

**GOVERNMENT OF HARYANA
FINANCE DEPARTMENT**

**EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN ON THE
RECOMMENDATIONS MADE BY THE FIRST STATE FINANCE
COMMISSION FOR RURAL AND URBAN LOCAL BODIES SUBMITTED TO
THE GOVERNOR, HARYANA IN MARCH ,1997.**

1. In pursuance of 73rd and 74th constitutional amendments, the Governor of Haryana constituted the first State Finance Commission on 31st May, 1994 to make recommendations on sharing of state taxes/duties between the State and the Rural and Urban Local Bodies, determination of principles governing the grants-in-aid to these bodies and the measures to improve their financial position. The State Finance Commission submitted its report covering all aspects of its Terms of Reference in March, 1997 covering the period of four years (1997-2001) commencing from 1st April, 1997.

2. The Report of the first State Finance Commission (herein after referred to as the Commission) together with the Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid before the State Legislature in pursuance of Article 243 I (4) and Article 243 Y (2) of the Constitution. The summary of the main recommendations of the Commission relating to devolution of State Taxes/Duties, and grants-in-aid to Local Bodies and other matters is contained in the Report of the Commission.

3. The recommendations of the Commission were examined by a State Level Committee, which submitted its observations on 4-7-1997 to the Cabinet Sub-Committee constituted under the Chairmanship of the then Home Minister. Before the Cabinet Sub-Committee could finalise its recommendations, there was a change of Government. A new Cabinet Sub-Committee was constituted on 29-10-1999 under the Chairmanship of the Finance Minister. The Cabinet Sub-Committee, after wide consultations, finalised its observations on transfer of resources from the State Level to the Panchayati Raj Institutions and the Municipalities through tax-sharing and the grants-in-aid covering one year's period i.e 2000-01.

4. The State Government has carefully considered some of the main recommendations contained in the above mentioned report of the Commission and the action proposed to be taken on these recommendations of the Commission is detailed below.

A- Devolution to the Panchayati Raj Institutions

5. The Commission has recommended that 7.5% of the net proceeds of Stamp Duty and Registration Fee be passed on to the Panchayati Raj Institutions on the basis of formula for decentralised planning for the period of four years commencing from 1st April, 1997. The Commission has recommended percentage share of all the tiers of PRIs i.e., ZPs, PSSs and GPs in Chapter-VII of its report.

The Government has accepted this recommendation of the Commission with the modification that 3% of the net proceeds would be transferred to the PRIs only for the year 2000-01 starting from 1st April, 2000.

6. The Commission has recommended that the entire net income from the cattle fairs be transferred to the Panchayat Samitis instead of the present 80%. The Commission has further recommended that the Registration Fee be increased from 4% to 6% of the sale price and the Fee per cattle be raised from Rs. 2/- to Rs. 10/-. The entire increase on account of this revision would be transferred to the PRIs.

The Govt. has accepted these recommendations of the Commission with the proviso that 80% of the net income from the cattle fairs will go to the Panchayat Samitis and 20% of the net income to the Zila Prishads instead of the Govt. and further that the State Govt. will not be liable to bridge the gap if the rates of fees are not increased.

7. The Commission has recommended provisions for the following grants-in-aid for transfer to the Panchayati Raj Institutions in chapter - IV of its report for the period 1997-2001. The Commission has also indicated the purpose, amount and criteria of distribution of grants-in-aid in its report.

- (i) Maintenance grant of Rs. 10 lacs per Block for the maintenance of community assets and a grant of Rs. one lac per Block for maintenance of PRI buildings alongwith a 10% step up each year. The total requirement of funds for four years 1997-2001 works to Rs. 56.66 crore including Rs.16.25 crore for the year 2000-01.
- ii) One-time special repair grant of Rs.25 lacs for the repair of Zila Parishad/ Panchayat Samiti buildings.
- iii) Specific purpose grant for sanitation and environmental improvement to the Gram Panchayats at the rates specified by the Commission with 10% step up every year. This amounts to Rs.10.17 crore for four years including Rs.2.92 crore for 2000-01.
- (iv) Incentive grant of Rs.1.67 crore each year to the Zila Parishad/Panchayat Samitis and Gram Panchayats for best performances based on an approved criteria.

The Govt. has accepted the above recommendations of the Commission only for the year 2000-01.

B- Devolution to Urban Local Bodies

8. The Commission, in chapter-XV of its report, has recommended that 20% of the net proceeds on account of taxes on vehicles be transferred to the Urban Local Bodies. The Commission has also indicated in its report the approach and criteria of distribution.

The Govt. has accepted this recommendation of the Commission only for the year 1999-2000. The position is to be reviewed during 2000-01. However, the sums of Rs.15.89 crore in lieu of octroi and Rs. 1.21 crore for salaries released during 1999-2000 to the municipalities need to be adjusted.

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9. The Commission has recommended that 50% of the net proceeds from entertainment duty and the entire net income from show tax be transferred to the urban local bodies on the basis of origin.

The Govt. has accepted these recommendations of the Commission with the proviso that 25% of the net proceeds from entertainment duty would be transferred to the urban local bodies.

10. The Commission has recommended that tax on consumption of electricity in municipal limits be raised from one paise to five paise per unit.

The Govt. has accepted this recommendation of the Commission.

C. Other Measures

11. In Chapter-XII of its report, the Commission has recommended the following debt relief measures for the Urban Local Bodies.

- i) A sum of Rs.32.50 crore (Rs. 9.48 crore principal and Rs. 23.02 crore interest) outstanding against Municipalities from 1970-71 to 1995-96 be waived off;
- ii) A sum of Rs.2.66 crore outstanding against Municipalities towards Local Bodies Directorate be waived off;

The Govt. has accepted these recommendations of the Commission.

12. The Commission, in chapter-XXIII of its report, has recommended a provision of Rs.18.00 lacs for strengthening of the Town Planning & Engineering Wings of the Local Govt. Directorate and for setting up a well organised Computerised information system.

The Govt. has accepted this recommendation of the Commission.

13. The Commission, in chapter-VIII and XVI of its report, has recommended transfer to the rural and urban local Bodies the Tenth Finance Commission grants of Rs. 99.22 crore recommended to augment the State Consolidated Fund for supplementing the resources of these Bodies covering the period of four years i.e. 1996-2000.

The Govt. has accepted this recommendation of the Commission.

14. The total devolution to the rural and urban local bodies during 2000-01 would further go up as the grants recommended by the Eleventh Finance Commission for supplementing resources of the these bodies covering the financial year 2000-01 would be transferred to these bodies as per the guidelines of the the 11th Finance Commission
(An item not referred to in the Report of the State Finance Commission.).

15. The State Govt. has accepted the above recommendations of the Commission for implementation w.e.f. 1st April, 2000 covering the Financial year 2000-2001.

16. The other recommendations of the Commission made for the Rural and Urban Local Bodies would be considered in due course.

IMPLEMENTATION

17. The Commission's recommendations fall in three categories :

- i) Those to be implemented by Legislative measures;
- ii) Those to be implemented by Executive/Administrative orders; and
- iii) Those to be examined further.

18. Necessary action for the amendments of relevant Acts/ Rules, introduction of Legislative measures, where necessary, for the implementation of the recommendations of the Commission will be taken by the concerned departments of the State Government.

Sampat Singh

PROF. SAMPAT SINGH
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Dated, Chandigarh
September 1, 2000

/u/resource/explanatory

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