etc. Pali Municipality in Rajasthan has given maintenance of street lights to private sector. CIDCO in New Mumbai has privatised maintenance of sewerage and water

pumps, meter reading and billing, maintenance of parks and gardens, collection of service charges, etc. In Surat private sector has been involved in solid waste collection and transportation, maintenance of street lighting, construction of roads, tree planting and operation of water treatment plants. Several cities in the country have privatized solid waste collection and disposal. Some ULBs have also entrusted collection of tolls and octroi to private contractors. NGOs, community groups and cooperatives have been involved in many cities in the maintenance of parks, squares, crossings, gardens, garbage disposal, etc.

13.34 Privatisation of Municipal services can open up the possibility of inflow of private capital into urban infrastructure projects. It helps in easing the financial pressure on ULBs and results in efficiency gains through cost reduction and better quality of service.

13.35 The Commission feels that privatization should not supplement the present work force of ULBs or cause any retrenchments of permanent staff. At the same time it recommends that steps should be taken to encourage privatisation of municipal services on the lines attempted in other parts of the country. The services which are suitable for privatisation, include, among others, solid waste disposal, cleaning of roads, maintenance of parks, street lights, etc. Priority should be given to suitable NGOs, Citizen Groups and Cooperatives in awarding contracts for such services. A strong regulatory mechanism and oversight system at the local level is an essential pre-requisite of effective privatisation. Appropriate institutional and legal changes will have to be introduced to regulate the process of privatisation and keep a strict watch on the private providers of civic services. The Government may prepare model bye laws and guidelines for contracting out of municipal services. The managerial capacity of ULBs also needs to be strengthened from this point of view. The quality aspects of provision of services and user charges for them will have to be kept in mind while privatizing civic services.

H- PUBLIC PRIVATE PARTNERSHIPS

13.36 Municipal bodies provide essential and important services and conveniences to people living in cities and towns. There are persisting and widening gaps between needs of cities in these contexts and resources available with ULBs in terms of finances, organizational strengths and technical capacities. Recent years have witnessed noticeable and important changes in the policy focus on urban infrastructure in terms of its role in productivity, human health, equity, quality of life and access to basic services. The gap between the needs of infrastructure and services and availability in ULBs is glaringly wide. **It is, therefore, being increasingly realized that in municipal contexts there should be public-private partnerships for improving services and managerial resources and technical capacities and a strong orientation towards cost consciousness and customer satisfaction.**

13.37 There is, admittedly, urgent need to upgrade and expand urban infrastructure and services. It is well known that financial, managerial and technical capacities available with ULBs are low. The country is at present passing through the phases of economic liberalization and reforms. That should point to more and more public-private partnerships in improving civic services. Evidently, pooling of resources and capacities appears to be the need of the time. Such partnerships have begun to emerge as innovative, feasible and less costly arrangements in cities across the country. There are many examples where such arrangements have worked well.

13.38 Many types of private-public partnership (PPP) arrangements in cities have evolved over time. We have, thus, for example, the BOOT (Build, Own, Operate & Transfer) the BOO (Build, own ,Operate) system, the BOLT (Build, Operate Lease and Transfer) system and the BOT (Build, Own and Transfer) system. Large sized infrastructure and service providing projects in cities involve high costs, long gestation periods and low returns. Urban projects like water supply and sanitation facilities, construction of roads, bypasses, flyovers and commercial centers, recreational facilities, public conveniences, community

centers, etc., can be taken up under PPP arrangements. However, for this purpose, appropriate policies, legal framework, tariff regulation arrangements and incentive systems are necessary.

13.39 The public private partnerships (PPPs) would, in a way, also cover efforts made by voluntary organizations and NGOs in areas like garbage removal and collection, solid waste disposal, tree plantation, park maintenance, etc. Public-private projects if executed carefully can, in our view, achieve many objectives like, for example, increased financial resources, upgrading of technologies, better management, reduction in costs, better user satisfaction and higher levels of efficiency.

I- TAXATION OF CENTRAL GOVT. AND STATE GOVT. PROPERTIES

(i) CENTRAL GOVERNMENT PROPERTIES

13.40 Under the provisions of the Article 285 of the Constitution of India, the properties of the Central Government are exempted from all taxes imposed by the States. The State Governments have long been demanding that the taxation of union properties should be brought under the purview of municipal laws. This issue of taxation of Central Government properties has assumed a new dimension since many Government properties are being strictly used for commercial purposes such as ports, air ports, hotels etc. In the light of the recommendations of the Local Finance Enquiry Committee, the Government of India decided as far back as 1st May, 1954 that payment should be made to the local bodies for service charges in respect of Central Govt. properties. The Ministry of Finance, issued detailed guidelines for the mode of calculation of such service charges. Service charges equivalent to 75% of the property tax realized from private individuals shall be leviable with respect to large and compact colonies which are self sufficient in respect of most of the services, 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 service charges will be restricted to one third of the normal rate of property tax.

13.41 A perusal of some study reports indicates that the municipal authorities have seriously taken up the question of recovery of service charges for central properties belonging to Railways, Civil Aviation, Posts and Telegraph etc. From discussions held by the Commission with Local Government Department officials as well as various municipalities, it transpired that the question of recovery of service charges from Central Government properties situated in the State of Haryana has not been taken up seriously till date. It has not been possible to obtain any information about the income likely to be realized by way of service charges and Department of Urban Development will have to get the municipality-wise survey done to identify such properties and assess the service charges, which are payable by the departments concerned. **There are sizeable properties belonging to Central Government Departments in various parts of the State and we feel that substantial amount of service charges can be realized by the local bodies, if an earnest effort is made in this direction. We hope that the State Government will immediately initiate a survey in this regard and assess the amount, which is due to the various municipalities by way of service charges and take immediate steps to recover the same.**

(ii) STATE GOVERNMENT PROPERTIES

13.42 Under the provisions of the Haryana Municipal Act, properties of the State Government are liable to tax like any other private individual. However, the State Government has granted exemption from tax for certain categories. The Commission has obtained information with regard to outstanding arrears recoverable from various Government Departments and it has been intimated that an amount of Rs. 11.51 crore is to be recovered from 63 Departments of the State Govt. as on 31-03-06. The Commission views it with concern that huge arrears payable by Government Departments to the local bodies have remained unpaid for a large number of years. If the State Government itself is a big defaulter in the payment of taxes due to a local body, it would set a bad example when recovery proceedings are initiated against private individuals by the municipalities. **We do not see any reason as to why a commercial**

undertakings should continuously default on payment of property tax to municipalities. We strongly urge the State Government to ensure that property tax payable to the Local Bodies is paid in time in future apart from clearing all the outstanding arrears within a year.

J- DISTRICT PLANNING COMMITTEES AND THEIR FUNCTIONING

13.43 Considering the importance of integrated area planning at the district and metropolitan levels, the 74th amendment has provided for mandatory constitution of DPCs and MPCs. Article 2432D requires that a District Planning Committee be constituted in every district to consolidate plans prepared by panchayats and municipalities in a district as a whole. The constitution of DPCs recognizes the need for integrated regional planning based on investment patterns, their spatial impact and development. DPCs should be vested with enough powers to undertake the following functions, besides preparation of draft development plans for the district.

- a) Preparation of draft development plans including spatial plan for the district, keeping in view matters of common interest between panchayats and municipalities.
- b) Advice and assistance to local bodies in preparation of development plan and their effective implementation.
- c) Coordination and monitoring of the implementation of district development plan.
- d) Allocation of resources to local bodies for planning and implementation of local level projects contained in district development plan.

13.44 The Municipalities should be responsible for preparation of ward and area level plans for which they may be assisted by State Town and Country Planning Departments. Instead of having City Development Authorities, Urban Development Authority for the state as a whole focusing on new areas around

existing towns and development of new townships may be set up. The state level departments such as Town and Country Planning Departments, Urban Development Authorities, State Electricity Boards and other agencies involved in development and management of urban services should prepare overall plans for the state as a whole and enforce these plans as per Reform Agenda. The field officers of state level departments at local level should be the technical arms of the ULBs for development of basic services at local level. The State agencies should develop regulatory framework, while ULBs should be responsible for implementation and maintenance part of the urban services.

13.45 The Commission has been informed that DPCs have been constituted in all the districts in Haryana but they have not become fully functional so far. The elected representatives of PRIs and ULBs during discussions with the Commission in the field categorically stated that meetings of DPCs are seldom held and participation of public representatives is not given any weightage in the functioning of DPCs. **The Commission is of the view that DPCs are constitutional institutions and as such they need to be made functional expeditiously to ensure public participation in gross-root planning and programme implementation.**

K- INSTITUTIONAL FINANCES

13.46 Financing of urban infrastructure services on the requisite scale and quality poses a major challenge to ULBs. These projects are lumpy and capital intensive in nature with low returns and require large funds which the ULBs can not provide from their existing resources. Traditionally, funds for urban infrastructure development have been provided by the governments to ULBs either as grants or as loans. With growing fiscal imbalances in state resources, such soft funding is no longer an easy option. Possibilities of ULBs raising loans from capital market on state guarantees are also getting limited due to increasing indebtedness of the states.

13.47 ULBs have several financing options to raise funds for infrastructure projects. These include, municipal bonds, term loans from HUDCO and other

financial institutions, loans from commercial banks, lease financing and term loans from international agencies. A major limitation for institutional and external funding to urban sector is the bias of these agencies in favour of large and better off municipal bodies with sound repayment capacity. Since financial position of municipal bodies in the state is not sound, institutional finance is not being tapped by them.

13.48 The first and second SFCs of Haryana had recommended setting up of Haryana Urban Development Finance Corporation for tapping institutional finances for ULBs, but this recommendation was not accepted. This Commission discussed this issue with Urban Development department who did not favour the proposal of setting up of such Corporation on the plea that there is already a Haryana Urban infrastructure Development Board through which funds for centrally funded schemes are being channelised.

13.49 The Commission is of the view that, in future, the importance of institutional funds as source of urban finance will increase and the ULBs should be geared up to start tapping such funds. This will require sustained efforts towards sound financial management, build up own resources and capacity enhancement of ULBs. This is indeed a large agenda, which ULBs can not take up on their own. Considerable support of the state govt. would be needed in this area. The Urban Development Department should take initiatives in this direction.

L- OTHER RECOMMENDATIONS

13.50 The Commission constituted Study Group of experts to make general recommendations for empowerment of local bodies, both rural and urban. The recommendations so made are as under:-

ULBs

- Transfer functions to ULBs as listed in the scheduled XII of CAA, 1992. A particular consideration in this regard is needed to transfer water supply to ULBs in a gradual manner covering O&M initially followed by capital works subsequently. It is also suggested to form a separate committee to have

activity mapping at different layers of the Govt. for efficient delivery of services to keep the cities running.

- A separate list of local taxation should be provided (either through state notification or constitutional amendment) to mobilize/generate adequate revenue to finance municipal activities. It is also suggested that revenue generated from local economic base such as motor vehicle, fuel tax, entertainment tax etc should be transferred back to ULBs for efficient local service delivery. It is also suggested to revise existing tax rate through suitable indexing in a regular manner. This should include electricity tax, liquor tax, mobile cess, cable tax, advertisement tax, profession tax and vacant land tax.
- Further, ULBs should be empowered to have optimum recovery on services on the basis of cost incurred to operate and maintain these services in a self sustainable basis. While doing so, interest of the weaker sections should be protected through vertical and horizontal subsidies.
- It is suggested to take suitable measures for energy saving/conservation with a particular reference to street light. In this connection meter should be installed at suitable places and energy saving measures should be adopted keeping in view the best practices such as at Jaipur etc.
- Sewer connections in the unauthorized colonies should be regularized by levying appropriate charges at the time of registration in the form of development charges.
- State Government should reduce the pressure of unauthorised colonizers in controlled areas by liberalising the licensing policy for the municipal areas.
- Municipal Bodies should update list of assets and prepare valuation guidelines to mobilize optimum revenue from various assets including land, building and other commercial properties. In this regard a municipal valuation committee could be set up to expedite this process.
- Potential of non-tax source is highly under-utilized. So there should be Assets Management system for municipal assets.
- Public private partnership should be given more weightage to conserve municipal resources and bring latest technologies and managerial expertise for monitoring.
- 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 including community to have transparency, accountability and responsiveness for developmental work. District planning committee should take suitable cognizance for municipal plans.
- The role of parastatal organizations is not defined properly in the spirit of CAA of 1992. These organizations should play supporting and complementing role to strengthen urban governance system.
- Capacity building at all the levels including elected representatives, managerial executives and other functionaries needs to be taken up in line with urban reforms agenda on efficient delivery of services, mobilization of revenue and community participation.

- Introduction of Double Entry Accounting System(DEAS) would go a long way to promote transparency and accountability in the financial management and help decision making to upgrade and expand municipal services in a gradual and systematic manner. So ULBs should take steps and to expedite action on Double Entry Accounting System in Haryana.
- E-Governance should be introduced at relevant levels to operate in the current system of governance to have transparent, efficient and effective functioning of local government institutions in the state. The Management Information System (MIS) should be introduced by using GIS, GPS etc. for development of data-base and effective planning and implementation process among ULBs.
- A separate institution should be created to address capacity building requirement for urban sector functionaries and stake-holders. Meanwhile a cell can be created in HIPA which can be subsequently converted into a separate “Centre for Civic Governance” (CCG)
- State Govt. should take steps to rationalize the municipal personnel system and promote a management team consisting of qualified and technical experts in the areas of finance, accounting, engineering urban planning and public health especially in the Municipal Council and Corporation.
- Effective collection drive should be launched using e-collection, collection at door steps, mutual resolution of disputes, Lok Adalats, display of defaulters name in the locality itself, attractive incentives and penalties including attachment of bank account and levy of penal interest.

PRIs

- The mindset of the elected representatives and inhabitant of rural areas need to be changed through proper orientation and extension work for enabling the Gram Panchayats to raise their own resources.
- Gram Panchayats should find the way to pay for the operational cost for the facility like drinking water, primary education etc.
- The collection of taxes may be contracted out to private agencies on 5-10 percent Commission basis. The out sourcing of collection of taxes could also be helpful in this context.
- The restoration of Zila Parishad properties under unauthorized occupation of State Govt. needs to be given top priority as it will make the Parishads financially independent.
- The power to levy tax on service must be given to the PRIs as it is an elastic source of revenue.
- Substantial share in royalty collected by State Govt. and royalty in mining activity should go to PRIs.
- The faculty strength of the HIRD should be increased for the creation of centres/divisions/cells for various specialization to cope with the increasing demand for the training, research, extension and policy inputs. Like Andhra Pradesh, a specific percentage (1 or 2%) of DRDA funds be allocated to the HIRD.

CHAPTER-14

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

A- MANDATE, ROLE AND APPROACH OF THE COMMISSION

14.1 The TOR of the 3rd SFC require it to make recommendations on sharing of state revenues with the local bodies, determination of state levies which may be assigned to these bodies, grants-in-aid to them and also to suggest measures needed to improve the financial position of panchayats and the municipalities.

14.2 The Finance Commission is reckoned as the sole arbiter which can ensure a just and equitable distribution of state revenues between the state and the local bodies.

14.3 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 Finance Commission.

14.4 Finance Commission also attempts to ensure that the funds available to local bodies through resource transfer and their own revenue generation efforts are properly and effectively utilized.

14.5 Specific powers, authorities and funds need to be devolved to these bodies to enable them to be effective units of decentralised governance. Thus, the Commission worked out a composite strategy of revenue sharing, augmentation of internal resources of these bodies and tapping institutional finance for creating civic infrastructure.

14.6 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 objective both of equity and efficiency resulting in predictable and stable transfers.

14.7 Since budgetary support to local bodies can not be continued for long due to resource constraints, these bodies would need to augment their internal resources to be self reliant in undertaking their obligatory functions and providing core services to satisfactory levels.

14.8 In its scheme of revenue sharing, the Commission kept in view large variations across the local bodies in structural composition, size, location, fiscal capacities, financial needs, cost disabilities and fund flows from other sources and also the financial position of the state and the demands thereon .

14.9 The Commission adopted the system of global sharing in its scheme of fiscal devolution under which all state taxes are made divisible. Global sharing mechanism has distinct advantages in terms of its in-built transparency, objectivity and certainty.

14.10 The Commission has tried to design a sharing scheme consistent with the fiscal capacity and commitments of the state govt. and the expanding fiscal needs of the local bodies. At the same time, it has been ensured that the funds devolved to local bodies through various channels are properly and efficient utilized.

B- FUNCTIONAL DECENTRALISATION

14.11 Functional transfer is a gradual process to be carried out in a phased manner keeping in view the administrative, structural and technical capabilities of the local bodies, particularly the PRIs. **Since, the matter is squarely in the purview of the State Govt., the functional transfer proposed in the activity mapping should be fully implemented and monitored and in future, transfer of any such functions and duties to the PRIs should be accompanied with funds and functionaries. The process of preparation of activity mapping of local level functions of other departments relating to rural and urban areas should continue and all such activities falling in the domain of local bodies, rural and urban, should be transferred to them in a phased manner alongwith all the three Fs.**

14.12 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 also be inserted in the constitution or suitable State Legislation may be brought about to achieve the desired objectives. It requires action both by the Central and the State Government.

14.13 Thus, to achieve the objective of providing decentralised governance, all the local level functions being presently performed by the line departments should be transferred alongwith funds and functionaries to the rural and urban local bodies in a phased manner since the existing infrastructure of these bodies is not strong enough to take up the new assignments.

C- TAXATION POWERS OF LOCAL BODIES

14.14 LBs should have full freedom to levy taxes and fees within limits prescribed by law subject to floor or ceiling rates fixed by the State Govt. But at the same time, the LBs should also be willing to exercise their given powers.

14.15 There does not seem to be any clear-cut line of demarcation in the taxation powers between the state and the LBs as is between the Centre and the States. It is, therefore, required that there has to be a clear demarcation of tax sources between State and LBs either through consensus or a constitutional provision or suitable State legislation to ensure legitimate sharing of taxes. Since this aspect comes under the purview of the State Govt. and as such the State Govt. should initiate supportive measures in the desired directions.

D- FINANCIAL POSITION OF LOCAL BODIES

14.16 In the absence of any reliable figures of receipts and expenditure covering the period 2001-02 to 2005-06, the Commission has attempted to make projections of finances of the PRIs and ULBs for the period 2006-07 to 2010-11 at own level. The Commission is required to assess expenditure requirements of local bodies on normative basis, but in the absence of requisite data, projections have been made on trend basis. The over-all position of revenue gaps of both, PRIs and ULBs, is given in table 14.1.

Table 14.1
REVENUE GAPS (DEFICIT) OF PRIs AND ULBs

Rs. in crore

Years	PRIs			ULBs			Total Deficit (4+7)
	Revenue	Expenditure	Deficit (2-3)	Revenue	Expenditure	Deficit (5-6)	
1	2	3	4	5	6	7	8
2006-07	138.07	243.07	105.00	361.26	402.60	41.34	146.34
2007-08	150.28	291.68	141.40	407.56	440.09	32.53	173.93
2008-09	156.85	350.02	193.17	344.32	482.22	137.90	331.07
2009-10	168.00	402.52	234.52	364.11	535.43	171.32	405.84
2010-11	183.35	462.90	279.55	385.46	597.18	211.72	491.27

14.17 The financial position of rural and urban bodies is very weak. Their resource gaps would go on rising year after year which would need to be bridged in the form of entitlement, partly from state resources and partly through their own resource generation efforts. As such the quantum of devolution recommended for local bodies is of much higher order compared to the devolution of previous Commissions. The Commission has also suggested far reaching resource generation measures for local bodies. State budgetary support being limited, local bodies will have to make sincere efforts to tap resources at the local level.

14.18 The Commission has recommended constitution of an Incentive Fund at the district level each for the PRIs and ULBs, and the LBs with better performance in resource raising efforts would be suitably rewarded. However the gaps in the resources of local bodies, if still persist, will receive the attention of the 13th Central Finance Commission.

14.19 The departments of Panchayats and Urban development have not reported any kind of unpaid liabilities towards employees, retirees and loans received from the state government and the financial institutions. Thus, in the given situation, the Commission has not made any recommendations for liquidation of unpaid liabilities or any waiver of loans.

E- WATER SUPPLY AND SEWERAGE

14.20 The function of water supply and sewerage should continue to be handled by the PHED in view of weak organisational capacity and poor financial base of the

local bodies. However, policy decision may be taken for delegation of this function to the local bodies in a phased manner alongwith funds and functionaries. But presently the State Govt. should provide adequate funds to the PHED for operation, maintenance and augmentation of this service.

14.21 Charges for water supply and sewerage should continue to be revised periodically and at least 50% of the O&M cost should be recovered and the element of cross subsidization be phased out in due course of time.

14.22 As regards recovery of some portion of capital cost on water supply and sewerage projects, it may not be practicable to recover any portion of the capital cost from the beneficiaries and the entire capital cost on building and upgradation of infrastructure should be borne by the State Govt.

14.23 Concerted efforts should be made to contain O&M cost by using automation of equipments, checking of wastage of water, repairing of leakages, removal of public stand posts and providing meters on connections. Steps should also be initiated for outsourcing and privatization of water supply and sewerage services to achieve dual objectives of cost reduction and quality improvement.

F- FINANCIAL DEVOLUTIONS AND SHARE OF LOCAL BODIES

14.24 Financial devolutions recommended in this report consist of global sharing of state taxes, sharing of state excise revenue and LADT proceeds and Twelfth Finance Commission grants.

14.25 Since supportive and usable data on local finances was not made available by the government departments, the commission could workout fiscal gaps of the PRIs and ULBs on trend basis at own level and as such the financial devolution recommended by the Commission is not strictly based on this fiscal gap but also on value judgment and the data used by the 2nd SFC.

14.26 The Commission adopted the global sharing scheme for determining the divisible pool. Hence, state own tax revenue, net of excise revenue and LADT proceeds, has been taken as the divisible pool. This has further been discounted for tax collection charges at the rate of 1.25%.

14.27 The share of local bodies, both PRIs and ULBs, has been fixed at 4% of the net own tax revenue. The respective shares of PRIs and ULBs in the total share have been fixed in the ratio of 65:35.

14.28 The respective shares of PRIs and ULBs have been distributed amongst the districts by using the composite index comprising, population 40%, BPL population 25%, Area 25% and literacy gap 10%.

14.29 The PRIs share at the district level is to be distributed among GPs, PSs and ZPs in the ratio 75:15:10. The interse share of GPs and PSs are to be distributed on the basis of population and Area assigning weightage of 80% to Population and 20% to Area. These shares are to be worked out by the state government and transferred to them as untied funds on regular basis.

14.30 For interse distribution of ULBs share among the municipalities at the district level, the Commission has recommended that interse shares be worked out by the state govt. on the basis of their respective proportions of population and area assigning weightage of 80% to population and 20% to area and transferred as untied funds.

14.31 The fiscal transfers calculated on the basis of global sharing at the rate of 4% of net own tax revenue and further divided between PRIs and ULBs in the ratio of 65:35: have been shown in Table 14.2.

**TABLE 14.2
SHARE OF ULBs**

Rs. in croe

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
Total share of LBs (4%)	371.20	440.00	502.00	573.00	654.25	2540.44
PRIs share (65%)	241.28	286.00	326.30	372.45	425.25	1651.27
ULBs share (35%)	129.92	154.00	175.70	200.55	229.00	889.17

14.32 The total financial devolutions to PRIs and ULBs including global sharing, excise revenue, LADT proceeds and TFC grants covering the period 2006-07 to 2010-11 are given in Table 14.3.

TABLE- 14.3**A- Total devolution for LBs (PRIs & ULBs)**

Rs. in crore

Component	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
Global Sharing	371.20	440.00	502.00	573.00	654.24	2540.44
State Excise Revenue	16.01	17.00	18.70	20.58	22.65	94.94
LADT Proceeds	259.28	314.54	200.00	200.00	200.00	1173.82
TFC Grants	95.80	95.80	95.80	95.80	-	383.20
Total	742.29	867.34	816.50	889.38	876.89	4192.40

B- Share of PRIs and ULBs

Rs. in crore

Component	PRIs					ULBs				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
Global Sharing	241.28	286.00	326.30	372.45	425.24	129.92	154.00	175.70	200.55	229.00
State Excise	7.81	8.00	8.80	9.68	10.65	8.20	9.00	9.90	10.90	12.00
LADT	129.64	157.27	100.00	100.00	100.00	129.64	157.27	100.00	100.00	100.00
TFC Grants	77.60	77.60	77.60	77.60	-	18.20	18.20	18.20	18.20	-
Total	456.33	528.87	512.70	559.73	535.89	285.96	338.47	303.80	329.65	341.00

14.33 The Commission has also decided that the un-released share of PRIs at Rs. 352.28 crore and of ULBs at Rs. 183.92 crore relating to the years 2006-07 and 2007-08 should also be transferred to them in a phased manner over and above their respective shares in global transfers.

14.34 The district-wise distribution of shares of PRIs and ULBs has been given in Table-14.4 of this report.

TABLE – 14.4
DISTRICT-WISE DISTRIBUTION OF SHARES OF PRIs AND ULBs

Sr. No.	District	PRIs						Municipalities					
		Composite Index	Year-wise Allocation (Rs. in crore)					Composite Index	Year-wise Allocation (Rs. in crore)				
			2006-07	2007-08	2008-09	2009-10	2010-11		2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Ambala	4.300	10.38	12.30	14.03	16.02	18.29	5.304	6.89	8.17	9.32	10.64	12.15
2	Panchkula	1.704	4.11	4.87	5.56	6.35	7.25	2.968	3.86	4.57	5.22	5.95	6.80
3	Yamunanagar	4.425	10.68	12.66	14.44	16.48	18.82	6.016	7.82	9.27	10.57	12.07	13.78
4	Kurukshetra	4.227	10.20	12.09	13.79	15.74	17.97	3.559	4.62	5.48	6.25	7.14	8.15
5	Kaithal	5.407	13.05	15.46	17.64	20.14	22.99	4.563	5.93	7.03	8.02	9.15	10.45
6	Karnal	6.015	14.51	17.20	19.63	22.40	25.58	5.677	7.38	8.74	9.97	11.38	13.00
7	Panipat	3.547	8.56	10.14	11.57	13.21	15.08	5.718	7.43	8.81	10.05	11.47	13.09
8	Sonapat	5.783	13.95	16.54	18.87	21.54	24.59	5.225	6.79	8.05	9.18	10.48	11.97
9	Rohtak	3.609	8.71	10.32	11.78	13.44	15.35	5.367	6.97	8.27	9.43	10.76	12.29
10	Jhajjar	4.111	9.92	11.76	13.41	15.31	17.48	3.248	4.22	5.00	5.71	6.51	7.44
11	Faridabad	4.516	10.90	12.91	14.73	16.82	19.20	17.072	22.18	26.29	30.00	34.24	39.10
12	Gurgaon	3.121	7.53	8.93	10.18	11.62	13.27	5.616	7.30	8.65	9.87	11.26	12.86
13	Rewari	3.897	9.40	11.15	12.72	14.52	16.57	2.374	3.08	3.6	4.17	4.76	5.44
14	Mahendergarh	4.521	10.91	12.93	14.75	16.84	19.23	1.931	2.51	2.97	3.39	3.87	4.42
15	Bhiwani	8.511	20.54	24.34	27.77	31.70	36.19	5.088	6.61	7.84	8.94	10.20	11.65
16	Jind	6.564	15.84	18.77	21.42	24.45	27.91	3.495	4.54	5.38	6.14	7.01	8.00
17	Hisar	7.840	18.92	22.42	25.58	29.20	33.34	6.590	8.56	10.15	11.58	13.22	15.09
18	Fatehabad	5.160	12.45	14.76	16.84	19.22	21.94	2.691	3.50	4.14	4.73	5.40	6.16
19	Sirsa	6.637	16.01	18.98	21.66	24.72	28.22	5.877	7.63	9.05	10.33	11.79	13.46
20	Mewat	6.104	14.73	17.46	19.92	22.73	25.96	1.620	2.11	2.50	2.85	3.25	3.71
TOTAL		100.00	241.28	286.00	326.30	372.45	425.25	100.00	129.92	154.00	175.70	200.55	229.00

14.35 The Panchayat Department and Urban Development Department may design a comprehensive scheme based on incentives and disincentives with some specific performance criteria in core areas and earmark some funds for the performing local bodies.

14.36 The Commission recommends that the funds amounting to Rs. 45.00 crore should be released to the concerned authorities from the unreleased quota for the following purposes :-

- **Capacity Building (Rs. 12.00 crore) :-** Training and capacity building is an essential aspect of empowerment of LBs. Presently, there are three state owned Institutions i.e. HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon for imparting training to the representatives of LBs, their functionaries and the departmental employees. Hence, the Commission recommends Rs. 12.00 crore for strengthening their capacities i.e. Rs. 5.00 crore for HIRD Nilokheri, Rs. 5.00 crore for HIPA Gurgaon and Rs.2.00 crore for SCDTC Nilokheri.
- **Data base and maintenance of accounts and audit (Rs. 10.00 crore) :-** The Commission recommends Rs. 10.00 crore for strengthening of data base and maintenance of accounts of the local bodies i.e. Rs. 7.00 crore for PRIs and Rs. 3.00 crore for ULBs. The departments of Panchayats and Urban Development should assess the requirement of each unit of LBs at their own level for computerization and related aspects and earmark additional funds, if required, from the unreleased kitty.
- **Strengthening of Engineering Wings (Rs. 8.00 crore) :-** The Engineering services in Panchayat Deptt. and in municipalities being inadequate need substantial improvement particularly in view of substantial increase in work load. Hence, an amount of Rs. 8.00 crore is recommended for strengthening of engineering wings i.e. Rs. 5.00 crore for Panchayati Raj and Rs. 3.00 crore for municipal engineering services.
- **Upgradation of fire services (Rs. 5.00 crore) :-** The fire services in the existing 59 fire stations working in urban local bodies is very poor and needs upgradation to meet the expanding demand. The Commission recommends an amount of Rs 5.00 crore for upgradation of fire infrastructure in terms of vehicles, fire fighting equipments and manpower.
- **Pension Liabilities (Rs. 10.00 crore) :-** The Commission recommends an amount of Rs. 10.00 crore to meet the pension liabilities of employees of the

municipalities keeping in view the request made by the Urban Development department.

14.37 The balance unreleased funds of Rs. 491.20 crore may be released to the PRIs and ULBs on the basis of distribution criteria suggested for tax sharing and should be utilised on priority development works to be selected by these bodies, particularly in the areas of sanitation, pavement of local streets/roads and drainage facility, maintenance of community assets, solid waste management, storm water drainage, slum development etc. However, the release of this back-log would be over and above the respective shares of LBs in global sharing of state taxes recommended for these bodies for 2008-09, 2009-10, 2010-11.

14.38 No specific recommendations have been made at this stage for assignment of any state levies to local bodies. However, the state government may consider any such proposal in due course of time to keep pace with the progress of functional decentralization taking place during the award period of this Commission.

14.39 Bulk of resource transfers to LBs should be done through tax sharing and the role of grants-in-aid should, as far as possible, be supplementary. Higher devolution through tax sharing would enable LBs to meet their needs without grants-in-aid and would encourage economy in expenditure and efficiency in tax efforts. As such, no grants-in-aid have been recommended for LBs for meeting unpaid liabilities or for any other purposes.

G- UTILISATION OF FUNDS

14.40 The Commission expresses its serious concern over diversion of SFC funds recommended for PRIs for un-intended purposes and advises the State Govt. to reverse this practice and SFC funds be transferred to the PRIs as untied funds to be utilized by them as per the decisions taken by them.

14.41 The State Govt. may provide suitable guidelines and keep proper watch on proper utilization of devolved funds through effective monitoring and through statutory and social audits.

14.42 An High Powered Committee may be constituted under the Chairmanship of the Chief Secretary with Finance Secretary and Planning Secretary as the

Members and Director, Economic and Statistical Analysis Deptt. as the Member Secretary or the Convenor to take policy decisions on all issues related to the Central as well as State Finance Commissions, timely implementation of their recommendations, their review and monitoring etc.

H- INCENTIVE MECHANISM

14.43 The State Govt. should frame certain guidelines or certain performance criteria at district level for rewarding the efforts of performing LBs in core identified areas.

14.44 The Commission recommends creation of an Incentive Fund at district level each for the PRIs and ULBs and an amount equal to 10 percent of the annual entitlement of PRIs and ULBs may be retained in the Incentive Fund. Fifty percent of the annual accruals in the Fund may be allocated to those LBs, at all levels, showing better revenue performances to be measured in terms of at least 10 percent higher growth in their own tax and non-tax revenue over the proceeding year. The other eligibility criteria under this category is a minimum recovery of 60% of the total annual demand from own tax and non-tax revenue with 5 percentage points increase each year upto 75 percent by the end of award period of the Commission. The remaining fifty percent balance in the Fund should be allocated to all tiers of LBs which show higher performance over the standard norms to be fixed by the State Govt. in respect of each core areas of performance detailed above.

I- RESOURCE MOBILISATION MEASURES

STATE EXCISE REVENUE

14.45 State Excise is a flexible and buoyant source of tax revenue of the State, the net proceeds of which are shared with the PRIs and ULBs. The rates of sharing excise revenue should be doubled both for the PRIs as well the ULBs. This measure would substantially improve the funds availability with the local bodies without having any adverse impact on the local community.

LOCAL AREA DEVELOPMENT TAX (LADT)

14.46 The LADT is state tax already being shared with the PRIs and ULBs. Its operation has been struck down by the High Court. The Commission is of the view

that in case operation of LADT is restored by the Supreme Court, its proceeds should continue to be shared with the local bodies as before. However, in case its operation is not restored, some other levy like Entry Tax be levied and the net proceeds be distributed among PRIs and ULBs on 50:50 basis.

STAMP DUTY AND REGISTRATION FEE

14.47 The Commission recommend that share of municipalities in stamp duty should be increased to 3% from existing 2% which is in conformity with the provisions in Municipal Act.

14.48 The Commission also recommends that 3% of the net proceeds of stamp duties coming from rural areas should be the share of PRIs. It is further recommended that the share of PRIs so worked out be distributed among the districts on the basis of the formula recommended by the Commission for sharing of State taxes. The share of GPs, PSs and ZPs would be in the ratio of 75:15:10 and further share of PSs and GPs be distributed on the basis of population and area and other considerations recommended by the Commission in its scheme of revenue sharing.

TAX ON CONSUMPTION OF ELECTRICITY

14.49 The Commission suggests that a tax at the rate of five paise per unit should also be levied on electricity consumed in panchayat area and transferred to the PRIs at district level to be further distributed among GPs, PSs and ZPs in the ratio of 75:15:10. Further distribution among PSs and GPs be made on population basis.

14.50 It is further suggested that the departments of Panchayats and Power utilities should jointly work out the modalities for levy, collection and distribution of the proposed electricity tax in panchayat areas, so that the PRIs could get adequate compensation in lieu of the land and other properties of panchayats being used by power utilities.

14.51 As suggested by the 2nd SFC, this Commission also recommends that in rural areas, power consumed for street lights and water supply should be charged on bulk supply rates or domestic rates rather than on commercial rates.

MEASURES SPECIFIC TO PRIs

14.52 House Tax (Chulha Tax) : House Tax imposed in villages are Rs. 30, Rs. 20 and Rs. 10 per annum depending on category of the owner. Annual demand is about Rs. 15 crore against which recovery is below 50%. This tax has been abolished by the State Govt. The Commission recommends that the state govt. should put in place some other viable alternative source of revenues to compensate the PRIs for the loss due to abolition of house tax.

14.53 Management of Rural Common Property Resources (CPRs) : Scientific policies for the conservation, management and development of CPRs are urgently needed. Useful suggestions have been made in this regard in various seminars and workshops held at the state and national levels. This Commission emphasises action on the following lines:

- i. Proper registers giving details of the physical and qualitative aspects of CPRs like uses, production and productivity levels, water discharge, quality and nature of vegetation, economic returns, etc., should be maintained by GPs. These records should be regularly updated and inspected.
- ii. To the extent possible, CPRs should be physically demarcated through cost effective methods like natural fencing. Information about such lands can also be displayed on GP notice boards to inform village people and minimize encroachments.
- iii. Laws pertaining to encroachment on CPRs should be made more stringent and efforts should be made for speedy and time bound disposal of such cases. Village and block level functionaries should be entrusted with the responsibility of pursuing such cases.
- iv. The Government should review its policy of distributing village common lands to individuals, as this affects access of the poor to these common resources and reduces support areas needed by rural communities.
- v. The development of CPRs should be essential component of district and village plans. Action plans should be prepared for development of CPRs in each GP with the technical support of respective departments.

- vi. Scientific livestock management practices should be popularized and stallfeeding should be encouraged to prevent damage by animals. Regulated/rotational grazing of livestock should be practiced with community participation. Social fencing should be encouraged as has been done in certain parts of the country.
- vii. Basic needs of the poor should have first charge on CPRs.
- viii. GPs may impose reasonable charges for use of CPRs. Fines may be imposed on defaulting persons. Income from these sources can be used for proper management and development of CPRs.
- ix. Management and development of CPRs should form an important component of the training modules for PRI functionaries and officials.
- x. Mass campaigns may be undertaken for increasing people's awareness about the importance of CPRs and their protection as well as community involvement in this task.
- xi. Efforts should be made for commercial exploitation of shamlat lands by setting up commercial complexes, rural industries and industrial sheds etc.
- xii. Maximum possible area should be utilized for plantation, afforestation, fishing activities, horticulture, floriculture etc for augmenting income of panchayats.
- xiii. Representatives of GPs/PSs/ZPs should be present at the time of auction of shamlat lands to ensure transparency and for checking corruption.

14.54 There are some other important suggestions which have been made by the elected representatives and experts. The Commission commends these for implementation, which are as under:-

- PRIs be authorized to levy tax or fee on advertisements, hoardings, cable operators, micro-towers, public schools, coaching centres, technical and commercial institutions and other establishment like shops, restaurants, hotels etc located in their jurisdiction.
- GPs should impose token tax on hawkers and other traders who sell their goods in the villages.

- The activities like poultry, fisheries, hatcheries and other non-farming activities taking place in their areas should be brought under PRIs for levy of fees etc.
- The PRIs should consider imposing levies on pumping sets, tractors etc.
- Revenues of panchayats should be augmented by building housing colonies, shops, banquet halls etc.
- Some shares of income from Yamuna river ghats, minor minerals, change of land use etc should also be given to the PRIs.

MEASURES SPECIFIC TO ULBs

House Tax (Property Tax) :

14.55 The Commission urges the state govt. that the rate of house tax on other buildings should be doubled so as to compensate the local bodies of their loss on account of abolition of this tax on residential buildings.

14.56 The Commission recommends that exemptions from property tax should be drastically reduced and the system improvement deemed necessary may be carried out.

14.57 Property tax should also be levied on non-domestic properties attached with brick kilns, rice shellers, stone crushers, petrol pumps, stud farms and small and large scale industries. It should also be levied on vacant lands on which no building has been built.

14.58 Profession Tax : The Commission is of the view that there is a good potential for raising revenue through profession tax to strengthen the resources of the state and the local bodies. The Commission recommends that profession tax should be levied and collected by the Excise and Taxation Department and shared with the local bodies, both the PRIs and ULBs. This tax should be broad based and slabs should not be too large. It is further recommended that 50% of the receipts from profession tax in urban areas should be shared with the ULBs on origin basis. In case of rural areas, 50% of revenue 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 interse shares of GPs and PSs be fixed on population basis.

14.59 Tax on Urban Vacant Land : The Commission suggests that with a view to curbing speculation, promoting housing activities and improving financial health of ULBs, a vacant land tax may be levied by ULBs at the rate of 1.0 to 1.5% of the capital value. Vacant land should be clearly defined. The tax should be levied on open land and un-built plots. Lands which are being used for purposes of marriage parties, receptions and entertainment purposes and parking etc. should be taxed at some higher rates.

14.60 Often, there is resistance to levy new taxes. However, some non-tax fees can be levied which may not be too much resisted. These may be:-

- i) **Valorization** : refers to situations where the local body has provided improved services and needs to recover these costs, either on a one-time basis or over a period of time. In such cases, the local body can apportion the cost of providing improved services according to the extent of use by various properties to which the services have been provided.
- ii) **Impact fees** : are levied on those new constructions, which, albeit built with private funds, impose a cost on a local body. For instance, a large commercial building may require a road adjacent to it to be broadened to accommodate the increased traffic. In such a case, an impact fee could be charged to the commercial building either as a one-time fee or be spread over a period of time. Valorization charges could be levied on the other properties in the vicinity, which benefit from widening of the road. In India, impact fees are already levied by the Hyderabad Municipal Corporation.
- iii) **Betterment levies** : are similar in concept to valorization charges but are usually levied to recover full costs, whereas valorization recovers partial costs.
- iv) **Exactions** : are taken from developers in the form of land, to provide necessary public and community services. There are prescribed norms regarding exactions to guide local bodies.

NON TAX REVENUE (USER CHARGES)

14.61 . The Commission is of the opinion that user charges should continue to be updated periodically so as to boost revenues.

14.62 With a view to improving the financial position of ULBs and the quality of services, the state should move towards the goal of full cost pricing of services.

J- OTHER ISSUES AND RECOMMENDATIONS

i) AUDIT AND ACCOUNTS

14.63 The existing system of accounts and audit of local bodies suffers from various shortcomings, particularly relating to accounting formats, reporting and disposal of objections etc. The 2nd SFC had gone into the details of these problems and recommended effective measures for proper redressal. This Commission generally is in agreement with the measures suggested by the 2nd SFC, but a few suggestions, deemed necessary, are made as under:-

- An accrual based double entry system of accounts may initially be adopted in Municipal Corporation and Class-I Municipal Councils. The System as adopted in Tamil Nadu may be adopted with suitable modifications to suit the local conditions. These local bodies may be authorized to engage the services of chartered accountants and other accounts personnel that may be required for switching over to the new system on contract basis. After gaining experience about the functioning of the system, the question of extending it to other ULBs may be considered.
- The system of cost audit of expenditure incurred on execution of capital works and operation and maintenance of civic services may be started in Municipal Corporation and Class I Municipal Councils. The services of suitable cost accountants may be engaged on contract basis to initiate the system and train the concerned staff.
- The State Government may examine the working of Examiner, Local Fund Accounts with a view to strengthening its functioning and look for ways to ensure objective scrutiny of local body accounts.
- System of pre-audit be streamlined and applied on a selective basis.

- The State Government should take steps to implement the recommendations of the 11th Finance Commission for improvement in the maintenance of accounts by Gram Panchayats. 19 States have entrusted Technical Guidance and Supervision (TGS) over local bodies to C&AG of India, but other states including Haryana have not yet implemented this. Since majority of states have implemented this, the Government of Haryana should reconsider this issue in its broader perspective and implement, if possible.

ii) SOCIAL AUDIT

14.64 The Commission recommends that the State Government should introduce the system of internal as well as public audit of works and accounts of Gram Panchayats. The committee (s) that may be constituted in this regard should include officials and non-officials and persons with technical knowledge. Some block officials should also be included. The audit report should be presented and discussed in open sessions of Gram Panchayat and Gaon Sabhas, so that they may play an effective role. Necessary changes may be made in the Panchayati Raj Act to facilitate the adoption of the proposed system.

iii) CAPACITY BUILDING AND EMPOWERMENT

14.65 The existing manuals for the elected representatives should be revised and updated to make them more focused on current realities. These objectives can be achieved only through suitably designed training programmes for upgrading and creating the right type of skills.

14.66 The training of officials & non-officials of local bodies at different levels has to be a continuous process consisting of foundation courses, refresher courses, reorientation courses, seminars, workshops, study tours etc. at regular intervals.

14.67 It is suggested that for the present the training of officials and non-officials of urban local bodies may be entrusted to HIPA, Gurgaon. Similarly, the training of both officials and non-officials of Panchayati Raj Institutions may be entrusted to Haryana Institute of Rural Development, Nilokheri.

14.68 These Institutions should be strengthened by way of additional man power and infrastructure facilities. Keeping in view the importance of training and capacity building towards empowerment of LBs, the Commission under Chapter 11 of its report has recommended an amount of Rs. 12 crore for strengthening the capacities of three premier institutions i.e, HIRD Nilokheri, SCDTC Nilokheri and HIPA Gurgaon. The funds earmarked are HIRD Nilokheri Rs. 5 crore, SCDTC Nilokheri Rs. 2 crore and HIPA Gurgaon Rs.5 crore.

iv) EMPOWERMENT OF CITIZENS

14.69 The Commission is of the opinion that there should be a public awareness raising campaign to re-educate citizens about their responsibilities and rights. It would be a good idea to open public debates on these issues in the media, with eminent persons expressing their opinions. With the enactment of the Right to Information Act, it is now possible to advise citizens of the procedure to access the information they need to work with their local bodies.

v) COMMUNITY PARTICIPATION

14.70 The Commission feels that systematic efforts should be made for promoting community participation and greater involvement of the voluntary sector in the working of PRIs. In community mobilization through distinct groups, associations and formations the co-ordinating and guiding role of PRIs must be recognized and promoted.

vi) CREATION OF DATA BASE

14.71 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 Development, fully equipped with trained and dedicated manpower and modern electronic devices.

14.72 There has to be a permanent central agency in the state government on the pattern of Finance Commission Division in Ministry of Finance/Govt. of India. It is recommended that the proposed Central Agency should be created in the department of Economic and Statistical Analysis of the State Govt., which is a

store-house or repository of statistical data and well equipped with efficient technical manpower. This Agency should be headed by an Additional ESA, supported by two Dy. ESA's, one for PRIs and other for ULBs, and further assisted by Research Officers, Assistant Research Officers and the other subordinate staff. The Agency should be adequately equipped with qualified and technical manpower, modern techniques and other supporting logistics.

14.73 The functions of this Agency would be as under:-

- To monitor the flow and utilization of financial devolution made by the Central and State Finance Commission.
- To act as data bank on LBs finances- collection and analysis of financial data on PRIs/ULBs on regular basis and document it.
- To conduct case studies on state and local finances and collect relevant documents, reports and other information from the state and central departments and institutions.
- To process the recommendations or reports of Central and State Finance Commissions, regulate the release of funds to LBs and their utilisation and to monitor/review the follow-up action or implementation of Commission's recommendations.
- To prepare feed-back material for use by the successive SFCs and the High Powered Committee and to assist them in the discharge of their functions.
- Any other responsibilities that may be assigned to it from time to time by the State Govt.

vii) *PRIVATISATION OF MUNICIPAL SERVICES*

14.74 The Commission feels that privatization should not supplement the present work force of ULBs or cause any retrenchments of permanent staff. At the same time it recommends that steps should be taken to encourage privatisation of municipal services on the lines attempted in other parts of the country. The services which are suitable for privatisation, include, among others, solid waste disposal, cleaning of roads, maintenance of parks, street lights, etc. Priority should be given to suitable NGOs, Citizen Groups and Cooperatives in awarding contracts

for such services. A strong regulatory mechanism and oversight system at the local level is an essential pre-requisite of effective privatisation. Appropriate institutional and legal changes will have to be introduced to regulate the process of privatisation and keep a strict watch on the private providers of civic services. The Government may prepare model bye laws and guidelines for contracting out of municipal services. The managerial capacity of ULBs also needs to be strengthened from this point of view. The quality aspects of provision of services and user charges for them will have to be kept in mind while privatizing civic services.

viii) PUBLIC PRIVATE PARTNERSHIPS

14.75 It is being increasingly realized that in municipal contexts there should be public-private partnerships for improving services and managerial resources and technical capacities and a strong orientation towards cost consciousness and customer satisfaction.

14.76 The public private partnerships (PPPs) would, in a way, also cover efforts made by voluntary organizations and NGOs in areas like garbage removal and collection, solid waste disposal, tree plantation, park maintenance, etc. Public-private projects if executed carefully can achieve many objectives like, for example, increased financial resources, upgrading of technologies, better management, reduction in costs, better user satisfaction and higher levels of efficiency.

ix) TAXATION OF CENTRAL GOVT. AND STATE GOVT. PROPERTIES

14.77 There are sizeable properties belonging to Central Government Departments in various parts of the State and substantial amount of service charges can be realized by the local bodies, if an earnest effort is made in this direction. The State Government should immediately initiate a survey in this regard and assess the amount, which is due to the various municipalities by way of service charges and take immediate steps to recover the same.

14.78 Huge arrears are payable by state govt. departments to LBs since long. There is no reason as to why commercial undertakings should continuously default on payment of property tax to municipalities. The State Government should ensure that property tax payable to the Local Bodies is paid in time in future apart from clearing all the outstanding arrears within a year.

14.79 District Planning Committees : The Commission is of the view that DPCs are constitutional institutions and as such they need to be made functional expeditiously to ensure public participation in gross-root planning and programme implementation.

14.80 Institutional Finances : The Commission is of the view that, in future, the importance of institutional funds as source of urban finance will increase and the ULBs should be geared up to start tapping such funds. This will require sustained efforts towards sound financial management, build up own resources and capacity enhancement of ULBs. This is indeed a large agenda, which ULBs can not take up on their own. Considerable support of the state govt. would be needed in this area. The Urban Development Department should take initiatives in this direction.

OTHER RECOMMENDATIONS

14.81 The Commission constituted Study Group of experts to make general recommendations for empowerment of local bodies, both rural and urban. The recommendations so made are as under:-

ULBs

- Transfer functions to ULBs as listed in the scheduled XII of CAA, 1992. A particular consideration in this regard is needed to transfer water supply to ULBs in a gradual manner covering O&M initially followed by capital works subsequently. It is also suggested to form a separate committee to have activity mapping at different layers of the Govt. for efficient delivery of services to keep the cities running.
- A separate list of local taxation should be provided (either through state notification or constitutional amendment) to mobilize/generate adequate revenue to finance municipal activities. It is also suggested that revenue generated from local economic base such as motor vehicle, fuel tax, entertainment tax etc should be transferred back to ULBs for efficient local service delivery. It is also suggested to revise existing tax rate through suitable indexing in a regular manner. This should include electricity tax,

liquor tax, mobile cess, cable tax, advertisement tax, profession tax and vacant land tax.

- Further, ULBs should be empowered to have optimum recovery on services on the basis of cost incurred to operate and maintain these services in a self sustainable basis. While doing so, interest of the weaker sections should be protected through vertical and horizontal subsidies.
- It is suggested to take suitable measures for energy saving/conservation with a particular reference to street light. In this connection meter should be installed at suitable places and energy saving measures should be adopted keeping in view the best practices such as at Jaipur etc.
- Sewer connections in the unauthorized colonies should be regularized by levying appropriate charges at the time of registration in the form of development charges.
- State Government should reduce the pressure of unauthorised colonizers in controlled areas by liberalising the licensing policy for the municipal areas.
- Municipal Bodies should update list of assets and prepare valuation guidelines to mobilize optimum revenue from various assets including land, building and other commercial properties. In this regard a municipal valuation committee could be set up to expedite this process.
- Potential of non-tax source is highly under-utilized. So there should be Assets Management system for municipal assets.
- Public private partnership should be given more weightage to conserve municipal resources and bring latest technologies and managerial expertise for monitoring.
- 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 including community to have transparency, accountability and responsiveness for developmental work. District planning committee should take suitable cognizance for municipal plans.
- The role of parastatal organizations is not defined properly in the spirit of CAA of 1992. These organizations should play supporting and complementing role to strengthen urban governance system.
- Capacity building at all the levels including elected representatives, managerial executives and other functionaries needs to be taken up in line with urban reforms agenda on efficient delivery of services, mobilization of revenue and community participation.
- Introduction of Double Entry Accounting System(DEAS) would go a long way to promote transparency and accountability in the financial management and help decision making to upgrade and expand municipal services in a gradual and systematic manner. So ULBs should take steps and to expedite action on Double Entry Accounting System in Haryana.
- E-Governance should be introduced at relevant levels to operate in the current system of governance to have transparent, efficient and effective functioning of local government institutions in the state. The Management Information System (MIS) should be introduced by using GIS, GPS etc. for

development of data-base and effective planning and implementation process among ULBs.

- A separate institution should be created to address capacity building requirement for urban sector functionaries and stake-holders. Meanwhile a cell can be created in HIPA which can be subsequently converted into a separate “Centre for Civic Governance” (CCG)
- State Govt. should take steps to rationalize the municipal personnel system and promote a management team consisting of qualified and technical experts in the areas of finance, accounting, engineering urban planning and public health especially in the Municipal Council and Corporation.
- Effective collection drive should be launched using e-collection, collection at door steps, mutual resolution of disputes, Lok Adalats, display of defaulters name in the locality itself, attractive incentives and penalties including attachment of bank account and levy of penal interest.

PRIs

- The mindset of the elected representatives and inhabitant of rural areas need to be changed through proper orientation and extension work for enabling the Gram Panchayats to raise their own resources.
- Gram Panchayats should find the way to pay for the operational cost for the facility like drinking water, primary education etc.
- The collection of taxes may be contracted out to private agencies on 5-10 percent Commission basis. The out sourcing of collection of taxes could also be helpful in this context.
- The restoration of Zila Parishad properties under unauthorized occupation of State Govt. needs to be given top priority as it will make the Parishads financially independent.
- The power to levy tax on service must be given to the PRIs as it is an elastic source of revenue.
- Substantial share in royalty collected by State Govt. and royalty in mining activity should go to PRIs.
- The faculty strength of the HIRD should be increased for the creation of centres/divisions/cells for various specialization to cope with the increasing demand for the training, research, extension and policy inputs. Like Andhra Pradesh, a specific percentage (1 or 2%) of DRDA funds be allocated to the HIRD.

STATUS OF SFCs

14.82 In the matter of composition of the SFCs, following suggestions are made :-

- The TOR of this Commission do not indicate the period covered under its report. The Commission has decided that its report would cover the period of five years from 2006-07 to 2010-11.

- The states should follow the central legislation and rules which prescribe the qualifications for the Chairpersons and Members of the Finance Commission and frame similar rules.
- Members should be experts drawn from specific disciplines such as Economics, Public Finance, Public Administration and Law. At least one Member with specialization in the matters related to PRIs and another well versed in municipal affairs should be appointed in the SFC so as to address the concerns of rural and urban local bodies.
- Since the SFCs are temporary bodies and dedicated efforts are called for to discharge their task within time limit, all Members including Member Secretary and the Chairperson should be fulltime. Services of experts and professionals etc. should also be obtained to handle the work of the Commission.
- The states should avoid delays in the constitution of SFCs, their constitution in phases, frequent reconstitution, tabling of reports (ATR) in the legislative assemblies as these disturb the continuity of approach and thought. It is desirable that SFCs are constituted at least two years before the required date of submission of their recommendations, and the dead line be so decided as to allow the state govt. at least three months time for tabling the ATR, probably alongwith the budget for the ensuing financial year.
- The SFCs reports should be readily available to the Central Finance Commission when the latter is constituted. As the periodicity of the constitution of CFC is predictable, the States should time the constitution of their SFCs suitably.
- The convention established at the national level of accepting the principal recommendations of the Finance Commission without modification should be followed at the state level in respect of SFCs reports.
- All recommendations made for financial devolution, accepted, partially accepted and/or rejected, should be placed before the council of Ministers for decisions.

- The Action Taken Report be placed before State Legislative within a period of three months of the submission of Commission's report indicating reasons for not accepting the recommendations of the Commission, if any.
- In case for any reason, the recommendation of next SFC are not available by the end of 2010-11, the recommendations being presently made by the Commission may be extended till such time the recommendations of next Commission are available.

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT**

**NOTIFICATION
THE 22nd DECEMBER, 2005**

No. 18/1/ 2005-POL (2P) - In pursuance of the provision 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 3rd State Finance Commission, Haryana consisting of **Sh. A.N. MATHUR, 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 December, 2006.

3. The Commission shall make recommendations relating to the following matters:-

- 1(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;
- 2 (a) 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 them 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;
- (b) the measures needed to improve the financial position of the Municipalities;

3. 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.

MEENAXI ANAND CHAUDHRY
Chief Secretary to Government, Haryana.

ORDER OF THE GOVERNOR OF HARYANA

The Governor of Haryana is pleased to make the following posting/transfer with immediate effect:-

Sr.No	Name & Designation	Posted/transferred as	Remarks
1.	Sh. Hardeep Kumar, IAS (HY:84) Special Secretary to Govt.Haryana, Finance Department.	Member-Secretary, 3 rd State Finance Commission, Haryana, in addition to his present assignment	-----

Dated Chandigarh
the 13th January, 2006

MEENAXI ANAND CHAUDHRY
Chief Secretary to Government, Haryana.

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT**

***NOTIFICATION
THE 4th DECEMBER, 2006***

No. 18/1/ 2005-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 is pleased to appoint the following persons as Members of the 3rd State Finance Commission, Haryana in addition to the Chairman, and Member-Secretary: - .

1. Shri Som Dutt, Advocate,
House No. 607, Sector-13, Kurukshetra.
 2. Shri Rajinder Singh Ballah,
House No. 280, Sector-8, Karnal
 3. Shri Pritam Singh Ballhara,
House No. 736, Sector-1, Rohtak.
2. The Headquarter of the newly appointed members will be at their respective places of residence.
3. Orders regarding the terms and conditions of their appointment will be issued later on.

PREM PRASHANT
Chief Secretary to Government, Haryana.

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT**

***NOTIFICATION
THE DECEMBER, 2006***

No.18/1/ 2005- Pol (2P). – The Governor of Haryana is pleased to extend the term of the 3rd State Finance Commission Haryana as constituted vide Haryana Government Notification number 18/1/2005- Pol (2P) dated 22nd December 2005 and even number dated the 4th December 2006, for a period of one year from 1st January 2007 to 31st December 2007.

PREM PRASHANT
Chief Secretary to Government, Haryana.

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT**

**NOTIFICATION
THE 28th May, 2007**

No. 18/1/ 2005-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 is pleased to appoint Sh. Prem Parkash S/o Sh. Rati Ram, Gohana as Member of the 3rd State Finance Commission, Haryana.

2. The Headquarter of the newly appointed members will be at his respective places of residence.

3. The Governor of Haryana is also pleased to fix the following terms & conditions of appointment of Sh. Prem Parkash advocate as Member of 3rd State Finance Commission, Haryana.:-

1. Tenure of the Office : Co-terminus with the Commission.
2. Pay and allowances: He will be given honorarium at the rate of Rs. 15,000/-only p.m..
3. TA/DA: He will be entitled to draw daily allowance/traveling allowances as admissible to Grade-I Government employees of the State Government.
4. This issues with the concurrence of the Finance Department conveyed vide their U.O.No. 12/48/2005-IFGI/245(07), dated 13/03/2007.

Dated Chandigarh
The 28th May,2007

DHEERA KHANDELWAL
Special Secretary to Government, Haryana,
Political & Services Department

ORDER OF THE GOVERNOR OF HARYANA

The Governor of Haryana is pleased to fix the following terms and conditions of appointment of S/Sh. Som Dutt, Advocate, Rajinder Singh Ballah and Pritam Singh Balhara, who were appointed as members of the 3rd State Finance Commission, Haryana vide notification No.18/1/2005-Pol(2P),dated, the 4thDecember, 2006:-

1. Tenure of the office : Co-terminus with the Commission;
 2. Pay and allowances: They will be given honorarium at the rate of Rs. 15000/- only per month.
 3. TA/DA: They will be entitled to draw daily allowance/ traveling allowance as admissible to Grade-I Government employees of the State Government.
2. This issues with the concurrence of the Finance Department conveyed vide their U.O. No. 12/48/2005-IFGI/ 245 (07), dated 13.3.2007.

Dated Chandigarh
The 16th March, 2007

DHEERA KHANDELWAL
Special Secretary to Government, Haryana,
Political & Services Department.

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT**

**NOTIFICATION
THE 5th Sept., 2008**

No. 18/1/ 2005-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 is pleased to appoint Sh. Mohan Singh Malik, Advocate S/o Sh. Sarup Singh Malik, Near DSP Residence Gohana as Member of the 3rd State Finance Commission, Haryana.

1. The Headquarter of the newly appointed Members will be at their respective places of residence.
2. The order regarding the terms & conditions of his appointment will be should later on.

Dated Chandigarh
The 3th Sept, 2008

DHARM VIR
Chief Secretary to Government, Haryana,

**HARYANA GOVERNMENT
GENERAL ADMINISTRATION DEPARTMENT
(POLITICAL BRANCH)**

NOTIFICATION

The 11th August, 2008

No. 18/1/2005- 2Pol- The Governor of Haryana is pleased to accept the resignation of Sh. Prem Parkesh, Advocate S/o Sh. Rati Ram, r/o Gohana on his request dated 11.08.2008 from the Membership of the 3rd State Finance Commission, Haryana with immediate effect i.e. 11.08.2008 (A.N.)

Dated Chandigarh

The 11th August, 2008

DHARAM VIR

Chief Secretary to Govt., Haryana.

LIST OF MEETINGS**Commission's**

Sr. No.	Date	Participants
First meeting	18-01-2006	
Second meeting	26-05-2006	Chairman, All Members including Member Secretary and officers
Third meeting	05-10-2006	-Do-
Forth meeting	10-01-2007	-Do-
Fifth meeting	06-06-2007	Chairman, All Members including Member Secretary and officers
Sixth meeting	30-10-2007	-Do-
Seventh meeting	20-12-2007	-Do-
Eighth meeting	28-02-2008	Chairman, All Members including Member Secretary and officers
Ninth meeting	11-06-2008	-Do-
Tenth meeting	10-11-2008	-Do-
Eleventh meeting	30-12-2008	-Do-

With Other Departments

Sr. No.	Date	Participants
Urban Development Department		
i)	12/01/2007	Administrative Secretary, Director
ii)	07/09/2007	Administrative Secretary, Director
iii)	24/01/2008	Administrative Secretary, Director
iv)	15/09/2008	-Do-
Panchayat Department		
i)	12/01/2007	Administrative Secretary, Director
ii)	30/8/2007	Administrative Secretary, Director
iii)	31/01/2008	Administrative Secretary, Director
Finance Department		
i)	08/01/2008	Administrative Secretary
All Administrative Secretaries		
i)	20/09/2007	All Administrative Secretaries and HODs
Public Health Department		
i)	09/10/2007	Financial Commission, EIC
Excise & Taxation Department		
ii)	15/10/2007	Financial Commission,
Economic & Statistical Organisation, Planning Deptt.		
i)	17/09/2008	Economic & Statistical Advisor

With Other Agencies

Sr. NO	Date	Participants
1.	24/05/2006	Chairman 3 rd SFC, Uttar Pardesh
2.	08/05/2007	State Coordinator PRIA, Haryana State Incharge PRIA, Haryana
3.	17/05/2007	Chairperson, Head Business Development Group GJU, Hisar
4.	12/06/2007	Director HIRD, Nilokheri
5.	04/07/2007	Managing Director HVPN, PKL, Haryana
6.	20/08/2007	Commissioner, Higher Education, Haryana
7.	14/12/2007	Chairman, Haryana Electricity Regulatory Commission
8.	20/08/2008	Prof. Faculty Member HIPA Gurgaon
9.	08/08/2008	Group Discussion of Expert, HIRD Complex, Nilokheri
10.	27/08/2008	Seminar-Representatives of PRIs. HIRD Complex, Nilokheri
11.	02/09/08	Study Group of Experts of HIPA, Complex Gurgaon
12.	11/09/2008	Study Group of Experts of HIPA, Complex Gurgaon
13.	06/11/2008	Seminar- Representatives of ULBs, HIPA, Complex Gurgaon
14.	7/11/2008	Chairperson, Head Business Development Group GJU, Hisar

Annexure – I

COMPOSITE SHARE OF STATES IN ALLOCATION FOR PRIs

Sr. No	States	Proportion of Rural Population (2001)	Proportion of Rural Area (2001)	Distance from highest PCI	Revenue efforts of Panchayats		Index of Deprivation	Composite Index of States Share	Rs. in Crore
					w.r.t. Own Revenue of states	wrt Own GSDP (Primary Sector)			
	Weights (Per cent)	40	10	20	10	10	10	100	
1.	Andhra Pradesh	7.479	8.448	6.471	10.617	9.743	7.663	7.935	317.40
2.	Arunachal Pradesh	0.117	2.617	0.111	0.000	0.000	0.101	0.340	13.60
3.	Assam	3.134	2.422	3.219	1.361	0.622	2.928	2.630	105.20
4.	Bihar	10.033	2.887	12.750	2.359	0.749	9.557	8.120	324.80
5.	Chhattisgarh	2.248	4.167	2.213	5.537	4.419	3.208	3.075	123.00
6.	Goa	0.091	0.100	0.023	0.059	0.258	0.063	0.090	3.60
7.	Gujarat	4.285	5.964	4.371	3.087	6.367	5.254	4.655	186.20
8.	Haryana	2.029	1.342	1.160	2.978	3.127	1.495	1.940	77.60
9.	Himachal Pradesh	0.740	1.733	0.685	0.402	0.239	0.662	0.735	29.40
10.	Jammu & Kashmir	1.030	6.916	0.918	0.000	0.000	1.160	1.405	56.20
11.	Jharkhand	2.829	2.436	3.153	0.000	0.000	4.061	2.410	96.40
12.	Karnataka	4.710	5.833	3.752	3.252	3.484	5.482	4.440	177.60
13.	Kerala	3.183	1.113	2.929	12.511	15.352	1.670	4.925	197.00
14.	Madhya Pradesh	5.992	9.417	6.147	17.410	11.696	8.426	8.315	332.60
15.	Maharashtra	7.530	9.388	7.009	14.612	23.911	7.085	9.915	396.60
16.	Manipur	0.232	0.693	0.243	0.000	0.000	0.179	0.230	9.20
17.	Meghalaya	0.252	0.694	0.254	0.000	0.000	0.290	0.250	10.00
18.	Mizoram	0.060	0.641	0.032	0.000	0.000	0.055	0.100	4.00
19.	Nagaland	0.222	0.514	0.199	0.000	0.000	0.186	0.200	8.00
20.	Orissa	4.224	4.779	4.817	1.291	0.953	6.572	4.015	160.60
21.	Punjab	2.173	1.509	0.276	2.702	2.414	0.337	1.620	64.80
22.	Rajasthan	5.845	10.527	6.241	3.829	3.405	7.870	6.150	246.00
23.	Sikkim	0.065	0.222	0.072	0.000	0.000	0.047	0.065	2.60
24.	Tamil Nadu	4.715	3.674	4.544	2.513	4.497	4.861	4.350	174.00
25.	Tripura	0.358	0.323	0.340	0.098	0.037	0.291	0.285	11.40
26.	Uttar Pradesh	17.775	7.325	20.304	10.472	6.209	10.727	14.640	585.60
27.	Uttaranchal	0.852	1.647	0.716	0.493	0.313	0.796	0.810	32.40
28.	West Bengal	7.796	2.670	7.050	4.417	2.205	8.975	6.355	254.20
		100.000	100.000	100.000	100.000	100.000	100.000	100.000	4000.00

Annexure – II

COMPOSITE SHARE OF STATES IN ALLOCATION FOR URBAN LOCAL BODIES

Sr. No	States	Proportion of Urban Population(2001)	Proportion of Urban Area(2001)	Distance from highest PCI (Net of Primary)	wrt to Own Revenue of states	wrt to Own GSDP (Primary Sector)	Index of Deprivation	Composite Index of States Share	Rs. in Crore
	Weights (Per cent)	40	10	20	10	10	10	100	
1.	Andhra Pradesh	7.664	6.175	7.582	7.610	7.555	7.575	7.480	74.80
2.	Arunachal Pradesh	0.084	0.000	0.080	0.000	0.000	0.091	0.060	0.60
3.	Assam	1.267	1.251	1.209	0.434	0.374	1.406	1.100	11.00
4.	Bihar	3.198	2.347	3.456	1.484	0.958	3.814	2.840	28.40
5.	Chhattisgarh	1.542	2.427	1.583	1.199	1.897	2.690	1.760	17.60
6.	Goa	0.247	0.666	0.162	0.068	0.115	0.290	0.240	2.40
7.	Gujarat	6.972	6.800	6.747	13.376	15.885	5.434	8.280	82.80
8.	Haryana	2.252	1.666	2.012	0.787	1.266	1.442	1.820	18.20
9.	Himachal Pradesh	0.219	0.314	0.024	0.092	0.060	0.153	0.160	1.60
10.	Jammu&Kashmir	0.927	1.236	0.908	0.115	0.124	0.557	0.760	7.60
11.	Jharkhand	2.208	2.332	2.365	0.253	0.220	3.210	1.960	19.60
12.	Karnataka	6.616	6.721	6.694	4.910	6.038	7.076	6.460	64.60
13.	Kerala	3.045	4.230	2.633	2.099	1.771	4.300	2.980	29.80
14.	Madhya Pradesh	5.881	9.056	6.348	9.448	9.733	7.817	7.220	72.20
15.	Maharashtra	15.138	9.568	14.297	21.783	23.275	14.720	15.820	158.20
16.	Manipur	0.212	0.187	0.201	0.110	0.028	0.302	0.180	1.80
17.	Meghalaya	0.167	0.299	0.157	0.053	0.037	0.164	0.160	1.60
18.	Mizoram	0.162	0.763	0.178	0.000	0.000	0.191	0.200	2.00
19.	Nagaland	0.126	0.191	0.097	0.074	0.020	0.144	0.120	1.20
20.	Orissa	2.032	3.635	2.015	0.491	0.455	3.979	2.080	20.80
21.	Punjab	3.043	2.704	2.967	4.757	7.651	0.969	3.420	34.20
22.	Rajasthan	4.867	7.065	4.867	1.980	1.537	4.275	4.400	44.00
23.	Sikkim	0.022	0.000	0.008	0.000	0.000	0.004	0.020	0.20
24.	Tamil Nadu	10.123	16.293	10.288	12.373	11.352	13.376	11.440	114.40
25.	Tripura	0.201	0.181	0.161	0.037	0.017	0.209	0.160	1.60
26.	Uttar Pradesh	12.721	8.531	13.720	5.780	4.188	6.557	10.340	103.40
27.	Uttaranchal	0.803	1.036	0.822	0.316	0.293	0.373	0.680	6.80
28.	West Bengal	8.260	4.325	8.419	10.370	5.151	8.881	7.860	78.60
		100.000	100.000	100.000	100.000	100.000	100.000	100.000	1000.00

ANNEXURE - III

DISTRICT-WISE ALLOCATION OF FUNDS FOR PRIs DURING THE FINANCIAL YEAR 2006-07 to 2010-11

Sr. No.	District	Total Population	Population (Rural)			BPL Population (Rural)			Area (Rural)			Illiterates (Rural)			Composite Index	Year-wise Allocation (Rs. in crore)				
			Number	Prop.	Wtd. Prop.	Number	Prop.	Wtd. Prop.	Sq. Kms.	Prop.	Wtd. Prop.	Number	Prop.	Wtd. Prop.		2006-07	2007-08	2008-09	2009-10	2010-11
Weights (Percent)			40%			25%			25%			10%								
1	Ambala	1014411	657383	4.374	1.750	206155	5.208	1.302	1505	3.505	0.876	264446	3.724	0.372	4.300	10.376	12.299	14.032	16.016	18.287
2	Panchkula	468411	260016	1.730	0.692	56454	1.426	0.357	852	1.984	0.496	113423	1.597	0.160	1.704	4.112	4.875	5.561	6.348	7.248
3	Yamunanagar	1041630	648608	4.316	1.726	207495	5.241	1.310	1683	3.920	0.980	290385	4.089	0.409	4.425	10.678	12.657	14.440	16.483	18.819
4	Kurukshetra	825454	609943	4.058	1.623	217101	5.484	1.371	1469	3.421	0.855	267774	3.771	0.377	4.227	10.198	12.089	13.792	15.743	17.974
5	Kaithal	946131	762649	5.074	2.030	238965	6.036	1.509	2232	5.199	1.300	403599	5.684	0.568	5.407	13.046	15.464	17.643	20.139	22.993
6	Karnal	1274183	936341	6.230	2.492	233223	5.891	1.473	2460	5.730	1.432	438936	6.181	0.618	6.015	14.514	17.204	19.628	22.405	25.581
7	Panipat	967449	575369	3.828	1.531	147046	3.714	0.929	1215	2.830	0.707	269570	3.796	0.380	3.547	8.558	10.144	11.574	13.211	15.083
8	Sonipat	1279175	957800	6.373	2.549	234717	5.929	1.482	2057	4.791	1.198	392961	5.534	0.553	5.783	13.952	16.538	18.869	21.537	24.591
9	Rohtak	940128	610524	4.062	1.625	100763	2.545	0.636	1706	3.975	0.994	251210	3.538	0.354	3.609	8.707	10.321	11.775	13.440	15.346
10	Jhajjar	880072	684975	4.558	1.823	135948	3.434	0.859	1787	4.162	1.041	275844	3.885	0.388	4.111	9.918	11.756	13.413	15.310	17.481
11	Faridabad	1990719	780291	5.192	2.077	154066	3.892	0.973	1571	3.659	0.915	391370	5.512	0.551	4.516	10.895	12.915	14.735	16.819	19.203
12	Gurgaon	870539	560836	3.732	1.493	106546	2.691	0.673	1142	2.660	0.665	206424	2.907	0.291	3.121	7.531	8.927	10.185	11.625	13.273
13	Rewari	765351	629177	4.186	1.675	154841	3.911	0.978	1563	3.641	0.910	237675	3.347	0.335	3.897	9.403	11.146	12.717	14.515	16.573
14	Mahendergarh	812521	702885	4.677	1.871	180949	4.571	1.143	1869	4.353	1.088	297799	4.194	0.419	4.521	10.909	12.931	14.753	16.839	19.226
15	Bhiwani	1425022	1154629	7.683	3.073	308733	7.799	1.950	4727	11.009	2.752	522619	7.360	0.736	8.511	20.535	24.342	27.772	31.699	36.193
16	Jind	1189827	948250	6.309	2.524	285986	7.224	1.806	2669	6.218	1.554	482560	6.796	0.680	6.564	15.837	18.772	21.418	24.447	27.913
17	Hisar	1537117	1138999	7.579	3.031	274151	6.925	1.731	3920	9.131	2.283	564357	7.948	0.795	7.840	18.917	22.423	25.582	29.201	33.340
18	Fatehabad	806158	664001	4.418	1.767	225479	5.696	1.424	2508	5.843	1.461	361143	5.086	0.509	5.160	12.451	14.759	16.839	19.220	21.945
19	Sirsa	1116649	823184	5.477	2.191	222168	5.612	1.403	4175	9.724	2.431	434666	6.121	0.612	6.637	16.014	18.982	21.657	24.720	28.224
20	Mewat	993617	923400	6.144	2.458	267985	6.769	1.692	1822	4.244	1.061	634046	8.929	0.893	6.104	14.727	17.457	19.917	22.734	25.957
TOTAL		21144564	15029260	100	40	3958771	100	25	42932	100	25	7100807	100	10	100	241.28	286.00	326.30	372.45	425.25

* Wtd. stands for Weighted

** Prop. stands for proportion

ANNEXURE - IV

DISTRICT-WISE ALLOCATION OF FUNDS FOR ULBs DURING THE FINANCIAL YEAR 2006-07 to 2010-11

Sr. No.	District	Total Population	Population (Urban)			BPL Population (Urban)			Area (Urban)			Literacy Gap (Urban)			Composite Index	Year-wise Allocation (Rs. in crore)				
			Urban	Prop.	Wtd. Prop.	Number	Prop.	Wtd. Prop.	Sq. Kms.	Prop.	Wtd. Prop.	Illiterates	Prop.	Wtd. Prop.		2006-07	2007-08	2008-09	2009-10	2010-11
Weights (Percent)			40%			25%			25%			10%								
1	Ambala	1014411	357028	5.838	2.335	91937	4.70	1.174	69	5.39	1.348	87176	4.47	0.447	5.304	6.891	8.169	9.320	10.638	12.147
2	Panchkula	468411	208395	3.408	1.363	32414	1.66	0.414	46	3.59	0.898	57193	2.93	0.293	2.968	3.856	4.571	5.215	5.953	6.797
3	Yamunanagar	1041630	393022	6.427	2.571	94446	4.82	1.206	85	6.65	1.663	112534	5.77	0.577	6.016	7.816	9.265	10.571	12.066	13.777
4	Kurukshetra	825454	215511	3.524	1.410	49673	2.54	0.634	61	4.77	1.193	62807	3.22	0.322	3.559	4.624	5.481	6.254	7.138	8.151
5	Kaithal	946131	183482	3.000	1.200	105425	5.38	1.346	85	6.63	1.658	69969	3.59	0.359	4.563	5.928	7.026	8.016	9.150	10.448
6	Karnal	1274183	337842	5.525	2.210	138526	7.07	1.769	60	4.69	1.172	102638	5.26	0.526	5.677	7.375	8.742	9.974	11.384	12.999
7	Panipat	967449	392080	6.411	2.565	109579	5.60	1.399	54	4.18	1.044	138401	7.10	0.710	5.718	7.429	8.805	10.046	11.467	13.094
8	Sonipat	1279175	321375	5.255	2.102	105906	5.41	1.352	65	5.07	1.268	98109	5.03	0.503	5.225	6.789	8.047	9.181	10.479	11.966
9	Rohtak	940128	329604	5.390	2.156	153766	7.85	1.963	39	3.01	0.753	96433	4.95	0.495	5.367	6.973	8.265	9.430	10.764	12.290
10	Jhajjar	880072	195097	3.190	1.276	57531	2.94	0.735	47	3.67	0.917	62593	3.21	0.321	3.248	4.220	5.002	5.707	6.514	7.438
11	Faridabad	1990719	1210428	19.793	7.917	279530	14.28	3.569	181	14.12	3.530	401008	20.56	2.056	17.072	22.180	26.291	29.996	34.239	39.096
12	Gurgaon	870539	309703	5.064	2.026	74494	3.80	0.951	113	8.78	2.194	86840	4.45	0.445	5.616	7.296	8.649	9.867	11.263	12.861
13	Rewari	765351	136174	2.227	0.891	52207	2.67	0.667	32	2.46	0.614	39486	2.02	0.202	2.374	3.085	3.656	4.172	4.762	5.437
14	Mahendergarh	812521	109636	1.793	0.717	34599	1.77	0.442	30	2.34	0.585	36426	1.87	0.187	1.931	2.508	2.973	3.392	3.872	4.421
15	Bhiwani	1425022	270393	4.422	1.769	144204	7.36	1.841	52	4.02	1.004	92507	4.74	0.474	5.088	6.611	7.836	8.940	10.205	11.653
16	Jind	1189827	241577	3.950	1.580	66247	3.38	0.846	33	2.54	0.635	84613	4.34	0.434	3.495	4.541	5.382	6.141	7.009	8.004
17	Hisar	1537117	398118	6.510	2.604	163362	8.34	2.086	63	4.92	1.231	130458	6.69	0.669	6.590	8.561	10.148	11.578	13.216	15.091
18	Fatehabad	806158	142157	2.325	0.930	71583	3.66	0.914	30	2.30	0.576	52837	2.71	0.271	2.691	3.496	4.144	4.728	5.396	6.162
19	Sirsa	1116649	293465	4.799	1.920	110518	5.64	1.411	102	7.98	1.996	107359	5.51	0.551	5.877	7.635	9.050	10.325	11.786	13.458
20	Mewat	993617	70217	1.148	0.459	22092	1.13	0.282	37	2.89	0.722	30693	1.57	0.157	1.620	2.105	2.495	2.847	3.249	3.710
TOTAL		21144564	6115304	100	40	1958039	100.00	25	1282	100	25	1950080	100	10	100.00	129.92	154.00	175.70	200.55	229.00

* Wtd. stands for Weighted

** Prop. stands for proportion