GOVERNMENT OF MAHARASHTRA

Report of the Fifth Maharashtra State Finance Commission

JULY 2019

FIFTH STATE FINANCE COMMISSION
Cambata Trust Building,
Behind Eros Theater, 3rd Floor,
Churchgate, Mumbai – 400 020
Date: August, 2019

VISHWANATH GIRIRAJ,
Chairman

His Excellency,
Governor of Maharashtra,
Raj Bhavan,
Mumbai.

Sir,

The Fifth Maharashtra State Finance Commission was constituted by Notification No.SFC.2017/C.R.33/FCC dated 28th March, 2018 under Articles 243-I and Article 243-Y of the Constitution of India. The State Finance Commission is to make recommendations on allocations of resources to Panchayat Raj Institutions and Urban Local Bodies after study and analysis of their financial position, with the view to strengthen them, keeping in mind the overall resource position and other commitments of the Government of Maharashtra.

After intensive consultations and deliberations, the Commission has finalized its report. Many individuals and institutions have provided valuable inputs to the Commission. I along with other members of the Commission, would like to thank all who supported us.

We feel privileged that we were given an opportunity to do this important work. I am glad to submit the report of the Fifth Maharashtra State Finance Commission along with this letter.

Yours faithfully,

(Vishwanath Giriraj)
Chairman

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LIST OF ABBREVIATIONS

Abbreviation	Description
AG	Accountant General
ARV	Annual Rateable Value
AVO	Assistant Valuation Officer
BDO	Block Development Officer
BPL	Below Poverty Line
BPMC Act	Bombay Provincial Municipal Corporation Act
CAG	Comptroller & Auditor General of India
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CFC	Central Finance Commission
CIDCO	City and Industrial Development Corporation
CMAM	Chief Municipal Auditor, Mumbai
Corporation Act	Maharashtra Municipal Corporation Act
CP Tax	Consolidated Property Tax
CPS	Central Plan Schemes
CSS	Centrally Sponsored Schemes
CST	Central Sales Tax
CV Method	Capital Value Method
DA	Dearness Allowance
EGS	Employment Guarantee Scheme
FD	Fiscal Deficit
FRBM Act	Financial Responsibility & Budget Management Act
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GIS	Geographical Information System
GP	Grampanchayat
GP Act	Maharashtra Village Panchayats Act, 1959
GSDP	Gross State Domestic Product
HP	Horse Power
HUDCO	Housing & Urban Development Corporation
IR	Inspection Reports
JNNURM	Jawarharlal Nehru National Urban Renewal Mission
KBMC	Kulgaon-Badlapur Municipal Council
LIC	Life Insurance Corporation
MDR	Major District Roads
MERC	Maharashtra Electricity Regulatory Commission
MIDC	Maharashtra Industrial Development Corporation
MJP	Maharashtra Jeevan Pradhikaran
MMC Act	Mumbai Municipal Corporation Act
MMRDA	Mumbai Metropolitan Region Development Authority
MoU	Memorandum of Understanding

MRTP Act	Maharashtra Regional & Town Planning Act
MSEB	Maharashtra State Electricity Board
MTRFP	Medium Term Fiscal Reform Program
Municipality Act	Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965
NA	Non Agriculture
NGO	Non-Governmental Organisation
NOC	No Objection Certificate
NSDP	Net State Domestic Product
O & M	Operations & Maintenance
ODR	Other District Roads
OPD	Out Patient Department
PAC	Public Accounts Committee
PHC	Public Health Centre
PMC	Pune Municipal Corporation
POL	Petrol, Oil and Lubricants
PRI	Panchayat Raj Institution
PS	Panchayat Samiti/s
PSU	Public Sector Undertakings
PPP	Public Private Partnership
PWD	Public Work Department
RBI	Reserve Bank of India
RD	Revenue Deficit
RDD	Rural Development Department
RDP	Rural Development Plan
RLB	Rural Local Body
RR	Revenue Receipt
SC	Scheduled Caste
SLR	Statutory Liquidity Rate
SPV	Special Purpose Vehicle
ST	Scheduled Tribe
SWM	Solid Waste Management
TCS	Tata Consultancy Services
TDR	Transfer of Development Rights
TISS	Tata Institute of Social Sciences
ToR	Terms of Reference
UDD	Urban Development Department
ULB	Urban Local Body
VAT	Value Added Tax
VP	Village Panchayat
VP Act	Maharashtra Village Panchayats Act, 1959
VR	Village Roads
WSS	Water Supply Scheme
YASHADA	Yashwantrao Chavan Academy of Development Administration, Pune
ZP	Zilla Parishad
ZP Act	Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961

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CHAPTER 1

Introduction

State Finance Commissions are set up under Article 243(I) and 243(Y) of the Constitution of India. The Constitution, terms and procedure of the Maharashtra State Finance Commission are governed by the provisions of Maharashtra Finance Commission (Miscellaneous Provisions) Act, 1994. The Governor of Maharashtra constituted the **Fifth Maharashtra State Finance Commission** vide Notification No.SFC.2017/C.R.33/FCC dated the 28th March, 2018.

The fifth State Finance Commission, when initially constituted comprised of Shri. Vishwanath Giriraj, (Retired IAS) as Chairman. Though the post of Member Secretary was created in the original order, the post was filled up by giving additional charge as a Member- Secretary to Shrimati (Dr.) Nidhi Pandey (IAS) in August 2018. Subsequently, in November 2018 the following three part-time members were appointed to the Commission and thus a full-fledged Commission came into existence:

(i) Principal Secretary, Urban Development Department (II)

(ii) Principal Secretary, Rural Development Department

(iii) Professor Abhay Pethe, Economist, Mumbai School of Economics & Public Policy, University of Mumbai, Mumbai

The initial tenure of the Commission was for a period of ten months from date of notification that is 28th March 2018. Later, by a notification dated 17th January 2019 the tenure of the Commission was extended up to 20th April 2019- making the overall duration about 13 months.

Government sanctioned the staff positions of the Commission in May 2018. The option of filling up the posts from retired as well as outsourced staff and from equivalent cadres was provided for in the staff sanction order, giving the Commission the required flexibility. As it was felt that the full complement of regular staff may not be made available to the SFC, so the staff positions were filled from retired persons or equivalent cadres. The All India Institute of Local Self-Government and the Gokhale Institute of Economics and Politics provided some specialists on out-sourced basis. We also hired consultants from Price Water House Coopers Private Limited. Even till the end, not all posts were filled up.

The Commission operated from 3rd Floor, Cambata Trust Building, Churchgate, Mumbai-400020.

Terms of Reference of the Commission:

The Government Notification of 28th March, 2018, constituting the Fifth State Finance Commission required the Commission to make recommendations with reference to the following matters:

'**The Commission shall review the financial position of the Panchayat and the Municipalities and make recommendations to the Governor as to—**

(a) The principles which should govern—

i. The distribution between the State, the Panchayat and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided amongst them under part IX and Part IX-A of the Constitution and the allocation between the Panchayats and 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 Panchayats and the Municipalities.

iii. The grants-in-aid to the Panchayats and the Municipalities from the consolidated fund of the State.

(b) The measures needed to improve the financial position of local bodies.

In making its recommendations the Commission shall have regard, among other considerations, to—

a) The projected gap between the revenue receipts and revenue expenditure of the Panchayats and Municipalities in the State for five years from 1st April 2019, on the basis of their levels of taxation.

b) The measures and the extent to which the Panchayats and the Municipalities have exploited the available and the potential sources of their revenue.

c) The resources of the State Government and the demands thereon, in particular, on account of expenditure on Civil Administration, Police, Social and Economic Services, and all other committed expenditure or liabilities and Non-Plan revenue expenditure;

d) The maintenance and upkeep of the capital assets of the Panchayats and the Municipalities and work out the norms for the adequate maintenance.

In making its recommendations on the various matters aforesaid, the commission shall adopt the population figures of 2011 Census, where population is regarded a factor for determination of devolution of taxes and duties and grants-in-aid.

The Commission shall also make recommendations relating to the following matters—

(a) Performance grants and incentive grants to local bodies.

(b) Better management of fund management in local bodies.

(c) Other related matters being related to prudent financial management of local bodies.

The Commission shall indicate the basis on which it has arrived at its finding. It will make available all relevant data on the basis of which it makes its recommendations.

The Commission may make recommendations on the basis of recommendations made by the Fourteenth Central Finance Commission'

Format of the SFC Report:

The SFC has, by and large, followed the format of the template for Report of the SFC's given in Annexure 10.5 of the Thirteenth Central Finance Commission.

All the relevant notifications relating to the fifth SFC have been made available in the Annexure to this report.

Previous SFC's - Constitution and Recommendations

2.1 Details of previous State Finance Commissions (SFC's)-their constitution and recommendations are given below :

Constitution:

Table 1: Details of previous SFC's :

State Finance Commission	SFC-I	SFC-II	SFC-III	SFC-IV
Date of Constitution of SFC	23.04.1994	22.06.1999	15.01.2005	10.02.2011
Date of submission of SFC Report	31.01.1997	30.03.2002	30.06.2006	16.07.2015
Date of submission of ATR	31.01.1997	30.03.2002	20.12.2013	23.03.2018
Period of recommendation	1996-97 to 2000-01	2001-02 to 2005-06	2006-07 to 2010-11	2011-12 to 2015-16
Members of the Commission	**Chairman:** 1) Shri. Shantaram Gholap 2) Shri. Suresh Prabhu 3) Shri. Makrand Herwadkar **Member Secretaries:** 1) Shri. R.C. Sinha 2) Shri. P. P. Mahana **Members:** 1. Shri. D. M. Sukthankar 2. Smt. Prabhavati Zadbuke 3. Shri. Santoshrao Gode 4. Shri. Diwakar Kalsulkar 5. Shri. Vijay Tated 6. Shri. Shripad Patwari	**Chairman:** 1) Shri. K.C. Shrivastava 2) Shri. R. Vasudevan 3) Shri. S. Habibullah **Member Secretaries:** 1) Dr. Munshilal Gautam 2) Smt. Ranjana Sinha 3) Shri. M. Ramsawami 4) Shri. G.S. Sandhu **Members:** 1) Shri. Narayanrao Marathe 2) Shri. Chunnilal Thakur 3) Dr. Maya Ladwani 4) Principal P.B. Patil 5) Prof. Mukund Ghaisas 6) Shri. Vijay Bhaise 7) Shri. Vijay Naval Patil	**Chairman:** 1) Shri. V.M. Lal 2) Shri. Satish Tripathi **Member Secretary:** 1) Shri. S.K. Shrivastava **Members:** 1) Prof. Pradeep Apte 2) Shri. Jeevanrao Gore	**Chairman:** 1) Shri. J.P. Dange **Member Secretaries:** 1) Shri. S.K. Biswas 2) Shri. Arvind Kumar 3) Shri. P.E. Gaikwad **Members (Ex-Officio):** 1) Principal Secretary-II, Urban Development Department 2) Principal Secretary, Rural Development Department, 3) Secretary, Accounts and Treasury, Finance Department,

2.2 Recommendations given by Previous Finance Commissions:

Table 2: Previous SFC's recommendations :

Sr. No	SFC Commission	Total Number of Recommendations	Direct Financial Burden	Indirect Financial Burden		Administrative Reforms	Other Recommen-dations
				Related to Finance	Administrative Reforms		
1	First	128	21	8	15	70	14
2	Second	227	31	33	38	69	56
3	Third	114	23	8	3	66	14
4	Fourth	118	23	38		57	0

CHAPTER 3

Methodology adopted by the State Finance Commission

The Commission adopted a multi pronged strategy to collect the required information and make its analysis. Each method complemented the other and our final findings and recommendations are based on these efforts.

3.1 Analysis of previous reports and related documents:

The Commission started its work by collecting and studying various official reports, which had undertaken the same 'journey' of collecting data relating to Local Bodies. The following reports were found very useful to get a historical and proper perspective:

- Report of the Twelfth Central Finance Commissions (2005-10), Thirteenth Central Finance Commission (2010-15), Fourteenth Central Finance Commission (2015-20)- particularly the chapter on Local Bodies.
- Recent information sent to the Fifteenth Central Finance Commission (2020-25)
- Report of the Third State Finance Commission and Fourth State Finance Commission of Maharashtra. The third SFC particularly had done very good analysis and had many insights. We used this report virtually as a reference book throughout our working year.
- SFC reports of Orissa, Karnataka and Tamil Nadu. The Tamil Nadu report was found very lucidly presented and we used it as another handbook for our work.
- Various other scholarly reports like the recently circulated 'Draft Framework on Urban Policy' by Government of India, scholarly papers and studies by Prof. Abhay Pethe (University of Mumbai) and others.

3.2 Letters to office bearers of ULBs and PRI's seeking their representations:

The Commission sent formal letters to all Mayors of Municipal Corporations, President of Municipal Councils and President of the Zilla Parishads inviting their representations and suggestions for the State Finance Commission in the early months (August 2018). Adequate time was given to them to make their representation. We did not receive any written response, but subsequently at the time of our field visits, many of the office bearers made their representations in the meetings and many backed it up by written representation.

3.3 Collection of information through reconnaissance visits and a carefully framed questionnaire:

The Commission prepared a very elaborate questionnaire and sent it to the ULBs (separate questionnaire for Municipal Corporations, Municipal Councils and Nagar Panchayats) and to the PRIs (separate questionnaire for Zilla Parishad and Grampanchayat). Before framing the questionnaire, the Commission visited various ULBs and Panchayat Raj Institutions given below as 'reconnaissance visits' to know their pattern of working and the challenges they faced. Further,even during the process of finalization of questionnaire and to cross check whether the data sought is relevant and is available in the field it visited another set of LB's. The list of the LBs, we visited as a part of this exercise during the first six months (June to October 2018) are given below:

Table 3: List of LBs visited by 5th SFC :

Sr. No.	Category of LB	Name of the LBs visited by SFC
1	Zilla, Parishad	Nasik, Yavatmal
2	Panchayat Samiti	Dindori (Nasik) and Yavatmal (Yavatmal)
3	Gram Panchayat	Kasara in Thane district, and Avankhed, Wadivarhe in Nasik District
4	Municipal Corporations	Navi Mumbai, Mira-Bhayandar, Jalgaon
5	Municipal Councils	Jalgaon district – Erandol, Jamner, Bhusawal Yavatmal , Badlapur, Karjat, Khopoli
6	Nagar Panchayats	Babulgoan (Yavatmal district), Bodwad (Jalgaon District)

The Marathi questionnaires that was framed by SFC was well appreciated.

3.4 Field visits to various districts in Maharashtra:

The Commission visited various parts of Maharashtra, covering all the regions between October 2018 to January 2019. This gave an opportunity for the office bearers and officers of the Local Bodies to directly meet us face to face and give their representations and place their views. The locations where we met the officials of the local bodies and the non-officials and office bearers (October 2018 to January 2019) and the districts covered are given below:

Table 4: Details of field visits covered by SFC :

Sr. No.	Division	Place of meeting	Districts covered
1	Konkan	Thane Collector Office	Thane and Palghar
		Panvel Municipal Corporation	Raigad
		Ratnagiri Collector Office	Ratnagiri. (field visit to Ganpatipule Grampanchayat)
		Sindhudurg Collector Office	Sindhudurg – also field visits to Malwan, Vengurla, Sawantwadi and Devgad
2	Nasik	Nasik Divisional Commissioner Office	All districts of Nasik
3	Amravati	Amravati Divisional Commissioner Office	All districts of Amravati
4	Nagpur	Nagpur Divisional Commissioner Office	All districts of Nagpur
5	Aurangabad	Aurangabad Divisional Commissioner Office	Aurangabad, Jalna, Beed and Osmanabad
		Nanded, Collector Office	Nanded, Parbhani, Hingoli and Latur
6	Pune	Pune Divisional Collector Office	Pune and Solapur
		Satara Collector Office	Satara, Sangli and Kolhapur

SFC's field visits were very successful and there was very good response from the ZP Presidents, Mayors of Municipal Corporations and President of the Municipal Councils. We were particularly gratified to see the attendance in large numbers of women President's of Municipal Councils. They participated enthusiastically in SFC's field interactions and articulated their view point quite forcefully. We got valuable insights from these people's representatives which sharpened SFC's perspective. The list of office bearers we interacted with during field visits is given in annexure.

SFC also used these tours to visit some 'best practices' in LBs, like Vengurla, Sawantwadi, Malwan, Ganapathipule, Malkapur (Satara) and few other places. SFC also collected the replies to its questionnaires during the course of field visits.

3.5 Field visits outside Maharashtra:

The Chairman visited Chennai (November 2018) to interact with Mr. S. Krishnan, IAS, ex-Chairman of the Fourth State Finance Commission, Tamil Nadu who had submitted their State SFC report just recently. This helped in getting a comparative perspective.

The Chairman and officers of the SFC also visited Vadodara in Gujarat to study the professional tax in Vadodara city and working of ULBs in Vadodara region. The meeting with Chief Officers arranged by the Regional Director of Vadodara region was found very useful.

3.6 Interaction with experts, Heads of Departments on phone and personal visit to SFC office:

The Commission invited a number of Heads of Departments or their representatives to its office. Key officials include Director of Municipal Administration, Director of Local Fund Audit, Chief Executive Officer of Maharashtra Jeevan Pradhikaran, Chief Engineer of MSEDCL, the Joint/Deputy Secretaries of UDD, RDD, Revenue and others. It sought the guidance of well-known experts on Urban Management like Shri. Ramanath Jha, IAS (Retired), Shri A. K . Jain, IAS (Retired), Shri. Sudhir Srivastava, IAS (Retired), Shri. Jayaraj Phatak, IAS (Retired) and others. Full list of invitees and others it consulted are given in Annexure.

3.7 Organization of a technical workshop on "Finance, Audit and Financial Data":

The Commission organized a 'Technical Workshop' on accounts and finance related issues on 13th December 2018. The Accountant General inaugurated the workshop. Officers from UDD, RDD, Municipal Commissioners, Chief Officers and CAFOs participated in the workshop. The Director, Local Fund Audit and his support officers attended too. This workshop helped understand the accounts related issues of LBs from various angles.

3.8 Challenges and issues relating to sampling:

One major difficulty the SFC faced in its working was getting dependable and reliable data. To illustrate the difficulties we faced, we give the example of Grampanchayat data. There are about 28,000 +GPs in Maharashtra. We segregated it into six categories, GPs with population of 10,000 + (very big GPs), GPs with population of 5000-10000, GPs with population of 3000-5000, GPs with population below 3000, peri-urban villages and PESA villages. Thereafter, we interacted with the Director of Economics & Statistics, who suggested to choose about 5% sample in each category, spread in all regions of Maharashtra. This worked out to about 1500 GPs, spread across the State.

However, after we circulated the questionnaire, it took enormous time to receive the format filled by the concerned GPs. In most cases, it was filled wrongly, in appropriately or inadequately. In some cases, some parts were filled up properly, some parts erroneously. In many reports there were internal contradictions in the figures, hence we could not use it. We also found these replies were forwarded to us by the district ZP officials in a very routine way without any checking even though we had repeatedly requested the district officials to do proper screening of the field questionnaire before forwarding it. Much of our time went in phoning to field officials to expedite the replies. Replies from one district came after five months, the day we were winding up!

Hence, instead of the targeted 1500 GPs we could do deep analysis of only thirty-six GPs, which were properly filled up and the replies satisfied us in all respects.

SFC encountered the same difficulty regarding other categories of LBs as well. Only for Zilla Parishads- which were limited in number we could get quality data easily.

SFC thus had no option but to settle down for a limited sample size, but we took care that the data is reasonably representative from all counts for making a proper analysis.

3.9 Final sample size of ULBs we used for analysis:

Table 5: Sample size of ULBs :

Sr. No.	Category of ULB	No. of selected ULBs	Remarks
1	D Class Municipal Corporations	06	1 each from Revenue Division
2	A Class Municipal Council	12	2 each from Revenue Division
3	B Class Municipal Council	12	2 each from Revenue Division
4	C Class Municipal Council	12	2 each from Revenue Division
5	Nagar Panchayats	12	2 each from Revenue Division

3.10 Sample size of PRIs

Table 6: Sample size of PRIs :

Sr. No.	Category of PRI	No. of selected PRIs	Remarks
1	Zilla Parishad	6	1 each from Revenue Division
2	Panchayat Samiti	13	2 each from Revenue Division (3 from Aurangabad Division)
3	Grampanchayat	36	6 each from each category (6 per Revenue Division)

*For purpose of analysis, GPs were classified as follows:

#Population of 10000 and above
#Population of 5000 - 10000
#Population of 3000 - 5000
#Population of below 3000
#Peri-urban GPs
#PESA GPs

Even though it would appear that the sample size is low, the findings confirm the pattern we observed during our field visit, and which also tallied with the oral feedback we got from the officials and non officials.

3.11 Problem of obtaining data from LBs – a universal problem:

The problem of reliable data seems to be a universal problem across all the States. Various Central Financial Commissions have commented on it in their chapter on local bodies. The Fifth State Finance Commission, Tamil Nadu (2017) says in its chapter on Methodology 'In spite of the best efforts by the Commission, the quality of data remains a cause of concern'. The Third State Finance Commission (Maharashtra) has also extensively mentioned about this. This issue has been dealt with in the chapter on Accounts, Audit and Financial Data exhaustively.

CHAPTER 4

Approach adopted by the State Finance Commission

The Commission, in its one year of working, interacted with various types of stakeholders and solicited their views and suggestions. Soon it became evident, like the proverbial six blind men and the elephant story, that the stakeholders in the LB system were giving their suggestions based on their own experience or felt priority. Their suggestions were not incorrect, but at the same time not adequate, comprehensive or explained the other side of the story.

For instance, the Chief Executives of the ULBs wanted more initiatives and support to raise local resources, while the non-officials suggested both more autonomy in their working and also more grants from the Government. Many Mayors and President of Municipal Councils suggested that ULBs be allowed to raise resources by monetising existing immoveable assets of the ULB. Municipal employees in small Municipalities were repeatedly stressing more revenue grants (Sahayyak Anudhan) to meet the salary, pension and other requirements. In short, the priority for each category was different.

The Commission had the challenging task of giving suitable weightage to such varied and apparently contradictory factors and incorporating it in its report.

We now give below the factors which has shaped our approach and in formulating our recommendations.

4.1 Factors which circumscribed and shaped SFC's approach:

4.1.1 The 'Terms of Reference' for the Commission:

The terms of reference were, of course, the first and main factor which has determined SFC's recommendations. The terms of reference in formal, official language ('Notification') is given elsewhere, but in plain language the following was the ToR set for us:

a. Suggest principles for:
   - Sharing taxes, that is between State and LBs and inter se allocation between them.
   - Identifying taxes which can be assigned to or appropriated by LB
   - Giving grants in aid from the consolidated fund of the State

b. Suggest measures that are needed to improve the financial position of the LBs

While giving recommendations relating to (a) and (b) above, the Commission shall keep regard to:

- Extent to which, LBs have fully tapped their available sources of income.
- Projected gap between revenue income and expenditure of LBs for next five years from 1.4.2019
- Study of maintenance of assets of LBs and work out norms for their adequate maintenance
- The State Government's overall financial position and commitments (that is, the fiscal space that is available)

We have stuck to these core mandate in making our recommendations. Some suggestions are of administrative nature, but we have chosen to mention them as it will help in improvement of the financial position of the LBs or improve its overall performance.

4.1.2 Provisions in the Constitution consequent to 73rd and 74thAmendment:

On a perusal of the State Financial Commission reports of other States, it is seen that in some reports there are elaborate observations relating to the provisions in the Constitution. These reports have emphasized the need for making the LBs as the **'third tier of Governance'**, with dedicated, devolved funds and autonomy. Many other scholarly reports, study Committees and Commissions have also made their observations on this matter. In short, they want the provisions in Part IX and IX-A of the Constitution to be implemented in letter and spirit, even though the word 'may' has been used in many places and the amount and extent of financial and administrative devolution has been left to the States.

Indeed, the Ministry of Panchayati Raj, Government of India publishes an annual 'Index of Devolution' wherein it compares the position of each state in transferring 'funds, functions and functionaries' to the PRIs. Awards are also given to States which show high level of devolution.

One of the primary mandates of SFCs is to recommend devolution formula to take care of horizontal and vertical imbalances. However, this presumes availability of reliable consistent physical and financial data at the ULB / PRI levels. This not being the case and also some of the other governance preconditions not being met, we could not have sensibly recommended acceptable and logical devolution formula. Rather, it was felt prudent that we should concentrate in straightening regulatory procedures, simplification and overhauling of archaic procedures and charge from yesteryears and generally create an environment conducive to good governance. By good governance we mean incentive compatible policy frame work, streamlined process and protocols and capacity including good data base to make rational decisions.

Incidentally, the Rural Development Department of Maharashtra has already appointed a State Panchayat Expert Committee under Shri. Sudhir Thakeray, former Secretary to Rural Development in July 2016. The mandate of the Committee is to study the extent of devolution of funds, functions and functionaries in PRIs and give its views and suggestions. It is learnt that the Committee has handed over its report to Government.

Likewise, the Urban Development Department has also appointed a three-member Committee (March 2017) under Shri. Sharad Kale, IAS (Retired) with two other respected and knowledgeable retired officers Shri. Ramanath Jha, IAS (Retired) and Shri. Gautam Chatterjee IAS (Retired) to recommend measures that will increase 'transparency, accountability and efficiency' in urban administration. It is learnt that this Committee has also submitted its recommendations to the Government.

The scope of the above two Committees (which have since submitted their report) are wider and more comprehensive. We assume that the State Government is considering these reports.

Hence, consciously, we have taken the present arrangement as 'given' and have made our recommendations within the existing framework of devolution of funds, functions and functionaries.

4.1.3 Practical challenges experienced by the Commission- poor quality of financial records or non-availability of records:

SFC has already elaborated this issue in the earlier chapter on Methodology. SFC has repeated this difficulty in many places of the report. The non-availability of reliable data restricted SFC in doing sharp financial data analysis and coming to conclusions and recommendations on the basis of data alone. So our recommendations are based on both the data that was made available, but also on the feedback we received from the field officials and non-officials, study of earlier reports and certain inferences we could draw. We have tried to ensure that each method we adopted reinforced the other.

4.1.4 Need for differentiating between different categories of LBs:

The SFC quickly noted that what is true for one category of LB is not necessarily true for another. There are many factors at play. For instance, some of the Municipal Councils (like Khopoli-Raigad District) find Sahayyak Anudan adequate to meet not only the salaries but also to meet other expenditure mentioned in the priority list. Whereas other ULBs in other parts of the state find Sahayyak Anudaan inadequate even to meet their core salary expenses.

Likewise, the challenges faced by big and ever growing peri-urban GPs (near Pune or other big cities) are very different from remote tribal PESA GPs.

The implication is that it would be inappropriate to aggregate figures of all ULBs or even GPs in a routine way. It would amount to adding apples and oranges just because they are fruits. Therefore, SFC has consciously not aggregated the figures for all ULBs or PRIs together. It has collected and displayed the information for each category of LB separately, to enable sharper analysis and have a better understanding of LBs.

4.1.5 Challenges relating to 'norms' based recommendation:

Earlier Central Finance Commissions in their chapter on Local Bodies have suggested that SFCs should work out the amount to be given to LBs based on norms rather than on current data. The Twelfth Central Finance Commission for instance has observed that 'the SFCs should follow a normative approach in assessment of revenues and expenditure rather than make forecasts based on historic records'. (para 8.31)

The Thirteenth Central Finance Commission has also emphasized the need for service level benchmarks, and in fact had made it a condition for performance grants.

This SFC worked out the tentative capital investment that may be required to reach service level benchmarks of service in various categories of sample cities in Maharashtra. It will be seen that it comes to a staggering amount (see Chapter 8. Assessment of Finances of ULBs - Paragraph 8.32).

The SFC has taken the position that however desirable, considering the financial requirements, the normative approach will have to wait for another day.

4.1.6 Fiscal space available and GST related issues:

The role of SFC is essentially to recommend how much resources need to be given to LBs, apart from what they are able to mobilise themselves. The mandate of the SFC specifically requires us to factor the State Government's financial requirements and future commitments into consideration as well.

In this context, some observations about GST are necessary. The historic GST was introduced on 1.7.2017. It has subsumed many taxes (like octroi, local body tax, entertainment tax), leaving virtually only the property tax as a main source of income to ULBs. There has only been one full year complete under the GST regime that is 2018-19.

We have taken the position that GST is a massive change in tax regime. In the first two years there has been an 8% revenue growth in Maharashtra. However, we are of the view that these are early years, and it will take at least three to five years to get a clear picture of the impact of GST on state finances.

4.2 The approach we have adopted in making recommendations:

4.2.1 Strategic approach- support to vary for different categories of ULBs:

The SFC has also taken a conscious approach that considering the variety, size and local factors involved, one solution or one strategy may not help all category of PRIs and ULBs. Hence, it has very consciously distinguished between the type of support needed by each category of LB.

Just to illustrate, we have recommended subsidisation of the cost of pumping water from distant sources, that is geographically disadvantaged ULBs. We have recommended it only for D Class Municipal Corporations and below, and the formula we have given (based on MJPs technical advice) is linked to the distance. (Chapter 8. Assessment of Finances of ULBs - Paragraph 8.47)

Likewise, we have recommended that Government should meet the cost of land acquisition only for B Class Municipal Councils, C Class Municipal Councils and Nagar Panchayats and that too only for six essential core activities.

In the case of ZPs we have recommended additional support by way of grant in aid only for those ZPs whose stamp duty (assigned taxes) income is below the state average and not to all ZPs.

Thus the recommendations are highly need based and category-specific.

4.2.2 Approach to higher size ULBs (C Class Municipal Corporation and above):

There are 27 Municipal Corporations in Maharashtra. Out of this the top ten Municipal Corporations are Greater Mumbai (A+ category), Pune & Nagpur (A category), Nasik, Pimpri-Chinchwad, & Thane (B Category), Aurangabad, Vasai-Virar, Kalyan-Dombivali and Navi Mumbai (C Category). We have pointed out how the bigger Municipal Corporations are different from other smaller size ULBs in Para 8.18 and 8.19 in the Chapter on ULBs. The bigger size ULBs (up to Class C Municipal Corporations) need a different type of support like capacity building to help them shift to double entry accounts, use of GIS to capture all taxable property, technical support for hiring consultants, better capacities to mobilise loans from open market etc. We have therefore provided the detailed resource analysis for the Municipal Corporation D class and below only, where about 43% of the total urban population live.

4.2.3: Continuity of existing pattern and calibrated change:

In our recommendations we have chosen the approach of continuity of existing pattern with necessary tweaking here and there rather than any radical change. For instance, we have suggested a small change in Section 108 of the Municipal Tax and introduction of the phrase 'environment management fees'. This little change will open a window for many small ULBs to generate small but regular fee income from tourist visitors or who come in huge numbers during a yatra, etc. Even in case of a major reform that we have recommended namely that of shifting professional tax to LBs, we have suggested that it be shifted in a phased way.

4.2.3: 'Kaizen' approach- small, incremental improvements:

Closely linked to the approach indicated in earlier paragraph, we have also followed the 'Kaizen' approach – recommending small incremental and doable improvements. For instance, we have suggested adding the word 'agreement to sale' in Section 149A of the Municipal Corporation Act. We have also suggested updating of all existing byelaws and circulating certain model byelaws and refix the minimum and maximum rate of fines, fees and such levies by ULBs. Likewise for Grampanchayats we have proposed for amendments of the Rules relating to levy of various fees and fines. These small initiatives will immediately open the doors for increasing the revenue of LBs.

4.2.4 Need for removal of clutter:

Another approach we have taken is emphasizing the need to removal of clutter in many practices and procedures relating to funds release to LBs. For instance, still some funds are released annually from budget as compensatory grants to some Zilla Parishads, gram panchayats and urban bodies. They were fixed in the 1960's or earlier, when the Government withdrew the taxation powers of LBs to levy vehicle tax, octroi and some other taxes. Now, these amounts released are paltry amounts. Likewise the procedure for release of forest grants or land revenue grants are most cumbersome. We have made suitable recommendations to remove the old cobwebs and clutter in Acts, Rules and GRs.

4.2.5: Distinguishing between own funds and pass through funds:

Another approach we have taken is to distinguish between 'own funds' of a LBs and 'pass through funds'. This is very striking in the case of Zilla Parishad, where the own funds constitute just 3% and 97% are Government funds just passing through Zilla Parishad for implementation. We distinguish between the autonomous funds and funds received by them as "agency". We have focussed only on 'own funds' as others are purposive grants and in our view outside the scope of our mandate.

4.2.6: Focussed approach for best use of available resources:

Another approach we have taken is to recommend support in the specific areas where it is most needed. This would enable best use of scarce public resources, instead of spreading it everywhere. Thus, for instance we have recommended meeting the cost of land acquisition for selected public amenities only for small Municipalities and Nagar panchayats.

4.2.7: Best practice-case studies to show that it is possible

We have shared a number of best practices that was observed in the field, to show that even within the existing framework how some LBs are finding creative, healthy solutions in the field. These practices are replicable and need to be taken up by other ULBs as well.

4.2.8: Long term capacity building

Finally, we have taken the approach that in certain areas long term capacity building is required so that LBs themselves are able to address and solve the issues themselves. This alone is a sustainable solution. One suggestion we have made is to start a dedicated mission for improving the accounts and financial data in this category of Capacity Building.

CHAPTER 5

State Finances

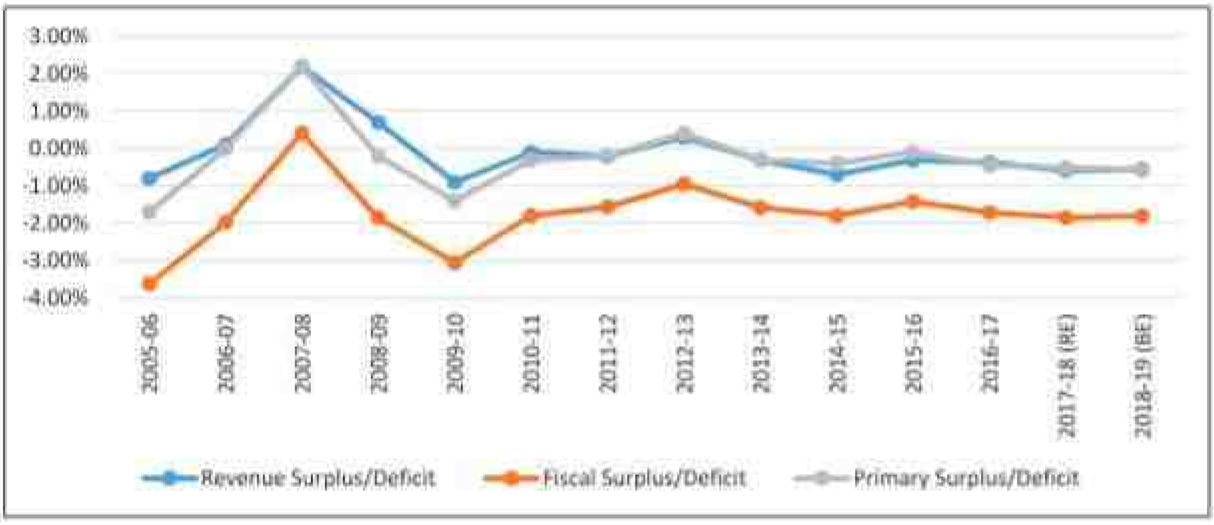
Maharashtra enacted the Maharashtra Fiscal Responsibility and Budgetary Management Rules in 2006 (amended in 2008) as per the guidelines of the central FRBM Act, 2005.

The thrust of improving the finances of the State is on reducing the revenue deficit, improving quality of expenditure, containing fiscal deficit and maintain public debt within prescribed levels. The strategy for achieving this is by reducing the committed expenditure, increasing capital expenditure to ensure higher investments in social and economic infrastructure and better cash and debt management.

5.1 Current Fiscal Situation

Since 2009-10, the State has been successful in maintaining the fiscal deficit below the 3 per cent level prescribed in the FRBM act. The Government has been able to curtail its Fiscal Deficit from a peak of (-) 3.1 per cent of GSDP in 2009-10 to (-) 1.7 per cent in 2016-17. In 2017-18 the fiscal deficit was (-) 0.96 per cent. In 2018-19 the fiscal deficit was (-) 2 per cent of GSDP. On the revenue deficit front, there are some instances of revenue account surplus during 2006-09 and then in 2011-12. However, due to heightened expenditure on the revenue side, Maharashtra's revenue deficit has increased in the last few years.

Chart 1: Trends in Deficits (%GSDP) (2005-06 to 2018-19(BE))



Source: Finance Accounts & Budgets of the relevant years

In 2016-17, revenue deficit was around (-) 0.38 per cent which improved to (+) 0.08 per cent in 2017-18. In 2018-19, the revenue deficit is (-)0.54 per cent.

5.2 Trends in Receipts

The receipts of the State Government have grown at a CAGR of 12.7 per cent during 2005-06 and 2017-18 supported by growth in revenue receipts. The total receipt of the State in 2017-18 was Rs.3,06,113 crores and are budgeted to go up to Rs.3,38,920 crore in 2018-19. However, the share of total receipt as per cent of GSDP has been on a declining trend. From a share of 14.9% in 2005-06, the share has come down to 12.3 per cent in 2017-18. The decline indicates that the growth in receipts has not kept pace with economic growth of the State. The reason for this can be attributed to the fact that services sector in the State is the major growth driver and before the implementation of GST, taxation on services was under the ambit of the Central Government. The share of capital receipts in total receipts is around 20-24 per cent.

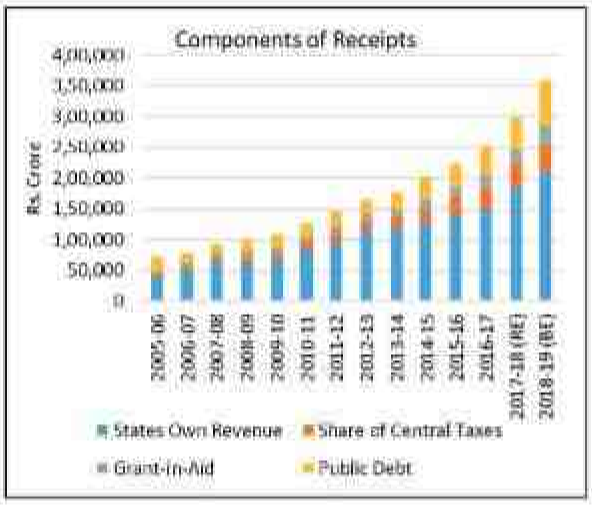
Chart 2: Trends in Receipts (Rs crore) (2003-04 to 2013-14(BE)

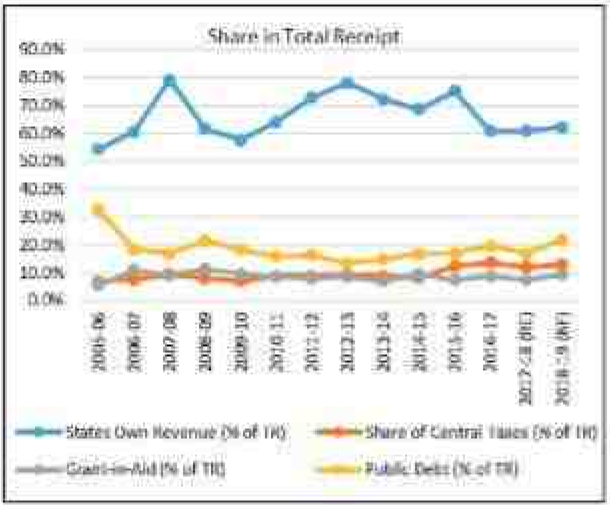
Source: Finance Accounts & Budgets of the relevant years

5.3 Growth in Revenue

The revenue receipt of the State is expected to expand at a CAGR of 13.8% from Rs. 39,474 crores (54.4% of total receipts) in 2005-06 to Rs. 3,01,460 crores in 2018-19 (RE). State's own revenue with a share of 62.7 percent in 2018-19 is the major component of revenue receipt, followed by share in central taxes (14 per cent) and grants (12.76%).

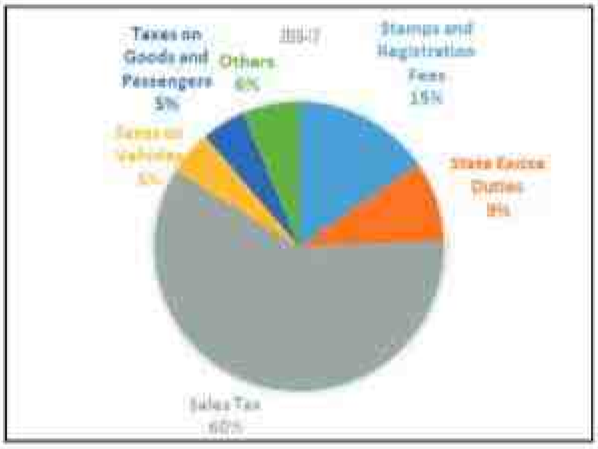
Chart 3 & 4: Trends in Revenue Receipts (Rs crore) and Share in Total Revenue Receipt (%)

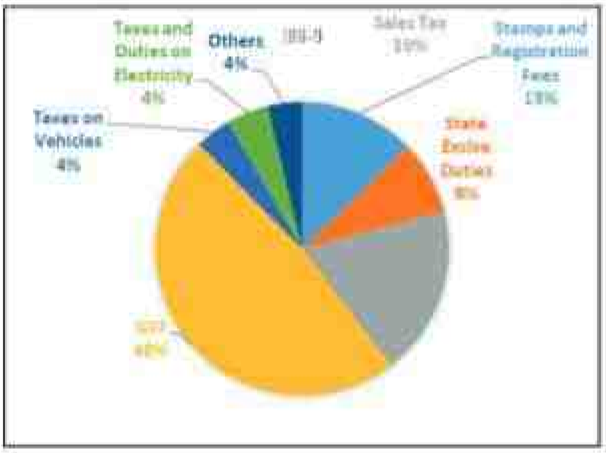




Own Tax Revenues: There has been a big variation in the growth of own tax revenue collection. Tax revenue of the State has jumped from Rs. 1,67,947 crores in 2017-18 to Rs. 1,88,931 crore in 2018-19(RE), growing at 12.5 per cent.

Chart5 and 6: Components of Own Tax Revenue (%share in OTR in 2016-17 and 2018-19 (B.E)

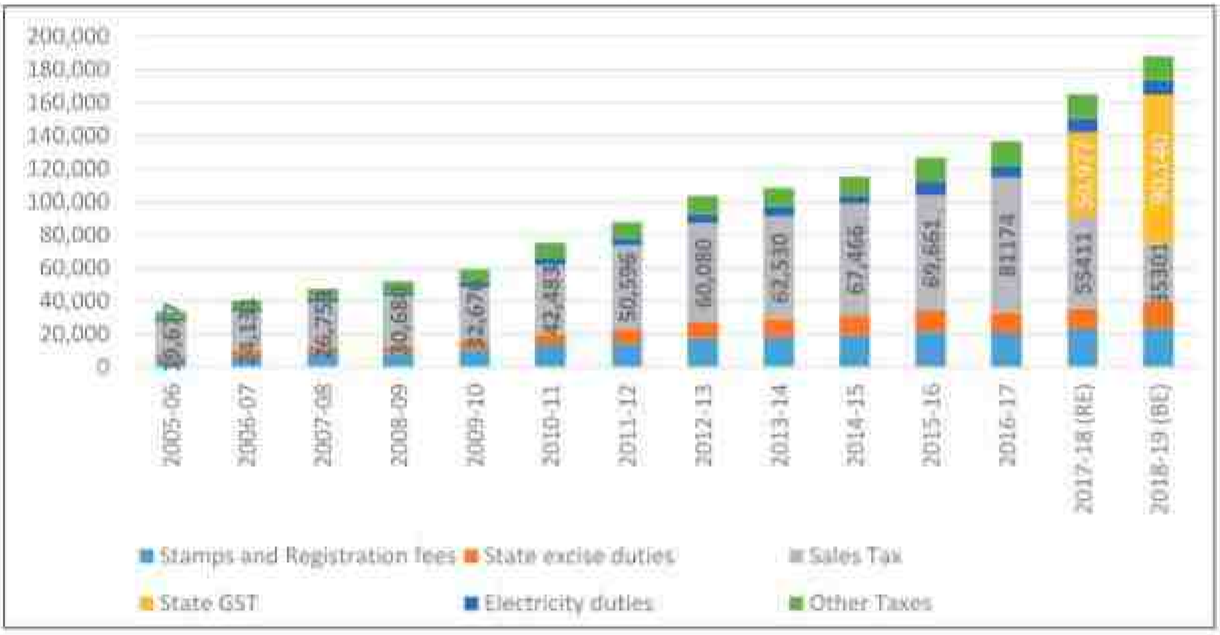




Source: Finance Accounts & Budgets of the relevant years

Before the introduction of GST, the major component of state's Own Tax Revenues was sales tax with a share of 60%. With the change in the taxation structure, GST has become the major contributor to State's own tax revenue. In 2018-19, the GST collection grow by 77% to Rs. 90,140 crore (gross collection pre refund) from Rs. 50,977 crore in 2017-18. One of the reasons for high growth is that GST was collected only for 9 months in 2017-18. However, the state also expects buoyant collection from GST in future as the number of registered payees has seen substantial jump.

Chart 7: Trends in Own Tax Revenue (Rs. crore)



Source: Finance Accounts & Budgets of the relevant years

5.3.2 Goods and Service Tax

GST:The historic GST was introduced on 1st July 2017. In Maharashtra, thirteen taxes were subsumed in GST. This included the octroi of Greater Mumbai Municipal Corporation. It is seen that for the first year (1.7.2017 to 30.6.2018) there is an overall increase of 8% increase vis a vis collection from VAT and other subsumed taxes for the same period in previous years. There is a lag between filing of returns and actual receipts. Likewise, in 2018-19 there is a growth of 8% from that of previous year. These being early years, it would be premature to comment on its impact from revenue side. GST is a work in progress with continuous improvements taking place.

However, it is seen that tax payers (dealer) base has increased by 20% during this period and now there are 30,000 new registrations every month. This is a very positive indication showing both widening and deepening of the tax base, indicating positive trends for the future.

5.3.3 Non-Tax Revenue

Non-Tax Revenue: Maharashtra's own non-tax revenue have grown almost four times since 2005-06, from Rs. 5,935 crores to Rs. 17,050 crores in 2018-19 (RE.). However, the share of non-tax revenue has been on a decline.

Chart 8: Non-Tax Revenue (Rs. Crore) and % in Total Revenue (2005-06 to 2018-19)

Source: Finance Accounts & Budgets of the relevant years

The main component of non-tax revenue are interest receipts, dividends and profits, economic services, general services and social services. The economic services have been the major contributor of non-tax revenue with an average share of 40 per cent. Interest, dividends and profits contribute around 20 per cent to non-tax revenue of the State. One of the reasons for lower non-tax revenue is the low cost recovery from providing the economic and social services. The recovery for economic services have declined from 4.39% during 2005-10 to 2.49% in 2015-18. The cancellation of tolls and the declining dividends has adversely impacted to non-tax revenue collection of the State.

5.3.4 Share in Central Taxes and Grant-in-Aid

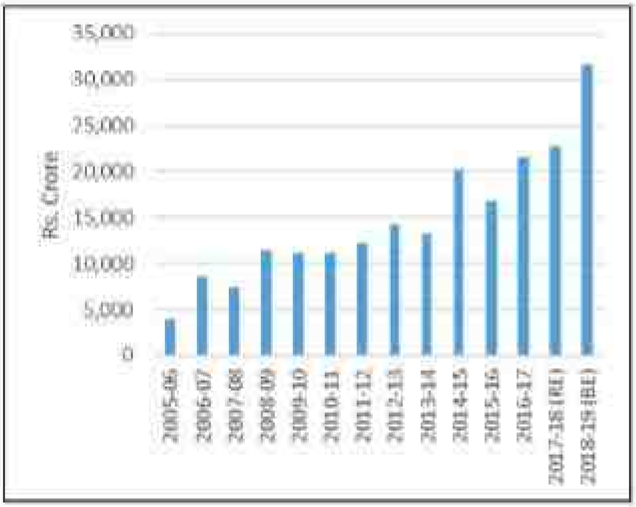
The devolution of central taxes was increased from 32% in the FC-XIII to 42% in the FC-XIV. This has improved the overall devolution of taxes to the State Government. The share of central taxes to the State Government as a per cent of GSDP grew from 2.02% in the FC-XIII to 2.52% in the FC-XIV.

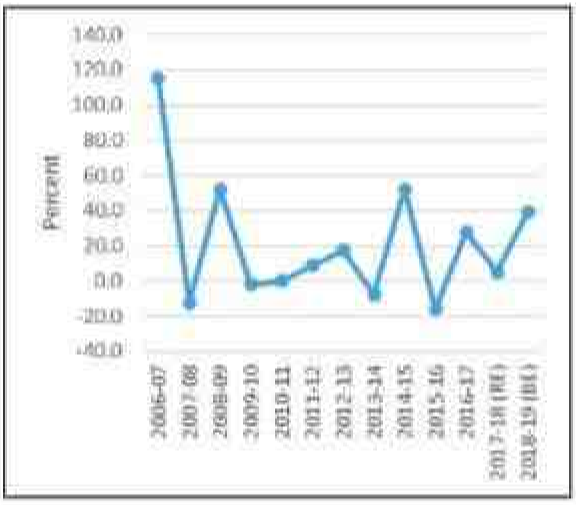
Chart9: Trends in Central Tax Devolution (Rs. crore)

Source: Finance Accounts & Budgets of the relevant years

5.3.5 Grants-in-Aid: On the other hand, with the increase in tax devolution, the grants from the Centre to the States has reduced. This was due to the fact that some of the Central Sponsored Schemes (CSS) were discontinued and the expense sharing ratio of the remaining CSS were revised with an increased burden on the State.

Chart 10 and 11: Trends in Grants-in-Aid from Central Government (Rs. crore) and Growth (%, Y-O-Y)



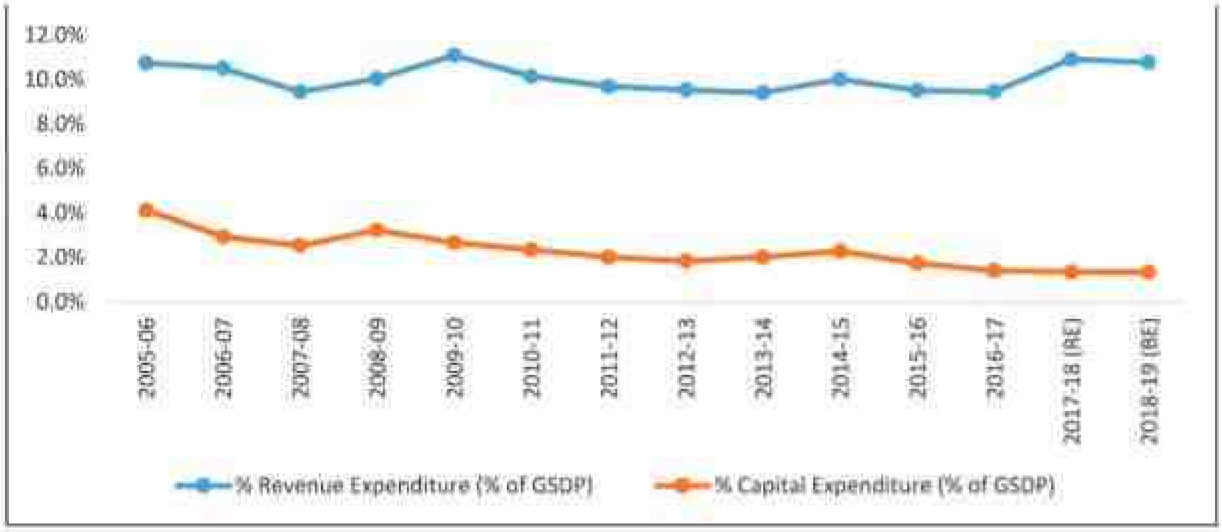


Source: Finance Accounts & Budgets of the relevant years

5.1 Expenditure Management

The State's Total Expenditure grew from Rs 72,362 crore in 2005-06 to Rs 3, 38,319 crore in 2018-19(BE). However, as a % of GSDP, it shrank from 14.9 per cent in 2005-06 to 12.1 per cent in 2018-19(BE). This is the main reason for the improved fiscal position of the state. The major expenditure of the State is on revenue side.

Chart 12: Trends in Revenue & Capital Expenditure (% of GSDP)

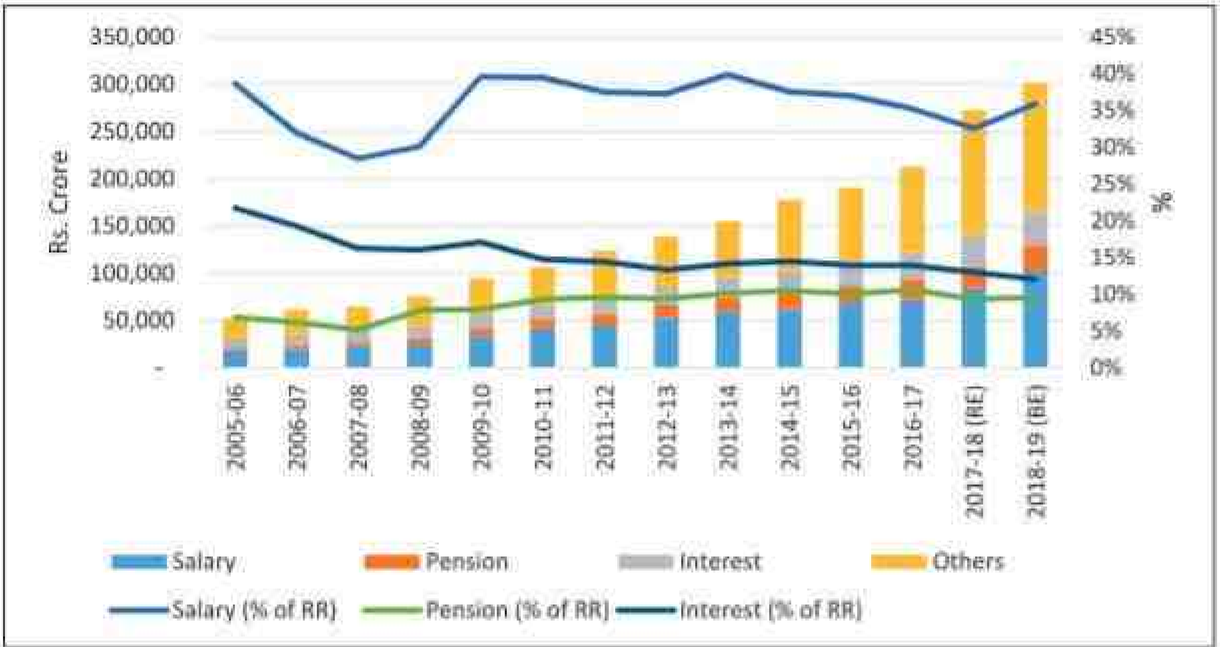


Source: Finance Accounts & Budgets of the relevant years

5.4.1 Revenue Expenditure: The share of revenue expenditure in total expenditure has increased in the last decade, jumping from 75.7% in 2008-09 to 88.9% in 2018-19 (B.E). The reason for increase was rising salary and pension expenditure especially during 2009-10 to 2013-14 and expenditure on social services. However, the growth in salary and pension expenditure slowed down as the Government froze the recruitment in 2015 and implemented new Pension Scheme (NPS). The State's expenditure on social services like education and health has increased marginally over the period of time.

5.4.2 Committed Expenditure: Above 50% of the revenue receipt of the state is spent on salary, pension and interest. The expenditure on salary and pension is expected to rise in fiscal 2018-19 due to implementation of the 7th pay commission recommendations. However, one of the positives for the State is the decline in the share of interest payment to revenue receipts which has come down from a high of 17.0 per cent in 2009-10 to 12.0 per cent during 2018-19 (B.E). This is an indicator of a good debt management by the State.

Chart 13: Share of Salary, Pension and Interest Payment as % of Revenue Receipts (2008-09 to 2018-19 (B.E)



Source: Finance Accounts & Budgets of the relevant years

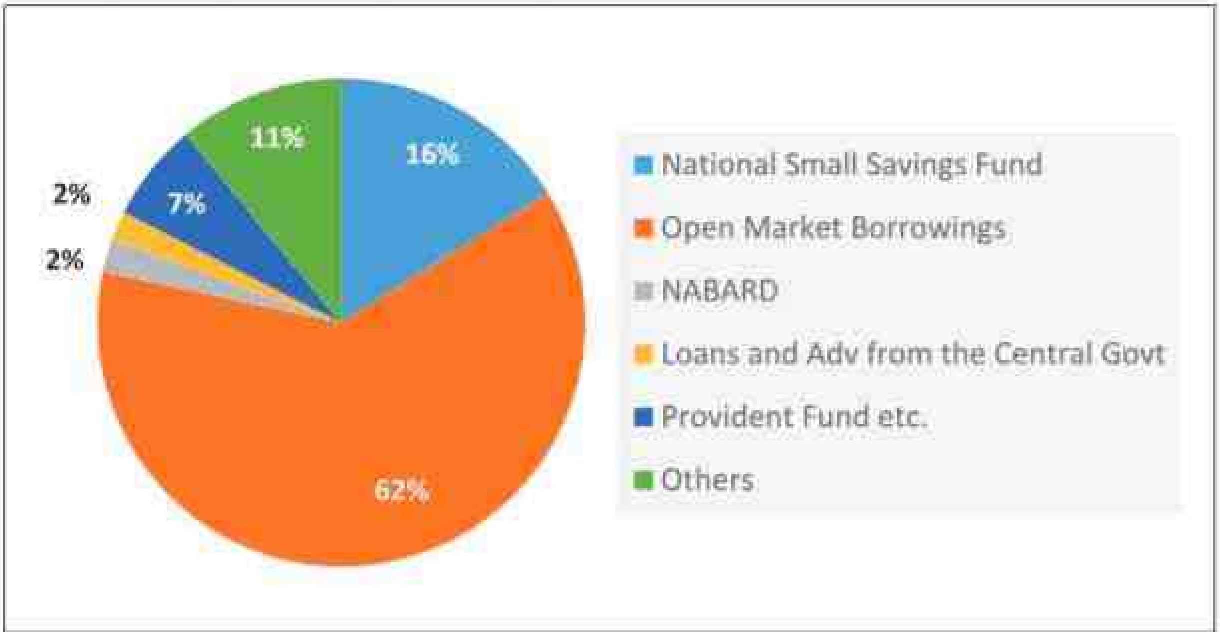
5.4.3 Capital Expenditure: The share of capital expenditure has almost halved from 24% in 2008-09 to 11% in 2018-19 (RE). The declining trend of capital expenditure as a per cent of GSDP is a concern. It may however be pertinent to point out that the State Government is making substantial grants to Urban Local Bodies and Panchayati Raj Institutions for creation of capital assets. While this expenditure is correctly reflected in the State Government's accounts as Revenue Expenditure, it nonetheless results in creation of capital assets in the state.

Apart from that, a large number of parastatals like Mumbai Metropolitan Regional Development Authority (MMRDA), Maharashtra State Road Development Authority (MSRDC), City and Industrial Development Corporation (CIDCO), Maharashtra Industrial Development Corporation (MIDC) etc., are investing over Rs.2 lakh crore in creation of infrastructure which is not reflected in the State budgets.

5.1 Debt Management

The State has witnessed a marked improvement in its debt position over the period of 2005 to 2018 with a major shift in the debt composition. The total debt to GSDP ratio had a steady decline from 25.5% in 2005-06 to 14.82% in 2018-19 (RE). At the end of 2018-19, the size of the outstanding debt was Rs. 4,14,411crore by the end of 2018-19. The main components of the State's debt are Open Market Borrowings followed by National Small Savings Fund (NSSF).

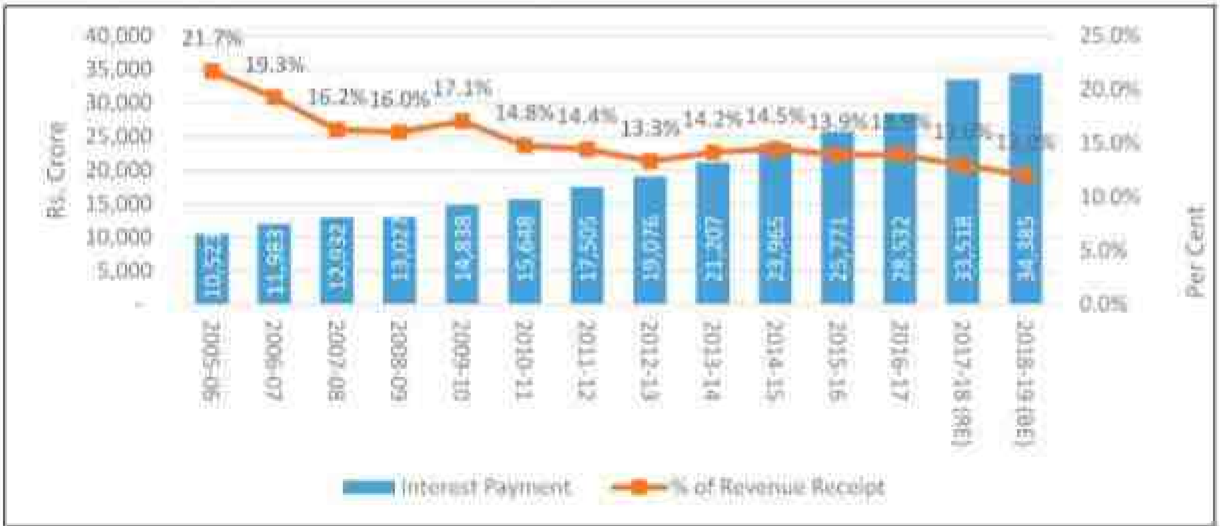
Chart 15: Debt composition (%, 2017-18)



Source: Finance Accounts & Budgets of Maharashtra (2017-18)

Interest as a percent of Revenue Receipts has progressively declined from a high of 21% in 2005-06 down to 11.84 % in 2018-19 (R.E) with the compositional shift in the debt structure.

Chart 16: Trends in Interest as % of Revenue Receipts



Source: Finance Accounts & Budgets of the relevant years

5.5.1 Government Initiatives for Debt management: Many initiatives have been taken to reduce the debt burden of the State. Since the year 2017-18, Government has made changes in its market borrowing process for improving secondary market liquidity through reissuance of previously issued securities. Improved secondary market liquidity of Maharashtra SDL has helped the State fetch better yields, thereby reducing debt and interest burden of state by Rs.904 crore.

Additionally, indicative quarterly calendar for Open Market Borrowings (OMBs) has been made to help investors plan their SDL investment decisions. The calendar contains information about amount of security, tenure of security and whether it's a fresh issue or reissue. The State has by and large stuck to its borrowing calender which has helped developing positive investor sentiment for Maharashtra SDL and helped government fetch relatively low interest rates.

5.6 Financial Projections for the period 2019-2025

Table 8 : Financial projections for the period 2020-25:

As a % of GSDP	2016-17	2017-18	2018-19 (R.E)	2019-20 (F)	2020-21 (F)	2021-22 (F)	2022-23 (F)	2023-24 (F)	2024-25 (F)
Total Revenue Receipts	9.1%	9.76%	10.78%	10.67%	9.6%	9.4%	9.2%	8.9%	8.7%
State Own Tax Revenue	6.6%	6.72%	6.75%	6.73%	7.1%	7.0%	6.8%	6.7%	6.6%
State Non Tax Revenue	0.6%	0.66%	0.61%	0.53%	0.6%	0.5%	0.5%	0.5%	0.4%
Share in Central Taxes	1.5%	1.5%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%
Grants-in -Aid from the Centre	1.0%	1.4%	1.1%	1.1%	1.0%	0.9%	0.9%	0.8%	0.8%
Revenue Expenditure	9.4%	9.67%	10.78%	10.67%	10.3%	10.2%	10.1%	10.0%	9.9%
Salaries Pension	0.7%	0.7%	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%
Interest	1.3%	1.3%	1.2%	1.3%	1.3%	1.2%	1.2%	1.2%	1.2%
Revenue Deficit	0.4%	(+) 0.08%	0.54%	0.63%	0.6%	0.8%	0.9%	1.0%	1.2%
Total Capital Receipts	1.8%	1.9%	1.9%	1.9%	2.0%	2.0%	2.1%	2.1%	2.2%
Capital Expenditure	1.4%	1.3%	1.3%	1.4%	1.3%	1.2%	1.1%	1.1%	1.0%
Fiscal Deficit	1.7%	0.96%	2%	1.92%	1.9%	1.9%	2.0%	2.0%	2.1%
Primary Deficit	0.4%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.8%	0.9%
Debt Stock									
Interest as a % of Total Revenue Receipts*	13.9%	13.55%	11.84%	11.19%	13.0%	13.2%	13.4%	13.6%	13.8%

5.7 SFC's assessment of the fiscal position in 2020-25 period:

This SFC is submitting its report for the period 2020-25. The following points needs to be factored in the assessment of the State's finances for this period:

(a) **Impact of the award of the 7th Pay Commission:** The State Government has announced the implementation of the 7th pay commission for State Government employees as well as those of grant in aid institutions in early 2019. This will lead to an additional outflow on salaries and pension of Rs. 14,000 crores per annum due to higher pay scales. In addition, there is payment of arrears from 1.1.2016, of Rs. 38,655 crores. This is to be paid in 5 years. Thus the additional outflow works out to Rs. 21,731 ((14000+38655)/5) crores per annum for salaries and installment of arrears for the next few years.

(b) **GST:** As elaborated above, GST has just completed 1 year 9 months as on 31.3.2019. It has grown at a healthy 8%, but still it will take some time for GST to stabilize both in the State and in the country. At present, the arrangement is that all State Government will receive from Central Government a differential amount as compensation. This is calculated at 14% annual growth rate keeping 2015-16 as the base tax year. If the tax collection of the State is less, the difference will be given by the State. However, this support is only for five years from introduction of GST. This will end on 30.6.2022. Therefore, it is not known what will be the impact on State's finance after this back up support is withdrawn. At the same time, the State Government has committed itself to give GST compensation to Municipal Corporations at projected 8% growth.

(c) **Huge number of retirement in the next few years:** Further, a huge number of retirement of Government staff are expected during the 2020-25 period. This will mean substantial outflow of resources as terminal benefits.

5.8 SFC's overall assessment:

Considering all this, the discretionary fiscal space that will be available will continue to be rather low in the next few years.

At the same time, considering that the State Government has been within the FRBM framework as regarding budgetary deficit and debt norms and revenue deficit is marginal, there is certainly space available for focused, need based support to Local Bodies. Likewise, there is scope for some critical investments, which has the capacity to trigger much larger benefits for the Local Bodies, either immediately or in the long term.

CHAPTER 6

Assessment of Finances of Zilla Parishad and Panchayat Samitis

6.1 Zilla Parishads- the legal position:

In Maharashtra, there are two Acts for Panchayat Raj administration and management. One is the Maharashtra Zilla Parishads and Panchayat Samiti Act, 1961 covering the District Panchayats (called as Zilla Parishads-ZPs) and Intermediate Panchayats (called as Panchayat Samitis-PS). The other is the Maharashtra Village Panchayats Act, 1959 for the Grampanchayats. We will consider the financial issues relating to the Zilla Parishads and Panchayat Samitis in this chapter.

Zilla Parishads are the district level bodies and of all the three levels of Panchayat Raj institutions, it is financially and administratively the strongest in Maharashtra. There are 34 Zilla Parishads in the State now. The intermediate level of Panchayat Raj institution are known as Panchayat Samitis in Maharashtra. It is coterminous with the area of a revenue tehsil (taluka). There are 351 Panchayat Samitis in the State.

A Zilla Parishad is a body corporate having powers and functions as defined in the Zilla Parishads and Panchayat Samitis Act, 1961. It consists of elected councillors chosen by direct election from electoral divisions in a district. There is now rotational reservation for the councillor's seats in a Zilla Parishad and the member's seats in Panchayat Samiti. In addition, there is rotational reservation from amongst various communities for the posts like Zilla Parishad President, and Panchayat Samiti Chairman. Further, 30% of the seats and posts are also reserved for women (horizontal reservation).

The First Schedule of the Zilla Parishads and Panchayat Samitis Act, 1961 (Section 100) is called the District list. It contains the list of subjects which have been transferred to the Zilla Parishads by the State Government. The ZPs have to maintain a 'District Fund' under Section 130 of the ZP & PS Act. The money which is received from the Government or from its own sources is credited to the district fund and then spent out of this District Fund.

6.2 Panchayat Samitis- the legal position:

The Panchayat Samitis are not independent legal entities. They are something like 'implementation arms' of the Zilla Parishads. They essentially implement the ZP decisions. There is a single ZP staff cadre and the CAFO controls the finances of Panchayat Samiti as well. A consolidated financial statement and budget is prepared for ZP and PS together. They have very limited source of own income (this is being discussed in detail later) and very little autonomy in their working.

6.3 Status of Panchayat Raj institutions in other States:

Maharashtra was considered a pioneer in Panchayat Raj administration. Many States were substantially lagging behind Maharashtra till 1990s. However, the historic 73rd constitutional amendment (operationalized from 24.4.1993) introduced various amendments to the Constitution under Article 243 and gave a 'constitutional status' to the Panchayat Raj. Key features of these constitutional amendments were:

(a) Introduction of three tiers of Panchayat Raj in all States (with some exceptions for smaller states)
(b) Regular elections for them, supervised by a State Election Commissioner
(c) Reservation of seats for SC/ST and women (horizontal reservation) and reservation in the offices of Chairman of the three levels of Panchayats
(d) Introduction of the institution of State Finance Commission

As a result of these constitutional Amendments, many State Governments re-organized their Panchayat Raj administration in the 1990's, by revamping their State Acts. Some States retained or provided for strong district panchayats (like Maharashtra, Karnataka), some opted for strong intermediate panchayats (like in Andhra Pradesh or Tamil Nadu – called Mandal Panchayats in Andhra Pradesh and Panchayat Unions in Tamil Nadu) and some for strong Grampanchayats (Kerala, West Bengal). Thus, step by step, the gap that existed between Maharashtra and other States in Panchayat Raj implementation till the 73rd Constitutional amendment has reduced subsequent to 1993.

6.4 Changing role of Zilla Parishad and Panchayat Samitis in Maharashtra in the last sixty years:

The striking change that is noticed about ZPs in Maharashtra is their changed role over the years since it was established. In the first two decades of their existence (1960-80) the ZPs own income (from assigned taxes and other sources) was relatively higher, if we see it as an overall percentage of their total income from all sources. In the 1960-80 phase the ZP own income through assigned taxes (see discussion below) was high and the State Government or Central Government did not have so many development schemes. During this period, using their own income, many ZPs started their own schemes, organised awareness campaigns on agriculture, animal husbandry and related issues. Some Zilla Parishad had even set up their own printing presses (Example: Satara, Sangli, Yavatmal, etc.) some their own cattle feed mix plant (Example: Chandrapur) and showed many initiatives in rural development.

After the 1980's the Government schemes expanded very fast while the own income of ZPs shrunk as a percentage of the total income. One reason is that ZPs do not have power to tax, but are totally dependent on assigned tax income of the State Government. Many of these assigned taxes are such that they are not buoyant anymore. This is being discussed later in the chapter.

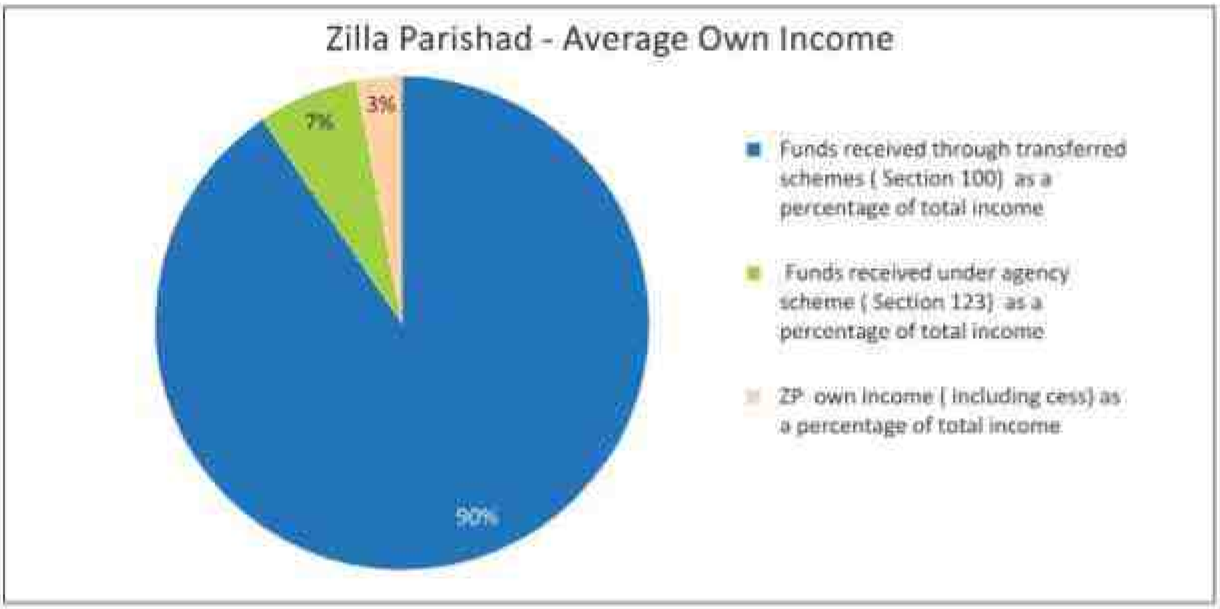
Thus, over the years, ZPs have become more and more an 'implementing agency' of Government schemes, with certain rights of administrative approval and monitoring as provided in ZP & PS Act. Most of the guidelines regarding Government schemes are water tight, so actually ZPs have very little space to decide much on their own. Further, out of the funds received from Government most of the expenditure is on establishment heads (earlier called non-plan) like teacher's salary, anganwadi workers salary or health worker's salary. Here also everything is as per Government GR and the elected body of the ZP has very little role.

Table 9 : Funds received through various channels by ZP :

(Rs. in Lakhs)

Sr. No.	District	Funds received through transferred schemes (Section 100)	Funds received under agency scheme (Section 123)	ZP own income (including cess)	Total Income
1	Palghar	86,310	6,808	3,720	96,838
	Percentage of Total Income	89%	7%	4%	
2	Nashik	1,57,308	13,582	4,681	1,75,572
	Percentage of Total Income	90%	8%	3%	
3	Satara	1,16,357	6,631	3,225	1,26,214
	Percentage of Total Income	92%	5%	3%	
4	Latur	71,010	4,398	1,022	76,430
	Percentage of Total Income	93%	6%	1%	
5	Amravati	97,833	7,159	2,224	1,07,216
	Percentage of Total Income	91%	7%	2%	
6	Wardha	40,649	3,281	2,574	46,503
	Percentage of Total Income	88%	7%	6%	
7	**Average**	**94,911**	**6,977**	**2,908**	**1,04,795**
	Percentage of Total Income	**90%**	**7%**	**3%**	

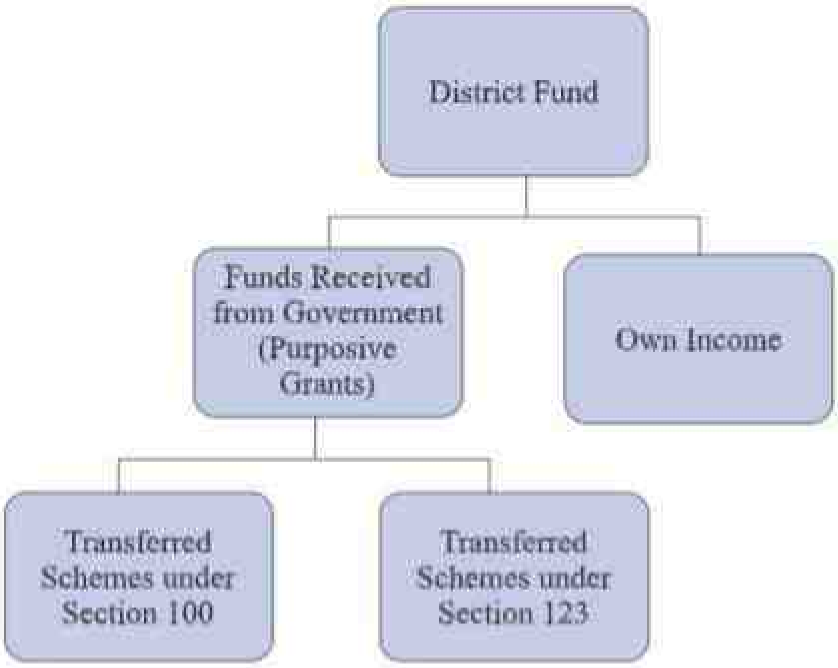
Chart 17: Zilla Parishad - Average own Income



6.5 Zilla Parishads - Sources of Income for the 'District Fund':

As mentioned in Para 1.1, all the incomes of the Zilla Parishad from whatever sources must be credited to the District Fund. The income side of the District Fund can be shown diagrammatically as follows:

Chart 18: Sources of Income for the ZP District Fund



6.5.1 Funds received for transferred or agency schemes of the State Government- purposive grants:

Zilla Parishads receive funds from the State or Central Government for implementation of schemes. They can be relating to subjects transferred by the State Government (as per Section 100 of the ZP & PS Act) like primary education, public health, animal husbandry, women and child welfare, minor irrigation upto hundred hectares benefit area or village roads, etc. There are also some schemes where subject is with the State Government but which are implemented by the Zilla Parishad as an agency scheme (as per Section 123 of the ZP & PS Act). We can call both of these funds received from Government as 'purposive grants' under Section 182 of the ZP & PS Act.

In addition, ZPs also receive substantial establishment grants (Section 183) for implementing the transferred schemes of the Government. These are the salaries of employees of all Departments in ZPs like primary school teachers, primary health staff and other categories like anganwadi sevika of ICDS services, etc.

Both the scheme grants and establishments grants are specific or tied grants and ZP is expected to implement them as per Government guidelines. There is no margin for the ZP elected councillors to decide much of its own in these matters, except to take the matter to their various Committee of ZPs to give administrative approval or approve the contractors or suppliers. As pointed out in para 1.4 above these type of purposive grants constitutes 97% of the total income of the Zilla Parishads at present. ZPs have primarily become 'pass through' or implementing agencies of Government schemes.

6.5.2 Funds received as 'own income' – Popularly called 'ZP Cess income':

ZP own income, where the elected members can (theoretically) chose to spend the funds as per their felt priorities (subject to broad guidelines or direction given by the State Government) is very limited. It constitutes just about 3% of the total funds received by the Zilla Parishad, at present (see analysis in para 6.4). It is popularly called 'Cess Income' by the ZP non-officials. But in practice, the own income consists of both cess income (assigned taxes), non-tax and other income.

6.6 Need for revisiting the entire ZP and PS Act:

The present PRI structure is Zilla Parishad (district) centric and with an administratively and financially very weak intermediate panchayat (Panchayat Samiti).

Present architecture of Panchayat Raj in Maharashtra:

Table 10: Present architecture of Panchayat Raj :

Sr. No.	Function	Zilla Parishad	Panchayat Samiti	Remarks
1	Relative administrative strength	Strong	Weak, dependent solely on ZP	-
2	Main role	Implementing agency for Central and Government schemes for transferred subjects	Extended arm of ZP in implementation	At least 90% of the funds received and work of ZP comes under this category
3	Autonomy in transferred schemes	Not much. After the funds are received, the various ZP Committees give Administrative approval and technical approval, do the tendering, identifies the contractor etc.	PS do not have any role as all administrative approval and tenders are made at ZP level	They have to be implemented within the framework of existing Government guidelines
4	Establishment matters	There are about 60 ZP employee cadres. They get 100% salary from Government and are bound by all Government rules.	PS do not have any independent staff cadre	The ZP's do not have any role in establishment policy matter except transfer of ZP staff and allocation of their work
5	Capacity to mobilise own ZP resources for own schemes (cess fund)	Very limited. Almost most of the amounts are received as assigned taxes, or grant in aid. Capacity to mobilise additional resources from any other source is very limited. ZPs do not have power of taxation.	Very poor. Except share of land revenue grant they hardly get any other assigned grant. So own funds activity of PS are almost Nil	

6	Freedom in prioritising use of own cess funds	Only partly. Because 55% of own funds are pre-empted by Government guidelines as they have to be spent compulsorily on certain activities like women and child welfare, weaker section welfare, welfare of physically challenged, drinking water etc.	Panchayat Samiti also have to be spent compulsorily on certain activities like women and child welfare, weaker section welfare, welfare of physically challenged, drinking water etc.	A number of order directions under Section 261 of Act has much reduced the margin of discretion to the ZP body
7	Role of ZP as third tier of Governance with autonomous source of income and freedom to decide their method and manner of spending.	Marginal. As pointed out elsewhere, only about 3-5% of the funds are its own funds. Even for that they are dependent on Government for release of assigned taxes. They do not have power of taxation or mobilise own income like Grampanchayats. On the expenditure side also they are constrained by various orders and guidelines.	Position of Panchayat Samiti is almost negligible as they do not receive any funds as own income except a share of land revenue cess.	We can call ZP as implementing agencies with some monitoring powers by elected non officials. They cannot be called as independent agencies of democratic governance as their financial and administrative powers are extremely limited and constrained.

The Rural Development Department has already appointed the Sudhir Thakare Committee, which has submitted its report to the Government regarding reforms in Panchayat Raj administration.

The SFC is of the opinion that there is need to revisit the design of the entire Panchayat Raj structure (created in 1960s) in Maharashtra in the very changed milieu.

6.7 Role of State Finance Commission regarding ZP and PS resources:

The role of SFC is defined by its mandate. It has to give its recommendations within the present framework of the ZP & PS Act. Therefore, the recommendations that follow are built on the 'given' situation. Further, this SFC very consciously is not touching or commenting on the almost 95%-97% State Government schemes and establishment funds routed through the ZP system for implementation. These are the Central and State Government schemes for primary education, primary health, and animal husbandry, agriculture, ICDS and other schemes. There are also huge establishment grants. Each ZP has almost 10,000 teachers. In all the establishment and scheme grants received by the ZP and credited in 'ZP Fund' there are tight guidelines and limited financial discretion at level of ZP. ZP is just an implementing agency. Therefore, commenting on the State Government schemes or establishment grants would, in our opinion, go outside the mandate of the SFC. So we stick to our boundaries.

Therefore, the issue that is being considered in this chapter is only the own 'free' income of ZP and PS. This income comes to ZP through assigned taxes backed by law and various Government orders issued from time to time. These own funds, is used by ZP and PS for two purposes:

(a) To meet expenses of their own non officials and related establishment, which in turn facilitates proper monitoring of the over 95% funds made available to ZP for implementing Government schemes

(b) To take up locally relevant and felt need schemes.

In short, our analysis and recommendations hereinafter RELATE ONLY to the robust management of the Own Income of the Zilla Parishads and Panchayat Samiti.

6.8 Sources of own income of the Zilla Parishads:

The sources of own income of a Zilla Parishad are:

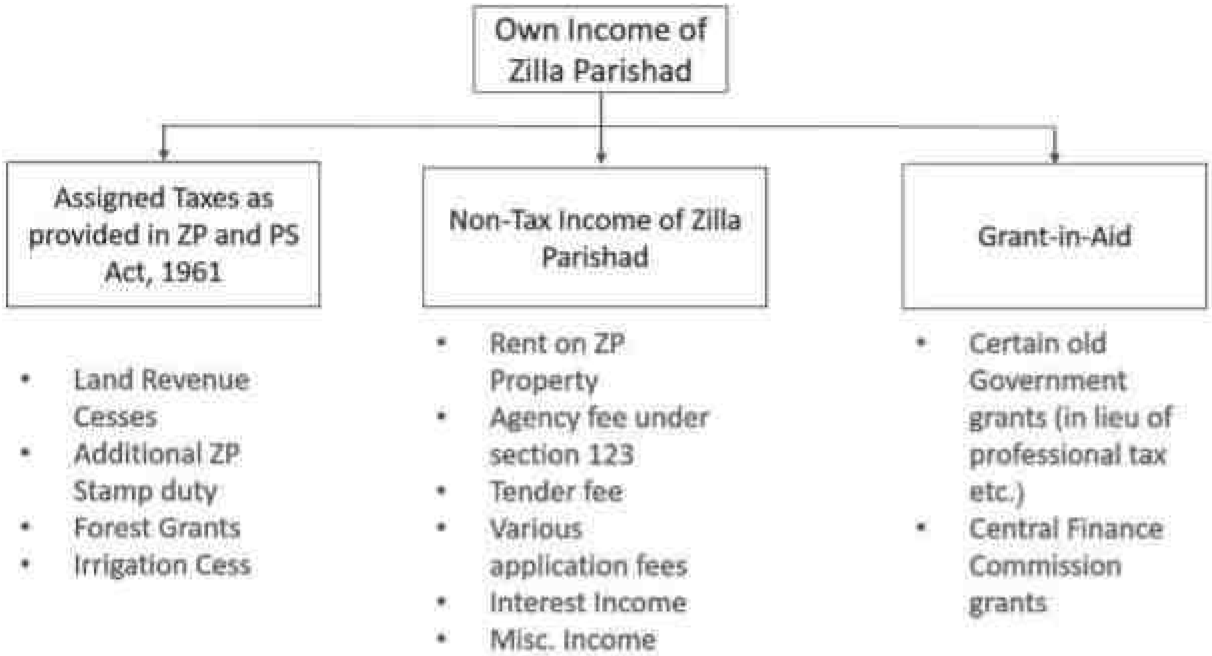
(a) Assigned taxes

(b) Non-tax income

(c) Specific grant in aid of the State Government

We can show the own income of Zilla Parishads diagrammatically as follows:

Chart 19: Sources of Own Income of ZP



6.9 Assigned taxes:

Assigned taxes mean those taxes which are levied by the State Government and recovered by them, and on which a share is passed on to the Zilla Parishad for their sustenance.

There are four sources of assigned taxes for a Zilla Parishad:

(i) Land Revenue Grants

(ii) Stamp Duty Cess

(iii) Share of Forest Revenue

(iv) Irrigation Cess

All of (i) to (iv) above find mention in the Zilla Parishad Act itself, that is they are backed by legislature. The intention of the legislature in putting the assigned taxes in the Act itself way back in the 1960's (when it was enacted) was certainly that the ZP should get an assured amount which cannot be modified by the Government of the day. It is to be pointed out that since there was no State Finance Commission in those days, so perhaps it was thought that ZP will be financially sustainable by giving them such assigned taxes. We analyse them in detail as below:

6.9.1. Income from share of Land Revenue

When the Zilla Parishad and Panchayat Samiti Act was enacted in 1961 the economy was predominantly agrarian. Land revenue was an important source of income for the State, particularly so from in rural areas. Zilla Parishads and Panchayat Samitis were meant for rural areas. Therefore, the rural population (or farmers) were directed to contribute over and above what they pay as core land revenue (to the State) certain additional amounts to the Government for running of their own panchayat raj institutions. This was known as ZP and PS cess. The provisions for this have been made in the ZP & PS Act itself. It is as follows:

Table 11: Provisions for ZP & PS Cess from land revenue income :

Sr. No	Name of PRI	Nature of assigned tax/own income	Section of ZP & PS Act and /or Government GR	Remarks
1	Zilla Parishad (ZP)	Cess on land revenue	Section 144	Rs.2 on Re.1 land revenue collected- that is 200% cess on normal land revenue- the Revenue Department (that is the Collector) collects it, and transfers through the Government to the ZPs.
2	Zilla Parishads & Panchayat Samitis (ZP&PS)	Additional cess on land revenue	Section 155	Up to Rs.5 on Re.1 land revenue - as additional cess over and above Rs. 2, after passing a ZP resolution. This is to be shared by the ZP and concerned PS in the ratio of 40:60 that is ZP will get Rs. 2 and PS Rs.3 All ZPs have passed this resolution decades back
3	ZP and PS	Matching grant	Section 185, read with RDD GR dated 22 June 1994	Government has fixed the matching grant ratios (see below) vide RDD GR dated 22 June 1994. The norms are given below separately. It will be seen from the table given below that ZP are entitled for Rs.8 for Rs.1 original land revenue collected

Sr. No	Name of PRI	Nature of assigned tax/own income	Section of ZP & PS Act and /or Government GR	Remarks
4	ZP	Incentive grants	Section 186 read with RDD GR dated 22 June 1994	The Government **may** decide to give incentive grants to well performing ZPs. The Government will fix the benchmarks of performance and decide on the extent of incentive grants. This is not a compulsory grant but discretionary. As per theRDD GR of June 1994, an incentive of Rs.1.37 has been worked for a collection of Rs.2
5	ZP and PS	Compensation for ZP for amount remitted from land revenue	From 1977-78, linked to remission of land revenue for small land owners as per Government GR	Government had from time to time, taken policy decision to totally exempt small farmers who are paying up to Rs. 5 from land revenue and ZP cess payments, and farmers who are paying up to Rs. 10 from land revenue only (but they have to pay ZP Cess) However, since ZP cess has to be anyway paid. Since it is not collected from small farmers, the Government steps in to pay the amount due to ZP.

6.9.2 Matching grant (Section 185) - Present Guidelines:

The guidelines relating to matching grant was last issued by amendment to Rules No. LCM/1092/CR-1989G/24 dated 22 June 1994. The table given is as follows:

Table 12: Guidelines relating to matching grants :

Sr. No.	Cess on land revenue	Local cess rate	Matching grant amount
1	First 200 paise	-	-
2	200-300 paise	75%	75 paise
3	301-350 paise	100%	50 paise
4	350-400 paise	150%	75 paise
5	400-700 paise	200%	600 paise
Total of matching grant			**800 paise**

To summarise, under the various categories mentioned above, the Zilla Parishad and Panchayat Samitis are collectively entitled to receive against Re.1/- of basic land revenue (called mool shet sara or mool akar) as follows:

Table 13: Entitlement of ZP & PS for land revenue :

Cess on basic land revenue – Sec 144	Rs. 2
Additional Cess-Sec 155	Rs 5
Matching Grant –Sec 185	Rs .8 (as per GR of 1994)
Incentive Grant – Sec 186	Rs 1.37 (as per GR of 1994)
Total	**Rs.16.37**
+ Cess on Exempted Land revenue to small farmers	**Rs. 3** (approx.) Based on actual exempted land revenue
Grand Total	**Rs. 20 (minimum) (16.37 + 3 rounded to 20)**

6.9.3 Our observation regarding LR cesses:

The assigned cesses based on land revenue are the oldest source of assured income for the Zilla Parishads. We call it 'assured' because it is provided for in the Zilla Parishad Act itself. However, over the years they have taken many serious hits. We observe as follows:

(a) Cesses are paid to Zilla Parishad as per actual collection instead of demand as provided in Section 144.

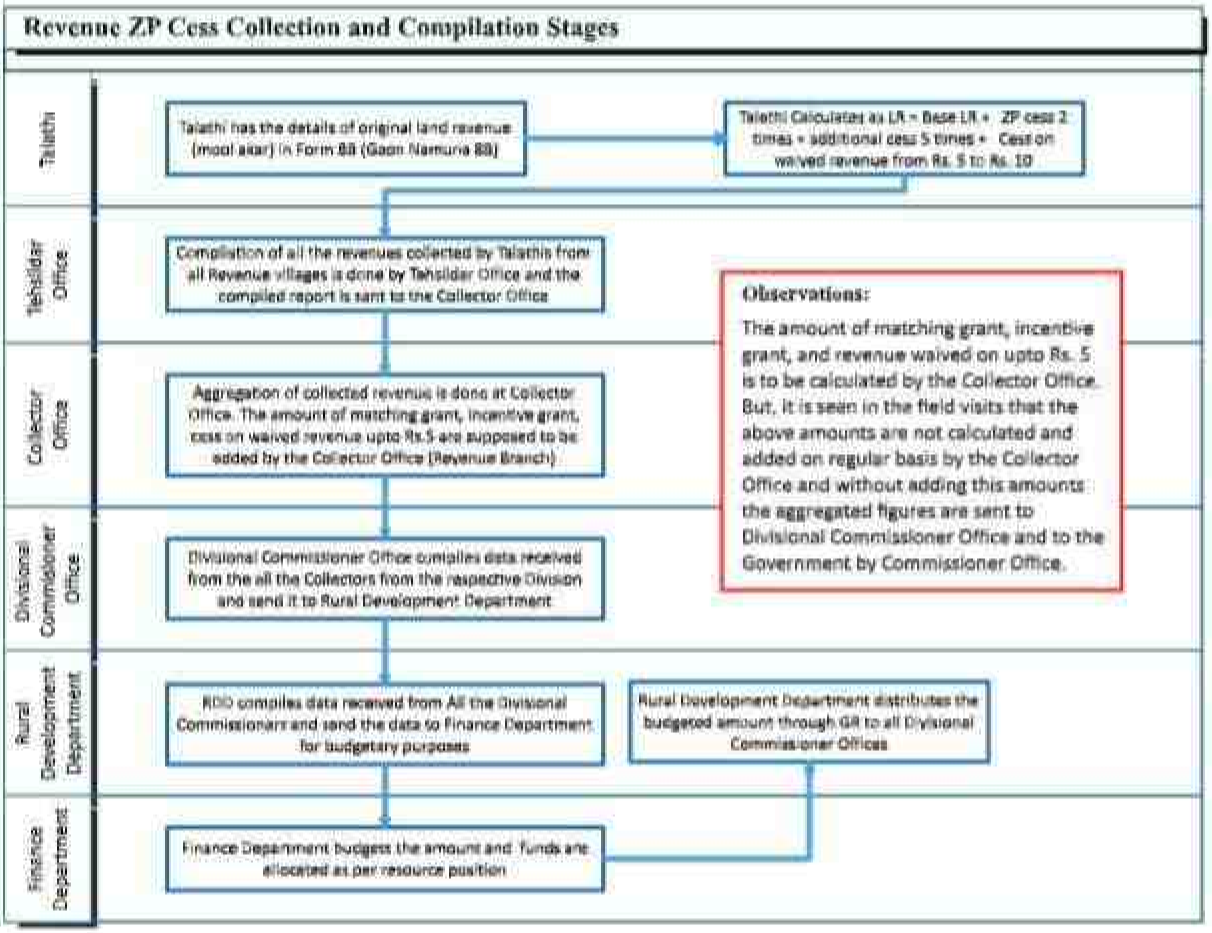
Section 144 of ZP & PS Act, 1961 reads as follows 'The State Government shall levy on the conditions and in the manner hereinafter described a cess within a district at the rate of two hundred paise or at such increased rate not exceeding seven hundred paise as may be determined by the concerned Divisional Commissioner under Section 155 ***'on every rupee payable to the State Government as ordinary land revenue'***. Thus, it is amply clear that the amount to be paid to the ZP must be on amount **'payable'** that is **'on basis of demand and not on actual collection'.** Actual collection depends on many extraneous factors. In one district the collection may be 100% while in another district it may just 80%. It depends on efficiency of revenue officials. Further, often the Government waives Land Revenue due to drought or weather conditions fully or in part in the State. But the ZP cess is a different category, and actually in terms of the ZP & PS Act, 1961 the Revenue department is only an agent for collection. Thus, whether land revenue is waived or not, the ZP cess is to be collected. Even if ZP cess is not collected, the obligation of the State to pay the ZP remains in view of the provisions in the Act. Further, and more important, all the cesses are to be paid to the ZP on basis of 'demand' and not 'collection' as per the Act itself, as pointed out above.

However, in practice, ZPs are being paid on the basis of actual recoveries in a particular year, which is not in alignment as per provisions of the Act. The Third State Finance Commission has pointed out this clearly when it says 'it is thus clear that the cesses that is levied is to be paid irrespective of its realisation. Further even if for any reason, remission from payment of land revenue is granted by the State Government, there will no remission in cess' (para 5.13 of 3rd SFC report). Even though the Third State Finance Commission submitted its report in June 2006, there has been no action on this critical observation even after thirteen years.

(b) Lack of clarity and confusion about the details of the LR cesses that are being released to ZP:

The procedure followed for release of LR cesses to the ZP can be shown diagrammatically as follows:

Diagram 1: Revenue ZP Cess Collection and Compilation Stages



The following table shows the present sequence of stages regarding how LR cess is collected and released to ZPs:

Table 14: Sequence of stages of ZP cess collection and release :

Stage No.	Step details	Remarks
1	Every village (talathi) has the details of original land revenue *(mool akar)* in Form 8B. It is maintained with the talathi.	Reportedly the core land revenue rate was last fixed in 1930-35 at the time of '*Jamabandi*' and not enhanced. The Form 8B (*Gaon Namuna)* data on land revenue ends at the tahsildar level
2	Using the core land revenue as the base, the talathi adds the ZP cess (2 times), additional cess (5 times), and cess on waived revenue amount from Rs. 5 to Rs. 10 and collects it from the landholder. Even if there is a drought and land revenue is waived, there is 'theoretically' no waiver of above ZP cesses	This calculation and the recoveries made by Talathi is aggregated at the Tahsildar level, and passed on to the district.
3	Aggregation at the district level is done. Matching grant, incentive grant and cess on waived revenue amount upto Rs. 5 is also added in the Collector Office (Revenue Branch) usually by the Chitnis.	Collection of ZP cess figures as reported by the Tahsildars' are aggregated in quite a mechanical way at the district level. The amount of matching grant, incentive grant and waived revenue amount upto Rs.5. Incentive grant is to be calculated by the Collector Office, but it is seen that it is not calculated on regular basis and without adding this amount the aggregated figures are sent to the Divisional Commissioner Office. There has not been any important guidelines on this subject in last 25 years, so it is done in a routine way.

Stage No.	Step details	Remarks
4	The Collector office aggregates the ZP cess collection figures and send it to the Divisional Commissioner, who aggregates the district figures and sends it to Mantralaya (Rural Development Department)	Here again our field visits to Commissioner office showed that the Revenue branch in Divisional Commissioner office does not analyse the figures. In fact because it is ZP matter, the subject is being dealt not by Deputy Commissioner (Revenue) who is a Revenue cadre officer but by the Deputy Commissioner (Development) from ZP cadre, who has no clue as to how cess is being collected in the field by Revenue department
5	In the Rural Development Department there is no analysis of the figures. It is aggregated and then sent to Finance department for budgeting purposes	There is no analysis or checking of the figures at the Government level. As there has been no change in the subject last 25 years, the figures are added and passed on to Finance department
6	The Divisional Commissioner sends information to RDD with details like ZP cess, additional ZP cess, matching grant, incentive grant, etc. However, while budgeting RDD treats it as one head	Since RDD treats as releases under one CRC code 3604 0709, it is not possible to know what is released as basic cess, additional cess, incentive grant and matching grant. In other words it is not possible to know whether the Government is following its own guidelines.
7	Finance department budgets the amount with budgetary cuts. It treats it as a routine development function and funds are allocated as per the resource position	The ZP cess are not treated as amounts that have to be given as per Act, but as a development grant amenable to budgetary cuts

In short, the components of ZP cess releases (basic cess, additional cess and cess on land revenue is written off from the farmers paying in the range of Rs.5/- to Rs.10/-) are calculated at the Talathi level and collected as per their own subjective calculations. The component of matching grant, incentive grant and cess on land revenue written-off from farmers paying upto Rs.5/- is finally aggregated calculated by Collector Office (Revenue Branch). The entire calculation is done by the Talathi and the Chitnis at Collector level and it is their discretion whether they have included every type of ZP cess. Many of the GR's in this regard are not updated/revisited since long time.

The last set of guidelines was issued 25 years back and are mostly overlooked and the figures are aggregated mechanically at Tahsil office, Collector office, Commissioner Office and at Government level. Since, the methodology is so complicated and calculation left to field officials, the calculation method varies from district to district. In fact, it may vary from talathi to talathi. Release of all funds under a single CRC code 3604 0479 adds only to the problem as no analysis is possible.

The SFC found it extremely difficult and it had to take much painstaking effort to know the exact procedure from each office it visited; only mechanically aggregated figures were made available from an office below without any application of mind at their level. Though officials were handling it year after year, they were handling it very perfunctorily and did not know the principle behind calculation in a thorough way. It took us almost two months and lot of cross checking to figure out what is exactly happening.

In this process, needless to say, the recipient organisation, the ZP is nowhere in the picture.

(a) Stagnation in land revenue cesses as a source of income to ZP:

LR was an important source of revenue to the State when the ZP and PS Act was enacted in 1961 and the ZP cess was naturally linked to land revenue. With total change in socio-economic profile of the State, the land revenue is collected more for sake of record and continuity rather than for 'revenue' as such. Land revenue fixed in pre-independence days (in 1930-35), has not increased and is collected more for sake of record keeping. As a percentage of total State income it is shrinking year after year. However, since ZP cess is linked to land revenue, it has also stagnated, and thus the ZP has become the loser.

(b) Arbitrary budgetary cuts by Finance Department

The Finance Department has not distinguished between an assigned tax as per provisions in the Act (which has to be complied) and a development scheme. Hence, the Finance Department has treated the LR cess as a development programme which can be subject to budgetary cuts.

6.9.4 Summary of findings:

To summarise, the ZP land revenue cess as a source of income is stagnating as it is linked to an old revenue source, namely Land Revenue. Further, the releases are made on basis of actual collection of land revenue instead of demand. When the numbers are transmitted through five layer of offices (Talathi – Tahsil - Collector Office - Commissioner Office - Mantralaya) following a complicated procedure of budgeting and release, there is mix up and the ZP are not able to know what was collected in their district on their behalf and what they eventually got.

There is no authentic data regarding how much ZPs are receiving under each Section 144, 155, 186, and 185 of the ZP & PS Act. Further, the Finance department also reduces the demand of Land Revenue submitted through RDD as a routine budgetary cut.

Thus overall, the ZPs are getting lesser and lesser every year from this originally important assigned tax and none is in a position to do analysis of the figures as aggregated from the talathi upwards.

6.9.5 SFC's recommendations to revamp LR grant:

(a) All releases of assigned cesses under Sections 144, 155, and 185 of the ZP & PS Act to be made on basis of demand and not recovery

As emphatically pointed out by the 3rd State Finance Commission itself way back in 2006, **the release of assigned Land Revenue cess is to be made as per the demand as clearly provided in Section 144. It is not correct to interpret it as based on actual collection**. If it is to be based on collection, then ZP will stand to lose due to collection inefficiencies of the district revenue administration or any annual waiver given by the Government due to drought conditions, etc. **Therefore, in terms of Act, the demand fixed by the Collector every year (Jamabandi) should be the basis of all releases to the ZPs.**

(b) Timelines to be followed

Every year, the Collector fixes the demand for land revenue sometime in August. Thus for the Financial Year 2019-20, it will be fixed in August 2019. Immediately, thereafter, the Collector should calculate the various ZP cesses in a prescribed manner (see below Table 15) and send it to the Divisional Commissioner. The Divisional Commissioner should aggregate all the figures of the District Collectors in their division and send it to Rural Development Department, Mantralaya by October so that the Rural Development Department can send the figures for whole state to Finance Department by November in budget usually presented in February for the next financial year. Thus, the figures used will also be latest.

(c) The new principle or formula that needs to be adopted for cess payments to ZP:

The present method of calculating the ZP cesses is quite confusing. We propose a simpler formula, within the framework of the sections of the ZP & PS Act. Following is the recommened principle to be adopted for cess release to the Zilla Parishad :

Table 15: New principle to be adopted for LR cess :

Sr. No.	Section of ZP & PS Act	Category	Principle to be adopted	Remarks
1	144	Basic ZP Cess	Land Revenue Cess x 2 times of demand	The demand should be as per Jamabandi fixed for the year
2	155	Increased ZP cess	Land Revenue Cess x 5 times of demand	All ZP's have passed the resolution for this purpose many years back. It is suggested that ZP's should make a fresh resolution to confirm what was made decades back.
3	185	Matching grant (Sapeksha Anudan)	Land Revenue x 8 times of demand	This is as per GR No. LCM/1092/CR 1989G/24 dated 22 June 1994

Thus, the total cess payable to ZP as per Section 144, 155, 185 above comes to 15 times of the original land revenue demand. In addition, the 1994 GR on incentive grants (Section 186) is Rs.1.37/- on Rs. 2/-. Thus it makes it 15 + 1.37 times incentive grant = 16.37 times the basic land revenue demand. In addition, there is ZP cess collected from those land owners whose basic land revenue has been totally waived (from Rs.5 to Rs.10 and below category). It is difficult to exactly quantify this loss. We have to assume that it is about 3 times the basic land revenue. So, the total ZP cess payable will be 16.37 times (above) + 3 times = 19.37 times or about 20 times the land revenue.

The SFC therefore recommends that:

- A very simple alternate calculation is required, regarding payment of land revenue cess to the ZP.
- It should cover all the provisions relating to Section 144,155, 185 and 186 of the Act
- It should be understood by all and easy to apply starting from the talathi level.
- It should replace the most confusing current procedures being followed at present, very often more in the breach.

So we suggest, based on working shown above, a fresh formula that the amount payable as cess to ZP & PS must be 20 times the original demand of land revenue i.e mool shet sara or mool akar (agricultural + non-agricultural). This is irrespective of whether it is collected or not.

We recommend the following steps:

(a) The talathi fixes the land revenue due every year in August. This is entered in form 8-B.

(b) This covers both agricultural and non-agricultural land revenue in the revenue village.

(c) The aggregate of all 8B figures (agricultural + non -agricultural) will constitute the base figures. This should be aggregated at taluka level and figure conveyed to Collector.

(d) Collector should total all 8B (total demand) for the district and multiply it by 20 times. It should be specially noted that this should be on **demand** x 20 times and NOT **collection** x 20 times. Collection is a different issue.

(e) As village records are reportedly getting computerized, 8B aggregation should be easy and fast at district level in future.

(f) This aggregated figure will be the cess payable to ZP of the district.

(g) This district figure must be aggregated at Commissioner level and conveyed to Rural Development Department

(h) The Rural Development department must ensure that it is fully budgeted and ensure that there are no cuts.

(i) Before issuing a GR covering steps (a) to (g) above, some trial checks must be made in some districts about how much some ZP's will get as per this new suggested formula, instead of the present arrangement. Thereafter a fresh GR must be issued.

(d) Fresh GR to be issues by RDD giving comprehensive guidelines, in supersession of all existing guidelines:

Rural Development Department should issue a comprehensive, fresh Government Resolution as above in supersession of all existing guidelines on the subject. This will clear all the confusion in the field, and bring in uniformity in procedure being adopted by all districts. The annexure to the suggested GR must give the standard formats to be used by District Collector, Divisional Commissioner, as at present each district seems to be having different format. The most important point is that the LR base that is to be used is on demand and not on collection. The GR should also give time lines for each activity as indicated above. This proposed GR has to be issued in consultation with Finance Department and Revenue Department.

(e) No budgetary cuts to be made for ZP Cesses and releases

The ZP cesses are levied as per law of the land, namely as per the Zilla Parishad and Panchayat Samiti Act, 1961. The revenue machinery collects it for and behalf of the ZP. Therefore, there cannot be any usual 'budgetary cuts' at the State Government (Finance Department) level on this as it will be in violation of the Act.

(f) Need for the users- namely ZP to be aware of the releases :

At present the ZPs are not aware of the formula or method in which they receive the Land Revenue related cesses. It is desirable that Government issues a GR that the representative of Collector should make a presentation before the ZP Body in October of every year, on the method and manner of calculation of ZP dues.

(g) Long term- need for a simpler formula by amendment of all related sections namely Sec 144, 155. 185, and 186:

The ZP and PS Act was enacted in 1960s, almost sixty years back now. The socio-economic conditions were very different then, and Maharashtra was predominantly an agrarian society, with land revenue as the basic benchmark to measure every other payment. Now land revenue is a miniscule amount of State revenue. Pegging ZP releases to land revenue (often waived due to drought or other reasons) has become redundant now in changed times. It is desirable to revisit these provisions of ZP & PS Act, 1961 and release funds to ZP on a fresh formula. The SFC would recommend amendments to the provisions of Section 144, 155, 185, 186 (or even deletion) and substitute with a fresh and simpler formula incorporated in the Act. This needs Legislature approval. Till that happens, the recommendations (a) to (f) above can be implemented.

6.10 Share of stamp duty (Section 158 of ZP & PS Act, 1961)

Another 'assigned tax' for the Zilla Parishad is Stamp Duty.

Section 158 of the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 provides for an additional 1% as stamp duty/cess to be levied for benefit of Zilla Parishads and concerned Grampanchayats where transactions have taken place (on a 50:50 sharing basis, that is ½ percent each) over and above what is being collected by the State Government. This is to be on transactions relating to property within the jurisdiction of Zilla Parishads, that is non ULB areas. Thus, this is a tax or cess levied by State Government collected through the Inspector General of Stamps and Registration, and then the 1% eventually transferred to the Zilla Parishad and concerned Grampanchayats. Section 158(4) further provides that the 1% received by the ZP has to be shared 50% with the Grampanchayat in which the transaction takes place.

From budget documents, it is seen that the following amounts have been released by the Rural Development Department (RDD) to the ZPs and Grampanchayats:

Table 16: Share of stamp duty released :

Sr. No.	Year	Amount (Rs. in crores)
1	2014-15	640
2	2015-16	522
3	2016-17	540
4	2017-18	600
5	2018-19	532 (first nine months)

6.10.1 Our observations are as follows:

(a) Steep variation in the amount collected as Stamp Duty between districts:

It is observed that there is a steep variation in the amount that is collected as 1% cess from district to district, with some districts collecting and getting huge amounts:

The following is the average distribution of the stamp duty cess amounts released to Zilla Parishad (excluding Grampanchayat share) for the financial years 2015-16, 2016-17 and 2017-18:

Table 17: Average distribution of stamp duty :

Sr. No.	Zilla Parishad	Average Amount Distributed (Rs.In Lakhs)	Percentage of Stamp Duty Distributed in State
1	Gadchiroli	18	0.07
2	Gondia	80	0.29
3	Hingoli	96	0.35
4	Bhandara	112	0.40
5	Washim	117	0.42
6	Yavatmal	147	0.53
7	Dhule	153	0.55
8	Parbhani	167	0.60
9	Osmanabad	175	0.63
10	Chandrapur	181	0.65
11	Sindhudurg	196	0.71
12	Akola	224	0.81
13	Jalna	231	0.83
14	Latur	236	0.85
15	Nandurbar	263	0.95

Sr. No.	Zilla Parishad	Average Amount Distributed (In Lakhs)	Percentage of Stamp Duty Distributed in State
16	Wardha	276	0.99
17	Nanded	276	1.00
18	Beed	313	1.13
19	Sangli	315	1.14
20	Buldhana	323	1.16
21	Ratnagiri	333	1.20
22	Jalgaon	362	1.31
23	Kolhapur	410	1.48
24	Amravati	446	1.61
25	Solapur	560	2.02
26	Ahmednagar	586	2.12
27	Nashik	648	2.34
28	Aurangabad	682	2.46
29	Satara	824	2.98
30	Palghar	860	3.10
31	Nagpur	1622	5.85
32	Thane	2262	8.17
33	Raigad	4742	17.12
34	Pune	9466	34.17
	Total	**27700**	**100.00**

From the above data it is seen that four districts namely Pune (34%), Raigad (17%), Thane (8%) and Nagpur (6%) received 65% or almost two thirds of the total stamp duty cess. That is, because of proximity to three major cities namely Mumbai, Pune and Nagpur, the cost of land in rural areas of the district is also high. Hence, the ZP of these districts stand to get more income. Thus, by very nature of this cess, certain ZPs (at present) stand to benefit more than others.

(a) Backlog in distribution of stamp duty to ZPs:

The IGDR vide its letter आ.क्र.का.7/नोंमनि/जि.प./117/2019 dated 1st February 2019 has stated that there is a backlog of Rs.509 crores to be released to the Zilla Parishads This happens because the full amount indicated by IGDR does not get budgeted.

(b) No segregation at collection between Government collection and ZP cess:

The stamp duty for Government and additional 1% is collected and deposited in one single account code (CRC 3604 0307) and there is separate account code for Zilla Parishad. Thus, it is difficult to know how much has been collected in the name of ZPs. At present, this figure has to be worked out within the department, and the figures are not communicated to the Zilla Parishad for whom it is collected.

6.10.2 SFC's Recommendations:

(a) No 'budgetary cuts' should be made for an assigned tax

No budgetary cuts should be made for an assigned tax, specified under a law of the Government, and that too for a tax that is already collected. This principle has to be understood and followed by both RDD and Panchayat Raj Department, Revenue Department and Finance Department.

(b) Need for urgency to clear the backlog of Rs.509 crores (as on October 2018) already collected and yet to be distributed

As a corollary to this the entire backlog of Rs.509 crores already collected from public as 1% ZP stamp duty cess, but still not released to the ZPs due to budgetary cuts and others reasons, should be released to the ZPs as early as possible.

(c) Need to change the distribution procedure from Rural Development Department

The IGDR collects 1% stamp for both rural and urban local bodies. However, the method of release varies between the Urban Development Department and Rural Development Department. In UDD, after budgeting the amount, it is directly released to the Nagar Palikas by UDD itself. However, in RDD, instead of releasing the amount directly to Zilla Parishad, it is again routed through the IGDR, unnecessarily. This additional step only causes delay. This practice may be ended and funds released directly by RDD to ZPs without again routing it through IGDR, on the lines of UDD.

(d) Need for a separate budget head:

It is desirable that a separate budget head (CRC code) has be opened for the 1% ZP cess by IGDR. Thus, when the public pays the stamp duty, it has to be credited under two separate heads separately at that stage itself. Thus, there will be two separate credit heads (CRC codes) one for the State government stamp duty and one separate for the ZP 1% cess.

(e) Need to support Zilla Parishad which are disadvantaged in terms of stamp duty

As pointed out in the observations, four Zilla Parishads received two third of the 1% cess, only because they are geographically advantaged. The Zilla Parishads are in same districts which have cities of Pune or Nagpur or nearby a big city like Mumbai (Thane district or Raigad district). Therefore, the land cost is very high and these districts get substantial income as 1% stamp duty. At the other end, the districts like Gadchiroli, Washim, Hingoli which hardly have substantial stamp duty cess as income. This difference has increased over the years, due to expansion of cities and steep increase in land prices in selected districts. This might not have been the situation in 1961 when the stamp cess was introduced in the ZP & PS Act. Therefore, there is a need to support the weaker ZPs by giving a matching grant to offset their geographical disadvantage. We recommend the following formula for supporting the weak districts: take out the top three districts which receive the highest 1% stamp duty cess and then average out the collection figure of balance 31 districts. Those districts which are below the average so worked out will receive an amount to reach the average. Thus if the average stamp duty cess collected (excluding the top three districts) is Rs.3 crores, such of the districts which receive less than Rs.3 crores, will get the differential amount between Rs.3 crores and their actual cess income. Thus, based on above distribution to the Zilla Parishads, a differential or matching grant of Rs.33.79 crore will be the financial load.

Calculation is as follows:

Table 18: Calculation for suggested stamp duty distribution for weaker ZPs :

(In Rs. Lakhs)

Zilla Parishad	Average collection of three years (2015-2016, 2016-2017 and 2017-2018)	Percentage of Total Stamp duty	Suggested Matching grant to the *Districts whose share is less than State Average
1	2	3	4
Gadchiroli	18	0.07	344
Gondia	80	0.29	282
Hingoli	96	0.35	266
Bhandara	112	0.40	250
Washim	117	0.42	245
Yavatmal	147	0.53	215
Dhule	153	0.55	209
Parbhani	167	0.60	195
Osmanabad	175	0.63	187
Chandrapur	181	0.65	181
Sindhudurg	196	0.71	166
Akola	224	0.81	138
Jalna	231	0.83	131

Zilla Parishad	Average collection of three years (2015-2016, 2016-2017 and 2017-2018)	Percentage of Total Stamp duty	Suggested Matching grant to the *Districts whose share is less than State Average
Latur	236	0.85	126
Nandurbar	263	0.95	99
Wardha	276	0.99	86
Nanded	276	1.00	86
Beed	313	1.13	49
Sangli	315	1.14	47
Buldhana	323	1.16	39
Ratnagiri	333	1.20	29
Jalgaon	362	1.31	00
Kolhapur	410	1.48	**Total Financial Load = Rs. 33.79 crores**
Amravati	446	1.61	
Solapur	560	2.02	
Ahmednagar	586	2.12	
Nashik	648	2.34	
Aurangabad	682	2.46	
Satara	824	2.98	
Palghar	860	3.10	
Nagpur	1622	5.85	
Thane	2262	8.17	
Raigad	4742	17.12	
Pune	9466	34.17	
Total	**27700**	**100.00**	

Calculation Details:

*District = Average of (Total District - Top 3 districts) – average of three years (2015-2018).
= (362 – column 2)

(f) Need for revamping the 1% sharing formula

Section 158, enacted 58 years back needs a change due to the changed socio-economic profile of the State. As pointed out, the present 1% sharing formula of 0.50% for the ZPs and 0.50% to the GPs (in whose area the immoveable property is situated) does not substantially help those districts where transaction value or volume of transactions has not increased over the years. The Panchayat Samiti's also do not get any revenue at all and are by passed.

Hence after careful consideration the SFC recommends a revised formula as follows:

Table 19: Revised rates for 1% sharing formula :

Category	Present formula under Section 158 of the Act	Recommended revised formula
ZP	0.5 %	0.25%
PS	Nil	0.25%
GP	0.5%	0.25%
State level pooling for distribution among all GPs	Nil	0.25%

It will be seen from this recommendation that ZP's will lose marginally from 0.5% to 0.25%. Panchayat Samitis will get 0.25% and they badly need own sources of income. The Grampanchayats will get 0.5%, but in a different way. They will get 0.25% as in the past, that is where the transactions took place. But the balance 0.25% will be pooled at the State level and distributed among all the GPs according to the population. As a result of this revised formula, distant, poorer ZP's, PS and GP's will get a better share.

Needless to say, this would require an amendment of Section 158 through the State Legislature.

6.11 Forest Grants (Section 181(A) & Zilla Parishad Act):

Section 181(A) of the Zilla Parishads Act provides for giving forest grants to Zilla Parishads. The purpose of this provision was to compensate those Zilla Parishads which may have substantial areas under forests in their districts and therefore not able to generate 'Land Revenue' on agricultural lands which is a big source of 'Own Income' to Zilla Parishads. Take for instance, Chandrapur District where about 40% is under forest cover. It is to help these districts, where extended forests limit the income from routine agricultural land revenue, that forest grants were introduced.

Initially the Act provided for 5% forest grant, but since 1993 the Zilla Parishads Act was amended to make it 7% of the forest revenue collected from that district.

The forest grants so received by the Zilla Parishad are to be spent on 'Works and Development Scheme' in the forest areas of the concerned district [as per Section 181(A)(2)], as per direction of the State Government issued from time to time.

Accordingly, the State Government has issued detailed guidelines vide FRG 1093/CR 2426/ 24 dated 12.11.1993. These 1993 guidelines have not been changed in the last twenty-six years.

6.11.1 SFC Observations:

(a)General stagnation / fall in Forest Revenue Income and consequent distribution of 7% to Zilla Parishads

The first observation is that forest revenue as a source of income to Zilla Parishad is reducing year after year. This is because change in the policy of Forest Development that now forests are not a 'source of revenue'. This may be the thinking till 1990's. Now, forests are preserved for environmental and ecological reasons and generation of revenue is a low priority for forests department. Consequently, the releases to the Zilla Parishads have decreased.

The amounts distributed to Zilla Parishads are as follows:

Table 20: Amount distributed to ZPs as forest grants :

Sr. No.	Year	Amount distributed (in crores)
1	2000-05(period 3rd SFC annual)	8.76
2	2014-15	16.11
3	2015-16	14.50
4	2016-17	9.76
5	2017-18	9.08
6	2018-19	7.06

With the introduction of 'PESA' GR in 2014-15 period, one may anticipate further decrease in conventional forest revenue in coming years. The fall in forest grant received has been dramatic as seen from following analysis.

Table 21: Decline in Forest Grants through the years : (Rs. in crores)

Sr. No.	Year	Amount of grants releases as 7% grants	Fall in grants to base year
1	2014-15	16.11	100% (base year)
2	2015-16	14.50	90%
3	2016-17	9.73	60.40%
4	2017-18	9.07	56.30%
5	2018-19	7.06	43.82%

Thus, in a period of five years, the forest grants have reduced by more than 50% and is unlikely to increase in the coming years.

(b) 7% forest grants are substantial only in selected districts:

The table below shows the district-wise distribution of the 7% forest grants over a five years' period 2014-15 to 2018-19.

FOREST GRANTS DISTRIBUTION

(Rs. In Thousands)

Sr. No.	Name of Zilla Parishad	Forest Division	2014-15	2015-16	2016-17	2017-18	2018-19
1	Nagpur	Nagpur	2,982	1,516	2,584	2,520	1,637
2	Wardha	Wardha	3,194	1,321	2,284	2,475	1,753
3	Bhandara	Bhandara	787	712	1,474	1,473	432
4	Gondiya	Gondiya	4,206	1,653	3,043	3,538	2,309
5	Amravati	Amravati	13,520	91,719	7,141	5,078	4,735
6	Buldhana	Buldhana	116	853	53	17	15
7	Yavatmal	Yavatmal	19,960	5,937	10,325	6,840	4,818
8	Akola	Akola	874	458	1,020	1,011	623
9	Washim	Akola	342	113	212	175	169
10	Chandrapur	Madhya Chanda	14,964	5,493	12,109	11,152	7,599
11	Gadchiroli	Sironcha	93,701	32,813	51,960	51,711	43,662
12	Pune	Pune	99	52	120	101	57
13	Solapur	Solapur	8	23	82	102	49
14	Thane	Thane	1,440	698	1,473	1,201	389
15	Raigad / Alibaug	Alibaug	425	160	377	345	217
16	Palghar	Palghar	-	-	164	309	309
17	Nashik	Nashik	804	230	456	295	165
18	Ahmednagar	Ahmednagar	68	23	81	87	57
19	Dhule	Dhule West side	53	5	8	27	33
20	Nandurbad	Shahada, Nandurbar North Side	76	6	11	16	17
21	Jalgaon	Jalgaon	401	29	51	202	253
22	Kolhapur	Kolhpaur	914	325	533	442	283
23	Satara	Satara	191	88	173	165	59

FOREST GRANTS DISTRIBUTION							
Sr. No.	**Name of Zilla Parishad**	**Forest Division**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
24	Sindhudurg	Sawantwadi	386	143	236	193	120
25	Sangli	Sangli	48	17	30	27	15
26	Ratnagiri	Chiplun	342	124	211	182	106
27	Aurangabad	Aurangabad	75	25	56	57	44
28	Jalna	Aurangabad	34	14	32	34	27
29	Nanded	Nanded	703	308	709	732	471
30	Beed	Beed	27	13	29	30	16
31	Osmanabad	Osmanabad	131	47	75	40	30
32	Latur	Latur	91	34	53	27	22
33	Parbhani	Parbhani	123	44	71	37	15
34	Hingoli	Parbhani	58	33	103	139	101
		Total (in Thousands)	**1,61,143**	**1,45,029**	**97,339**	**90,780**	**70,607**
		Total (in Crores)	**16.11**	**14.5**	**9.73**	**9.07**	**7.06**

It will be seen that 48% grants go to Gadchiroli, 21.63% to Amravati, 9% to Chandrapur. The top five districts receive 90%. This is natural as the forests (and consequently forest revenue) are in these districts only.

(c) Twenty-two (22) districts receive less than 5.00 lakhs.

On further analysis, it is seen that 13 districts are receiving less than 1.00 lakh, 7 districts less than 1 to 3 lakhs and 2 districts 3 to 5 lakhs and 5 more districts between 5 to 10 lakhs. Here are the grants analysed slab-wise.

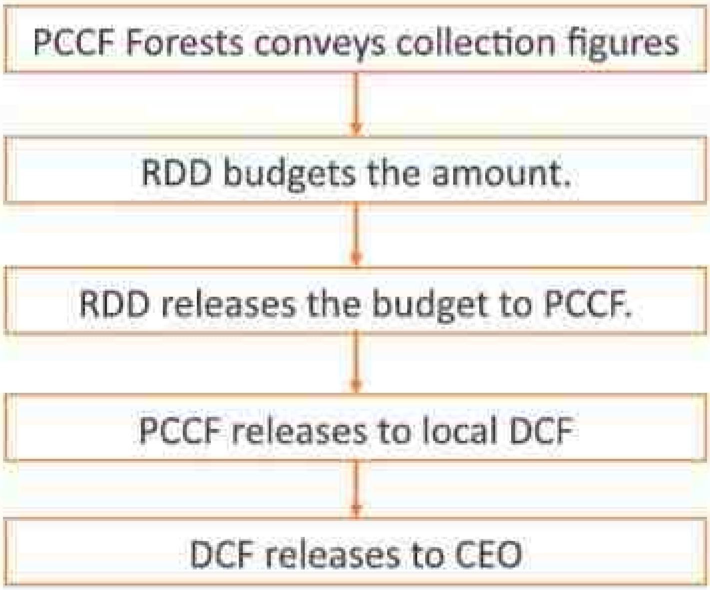
Table 22: No. of districts receiving Forest Grants in slabs :

Sr. No.	Receiving Slab Grants	No. of Districts
1	< 1 lakh	13
2	> 1 lakh – 3 lakhs	7
3	> 3 lakhs – 5 lakhs	2
4	> 5 lakhs – 10 lakhs	5
5	> 10 lakhs – 1 Crore	6
6	Above 1 Crore	1

(d) Complicated release procedure:

The procedure of release is quite complicated as below:

Chart 20: Release Procedure for Forest Grants



The complicated paper work and clerical time is likely to be costlier than actual amount released (less than Rs.1.00 lakh in 13 districts). It also causes enormous delay. It is not clear what benefit can come to villages by such small insignificant releases.

(e) 'Budgetary Cuts' in release of 7% forest grants:

It is observed that there is a difference between the 7% forest revenue and actual budgeted amount and release. The following data may be seen.

Table 23: Difference between the Forest revenues and actual releases :

2018-19	
Average Forest Revenue recovery of last 3 previous years (2014-15, 2015-16 & 2016-17)	169.09 Crores
7% share for Zilla Parishad	11.83 Crores (7% of of Rs. 169.09 crores)
Actual release by RDD	7.06 Crores only (i.e. only 60% of its entitlement)

As in case of other assigned taxes /grants there has been a 40% 'Budgetary Cut' in the release. Thus, the Zilla Parishad have received Rs.3.77 crores less than what they should have.

6.11.2 SFC's Recommendations regarding forest grants:

(a) As pointed out, analysis reveals that 13 districts have received less than 1 lakh, 22 districts received less than 5 lakhs and 27 of 34 districts less than 10 lakhs. Hence, the 1998 GR needs complete revamping. It is suggested to make it practical and doable, the RDD should prepare the new GR in consultation with the Principal Chief Conservator of Forests, Nagpur. **The forest grants can be discontinued for district where the grants are less than two lakhs, as clerical cost is more than the benefit.**

(b) It is recommended that where grants are less than 10 lakhs, then the CEO, Zilla Parishad must straightway transfer to JFM Committee or as advised by DCF. The amounts are too small and the admissible expenditure would be more than the budgets for distributing to the forest villages for any project.

(c) The amounts must be directly transferred to CEO, Zilla Parishad by RDD, without again routing it through PCCF, DCF etc.

(d) The Government must not impose any budgetary cuts as it is an assigned tax and the amounts have already been collected. Any cut will be infringement in the Zilla Parishad Act tends further weakening the income base of Zilla Parishad.

6.12 Income from cess on irrigated land (Section 146, 148 and 150 of ZP & PS Act):

The ZP & PS Act provides for levying an additional ZP cess of 20% on the water rates levied by the Irrigation Department or Irrigation Development Corporation and hand over the cess to the Zilla Parishad. The ZP Irrigation Cess is given to the concerned ZP that is as per geographical area. If the irrigated area is in one district, then the cess proceeds goes to that same district, irrespective of where the Irrigation Department Division is located. This is because often the command area spreads to two districts.

As per the information made available by the Water Resources (Irrigation) Department, there was a collection of Rs.93.72 crores from water rates provided for agriculture, and Rs.735.06 crores from water rates provided for non-agriculture (industrial and drinking water) totalling Rs.828.78 crores. Thus if we calculate 20% cess, it comes to amount 165 crores.

6.12.1 SFC Observations

(a) Lack of transparency regarding cess collected and given to the Zilla Parishad:

The main difficulty regarding this cess is that the collection is made by the field Executive Engineers and thereafter credited into the account of the concerned Regional Irrigation Corporation. Subsequently, it is distributed by the concerned Superintending/Executive Engineer to the Zilla Parishad. Thus the entire calculation is worked at the level of the Divisions of the Irrigation Department and the Zilla Parishad (for whom the cess has been levied as per law) does not come to know any details of the amounts collected and distributed. There is no transparency from the beneficiary point of view, namely ZP.

(b) Unilateral deductions made by Irrigation department:

It is observed that many officials of the irrigation department arbitrarily deduct the amounts due for the water supplied from the dams to water supply schemes of Grampanchayat. In some cases, the water that is reserved during the summer (drought period) under directions of the Collector is also charged to the Zilla Parishad and adjusted when the amounts are released to the ZP's. The ostensible reason is that the ZP makes a resolution to reserve water, and hence the cost of water is saddled on the ZP's. This is not justifiable, as the responsibility of providing water during drought periods or reserving water is on Collector (relief and rehabilitation) and the resolution of ZP is only a formality. The water to settlements is provided either by Grampanchayats (which are a different legal entity) or by ULB's. ZP's do not come in the picture. Thus the practice of saddling the cost of 'reserved water' on ZP is not legally sustainable.

6.12.2 SFC's Recommendation:

(a) No deductions:

No deductions should be made unilaterally by the Irrigation Department or the Regional Irrigation Corporation for water supplied to Grampanchayats as they are a different legal entity from Zilla Parishad. Secondly no deductions should be made for 'reserved water' during drought period or for other reasons. This is to be paid by the Collector, from the Relief and Rehabilitation funds 2245. The Zilla Parishad should not be saddled for making a simple resolution which is just a procedural formality as per Government GR.

(b) More transparency

There is need for the beneficiary, namely the Zilla Parishad to know how much they have got and on what basis as water cess. There is need for more transparency and information flow at all levels.

(c) Increase the irrigation cess from 20% to 40%

The cess is on irrigated crops. The rates are found to be very minimal and have not been increased for decades. There is a strong case for increasing the irrigation cess rates from present 20% to 40% and thereby augmenting the income of the Zilla Parishad.

6.13 ZP own funds- Non-Tax Revenue sources:

The main income of the Zilla Parishad is from 'assigned taxes' of the State Government as detailed above. However, Zilla Parishads also receive income from other non-tax sources like:

(a) Sale of Tender Forms.

(b) Renting of Shopping Complexes.

(c) Rental income of Zilla Parishad Guest Houses.

(d) Income from fishing auctions of Zilla Parishad tanks.

(e) Interest income of various kinds from funds (Government and ZP own) kept in banks.

Here is a sample of the non-tax income generated by some Zilla Parishads. These districts have been chosen one per Revenue Division, thus reflecting the overall pattern in the State:

Table 24: Zilla Parishad Income from Non-Tax Revenue Sources : (Rs. In Lakhs)

Sr. No.	District	Palghar	Nashik	Satara	Latur	Amravati	Wardha
1	Bank Interest	822	1858	1125	346	630	829
2	Rent on Building and Land.	4	16	30	12	3	14
3	Agency Fee	30	29	29	25	109	12
4	Tender Fee	36	32	21	2	11	47
5	Penalties	38	20	44	6	1	4
6	Scrap Material (Sale of old material etc.	1	4	2	0	2	0
7	Guesthouse fee	1	0	1	0	10	0
8	Godown fee	0	0	0	0	0	0
9	Rent from Fisheries etc. from Z.P. Lake	0	0	0	1	3	4
10	Contractor Registration Fee	41	22	12	5	10	0
11	License fee	50	0	0	0	0	8
12	River boat Transport contract	0	0	15	0	0	0

Sr. No.	District	Palghar	Nashik	Satara	Latur	Amravati	Wardha
13	Educational charges	0	22	4	0	2	0
14	Animal dispensaries charges	9	5	46	0	0	0
15	Rent of markets and shops in Z.P. area	0	1	0	0	20	4
16	Income from fairs and Pilgrimage	0	0	0	0	16	11
17	Income from farm and tree conservation	0	0	2	0	5	3
18	Income from auctions of Tendu leaves etc.	0	0	0	0	0	0
19	Award received by Z.P.	0	0	0	0	0	9
20	Primary Health Registration Fee	22	2	35	17	8	15
21	Income from Agriculture, open space, etc.	0	0	1	0	15	0
22	Non-agricultural tax	2	0	0	0	0	0
23	Water tax from Z.P. water supply schemes	40	0	0	0	1	45
24	Income from Z. P. own business like Printing Press etc.	0	2	0	0	6	23
25	Z.P. Other taxes / fees	0	0	58	0	16	438
	Total Income	**1096**	**2013**	**1425**	**414**	**868**	**1466**

It will be seen that while type of sources and amount of non-tax income varies from Zilla Parishads to Zilla Parishads, interest income is substantial and overwhelms every other income sources.

The Zilla Parishads do not immediately spend the Government grants it receives. The process of estimating the work, getting administrative approval by the elected body, tendering, finalising the contractor, and issuing the work order invariably takes time often between six months to one years. Even after the work order is issued, the contractor also takes his time to complete the project. As per convention, payment is made after recording the progress of work, in stages. Thus full outgo of the funds received does not happen at once and there is a substantial time lag. Therefore, the Zilla Parishads gets income for the amount that is released by Government, but as yet unspent amount when kept in banks. This is technically not a regular or assured source of income, and actually it is a 'float income' in banking parlance. But it is seen that it is precisely this interest income that has become a very big source of income while other sources of assured income have reduced over the years. The following is the average interest income of Zilla Parishads for the recent years.

Table 25: Zilla Parishad total Income vs. Zilla Parishad Interest Income : (Rs. In Lakhs)

Sr No.	Name of Zilla Parishad	Interest Income	Total Income of Zilla Parishad	Interest income percentage of total income of Zilla Parishad
1	Palghar	822	2851	28.82
2	Raigad	133	7697	1.73
3	Ratnagiri	128	1370	9.36
4	Sindhudurg	829	1965	42.20
5	Thane	869	4700	18.48
6	Ahmednagar	606	2117	28.62
7	Dhule	96	752	12.80
8	Jalgaon	1242	2337	53.13
9	Nandurbar	1465	3080	47.56
10	Nashik	1858	3989	46.57
11	Kolhapur	1299	3408	38.10
12	Pune	2158	15152	14.24
13	Sangli	791	2182	36.25
14	Satara	1125	3227	34.85
15	Solapur	2132	3826	55.72
16	Aurangabad	1052	1954	53.83
17	Beed	878	2114	41.52
18	Hingoli	252	591	42.58
19	Jalna	982	2085	47.10
20	Latur	346	940	36.87

Sr No.	Name of Zilla Parishad	Interest Income	Total Income of Zilla Parishad	Interest income percentage of total income of Zilla Parishad
21	Nanded	946	1764	53.63
22	Osmanabad	498	847	58.87
23	Parbhani	259	1061	24.42
24	Akola	544	1533	35.49
25	Amravati	630	1966	32.06
26	Buldhana	938	3609	25.98
27	Washim	382	674	56.71
28	Yavatmal	2455	3314	74.08
29	Bhandara	295	809	36.40
30	Chandrapur	352	3102	11.35
31	Gadchiroli	307	1416	21.65
32	Gondia	384	1268	30.27
33	Nagpur	134	2596	5.15
34	Wardha	829	2174	38.12
AVERAGE		**824**	**2720**	**30.29**

6.13.1. Analysis of non-tax own income of Zilla Parishad:

As pointed out above, the interest income is a newly emerging unconventional source of income of the Zilla Parishad. Apart from this, ZPs have very little space to mobilise income from non-tax sources. Intrinsically, these sources have limitations and cannot amount to much. Some of the older ZPs have shopping complexes or some rental income. The agency fee collected for agency schemes under Section 123 is not much now (this is discussed later). During meetings with non-officials they almost unanimously requested that ZPs must be allowed to mobilise additional funds by effective utilisation of their properties many of which are situated in the heart of cities and towns. We have addressed this issue separately giving case study of how Thane District has been able to mobilise additional resources under Section 157.

6.14 Grant in aid:

6.14.1 Grants from State Government:

Apart from assigned taxes (para 2.1) and non-tax incomes (para 2.2.) the ZPs also receive certain grants to augment their own income.

6.14.2 Compensation to selected Zilla Parishads in lieu of Professional Tax (CRC Code 3604 0423) Rs. 25.68 lakhs to 15 districts:

This is an old compensation given to Zilla Parishads when their right to levy professional tax was taken away in 1975-76. At that time selected ZPs were levying and collecting professional tax.

The average compensation to a Zilla Parishad comes to a paltry 1.71 lakhs per annum (Rs.25.68 lakhs divided by 15 districts). The district receiving the highest amount is Thane (Rs.5.64 lakhs) and the district receiving the lowest amount is Hingoli (Rs.2660). Eight districts are receiving less than one lakh. The funds are being distributed in a most routine fashion.

6.14.2.1 SFC's Recommendation:

The SFC recommends to close this compensation as it is too paltry amount. It also recommends to close this CRC code. Such paltry amounts does not make any difference to the income of the Zilla Parishad. The issue for which compensation is paid has become redundant in changed situation. It is desirable to instead help ZP in more relevant ways, as being indicated later in this chapter.

6.14.3 Compensation to selected Zilla Parishad in lieu of vehicle tax abolition Rs. 5 lakhs for 14 districts (CRC Code 3604 0292)

This is another old compensation given to Zilla Parishad when vehicle tax collection at their level was abolished and shifted to State Government, decade back, when ZP's were constituted. This is still given based on the loss to income to ZP's years back. The total amount being released is a paltry Rs.3-5 lakhs per annum to 14 districts. The average release per district comes to Rs.35,000. Kolhapur receives the highest amount of Rs.1.44 lakhs and the lowest is district Nandurbar, just Rs.2,900!

6.14.3.1 SFC's Recommendation:

The SFC recommends to close this compensation as it is too paltry amount. It also recommends to close this CRC code. Such paltry amounts does not make any difference to the income of the Zilla Parishad. The issue for which compensation is paid has become redundant in changed situation. The clerical cost of handling this matter may be more than the amount of compensation. It is desirable to instead help ZP in more relevant ways, as being indicated later in this chapter.

6.15 Grants from the Central Finance Commission (CFC):

Panchayat Raj Institutions also receive funds from the award of the Central Finance Commission.

6.15.1 Grants received during the 13th CFC period (2010-15)

An amount of Rs. 5589 crores were received by the Panchayat Raj Institutions of Maharashtra for the 5-year period of 2010-15. This amount was allocated between the three tiers of Panchayat Raj as follows:

Table 26: 13th CFC Grants to ZP, PS and GP :

Tier of PRI	Percentage allocation	Amount received (Rs. in Crores)
ZP	10%	556
PS	20%	1112
GP	70%	3921

A formula for inter-se distribution between the ZP's was given, so some ZP's received more and some less. But broadly, each ZP received an average amount of Rs.16.35 crore for the five-year period, (Rs.556/34) or Rs.3.27 crore per annum. (16.35/5). It will be seen that the average own income of a ZP is about Rs.27 crores per annum. Thus the 3.27 crore is an additional income received by ZP was an additional income source, amounting to 12% of ZP income. This was primarily spent on computerisation, road maintenance, solid waste management, and a few other items, in terms of guidelines issued by Rural Development Department (GR 13th FC/CR 22/Finance 4 dated 30 August 2010). These grants were found very useful in upgrading certain areas of ZP, primarily computerisation.

6.15.2. Grants receiving during the 14th CFC period (2015-20)

The fourteenth Central Finance Commission, however, recommended that all the PRI grants should go only to the Grampanchayats and no funds were earmarked for the higher two layers namely the District Panchayats or the Intermediate Panchayats. **Therefore, the ZP have not received any Central Finance Commission funds from 2015-16 onwards till 2018-19.**

During our tours, all the non-officials pointed out to us that the higher two tiers of PRI's have not received any Central Finance Commission grant in the 14th FC period (2015-20) whereas the Grampanchayats have been earmarked Rs.15,000 crores for this same five-year period in Maharashtra. That is GP's are getting about Rs.3000 crores per year.

It is learnt that the State Government in its Memorandum to the fifteenth Central Finance Commission have made a plea that the ZP's and PS must also be given a share of the transfers. However, we will have to wait for the fifteenth finance commission report, to know exactly what they recommend.

But there is a strong case for them getting a proportionate share as certain activities have to be done at the district level and taluka/block level for strengthening of the Panchayat Raj.

6.16 Overall analyses of Zilla Parishad's own cess income:

6.16.1 Components of various sources of cess income:

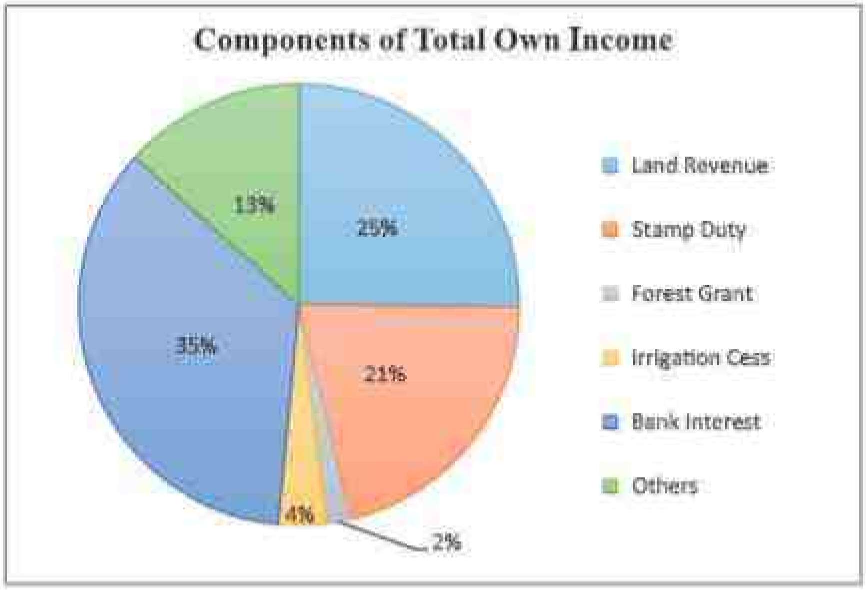
Table 27: Components of various sources of ZP Cess Income : (Rs. In Lakhs)

Sr. No.	District	Land Revenue	Stamp Duty	Forest Grant	Irrigation Cess	Bank Interest	Others	Total
1	Palghar	687	860	1	199	822	282	2851
2	Raigad	1201	4742	3	1465	133	153	7697
3	Ratnagiri	807	333	3	0	128	99	1370
4	Sindhudurg	857	196	2	0	829	82	1966
5	Thane	626	2262	16	87	869	841	4701
6	Ahmednagar	693	586	0	2	606	229	2116
7	Dhule	425	153	0	0	96	78	752
8	Jalgaon	618	362	0	0	1242	116	2338
9	Nandurbar	1253	263	0	0	1465	99	3080
10	Nashik	1227	648	9	92	1858	154	3988
11	Kolhapur	918	410	3	16	1299	762	3408
12	Pune	2227	9466	1	455	2158	846	15153
13	Sangli	752	315	0	51	791	272	2181
14	Satara	938	824	0	39	1125	300	3226
15	Solapur	661	560	0	141	2132	332	3826
16	Aurangabad	103	683	0	0	1052	117	1955
17	Beed	534	313	0	304	878	86	2115
18	Hingoli	197	96	1	0	252	45	591
19	Jalna	774	231	0	1	982	98	2086
20	Latur	289	236	0	0	346	68	939
21	Nanded	270	271	6	1	946	266	1760
22	Osmanabad	57	175	0	0	498	117	847
23	Parbhani	371	167	0	1	259	264	1062
24	Akola	357	224	8	257	544	143	1533
25	Amravati	283	446	370	1	630	296	2026
26	Buldhana	738	323	3	0	938	1608	3610
27	Washim	117	117	1	2	382	54	673
28	Yavatmal	515	147	55	0	2455	141	3313
29	Bhandara	213	112	0	0	295	189	809
30	Chandrapur	1381	181	96	77	352	1015	3102
31	Gadchiroli	28	18	456	415	307	193	1417
32	Gondia	97	80	24	8	384	676	1269
33	Nagpur	413	1622	1	239	134	189	2598
34	Wardha	316	275	20	97	829	636	2173
Grand Total		**20943**	**27697**	**1079**	**3950**	**28016**	**10846**	**92531**
Grand Average		**616**	**815**	**32**	**116**	**824**	**319**	**2722**

6.16.2 The real own income of a ZP in Maharashtra:

Thus it will be seen that the average own income of a ZP in recent years is Rs.27.20 crores. However, this average is deceptive, as it includes three outlier districts namely Pune (151 crores), Raigad (76 crores) and Thane (47 crores). This is because of high stamp duty income due to their geographic proximity to Mumbai or Pune. If we exclude these three districts and than workout the average, **then the average annual own income of a ZP in Maharashtra is just Rs 20.94 crore, which is a more reflective figure.**

Chart 21: Percentage wise break up of ZP Own Total Income



6.16.2 Assigned taxes were expected to be the main source of ZP own income

When the ZP and PS as an institution was conceived in the 1960s, it was perhaps consciously decided that for their financial sustenance and autonomy certain amounts will be mobilised from the rural population as an additional specific tax or cess and given to them. This was how a cess was added to land revenue (an important source of income those days) and on stamp duty on land transactions. In addition, a cess was levied on irrigated land. All these provisions of cess income were incorporated in the ZP & PS Act itself, so that could be no arbitrary change by the Government of the day. The ZPs also had some own source of income like professional tax, at that point of time. The situation has slowly changed, when the assigned taxes are not giving adequate income for the ZPs.

6.16.3 Own Income of ZP is not increasing adequately over the years

The cess income is primarily dependent on assigned taxes. Assigned taxes are those cesses collected by the State Government and then transferred to the ZP and PS. The other sources of cess income besides assigned taxes are non-tax source and Government grants, and Finance Commission grants. It is observed that all these sources are becoming stagnant or inelastic sources. That is, the income in not increasing over the years. The reason is as follows:

(a) Assigned taxes have got linked to stagnant land revenue:

When the ZP & PS Act was enacted the assigned taxes under Section 144 (basic ZP cess), Section 155 (increased ZP cess), Section 185 (matching grant) Section 186 (incentive grant) were all on basis of 'land revenue'. However, now after 60 years, the original land revenue has become a miniscule amount as a source of revenue. Further farmers are given waivers of land revenue due to drought. Further, small farmers have been given total exemption of land revenue permanently. More important, the aggregation of 'land revenue' figures are done at the taluka level. After this, the amounts payable to ZP as ZP cess is calculated at district Collector level. The method of calculation varies from district to district. Thereafter, figures are just aggregated at Divisional level, and conveyed to Rural Development Department. This is also based on collection and not on demand, so the concerned ZP has to bear the cost of any slackness in collection by the Collectorate. Finally, the entire amounts do not get budgeted due to customary budget cut. All these issues and problems have been detailed earlier in paragraph 6.9.3

Sum and substance, since the assigned tax is pegged to land revenue, this source is stagnating and there is no chance of it increasing to meet the present needs, unless it is revamped. This issue, and our suggestion to rectify the same has already been addressed in paragraph 6.9.5

(b) Assigned tax-cess on stamp duty helps few districts only

Prima facie it may appear that stamp duty cess is a reliable and buoyant source of income for all Zilla Parishad. However, as the State is becoming more and more urbanised, the land value is increasing very fast in about four districts-- Pune, Raigad, Thane, and Nagpur-- and these four districts receive now 65% of the stamp duty cess. As against this, interior districts like Hingoli, Gadchiroli or Washim receive relatively small amounts as stamp duty and are stagnating. Thus they are put to disadvantage. Further, by a decision in 2015, about 115 Village Panchayats which also were taluka headquarters have been converted to Urban Local Bodies (Nagar Panchayats). It was in these big villages that lot of land transactions in land (leading to stamp duty income) were taking place. Now the ZP is not getting any income from these Grampanchayats as they have become urban bodies.

In short, while 1% stamp duty cess is a good source of income, it is observed that at present, due to change in economic structure of the State, it is going in favour of selected districts and many interior and backward districts are not getting adequate amounts and in fact widening the inequality in income of ZPs. We have suggested certain remedial measures in paragraph 6.10.2.

(c) 7% Forest grants is stagnating

This is another stagnating income as forests are no more treated as source of revenue by the Government. This source of income has relevance only to few forested districts of Maharashtra. We have elaborated on this in paragraph 6.11.1.

(d) Cess on irrigated land is stagnating

Once again, cess on irrigated land has not increased over the years as the general policy is not to burden farmers, even if their land is irrigated. This is also a stagnating source of income. Again, irrigation levels vary from district to district and some districts benefit more from this assigned tax. We have recommended an increase in the cess rates in paragraph 6.12.2.

(e) Non tax source of income is also not increasing

The ZPs used to get substantial income as '5% agency fees' for agency schemes given to ZP under Section 123 of the ZP & PS Act since 1989. However, over the years, by official orders, many of the erstwhile schemes have been taken out of the agency scheme list. The classic example is ICDS. Further, there is lot of confusion in the field about any scheme being an agency scheme. Earlier Mantralaya's Government Resolutions (GRs) used to mention that a scheme is 'agency scheme' clearly. The new orders do not mention this, so by lapse of time the agency income of ZP is shrinking. This issue has been dealt in depth once again later in this chapter.

Section 157 of the ZP & PS Act provides for imposing various types of taxes. Section 157(e) provides for imposing a special tax on lands and buildings. Section 159 provides for the procedure to impose these taxes by the Zilla Parishads.

Thane Zilla Parishad has, in exercise of its powers under Section 157 read with 159 has levied a levy on non-agricultural tax under Section 157(e).

The First State Finance Commission has in its report (para No.13.21) recommended that all ZPs should impose such a non-agricultural tax on the model of Thane ZP.

This recommendation was accepted by the Government and Rural Development Department issued a guideline on 3.3.1999 and GR No MVA/1099/CR 3488/24 dated 14.6.1999 directing that all other ZPs should also take similar steps on the lines of Thane ZP. Government had also enclosed the notification of how Thane ZP imposed the special tax on NA. But it appears that in spite of circulating the Thane case study to all other ZPs, that no other ZP has availed the window available under Section 157 and imposed the special NA tax.

The recent collection by Thane under Section 157(e) is as follows:

Sr. No.	Year	NA tax collection (Rs in lakhs)
1	2011-12	65.06
2	2012-13	63.27
3	2013-14	42.19
4	2014-15	34.25
5	2015-16	5.17
6	2016-17	5.38
7	2017-18	6.03

Thus it is seen that while the ZP Thane does get an income, it is somewhat erratic. One reason that more and more of Thane district have been absorbed in the Nagar Palikas nearby and got urbanised.

Even otherwise, there is a strong case to emulate Thane ZP by the other ZPs.

SFC recommendation regarding Sec 157 (e):

SFC strongly recommends that this window available under Section 157 (e) must be utilised and RDD must once again take steps to issue circular to all ZPs to consider imposing similar tax to raise their resources.

(f) Small grants in aid in lieu of professional tax and vehicle tax:

These are compensatory grants since last forty years and above. It may have been big amounts then, but now they are a paltry Rs.25 lakhs for 15 districts and Rs.5 lakhs for 14 districts. We have in fact recommended their abolition as paper work cost is more than the benefits (see paragraph 6.14.2.1)

(g) Central Finance Commission grants not made available during 2015-20:

The ZPs and PS were given 10 % and 20% % of the 13th Finance Commission grants. They were not free income and certain directions were given to be used for Sangram Project (computerised village project) and other activities. However, in the 14th Finance Commission period (2015-20) the entire PRI grants have been directed to be given to Grampanchayats only.

In short, in the income side the ZP is having stagnating income, as all the sources of income are not buoyant or disappeared over time.

(h) Inability of ZP and the PS to know what it is getting and why it is getting a particular amount:

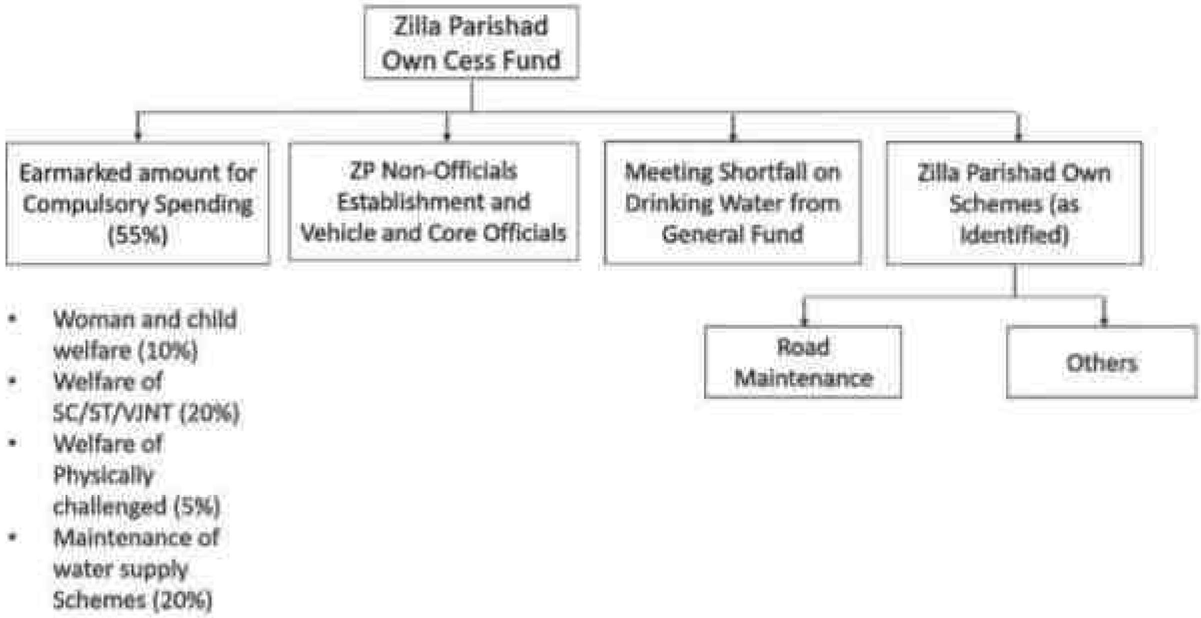
The challenge of stagnating income gets accentuated as the beneficiary (namely the Zilla Parishads and Panchayat Samitis) do not have normal access to the calculation process. In simple language, the way the process and guidelines are structured, ZP's do not have any clue as to why they are getting what they are getting and what is the calculation behind it. They also do not have a method to know if they have got less they then should, as per ZP & PS Act and Government orders. They also do not get the amounts on time. Unfortunately, there is no institutionalized adequate grievance redressal mechanism for the PRIs.

6.17 Zilla Parishad Own Funds – Expenditure side:

Now we turn to the expenditure side of the Zilla Parishad own funds.

On the expenditure side the following is the broad analysis of expenditure:

Chart 22: ZP Expenditure - components :



6.18 Compulsory spending for welfare of women, children, weaker sections and for differently-abled people:

Even though theoretically the ZP Body can decide where to spend its own resources, actually, by direction given by the Government in exercise of its powers under Section 261 of the Act, about 35% of its own income have to be necessarily spent on three sectors. The details are given below:

Table 28: Compulsory spending of ZP (Sector-wise) :

Sr. No.	Sector in which it has to be necessarily spent	Percentage of ZP total income which has to be spent
1	Women and Child welfare	10%
2	Welfare of backward classes meaning SC, ST, and de-notified tribes and nomadic tribes (DTNT)	20%
3	Welfare of physically challenged	5%
4	Maintenance of water supply schemes and drinking water (RDD Notification No.GRAPAPU.1085/CR-7808-39 Dated 17 Nov 1986)	20%
	Total for above four sectors	55%

Table 29: Average of three years (2015-18) of compulsory spending by Zilla Parishads:

(Rs. In Lakhs)

District	Average Compulsory Spending	Percentage	Average Total Expenditure
Palghar	634	24.35	2,606
Raigad	5,824	91.31	6,378
Ratnagiri	739	41.06	1,801
Sindhudurg	461	25.34	1,817
Thane	824	14.36	5,739
Ahmednagar	1,282	19.62	6,534
Dhule	173	25.23	687
Jalgaon	752	46.94	1,601
Nandurbar	250	14.91	1,676
Nashik	1,429	29.64	4,822
Kolhapur	954	26.97	3,537
Pune	5,023	33.47	15,008
Sangli	385	11.69	3,292
Satara	770	8.39	9,183
Solapur	681	20.55	3,315
Aurangabad	290	50.39	576
Beed	503	44.47	1,132
Hingoli	189	22.14	855
Jalna	518	16.49	3,143
Latur	180	24.00	748
Nanded	337	30.63	1,099
Osmanabad	254	29.28	866
Parbhani	527	12.89	4,086
Akola	1,215	56.45	2,153
Amravati	263	17.85	1,473
Buldhana	409	72.02	568
Washim	178	7.04	2,531
Yavatmal	847	62.61	1,352
Bhandara	187	21.02	891
Chandrapur	403	9.18	4,393
Gadchiroli	32	1.69	1,896
Gondia	153	8.64	1,774
Nagpur	1,040	21.56	4,824
Wardha	494	29.19	1,693
Grand Average	829	28.57	3,060

6.18.1 Comments on compulsory spending:

Even though it appears that the ZP does not fully spend the required percentage on the 'compulsory' areas, actually it is deceptive, as there is some backlog of previous year expenditure also. This problem also arises as there is no proper disclosure in the annual accounts as additional information. This has been addressed in the Chapter on Finance, Accounts and related issues.

6.19 Core establishment expenditure of ZP- expenditure on non-officials, key officer's vehicles, meetings etc.

Table 30: Average annual expenditure of ZP for three years (2015-2016, 2016-2017 and 2017-2018) : (Rs. in Lakhs)

Sr. No.	Z.P Non Officials	ZP Aurangabad	ZP Osmanabad	ZP Ratnagiri	ZP Yavatmal	ZP Jalna
1	Z.P Non Official's honorarium	30	10	29	8	27
2	Z.P Non Official's Office expenditure	1	5	9	7	6
3	Expenditure on Z.P Non Official's Telephone bill	0	5	3	1	1
4	Vehicle Repair and Maintenance and Fuel Cost	20	24	33	53	15
5	Expenditure on Z.P. General body and Subject Committee Meeting	6	4	11	3	26
6	Office expenditure (contingency)	16	16	8	14	10
7	Expenditure on Z.P. Non Officials's Electric bill	0	5	2	0	0
Total		**73**	**69**	**95**	**86**	**85**

6.20 Expenditure on meeting the shortfall or gap in operating the ZP drinking water schemes and in maintenance of hand pump and power pump units

6.20.1 ZP – PWS*:

Provision of drinking water is responsibility of the Grampanchayats. However, as a supervisory body, ZPs handle few regional piped water schemes. They have been erected by Maharashtra

Jeevan Pradhikaran (MJP) and subsequently handed over to ZP for operation.

Table 31: Number of regional water supply schemes and GPs covered under Regional Water Supply Schemes :

For year 2017 - 2018		
District	**Number of regional water supply Schemes**	**Number of GPs in regional water supply Schemes**
Palghar	06	61
Raigad	13	00
Ratnagiri	08	64
Thane	13	143
Ahmednagar	04	124
Jalgaon	12	132
Nashik	03	87
Pune	08	84
Sangli	37	299
Satara	11	130
Solapur	19	161
Aurangabad	16	89
Beed	04	64
Hingoli	03	71
Latur	14	14
Osmanabad	01	03
Parbhani	01	16
Akola	06	166
Amravati	01	70
Buldhana	11	124
Yavatmal	03	04
Bhandara	03	23
Chandrapur	35	258
Gadchiroli	04	20
Gondia	04	83
Nagpur	02	06
Wardha	07	33
Grand Total	**249**	**2329**

*As the correct information was not made available the number of GP-PWS figures may need reconfirmation.

It will be seen from above figures that about 2329 of the 28,000 GPs are covered by the PWS maintained by ZP. This is about 8% of the GP's.

In PWS, the ZP incurs expenditure on pumping (electricity bill), operational staff, occasional repairs to pipes and motor, and basic water treatment. However, the ZP is not in a position to recover the full amount spent from the GPs or the beneficiaries. One reason is the ZP operates such PWS where the GPs themselves do not have a proper source in nearby areas. So they source water from a distant place. This increases the electricity bill. The shortfall in collection in PWS is met from the general fund of the ZP. In other words, ZP subsidises the operation. We have made some suggestions in this regard at a later part of this chapter.

6.20.2 Hand pumps and Power pumps:

Hand pumps and power pumps are another source of drinking water. Generally, their importance is under rated, as they are old fashioned. But it is the HP and PP which come to the rescue of people during summer months when PWS other fails due to lack of water at source. Most of the sources of HP and PP are very good and a real back up. It is often close to small settlements. They played a big part in earlier decades but overshadowed by the PWS.

ZP– Hand pumps & Power pumps in the districts:

Table 32: Expenditure and tax collected for the usage of Hand-pump and Power-pump :

Average of all three years (2015-2016, 2016-17 and 2017-18) (In Lakhs)					
District	**Number of Hand pump**	**Number of power pump**	**Hand pump and power pump total expenditure**	**Tax collected from Grampanchayat**	**Deficit**
Palghar	4,458	8	57.42	30.01	-27.41
Raigad	2,906	76	92.17	32.95	-59.22
Ratnagiri	3,028	310	10.84	3.95	-6.90
Sindhudurg	2,948	295	24.16	2.02	-22.14
Thane	2,537	48	42.92	26.47	-16.44
Ahmednagar	8,896	0	43.88	68.42	24.54
Dhule	2,637	0	124.52	5.55	-118.96
Jalgaon	4,381	0	243.95	36.35	-207.60
Nandurbar	403	403	579.95	16.96	-562.99
Nashik	6,218	0	289.70	64.14	-225.56
Kolhapur	4,186	654	105.00	52.47	-52.52
Pune	14,025	0	400.44	130.84	-269.60

Average of all three years (2015-2016, 2016-17 and 2017-18) (In Lakhs)					
District	**Number of Hand pump**	**Number of power pump**	**Hand pump and power pump total expenditure**	**Tax collected from Grampanchayat**	**Deficit**
Sangli	4,187	131	160.70	99.16	-61.54
Satara	7,488	494	402.89	101.60	-301.29
Solapur	9,135	0	323.61	102.02	-221.59
Aurangabad	120	27	0.00	27.28	27.28
Beed	8,777	0	330.39	147.42	-182.98
Hingoli	5,083	164	92.25	39.90	-52.35
Jalna	5,842	210	339.48	55.59	-283.88
Latur	0	1,872	299.21	100.81	-198.41
Nanded	0	0	0.00	0.00	0.00
Osmanabad	4,329	0	205.68	43.72	-161.96
Parbhani	6,599	207	156.75	26.29	-130.46
Akola	4,530	179	89.83	28.51	-61.32
Amravati	4,860	183	259.06	126.38	-132.68
Buldhana	5,928	0	273.74	89.73	-184.01
Washim	3,156	69	7.96	0.00	-7.96
Yavatmal	8,509	292	132.21	43.33	-88.87
Bhandara	5,905	0	118.88	68.82	-50.06
Chandrapur	7,657	46	282.25	181.70	-100.55
Gadchiroli	9,533	0	245.29	161.68	-83.61
Gondia	7,812	53	134.84	114.77	-20.08
Nagpur	7,862	0	663.39	70.73	-592.67
Wardha	4,462	84	152.21	111.45	-40.77
Grand Total	**1,78,397**	**5,805**	**6,685.56**	**2,211.02**	**-4,474.55**

Here again, it will be seen that as the ZP or its field arms that is Panchayat Samiti are unable to fully collect the hand pump and power pump charges, the shortfall is off set from the general fund. It will be seen from above figures that together all ZP transfers about 44 crores of its general funds for this purpose. Considering that the total income of ZP is 712 crores (after removing excess income of top three districts due to stamp duty **this internal cross subsidy works out to about 6% (44/712) of the total income of the ZP.**

6.21 Expenditure on schemes or activities identified by the Zilla Parishad body:

After spending on compulsory activities, own establishment and cross subsidising the loss in providing drinking water (either PWS or hand pumps) there is very little spare money available to a ZP body today, considering that their total average income is just Rs.20.94 crores (see para 6.16.2 above). This is spent on various activities of their choice. Mostly it goes to repair works, like repair of roads (over and above what State Government gives) and also on buildings. If we take the average population of a district in Maharashtra at about 20 lakhs, and about Rs. 5 crores are available as above then the per capita spending is just Rs.25 per annum

The three high own income districts of Pune, Raigad and Thane have of course substantial amounts available with the body and are exceptions to this comment.

6.22 Overall analysis of income and expenditure pattern of Zilla Parishad's own income:

6.22.1 Shrinking Assigned Tax Income:

As elaborately pointed out above in earlier paragraphs, the income side of ZP through assigned taxes- their main source of income - is stagnating. This is because all the assigned taxes except stamp duty are cesses on such items which do not fetch incremental revenue any more in changed socio economic landscape of Maharashtra. In future, their share is only likely to decline.

6.22.2 Shrinking income from agency fees:

On the non-tax side, earlier ZP used to get substantial amounts as 'agency fees' under Section 123 of the ZP & PS Act. The concept of agency schemes has an interesting background and history. The list of transferred schemes under Section 100 of the ZP & PS Act is given in Schedule I of the Act, known as District List. After the ZPs become functional, the Government used the ZP machinery to implement many new schemes, beyond the list given in Schedule I. The services of the ZP machinery were requisitioned under Section 261 of the Act by the State Government to implement such agency schemes. Perhaps, based on the consistent demand of the Zilla Parishad officials and non-officials at that time to augument their income, the Rural Development Department vide its GR ZPA/1090/CR/1652/24 dated 29 May 1989, directed all departments which were requisitioning the services of ZP machinery for implementation of additional schemes to pay an agency fees of 3% to the Zilla Parishad.

Subsequently, the First State Finance Commission recommended in paragraph 13.13 that the agency fees must be increased from 3 to 10%. However, the Government took a decision to increase the agency fees from 3% to 5% from 1.4.1999 (GR No MZP/1099 /CR/3458 /24 dated 29 May 1999.) But in the same GR RDD clarified that the 5% agency fees will be extended only to those schemes shifted to ZP under Section 123, and not to those which are directed to be implemented by ZP by Government in exercise of its powers under Section 261 of ZP & PS Act. **Thus, the Government exactly reversed its position taken by earlier GR of 1989.**

The classic example of an agency scheme under Section 123, was the biogas scheme, which was entrusted by Agriculture Department to ZP in view of its reach till the last village. For this, ZPs used to get 5% agency charges. Till 2000 there were huge targets for biogas and substantial amounts used to come from Government of India for the biogas programme. Implementation of this schemes as an 'agency' enabled the ZP Agriculture Section to get substantial amounts as 'agency' fees and purchase vehicles for field work, and meet other office expenses. One may say that the 5% agency fees was also a motivational factor for Maharashtra doing well in biogas programme.

In recent years, such agency schemes like biogas have shrunk. Additionally, the 5% agency fees which used to be given initially in some development schemes have been quietly knocked off by various executive orders, placing them in the framework of Section 261 of the Act. The ICDS and MLA Local Development Fund scheme are two good examples. In short, by various executive orders issued by various departments using Section 261, the 5% commission or agency fees which the ZP used to receive, has virtually shrunk, and is now a paltry amount. This is a good example of how a good ZP financial source is getting weakened, albeit unwittingly.

Another observation regarding the entire agency scheme is that now the awareness of Section 123 and Section 261 of the ZP & PS Act is less and less both at the State level and at ZP level. The ZP is treated as a routine extension of Government and it is taken for granted that they have to implement any scheme of Government without taking into account the additional administrative and financial load on them.

6.22.3 No share of the Central Finance Commission for ZP and PS:

The Central Finance Commission has been increasing its contribution to Local Bodies over the years. However, the 14th Central Finance Commission (2015-20) has directed that the about Rs.15,000 crores for Maharashtra during the 5-year period, must be fully earmarked for the Grampanchayats only, with no allotment for the two top layers of the Panchayat Raj, namely the ZP and PS. In the 13th FC period all the three levels of Panchayat Raj Institutions received an amount of Rs.5589 crores. Out of this ZPs received 10% that is 558 crores and Panchayat Samitis received 20% namely Rs.1116 crores. But in the 14th FC they did not receive any allocation at all.

6.22.4 Limited opportunities to mobilise own income:

ZPs and PS do not provide services directly to the public, so that levy various taxes as Grampanchayats and Nagar Palikas can do. In fact, in other States of India also they are fully dependent on the State support for their financial sustenance. In short their financial freedom and potential to raise own resources is limited.

6.22.5 Increasing inevitable expenditure of ZPs:

At the same time, the expenditure side is increasing. Some are compulsory expenditure; like that they have to maintain their own non official establishment. This includes cost of basic facilities to elected non official office bearers like quarters, vehicles, travel allowance, honorarium etc. There are other items like honorarium to ZP councillors for attending meetings, expenditure on various Committees and General Body. Further, the vehicle and POL expenditure of CEO, ACEO, CAFO and Deputy CEOs are borne from the ZP fund.

Additionally, 35% of the available ZP own income are to be compulsorily spent on weaker sections, women and child and physically challenged as per Government orders. Most of this goes for individual benefit programmes, like providing sewing machines, agricultural equipment, tin sheets and such items.

In addition, 20% of the funds have to be spent on maintenance of drinking water schemes –either on ZP PWS or hand pump maintenance.

Thus almost 55% of the limited own income of ZP is pre-empted, on compulsory areas and own establishment. This leaves very little spare money for the ZP body to spend on the felt priorities of the district. Some of the districts like Thane, Pune, Raigad and Nagpur have substantial own income mainly because of stamp duty cess income. In these districts, many rich urbanites purchase lands in nearby rural areas for farm houses and anticipating that land prices will increase further and they can make profits by selling it at that time. So land prices are high and there are many land transactions. But this is not the case with balance thirty districts.

6.22.6 Why must ZP need some minimum own resources?

Question arises, as when ZPs are essentially implementing and monitoring agencies, why should they need additional funds as 'own income' when State Government is making funds available for all development and welfare activities.

The answer could be in two ways. The first answer is that having created the third tier of Governance in the Constitution itself, they should be also financially strengthened as per the spirit of the 73rd Amendment. That is, Democratic Decentralisation in letter and spirit.

The second answer, a more conservative one, is that ZP should be given funds to do at least what they are expected to, even in a limited context. This SFC takes the second position above. The bigger issue of financial autonomy and democratic decentralisation is not denied, but we are of the opinion that how much to decentralise and delegate is a bigger policy issue. The Government has already appointed the Thakare Committee to review the Panchayat Raj structure afresh. At present, we go with the prevailing or given situation.

Even if we take second position above, certain minimum funds are therefore required by ZP for their own upkeep and spend on their own establishment expenditure and to properly supervise the 97% Government funds. So the 3% 'own funds' is critical to effectively use the 97% funds.

ZPs as elected bodies need funds for their daily maintenance and supervision. The ZPs are expected to be good implementing agencies of the substantial funds made available to them for implementation. The elected officials are expected to supervise and monitor their effective spending. They are expected to manage their drinking water systems and help Grampanchayats in handling the water supply. Finally, ZPs are expected to maintain and upkeep the assets they have developed over the years and handed over to them. This includes thousands of school buildings, medical and animal husbandry dispensaries, small irrigation tanks, rural roads etc. ZPs are expected to 'solve' local problems, quickly and be very responsive to local needs. But for doing even a minimum, ZPs are woefully short of own administrative funds.

Further, the non-officials will feel motivated only when they have a margin of financial freedom to spend on the felt priorities of the district and exercise their will in local governance.

6.22.7 Interest income- the new source of 'income' for ZPs:

In fact, as ZPs own income sources are stagnating, and essential expenditure increasing, the ZPs are squeezed financially. In such a back to the wall situation, ZPs are depending on 'interest income'-that is the income earned during the time gap between the receipt of funds from Government and spent by ZP as a substantial source of income. This is strictly an unacceptable source of income. But, as pointed out in paragraph 6.13 this amounts to 36% of the ZP's own income. This 36% has been workout by excluding outlier districts of Pune, Thane and Raigad.

This interest income is also under threat as Government has recently started PFMS for a number of schemes and system like LRS have been started for programs like 'teerthashetra yojana', etc. In other words, if PFMS is extended then ZP will lose interest income also. Interest income is certainly not a sound way for the ZP to get income, as it is technically loss to Government.

6.22.8 SFC's recommendations to augment ZP's own resources

Seeing the writing on the wall in ZP own income and expenditure position, the SFC is of the view that there is need to augment the own resources of each ZP by at least Rs. 9 crores. The present average own income of a ZP is about Rs.21 crores. For arriving at this figure, we have excluded the top three districts namely Pune, Raigad and Thane as they have huge stamp fee income, as elaborated in earlier figures

But of this Rs.21 crores ZP own income, about 36% comes from an 'unofficial source' namely interest income. The total interest income of ZPs is today 280 crores. This averages to Rs.8.24 crores. Or to put in another way, if at present if each of the ZPs are augmented by at least an additional Rs.9 crores, they would be in a safe position for the next few years, at least for the SFC reporting period of 2020-25.

We therefore propose certain ways by which the income side can be practically augmented and expenditure side pruned or managed properly. As we mentioned in the 'Chapter on Approach of SFC, this SFC has consciously not proposed any 'SFC devolution grants' to be allocated to the PRIs, as is being done in other States.

It is proposing to continue the conventional line of the Maharashtra Government of tweaking the existing flow and pattern of funds and suggested ways to strengthen the ZPs and PS.

6.23 Recommendations to increase ZP cess income side:

6.23.1 Introduce a two percent management fees (in lieu of current Agency Charges) on all state government schemes and cancellation of old guidelines (GR ZPA/1090/CR/1652/24 dated 29th May 1989) relating to 5% agency charges (Abhikiran Shulk)

As pointed out in detail in paragraph 4.2, the 5% abhikaran yojana or agency charges introduced in 1989 has run out of course. First of all, **it is desirable to completely abolish it**.

In lieu of abhikaran yojana, the SFC recommends that a new support system called Management support yojana (vyvasthapan sahayyak yojana) be introduced, wherein the ZP will get 2% management or administrative charges on all schemes implemented by it whether under Section 100 or Section 123 of the ZP & PS Act. This is to be shared between ZP and PS at 1% each. We feel this will be a good, permanent source of support for ZP as well as PS who are running short of own funds. This will also incentivise the ZP and PS non-officials and officials that they are being rewarded for newer and newer schemes which are routed through them. Broadly, this 2% management fees will be only the scheme component and not on non-plan or establishment (salary component). It should have allowed to be deducted by the CAFO suo-moto at the time of implementation or expenditure.

We did some analysis of how much the load will be if this 2% service fee is implemented. It comes as follows:

Table 33: Total Scheme amount routed through ZP : (Rs. In Crores)

Sr. No.	Name of the district	Total scheme amount routed through ZP (including DPDC) – indicative figures in crores (average of 2015-16, 2016-17, 2017-18)	Calculation of 2%
1	Nanded	305	6.10 crores
2	Raigad	108	2.16 crores
3	Jalna	173	3.46 crores
4	Nashik	649	12.99 Crores
5	Yavatmal	249	4.98 Crores

The additional support envisaged above, appears reasonable and would be between 2-6 crores per district per annum, depending on quantum of schemes being implemented in the district. The overall financial load will be in the range of Rs.170 crores (Rs.34 x5= 170 crores) but there will be also a saving of Rs.15.28 crores due to suggested abolition of the 5% agency fees under Section 123. Thus we can say that the new commitment will be in order of about Rs.155 to Rs.160 crores.

We recommend that Government (RDD) issues comprehensive GR on this matter.

6.24 Recommendations relating to assigned taxes:

SFC has already given its recommendations relating to assigned taxes in earlier paragraphs. Essentially they are

(a) Revisiting the procedures for releases and clearing the huge backlog of payment of stamp duty to ZPs

(b) Reworking the calculation method of LR grants

(c) Compensating the districts which are receiving less in the 1% cess on stamp duty with a matching grant, to offset their geographic disadvantage

(d) Increase the irrigation cess from 20% to 40%

6.25 Recommendations and suggested strategy to more effectively manage or control the expenditure side of ZP cess fund:

6.25.1 ZP to be given additional funds for road maintenance:

The construction, maintenance and repairs of village roads, other district roads have been transferred to Zilla Parishads. (See item 50 of Schedule-I to ZP & PS Act- Section 100). Earlier, even major district roads were with the ZPs but it was taken out of the list by suitable amendment dated 31 January 2013.

Out of the total road length of 3,36,991 kms., other district roads (61158 kms.) and rural roads (175731 kms.) are with the Rural Development Department – that is a total of 2,36,889 kms. are under ZP.

The following amounts have been made available to the ZPs both from State budget (through RDD) and District (DPC) budget (through Planning) for ZP roads.:

Table 34: Additional funds given to ZP for road maintenance : (Rs. in crores)

Sr. No.	Head	2015-16	2016-17	2017-18	Remarks
1	Maintenance and repairs (Non-plan 3054) State Plan	221	255	263	Separately 100 crs. is provided for wages of mile coolis
2	Strengthening of rural roads (5054) DPDC funds	1004	1098	790	This is for village roads and other district roads
	Total	**1225**	**1353**	**1053**	

In addition, the following funds have been made available through the Maharashtra Rural Roads Development Association (MRRDA).

Table 35: Funds given to CMGSY and PMGSY : (Rs. In Crores)

Sr. No.	Head	2015-16	2016-17	2017-18
1	Chief Minister Gram Sadak Yojana (CMGSY)	100	804	2459
2	PMGSY	802	1226	478
Total		**902**	**2026**	**2937**

Here the implementation is done by a dedicated team of engineers working in MRRDA.

The following are our observations:

(a) The funds being made available to the ZP for maintenance and strengthening under 3054 and 5054 are very meagre compared to the road length. For a distance of 1.80 lakh kilometres the amount available is about Rs.1177 crore average per annum in recent years. This gives an average maintenance and special repairs funds of just Rs. 65,000 per kilometre, which affects quality of maintenance.

(b) Due to huge (legitimate) demand for repairs and maintenance in their area and limited funds available, the available funds are spread very thinly. Therefore, it is not possible to maintain the required quality in work as regards ZP roads.

(c) It is also seen that in some districts, the PWD implements the work at the request of the funding agency, though roads are with ZP, by getting ZP to pass a resolution (like MLA and MP funds and other scheme funds)

(d) Substantial work is already being done in ZP roads from the PMGSY (over 27,000 kms. completed so far) and CMGSY (over 7000 kms. completed so far) through non ZP agencies.

(e) The ZP works machinery has inherent technical limitations and not as technically equipped as the State PWD.

(f) Disproportionate energy and time goes in ZP on roads, neglecting the maintenance of buildings and other minor irrigation.

(g) The available engineers of ZP are best put to use on buildings construction and maintenance, minor irrigation rather than spread thinly on roads. It is observed that there is acute shortage of engineers at Panchayat Samiti level for village level construction work like GP Bhavan, anganwadi, rural housing and the like.

6.25.2 SFC Recommendation:

The SFC recommends increase of maintenance grants under 3054 and 5054 for the ZP roads. The present amount of grants, as pointed above are much less resulting in very low expenditure for maintenance of ZP roads.

6.26 ZP to be compensated for excess expenditure on power bills of ZP schemes based on distance of source of water:

The number of ZP-PWS are certainly limited, as would be seen from the numbers of PWS given in *Para 3.3.1. Almost all of them are regional schemes. However, wherever they are being operational, the sources are at a distance. Hence the ZPs have to spend huge amounts as electricity bill for pumping water from a distance. As a consequence, the billing charges are high and the ZP is unable to collect the maintenance charges from the community it serves. It has to necessarily subsidise the community by paying the bills from its general fund, or keeping the payment to electricity department as 'pending'.

Recently, the Water Supply and Sanitation Department has come out with a GR No. मुपेयो 2017/प्र.क्र.01/पापु-19 dated 26th November 2018, which would help the ZP to substantially tide over the electricity bill issues of their regional PWS.

As per this new GR, the ZP operating regional water supply schemes, will be reimbursed as follows:

(a) If it is a gravity scheme- up to 50% of the expenditure on maintenance multiplied by collection efficiency ratio (that is collection /demand).

(b) For other schemes, full electricity expenses, but multiplied by the collection efficiency ratio (that is collection /demand of the regional PWS)

6.26.1 SFC's recommendation:

SFC welcomes the well thought out above GR of 26.11.2018. It will definitely go to reduce the electricity bill burden of the ZP regional water schemes normally borne by the ZP fund. It links reimbursement with collection performance as well, which is a good approach. However, this GR provides for reimbursement to the ZPs after they pay the electricity bill. Therefore, for this purpose, the Executive Engineer (Environment Engineering) ZP may require a rolling fund. This will enable the ZP to make the payment first from its own resources (ZP Fund) and claim the subsidy as per GR dated 26/11/2018. RDD should issue suitable directions to the ZP to create this revolving fund to get full benefit of the Water Supply Department guidelines.

6.27 Handing over hand pumps and power pumps management to the Panchayat Samitis :

We have pointed out (Para 6.20) that ZPs subsidise the loss in running the hand pump and power pump maintenance units. The ZPs almost subsidise Rs.44 crores on this count. (Para 6.20.2).

At present ZP retains a fleet of vehicles and mechanics. They visit various villages for repairs. The staff are usually ZP staff, but supervised by a Deputy Engineer (Mechanical) from GSDA. He reports to the Executive Engineer of Water Supply Department.

Presently, while BDO is responsible for drinking water, the HP units are controlled at district level. There are complaints of poor or slow response to people's complaints about HP not working.

An amount of Rs.250/500 is to be collected as maintenance charges for each pump, from the Grampanchayat or community However, the recovery barely reaches 50% in the absence of proper monitoring The collection of HP maintenance fees is also poor, because only if BDO and Gram Sewaks is involved, collections from communities are possible. But now everything is controlled and managed at the district level.

Thus, after detailed discussion and analysis, we find there is great scope to improve the management system of HP and PP units and reduce the cross subsidy from limited ZP funds.

6.27.1 SFC Recommendation

Recommendation is that the HP maintenance units must be fully shifted to Panchayat Samitis fully, one unit per Panchayat Samiti. A separate taluka HP and PP maintenance Society must be registered at the PS level. The SDO, BDO and Tahsildar, Dy. Engineer (WS) and other officials must be made ex officio members of this Society. The Society must be also free to accept donations and grants from CSR, local citizens and others well wishers who may be now resident in Mumbai or abroad, but belong to that area originally. This will help in building up the corpus. Administratively of course the unit will report to the PS Body and BDO.

This arrangement will bring in more responsiveness to the HP and PP unit and also improve collections as close monitoring is possible by BDO. This will also bring in better preventive maintenance of the HP where the State Government has put in huge investments of about Rs.1260 crores over the decades. (1.80 lakh hand pump bores x 60,000 is current cost per bore, add about 6000 electric pumps at Rs 3 lakh each comes to about Rs.1260 valuable assets) These are important assets, with best locations and must not be allowed to deteriorate due to neglect. The State Government should also come with a onetime grant of 2.5 lakhs as corpus to the proposed taluka level society, provided the ZP also pitches in with Rs. 2.5 lakhs with own funds. Thus each PS Society will have a corpus of Rs. 5 lakhs to start with.

The ZP can continue its role of fixing the rates of HP and PP spare parts by tender, leaving the purchases to the taluka level body/PS.

We recommend that the State Government looks into this neglected, but important area comprehensively and the Water Supply and Sanitation Department issues a fresh GR incorporating the points stated above. This will increase collections from users, reduce the financial burden of ZP which it is bearing unnecessarily.

6.28 Summary of Recommendations to increase 'own resources' of Zilla Parishad

Table 36: Summary of Recommendations :

Increasing the ZP Income	Reduction in ZP Expenditure
Stamp duty cess – Compensation for low income districts (below State average)	Expenditure on electricity for long distance pumping cost in ZP RWS to be met by Government
2% Management Fees on all Government Schemes implemented through Zilla Parishad	Shift hand pump, power pump income and maintenance to Panchayat Samiti
Increase in Irrigation Cess from 20% to 40%	
Improved management of Assigned Taxes	

6.29 Other critical recommendations for improvement of financial management of ZPs

Certain financial reforms:

6.29.1. Introduction of a Maintenance Fund

In the annual accounts of ZP, a certain amount of the income is transferred to depreciation fund as it is done in any organisation. However, the amount that is transferred by ZP varies from ZP to ZP depending on the financial resources. Many ZP do not have adequate resources for meeting their immediate needs, so adequate transfers to depreciation fund is not done. As a result, there is not adequate resources to replace the capital like buildings or for its maintenance and upkeep.

Considering the huge number of buildings and properties with ZP it is essential that a compulsory 2% of its income is transferred to maintenance fund. This maintenance fund must be maintained at a higher level, say the Divisional level and should be allowed to be used by the ZP after a three years gap from the day it is invested. We recommend that Government issues detailed guidelines on Maintenance Fund, with prioritisation. We have elaborated the concept of Maintenance Fund in the chapter on Accounts and Finance.

6.29.2 Introduction of certain ratios to be revealed in ZP annual accounts and modify the account code:

The present format of the ZP Accounts reveals only figures. It does not show where and how the amount is spent. There is very little of analysis and it is very difficult to draw any conclusions at first glance. Thus we may say that the accounts hide as much it reveals! In corporate and banks, evaluation is possible by usage of well-known Financial Ratios which reveal the financial health. **We recommend some ratios should be shown in the end of annual accounts relating to own income of a ZP.** This should be an integral part and parcel of the annual accounts. Some indicative ratios are:

- Share of various sources of total income as percentage of one another
- Change in own income over last year in percentage
- Expenditure items in percentage of one another

The finance reform mission which has been recommended in the chapter on Accounts must give the desired Financial Ratios and the Government must issue a GR making it a compulsory part of the ZP accounts.

6.29.3 Dispensing with gazette notification regarding accounts:

Many of the procedures given in the ZP and PS Act need revisit in changed circumstances. The Maharashtra ZP and PS Accounts Code are rules notified under the Act. It is observed that while the ZP annual accounts must be placed in the legislature there are certain redundant measures like that it must be published in the Government Gazette. Rule 66(9) of the said Accounts code reads as follows:

The abstract of the statement of accounts referred to in Section 136(9) of the Act, shall be prepared by the Chief Executive Officer in Form 21-E or before 15th October and the same together with statement of accounts of all the Panchayat Samitis in the District forwarded by the Block Development Officers shall be published by the Chief Executive officer before the 15th November in the Maharashtra Government Gazette. The SFC submits that as now websites are open to public, it is adequate now to display the accounts in ZP website or in RDD website for a period and the tedious method of gazette notification (which had relevance in earlier decades) may be dispensed with.

6.30 Certain institutional reforms:

6.30.1 Need for creating a separate Management Unit for Panchayat Raj:

In Maharashtra, the Rural Development Department and Panchayat Raj are handled by the same Ministry or Department. Unlike in other States there is no Commissionerate or Directorate for either Rural Development or Panchayati Raj. In most other States of India there are two Directorates one for Rural Development and one for Panchayat Raj. In Maharashtra everything is being handled from Mantralaya level. All other Departments in Mantralaya have a Commissionrate or Directorate.

In the rural development side, two management units have been created in recent years to deal with rural housing (State Management Unit – Rural Housing) and rural poverty alleviation (State Rural Livelihood Mission). This has greatly helped Rural Development work. However, in the Panchayat Raj there is no permanent institutional mechanism to look into Panchayat Raj issues on a continuous basis.

This can be done best by an independent Directorate with institutional memory. However, in lieu of a Directorate, another option could be State Management Unit Panchayat Raj. It is seen that the Rural Development Department has created a State Management Unit- Panchayat Raj for implementing the Rashtriya Gram Swarajya Abhiyan (RGSA) and has issued a detailed GR No. RGSA/2018/Pra Kra 121/Astha 15 on 20th February 2019. About 31 posts have been created, about 18 regular and balance contractual. All are to be funded from RGSA funds. While this is most welcome, the SFC strongly suggests that this SMU-PR must be made a regular entity with regular posts. Otherwise, after RGSA project is over, then the SMU will have to wind up.

This is best done by shifting the posts in about 3 units/sections in Mantralaya to the field, as the SMU-PR will be doing presently what is being done in Mantralaya. Thus there will be no need to create any new posts.

If a permanent arrangement is made, many of the present administrative gaps noticed in assigned taxes and other issues will get automatically rectified.

This office can also be used to release the funds to Panchayat Raj (like it is being done by the Directorate of other departments) instead of from Mantralaya.

Thus the SFC strongly recommends the creation of a separate Management Unit for Panchayat Raj on a permanent basis (instead of ad hoc basis linking it with RGSY) by shifting three sections of Mantralaya, and without creating any news posts.

6.30.2 Appointment of a ZP Revenue officer reporting to CAFO

Our analysis of the prevailing system shows that there is a major institutional or a human resource weakness in the management of the ZP income side. This is that there is no single section or officer looking into the resources and assets of a Zilla Parishad. The CEO, ZP is busy and continously engaged in achieving the targets and focussing on rural development programmes. The CAFO is busy in managing the expenditure of government funds (93% of Zilla Parishad Income). The responsibility of managing the ZP own income side, monitoring the same is a most neglected area of a ZP. It is expected to be done by the Dy. CEO (VP) by convention, though all the financial figures are naturally available only with the CAFO.

This institutional gap has to be rectified on priority. Once there is a full time person to look into the matter, work automatically improves.

Hence we recommend Government to create two posts per ZP:

(a) a ZP and PS revenue officer – to be filled by a MDS Class II officer

(b) An AAO or Dy. Accountant from ZP cadre to assist him

These posts though created by the Government **must be paid from ZP funds only for three years**. After three years, the ZP has the freedom to review and decide whether on account of the two posts created, whether its own income has enhanced or not and then decide to continue or discontinue these posts. But for three years every ZP has to necessarily create these posts from own resources. Government needs to give a direction under Section 261 of the Act.

The ZP Revenue officer must report to the CAFO and not to the Dy. CEO VP or any other officer.

The duty chart of the ZP Revenue officer will be as follows:

- To monitor all sources of own income of ZP
- To provide methods and ideas to ZP how to enhance the income of ZP by auction of its tanks and other properties
- To keep a register of the assets of ZP as required in the Act
- To report every quarter to the ZP Body about the efforts taken by him in this regard

We are very confident that spending about Rs.1 lakh per month or roughly about Rs 12 lakhs on these two posts, by the ZP initially will be offset by the increase in income many times this for ZP. It will be a sound investment. We recommend that Rural development department issues a detailed Government Resolution in this regard.

6.30.3 Need for a grievance redressal mechanism for ZPs:

It will be seen from the earlier paragraphs, that ZPs – for that matter all three tiers of Panchayat Raj institutions – do not have a grievance redressal mechanism in situations when they do not get what they are entitled, even by law.

At present, there is a Monitoring Committee to ensure that the PRIs get all the assigned taxes on time. This was constituted vide GR RDD/Pra sa 7 /1093/24 dated 4th June 1993. The CEO is the Chairman of this Committee and RDC of the Collector office is a member and Dy. CEO VP is the Member Secretary. During our visits, we found that in almost all districts no meetings of the Committee takes places and the GR of 1993 (issues 26 years back) is almost forgotten.

The only way the PRIs can make their grievances is administratively through usual channels.

Our SFC is of the strong view that there needs to be an institutionalised grievance redressal mechanism for getting their dues as given in Act and as per Government decisions.

6.31 Other miscellaneous recommendations:

This being a Finance Commission, it is not our intention to comment on the entire spectrum

of administrative reforms. However, we want to identify certain areas, long neglected, which has a big bearing on the financial performance of ZP and PS. They consume enormous time, and has a huge financial implication, in terms of court orders, compensation to be paid, interest on delayed payment, etc.

Important Issues relating to Human Resource Management in ZP and PS:

6.31.1 Complete revamp of disciplinary and conduct rules

The Zilla Parishad employees are governed by the Maharashtra Zilla Parishad District Services - Conduct Rules, 1967. This is modelled on the Maharashtra Civil Service Conduct Rules. They are also governed by the Maharashtra Zilla Parishad District Services (Disciplinary and Appeal) Rules 1964. However, these were enacted in 1967 and have not been updated. These needs to be updated fully on the lines of the Maharashtra Civil Service Conduct and Disciplinary rules.

6.31.2 Applicability of various labour laws to employees of Zilla Parishad who are getting Government pay scales:

It is observed that many Zilla Parishad employees routinely go to labour court to redress their grievances. Actually, ZP staff are governed by the ZP District Services Conduct and Disciplinary Rules cited above. They got Government salaries and get all the perquisites, lifetime secure job, and facilities on par with a Government servant. They also get pensionary benefits. **So it is not clear how and why legally labour courts can entertain them.** Recently, there was an interesting case relating to ZP, Yavatmal where the labour court has stated that the ZP employees come under the ambit of Gratuity Act, whereas the employees already get gratuity as per Government rules.

In SFC's view, there is perhaps some confusion in the labour law area whether Zilla Parishad staff are to be treated as typical Government servants (when actually they get all the benefits on par with the Government) or whether they are to be governed by the prevalent labour laws? Very often ZP staff seem to be getting the benefit of both. Possibly, some clear enunciation in ZP & PS Act or Rules and in the State Labour Acts that it will not be applicable to ZP employees is necessary to remove ambiguity.

The SFC strongly recommends that the status of ZP staff from Labour law point of view and related issues **must be examined in depth by an expert committee**, in which an officer (serving or retired) of the Labour department must be a member. The issue needs to be settled once for all, by bringing necessary changes in relevant Act or rules as necessary. This will save enormous time and resources of the Zilla Parishad and State Government which now goes into unwanted labour court litigation.

6.31.3 Issues relating to introduction of NPS in Zilla Parishad system:

All ZP employees were entitled to pension, like State Government servants. However, in 2004 the pension for newly recruited employees was replaced by the National Pension scheme, where a contribution is made by both the employees and employer and transferred to the National Pension Fund.

However, in practice there are many gaps and loopholes in implementation in NPS and we find that many ZP are at different stages in implementation. Once again there are many issues relating to labour laws which needs to be addressed. Zilla Parishads run grave risks of violating prevalent labour laws if the issue is not handled properly. SFC recommends that the Rural Development Department comprehensively studies the position and come out with a time bound action plan to put things on track.

6.31.4 Better management of available ZP Engineers:

The Zilla Parishad depends enormously on its cadre of civil engineers for implementing the various schemes of the Government. This could be construction of buildings, rural roads or small irrigation systems. Compared to the State Government the size of works handled by a ZP engineer is very small.

As per present system, the Zilla Parishads recruit civil engineers at the level of Junior Engineers or one level below as Civil Assistant Engineer. They rise up within the Zilla Parishad, by experience and seniority up to level of Section Engineers. There are three engineering cadres in ZP namely irrigation, water supply and works. Beyond Sectional engineer level, they have to get promoted to the State cadre only. They have different channels of promotion namely PWD channel / Water Supply / Irrigation channel. Their State level seniority is maintained at the State level either by PWD or Water Resources (Irrigation) or Water Supply Department. Depending on their ZP cadre, they get promoted as Deputy Engineers in the State cadre either PWD or Water Supply /Irrigation. Very few rise to the level of Executive Engineers. The general experience is that the Deputy Engineers or Executive Engineers are sent to ZP just at the fag end of their careers on promotion. There is very little motivation for a state cadre officer when is transferred to a Zilla Parishad at that pre retirement stage to show good performance. All these leads to poor quality of Human Resources in the ZP civil engineering department.

It is observed that within the ZP itself, the tendency of the engineers is to opt to ZP (Works) section. Generally, there are very few engineers available in the minor irrigation/Water Supply division (though generally minor irrigation work of ZP is less) and in the Panchayat Samitis. In fact, maximum work is in the Panchayat Samitis and there is acute shortage of engineers. It may be noted that engineers have to visit various Grampanchayats again and again for supervising and monitoring hundreds of scattered works of small value. This is time consuming. This is one of the reasons for the slow pace of work in the Zilla Parishad and slow pace of absorption of funds made available.

There is need to completely study and overhaul the present management of available engineers and their workload.

The SFC recommends as follows for better management of ZP resources:

(a) creating a panel of outside engineers – retired or suitably qualified. They need to be suitable trained and accredited. These empanelled engineers can do the estimate preparation and inspection from time to time. Core regular engineers of ZP should focus on tendering, occasional visits and releasing interim and final bill.

(b) to merge the irrigation/Water Supply and works cadre of engineer as it creates conflict amongst them and often imbalance in their workload. This is popularly known as 'Akola pattern' as it was successfully implemented in ZP, Akola.

(c) constitution of a Committee to examine the entire issues relating to management and workload of engineers and come out with a long term solution.

6.32 Better utilization of ZP immoveable property:

When ZPs were constituted in 1960s, plenty of Government land was available with the Government and they were given to ZPs and PS. They are now prime lands in the city hosting ZP offices, godowns etc. Likewise, good prime lands were made available for Panchayat Samitis, and also PHC's, animal husbandry hospitals etc. in big villages. Now, with passage of time, the district towns, taluka towns and big villages have many good prime lands in heart of the town or village, with PRIs but they are grossly underutilised. There are also dangers of encroachments.

During our field visit, there were repeated demands from the non-official office bearers to allow the ZP to develop these properties and thereby give the PRIs an assured source of income to their body.

It is seen that Government has issued a GR dated Sankool/2006/Prakaran/199 /Pa Ra 7/ dated 1st September 2008 giving comprehensive guidelines to develop the PRI properties on BOT model. Subsequently, it is learnt that Government had stayed the implementation of this GR as there were complaints of misuse of the door that was made open to ZPs.

6.32.1 SFC's Recommendation:

SFC is of the opinion that time has come to carefully develop the properties of ZP on BOT or other suitable model and thereby give an assured source of income to the PRIs. More than ZPs it is required for PS which are starved of own funds. There is also shortage of good commercial properties in PS towns.

However, ZPs are not equipped to handle complicated BOT model of developing properties. BOT requires good knowledge of contract laws and financial viability issues and the whole exercise has to be very transparent. PRIs do not have the capacity for this.

SFC recommends that BOT should be done ideally by a Government agency like MSRDC or State Level PWD. Alternatively, some other dedicated agency can be considered. It recommends forming of a Committee to examine all aspects of this issue including successful case studies of such BOT done in the State and based on the recommendations to take further action.

6.33 Increase in honorarium to the non-official members:

Present facilities to non-official members are amended in 2012 vide RDD Notification No. ZPA.2010/CMS 71/C.R.122/PR-1 dated 20th November 2012. The rates are as follows:

Table 37: Present honorarium to ZP & PS non-official members :

Sr. No.	Category	Present rates	Remarks
1	ZP President- Honorarium	Rs.20,000 per month	RDD Notification No. ZPA.2010/CMS 71/C.R.122/PR-1 dated 20th November 2012
2	ZP Vice President	Rs.15,000 per month	
3	ZP Subject Committee Chairman	Rs 12,000 per month	
4	PS Chairman	Rs 10,000 per month	
5	PS Deputy Chairman	Rs 8,000 per month	
6	ZP President & ZP Vice President – Travel allowance	Rs. 2250 per month	
7	ZP Subject Committee Chairman Travel Allowance	Rs 1750 per month	
8	PS Chairman TA	Rs 1350 per month	
9	PS Deputy Chairman travel	Rs 900 per month	
10	ZP Member Travel	Rs 3000 per month	
11	PS Member	Rs 1200 per month	

SFC strongly recommends to review the present rates of honorarium, travel and sitting fees of non-officials and revise it so that it is on par with prevalent costs.

6.34 Panchayat Samitis:

Introduction:

As stated earlier, Panchayat Samitis do not have any independent legal entity in Maharashtra. They are covered under a single Act, the Maharashtra ZP and PS Act, 1961. We can call them the implementation arm of the ZP. They are closer to the public and Grampanchayats are directly supervised and monitored by them. The functions of Panchayat Samitis are contained in Section 101 of the Act. While substantial amounts are spent by a PS every month in schemes and in establishment (mainly salaries of primary school teachers and all staff of ZP deputed to PS) the own income of a PS is very limited. This is because their only source of own revenue of a Panchayat Samiti is a share in the land revenue cess. This is discussed later.

In some other States, as in Andhra or Tamil Nadu, the intermediate Panchayats (that is equivalent of Panchayat Samitis) are quite strong. But in Maharashtra they hardly have any role in decision making. The following are the observations made by the third State Finance Commission (2006) which are still relevant today:

'In our discussion with officials and non-officials in Panchayat Samitis, we have noticed a sense of resignation and helplessness regarding their role and authority. Complaints regarding undermining of importance of PS are common. Some of the office bearers have suggested abolition of the institution of Panchayat Samiti, if it cannot be strengthened to perform a meaningful role as an important constituent of Panchayat Raj institution'. (para 5.2.4)

'The Commission feels that the disillusionment and frustration of the functionaries of Panchayat Samitis is not entirely misplaced. Because of non-availability of (own) funds they are hardly performing any meaningful role. They are not making any contribution in policy making, planning and execution of schemes. The Commission suggests that the Government should deliberate and carve out a definite role for Panchayat Samitis. There should also be a clear understanding of the role and ZP and PS in execution of schemes and project as there is a considerable overlap of functions and activities. Part of the funds that are given are given to ZP should also be earmarked for Panchayat Samitis so that they can plan and execute the schemes without intervention of ZPs.' (para 5.2.5)

It is in the spirit of the above observations made way back in June 2006 that we are making the observations below.

6.35 Sources of own income of a Panchayat Samiti:

There are very limited sources of a PS. Basically they are a share of the land revenue cess (assigned taxes). They are:

Table 38: Sources of Income of Panchayat Samiti

Share of additional cess on Land Revenue (Section 155)	40% to ZP and 60% to PS
Matching LR grant (Section 185)	40% to ZP and 60% to PS
Incentive grant (Sec 186)	35% to ZP and 65% to PS

As the LR source is itself shrinking and the PS share is to be shared by all PS, the actual amount a particular PS gets is very less. The following is a sample study of revenue pattern of thirteen panchayat Samitis in different parts of Maharashtra.

Table 39: Average of Panchayat Samiti's income of three years (2015-18) : (Rs. in Lakhs)

Sr. No.	Panchayat Samiti	Funds received through transferred schemes (Section 100)	Funds received under agency scheme (Section 123)	PS own income (including cess)	Total Income
		Funds received	Funds received	own income	
		Percentage	Percentage	Percentage	
1	Vasai	6,823	235	24	7,082
		96.58	3.07	**0.35**	
2	Sangameshwar	9,932	402	125	10,459
		94.96	3.84	**1.2**	
3	Satara	635	5	63	703
		91.02	0.87	**8.11**	
4	Karmala	6,789	265	10	7,064
		96.17	3.69	**0.14**	
5	Dhule	11,921	341	86	12,349
		96.56	2.75	**0.69**	
6	Dindori	7,074	368	61	7,503
		94.25	4.93	**0.81**	
7	Nandura	4,008	175	53	4,235
		94.61	4.1	**1.29**	
8	Manora	2,991	226	12	3,229
		91.64	7.99	**0.37**	
9	Gangakhed	5,273	421	16	5,709
		92.38	7.35	**0.27**	

Sr. No.	Panchayat Samiti	Funds received through transferred schemes (Section 100)	Funds received under agency scheme (Section 123)	PS own income (including cess)	Total Income
		Funds received	Funds received	own income	
		Percentage	Percentage	Percentage	
10	Bhokardan	7,689	552	36	8,277
		93.05	6.53	**0.42**	
11	Patoda	4,149	234	17	4,400
		94.46	5.15	**0.39**	
12	Karanja	2,464	113	11	2,588
		95.22	4.35	**0.42**	
13	Kalmeshwar	3,405	305	13	3,723
		91.46	8.2	**0.34**	
Average		**5,627**	**280**	**41**	**5,948**
		94.03	**4.83**	**1.14**	

Thus, it will be seen that PS receive very little own money.

6.36 Recommendations to augment the sources of income of a PS:

We recommend following sources to augment the own income of PS:'

6.36.1 Share of management fee:

We have recommended in para 6.23.1 above that the ZP should be allowed to levy a management fees for implementing Government schemes up to 2% for their establishment expenditure. We recommend that this 2% should be shared between ZP and PS equally that is 1% each. Of course, since there will be many PS in a district, they will get the 1% distributed amongst themselves.

6.36.2: Share of the Professional tax collected by Grampanchayats:

In the chapter on Grampanchayats we have recommended that Grampanchayats be allowed to levy professional tax in the model of Gujarat. We recommend that Panchayat Samitis must be given 25% of the Grampanchayat collections as a supervising and monitoring body.

6.36.3: A share of the Stamp Duty cess:

We have already recommended in para 6.10.2 (f) that PS must be given a 0.25% duty cess by amending Section 158 of the ZP & PS Act.

6.36.4: Separate vehicle for the PS Chairman and BDO to be provided by State Government or from ZP (Depreciation Fund)

The PS Chairman is allowed to have a vehicle from the depreciation fund of ZP like other ZP committee Chairman. The BDO also gets a vehicle either from the scheme funds or from the ZP depreciation fund. The situation varies from ZP to ZP in Maharashtra. In general, in Western Maharashtra there are two separate vehicles one for the BDO and one for PS Chairman, but in many other districts, particularly Marathwada and Vidharbha, where the own resources of a ZP are weak, they share one vehicle which causes friction. We strongly recommend that Government must issue a GR that there must be a separate vehicle for both, considering the status of a PS chairman and workload of a BDO. The Government must direct that the funds for the same must be tapped from ZP depreciation fund and given to both on top priority basis. This will greatly incentivise the heavily loaded BDO, who supervises all the development functions in the block.

CHAPTER 7

Assessment of Finances of Grampanchayats

7.1 Background:

In the year 1959, a Committee headed by Shri Balwant Rai Mehta was constituted Government of India to make recommendations for establishing vibrant local self-government institutions. The Committee made several suggestions for strengthening the Panchayat Raj institutions through devolution of functions, finances and functionaries. The Government was to retain the role of overall supervision, planning and providing funds where necessary with itself, while the village level functions were to be left to Grampanchayats. The Grampanchayats were to be constituted through direct election based on adult franchise.

As a follow up, in Maharashtra a Committee was set up on 27 June 1960 under the Chairmanship of Shri Vasantrao Naik, the then Revenue Minister (later Chief Minister of Maharashtra) to work out the details for establishing Panchayat Raj institution in Maharashtra in accordance with the recommendations of Balwant Rai Mehta Committee. The three tier structure of Panchayat Raj bodies in the State including the institution of Grampanchayat is based on the recommendations made by the Balwant Rai Mehta Committee. The Naik Committee suggested establishment of Grampanchayats for villages or group of villages, having population of less than 20,000 but exceeding 1000 and further suggested that all the functions performed by the Talathi in respect of Grampanchayats be entrusted to full time Gram Sewaks. The Committee made detailed recommendations regarding sharing of funds, powers and duties, and functions of the rural bodies. These recommendations have been appropriately included in the Maharashtra Zilla Parishad and Panchayat Samiti Act, 1961.

7.2: Grampanchayat – the legal status:

The Grampanchayats in Maharashtra are governed by the Maharashtra Village Panchayats Act, 1959. Grampanchayats are independent legal entities, body corporates, with perpetual succession. They can own moveable and immoveable properties. They can sue and be sued (Section 9). But operationally they are designed in such a way that they are under the administrative control of the Zilla Parishad officers and ZP system.

7.3 GPs and the 73rd Constitutional Amendment:

GPs get a big lift in their status after the 73rd Constitutional Amendment which has been operationalized from 24th April 1993. Now they have been given a Constitutional status (Article 243) which has enshrined certain minimum rights and features for a Grampanchayat. This includes regular elections, reservations for the weaker sections both for wards and Chairman (Sarpanch) position. There is also horizontal reservation for women. Further, the Gram Sabha – where all adult resident members have right to participate, has also got a mention in the

Constitution. Further, as mandated by the Constitution regular elections are held for Grampanchayats under the supervision of the State Election Commissioner.

Some States like Kerala and West Bengal have opted for strong Grampanchayats. They have substantially devolved funds, functions and functionaries. The size of the GPs is also big. In Maharashtra there appears to be slight imbalance in devolution of functions, funds and functionaries. The devolution in funds and functionaries do not match the devolution in functions, making them dependent financially on the Government and higher agencies.

7.4: Population of GPs – An analysis:

The size of the GPs steeply varies in Maharashtra. The tendency is for each village (settlement) in a group Grampanchayat (A group GP is one where there are number of settlements) to pass a resolution and ask for independent GP status. As per old Rural Development Department Circular No. VPM1189/CR 3010/22 dated 5th February 1989 the population norm for establishing a new Grampanchayat was 600 or more and in exceptional cases for example, if it is an adivasi *tanda* (settlement) and if the distance between the villages is more, it was 300. These norms were in full force till the new Rural Development Department GR No. VPM 2603/CR 1544/PR-4 dated 12th February 2004 came in force. Majority of the new Grampanchayats were formed during the period of old GR.

As per the new guidelines prescribed in the above GR dated 12th February 2004 for establishing/bifurcating a new Grampanchayat, following are the requirements:

a. Population must be at least 2000, but if it is an Adivasi tanda and the distance between the 2 villages is more than 3 kms., or if it is a project affected village then the population criteria is reduced to 1000.

b. The new GP must have a per capita income of Rs.30, but if the GP is in hilly area the per capita income should be Rs.25 and if a project affected village its per capita should be Rs.20/-.

In practice, many new GP's have been constituted under the pretext of '3 kms distance'. Thus, now there are about 28,000 GPs and about 45,000 revenue villages in Maharashtra. Thus, the population size of the GPs is reducing.

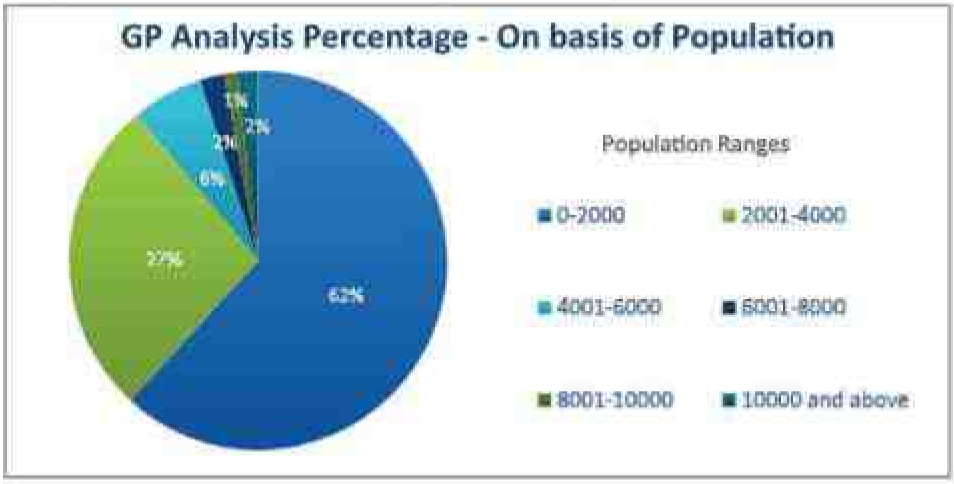
The following is the broad classification of Grampanchayats as per population (census 2011):

Table 40: The categories of GPs as per population :

Population / District	0 - 1000	1001 - 2000	2001 - 3000	3001 - 4000	4001 - 5000	5001 - 6000	6001 - 7000	7001 - 8000	8001 - 9000	9001 - 10000	10000 and above	Grand Total
Ahmednagar	159	485	279	153	89	51	27	18	12	5	38	1316
Akola	141	242	73	35	13	13	6	4	1	3	10	541
Amravati	154	377	172	66	29	8	7	5	3	4	18	843
Aurangabad	109	353	203	88	37	24	10	9	4	5	18	860
Beed	210	450	202	79	40	17	4	6	4	2	10	1024
Bhandara	118	259	88	40	14	6	3	1	2	4	4	539
Buldhana	90	435	192	62	31	18	4	9	4	3	19	867
Chandrapur	193	444	114	35	23	15	3	0	2	3	11	843
Dhule	57	200	126	73	37	21	8	8	5	2	12	549
Gadchiroli	78	213	105	37	14	4	7	3	1	0	5	467
Gondia	68	253	161	40	10	11	2	2	4	1	3	555
Hingoli	144	268	106	17	15	3	3	1	1	3	4	565
Jalgaon	182	480	220	110	52	32	16	18	12	10	20	1152
Jalna	109	408	160	54	18	10	5	6	2	1	7	780
Kolhapur	209	369	182	91	48	35	23	16	7	9	35	1024
Latur	120	325	186	69	28	16	10	8	6	2	13	783
Nagpur	176	366	109	42	18	12	10	6	7	4	21	771
Nanded	322	578	243	82	28	18	10	7	5	2	8	1303
Nandurbar	62	258	140	51	22	10	10	9	5	4	6	577
Nashik	129	555	349	163	65	47	20	16	6	7	21	1378
Osmanabad	111	289	104	46	26	16	7	8	2	3	9	621
Palghar	36	147	104	66	49	21	12	11	7	5	18	476
Parbhani	206	285	129	42	20	9	4	4	1	1	4	705
Pune	370	443	223	123	56	53	26	15	12	11	60	1392
Raigad	211	284	130	85	44	28	12	5	5	3	17	824
Ratnagiri	264	369	134	42	17	7	5	4	2	0	3	847
Sangli	128	231	125	71	35	36	23	12	7	9	27	704
Satara	654	456	183	93	45	19	16	6	4	8	15	1499
Sindhudurg	130	180	71	21	13	7	3	1	3	2	2	433
Solapur	134	348	217	146	68	38	29	12	11	5	24	1032

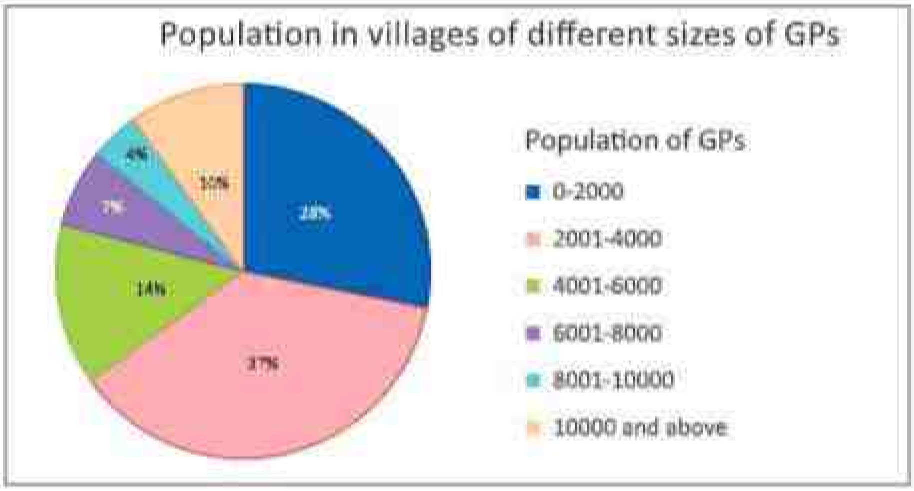
Population / District	0 - 1000	1001 - 2000	2001 - 3000	3001 - 4000	4001 - 5000	5001 - 6000	6001 - 7000	7001 - 8000	8001 - 9000	9001 - 10000	10000 and above	Grand Total
Thane	77	177	82	48	16	14	12	0	3	1	25	455
Wardha	152	255	57	22	6	2	5	4	3	3	9	518
Washim	59	271	96	39	15	7	1	0	1	1	3	493
Yavatmal	308	550	212	61	33	10	11	4	6	3	11	1209
Grand Total	**5670**	**11603**	**5277**	**2292**	**1074**	**638**	**354**	**238**	**160**	**129**	**510**	**27945**

Chart 23: Analysis of GPs – On basis of Population size :



Thus, it is seen from above chart that 62% of Grampanchayats of Maharashtra have population between 0 – 2000.

Chart 24: Percentage of the rural population living in different categories of GPs



Thus, it is seen that 37% of rural population of Maharashtra lives in band of having 2001-4000 Grampanchyat segment.

7.5 SFC's Recommendation regarding GP size:

It would be seen from the above data that the population size of the GP is decreasing. The trend is to convert each settlement as one new GP, avoiding 'group GPs'. This has created viability issues. Each GP however small, needs to keep a set of financial records, have regular meetings, etc. It is not cost effective for the State to give one full Secretary for small GPs of 500-1000, where the number of households are just 100-200. But such GPs exist in tribal and other areas.

States having a strong GPs like Kerala have GPs with size of 15,000 – 20,000. This enables to provide a variety of services and develops local leadership. It is learnt that Karnataka has also revamped its GP size in interest of better administration. There are just 6022 GPs in Karnataka as compared to 28,000 in Maharashtra.

There is urgent need to examine the GP size comprehensively as the present size – and tendency to become smaller affects administrative viability.

7.6 Duties and responsibilities of Grampanchayats :

Schedule-I of the Maharashtra Village Panchayats Act, 1958 is the 'Village List' containing list of functions entrusted to the Grampanchayats. The State Government may delete from or add any entry from the list with the previous approval of the State Legislature. The list includes subjects viz. agriculture, animal husbandry, forests, education, public health, irrigation, buildings, communication, and social welfare, etc. The Grampanchayats are to make suitable provision for any or all the subjects from 'village fund' in which all the funds received by the Grampanchayat are to be deposited.

While the list in Schedule-I is very long and exhaustive, the core activities of the Grampanchayats are as follows:

- Providing civic amenities, cleanliness, local sanitation, drainage, and of solid waste management – collection, transportation and disposal
- Street lights and their maintenance
- Maintenance of village internal roads
- Maintenance of burial grounds and crematorium
- Issue of birth and death certificates
- Issue of local resident certificates and other such certificates
- Building permission for construction, repairs and extension within gaothan
- Provision of household (including drinking) water for the community

In recent years there has been a spurt in GP activities. The GP implements schemes of rural employment like Mahatma Gandhi National Rural Employment Guarantee Scheme and approval beneficiaries for various welfare schemes like rural housing, Rural Livelihood Mission and other State sponsored Schemes and programs, etc.

7.6 Budget and Accounts of the Grampanchayat:

7.6.1 The provision in the Act:

Every Grampanchayat is expected to have a 'Village Fund' (Section 57). Amounts received as grant in aid from Government, assigned taxes, tax income and other non-tax income. In short, all incomes except schematic or purposive and project funds are to be credited to this Village Fund.

The Grampanchayat is required to submit an annual budget estimate to the Panchayat Samiti (Section 62).

The format in which the accounts and village records are to be kept will be prescribed by the Government (Section 62(4)). The Secretary, of the Grampanchayat has to place the annual accounts for approval of Grampanchayat and get it approved. The approved accounts along with an annual administrative report has to be sent to the ZP (Section 62).

7.7 The audit arrangements:

The accounts of the GP are audited by the Local Fund Audit Department. Since the income and expenditure of the GP are very limited, and GP has few assets, there is no separate arrangement for validating the accounts. The local fund auditor checks both the cash book, records and all other financial issues at one go.

7.8 GP records and efforts for their computerization:

Prior to 2011, the Government had prescribed 27 registers which a GP has to maintain. Subsequently, in 2011 the Government in exercise of its powers under 176 read with Section 62, has notified, the 'Grampanchayat Account Code, 2011' which has prescribed a modified set of 33 registers. Thus, according to the 'GP Account Code, 2011' these 33 registers are to be maintained at GP level.

The Ministry of Panchayat Raj, Government of India, in its attempt to streamline the Panchayat Raj accounts has been promoting the e-panchayat enterprise suite (PES) and a national panchayat portal. This has been developed by NIC. It consists of 11 softwares. They cover the entire gamut of information related to a Grampanchayat. They include, inter-alia:

- Local Government Directory – with all details of office bearers and a unique ID for each GP in the country

- Area Profiler
- Plan Plus
- PRIASoft (accounts software)
- Action Soft
- National Asset Directory
- Social Audit and Meeting Management
- Service Plus (citizens service delivery)
- Training Management
- National Panchayat Portal

The overall idea is that it should be possible to upload the data of the GP at the village level and aggregate it at Block, District, State level and national level for analysis and decision making. The object is to promote transparency as most of the data shifts to public domain.

Maharashtra has been in the forefront in operationalizing the PES software of the Ministry of Panchayat Raj and has won national awards. The Sangram Project under which this was done was started many years back.

7.9 Importance and need for online entries:

Collecting data- particularly financial data- from GPs is not easy. Shifting to e-accounts and e-registers helps in getting reliable data and effective monitoring of GP performance, and helps in analysis and more effective decision making at all levels. It also promotes transparency, as most of the GP records are in public domain. The task of a SFC becomes very easy when data is readily available. In fact, this SFC like all Financial Commissions had to put in great effort to get reliable data from the field.

7.10 Issues in computerization of village records and accounts:

Computerization of the village records and placing it online is a daunting task, as the levels of understanding, capacities of 28,000 Grampanchayat Secretaries are not likely to be same. Further, the levels of GP in terms of development, capacities vary. In many remote and forested GPs there may be internet connectivity and related issues.

Presently, PRIASoft accounting software for accounts developed by NIC is used widely, though the quality of accounts maintenance leaves much to be desired. However, there is necessity of keeping physical records for audit and inspection purposes. Therefore, the change has not fully happened. Likewise, in use of Panchayat E-software of Government of India, some registers are used widely, while others are not.

Last year by GR dated 24.1.2018, the Government has initiated the E-Gramsoft project wherein a software has been developed for the GPs to help them go paperless. That is, the GPs will eventually become paperless and all records will exist as soft copies. Reportedly, about 10% of the GPs are shifting to this mode in near future.

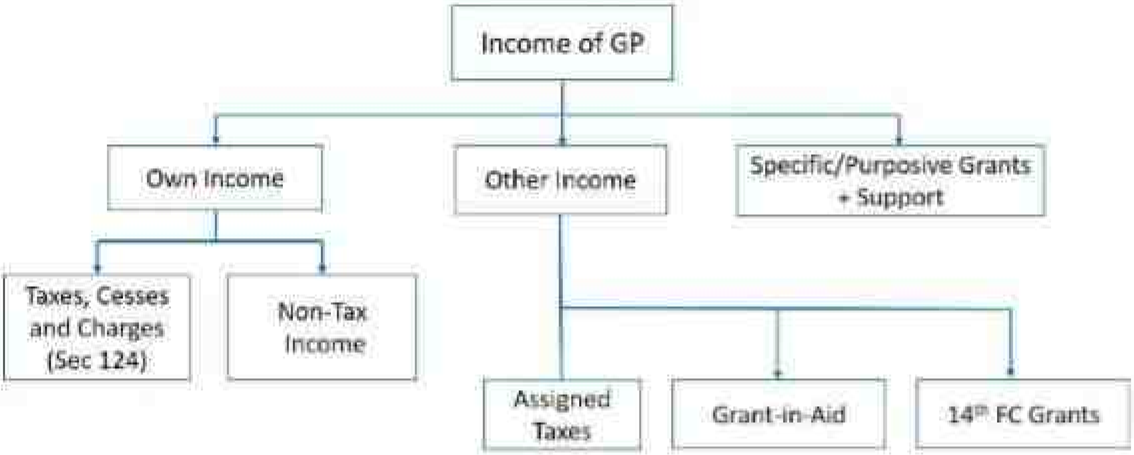
7.11 SFC's recommendations to consolidate on the E-Panchayat initiatives:

As mentioned earlier, computerization of village records, and it's online management is a daunting task. It may be easy in some developed parts of the state, but bringing the change in all 28,000 GPs will need sustained effort. Maharashtra, is relatively better than other States and has spent substantial funds of the Thirteenth and Fourteenth FC on the computerization project. To succeed, sustained efforts are required for a long time. Discussion at village level reveals that Gram Sewaks find it easy and less troublesome to keep records online, once they learn to do it properly. The following practical recommendations are made by SFC in this regard:

- The PRIASoft has certain standard account codes (budget lines), with dedicated four digit numbers for various items of income and expenditure. Such functional account numbers (budget line heads) must also be provided in 'Maharashtra's GP Account Code 2011' so that PRIASoft and state registers are fully aligned.
- There are some language barriers at GP level, as the PRIASoft is in English. A small Marathi –English user friendly guide in this matter will help the Gram sewaks to remove their mental blocks.
- Generally, in IT field younger and junior staff are more computer savvy. This also happens in rural areas where the junior Gram Sewaks fresh from educational institutions may be more responsive to electronic accounts, while their own bosses, like the senior Gram Sewaks, the Extension officers, the BDO maybe not so responsive. This issue needs to be addressed by intense training of higher level officials like Extension Officers, BDOs, Dy. CEOs, etc. because the support of higher level officials is necessary for computerizing village records.
- Local Fund Audit Department's needs to be oriented to audit electronic records if necessary. It is learnt that AG has initiated certain initiatives to facilitate this shift.
- At present, the progress in e-record keeping is somewhat uneven, and there are many GPs ahead, while other GPs are much behind in same Panchayat Samiti or district. It would be strategically more effective if, in the first phase, one Panchayat Samiti (per district) is fully made 'online' first by effective and sustained training and other support. In these blocks, the GPs can become paperless. Thereafter after seeing the beacon Panchayat Samitis of each district, other Panchayat Samitis can follow one after another.

7.13 Sources of Income of Grampanchayats and their analysis:

Chart 25: The sources of income of GPs are best explained by the following diagram



7.14 Own Income of GP:

7.14.1. Tax and related income levied under Section 124:

All the different type of taxes that a Grampanchayat can levy are listed in Section 124 of the Act. However, the Act also says that these taxes can be levied 'subject to the minimum and maximum rates which may be fixed by the State Government and in such manner and subject to such exemptions as may be prescribed'. In other words, they are circumscribed by the guidelines of the Government. Accordingly, Government has enacted the Maharashtra Village Panchayats Taxes and Fees Rules, 1960, which has been amended from time to time.

7.14.2 Tax on buildings and lands:

House tax or property tax is the main source of own income of a GP. This is collected as per enabling provision in Section 124(1) of the VP Act. This was earlier collected on area basis. However, it was challenged in the court by an aggrieved party and the court directed to completely revisit the existing guidelines on the method of collecting the house tax (2015).

Accordingly, the Rural Development Department has issued a fresh notification on 31st December 2015 in exercise of its powers under Section 176 of the Village Panchayat Act.

It is seen that the new guidelines of 31.12.2015 is based on capital value of property. From the reports we gathered from the field, the new arrangements are working smoothly and the house tax income of the Grampanchayats have increased substantially after 2015. The Rural Development Department has conveyed that so far there has been no litigation on the new capital value of property guidelines.

The following are some examples of how the income of GPs have increased after the adoption of capital value:

The tables show the percentage increase for 2 years (2015-16 & 2016-17) after shifting the Property Tax calculation to **'Capital Value Method'** for each type of Grampanchayat.

Table 41: Property Tax changes in Grampanchayats having below 3000 population :

(Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015	2015-2016		2016-2017	
			Total Property tax Demand (as per old rate)	Total Property tax Demand as per new method introduced on 31st Dec 2015)	Percentage Increase	Total Property tax Demand as per new method introduced on 31st Dec 2015	Percentage Increase
1	Palghar	Lalonde	1.39	1.79	29.14	2.89	61.16
2	Ahmadnagar	Umbergaon	0.54	0.59	9.19	1.21	104.00
3	Kolhapur	Hasur	4.95	5.00	1.07	9.08	81.64
4	Beed	Tandalwadi-Bhill	0.58	0.59	1.35	1.44	145.55
5	Amravati	Chandurwadi	0.71	0.83	16.94	1.49	79.48
6	Bhandara	Jakh	3.60	3.88	7.89	6.80	74.94

Table 42: Property Tax changes in Grampanchayats with 3000 - 5000 population :

(Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015	2015-2016		2016-2017	
			Total Property tax Demand (as per old rate)	Total Property tax Demand as per new method introduced on 31st Dec 2015	percentage Increase	Total Property tax Demand as per new method introduced on 31st Dec 2015	percentage Increase
1	Palghar	Umrali	5.25	5.50	4.76	12.50	127.27
2	Nashik	Sawargaon	1.22	1.86	53.25	2.93	57.56
3	Solapur	Khandvi	2.35	2.53	7.47	5.72	126.54
4	Parbhani	Dharasur	1.49	1.52	2.57	2.05	34.58
5	Amravati	Papal	3.09	3.15	1.90	4.69	49.03
6	Gondiya	Kawarabandh	1.39	1.91	37.52	5.31	178.13

Table 43: Property Tax changes in Grampanchayat with 5000 - 10000 population : (Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015 Total Property tax Demand (as per old rate)	2015-2016 Total Property tax Demand as per new method introduced on 31st Dec 2015	2015-2016 Percentage Increase	2016-2017 Total Property tax Demand as per new method introduced on 31st Dec 2015	2016-2017 Percentage Increase
1	Palghar	Kudus	119.05	141.45	18.82	250.25	76.92
2	Nashik	Nayadongiri	3.05	3.99	30.91	7.09	77.74
3	Solapur	Nagansur	2.72	2.73	0.24	4.39	60.64
4	Osmanabad	Jalkot	7.48	7.44	-0.47	8.28	11.26
5	Amravati	Vathodi Shukleshwar	8.14	9.12	12.00	17.80	95.19
6	Gondiya	Khamari	9.46	9.80	3.56	18.34	87.11

Table 44: Property Tax changes in Grampanchayats with above 10,000 population :

(Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015 Total Property tax Demand (as per old rate)	2015-2016 Total Property tax Demand as per new method introduced on 31st Dec 2015	2015-2016 Percentage Increase	2016-2017 Total Property tax Demand as per new method introduced on 31st Dec 2015	2016-2017 Percentage Increase
1	Ratnagiri	Kherdi	67.92	74.67	9.93	134.56	80.21
2	Ahmadnagar	Ghulewadi	48.63	50.63	4.11	79.66	57.35
3	Pune	Pirangut	183.36	205.30	11.96	346.40	68.73
4	Beed	Kada	18.51	20.25	9.44	22.30	10.12
5	Washim	Ansing	41.91	52.38	25.00	74.83	42.86
6	Gondiya	Kudva	50.36	80.52	59.87	123.28	53.12

Table 45: Property Tax changes in Peri Urban Grampanchayats :

(Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015 Total Property tax Demand (as per old rate)	2015-2016 Total Property tax Demand as per new method introduced on 31st Dec 2015	2015-2016 Percentage Increase	2016-2017 Total Property tax Demand as per new method introduced on 31st Dec 2015	2016-2017 Percentage Increase
1	Ratnagiri	Nachane	65.17	66.49	2.03	179.86	170.49
2	Nashik	Ozar	85.46	89.88	5.18	107.04	19.09
3	Pune	Wagholi	428.86	520.35	21.33	976.38	87.64
4	Osmanabad	Sanja	2.15	3.25	51.30	5.68	75.13
5	Yevatmal	Bhari	21.01	22.10	5.19	26.05	17.89
6	Wardha	Nalwadi	42.56	44.21	3.88	47.20	6.78

Table 46: Property Tax changes in PESA Grampanchayats : (Rs. in Lakhs)

Sr. No.	District	Grampanchayat	2014-2015	2015-2016		2016-2017	
			Total Property tax Demand (as per old rate)	Total Property tax Demand as per new method introduced on 31st Dec 2015	Percentage Increase	Total Property tax Demand as per new method introduced on 31st Dec 2015	Percentage Increase
1	Palghar	Karalgaon	0.48	0.48	1.64	1.58	225.22
2	Thane	Temba	5.92	6.17	4.35	10.71	73.46
3	Nandurbar	Bhagdari	3.21	3.71	15.73	4.66	25.62
4	Pune	Pimpalgaon	2.17	2.20	1.33	3.39	54.27
5	Amravati	Bijudhavadi	1.88	1.88	0.00	2.10	11.65
6	Chandrapur	Manoli	1.27	1.78	40.53	3.46	94.45

7.14.3 SFC's recommendation regarding house tax and on vacant land:

SFC is of the view that the new guidelines of 31.12.2015 has had a positive impact and the house tax collection has increased in the GP. SFC would recommend continuing the present arrangement and occasional random studies through expert agencies like All India Local Self Government about the feedback and how further improvements can be made.

7.14.4 Taxes other than house tax (covered by GR of 31.12.2015) that can be levied under Section 124 of VP Act:

Table 47: Type of taxes provided for in section 124 of the Village Panchayat Act :

Sr. No.	Sub Section under 124 of VP Act	Type of tax/levy
1	1	A tax on land (not subject to agricultural assessment) and buildings in village area
2	1(1-a)	Betterment charges on the lands benefitted from schemes or projects undertaken by a Panchayat from village fund
3	1(iii)	A pilgrims tax
4	1(iv)	A tax on fairs, festivals, and other entertainments
5	(v)	A tax on bicycles and on vehicles drawn by animals
6	(vi)	A tax on the following professions, trades, calling and employment namely shop keeping and hotel keeping, any trade or calling which is carried on with machinery or by manual labour , cattle broking
7	(vii)	General sanitary cess
8	(viii)	A general water rate which may be imposed in the form of a rate assessed on buildings and lands or in any other form as may be best adopted to the circumstances

Sr. No	Sub Section under 124 of GP Act	Type of tax/levy
9	(ix)	Tax sanctioned by State Government for eg. Visitors' Tax, etc.
10	(x)	A fee on markets and weekly bazaars
11	(xi)	A fee on cart stand and tonga stands
12	(xii)	A special water cess for water supplied through pipes which may be imposed in any form
13	(xiii)	A fee for supplying water from wells and tanks, for purposes other than for domestic use and cattle
14	(xiv)	A fee for temporary erection, on or putting up projections or temporary occupation in a street- like advertisement tax, antenna tax
15	(xv)	A special sanitary cess upon private latrines, premises or compounds cleaned by the panchayat agency
16	(xvi)	Fee for cleaning cess pool
17	(xvii)	Grazing fee on panchayat lands
18	(xviii)	A fee on registration of animals traded in the market

7.14.5 SFC's recommendations for various changes in Section 124:

(a) The terminology 'Betterment Tax' needs to be changed:

There is provision for levying a Betterment Tax under Section 124(1)(a) of the Act, on the lands benefitted from schemes and projects undertaken by a Panchayat from the Village Fund. As correctly pointed out by the 3rd State Finance Commission in 2006 itself, the small schemes which the GP implements from the village fund is unlikely to have any measurable impact on the value of land. Therefore, imposition of a betterment charge becomes difficult. Rather it would be better to frame this provision on the lines of the Maharashtra and Regional Town Planning Act, 2015. Under the MRTP Act, 2015 as Grampanchayat is declared as a planning authority for the "Gaothan Area", in that way it is possible to levy a fees for any development of land or building, including construction, modification etc. Under Section 52 of the Maharashtra Village Panchayat Act. 1959 a person needs to get the permission of the GP to erect or re-erect a building. The GPs need to get some revenue while giving this permission under Section 52. Hence, if the word betterment charge is substituted by development charge, it will open the door for more income to the GPs. Section 124 needs to be changed suitably. The rates of development charges (maximum and minimum) needs to be notified as a rule separately with concessions for tribal and remote areas.

(b) Need to fix updated minimum and maximum:

The third SFC has pointed out that the minimum and maximum rates fixed for various types of levies under Section 124 under the Maharashtra Village Panchayats Taxes and Fees Rules, 1960, are very old and need to be increased with the times. Now, it is learnt that the Rural Development Department has prepared an updated minimum and maximum rates and it is in the final stages for notification. We hope that this new rates, when notified, will be more relevant and aligned with prevalent prices.

(c) Need to add, reduce and modify the list of levies under Section 124 in changed circumstances:

It is observed that the list was prepared in 1960. The times have changed and many years have passed. Presently, the terminologies like 'taxes', 'cesses' and 'user fees' which have different legal meanings have got mixed up in Section 124 and may give room for unwanted litigation. Entire Section 124 is worded in a cluttered way.

It is, therefore, necessary to completely modify and reclassify the various sub sections in Section 124, giving independent titles and sub numbers for :

- taxes (to be collected from property owners or others and used for any purpose as decided by GP)
- user fees (to be collected specifically from the user's only)
- cesses (collected for a specific purpose and to be used for that purpose only without diversion).

We recommend following indicative categories for a revised Section 124:

Taxes category:

- House tax
- Tax on vacant land
- Advertisement and mobile tower tax
- Tax on professions, services and callings

User fees category (to be collected from the actual user's or beneficiaries)

- An 'Environment Management Fees' (in lieu of the word 'pilgrim tax' and 'visitor tax') for providing drinking water and sanitation facilities to temporary visitors visiting a shrine in a Grampanchayat in any part of the year or during some period of the year (user fee) coinciding with a jatra, or a natural spot of beauty, etc. This could be collected from both vehicles and on head count
- Parking fees for motorized and non-motorized vehicles at stands (user basis)
- Grazing fees on panchayat lands
- Fees for temporary erection, projection, occupation of a public street or place
- Fees for markets and weekly bazaars

Cess category (to be ring fenced and used for only the purposes for which it is collected)

- Sanitary cess from house owners based on number of toilets (to be credited to a dedicated ring fenced Sanitation Fund) and also from each household with minimum and maximum
- General water rate and the special water rate under Section (viii) and (xii) which shall be credited to Village Water Supply Fund as provided for under Section 132(B) of the Act

Success story of effectively using taxation powers under Section 124 – Case Study of Ganapatipule (Ratnagiri District)

Ganapatipule is a very well-known and renowned location on the sea shore in Ratnagiri district. It is both a pilgrimage centre and a tourist centre because of the unique, scenic location of the temple. One study says that it is the most visited tourist place in Maharashtra.

The tourist traffic also stretches the resources and capacity of the GP. The GP has to put in additional effort for parking the vehicles, manage the solid and liquid waste generated by the huge daily flow of visitors. **Therefore, the GP has got necessary approval from the Government to impose 'visitor's tax' under the provisions of Section 124(9) of the Maharashtra Village Panchayat Act.** This section reads as follows 'the GP can impose any other tax (not being a motor vehicle tax or a toll tax) which the State Government has the power to impose under the Constitution'. The GP has been imposing the 'visitor's tax 'from October 2013. The rate is very nominal, Rs.5 per adult visitor and Rs.3 per child visitor.

The GP has recovered Rs.49 lakhs in 2016-17 and Rs.47 lakhs in 2017-18 from visitors. This contributes to 85% share of the total income of the GP.

It is learnt that Gharapuri GP (Elephanta Caves: close to Mumbai) has also got similar approval recently from Government and is collecting an amount from the visitor's.

7.14.6 SFC's Recommendation:

a) SFC appreciates the initiative of Ganapatipule and Gharapuri villages to approach the Government and get the permission to impose the 'visitor's tax'. It would suggest that RDD circulates the case study to the other GPs who have substantial visitors and have to put in additional effort to keep the GP clean due to tourist traffic. Further, while Ganapatipule and Elephanta may have visitors throughout the year, many locations have big tourist seasonal influx during a particular 'jatra' or 'urs' season. So there should be an enabling provision to levy this 'tourist fee/tax' even for a particular period of the year also.

b) SFC recommends that many of the locations have a shrine in the town which attracts traffic either throughout the year or part of the year. So the word 'pilgrim tax' or 'visitor's tax' is also not very appropriate as it has other connotations. Rather the word 'environment management tax' would be more appropriate. Hence, the Section 124 must be amended to include another new section on the lines of sub section (9) to provide for levying 'environment management tax'. It may be noted that the town of Alibag is already levying such an environment management tax, with approval of UDD.

c) SFC further recommends that this power to approve levy of the environment management tax must be delegated to the Divisional Commissioner, as it would be difficult for the smaller GPs to approach the Government. Suitable provisions must be made in the Act or rules as required.

d) Finally, the provision relating to method and manner of spending the amounts recovered from visitor's tax is given in the Maharashtra Village Panchayats Taxes and Fees Rules, 1960. As per Rule 146 (3) only 25% of the visitor's tax (also called capitation tax) can be spent on provision of amenities for the benefit of local residents of the village. Balance 75% must be spent on amenities of the visitors. For deciding as to what are the amenities for the visitors and to give directions to what type of activities can be taken up there is a Co-ordination Committee (Rule147). This Committee is headed by the Secretary, Rural Development Department. It has a very elaborate and high power Committee consisting of Secretary to Rural Development, Deputy Secretary, member of Maharashtra Tourism Development Corporation, Forest Department, representative of Archaeological Survey of India and so forth. As a result of this condition, the Ganapatipule Grampanchayat is finding it difficult to spend 75% of the amount it has collected. It takes enormous time to organize a meeting at State level in Mantralaya and give approvals for activities in one GP. The SFC is of the opinion that this is an excellent example of over control and bureaucratization.

SFC strongly recommends that this Rule 147 be withdrawn and the powers delegated to a local Committee under the Chairmanship of the ZP President and in which the Collector and CEO are members. The Dy. CEO (VP) must be made the Member Secretary of this Committee.

7.15 Non tax revenue:

A GP also receives certain income by levying fees when issuing various certificates like birth, death certificate, residency certificates and so on. It is observed that the various service fees collected are quite low and fixed years back. The SFC would recommend a review and increase the service charges of various sources of non-tax revenue by amending the Maharashtra Village

Panchayats Taxes and Fees Rules, 1960, suitably.

7.16 Assigned Taxes:

GPs receive two types of assigned taxes. They are collected by the State Government, on behalf of the Grampanchayat but later on passed to the GP.

7.16.1 Levy of a cess on land revenue (Sec 127 of VP Act)

This is to be levied as an additional cess on land revenue. It is to be levied as an additional Re. 1-GP land revenue cess from the agricultural land owners, in addition to the land revenue of Rs.1 that they pay. That is, the farmer pays one time more for Re.1 collected by the talathi (Revenue Department) the additional payment is to be credited to the GP account.

7.16.2 Levy of a 1% cess on stamp duty – as per Section 158 (1) of the ZP Act:

This is a 1% stamp duty cess levied under the ZP Act, on sale value of land. It is collected by the Government and shared between ZP and the Grampanchayat at the rate of 0.50% each.

7.16.3 SFC's observations and recommendations on LR cess for GP:

The issues relating to LR cess for both ZP, PS and GP has already been detailed in the ZP chapter. Likewise, the views of SFC on stamp duty has already been given in the ZP chapter. SFC has recommended a different formula for sharing the 1% of stamp duty cess under Section 158.

7.17 Grant in aid from the State Government:

7.17.1 Minor Minerals – Royalty

With a view to increase the financial resources of the GPs Government took a decision vide GR of Revenue department dated 16.01.1985 to give a share of the royalty on minor minerals up to a maximum of one lakh rupees to the concerned GPs. The amount was to be budgeted and paid through the Rural Development Department. This arrangement was working smoothly for almost thirty years till 2016-17. It is seen from the budget records that the following amounts have been actually released under budget head -- 3604 0316:

Table 48: Minor Minerals - royalty released in from years 2013-14 to 2015-16 :

Sr. No.	Year	Amount of release (in crores)
1	2013-14	146.19
2	2014-15	147.07
3	2015-16	74.57

But due to formation of District Mining Foundation on 01.09.2016 by the Government (Industries Department) the Revenue department suspended the old GR of 1985 (mentioned above) on 11.04.2017. On this basis Rural Development Department also suspended their releases under budget head 3604 0316 for 2017-18. Further, it is seen that Revenue Department has issued a comprehensive GR dated 03.01.2018 regarding sharing of the sand auction income with the Grampanchayat. In fact, Grampanchayat has to first give the permission for sand mining. But there is no provision in this GR regarding stone crushing and other minor minerals other than sand mining.

At the time of preparing the SFC (March 2019) it appears that in the last two years 2017-18 and 2018-19 the GPs which were receiving funds earlier under 3604 0316 seems not to have received any funds. Or if they have received, it will be for the affected area, and at the discretion of the District Mining Foundation rather than on a formula based amount. It appears that the entire matter is going through transition, but it is essential that GPs need to actually receive funds under minor minerals the way they were receiving funds earlier.

7.17.2 SFC's recommendation:

(a) The Revenue and Forest Department GR Number. गौखनि-10/0615/CR No. 289/ख dated 03.01.2018 mentions only about sand mining income and not about other minor minerals. It is essential that the GPs should get a share of the total auction income from sand and all minor minerals.

(b) The method and manner of release to GPs must be further streamlined by Revenue Department and once again the practice of releasing funds to GPs must be revived.

(c) The arrears of 2017-18 and 2018-19 must be given to the GPs

(d) We recommend a share of 25% of the auctions, as indicated in Revenue and Forest Department GR of 3.1.2018.

(e) We also recommend that any discretion regarding amounts to be paid to GP must be done away with and a formula based guidelines must be issued.

7.18 Old compensatory grant in aid to selected GPs:

Prior to the enactment of the VP Act and the ZP Act in the 1950's and 1960s there were certain old levies being made by the GPs. To compensate the GPs who were put to loss the Government is still releasing very paltry amounts to the GPs year after year. The amounts are so low and the administrative cost of managing them would be more than the amounts which each GP stands to get. The analysis is as follows:

Table 49: Old compensatory grants to selected GPs :

Sr. No.	CRC Code	Name of the GP Grant	Annual release (in lakhs)	Number of GPs	Remarks
1	2515-0044	Financial Assistance to Backward and Adivasi Villages	18	8980 (24 districts)	The average release per GP is a paltry Rs.200 per GP
2	3604-0343	Compensation in lieu of pilgrim tax	28	48 (10 districts)	The average comes to just Rs.58,000
3	3604-0532	Compensation for abolition of octroi	1424	49 (11 districts)	

7.18.1 SFC's Recommendation :

The SFC recommends that these old compensations may be closed, as they have become redundant. The Government can close them by giving a one shot grant for 3 years to the concerned GPs and close the CRC codes. As it is an administrative arrangement, it is the discretion of the Government to close such old compensatory payments.

7.19 Reimbursement of electricity bill for street lighting:

7.19.1 Method and manner of support to GPs:

The State Government meets the electricity bill relating to street lighting on behalf of the Grampanchayats. It is a grant in aid. But it is, however, not paid to the Grampanchayat directly, but instead directly paid to the supplier of electricity namely Maharashtra State Electricity Distribution Company Limited (MSEDCL) on behalf of the GPs. The procedure followed is that the MSEDCL submits the bills to the Rural Development Department directly. The RDD releases the amount to MSEDCL subject to the funds availability. It is seen that the Government has not been able to adequately budget for this so as to make prompt payment to MSEDCL on behalf of Grampanchayats. Therefore, to meet the shortfall it has recently directed to deduct 50% of the amount due from Grampanchayats (excluding interest and fine) to MSEDCL by deducting it from 14th FC Grant release. Accordingly, now GPs have received their 14th FC Grants after this deduction. The following figures, as provided by MSEDCL speak for themselves:

Table 50: Electricity Units usage per year of GPs and payments to MSEDCL : (in Rs.Crores)

Sr. No.	Financial Year	No. of consumers	Sale (MU)	Demand	Collection	Live arrears			
						No. of consumers in arrears	Principal arrears	Interest Amount	Total Arrears
1	FY 2015-16	62056	1117	581	161	60189	1337	438	1775
2	FY 2016-17	63620	1159	616	239	62373	1735	715	2450
3	FY 2017-18	65102	1225	677	229	64110	2159	1046	3205
4	FY 2018-19	67990	1337	819	205	65179	2312	1364	3676

It is seen from the above figures that the number of 'metered Grampanchayat consumers' is also increasing year after year. This is because a new connection is given for every new settlement in a Grampanchayat.

7.19.2 Observations regarding street light reimbursement to Grampanchayat:

(i) Government is able to reimburse only about 25% percentage of the funds demanded by MSEDCL for providing this service. Therefore, there is constant demand from MSEDCL to settle its arrear claims. Present arrears are about Rs.3676 crores (principal amount due is Rs.2312 crores)

(ii) Present system of centralized reimbursement to MSEDCL does not allow any disaggregation or analysis. It is likely that GPs are over consuming beyond their capacity or some GPs are misusing this subsidy.

(iii) There is no incentive for the GPs to shift to efficient methods like using solar and reduce their street light bills

(iv) There is lack of capacities at GP level to handle technical issues like electricity billing (whether there is overbilling or under billing) or help shift them to solar

7.19.3 SFC's recommendation:

SFC is of the opinion that while this scheme should be continued, but the method and manner of assistance to GPs should be in a different manner. **It should make GPs more responsible and accountable in management of their street lighting bills. In long term it should facilitate shifting to solar and saving of expenses.**

Hence it proposes that instead of making the consolidated payment to MSEDCL directly from Government, the payment must shift, ideally to Grampanchayats. However, GPs are huge in number and any tardiness, fault or misuse of funds made available by the GP will inconvenience the entire village population. It would also be difficult for the MSEDCL to disconnect line connection, considering the sensitivity. Hence as a solution the Government must transfer the funds available to the Panchayat Samiti. The Panchayat Samiti must settle the GP bills on behalf of the GP. The PS has adequate control over the GP as the Gram Sewaks report to the Extension Officer(Panchayats) and the BDO. Also all the GP funds are routed through the Panchayat Samiti where Panchayat Samiti can keep control of GPs and can ensure that the GP also does not overconsume. It is also easy for MSEDCL to handle 350 Panchayat Samitis, one at taluka level instead of 28,000 GPs.

So it is suggested that the state government can work out the amount to be budgeted by using the State level GP unit consumption for year 2017-18 (which is reported as 1224.58 MUS) or 2018-19 as the base year for calculation of volumetric consumption. This multiplied by current rates as fixed by MERC (the regulator) will give the total funds to be budgeted or distributed to GPs. **This amount may be distributed among the GPs on basis of population.** (In the absence of any other better formula, population as the basis of inter se distribution is suggested). The amounts will go to PS, who will in turn make the payments to MSEDCL. In case there are shortfalls, the PS must be given the powers to make payment from any other unencumbered /free grants to meet the shortfall in payments to MSEDCL.

To strengthen capacities of the PS and GP it is suggested that the PS must be allowed to contract out two staff – say a retired deputy/junior engineer or equivalent from MSEDCL and one technical assistant. They will work under the BDO in a dedicated unit or cell to handle energy related issues (to be called Rural Street Lighting Cell) of the PS. These people can be given suitable training and guidance to handle the desirable shift to street lighting using solar. Their expenditure, including travel would be around 15 lakhs per annum. The State's requirements would be about Rs.52.50 crores (350 Panchayat Samitis x 15 lakhs per annum). This unit will review the GP street light expenditure and make payments to MSEDCL if within limits/norms. Secondly, it will help in technical support to repair the existing solar panels /units in many GP, installed over the years under various schemes. This unit will also help in framing proposals for GP who want to take loan under District Village Development Fund (DVDF) for installing solar panels. The MSEDCL can have a special arrangement for monitoring and building capacities in the technical cell. We feel this arrangement will be greatly helpful for GPs to handle their energy related issues, and the additional expenditure of Rs.52.50 crore in keeping two retired staff at PS level will lead to much more saving in annual expenditure of Rs. 600-800 crore at present.

The old arrears of Rs. 3612 crores payable to MSEDCL must be settled by Government once and for all.

To summarize:

(a) Government must first settle all the dues to MSEDCL once and for all, and start on clean slate

(b) Thereafter, instead of settling the amounts to MSEDCL at State Level in bulk, it should use the formula of total Million Unit consumption GPs in 2017-18/2018-19 (at State level) as base year. Every year it should adequately budget the amount of volume consumption (base year consumption) x prevailing rates.

(c) This amount must be released to PS, who will make payments to the GPs in its jurisdiction on basis of their population. Shortfalls if any must be paid by PS (on behalf of GP) and adjusted against any other releases or can be paid by GP itself.

(d) State Government with support of MSEDCL should work out what is norm of consumption for villages of various sizes and release it. This will help in working out village wise norms for payment at PS level **and restrict over-consumption or misuse at GP levels.**

(e) The PS will employ two retired technical staff of MSEDCL (or equivalent) who will constitute GP Street Lighting Cell in PS. They will help in releasing the payments to MSEDCL and they will do analysis of expenditure patterns and their deviation form norms GP wise. They will also address all technical issues of GPs and guide them to shift to solar energy

(f) There will be a separate support arrangement in MSEDCL to guide these 350 cells in each PS on all technical matters and in shifting to solar.

SFC feels that this change will greatly solve the problem on meeting the expenditure of street lighting relating to GP. Long term it will help shift the GPS to solar, in a phased manner.

7.20 Reimbursement of Sarpanch honorarium and meeting allowances:

The Government reimburses to GP 75% of the prescribed honorarium paid to Sarpanch. Likewise, it reimburses the meeting allowance paid to each GP member as per the norm. Present norm is Rs.200 per meeting, with an overall cap of 12 meetings in a year. The last guideline in this subject was issues five years back vide Rural Development Department GR No.: VPM-2011/CR 40/PR-3 dated 06.09.2014.

During our field visits, there was unanimous demand from office bearers of the GPs to increase the honorarium and meeting attendance allowance as the rates are very meagre compared to the work they do and the time they have to give for the GP activities.

It is specially to be noted that many of the GP members who are elected as members belong to SC, ST and other marginalized communities. They eke out some livelihood as marginal farmers or other wage earners. There are substantial women representatives, without any source of income. They have often to forego their daily wages or keep aside their personal work for attending GP meetings etc.

7.20.1 SFC Recommendation:

(a) GP member meeting attendance allowance- SFC would recommend to increase the allowance from Rs. 200 to Rs. 400 per day which is roughly the compensation for time given. The additional expenditure for Government would not be substantial, but would greatly encourage the GP member to participate. It would also be helpful to the members of weaker sections who often have to forego their daily wages or other income.

Further an additional 25% (over and above Rs.400) should be allowed to be paid from the GP's own funds, with approval of the BDO who has to certify that the GP resources are good.

(b) Sarpanch Honorarium: SFC would recommend to increase the present reimbursement of Sarpanch honorarium (GR dated 06.09.2014) and also increase the overall cap, which must be allowed to be paid by the GP from their own resources. The SFC is also suggesting some reorganized bands of GP population.

In case the GP wants to pay higher honorarium to Sarpanch with own resources, the BDO has to certify that the finances of GP are in order. To remove discretion, the Government can fix certain parameters of good financial performance like good house tax collection, proper recovery of water tax and other such desirable criteria. Thus, it will help the BDO to make a fair decision.

Table 51: Present sarpanch honorarium and recommended honorarium :

Sr No	Category of Grampanchayats	Present Government support to Sarpanch Honorarium	Recommended Government support	Recommended higher cap with additional amount being paid by GP
1	0-2000 population	Rs 750	Rs 1000	Rs.2000
2	2001-5000	Rs.1125	Rs.1500	Rs. 2500
3	5000-10000	Rs.1500	Rs.2000	Rs.4000
4	10,000+	Rs.1500	Rs.2000	Rs.5000

We are of the opinion that these suggested changes will increase motivation at ground levels and also increase the accountability as recommended higher cap can be given by GP by own resolution subject to certain financial performance criteria.

7.20.2 GP staff salary reimbursement:

Government reimburses 50% amount of minimum wages prescribed by the Government for the staff expenses of Grampanchayat, limiting to the post sanctioned in concerned GP staffing pattern (akruti bandh). However, rightly, it has put a cap on number of employees whose salary it will support (and at prescribed rates) in each GP. The last GR on 'approved staffing pattern' (akruti bandh) was issued way back in year 2000 (VPM 2699/CR 206(1)/21 dated 21 January 2000) that is nineteen years back.

The number of approved posts for which Government will reimburse the GP is given below (as per above GR of 21.1.2000):

Table 52: Salary reimbursed by Government for GPs :

Sr. No.	Category of GP (as per population)	Approved number of employees
1	0-1000	1
2	1001-3000	2
3	3001-6000	3
4	60001-10000	4
5	Above 10,000	6

7.20.3 SFC's observation:

There has been substantial increase in the workload and activities of a Grampanchayat. The amount of funds that is coming to GP has increased substantially over the years. With increased socio economic development, the expectation of the citizens from GP has increased. Government has entrusted GP with important schemes like Mahatma Gandhi National Rural Employment Guarantee Scheme.

Above all, there is increased responsibility of management of solid waste and liquid waste with growth of the economy of GP, higher use of non-degradable material like plastic etc. For all this additional manpower is required in a GP, particularly in bigger GPs where population is above 5000 and there is higher volume of economic activity. In fact, at the field level many GPs, out of necessity, have recruited more staff and paying them from own resources.

7.20.4 SFC Recommendation:

(a) The 'staffing pattern of GP needs to be studied again as the last guideline was issued almost twenty years ago. It is learnt that Government of India, Ministry of Panchayat Raj appointed a high level Committee which has given its recommendations about staffing requirements at GP level. **SFC would recommend appointing a Committee to study the staffing requirements of GP afresh.**

(b) At present, as the approved staffing pattern is not adequate, many GPs necessarily use daily wage staff for getting work done. This affects quality of work, especially if daily wagers are employed for office work also. Particularly bigger GPs are struggling with acute staff shortage.

There is need for more flexibility in these matters. Hence, it is recommended for Government to give approval in a different format, allowing two levels of staffing pattern, the one that will be reimbursed by Government and another which Government will not reimburse, but GP may do so at their level if their resources allow.

7.21 Reimbursement of 50% of electricity bill for water supply schemes (GR of Water supply and sanitation department)

Many Grampanchayats have a genuine difficulty in meeting the electricity bill for their piped water supply system (PWS). Increasingly, the GPs are sourcing water from distant sources. Therefore, the cost of pumping the water from source to the overhead tank is substantial for this geographically disadvantaged GPs. The GPs find it difficult to meet this payment to MSEDCL.

To address this grievance, the Water Supply and Sanitation Department (which handles Rural Water Supply schemes) issued a Government Resolution on 17th Oct 2014, wherein the 50% of the electricity charges of the Rural Water Supply Scheme will be reimbursed to the GP, after they make the electricity bill payment. The GPs will have to fulfil various pre-conditions relating to recoveries and file various enclosures and send it to the Executive Engineer, Water Supply Department of the concerned ZP to avail this benefit. However, there has been very poor response to this scheme and our field analysis shows that most of the GPs are not availing this benefit. There are also budgetary constraints and this benefit scheme has been clubbed with various other maintenance grants. For example, in Thane ZP out of 384 GPs having independent Water Supply Schemes only 2 GPs (Sajai from Murbad PS and Asangaon from Shahapur PS) are availing the subsidy. Thus, it reveals that most of the GPs are not claiming the subsidy due to the tedious process.

7.21.1 SFC's recommendations:

SFC would recommend withdrawal of the support scheme under 17th October 2014. Instead, the new GR of 26.11.2018 applicable to Regional PWS for rural areas must be made applicable to water supply schemes owned and maintained by Grampanchayats also. The MSEDCL has intimated the power bills of GPs as follows:

Table 53: Power Bills intimated by the MSEDCL :

#	Particulars	2017-18	2018-19
1	Live Connections	30,422	35,632
2	Energy Consumption (in MuS)	442.6	519.5
3	Power Bill (in Rs. Crs.)	165.2	220.7

Assuming that about 50%cost will have to be subsidized as per above formula, the financial load to the Government will be about 90 crores (average of last 2 years is 180 crores) and benefit thousands of GPs.

SFC would also recommend that instead of the Executive Engineer, Environment Engineering at ZP level, the BDO should handle the funds release to GP with technical support of the Deputy Engineer, Environment Engineering at block level in settling the bills and funds should be made available at the PS level. The BDO should be authorized to reimburse the GP if it has already paid the amount to MSEDCL. In case the GP has not paid the MSEDCL bills, BDO should be authorized to make the payments to MSEDCL for and on behalf of the GP

7.22 Central Finance Commission (CFC) grants:

If there is one thing that has contributed to the 'status' of GP and improvement of their financial health in recent years, it is the huge increase in the Central Finance Commission grants. There was a big jump in the grants for LBs (both urban and rural) in the 13th CFC grants (2010-15) compared to the 12th CFC. There has been a further increase in the 14th CFC period (2015-20).

We summarize the increased grant position as follows :

Table 54: CFC Grants given to GPs by Central Government :

Sr. No	Central Finance Commission	Award Period	All India allocation for PRI's in Rs crores	Allocation for all PRIs in Maharashtra	Share to GPs of PRI grants	Remarks
1	Twelfth	2005-10	20,000			
2	Thirteenth	2010-15	63,067	5589 *	70%	Share was decided by State Government
3	Fourteenth	2015-20	2,00,293	15,035*	100%	This was decided by CFC itself, no grants to other two tiers

(*Includes both basic and performance grants)

Thus it will be seen that GPs which received about Rs. 3912 crores (70% of the total share of PRIs) in the 13th CFC period (2010-15) are to receive an amount of Rs. 15,035 crores during the 2015-20 period. This is an extraordinary 285% increase for each GP. In fact, each GP is now receiving, on an average of Rs.53 lakhs for five years (Rs. 15,000 crores/28,000 GPs) or an annual amount of Rs. 10.70 lakhs (53/5 years). This covers both basic and incentive grant. The incentive grant is given if the GP has a proper audited account (a regular feature in Maharashtra) and the GP shows an annual increase in own tax income (again, not difficult to achieve).

Detailed guidelines have been given regarding method and manner of spending the 14th CFC grants. Part of the grants have been used for settling the old street light electricity bills and also for the e-Grampanchayat project (Aaple Sarkar).

The SFC notes that GPs income has greatly increased in the last four years due to this liberal grant from CFC. SFC would suggest a proper sample evaluation of the investments made in the last few years, by an independent agency. A detailed social audit is also required as directed by the Government of India.

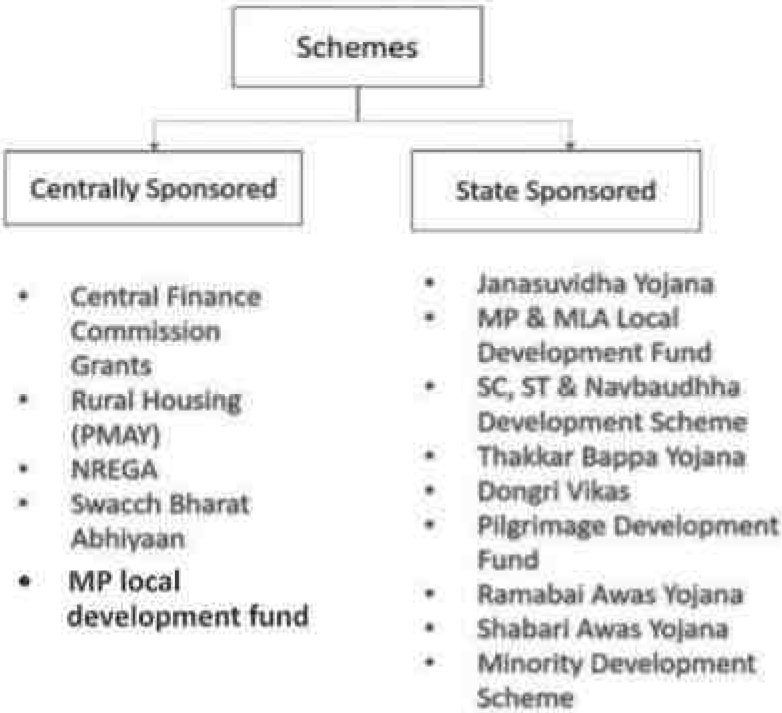
7.23 Purposive Grants to Grampanchayats:

Apart from the grants received as above, the GPs are also receiving substantial grants for specific purposes and for specific activities. Here, the GP is an implementing agency. The State Government has also facilitated the GP to work as a 'contractor' or implementer directly for small projects up to 15 lakhs thereby increasing the capacities of GP to handle work directly. The GP also a small surplus when it implements the work directly.

The GPs are expected to keep separate accounts for these purposive grants.

We can show the list of indicative yojana's under which the GP receives funds through the diagram below:

Chart 25A: Indicative List of Schemes for which GP receive funds



7.24 Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):

Mahatma Gandhi National Rural Employment Guarantee Act (popularly known as NREGA) was enacted all over India in 2006. In Maharashtra, due to historic and sentimental reasons the old Employment Guarantee Act (completely amended and revamped 2014) is still being continued, and the MGNREGS is a scheme under it. The GPs got a big boost under the Act, as while earlier (pre NREGA days) in Maharashtra the line departments were the implementing agencies. There was no role for the GPs. But after 2006, the GPs are also the implementing agencies. In fact, as a rule of thumb, about 80% of the expenditure has been incurred through GPs as implementing agency. Only in recent years the role of the line departments has increased, perhaps to 30%

The following aggregated statistics of MGNREGS expenditure at GP level are stunning:

Table 55: MGNREGS expenditure over the years :

Sr. No.	Year	Total expenditure (in Cr)	*Expenditure by GPs
1	2009-10	253	203
2	2010-11	324	259
3	2011-12	1601	1281
4	2012-13	2177	1742
5	2013-14	1266	1013
6	2014-15	1601	1281
7	2015-16	1853	1482
8	2016-17	2088	1670
9	2017-18	2294	1606
10	2018-19	2397	1678
	Total	**15854**	**12215**

*Expenditure ratio of GPs is taken at 80% till 2016-17 and 70% in 2017-18 and 2018-19

Thus the GPs have received and spent a huge amount of Rs. 12215 crores. In last many years. Of course, this investment is not in all GPs. In fact, NREGA is a major source of capital investment in rural areas both as common public assets (roads, anganwadi buildings, deepening of ponds etc.) and also as augmentation of private assets for small farmers (horticulture, rural houses, farm ponds and others).

7.24.1 SFC Recommendation:

SFC recommends a proper and detailed evaluation of the impact of MGNREGS over the years, in selected GPs and in entire talukas. For instance, Melghat talukas (Dharni and Chikaldhara), Bhandara, Gondia and parts of other districts have spent substantially in MGNREGS. There is absence of any scholarly academic study on this substantial investment. One study was conducted by Indira Gandhi Institute of Development Research in early 2014, but this one study is inadequate. Much more detailed analysis of the social and economic impact (positive or negative and learnings) of MGNREGS investments in GPs need to be made for future decision making. This work should be assigned to a renowned academic institution.

7.25 Overall analysis of GP own Income:

Now, we can analyze the overall income pattern of the GPs. Instead of standardizing the GPs, we have chosen to divide it into certain categories, namely GPs with less than 3000 populations, 3000-5000, 5000-10,000, above 10,000, peri-urban and tribal (PESA) villages. This gives a more nuanced insight into the income pattern of the GPs.

Table 56: Pattern of income of GPs having population below 3000 (three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No.	District	Gram-panchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non tax Income	% of Total Income	Total Income
1	Raigad	Udhar	1.71	49.61	1.43	41.42	0.31	8.97	3.45
2	Nashik	Khadaki	1.25	50.92	1.19	48.42	0.02	0.66	2.45
3	Sangli	Dhavli	2.58	26.66	7.08	73.13	0.02	0.20	9.68
4	Parbhani	Karam	0.85	24.04	1.43	40.42	1.26	35.53	3.53
5	Akola	Kapashi Rd.	0.83	13.65	5.09	83.48	0.17	2.86	6.10
6	Gondiya	Chikhali	0.84	33.65	1.66	66.35	0.00	0.00	2.50

Table 57: Pattern of income of GPs having population 3000 - 5000 (three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No.	District	Grampanchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non tax Income	% of Total Income	Total Income
1	Sindhudurg	Amboli	2.74	16	12.81	73	2.04	12	17.59
2	Ahmadnagar	Akolnet	1.87	8	17.81	79	2.78	12	22.47
3	Satara	Apshinge	3.45	18	12.59	67	2.87	15	18.90
4	Jalna	Valsa Wadala	1.23	31	2.61	66	0.11	3	3.96
5	Yevatmal	Talegaon	1.48	25	3.89	67	0.48	8	5.84
6	Gondiya	Kawalewada	2.49	22	6.52	58	2.22	20	11.23

Table 58: Pattern of income of GPs having population 5000 - 10000 (three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No.	District	Gram panchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non tax Income	% of Total Income	Total Income
1	Ratnagiri	Jalgaon	20.61	24	56.53	66	8.52	10	85.66
2	Ahmadnagar	Bodhegaon	4.26	20	13.00	60	4.24	20	21.50
3	Kolhapur	Akivat	2.03	11	15.27	83	1.04	6	18.34
4	Osmanabad	Ieet	3.98	10	13.64	36	20.49	54	38.11
5	Buldhana	Jalamb	2.29	20	5.97	53	3.07	27	11.33
6	Wardha	Talegaon	2.39	13	13.88	75	2.26	12	18.52

Table 59: Pattern of income of GPs having population above 10000(three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No.	District	Gram panchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non Tax Income	% of Total Income	Total Income
1	Ratnagiri	Kherdi	16.68	20	64.59	76	3.30	4	84.56
2	Ahmadnagar	Loni Khu.	4.24	8	44.09	88	1.78	4	50.11
3	Pune	Pirangut	49.06	16	251.11	81	10.08	3	310.24
4	Osmanabad	Andur	1.62	8	17.65	85	1.45	7	20.72
5	Washim	Ansing	8.50	26	21.12	65	2.80	9	32.42
6	Nagpur	Tekadi (Ko.Kha.)	15.17	60	9.00	36	1.18	5	25.36

Table 60: Pattern of income of Peri Urban GPs (three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

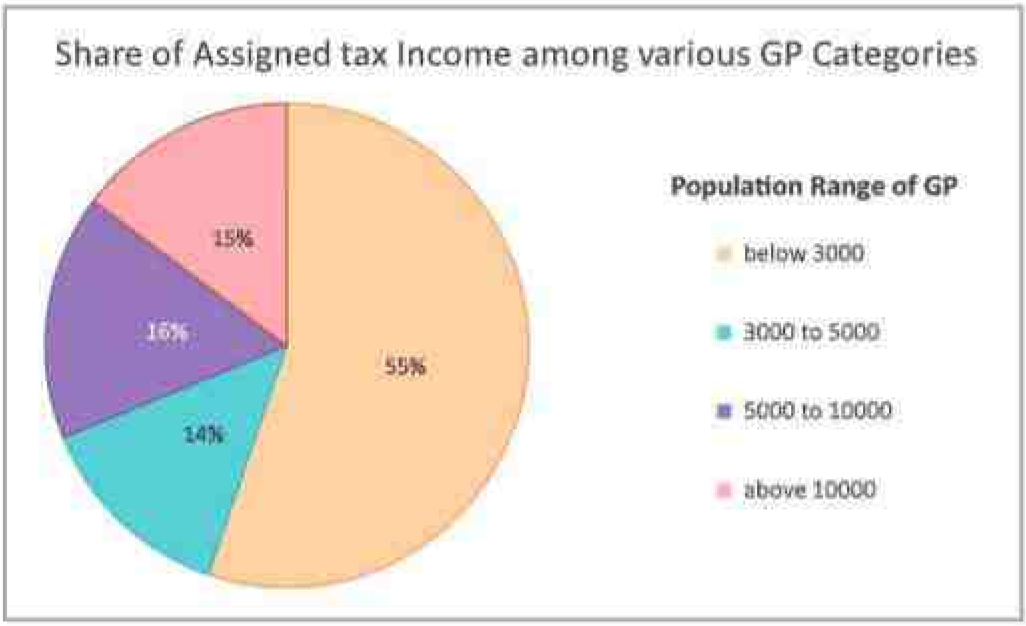
Sr. No.	District	Gram panchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non tax Income	% of Total Income	Total Income
1	Sindhudurg	Kalmath	14.47	25	42.05	72	2.00	3	58.52
2	Nandurbar	Hol T. Haveli	11.18	38	14.60	50	3.26	11	29.04
3	Satara	Saidapur	36.28	36	65.21	64	0.41	0	101.89
4	Osmanabad	Diksal	8.90	34	16.81	64	0.71	3	26.42
5	Buldhana	Sagwan	29.48	33	56.93	64	3.21	4	89.61
6	Wardha	Nalwadi	11.77	20	46.31	78	1.57	3	59.65

Table 61: Pattern of income of PESA GPs (three years- 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No.	District	Gram panchayat	Assigned Tax Income	% of Total Income	Tax Income	% of Total Income	Non Tax Income	% of Total Income	Total Income
1	Palghar	Karalgaon	5.28	81	1.18	18	0.02	0	6.48
2	Ahmadnagar	Shendi	6.76	43	8.9	56	0.14	1	15.79
3	Nashik	Ambewadi	9.82	92	0.77	7	0.03	0	10.62
4	Pune	Tirpad	7.97	84	0.97	10	0.57	6	9.5
5	Yevatmal	Jalka	4.54	69	1.64	25	0.36	6	6.54
6	Chandrapur	Manoli	2.49	53	2.07	44	0.11	2	4.67

Chart 26: Share of Assigned Taxes among various GP Categories



Thus, it is seen from above analysis that as the size of GP increases, its share of own tax income improves, whereas the smaller GPs substantially depend on assigned taxes (land revenue cess and stamp duty grant).

7.26 Expenditure pattern of Grampanchayat

Table 62: Pattern of expenditure of GPs having population below 3000 (three years 2015-2016 to 2017-2018) : (Rs. In Lakhs)

Sr. No	District	Gram panchayat	Mandatory Expenses on weaker Sections	Officer Honorarium, Office and Other Administrative Expenses	Water Supply, Health and Sanitation	Civil Services / Facilitites and Miscellaneous	Total
1	Sindhudurg	Karul	0.72	0.64	2.56	9.31	13.24
	Percentage		5.47	4.87	19.36	70.3	
2	Satara	Jakatwadi	2.51	1.35	10.64	4.88	19.38
	Percentage		12.96	6.97	54.87	25.2	
3	Nashik	Khadki	0.27	0.2	0.01	0	0.47
	Percentage		56.38	42.2	1.41	0	
4	Jalna	Vadgaon Vakhari	0.13	0.07	1.17	0.06	1.42
	Percentage		8.79	5.18	81.96	4.08	
5	Buldhana	Pangarkhed	1.04	0.68	5.41	1.55	8.68
	Percentage		12	7.81	62.3	17.89	
6	Nagpur	Matkazari	1.27	0.93	7.04	11.38	20.62
	Percentage		6.17	4.52	34.13	55.18	

Table 63: Pattern of expenditure of GPs having population 3000 - 5000 (three years 2015-2016 to 2017-2018) : (Rs. In Lakhs)

Sr. No	District	Gram panchayat	Mandatory Expenses as per Act	Officer Honorarium, Office and Other Administrative Expenses	Water Supply, Health and Sanitation	Civil Services / Facilitates and Miscell-aneous	Total
1	Ratnagiri	Unhere	0.77	8.46	10.44	0.59	20.26
	Percentage		3.82	41.76	51.52	2.89	
2	Kolhapur	Bubnal	1.4	1.14	9.27	0.9	12.71
	Percentage		11	9.01	72.91	7.08	
3	Ahmednagar	Akolner	3.07	0.7	8.18	5.09	17.05
	Percentage		18.03	4.11	48.01	29.85	
4	Beed	Dhanora	1.25	0.24	2.36	0.38	4.23
	Percentage		29.66	5.7	55.77	8.87	
5	Amravati	Takarkheda	0.18	0.83	1.94	0.63	3.58
	Percentage		4.92	23.21	54.24	17.64	
6	Gondia	Wadegaon	0.31	1.14	4.03	0.94	6.42
	Percentage		4.84	17.8	62.72	14.64	

Table 64: Pattern of expenditure of GPs having population 5000 - 10000 (three years 2015-2016 to 2017-2018) : (Rs. In Lakhs)

Sr. No	District	Gram panchayat	Mandatory Expenses on weaker sections	Officer Honorarium, Office and Other Administrative Expenses	Water Supply. Health and Sanitation	Civil Services / Facilitites and Miscellaneous	Total
1	Palghar	Kudus	4	5.59	40.35	30.25	80.19
	Percentage		4.98	6.97	50.32	37.73	
2	Sangli	Turchi	0.65	1.2	10.11	0.84	12.8
	Percentage		5.11	9.37	78.99	6.53	
3	Nashik	Nampur	1.69	8.6	43.89	17.32	71.5
	Percentage		2.37	12.03	61.38	24.22	
4	Beed	Laul	0.39	0.89	5.06	3.08	9.42
	Percentage		4.16	9.49	53.69	32.66	
5	Akola	Mana	0.37	2.18	8.44	4.3	15.28
	Perc entage		2.4	14.26	55.2	28.14	
6	Nagpur	Koradi	25.68	12.37	46.96	148.16	233.17
	Percentage		11.01	5.3	20.14	63.54	

Table 65: Pattern of expenditure of GPs having population above 10000 (three years 2015-2016 to 2017-2018) : (Rs. In Lakhs)

Sr. No	District	Gram panchayat	Mandatory Expenses on weaker sections	Officer Honorarium, Office and Other Administrative Expenses	Water Supply, Health and Sanitation	Civil Services / Facilitites and Miscellaneous	Total
1	Raigad	Kegaon	1.09	2.61	13.25	7.05	24
	Percentage		4.56	10.88	55.19	29.36	
2	Pune	Pirungat	40.07	4.35	101.97	134.38	280.77
	Percentage		14.27	1.55	36.32	47.86	
3	Nandurbar	Prakasha	1.71	1.59	23.02	5.05	31.37
	Percentage		5.44	5.08	73.38	16.1	
4	Jalna	Tirthpuri	4.32	0.55	12.05	0.9	17.81
	Percentage		24.24	3.09	67.64	5.04	
5	Buldhana	Amdapur	3.64	1.38	6.63	1.6	13.25
	Percentage		27.45	10.42	50.07	12.06	
6	Wardha	Pimpri (Meghe)	7.81	7.76	67.14	47.68	130.39
	Percentage		5.99	5.95	51.49	36.56	

Table 66: Pattern of expenditure of Peri Urban (three years 2015-2016 to 2017-2018) :

(Rs. In Lakhs)

Sr. No	District	Gram panch ayat	Mandatory Expenses for weaker sections	Officer Honorarium, Office and Other Administrative Expenses	Water Supply, Health and Sanitation	Civil Services / Facilitites and Miscell-aneous	Total
1	Thane	Kon	4.41	5.47	131.15	80.75	221.78
	Percentage		1.99	2.47	59.13	36.41	
2	Solapur	Ule	0.25	0.63	2.52	0.66	4.06
	Percentage		6.27	15.46	62.07	16.2	
3	Ahmed-nagar	Sangamner Khurd	1.64	1.28	8.58	3.37	14.87
	Percentage		11.06	8.6	57.7	22.64	
4	Osmanabad	Sanja	1.09	1.14	7.35	2.54	12.12
	Percentage		9	9.39	60.65	20.96	
5	Washim	Jamb	4.5	0.88	6.25	4.48	16.11
	Percentage		27.94	5.46	38.78	27.81	
6	Nagpur	Besa	24.6	19.07	114.93	188.74	347.33
	Percentage		7.08	5.49	33.09	54.34	

Table 67: Pattern of expenditure of PESA GPs (three years 2015-2016 to 2017-2018) :
(Rs. In Lakhs)

Sr. No	District	Gram-panchayat	Mand-atory Expenses for weaker sections	Officer Honorarium, Office and Other Adminis-trative Expenses	Water Supply, Health and Sanita-tion	Civil Services / Facilities and Miscell-aneous	Total
1	Palghar	Karalgaon	0.14	0.64	0.14	0.12	1.04
	Percentage		13.84	61.64	13.13	11.39	
2	Pune	Jambhori	0.63	0.53	1.87	0.83	3.86
	Percentage		16.36	13.67	48.49	21.48	
3	Nandurbar	Rajbardi	1.47	0.9	2.32	1.57	6.26
	Percentage		23.44	14.43	37.02	25.11	
4	Nashik	Ambewadi	0.23	0.39	1.27	7.41	9.3
	Percentage		2.5	4.24	13.64	79.61	
5	Yavatmal	Pisgason	0.28	0.33	1.06	0.43	2.1
	Percentage		13.45	15.73	50.41	20.42	
6	Chandrap ur	Kukudsath	0.37	0.72	2.77	1.21	5.07
	Percentage		7.35	14.13	54.64	23.88	

7.27 Overall analysis of GP resources in recent years (income and expenditure pattern)

As would be seen from the income and expenditure analysis, the GPs have seen substantial increase in their income and activities in the last decade, particularly in last five years. The changes can be summarized as follows:

- Huge increase in house tax collection income due to capital value method introduced from 2015
- Huge increase in Central Finance Commission grants, particularly during the present 14th CFC period of 2015-20.
- Increase in assets due to implementation of MGNREGS by GPs
- Increase in resources due to PESA, community forest rights and special tribal schemes in tribal GPs (10% of total GPs of Maharashtra)
- Increase in allocation under various development schemes of the Central and State Government

- Inadequate amount kept apart and less attention to maintenance and upkeep of assets created over the years leading to fast deterioration of assets created

In fact, in many GPs the challenge is to speedily and effectively spend the amount being made available. There is a shortage of engineers and other logistical issues particularly in tribal areas and remote villages making spending the amount on time a challenge.

On the expenditure side the cost of electricity for pumping water from distant sources while operating their Piped Water Supply schemes (PWS) is a big load for many GPs and we have suggested a remedy for this.

7.27 Recommendations for further strengthening the financial health of GPs:

7.28.1 Shifting Professional Tax to GPs:

All expert committees which have looked into the resources available for Local Bodies have suggested that professional tax should be best handled by Local Bodies. In fact, some States like Kerala, Tamil Nadu, and Gujarat have already shifted professional tax to both ULB and PRIs.

Among the three level of Panchayat Raj institutions it is the Grampanchayat which directly collects the professional tax in other state.

The professional tax collection figures, as made available by two other States are as follows:

Table 68: Professional Tax Collection figures of Tamil Nadu and Gujarat

(In Rs. Crores)

Name of the State	Professional tax collected in 2016-17	Professional tax collected in 2017-18
Tamil Nadu	105	110
Gujarat	93	75

The size of rural Maharashtra and its economy is bigger than above two States. So there is potential of collection of Rs.100-150 crores in rural Maharashtra from small professionals, traders and the like, without any financial burden to the Government.

We have already written extensively regarding shifting professional tax to LBs in the chapter on Finances on Urban Bodies. We have already pointed that presently Sales Tax department does not have the machinery to collect from rural areas.

7.28.2 SFC's Recommendation:

SFC strongly recommends that the Professional tax collection in rural areas must be shifted to Grampanchayats. SFC is of the opinion that there is potential of mobilizing Rs.150-200 crores per annum by the GPs, using the panchayat raj collection figures of Gujarat and Tamil Nadu as a bench mark to measure the potential in Maharashtra. Particularly, there are high volume of commercial entrepreneurship, relatively well-off population who are living close or outside cities in nearby villages, which are not legally notified as urban bodies. They are in peri-urban villages. There is great potential to tap professional tax in these peri-urban villages.

SFC recommends that the professional tax income must be shared between GP and the supervising agency namely the Panchayat Samiti in the ratio of 75:25 that is 75% to the Grampanchayat and 25% to the Panchayat Samiti. A supervision at higher level helps proper monitoring and improving the performance of weak GPs as well. Since the PS will also get 25% of the collection, they will also show interest in this work.

7.29 Reform of District Village Development Fund (DVDF)

Section 133 of the VP Act provides for constituting a District Village Development Fund (DVDF). The GPs have to necessarily contribute a certain amount from their income to the DVDF, maintained at the district level. The annual contribution of GPs accumulates into a corpus at the district ZP level, where it is invested in bank fixed deposit and gets a higher interest. The GPs can borrow from this DVDF at low interest, to be repaid back to the DVDF in annual instalments. The aim of this provision in the Act was to create a sort of 'cooperative bank' of the GPs from which they can borrow for making capital investments. At that point of time (1960s) the grants received the GP was very limited. Whereas GPs needed funds for erecting capital assets like GP Bhawan, samaj mandir etc. Hence DVDF was conceived. The Government has also framed the 'Bombay District Village Development Fund Rules, 1960' wherein the various related guidelines have been given.

At present the DVDF section is managed by a ZP employee (clerk) reporting to the Dy. CEO-Village Panchayat in the ZP office.

The following table shows the amount available and distributed to each district under DVDF:

Table 69: DVDF amount distributed in each district (Rs. In Crores)

Sr No	District	Amount Available	Amount Distributed	Sr No	District	Amount Available	Amount Distributed
1	Thane	15.38	7.83	18	Parbhani	3.02	2.28
2	Palghar	8.89	4.97	19	Hingoli	4.61	0.77
3	Raigad	27.28	8.69	20	Beed	3.73	0.00
4	Ratnagiri	17.60	4.61	21	Nanded	3.50	0.00
5	Sindhudurg	7.21	1.41	22	Osmanabad	2.94	2.62
6	Nashik	21.00	6.00	23	Latur	7.52	3.01
7	Dhule	9.18	2.33	24	Amravati	13.27	0.86
8	Nandurbar	3.14	0.50	25	Akola	6.47	2.13
9	Jalgaon	24.03	1.01	26	Washim	0.55	0.21
10	Ahmednagar	22.17	6.35	27	Buldhana	15.28	1.09
11	Pune	27.74	15.85	28	Yavatmal	15.08	1.31
12	Satara	29.81	0.96	29	Nagpur	20.77	0.59
13	Sangli	24.13	0.66	30	Wardha	9.33	1.98
14	Solapur	13.76	4.77	31	Bhandara	10.40	2.64
15	Kolhapur	24.56	3.48	32	Gondia	3.14	0.30
16	Aurangabad	8.65	5.70	33	Chandrapur	5.22	12.63
17	Jalna	1.79	1.33	34	Gadchiroli	3.34	0.00

Sr No.	Amount Available	Amount Distributed
State Total	**286.32**	**76.45**

It is seen that in the very changed scenario, the DVDF has become somewhat redundant. Earlier, many GPs used to borrow funds for shopping complexes. This was the standard activity for which DVDF was used. For other activities like construction of GP Bhawan, anganwadi, samaj mandir, water supply scheme, etc. now regular Government funds are available.

7.30 SFC's recommendation:

(a) Much more publicity and awareness should be created for DVDF funds. Today huge amount is locked up in bank deposits and many ZP officials and non-officials are not aware of DVDF.

(b) The type of activity for which DVDF should be used must be made more contemporary. There is acute shortage of ideas as to what to do with DVDF funds, hence GPs are not availing it. The following are some indicative areas for which DVDF loan can be used:

(i) Hiring of agricultural equipment by farmers from GP

ii) Starting solar generation on GP waste land or using solar street lights

iii) Construction of small work-sheds (rural industrial estates) for women SHGs to do commercial activity. There is acute shortage of workspace for such activities

iv) Small warehouses (to be used for storing local farmer's food-grains, etc.)

v) Mini village level cold storage or such facility

vi) Village level nurseries

vii) Village level forestry and plantations

(c) DVDF has not taken off due to lack of support system. Government must allow for some private regional level support agency, which can give some model cost estimates and technical guidelines. This will greatly help the Gramsewaks, Extension Officer's and BDO's.

(d) The entire DVDF rules and guidelines has to be revamped on lines above

7.31 Need for GPs to earmark 2% to 5% of their income for a dedicated Maintenance Fund:

We have pointed out that the grants to GP under various schemes has increased in the last two decades. Likewise, the Fourteenth Central Finance Commission has substantially increased the grants to the GP. In addition, a number of assets have been taken up under MGNREGS. However, once these assets are constructed there is very little funds kept for their upkeep and maintenance. Thus valuable assets deteriorate quickly.

Last few years there has been a thrust on cleanliness and toilet construction. Toilets have been constructed in schools, anganwadis, GP Bhawan and in public places. Besides household (septic) toilets have increased. All these have to be maintained. The following is a broad calculation of funds required per month for operational maintenance of toilets:

Table 70: Broad calculation of funds required per month for maintenance of toilets :

(In Rs.)

S. N.	Activity	Population				
		upto 1000	1001-2000	2001-5000	5001-10000	10000+
1	Electricity Charges Water supply schemes	2500	5000	7500	14000	20000
2	Purification material cost - consumables, TCL, minor material cost	500	500	1000	1000	1000
3	Maintenance of the drainage lines including storm and grey water	5000	7000	10000	15000	20000
4	Repair/Maintenance of Water Supply System (including preventive)	4000	5000	5000	8000	10000
5	Management of Solid waste including collection & treatment	5000	5000	10000	10000	15000
6	Approximate Maintenance of Sanitation Facilities					
	Community Sanitation Units/Systems	1000	1000	3000	3000	5000
	School	1000	1000	1000	2000	2000
	Anganwadi	500	500	500	1000	1000
	Grampanchayat	500	500	500	1000	1000
	Health Centres (if available)	1000	1000	2000	2000	5000
Total		**21000**	**26500**	**40500**	**57000**	**80000**

7.31.1 SFC's Recommendation:

SFC strongly recommends that maintenance of assets must be given top most priority. Just as every ZP/PS/GP has to compulsorily spend on weaker sections, women welfare etc, so also a certain amount of the total income must be earmarked for maintenance. The culture of maintenance and upkeep of assets must get embedded into the system.

SFC suggests that guidelines need to be framed so that at least 2% of own income in bigger villages (above 5000 population) and 5% for smaller villages (below 5000 population) must be earmarked for maintenance every year. This amount must be transferred at the district level like DVDF and kept in a separate account and can be used only from third year. This way the District Maintenance Fund will be maintained. If it is kept at the GP level, there is risk that the amount will be spent immediately.

Government must frame suitable guidelines for the District Village Maintenance Fund in the form of rules.

7.32 Effective utilization of provisions under Section 124 of the Maharashtra and Regional Town Planning Act, 2015:

The entire State has come under the regional plan or framework of the Maharashtra Regional and Town Planning Act. We have already indicated earlier that the 'Betterment Tax' provision under Section 124 of the Village Panchayat Act must be renamed as 'Development Fees' and collected by the GP when the property owner wants construction permission. This is within the Gaothan area.

Outside the Gaothan area in a village, the permission for construction is given by the Collector. Here, as provided in Section 124(k) (i) of the Maharashtra and Regional Town Planning Act, 2015, a development charge is levied at the time of granting permission by the Collector. However, as the Grampanchayat also provides various amenities to the applicant, a share of the amount collected by the Collector needs to be given to the GP as well.

7.32.1 SFC Recommendation:

SFC strongly recommends that GPs must get a share of the development charges levied under Section 124 (k) of the Maharashtra and Regional Town Planning Act, 2015. The Urban Development Department in consultation with concerned departments must notify the sharing ratio for the Grampanchayats of the fees collected by Collector while giving construction permission in non-gaothan areas. The method and manner of this amount reaching the GPs (on the lines of cess on stamp duty and other such levies) must also be finalized and a comprehensive GR issues on this subject.

7.33 Special drive to write off very old audit paras where recovery or any type of action is impossible:

There are very many old audit paragraphs of the Local Fund Audit remaining unsettled for over 25 years. It is impossible to recover most of them as the employees have retired or died or the beneficiaries not identifiable any more. It looks very absurd to have review meetings where the oldest pending paragraphs is of the 1960's. It only adds to the paper work and consumes enormous time of the Government officials at all levels.

SFC recommends that there must be policy level decision to close the old paragraphs in a suitable manner.

7.34 Other audit and financial reforms

At present all the 28,000 GPs are to be audited year after year by the Local Fund Audit. Considering the manpower available with Local Fund audit and increased volume of work in the GPs it is practically impossible for the Local Fund Audit department to handle these numbers.

7.34.1 SFC's recommendation:

The socio economic milieu of the State has changed and it is essential that the audit functions and related functions must be given to professional CA firms after suitably training them. Earlier there were no CA firms in the districts, but now this is no more the case. To begin with, the audit of bigger GPs above 10,000 populations can be entrusted to the CA firms. Even if there are difficulties in giving the full work, certain levels of checking can be given to CA firms. In fact, in MGNREGS before the introduction of PFMS, CA firms were doing both the routine accounts checking and audit work. They are also doing such work in specific rural organizations like MWRRA, DRDA etc.

The Local Fund Audit Department can continue to work as empaneling agency. Thus the CA firms can supplement the audit work.

We have addressed this issue in the Chapter on 'Accounts, Finance and Fiscal Data and related issues' as well.

7.35 Other suggested administrative reforms to improve the functioning of GPs:

7.35.1 Technical support agency for managing and handling solid and liquid waste management

The problem of waste management is increasing day by day in rural areas as well, particularly the bigger GPs. In many peri urban GPS there are huge volumes of commercial and small time industrial activities. The rents are cheaper and taxes and control are less in these peri urban areas, hence there is a flourishing informal sector supplying goods and services to nearby city. All these have led to waste disposal and sanitation problem in the rural areas as well. Use of plastics, packaged food stuffs and other non-bio-degradable material has led to disposal problem in rural areas as well.

It is observed that there is lack of technical support agency to guide the GPs. It is unfair to expect that the GP and the Gram Sewak to be all-rounder's knowing to collect tax, handle water supply, disposal of waste etc. Methods of disposal of waste (like conversion of organic waste into manure using earthworks) are highly skilled areas and domain knowledge is required. During discussions in the field, it became clear that field officials need a lot of guidance and support.

7.35.2 SFC's Recommendation:

SFC recommends that there must be hand holding technical support agencies at Block level who could guide the GPs. There could be a leading mother or master technical support agency at State Level, (like NEERI) with hundreds of district and block level technical support institutions who could assist the GPs. This could be existing agricultural colleges, polytechnics and so forth. This way the capacities of all would increase. This suggestion is made on the lines made for ULBs as well (see ULB chapter)

7.36 Augmenting support from PS for various technical areas:

Study of the present pattern of functioning of Panchayat Samitis and Grampanchayats reveal that the organization pattern and staff pattern, posts created etc. are designed for the needs of 1980's and not for contemporary requirements. There has been see change in ground realities. Except some computer staff (mostly taken on outsourcing or on contract basis) there is acute shortage of technical staff.

We have already indicated that two retired electrical staff from Electricity Board or equivalent must be hired at Panchayat Samiti level to sort out their street light billing and pumping issues. They can also help GPs to shift to solar energy saving operational costs of electricity bills month after month. Their costs can be included in the state subsidy to GPs for street lights and water pumping charges. The results can be seen in two years. Their need to be some coordinating cell at the State level as well.

Likewise, the PS needs to be strengthened for handling rural solid and liquid waste suitably. We have already indicated a partnership technical support agency for this in earlier paragraph.

Another area of support is for civil engineering works. Due to shortage of civil engineers for preparing estimates, measuring, tendering, certifying and paying the pace of work slows down and available budget is not able to be fully spent. There is scope of outsourcing certain areas of work like estimate preparation at PS level.

7.37 Reforms required in management and expenditure on training at GP level:

The training to GP functionaries both officials and non-officials is an oft discussed subject. The Ministry of Panchayat Raj has also been infusing substantial funds in recent areas for augmenting training. There are some old training institutions for Gram Sewaks also. The following are the amounts spent for training and capacity building under various account heads:

Table 71: Funds spent on capacity building for Gram Sewaks :

Sr. No.	CRC code	Description of grants/activity	Amount actually spent 2016-17 (Rs crores)
1	2053-0574	GP training and capacity building	2.62
2	2415-0312	Kosbad- Thane training Centre	0.27
3	2415-0321	Gargoti Training centre	0.72
4	2415-0329	Grants to Shivaji Education Society	0.53
5	2415-0329	Grants to Yashada	4.05
6	2415-0629	Grant to Gram Sewak Training Centre	3.78
7	2515-0026	Grant to Gargoti Training Centre (under different CRC)	0.75
Total			**12.72**

7.37.1 SFC's Recommendation:

(a) The entire training and capacity building –infrastructure available, staffing pattern etc. needs to be reviewed comprehensively and revamped as per times

(b) There are seven different CRC heads under which the funds are released as above, for identical activities. They can be compressed to 3-4 heads

(c) Method and manner of training still uses the classroom lecture method. It is better to shift to visual aid methods with small video films, audios etc. which may be more engaging for non- officials of panchayat raj.

7.38 Award for GPs for creative and effective use of own funds:

The Rural Development and Panchayat Raj department has a healthy tradition of giving awards annually to well performing GPs. Some of the GPs even go to win awards at national level.

The department has also framed some Government schemes to incentivize well performing GPs. Earlier there was a scheme of Eco Villages (Pariyavaran Santulit Gram Vikas). At present there is a scheme of Smart Villages which identifies outstanding GPs at block and at district level.

There is need to honor GPs which show effective management of their own income, show creativity in use of DVDF funds and such initiatives. Honouring such GPs will inspire other GPs also to take up such activities.

7.39 Conclusion:

Overall, the income of the GPs has substantially increased in recent years. In expenditure side the big load for most GPs is high electricity charges for pumping water for the Piped Water supply System (PWS) maintained by them. We have suggested some Government support for them.

We have suggested shifting of Professional Tax Collection to GPs. We have also suggested certain other measures to improve resources of GPs. We have also recommended other methods to improve the overall financial management of GPs.

We are of the view that if recommendations are implemented they will further go to improve the financial position of the Grampanchayats.

Assessment of the finances of Urban Local Bodies

8.1 Introduction:

Maharashtra is one of the most urbanised State of India. According to census 2011, the urban population of Maharashtra is 45.22% (2011) of the total population. The total urban population of Maharashtra is much higher than the national level urban population of India which is 31.16%. The discussion below does not include the census towns, and is restricted to those settlements notified as 'Urban Bodies' under the relevant Act.

8.2 The enactments relating to Urban Local Bodies:

Legally, the Urban Local Bodies are governed by certain Acts of State Legislation. They are as follows:

Table 72: Enactment of Laws :

Sr. No.	Name of the Act	Applicable for
1	Mumbai Municipal Corporation Act	Brihan Mumbai Municipal Corporation(BMC)
2	The Maharashtra Municipal Corporation Act	All cities notified as Municipal Corporation except BMC
3	The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965	All Municipal Councils and Nagar Panchayats

8.3 Types and categories of Urban Local Bodies and their population:

Government of Maharashtra vide UDD GR of MCO/2014/Pra.Kra 153/Navi 14 dated 1st September 2014 has freshly categorised the Municipal Corporations for administrative convenience. This categorisation is based on population (2011), per capita own income and area per capita.

Likewise, Municipal Councils are also categorised as A, B, and C under Section 4 of the Maharashtra Municipal Councils Act, and Nagar Panchayats are also notified under Section 341A of the same Act.

It is observed that there is a high correlation between the category of the ULB (which is classified based on population), and the capacity of the ULB to mobilise resources, to service the citizens and to address various challenges before it. In general, the financial capacity of the bigger ULBs are relatively better, as normally the bigger cities have a stronger economic base and therefore able to generate more resources.

The following charts are self-explanatory:

Table 73: Categorization of Urban Areas based on population :

ULB category	Population	Numbers
Municipal Corporations	3 lakhs +	27
Municipal Councils	25,000 to 3 lakhs	231
Nagar Panchayats	Below 25,000	135
Total		**393**

Table 74: Categorization of Municipal Corporations (as per GR dated 01.09.2014) :

Serial No	Type	Population	Number of cities	Remarks
1	A+	Above 1 crore	1	Mumbai
2	A	25 lakh – 1 crore	2	Nagpur and Pune
3	B	15 -25 lakhs	3	Pimpri-Chinchwad, Nasik and Thane
4	C	10-15 lakhs	4	Navi Mumbai, Vasai Virar, Kalyan-Dombivili and Aurangabad
5	D	3-10 lakhs	17	Ahmednagar, Akola, Amravati, Chandrapur, Dhule, Jalgaon, Kolhapur, Latur, Nanded-Waghala, Malegaon, Parbhani, Panvel, Sangli-Miraj, Solapur, Mira-Bhyander, Bhiwandi-Nizampur, Ulhasnagar
Total			**27**	

Table 75: Types of ULBs and their share of urban population as per census 2011 :

#	Type of ULB	No. of ULBs	Population of ULB	% Population
1	A+ Class Municipal Corporation	1	1,24,42,373	25.38
2	A Class Municipal Corporation	2	55,30,123	11.28
3	B Class Municipal Corporation	3	50,55,233	10.31
4	C Class Municipal Corporation	4	47,65,380	9.72
5	D Class Municipal Corporation	17	85,00,508	17.34
6	A Class Municipality	17	25,24,429	5.15
7	B Class Municipality	73	44,51,070	9.08
8	C Class Municipality	141	38,95,250	7.95
9	Nagar Panchayats	135	18,62,000	3.80
Totals		**393**	**4,90,26,366**	**100**

Chart 27: Pie Diagram showing share of population in different urban categories

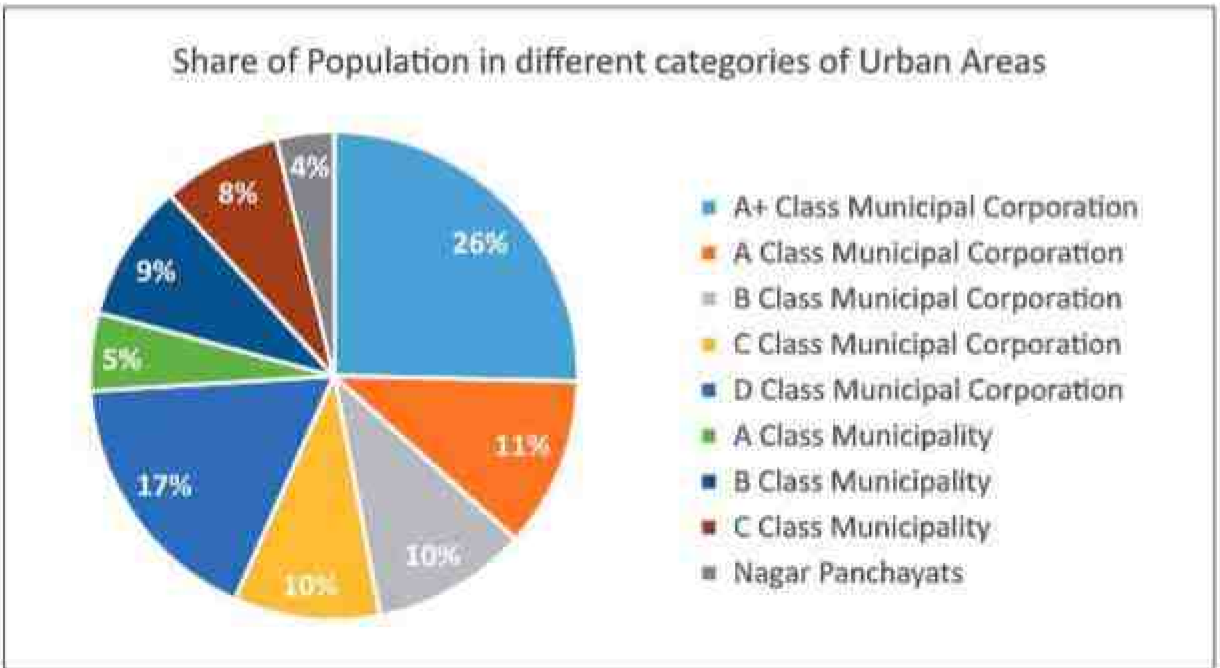


Table 76: Population in MMR Region :

Municipal Corporations			
#	**Name of Municipal Corporation**	**Geographical Area (sq km)**	**Population(Census 2011)**
1	Mumbai	*437.71	1,24,42,373
2	Thane	147.34	12,62,551
3	Navi Mumbai	162	11,19,477
4	Kalyan-Dombivali	104.57	15,46,381
5	Ulhasnagar	13	5,06,098
6	Mira -Bhayandar	79.3	8,09,378
7	Bhiwandi-Nizampur	26.41	7,09,665
8	Vasai Virar	105	12,22,390
Municipal Councils			
1	Ambernath	38	2,54,003
2	Panvel	12.5	1,80,464
3	Kulgaon-Badlapur	35.68	1,75,516
4	Khopoli	30.17	71,141
5	Alibag	1.81	20,919
6	Pen	9.82	38,560
7	Uran	2.29	29,104
8	Karjat	7.53	30,087
9	Matheran	7.24	4,393
Rest of MMR		1220.37	5,79,898
Total		**4354.4**	**2,10,02,398**

It is interesting to note that out of total urban population of Maharashtra, **43% live in MMR Region.**

8.4 Decadal population growth of ULBs:

Table 77: Decadal population growth of different categories of ULBs :

#	Class	No. of Corporations / Councils	Population		Percentage growth of Population
			2001	2011	
Municipal Corporations*					
1	A+	1	1,19,78,450	1,24,42,373	3.87
2	A	2	45,90,539	55,30,123	20.47
3	B	3	33,52,259	50,55,233	50.80
4	C	4	32,89,426	47,65,380	44.87
5	D	17	71,56,262	85,00,508	18.78
Municipal Councils					
1	A	17	21,89,172	25,24,429	15.31
2	B	73	38,70,909	44,51,070	14.99
3	C	141	31,30,364	38,95,250	24.43
4	Nagar Panchayats	135	11,97,143	18,62,000	55.54

*For Names of Municipal Corporation Refer Table 2

The overall population growth of Maharashtra during the decade 2001-2011 was 15.99 %, whereas urban population growth was 23.67%. However, as it will be seen above, the population growth in each band of ULBs is uneven. Certain cities in B and C category seem to have grown very fast. Out of total 135 Nagar Panchayats, 115 Nagar Panchayats were newly constituted in 2015 – 16.

8.5 Population density in Municipal Corporations:

It is well known that cities, particularly Mumbai are very densely populated.

Table 78: Population density in Municipal Corporations :

Figures in Lakhs/Sq. km.						
#	Municipal Corporation	Date/Year of formation	Area at time of formation (in sq. km.)	Area (Census 2011) (in sq. km.)	Population (2011 Census)	Population Density
1	Brihan Mumbai BMC	1872	-	437.71	1,24,42,373	28,426
2	Pune	1950	144	276.4	31,24,458	11,304
3	Nagpur	1951	NA	217.56	24,05,665	11,057
4	Thane	1982	128.23	147	18,41,488	12,527
5	Nashik	1982	278.22	259	14,86,053	5,738
6	Pimpri-Chinchwad	1985	85	181	17,27,692	9,545
7	Aurangabad	1982	138.5	138.5	11,75,116	8,485
8	Vasai-Virar	2009	NA	380	12,22,390	3,217
9	Kalyan-Dombivali	1982	104.57	116.08	12,47,327	10,745
10	Navi Mumbai	1992	210.97	210.97	11,20,547	5,311
11	Ahmednagar	2003	80.21	80.21	3,50,859	4,374
12	Akola	2001	28	124.82	4,25,817	3,411
13	Amravati	1983	121.65	121.65	6,47,057	5,319
14	Chandrapur	2011	NA	56	3,20,379	5,721
15	Dhule	2003	46.46	46.46	3,75,559	8,083
16	Jalgaon	2003	65.94	68	4,60,228	6,768
17	Kolhapur	1972	66.82	66.82	5,49,236	8,220
18	Latur	2011	NA	117.78	3,82,940	3,251
19	Nanded-Waghala	1997	71.76	58	5,50,439	9,490
20	Malegaon	2001	12.95	24.25	4,71,312	19,436
21	Parbhani	2011	NA	58	3,07,170	5,296
22	Panvel	2016	NA	12	1,80,020	15 002
23	Sangli-Miraj-Kupwad	1998	118.18	118.18	5,02,793	4,254
24	Solapur	1964	23.33	178.57	9,51,558	5,329
25	Mira-Bhayandar	2002	79.4	79.4	8,09,378	10,194
26	Bhiwandi-Nizampur	2001	26.36	26.36	7,09,665	26,922
27	Ulhasnagar	1996	13.34	13.34	5,06,098	37,938

SFC Observation:

Ulhasnagar, Bhiwandi - Nizampur, Mumbai and Malegaon are the most densely populated cities of Maharashtra.

8.6 Staff strength of Urban Local Bodies:

8.6.1 Municipal Councils:

The total staff strength of Municipal Councils and Nagar Panchayats is about 21,300. The total population of municipal councils and Nagar panchayats is 1.27 crores. Thus the number of regular staff per 100 populations is just under 1%.

8.6.2 Municipal Corporations:

The data of sanctioned posts, filled up posts in 26 Municipal Corporations is given below. The total population of these 26 ULBs is 2,38,51,244. Thus, the average number of staff per 100 comes to 0.43

Table 79: Population and Number of Staff/100 persons :

Sr No	Name of Municipal Corporation	Population (As per 2011 Census)	Permanent posts			Staff per 100 persons
			Sanctioned Posts	Filled Post	Vacant Post	
1	Thane	18,41,488	2852	1189	1663	0.15
2	Navi Mumbai	11,20,547	3935	2238	1697	0.35
3	Panvel	1,80,020	707	676	31	0.39
4	Bhiwandi-Nizampur	7,09,665	4362	3654	708	0.61
5	Mira-Bhyander	8,09,378	2442	1478	964	0.30
6	Kalyan-Dombivali	12,47,327	6413	4864	1549	0.51
7	Vasai -Virar	12,22,390	2852	1189	1663	0.23
8	Ulhasnagar	5,06,098	1212	715	497	0.24
9	Pune	31,24,458	23737	16135	7602	0.76
10	Pimpri-Chinchwad	17,27,692	9763	6976	2787	0.57
11	Sangli-Miraj-Kupwad	5,02,793	2377	1623	754	0.47
12	Kolhapur	5,49,236	4666	3463	1203	0.85
13	Solapur	9,51,558	5384	3825	1559	0.57
14	Nashik	14,86,053	NA	NA	NA	NA
15	Malegaon	4,71,312	2673	1096	1577	0.57
16	Dhule	3,75,559	2274	1206	1068	0.61
17	Jalgaon	4,60,228	2674	1837	837	0.58
18	Ahmednagar	3,50,859	2870	1836	1068	0.82
19	Aurangabad	11,75,116	NA	NA	NA	NA
20	Nanded-Waghala	5,50,439	2323	1591	732	0.42
21	Parbhani	3,07,170	NA	NA	NA	NA
22	Latur	3,82,940	1246	801	445	0.33
23	Amravati	6,47,057	2799	1712	1087	0.43
24	Akola	4,25,817	2397	1531	866	0.56
25	Nagpur	24,05,665	12224	8169	4055	0.51
26	Chandrapur	3,20,379	903	715	188	0.28
Total		**2,38,51,244**	**103085**	**68519**	**34600**	0.43

Generally, the overall impression among all is that ULBs are over staffed. It is a fact that substantial revenue of the ULBs is spent for salaries and pensions. At the same time the nature of activities of ULBs in the Indian context are such that adequate manpower is required for solid waste management and various other services it provides. The work has to be performed day after day.

The SFC notes that during field visit, the trend to increase staff has greatly reduced in last decade. In fact, most of the SWM and other work is now done through outsourcing agencies.

8.6.3 SFC's Recommendation:

SFC is of the view that Government or ULBs must engage professional agencies to conduct very systematic, and detailed studies regarding the staffing requirements in ULBs. While over staffing is certainly not desirable as much of the funds will be taken over by establishment or salary expenses, at the same time under staffing also affects the quality of services of a ULB. There is also a need to create new category of posts like environmental managers and the like in lieu of the traditional municipal civil engineer position.

8.7 GST and related issues:

The historic GST came into place on 1.7.2017. Earlier, octroi was a major source of income for ULBs in Maharashtra for decades. It gave substantial financial and operational autonomy to the local bodies. However, for reasons well known it was discontinued, first in the Municipal Councils and thereafter in the Municipal Corporations in stages. In lieu of octroi, Local Body Tax (LBT) was introduced. However, subsequently the LBT was also abolished. Municipal Corporations were compensated suitably. Now with the coming of GST, there is financial support extended to Municipal Corporations, in lieu of GST. The developments, in brief, with timelines are summarised as follows:

8.7.1 Municipal Councils:

Octroi was abolished in Municipal Councils way back in 1999. To meet the loss in octroi income the Government provided octroi abolition grants. There was also another category of support to Municipal Councils called 'DA grants' to compensate for the higher salary rates recommended by the Government. Subsequently by a GR dated 31.8.2009, the octroi compensation and DA compensation were merged and after adding a marginal increase, they were converted into another package called 'Nagar Palika Sahayyak Anudan'. Thus from 2009 till date the Councils are being financially compensated for the loss of octroi income and for DA grants by Government in the form of Assisted Grants called 'Sahayyak Anudan'.

8.7.2 Municipal Corporations except Mumbai Municipal Corporation (BMC):

- In twenty out of the twenty-six Municipal Corporations octroi was abolished prior to 2013. The Corporations were allowed to mobilise their resources through an alternate 'Local Body Tax' (LBT)
- Octroi was also abolished in the five bigger Municipal Corporations of Pune, Nagpur, Thane, Navi Mumbai and Pimpri-Chinchwad on 31.3.2013. LBT was introduced as a substitute.
- All Municipal Corporations were operationalising LBT till 31st July 2015 to mobilise own revenue.
- Thereafter, LBT as a source of own revenue for Municipal Corporations was also abolished by the Government from 1st August 2015.However, Municipal Corporations were allowed to continue LBT for bigger traders with a turnover of above Rs.50 crores per annum. Thus small traders with turnover less than 50 crores were taken out of the ambit of LBT of Municipal Corporations.
- The Government introduced a LBT compensation to the Municipal Corporation to offset the loss of LBT income.
- With the coming of GST from 1.7.2017, even the collection of LBT from bigger traders was abolished. Thus GST subsumes all other earlier forms of local taxes on goods and services.
- Government of Maharashtra is compensating the Municipal Corporations with a financial support in lieu of GST from 1.7.2017. The details of the amount they are receiving as compensation in lieu of GST is given later.

8.7.3 Brihanmumbai Municipal Corporation:

- Octroi continued in Mumbai till 30th June 2017, perhaps the only big city in India to continue octroi for such a long period.
- Since 1.7.2017 GST has subsumed octroi.
- BMC is getting a compensation from Government for loss of octroi income.

8.7.4 Assured compensation in lieu of GST regime 2018-19:

All the Municipal Corporations have been given an assured compensation in lieu of octroi (Mumbai) or in lieu of LBT (all other Municipal Corporations other than Mumbai) from 1.7.2017. The releases to the Municipal Corporations post GST (as GST compensation) are as follows:

Table 80: GST Compensation to Municipal Corporations : (Rs. In Crores)

Sr No	Name of Municipal Corporation	April 2018 to March 2019
1	Brihan Mumbai	8390
2	Nagpur	866
3	Chandrapur	59
4	Amravati	117
5	Akola	64
6	Aurangabad	253
7	Parbhani	17
8	Latur	13
9	Nanded -Waghala	73
10	Nashik	874
11	Malegaon	144
12	Dhule	92
13	Jalgaon	111
14	Ahmednagar	82
15	Pune	1573
16	Pimpri-Chinchwad	1507
17	Kolhapur	126
18	Solapur	185
19	Sangli-Miraj-Kupwad	140
20	Mira Bhyander	166
21	Vasai-Virar	301
22	Bhiwandi-Nizampur	233
23	Ulhasnagar	167
24	Kalyan-Dombivali	170
25	Thane	720
26	Navi Mumbai	1025
Total		**17468**

*For Panvel, which has been upgraded as a Municipal Corporation recently, the compensation has yet to be decided.

8.8 Evolution of ULBs in Maharashtra:

It was in1882, during the regime of Lord Ripon that the British came with an Act on local self-government. The Bombay Municipal Corporation Act was enacted as early as 1888. As is well known, participation in the decision making in local bodies was the first demand made by the leaders of India during our nationalist freedom struggle. All over India, many tall leaders of the freedom struggle were Chairmen of the ULBs or even Mayors. This was also the first opportunity to stand for elections as representative of the people in those days.

At that point of time, the local bodies mobilised their own source of income and appointed their own staff. The own income included octroi and various other means of taxation. The salary of the Chief Executive Officer and other staff was determined by the local body itself. Local bodies were by and large left to themselves to manage their income and expenditure. There was very little of Government support. At that time, the emphasis was on participation of local community, and maintenance of minimum civic amenities.

The non-official office bearers were leaders of the town, many with nationalist fervour. Depending on their resources and interests, they went beyond their core responsibility (of providing street lighting, town cleanliness and drinking water) and took up running of schools, municipal dispensaries, constructing town halls and so on.

The Government created the Local Fund Audit (1930) to monitor their good working and control deviations. But apart from this the control was minimum. The Maharashtra Municipal Corporation Act (Section 93) even goes on to say that the format in which they have to maintain the accounting records (annual accounts) is to be determined by the Standing Committee.

Since the late 1970's the scenario has changed. There is more and more role of Government in running the ULBs.

From resources point of view, the local bodies do not have the funds for investing in capital projects and have to be totally dependent on Government. Thus Government has been augmenting their resources in various ways. This is discussed in detail later. There are various provisions in the Act which provides for the Government keeping a watch on functioning of ULBs.

Earlier the ULBs appointed the Chief Officers (COs) themselves. But since 1979 the State Government has stepped into this area and the Class II COs are being posted by the UDD from MPSC selected candidates and Class III CO's were appointed from Regional Selection Board. The Class I COs were appointed from 1987 and were recruited through MPSC like other State Government officials. There is a separate Chief Officer Cadre, and they are posted and shifted from one Nagar Palika to another like any other Government official. In recent years the Government has gone one step further and has created few more cadres for municipalities. Thus accounts staff, tax collection staff, municipal engineers will be State level officers who will be transferred from one municipality to another.

Likewise, slowly over the years the pay of the local body staff has got aligned with the State Government staff. As is well known, the State Government appoints a Pay Commission once in ten years to fix the pay scales for its officials. Once this pay commission gives its award, slowly it is extended to ULBs also. The Government has also prescribed a staffing pattern for each category of ULB, be it a Municipal Corporation or Municipal Council. There is more and more of Government supported schemes and tighter monitoring.

Still, due to historical and legacy reasons and the way ULBs have evolved in Maharashtra, it is found that there is steep variation in the day to day workings, public involvement, responsiveness, record keeping, staff performances, overall delivery and output, etc. from one ULB to another.

8.9 Important functions of ULBs:

8.9.1 Important obligatory functions of urban local bodies:

Conservancy: Maintenance of drains and drainage works, sewerage works, public latrines, urinals, etc., scavenging, removal and disposal of filthy material, refuse and rubbish.

Public Health: Prevention and spread of dangerous diseases, maintenance of public hospitals, dispensaries, maintenance of public markets, slaughter houses etc.

Water Supply: Construction and maintenance of works for providing supply of water.

Fire Fighting: Maintenance of Fire Brigade for extinguishing fire and protection of life and property when fire occurs.

Education: Maintenance of schools for primary education. The following obligatory duties have been included in view of the 74th amendment to the Constitution.

a. Planning for economic and social development.

b. Urban forestry and protection of environment.

8.9.2 Important Discretionary Functions:

The municipalities may provide out of municipal property and funds for the following functions:

i. Laying out public streets, construction of buildings.

ii. Laying out or maintaining public parks and gardens, establishing libraries, museums, lunatic asylums, gymnastics, stadia, open air theatre etc.

iii. Welfare measures for SC, ST, Vimukta Jatis and Nomadic Tribes.

iv. Provision of services of ambulance.

v. Swimming pools and public bathrooms, conveniences

vi. To destroy harmful animals and birds

vii. To open and run maternity homes and infant welfare houses.

viii. To establish institutions for taking care of the disabled and handicapped persons

ix. Calamity relief

x. To provide mechanically propelled transport facilities in the respective jurisdiction.

xi. To promote the welfare of municipal servants and the persons' dependent on them

xii. Construction of sanitary dwellings for the poor class.

In view of the 74thConstitutional Amendment the following functions have been included as discretionary function of municipalities: -

i. Slum improvement and upgradation.

ii. Urban Poverty Alleviation.

iii. Cattle pounds.

iv. Prevention of cruelty to animals and regulation of slaughter houses and tanneries.

8.10 Overall pattern of the finances of ULBs:

We have pointed out earlier that for historic and other reasons, the financial health varies from one ULB to another. **Within the same district like Jalgaon, two adjacent ULBs of more or less the same size and economic base, we found sharp differences in management, tax recovery culture and other practices. The quality of local non officials also play a very important part in determining the financial health of ULBs.** Prior to the introduction of rotational post for President in ULBs there have been many instances of a single person continuing as President for long periods. This single individual or a group of local citizens who have dominated as office bearers has often set the working culture of the ULB which is still being continued. In short, the striking aspect of ULBs in Maharashtra is the financial health of ULBs varies from location to location.

We have given detailed data analysis of the income and expenditure pattern of various categories of ULB in later part of this chapter. But, the following observations can be placed as a summary:

8.11 Present system of accounts keeping does not help in understanding the precise financial health of ULBs:

The task of the State Finance Commission is to assess the financial status and health of the ULBs and recommend suitable measures to improve them.

We have elaborated in the chapter on Finance Accounts and Financial Data, that due to the absence of double entry accounts, it is very difficult to precisely state the financial health of a ULB and compare it with another ULB.

To give an analogy, if we take the banking sector, the regulator (that is Reserve Bank) is able to monitor and compare the performance of various type of banks, big or small, because the prescribed method of account keeping is same for all banks. All banks have to follow certain financial reporting norms and their accounts are certified by a professional Chartered Accountant. This enables the regulator, Government, investors and public to know which bank is functioning well and which is not. In addition, banks report their annual financial performance through various well known financial ratios. All this makes financial analysis easy.

This is not yet possible in case of ULBs as yet. The following are the weaknesses in present system of accounting keeping:

(i) the annual financial statement (budget) which is kept on basis of income and expenditure or 'single entry system' does not reveal the huge amount of local tax that is due, but not recovered. Likewise, it does not reveal upfront the committed expenditure for the ULB, as often there are substantial payments pending to State agencies like MJP, MSEDCL, contractors, suppliers, staff (both serving and retired) etc.

(ii) ULBs are expected to present annually a 'balanced budget' that is the projected income and expenditure must balance out, and there must be a minimum cash balance as directed by the State Government (Section 101-5(d) of the Municipal Act). Therefore, to meet the required anticipated expenditure, ULBs very often 'puff up' their projected income.

(iii) Finally, there is no arrangement for auditing or certifying the accounts. Few years back (2012) the Government (Finance Department) directed that the accounts of the ULBs must be certified by the Local Fund Audit. However, so far they have not started certifying the accounts.

(iv) The directions relating to use of new double entry based Account Code issued on 19.1.2014 is not yet effectively getting implemented in the Municipal Councils. We have dealt with this in details in the chapter on Accounts, Audit and Fiscal Data.

Absence of reliable financial data is a problem faced by not only this SFC, but all previous SFC and the Central Financial Commissions as well. That is why the last two CFC's gave substantial emphasis to improvement of accounts, like incentivising ULBs for maintaining audited accounts etc. We have addressed this issue and the way out in the dedicated chapter on 'Accounts, Audit and Financial Data'.

Therefore, we have delineated the broad pattern of financial health of ULBs, not only from the financial data provided by them (which is inadequate for full analysis and coming to conclusions on that basis alone) but also from the additional information we elicited from officials, discussion with office bearers and councillors, and our overall assessment of the situation. It is on this basis, we make further observations and work out the strategy.

8.12 Government capital grants and revenue grants have increased to ULBs but this does not directly correlate with an improved financial situation in the ULBs:

It will be seen from the budget data we have provided in a later part of this chapter that the overall capital grants have increased substantially in recent years. The Government of India has also stepped up its support through Smart City initiative and AMRUT Yojana and other schemes. The State Government has also increased the quantum of capital grant from its own resources.

As regards revenue grants, there is some shortfall in Sahayyak Anudan for Municipalities and in other assigned taxes. However, there has been a big infusion of grants under the 14th FC, though out of this about 50% have to be necessarily spent on solid waste management. In the in the Municipal Corporations, the GST grants are substantially more than earlier LBT grants. Also there is an inbuilt 8% annual increase provided to ULBs for GST compensation. Still, during field visits many Municipal Corporations have represented that had they continued with octroi, their present income would have been more. But, in the absence of any validated accounting data we are not able to say whether the overall financial position of ULBs have improved or not, over the years.

However, the problem is that it is difficult to estimate the financial health of a ULB based on increased grants alone. The entire funds flow and management has to be examined to know it. However, there are difficulties in balancing the revenue income and expenditure due to varied reasons.

8.13 The ULBs themselves do not have a fair understanding of their financial situation:

Interestingly, most ULBs themselves do not know where the 'shoe pinches' as their accounting system does not adequately reveal the position at one go and very clearly. To cite an example, the Municipal Corporations were asked to submit to Government, in early 2017, details of their LBT income for the last few years. The information that Municipal Corporation was asked to submit was critical, as it was on this basis the GST compensation was fixed. The LBT had been abolished from 1.8.2015, however those of the traders who had turnover above Rs.50 crores were allowed to be retained by the Municipal Corporations. In this background, it is seen that while submitting the critical information some Corporations only submitted their actual collection from the bigger traders (above 50 crores) and ignored the 'recoveries due' as part of their revenue. During our field visit, many MCs pointed out this loss to them, but clearly it is lack of financial capabilities on their part and due to absence of proper systems.

Due to absence of a robust accounting system, many ULBs are not able to set priorities in payment and many time end up paying huge fines, late fees and interest, often as per court orders.

8.14 Financial health is also a function of the economic strength of the city's economy and region:

This should be quite obvious, as only a good economic resource base leads to a good income for the ULB. Thus the ULBs of Mumbai Metropolitan Area (where 43% of urban population of Maharashtra live) are able to mobilise higher financial resources. Likewise, two ULBs namely Pune and Pimpri-Chinchwad in Pune region, being cities with a strong manufacturing and service industry base, are able to mobilise higher level of taxes and other incomes for their activities.

As against this, at the other end, the smaller ULBs in remote, tribal and other areas have poor economies and a poor hinterland. Hence there are limitations to mobilise income for smaller ULB, which are mostly agricultural market towns, as the citizens has very low paying capacity.

Generally speaking, the tax collection ratio, fiscal health is in better shape in Konkan and Pune regions as compared to other parts of the State due to economic and other reasons.

8.15 Geographical factors also play a role in determining the financial health of a ULB:

Even geography plays a part in determining the financial health of the ULB. Take for instance, Telhara, a small Class C Municipal body in Akola district. Due to its vantage position in the foothills of Satpura hills, it is able to get water by gravity from Wan dam nearby on the hills and there is virtually no expenditure on bringing the water from source to the town. Whereas many towns spend huge amounts on electricity bill for pumping the water to the town from sources 20 to 50 kms. away or even more. This disturbs their financial health.

8.16 ULBs are unable to generate surplus for capital investment. This has to come necessarily from Government:

There is near unanimity in findings of all Commissions, Committees to study the finances of ULBs all over India over the years that (except for some selected ULBs) they are not able to generate surplus for capital investments. This is because their source of own income like house tax, water charges etc. and other income are just adequate to meet their revenue needs. Earlier they had sources like octroi which has been done away with over the decades.

Thus in the prevailing fiscal arrangements, investment for roads, waterworks and the like has to come necessarily through grant in aid from Central/State Government or through loans.

8.17 Importance of managing and controlling revenue deficit:

It is a basic rule of financial prudence and discipline that any organisation must not be in a position that its revenue expenditure is more than its income. This leads to revenue deficit and not a healthy situation. In plain language, it means that the organisation has to borrow even to meet its day to day expenditure. In such a situation it has to either quickly augment its income or curtain its expenditure.

It is a different case if any institution borrows for capital investments. In this case, it can repay it from its revenue stream which normally increases due to the infusion of capital immediately, or after a while. This is also well understood.

Thus, a ULB must be at least in a position to balance its revenue income and expenditure. This is a minimum condition for financial health.

8.18 The bigger Municipal Corporations have innate resilience to control their revenue deficit:

When we looked at the health of ULBs from this angle, that is, whether they are in a position to at least control their revenue deficit, we broadly find that the bigger ULBs, namely the Municipal Corporations of A+, A, B and C categories (that is the top 10ULBs of the State, starting from Mumbai) are able to manage their revenue deficit. In fact, the net revenue position of some ULBs like Pimpri-Chinchwad and Navi Mumbai are quite commendable, and they are able to take up many initiatives with their revenue surplus.

Even if the A, B, C category Municipal Corporations slip to a revenue deficit situation in particular year, our finding is that they have innate capacities and resilience to correct or reform themselves on this front. Thus they can have a special drive to collect house tax arrears, or increase the taxation rates. They can curtail certain non-priority revenue expenditure. They can hire experts to guide them on where they are weak and rectify the situation. By some efforts, they can reorganise themselves and bring in revenue income- expenditure balance.

Thus a combination of better institutional capability, and a good economic base of the bigger cities helps them to balance their revenue income expenditure stream and even if they slip have capacities to come back on track quickly.

8.19 'D' Class corporations and Municipal Councils face deeper challenges in even controlling their revenue deficit:

However, if we go one level below the level of C Class Municipal Corporations, namely the seventeen D class Municipal Corporations, 231 Municipal Councils and 135 Nagar Panchayats then the picture changes. Many of them are not able to balance their revenue income and expenditure. This may be due to various reasons, like poor funds management, overstaffing, poor tax collection and the like. But it is observed that the economic base of the city is also low and they are unable to raise the required resources, whereas there is a minimum level of expenditure for them. In other words, there are some revenue factors within their control, but many factors beyond their control, which only Government can help rectify.

As we shall see from the analysis later in this chapter, the biggest source of income for the Municipal Councils is the 'Sahayyak Anudan'. If the Sahayyak Anudan is adequate or not increasing adequately over the years, the Councils are bound to have revenue shortfall. Smaller ULBs do not have much space to increase their house tax, considering they are agricultural market towns where mainly farmers live and share of agriculture in overall GDP is decreasing rapidly.

8.20 Consequences of continuous revenue deficit in ULBs:

In ULBs, whose financial health is poor (that is year-after-year revenue deficits) most of the energies of the officials go in 'firefighting' that is prioritising the competing claims and most often delaying payments. Poor fiscal health affects each and every activity in poorer ULBs and causes continues day to day friction and disharmony between all stakeholders that is officials, suppliers, citizens etc.

The situation gets worsened in these ULBs as there is absence/shortage of competent accounts staff, poor grasp of basic financial accounting principles, poor control of daily cash flows etc. This further weakens the financial health and becomes a vicious cycle.

8.21 A strategic approach to strengthening financial health of ULBs:

The SFC is mandated to suggest ways to strengthen the financial position of ULBs. With old traditional sources of income like octroi, LBT no more in existence and many taxes subsumed by GST, the options for ULBs to mobilise local level resources for both capital and revenue expenditure has got reduced.

It will be seen from the observations made about the overall financial health of the ULBs that the position varies from one ULB to another. Thus we saw a Class C Nagar Palika well managed and collecting taxes effectively in Sindhudurg district while another Class C Nagar Palika elsewhere in the State is in financial doldrums due to poor tax recovery and absence of any internal systems, poor quality of staff etc.

Therefore, a single recommendation for all ULBs-- 'one size fits all' solution will not be effective or desirable. Therefore, this SFC has consciously taken the strategy of giving recommendations based on categories of ULBs. Here also it will be seen that we have made it as much location specific as possible, as it will be seen from our recommendation regarding electricity bill subsidy for drinking water schemes which is aligned to the distance from which water is pumped.

The resource requirements of ULBs can be worked from three different levels:

(a) Resources required to give benchmark level services- this is the ideal resources required for a ULB, to meet both their revenue needs and capital needs. We have tried to show the funds required for selected ULBs, on sample basis, in a later part of this chapter. This is also called 'normative requirements' of a ULB.

(b) Resources required to meet revenue expenditure for a reasonable quality of service to citizens and support for installation and special repairs of critical capital projects like water supply, roads, sanitation etc.

(c) Resources required at least to meet the critical revenue expenditure, **that is at least of that level that it does not have a revenue deficit.**

From this angle, the first task before us is to ensure that at least all the ULBs are in (c) position above, and then help more and more ULBs to move up in the ladder to reach a position (b) and then to (a).

The present position is that many ULBs, particularly 'D' Class Municipal Corporations, Municipal Councils and Nagar Panchayats are below (c). Others which are at level of (c) above or slightly above, but below (b) are can slip into below (c) level anytime, and therefore their financial health needs to be attended to on priority. This is particularly true of many 'C' Class Municipal Corporations and Nagar Panchayats, and specially so in Marathwada and Vidharbha. Their very weak financial position is due to a combination of low economic base, poor recovery culture in the ULB and other factors.

Consequently, it follows that the limited resources of the Government have to be utilised strategically in areas and activities that is critical and 'needed most'. This would not mean that other ULBs do not need resource support. They have to be supported in a different way, to increase their own capacities to mobilise resources.

This has been realised by the State Government itself. Thus, consciously, it has extended he resources made available from the 14th Central Finance Commission grants only to D Class Municipal Corporations and the Municipal Councils and excluded the higher level Municipal Corporations.

To repeat, while all ULBs need infusion of funds, since State Government has other pressing and competing demands on its limited financial resources as well, we feel it will be appropriate that instead of spreading the available resources thinly, it will be practical and workable to suggest focussed support to D class Municipal Corporations and below levels on priority first.

Therefore, the 'strategic approach' adopted by this SFC in making the recommendations for ULB's is as below:

- Use the limited resources of the Government where it is most needed.
- Focus on restoring financial health of Class D, all Municipal Councils and Nagar Panchayats in such a way that they come out a revenue deficit situation gradually in next three to five years
- Focus on capacity building of ULBs in financial matters so that they themselves realise where the problems are and proposed improvements and support can be sustained
- Focus on improving the financial management aspects of their drinking water schemes which is a primary responsibility of the ULBs
- Focus on consolidating the work done and achievements in the Swaccha Bharat Abhiyan
- Enable the better managed and bigger ULBs to get additional resources through loans (over and above what is given by Government) for capital investments through loans
- Incentivise desirable performances and disincentive undesirable performances.

8.22 Sources of Income of ULBs:

Chart 28: Sources of Income of ULBs

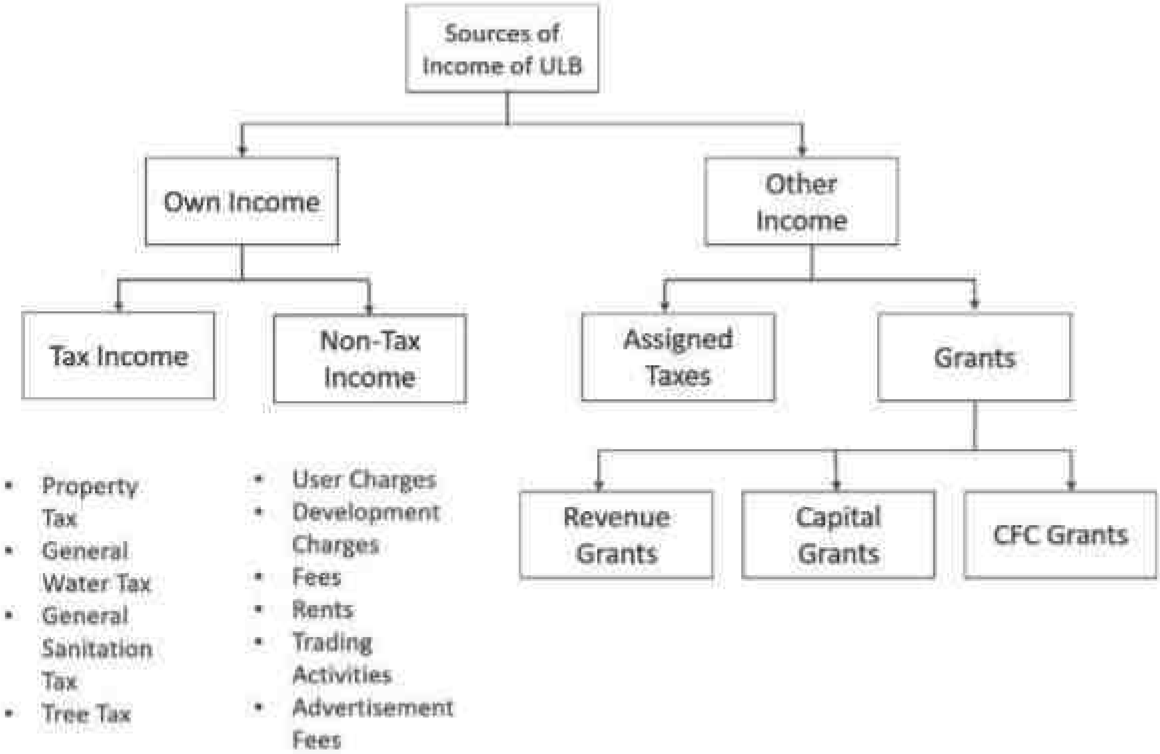
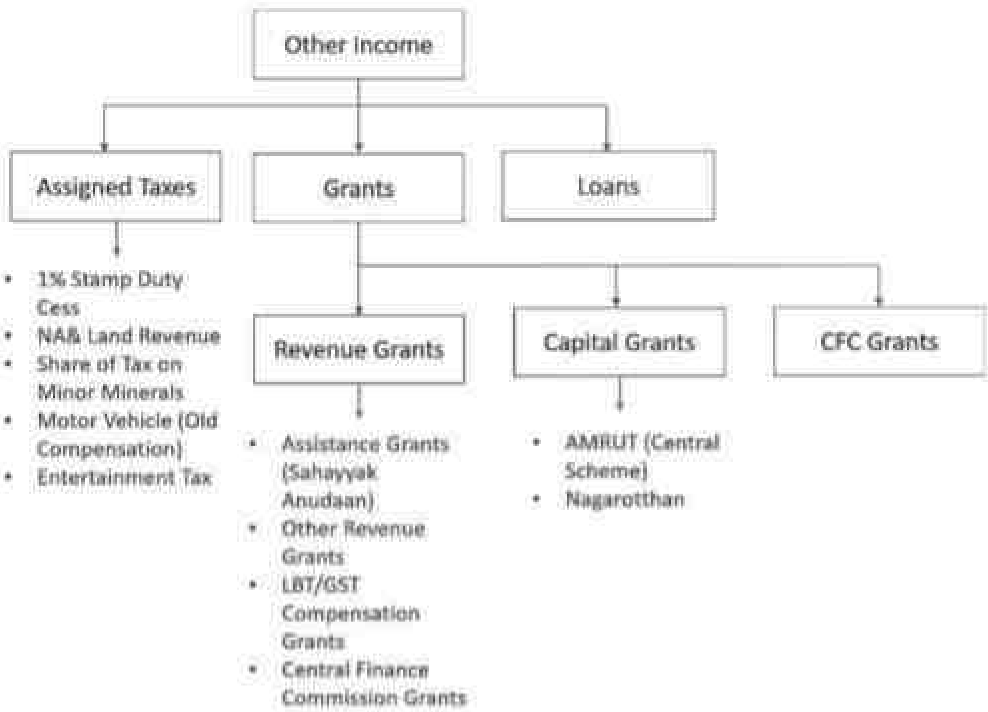


Chart 29: Sources of Other Income of ULBs



8.23 Own Tax Revenue

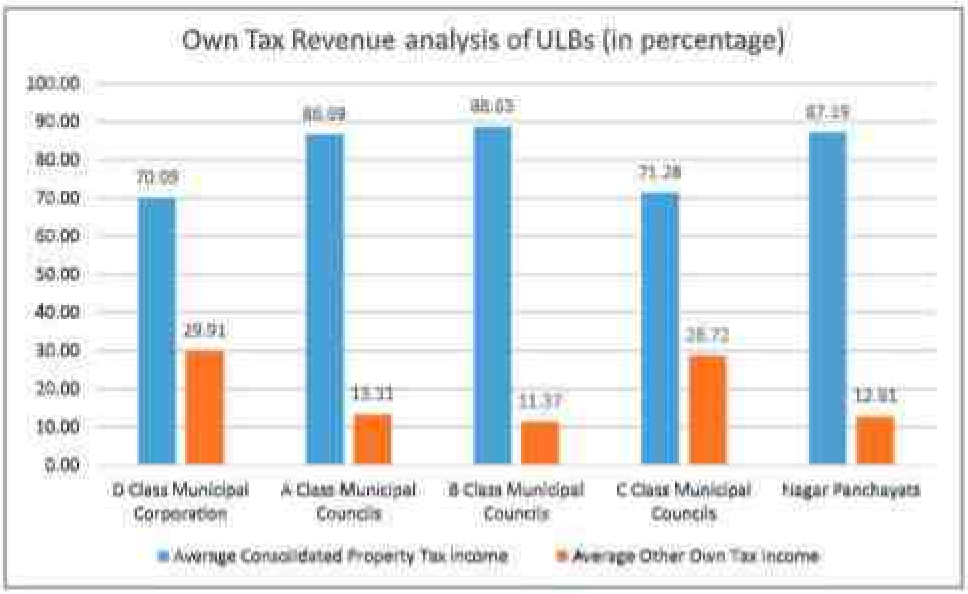
8.23.1 Property Taxes& Other Own Taxes of ULB

Table 81: Consolidated Property Tax Income & Other Tax Income : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Consolidated Property Tax income	Average Other Own Tax Income	Average Total Own Tax revenue Income
1	D Class Municipal Corporation	3662	1563	5225
	Percentage	70%	30%	100%
2	A Class Municipal Councils	920	141	1061
	Percentage	87%	13%	100%
3	B Class Municipal Councils	416	53	469
	Percentage	89%	11%	100%
4	C Class Municipal Councils	109	44	152
	Percentage	71%	29%	100%
5	Nagar Panchayats	97	14	111
	Percentage	87%	13%	

(**Note:** Above data is the average of four-years (2014-15 to 2017-18) of selected 6 Municipal Corporations (D Class) one from each revenue division and two municipal councils'/Nagar panchayats from each revenue division

Chart 30: Analysis of own tax revenue :



The above analysis shows that for smaller ULBs property tax is almost the only source of tax income, and the smaller ULBs have a higher level of dependence on property tax as source of tax revenue.

8.23.2 Observations on tax revenue:

8.23.2.1 Non Tax Revenue

Table 82: Non-Tax Revenue of Municipal Corporation : (Rs. In Lakhs)

Sr. No.	ULB Type	Non Tax revenue Income
1	D Class Municipal Corporation	3069

(Note: Above data is the average of four years (2014-15 to 2017-18) of selected 6 Municipal Corporations -D Class- from each revenue division.

Table 83: Non-Tax Revenue of Municipal Councils : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Non Tax revenue Income
1	A Class Municipal Councils	937
2	B Class Municipal Councils	344
3	C Class Municipal Councils	72
4	*Nagar Panchayats	42

(Note: Above data is the average of four years (2014-15 to 2017-18) of 2 municipal councils' / Nagar panchayats selected from each revenue division

We have given our observations and recommendations on Own Tax and Non Tax revenue, in detail, later in this chapter

8.23.3 Assigned Taxes

Table 84: Average Assigned Taxes for ULBs in last four years : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Motor Vehicle (Old)	Average Stamp Duty	Average NA & Land Revenue	Average Minor Minerals	Average Entertain-ment Tax (Old)	Average Total of assigned taxes
Municipal Corporations							
1	D Class	0	1039	0	1	2	1042
	Percentage	0	100	0	0	0	100
Municipal Councils							
1	A Class	0	166	1	0	20	187
	Percentage	0	89	0	0	11	100
2	B Class	0	56	2	0	8	66
	Percentage	0	85	3	0	11	100
3	C Class	1	11	0	0	2	15
	Percentage	5	75	1	3	16	100
4	Nagar Panchayats	0	5	1	0	0	6
	Percentage	0	82	14	1	2	100

Chart 31: Analysis of Assigned Taxes in Class A Municipal Councils

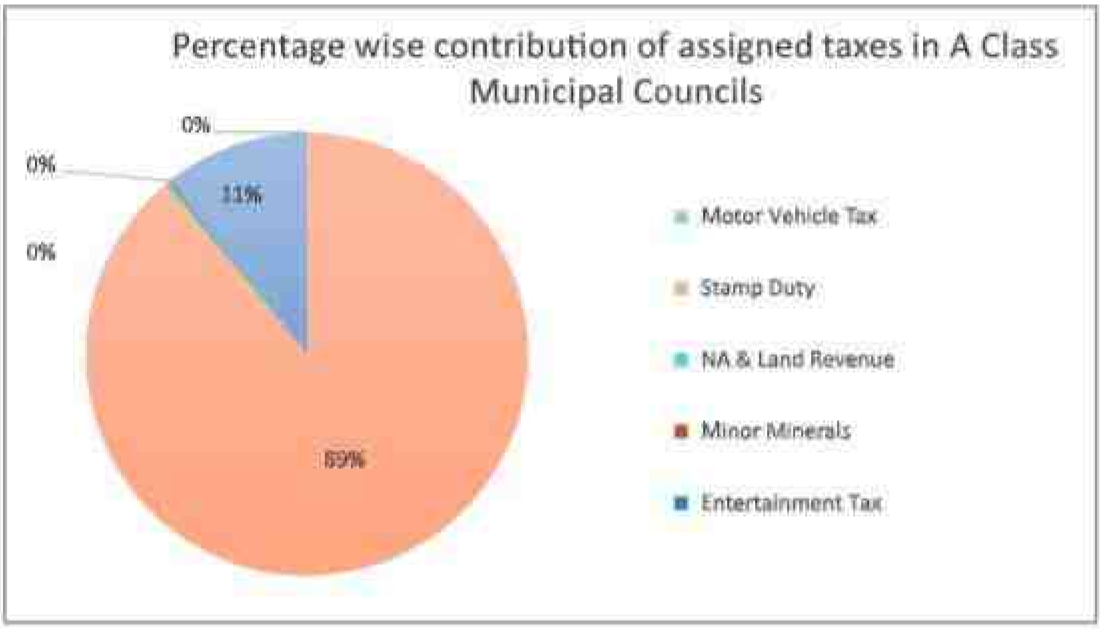


Chart 32: Analysis of Assigned Taxes in Class B Municipal Councils

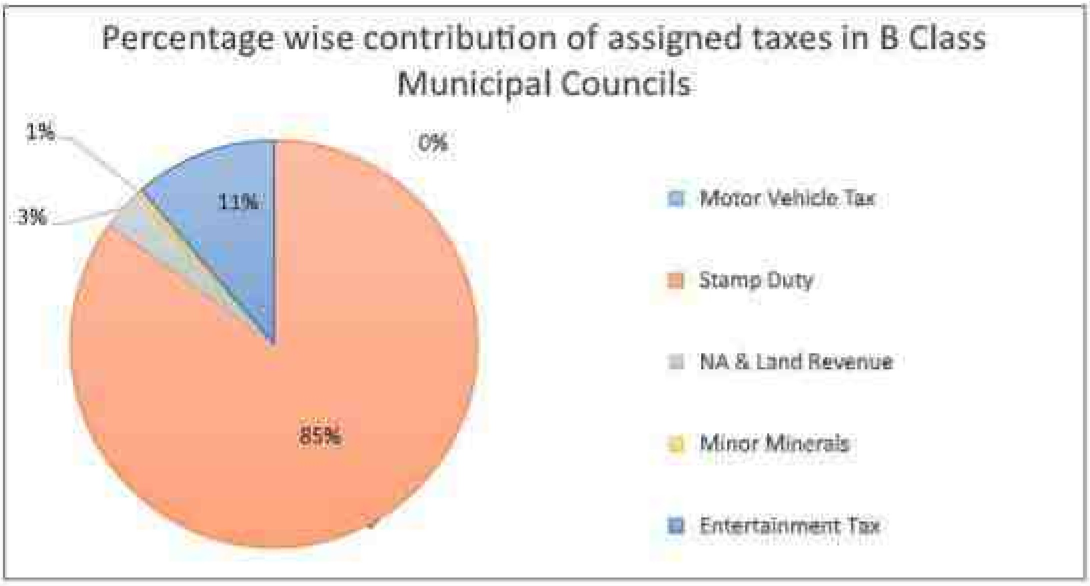


Chart 33: Analysis of Assigned Taxes in Class C Municipal Councils

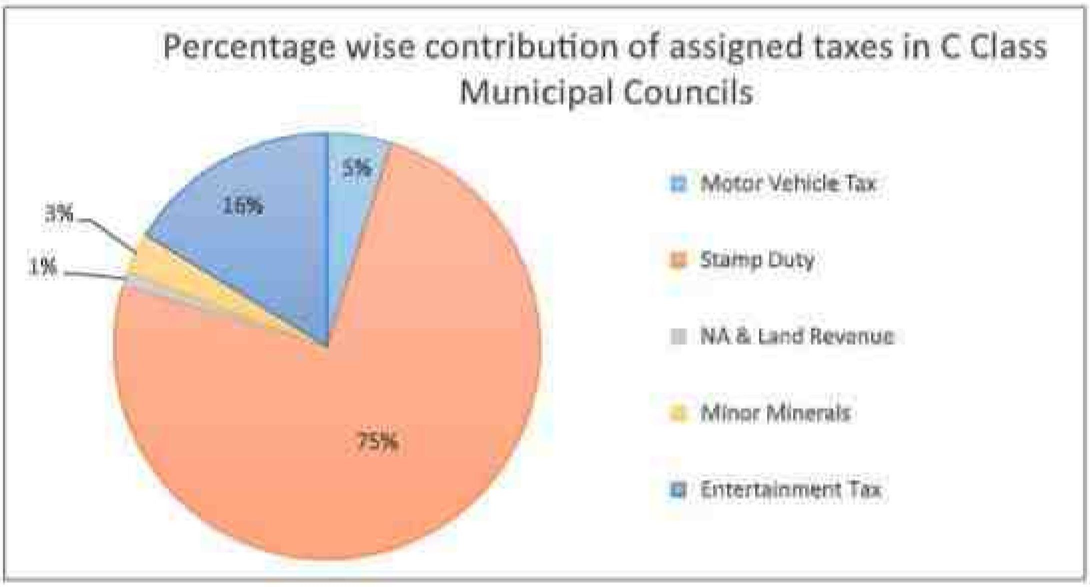
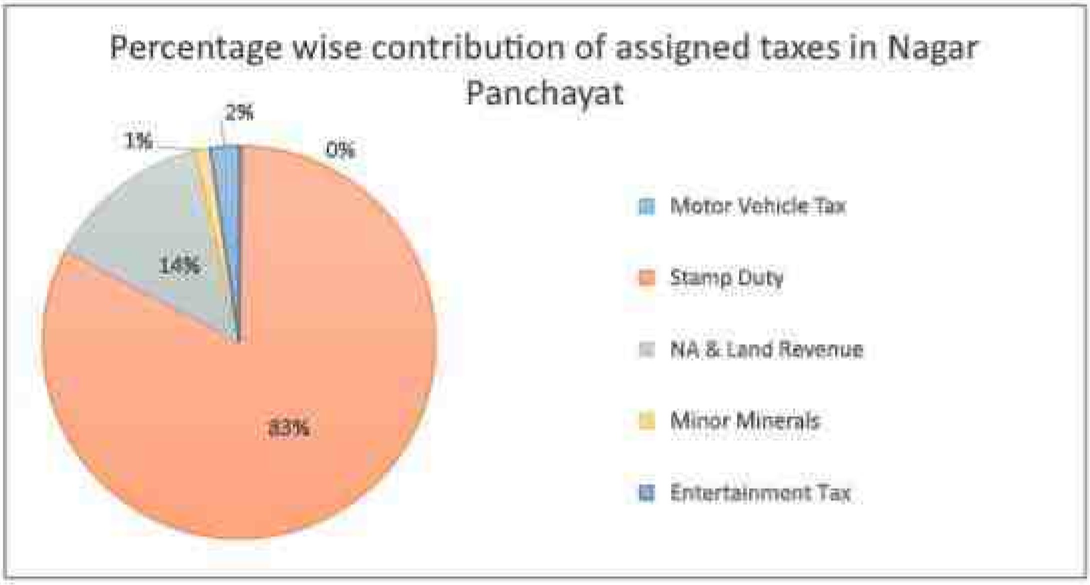


Chart 34: Analysis of Assigned Taxes in Nagar Panchayats



Since, most of the Nagar Panchayats have been formed recently, the agricultural to non-agricultural conversion rate is high and hence, the share of NA Land Revenue is high.

8.23.4 SFC's observations and recommendations on assigned taxes:

8.23.4.1 Observations on assigned taxes:

a) Additional stamp duty:

Section 149A of the Municipal Corporation Act and Section 147A of the Maharashtra Municipal Councils Act provide for levying an additional duty of 1% on the immoveable property transactions. Thus this is a tax levied by the State Government, but collected for the ULB and eventually to be transferred to it. The average collection of this 1% additional stamp duty in Municipal Council area for last 5 years is in the range of Rs.114 crores per annum.

The amounts that have been transferred to ULBs by the Government as additional stamp duty in last two years is as follows:

Table 85: Additional Stamp Duty distributed to ULBs : (in Rs. crores)

Sr. No.	Category	Collection 2017-18	Release 2017-18	Collection 2017-18	Release 2018-19
1	Municipal Corporation (CRC Code 3604 0924)	--	614.94	--	1175
2	Municipal Council (CRC Code 3604 0125)	155.93	90	169.47	90

*There are arrears of additional stamp duty payable to ULBs by State Government. The entire collection of stamp duty does not automatically get budgeted. This results in arrears payable to ULB. The details are provided in para 5.2.2. (b)

b) Entertainment tax:

To augment the income of Municipal Councils, Government (Urban Development Department) has issued a GR on 4.12.1996 that the Revenue Department (which used to collect entertainment tax till 30.6.2017) must share a part of the income with the concerned Municipal Council. The share fixed in the GR was:

- Class A Councils, 30%
- Class B Councils- 35%
- Class C Councils -40%

It is seen that all Municipal Councils used to get an average of about Rs.14 crores annually in the previous years. There is a separate CRC code 3604 0111 for the same. However, with the entertainment tax being subsumed by GST the Revenue department is not collecting any entertainment tax.

Legally, even though entertainment tax is subsumed by GST, still Local Bodies can also levy entertainment tax at their level. However, while the necessary changes have been made in the Maharashtra Goods and Service Tax and the changes also made in Maharashtra Entertainment Duty Act, 1923, certain notifications would be necessary to do this. However, so far Government (Revenue Department) has not taken any decision or policy in this area.

It is also seen that there is an accumulated arrears of about 13 crore payable to ULB's since 2013-14 to date.

c) **Revenue grant (CRC Code 3604 0076)**

Again, with the object of augmenting the resources of the ULBs, and on the basis of recommendations of the first State Finance Commission, the Government had issued a GR dated 31 March 2000 (Revenue Department). This GR provides for payment of 75% of land revenue collected in urban areas and also 75% of the NA tax recovery.

This is again a tax collected by the Government and the proceeds to be transferred as per the GR cited above. The average amount payable to Municipal Councils come to Rs.21 crores per annum. It is noticed that there is a shortfall in transfer, and as against Rs.126.26 demanded from the field (based on calculations of above GR) only an amount of Rs 19.76 crore has been made available.

Thus there is substantial arrears of Rs.106 crores payable to Municipal Councils. The SFC strongly recommends that this amount be released to ULBs.

d) **Minor Minerals (CRC Code 3604 0174)**

Again, with the object of augmenting the resources of ULBs, the Government had issued a Resolution way back in 1985 (Revenue department) to share part of minor minerals royalty collected to Class C Municipal Councils. It is observed that the annual average demand is in range of Rs.4.5 crores. However, only a portion of the demand has been paid to ULBs and there is a cumulative shortfall of Rs. 22.8 crores yet to be released to ULBs.

8.23.4.2 SFC's recommendation on assigned taxes:

(a) Need to amend some terminologies in Section 149A of the Maharashtra Municipal Corporation Act, and Section 147A of the Maharashtra Municipal Act.

Additional stamp duty of 1% is levied as per Sections 149A of the Maharashtra Municipal Corporation Act and Section 147A of the Maharashtra Municipal Act. It is noticed that the wording of the concerned sections only mentions 'instruments of sale, gift, and usufructuary mortgage'. During discussions with Inspector General of Registration, it came to notice as that there is no mention of 'agreement of sale' and therefore substantial income which could have come to ULBs are out of net. Incidentally, the main Stamp Act has the provision of 'Agreement of Sale'. This matter needs immediate review and corrective legislative action.

(b) Need to pay arrears of additional stamp duty immediately to ULBs:

Secondly, it is noticed that there is a substantial arrears of Rs.510 crores of additional stamp duty not yet paid to ULBs. This consists of Rs. 214.60 crores due to Municipal Corporation and

Rs.296.14 crores due to Municipal Councils. They have got accumulated over the recent years, as always the releases are less than the demand. These are the taxes already collected by the Government for and on behalf of ULBs. This backlog amount needs to be transferred to ULBs immediately, as it would otherwise throw open the doors to justified litigation.

(c) Need to transfer the additional stamp duty collected directly to ULBs without routing it through State treasury:

The additional stamp duty of 1% is collected by the Inspector General of Registration from the public when they transact in immoveable property. This is a cess / duty which is collected by State Government on behalf of the ULBs. This is collected as per provisions in the Municipal Corporation and Municipal Council Act, which means it is fully backed by law.

The present system of crediting 1% (which is technically ULB money) to the State treasury (consolidated fund) and thereafter budgeting it and releasing it to ULB invariably seems to go against ULBs as would be seen from the huge arrears of additional stamp duty due to them. **Therefore, there is a strong case of directly crediting the amount to the concerned ULB at the point of collection by the IG Registration without crediting it to the State Treasury.**

It is well known that the Central Finance Commission grants consist of taxes collected by the Central Government but shared with the States. The taxes in the divisible pool do not constitute part of the consolidated fund of the Central Government.

Therefore, on these lines, the 1% additional stamp duty also needs to be distributed to the ULBs from point of collection instead of routing it through State treasury.

It is also desirable to have a separate budget line (CRC Code) for additional Stamp Duty Cess collected for ULBs. Thus, at point of collection the Stamp Duty collected will go to two separate account heads namely the State Stamp Duty Tax and the Additional Cess for ULBs like Central GST + State GST. At present there is only one account head causing operational difficulties.

(d) Need to settle the arrears of entertainment tax, minor minerals, and land revenue immediately:

Likewise, it is seen that there is an arrear payment of Rs. 22.82 crores of minor minerals to Class C Municipalities, an arrear of 106 crores of land revenue and Rs. 13.24 crores of entertainment tax due to local bodies. The three put together amounts to Rs.142crores to Municipal Councils. This is a substantial amount and will go a long way in relieving the Councils of their financial burdens.

(e) Need to wind up three assigned taxes and instead increase Sahayyak Anudan grants:

Out of the four assigned taxes cited above, only one namely Additional Stamp Duty is embedded in an Act. Therefore, it is a statutory payment. The other three namely i) share of entertainment tax, ii) share of royalty of minor minerals and iii) share of land revenue are given as per executive instructions in the form of a Government GR. These GRs were issues way back in the 1980s and 1990s.They were introduced, at that point of time, to augment the resources of the Municipal Councils. Considerable time has elapsed now. Further, it is seen that the procedure of release is very cumbersome. The figures are collected from the field, then UDD places its demand to Finance, gets it budgeted and so on. Of the three, entertainment tax has been now subsumed in the GST. In minor minerals also with the formation of District Mineral Fund, the system of support has changed in recent year with the issue of fresh GRs by both Revenue and Industries Department. All these three assigned taxes are now remnants and further as detailed above, there are huge arrears.

In this background, the **SFC strongly recommends that except Additional Stamp Duty all the other three assigned taxes must be totally dispensed with and instead an additional amount equal to the loss in above three assigned taxes must be added to the Assisted Grants (Sahayyak Anudan) and a higher amount given to the Municipal Council.** This will declutter many cumbersome procedures that have got embedded over the years and improve administrative work.

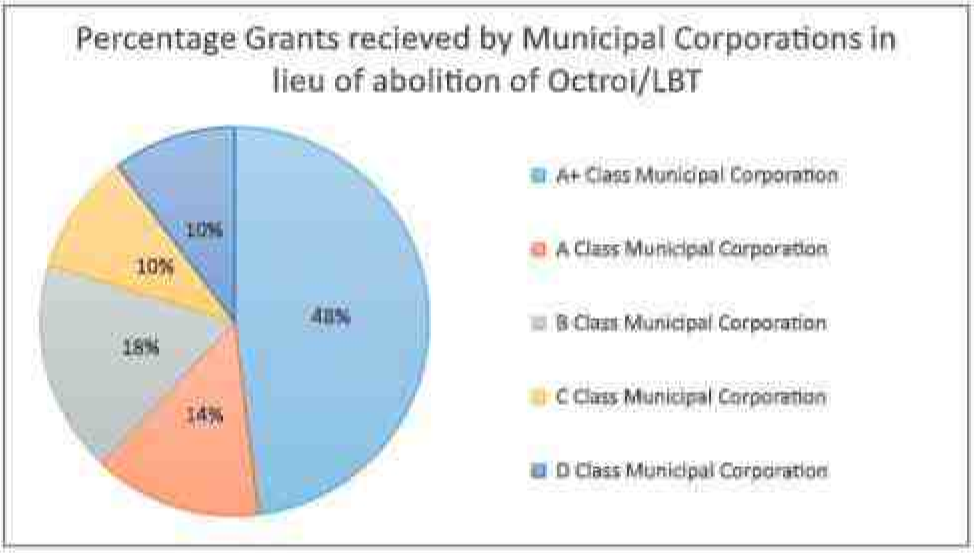
8.25 Compensatory grants:

8.25.1 Grants in lieu of abolition of GST

Table 86: Grants given to ULBs in lieu of abolition of LBT : (Rs. In Lakhs)

Sr. No.	Type of Corporation	Grants in lieu of abolition of Octroi/LBT	Percentage
1	A+ Class (Brihan Mumbai)	8390	48
2	A Class (Pune, Nagpur)	2439	14
3	B Class (PimpriChinchwad, Nasik and Thane)	3101	18
4	C Class (Navi Mumbai, Vasai Virar, Aurangabad, KDMC)	1750	10
5	D Class	1790	10
	Total	**17470**	100

Chart 35: Grants Received by Municipal Corporations



The full details of the GST compensation releases in 2018-19 to each Municipal Corporation has been already provided in para 8.7.4.

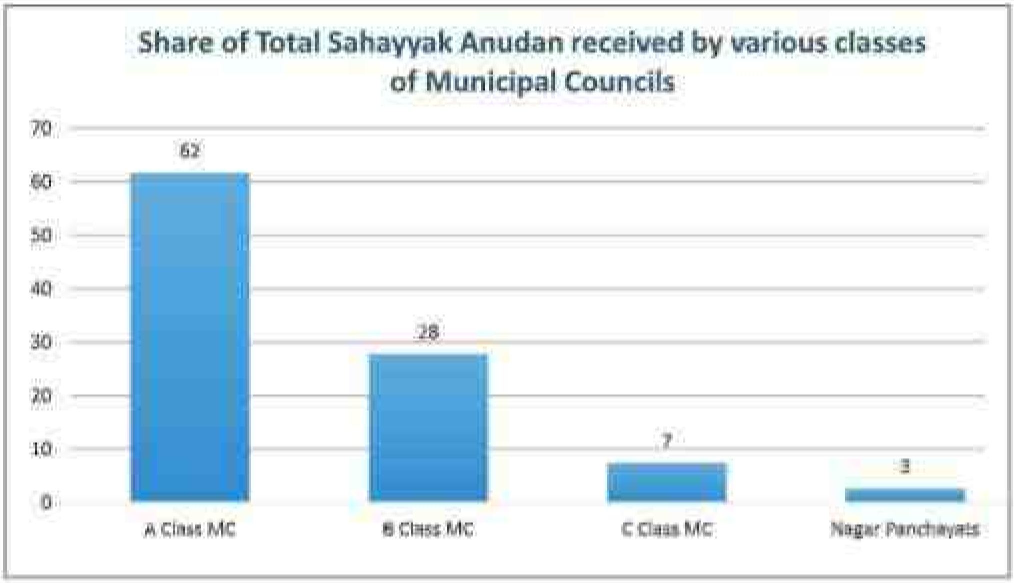
8.25.2 Sahayyak Anudan and Other Revenue Grants

Table 87: Average Sahayyak Anudan and Other Revenue Grants distributed for four years (2014-15 to 2017-18) : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Sahayyak Anudan per Municipal Council	Average Other Revenue grants per Municipal Corporation/Council	Total
Municipal Corporation				
1	D Class	--	2109	2109
Municipal Council				
1	A Class	2128	8	2136
	Percentage	62		
2	B Class	960	4	964
	Percentage	28		
3	C Class	255	3	258
	Percentage	7		
4	Nagar Panchayats	91	2	93
	Percentage	3		

(Note: Above data is average of four years (2014-15 to 2017-18) of selected 6 municipal corporations(D Class) from each revenue division and 2 municipal councils'/Nagar panchayats from each revenue division

Chart 36: Percentage share of total Sahayyak Anudan received by Municipal Councils



8.26 Central Finance Commission grants

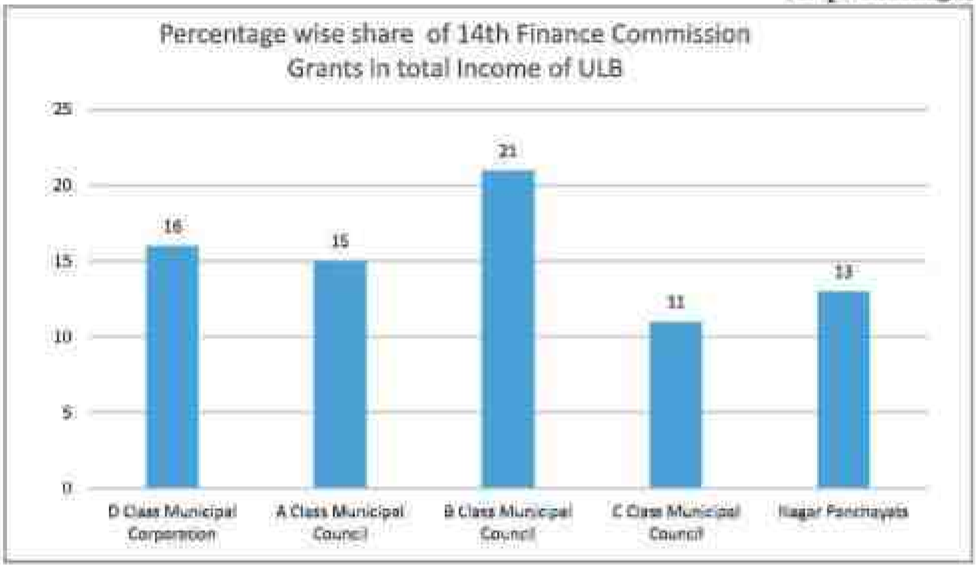
Table 88: Central Finance Commission Grants given to ULBs : (Rs. In Lakhs)

Sr. No.	ULB Type	Average 14th Finance Commission Grants	Average Total Income of ULB
Municipal Corporation			
1	D Class	3442	21788
	Percentage of their Total Income	16	
Municipal Council			
1	A Class	1113	7530
	Percentage of their Total Income	15	
2	B Class	668	3238
	Percentage of their Total Income	21	
3	C Class	234	2061
	Percentage of their Total Income	11	
4	Nagar Panchayats	113	838
	Percentage of their Total Income	13	

(Note: Above data is average of four years (2014-15 to 2017-18) of selected 6 Municipal Corporations one from each revenue division and 2 Municipal Councils/Nagar panchayats from each revenue division.

Chart 38: Share of 14th Finance Commission Grants in average total Income of ULB

(In percentage)



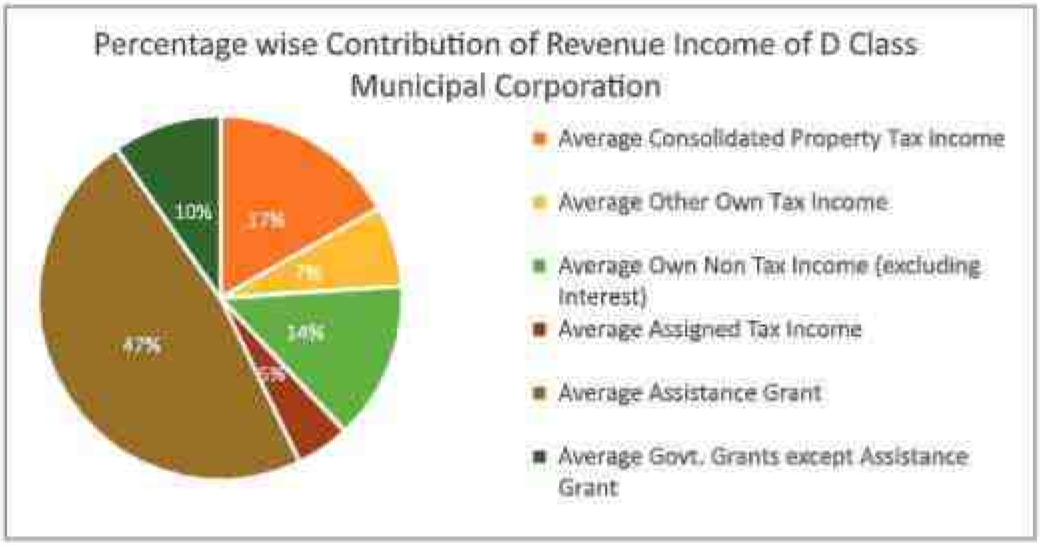
8.27 Overall analysis of revenue income of ULBs

Table 89: Overall Analysis of the Revenue Income ULBs : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Consolidated Property Tax income	Average Other Own Tax Income	Average Own Non Tax Income (excluding Interest)	Average Assigned Tax Income	Average Assistance Grant/ Grant in lieu of LBT/GST	Average Govt. Grants except Assistance Grant	Average Total revenue Income
1	D Class Municipal Corporation	3662 (17%)	1563 (7%)	3069 (14%)	1042 (5%)	10346 (GST Grant) (47%)	2109 (10%)	21788
2	A Class Municipal Councils	920 (21%)	141 (3%)	937 (22%)	187 (5%)	2128 (49%)	8 (0%)	4322
3	B Class Municipal Councils	416 (22%)	53 (3%)	344 (18%)	66 (4%)	1015 (53%)	4 (0%)	1899
4	C Class Municipal Councils	109 (22%)	44 (9%)	72 (14%)	15 (3%)	255 (51%)	3 (1%)	498
5	Nagar Panchayats	97 (31%)	14 (5%)	102 (33%)	6 (2%)	91 (29%)	2 (0%)	313

(Note: Above data is average of four years (2014-15 to 2017-18) of selected 6 Municipal Corporations from each revenue division and 2 Municipal Councils/Nagar panchayats from each revenue division).

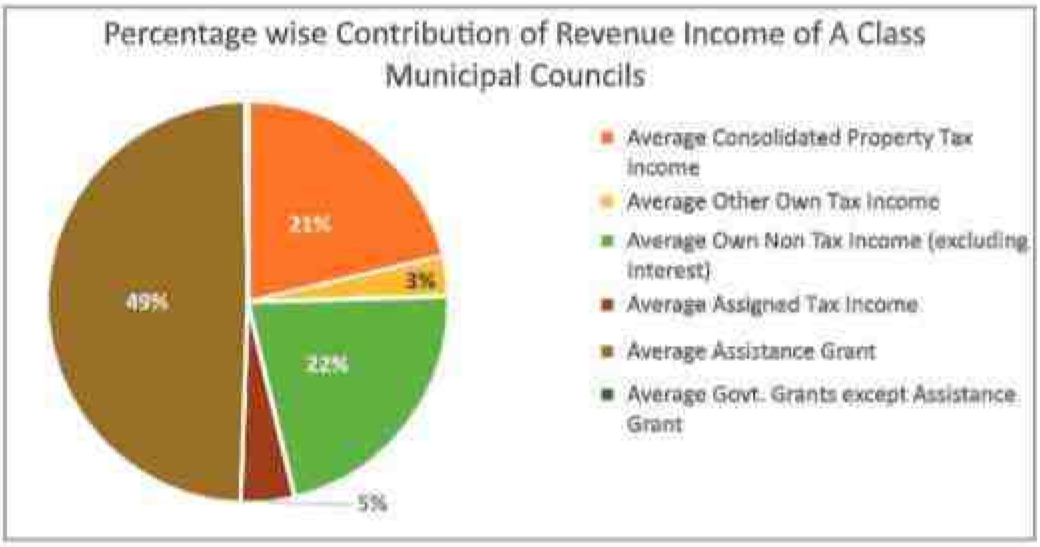
Chart 39: Analysis of Revenue of D Class Municipal Corporation.



In D Class Municipal Corporations, support is in the form of GST Compensation instead of Assistance Grants.

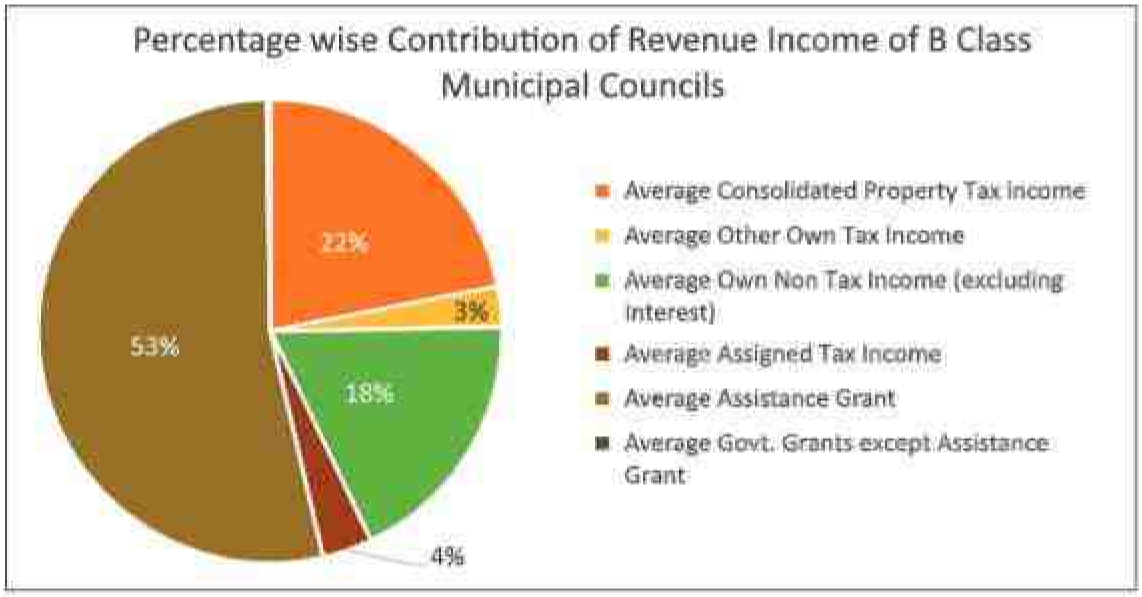
Remark: Above chart indicates that, out of the total revenue income of D class municipal corporation maximum share is compensatory grants 47%, followed by consolidated property tax i.e. 17%. Total government support is 62% (compensatory grants+ other revenue grants +assigned taxes)

Chart 40: Analysis of Contribution of Revenue of Class A Municipal Council



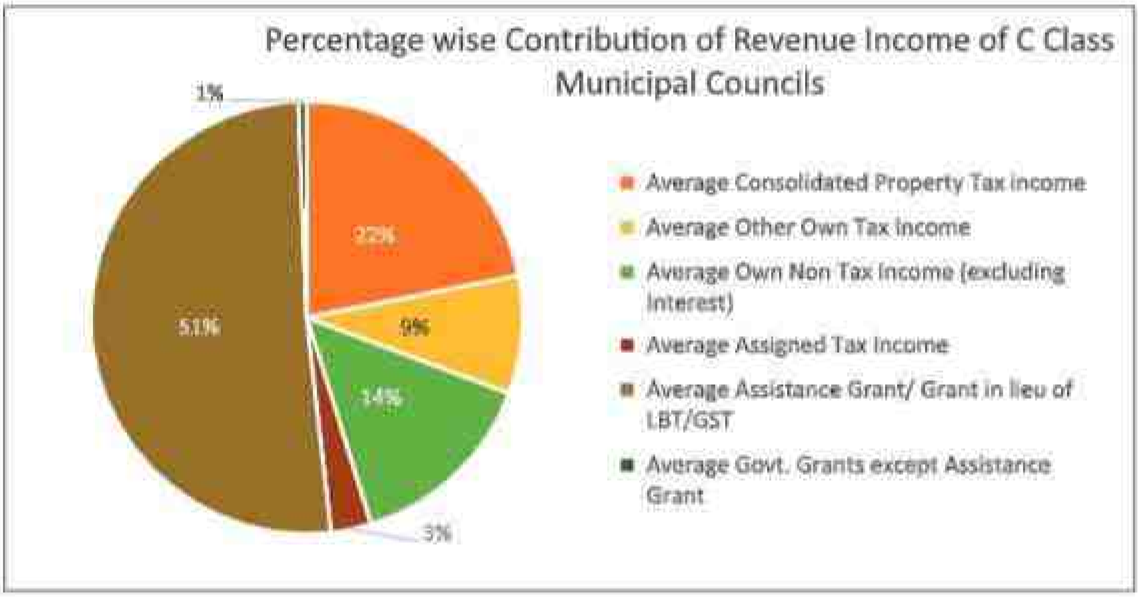
Remark: Above chart indicates that, out of the total revenue income of A class municipal councils' maximum share is of assistance grant (49%,) own non tax income is 22% and consolidated property tax is 21%. Also it shows that, Contribution of non-tax revenue is more than consolidated property tax.

Chart 41: Analysis of Revenue of Class B Municipal Council



Remark: Above chart indicates that, out of the total revenue income of B class municipal councils' maximum share is of assistance grant i.e. 53%, consolidated property tax i.e. 22% and own non tax income is 18%

Chart 42: Analysis of Revenue of Class C Municipal Council



Remark: Above chart indicates that, out of the total revenue income of C class municipal council maximum share is of government grant i.e. 52% (51% of assistance grant + 1% of other revenue grants), consolidated property tax i.e. 22% and own non tax income i.e. 14%.

8.28 Capital income of ULBs

8.28.1 Capital Grants received by ULBs

Table 90: Average Capital Grants of ULBs : (Rs. In Lakhs)

Sr. No.	ULB Type	Average total Capital Grants
1	D Class Municipal Corporation	7224
2	A Class Municipal Councils	2373
3	B Class Municipal Councils	839
4	C Class Municipal Councils	805
5	Nagar Panchayats	413

(Note: Above data is the average of four years (2014-15 to 2017-18) of selected 6 municipal corporations from each revenue division and 2 municipal councils'/Nagar panchayats from each revenue division.

8.29 Average Revenue expenditure of ULBs

Table 91: Average Revenue Expenditure of ULBs : (Rs. In Lakhs)

Sr. No.	ULB Type	Establishment	Water Supply O & M	SWM O&M	Street Lights (O & M	Sewerage O & M	Roads n Buildings O & M	Fire Services O & M	Other services O & M	Average total revenue Expenditure
2	D Class Municipal Corporation	7444 (37%)	1409 (7%)	1529 (7%)	806 (4%)	116 (1%)	2013 (10%)	36 (0%)	6866 (34%)	20219
3	A Class Municipal Councils	1941 (55%)	366 (10%)	148 (4%)	118 (3%)	54 (2%)	92 (3%)	4 (0%)	821 (23%)	3543
4	B Class Municipal Councils	738 (52%)	130 (9%)	155 (11 %)	47 (3%)	15 (1%)	70 (5%)	3 (0%)	276 (19%)	1435
5	C Class Municipal Councils	283 (62%)	54 (12%)	33 (7%)	21 (5%)	0 (0%)	7 (2%)	0 (0%)	55 (12%)	453
6	Nagar Panchayats	70 (25%)	71 (26%)	22 (8%)	19 (7%)	8 (3%)	54 (20%)	0 (0%)	30 (11%)	274

(Note: Above data is the average of four years (2014-15 to 2017-18) of selected 6 municipal corporations from each revenue division and 2 municipal councils'/Nagar panchayats from each revenue division. For Nagar Panchayat it is two year's average figures)

Chart 43: Revenue Expenditure of D Class Municipal Corporation

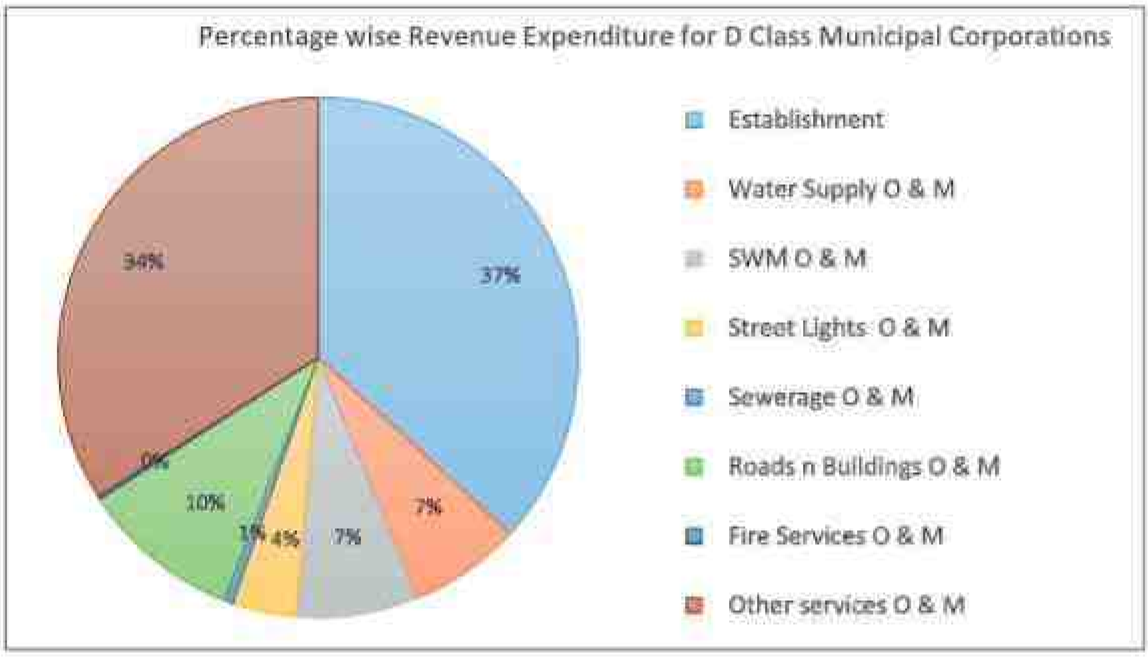
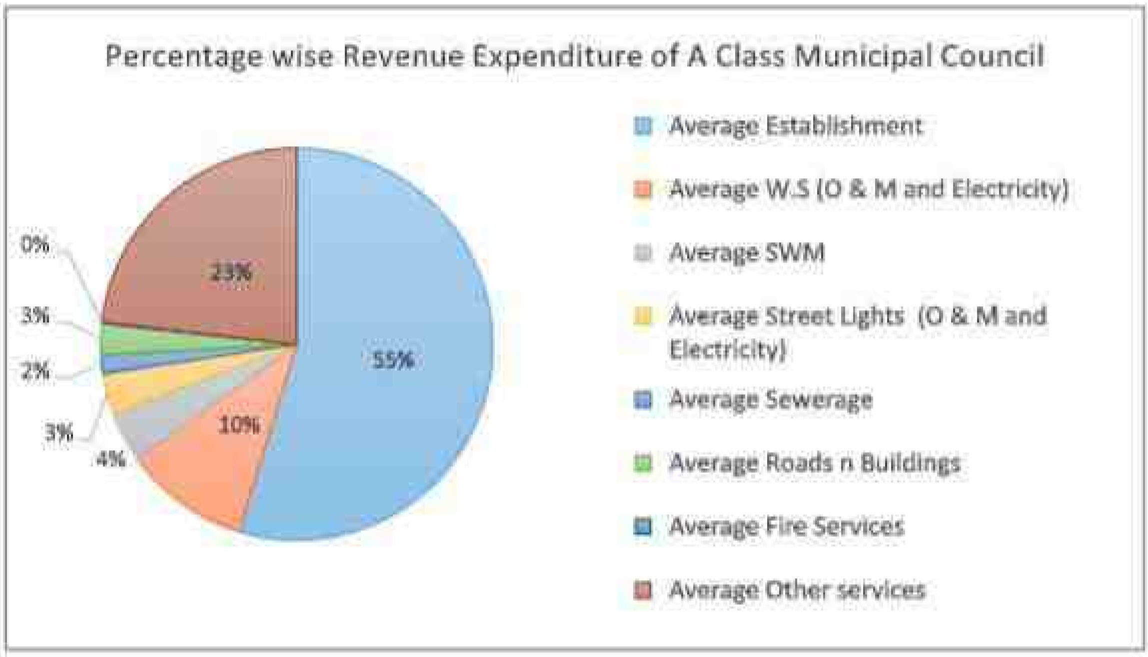
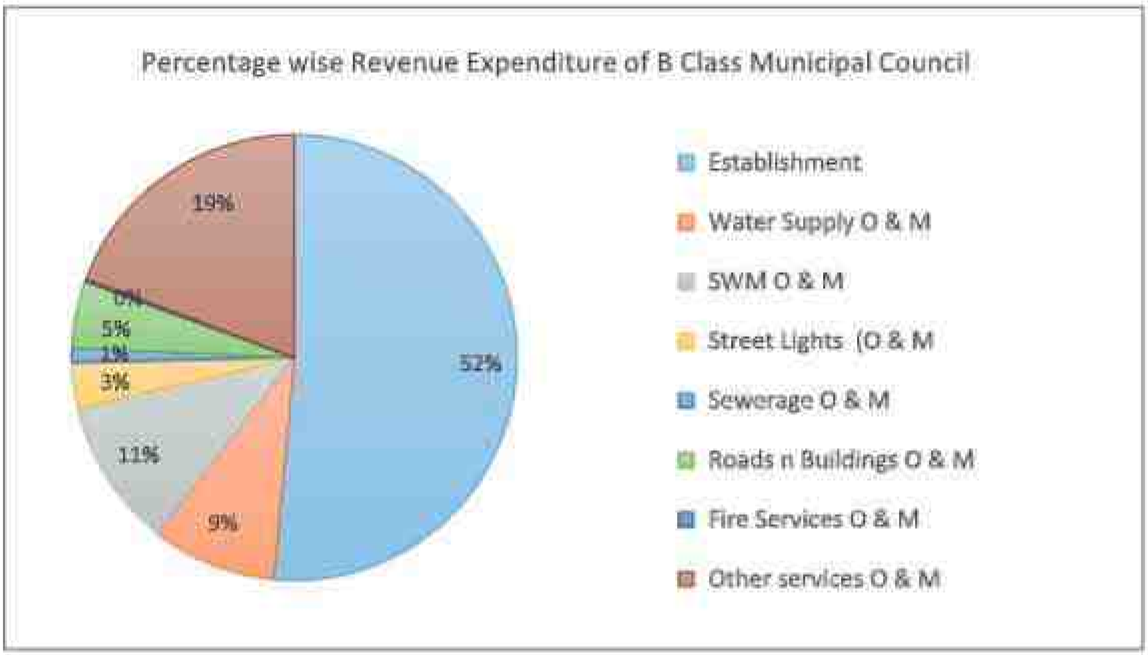


Chart 44: Revenue Expenditure of Class A Municipal Council



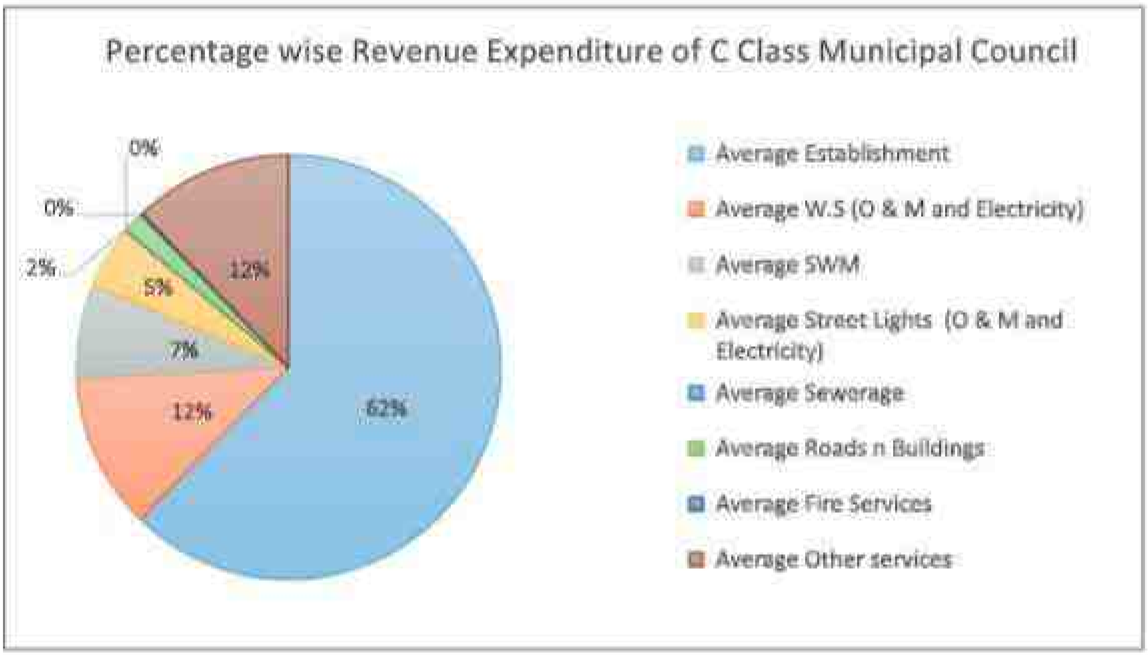
Remark: Above chart indicates that establishment costs for A class municipal councils is more than 50%. The other observation is that A class municipal councils spends much higher of their income on other than core services i.e. 23%.

Chart 45: Percentage wise Revenue Expenditure of Class B Municipal Council



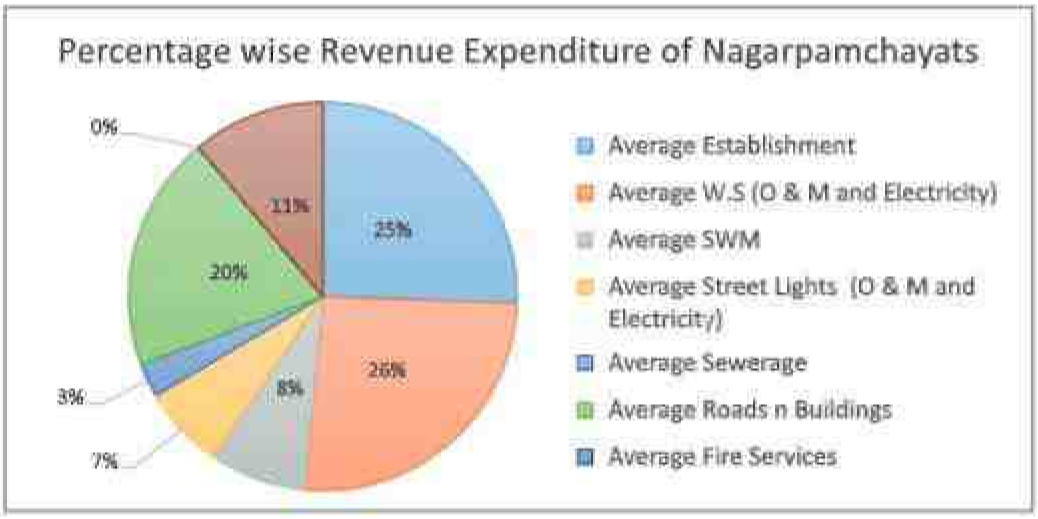
Remark: Above chart indicates that establishment costs for B class municipal councils is more than 50%.

Chart 46: Percentage wise Revenue Expenditure of Class C Municipal Council



Remark: Above chart indicates that establishment costs for C class municipal councils is more than 50%.

Chart 47: Percentage wise Revenue of Nagar panchayats



Remark: Nagarpanchayats are still in transition. The requisite staff has not yet joined and hence the key posts are vacant. They are managing with the limited staff who were working with them when they were Grampanchayats.

8.30 Overall analysis of the aggregate financial position of ULBs

Table 92: Average Income-Expenditure of ULBs : (Rs. In Lakhs)

Sr. No.	ULB Type	Average Total revenue Income	Average Total Capital Income	Average Total Income of M.CL	Share of Interest (Table 9)	Average Revenue Expenditure	Average Capital Expenditure	Average Total Expenditure
1	D Class Municipal Corporation	21788	9806	31594	480	20219	12274	32492
2	A Class Municipal Councils	4322	3209	7530	109	3543	3595	7137
3	B Class Municipal Councils	1899	1339	3238	74	1435	1217	2652
4	C Class Municipal Councils	498	980	1478	27	453	610	868
5	Nagar Panchayats	313	526	839	23	274	377	462

(Note: Above datais the average of four years (2014-15 to 2017-18) of selected 6 municipal corporations from each revenue division and 2 municipal councils'/Nagar Panchayats from each revenue division. For Nagar Panchayat it is two year's average figures)