

## FOREWORD

The enactment of the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments is the historic step in the evolution and development of the Panchayati Raj System and the Urban Local Bodies. The subsequent enactment of the Haryana Panchayati Raj Act, 1994, (Act II of 1994), the Haryana Municipal Amendment Act, 1994 and the Haryana Municipal Corporation Act, 1994 and the formulation of the Haryana Finance Commission Rules were a logical sequel to these constitutional amendments. In pursuance of the constitutional provisions, the First State Finance Commission was constituted on 31<sup>st</sup> May, 1994 covering the period of four years i.e. 1997-2001. The Second State Finance Commission has been constituted by the State Government vide notification dated 6<sup>th</sup> September, 2000.

The scope of enquiry of the State Finance Commission is much wider as compared to the Central Finance Commission which, besides recommending sharing of State resources between the State and the Local Bodies, is also required to suggest measures to improve the financial position of these bodies to enable them to become viable units of local governance. The Commission had to walk through a critical path of striking a proper balance between two conflicting situations of constraint of budgetary resources before the State Government and mounting requirements of local bodies for their efficient and effective functioning. This intricate task has been rendered all the more difficult in the absence of reliable and authentic data. The Commission, however, has gone ahead with its task by collecting basic information to the extent possible from the State Government Departments as well as the local bodies. Discussions were held with elected representatives of these bodies at the district level. Suggestions were also invited from the public and other stakeholders apart from ascertaining the position existing in various other States.

The question of delegation of certain duties and responsibilities of selected departments to the Panchayati Raj Institutions has been under the consideration of the State Government from time to time. The Commission attempted to analyse the administrative and financial profile of the local bodies particularly their sources of revenue and the ability to generate additional resources at their own level. We have suggested certain devolutions, both by way of sharing of taxes and levies as well as grants-in-aid. Attempt has also been made to ensure that these bodies have access to elastic sources of revenue so that they may not have to depend on State budgetary support for their existence.

We are aware of the fact that the fiscal position of the State has been under stress since long. The position has further deteriorated due to pay revision on central pattern, imposition of prohibition, impact of economic recession on State

finances, mounting commitments at State level etc. These budgetary constraints reveal that any scheme of resource devolution from the State to local bodies would have to be limited. But we hope that the State Govt. would make sincere efforts to bolster their resources to fully implement the scheme of resource transfer being suggested by us.

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

We want to place on record our sincere appreciation of Shri Ram Niwas, IAS, our Member-Secretary, who had to shoulder a very onerous and heavy responsibility. Our gratitude is also due to Shri Gian Singh Kamboj, Adviser (Resource Planning) and Shri Daya Nand Chahal, Dy. Director, Finance Department for their valuable suggestions and fine-tuning of contents of the report. We would like to thank Dr. Rajvir Bhardwaj, Research Officer, Shri Surinder Kumar Badhwar and Sh. Om Prakash Thapliyal, Computer Clerk as well as other officials of the Commission who rendered valuable assistance in drafting and finalizing this report. Our thanks are also due to all officers and officials of the State Government and NIC, Haryana State Unit who have extended whole hearted co-operation by responding to our queries promptly and freely giving the benefit of their views on various subjects.

**Suraj Bhan Kajal**  
**Chairman**

**P.P. Singh Sahni, IAS (Retd.),**  
**Member**

**Ami Chand Sehrawat, Advocate,**  
**Member**

**Ram Niwas, IAS,**  
**Member Secretary**

## **CHAPTER - I**

### **CONSTITUTION OF THE COMMISSION**

1.1 In pursuance of the provisions of the article 243 I and 243 Y of the Constitution of India and Section 213 of the Haryana Panchayati Raj Act, 1994 (Act No. II of 1994) and rule 3 of the Haryana Finance Commission Rules 1994, the Governor of Haryana constituted the Second State Finance Commission vide notification No. 19/5/2000-Pol (2P) dated 6<sup>th</sup> September 2000 under the chairmanship of Shri Suraj Bhan Kajal (Ex-MLA) as Chairman with the followings as Members:-

1. Sh. P.P. Singh Sahni, I.A.S.(Retd.)	Member
2. Sh. Ami Chand Sehrawat, Advocate	Member
3. Sh. Ram Kumar, Advocate	Member
4. Sh. P.K.Dass, I.A.S.	Member Secretary

1.2 The Chairman, Sh. Suraj Bhan Kajal, joined on 6.9.2000, Sh. P.P.Singh Sahni, I.A.S. (Retd.) joined on 8.9.2000, Sh. Ami Chand Sehrawat Advocate and Sh. Ram Kumar Advocate joined on 12.9.2000. The Member Secretary joined on 7.9.2000 with additional charge of the Commission in addition to Special Secretary Finance (Budget).

1.3 After the transfer of Sh. P.K. Das, I.A.S., Sh. G.S.Sorot, I.A.S. joined on 19.9.2002 as Member Secretary (Additional charge). But after a short period, there was another change and consequently Sh. Ram Niwas, I.A.S., Special Secretary Finance (Budget) joined on 14 October 2002 as Member Secretary of the Commission with additional charge. One painful tragedy occurred and one member Sh. Ram Kumar, Advocate expired on 1st April, 2004. No new member was appointed in replacement.

#### **TERMS OF REFERENCE**

1.4 The Commission is required to make recommendations relating to the following matters:-

**(a) The principles which should govern-**

- (i) the distribution between the State and the Zila Parishads, Panchayat Samitis and Gram Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them under Part IX of the Constitution of India and the allocation among the

Zila Parishads, Panchayat Samitis and Gram Panchayats at all levels of their respective shares of such proceeds;

- (ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Gram Panchayats, Panchayat Samitis and Zila Parishads;
- (iii) the grants- in- aid to the Zila Parishads, Panchayat Samitis and Gram Panchayats from the Consolidated Fund of the State, and
- (iv) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads.

**(b) The principles which should govern:-**

- (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them under part IX A of the constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
- (ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Municipalities;
- (iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the State, and
- (iv) the measures needed to improve the financial position of the Municipalities.

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

- (i) the objective of balancing the receipt and expenditure of the State and for generating surplus for capital investment;
- (ii) the resources of State Government and demands thereon particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the State, and
- (iii) the requirement of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and reducing expenditure.

1.6 According to para 2 of the aforesaid notification, the Commission was to make its report available by 31<sup>st</sup> December 2000 on each of the matters aforesaid. But its term was extended by the State Govt. from time to time upto 30<sup>th</sup> September, 2004. (Copies of State Govt. notifications are at annexure-I).

### **PERIOD OF REPORT OF 2<sup>nd</sup> STATE FINANCE COMMISSION (SFC)**

1.7 The Terms of Reference of the 2<sup>nd</sup> SFC do not indicate the period to be covered under its report. In accordance with the constitutional provisions, a State Finance Commission is required to be appointed not later than 5 years from the date of the appointment of the previous Commission. Since the report of the 1<sup>st</sup> SFC covered the four year period 1997-2001, the 2<sup>nd</sup> SFC was, therefore, required to make its recommendations covering a period of five years from 2001-02 to 2005-06. It is, however, pertinent to mention here that since about three and half years would have lapsed till the presentation of the report of this Commission, only one and half year time would be left which can be covered by the report. But in fulfillment of the constitutional mandate, the report of this Commission should commence from the year 2001-02. Accordingly, this Commission has decided that its report would cover the five year period from 2001-02 to 2005-06.

1.8 Since the periods of 11<sup>th</sup> Finance Commission and this Commission do not coincide, our recommendations regarding the implementation of the award of the Eleventh Finance Commission relating to the rural and urban local bodies will be applicable for the four year period i.e. 2001-02 to 2004-05.

1.9 It is further recommended that in case for any reason the recommendations of the next State Finance Commission are not available to the Government by the end of the year 2005-2006, the recommendations being presently made by us may continue to be in force, till such time the recommendations of the next State Finance Commission are available and implemented.

### **APPROACH OF THE COMMISSION**

1.10 The enactment of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments and the subsequent enactments bestow upon the local bodies sufficient powers and resources so as to enable them to function as effective units of self government. But these enabling provisions have not yet been fully implemented. Thus, the survival of these institutions is largely dependent upon State budgetary support. These bodies are not in a position to bolster their resources due to some major bottlenecks i.e. procedural modalities, public inconvenience and trivial and inelastic sources of revenues at their

disposal. These bodies should be endowed with specific powers, authority and funds to enable them to be effective instruments of decentralised governance. The State Finance Commission has given considerable thought to these issues and accordingly suggested some measures for strengthening their financial position through their own efforts. In order to place their finances on sound footing, the Commission has emphasized the need for tax reforms, tightening of tax administration, checking of evasions and erosions of taxes, improvement in recovery of civic services and economy in expenditure etc. It has also suggested some measures for reduction in cost of services and improving efficiency of the expenditure incurred by local bodies through privatization, public-private partnership, use of information technology and other measures.

1.11 Sixteen departments of the State Government have delegated powers and functions to Panchayats, Panchayat Samities and Zila Parishads in some of the areas indicated in the Act. The functions delegated so far are mainly of a participatory nature so as to actively involve the PRIs in various programmes being implemented at the field level. The actual implementation and financial powers as well as budgetary control continue to vest in the respective Government departments in most of the cases. Under the provisions of the Haryana Panchayati Raj Act, 1994, the State Government is empowered to assign any functions including those mentioned in the Eleventh Schedule to the Panchayati Raj Institutions. The list of functions in the Eleventh Schedule is quite exhaustive and covers major departments like Education, Health, Public Health, Environment, Irrigation, etc. The delegation of these functions to PRIs requires decisions at the highest levels of the Government and in the nature of things; it is a gradual and time consuming process. PRIs also need to be equipped with necessary basic skills for taking up higher responsibilities as envisaged in the functions elaborated in Eleventh Schedule. They have to be adequately trained so as to equip them to discharge responsibilities, both administrative and financial, before funds on a large scale are made available to them and this is bound to take some time. The Commission has made recommendations regarding financial devolution taking into account the delegations made or likely to be made in the period covered under this report. Qualitative improvement in the functioning of the PRIs is bound to automatically bring in pressure for devolution of more finances to these bodies in due course of time. We, accordingly, hope that transfer of additional functions to the PRIs in future would invariably be accompanied by proportional transfer of funds as well as staff. Any discussion at this stage on the question of further delegation of powers and functions to the PRIs at our level would tend to be purely academic and we have, by and large,

refrained from undertaking such an exercise. We also feel that, in line with the practice generally followed, this matter is squarely within the purview of the State Government.

1.12 The functions expected to be discharged by the Urban Local Bodies, as listed in the Twelfth Schedule involve, apart from town planning, slum clearance and urban poverty alleviation programmes, provision for a number of core services like water supply, sewerage, sanitation, solid waste disposal etc. The present level of these services in urban areas is of minimal nature and would require up-gradation for which investment on a sizable scale will have to be made. As against this, the major sources of income of Municipalities were mainly confined to octroi, which has been abolished w.e.f. 1.11.1999 and house tax with limited income from miscellaneous fees and fines and meagre grants from the State Government. After meeting the obligatory expenditure on salaries and wages, including contribution towards pension fund, most of the Municipalities are not in a position to spare any funds either for development works or for improving other civic amenities for the citizens. The position gets worsened with the grant of revised pay scales on central pattern, merger of 50% D.A. with basic pay and further D.A. instalments by the State Government which are automatically applied to the Municipal staff. Most of the municipalities are in arrears in respect of payment of salaries, wages and pension contributions and threats of strikes are, more or less, a normal phenomenon.

1.13 The task before the Commission is quite complex and intricate since the requirement of funds to match the functional responsibilities of rural and urban local bodies is far beyond the foreseeable availability of budgetary and other resources. The Commission has, therefore, conceived a multi-pronged strategy to transfer resources from State level, to suggest measures to augment the resources of the local bodies themselves and to hammer out arrangements for tapping institutional finance on a continuing basis for creating the necessary infrastructure.

1.14 The approach, thus adopted, is briefly as follows:-

- (i) While determining the share of local bodies in various taxes and levies, the tax instruments have been so chosen as to meet the criteria of equity, elasticity and cost effectiveness. Keeping in view the lack of infrastructure at the local level, particularly on the rural side for cost-effective collection of revenues, the Commission has recommended that the task of collection should, by and large, continue to vest in the State agencies which get adequately compensated as the sharing is effected on the basis of net collections. The intention is to minimize expenditure on

additional staff involved in operating as a possible collection agency and to achieve the economies of scale.

- (ii) Many of the taxes and other non-tax levies have remained un-revised for the last so many years both in rural as well as urban sectors and in many instances, the cost of collection is either close to or more than the actual levy with the result that the entire exercise is counter-productive. The Commission has, therefore, particularly kept this aspect in mind so as to ensure that the present day costs are fully taken into account. House tax, miscellaneous fees and fines etc. can be cited as some examples in this regard.
- (iii) With regard to existing taxes and levies, the Commission has tried to make the system of assessment simple as well as transparent so that chances of discrimination, arbitrariness and unnecessary litigation are minimized. The intention is to ensure that the minimum possible discretion is left at the level of assessing authorities which tends to be subjective leading to complaints and heart-burning. Recommendations made with regard to house tax in municipal areas can be cited as an example in this regard.
- (iv) The expenditure needs of local bodies for maintenance of existing assets have increased over the years. Salaries and wages tend to absorb a greater part of the resources of urban local bodies leaving very little for actual maintenance of assets and services. The maintenance of physical assets created in these areas is also woefully inadequate. The twin objective of effective upkeep of physical assets and at the same time controlling the burgeoning wage bill of the local bodies has been given particular attention by the Commission.
- (v) The cost of providing civic services in the urban areas by the local bodies has been rising and the user charges being recovered (e.g. water supply, sewerage) cover only a part of the expenditure so incurred. The Commission's broad approach is to progressively reduce the element of subsidy over a period of years so that the users are legitimately required to pay the cost of services which are provided to them. At the same time, the need to protect the interests of weaker sections of society cannot be lost sight of even by introducing an element of cross subsidization, if considered necessary.



- (vi) With the constraint of resources at the State level, the continued availability of budgetary support to meet the infrastructure and developmental needs of local bodies is bound to become increasingly difficult. Local bodies shall, therefore, have to look to the capital market and institutional sources for meeting their capital/developmental requirements. The Commission has, therefore, recommended creation of certain institutional arrangement/autonomous bodies for facilitating the flow of funds from these sources on a continuous basis.
- (vii) Since the existing resources or those likely to be made available are not enough to meet the pending demands for providing various services, the Commission has assessed the requirement of funds on the basis of minimum level of services which must be attempted in the next five years (2001-2002 to 2005-2006) for the urban areas. For this purpose, the norms evolved by various committees set up at the national level as well as objectives and targets fixed by the State Government have been the guiding factor.
- (viii) On the question of sharing of resources inter-se between the local bodies at various levels which are proposed to be transferred from the State level, two approaches are possible. The first one involves sharing of revenue on the basis of jurisdiction of collection and the other is based on population and various other factors related to the level of backwardness. Sharing on the basis of origin has an advantage since it creates a vested interest of the local population and gives them a stake in the actual collection of revenue, since they are going to be the ultimate beneficiaries. At the same time, it can be legitimately argued that sharing on this basis could lead to fiscal disparities whereas sharing on the basis of a well considered formula could, to a large extent, bring about an acceptable level of equalization with regard to the resource position of various local bodies. Keeping in view the merits and demerits of these arguments, the Commission has adopted a judicious mix of both the options while suggesting transfer of State resources. The intention of the Commission has been to ensure a predictable and buoyant mechanism of revenue sharing which is at the same time transparent as well as effective.
- (ix) Sharing of State resources with local bodies has to be based on the gap between the own resources of local bodies and their expenditure needs

as well as the likely budgetary support that can be provided by the State Govt. Their need for additional funds for satisfactory performance of their functions cannot be determined by taking into account only their existing level of income and expenditure. The inadequacy of resources available to them is not reflected in the budgetary gap but in the low level of their services. The Commission, therefore, tried to determine their expenditure needs on the basis of the funds required for satisfactory operation and maintenance of the existing civic services and those required for raising the level and coverage of these services to the levels which they should strive to reach by the end of the period covered by this Commission.

- (x) With additional funds becoming available to the local bodies through their own efforts for resource mobilization and transfers from the State Govt., it is necessary to ensure that the funds are spent properly and efficiently. Certain recommendations have been made for improving the accounting system and audit for greater transparency in their functioning.

## **METHODOLOGY**

1.15 Methodology adopted by the Commission within the scope of its Terms of References is as under:-

- (i) The Commission devised an exhaustive questionnaire to collect information on finances of all tiers of PRIs i.e. Zila Parishads, Panchayat Samitis and Gram Panchayats and various other related issues through the Director Panchayats. These include; financial position of panchayats before and after 73<sup>rd</sup> constitutional amendment, existing sources of income of PRIs including resource transfers from State Govt., position of devolution of funds, powers and functions before and after the award of 1st State Finance Commission, funds devolution through Central Finance Commissions, criteria of tax sharing and grants-in-aid etc.
- (ii) The Commission also collected information on municipal finances in the designated questionnaire through Director, Urban Development Department. Information collected on related matters includes: financial position of municipal bodies item-wise, details of budgetary support from the State, details of funds transfer through State Finance Commission and Central Finance Commission, resource devolution criteria, debt liability of Municipal Bodies, requirements for maintenance of municipal

assets and action taken report on recommendations of 1st State Finance Commission.

- (iii) The Commission also invited suggestions from all stake- holders and held meetings with the persons of eminence in the field of local governance. Meetings were also held at some district headquarters in order to have open house discussions with elected representatives and the district officers. For this purpose, two Sarpanches and four Panches (one each from the category of SC,BC, Women and General) from the Panchayats of each Block, Chairmen and Vice Chairmen of all Block Samitis and Presidents and Vice Presidents of Zila Parishads and Presidents and Vice Presidents of each of the Municipalities and Chairmen, Improvement Trusts were invited to participate in the discussions. The Commission also invited suggestions from the public, members of State Legislature and other interested persons by issuing public notices in the newspapers and by issuing individual letters.
- (iv) The Commission also collected information from Haryana Rural Development Fund, Marketing Board, Transport, Power Utilities, Revenue, Land Records, Public Health and Excise & Taxation Departments etc. Data about State finances and plan outlays was collected from Finance and Planning Departments respectively.
- (v) The Commission made use of the information given in the State budget documents, Statistical Abstract, State Economic Survey and Plan documents etc. for the purpose of analysis.
- (vi) The Commission also took recourse to the collection of secondary data from various departments in addition to primary data collected through various questionnaires. This was supplemented with a series of discussions held with senior officers of the concerned departments so as to assess the availability of resources and the ways of augmenting them.
- (vii) The Commission analysed the annual Administrative Reports of Panchayati Raj, Urban Local Bodies, Rural Development Department, Local Fund and Audit, as also the reports and papers published by National Institute of Urban Affairs, New Delhi, National Institute of Rural Development, Hyderabad and National Institute of Public Finance and Policy, New Delhi. The observations made by the State Finance Commission and the Eleventh Finance Commission regarding

empowerment of Local Bodies were taken note of . The Commission also studied the latest Panchayati Raj Act and Municipal Act.

- (viii) There is no agency in the State to shoulder the responsibility of collecting and providing physical and financial data on Local Bodies, to the Commission. It would be highly desirable that Heads of departments of Development & Panchayats and Urban Development should be made responsible to maintain complete data on physical and financial aspects with regard to PRIs and ULBs so that the updated data of PRIs and ULBs could be made available to subsequent State Finance Commissions.
- (ix) The Second State Finance Commission met frequently to monitor the progress of work and to chalk out the future course of action keeping in mind the onerous task entrusted to it under the constitution.

### **DIFFICULTIES FACED BY THE COMMISSION AND SUGGESTIONS**

1.16 Even though the Second State Finance Commission was set up vide Government Notification dated 6<sup>th</sup> September, 2000, it could not start functioning effectively till July, 2002. It took a long time in locating a suitable office accommodation, allocation of budgetary provisions and recruitment of technical staff.

1.17 The Commission also experienced difficulties in getting reliable information from the Municipalities and PRIs and had to frequently approach the heads of the respective departments to expedite the process of securing the necessary information. In some cases, information initially furnished through the questionnaire had to be cross-checked or returned to the organization since a lot of discrepancies were noticed. Even the information obtained from the departments had to be cross-checked by holding personal discussions with the departmental representatives from time to time.

1.18 It appeared that the recommendations of 1<sup>st</sup> SFC and the 11<sup>th</sup> Finance Commission on creating/strengthening data base of local bodies were not implemented by the State Govt. We, therefore, advise that the State Govt. should not neglect this aspect of our observations and take appropriate steps in the desired direction so that the next Commission may not have to suffer on this account.

1.19 Apart from the comprehensive nature of the TOR, the task before the State Finance Commission was much more difficult because of acute paucity of reliable data and non-existence of any central agency providing statistical data on PRIs and ULBs. The Commission strongly feels that a cell should be created each in the departments of Panchayats and Urban Development to collect extensive data on local

bodies and keep the same in the store house so that each type of data related to these institutions could be provided to all the stakeholders, whenever needed.

1.20           The State Government should constitute the State Finance Commission at an appropriate time and should ensure that the composition is not disturbed till the completion of the task entrusted to it. Further, the Member Secretary should be appointed on full time basis. Member Secretary of this Commission was not appointed on full time basis and there were frequent changes resulting in discontinuity and cohesiveness of thoughts and methodology.

1.21           The Commission also observes that there is great need for creation of a permanent State Finance Commission cell in Finance Department to regularly collect, compile and monitor the finances of rural and urban local bodies and also to monitor the follow up measures taken by the State Government on implementation of the recommendations of earlier State Finance Commissions as well as the Central Finance Commissions.

1.22           The Commission feels that the existing data base on the finances of PRIs and ULBs at various levels is both inadequate and unsatisfactory. The State Government may consider standardisation of data formats in respect of the different components of receipt and expenditures as well as assets and liabilities of these institutions to lessen the burden of successive State Finance Commissions. The Eleventh Finance Commission had also examined this aspect and made strong recommendations relating to maintenance of accounts and data base on Local Bodies in their report. The EFC had provided funds for this purpose. The State Government should take necessary measures required to implement the recommendations.

## **OTHERS**

1.23           In the absence of any budgetary format and reliable figures of receipt and expenditure, any attempt at making financial projections for the future in respect of PRIs would tend to be a purely theoretical exercise. Financial projections are, accordingly, being attempted for the Urban Local Bodies only.

1.24           The detailed exercise undertaken by us indicates that there is a huge deficit, which will keep on increasing from year to year, despite the fact that we have estimated the additional expenditure on creating the urban infrastructure on a very conservative basis and have taken into account all possible additional resource mobilization. We have kept this aspect fully in view while recommending a package for the devolution of taxes and grants-in-aid by the State Government in favour of ULBs.

We trust that the gap in the resources, if still persists will receive the attention of the Twelfth Central Finance Commission. Here, it may be noted that in accordance with the amendments in Article 280 of the Constitution, the Central Finance Commission is required to consider the issue of augmenting the Consolidated Fund of the State for supplementing resources of the Municipalities and Panchayati Raj Institutions.

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## CHAPTER - II

### RECOMMENDATIONS AND IMPLEMENTATION OF FIRST STATE FINANCE COMMISSION

2.1 The First State Finance Commission was constituted on 31.5.1994 and it submitted its report in March, 1997, covering a period of four years from 1997 to 2001 commencing from 1st April, 1997. The report of the Commission was examined in the State Finance Department. The report of the Commission together with the explanatory memorandum on the action taken on recommendations of the Commission was also placed before the State Legislature on 1st September, 2000.

2.2 The summary position of recommendations of the Commission made for devolution of State taxes, duties, tolls, fees and grants-in-aid from the State Government to the PRIs and ULBs and as accepted by the State Govt. is as under:-

#### (A) PANCHAYATI RAJ INSTITUTIONS

#### RECOMMENDATIONS OF 1<sup>st</sup> SFC ON FINANCIAL DEVOLUTION FROM THE STATE TO THE RURAL LOCAL BODIES COVERING PERIOD 1997-2001.

(Rs. in crores)

Particulars	Share of Rural Local Bodies	Funds Transfer as per recommendations of 1 <sup>st</sup> State Finance Commission		Funds Transfer as accepted by the State Govt. for FY 2000-01 only.
		2000-01	1997-2001	
1	2	3	4	5
<b>I. Tax Sharing</b>		<b>41.25</b>	<b>144.00</b>	<b>12.60</b>
(i) Royalty on Minor Minerals. (Rs. 50 crore)	20% of the Royalty on Minor Minerals to PRIs & ULBs	5.00	20.00	Not Accepted
(ii) Conversion charges/ change of land use (presently Rs. 55 lakh and after revision about Rs. 2.50 crore PA)	10% of the net receipts to Gram Panchayats.	0.25	1.00	Not Accepted
(iii) Stamp Duty & Registration Fee (Rs. 310 crore PA net)	7.5% of the net proceeds to the PRIs	35.00	119.00	11.60 (3% of net proceeds.)
(iv) Revenue from Cattle Fairs. (Present about Rs. 91 lakh and after revision Rs. 1.50 crore)	The entire net income to be transferred to PSS instead of present 80%	1.00	4.00	1.00 (As per SFC)
(v) Haryana Rural Dev. Fund (HRDF). Rs. 45 crore at present and Rs. 100 crore after revision.	Levy of HRDF be increased from 1% to 2%.			To be used as before.

Particulars	Share of Rural Local Bodies	Funds Transfer as per recommendations of 1 <sup>st</sup> State Finance Commission		Funds Transfer as accepted by the State Govt. for FY 2000-01 only.
		2000-01	1997-2001	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>II. Grants in aid to PRIs</b>		<b>103.34</b>	<b>423.48</b>	<b>21.53</b>
(i) Maintenance Grants	Rs. 10 lakh per Block for 111 Blocks for maintenance of community assets.	14.77	56.66	15.21
	Rs. 1 lakh for each Block for maintenance of PRIs buildings (10% step up for next years.)	1.48	Included above	1.48
(ii) Repair Grants	One time special grant of Rs. 25 lakh for repair of Zila Parishad/Panchayat Samiti buildings (one time only for 1997-98)	-	0.25	0.25 (As per SFC)
(iii) Specific Purpose Grants	For Sanitation & Environmental improvement (GPs) 10% steps up each year.	2.92	10.17	2.92 (As per SFC)
(a) GPs with population less than 2,000 @Rs.2400/- (111.45 lakh) (b) GPs with population between 2,000-4999 @ Rs.4800/- (81.98 lakh) (c) GPs with population between 5000-9999 @Rs.6000/-(21.54 lakh) (d) GPs with population of 10,000 & above @ Rs. 8400/- (3.67 lakh)				
(iv) Development Grants	Rs. 50/- per capita per annum (1991 census) Rural population 1.24 crore (10% step up each year)	82.50	287.74	Not accepted
	Sharing Pattern ZPs, PSs, GPs 10: 15: 75			
(v) Incentive Grants	Cash Awards to PRIs (Lakh Rs.)	1.67	6.68	1.67 (As per SFC)
	ZPs PSs GPs 1 <sup>st</sup> 8.00 5 00 0.50 2 <sup>nd</sup> 5.00 3.00 0.30 3 <sup>rd</sup> 3.00 2.00 0.20			
(vi) Tenth Finance Commission grants		-	61.98	-
<b>Total Devolution to PRIs (I+II)</b>		<b>144.59</b>	<b>567.48</b>	<b>34.13</b>



## DEVOLUTION TO URBAN LOCAL BODIES(ULBs) AS PER 1st SFC

### (B) URBAN LOCAL BODIES

(Rs. in crores)

Particulars	Share of Local Bodies	Funds Transfer as per 1st State Finance Commission Recommendations		Funds Transfer as accepted by the State Govt. for FY 2000-01
		2000-01	1997-2001	
1	2	3	4	5
<b>I. Tax Sharing</b>		<b>39.84</b>	<b>146.80</b>	<b>30.02</b>
(i) Taxes on vehicles (Rs. 75 crore)	20% of the net receipts be transferred to ULBs	20.02	69.80	18.20 (20% of net proceeds as per SFC only for 2000-01)
(ii) Entertainment Duty and Show Tax (Ent. Tax 11.25 cr.& Show Tax 1.60 crore)	50% of the net income from entertainment tax be transferred to ULBs on the basis of origin and the entire net income from Show tax be transferred to ULBs on the basis of origin.	6.50	26.00	3.50 (25% of net proceeds of entertainment tax and entire show tax)
(iii) Royalty on Minor Minerals (Rs. 50 crore)	20% of the Royalty on Minor Minerals be devolved on the PRIs and ULBs	5.00	20.00	Not accepted.
(iv) Tax on consumption of Electricity in Municipal Areas	Tax on consumption of Electricity within the Municipal limits be raised from one paise per unit to 5 paise per unit. The share of MCs will be Rs. 7.20 crore in addition to Rs. 1.80 crore existing.	8.32	31.00	8.32 (As per SFC)
<b>II. Grants to ULBs</b>		<b>25.61</b>	<b>101.69</b>	<b>-</b>
(i) Grants to Municipal Councils/MCs	Rs. 50/- per capita (1991 census) to all Municipal Councils/MCs for total population of 32.29 lakh with 10% step up each year due to loss of Excise Duty.	21.50	74.92	Not accepted

Particulars	Share of Local Bodies	Funds Transfer as per 1st State Finance Commission Recommendations		Funds Transfer as accepted by the State Govt. for FY 2000-01
		2000-01	1997-2001	
1	2	3	4	5
(ii) Grants to Faridabad Municipal Corp.	Development grants of Rs. 50/- per capita with 10% step up each year.	4.11	14.34	Not accepted
(iii) Tenth Finance Commission Grants		-	12.43	-
<b>Total I+II</b>		<b>65.45</b>	<b>248.49</b>	<b>30.02</b>
<b>C. Liability of other recommendations</b>		<b>53.34</b>	<b>53.34</b>	<b>35.34</b>
i) Setting of Haryana Water Supply & Sewerage Board	The seed money i.e. 8 to 10 crore be provided by State Govt. in next 3 to 4 years.	10.00	10.00	To be further deliberated
ii) Setting of Haryana Urban Development Finance Corp.	Share capital of Rs. 5 to 8 crore over next 3-4 years be provided by State Govt.	8.00	8.00	To be further deliberated
iii) Strengthening of Local Govt. Directorate.	Strengthening by way of an additional Town Planning Wing & Engg. Wing. (Rs. 8.00 lakh) and computerization (Rs. 10 lakh).	0.18	0.18	0.18
(iv) Relief-Waiver of outstanding liability.	a) A sum of Rs. 32.50 cr. (9.48 cr. Principal & Rs. 23.02 cr. Interest) outstanding against MCs from 1970-71 to 1995-96 be waived off.	32.50	32.50	32.50
	b) Rs. 2.66 cr. worked out on the basis of 1% of income of the MCs as additional charges towards the Local Bodies Directorate is outstanding and be waived off.	2.66	2.66	2.66
<b>Total devolution to ULBs (I+II+III)</b>		<b>118.79</b>	<b>301.83</b>	<b>65.36</b>
<b>Total Devolution to PRIs &amp; ULBs (A+B)</b>		<b>263.38</b>	<b>869.31</b>	<b>99.49</b>

### 2.3 Financial implications of recommendations of 1<sup>st</sup> SFC.

#### SUMMARY OF DEVOLUTION TO PRIs & ULBs

	As per Recommendations of 1 <sup>st</sup> SFC		Recommendations as accepted by the State Govt.	Devolution as implemented by State Govt.
	2000-01	1997-2001	2000-01	2000-01
<b>i) Tax Sharing</b>	<b>81.09</b>	<b>290.80</b>	<b>42.62</b>	<b>31.02</b>
PRIs	41.25	144.00	12.60	1.00
ULBs	39.84	146.80	30.02	30.02
<b>ii) Grants-in-aid</b>	<b>128.95</b>	<b>525.17</b>	<b>21.53</b>	-
PRIs	103.34	423.48	21.53	-
ULBs	25.61	101.69	-	-
<b>iii) Others</b>	<b>53.34</b>	<b>53.34</b>	<b>35.34</b>	<b>35.34</b>
Loan waiver for ULBs			35.16	35.16
Local Govt. Deptt.			0.18	0.18
<b>Total Devolution to PRIs &amp; ULBs (i+ii+iii)</b>	<b>263.38</b>	<b>869.31</b>	<b>99.49</b>	<b>66.36</b>
PRIs	144.59	567.48	34.13	1.00
ULBs	118.79	301.83	65.18	65.18
Local Govt. Deptt.	-	-	0.18	0.18

### 2.4 Recommendations for augmentation of internal resources of rural and urban local bodies.

#### (A) Panchayati Raj Institutions

##### (a) Augmentation of resources

- i) **House Tax:-** House Tax is an obligatory tax which the panchayats are required to levy. The house tax was being charged at the rate of Rs.11/-, Rs.8/- and Rs.5/- per annum depending upon the category of occupier or the land holder. The Commission recommended that these rates may be revised to Rs.30/-, Rs.25/- and Rs.10/- respectively. Besides, this tax may also be imposed on shops, commercial establishments and institutions like schools, nursing homes at the rates varying from Rs.100/- to Rs.200/- per annum. Necessary changes may be made in the Act, Rules & Regulations. These rates should be revised every five years.
- ii) **Leasing of Shamlat Land:-** With a view to ensure leasing out of Shamlat land at a reasonable price, minimum lease money be fixed for various panchayat lands by a committee to be specially constituted for this purpose. The Commission further recommended that sufficient enabling

provisions in the existing rules/laws should be fully exploited for removal of encroachments on common lands of panchayats particularly lands adjoining towns and urban areas.

**(B) Urban Local Bodies**

- (i) Octroi:-** The octroi schedule prescribing the levy of octroi charges has remained practically the same over the decades and in addition several exemptions have been granted with the result that the income from this source has been more or less stagnant. The 1st SFC advocated revision of the octroi schedule basically involving change over from levy on weight basis to advalorem basis. The Commission further observed that in case octroi is abolished in the State, a suitable alternate source of revenue has to be found for the ULBs in lieu of octroi.
- (ii) Property Tax:-** The Commission recommended change over from the present system of house tax assessment on the basis of annual rental value to the “Area-Linked Scheme”. The new system is quite simple and removes bias from the process of assessment. In any case, the present system of levying house-tax must be streamlined and arrears should be recovered on an urgent basis till such time the new system is put into operation.
- (iii) Fees & Fines:-** The fee and fine rates are out-dated and need revision so as to ensure that recovery so effected should meet full cost of administration and keep pace with current cost conditions.
- iv) User Charges:-** Water supply in all ULBs, except in the Faridabad Municipal Corporation, is being handled by the Public Health Department. Water charges would need to be substantially raised both in respect of Municipal Councils/Committees by the Public Health Department and by the Faridabad Municipal Corporation so as to atleast cover the maintenance costs. Likewise, it will be necessary to cover the maintenance cost of sewerage and other services. This enhancement can be spread over a period of 2-3 years, if considered necessary. The rates charged should be revised atleast once every 3 years.

2.5 To improve the financial position of municipal committees, the following taxes have been imposed by the State Govt. :-

- (i) **Fire Tax:-** The Fire tax at the rate of half percent on residential buildings and one percent on all other buildings on the annual value assessed for the purpose of imposing tax on buildings and lands has been imposed vide notifications dated 16.5.2000 and 28.2.2002. The financial impact of this levy is estimated at about Rs. 8.00 lakh annually.
- (ii) **Tax on Driving Licences:-** Tax on driving licences @ Rs.100/- per driving licence issued under the Motor Vehicles Act of 1988, has been levied w.e.f. 16.5.2000. The amount so collected by the Licensing Authority is to be remitted to the concerned Municipal Body. This measure is likely to generate an income of about Rs. 150 lakh per annum.
- (iii) **Tax on Professions, Trades, Callings and Employments:-** Tax on professions, trades, callings and employment within the municipal limits has been imposed vide notification dated 16.5.2000 at the rate ranging from Rs. 1,000/- to Rs. 2500/- per annum. The total income from the said tax will be to the tune of Rs.1.60 crore yearly. However, this tax has been rolled back w.e.f. 17.2.04.
- (iv) **Tax on Registration of Vehicles:-** The State Govt. issued a notification w.e.f. 16.5.2000 to impose a tax on vehicles at the time of new registration/payment of token tax @ of lump sum Rs.50/- for moped, Rs. 100/- for scooter/motor cycle, Rs. 500/- for car and at the rate of 5% of the token tax payable on other heavy vehicles. This amount so collected shall be paid to municipality by the Registering Authority. The annual income of the municipalities on account of this tax would be Rs.200 lakh.
- (v) **House Tax:-** The State Govt., vide notification dated 13.12.2001, has switched over to the system of annual capital value from annual rental value in respect of imposing property tax (house tax). In the new system, property tax is levied at the rate of two and half percentum on residential buildings and five percentum on all other commercial, industrial and institutional buildings of the annual capital value of the buildings and lands within the limits of the concerned municipality. Accordingly, total income of the municipalities during the year 2001-2002 increased to Rs.39 crore approximately.
- (vi) **Electricity Tax or Surcharge:-** The State Govt., vide notification dated 16.5.2000, has increased the rate of surcharge or tax on electricity consumed by any person in the municipal area from one paisa to five

paise per unit of consumption of electricity. The annual income is estimated to be Rs. 8 to 10 crore.

## **CONCLUSIONS AND RECOMMENDATIONS**

2.6 After carefully analyzing the recommendations of the 1st SFC and the action taken thereon by the State Govt., we are constrained to make the following observations:-

- (i) The recommendations of the 1st SFC in regard to delegation of State resources, powers and functions were very wide and comprehensive which, if implemented, could have empowered the local bodies in a big way.
- (ii) The report of 1<sup>st</sup> SFC was submitted in March, 1997. Action Taken Report (ATR) alongwith the explanatory memorandum on the recommendations of the Commission was laid before the State Legislature in September, 2000. The State Govt. took a very long time, about three years, to examine the report of the Commission. This, to a large extent, defeats the very purpose of the provisions of setting up of the State Finance Commission as no funds could be transferred to the local bodies during the first three years of the Commission's period.
- (iii) The report of the 1st SFC covered the period of four years i.e. from 1997-98 to 2000-01. But the State Govt. accepted the recommendations only for one year i.e. for 2000-01. It implies that the recommendations for the first three years i.e. 1997-98 to 1999-2000 were neither accepted nor implemented. This act of the State Govt. is not in conformity with the spirit of the constitutional provisions as well as the Acts/Rules of the local bodies, which refrained them from the accessibility of State resources which would, otherwise, have devolved to them.
- (iv) The action taken report presented before the State Legislature reveals that in regard to recommendations of the 1st SFC on resource sharing, only a few recommendations were accepted, while major recommendations were ignored. The action taken report is placed before State Legislature in pursuance of Articles 243 I (4) and Article 243 Y (2) of the constitution, whereby, the recommendations not being accepted have also to be presented before the State Legislature alongwith the reasons thereof. This has not been done by the State Govt.
- (v) The analysis also shows that even the recommendations on financial devolution, whatsoever, accepted for the year 2000-01, were not implemented in their entirety. Virtually, fewer State funds were transferred to the PRIs during 2000-01.

2.7 The financial implications of recommendations of 1<sup>st</sup> SFC regarding sharing of State resources including taxes, fees, grants-in-aid and other benefits workout at Rs. 869.31 crore for the period of four years 1997-2001, consisting of Rs. 567.48 crore for PRIs and Rs. 301.83 crore for ULBs. This devolution includes an amount of Rs. 263.38 crore relating to the concluding year i.e. 2000-01, including Rs. 144.59 crore PRIs and Rs. 118.79 crore for ULBs. As already stated, the State Govt. accepted some of the recommendations of the Commission only for the year 2000-01. Against the total devolution of Rs. 263.38 crore recommended by the Commission for the year 2000-01, the State Govt. accepted financial devolution to the extent of Rs.99.49 crore only, consisting of Rs. 34.13 crore for PRIs and Rs. 65.36 crore for ULBs.

2.8 The Commission has noted that the financial devolution recommended by the 1st SFC for ULBs and as accepted by the State Govt. for the year 2000-01 has actually been implemented. The total devolution of Rs. 65.36 crore, recommended for ULBs for the year 2000-01, was accepted by the State Govt. and entire funds were transferred to the ULBs. In addition, their share in State excise continued to be devolved to these bodies during the period of the first Commission. But this could not happen in case of PRIs as against the devolution of Rs. 34.13 crore, accepted by the State Govt., only an amount of Rs. 1.00 crore was transferred. We are told that the PRIs were provided sufficient funds from off-budget sources like HRDF, Marketing Board etc. for rural development. Their due share in State excise also continued to be provided to the PRIs besides other normal budgetary allocations. Other line departments also earmarked some funds for undertaking local level activities in the rural areas. However, the position in regard to implementation of Commission's recommendations has been explained in the tables given under paras 2.2 and 2.3.

2.9 We had apprehensions about the go-slow approach of the State Govt. regarding implementation of the recommendations of the 1st State Finance Commission. While reviewing the financial position of the State, we observed that the finances of the State remained under severe strains during the period 1997-98 to 2000-01 due to historical factors like pay revision on central pattern as per the fifth pay commission, introduction of prohibition, prolonged economic recession, decline in central devolution to the State Govt. etc. Besides, we have also been given to understand that the State Govt. was gearing up to formulate its Tenth Five Year Plan as well as to bear the committed liabilities of the concluding Ninth Plan. In the situation like this, it was beyond the reach of State finances to undertake a huge liability of the 1st SFC, which would, otherwise, have disrupted the plan priorities as well as the scheme of

financing the Tenth Plan. We have also been told that emphasis was given to implement in letter and spirit all the measures suggested for improvement of internal resources of the local bodies, so that these bodies could be self-sustaining and do not have to depend upon the State Govt. for their survival.

2.10           The State Govt. imposed a Local Area Development Tax (LADT) vide notification dated 5.5.2000, the net proceeds of which are to be transferred to the rural and urban local bodies as per the criteria evolved by the State Govt. But its implementation was held up due to court directions. This would prove to be a buoyant source for the local bodies to improve their financial position. We will discuss this tax in detail in chapter IX of this report.

2.11           In view of the position explained above, the Commission would like to make the observation that the SFC is a statutory Commission and its recommendations are based on technical analysis of the finances of the local bodies and the State Govt. and the demands there on, as such, its recommendations should be honoured, accepted and implemented by the State Govt. in their right perspectives so that no violations of constitutional provisions and the enabling Acts of the local bodies take place as has been done by the State Govt. in regard to the recommendations of the 1<sup>st</sup> State Finance Commission.

2.12           An implementation committee under the chairmanship of the chief Secretary may be constituted to ensure that decisions on all recommendations are taken within a period of three to four months of the submission of Commission's report.

2.13           The Commission also recommends that the State Govt. should ensure that the Action Taken Report placed before the State Legislature incorporates Govt. decisions on all recommendations of the Commission, whether accepted or rejected. The reasons for not accepting the recommendations, if any, may also be indicated. Further, the decisions left pending should be placed before the legislature alongwith action taken within a reasonable period, say, six months or so.

2.14           All recommendations of the Commission relating to devolution of funds to PRIs and ULBs i.e. accepted, partially accepted and/or rejected, should be placed before the council of Ministers for decision.

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## **CHAPTER - III**

### **TENTH AND ELEVENTH FINANCE COMMISSIONS RECOMMENDATIONS RELATING TO LOCAL BODIES**

3.1 Consequent to the Constitution (Seventy-third Amendment) Act, 1992, the new sub-clause (bb) and (c) were inserted in clause (3) of Article 280 of the Constitution relating to functions of Finance Commission, requiring the (Central) Finance Commission to suggest:-

“the measures needed to augment the Consolidated Fund of a State to supplement the resources of the rural and urban local bodies in the State on the basis of the recommendations made by the Finance Commission of the State”

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

#### **TENTH FINANCE COMMISSION (TFC)**

3.3 Though these amendments, which came after setting up of the Tenth Finance Commission, could not form part of its Terms of Reference, yet the TFC, keeping in view the spirit of these amendments and likely changes in the status of local bodies, recommended an adhoc provision of grants of Rs. 5380.93 crore for rural and urban local bodies of the States for the period 1995-2000, consisting of Rs. 4380.93 crore for PRIs and Rs. 1000 crore for ULBs. Grants for PRIs were assessed at the rate of Rs. 100/- per capita (1971 census) and inter-se distribution was to be made on the basis of population ratios of the States. Whereas the provision of Rs. 1000 crore for ULBs was made on adhoc basis to be distributed among the States on the basis of their inter-state ratios of slum population. The Commission recommended that these amounts should be passed on to the rural and urban local bodies over and above their share of the assigned taxes, duties, tolls, fees, transferred activity related budgets and grants. The share of Haryana State in the total allocation was Rs. 99.22 crore including

Rs. 82.64 crore for PRIs and Rs. 16.58 crore for ULBs, constituting 1.8% of the total allocation.

### UTILISATION OF TFC GRANTS

3.4 According to the guidelines issued by Ministry of Finance, Government of India, the TFC grants were to be utilized on capital works/schemes. The local bodies were required to provide matching contribution. The State Governments were advised to draw up suitable schemes with detailed guidelines for utilization of the grants having due regard to the specific needs of local bodies.

### TFC Grants for Haryana State

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

<u>Year</u>	<u>PRIs</u>	<u>ULBs</u>	<u>Total</u> (Rs. in lakh)
1996-97	2066.00	415.00	2481.00
1997-98	2066.00	415.00	2481.00
1998-1999	2066.00	414.00	2480.00
1999-2000	2066.00	414.00	2480.00
<b>Total</b>	<b>8264.00</b>	<b>1658.00</b>	<b>9922.00</b>

### Release of grants

3.6 The position regarding the release of grants by the Govt. of India to the State Government and their transfer to PRIs and ULBs is shown in Table 3.1 and 3.2 below:-

**TABLE 3.1**

### Panchayati Raj Institutions

(Rs. in Lakhs)

<b>Year</b>	<b>Provision made by the TFC</b>	<b>Amount received by the State Govt.</b>	<b>Amount released to PRIs</b>	<b>Amount not released to PRIs (Col.3-4)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1996-97	2066.00	2066.00	1033.00	(-)1033.00
1997-98	2066.00	2066.00	1549.50	(-)516.50
1998-99	2066.00	2066.00	--	(-)2066.00
1999-2000	2066.00	2066.00	5681.50	(+)3615.50
<b>Total</b>	<b>8264.00</b>	<b>8264.00</b>	<b>8264.00</b>	<b>0.00</b>

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

**TABLE 3.2**  
**Urban Local Bodies**

(Rs. in lakhs)

Year	Provision made by the TFC	Amount received by the State Govt.	Amount released to ULBs	Amount not released to ULBs (Col.3-4)
1	2	3	4	5
1996-97	415.00	415.00	415.00	-
1997-98	415.00	415.00	103.75	(-)311.25
1998-99	414.00	414.00	725.25	(+)311.25
1999-2000	414.00 *	-	-	-
<b>Total</b>	<b>1658.00</b>	<b>1244.00</b>	<b>1244.00</b>	<b>0.00</b>

Source:- State Finance Department and Urban Development Department.

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

3.7 The above tables show that the entire grant of Rs. 8264.00 lakh received for PRIs from the GOI during 1996-2000, was transferred to the PRIs and distributed among the PRIs as per the laid down criteria. However, in case of ULBs, against the allocation of Rs. 1658 lakh, grant of Rs. 1244.00 lakh was received from the GOI which was transferred to the ULBs and distributed as per the laid down criteria. However, the balance grant of Rs. 414.00 lakh was not released to the State Govt. as elections of ULBs were not held as per the schedule.

#### **ELEVENTH FINANCE COMMISSION (EFC)**

3.8 Unlike in the case of the Tenth Finance Commission, the Presidential orders, setting up the Eleventh Finance Commission (EFC), required it to make recommendations on the measures needed to augment consolidated funds of the States to supplement the resources of the panchayats and municipalities on the basis of the recommendations of the State Finance Commissions (SFCs). However, where SFCs were not constituted or did not submit their recommendations, EFC was required to make its own assessment in the matter.

#### **Approach of the EFC**

3.9 The EFC recommended grants amounting to Rs. 10,000 crore for the period 2000-05 to the States for rural and urban local bodies, including Rs. 8,000 crore for Panchayats and Rs. 2,000 crore for municipalities. The local body grants recommended by EFC are part of a larger constitutional scheme of devolution of functions and responsibilities from the State to local bodies. These amounts would be

over and above the normal flow of funds to the local bodies from the States and the amounts that would flow from the implementation of the respective State Finance Commission recommendations.

3.10 Out of the total LBs grants of Rs. 10,000 crore for the period 2000-05, EFC has recommended that Rs. 9860.72 lakh should be provided towards the maintenance of accounts of panchayats and intermediate level panchayats and Rs. 20,000 lakh be provided towards creation of data base relating to finances of LBs.

3.11 EFC has also recommended that the State Govt. should identify steps to be taken for enhancing the Consolidated Fund of the States for supplementing resources of the LBs. In order to meet the growing needs of LBs, their tax base should be optimized with a view to enable them to exercise their constitutional mandate.

### **Objective of the scheme**

3.12 The local body grants (LBGs) would be utilized for maintenance of civic services in rural and urban areas which include provision of primary education, primary health care, safe drinking water, street lighting, sanitation including drainage & scavenging facilities, maintenance of cremation & burial grounds, public conveniences and other common property resources. The projects should normally be those which are not covered under other schemes of the GOI or the State Govt.

3.13 The Commission also considered maintenance of accounts of local bodies and their audit as an area of great importance and besides earmarking specific funds for this purpose, has made wide-ranging suggestions for improving the maintenance of accounts and their audit. It also earmarked specific funds for creation of database. These amounts would be first charge on the LBGs. The remaining amount shall be utilized for maintenance of core civic services by LBs.

### **GUIDELINES FOR UTILIZATION OF GRANTS**

3.14 Ministry of Finance, Govt. of India has issued guidelines for the utilization of local bodies grants recommended by the EFC. According to these guidelines, LB grants would be subject to the following conditions:-

- i) States should have completed due election processes in respect of Local Bodies.
- ii) 25% of the grants shall be withheld from such States that do not devolve responsibilities, powers and resources upon the Local Bodies, as recommended by the respective State Commissions.

- iii) These grants shall not be diverted to any other purpose and shall not be withheld by the State Government.
- iv) The grants would be untied except that they should not be used for payment of salaries and wages.
- v) The Local Bodies shall raise matching resources amounting to not less than 25% of the grant in case of PRIs and 50% of the grant in case of ULBs. In case any Local Body is unable to provide matching contribution, the State Government shall provide the balance to the concerned Local Body. Grants flowing to a local body on the recommendation of the State Finance Commission, as share in State taxes, will not be treated as matching contribution.
- vi) The grants shall be transferred to the concerned Local Bodies within a month or if the Local Body is not able to raise matching funds, within three months of being released to the State Government.
- vii) No amount should be given to the intermediate or district level panchayats where these do not have any direct responsibility for maintenance of civic services.
- viii) The Comptroller & Auditor General of India shall be responsible for exercising control and supervision over the proper maintenance of accounts and their audit for all the three tiers/levels of Panchayati Raj Institutions and Urban Local Bodies.

#### **Allocations of LBGs to Haryana**

3.15 As stated about, out of the total LBGs of Rs. 10,000 crore for all the States covering the period 2000-05, allocation to Haryana State is Rs. 18372.75 lakh, including Rs. 14708.75 lakh for PRIs and Rs. 3664.00 lakh for ULBs. The annual break-up is Rs. 2941.75 lakh for PRIs and Rs. 732.80 lakh for ULBs. The following table depicts the picture:-

**TABLE 3.3**  
**Annual allocation of LBGs to Haryana**  
(Rs. in lakhs)

<b>Year</b>	<b>PRIs</b>	<b>ULBs</b>	<b>Total</b>
2000-01	2941.75	732.80	3674.55
2001-02	2941.75	732.80	3674.55
2002-03	2941.75	732.80	3674.55
2003-04	2941.75	732.80	3674.55
2004-05	2941.75	732.80	3674.55
<b>Total</b>	<b>14708.75</b>	<b>3664.00</b>	<b>18372.75</b>

**TABLE 3.4****Position of LBGs received from GOI and passed on to the LBs**

<b>(Rs. in lakhs)</b>					
<b>Particulars</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>Total</b>
<b>A. Allocation</b>	<b>3674.55</b>	<b>3674.55</b>	<b>3674.55</b>	<b>3674.55</b>	<b>14698.20</b>
PRIs	2941.75	2941.75	2941.75	2941.75	11767.00
ULBs	732.80	732.80	732.80	732.80	2931.20
<b>B.Grants received from GOI</b>	<b>1837.28</b>	<b>5511.83</b>	<b>3674.54</b>	<b>3674.55</b>	<b>14698.20</b>
PRIs	1470.88	4412.63	2941.74	2941.75	11767.00
ULBs	366.40	1099.20	732.80	732.80	2931.20
<b>C. Grants passed on to the Local Bodies</b>	<b>1101.84</b>	<b>4040.95</b>	<b>4409.99</b>	<b>5145.42</b>	<b>14698.20</b>
PRIs	735.44	2941.75	3677.19	4412.62	11767.00
ULBs	366.40	1099.20	732.80	732.80	2931.20

Note:- LBGs of Rs. 3674.55 lakh allocated for 2004-05 have not yet been received from GOI and would be transferred to the LBs as and when received from the GOI.

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

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

3.17 The criteria for revenue efforts is meant to serve as an incentive for local bodies to boost their internal revenues while the criteria of distance from highest per capita income is to provide funds for Local Bodies with poor revenue base. Indices of decentralization are based on decentralization as envisaged in the 73rd and 74th Constitutional amendments. The criteria adopted for inter-se distribution and the indicators taken into account by the EFC for preparing index of decentralization are at Annexures 2,3 and 4.

### **Allocation for database and maintenance of accounts.**

3.18 The EFC recommended a total provision of Rs.491.95 lakh for creation of database of local bodies in Haryana State including Rs. 485.41 lakh for PRIs and an amount of 6.54 lakh for Urban Local Bodies. It also recommended a provision of Rs. 242.76 lakh for maintenance of accounts of village level panchayats and intermediate level panchayats in the State. Thus, the allocation to Haryana for creation of data base and maintenance of accounts of local bodies works to Rs. 734. 71 lakh against the total allocation of Rs. 29860.72 lakh for all the States. The Commission estimated that on an average an amount of Rs.4000 per panchayat per annum should be adequate to meet the expenditure on maintenance of accounts on contract basis.

### **Measures for augmentation of consolidated fund and local resource mobilization.**

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

### **Action by the State Government on measures recommended by EFC.**

3.20 The State Govt. is passing on the LBGs to the PRIs & ULBs regularly as and when received from the GOI. But action on the recommendations of the EFC for levy of land taxes or surcharge or cess on State taxes or levy of profession tax are yet to be initiated. As for reforms of local taxes and rates, provisions to delink property tax from “rental value” have been made in the Haryana Municipal Bill, 2000. Octroi has been abolished and measures to compensate ULBs for the resultant loss taken but no decision has as yet been taken to revise the rate structure of user charges of civic services to recover full cost of operation & maintenance of these services. As regards action to be taken on the recommendations of the Commission about maintenance of accounts of local bodies and their audit, the State Govt. has decided as under:-

- i) No justification is for entrusting the responsibility of supervision to C&AG of India as proper arrangements already exist to carryout their audit under the constitutional provisions.
- ii) C&AG of India may prescribe the procedure for verifying proper utilization of grants given to local bodies as per the award of the Finance Commissions.

- iii) No objection in receiving technical guidance regarding auditing standards, audit planning, professional training and all other matters to strengthen the local fund audit.

## **CONCLUSIONS & RECOMMENDATIONS**

3.21 From the above narration, three points emerged, which require prompt remedial action, as under:-

- (i) The share of Haryana in the EFC grants for ULBs is 1.832% and for PRIs 1.839% . This is because of lower performance of the State in the areas of decentralization and criteria followed by the EFC to revenue efforts for which weightage of 20% and 10% respectively has been accorded. In case of panchayats, in Index of decentralization, Haryana scored 1.760 against more than 15 for Uttar Pradesh and more than 9 in the case of West Bengal, Maharashtra, Madhya Pradesh and Andhra Pradesh. In revenue efforts of panchayats also, its score was no better. Similarly, in the case of ULBs, the score of Haryana in Index of decentralization at 2.189 was one of the lowest. Maharashtra and Uttar Pradesh scoring as high as about 16.436 and 14.856 respectively. In revenue efforts for ULBs also the performance of Haryana was very low. The index of decentralization pertains to implementation of the 73rd and 74th constitutional amendments, particularly, assignment of more functions and financial powers to the Local Bodies. The Government of India has linked devolution of these grants with the extent of decentralization. It is high time that effective steps are taken to grant more functional and financial powers to the ULBs & PRIs so that the State does not have to suffer in comparison to other states.

3.22 As per EFC, the distribution of the grants to PRIs and ULBs should be done on the basis of the principles recommended by the State Finance Commission. It is, thus, recommended that since the Zila Parishads and Panchayat Samitis in the State do not have any direct responsibility for maintenance of civic services in the rural areas, no amount from this grant should be given to them as indicated by the EFC. The entire amount of grant meant for PRIs, excluding that earmarked for improvement of accounts and data base, may be distributed amongst Gram Panchayats on the same principles as recommended by this Commission in regard to inter-se distribution of share in taxes amongst Gram Panchayats. Similarly, the grant for ULBs, except the grant earmarked for improvement in accounts and data base, may be distributed amongst ULBs on the



same principles as recommended by this Commission for inter-se distribution of share in taxes amongst ULBs.

3.23 As regards the condition of matching contribution, all ULBs should be able to make this contribution by additional resource mobilization, if necessary. In case of Gram Panchayats, the panchayats with very weak financial base may not be able to contribute their share. It is, therefore, recommended that the Gram Panchayats, which had per capita non tax revenue (mainly from panchayat lands) less than Rs.25 in 2000-2001, may not be required to make this contribution and in their case the matching contribution may be made by the State Government. All other Gram Panchayats may be required to make 25% matching contribution as per the Government of India guidelines.

3.24 The Gram Panchayats with own tax and non-tax income of more than Rs.20,000 in 2000-2001 should meet the expenditure on improvement of their accounts from their own resources. The grants earmarked for maintenance of accounts of Gram Panchayats may be distributed amongst the remaining Gram Panchayats in the ratio of their population. The departments of Urban Development and Rural Development & Panchayats may draw up schemes for the purpose and the EFC allocations be utilized on these schemes in accordance with the GOI guidelines.

3.25 In order to ensure that these grants are transferred to local bodies without delay, the State Finance Department should, on receipt of grants from the GOI, immediately transfer these to the Departments of Urban Development and Development & Panchayats, as the case may be. These departments should transfer these grants to the respective local bodies according to their share on the basis of the principles recommended by this Commission. The ULBs and Gram Panchayats may be required to furnish utilization certificates of these grants including their matching share. The grants in the subsequent years should be released to the ULBs and Gram Panchayats only on receipt of the utilization certificates.

3.26 The period of EFC and the Second SFC does not coincide. The EFC period is 2000-01 to 2004-05, whereas the period of 2<sup>nd</sup> SFC is 2001-02 to 2005-06. Thus, the recommendations made by us would be applicable on EFC grants for local bodies only for the period 2001-02 to 2004-05, as the year 2005-06 would be covered by the 12<sup>th</sup> Finance Commission.

3.27 Detailed guidelines should be issued by the Development & Panchayats Department on the above basis which would also lay down the quantum of matching contribution to be provided by the PRIs. The scheme of devolution suggested by us

would leave enough resources in the hands of the PRIs to provide their share of the matching contribution. The guidelines to be issued by the State Government may also provide for giving a part of the matching contribution by way of cash, kind or labour at the level of PRIs.

3.28 The district-wise distribution of EFC grants for PRIs is at Appendix 'A'. The district-wise and municipality-wise distribution of EFC grants for ULBs is at Appendix 'B'.

### **Appendix 'A'**

#### **Annual district-wise share of EFC Grants for PRIs on Decentralised Planning pattern 2000-2005 (PRIs).**

<b>Sr.No.</b>	<b>District</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>Total</b>
1.	Ambala	193.19	185.20	183.90	183.90	183.90	930.09
2.	Bhiwani	215.80	204.90	203.45	203.45	203.45	1031.05
3.	Faridabad	162.80	206.20	204.75	204.75	204.75	983.25
4.	Fatehabad	57.70	*	*	*	*	57.70
5.	Gurgaon	225.45	196.00	194.60	194.60	194.60	1005.25
6.	Hisar	229.45	305.20	303.05	303.05	303.05	1443.80
7.	Jind	171.80	187.80	186.45	186.45	186.45	918.95
8.	Jhajjar	61.04	*	*	*	*	61.04
9.	Karnal	172.40	159.40	158.20	158.20	158.20	806.40
10.	Kurukshetra	166.85	154.00	152.90	152.90	152.90	779.55
11.	Kaithal	162.60	196.80	196.40	196.40	196.40	948.60
12.	Narnaul	160.70	157.20	156.05	156.05	156.05	786.05
13.	Panipat	107.75	130.40	129.45	129.45	129.45	626.50
14.	Panchkula	41.40	*	*	*	*	41.40
15.	Rohtak	155.20	232.00	230.40	230.40	230.40	1078.40
16.	Rewari	150.35	131.60	130.60	130.60	130.60	673.75
17.	Sonapat	161.78	162.41	161.28	161.28	161.28	808.03
18.	Sirsa	169.14	180.40	179.05	179.05	179.05	886.69
19.	Y.Nagar	176.35	142.24	141.22	141.22	141.22	742.25
20.	Director Panchayat**	00.00	10.00	30.00	30.00	30.00	100.00
	<b>Total</b>	<b>2941.75</b>	<b>2941.75</b>	<b>2941.75</b>	<b>2941.75</b>	<b>2941.75</b>	<b>14708.75</b>

\* Including the share of Panchkula, Fatehabad and Jhajjar districts in Ambala, Hisar and Rohtak districts respectively.

\*\* For I.T. plan at State Headquarters for the development of data base of PRIs.

## APPENDIX 'B'

### DISTRICTWISE MUNICIPAL ALLOCATION OF ELEVENTH FINANCE COMMISSION GRANTS

Sr. No	District	Name of Municipality	Population (census 2001)	% to Total	E.F.C. Allocation (Rs. in lakhs)
1.	Ambala	Ambala City	139222	2.40	17.59
		Ambala Sadar	168003	2.90	21.25
		Naraingarh	18209	0.31	2.27
		<b>TOTAL</b>	<b>325434</b>	<b>5.61</b>	<b>41.11</b>
2.	Panchkula	Panchkula	140992	2.43	17.81
		Kalka	30887	0.53	3.88
		Pinjor	29766	0.52	3.81
		<b>TOTAL</b>	<b>201645</b>	<b>3.48</b>	<b>25.50</b>
3.	Y.Nagar	Yamunanagar	205340	3.54	25.94
		Jagadhri	101300	1.75	12.83
		<b>TOTAL</b>	<b>306640</b>	<b>5.29</b>	<b>38.77</b>
4.	Kurukshetra	Thanesar	122704	2.11	15.46
		Shahbad	37130	0.64	4.69
		Ladwa	22439	0.39	2.86
		Pehwa	33547	0.58	4.25
		<b>TOTAL</b>	<b>215820</b>	<b>3.72</b>	<b>27.26</b>
5.	Karnal	Karnal	222017	3.83	28.07
		Gharaunda	30179	0.52	3.81
		Taraori	22205	0.38	2.78
		Assandh	22707	0.39	2.86
		Nilokheri	16400	0.28	2.05
		Indri	14515	0.25	1.83
		<b>TOTAL</b>	<b>328023</b>	<b>5.65</b>	<b>41.40</b>
6.	Panipat	Panipat	353983	6.10	44.70
		Samalkha	29856	0.52	3.81
		<b>TOTAL</b>	<b>383839</b>	<b>6.62</b>	<b>48.51</b>

Sr. No	District	Name of Municipality	Population (census 2001)	% to Total	E.F.C. Allocation (Rs. in lakhs)
7.	Rohtak	Rohtak	294537	5.08	37.23
		Meham	18166	0.31	2.27
		Kalanaur	16847	0.29	2.12
		<b>TOTAL</b>	<b>329550</b>	<b>5.68</b>	<b>41.62</b>
8.	Jhajjar	Bahadurgarh	131924	2.27	16.64
		Jhajjar	39004	0.67	4.91
		Beri	16146	0.28	2.05
		<b>TOTAL</b>	<b>187074</b>	<b>3.22</b>	<b>23.60</b>
9.	Faridabad	Palwal	100528	1.73	12.68
		Hodel	38306	0.66	4.84
		Faridabad Corp.	1054981	18.18	133.22
		<b>TOTAL</b>	<b>1193815</b>	<b>20.57</b>	<b>150.74</b>
10.	Gurgaon	Gurgaon	229243	3.95	28.95
		F.P.Zhirka	17751	0.31	2.27
		Nuh	11038	0.19	1.39
		Sohna	27571	0.48	3.52
		Haily Mandi	17072	0.29	2.12
		Pataudi	16064	0.28	2.05
		Taoru	17227	0.30	2.20
		<b>TOTAL</b>	<b>335966</b>	<b>5.80</b>	<b>42.50</b>
11.	Rewari	Rewari	100946	1.74	12.75
		Bawal	12016	0.21	1.54
		<b>TOTAL</b>	<b>112962</b>	<b>1.95</b>	<b>14.29</b>
12.	Mahendergarh	Narnaul	62091	1.07	7.84
		Mahendergarh	23977	0.41	3.01
		<b>TOTAL</b>	<b>86068</b>	<b>1.48</b>	<b>10.85</b>

Sr. No	District	Name of Municipality	Population (census 2001)	% to Total	E.F.C. Allocation (Rs. in lakhs)
13.	Bhiwani	Bhiwani	169424	2.92	21.40
		Charkhi Dadri	44892	0.77	5.64
		Siwani	15849	0.27	1.98
		Bawani Khera	17438	0.30	2.20
		<b>TOTAL</b>	<b>247603</b>	<b>4.26</b>	<b>31.22</b>
14.	Hisar	Hisar	263070	4.53	33.20
		Hansi	75730	1.31	9.60
		Barwala	33130	0.57	4.18
		Narnaund	15114	0.26	1.90
		<b>TOTAL</b>	<b>387044</b>	<b>6.67</b>	<b>48.88</b>
15.	Fatehabad	Fatehabad	59863	1.03	7.55
		Tohana	51518	0.89	6.52
		Ratia	23821	0.41	3.00
		<b>TOTAL</b>	<b>135202</b>	<b>2.33</b>	<b>17.07</b>
16.	Sirsa	Sirsa	160129	2.76	20.22
		M.Dabwali	53812	0.93	6.81
		Rania	20958	0.36	2.64
		Kalanwali	25155	0.43	3.15
		Ellenabad	32786	0.57	4.18
		<b>TOTAL</b>	<b>292840</b>	<b>5.05</b>	<b>37.00</b>
17.	Jind	Jind	136089	2.35	17.22
		Narwana	50659	0.87	6.38
		Safidon	27542	0.47	3.44
		Uchana	14100	0.24	1.76
		<b>TOTAL</b>	<b>228390</b>	<b>3.93</b>	<b>28.80</b>
18.	Kaithal	Kaithal	117226	2.02	14.80
		Cheeka	32126	0.55	4.03
		Kalayat	16747	0.29	2.12
		Pundri	17022	0.29	2.13
		<b>TOTAL</b>	<b>183121</b>	<b>3.15</b>	<b>23.08</b>

<b>Sr. No</b>	<b>District</b>	<b>Name of Municipality</b>	<b>Population (census 2001)</b>	<b>% to Total</b>	<b>E.F.C. Allocation (Rs. in lakhs)</b>
19.	Sonipat	Sonipat	225151	3.88	28.43
		Gohana	48518	0.84	6.16
		Ganaur	29005	0.50	3.67
		Kharkhoda	18758	0.32	2.34
		<b>TOTAL</b>	<b>321432</b>	<b>5.54</b>	<b>40.60</b>
		<b>G.TOTAL</b>	<b>5802468</b>	<b>100.00</b>	<b>732.80</b>

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## **CHAPTER- IV**

### **DEVELOPMENT PROFILE OF HARYANA**

#### **PHYSICAL FEATURES**

4.1 Haryana is a small State carved on country's map on 1<sup>st</sup> November, 1966. Haryana is situated in North West India and covers an area of 44212 square kms. constituting 1.35% of the total geographical area of the country. There are 4 Divisions which have been sub-divided into 19 Districts, 47 Sub-Divisions, 112 Tehsils/Sub-Tehsils, 116 Blocks, 6781 villages, 106 towns and 68 Municipalities.

#### **DEMOGRAPHIC AND SOCIAL INDICATORS**

4.2 As per the 2001 census, the population of the State was 210.83 lakh constituting 2.05% of the total population of the country. The population grew by 2.8% per annum against the All India growth at 2.13%. The percentage of urban and rural population worked out to 29 and 71 as against the All India figures of 27.8 and 72.2 respectively. Population of males and females totaled 113.28 lakh and 97.55 lakh and constituted 53.7% and 46.3% of the State's population as against All India figures of 51.7% and 48.3%. The sex ratio in the State worked lowest to 861 females per thousand males as against the All India indicator of 933 females per thousand males. The density of population was at 477 per square Kms. as against All India density at 324 per square Kms. The literacy rate (over-all) in the State stood at 68.59 percent as against the All India literacy rate of 65.4 percent. The male and female literacy percentage stood at 79.25 and 56.31 as against the All India level of 75.9 and 54.2 respectively. The total work force comprised of 42.90 lakh males and 8.0 lakh females.

4.3 The area now falling in Haryana was comparatively neglected and economically backward, but it had a good potential for growth. 71% of its population, living in 6781 villages, is rural and is largely dependent on agriculture and allied activities for its livelihood. Cultivators comprise 36.34% of the working force, 15.22% agricultural labourers and 48.44% are non-agricultural workers in the State. There are about 17.28 lakh operational holdings and nearly 2/3 of the holdings are with small and marginal farmers with less than 2.5 hectares. The net area cultivated is about 38.01 lakh hectares and the net area irrigated is 82.4%. The traditional crops cultivated are foodgrains, sugarcane, oil seeds and cotton, though of late, rapid strides have been made in the field of horticulture and floriculture as well.

## ECONOMIC SITUATION

4.4 The State has witnessed a continuous sustainable economic growth ever since its inception. The State economy recorded long term high growth rate of 6% per annum in the period 1980-96. During 8<sup>th</sup> and 9<sup>th</sup> Five Year Plans, the GSDP recorded average growth rate of around 5.2% against the national G&P growth rate of above 5.5%. The GSDP of the State grew by 9.3% to 65837 crore in 2002-03 from Rs. 60212 crore in 2001-02 at current prices. At constant prices it stood at Rs. 36876 crore in 2002-03. The primary sector including agriculture still continues to dominate the State's economy by contributing 29.4% of its total income. However, the secondary and tertiary sectors have also developed steadily and are contributing 28.0% and 42.6% respectively to the State's economy. This is an healthy sign of the growth of State's economy in right direction. The per capita income in real terms i.e. at 1993-94 prices was estimated at Rs.14757 during 2002-03 as against Rs.11079 in 1993-94. Haryana ranks at 4<sup>th</sup> place in terms of per capita income next to Goa, Maharastra and Punjab. At current prices, however, the per capita income was estimated at Rs.26632 during 2002-03. A major contributory factor for reforming the State economy has been the large scale investments made during various five year plans with special emphasis on infrastructural development. The plan investment has substantially increased from Rs. 358.26 crore in Fourth Five Year Plan (1969-74) to Rs. 7986.12 crore in the Ninth Five Year Plan (1997-2002). The position is explained in the following table:-

**Table 4.1**

### **Investment under five year plans**

<b><u>Plan Period</u></b>	<b><u>Plan investment (Rs. in crores)</u></b>	<b><u>Percentage increase</u></b>
Fourth Plan (1969-74)	358.26	-
Fifth Plan (1974-79)	677.34	89%
Sixth Plan (1980-85)	1595.47	135%
Seventh Plan (1985-90)	2510.64	57%
Eighth Plan (1992-97)	4899.19	95%
Ninth Plan (1997-2002)	7986.12	63%
Tenth Plan(2002-07)	12000.00	50%

(Approved outlay)

4.5 Haryana has been a pioneering State carrying out reforms in various fields. The State, since its inception, has made phenomenal progress on transformation of State's economy, particularly on economic and social fronts. After witnessing 'Green



Revolution' and 'White Revolution', Haryana has been the leading State to carryout massive power sector reforms leading to substantial improvement in power situation and financial status of power sector.

4.6 The backbone of economic prosperity is the green revolution by having the breakthrough in the field of agriculture, wide-spread expansion of irrigation facilities, the exploitation of under ground water and adoption of modern farming techniques and harnessing of scientific and technical know-how. Consequently, the total food-grain production increased from 25.92 lakh tonnes in 1966-67 to 123.36 lakh tonnes in 2002-03, of which wheat alone accounted for 91.92 lakh tonnes. The production of oil seeds, which was stagnant at 0.92 lakh tonnes in 1966-67, touched a new height of 7.09 lakh tonnes in 2002-03. Similarly, the production of cotton, which was just 2.88 lakh bales in 1966-67, has gone upto 10.38 lakh bales in 2002-03.

4.7 The total area, according to village papers, is 43.72 lakh hectares (2001-02) of which 35.66 lakh hectares (81.5%) is the net area sown. The total cropped area is 63.18 lakh hectares, which gives as high a cropping intensity as 177%. The net area irrigated is 29.38 lakh hectares, giving a coverage of 82.4% under irrigation. The corresponding figure of net area irrigated in 1966-67 was 12.93 lakh hectares, which was 37.8% of the net area sown. A unique system of lifting water in stages has been implemented for giving irrigation facilities to the arid and hitherto drought-prone areas of Bhiwani and Mahendergarh districts. A World Bank assisted project called "Water Resources Consolidation Project" has been implemented under which the existing channels have been re-habilitated and modernized resulting in substantial reduction of water losses through seepage besides creating an additional irrigation potential of one lakh hectares.

4.8 Haryana has an excellent potential for industrial growth as well and this has been fully exploited. The factors which helped in the utilisation of this potential are its proximity to Delhi, easy accessibility because of a vast network of roads and national highways, 100% electrification of villages and growing purchasing power due to higher per capita income coupled with administrative efficiency and sustained efforts at all levels. The result is that the industrial growth in the last three decades has been quite impressive. From 4753 units in the year 1966-67, the number of small scale industrial units has gone up to 74920. Similarly, the number of large and medium scale units has gone up from 162 to 1189. The rural industrialisation scheme launched in 1977 for combating rural unemployment and under employment has also registered significant progress. The new industrial policy aims at maximising employment potential through accelerated industrialisation and development of backward and rural areas by providing

liberal incentives and subsidies. An Investment Promotion Board has been constituted by the State Government to provide expeditious time bound and fast track clearances of sanctions and also for regular monitoring of various investment proposals.

4.9 Social services sector has been given high priority and significant improvement has been brought about in the sphere of education and health, although there is still room for considerable improvement. Piped water supply is being made available to almost all the villages in the State. Due emphasis has also been given on housing for the poor. Social security measures such as old age pension and improvement of the nutritional level of the deprived groups and children has been undertaken. Some novel schemes like Devi Rupak, Devi Rakshak and Swasthya Aapke Dwar, are the examples which have earned appreciation from all over. The share of this sector went up to 35.24% in the Ninth Five Year Plan whereas during the 4th Plan, it was only 13.61%.

4.10 Another important plank of the development effort is the Pradhan Mantri Gramodaya Yojana (PMGY), which is covering almost the entire rural population and is intended to provide essential infrastructure and social services for the weaker sections of the population. The programmes included are fuel wood plantation, construction of link roads, enrolment of children in the age group 6-14 years under elementary education and enrolment of participants in the age group 15-35 under various adult education programmes. PMGY also aims at providing health cover by establishing community health centres and low cost sanitation. Under rural house-sites-cum-construction scheme, assistance is provided to landless families, particularly for the weaker sections of society.

4.11 While the objectives of further economic growth and social justice have to be vigorously pursued, the quality of life, as it is experienced at the ground level, is another vital aspect which needs to be fully taken care of and a stage has reached where an almost equal emphasis must be given to sanitation and environmental improvement, water supply and sewerage and provision of civic amenities. This has become all the more necessary due to rapid urbanisation and consequential growth of slums and unhealthy environment. The provision of these basic services falls within the domain of local bodies and fully keeping the constraints of resources in view, an attempt has been made by the Commission to ensure that financial assistance is duly made available to enable the local bodies to discharge their responsibilities more effectively and efficiently.

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## **CHAPTER – V**

### **FINANCIAL POSITION OF THE STATE**

5.1 The State Govt. mobilizes financial resources through State's own tax & non tax revenue, share in central taxes, grants-in-aid from Central Govt. to meet the expenditure on administration & developmental activities. Presently, apart from developmental grants and various other budgetary transfers, as per recommendations of State Finance Commissions and the Central Finance Commissions, funds are also being transferred to the Panchayati Raj Institutions and Urban Local Bodies. Thus, the Commission considers transfers to the local bodies, after taking into account the overall financial position of the State and the resources, which are already being transferred to the PRIs & ULBs.

#### **FINANCIAL POSITION OF THE STATE GOVERNEMENT**

5.2 The per capita income of Haryana is fourth highest in the country, next to that of Goa, Maharastra and Punjab. Its per capita income at constant (1993-94) prices reached the level of Rs. 14757/- in 2002-03 as compared to All India figures of about Rs. 11,000/-. At current prices, it is at Rs. 26632/-. State's economy recorded a steady growth during 2002-03. The GSDP increased to Rs. 65837 crore in 2002-03 at current prices and at constant prices it is at Rs. 36876 crore. The State's economy witnessed a significant shift in contribution of agriculture sector going down to about 29% and that of tertiary sector improving to about 42.5% in Haryana State. The State has comparatively good infrastructure. All villages in the State are electrified and connected by metalled roads. 82.4% area is under irrigation. There is widespread net work of mandis to provide for marketing of agriculture produce and implementation of policies regarding minimum support price of commodities. It has a good canal net-work and the irrigation position will improve in Haryana after completion of Satluj- Yamuna Link (SYL) canal. Various exemplary social security schemes are also being implemented in the State.

5.3 The financial position of the State can be seen from the following table:-

**TABLE 5.1**  
**Budgetary Position of the State Government**

(Rs. in crores)

Sr. No	Head	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1	2	3	4	5	6	7	8
1.	Total Revenue Receipts	5897.77	5478.69	5766.76	6573.89	7600.55	8657.02
2.	Total Revenue Expenditure	6617.16	7018.89	6952.05	7181.37	8656.50	9342.13
3.	Revenue Deficit	719.39	1540.20	1185.29	607.48	1055.95	685.11
4.	Fiscal Deficit (Gross)	1127.54	2240.44	2132.50	2265.20	2739.54	1471.04
5.	Committed Expenditure						
(i)	Salaries	1827.34	2703.33	2686.98	2700.18	3032.82	3312.34
(ii)	Pensionary benefits	257.55	530.71	587.36	570.84	657.05	745.91
(iii)	Interest payments	820.33	996.99	1357.41	1491.91	1624.47	1945.97
	<b>Total ( i to iii)</b>	<b>2905.22</b>	<b>4231.03</b>	<b>4631.75</b>	<b>4762.93</b>	<b>5314.34</b>	<b>6004.22</b>
6.	Committed Exp. as % age to Total Rev. Receipts	49.26	77.23	80.32	72.45	69.92	69.36
7.	Committed Exp. as % age to Total Rev. Expenditure	43.90	60.28	66.62	66.32	61.39	64.27

**Source:- State Finance Department.**

**Note:** Total Revenue Receipts include central transfers as share of central taxes and grants-in-aid.

5.4 The revenue receipts have increased from Rs.5897.77 crore in 1997-98 to Rs. 8657.02 crore in 2002-03 recording a growth of 47% and the total revenue expenditure during this period has also increased from Rs.6617.16 crore to Rs.9342.13 crore showing an increase of 41%. The revenue deficit has reduced from Rs.719.39 crore to Rs.685.11 crore during this period. Gross fiscal deficit during this period has registered an increase from Rs.1127.54 crore to Rs.1471.04 crore. Percentage of committed expenditure on salaries, pensionary benefits and interest payment, as percentage of total revenue receipts, shot up from 49.26% in 1997-98 to 69.36% in 2002-2003. The percentage of committed expenditure to total revenue expenditure rose from 43.90% in 1997-98 to 64.27% in 2002-03.

**TOTAL REVENUE RECEIPTS AND REVENUE EXPENDITURE OF THE STATE GOVERNMENT FROM 1997-98 TO 2002-03.**

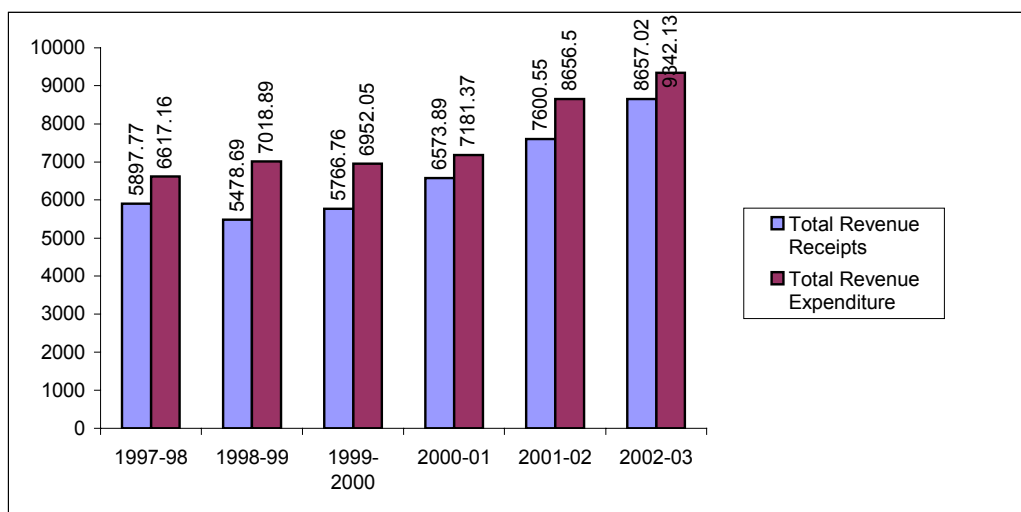


Fig.5.1

**REVENUE AND FISCAL DEFICIT OF STATE GOVERNMENT 1997-98 TO 2002-03.**

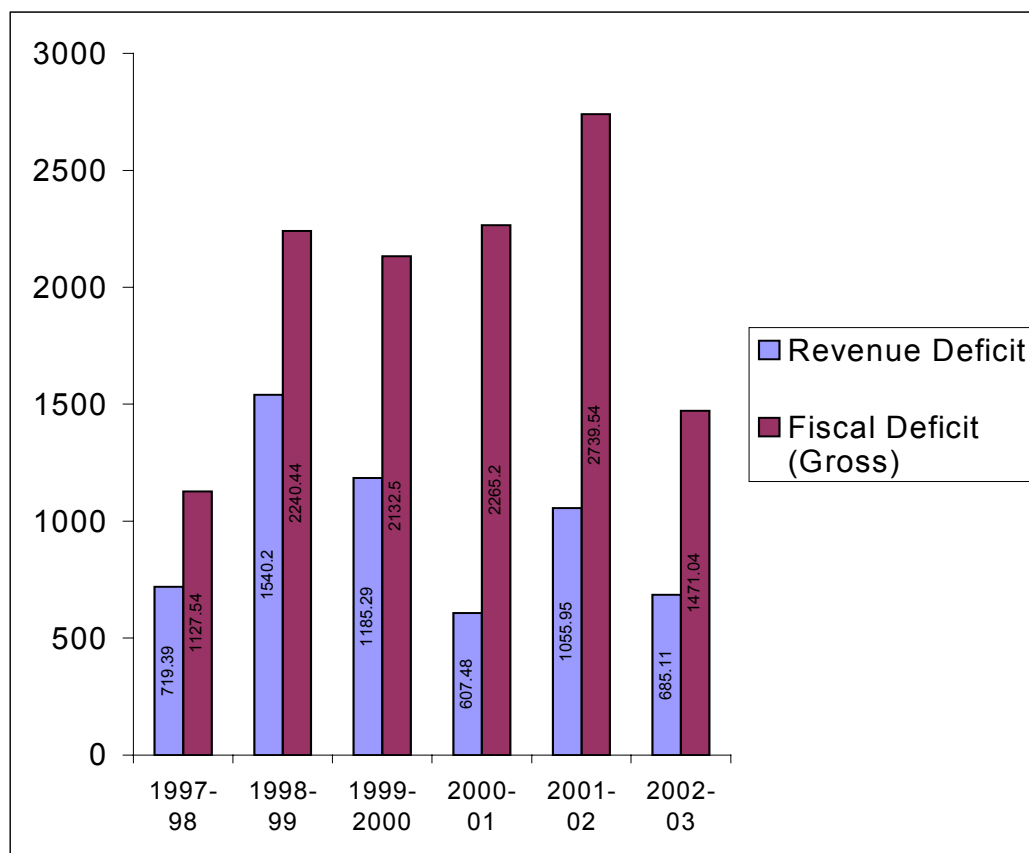


Fig.5.2

5.5 The gross fiscal deficit as ratio to GSDP compared with major States is given below :-

**TABLE 5.2**  
**Gross Fiscal Deficit as a Ratio to GSDP**

(Percent)				
Sr.No.	Name of State	1995-96	1997-98	1998-99
1	2	3	4	5
1.	Andra Pradesh	3.4	2.8	5.5
2.	Bihar	3.9	1.9	4.1
3.	Goa	3.5	3.5	6.6
4.	Gujarat	2.7	4.0	6.3
5.	<b>Haryana</b>	<b>3.8</b>	<b>3.4</b>	<b>5.8</b>
6.	Karnataka	2.8	2.3	3.8
7.	Kerala	3.7	5.0	5.3
8.	Madhya Pradesh	2.8	2.6	5.2
9.	Maharashtra	2.8	3.5	3.5
10.	Orissa	5.8	6.3	9.4
11.	Punjab	4.0	5.6	7.4
12.	Rajasthan	6.3	4.9	8.6
13.	Tamil Nadu	1.8	2.3	4.5
14.	Uttar Pradesh	4.3	5.7	7.6
15.	West Bengal	4.1	4.6	7.1

Source: Reserve Bank of India-State Finances, a Study of Budgets of 2000-01

5.6 It will be seen that the gross fiscal deficit in Haryana increased from 3.8% of GSDP in 1995-96 to 5.8% in 1998-99. At this level, it is higher than most of the relatively well managed States, viz Andhra Pradesh (5.5%), Madhya Pradesh (5.2%), Tamil Nadu (4.5%), Karnataka (3.8%), and Maharashtra (3.5%).

5.7 Debt liability of the State as compared with other major States is in the following table:-

**TABLE 5.3**  
**Debt Liability of Major States for 1990-95 and 1995-2000**

(Percent)

States	Debt/GSDP Ratio		Interest Burden (IP/RR Ratio)	
	1990-95	1995-2000	1990-95	1995-2000
1.Andra Pradesh	22.0	23.2	12.1	16.9
2.Assam	37.6	32.8	13.8	15.0
3.Bihar	41.6	41.1	20.5	20.2
4.Gujarat	22.4	18.6*	15.4	17.4
<b>5.Haryana</b>	<b>22.2</b>	<b>23.9</b>	<b>12.4</b>	<b>15.7</b>
6.Himachal Pradesh	47.7	58.1*	15.4	17.3
7.Jammu & Kashmir	98.6	65.1*	18.3	14.1
8.Karnatka	20.7	20.4	11.4	13.6
9.Kerala	33.3	27.9*	16.5	19.5
10.Madhya Pradesh	23.9	22.5*	12.1	14.8
11.Maharashtra	15.5	17.0	11.5	15.1
12.Orissa	44.2	48.1	19.7	26.1
13.Punjab	39.9	41.4	19.3	32.6
14.Rajasthan	30.6	33.4	15.2	22.6
15.Tamil Nadu	19.3	18.3	10.1	13.8
16.Uttar Pradesh	30.2	31.3	18.2	27.2
17. West Bengal	24.3	25.8	18.1	28.9

\* Data pertain to 1995-99

GSDP : Gross State Domestic Product

RR = Revenue Receipts

IP = Interest Payments

**Source: Reserve Bank of India-State Finances-A Study of Budgets of 2001-02.**

5.8 Debt-GSDP ratio of Haryana during the five year period 1995-2000 was 23.9% which is higher than most of the financially well administered States, viz. Maharashtra (17.0%) Tamil Nadu (18.3%), Gujarat (18.6%), Karnataka (20.4%). The interest payments as ratio of revenue receipts during the five year period 1995-2000 at 15.7% was higher than those of other States viz. Tamil Nadu (13.8%), Karnataka (13.6%), Madhya Pradesh (14.8%), Maharashtra (15.1%).

5.9 Growth in State taxes increased to 12.7% in 2002-03 compared to 10.52% in 1997-98. It touched a peak of 31.71% in 1998-99 due to lifting of prohibition and again to 23.62% in 2000-01 due to simplification of rules/procedures, rationalization of tax rates and phasing out of tax-based incentives.

5.10 The State Govt. has reported that it remained a revenue surplus State upto 1987-88. Some un-healthy trends crept into State finances during nineties making the position from bad to worse. Certain historical factors like pay revision on central pattern, introduction of prohibition, economic recession, decline in central devolution, higher maintenance and operational expenditure due to inflation and other unforeseen contingencies adversely impacted upon State finances. Consequently, the revenue expenditure has increased disproportionately and outpaced the growth in revenue receipts. This led to abrupt rise in revenue deficit and fiscal deficit resulting in larger borrowings, vis-à-vis, interest liability. In view of the financial constraints, the State Govt. has reported that it may not be possible to accommodate the liability resulting from the recommendations of the State Finance Commission in regard to transfer of funds from the State Consolidated Fund to the rural and urban local bodies beyond the devolution of funds recommended by the Central Finance Commission to supplement resources of local bodies. It has, accordingly, been suggested that the Commission should recommend measures to augment resources of these bodies so that their rising resource gap could be met by their own resource raising efforts.

5.11 We are cognizant of the fact that while recognizing the need for fiscal restructuring, the State Govt. has been embarking upon various fiscal reforms like review and rationalization of organizational structure of Govt. deptts. as well as that of PSUs. With a view to mop up resources, measures for simplification of procedures/ rules, rationalization of tax rates etc. were taken. The State Govt. has also initiated sectoral and institutional reforms for revamping of strategic sectors like, power, irrigation, roads, water supply, education, health etc. Besides, the State Govt. has also



availed of various debt-relief schemes launched by the Central Govt., besides other measures to contain growth in debt-stock and debt-servicing charges.

5.12 The Commission has also noted that despite resource constraints, the State Govt. has managed to secure much higher plan allocations from year to year, rising from Rs. 502 crore in 1987-88 to Rs. 1776 crore in 2002-03. The State Govt. would also raise additional resources to achieve the budgeted plan outlays for subsequent annual plans. While allocating outlays, emphasis has been laid on building social and economic infrastructure in the sectors of power, irrigation, roads, transport, education, health etc.

5.13 The measures referred to above towards revenue augmentation and expenditure compression are bound to improve the fiscal situation of the State in a big way. Besides, the measures like, switching over to VAT system of taxation and formulation & implementation of Medium Term Fiscal Reforms Plan would further lead to garnering of substantial resources in future. Adoption of debt swap scheme, reducing interest rates regime, close watch on debt stock etc. would keep reducing interest liability considerably. But still there is a strong need for improving cost recovery of public services by updating the user charges in the field of transport, irrigation water, potable drinking water, education, health care etc.

5.14 Considering all these factors, we believe there is sufficient room for significant improvement in the fiscal position of the State Govt. over a medium-term. Transfer of net proceeds of LADT on full scale during the period covered by this Commission's report would also be funding quite a big chunk of developmental requirements of the local bodies. With these expectations, the Commission is of the firm view that the State Govt. would be implementing the recommendations of this Commission in letter and spirit.

**TABLE 5.4**  
**GROWTH OF STATE TAX REVENUES**

(Rs.in Crores)

Sr. No	Name of the Tax/Duty	1997-98 Actuals	%age increase over last year	1998-99 Actuals	%age increase over last year	1999-2000 Actuals	%age increase over last year	2000-01 Actuals	%age increase over last year	2001-02 Actuals	%age increase over last year	2002-03 Revised Estimates	%age increase over last year
1	2	3		4		5		6		7		8	
1.	Land Revenue	3.93	61.73	3.88	-1.27	4.29	10.57	11.73	173.43	19.30	64.54	9.87	-48.9
2.	Stamps and Registration	301.67	10.46	294.55	-2.36	309.93	5.22	419.24	35.27	488.29	16.47	541.39	10.9
3.	State Excise	49.62	-22.64	774.63	1461.12	765.36	-1.19	840.56	9.82	875.39	4.14	878.72	0.4
4.	Sales Tax	1552.69	12.51	1599.38	3.00	1967.38	23.00	2573.39	30.80	2944.81	14.43	3337.43	13.3
5.	Tax on vehicles	67.11	8.96	71.37	6.35	84.77	18.77	85.69	1.08	103.62	20.92	114.39	10.4
6.	Taxes and duties on electricity	40.53	14.23	44.53	9.87	46.07	3.46	39.19	-14.93	29.48	-24.77	0.87	-97.0
7.	Other taxes and duties on commodities and services	21.86	-67.22	15.47	-29.23	15.96	3.17	11.88	-25.56	11.74	-1.18	14.26	21.5
8.	Taxes on Goods and Passengers +LADT	331.21	27.56	315.81	-4.65	323.85	2.54	366.66	13.22	498.56	35.97	652.75	30.9
	<b>Total State taxes and duties (1 to 8)</b>	<b>2368.62</b>	<b>10.52</b>	<b>3119.62</b>	<b>31.71</b>	<b>3517.61</b>	<b>12.76</b>	<b>4348.34</b>	<b>23.62</b>	<b>4971.19</b>	<b>14.32</b>	<b>5549.68</b>	<b>11.6</b>

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## CHAPTER - VI

### PROFILE OF PANCHAYATI RAJ INSTITUTIONS IN HARYANA

6.1 The population of Haryana, as per 2001 census, is 210.83 lakh of which 71% i.e. 149.69 lakh is the rural population. Amongst the districts, Gurgaon has the largest rural population forming 8.61% of the total rural population whereas Panchkula is at the tail end with only 1.74% of total rural population of the State. The entire State for administrative purposes, has been divided into 4 divisions, which oversee the functioning of 19 districts. There are 6781 inhabited villages grouped into 116 development blocks. The average population per village comes to 2207 persons. The number of villages and Gram Panchayats as per rural population of districts is set out in the following table:-

**TABLE (6.1)**

#### NO. OF VILLAGES AND POPULATION (2001 CENSUS)

Sr. No.	Name of District	No. of Gram Panchayat	No. of village	%age	Rural population	%age	Male	Female
1.	Ambala	411	482	7.11	6,56,997	4.39	3,49,765	3,07,232
2.	Panchkula	164	224	3.30	2,60,538	1.74	1,44,971	1,15,567
3.	Yamunanagar	428	613	9.04	5,89,448	3.94	3,15,352	2,74,096
4.	Kurukshetra	364	409	6.03	6,12,300	4.09	3,26,933	2,85,367
5.	Kaithal	253	270	3.98	7,62,510	5.09	4,11,368	3,51,142
6.	Karnal	373	422	6.22	9,36,211	6.25	5,01,734	4,34,477
7.	Panipat	169	179	2.64	5,75,435	3.84	3,13,148	2,62,287
8.	Sonipat	316	321	4.74	9,57,398	6.40	5,21,296	4,36,102
9.	Rohtak	151	146	2.15	6,10,486	4.08	3,31,899	2,78,587
10	Jhajjar	244	253	3.73	6,92,311	4.63	3,73,277	3,19,034
11	Faridabad	338	414	6.11	9,73,082	6.50	5,23,685	4,49,397
12	Gurgaon	517	700	10.32	12,88,365	8.61	6,86,310	6,02,055
13	Rewari	345	399	5.89	6,28,422	4.20	3,28,749	2,99,673
14	Mahendergarh	341	368	5.43	7,02,719	4.69	3,65,040	3,37,679
15	Bhiwani	460	439	6.47	11,54,259	7.71	6,12,368	5,41,891
16	Jind	299	306	4.51	9,47,694	6.33	5,11,674	4,36,020
17	Hisar	310	272	4.01	11,38,437	7.61	6,13,955	5,24,482
18	Fatehabad	232	243	3.58	6,64,066	4.43	3,51,954	3,12,112
19	Sirsa	321	321	4.74	8,18,172	5.47	4,34,144	3,84,028
	<b>Total</b>	<b>6036</b>	<b>6781</b>	<b>100.00</b>	<b>1,49,68,850</b>	<b>100.00</b>	<b>80,17,622</b>	<b>69,51,228</b>

# District Wise Rural Population

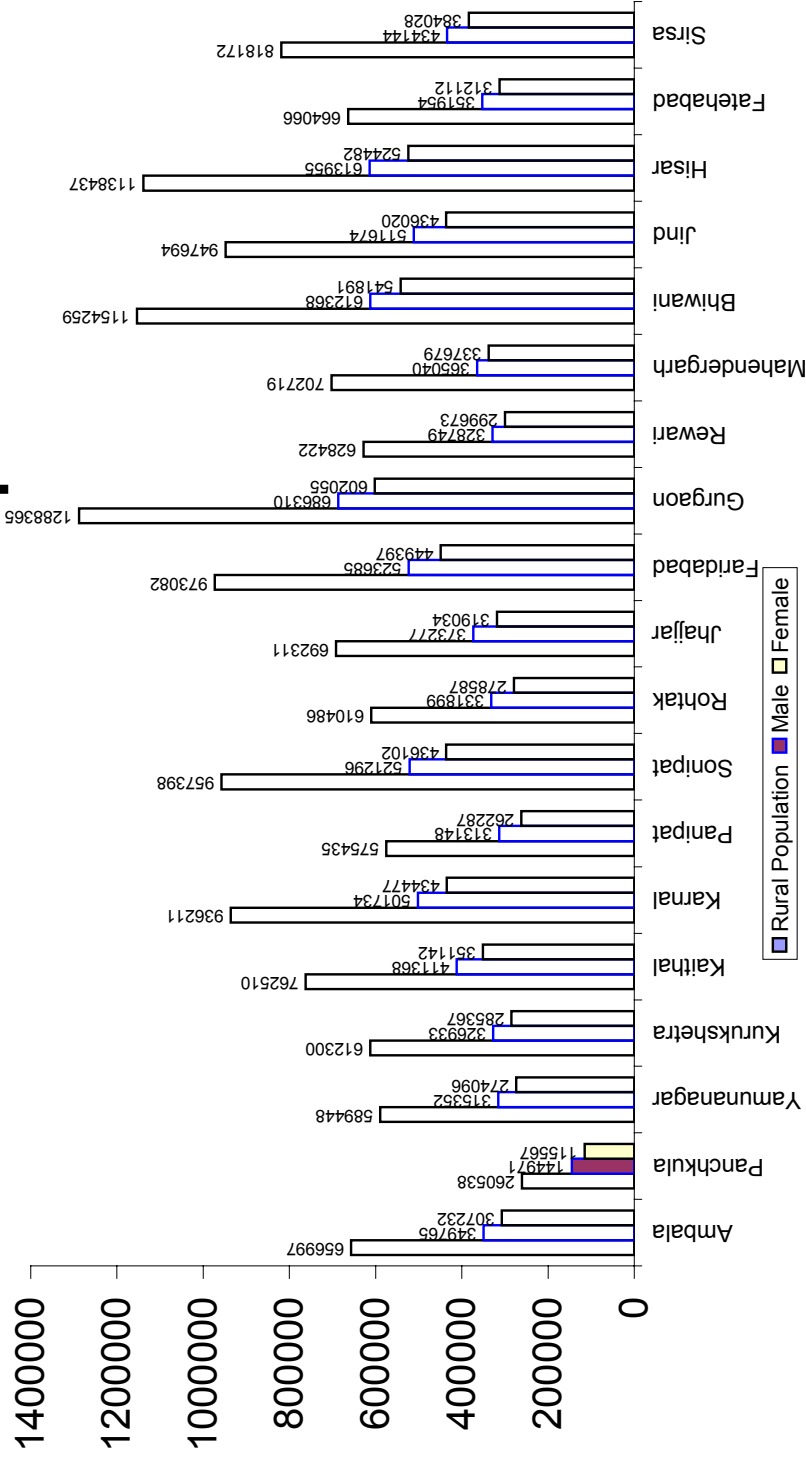


Fig 6.1.1

# No. of Villages and Gram Panchayat

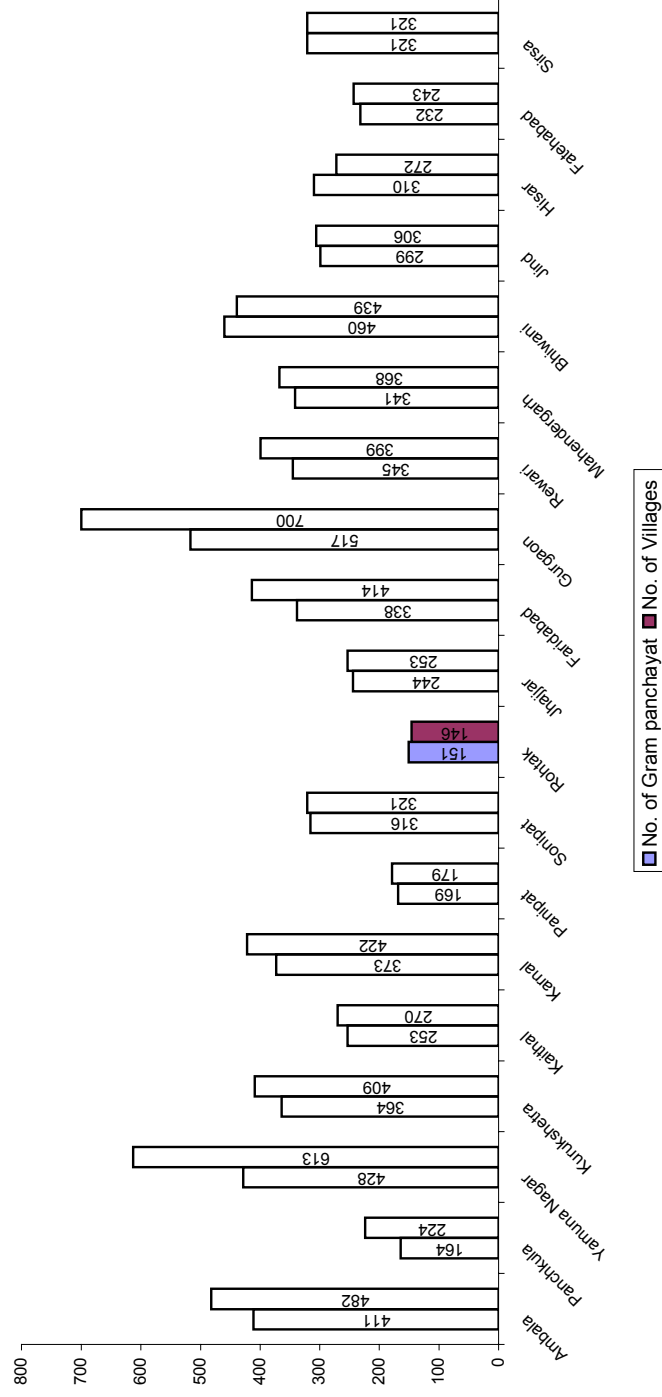


Fig 6.1.2

It will be seen that 6781 villages have a total population 1,49,68,850. Gurgaon is the largest district in rural population consisting of 700 villages and 517 Gram Panchayats forming 10.32% of the total villages in the State, whereas Rohtak is the lowest district consisting of 146 villages and 151 Gram Panchayats forming 2.15% of the total villages. (The position can be more readily comprehended from the graphs (fig. 6.1.1 and 6.1.2).

## **STRUCTURAL ARRANGEMENTS PRIOR TO 73<sup>rd</sup> AMENDMENT**

6.2 It would be useful to have a brief idea about the status of Panchayati Raj Institutions before the promulgation of the Haryana Panchayati Raj Act, 1994, which incorporates all the essential features of the 73<sup>rd</sup> Constitutional Amendment. The Gram Panchayat Act was initially passed as far back as 1952 in the erstwhile State of Punjab and the Panchayats at the village level have been functioning since then under the provisions of this Act. The other two tiers i.e. Panchayat Samitis and Zila Parishads, were formed under the Punjab Panchayat Samitis and Zila Parishads Act, 1961 and this structure inherited by the Haryana State continued to function till the year 1973, when on the recommendations of an Adhoc Committee, the Zila Parishads were abolished in Haryana. Elections even to the Panchayat Samitis were not held regularly and continued to be postponed frequently and only the institution of Gram Panchayats continued to be more or less intact throughout this period.

6.3 While the Zila Parishads stood abolished, the Panchayat Samitis also functioned at a low key. Under the 1961 Act, the Samitis consisted of 16 members elected by Panches and Sarpanches of Gram Panchayats in the Block, 2 members representing Cooperative Societies, 1 member representing the Market Committees in the block and had a provision for having another 6 co-opted members in addition to MLAs who were "Associate" members without any voting rights. The Sub Divisional Magistrate and the Block Development Officers were also co-opted as ex-officio members. The Gram Panchayat at village level consisted of 4 to 10 members and a Sarpanch was elected from amongst its members. Reservation for women and scheduled castes was provided in the Panchayats.

6.4 On the financial side, the Panchayat Samitis largely confined themselves to disbursement of grants both plan and non-plan which ranged between Rs.2.50 to Rs.3.00 crore for the State as a whole, which they received from the Government as community development grants or grants in lieu of ferry tax, abolition of land holding tax

and professional tax etc. The Panchayat Samitis did not raise any resources of their own. The total expenditure on the staff of the Panchayat Samitis was of the order of Rs. 9.92 crore (1994-95) and the staff, besides the Block Development and Panchayat Officers, consisted of Junior Engineers and other accountancy and ministerial staff. Apart from this, additional technical staff like Junior Engineers, Sub Divisional Engineers and Executive Engineers were posted at the district level on which an expenditure of Rs. 1.19 crore was being incurred.

6.5 The Panchayati Raj Institutions, which were brought into existence in early sixties, went through a period of stagnation (1965-69) and relative decline (1969-85) except for a few States like Maharashtra, Gujarat, Karnataka and West Bengal where considerable powers were devolved on them and they continued to play an effective role in decision making and implementation of developmental programmes. In Haryana, which otherwise successfully embarked on a programme of economic development during this period, somehow importance of these institutions rapidly declined. As already stated, the role of Panchayat Samitis was largely confined to channelising a few meagre grants and giving some technical support in the field. While the structure of Gram Panchayats was more or less intact, the resources at its disposal were quite meagre. Of late, a major part thereof has been coming from the poverty alleviation programmes and the discretionary grants from the Haryana Rural Development Fund (HRDF) along with certain carry over remnants of grants inherited from the past.

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

6.7 Before enactment of Haryana Panchayati Raj Act, 1994 on 22.4.94, the financial position of panchayats in the year 1993-94 was as under:-

**Table 6.2**

<b>Sr.No.</b>	<b>Name of Schemes</b>	<b>Income in Rs.</b>
1	Government Grants	3,74,83,996.45
2	Grants from Local Bodies	1,38,06,357.43
3	Income under Section 81(C) of Punjab Gram Panchayat Act 1952	1,13,361.00
4	3% Land Holding Tax	45,944.40
5	Income from fee under Section 82 (2)	1202.20
6	Income from House Tax under Section 82 (1)(a)	67,11,650.17
7	Income from receipt of Professional Tax under Section 82 (i) (b)	10,576.00
8	Income from garbage and skin under Section 81 (1) (f)	41,11,788.50
9	Income from special tax under section 87	36,175.00
10	Income from lease money of shamlat land	37,99,84,055.17
11	Voluntary donation	14,89,148.35
12	Miscellaneous	7,08,21,527.55
	<b>Total</b>	<b>51,46,15,782.22</b>

### **AFTER 73<sup>rd</sup> CONSTITUTIONAL AMENDMENT**

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

6.9 Attention needs to be drawn to two other major provisions, one relating to elections and the other relating to the constitution of a Finance Commission. As regard



the first provision, it has been provided that the new Panchayati Raj Institutions must be constituted at all the three levels before the expiry of a period of 6 months from the date of its dissolution, if and when it occurs. The other provision provides for the constitution of a Finance Commission within one year of the commencement of the 73rd Constitutional amendment and thereafter at the expiration of every fifth year. These two provisions are the milestones of the new and re-vitalised Panchayati Raj System.

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

6.11 A special feature of the new enactment is the reservation for women and scheduled castes, not only in respect of election of panches and members of Panchayat Samitis/Zila Parishads, but also with regard to the election of Sarpanches and Chairpersons of Panchayat Samitis and Zila Parishads. It may be stated that in the historic elections to these bodies, which were held in Haryana in December, 1994 and March 2000 under the supervision and control of the State Election Commission, more than 50% of the elected Sarpanches and Chairpersons at the Zila Parishad and

Panchayat Samiti level belonged to these reserved categories, as would be clear from the details given below :-

<b>A</b>	<b>PANCHAYATS</b>	<b>Total.</b>	<b>%age</b>	<b>Women</b>	<b>%age</b>
<b>i</b>	<b>Panches</b>				
	a) Total No. of Panchayats	6036			
	b) Total No. of Panches	54682	-	18037	32.99
	c) Total NO. of SC Panches	11846	21.66	4232	7.74
	d) Total No. of BC Panches	5626	10.29	-	-
	<b>Total (SC, BC and Women)</b>	<b>31277</b>	<b>57.20</b>		
<b>ii</b>	<b>Sarpanches</b>				
	a) Total No. of Sarpanches	6035	-	2009	33.29
	b) Total No. of SC Sarpanches	1213	20.10	419	6.94
	<b>Total (SC and Women)</b>	<b>2803</b>	<b>46.45</b>		
<b>B</b>	<b>PANCHAYATS SAMITIS</b>				
<b>I</b>	<b>Members</b>				
	a) Total No. of Panchayat Samitis	114			
	b) Total No. of Members	2430	-	842	34.65
	c) Total No. of SC Members	551	22.67	198	8.15
	d) Total No. of BC Members	114	4.69	-	-
	<b>Total (SC, BC and Women)</b>	<b>1309</b>	<b>53.86</b>		
<b>ii</b>	<b>Chairpersons (PS)</b>				
	a) Total No. of Chairpersons	114	-	52	45.61
	b) Total No. of SC Chairpersons	26	22.81	12	10.53
	<b>Total (SC and Women)</b>	<b>66</b>	<b>57.89</b>		
<b>C</b>	<b>ZILA PARISHADS</b>				
<b>I</b>	<b>Members</b>				
	a) Total No. of Zila Parishads	19			
	b) Total No. of Members	314	-	108	34.39
	c) Total No. of SC Members	68	21.66	26	8.28
	d) Total No. of BC Members	19	6.05	-	-
	<b>Total (SC, BC and Women)</b>	<b>169</b>	<b>53.82</b>		
<b>ii</b>	<b>Chairpersons (ZP)</b>				
	a) Total No. of Chairpersons	19	-	7	36.84
	b) Total No. of SC Chairpersons	4	21.05	-	-
	<b>Total (SC and Women)</b>	<b>11</b>	<b>57.89</b>		

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## **CHAPTER - VII**

### **FINANCIAL POSITION OF PANCHAYATI RAJ INSTITUTIONS**

7.1 The objective of the 73<sup>rd</sup> Constitutional Amendment was to make the Panchayati Raj Institutions (PRIs) effective institutions of self-government in rural areas. For achieving this objective, availability of adequate financial resources is absolutely necessary. In this chapter, an attempt has been made to review the financial position of the PRIs through analysis of their sources of revenue and pattern of expenditure. In the process, the extent to which the PRIs have been able to generate their own revenue to meet their current expenditure responsibilities and the degree of their dependence on external sources has been looked into in detail.

7.2 The Haryana Panchayati Raj Act, 1994, which now governs the functioning of all the three tiers of PRIs in the State i.e. Zila Parishads at district level, Panchayat Samitis at development block level and Gram Panchayats at village level, was enacted after the 73<sup>rd</sup> Constitutional Amendment. The provisions of this Act relating to taxation powers and other sources of revenue of the PRIs are mentioned briefly in the succeeding paragraphs.

7.3 In so far as taxing powers of the Panchayati Raj Institutions are concerned, it has been made obligatory on the Gram Panchayats in Section 41 of the 1994 Act to impose a house tax within their jurisdiction. It is also within their discretion to levy fee on :-

- i) Teh bazari from the shopkeepers in fairs other than cattle fairs ;
- ii) service fee including fee on cleaning of streets and lighting of streets and sanitation;
- iii) fee for registration of animals sold in the sabha area and
- iv) water rates where it is supplied by the Gram Panchayat.

The Gram Panchayats are also empowered to levy duty on transfer of property in the form of surcharge on the stamp duty, not exceeding two percentum, if so authorized by the State Government.

7.4 As regard Panchayat Samitis, Sections 88 of the new Act provides that they can, with the permission of the Chief Executive Officer, impose any tax which the Legislature of the State has power to impose under the Constitution, of course, subject to general direction and control of the State Government. Section 91 of the Act provides for levy of fees by the Panchayat Samitis on similar lines. Sections 147 and 149 give similar powers to the Zila Parishads for the imposition of taxes and fees respectively.

7.5 The main hindrance in the effective functioning of panchayats in Haryana is the non-availability of adequate financial resources for discharging the functions assigned to them. Looking at the present picture, we find that so far the largest part of funds comes from various Poverty Alleviation Programmes and the Haryana Rural Development Fund (HRDF), though the Panchayats have their own sources of income as well and comparatively lesser funds flow to the panchayats by way of grants and subsidies from the State Government.

#### I. OWN SOURCES OF GRAM PANCHAYATS

7.6 The existing sources of income of Gram Panchayats broadly include income from shamlat land, house tax and income through auction of trees/ponds etc. For the sake of convenience, panchayats share of sale of country liquor has also been included under this head, though strictly speaking, it is a devolution from the State Government. The following is the position over the last twelve years:-

**TABLE 7.1**  
**INCOME FROM OWN SOURCES OF PANCHAYATS**

(Rs. in crores)

Year	Lease money (Shamlat land)	House Tax	Share in sales of country liquor	Other income (trees/ponds etc.)	Total	Per Capita amount (Rs.)
1	2	3	4	5	6	7
1990-91	24.08 (73.39)	0.98 (2.99)	2.63 (8.02)	5.12 (15.60)	32.81 (100)	26.44
1991-92	24.67 (72.88)	2.08 (6.14)	1.98 (5.85)	5.12 (15.13)	33.85 (100)	26.73
1992-93	33.56 (74.25)	1.53 (3.38)	3.22 (7.13)	6.89 (15.24)	45.20 (100)	34.98
1993-94	38.00 (76.66)	0.67 (1.35)	3.41 (6.88)	7.49 (15.11)	49.57 (100)	37.62
1994-95	31.31 (60.45)	2.66 (5.14)	3.74 (7.22)	14.08 (27.19)	51.79 (100)	38.55
1995-96	44.83 (73.00)	0.84 (1.37)	*	15.74 (25.63)	61.41 (100)	44.86
1996-97	46.46 (76.13)	0.88 (1.44)	**	13.69 (22.43)	61.03 (100)	43.77
1997-98	55.73 (67.77)	1.31 (1.59)	**	25.19 (30.64)	82.23 (100)	57.90
1998-99	50.39 (87.50)	7.20 (12.50)	**	*	57.59 (100)	39.84
1999-00	52.59 (80.23)	5.41 (8.25)	7.55 (11.52)	*	65.55 (100)	44.55
2000-01	62.55 (80.43)	7.37 (9.48)	7.85 (10.09)	*	77.77 (100)	51.95
2001-02	68.48 (81.31)	7.52 (8.93)	8.22 (9.76)	*	84.22 (100)	55.32

\* figures not available in Panchayats Department.

\*\* prohibition period.

7.7 The major source of income is lease money from shamlat land (common land) which constitutes 81.31 per cent of the income in 2001-02. The income from house tax, the only tax being imposed by the Gram Panchayats, constituted only 8.93 percent. The share in the sales of country liquor formed 9.76 percent of the total income in 2001-02.

7.8 The position of income from lease money differs widely from district to district, depending upon the extent of shamlat land, the extent of encroachments and various other factors such as the availability of irrigation facilities and soil fertility. The income from house tax is Rs. 7.52 crore in 2001-02 for the entire State. The prevalent house tax rate is Rs.10/-, Rs. 20/- and Rs. 30/- per household, which is by no means burdensome, but the panchayats find it difficult to recover even these small amounts. The realisations very often are made by tagging the recovery of house tax to the distribution of essential commodities like sugar and kerosene and at the time of preparation of new ration cards and issuance of caste certificates, domicile etc.

## **II GRANTS OF GRAM PANCHAYATS**

7.9 The Panchayati Raj Institutions have been provided grants( both Plan and Non-Plan) over the years by the State Government. These grants can be basically classified into three groups (i) grants compensating loss of revenue due to abolition of certain levies which were earlier being collected by Panchayati Raj Institutions, (ii) conditional grants, (iii) unconditional grants for community development and grants through miscellaneous schemes. The table 7.2 indicates the extent of funds flow to the Panchayati Raj Institutions in this regard since 1995-96. The per capita amount on this account was about Rs. 1.55 in 2001-02. The flow of funds has, by and large, remained stagnant and does not indicate either the increase in population, the rising GSDP of the State or the projected needs of the rural areas as reflected in the demands of the Panchayati Raj Institutions. The compensatory grants have remained static, though all revenue receipts of the Government have registered progressive growth over the years. Therefore, after taking in view the inflationary factor, the funds flow from this source seems to have actually gone down in real terms.

The year-wise details of these grants are set out in the following table:-

**TABLE 7.2**  
**AVAILABILITY OF PLAN/NON-PLAN GRANTS**

(Rs. in lakhs)

Sr. No	Classification of Grants	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
1	2	3	4	5	6	7	8	9
1.	G.I.A for Rural Health and Sanitation Scheme under Community Development Programme	88.00	105.00	35.00	72.00	50.00	40.00	41.00
2.	Ferry Ghat Grant	13.38	16.81	16.81	16.81	14.38	14.38	14.38
3.	Grant in lieu of abolition of Land Holding Tax	20.00	20.00	20.00	20.00	20.00	20.00	20.00
4.	Grant in lieu of abolition of Professional Tax	12.00	12.00	12.00	12.00	12.00	12.00	12.00
5.	Conditional and Unconditional grants	8.80	8.88	8.88	8.88	9.12	9.12	9.12
6.	Cattle Fair Grants	100.54	95.75	123.45	122.40	110.65	157.06	121.35
7.	Revenue Earning Scheme(Loan)	-	-	30.32	11.74	29.71	25.00	18.00
	<b>Total</b>	<b>242.72</b>	<b>258.44</b>	<b>246.46</b>	<b>263.83</b>	<b>245.86</b>	<b>277.56</b>	<b>235.85</b>
8.	Per capita Grants (Rs.)	1.77	1.85	1.74	1.82	1.67	1.85	1.55

The grants-in-aid so provided by the Government are very meagre. In case of small villages, the grants given amounted only Rs. 1000 to 2000.

### III. SUBSIDIES AND MATCHING GRANTS

7.10 The State Government provides subsidy and matching grants to panchayats under various schemes. The year-wise disbursement of subsidies/matching grants is set out below:-

**TABLE 7.3**  
**SUBSIDIES & MATCHING GRANTS**

(Rs. in lakhs)

Year	Subsidy for SC Chopals	Subsidy for Backward Class Chopals	Subsidy for General Class Chopals	Matching Grants	Total	Per capita (Rs.)
1	2	3	4	5	6	7
1995-96	-	24.00	-	208.94	232.94	1.70
1996-97	25.00	-	-	655.03	680.03	4.88
1997-98	6.00	4.00	1.00	53.28	64.28	0.45
1998-99	35.00	10.00	-	74.26	119.26	0.82
1999-00	20.00	5.00	-	40.21	65.21	0.44
2000-01	24.00	8.00	3.00	89.09	124.09	0.83
2001-02	24.80	10.00	-	104.17	138.17	0.91

Subsidy is provided for the construction of Scheduled Caste and Backward Class chopals. Matching grant is provided for the construction of public utility buildings and various other development schemes undertaken by the panchayats. In case of construction of school buildings for girls, it is provided in double the ratio of the contributions made by the villagers. The above table shows that per capita subsidies and matching grants for the year 2001-02 is Rs.0.91, which is very low.

#### **IV. HARYANA RURAL DEVELOPMENT FUND (HRDF)**

7.11 For the purpose of present examination, the funds released under HRDF and Decentralised Planning may be clubbed together. The funds available under HRDF are required to be spent for the development of roads, establishment of dispensaries, provision for sanitation and other public facilities for the welfare of village community. Under "Decentralised Planning", untied funds are made available to the district authorities for financing schemes of local importance such as pavement of streets, construction of dispensaries, panchayat ghars, community centres, arrangements for drinking water, digging of ponds, repair of wells and street lights etc.

The release of funds under these two heads in the last five years can be gauged from the following data:-

**TABLE 7.4**  
**AMOUNT SPENT UNDER HRDF & DECENTRALISED PLANNING**  
(Rs. in lakhs)

Year	HRDF	Decentralis ed planning	Total	Per capita (Rs.)
1997-98	4445.63	550.00	4995.63	35.82
1998-99	3237.68	1400.00	4637.68	32.66
1999-00	12818.59	1000.00	13818.59	95.58
2000-01	9096.23	900.00	9996.23	67.94
2001-02	17083.53	1000.00	18083.53	120.81

7.12. The entire provision under the decentralized planning scheme and a part of the provision under HRDF was diverted to MLA Local Area Development Scheme. Now this scheme has been discontinued. But the Central Government is implementing the MP Local Area Development Scheme and an amount of Rs. 2.00 crore per year is made available to each member of parliament under this scheme. The amount spent from this fund has substantially increased from Rs. 44.46 crore in 1997-98 to Rs.170.84 crore in 2001-02 for the welfare of the rural community.

## V. POVERTY ALLEVIATION PROGRAMMES

7.13 Special beneficiary oriented schemes are being implemented by Rural Development Department through District Rural Development Agencies. The largest single sector providing funds for the development of rural areas is comprised of centrally sponsored schemes like Sampooran Grameen Rozgar Yojana (S.G.R.Y.), Desert Development Programme (D.D.P.), Swarnjayanti Gram Swarozgar Yojana (S.G.S.Y.), Integrated Wasteland Development Project (I.W.D.P.), Pardhan Mantri Gramodaya Yojana (P.M.G.Y.), Members of Parliaments Local Area Development Scheme (MPLADS), Employment Assurance Scheme (EAS) and various components of Jawahar Gram Samridhi Yojana (J.G.S.Y.). Each of these schemes operate under a number of set guidelines. While some of these schemes like D.D.P & IWDP etc. are area development programmes and accordingly these are in operation in selected districts, the other programmes like S.G.S.Y., J.G.S.Y. and E.A.S. largely follow the criteria of rural population below the poverty line. The amount provided under these programmes including the State share was as high as Rs. 193.44 crore in 2001-02. Its major components are S.G.S.Y. (77.40 crore), E.A.S. (31.48 crore) and J.G.S.Y. (30.06 crore).

### OVERALL POSITION OF FUNDS AVAILABLE TO PANCHAYATS

7.14 The overall position regarding availability of funds to panchayats from their own sources and various grants, subsidies, under the centrally sponsored poverty alleviation programmes and allocation of funds under HRDF and decentralised planning is indicated below:-

**TABLE 7.5**  
**FLOW OF FUNDS UNDER VARIOUS SCHEMES**

(Rs. in crores)					
Scheme	1997-98	1998-99	1999-2000	2000-01	2001-02
i) Gram Panchayats own sources	82.23 (38.84)	57.59 (27.76)	65.55 (20.28)	77.77 (25.02)	84.22 (18.22)
ii) Plan & Non-Plan Grants	2.46 (1.16)	2.64 (1.27)	2.46 (0.76)	2.78 (0.89)	2.36 (0.51)
iii) Subsidy and Matching Grants	0.64 (0.30)	1.19 (0.57)	0.65 (0.20)	1.24 (0.40)	1.38 (0.30)
iv) HRDF	44.46 (21.00)	32.38 (15.61)	128.18 (39.66)	90.96 (29.26)	170.84 (36.96)
v) Poverty Alleviation Programmes	76.41 (36.10)	99.63 (48.04)	116.35 (36.00)	129.08 (41.53)	193.44 (41.85)



<b>Scheme</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
vi)Decentralized Planning	5.50 (2.60)	14.00 (6.75)	10.00 (3.10)	9.00 (2.90)	10.00 (2.16)
<b>Total</b>	<b>211.70</b> <b>(100.00)</b>	<b>207.43</b> <b>(100.00)</b>	<b>323.19</b> <b>(100.00)</b>	<b>310.83</b> <b>(100.00)</b>	<b>462.24</b> <b>(100.00)</b>
vii)Per capita (Rs.)	151.81	146.07	223.55	211.26	308.80

Evidently, the total amount available to PRIs including the Poverty Alleviation and Area Development Programmes was Rs. 211.70 crore in 1997-98 and it increased to Rs.462.24 crore in 2001-02. During 2001-02, the amount under Poverty Alleviation Programmes formed 41.85 percent followed by HRDF 36.96%, panchayats own sources 18.22 percent and decentralized planning 2.16%. The share of grants formed 0.51 percent while subsidies and matching grants were only 0.30 percent. In terms of per capita provision, it works out to Rs. 151.81 in 1997-98 which increased to Rs. 308.80 during 2001-02.

#### **EXPENDITURE ON STAFF**

7.15 The expenditure on staff for PRIs is fully met by the State Government and it would be worthwhile to have an idea of the same alongwith other expenditure. The expenditure incurred on staff for last five years is as under :-

(Rs. in lakhs)		
<b>Sr. No.</b>	<b>Years</b>	<b>Expenditure</b>
1.	1998-99	141.28
2	1999-2000	139.42
3.	2000-01	156.40
4.	2001-02	244.93
5.	2002-03	212.74
	<b>Total</b>	<b>894.77</b>

7.16 The present position with regard to the staff may also be touched upon. Technical staff like JEs, SDOs, XENs, SEs, ministerial staff and Gram Sachivs etc. have been posted at all levels of PRIs depending on the requirement.

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## **CHAPTER-VIII**

### **FUNCTIONS AND FUNDS REQUIREMENTS OF PRIs**

8.1 The scope of functions which are proposed to be devolved on the PRIs under the new set up is indeed very wide. The Eleventh Schedule lists 29 items which fall under the purview of the Panchayati Raj Institutions. The Haryana Panchayati Raj Act, No. II of 1994 broadly enumerates these items and Section 21 of the Act specifically provides for sub items under each of these broad heads which have been made the responsibility of the Gram Panchayats. A perusal of this list would indicate that apart from regulatory, maintenance and civic functions, the panchayats are required to play an effective role in the spheres of agriculture, animal husbandry, rural and cottage industry, education, health and social & cultural upliftment of their areas. Briefly, these functions are listed here under:-

#### **FUNCTIONS & DUTIES OF GRAM PANCHAYATS**

##### **i) General Functions**

- Preparation of annual plans and budget for panchayat area;
- mobilization of voluntary labour for community works;
- maintenance of essential statistics of village(s);
- distribution of house-sites;
- selection of beneficiaries for various welfare and poverty alleviation programmes and
- organising awareness camps, seminars, exhibitions etc.

##### **ii) Monitoring Functions**

- Monitoring of old age and widow pension schemes;
- monitoring of public distribution system and
- monitoring of poverty alleviation programmes.

##### **iii)Regulatory Functions**

- Regulation of sale of meat, fish etc;
- regulation of offensive and dangerous trades;

- licensing of eating and entertainment establishments;
- regulation of manure pits in public places and
- removal of encroachments on public place.

#### iv) Maintenance Functions

##### - Maintenance of:

- grazing lands, cremation grounds, slaughter houses, public parks;
- records of public and private properties;
- rural water supply schemes and
- community assets, buildings, boats, ferries and waterways.

#### v) Civic Functions

- Construction, repair and maintenance of drinking water wells, tanks and ponds;
- lighting for streets and public places;
- rural sanitation;
- prevention of epidemics;
- family welfare schemes and
- public latrines.

#### vi) Development and Promotional Functions

-Development of agriculture, wastelands, livestock, fisheries, fuel plantation.

##### -Promotion of:

- farm & social forestry, dairy farming, poultry and piggery;
- rural and cottage industries;
- non-conventional sources of energy;
- adult literacy, social & cultural activities, libraries, to ensure enrolment & attendance in educational institutions and
- child health and nutrition programmes.

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

## **DELEGATION OF FUNCTIONS & DUTIES TO PRIs**

8.3 The State Government in the Development and Panchayats Department vide Memo No. DPN-PA-95/23517-726, dated 23.05.95 has delegated certain duties and functions to the three levels of PRIs with regard to 16 important departments, as broadly enumerated hereunder.

### **1. Development & Panchayats**

- i) Planning & preparation of proposals under Community Development Programme/Haryana Rural Development Fund (HRDF) and Revenue Earning Schemes.
- ii) Supervision of works under Matching Grant Scheme.
- iii) Maintenance of accounts of above schemes.

### **2. Food & Supplies**

- i) Constitution of village level vigilance committees for supervision of fair price shops under the public distribution system and elimination of bogus ration cards.
- ii) Inspection & monitoring of public distribution system.
- iii) Making recommendations for appointment of depot holders.

### **3. Welfare of Scheduled Castes & Backward Classes**

- i) Identification of the scheduled castes basis for pavement.
- ii) Rehabilitation of liberated scavengers.
- iii) Identification of scheduled castes widows for tailoring training.
- iv) Identification of beneficiaries for legal assistance.
- v) Certification of inter-caste marriages.

#### **4. Public Health**

- i) Planning, construction & maintenance of open drains for disposal of waste water.
- ii) Installation/construction & maintenance of handpumps, water troughs and soakage pits.
- iii) Maintenance/repair of public stand posts.

#### **5. Forests**

- i) Selection of sites for afforestation.
- ii) Identification of beneficiaries for raising nurseries/farm forestry/social forestry.
- iii) Planning/implementation of social forestry schemes.
- iv) Sending of reports/returns to Range Officers.
- v) Recommending daily wage workers for afforestation works.
- vi) To enquire into complaints against forest guards & sending reports to deptt.

#### **6. Social Defence & Security**

- (i) Providing assistance to the Patwaris in identification of beneficiaries under various schemes.

#### **7. Horticulture**

- i) Planning & execution of horticulture development plans/demonstration plots.
- ii) Monitoring of input requirements, situations relating to pests & disease etc.

#### **8. Ayurveda**

- i) Inspection & supervision of Dispensaries/PHCs.
- ii) Construction & maintenance of buildings of Ayurvedic Dispensaries/PHCs/Hospitals.

#### **9. Education**

- i) Inspection of schools.

- ii) Nodal agency to keep a watch over the activities in the field of education and ensuring punctuality of teachers/students, enrolment and school welfare etc.
- iii) Setting up of village education committees.
- iv) Construction and repair of primary school buildings.

#### **10. Health**

- i) Promotion of health and family welfare programmes, control of epidemics and environmental sanitation.
- ii) Maintenance of health centres and sub-centres.
- iii) Supervision and selective control over the officials posted in sub centres.
- iv) Submission of periodical reports to Panchayat Samiti.

#### **11. Irrigation**

- i) Desilting, deweeding and maintenance of water courses, distributaries etc.
- ii) To be associated with planning for water requirements, filling up of ponds, storing of rain water, checking of thefts, revenue assessment, monitoring of dewatering arrangements during floods.
- ii) Providing assistance for better water management in panchayat areas, recovery of revenue.
- iii) Extension and construction of new minors.
- iv) Keeping vigil during floods etc.

#### **12. Women and Child Development**

- i) Selection of location for aganwari centres, assisting in selection of beneficiaries and enlisting community participation.
- ii) Inspection of anganwari centres.

#### **13. Rural Development Deptt.**

- i) Planning and implementation of Jawahar Rozgar Yojana (JRY).
- ii) Supervision and monitoring of poverty alleviation schemes.

- iii) To assist District Rural Development Agency (DRDA)/Block agency in identification of beneficiaries under various programmes.
- iii) To assist the Banks/revenue authorities in recovery of IRDP loans.

#### **14. Agriculture**

- i) To prepare plans for development of agriculture, soil conservation, water management, seed treatment and pest-control programmes in villages.
- ii) To implement training & visit programmes.
- iii) To plan and execute relief measures during natural calamity.

#### **15. Animal Husbandry**

- i) Supervision of construction and maintenance of buildings and working of rural stockman centres.
- ii) Promotion of animal health, breeding, and nutrition programmes.

#### **16. Power Deptt.**

- i) Supervision and inspection of complaint centres and selective checks on staff.

8.4 The delegation order indicates the broad areas where further action needs to be taken. Its implications in terms of transference of schemes and resources need to be worked out so as to issue operational instructions. Each department should issue instructions to the subordinate offices clarifying the funds/schemes placed at the disposal of the Panchayati Raj Institutions and the role assigned to them. In the absence of such guidelines neither the departmental officers nor the elected representatives are likely to understand their precise role in the new set up resulting in a lot of confusion all around. We expect the State Government in the different departments to issue detailed guidelines and instructions clearly setting out the role of the Panchayati Raj Institutions in the context of the of functions which have been delegated to them.

The Commission observes that devolution of functions and responsibilities would have to be a continuous process keeping in view the new role assigned to the PRIs under the Constitutional amendment. The District Planning Committees have been established in the State and with delegation of more functions to the PRIs and formulation of schemes at the grass root level, the Panchayati Raj

Institutions are expected to make a larger contribution towards the upliftment of the rural areas.

8.5 After a perusal of this 'Delegation Order', the Commission strongly feels that these delegations do not go far enough and many more responsibilities need to be devolved on the PRIs if these have to become true units of self-government as envisaged in the 73rd amendment to the Constitution. Instead of full scale delegations, the role envisaged is essentially that of a participatory nature. What is further required is that a number of schemes within easy implementation capacity of the panchayats should be wholly transferred to them. Education and health are two vital sectors where a more meaningful and thorough-going involvement of the PRIs is amply justified. Apart from identification of beneficiaries, it would be appropriate if the beneficiary oriented schemes such as distribution of uniforms, stipends and incentives of various kinds to school children are squarely transferred to the PRIs, of course, alongwith clearly set-out guidelines. The Commission also feels that in addition to repairs, the construction of small buildings like schools, dispensaries, staff quarters should be transferred to the PRIs alongwith the funds earmarked for this purpose. These small works are distributed all over the district and the Panchayati Raj Engineering Unit, which has been strengthened, can be more cost-effective than the PWD. The Commission feels that a much more comprehensive exercise could be carried out on these lines and a number of schemes of local relevance alongwith the allocations earmarked for them could be transferred to the PRIs.

8.6 In the light of discussions held at the district level and experience of some of the other States, the Commission would particularly like to stress that primary education is one of the subjects which squarely and legitimately falls within the purview of the PRIs. The State Education Department, vide notification dated 30th March, 2001, has entrusted more powers to PRIs. There are about 11208 primary schools, other than those attached with middle/high schools, which could as well be placed under the control of PRIs along with the budget. A similar dispensation could be provided in respect of 1,672 sheep extension centres, stockman centres/dispensaries of Animal Husbandry Department and anganwaries functioning at the village level. Once a decision is taken in principle, the question of delegation of financial authority, control over staff, future recruitments, etc. would have to be sorted out by the State Government so as to ensure smooth functioning under the new system.



## **FUNDS REQUIREMENTS**

8.7 In accordance with this "Delegation Order", apart from the regulatory and the general functions, certain other demarcated functions such as maintenance of assets already created like schools, community health centres and sub-centres, animal husbandry stockman centres, maintenance of water courses, distributaries and public stand posts, village sanitation, environmental up-keep etc. must come within the purview of the PRIs. There are number of local development works which are required to be taken up at the village level including pavement of streets, construction of culverts, panchayat ghars and up-keep of village ponds etc. regarding which either the funds are not provided or even if provided, are quite inadequate. Panchayats require considerable resources for income generating schemes and other developmental activities. It is, thus, proposed to consider the requirement of funds for the PRIs under the following three broad categories:-

- (i) Maintenance & repairs.
- (ii) Sanitation and environmental improvement.
- (iii) Developmental activities.

### **I. Maintenance & Repairs**

8.8 With a view to assessing the financial requirements for the maintenance of assets created, the Commission would like to refer to the requirements of a few departments for which a broad assessment is available. These are as follows:-

#### **(a) Education Department**

8.9 On the primary education side, the State Government makes a provision of Rs. 175.85 lakh for construction of primary school building under Pardhan Mantri Gramodaya Yojana (PMGY). There is a provision of Rs. 40 lakh for the maintenance of primary school buildings on the non-plan side. For the construction and maintenance of middle and high schools, there is a provision of Rs. 75 lakh on plan side and Rs. 1.00 crore on non-plan side for construction as well as maintenance. Broadly speaking, roughly half of it, that is an amount of about Rs. 85 lakh is available for the repairs and maintenance of high and middle schools. As such, the total annual provision for maintenance, including Rs.40 lakh under primary education, works out to Rs.1.25 crore per annum which is quite insufficient when compared to the actual requirements.

8.10 There are 11208 primary schools (other than those attached with middle/high schools) and at the nominal rate of Rs.5000 per school for maintenance/minor repairs, an amount of Rs.5.60 crores would be required annually.

The funds requirement for the 2170 middle schools at the rate of Rs.8000 per school would work out to Rs.1.74 crore and for the 4494 high/senior secondary schools at the rate of Rs.12000 per school works out to Rs. 5.39 crores. The total requirements would, thus, be as follows:-

		(Rs. in crores)
-Primary Schools (11208x5000)	=	5.60
-Middle Schools (2170x8000)	=	1.74
-High/Senior Secondary Schools (4494x12000)	=	5.39
<b>Total</b>		<b>12.73</b>

8.11 It will, thus, be seen that the minimum annual requirement of funds for the maintenance of school buildings would be as high as Rs. 12.73 crore against which funds being presently provided are quite inadequate. The Commission also feels that there is no reason why the maintenance of high/senior secondary schools should also be not entrusted to the PRIs.

#### **(b) Health Department**

8.12 The State Government has delegated maintenance of Sub-Centres, Primary Health Centres (PHCs) and Community Health Centres (CHCs) to the PRIs with effect from 1.4.2000. The Health Department has intimated that 1386 Sub-Centres are functioning in Government buildings in addition to 207 PHCs and 64 CHCs. It has been intimated that the expenditure on maintenance is incurred by the PW(B&R) Department and the Health Department does not have much say in the matter. The figures supplied further indicate that during the last 2-3 years a paltry sum between Rs. 40-50 lakh has been spent annually on maintenance of all these buildings by the PWD which is wholly inadequate. However, the Commission, keeping in view the resource constraints, recommends a sum of Rs.7,000 for Sub Centre, Rs.20,000 for PHC and Rs.30,000 for CHC for their annual maintenance. On this basis, total amount required for annual maintenance would be Rs.157.62 lakh as follows:-

		(Rs. in lakhs)
- Sub Centres	(1386x7000)	97.02
- PHCs	(207x20000)	41.40
- CHCs	(64x30000)	19.20
<b>Total</b>		<b>157.62</b>

### **(c) Animal Husbandry Department**

8.13 According to the department, there are 680 Veterinary Hospitals and 1672 Dispensaries/Stockman Centres and Sheep Extension Centres in the State. It has also been stated that about 25% of the dispensaries are required to be built afresh and another 50% require renovation and repairs. The department has accordingly asked for considerable funds for the up-keep of the hospitals as well as dispensaries and stockman centres/sheep extension centres. Even if we take the essential requirements of repairs and maintenance of dispensaries/stockman centres/sheep extension centres at the rate of Rs. 25000 per annum, a total amount of about Rs. 294 lakh would be required for the up-keep of these centres alone. At present the provision in the budget both on plan and non-plan side is only Rs. 15.00 lakh.

### **(d) Ayurveda Department**

8.14 Out of 475 Dispensaries, about 465 Dispensaries are located in the rural areas. Even at the rate of about Rs. 6000/7000 per dispensary, the maintenance requirement for all these dispensaries works out to Rs.30.00 lakh per year.

### **(e) Maintenance of assets by Zila Parishads & Panchayat Samitis**

8.15 As per the provisions under section 144 (1) of the Haryana Panchayati Raj Act, 1994, the assets, which belonged to the erstwhile Zila Parishads and had been handed over to other agencies/departments, are now in the process of reverting back to the Zila Parishads. We are given to understand that many of these assets are in a poor condition and would need extensive repairs. The Commission has been intimated that the total covered area of these assets comes to 2.76 lakh sq. ft. It has been estimated that a sum of Rs. 40 lakh will be required to bring these assets to a reasonable condition and subsequent annual repairs will cost about Rs. 13 lakh. Likewise, funds would also be required for the maintenance of Panchayat Samiti buildings and certain other assets.

### **MAINTENANCE GRANT**

8.16 The total minimum annual requirement for maintenance and repairs of assets with regard to departments like Education, Health, Animal Husbandry and Ayurveda alone works out to about Rs. 18.00 crore. We have taken only a few areas but there are large number of community assets such as chopals, panchayat ghars, patwar khanas, roads, culverts, village ponds, water-tanks, khels etc. which require maintenance on an urgent basis. The PRIs also require some funds for the maintenance of their own buildings at the District and Panchayat Samiti level. Taking all these factors into account as well as the constraint of resources, the Commission recommends that a sum of Rs. 10 lakh per Block should be provided annually for the maintenance of community assets and another Rs. 1 lakh for the maintenance of PRI

buildings. With 116 Blocks in the State, the total amount thus required would work out to about Rs. 1276.00 lakh, as under:-

➤ Rs. 10 lakh per block for 116 blocks for maintenance of community assets.	Rs. 1160.00 lakh
➤ Rs. 1 lakh per block for 116 blocks for maintenance of PRI buildings	Rs. 116.00 lakh

**Total                      Rs. 1276.00 lakh**

The Commission also recommends a grant of Rs.25 lakh for the repairs of Zila Parishad/Panchayat Samiti buildings as a one time measure.

The Commission also observes that over a period of time, the rural community should itself strive to raise contributions at their own level for the maintenance of assets like school buildings, stockman centres, ayurvedic dispensaries etc. so that PRIs may not have to depend on the State Government for maintenance of such rural assets of vital importance.

## **II. Sanitation & Environmental Improvement**

8.17 Under the provisions of the Panchayati Raj Act, Gram Panchayats have been made responsible for maintenance of general sanitation in the panchayat's area, besides cleaning of public roads, drains, tanks, wells as well as other public places but they have no resources worth the name to meet these obligations. The panchayats generally confine themselves to the cleaning of villages periodically on special occasions by engaging persons on daily wages. The disposal of household waste water is becoming a matter of concern. Added to it is the problem of draining of storm water during the rainy season. The insanitary conditions in the villages are a real health hazard and are responsible for the periodic out break of epidemics. The problem is really a serious one and we hope that the Development and Panchayats Department would take steps for village level drainage planning, atleast in bigger villages.

8.18 Under the circumstances, the Commission is strongly of the view that a stage has been reached where earmarked funds should be provided to the Gram Panchayats to enable them to properly discharge their responsibility. It is, accordingly, proposed to provide Rs. 495.24 lakh as follows:-

		(Rs. in lakhs)
- Panchayats with population of less than 2000 (1550 Nos)	@ 3200	49.60
- Panchayats with population between 2000-5000 (2030 Nos)	@6400	129.92
- Panchayats with population between 5000-10000 (1710 Nos)	@ 8000	136.80
- Panchayats with population of 10000& above (1491 Nos)	@ 12000	178.92
<b>Total (6781 Nos)</b>		<b>495.24</b>

### III. Developmental Activities

8.19 The developmental activities required to be undertaken by the panchayats are innumerable. Even after taking into account the amount being provided by various departments for this purpose at the village level, both on plan and non plan side, there is a large area of local developmental works for which either the provision is not made or the provision so made is wholly inadequate. These priority areas are pavement of streets, construction of panchayat ghars and chopals, construction of dry latrines and drainage of household waste and rain water, etc. The total length of village streets in Haryana is approx. 20,000 kms. and till now about 10100 kms of these streets have been paved. During the last five years, additional 350/375 kms. of village streets have been added annually, involving an expenditure of Rs. 15.00 crore. Considering the pressing demand, if additional 400 kms streets are taken up annually for pavement, the additional requirement of funds would be Rs. 18.00 crore. Another priority areas is construction of sanitary latrines as we are committed to provide sanitation facilities to at least 75% of the rural population. The cost of one unit is Rs. 1000/- with an element of subsidy to the extent of 50% for below poverty line beneficiaries. The scheme is being implemented in 7 districts of the State i.e. Karnal, Yamuna Nagar, Bhiwani, Gurgaon, Sirsa, Sonipat and Rewari. Govt. of India has also agreed to extend this scheme to all the remaining districts also. A total of 7001 individual latrines have been constructed up to May, 2003. The funding pattern per unit is 25:25:50 i.e. Govt. of India, State and beneficiary. There is also a pressing need for more chopals and panchayat ghars for which substantial funds will be required.

8.20 Apart from these, the PRIs would also like to give particular emphasis to certain felt needs of their areas. While the pressing problem in one area may be that of upgrading the educational facilities, in another it may be health and family planning and in still another it may be harvesting of rain water, reclamation of saline and alkaline lands, protection against floods, soil conservation, social forestry or horticulture development. The Commission, accordingly, feels that if the rural areas have to be developed in an integrated manner, sufficient scope must be left for the panchayats themselves to cater to the felt needs of their area for undertaking works of an essentially local nature which are not covered under schemes like Employment Assurance Scheme (EAS), Sampoornan Gram Rozgar Yojana (SGRY) Jawahar Gram Samridhi Yojana (JGSY), Indra Awas Yojana (IAY), PMGY or any other set of departmental schemes.

8.21 The Commission, having taken into account these requirements as well as the constraint of resources, recommends that untied grants-in-aid at the rate of Rs. 25 per capita (2001 Census) may be given only for this purpose. This would work out to Rs. 37.50 crore per annum. It would be worth mentioning that even the 11<sup>th</sup> Finance

Commission has recommended a development grant of Rs. 29.41 crore per annum for PRIs. A part of this devolution (Rs. 50/- per capita) could as well be made from Haryana Rural Development Fund wherein we have recommended an increase in fee from 2% to 3%. Thus, this arrangement would not put any undue burden on the State finances.

## INTER-SE DISTRIBUTION OF DEVELOPMENT GRANTS

8.22 The Commission has also considered the question whether some differential should be taken into account while recommending the grants-in-aid to various districts and to the various comparatively forward and backward areas of the State. The figures of own income of the panchayats (house tax and shamlat land lease money) cannot obviously be the basis of their comparative economic position unless various underlying factors are more clearly brought out and understood. The Commission, therefore, recommends that while the total amount of grants-in-aid required for the PRIs in the State may be worked out on the basis of an over all per capita devolution (Rs. 25/- per capita in the present case), its further distribution to various districts should be linked with the formula adopted for decentralized planning as it fully takes into account the relative economic level of the various districts. The annual district wise distribution on this basis is given in the statement at Appendix 'A'. The district wise allocation in the year 2001-02 would accordingly be as follows:-

		(Rs. in crores)
Sr.No.	Name of District	Total Development Grants
1.	Ambala	1.65
2.	Yamuna Nagar	1.48
3.	Bhiwani	2.89
4.	Faridabad	2.44
5.	Gurgaon	3.23
6.	Hisar	2.85
7.	Jind	2.37
8.	Karnal	2.35
9.	Panipat	1.44
10.	Kurukshetra	1.53
11.	Kaithal	1.91
12.	Mohindergarh	1.76
13.	Rewari	1.58
14.	Rohtak	1.53
15.	Sirsa	2.05
16.	Sonapat	2.40
17.	Panchkula	0.65
18.	Fatehabad	1.66
19.	Jhajjar	1.73
	<b>Total</b>	<b>37.50</b>

Within the district, the distribution among the three levels i.e. Zila Parishads, Panchayat Samitis and Gram Panchayats, would be in the ratio of 10:15:75. Further horizontal distribution among the Panchayat Samitis and Gram panchayats in the district would have to be on the population basis. The release of the share of each of the panchayats would be regulated as follows:-

- a) 75% of the grant will be released to the Gram Panchayats straightway on the basis of population.
- (b) 25% of the grant will be released on the basis of equivalent matching contribution by the Gram Panchayat concerned.
- (c) Guidelines would be laid down by the State Government prescribing certain performance criteria in matters such as enrolment at the primary level, small family norms, raising of local resources and detection of power thefts etc.
- (d) The share of the Gram Panchayats would not be given to them directly but shall be placed at the disposal of the concerned Panchayat Samiti with a view to exercise better monitoring and control over the panchayats. The samitis should, however, not be permitted to divert the share of the panchayats for any other purpose or to any other panchayat in its jurisdiction.

#### **IV. Incentive Grants**

8.23 Apart from considering the needs of the panchayats for its maintenance, sanitation and developmental responsibilities, the Commission feels that there should be an inbuilt system for better performance by the PRIs and accordingly recommends introduction of a system of incentive grants as indicated below:-

##### **a) AWARD FOR ZILA PARISHADS**

8.24 It is necessary to create a spirit of competition amongst the Zila Parishads in the State with a view to improve their efficiency and performance level in all aspects of their functioning. It is also necessary to distinguish and appreciate those Zila Parishads which have consistently performed better over a period of time. We, therefore, recommend institution of a cash award amounting to Rs. 10 lakh, Rs. 6 lakh and Rs. 4 lakh for the first, second and third best Zila Parishad at the State level. The selection for this purpose should be made by a Committee appointed by the State Government and headed by the Secretary, Development and Panchayats. Various parameters for assessing the performance of the Zila Parishads in the previous year will

be laid down by the Government and the Zila Parishads will be suitably notified in advance. This would entail an expenditure of Rs. 20 lakh.

#### **b) AWARD FOR PANCHAYAT SAMITIS**

8.25 To provide similar incentives at the Panchayat Samiti level, it is proposed that the three best Panchayat Samitis in every Revenue Division (4 in number) should be given cash awards to the tune of Rs. 8 lakh for the first, Rs. 5 lakh for the second and Rs. 3 lakh for the third best ranking samiti in each of the revenue divisions. This would entail an annual expenditure of Rs. 64 lakh. The selection of the Panchayat Samitis in each Division will be made by a Committee appointed by the State Government and headed by the Divisional Commissioner. The criteria for selection of the awards should be decided by the State Government and also communicated to the Panchayat Samitis in advance so that they are well aware of various provisions and the process of selection is made transparent. The money given as award can be spent by the Samiti concerned on schemes of its choice within its jurisdiction.

#### **c) AWARD FOR PANCHAYATS**

8.26 Likewise, it is proposed to provide awards for three best panchayats in every Panchayat Samiti area. The cash awards will be Rs. 1.00 lakh, Rs. 0.50 lakh and Rs. 0.30 lakh respectively (Rs. 1.80 lakh per Panchayat Samiti) and, thus, an expenditure of Rs. 208.80 lakh would have to be incurred annually.

8.27 The annual requirement of funds for the entire "incentive" scheme would, accordingly, be Rs.292.80 lakh, as follows:-

	(Rs. in lakhs)
i) Awards at Zila Parishad level	20.00
ii) Awards at Panchayat Samiti level	64.00
iii) Awards at Gram Panchayat level	208.80
<b>Total</b>	<b>292.80</b>

#### **Eleventh Finance Commission Grant**

8.28 It is proposed that 11<sup>th</sup> Finance Commission grant of Rs. 2941.75 lakh each year be transferred to the PRIs and distributed among the ZPs, PSs and GPs in the ratio of 10:15:75. Allocation of PSs and GPs would be on the basis of population. The period covered would be four years from 2001-02 to 2004-05. EFC grants for these four years would be Rs. 11766 lakh. The year 2005-06 would be covered by the recommendations of the 12<sup>th</sup> Finance Commission. The mechanism and other modalities of regulating these grants have been explained under Chapter III of this report.



8.29 While the question of laying down the parameters for assessing the performance of the PRIs could at best be left to the Development and Panchayats Department, the broad thrust proposed to be given could be indicated. One major criteria could be the degree of success attained by the PRIs in successfully implementing the National & State programmes and achieving the targets in programmes like family planning, immunization, small savings, enrolment of children in schools etc. Another yardstick could be the success achieved in maintaining the community assets and affecting environmental improvement. A third parameter could be the efforts made to ensure the best utilization of the available resources at their disposal. The Commission feels that a comprehensive scheme should be worked out by the department while keeping these broad considerations in view.

### **Total Devolution of Grants to PRIs**

8.30 The total requirement of funds, as recommended in foregoing paragraphs, works out to Rs. 87.80 crore per annum as under:-

		(Rs. in crores)
i)	Maintenance grants	12.76
ii)	Sanitation & Environmental Improvement grants	4.95
iii)	Development grants	37.50
iv)	Incentive grants	2.93
v)	One time grants	0.25 (one time)
vi)	EFC grants	29.41
<b>Total</b>		<b>87.80</b>

8.31 An annual escalation of 10% is recommended with regard to the maintenance grants, sanitation and environmental improvement grants and development grants to compensate for rising costs and increase in population. The overall picture regarding grants recommended by the Commission under various heads during the period 2001-02 to 2005-06 is as follows:-

		(Rs. in crores)					
		2001-02	2002-03	2003-04	2004-05	2005-06	Total
i)	Maintenance grants	12.76	14.04	15.44	16.98	18.68	77.90
ii)	One-time grants	0.25	--	--	--	--	0.25
iii)	Sanitation grants	4.95	5.45	5.99	6.59	7.25	30.23
iv)	Development grants	37.50	41.25	45.38	49.91	54.90	228.94
v)	Incentive grants	2.93	3.22	3.55	3.90	4.29	17.89
vi)	EFC grants	29.41	29.41	29.42	29.42	-	117.66
<b>Total</b>		<b>87.80</b>	<b>93.37</b>	<b>99.78</b>	<b>106.80</b>	<b>85.12</b>	<b>472.87</b>

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## **CHAPTER – IX**

### **LOCAL AREA DEVELOPMENT TAX (LADT)**

9.1 The State Govt. abolished octroi in the State from 1.11.99. This measure pre-empted the municipalities of their major source of tax revenue. Since the decision to abolish octroi was taken in the interest of free flow of trade and industry, it became the moral duty of the State Govt. either to compensate the municipalities of the consequential loss or to provide alternate source of revenue.

9.2 Accordingly, the Haryana Local Area Development Tax Act, 2000 (LADT Act) was enacted to provide for levy and collection of tax on the entry of goods into the local areas of the State of Haryana for consumption or use therein and matters incidental thereto and connected therewith. The LADT Act, 2000 came into force w.e.f. 5th May, 2000. The authority for the tax administration is the Excise and Taxation Deptt. The object of the Act was to raise additional resources to be utilized for the development of local areas. "Local Area" was defined in Section 2 (14) to mean an area within the limits of a Municipal Corporation or Municipality or a Town Board or a Cantonment Board or a Zila Parishad or any other local authority constituted or continued under any law for the time being in force.

9.3 To achieve the objects of the Act, Section 22 was consciously incorporated as a mandate to the State Govt. that the tax collected under the Act shall be distributed by it amongst the local bodies to be utilized for the development of local areas. The imposition and utilization of this tax of compensatory nature was intended to improve infrastructure facilities being used by trading community through-out the State so as to facilitate the free flow of trade and commerce.

9.4 The validity of Haryana LADT Act was challenged by certain industries in the Punjab and Haryana High Court in a bunch of writ petitions. These writ petitions were, however, dismissed and constitutionality of the Act was upheld by the Punjab and Haryana High Court by its main judgment dated 21.12.2001 on the ground even if the tax levied at the strength of the Act is assumed to be discriminatory, yet it is compensatory in nature. The matter has thereafter been taken before the Supreme Court of India by certain industrial units and doubts are being created by them in respect of the scope of Section 22 and it is being apprehended as if the tax collected under this Act can be utilized by the State Govt. for any type of developmental activities in a local

area whether the same facilitates free flow of trade and commerce or not. The matter is still pending in the Supreme Court.

9.5 The following important aspects need to be kept in mind while formulating the modalities and mechanism for utilization of the proceeds of tax collected under section 22 of Haryana Act, which specifies as under:-

- i) The tax collected is to be distributed by the State Govt.
- ii) The distribution is to be made amongst the local bodies.
- iii) It is to be utilized for the development of local areas.

9.6 The State Govt. constituted a High Powered Committee (HPC) to suggest the modalities and mechanism of distribution of the tax collected under LADT Act amongst local bodies to be utilized by them for the development of local areas vide notification dated 02.07.2003.

9.7 The High Powered Committee had a detailed discussion on the provisions of the LADT Act, the relevant decisions of various High Courts and the Supreme Court on the issue, the provisions of the Constitution and other relevant aspects. The HPC also noted the provision contained under section 22 of the LADT Act, 2000, according to which the proceeds of the LADT are to be distributed amongst the local bodies, defined in terms of the Act itself, for being utilized for the development and maintenance of such of the facilities which are useful for free flow of trade and commerce. Accordingly, the HPC observed that all such facilities, which have a potential of directly or indirectly facilitating the free flow of trade and commerce, may fall within the possible sphere of utilization of the proceeds which may include some or all of the following:-

- a) The facilities must directly be used by the trade and commerce, namely, roads, safe drinking water and sanitation including drainage and such like directly used or useful services as in the absence of adequate and proper availability are likely to obstruct free flow of trade and commerce and therefore, would fall within the parameter “useful for the free flow of trade and commerce”.
- b) All type of general development related infrastructure like health facilities, education facilities, technical education facilities, etc. can also usefully supplement the growth and flow of trade and commerce.

- c) The HPC observed that an effective and updated security environment would also appear to be “useful for free flow of trade and commerce” as its strengthening can definitely lead to cause a general sense of security and well being and thereby aid the cause of trade and commerce. It is in recognition of the fact that lawlessness or lack of security and well being takes the trade and commerce as their first casualty.

9.8 Considering these aspects, the committee was of the view that in its widest interpretation the term “useful for free flow of trade and commerce” is likely to include almost all the important ingredients which are even otherwise required to be put in place in the direction of growth of a better and secured society, to be included within the meaning of “facilities useful or free flow of trade and commerce”.

9.9 While determining as to how the resources should be applied, the HPC observed that one should move from a most direct application in the sphere of usefulness towards remoter applications in the direction of its usefulness for free flow of trade and commerce. The sphere of application would, therefore, be a dynamic proposition and would need to be reviewed periodically so that such of the aspects which are found to be useful today and strengthened adequately leading to dilute its direct and proximate significance should be eliminated from the list of activities and at the same time, there would always be a possibility of some new entries getting into the field of applicability.

9.10 Based on these principles, the committee was of the view that for the time being, there is adequate scope within the State to apply the resources for maintenance and development of the most direct and proximate infrastructure found to be useful for the trade and commerce. The application of these resources should not be permitted for payment of salaries and other items of daily consumption, but should strictly be permitted only on the maintenance and development of the infrastructure, as under :-

- i) The maintenance and development of urban and rural roads ;
- ii) the maintenance and development of street lights within the urban areas;
- iii) the maintenance and development of safe drinking water facilities and sanitation within the rural and urban areas and
- iv) the maintenance and development of electricity and power generation & distribution and particularly in such of the network which catered to the cause of the industries i.e. industrial area or the area which has concentration of the industries.

## DEVOLUTION CRITERIA / MECHANISM

9.11 The High Powered Committee, after detailed analysis, unanimously suggested the following criteria of distribution of the LADT proceeds amongst the Local Bodies :-

- (a) The HPC was of the view that population should not be reckoned as the sole factor for distribution of LADT proceeds as the need of facilities useful for free flow of trade and commerce may not be proportionate to the population like, for example, in the urban area, the concentration of such facilities in the shape of bank, market etc. shall always be more compared to the rural areas. This should, however, also not be taken to mean that outside the municipal limit, the potential for strengthening such facilities is non-existent. The Committee was also of the view that adequate and proper weightage needs to be given to the influx of population pressure on urban areas due to rapid industrialization and other reasons.
- (b) The HPC was mindful of the situation that some other Special Local Area Development Agencies might be included in the ambit of Local Bodies at a later stage. In such situation, the requirement of such bodies would form the basis of assignment of proceeds of LADT. The HPC, however, observed that in this event, shares of Rural and Urban Local Bodies would need to be slightly readjusted. Keeping above facts in view, the HPC suggested the following distribution criteria :-
  - (i) Five percent (5%) of the LADT proceeds should be retained by the collecting department i.e. Excise & Taxation Department as collection charges to be utilized for development of infrastructure facilitating efficient recovery and collection. Thus, the LADT proceeds, net of collection charges (5%), would be divisible among the rural and urban local bodies.
  - (ii) Sixty five percent (65%) of the net proceeds from LADT should be assigned to all the three tiers of Panchayati Raj Institutions, the interse-shares of each tier being as under :-

Gram/Village Panchayats	75%
Panchayat Samitis	15%
Zila Parishads	10%
  - (iii) Thirty Five percent (35%) of the net proceeds to be assigned to the Urban Local Bodies as their respective share. (The HPC observed that as per 2001 census, the urban population is 29% of the total population of the State. But in view of rapid migration of population to towns /cities, the share of urban local bodies in the

net proceeds of LADT should be fixed at 35% as against their population share of 29%.)

9.12 The HPC was also of the view that a very strong institutional arrangement should be devised to be put in place to ensure that after its distribution, the funds are not misutilized or applied for a purpose and in a manner inconsistent with the provisions of the Act.

9.13 The Commission has been informed that the State Govt. has accepted all the recommendations of HPC and action as to the distribution of net proceeds of LADT has been initiated. These recommendations of HPC have been accepted by the State Govt. till the time the recommendations of the Second State Finance Commission are made available and implemented.

9.14 We have examined in detail all aspects of the recommendations of the HPC and endorse the mechanism of distribution and other modalities suggested by the HPC. The Commission, thus, recommends as under :-

- (i) Five percent of the LADT proceeds should be retained by the collecting deptt. i.e. Excise and Taxation Deptt.
- (ii) Sixty five percent of the net proceeds (after deducting 5% collection charges) be assigned to all the three tiers of PRIs, the interse- shares of each tier i.e. GPs, PSs and ZPs being in the ratio of 75:15:10.
- (iii) Thirty five percent of the net proceeds would be the share of ULBs.

9.15 The Commission also makes the following observations :-

- (i) The divisible amount would be gross collection during the year minus refunds, interest on delayed payments, penalties imposed and the portion equal to 5% to be retained as collection charges. The details would be worked out by the collecting deptt. and reported to the Finance Department. Audited figures of collection as reported by the Accountant General Haryana would be taken as the basis for distribution.
- (ii) Presently, the Local Area Development Agencies identified for the purpose are the Urban Local Bodies and all the three tiers of PRIs. However, in case some new local area development agencies are identified at a later stage, the shares of ULBs and PRIs would be re-adjusted.
- (iii) The local level services/functions being earlier performed by the local bodies, but now taken over by the State govt., which fall in the possible sphere of utilization of LADT proceeds, like maintenance of water supply and roads in the State, would be funded from the LADT proceeds.

- (iv) The un-tied / non-specific or block budgetary support to local bodies, except the fund transfers through the aegis of Finance Commission, Planning Commission, other central agencies, off-budget support, would deem to be treated as part of LADT proceeds.
- (v) The development works in urban and rural areas announced in “Sarkar Apke Dwar Programme” being funded through State budget would also deem to be funded from LADT proceeds.
- (vi) The assignment of LADT proceeds to the local bodies and other concerned agencies would be made on non-plan account through budget heads “2215-water supply”, “3054-Roads”, “2515-ORDP” and “3604-Assignments and compensation to Local Bodies”.
- (vii) The LADT proceeds would be utilized on the items of expenditure detailed under para 9.10 of this chapter.

9.16 The collections under LADT during 2000-01 and 2001-02 were of the order of Rs.19.53 crore and Rs.128.85 crore respectively. Collections of both the years work out to Rs.148.38 crore which are to be assigned to the local bodies during the year 2001-02. As per the criteria suggested, the annual assignment of LADT proceeds is as under :-

Components	Amount (Rs. In lakhs)
<b>A- Total Collections during 2000-01 and 2001-02</b>	<b>14838.62</b>
(i) Collection Charges (@5%)	741.93
<b>B- Net proceeds divisible</b>	<b>14096.69</b>
(i) PRIs (65%)	9162.85
(ii) ULBs (35%)	4933.84
<b>C- Maintenance of roads (Head 3054)</b>	<b>5000.00</b>
(i) Maintenance of rural roads	3000.00
(ii) Maintenance of urban roads	2000.00
<b>D- Maintenance of water supply (Head 2215)</b>	<b>6216.00</b>
(i) Maintenance of Rural W/S	4282.16
(ii) Maintenance of Urban W/S	1933.84
<b>E- Block grants to PRIs (Head 2515)</b>	<b>710.53</b>
(i) Grants to Panchayats	371.60
(ii) Grants to Zila Parishads	274.65
(iii) Grants for rural health & sanitation	55.00
(iv) Development grants	9.28
<b>F- Assignments to Local Bodies (Head 3604)</b>	<b>2170.16</b>
(i) PRIs	1170.16
(ii) ULBs	1000.00

9.17 The provision earmarked for maintenance of roads (Rs.5000 lakh) would be released to the PWD (B&R) deptt. through budget head "3054-(non-plan)" and Rs. 6216 lakh for maintenance of water supply to the Public Health Deptt. through head "2215- (non-plan)". The block grant of Rs. 710.53 lakh would be channelised to Development and Panchayats Deptt. through head "2515-(non-plan)". The provision of Rs. 2170.16 lakh suggested under head "3604- (non-plan)" would be assigned to the PRIs and ULBs through their administrative departments for maintenance and creation of civic amenities facilitating free flow of trade and commerce.

9.18 The Commission assumes that collection from LADT would grow at the rate of 10% per annum, though the rate of tax has been reduced to 2% from 4%. We further clarify that for the purpose of augmentation of resources of local bodies, the funds to be transferred through budget head "3604" have only been accounted for. We have, thus, allowed a projection of 10% per annum on the LADT proceeds to be transferred to the local bodies through head "3604-(non-plan)" during the period covered under our report. However, the over-all position of distribution and utilization of LADT proceeds for the period 2001-02 to 2005-06 is as under :-

<b>Assignment of LADT proceeds (Rs. In crore)</b>						
<b>Component</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Total 2001-06</b>
<b>Total Collection</b>	<b>148.38</b>	<b>163.22</b>	<b>179.54</b>	<b>197.49</b>	<b>217.24</b>	<b>905.87</b>
Collection charges (5%)	7.42	8.16	8.98	9.87	10.86	45.29
<b>Divisible Amount</b>	<b>140.96</b>	<b>155.06</b>	<b>170.56</b>	<b>187.62</b>	<b>206.38</b>	<b>860.58</b>
PRIs (65%)	91.63	100.79	110.86	121.95	134.15	559.38
ULB (35%)	49.33	54.27	59.70	65.67	72.23	301.20
<b>Maintenance of Roads (Head 3054)</b>	<b>50.00</b>	<b>55.00</b>	<b>60.50</b>	<b>66.55</b>	<b>73.20</b>	<b>305.25</b>
Rural Roads	30.00	33.00	36.30	39.93	43.92	183.15
Urban Roads	20.00	22.00	24.20	26.62	29.28	122.10
<b>Maintenance of Water Supply (Head 2215)</b>	<b>62.16</b>	<b>68.38</b>	<b>75.22</b>	<b>82.74</b>	<b>91.00</b>	<b>379.50</b>
Rural W/S	42.82	47.12	51.83	57.00	62.70	261.47
Urban W/S	19.34	21.26	23.39	25.74	28.30	118.03
<b>Block Grants to PRIs (Head 2515)</b>	<b>7.10</b>	<b>7.80</b>	<b>8.60</b>	<b>9.45</b>	<b>10.40</b>	<b>43.35</b>
Grants to Panchayats	3.70	4.07	4.48	4.90	5.40	22.55
Grants to Zila Parishads	2.75	3.02	3.32	3.65	4.02	16.76
Rural Health & Sanitation	0.55	0.60	0.66	0.73	0.80	3.34
Development Grants	0.10	0.11	0.14	0.17	0.18	0.70
<b>Assignment to Local Bodies (Head 3604)</b>	<b>21.70</b>	<b>23.88</b>	<b>26.24</b>	<b>28.88</b>	<b>31.78</b>	<b>132.48</b>
PRIs	11.70	12.88	14.15	15.55	17.10	71.38
ULBs	10.00	11.00	12.09	13.33	14.68	61.10



9.19 We have noted that sufficient funds are transferred to local bodies through various channels like, HRDF, decentralized planning, centrally sponsored schemes and State sources like LADT, state excise etc. Besides, the Commission has also recommended transfer of significant State resources to the local bodies. We, therefore, expect the State Govt. to look into all these aspects while channelising funds to the local bodies.

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## CHAPTER - X

### RESOURCE MOBILIZATION FOR PRIs AND SHARING OF TAXES

10.1 As per the terms of reference of the Commission, it has also to make recommendations with regard to measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads in the State. Presently, the PRIs are exploiting various sources of revenue to a very limited extent. They have not been able to recover even certain obligatory taxes and there is also a marked reluctance on the part of elected representatives to impose additional levies on their constituents. The fiscal situation of the State being under severe stress, it is, therefore, necessary that the PRIs must make serious and consistent efforts to mobilize resources at their own level so as to discharge the responsibilities entrusted to them under the new dispensation.

10.2 During discussions held with PRIs in various districts, it was stressed that while there could be an understandable reluctance to accept the imposition of certain taxes at the level of the State Government, the rural community should be able to work out a consensus for imposing certain levies in the agriculture sector with the clear understanding that the entire proceeds from such levies would be directly available to them for their own use for development and welfare. Since the Panchayati Raj Act empowers the PRIs to impose any tax which the legislature of the State has the power to impose, we expect that Panchayati Raj bodies would make an assessment as to what can be done in the field of resource mobilization at their own level and would think of some innovative measures as well.

10.3 A few concrete suggestions came up during discussions which could be cited as a reference point. There are in all 17.28 lakh land holdings in the State covering an area of about 36.76 lakh hectares. 53% holdings belong to small and marginal farmers (upto 2½ hectares) constituting only 17.5% of the total area. 84.1% of the cropped area is with irrigation facilities. It has been suggested to us that the rural community could, even after exempting holdings upto 2 hectares, generate considerable resources for its own use by imposing a suitable levy either on irrigated holdings only or a different levy which could be different for irrigated and un-irrigated holdings. Likewise, in order to identify those who have a better paying capacity, a levy could be imposed by Zila Parishads/Panchayat Samitis on the basis of ownership of pumping sets or tractors. There are nearly 2.22 lakh tractors registered in the State and

unlike scooters, motor cycles and cars, they are not required to pay any tax under the provisions of the Motor Vehicle Act. Some of these suggestions are only illustrative and the Commission trusts that the Zila Parishads/Panchayat Samitis in the State would take concrete steps to initiate a process of larger mobilization of resources at their own levels than what is being attempted to at present.

10.4 We have suggested several steps for increasing the income from shamlat land by putting it to more productive use and by a more systematic leasing of such lands. The other concrete suggestion which we wish to make is with regard to house tax, the details of which have been given in the succeeding paragraphs.

### (i) HOUSE TAX

10.5 Section 41(i) (a) of the Haryana Panchayati Raj Act, 1994 provides for the levy of house tax by the Gram Panchayat which is payable by the occupier or where a house is vacant, by the owner. The rules were earlier framed under the Punjab Gram Panchayat Act, 1952 and the relevant provisions are reproduced as under:-

**Power of Taxation:-**The panchayats in Haryana impose house tax under section 117 of the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works rules 1996 at such rates as may be deemed proper but not exceeding the following rates:-

		<b>Per annum</b>
(i)	Where the person liable to pay house tax is a land owner or shopkeeper.	Rs. 30
(ii)	Where the person liable to pay house tax is a tenant of land or an artisan.	Rs. 20
(iii)	Where the person liable to pay house tax is an unskilled labourer.	Rs. 10
(iv)	Any other person not falling in any of the categories (i),(ii) and (iii) above and liable to pay house tax may be bracketed with the above classes as may be determined by the Gram Panchayat for the purpose of imposition of tax.	

10.6 The house tax, which is being imposed in the village, is Rs. 30, Rs. 20 and Rs. 10 respectively per annum, depending on the category of occupier or the owner. The rate of this tax was revised only in 1996 since formation of the State. In various discussions held with elected representatives of the PRIs, a near unanimous

view was that these rates are sufficient and there is no justification for revision, but recovery of house tax should be maintained by the panchayats at their level.

10.7 The position of recoveries during the six year period i.e. 1997-2003 is indicated below:-

**TABLE 10.1**

**HOUSE TAX**

(Rs. in lakhs)

<b>Year</b>	<b>Recovery</b>
1997-98	131.00
1998-99	720.00
1999-2000	541.00
2000-01	737.16
2001-02	751.56
2002-03	859.63

10.8 Though the total recovery on this account has increased from Rs. 1.31 crore in 1997-98 to 8.60 crore in the year 2002-03, yet strenuous efforts will have to be made to maintain and ensure recoveries, if necessary, by resorting to the provisions of Section 201 of the Act under which the arrears can be recovered as "arrears of the land revenue".

10.9 The Commission further recommends that the rates of house tax should be revised every five years to make it relevant in the context of rising costs. We are not in favour of granting any exemption even for Katcha dwellings since even a small levy imparts a sense of dignity and participation to the residents, apart from a stake in the performance of the panchayats. It is essential that we inculcate a sense of belonging as well as a tradition to contribute for common causes pertaining to the village amongst the citizens and lessens the tendency to expect the Government to do each and everything for the community.

**SHARE IN TAXES**

10.10 The Commission has considered in depth the question of devolution of State resources to the Panchayati Raj Institutions and feels that the bulk of the resources so required for the strengthening of these institutions at the present stage must come in the form of grants. There is, however, scope for sharing of the

taxes/levies in a limited way and in this connection the Commission recommends the following:-

- i) Share in royalty on minor minerals.
- ii) Share in conversion charges involving change of land use in controlled areas.
- iii) Share in revenue from cattle fairs.
- iv) Share in stamp duty and registration fee.
- v) Share in Haryana Rural Development Fund.
- vi) Share in the consumption of electricity in rural area.
- vii) Share in Local Area Development Tax.

#### **(i) SHARE IN ROYALTY ON MINOR MINERALS**

10.11 Mines and Minerals (Regulation and Development) Act, 1957, a Central Act enacted by Parliament, governs the mineral administration throughout the country. Under Section 13 of this Act, Central Government has framed Mineral Concession Rules, 1960 for regulating the major minerals. Under Section 15 of this Act, Central Government has authorized all the State Governments to frame their own rules for the regulation of minor minerals. State Govt. has framed Punjab Minor Mineral Concession Rules 1964 as adopted by Haryana Govt. with certain amendments. Rates of royalty on major minerals are fixed by the Central Government, while rates of royalty on minor minerals are fixed by the State Government.

10.12 Mineral rights of the State Government are derived from entry No. 10 of the Wajib-ul-Arz (Record of Rights) of any revenue estate read with Section 42 of the Land Revenue Act. Some of the Gram Panchayats and land owners in the year 1969-70 challenged the mineral rights of the State Government in respect of saltpeter, brick earth, stone and sand on the ground that there are no specific entries regarding these minerals in the Wajib-ul-Arz. In order to meet this situation and to vest these rights unequivocally with the State Governments, the State Legislature enacted the Haryana Minerals (Vesting of Rights) Act, 1973. Section 3 of this Act authorises the State Government to acquire the mineral rights where it does not vest with it by issuing a notification. Section 4 provides that land owners or occupiers of the land shall get 10% of the annual income from the State Government in lieu of acquired mineral rights for a period of 10 years.

10.13 The income from major minerals is more or less static. But the income derived from the minor minerals has steadily grown from Rs. 22.68 crore in 1994-95 to Rs.139.87 crore in 2001-02. The major districts involved are Faridabad (Rs. 88.09 crore), Gurgaon (Rs. 21.61 crore), Ambala (Rs.63.39 lakh) and Sonipat (Rs.11.12 crore).

10.14 The extraction of minor minerals is regulated under Punjab Minor Minerals Concession Rules, 1964. Under rule 61, as applicable to Haryana, the mining contractor/leasee obtaining a contract or lease for the extraction of minerals from the State Government is under obligation to pay compensation to the surface right holder including the Gram Panchayat as mutually agreed between land owner and the contractor. In case of any dispute, the contractor is required to deposit 10% of the annual contract money as tentative compensation and the matter is referred to the Deputy Commissioner/ Collector of the district for fixing of final compensation under the provision of the Land Acquisition Act. In a majority of cases, compensation is settled between the land owner and the contractor mutually and the department does not come into the picture.

10.15 Certain problems arise when it comes to the question of payment of compensation for surface rights to the Gram Panchayats and other Urban Local Bodies. About 25% of the land leased annually belongs to them. While occasionally the representative of the BDPO is present at the auctions and efforts are made to pay 10% of the contract money as compensation to the panchayats on the spot, but very often this is not the case and in number of cases the payments are considerably delayed.

10.16 A glaring case is that of the Faridabad Municipal Corporation, which owns about 863 hectares of hilly land in villages Badkhal, Pali, Gothra Mohabtabad and Anangpur. Since the mineral rights belong to the State Government, most of these hilly areas have been leased out to various parties for extraction of minor minerals. Under the provisions the Punjab Minor Minerals Concession Rules, 1964, the leasees are supposed to pay 10% of the lease money to the land-owners (in this case Faridabad Municipal Corporation) as tentative compensation and in case of dispute between the owners and the leasees, the matter has to be adjudicated upon by the Collector/Deputy Commissioner of the District. It was brought to our notice that the lease holders are not paying the due share of the Municipal Corporation as compensation for surface rights and a sum of Rs. 53.68 crore was due against various lease-holders for the period 1994-95 to 2001-02. According to the Corporation, an amount of Rs. 536.80 crore has been collected by the State Government by way of income from the grant of lease to

various persons during this period. The Corporation is now finding it difficult to collect its legitimate dues from the leasees.

10.17 After carefully considering the matter, the Commission is of the view that in respect of leased land belonging to the Urban Local Bodies/Gram Panchayats concerned, 10% of the bid money may be straightway collected at the time of auction for compensation in lieu of surface rights and the same should be passed on to the Local Bodies/Gram Panchayats concerned. To this end, if an amendment of the rule 61 of the Punjab Minor Minerals Concession Rules, 1964 is required, the same should be carried out. This measure would ensure that the panchayat is not deprived of its due share and no misappropriation of this amount takes place because of irregularities at the level of the Sarpanch or other officials of the Gram Panchayat. Since this amount is in lieu of the damage caused to the land and has to be finally adjudicated upon by the Collector in the case of dispute, the leasee can, if he so desires, agitate the case before the concerned Deputy Commissioner/Collector. Likewise, the Local Body/Gram Panchayat concerned would also have a right to ask for enhancement before the Collector, if they deem it to be necessary.

10.18 We have been informed that the income on account of royalty both in respect of major and minor minerals during the year 2001-02 was Rs.139.87 crore. Government has also taken a decision to discontinue the practice of giving mines on lease on the application and has switched over to the system of granting mining lease by public auction and also the contracts by public auction. The annual income from royalty was expected to be Rs.160 crore in the year 2002-03, but due to ban imposed by the Hon'ble Supreme Court on mining within five kms. around Delhi has reduced income from this source to about Rs. 120 crore.

10.19 The other question considered by the Commission was whether it would be appropriate to share a part of the receipts on account of minor minerals with the Gram Panchayat/Local Body concerned. The minor minerals are mainly saltpeter, brick earth, stone and sand, bentonite road metal, marble and granite, slate etc. and there is no denying the fact that their extraction does involve considerable damage to ecology and environment. Since no procedure for calculating the quantity of minerals extracted can be full proof, there is the need for creating a vested interest or an incentive for the local people to be quite vigilant in this regard. After carefully considering the matter, the Commission recommends that 20% of the income from this source may be shared with the Gram Panchayats/Urban Local Bodies. This 20% would work out to Rs.24 crore and 50% of this devolution would mainly go to Faridabad Municipal Corporation and the rest of the 50% share of the PRIs amounting to Rs. 12 crore will be shared among the

Gram Panchayats. As regards panchayats share, it is recommended that this may form a pool of resources at State level for further disbursement to the panchayats in accordance with set guidelines which may be issued by the Development and Panchayats Department. In order to ensure equitable distribution, it could well be provided that the share of various panchayats could be worked out partly on the basis of origin and partly on the basis of other suitable criteria to be evolved by the State Government.

**(ii) CONVERSION CHARGES INVOLVING CHANGE OF LAND USE IN CONTROLLED AREAS**

10.20 Under the provision of Act No. 41 of 1963, the Town & Country Planning Department not only prepares the development plans and checks the unauthorised constructions but also grants the permission for change of land uses to regulate the proposals of the development plan as per the zoning regulations stipulated for each zone. The permission for change of land uses is granted for the integrated non saleable projects as permissible in the zoning regulations of that particular land use stipulated in the development plan after obtaining the requisite conversion charges. At present this income is credited to the State exchequer. Normally, an area upto a distance of 8 kms beyond municipal limits is declared as controlled area. A limited area is earmarked for urbanization for future and the rest of the area is declared as rural zone. In case the owner of the land wants to change the use of land earmarked as controlled area, permission would need to be obtained from the Town and Country Planning Department. The department as per the existing policy is charging a fee ranging from Rs. 2/- to Rs. 10/-per sq. yard for conversion of land use depending upon the location and nature of land. The Commission has been informed that the present annual income from this source is about Rs. 2.00 crore. The existing rates of conversion charges for change of land use effective from 18.6.03 are as under:-

Zone	Controlled Area	Rate (per sq. yard) of conversion charges for CLU	
		Effective from 1996	Effective from 18.6.03 (in Rs.)
High Potential	Gurgaon Block except Manesar, Faridabad & Ballabhgarh Blocks	50.00	10.00
Medium Potential	Manesar, Ballabgarh, Kundli, Panipat Blocks	25.00	5.00
Low Potential	Rest of the State	8.50	2.00



10.21 The CLU charges fixed in 1974 remained in operation upto 1995. The State Govt. increased CLU charges manifold in 1996 which remained applicable upto 17.6.03. But the State Govt. reduced CLU charges on 18.6.03, which are still in operation. At the reduced rates, effective from 18.6.03, the annual income from this source is now estimated at Rs. 2.00 crore instead of earlier Rs.8.50 crore.

10.22 The Commission feels that it would be appropriate if some percentage of this income is devolved to the Gram Panchayats so that it proves to be a good and regular source of income to the panchayats. In view of the fact that in Haryana there is already an enactment covering the subject which is being administered by the department of Town and Country Planning, we feel that the system of transfer of a part of these charges to the panchayats will be much simpler with the collecting agency continuing to be the State Government instead of empowering the Zila Parishads to levy these charges. We have considered the matter and recommend that 10% of income from this source may be devolved on the panchayats.

### **(iii) REVENUE FROM CATTLE FAIRS**

10.23 Cattle fairs are conducted in the State under the provisions of the Cattle Fair Act of 1970. Prior to the enactment, the fairs were being held at the level of Panchayat Samitis. With the State Government taking over the management and responsibility of conducting these fairs, the income has been improving over the years. As per the provisions of the Cattle Fair Act, 80% of the net income from the cattle fairs held in a district is allocated to the Panchayat Samitis of that district and 20% of the net income is retained by the Zila Parishad of that district after 2000-01. The net amount is arrived at by deducting the establishment expenses as well as 5% of gross income for maintenance of the cattle fair grounds. 80% of the net collection of every district is equally distributed to the Panchayat Samitis of that district. The details of net income from cattle fairs from the year 1996-97 to 2001-02, district wise, is as follows:-

**TABLE 10.2**  
**YEARWISE DETAILS OF FUNDS BEING DEVOLVED TO**  
**PANCHAYATI RAJ INSTITUTIONS UNDER CATTLE FAIR FUND**

Sr. No.	District	1996-97	1997-98	1998-99	1999-2000	2000-01		2001-02		TOTAL
						80% P.S.	20%Z.P	80%P.S.	20%Z.P.	
1	Ambala	1,88,019	1,80,993	2,02,776	2,15,084	2,22,806	1,65,330	1,71,846	1,27,739	14,74,593
2	Bhiwani	2,65,761	3,35,520	2,38,644	1,86,939	1,56,028	1,65,330	99,324	1,27,739	15,75,285
3	Faridabad	-	-	-	-	-	1,65,330	-	1,27,739	2,93,069
4	Fatehabad	-	1,62,400	1,70,832	1,20,800	2,68,717	1,65,330	2,01,519	1,27,739	12,17,337
5	Gurgaon	2,19,123	2,41,015	2,07,207	1,63,287	1,81,110	1,65,330	1,09,881	1,27,739	14,14,692
6	Hisar	6,55,088	10,04,283	5,77,600	4,77,360	8,79,958	1,65,330	2,77,614	1,27,739	41,64,972
7	Jhajjar	-	48,12,640	47,17,860	49,13,783	52,37,417	1,65,330	42,00,315	1,27,739	241,75,084
8	Jind	8,26,976	10,32,392	10,25,464	10,92,992	12,36,302	1,65,330	7,46,248	1,27,739	62,53,443
9	Kaithal	18,485	13,110	9,695	15,915	6,080	1,65,330	710	1,27,739	3,57,064
10	Karnal	3,930	4,110	3,630	432	3,214	1,65,330	5,376	1,27,739	3,13,761
11	Kurukshetra	2,70,815	2,70,838	2,54,095	2,79,165	2,57,250	1,65,330	2,07,950	1,27,739	18,33,182
12	M.Garh	3,28,865	2,89,975	2,32,550	1,97,165	2,36,438	1,65,330	1,94,939	1,27,739	17,73,001
13	Panchkula	-	4,048	3,964	4,628	7,112	1,65,330	4,180	1,27,739	3,17,001
14	Panipat	1,245	1,580	-	-	-	1,65,330	-	1,27,739	2,95,894
15	Rewari	4,76,525	4,29,015	4,35,925	2,75,140	4,65,555	1,65,330	5,09,149	1,27,739	28,84,378
16	Rohtak	52,45,308	24,99,875	29,93,415	21,95,685	25,42,298	1,65,330	21,87,245	1,27,739	1,79,56,895
17	Sirsa	73,843	68,411	52,003	15,932	1,358	1,65,330	20,573	1,27,739	5,25,189
18	Sonipat	8,92,038	9,04,869	10,39,325	8,20,876	7,78,602	1,65,330	7,02,547	1,27,739	54,31,326
19	Y.Nagar	1,08,714	90,325	75,334	90,594	84,726	1,65,330	68,480	1,27,739	8,11,242
	<b>G.Total</b>	<b>95,74,735</b>	<b>123,45,399</b>	<b>122,40,319</b>	<b>110,65,777</b>	<b>125,64,971</b>	<b>31,41,270</b>	<b>97,07,896</b>	<b>24,27,041</b>	<b>730,67,408</b>

10.24 The main income in the cattle fairs is derived by way of registration fee of 6% of the sale price paid by the purchaser and Rs. 10/- per cattle charged from the seller. Cattle fairs have basically a local character and in all fairness these should be allowed to be organized and managed by the Panchayati Raj Institutions themselves. However, keeping in view the State level apparatus existing for this purpose we do not think it will be wise to disturb the existing arrangement. Moreover, holding of fairs individually at every district by the Zila Parishad concerned is bound to increase the establishment cost and other management expenses. Keeping all this in view, the 1<sup>st</sup> State Finance Commission had recommended that the entire net proceeds may be transferred to the Panchayat Samitis concerned. We find substance in this recommendation of the 1<sup>st</sup> State Finance Commission. Hence, we also recommend that the entire net income from the cattle fairs be transferred to the Panchayat Samitis instead of 80% at present. The actual income from cattle fairs has been of the order of Rs. 1.21 crore in the year 2001-02. We also strongly feel that the Panchayati Raj Institutions are justifiably entitled to get the entire proceeds from this sources.

#### **(iv) STAMP DUTY AND REGISTRATION FEE**

10.25 Stamp duty is an important source of revenue to the State Government. It is imposed on transfer of immovable property both in urban and rural areas in the State. The Finance Accounts of the State show that income from stamp duty/registration fee has gone up from Rs. 419.24 crore in 2000-01 to Rs. 488.29 crore in 2001-02. This is an elastic source of revenue. Values of property/land in major pockets of the State are very high due to its proximity to National Capital Delhi, high industrialisation and influx of population from outside, particularly to the industrial towns in the State.

10.26 The stamp duty was being charged at the rate of 12½% in the rural areas and 15½% in municipal areas upto Feb.,2004. The State Govt. reduced stamp duty rates w.e.f.1.3.04 to 6% in rural areas and 8% in urban areas. In the case of municipal areas the local bodies are empowered to impose an additional duty on the transfer of immovable property within the limits of the municipalities in addition to the duty imposed under the Indian Stamp Act, 1899. The relevant provision under section 69 (c ) of the Haryana Municipal Act, 1973 reads as under:-

“ a duty on the transfer of immovable properties situated within the limits of the municipality, in addition to the duty imposed under the Indian Stamp Act, 1899, as in force for the time being in the State of Haryana, on every instrument of the description specified below and at such rate as the State Government may, by notification, direct, which shall not be

less than one per centum and more than three per centum on the amount specified below against instruments.”

10.27 Under the above provisions an additional stamp duty of 2% was fixed in July, 1973 as the share of municipalities and in January, 1989, this share was increased to 3% which was the maximum provided under the Act. But now this share has been reduced to 2% effective from 25<sup>th</sup> February, 2004 vide State Govt. ( in Urban Development Department) notification dated 11<sup>th</sup> March, 2004.

10.28 The rural local bodies do not get any share of revenue from stamp duty/registration fee. Many States in the country give a share to the urban as well as rural local bodies either by way of surcharge or additional stamp duty. The First Finance Commission of Haryana State recommended that 7.5% of the net proceeds of stamp duty and registration fee be passed on to all the tiers of PRIs to be distributed on the basis of formula for decentralised planning. We also feel that there is every justification for giving a share of this elastic source of revenue to the rural local bodies.

10.29 The Commission made an attempt to collect the figures of revenue earned by the State Govt. from this source separately in rural and urban areas. But the department could not supply this information. However, it was estimated that 80% of the total collections come from the rural areas and the balance 20% from the urban areas. The Commission intended to base its recommendation of sharing this source on this criteria though it may not be easy every time to work out the figures of income from the rural areas separately.

10.30 With this background and after fully considering the matter, the Commission recommends that 3% of the net receipts under the head ‘Stamp Duty & Registration fee accruing from the registration of the rural lands/properties be transferred to Panchayati Raj Institutions. The collections under the head for the year 2001-02 are Rs.488.29 crore and thus, the income coming from rural areas @ 80% works to Rs. 390 crore and the share of PRIs at 3% would work out to approximately Rs.11.70 crore. It is further recommended that the amount so realised be placed at the disposal of the Development and Panchayats Department, who would, in turn, allocate the share of the districts on the basis of the “decentralised planning formula”. The further devolution between the PRIs would be in the ratio of 10:15:75 to Zila Parishads, Panchayat Samitis and Gram Panchayats respectively. The share of the Panchayat Samitis and the Gram Panchayats, within the district, will be on a population basis.

#### **(v) HARYANA RURAL DEVELOPMENT FUND**

10.31 Under the provision of Section 5 of the Haryana Rural Development Act, 1986, a fee on advalorem basis @ 1% of the sale proceeds of agricultural produce bought or sold or bought for processing in the notified market area was charged and collected from the dealers by the Market Committees along with market fee payable @2%. The amount of fee so collected @1% was credited to the account of the Rural Development Board constituted under the provisions of the Act. This fee has been increased by the Govt. from 1% to 2% vide notification dated 28.7.1999. Section 6 (5) of the H.R.D.F. Act, 1986 specifies that the amount so collected can be spent for development of roads, establishment of dispensaries, making arrangements for water supply, sanitation and other public facilities, welfare of agricultural labour, development of model market areas, construction of godowns, rest houses and a host of other items of development pertaining to rural areas. It may also be spent for any other purpose which may be considered by the Board to be in the interest of and for the benefit of the persons paying the fee.

10.32 From the figures made available to us, we find that the annual realization under this Fund during the year 2001-02 was Rs. 145.25 crore. On the basis of growth trend, it can be safely assumed that there will be marked improvement in the income in coming years, which may be around Rs.194 crore per annum by the 2007 A.D. Figures intimated by the Department show that since the inception of scheme upto the end of the year 2002-03, a total of Rs. 833.80 crore has been released to various districts.

10.33 The Commission has come to know that usually adhoc and arbitrary decisions are taken on utilisation of this fund with the result that while some areas are unduly benefited, others get ignored. The representatives of PRIs stressed that they should now be actively involved in the process of selecting the schemes and their implementation and this could best be done by placing the funds squarely at their disposal for the earmarked purposes. Some representatives also stressed that specific amounts should be earmarked for every area, depending upon the resources generated in that area by way of this Fund.

10.34 The Commission takes cognizance of the fact that the H.R.D.F. does not form a part of the Consolidated Fund of the State and that the question of augmentation of State resources also does not, strictly speaking, fall within its terms of reference. But since the Commission is charged with the responsibility of suggesting measures for improving financial position of PRIs, it has been deemed fit to make a pointed reference to this expanding source of revenue which calls for serious considerations at the level of the State Government.

## **(VI) ELECTRICITY CONSUMED IN RURAL AREAS**

10.35 The Municipal Act provides for levy of a tax on consumption of electricity within the limits of the municipality subject to general or special orders of the State Government. Presently in municipal areas, the rate of this tax is five paise per unit of electricity consumed. In municipal areas, this tax is levied as a measure of compensation for use of land and other properties by the power utilities. But no such levy is imposed in rural areas within panchayat area.

During our discussions with the elected representatives of rural bodies this issue has been highlighted and alongwith other related matters was put before us for consideration, the important being:-

- (i) To improve financial position of panchayats, a tax or surcharge at the rate of 5 paise per unit on electricity consumed within the limits of panchayats can be levied as is being done in case of municipalities.
- (ii) In rural areas, power consumed for street lights and water supply should be charged on domestic rates and not on commercial rates.

10.36 The Commission observes that these arguments have solid logic and for the sake of justice and equity, similar dispensation, as is being given to municipalities, should also be given to the rural bodies. In case of municipalities, the Commission has observed that the surcharge or tax on electricity is being presently levied at the rate of five paise per unit of electricity consumed within municipal area. But in case of PRIs, there is no such surcharge or tax on electricity at present. The departments of Power and Development & Panchayats could not supply the information on electricity consumed in the areas of Gram Panchayats in the State. As such it could not be possible for the Commission to work out the annual financial implication of this measure. The Commission is of the opinion since the measure of levying tax on electricity consumed in panchayat area would further complicate the maintenance of accounts of the PRIs, these bodies should be, more or less, compensated other way round. We, therefore, suggest the State Government to consider the issue of the use of land and other properties of the panchayats by the electricity department and devise a proper mechanism to suitably compensate the panchayats. The compensation need not necessarily be at market rates, but it should be such that the panchayat is reasonably compensated for the loss of its property.

## **VII SHARE IN LOCAL AREA DEVELOPMENT TAX (LADT)**

10.37 The issues relating to the background of Local Area Development Tax (LADT) and modalities & mechanism of the distribution of its net proceeds between the PRIs and ULBs have been discussed under chapter IX of the Commission's report. It

has been explained therein that 5% of the LADT proceeds would be retained by the collecting department as collection charges and 65% of the net proceeds (after deducting collection charges etc.) would be the share of PRIs and the balance 35% of the net proceeds would be the share of ULBs. The total collections from LADT during 2000-01 and 2001-02 were Rs.148.38 crore. The collection charges @ of 5% workout to Rs.7.42 crore. Thus, the net proceeds of Rs.140.96 crore are to be distributed between the PRIs and ULBs. The share of PRIs at the rate of 65% works out to Rs.91.63 crore per annum. The State Government had made an adhoc arrangement of sharing this tax with the local bodies in the absence of recommendations of this Commission. As mentioned in chapter IX of this report, we endorse the recommendations of the High Powered Committee on sharing of LADT proceeds. We, therefore, recommend that 65% of the net proceeds of LADT should be the share of the PRIs to be further distributed among all the three tiers of PRIs i.e. Gram Panchayats, Panchayat Samitis and Zila Parishads in the ratio of 75:15:10 respectively. However, some part of PRIs share in LADT would be adjusted against expenditure provisions for maintenance of roads and water supply in rural areas as decided by the State Government from time to time. This provision works out to be Rs.72.82 crore per annum. Besides, we also find justification in adjusting the adhoc development grants given to the PRIs by the State Government from their share in LADT proceeds, which have been estimated at Rs.7.10 crore per annum. We further recommend that the balance share of Rs.11.70 crore per annum be transferred to the PRIs in the form of compensation and assignments to be distributed among all tiers of PRIs as per the criteria suggested above.

## **TOTAL TAX DEVOLUTION**

10.38 The total tax devolution to the PRIs, as per the recommendation made in this chapter, works out to Rs.86.94 crore per annum, as under:-

(Rs. in crores)

<b>Sr. No.</b>	<b>Source</b>	<b>Share of PRIs</b>	<b>Tax devolution for 2001-02</b>
(i)	Minor minerals (Rs.120 crore)	20% of the net proceeds to PRIs & ULBs (50% share of PRIs)	12.00
(ii)	Conversion charges for change of land use (2.00 crore)	10% of the proceeds	0.20
(iii)	Revenue from cattle fairs (Rs.1.21 crore)	Entire net income to Panchayat Samitis instead of 80%	1.21
(iv)	Stamp duty & reg. fee (Rs.390.00 crore)	3% of the total receipts	11.70
(v)	Local Area Development Tax	65% of the net proceeds (only in the form of compensation and assignments)	11.70
	<b>Total</b>		<b>36.81</b>

10.39 An annual escalation of 10% is also recommended with regard to minor minerals, conversion charges for change of land use, stamp duty, tax on electricity and LADT only. Thus, the overall picture of tax sharing on this basis under various heads during the period 2001-02 to 2005-06 would be as under:-

<b>Sr. No.</b>	<b>Source</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Total 2001-06</b>
(i)	Minor minerals	12.00	13.20	14.52	15.97	17.57	73.26
(ii)	Conversion charges for change of land use	0.20	0.22	0.24	0.27	0.30	1.23
(iii)	Cattle fairs	1.21	1.21	1.21	1.21	1.21	6.05
(iv)	Stamp duty	11.70	12.87	14.16	15.57	17.13	71.43
(v)	Local Area Development Tax	11.70	12.88	14.15	15.55	17.10	71.38
	<b>Total tax devolution to PRIs</b>	<b>36.81</b>	<b>40.38</b>	<b>44.28</b>	<b>48.57</b>	<b>53.31</b>	<b>223.35</b>

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## CHAPTER - XI

### COMMON LAND ENCROACHMENTS AND PANCHAYAT FINANCES

11.1 There are various categories of lands presently coming under the domain of a Gram Panchayat, known as common land. First category is "Shamlat Deh" which signifies as the property of the body of proprietors of land in the village and "Malkan Deh" are entitled to a share. Apart from "Shamlat Deh", there is "Abadi Deh" i.e. land covering the village site and another third category known as "Gora Deh" which refers to lands adjoining and surrounding the "Abadi Deh", which is reserved for extension of the village dwellings so as to meet the pressure of increasing population. It was generally felt that these lands remained comparatively neglected and were not put to optimum use. With the enactment of the Panchayat Village Common Lands (Regulation) Act, 1961, the panchayats were conferred proprietary rights on common lands, which also conferred upon them an effective role in the management of such lands. Common lands in Haryana are a major source of income to the panchayats.

11.2 As per a study report conducted to have an idea of the status of encroachments on panchayat lands, the position emerged as under:-

	(in 000 acres)
1. Total village common land in the State	852.34
2. Cultivable land	210.81
3. Non cultivable land	641.53
4. Land on lease	150.54
5. Land under encroachments	21.58 (10.24% of the cultivable area)

The study report reveals that about 8½ lakh acres or about 8% of the total area according to the village papers is village common land area. Out of this, about 2.11 lakh acres i.e. 25% is cultivable and the rest is uncultivable. Out of a total of about 2.11 lakh acres of cultivable land, the area of the land on actual lease is about 1.51 lakh acres. The land under encroachment is 0.22 lakh acres or 10.24% of the cultivable common land, but in line with the common perception, the study itself

indicates that this seems to be an under-estimate and the extent of land under actual encroachment is likely to be much more than what has so been indicated.

11.3 Common land is a major source of income for the panchayats. Total income from this source was of the order of Rs.68.47 crore, during 2001-02. The position regarding the actual money realised varies from district to district, this being as high as 12.23 crore in Karnal, Rs.6.89 crore in Kurukshetra, followed by Rs.4.78 crore in Kaithal and Rs.4.27 crore in Panipat. In terms of per capita realization, Karnal is the highest (Rs.130.65) followed by Kurukshetra (Rs.112.49), Panipat Rs.(74.22), Yamunanagar (Rs.63.15), Kaithal (Rs.62.73) and Fatehabad (Rs.56.75), while Panchkula is as low as Rs.5.93 because of less cultivable area and in Rohtak. Rs.16.62 due to lesser area and higher population density.

The district-wise position can be more clearly seen from the following table:-

**TABLE 11.1**  
**LEASE MONEY-DISTRICTWISE**

S.No.	District	Lease money 2001-2002 (Rs. in lakhs)	Lease money per Capita (2001 census population) (Rs.)
1	2	3	4
1.	Ambala	305.11	46.44
2.	Yamunanagar	371.93	63.15
3.	Kurukshetra	688.44	112.49
4.	Kaithal	478.66	62.73
5.	Karnal	1222.86	130.65
6.	Panipat	426.76	74.22
7.	Sonipat	338.27	35.35
8.	Rohtak	101.36	16.62
9.	Faridabad	276.81	28.45
10.	Gurgaon	215.73	16.75
11.	Rewari	223.55	35.60
12.	Mohindergarh	234.99	33.43
13.	Bhiwani	223.56	19.37
14.	Jind	355.73	37.52
15.	Hisar	417.14	36.66
16.	Sirsa	389.87	47.66
17.	Fatehabad	376.81	56.75
18.	Jhajjar	185.39	26.79
19.	Panchkula	15.49	5.93
<b>Total</b>		<b>6848.46</b>	<b>45.75</b>

11.4 An idea of the district-wise area under illegal possession and the cases which have been filed and yet to be filed alongwith acreage involved, till the end of financial year 2002-2003, can be had from the following:-

i)	Area under illegal cultivation for which cases have been filed	22953 acres
ii)	Cases filed in courts	7005 Nos.
iii)	Area under illegal cultivation for which cases are yet to be filed	1906 acres
iv)	Cases yet to be filed	1484 Nos.
v)	Total area under litigation	24859 acres
vi)	Total cases under litigation	8489 Nos.

11.5 A total of 7005 cases involving an area of about 0.23 lakh acres have been filed in different courts as on 31<sup>st</sup> March, 2003 and nearly 1484 cases involving area of 0.19 lakh acres were yet to be filed. The major problem is in the districts of Hisar, Jind, Sirsa, Kaithal and Panipat, as would be clear from the following:-

**TABLE 11.2**  
**COURT CASES**

Sr. District No.	<u>Filed</u>		<u>To be filed</u>		<u>Total</u>	
	Area (acres)	No. of cases	Area (acres)	No. of cases	Area (acres)	No. of cases
1. Hisar	750	1380	869	74	4619	1457
2. Jind	581	1018	353	914	934	1932
3. Sirsa	753	444	-	-	753	444
4. Kaithal	3665	410	4550	22	8215	432
5. Panipat	3132	402	27	-	3159	402

11.6 The Commission has observed that the follow up of cases and decisions by various courts is slow. Section 7 of the Common Land Act, though quite unambiguous, gives enough powers to the Assistant Collector 1st Grade for ejection of an un-authorised occupant and putting the panchayats in possession of this land. But this provision, in many cases, is not applied in its right spirit. In many cases, it was found that alongwith ejectment orders by the revenue courts, warrant of possession is not issued thereby causing a further delay of three to four months. As a further deterrent, the amendments to the Punjab Village Common Lands (Regulation) Act

carried out in 1992 also provide for levy of penalty for any such unauthorized possession “ at a rate not less than five thousand and not more than ten thousand rupees per hectare per annum. In actual practice, the provisions of Section 8(1) of this Act have proved to be of considerable hindrance, as even the person in unauthorised occupation cannot be dispossessed unless the uncut crops have been reaped and he has been allowed a reasonable time to harvest them. Further, section 7(5) of the amended Act is even more stringent which provides for punishment:-

"With imprisonment for a term which may extend to two years in case of a person ordered to be ejected of the unauthorized possession of common land."

11.7 There is no reason why the above provisions should not be vigorously enforced particularly when there are enough enabling provisions in the existing law to take care of all situations and to take commensurate action against persons illegally occupying or cultivating the village common land. Thus, there is a need for strict enforcement of the existing legal provisions by the officials concerned.

11.8 While legal action has to be taken against the defaulters on the above lines, there is no doubt in saying the fact that the panchayats must rise above party factionalism and exercise due vigilance. This is more important as the money realized from village common land is the main source of income of the panchayats. In case the panchayats are able to secure back the possession of the encroached areas, there is a distinct possibility of the panchayats increasing their income by at least about Rs. 6 to 7 crore per annum. Action on these lines would also reverse the present tendency towards encroachment of village common land by influential people.

11.9 The question of encroachment of public streets in the "Abadi Deh" is even more serious. Section 24(1) of the Haryana Panchayati Raj Act, 1994 empowers the panchayats to remove any encroachment on a public place or a drain. One of the main hindrances, coming in the way of taking legal action against such encroachments, is the non existence of maps of abadi deh duly prepared in accordance with law. Even where the Gram Panchayat takes action for removal of the said encroachments by resorting to the enabling provisions of the Act, the case of the Gram Panchayat often fails because of lack of proof.

11.10 Section 26 of the Haryana Panchayati Raj Act makes the preparation of the maps of abadi deh in sabha area on the part of the Gram Panchayat as mandatory. The said maps are to be prepared after following the procedure laid down in rule 14 of the Haryana Panchayati Raj Rule, 1995. While this is a larger administrative issue, interalia, involving considerable technical support, the Commission feels that such maps

must be prepared at least for the bigger villages. The four hundred odd villages in the State with a population of more than 5,000 each specially qualify for this dispensation and this is all the more necessary because of rising prices of land and also the fact that many of them would require to be municipalized in the next decade or so.

11.11 There is a general practice to give panchayat land on lease by conducting an open auction in the presence of representatives of the Panchayats Department after giving due notice to all concerned. The intention behind this procedure is to ensure maximum participation by all interested persons and get the best possible income for the Gram Panchayat. However, in practice, there have been frequent complaints that in many cases the land is leased out at throwaway prices without following the proper procedure or on the basis of inadequate participation in the open auction. This, in many cases, is done with the connivance of local officials at the subordinate level as well as the Sarpanch/Members of the panchayat. With a view to minimize such cases, it will be better to fix a minimum lease money for shamlat land in various panchayats by a committee of officers as well as representatives of the Panchayat Samitis/Panchayats. This procedure would ensure that no panchayat land is leased out at a price lower than that fixed by this committee and thereby avoiding financial loss to the panchayats. The committee could be chaired by the Block Development and Panchayat Officer and should consist of the representatives of the revenue and irrigation departments apart from representatives of the Panchayat Samiti and the concerned Panchayat. The recommendations of this committee should be got approved from the Deputy Commissioner of the concerned district before conducting the actual auction.

## **OTHER SUGGESTIONS**

### **i) AFFORESTATION/FISH FARMING**

11.12 Since common lands are a very good source of own revenues of panchayats, the need to have an effective control over their management cannot be over emphasised. We find that out of total common lands measuring 8.52 lakh acres, only 2.11 lakh acres are cultivable which means nearly 4 times more area is not being used for agricultural purposes. It may be mostly area under ponds, forests, banjars etc. We have been given to understand that the Forest Department has been obtaining panchayat land for afforestation and regular targets are also fixed for this purpose. We would, therefore, recommend that out of this 6.42 lakh acres of uncultivated land, maximum possible area should be utilized for plantation/afforestation which will give income to the panchayats. Similarly, areas which afford potential for taking up fishing

activities should be exploited properly. We, therefore, recommend that a survey should be undertaken of these vast areas which are not cultivated, so as to identify the quantum of additional area which could be put to afforestation, fishing, horticulture, floriculture etc. and a time bound programme be chalked out to undertake such activities.

## **ii) SETTING UP OF COMMERCIAL COMPLEX ON SHAMLAT LANDS**

11.13 As already pointed out, cases of un-authorised occupation of shamlat lands are on the increase. This is particularly more where the shamlat land adjoins a municipal town or an urban area because of the higher potential and value of the land. In such cases there is every possibility of the land being put to commercial use by the unauthorized occupant to derive high pecuniary advantage. During our meetings with the elected representatives, there have been some suggestions that in such cases the Gram Panchayats should be allowed to develop shops which could be let out or sold to prospective buyers so as to derive reasonably good income. There is a provision in the budget of Panchayats Department for providing loans to the panchayats for various Revenue Earning Schemes but very few panchayats have taken advantage of this scheme since the funds available are not substantial. We are of the view that in all such cases where panchayat land adjoins a town or an urban area, its potential for commercial development should be looked into and exploited and a method be found to provide adequate financial support for this purpose. Also, there are a few panchayats which have undertaken such schemes successfully on a limited scale. Similarly, there has been an accent on setting up of rural industries and industrial sheds in rural areas to enable young entrepreneurs to take up activities related to the rural sector. The concept of Udyog Kunj, whereby a cluster of sheds are constructed in the rural areas and given to young entrepreneurs, can be adopted by the Gram Panchayats in case suitable panchayat land is available.

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## CHAPTER - XII

### PROFILE OF URBAN LOCAL GOVERNMENT IN HARYANA

#### URBANISATION PROCESS

12.1 In common parlance, Haryana's economy is basically a rural one, but at the same time, it has also made rapid strides towards urbanization, particularly since its inception in 1966, as would be clear from the following:-

**TABLE 12.1**

#### **GROWTH OF URBAN POPULATION**

Census Year	Number of Cities/Towns	Total Population (in lakhs)	Urban Population (in lakhs)	Percentage of urban population to total population.
1901	54	46.23	5.74	12.42
1911	36	41.75	4.50	10.78
1921	39	42.56	4.81	11.30
1931	41	45.60	5.65	12.39
1941	45	52.73	7.06	13.39
1951	62	56.74	9.69	17.08
1961	61	75.91	13.08	17.23
1971	65	100.36	17.73	17.67
1981	81	129.22	28.27	21.88
1991	94	164.63	40.54	24.62
2001	106	210.83	61.14	29.00

The above table would reveal that the urban population in Haryana, which was around 12% to 17% till sixties, has gone up to 29.00% as per 2001 census due to rapid economic development and the ushering in of the green revolution in the State.

12.2 The position in this regard can be more readily comprehended from the following graph:-

#### HARYANA URBAN POPULATION

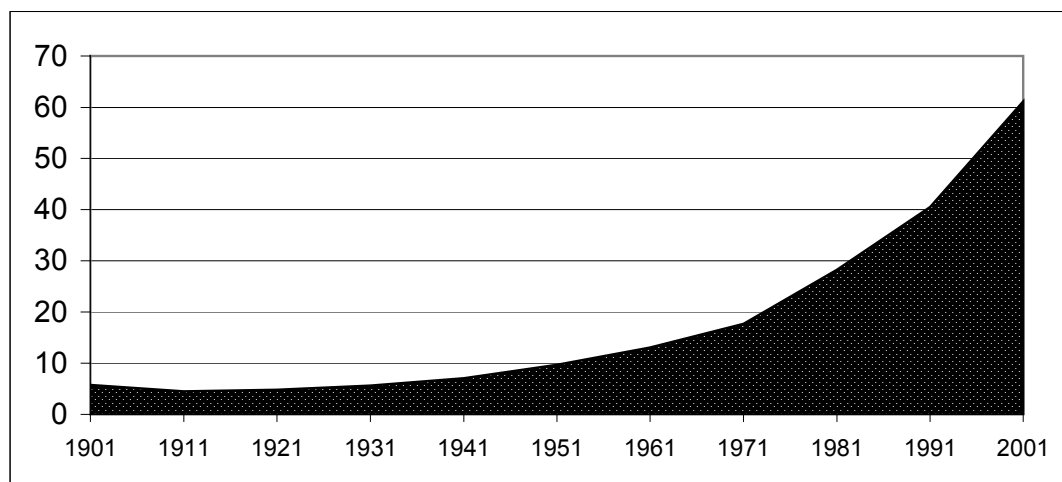


Fig 12.1.1

12.3 The position regarding the number of towns, the decennial population growth as well as the corresponding urban population can be seen from the table given below:-

**Table 12.2**  
**Decennial growth of Urban Population (1951-2001)**

Year	No. of Towns	Total Population (in lakhs)	Decennial Growth(%)	Urban Population (in lakhs)	Decennial Growth(%)
1951	62	56.74	-	9.69	--
1961	61	75.91	33.79	13.08	34.98
1971	65	100.36	32.21	17.73	35.55
1981	81	129.22	28.76	28.27	59.45
1991	94	164.63	27.40	40.54	43.40
2001	106	210.83	28.06	61.14	50.81

It will be seen that during the 40 year period (1961-2001), while the total population has almost tripled, the urban population has grown about five times. The urban population recorded a marked decadal growth of 50.81% in the period 1991-2001



as against the over all growth of only 28.06%. In absolute terms, the urban population increased by about 21 lakh during the period 1991-2001 as against 12 lakh during the period 1981-91. If this trend of growth is any indication, the urban population is expected to become 34% of the State population in the year 2011. This steep increase envisaged in urbanization in the coming years pointedly underscores the need for systematic planning for proper urban growth in all its multifarious aspects right from now onwards.

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

**TABLE 12.3**  
**DISTRICTWISE DECENNIAL GROWTH RATE OF URBAN POPULATION**  
**(1991-2001)**

<b>Rank</b>	<b>State/District</b>	<b>Decennial growth rate of urban population 1991-2001</b>
<b>1</b>	<b>2</b>	<b>3</b>
	<b>Haryana</b>	<b>50.81</b>
1.	Jhajjar	96.19
2.	Panchkula	87.68
3.	Panipat	86.98
4.	Faridabad	70.06
5.	Gurgaon	58.70
6.	Sirsa	53.16
7.	Sonapat	52.68
8.	Kaithal	51.80
9.	Jind	46.20
10.	Rewari	43.18
11.	Yamuna nagar	41.89
12.	Kurukshetra	40.02
13.	Hisar	38.86
14.	Fatehabad	38.01
15.	Bhiwani	37.51
16.	Karnal	30.23
17.	Rohtak	29.98
18.	Mahendergarh	29.13
19.	Ambala	24.79

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

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

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

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

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

12.6 The number of Urban Local Bodies in Haryana is 68, consisting of one Municipal Corporation, 21 Municipal Councils and 46 Municipal Committees.

If this census classification is adopted, the class-wise position of towns in Haryana would be as under:-

<b>Class</b>	<b>Population Range</b>	<b>No of Municipal Towns</b>	<b>2001 Population ( in lakhs)</b>	<b>% to total</b>
I	1 lakh & above (1 Faridabad Complex+Councils)	20	44.37	76.46
II	50,000 to 99,999	6	3.54	6.10
III	20,000 to 50,000	23	7.06	12.17
IV,V&VI	Less than 20,000	19	3.06	5.27
		<b>68</b>	<b>58.03</b>	<b>100.00</b>

## **EVOLUTION OF LOCAL GOVERNMENT**

12.7 The beginning of Local Self Government during the British rule can be traced to the institution of committees (not municipal committee) constituted to carry out local improvements under the supervision of the Divisional Commissioners. It was in 1862 that the municipal committees with enlarged powers were established at district headquarters. The 1884 Act made provision for people's representation in the municipal committees and the number of non official and elected members was also increased. The Punjab Municipal Act of 1911 was further amended in 1929, envisaging the extension of the elected element and introduced the election of non official President and Vice-President. The first municipal committee of Gohana in Haryana State was established in the year 1885. In the post-independence period, the Punjab Government passed the East Punjab Local Authorities (Restriction of Functions) Act, 1947 which empowered the State Government to assume functions of a local authority if it was not capable of discharging the functions duly assigned to it.

## **OVERALL HARYANA SCENARIO**

12.8 A comprehensive Act called "The Haryana Municipal Act, 1973" was enacted in 1973 to regulate the composition, functions, taxation and allied matters of urban local bodies in Haryana. Besides, a large number of rules and bye-laws were framed on various subjects like municipal accounts, delimitation of wards, management of municipal properties and construction of buildings to facilitate the working of the municipal committees. Earlier the municipal bodies were categorised as A,B & C type of municipalities. The present Act classifies the municipalities in three classes as

“Municipal Committee” with population not exceeding fifty thousand; “Municipal Council” with population exceeding fifty thousand but not exceeding five lakh and “Municipal Corporation” with population exceeding five lakh, to be governed by a separate Act (only Faridabad).

12.9 All the urban areas, as per census criteria, have not been covered under municipalisation and a rural area like Rania has been declared municipal area. The factors taken into account for determination of a municipal area are population of the area, the density of population therein, the revenue generated for local administration, the percentage of employment in non agricultural activities, the economic importance or such other factors as the State may deem fit. As already indicated, the total population so covered, as per 2001 census, is 58.03 lakh with break up as follows:-

<b>ULB's</b>	<b>No.</b>	<b>Population (in lakhs)</b>	<b>%age</b>
i) Municipal Corporation	1	10.55	18.18
ii) Municipal Councils (above 50,000 Population)	21	33.82	58.28
iii) Municipal Committees (below 50,000 Population)	46	13.66	23.54
<b>TOTAL</b>	<b>68</b>	<b>58.03</b>	<b>100.00</b>

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

#### **1) MUNICIPAL COUNCILS**

<b>S. No.</b>	<b>Population Ranges</b>	<b>No.</b>
1.	50,000 less than 1,00,000	2
2.	1,00,000 less than 1,50,000	9
3.	1,50,000 less than 2,00,000	3
4.	2,00,000 and above	7
<b>TOTAL</b>		<b>21</b>

## II) MUNICIPAL COMMITTEES

S. No.	Population Ranges	No.
1.	less than 5,000	-
2.	5,000 to less than 10,000	-
3.	10,000 to less than 20,000	19
4.	20,000 to less than 30,000	12
5.	30,000 to less than 40,000	9
6.	40,000 to less than 50,000	2
7.	50,000 and above	4
<b>TOTAL</b>		<b>46</b>

The above tables depict that no municipal committee is having a population of less than 10,000. By far the largest number of municipal committees (31) are in the range of 10,000 to 30,000.

### FUNCTIONS

12.11 About 1/3 of the State falls in the National Capital Region (NCR) around Delhi and this area is experiencing a particularly high rate of urbanisation. The recent judicial pronouncements for shifting certain categories of industries from Delhi have given it a further momentum, resulting in migration of Delhi population in Haryana areas adjoining Delhi. The increased agricultural prosperity in the rural areas has created a thirst for better educational and health facilities and better housing and other environmental facilities. This rapid urbanization warrants the urban local bodies to provide for additional civic amenities and services. In conformity with the 74th constitutional amendment, the State Government has enacted the Haryana Municipal (amendment) Act 1994, which provides for three categories of municipalities based on population, a mix of elected and nominated members, adequate reservation for scheduled castes and backward classes and women for their wider and more effective participation. The amended Act also specifies the areas of responsibility of the municipalities and their power to raise revenue through obligatory as well as discretionary taxation measures. Provision has been made for delegation of a large number of functions and powers by the State Government including those mentioned in

the twelfth schedule of the Constitution. These local bodies are required to discharge the following functions, as provided in section 66A of the Haryana Municipal Act, 1973:-

- a) The preparation of plans for economic development and social justice.
- b) The performances of functions and implementation of schemes in respect of the following matters, namely:
  - i) Urban planning including town planning;
  - ii) regulation of land use and construction of buildings;
  - iii) planning for economic and social development;
  - iv) water supply for domestic, industrial and commercial purpose;
  - v) public health, sanitation, conservancy and solid waste management;
  - vi) fire services;
  - vii) urban forestry, protection of the environment and promotion of ecological aspects;
  - viii) safeguarding the interests of weaker sections of society including the handicapped and mentally retarded;
  - ix) slum improvement and up-gradation;
  - x) urban poverty alleviation;
  - xi) provision of urban amenities and facilities such as parks, gardens, playgrounds;
  - xii) promotion of cultural education and aesthetic aspects;
  - xiii) burial grounds, cremations, cremation grounds and electric crematoriums;
  - xiv) cattle ponds, prevention of cruelty to animals;
  - xv) vital statistics including registration of births and deaths and
  - xvi) public amenities including street lighting, parking lots, bus stops and public conveniences.

12.12 The State Government has over-riding powers to take over any of the functions relating to maintenance or construction of water works, sewerage works or roads for a period not exceeding ten years, in case the Government is satisfied that the

committee has neglected to perform its duties. Under such powers, provided under Section 67 of the Haryana Municipal Act, 1973, the maintenance and provision of water supply and sewerage was taken over by the State Government from the ULBs and handed over to State Public Health Department except in case of Faridabad Municipal Corporation. The functioning of the municipal councils and committees is regulated under the Haryana Municipal Act, 1973, whereas the Municipal Corporation Faridabad is being governed by a separate Haryana Municipal Corporation Act, 1994 (amended thereafter). Accordingly, the functions and duties of the Faridabad Municipal Corporation have been separately dealt with.

### **TAXATION POWERS OF ULBs**

12.13 The ULBs are empowered to impose both obligatory as well as discretionary taxes. The obligatory taxes are those which the ULBs shall impose and it is obligatory on the part of the ULBs to impose these taxes as classified in section 69 of the Municipal Act, 1973. The discretionary taxation measures are recommendatory in nature and ULBs may impose these taxes if deemed fit and circumstances so permit to impose these taxes. These taxes are covered under Section 70 of the Municipal Act, 1973. Section 71 of this Act gives over-riding powers over section 69 and 70 and it authorizes a ULB to levy any tax, toll or fee which the State legislature can impose. The obligatory taxes take precedence over the discretionary taxes and a brief description of these taxes is given below.

#### **(A) Obligatory Taxes**

- 12.14 (a) A tax payable by the owner of buildings and lands which shall not be less than two and a half per centum and more than fifteen per centum as the State Government may, by notification, direct, of the annual value of such buildings and lands;
- (b) such other tax, at such rates as the State Government may, by notification, in each case, direct;
- (c) a duty on the transfer of immovable properties situated within the limits of the municipality, in addition to the duty imposed under the Indian Stamp Act, 1899, as in force for the time being in the State of Haryana, on every instrument of the description specified below and at such rate, as the State Government may, by notification, direct, which shall not be less than one per centum and more than three per centum on the amount specified below against instruments:

- (i) **Sale of immoveable property:-** The amount or value of the consideration for the sale as set forth in the instrument.
- (ii) **Exchange of immoveable property:-** The value of the property or the greater value as set forth in these instruments.
- (iii) **Gift of immoveable property:-** The property as set forth in the instrument.
- (iv) **Mortgage with possession of immoveable property:-** The amount secured by the mortgage as set forth in the instrument.
- (v) **Lease in perpetuity of immoveable property:-** The amount equal to one-sixth of the whole amount or value of the rent which would be paid or delivered in respect of the first fifty years of the lease.

The said duty shall be collected by the Registrar or Sub-Registrar in the shape of non-judicial stamp papers at the time of registration of the document and intimation thereof shall be sent to the committee immediately. The amount of the duty so collected shall be paid to the committee concerned.

#### **(B) Discretionary Taxes**

The ULBs may impose in whole or in any part of the municipalities any of the following taxes, tolls and fees, namely;

- (i) A tax on professions, trades, callings, and employments;
- (ii) a tax on vehicles, other than motor vehicles, plying for hire or kept within the municipality;
- (iii) a tax on animals used for riding, draught or burden, kept for use within the municipality, whether they are actually kept within or outside the municipality;
- (iv) a tax on dogs kept within the municipality;
- (v) a show tax;
- (vi) a toll on vehicles, other than motor vehicles, or any other conveyances entering the municipality, (Vide Haryana Act No.14 of 2000);
- (vii) a tax on boats moved within the municipality;



- (viii) a tax on the consumption of electricity at the rate of not more than five paise for every unit of electricity consumed by any person within the limits of the municipality;
- (ix) a fee with regard to pilgrimages, drainage, lighting, scavenging, cleansing of latrines, providing internal services and
- (x) with the previous sanction of the State Government, any other tax, toll or fee which the Legislature has powers to impose in the State under the Constitution of India.

In practice, the ULBs are only imposing obligatory taxes and out of discretionary taxes, dog tax, show tax, etc. are also being generally imposed by the ULB's.

## **ADMINISTRATIVE STRUCTURE**

12.15 Under the Haryana Municipal Act, a large number of powers are vested in the State Government. To quote a few, the authority for the constitution of committee, deciding its jurisdiction, nomination of councilors, removal of President/Members, constitution of municipal services etc. vest in the State Government. The Directorate of Local Bodies started functioning effectively only in the year, 1982. The Director, who is a senior IAS officer, is assisted in his work by two Deputy Directors, a Superintending Engineer, a Chief Town Planner, a Fire Officer, an Accounts Officer and other staff consisting of about 123 class II, III and IV officials.

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

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

<b>Sr. No.</b>	<b>Name of Service</b>	<b>Appointing Authority</b>	<b>No. of sanctioned posts</b>
1.	Administrators/Chairmen	Government	67
2.	Executive Officers	-do-	21
3.	Secretaries	-do-	67

<b>Sr. No.</b>	<b>Name of Service</b>	<b>Appointing Authority</b>	<b>No. of sanctioned posts</b>
4.	Municipal Engineers	-do-	18
5.	Assistant Town Planners	-do-	1
6.	Junior Engineers	Director, Local Bodies	74
7.	Superintendents	-do-	35
8.	Accountants	-do-	41
9.	Chief Sanitary Inspectors	-do-	21
10.	Fire Station Officers	-do-	23
	<b>Total</b>		<b>368</b>

12.18 Besides, there are 18 categories of Haryana Municipal District Level Services, where the appointing authority is the Deputy Commissioner. Broadly, these categories include staff like Technical Inspectors, Non Technical Inspectors, Draftsmen, Head Clerks/Assistants, Stenographers, Drivers, Clerks, Supervisors, Peons, Mates/Malis, Sanitary Inspectors, Station Fire Officers, Chief Foremen, Tractor Drivers, Driver of Fire Brigade, Firemen and other class IV employees and sweepers. The number of posts which fall in this category i.e. district level services is around 11226. Traditionally, the staff in a municipality is grouped on functional basis with the numerical strength depending on work load.

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

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## CHAPTER - XIII

### NORMS AND STANDARDS OF EXPENDITURE FOR PUBLIC HEALTH SERVICES-FINANCIAL REQUIREMENTS

13.1 The rapid urbanization is causing heavy strain on urban infrastructural services. The municipal bodies have not been able to maintain a satisfactory level of infrastructure development and civic services and have been depending on the State Government even for meeting the operational and the maintenance costs of their essential services. With the 74th Constitutional amendment, the ULBs are expected to assume higher responsibilities, so as to effectively function as the third-tier of Government. The core functions of urban local bodies are:-

- i) Water supply/maintenance of water supply
- ii) Sanitation/sewerage/maintenance of sewerage
- iii) Solid waste collection and disposal

13.2 The responsibility for primary education, health services and the water supply & sewerage has been taken over by the State Govt. ULBs are essentially concerned with local sanitation and disposal of solid waste and garbage.

13.3 For working out the cost requirements of the local bodies in respect of these core services, certain physical norms in the nature of guidelines have to be taken into account and, over the years, a number of expert committees have gone into this question. This is, no doubt, a difficult task as norms and standards are dependent on a number of factors such as the fiscal capacity of the ULBs, topography of the urban area concerned, existing infrastructure, the size of the population and other economic and non-economic factors which vary from one region to the other even within the State. The Zakaria Committee, which was the first such committee to go into this question, submitted its recommendations as far back as in 1963. This committee classified the cities in 6 categories. Class A cities- being the metropolitan cities with a population of above 20 lakh, Class A towns with a population of 5 to 20 lakh, Class B towns with a population of 1 to 5 lakh, Class C towns with a population of 50,000 to 1 lakh, Class D towns with a population of 20,000 to 50,000 and Class E towns comprising of cities with a population of 5000 to 20,000. We have divided urban local bodies only in 3 categories (i) municipal committees with a population not exceeding 50,000 (ii) municipal councils with a population exceeding 50,000 and not exceeding 5 lakh and (iii) municipal corporations with a population of above 5 lakh.

13.4 The Zakaria Committee also laid down physical norms for services such as water supply and sewerage. In respect of water supply, it suggested a provision of 72 +15% LPCD for C Class Town, 110+15%LPCD for B Class and 135+15% LPCD for A Class cities. In respect of sewerage, it suggested low cost sanitation methods for small areas, public sewerage with partial coverage by septic tanks and partial treatment of sewerage for medium towns and partial coverage by sewerage with proper treatment facilities for large urban areas and other cities. The committee also suggested norms of expenditure for capital costs and for operation and maintenance which, of course, are subject to wide variation depending upon location and other factors. These questions have also been gone into by the National Institute of Urban Affairs (NIUA), Ministry of Urban Development, the Planning Commission and various other expert groups which have been making their recommendations from time to time.

13.5 Against this background, the Commission considered funds requirement for following core services:-

- (a) Services managed by the PHED i.e. water supply, sewerage and storm water drainage;
- (b) solid waste disposal and
- (c) municipal roads and other works.

#### **WATER SUPPLY, SEWERAGE AND STORM WATER DRAINAGE**

13.6 The responsibility with regard to some of these core services has been entrusted to the Public Health Department for all the 68 municipal towns, except Faridabad Municipal Corporation and it is assumed that this arrangement would continue in the foreseeable future. The PHED has now drawn out a plan with a design period of 30 years, till the year 2033, by examining the actual financial requirement of each of the municipal town against the broad perspective as deduced from the recommendations of the various expert committee reports. The Commission proposes to formulate its recommendations on the basis of the details so provided by the PHED.

13.7 At the time of formation of the Haryana in 1966, skeleton water supply was available in only 37 towns and sewerage system in 16 towns. The total investment, which was only Rs. 3 crore in 1966, has gone upto Rs. 124 crore as on 31<sup>st</sup> March, 2002. All the 68 municipal areas and 14 Nos. denotified now, stand covered by water supply though the general level of satisfaction varying from 65 to 70%. The intention is that the per capita water availability for various towns should be of the order of 66 to 180

litres per capita per day (LPCD) for taking care of their domestic and commercial requirements.

The present day availability of drinking water (LPCD) in various towns is given below:-

**TOWNS CLASSIFIED AS PER AVAILABILITY OF WATER SUPPLY(LPCD)**

	<b>LPCD RANGES</b>	<b>NO. OF TOWNS</b>
(a)	below 50 LPCD	11
(b)	50 to less than 70 LPCD	13
(c)	70 to less than 100 LPCD	26
(d)	100 to less than 130 LPCD	24
(e)	130 and above LPCD	9
	<b>Total</b>	<b>83</b>

13.8 These are 36 critical towns, split up into 24 NCR and 12 non NCR towns where the water supply is far below from satisfactory level.

**(I) NCR TOWNS**

S.No.	Name of the town	Present water allowance (LPCD)	Norms (LPCD)	
			As per NCR	As per MOU
1.	Gurgaon	135	135+15	135+15
2.	Panipat	132	135+15	135+15
3.	Rohtak	112	135+15	135+15
4.	Bahadurgarh	90	135+15	135+15
5.	Gohana	110	135+15	110+15
6.	Palwal	100	135+15	110+15
7.	Samalkha	70	135+15	70+15
8.	Ganaur	90	135+15	70+15
9.	Sohana	70	135+15	70+15
10.	Nuh	110	135+15	70+15
11.	Haily Mandi	50	135+15	70+15
12.	Firozpur Jhirka	90	135+15	70+15
13.	Pataudi	90	135+15	70+15
14.	Taoru	61	135+15	70+15
15.	Farukh Nagar	42	135+15	110+15
16.	Hodel	55	135+15	110+15
17.	Jhajjar	70	135+15	135+15
18.	Beri	38	135+15	70+15
19.	Meham	48	135+15	70+15
20.	Kalanaur	55	135+15	70+15
21.	Sonepat	110	135+15	70+15
22.	Hassanpur	40	135+15	70+15
23.	Hathin	46	135+15	70+15
24.	Rewari	110	135+15	135+15

(II) NON-NCR TOWNS (MINIMUM DESIRABLE 115 LPCD)

Sr.No. Name of the town Present water allowance  
(LPCD)

1.	Kalka	90
2.	Sadhaura	42
3.	Loharu	42
4.	Kanina	70
5.	Punahana	45
6.	Kharkhoda	35
7.	Asandh	70
8.	Julana	82
9.	Siwani	35
10.	Narnaund	100
11.	Ellenabad	105
12.	Rania	80

13.9 Under the “Accelerated Urban Water Supply Programme” started in 1994-95, the Govt. of India bears 50% of the cost of the projects for towns with a population of less than 20,000 and the balance 50% will be the State share. 28 Towns have been cleared by Government of India so far. The position of estimated cost and funds provided for these projects in the last two years is as follows:-

**TABLE 13.1**  
**ACCELERATED URBAN WATER SUPPLY PROGRAMME**

(Rs. in lakhs)

Sr.No.	Name of Town	Present water allowance	Estimated cost	GOI Assistance	State Plan Allocation	Total (4+5)
	1	2	3	4	5	6
1.	Sohna	70	77.30	38.65	42.30	80.95
2.	Pataudi	70	62.50	31.24	31.45	62.69
3.	Narnaund	100	93.00	46.50	46.45	92.95
4.	Kanina	70	51.00	25.51	25.65	51.16
5.	Bawani Khera	110	223.54	114.03	109.51	223.54
6.	Taouru	61	122.91	61.45	61.45	122.90
7.	Kharkhoda	35	121.53	60.76	60.77	121.53
8.	Ratia	70	85.22	57.61	30.00	87.61
9.	Uchana	70	103.42	51.71	51.71	103.42
10.	Kalanaur	55	212.93	106.46	106.47	212.93
11.	Assandh	70	247.32	125.19	122.13	247.32
12.	Naraingarh	70	97.50	49.79	47.71	97.50

Sr.No.	Name of Town	Present water allowance	Estimated cost	GOI Assistance	State Plan Allocation	Total (4+5)
13.	Sadhora	42	80.00	40.00	40.00	80.00
14.	Indri	70	88.00	44.00	44.00	88.00
15.	Nuh	110	165.00	78.80	82.50	161.30
16.	Meham	48	252.50	126.25	126.25	252.50
17.	Firozpur Zhirkha	90	92.66	50.00	46.33	96.33
18.	Mohindergarh	60	395.79	197.90	111.43	309.33
19.	Haily Mandi	50	123.82	61.91	61.91	123.82
20.	Kalanwali	70	245.43	122.72	122.71	245.43
21.	Beri	38	398.30	199.15	139.15	338.30
22.	Pinjore	40	286.70	143.35	105.35	248.70
23.	Loharu	42	114.44	57.22	57.22	114.44
24.	Samalkha	70	212.49	106.24	71.24	177.48
25.	Farukh Nagar	42	361.80	180.90	70.90	251.80
26.	Punhana	45	162.25	82.62	42.93	125.55
27.	Hassanpur	40	147.05	73.52	58.52	132.04
28.	Kalayat	70	544.18	37.50	15.00	52.50

The Government of India plans to take up three more towns for upgrading of water supply. Schemes for Ladwa, Burai and Hathin have been approved at Rs. 696.81 lakh.

**TABLE 13.2**

**QUARTELY PHYSICAL AND FINANCIAL PROGRESS OF SCHEMES UNDER NATIONAL CAPITAL REGION (NCR).**

(Rs. in lakhs)

Sr.No.	Name of Scheme	Estt. Cost	Funds Allocated by			Exp. Up to 31.3.03
			<b>NCRPB</b>	<b>State</b>	<b>Total</b>	

**WATER SUPPLY**

1.	Water supply scheme Sonipat	1541.24	180.00	15.00	195.00	10.42
2.	Water supply scheme Rewari	917.44	71.75	13.25	85.00	16.45
3.	Water supply scheme Rohtak	1323.43	200.00	55.00	255.00	211.24
4.	Water supply scheme Jhajjar	1097.00	142.50	22.50	165.00	248.55

5.	Water supply scheme Gurgaon	669.27	200.00	15.00	215.00	57.00
<b>SEWERAGE</b>						
1.	Sewerage scheme Gurgaon	434.22	63.25	13.75	77.00	1.98
2.	Sewerage scheme Sonipat	136.38	55.50	14.50	70.00	9.31
3.	Sewerage scheme Rohtak	1036.58	67.00	13.00	80.00	
	<b>Total</b>	<b>7155.56</b>	<b>980.00</b>	<b>162.00</b>	<b>1142.00</b>	<b>554.95</b>

### SEWERAGE SYSTEM

13.10 Out of 68 municipalities, skeleton sewerage system is operative in 66 towns only and the waste water is being used for irrigating agricultural land or is being discharged into natural drains. None of these towns has any sewerage treatment facility. The service level in 66 towns varies from 0 to 85%, as under:-

<u>NAME OF TOWN</u>		<u>AREA COVERED%</u>
<b>(A) 0 to 30%</b>		
1.	Ambala City	15%
2.	Asandh	0%
3.	Barwai	15%
4.	Beri	0%
5.	Bawal	5%
6.	Cheeka	15%
7.	Ellenabad	20%
8.	Ferozpur Jhirka	0%
9.	Gohana	20%
10.	Hodel	0%
11.	Indri	0%
12.	Kalayat	0%
13.	Kalanwali	0%
14.	Kalanaur	0%
15.	Kharkhoda	0%
16.	Mohindergarh	0%
17.	Narnaud	0%
18.	Nuh	25%
19.	Pinjore	0%
20.	Pundri	0%
21.	Patudhi	0%
22.	Rania	25%
23.	Safidon	20%
24.	Samalkha	0%
25.	Tawru	0%



26.	Tarawari	0%
27.	Uchana	10%

**(B) 30% to 50%**

1.	Ambala Sadar	45%
2.	Charkhi Dadri	40%
3.	Gharaundha	35%
4.	Jagadhri	40%
5.	Ladwa	40%
6.	Naraingarh	40%
7.	Nilokheri	35%
8.	Palwal	40%
9.	Shahabad	45%
10.	Jakhal	40%
11.	Loharu	40%
12.	Yamuna Nagar	35%

**(C) 50% and above**

1.	Bahadurgarh	60%
2.	Bawani Khera	60%
3.	Bhahadurgarh	60%
4.	Bhiwani	60%
5.	Dabwali	60%
6.	Fatehabad	60%
7.	Ganaur	95%
8.	Gurgaon	70%
9.	Hansi	65%
10.	Hisar	70%
11.	Haly Mandi	60%
12.	Jhajjar	55%
13.	Jind	60%
14.	Kaithal	60%
15.	Kalka	60%
16.	Karnal	70%
17.	Meham	65%
18.	Narnaul	70%
19.	Panipat	85%
20.	Pehwa	50%
21.	Rohtak	70%
22.	Rewari	70%
23.	Sirsa	75%
24.	Sonepat	50%
25.	Samalakha	75%
26.	Tohana	60%
27.	Thanesar	60%

13.11 In 7 towns namely, Yamunanagar, Jagadhri, Karnal, Palwal, Sonipat & Faridabad, interception & dives in sewer & sewage treatment plants have been provided under Yamuna Action Plan at a cost of Rs. 225.04 crore. Further 6 small towns namely Chhachhroli, Radaur, Indri, Gharaunda, Gohana and Palwal have also been included in Yamuna Action Plan at a cost of Rs. 15.88 crore. I&D sewer work in these works is complete except at Palwal, where 50% work is complete and is held up for want of approval of revised estimate by Govt. of India. 2 STPs have been commissioned at Gohana & work on balance 5 STPs is in programme.

13.12 The expenditure incurred by the PHED during the five years (1998-03) is as follows:-

**TABLE 13.4**

**(Rs. in lakhs)**

<b>Year</b>	<b>Water Supply</b>	<b>Sewerage</b>	<b>Storm water drainage</b>	<b>Total</b>
1998-99	1254.00	447.00	50.00	1751.00
1999-2000	1264.00	450.00	30.00	1744.00
2000-01	1184.00	270.00	10.00	1464.00
2001-02	1277.00	400.00	10.00	1687.00
2002-03	889.70	400.00	10.00	1299.70
<b>Total</b>	<b>5868.70</b>	<b>1967.00</b>	<b>110.00</b>	<b>7945.70</b>
Average per yr.	1173.74	393.40	22.00	1589.14

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## CHAPTER - XIV

### FINANCES OF URBAN LOCAL BODIES & PROJECTIONS

14.1 The first prerequisite for determining the size of devolution of State revenue to the Urban Local Bodies (ULBs) required to enable them to discharge their functional responsibilities efficiently, is to make an assessment of the existing financial condition of ULBs. This involves an analysis of various sources of their income and their expenditure pattern. It also involves a study of availability of external sources for meeting their expenditure needs and their liabilities in the shape of outstanding loans etc.

14.2 The Commission has carried out a detailed study of all the above aspects of municipal finances for years 1996-97 to 2000-01. Various components of income and expenditure during these years have been analyzed to determine their roll as source of income or item of expenditure. The extent of transfers from the Central and State Governments in the form of grants-in-aid and share of taxes has also been analyzed.

14.3 Not all the ULBs are endowed with similar sources of revenue nor with similar expenditure liabilities. Depending on locational and other factors, revenue potential and expenditure needs can vary from one class of ULBs to another and even from one ULB to another amongst ULBs of the same category or class.

14.4 Keeping all these factors in view, an attempt has been made under this chapter to analyze the present financial position of the ULBs and future projections for the period covered under the report of the Commission.

14.5 The population scenario of Municipal Councils, Municipal Committees and Municipal Corporation Faridabad is given in the following table:-

**Table 14.1**  
**MUNICIPAL POPULATION (2001)**

	No.	Population (lakh persons)	% age to total
(A) Municipal Councils (above 50,000 population)	21	33.82	71.23
(B) Municipal Committees	46	13.66	28.77
<b>Total (A+B)</b>	<b>67</b>	<b>47.48</b>	<b>100.00</b>
(C) Municipal Corporation Faridabad	1	10.55	
<b>Total (A+B+C)</b>	<b>68</b>	<b>58.03</b>	

14.6 The main source of municipal revenue is income from own sources which include tax and non-tax revenue. The other components of income are grants, contributions and loans from State Government and other financial institutions. The pattern of growth of revenue of ULBs during the last five years is given below:-

**Table 14.2**  
**OVERALL FINANCIAL POSITION**

(Rs. in lakhs)

<b>Source</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>
(A)TAX REVENUE	5458.48 (36.65)	5915.63 (37.82)	4903.42 (29.26)	3663.96 (20.47)	3936.90 (20.10)
(B)NON TAX REVENUE	3145.30 (21.12)	3122.39 (19.96)	3134.01 (18.71)	4211.06 (23.52)	6063.64 (30.96)
<b>Total (A+B)</b>	<b>8603.78</b> <b>(57.77)</b>	<b>9038.02</b> <b>(57.78)</b>	<b>8037.43</b> <b>(47.97)</b>	<b>7875.02</b> <b>(43.99)</b>	<b>10000.54</b> <b>(51.06)</b>
(C) (i) LOANS	355.78 (2.39)	375.65 (2.40)	342.58 (2.04)	636.97 (3.56)	405.25 (2.07)
(ii)GRANTS	5932.89 (39.84)	6228.61 (39.82)	8376.09 (49.99)	9387.94 (52.45)	9178.25 (46.87)
<b>Total (C)</b> <b>(i+ii)</b>	<b>6288.67</b> <b>(42.23)</b>	<b>6604.26</b> <b>(42.22)</b>	<b>8718.67</b> <b>(52.03)</b>	<b>10024.91</b> <b>(56.01)</b>	<b>9583.50</b> <b>(48.94)</b>
<b>Total</b> <b>(A+B+C)</b>	<b>14892.45</b> <b>(100.00)</b>	<b>15642.28</b> <b>(100.00)</b>	<b>16756.10</b> <b>(100.00)</b>	<b>17899.93</b> <b>(100.00)</b>	<b>19584.04</b> <b>(100.00)</b>

14.7 The tax revenue which formed 36.65 percent of the total income in 1997-98 has come down to 20.10 percent in 2001-02. This perceptible downward trend is mainly on account of abolition of octroi since 1.11.1999. However, tax growth remained more or less stagnant during 2000-01 and 2001-02. The other main constituent of the tax revenue is house tax/property tax. On the other hand, the non-tax revenue, which formed 21.12 percent of the total revenue in 1997-98, increased to 30.96 percent in the year 2001-02. The non-tax revenue includes income from sale of lands and buildings, rent, development charges, licence fee, tehbazari fee and fine, sale of road side trees and sarais etc.

14.8 The receipts on account of loans/grants, which formed 42.23% of the total income in 1997-98, reached a new height of 56.01% in 2000-01 due to resource

transfers on account of award of 1st State Finance Commission implemented only for the year 2000-01. The loan liability of ULBs substantially reduced in 2001-02 due to loan waiver of Rs. 35.16 crore recommended by the 1st State Finance Commission.

## TAX REVENUE

14.9 The overall tax revenue position of municipal councils and municipal committees is as follow:-

**TABLE 14.3**  
**DETAILS OF TAX REVENUE**

(Rs. in lakhs)

<b>M.Councils</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>
House tax	1056.97	1150.69	1130.49	1310.42	852.73
Motor tax	-	-	-	52.58	277.79
Fire tax	-	-	-	38.24	36.17
Professional & Trade Calling Tax	-	-	-	54.77	128.41
Vehicle/Driving Licence Tax	-	-	-	84.93	-
Stamp Duty	931.16	1058.84	1181.70	1253.83	1707.03
Electricity Duty	-	-	-	115.35	222.77
Octroi	1995.96	2402.90	1537.50	-	-
Toll Tax	3.82	2.14	1.62	-	-
<b>TOTAL</b>	<b>3987.91 (73.06)</b>	<b>4614.57 (78.01)</b>	<b>3851.31 (78.54)</b>	<b>2910.12 (79.43)</b>	<b>3224.90 (81.91)</b>

## M. COMMITTEES

House tax	310.28	424.00	333.77	315.99	259.40
Motor Tax	-	-	-	22.27	43.83
Fire Tax	-	-	-	7.02	13.22
Professional & Trade Calling Tax	-	-	-	13.05	28.31
Vehicle/Driving Licence Tax	-	-	-	6.96	-

Stamp Duty	239.68	235.40	286.10	323.74	309.07
Electricity Duty	-	-	-	64.81	58.17
Octroi	839.01	635.57	428.50	-	-
Toll Tax	81.60	6.09	3.74	-	-
<b>Total</b>	<b>1470.57</b> <b>(26.94)</b>	<b>1301.06</b> <b>(21.99)</b>	<b>1052.11</b> <b>(21.46)</b>	<b>753.84</b> <b>(20.57)</b>	<b>712.00</b> <b>(18.09)</b>

#### M.COUNCILS & M.COMMITTEES

House Tax	1367.25	1574.69	1464.26	1626.41	1112.13
Motor Tax	-	-	-	74.85	321.62
Fire Tax	-	-	-	45.26	49.39
Professional & Trade Calling Tax	-	-	-	67.82	156.72
Vehicle/ Driving Licence Tax	-	-	-	91.89	-
Stamp Duty	1170.84	1294.24	1467.80	1577.57	2016.10
Electricity Duty	-	-	-	180.16	280.94
Octroi	2834.97	3038.47	1966.00	-	-
Toll Tax	85.42	8.23	5.36	-	-
<b>TOTAL</b>	<b>5458.48</b> <b>(100.00)</b>	<b>5915.63</b> <b>(100.00)</b>	<b>4903.42</b> <b>(100.00)</b>	<b>3663.96</b> <b>(100.00)</b>	<b>3936.90</b> <b>(100.00)</b>

14.10 It may be noted that the relative share of municipal councils in total tax revenue at about 82% has been much higher in 2001-02 compared to their population ratio of 71.23%, whereas the tax share of municipal committees at 18% in 2001-02 has been much lower than their population ratio of 28.77%. Even the tax share of municipal committees has been declining gradually over the years, whereas in case of municipal councils it has been increasing. This shift is a matter of serious concern.

14.11 Excise duty, stamp duty and electricity duty fall in the category of shared taxes. Excise duty at the rate of Re. One per bottle of liquor sold in the jurisdiction of the local bodies, is passed on to the concerned MCs as per their entitlement. Electricity duty payable at the rate of 5 paise per unit of electricity consumed in the municipal area

is, by and large, adjusted towards payment of electricity bills of street lighting. Stamp duty is also the shared tax being passed on to the municipalities on a regular basis. This is levied at the rate of 3 percent (now reduced to 2% from Feb., 2004) of the sale amount of property and is collected on behalf of the committees at the time of registration of sale of the immovable property situated within the municipal limits.

#### **PROPERTY TAX (HOUSE TAX)**

14.12 The position of property tax is reflected in table below:-

**TABLE 14.4**  
**DETAILS OF PROPERTY TAX OF THE ULBs**

	Years					Rs. in lakhs
<b>Urban Local Bodies</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>Population Ratio</b>
Municipal Councils	1056.97 (77.31)	1150.69 (73.07)	1130.49 (77.21)	1310.42 (80.57)	852.73 (76.68)	71.23%
Municipal Committees	310.28 (22.69)	424.00 (26.93)	333.77 (22.79)	315.99 (19.43)	259.40 (23.32)	28.77%
<b>Total</b>	<b>1367.25</b> <b>(100.00)</b>	<b>1574.69</b> <b>(100.00)</b>	<b>1464.26</b> <b>(100.00)</b>	<b>1626.41</b> <b>(100.00)</b>	<b>1112.13</b> <b>(100.00)</b>	<b>100.00%</b>

14.13 The above figures clearly indicate that the receipts from property tax have remained more or less stagnant though the relative position of the municipal committees is worse than the municipal councils. Despite a perceptible increase in urbanization as well as in house building activity, income from this source has not shown any commensurate increase because of malpractices, leakages and exemptions.

14.14 Taking into account the huge arrears pending for realization, it is concluded that this source of tax revenue has not been fully tapped. Now the property tax is being imposed uniformly. As per State Govt. (in Urban Development Department) notification dated 13.12.2001, property tax (house tax) is being levied at the rate of 2.5% of the value of property for residential purposes and at the rate of 5% on other properties i.e. commercial, industrial and institutional buildings. As per provisions of the Municipal Act, this is an obligatory tax and municipalities are supposed to levy this tax. Besides, the actual process of assessment and recovery of this tax should be made more transparent leaving no room for subjectivity. The prescribed procedures are not followed and the elected municipal representatives have a tendency to reduce

assessment of this tax without any cogent reason as shown by a few studies made in this regard. This leads to discrimination and consequent litigation by the affected persons. In addition, various types of exemptions are allowed from property tax which work out to nearly 20%. Arrears of property tax are outstanding against most municipalities as shown in the table below:-

**TABLE 14.5**  
**DETAILS OF PROPERTY(HOUSE) TAX DEMANDED, COLLECTED AND OUTSTANDING DURING 2002-2003.**

<b>Municipalities</b>	<b>No. of Properties</b>	<b>No. of Properties exempt</b>	<b>Property tax demanded (Rs. in lakh)</b>	<b>Property tax collected (Rs. in lakh)</b>	<b>Property tax outstanding (Rs. in lakh)</b>
Municipal Councils	701455	131126	3071.41	2491.63	579.78
Municipal Committees	238859	28940	769.12	583.79	185.33
<b>Total</b>	<b>940314</b>	<b>160066</b>	<b>3840.53</b>	<b>3075.42</b>	<b>765.11</b>

14.15 The arrears of property tax are accumulating for the last so many years and no serious efforts are being made by the ULBs to recover the arrears and simultaneously to curtail the number of exemptions allowed arbitrarily. Out of the demand of Rs. 3840.53 lakh for the year 2002-03, the property tax outstanding is Rs.765.11 lakh. The Commission has examined this issue in detail and has suggested some improvements in the revised procedure for assessment adopted by urban local bodies, which apart from making the process transparent, will also bring about an increase in the income of the ULBs.

#### **OCTROI**

14.16 The overall position regarding octroi realization is as follows:-

**TABLE 14.6**  
**DETAILS OF REVENUE FROM OCTROI**

(Rs. in lakh)

<b>Municipalities</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>Population Ratio</b>
Municipal Councils	1995.96 (70.40)	2402.90 (79.08)	1537.50 (78.20)	-	-	71.23%
Municipal Committees	839.01 (29.60)	635.57 (20.92)	428.50 (21.80)	-	-	28.77%
<b>Total</b>	<b>2834.97 (100.00)</b>	<b>3038.47 (100.00)</b>	<b>1966.00 (100.00)</b>	<b>-</b>	<b>-</b>	<b>100.00%</b>



The position in respect of octroi is quite alarming. Instead of showing an upward trend, the income from this source went down in 1999-2000 and after this the income from octroi is nil due to abolition of octroi w.e.f. 1.11.1999.

## NON -TAX REVENUES

14.17 The broad position regarding non-tax revenues is as follows:-

**TABLE- 14.7**

### DETAILS OF NON-TAX REVENUE

(Rs. in lakh)

<b>A. Municipal Councils</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>
Rent	543.03	595.52	607.72	782.55	786.25
Development Charges	319.78	419.79	515.81	636.24	804.70
Licence Fee	-	18.39	72.43	89.34	70.98
Tehbazari	90.45	100.05	96.93	113.60	143.84
Fee & Fines	89.92	81.58	47.29	86.22	99.44
Sale of Land	99.60	182.33	56.08	287.59	29.30
Interest on investment	19.59	19.07	16.66	4.07	11.36
Water Charges	1.37	1.20	1.33	-	-
Misc.	1040.47	593.33	571.67	957.85	2088.73
<b>TOTAL (A)</b>	<b>2204.21 (70.08)</b>	<b>2011.26 (64.41)</b>	<b>1985.92 (63.37)</b>	<b>2957.46 (70.23)</b>	<b>4034.60 (66.54)</b>

<b>B. Municipal Committees</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
Rent	354.98	452.58	419.69	332.56	363.17
Development Charges	131.07	107.78	103.37	140.41	177.39
Licence Fee	-	10.67	27.17	15.38	18.30
Tehbazari	31.28	29.17	32.90	34.77	50.37
Fee & Fines	54.84	11.44	7.59	5.86	5.37
Sale of Land	59.13	43.47	224.19	231.13	645.66
Interest on investment	6.81	3.90	10.13	13.94	11.17

Water Charges	1.37	0.85	1.14	-	-
Misc.	301.61	451.27	321.91	479.55	757.61
<b>TOTAL B</b>	<b>941.09</b> <b>(29.92)</b>	<b>1111.13</b> <b>(35.59)</b>	<b>1148.09</b> <b>(36.63)</b>	<b>1253.60</b> <b>(29.77)</b>	<b>2029.04</b> <b>(33.46)</b>

<b>C. Total Municipal Councils/Committees</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
Rent	898.01	1048.10	1027.41	1115.11	1149.42
Development Charges	450.85	527.57	619.18	776.65	982.09
Licence Fee	-	29.06	99.60	104.72	89.28
Tehbazari	121.73	129.22	129.83	148.37	194.21
Fee & Fine	144.76	93.02	54.88	92.08	104.81
Sale of Land	158.73	225.80	280.27	518.72	674.96
Interest on Investment	26.40	22.97	26.79	18.01	22.53
Water Charges	2.74	2.05	2.47	-	-
Misc.	1342.08	1044.60	893.58	1437.40	2846.34
<b>TOTAL (A+B)</b>	<b>3145.30</b> <b>(100.00)</b>	<b>3122.39</b> <b>(100.00)</b>	<b>3134.01</b> <b>(100.00)</b>	<b>4211.06</b> <b>(100.00)</b>	<b>6063.64</b> <b>(100.00)</b>

14.18 The above table indicates that the non-tax revenues have also remained more or less stagnant. The relative population of municipal councils is 71.23% and their share in the total non-tax revenue is of the order 63% to 70%. The relative population of municipal committee is 28.77% while their share of non-tax revenue is of the order 29% to 37%. The sale of land is an uncertain factor which is mainly responsible for fluctuations.

#### **FUTURE PROJECTIONS ( 2001-02 TO 2005-06)**

14.19 The overall position of receipts (Councils and Committees) on account of tax and non-tax revenues is as follows:-

(Rs. in lakhs)

<b>Years</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>
Total revenue receipts	8603.78	9038.02	8037.43	7875.02

14.20 During the four years period 1997-98 to 2000-01, there is a decline from Rs. 8603.78 lakh in 1997-98 to Rs. 7875.02 lakh in 2000-01, which is mainly due to abolition of octroi w.e.f. 1.11.1999. The actual revenue receipts of Municipal Councils and Municipal Committees are Rs. 101.20 crore. We have, thus, taken the figures of 2001-02 as the base and applied annual growth rate of 10% for the future years 2002-03 to 2005-06. Though the financial years 2001-02 to 2003-04 have already passed, in the absence of any firm and authentic figures for these years, this method of projecting figures (even for 2002-04) had to be adopted to work-out future projections and the figures so worked out are set out in the table below:-

**TABLE 14.8**  
**INCOME PROJECTIONS FOR THE FIVE YEARS PERIOD**  
**(2001-02 to 2005-06)**

(Rs. in lakhs)

Source of Income	Years				
<b>A.TAX REVENUE</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
House Tax	1112	1223	1346	1480	1628
Motor Tax	322	354	390	429	471
Fire Tax	49	54	59	65	72
Professional & Trade Calling Tax	157	172	190	209	230
Vehicle/Driving Licence Tax	117	129	142	156	171
Stamp Duty	2016	2218	2439	2683	2952
Electricity Duty	281	309	340	374	411
<b>A. TOTAL</b>	<b>4054</b>	<b>4459</b>	<b>4906</b>	<b>5396</b>	<b>5935</b>
<b>B.NON TAX REVENUE</b>					
Rent	1149	1264	1390	1529	1682
Development Charge	982	1080	1188	1307	1438
Licence fee	89	98	108	119	130
Tehbazari	194	213	235	258	284
Fee & Fines	105	115	127	140	154
Sale of land	675	743	817	898	988
Interest on investment	23	25	28	31	34
Water charges	3	3	4	4	4

Misc.	2846	3131	3444	3788	4167
<b>B. TOTAL</b>	<b>6066</b>	<b>6672</b>	<b>7341</b>	<b>8074</b>	<b>8881</b>
<b>Total (Tax &amp; Non-Tax)</b>	<b>10120</b>	<b>11131</b>	<b>12247</b>	<b>13470</b>	<b>14816</b>
<b>C. Grants</b>	9178	10096	11105	12216	13438
<b>Total (A+B+C)</b>	<b>19298</b>	<b>21227</b>	<b>23352</b>	<b>25686</b>	<b>28254</b>

#### **ADDITIONAL RESOURCES MOBILISATION BY ULBs**

14.21 The income from house tax due to new system is shot up 2.5 times in 2002-03 as compared to 2001-02. In this connection, departmental version is that income from house tax will remain more or less stagnant. We do not agree to this plea of the deptt. Some revision has already taken place in fines & fees, stamp duty and additionality of 10% can well be expected. The figures of additional mobilisation in the year 2001-02 to 2005-06 have been worked out on this basis and for subsequent years, an yearly increase of 10% over the previous year is also taken into account. The additional resources mobilisation by the ULBs on account of these three measures would, thus, be as under:-

(Rs. in lakhs)

<b>Head</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Total 2001-06</b>
House Tax	1112	1223	1346	1480	1628	6789
Stamp Duty	2016	2218	2439	2683	2952	12308
Fee & Fines	105	115	127	140	154	641
<b>Total</b>	<b>3233</b>	<b>3556</b>	<b>3912</b>	<b>4303</b>	<b>4734</b>	<b>19738</b>

#### **TOTAL EXPENDITURE OF MUNICIPALITIES (COUNCILS/COMMITTEES)**

14.22 The Local Bodies Directorate furnished the following figures in respect of expenditure on municipal councils/committees from the year 1997-98 to 2000-01:-

**TABLE 14.9**  
**OVERALL EXPENDITURE POSITION**  
(Rs. in lakhs)

Head of Exp.	Years			
Expenditure	1997-98	1998-99	1999-2000	2000-01
1. Establishment	6333 (76.09)	6394 (70.45)	7172 (77.14)	6567 (74.51)
2. Development	902 (10.85)	1518 (16.73)	1120 (12.05)	1059 (12.01)
3. Others	1077 (12.94)	1156 (12.74)	1005 (10.81)	1188 (13.48)
4. Non-Development (Audit Fee)	10 (0.12)	8 (0.08)	-	-
<b>Total</b>	<b>8322</b> <b>(100.00)</b>	<b>9076</b> <b>(100.00)</b>	<b>9297</b> <b>(100.00)</b>	<b>8814</b> <b>(100.00)</b>

14.23 These figures are quite revealing. The expenditure on establishment as ratio to total expenditure is of the order 75%. In spite of this high expenditure, there are reports of wide-spread non-payment/arrears of salary and pension/gratuity and threats by municipal employees to go on strike. In fact, a lot of employees are paid their dues only when they take recourse to the courts. In view of this situation, Government in the recent past had no option except to give grants to the municipal committees in order to enable them to discharge their liabilities. The liability on this account which stands unpaid by the municipal committees has been worked out by the Local Bodies Directorate and is placed at Rs. 21.54 crore with details as follows:-

Sr. No.	Description	Amount in lakh Rs.
1	Provident Fund	852.95
2	Pension Share	362.73
3.	LIC Loan for water supply & sewerage	297.33
4.	GIC loan for fire fighting equipments	86.67
5.	New India Insurance (Loan)	18.67
6.	Insurance Company (Loan)	28.00
7.	Oriental Insurance Company (Loan)	160.00
8.	Director (Election) overhead charges, leave salary and pension contribution 1962-63 to 1981-82	12.07
9.	1% supervision charges of Directorate of Urban Development, Haryana from 1996-97 to 2000-01.	335.17
	<b>Total</b>	<b>2153.59</b>

14.24 Since the liability of Rs.21.54 crore remained un-met by the municipal committees upto the period ending 31.3.2003, it is safe to presume that the annual un-met liability which does not figure in municipal budget, is Rs.25 crore. In other words, the actual liability on staff is Rs. 70.35 crore upto 2001-02. It may also be mentioned that the State Government gave a grant of Rs. 41.18 crore to clear this outstanding liabilities during 2001 also.

#### **FUTURE PROJECTIONS (2001-02 to 2005-06)**

14.25 With Rs. 70.35 crore as the expenditure on establishment in the base year 2001-02, we have attempted projections of expenditure on establishment till the year 2005-06. It has been assumed that there will be an increase of 10% on account of D.A., and other commitments etc.

**TABLE 14.10**  
**EXPENDITURE ON ESTABLISHMENT**

(Rs. in crores)

<b>Head</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
i) Actual	70.35	84.42	101.30	121.56	145.88
ii) Unpaid	21.54	25.85	31.02	37.22	44.66
<b>Total</b>	<b>91.89</b>	<b>110.27</b>	<b>132.32</b>	<b>158.78</b>	<b>190.54</b>

14.26 The expenditure on development and other municipal works has been very much on the lower side considering the pent up demand and we have accordingly assumed an increase of 20% each year over the previous year. In other cases, we have assumed an annual increase of 10% per year.

14.27 The State Government provides grants to municipalities under various heads of development. Some of these grants are not reflected in the budget of the ULBs and are channelised through various Heads of Departments. For instance, the grants for public health, sanitation, conservancy and solid waste management, are directly allocated to the Public Health Department since the requirements of water supply and sewerage in urban areas (except F.M.C.) is the responsibility of the State Public Health Department. Grants for the upgradation of fire services are utilised for

purchase of fire fighting equipments at the State level, which are given to various municipalities in kind. Some of the other grants given are for environment & slum improvement, providing public amenities like street lighting, parking etc. and for adhoc revenue earning schemes.

14.28 In the absence of a proper accounting procedure, the receipts and expenditure on account of "Grants" cannot be properly linked, but in order to work out a concrete picture, the receipts and expenditure on this account have been assumed to be the same in the figures projected by us. The overall picture of expenditure on this basis is as under:-

**TABLE 14.11**  
**EXPENDITURE PROJECTIONS**

(Rs. in crores)

Head	2001-02	2002-03	2003-04	2004-05	2005-06
<b>A.</b> Establishment	<b>91.89</b>	<b>110.27</b>	<b>132.32</b>	<b>158.78</b>	<b>190.54</b>
<b>B.</b> Others					
Development	15.20	18.24	20.06	24.07	28.88
Others	15.75	17.32	19.05	20.95	23.04
<b>Total- B</b>	<b>30.95</b>	<b>35.56</b>	<b>39.11</b>	<b>45.02</b>	<b>51.92</b>
<b>C. Non Development</b>					
Audit fee	14.64	16.10	17.71	19.48	21.43
Grants	91.78	100.96	111.06	122.17	134.39
<b>Total (C)</b>	<b>106.42</b>	<b>117.06</b>	<b>128.77</b>	<b>141.65</b>	<b>155.82</b>
<b>Total (A+B+C)</b>	<b>229.26</b>	<b>262.89</b>	<b>300.20</b>	<b>345.45</b>	<b>398.28</b>

#### **OVERALL PICTURE(2001-02 TO 2005-06)**

14.29 In the light of projections given in the proceeding paragraphs, the overall deficit on account of current expenditure on establishment and services on the existing basis would be as under:-

(Rs. in lakhs)

	2001-02	2002-03	2003-04	2004-05	2005-06	Total
1. Receipts	19298	21228	23352	25686	28255	117819
2. Expenditure	22926	26289	30020	34545	39828	153608
3. Deficit/Surplus	-3628	-5061	-6668	-8859	-11573	-35789

14.30 The very substantial deficit is on account of the fact that while receipts have been projected on constant (2000-01) level of taxes/fees without taking into account any modifications, the enhanced expenditure liability, including the deferred/unpaid liability on account of expenditure on staff salaries, gratuity/pension etc. have been taken into account. In order to project the correct picture, we have also assumed that the expenditure on development works would also increase at a reasonable pace.

14.31 The expenditure of Rs. 91.89 crore on establishment, out of a total municipal expenditure of Rs. 88.14 crore in 2000-01 would work out to a whopping 104.25% and this percentage of expenditure on staff would go still higher in the coming years. Even though we may be able to enhance our receipts substantially by revising fees and levies, the situation so obtained is clearly a matter of concern and calls for serious remedial measures. The remedy lies in freezing the staff strength at the present level, except where absolutely necessary, and increasing the staff productivity by providing them with modern aids and privatization should be resorted to the maximum extent possible, at least in the sphere of sanitation and maintenance of other services. Unless this is done and an attempt is made to progressively limit the establishment expenditure to about 50% of the total expenditure, the local bodies would not be viable units of self-governance.

14.32 The Public Health Department has made a perspective plan for water supply, sewerage, storm water drainage and solid waste management with a time frame of 30 years amounting to Rs. 1589.70 crore. The departmental projections for 10th plan, 2002-2007 have been made at Rs. 277.12 crore.

14.33 With this amount which is far less than the requirements, the department will be able to meet only the critical needs in various towns and undertake system improvement so that all parts of the towns are properly covered.

#### **PROJECTIONS REGARDING CONSTRUCTION/REPAIR OF MUNICIPAL ROADS**

14.34 The maintenance of roads can be sub-divided into ordinary repairs, periodical repairs (renewals), special repairs and flood damage repairs.

14.35 By ordinary repair is meant patch work, filling of potholes, maintenance of berms etc. For ensuring that roads do not get worn but by traffic, a renewal coat is required to be provided after every 5 to 7 years. For repair of roads, which are damaged at a particular point due to sub-soil or some other causes, special repairs are to be done. Some provision is also required to be made for repair due to floods.



According to the norms fixed by the Ministry of Surface Transport, which were framed for the use of the Central Eleventh Finance Commission, on an average, taking into consideration the various types of repairs mentioned above, an amount of Rs. 60,000 per km is required to be provided for effective maintenance.

#### **AMOUNT SANCTIONED FOR REPAIRING/STRENGTHENING OF ROADS**

(Rs. in lakhs)

<b>Sr. No.</b>	<b>Name of District</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>Total</b>
1.	Ambala	174.98	109.56	182.71	133.21	122.56	<b>723.02</b>
2.	Bhiwani	49.93	153.07	307.85	118.13	79.24	<b>708.22</b>
3.	Faridabad	104.00	33.26	52.30	17.73	58.93	<b>266.22</b>
4.	Fatehabad	26.83	39.14	37.92	63.18	36.78	<b>203.85</b>
5.	Gurgaon	251.97	267.43	156.68	83.71	16.68	<b>776.47</b>
6.	Hisar	98.25	45.74	138.10	71.79	47.05	<b>400.93</b>
7.	Jind	125.92	34.05	36.93	9.49	2.10	<b>208.49</b>
8.	Jhajjar	100.39	108.24	96.84	89.08	112.80	<b>507.35</b>
9.	Karnal	96.78	134.43	195.98	142.34	79.60	<b>649.13</b>
10.	Kaithal	82.24	76.59	44.45	55.05	33.20	<b>291.53</b>
11.	Kurukshetra	97.85	141.62	91.05	149.80	208.77	<b>689.09</b>
12.	M.Garh	60.06	13.79	71.15	43.69	49.12	<b>237.81</b>
13.	Panipat	120.70	135.71	68.72	35.80	52.00	<b>412.93</b>
14.	Panchkula	18.17	42.87	39.10	54.99	9.00	<b>164.13</b>
15.	Rohtak	112.02	134.72	79.06	99.38	133.57	<b>558.75</b>
16.	Rewari	84.70	75.61	64.91	98.71	134.75	<b>458.68</b>
17.	Sonipat	128.71	70.34	98.14	88.01	109.90	<b>495.10</b>
18.	Sirsa	87.32	40.12	65.79	28.78	45.90	<b>267.91</b>
19.	Y. Nagar	108.98	142.46	106.79	103.66	154.91	<b>616.80</b>
	<b>Total</b>	<b>1929.80</b>	<b>1798.75</b>	<b>1934.47</b>	<b>1486.53</b>	<b>1486.86</b>	<b>8636.41</b>

14.36 The average expenditure per km for construction of a new road is estimated at Rs. 9 lakh for a 12 feet wide road. Even if we take a modest target of about 200 kms. of additional road construction over a period of five years, the expenditure on this account would work out to Rs. 18 crore.

14.37 Taking all these factors into consideration, we feel that a sum of atleast Rs. 15 crore on an average should be provided in the first year (2001-02) for the maintenance and construction of roads for municipal areas. The Ministry of Surface Transport allows a 7% escalation charges every year on account of cost escalation and inflation. On this basis the liability for construction, repairs and maintenance of municipal roads will be as follows:-

(Rs. in crores)

2001-02	2002-03	2003-04	2004-05	2005-06
15.00	16.05	17.17	18.37	19.66

#### TOTAL PROJECTED DEFICITS OF MUNICIPAL COUNCILS/COMMITTEES

14.38 Based on the foregoing estimates, the overall position for the municipal councils/committees is as follows:-

**TABLE 14.12**

**YEARS (Rs. in crores)**

Sr. No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06	Total
1.	Deficit in normal budget	36.28	50.61	66.68	88.59	115.73	357.89
2.	Liability on account of maintenance/construction of roads	15.00	16.05	17.17	18.37	19.66	86.25
3.	<b>Total projected Deficit</b>	<b>51.28</b>	<b>66.66</b>	<b>83.85</b>	<b>106.96</b>	<b>135.39</b>	<b>444.14</b>
4.	Additional income from stamp duty, house tax, fees & fines	32.33	35.56	39.12	43.03	47.34	197.38
5.	<b>Net Deficit (3-4)</b>	<b>18.95</b>	<b>31.10</b>	<b>44.73</b>	<b>63.93</b>	<b>88.05</b>	<b>246.76</b>

#### OVERALL POSITION OF DEFICIT OF MUNICIPAL COUNCILS/COMMITTEES

14.39 The analytical position given in the foregoing paragraphs brings out the following broad overall position:-

- (i) There is huge deficit even in the normal budget mainly on account of establishment expenditure which works out to about 104.25% of the

overall receipts of municipal councils/committees. It is likely to go up very substantially on account of the salaries and pensions.

- (ii) The public health system must be built up in the next 5 years and even after provision of substantial grants from the State budget, repayments to financial institutions like HUDCO/LIC will be necessary which will impose heavy burden on ULBs on account of interest/repayment of loans liability and maintenance costs of the services thus created. There will also be heavy burden on account of upgrading and maintenance of municipal roads.
- (iii) Faridabad Municipal Corporation is in somewhat better position but large investment is required there for augmenting water supply on the western side of the town for slum clearance and for augmentation of services in the 40 regularized colonies.
- (iv) We are assuming very substantial additional mobilization by the ULBs themselves as the rates of some taxes, fees and fines have not been revised since long or recovery is inadequate and we feel there is considerable scope for improving receipts from these sources.

14.40 The overall financial position which, thus, emerges is far from being satisfactory. There is considerable deficit right from the year 2001-02 which is likely to keep on increasing year after year. This deficit can only be met by the Government by way of sharing of taxes and grants-in-aid.

14.41 After considering the matter and its ramifications, we have suggested sharing of only the following State taxes, duties, fees etc.

- (i) 20% of net proceeds from taxes and motor vehicles.
- (ii) 50% of the net receipts from entertainment duty levied under the Punjab Entertainments Duty Act 1955 and the entire net receipts from the show tax levied under the Punjab Entertainment Tax (Cinematograph Shows) Act 1954.
- (iii) 20% of the royalty on minor minerals, the benefit of which is largely derived by the MC Faridabad in so far as the urban local bodies are concerned.
- (iv) Surcharge or tax on electricity to be increased to 10 paise per unit from the existing 5 paise per unit. Besides, the electricity consumed on street

light by the municipality may be charged on domestic rates and not on commercial rates.

14.42 We have reviewed the entire position and feel that even after all the resource mobilisation and devolution of taxes, the municipal councils/committees will continue to have enough deficit which can be bridged and that too partially, only by way of grants-in-aid from the State. It has also to be borne in mind that the ULBs are required to provide matching funds in order to avail of the annual adhoc grants which are being given (Rs. 732.80 lakh) in accordance with the recommendations of the 11th Finance Commission. Taking all these factors into account, the Commission is of the view that grants-in-aid of Rs. 50 per capita (based on 2001 census) should be provided to all the municipal committees as well as the municipal councils. It is worth mentioning that the expenditure to be provided for building the infrastructure in respect of municipal councils is much higher and their overall financial position is not very different from those of the municipal committees. A 10% escalation is also proposed to be provided every year to compensate the rise in costs. The year-wise grants-in-aid for the municipal councils/committees on the basis of population of 47.48 lakh would, thus, be as follows:-

	(Rs. in lakhs)				
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Grant-in-aid by the State	2374.00	2611.40	2872.54	3159.80	3475.77

14.43 While we have suggested devolution of a per capita grant of Rs. 50/- to municipal councils/committees to meet their fiscal gap, the need to raise resources at the local level need not be over-emphasized. The present system of the State Government periodically coming to the rescue of these bodies cannot be allowed to continue and these bodies will have to make serious efforts to tap resources at the local level. There is also an urgent need to initiate a drive to collect the outstanding arrears of taxes, fees, fines, etc. and the administrative machinery suitably geared up for this purpose. With a view to ensure that the municipalities make serious efforts in this direction, we recommend that the per capita grants to these bodies will be subject to fulfillment of the following conditions:-

- (i) The municipal councils and committees will be required to raise additional resources over the previous year to become eligible for these

grants. The quantum (in terms of percentage) of such additional resources to be generated will be fixed by the State Government.

- (ii) Annual targets will be set up by the State Government both with regard to collection of current dues as well as outstanding arrears of taxes. The sanction of grants will be subject to satisfactory completion of these targets by the committees/councils.
- (iii) The expenditure on staff as a percentage of income will have to be brought down from the existing level gradually. The State Government will fix norms in this regard for achievement.

14.44 As clearly brought out in the foregoing paragraphs, there is a huge deficit which keeps on increasing from year to year. This is in spite of the fact that we have estimated the additional expenditure on building the urban infrastructure on a very conservative basis and have taken into account all possible additional mobilization. We have tried to make a reasonable package for the devolution of taxes and grants-in-aid by the State Government inspite of the fact that its resources are severely strained because of policy changes at central level and mounting expenditure commitments at State level. We trust that the gap in the resources, if still subsists, will receive the attention of the 12th Central Finance Commission.

#### **LOAN LIABILITIES OF MUNICIPAL COUNCILS/COMMITTEES**

14.45 Another outstanding liability of the ULBs is regarding the loans (and interest thereon) which they have taken from State Government, LIC, GIC, HUDCO, etc. over the past several years. The ULBs are not in a position to repay these loans because of their poor financial condition. The outstanding loan liability ranges for period from 5 years to more than 20 years and over the years, the interest and penal interest has been accumulating. The outstanding loan liabilities are as below:-

<b>Sr. No.</b>	<b>Name of Organization</b>	<b>Amount ( Rs. in crores)</b>
1.	LIC	2.98
2.	GIC	0.87
3.	New India Insurance	0.19
4.	Insurance Company (Loan)	0.28
5.	Oriental Insurance Company	1.60
	<b>Total</b>	<b>5.92</b>

14.46 With regard to the above loans, we have been given to understand that the repayment till last year was being ensured by the State Government by adjusting a part of the annual instalments payable against the amounts due to the municipalities as their share in State excise. It is a fact that in the recent past, the State Government has been coming to the rescue of the municipalities for payment of salaries of staff by providing adhoc grants. Under these circumstances, it would be too difficult for the fund starved municipal bodies to repay the loans which they raised from the financial institutions and utilized for payment of salaries to their staff.

14.47 The Commission has considered the whole issue carefully in the context of the general finances of the municipalities and the state of affairs which have been in existence in the past few years. There does not seem to be any purpose in continuing to keep these loan liabilities on record when the State Government itself has been repeatedly coming to the rescue of the municipalities in the last few years and even for payment of salaries to their staff. We would, therefore, recommend that the liabilities, if any, both with regard to the principal as well as interest component of the loans payable to the State Government need to be waived off so that the local bodies can start with a clean slate in future. The same argument applies with regard to loan raised from the financial institutions and we recommend that the State Government may take over this responsibility of discharging the liability on account of loans taken by the municipalities from these institutions.

14.48 The Department of Urban Development has not reported the amount of State Government loans outstanding against the municipalities. In the given situation, the Commission is constrained to recommend waiver of State Government loans, if any, payable by the municipal bodies. However, the Commission recommends that the State Govt. should take over the responsibility of discharging the loan liability of Rs.5.92 crore due to be paid by the municipalities to the LIC, GIC and other insurance companies.

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## **CHAPTER - XV**

### **RESOURCE MOBILISATION FOR URBAN LOCAL BODIES AND SHARING OF TAXES**

15.1 The Commission is required to suggest the criterion governing the distribution between the State and the municipalities and among the municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the State, determination of sources of revenue to be assigned to the municipalities as well as grants-in-aid to the municipalities from the consolidated fund of the State. The Commission is also required to recommend measures to improve the financial position of the municipalities so that they are able to function as effective instruments of self-governance. During discussions held at various levels, the question of sharing of State resources was duly considered alongwith the question of earmarking certain levies for the sole benefit of the local bodies. However, the concensus was in favour of improving the resources of these bodies at the local level in such a way that they do not have to depend too much on State Government grants and are able to raise resources by their own efforts. The working group set up on “augmentation of resources” in the conference of State Finance Commissions has also strongly advocated such a policy of raising resources at the local level to ensure financial autonomy of these bodies and reduce their dependence on Government grants. The Commission, after careful consideration of the suggestions coming from the elected representatives, has decided to recommend certain measures in this regard. While making these recommendations, care has been taken to ensure that they serve as elastic sources of revenue and generate sizeable resources to the local bodies without creating any hardship to the poorer sections of society.

#### **1. OCTROI**

15.2 Octroi is a very elastic and profitable source of revenue to the local bodies throughout the country. The power to levy octroi is bestowed on the local bodies by virtue of entry 52 of the State list in the 7th schedule of the Constitution, whereby they are empowered to levy taxes on goods brought into local area for consumption, use or sale. In Haryana, octroi accounted for 60 to 66 percent of the total tax revenue of the municipal bodies upto its abolition w.e.f. 1.11.99. The position of octroi income is given in the following table:-

**Table 15.1**  
**Tax Revenue from Octroi**

(Rs. in lakhs)

<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
2834.97	3038.47	1966.00	-	-

15.3 There had been frequent criticism of octroi and pressure continued to build up for its abolition and replacement by a source of revenue which was easy to collect, involving no tax leakages and also did not lead to detention of vehicles and resultant delay in transport of goods. The Zakaria Committee (1963) had also recommended replacement of octroi by a terminal tax or by a surcharge on sales tax or by some other methods which should be free from the evils of the octroi system. Similar recommendations were made by the Taxation Inquiry Commission set up by the Govt. of India. Many other States had also abolished octroi and replaced it either with a surcharge on sales tax coupled with an entry tax on specific items. In Haryana, octroi stands abolished w.e.f. 1<sup>st</sup> November, 1999.

15.4 The Commission considered in detail the issue of octroi. It was observed that the experience regarding abolition of octroi had not been so good in many States. There is no denying the fact that abolition of octroi had wide repercussions on the functioning of the local bodies, especially, when there is no other matching or comparative source of income for exploitation. This measure led to greater dependence of the municipal bodies on State budgetary support, thereby, restricting their autonomy. In Gujrat State octroi, which was abolished in 1987, had to be re-introduced. States like Tamil Nadu and Karnatka levied surcharge on sales tax as a compensatory measure.

15.5 The local bodies are now saddled with wide responsibilities. Taking over of any taxing power or doing away with any major source of income would certainly lead to weaken their financial position. After careful consideration, the Commission has recommended sharing of LADT proceeds with the local bodies as a measure of matching resource. However, the State Government should also consider some other corresponding sources of income for exploitation by the municipal bodies as a measure of compensation.



## 2. PROPERTY TAX

15.6 Property tax is one of the major source of revenue for municipalities all over the country. It has been estimated that nearly 30 to 40% of municipal revenue is generated by this tax alone. Normally, this tax is levied in terms of annual rental value. The system of assessment on the basis of annual rental value is highly subjective giving rise to malpractices at every level. However, in view of the difficulties faced in knowing the actual rent charged for different categories of buildings and the prevailing malpractices, many States have delinked property tax from the rental value concept and have switched over to the area linked scheme based on standardized plinth area costs. This “unit area” value is to be determined based on location, structural characteristics, age of the building, use to which the building is put, quality of construction etc. The entire municipal area is divided into various zones/sub zones before calculating the “unit area” annual value. This system of estimation is quite simple and removes arbitrariness and bias from the process of assessment. Committees set up by different State Governments have also recommended such a step to ensure that the system of assessment is transparent apart from being simple to administer. Mention in this connection can be made of the States of Andhra Pradesh, Karnataka, Kerala, Tamilnadu, West Bengal, Bihar etc. which have already switched over to area linked system based on standardized plinth area costs. The other alternative based on capital value, namely, method of assessment of tax related to prevalent market value of property is being followed in West Bengal. Under this system, assessment can be made on the basis of capital value in standardized plinth area cost for varying locations and types of constructions. The system operative in Kerala and Tamilnadu appears to be more suited to a small State like Haryana. This system is based on floor area, whereby rental value is standardized per unit floor area of properties of different categories.

15.7 In the State of Haryana, property tax is a major source of tax revenue to the municipalities and constitutes 46% of their own revenues. The total annual realizations in 2001-02 were Rs.3003.42 lakh out of which Faridabad municipal corporation contributed Rs.1891.29 lakh, the municipal councils Rs.852.73 lakh and the committees Rs.259.40 lakh. In view of the fact that property tax will continue to be a very major source of tax revenue to municipalities, it was necessary to streamline the system of assessment by making it transparent and free from bias. The rental value method of assessment of property tax in Haryana was replaced by capital value system vide Notification No. 9/32/2001-5C 1, dated 13.12.2001. Now tax at the rate of 2.5% of

the annual value on residential buildings and 5% on commercial, industrial and institutional buildings is being levied.

15.8 Under the new system, the following formula is being adopted while assessing tax on land and residential, commercial, industrial and institutional buildings:-

i) Value of the property:	Depreciated value of the buildings plus value of the land at the Collector rate.
ii) Annual value of the property	5% of the value of the property.
iii) Rebate on annual maintenance	10% of the annual value of the property.
iv) Annual value after rebate	90% of the annual value
v) Tax on land and buildings	<p>a) 2.5% of the annual value after rebate for residential buildings.</p> <p>b) 5% of the annual value after rebate for commercial, industrial and institutional buildings.</p> <p>( in case of industrial and institutional buildings, the cost of vacant land shall not be taken into consideration for the purpose of value of the property.</p>

Note I:- (i) Depreciation @ 1% per year, maximum 50%.

(ii) The Cost of RCC/RBC Buildings @ Rs. 300/- per sq. ft.

(iii) The Cost of ACC/Wooden Batten Buildings @ Rs. 150/- per sq. ft.

Note II:(i) If the actual annual rent of the property is more than the annual rent calculated as per value of the property, then the actual annual rent of the property shall be taken into consideration.

(ii) If some units are being used for residential, commercial, industrial and institutional purposes combinately then the tax of each portion shall be assessed separately for residential, commercial, industrial and institutional purpose.

(iii) Appeals against taxation:- As per section 99 of the Haryana Municipal Act, 1973, appeal against the assessment or levy of any tax shall lie to the Deputy Commissioner or to such other officer as may be empowered by the State Government in this behalf.

- (iv) Limitation of appeal:- As per section 100 of the Haryana Municipal Act, 1973, no appeal shall lie in respect of tax on any land or building unless it is preferred within one month after the publication of the notice prescribed by section 79 or section 80 or section 81, as the case may be, and no appeal shall lie in respect of any other tax unless it is preferred within one month from the time when the demand for the tax is made. No appeal shall be entertained unless the appellant has paid all other municipal taxes due from him to the committee upto the date of such appeal.
- (v) Revision:- As per section 100 A of Haryana Municipal Act, 1973, any person aggrieved by an order passed in appeal under section 99 may within thirty days of communication to him of such order make an application in writing to the State Government for revision against the said order and the State Government may confirm, alter or rescind the said order.
- (vi) However, various types of properties are exempted from property tax like all buildings attached to religious, educational and charitable institutions, newly constructed residential buildings for three years, all residential buildings owned by widows or 100% handicapped, all buildings/lands owned by ex-servicemen and families of deceased soldiers, all vacant plots etc.

15.9 Under this new arrangement, there has been considerable increase in realizations, but the incidence will fall on properties with higher values and on comparatively more prosperous sections of society. However, in order to ensure that assessments do not operate harshly in individual cases, a cut off date (s) can be prescribed and it can be laid down that increases in the house tax under the new system may not be more than 75% or 100% of what had been assessed earlier. This system will, therefore, attain the twin objectives of increasing the receipts and at the same time putting the assessment on a rational basis, consistent with the use and type of building assessed. The Commission, therefore, recommends accordingly.

### **3. NON TAX REVENUE**

15.10 Non tax revenue of municipalities consists of charges, fees and fines levied by municipalities in lieu of services rendered. The beneficiaries should bear or pay a cost of public services provided for their benefit and availed by them. Municipal charges or fee comprises of development charges, rent, licence fee, fee for issue of births and

deaths registration, parking fee, tehbazari etc. The objective is to introduce an element of control and regulation. Fines are also imposed for violation of certain bye-laws of the municipalities and are charged by way of composition of an offence. While the non tax revenues may not constitute a very big percentage of the total revenues of municipalities but they play a vital part in the internal resource generation of the municipalities. In Haryana State, the non-tax revenue constituted 30.96% of the total own income of the municipal bodies in 2001-02.

15.11 The Commission has been told that certain rates of fees, charges and fines etc. have not been revised since long. This also applies to licences issued under dangerous and offensive trade bye laws, building bye-laws and a host of other bye-laws. The Urban Development Department has reported that rates of certain fees/charges were revised during 2000-01 and 2001-02. The Commission is of the firm opinion that rates of fees/charges must be updated periodically to boost revenues. Besides, the user charges should also continue to be updated from time to time so as to atleast cover the maintenance cost. This tendency would rather inculcate among the citizens a habit to pay for the services being availed by them. The Commission, therefore, observes that the municipal administration should be called for to review the fees/charges periodically for their updation so as to augment revenue of the municipalities.

## **SHARING OF STATE TAXES**

### **1. Entertainment Duty and Show Tax**

15.12 Entertainment tax is levied by all States basically on cinema halls/video parlours located in urban area. Many States also impose a surcharge as well as a show tax and the commercial taxation department is the agency which administers this Act. Entertainment tax/show tax is basically levied in lieu of all the municipal services being availed by the owners of cinema halls/video parlours. Since the entertainment tax is essentially local in character, being paid by the local residents, there is, thus, a strong case for passing on wholly or partly income from this source to the local bodies.

15.13 The entertainment duty and show tax are collected by the Excise and Taxation Department in Haryana under the provisions of "The Punjab Entertainments Duty Act, 1955" and "The Punjab Entertainments Tax (Cinematographs Shows) Act, 1954" respectively. The entertainment duty was levied at the rate of 125% over the past many years in the State. A show tax at the rate of 9% was charged on the total collection of entertainment duty before 1.07.2001 which was paid solely by the proprietor of the cinema. Now the show tax has been abolished in the State with effect

from 1.07.2001. The State Government reduced the rate of entertainment tax from 125% to 50% on the basic admission rates on cinema halls/video parlours and to 25% on all other entertainments w.e.f. 1.7.2001 with a view to encourage cinema industry in the State. The Government has also exempted swang, nautanki, natak and fish aquarium from entertainment duty. The entire proceeds of the entertainment duty as well as the show tax is deposited in the Government treasury and no part of this revenue is being presently shared with the municipalities. The actual collection from entertainment duty including show tax was Rs.10.04 crore in the year 2000-01 comprising Rs.89 lakh as show tax and the balance i.e. Rs.915 lakh as entertainment duty.

15.14 The Zakaria Committee set up to recommend measures for augmentation of financial resources of urban bodies (1963) recommended that to begin with atleast 25% of the proceeds of entertainment tax should be earmarked for the urban local bodies. It further advocated gradually raising this percentage so that ultimately the entire proceeds of this tax are assigned to the urban local bodies. It further recommended that the entire proceeds of any surcharge, being levied or to be levied in future on entertainment tax, should be straightway passed on to the local bodies. The theatre tax or the show tax should be administered by the bodies themselves but in case these taxes are levied by the State, their proceeds should be earmarked for the local bodies. With regard to distribution of this income between the municipalities, the committee felt that it need not necessarily be either on the basis of population or the source from which the tax originated. The Zakaria Committee was in favour of the matter being left to the discretion of the State Government to distribute it on the basis of the needs of different local bodies.

15.15 A part of this income is passed on to the local bodies almost in all the States. Various Committees and Commissions set up by the Government of India or by different State Governments have also been in favour of passing on a major part of this income to the local bodies. The 1<sup>st</sup> State Finance Commission had also recommended transfer of 50% of net income from entertainment tax and entire net income from show tax to the urban local bodies. We have found substantial force in the argument for giving a major share of this income to the municipalities. Against this background, we are of the opinion that the dispensation suggested by the earlier State Finance Commission should continue and, thus, we recommend that 50% of the net income from the entertainment duty should be passed on to the urban local bodies by the State Government. As regards the show tax, presently, it stands abolished. Even if levied, it would be paid by the proprietors. The Commission is of the view that the show tax

should be re-imposed on entertainment duty at the rate of 10% and the entire amount should be passed on to the concerned municipality within whose area the collection is made. As regards the mode of distribution of the proceeds from entertainment duty, the Commission recommends that this may be done on the basis of collection within the limits of each municipality. In case the State proposes to introduce any surcharge or additional entertainment duty in future, the income on this account should also be passed on to the concerned municipality. The implementation of this recommendation is likely to benefit the municipalities between Rs. 5.00 to 6.00 crore per annum.

## **2. Taxes on vehicles**

15.16 Motor vehicles of different descriptions are registered under the provisions of the Indian Motor Vehicles Act, 1988 and Rules made there under. Taxes/fees are levied under the provisions of Punjab Motor Vehicles Taxation Act/Rules as applicable to the State of Haryana. Vehicle tax has been a good source of income to the States but the local bodies have been demanding their share of revenue since the infrastructure of the cities, especially, roads are used by the transporters and vehicles of different categories put a lot of pressure on other urban infrastructure. The total income realized by the State Transport Department from vehicle tax in the year 2000-01 and 2001-02 was of the order of Rs. 85.69 crore and Rs. 103.62 crore respectively.

15.17 The Commission has been given to understand that in many other States some percentage of this tax is transferred to the municipalities. The Zakaria Committee had also recommended that 25% of the proceeds from vehicle tax should be transferred to the urban local bodies. Similar recommendations were made by the Rural Urban Relationship Committee (1966), Central Council of Local Govt. and Urban Development and the All India Council of Mayors(1970 to 1988), wherein it was strongly argued that a substantial share of motor vehicle tax should be devolved to the urban local bodies. The 1<sup>st</sup> State Finance Commission also recommended that 20% of the net proceeds of vehicle tax be transferred to the urban local bodies. There is no denying the fact that the increased volume of vehicular traffic puts heavy pressure on urban infrastructure and particularly the roads and most of the municipalities are not in a position to bear the maintenance cost. Thus, sharing of motor vehicle tax with the municipalities would be a justifiable proposition in view of the practice prevailing in many States and other reasons mentioned above. We, therefore, recommend that 20 percent of the net proceeds from vehicle tax should be transferred to the urban local bodies. As regards interse distribution among the municipal bodies, 50% of the share be allocated on the basis of population ratio and the balance 50% on other criteria related to total road length and their maintenance cost or some other reasonable criteria to be laid down by the State

Government. However, to ensure proper utilization of the devolved funds and to check their diversions, the channelisation of funds should be strictly earmarked for maintenance of urban roads. Our this recommendation is expected to make available an amount of about Rs. 21.00 crore annually to the urban local bodies for proper maintenance and upkeep of urban roads.

15.18 We are further given to understand that funds from other agencies are also made available on and off for repairs of municipal roads. We have also come to know that a substantial part of Local Area Development Tax (LADT) is being earmarked for maintenance of urban roads.

While making devolution under this head to the municipalities, the above factors would have to be kept in mind so as to make suitable adjustments wherever called for.

### **3. Tax on the consumption of electricity in municipal areas**

15.19 Under the provisions of the Haryana Municipal Act, a tax on the consumption of electricity at the rate of one paisa per unit of electricity consumed within the limits of the municipality can be levied subject to general or special orders of the State Government. The State Government vide its notification dated 28.12.90 decided that each municipal committee shall impose this tax within a period of one year from the date of issue of the notification on the basis of resolution to be passed by the individual municipality. But factually, this levy came in operation from 1.7.92 in all municipalities uniformly at the rate of one paisa per unit. This levy was to be collected by the power utilities and paid to the concerned municipality in the same manner as Electricity Duty is paid by the Power Utilities to the State Govt. Subsequently, the State Govt., vide order dated 16<sup>th</sup> May, 2000, revised the rate of tax on electricity from one paisa to five paise per unit of electricity consumed within municipal limit. The share of municipalities in this tax was Rs.180.16 lakh and 280.94 lakh in the years 2000-01 and 2001-02 respectively.

15.20 The following issues came up before the Commission for discussion in regard to this tax:-

- i) No proper system is followed by the power utilities for payment of this tax as well as for maintenance of accounts with the result that the municipalities are not aware of their due share from this tax. Power utilities should therefore render municipality-wise accounts on a periodical basis.

- ii) This surcharge of 5 paise per unit needs to be enhanced atleast to 10 paise with a view to improve the financial position of municipalities and the pending payments of energy bills be sorted out at the earliest.
- iii) The power utilities are charging commercial rates for the energy consumed for street-lighting as well as water supply. These are basic civic amenities being provided by the municipalities. Thus, there is no justification for charging commercial rates instead domestic rates should be charged on electricity consumed for street lighting and water supply.

15.21 After careful consideration of the above issues, the Commission is of the opinion that some elastic source of revenue coupled with faster delivery and regular flow should be assigned to the municipalities. The tax on the consumption of electricity mentioned above fulfils this broad criteria adopted by the Commission. We, therefore, recommend that surcharge or tax on electricity at the existing rate of 5 paise per unit of electricity consumed within municipal area should continue. At the present level of realization, the annual share of municipalities is about Rs. 5 to 6 crore. This would go on increasing in subsequent years due to larger demand and consumption of electricity in the municipal areas.

15.22 As regards the issue pertaining to charging of commercial rates on street lighting and water supply, the power utilities have pleaded that all consumers other than residential (excluding agriculture) are treated uniformly. It would, therefore, be difficult to make an exception and treat street-lighting and water supply at par with domestic consumption of electricity. This argument has some validity in view of the commercial nature of operations of the power utilities as it can not afford to provide subsidized supply of power to all categories of consumers. But since the local bodies have been called upon to discharge the social obligation of providing civic amenities to the public, some moderate approach should be adopted by the power utilities/ State Govt. in dealing with local bodies. The Commission is of the view that this issue should be considered by the State Govt. and if possible, some affordable relief on this account may be provided to the municipalities.

15.23 As regards use of land and other property of municipality by the power utilities, we recommend to the State Government to consider the issue favourably and suitable compensation be provided to the municipalities on the basis of a formula to be decided by the State Government. The compensation need not necessarily be at market rates, but it should be such that the municipality is reasonably compensated for the loss of its property.



## **LOCAL AREA DEVELOPMENT TAX (LADT)**

15.24 Abolition of octroi has taken away a substantial source of revenue of the urban local bodies. The State Government has levied Local Area Development Tax (LADT), the net proceeds of which are shareable with the rural and urban local bodies. The mechanism of devolution of LADT proceeds and other modalities have been explained in detail under chapter IX of this report. The State Government has implemented the recommendations of the High Powered Committee that 35% of the net proceeds of LADT should be transferred to the urban local bodies and the balance 65% to the PRIs. The receipts from LADT were Rs.19.53 crore in 2000-01 and Rs.128.85 crore during 2001-02. After retaining collection charges at the rate of 5% i.e. about Rs.7.42 crore, the net receipts shareable with the rural and urban local bodies workout to Rs.140.96 crore. The share of municipalities at the rate of 35% works out to Rs.49.34 crore per annum, which has to be utilized on the services facilitating trade and industry, the most important being maintenance and development of roads and water supply in urban areas. We endorse this decision of the State Government and thus, recommend that 35% of the net proceeds of LADT be devolved to the municipalities to be utilized on capital works as per the guidelines of the State Government as well as the provisions contained in LADT Act, 2000. However, suitable adjustments may be made in respect of maintenance of roads and water supply being carried by the Govt. departments. The balance funds may be transferred to the municipalities in the form of assignments and compensation. As worked out in chapter IX, assignment to municipalities on this account works to Rs. 10.00 crore per annum.

## **OVERALL POSITION**

15.25 The schedules of rates of taxes/fee/surcharge and fines etc. have not been increased since long in many cases. We are of the opinion that even a moderate periodical revision in respect of these levies can generate sizeable income to the municipalities. Concerted efforts are also required for tightening of tax administration, plugging leakages and mal-practices, effecting prompt recoveries from existing sources, tapping of new avenues for strengthening tax base of urban local bodies etc.

15.26 The total tax devolution to the ULBs, as per the recommendations made in this chapter, works out to Rs.48.72 crore per annum as under:-

Sr. No.	Source	Share of ULBs	Tax devolutions for 2001-02 (Rs. in crores)
i.	Entertainment Duty and Show Tax (Entt. Duty = 10.00 crore) (Show Tax = 1.00 crore)	(i) 50% of the net income from Entt. Tax/Duty on the basis of origin. (ii) Entire show tax if levied at the rate of 10% on the basis of origin.	6.00
ii.	Taxes on Vehicles (Rs.103.62 crore)	20% of net proceeds (50% on the basis of population and 50% on criteria related to road length etc.)	20.72
iii.	Royalty on Minor Minerals (Total Rs.120 crore of which 50% is Rs.60 crore)	20% of the net income to the panchayats and municipalities.	12.00
iv.	Local Area Development Tax (LADT) (Rs.140.96 crore after deductions of 5% collection charges)	35% of net proceeds from LADT (adjusted for maintenance of roads and water supply in urban areas)	10.00
	<b>Total Devolution to ULBs per annum (2001-02)</b>		<b>48.72</b>

15.27 An annual escalation of 10% is also recommended on the annual tax devolution of Rs.48.72 crore for the next four years upto 2005-06. Thus, the overall scenario of tax sharing between the State Government and the municipalities covering the period of five years from 2001-02 to 2005-06, as per the Commission's recommendations, would be as under:-

#### **Tax Devolution to ULBs 2001-02 to 2005-06**

(Rs. in crores)							
	Source	2001-02	2002-03	2003-04	2004-05	2005-06	Total (2001-06)
i.	Entertainment Duty and Show Tax	6.00	6.60	7.26	7.98	8.78	36.62
ii.	Taxes on Vehicles	20.72	22.79	25.07	27.58	30.34	126.50
iii.	Royalty on Minor Minerals	12.00	13.20	14.52	15.97	17.57	73.26
iv.	Local Area Dev. Tax (LADT)	10.00	11.00	12.09	13.33	14.68	61.10
	<b>Total devolution to ULBs</b>	<b>48.72</b>	<b>53.59</b>	<b>58.94</b>	<b>64.86</b>	<b>71.37</b>	<b>297.48</b>

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## CHAPTER - XVI

### FARIDABAD MUNICIPAL CORPORATION (FMC)

#### BUDGETARY TRENDS AND FINANCIAL PROJECTIONS

16.1 Faridabad-Ballabgarh urban area is situated on Delhi-Mathura road near Delhi Haryana border. It is one of the largest urban agglomeration in Haryana consisting of three towns namely-Faridabad Old, Ballabgarh and NIT Faridabad. As located within 40 km radius of Delhi, this is one of the recommended major ring towns around Delhi as per Delhi Master Plan approved by the Government of India in 1962. Keeping in view the objectives of the Delhi Master Plan, the first development plan for Faridabad-Ballabgarh controlled area was published in 1966 for an urbanisable area of 8810 acres for a population of 3.50 lakh by 1981 A.D. The emerging population trends necessitated its amendment from time to time and according to the final Development Plan published in December, 1991, it has been planned for a population of 17.5 lakh by 2011 A.D.

#### POPULATION

16.2 Population growth in Faridabad-Ballabgarh urban area has been as under:-

Year	Population (in lakhs)	Decennial %age of growth
1961	0.56	-
1971	1.22	117.86
1981	3.27	168.03
1991	6.18	88.99
2001	10.55	70.71

16.3 Keeping in view the past trends it is assumed that population of this urban area will be around 17.5 lakh by the year 2011 A.D.

#### EXTENT OF LAND USE PROPOSALS

16.4 The Development plan of “Faridabad-Balabgarh Controlled Area” has been designed keeping in view the over-all town density of 45 persons per acre. In

order to accommodate 17.5 lakh population by 2011 A.D., an urbanisable area of 38743 acres is being planned. The extent of various land uses is as under:-

#### EXTENT OF LAND USES

Sr. No.	Land uses	Total land (in acres)	Percentage of total area	No. of sectors
1.	Residential	19262	49.71	67
2.	Industrial	7749	20.00	21
3.	Commercial	1910	4.93	5
4.	Transport & Communication	3840	9.91	3
5.	Public & Semi Public uses	1310	3.38	3
6.	Public Utilities	382	0.99	-
7.	Open spaces, Parks & Green belts.	3199	8.26	-
8.	Special Zone	1091	2.82	1
	<b>Total</b>	<b>38743</b>	<b>100.00</b>	

16.5 The overall picture of receipts and expenditure in the FMC area is as under:-

**TABLE 16.1**  
**INCOME & EXPENDITURE 1996-97 TO 2001-02**

Year	Income (Rs. in lakhs)	Per Capita (Rs.)	Expenditure (Rs. in lakhs)	Per Capita (Rs.)
1996-97	9275.30	1109.03	9107.35	1088.94
1997-98	5544.39	629.99	5561.64	631.95
1998-99	5370.21	581.32	5358.68	580.07
1999-2000	7672.14	792.97	5947.38	614.70
2000-01	5061.98	500.57	6999.57	692.17
2001-02	8316.77	788.33	7469.35	708.01

16.6 The following table gives the item-wise details of income from the year 1996-02.

**TABLE 16. 2**

(Rs. in lakhs)

**1. CAPITAL INCOME**

Sr. No.	Name of Head	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
1.	Grants in aid for Y.A.P.	4416.50	892.00	600.00	244.00	185.00	-
2.	Grants in aid for slum clearance	123.91	39.38	70.24	14.00	39.67	36.61
3.	Grants in aid for ADC Fund	-	-	-	31.32	22.84	3.21
4.	Special grants for employees	-	-	-	193.41	75.00	62.09
5.	Others	5.15	-6.99	20.37	62.24	191.88	1634.91
	<b>Total</b>	<b>4545.56</b>	<b>924.39</b>	<b>690.61</b>	<b>544.97</b>	<b>514.39</b>	<b>1736.82</b>

**(2) TAXES**

(a)	House Tax	499.80	543.39	662.41	643.39	1586.02	1891.29
(b)	Octroi	1714.91	1596.26	1829.75	1066.44	-	-
(c)	Water Rates	337.44	357.03	360.37	318.67	511.51	551.22
(d)	Show tax	1.17	1.04	0.45	0.55	1.26	11.34
(e)	Fire tax	-	-	-	-	13.10	41.50
(f)	Professional tax	-	-	-	-	31.10	48.36
(g)	Vehicle tax	-	-	-	-	-	60.01
	<b>Total</b>	<b>2553.32</b>	<b>2497.72</b>	<b>2852.98</b>	<b>2029.05</b>	<b>2142.99</b>	<b>2603.72</b>

**(3) LICENCES & FEES**

1	Stamp Duty on sale of property	485.41	619.63	446.01	378.99	598.95	1159.45
2	Income from Panchayats	65.63	59.28	107.18	183.79	10.31	141.51
3	Dangerous and Offensive Trades U/s130 & 131	11.37	8.87	28.81	24.15	154.79	108.39
4	Application Fee	4.27	27.25	22.27	1.27	51.68	173.07

5	Tehbazari Fee	5.24	7.10	11.05	5.56	7.40	8.91
6	Sewerage charges	36.19	31.90	26.69	19.71	17.10	9.83
7	Pure Food Act	0.31	0.80	0.60	8.51	21.36	21.04
8	Extention Fee for HUDA	192.24	298.46	175.20	324.84	430.72	1312.36
9	Others	42.95	42.89	27.07	42.27	30.13	24.25
	<b>Total</b>	<b>843.61</b>	<b>1096.18</b>	<b>844.88</b>	<b>989.09</b>	<b>1322.44</b>	<b>2958.81</b>

#### 4. MISCELLANEOUS

(a)	Miscellaneous un-classified income	83.10	89.04	86.21	78.42	89.30	139.22
(b)	Municipal Land	1172.54	784.29	723.27	3805.48	809.21	517.43
(c)	Births & Deaths Copying Fee	0.48	0.83	0.55	0.74	5.24	1.29
(d)	Removal of Dead Carcass	16.93	23.78	8.65	8.47	10.83	11.69
(j)	Development charges	34.76	106.59	118.05	159.40	81.14	153.71
(k)	Others	25.00	21.57	45.01	56.52	86.44	194.08
	<b>TOTAL</b>	<b>1332.81</b>	<b>1026.10</b>	<b>981.74</b>	<b>4109.03</b>	<b>1082.16</b>	<b>1017.42</b>

**Table 16.3**

#### ABSTRACT OF ACTUAL INCOME DURING LAST SIX YEARS

(Rs. in lakhs)

Sr. No.	Name of Head	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
(a)	Capital Income	4545.56	924.39	690.61	544.97	514.39	1736.82
(b)	Taxes	2553.32	2497.72	2852.98	2029.05	2142.99	2603.72
(c)	Licences & Fee	843.61	1096.18	844.88	989.09	1322.44	2958.81
(d)	Misc. Income	1332.81	1026.10	981.74	4109.03	1082.16	1017.42
	<b>GRAND TOTAL</b>	<b>9275.30</b>	<b>5544.39</b>	<b>5370.21</b>	<b>7672.14</b>	<b>5061.98</b>	<b>8316.77</b>

16.7 The following table gives the item wise details of expenditure from the year 1996-02.

**Table 16.4**  
**ABSTRACT OF EXPENDITURE (1996-97 TO 2001-02)**

(Rs. in lakhs)

Sr. No	Name of Head	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
1.	General Salary	2118.45	2498.90	2460.84	2747.64	3669.91	3331.32
2.	Contingency	123.37	109.83	114.21	121.20	122.89	112.49
3.	<b>Original Works</b>	<b>6702.50</b>	<b>2806.39</b>	<b>2662.41</b>	<b>2955.86</b>	<b>3062.12</b>	<b>3927.44</b>
	(i) Street lights	263.45	285.22	292.73	271.46	260.22	175.07
	(ii) Drainage	134.48	59.51	93.24	163.63	215.25	181.05
	(iii) Water Supply	1206.57	1274.08	1353.17	1572.09	1605.16	2729.69
	(iv) Roads	390.08	149.43	196.16	342.19	470.26	637.86
	(v) Slum Grants	49.65	40.86	17.81	148.47	69.19	30.34
	(vi) Others	4658.27	997.29	709.30	458.02	442.04	173.43
4.	Miscellaneous	163.03	146.52	121.22	122.68	144.65	98.10
	<b>Total</b>	<b>9107.35</b>	<b>5561.64</b>	<b>5358.68</b>	<b>5947.38</b>	<b>6999.57</b>	<b>7469.35</b>

16.8 We may also have a closer look at the receipts from house-tax and octroi which is the main sources of tax revenue. The receipts from these sources are again given below for ready reference.

**TABLE 16.5**  
**DETAILS OF PROPERTY TAX & OCTROI**

(Rs. in lakhs)

Head	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Property tax/House tax	499.80	543.39	662.41	643.39	1586.02	1891.29
Octroi	1714.91	1596.26	1829.75	1066.44	-	-

16.9 It will be seen that the income from House tax has gone up due to new policy of House tax assessment and income from octroi has ceased to exist due to its abolition w.e.f. 1.11.1999.

16.10 On the top of it, even though the assessments are quite low as compared to the potential, there are huge arrears as would be clear from the following table:-

**TABLE 16.6**  
**PROPERTY TAX COLLECTED/OUTSTANDING**

(Rs. in lakhs)

Year	Property tax demanded (including arrears)	Property tax collected	Outstanding
1996-97	959.00	499.80	459.20
1997-98	1209.00	543.39	665.61
1998-99	1375.62	662.41	713.21
1999-2000	1782.04	643.39	1138.65
2000-01	2120.62	1586.02	534.60
2001-02	2510.42	1891.29	619.13

16.11 The arrears of property tax are piling up since last many years and no serious efforts seem to have been made by the corporation to collect the huge arrears and simultaneously curtail the number of exemptions allowed. Out of the demand of Rs. 2510.42 lakh for the year 2001-02, the property tax outstanding is Rs. 619.13 lakh. It shows that 25% property tax has not been collected by the corporation. The Commission is of the view that strenuous effort should be made to collect the property tax.

#### **PROJECTED INCOME AND EXPENDITURE BY 2006**

16.12 Municipal Corporation Faridabad has worked out the projected income during next five years in their regular budget by taking 10% annual increase in income under each head and by adjusting actual/assured income from sale of land. Details of projected income under various heads are given in the following table:-



TABLE 16.7

## INCOME PROJECTIONS DURING THE NEXT FIVE YEARS

(WITH 2001-02 AS THE BASE)

## 1. CAPITAL INCOME

(Rs. in lakhs)

Sr. No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06
1)	Grants for slum clearance	36.61 (2.11)	40.27 (2.11)	44.30 (2.11)	48.73 (2.11)	53.60 (2.11)
2)	Grants for ADC Fund	3.21 (0.18)	3.53 (0.18)	3.88 (0.18)	4.27 (0.18)	4.70 (0.18)
3)	Special grants for employees	62.09 (3.58)	68.30 (3.58)	75.13 (3.58)	82.64 (3.58)	90.91 (3.58)
4)	Others	1634.91 (94.13)	1798.40 (94.13)	1978.24 (94.13)	2176.07 (94.13)	2393.67 (94.13)
	<b>Total</b>	<b>1736.82</b> <b>(100.00)</b>	<b>1910.50</b> <b>(100.00)</b>	<b>2101.55</b> <b>(100.00)</b>	<b>2311.71</b> <b>(100.00)</b>	<b>2542.88</b> <b>(100.00)</b>

## 2. TAXES

a)	House Tax	1891.29 (72.64)	2080.42 (72.64)	2288.46 (72.64)	2517.31 (72.64)	2769.04 (72.64)
b)	Octroi	-	-	-	-	-
c)	Water Rates	551.22 (21.17)	606.34 (21.17)	666.97 (21.17)	733.67 (21.17)	807.04 (21.17)
d)	Show tax	11.34 (0.44)	12.47 (0.44)	13.72 (0.44)	15.09 (0.44)	16.60 (0.44)
e)	Fire tax	41.50 (1.59)	45.65 (1.59)	50.22 (1.59)	55.24 (1.59)	60.76 (1.59)
f)	Professional tax	48.36 (1.86)	53.20 (1.86)	58.52 (1.86)	64.37 (1.86)	70.81 (1.86)
g)	Vehicle tax	60.01 (2.30)	66.01 (2.30)	72.61 (2.30)	79.87 (2.30)	87.86 (2.30)
	<b>Total</b>	<b>2603.72</b> <b>(100.00)</b>	<b>2864.09</b> <b>(100.00)</b>	<b>3150.50</b> <b>(100.00)</b>	<b>3465.55</b> <b>(100.00)</b>	<b>3812.11</b> <b>(100.00)</b>

### 3. LICENCES & FEES

1	Stamp Duty on sale of property	1159.45 (39.19)	1275.39 (39.19)	1402.93 (39.19)	1543.22 (39.19)	1697.54 (39.19)
2	Income from Panchayats	141.51 (4.78)	155.66 (4.78)	171.23 (4.78)	188.35 (4.78)	207.18 (4.78)
3	Dangerous and Offensive Trades U/s 130& 131	108.39 (3.66)	119.23 (3.66)	131.15 (3.66)	144.26 (3.66)	158.69 (3.66)
4	Application Fee	173.07 (5.85)	190.38 (5.85)	209.42 (5.85)	230.36 (5.85)	253.40 (5.85)
5	Tehbazari Fee	8.91 (0.30)	9.80 (0.30)	10.78 (0.30)	11.86 (0.30)	13.04 (0.30)
6	Sewerage charges	9.83 (0.33)	10.81 (0.33)	11.89 (0.33)	13.08 (0.33)	14.39 (0.33)
7	Pure Food Act	21.04 (0.71)	23.14 (0.71)	25.46 (0.71)	28.01 (0.71)	30.81 (0.71)
8	Extention Fee for HUDA	1312.36 (44.36)	1443.60 (44.36)	1587.96 (44.36)	1746.76 (44.36)	1921.44 (44.36)
9	Others	24.25 (0.82)	26.68 (0.82)	29.34 (0.82)	32.28 (0.82)	35.50 (0.82)
	<b>Total</b>	<b>2958.81 (100.00)</b>	<b>3254.69 (100.00)</b>	<b>3580.16 (100.00)</b>	<b>3938.18 (100.00)</b>	<b>4331.99 (100.00)</b>

### 4. MISC.

1	Miscellaneous un-classified income	139.22 (13.68)	153.14 (13.68)	168.45 (13.68)	185.29 (13.68)	203.82 (13.68)
2	Municipal Land	517.43 (50.85)	569.17 (50.85)	626.09 (50.85)	688.70 (50.85)	757.57 (50.85)
3	Births & Deaths Copying Fee	1.29 (0.13)	1.42 (0.13)	1.56 (0.13)	1.72 (0.13)	1.89 (0.13)
4	Removal of Dead Carcass	11.69 (1.15)	12.86 (1.15)	14.15 (1.15)	15.56 (1.15)	17.12 (1.15)
5	Development charges	153.71 (15.11)	169.08 (15.11)	185.99 (15.11)	204.59 (15.11)	225.05 (15.11)
6	Others	194.08 (19.08)	213.49 (19.08)	234.84 (19.08)	258.33 (19.08)	284.16 (19.08)
	<b>TOTAL</b>	<b>1017.42 (100.00)</b>	<b>1119.16 (100.00)</b>	<b>1231.08 (100.00)</b>	<b>1354.19 (100.00)</b>	<b>1489.61 (100.00)</b>

**SUMMARY OF INCOME PROJECTIONS DURING THE NEXT FIVE YEARS  
(WITH 2000-01 AS THE BASE)**

(Rs. in lakhs)

S.No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Capital income	1736.82 (20.88)	1910.50 (20.88)	2101.55 (20.88)	2311.71 (20.88)	2542.88 (20.88)
2.	Taxes	2603.72 (31.31)	2864.09 (31.31)	3150.50 (31.31)	3465.55 (31.31)	3812.11 (31.31)
3.	Licences & fees	2958.81 (35.58)	3254.69 (35.58)	3580.16 (35.58)	3938.18 (35.58)	4331.99 (35.58)
4.	Misc.	1017.42 (12.23)	1119.16 (12.23)	1231.08 (12.23)	1354.19 (12.23)	1489.61 (12.23)
	<b>Total</b>	<b>8316.77 (100.00)</b>	<b>9148.44 (100.00)</b>	<b>10063.29 (100.00)</b>	<b>11069.63 (100.00)</b>	<b>12176.59 (100.00)</b>

**PROJECTED EXPENDITURE FOR NEXT FIVE YEARS (2001-02 to 2005-06)**

16.13 Projections of expenditure for the next five years have been worked out by taking 10% normal increase in expenditure against salary, contingency, miscellaneous and original works. Details of projected expenditure are given in the following table:-

**Table 16.8**

(Rs. in lakhs)

Sr. No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06
1.	General Salary	3331.32 (44.60)	3664.45 (44.60)	4030.90 (44.60)	4433.99 (44.60)	4877.39 (44.60)
2.	Contingencies	112.49 (1.51)	123.74 (1.51)	136.10 (1.51)	149.71 (1.51)	164.68 (1.51)
3.	Original works	3927.44 (52.58)	4320.18 (52.58)	4752.20 (52.58)	5227.42 (52.58)	5750.16 (52.58)
	(i) Street Lights	175.07	192.58	211.84	233.02	256.32
	(ii) Drainage	181.05	199.16	219.06	240.97	265.07
	(iii) Water Supply	2729.69	3002.66	3302.93	3633.22	3996.54
	(iv) Roads	637.86	701.65	771.81	848.99	933.89
	(v) Slum Grants	30.34	33.37	36.71	40.38	44.42
	(vi) Others	173.43	190.76	209.85	230.84	253.92

4.	Miscellaneous	98.10 (1.31)	107.91 (1.31)	118.71 (1.31)	130.58 (1.31)	143.64 (1.31)
	<b>Total</b>	<b>7469.35</b> <b>(100.00)</b>	<b>8216.28</b> <b>(100.00)</b>	<b>9037.91</b> <b>(100.00)</b>	<b>9941.70</b> <b>(100.00)</b>	<b>10935.87</b> <b>(100.00)</b>

**Projected requirements of funds for 2001-02 to 2005-06  
for on going and regular schemes**

(Rs. in lakhs)

		2001-02	2002-03	2003-04	2004-05	2005-06	Total
1	Receipts	8316.77	9148.44	10063.29	11069.63	12176.59	50774.72
2.	Expenditure	7469.35	8216.28	9037.91	9941.70	10935.87	45601.11
3.	<b>Surplus</b>	<b>847.42</b>	<b>932.16</b>	<b>1025.38</b>	<b>1127.93</b>	<b>1240.72</b>	<b>5173.61</b>

16.14 While making observations on the financial position emerged in the past and the projections worked out till the year 2005-06, it may be stated that the per capita figures (para 16.5) give a somewhat rosy picture in as much as the per capita expenditure in the FMC area in the year 2001-02 was Rs.708.01 which was much higher than the corresponding figures in other municipal areas in the State. The figures of receipt and expenditure in respect of FMC include figures on account of water charges whereas the receipt and expenditure on this account are shown in the Public Health Department receipts in respect of other 68 municipal towns as water supply in these areas is managed by the PH Department. Moreover, there is a very large income from the sale of land and municipal buildings which has been of the order of Rs. 5.77 crore per annum which is not one of the normal receipts in other municipalities. If we exclude these two items for the purpose of comparison, the per capita receipts even in the FMC area as at present would not be materially different from the per capita income of the other municipal councils in the State.

16.15 While making the projections for the five year period 2001-06, the overall income is shown to go up to Rs. 121.76 crore in the year 2005-06 against expenditure of Rs. 109.36 crore. During the year 2001-02, the salary bill is estimated at Rs. 33.31 crore which constitutes about 45% of the total estimated expenditure of Rs. 74.69 crore in that year. It may, thus, be concluded that further expansion of staff would have to be severely restricted atleast in the services sector besides a large scale recourse to privatization in this regard.

16.16 It may be stated that the amount of Rs. 33.31 crore shown as salary during 2001-02 includes not only expenditure on general administration but also the

expenditure on staff engaged on water supply and other municipal works. A large part i.e. Rs. 7.62 crore is on account of staff engaged on water supply alone. In fact the deficit on account of water supply is a matter of serious concern. The part of the town lying on the western side of the Delhi-Mathura road is severely starved of water because the underground water is brackish and as such it has become necessary to take up a major water supply project for lifting water from the bed of the river Yamuna. Accordingly, a major scheme for installing Ranney wells has been proposed and finds a place in the FMC's perspective plan.

16.17 Another serious problem relates to the recovery of external development charges from unauthorised colonies. The Government has been approving various unauthorised colonies in earlier complex areas and the present corporation areas from time to time. There are 47 unauthorised colonies in FMC.

16.18 A distressing fact brought to our notice is that the amounts received as external development charges have not been reserved for the development of the areas covered under the schemes but the funds so made available have been spent/diverted to provide services to other developed areas elsewhere. Another major problem which could now be faced while formulating Town Planning Schemes is that Section 203 (1) of the Haryana Municipal Act, 1973 (comparable to section 267(1) (c) of the Haryana Municipal Corporation Act, 1994) has been struck down by the Supreme Court vide their order of July 15, 1994 and henceforth it would become necessary to pay compensation for land acquired for public purpose including that used for public streets. The other major problem of course is that of realizing the external development charges and while these can be realized under section 130 of the Municipal Corporation Act by declaring them as arrears of land revenue, the procedure is quite cumbersome. There are no ready answers or solutions for these problems but a way has to be found out by the FMC administration and the Local Government Department so that additional resources are made available for undertaking urgent development works. The Commission feels that the feasibility of promulgating a separate enactment for the recovery of such external development and other charges should be urgently examined.

16.19 Faridabad is facing a very major problem of slums in as much as out of the population 10.55 lakh in the year 2001, over 2.0 lakh population is comprised in jhuggi clusters. While some of these jhuggi clusters are located on public parks and others on municipal lands, some clusters are either on HUDA land or on the evacuee land which is with the Rehabilitation Department. This problem has to be tackled on an urgent basis if Faridabad is to grow into a model satellite town of Delhi and this would

involve considerable expenditure which has not been included in the normal budgetary projections.

## **WATER RATES**

16.20 At present municipal corporation, Faridabad is providing 380 lakh gallons of water per day from 400 tubewells. Due to decrease in the underground water level the discharge of these tubewells vary from 2500 gallons to 12000 gallons per hour, whereas the operational costs like salary, energy charges and maintenance etc. remain almost the same for all the tubewells.

The details of maintenance expenditure on existing water supply is given in the following table:-

**TABLE 16.9**  
**MAINTENANCE COST OF WATER SUPPLY(EXISTING)**

(Rs. in lakhs)

S.No.	Name of Head	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Water Supply Salary	761.59	837.75	921.53	1013.68	1115.05
2.	Water Supply original works	2729.69	3002.66	3302.93	3633.22	3996.54
3.	Water Supply contingency	8.80	9.68	10.65	11.71	12.28
	<b>Total</b>	<b>3500.08</b>	<b>3850.09</b>	<b>4235.11</b>	<b>4658.61</b>	<b>5123.87</b>

Production cost per thousand litres of water = **Rs. 3.40**

16.21 From perusal of the above table it will be seen that as on date the cost of production per thousand litres of water comes to Rs. 3.40. The FMC recovers an amount of Rs. 551.22 lakh as water charges per year @ Rs.3.40 per thousand litres for domestic consumption. At present 85% of the consumption is for domestic purpose and only 15% for commercial/industrial purposes. The latter categories are being charged a higher rate and a corresponding increase is envisaged in their case as well.

## **OCTROI**

16.22 Octroi has been abolished since 1.11.1999 in the State.

16.23 We have gone through these projections and feel that there is still further scope for increasing the realization from the existing sources because of much higher industrial growth and potential for income generation. In regard to house tax, we have suggested an "area-linked" scheme which already stands adopted . Reference has already been made to large municipal and common lands available with the FMC and

there is definitely scope for having more Town Planning Schemes which can generate substantial additional income.

16.24 The Commission has carefully considered the question of additional resources required by the Faridabad Corporation. While there is no doubt that the corporation is much better placed than most of the municipal councils/committees, it is also a fact that its commitments are much higher and require much heavier investments in infrastructure. As has been explained earlier in detail that there is scope for generating additional income in the next five years, Faridabad is the only corporation of its kind in the State and has taken up some vital and inescapable schemes like augmentation of water supply, particularly for areas on the western side of the Delhi-Mathura Road, re-settling 10000 families which are presently living in slums right in the heart of the city and for providing basic services to a number of colonies which have been regularized in the recent past. The Commission, therefore, feels that there is ample justification for giving grants-in-aid at the rate of Rs.25/- per capita to the Municipal Corporation Faridabad as well. On the basis of the 2001 population, this would lead to a devolution of Rs.2.64 crore in 2001-02. With a 10% escalation every year for the subsequent years, the year wise grants in aid recommended for the Faridabad Municipal Corporation would, thus be as follows:-

**Grants-in-aid recommended for MCF**

(Rs. in crores)

	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Total 2001-06</b>
Grants in Aid	2.64	2.90	3.19	3.51	3.87	16.11

We, however, feel that it is necessary for the FMC to fully tap its potential for raising additional resources at its own level. It would, therefore, be appropriate to impose a condition that to avail of the grants in aid of Rs.50 per capita, the FMC will have to raise an equal matching contribution at its own level. We are suggesting a slightly different dispensation for FMC as compared to committees/councils keeping in view the fact that it is much better placed as compared to the latter in the matter for raising own resources. The other performance criterion with regard to municipal councils/committees will also equally apply to FMC.

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## CHAPTER –XVII

### STATE BUDGETARY SUPPORT TO THE LOCAL BODIES

17.1 Before making recommendations on sharing of State resources, it is necessary to have a glimpse of the existing level of funds transfer from State budget to the local bodies. We made sincere effort to collect the requisite information from the State Govt., but no clear picture of assistance/grants-in-aid to the PRIs and ULBs from the State level could be available. All the same, the State Government furnished a statement indicating assistance and grants-in-aid under various budgetary heads i.e. 3604, 2512 & 2217, as under:-

**TABLE 17.1**  
**ASSISTANCE PROVIDED TO PRIs & ULBs**

(Rs. in crores)

<b>Year</b>	<b>Plan</b>	<b>Non-Plan</b>	<b>Total</b>
1997-98	39.21	7.37	46.58
1998-99	43.67	10.34	54.01
1999-2000	38.06	19.45	57.51
2000-01	41.33	42.74	84.07
2001-02	53.46	5.10	58.56
<b>Total</b>	<b>215.73</b>	<b>85.00</b>	<b>300.73</b>

17.2 It will be seen that the direct budgetary support in recent years has been of the order of Rs.50-85 crore. This is, however, only a partial picture, as funds are also devolved to the local bodies under several other heads e.g. Poverty Alleviation Programmes (JGSY, SGRY, Employment Assurance Scheme etc.) and an effort has been made to work out a more comprehensive picture by obtaining information from different sources. The position of income of urban local bodies is as under:-



**TABLE 17.2**  
**RECEIPTS OF ULBs (COUNCILS AND COMMITTEES)**  
(Rs. in crores)

<b>Receipts</b>	<b>2000-01</b>	<b>2001-02</b>
i) Tax Revenues	36.64 (20.47)	39.37 (20.10)
ii) Non Tax Revenue	42.11 (23.53)	60.64 (30.96)
iii) Loan	6.36 (3.55)	4.05 (2.07)
iv) Grants-in-aid	93.88 (52.45)	91.78 (46.87)
<b>Total Income</b>	<b>178.99</b> <b>(100.00)</b>	<b>195.84</b> <b>(100.00)</b>

17.3 The grants-in-aid, which include receipt from State Govt. and other sources, constituted only 52.45% (Rs. 93.88 crore) and that of loans and other receipts were 3.55% (Rs. 6.36 crore) in the year 2000-01 and the same were 46.87% (Rs. 91.78 crore) and 2.07% (Rs. 4.05 crore) respectively in the year 2001-02.

The overall financial position of the PRIs built up from different sources is as follows :-

**TABLE 17.3**  
**RECEIPTS OF PRIs**  
(Rs. in crores)

<b>Source</b>	<b>2000-01</b>	<b>2001-02</b>
i) Own sources of Gram Panchayats	77.77 (25.02)	84.22 (18.22)
ii) Plan & Non-Plan grants	2.78 (0.89)	2.36 (0.51)
iii) Subsidy & Matching grants	1.24 (0.40)	1.38 (0.30)
iv) HRDF	90.96 (29.26)	170.84 (36.96)
v) Decentralised Planning	9.00 (2.90)	10.00 (2.16)
vi) Poverty alleviation	129.08 (41.53)	193.44 (41.85)
<b>Total</b>	<b>310.83</b> <b>(100.00)</b>	<b>462.24</b> <b>(100.00)</b>

17.4 The Plan and Non-Plan grants, subsidy and matching grants were only Rs.4.02 crore during 2000-01 and another Rs. 9 crore was provided under "Decentralised Planning". A substantial amount is available under the HRDF (Haryana Rural Development Fund) which is outside the Consolidated Fund of the State. The bulk of the amount available to the PRIs is under the Poverty Alleviation Programmes like SGSY, JGSY and EAS etc. which are centrally sponsored schemes with a limited State share. Apart from this, the State provides an amount of Rs. 2941.75 lakh per annum to all the three tiers of PRIs on the basis of the recommendations of the Eleventh's Finance Commission for utilization on development works of capital nature.

17.5 The above comparison of the overall financial position of the State with that of urban local bodies and the Panchayati Raj Institutions is quite revealing. It will be readily seen that while the overall annual expenditure being incurred by the State in recent years is of the order of Rs.8000-10,000 crore, the assistance given to the local bodies is quite meagre. On the urban side even if we assume that the bulk of grants-in-aid, contributions and loans came from Government sources, the total amount so provided was about Rs. 100.24 crore in 2000-01 and Rs. 95.83 crore in 2001-02. As already indicated, the total amount available to the Panchayati Raj Institutions in the year 2001-02 was Rs. 170.84 crore from HRDF. By far, the major portion is under SGRY, JGSY, EAS, etc., which are centrally sponsored programmes. The State contributions were only a small percentage of the total sum of Rs. 193.44 crore spent during the year 2001-02. The inescapable conclusion is that the direct budgetary support to the urban and rural local bodies as of today is quite insignificant.

17.6 The Commission is fully cognizant of the fact that the financial position of the State, as revealed through the figures of revenue and overall deficit given in other chapters, is far from satisfactory. In spite of the stringent resource position, the State has, as clearly pointed out earlier, managed to provide a much higher plan allocation from year to year and there is no reason why a similar dispensation should not be accorded to the minimum needs of the Urban Local Bodies and Panchayati Raj Institutions. The Commission strongly feels that the needs of the local bodies are as much of developmental needs as that of various other sectors included in the Annual Plan. The allocation of resources to this sector should also be regarded as another competing developmental priority. The assistance that would be, thus, given to the urban and rural local bodies assumes greater relevance, as it has been clearly laid down that this would be duly taken into account by the next Central Finance Commission. It may, therefore, become necessary for the State Government to implement our recommendations in phases keeping in view the process of delegation of functions to the local bodies. These are some of the main factors and considerations which the Commission has kept in view while formulating its scheme for the devolution of State resources and grants-in-aid to the urban and rural local bodies.

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## **CHAPTER - XVIII**

### **POLICY ON MUNICIPALISATION**

18.1 As per the 2001 census, Haryana has an urban population of 61.14 lakh residing in 106 towns constituting 29.00% of the total population. The decennial growth rate of population of the State in the period 1991-2001 was 28.06%. The municipal urban population of 68 urban local bodies was 58.03 lakh constituting 27.52% of the total population. The decennial growth of municipal population between 1991-2001 was 50.84% and the projected municipal population during 2005 is 66 lakh which is nearly 29% of the total projected population of the State. A perusal of these figures would show that 29 towns, without a municipal set up, have a population of around 3.07 lakh. Out of these 29 towns, as per list annexed (Appendix 'A'), 14 towns have a population of more than 10,000 as per 2001 census.

18.2 The Haryana Municipal Act, as amended in 1994, spells out some criteria for municipalisation. Section 2(A) of the Act, which contains the classification of municipalities, provides for three classes of municipalities. Municipal corporation is for a larger urban area with the population exceeding 5 lakh, municipal council for a transitional area with the population exceeding 50,000 but below five lakh and municipal committee for a smaller urban area with population upto 50,000. Industrial townships with certain level of services and military cantonments can be excluded from municipal administration. The power of declaring any area as a municipality vests with the State Government. As per the provisions in the Act, factors like population of the area, density of population, local revenue generated, percentage of employment in non-agricultural activities, economic importance of the area and such other factors considered relevant by the State Government are taken into consideration while declaring an area as a municipality. Under section 3 of the Act, a notification proposing an area to be a municipality is issued inviting objections and after consideration of these objections, orders are passed declaring a local area to be a municipality. The powers of abolishing a municipality also vest with the State Government under Section 8 of the Act.

#### **URBAN AREA**

18.3 Urban area has been specially defined for the purpose of census and in the year 2001, the criteria adopted was the same as during 1991 census. As per this definition, an urban unit includes all places like a corporation, municipality, cantonment

board or notified town area committee as also all other places which satisfy the following criteria:-

- (i) A minimum population of 5,000;
- (ii) atleast 75% of male working population is engaged in non-agricultural pursuits and
- (iii) the density of population is atleast 400 per square kilometer.

18.4 During 2001 census, the cases of all rural units having a population of 4,000 or more, as per the 1991 census, were examined. The total number of towns in 2001 census had risen to 106 as against 94 of the 1991 census. The details of these 29 towns enlisted in 2001 census are mentioned at Appendix 'A'. A perusal of the list of 29 towns, which have been included in the 2001 census, shows that some of them like Mustafabad, Bilaspur, Uklana Mandi, etc. are purely Mandi towns with a concentration of traders. They essentially continue to be rural areas but have been brought within the definition of urban area since 75% of the male working population is engaged in non-agricultural pursuits.

18.5 A view has to be taken as to whether these 29 towns, which are urban townships, could be brought under the ambit of municipal administration whereby they become entitled to municipal services. Each case has to be examined on the basis of facts and data available and a decision needs to be taken by the State Government. However, viewed under general criteria laid down under the Act, there is a strong case for declaring the towns of Dharuhera, Babiya and Loharu etc. as municipalities straightaway. Dharuhera is an industrial township where facilities of water supply, sewerage, street lights, etc. have been made available by HUDA. We understand that residential areas have also been recently developed by HUDA and thus, the area has immense economic potential, especially being situated on a National Highways in the National Capital Region.

## APPENDIX 'A'

### LIST OF TOWNS (URBAN AREAS) WHICH ARE NOT BEING COVERED AS MUNICIPAL AREAS

Sr. No.	Name of the Town	District	Population in 2001 census
1.	Asan Khurd	Panipat	8064
2.	Ateli	Mahendergarh	5671
3.	Babiyal	Ambala	21650
4.	Bilaspur	Yamunanagar	9620
5.	Buria	-do-	9829
6.	Chhachhrauli	-do-	9720
7.	Dharuhera	Rewari	18890
8.	Dundahera	Gurgaon	10640
9.	Farakhpur	-do-	8738
10.	Farukhnagar	-do-	9520
11.	Hassanpur	Faridabad	9089
12.	Hathin	-do-	10913
13.	Jakhal	Fatehabad	6890
14.	Julana	Jind	13641
15.	Kanina	Mohindergarh	10196
16.	Kanspur	Yamunanagar	14943
17.	Kardhan	Ambala	9579
18.	Ladrawan	Jhajjar	8007
19.	Loharu	Bhiwani	11421
20.	Mustafabad	Yamunanagar	8513
21.	Nangal Chaudhri	Mahendergarh	7368
22.	Radaur	Yamunanagar	11737
23.	Rai pur Rani	Panchkula	7027
24.	Sadhaura	Yamunanagar	13181
25.	Tilpat	Faridabad	6377
26.	Tosham	Bhiwani	11271
27.	Uncha Siwana	Karnal	10609
28.	Uklana Mandi	Hisar	10936
29.	Punhana	Gurgaon	13178
	<b>Total</b>		<b>307218</b>

Note : 9 Census town have been included in various Municipal Councils/Municipal Committees and their population is included in concerned municipalities.

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## CHAPTER - XIX

### HARYANA URBAN DEVELOPMENT FINANCE CORPORATION

19.1 In keeping with the provisions of the 74th Amendment of the Constitution along with Schedule 12 appended thereto, the Haryana Municipal Act, as already indicated, has been amended so as to assign a major role to the urban local bodies, in urban planning and development. Consequent to rapid urban development, requisite steps are required to be taken for the all-round development of urban municipal areas. As we have earlier seen, the tax base of our urban local bodies is very restrictive & inelastic and our municipal bodies, with very few exceptions, have failed to provide the basic amenities in the towns in Haryana. It is, therefore, not surprising that the disposal of garbage is poor, insanitary conditions prevail all around, roads are badly maintained and there is inadequate street lighting. The municipal bodies are in such a bad shape that in many instances they are not even able to pay the salaries of the staff or discharge their obligations towards the provident fund and pension contributions of their employees. Likewise, they generally default in the repayment of loans taken from Government and other financial institutions. The grants provided by the Government are also very limited and that too under certain selected schemes.

19.2 The main bottleneck coming in the way of undertaking development works is the resource crunch with the result that after providing for establishment and other pressing expenditure, there is very little left for the development activities. While we have suggested measures for strengthening the resource base of the urban local bodies by way of devolutions from the State Government and resource raising efforts by the municipalities themselves, still a systematic arrangement for tapping the financial institutions for resource raising on a continuous basis is needed so as to undertake development works. Here, it may be worth noting that raising resources through financial institutions is one of the main planks for strengthening the resource base in the States of Maharashtra and Gujrat. We, therefore, feel that an apex organization called the "Haryana Urban Development Finance Corporation" should be established which would become an appropriate channel for securing assistance from financial institutions and in turn disbursing the same to the urban local bodies.

19.3 It may be stated that such an arrangement already exists in Kerala, where an Urban Development Finance Corporation was set up as far back as in 1970 with an initial share capital of Rs. one crore. Among other things, it renders financial

assistance by way of loans and advances for the execution of remunerative developmental schemes, town improvement including housing schemes and town planning schemes. One of its major tasks is to provide technical and other assistance and guidance for the developmental schemes including implementation of master plans.

19.4 Since the majority of the urban local bodies are not in a position to afford a separate project cell due to financial and managerial constraints, the Kerala Corporation has created a technical cell which extends assistance to all the local bodies, especially smaller municipalities, in identifying priority areas and priority projects for financial assistance from HUDCO and other financial institutions. The main source of working capital of the corporation is the proceeds from debentures/loans floated by the corporation with the guarantee of the State Government and the permission of Reserve Bank of India.

19.5 The Commission has carefully considered the matter and is of the view that the creation of a similar institution at the State level in Haryana is almost imperative for tapping the institutional finance for taking developmental activities in the municipal areas. Illustratively, the proposed financial corporation with the nomenclature of “Haryana Urban Development Finance Corporation” could have the following main objectives:-

1. To provide financial assistance by way of loans and advances to urban local bodies in the State for developmental schemes;
2. to provide technical or any other assistance to the urban local bodies in the matter of implementation of the developmental schemes including implementation of the master plans prepared by the local bodies;
3. to provide necessary assistance to the local bodies for improving their administrative machinery/procedures;
4. to undertake schemes in collaboration with the local bodies or any other agency on such terms and conditions as the corporation may deem fit;
5. to undertake commercial or other activities with a view to procure or supply articles, stores, books and registers etc. required by the local bodies;
6. to act as a nodal agency for the Government of India or the State Government, HUDCO etc. for providing financial assistance to ULBs and

7. any other objective incidental or ancillary to the attainment of the main objectives and any other objective considered desirable by the State Government.

19.6 It is difficult at this stage to indicate the share capital which may have to be provided during the five years period 2001-06. All that can be stated at this stage is that this share capital would have to be provided by the State Government and may be of the order of Rs.5.00 crore to Rs.8.00 crore. The main source of working capital of the corporation shall be through the proceeds obtained by floating the debentures with the guarantee of the State Government and approval of the Reserve Bank of India. It can also receive loans, advances, grants etc. from the Central Government or the State Government for the purpose of carrying on its business. The corporation may be managed by a Board of Directors consisting of a Chairman, a full time Managing Director and Directors to be appointed by the State Government. The corporation will be adopting its own procedures for its functioning and could be recognized as a nodal agency for financial assistance to urban local bodies from HUDCO, LIC etc.

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## **CHAPTER - XX**

### **STRENGTHENING OF MUNICIPAL ADMINISTRATION**

#### **(1) MUNICIPAL ADMINISTRATION**

20.1 The Directorate of Local Bodies was established in the erstwhile State of Punjab in April, 1966 in accordance with the recommendations of the Local Government (Urban) Enquiry Commission, 1957. The Directorate of Urban Local Bodies, Haryana came into existence on 1.11.1966 on the bifurcation of the State but was abolished in the year 1967 because of the reason that the deptt. had hardly any role to play on small municipalities with comparatively weaker financial position. With increasing urbanization and newly emerging problems, the Directorate was again revived in the year 1982. But certain powers given to it at the time of its inception were later on withdrawn. The new Haryana Municipal Act was promulgated in the year 1973, when the Directorate did not exist and as such both with regard to personnel as well as various other substantive matters, the powers are either with the Deputy Commissioner or with the State Government. Under Section 21 of the Act, dealing with 'No-Confidence Motion' against the President or Vice-President, it is the Deputy Commissioner who is required to convene a meeting for the consideration of the motion. Under Section 43, if in the opinion of the Deputy Commissioner, the number of persons employed or proposed to be employed by the municipality is excessive, he can order to reduce the number, of course, subject to an appeal to the State Government. The powers of control and supervision by the Deputy Commissioner are contained under Sections 245 to 249 of the Act. While under Section 245, the Deputy Commissioner has vast powers to inspect and enquire into the affairs of the committee, under Section 246, the Deputy Commissioner is authorized to suspend the execution of any resolution or order of the committee. Certain extraordinary powers have been given to the Deputy Commissioner under section 247 of the Act, who, in the case of an emergency, can provide for the execution of any work which is considered necessary for the service or safety of the public at the expense of the municipality and Section 248 empowers him to require a municipal committee defaulting in the performance of its duties to act in accordance with his specific orders. These powers are quite extensive which still remain with the Deputy Commissioners and the Directorate of Local Bodies seems to be nowhere in the picture. With the creation of the Directorate in the year 1982, this situation was sought to be rectified and vide notification dated 18.11.1982 powers were delegated to the Directorate under the following Sections of the Haryana Municipal Act:-

(a) Section:-

- 43 Power to prevent extravagance in establishment.
- 57 Application of fund.
- 240 Appeal from orders of municipal committee.
- 252 Power of State Government and its officers over committee.

(b) Section:-

- 42 Power to demand punishment or dismissal.

(c) Section:-

- 13 Resignation of member of committee.
- 18 Election or appointment of President and Vice President.

(d) Section:-

- 246 Power to suspend the resolution or orders of committee.
- 247 Extraordinary power of Deputy Commissioner in the case of emergency.

20.2 It will be seen that the powers so delegated to the Directorate are similar to those exercised by the Deputy Commissioner, as at present. This is not clear whether these powers were also withdrawn from the Deputy Commissioners and vested only in the Directorate or whether these were concurrent powers given to the Directorate along with the exercising of such powers by the Deputy Commissioners. In any case, except powers under Section 57 (2) (L) required to be obtained from the State for expenditure relating to safety and welfare and under Section 42 of the Haryana Municipal Act, all other powers were withdrawn by the Government in the year 1984.

20.3 When it comes to personnel, the picture is more or less similar. There are three levels of services: (i) The State level services, (ii) the services under the control of the Deputy Commissioners and (iii) the services under the control of the municipalities. The State level category of services with a total personnel strength of 368 are 10 in number, out of which 5, namely, Administrators/Presidents, Executive Officers, Secretaries, Assistant Town Planners and Municipal Engineers are still with the State Government and 5 others, namely Junior Engineers, Accountants, Superintendents, Chief Sanitary Inspectors and Fire Station Officers are with the Directorate. In respect of the bulk of services, 16 in number, with a strength of 2663 employees, the Deputy Commissioner is the appointing authority and these categories include Technical Assistant, Non-technical Assistant, Draftsmen, Head Clerks, Assistant, Stenographers/Steno-typists, Drivers, Clerks, Mates/Malis, Sanitary Inspectors, Tractor Drivers, Fire Station Officers, Chief Foremen, Fire brigade Drivers, Firemen and other Class-IV employees. These district level employees are transferable

only within the district, while those belonging to the other 10 services, mentioned earlier, can be transferred from one district to another. The third category is that of sweepers, with a sanctioned strength of around 8195, in whose case the municipality is the appointing and punishing authority. It will, thus, be seen that only 5 services, i.e. Junior Engineers, Accountants, Superintendents, Chief Sanitary Inspectors and Fire Station Officers with a total strength of about 194 fall in the purview of the Directorate.

20.4 The Director, who is a senior level IAS officer, is presently assisted by one Additional Director and one Deputy Director belonging to HCS/HSS cadre, a Fire Officer, an Accounts Officer and other staff consisting of about 123 Class II, III and IV officials.

20.5 The extensive list of functions given in Schedule 12, after the 74th amendment of the Constitution, covers the entire sphere of urban planning and development. This obviously requires high level guidance, directions and support, which task, in the opinion of the Commission, squarely falls on the shoulders of the State level Local Bodies Directorate. The Commission has noted that the Directorate seems to be fully equipped to discharge these functions. While there is no doubt that the pivotal role of the Deputy Commissioners has to necessarily continue, the Commission strongly feels that there is a strong need to improve the efficiency of the existing staff by way of training, refresher courses etc. so as to have a much more effective control over various municipal services. Keeping in view the important role to be played by this department in the changed scenario, the department was renamed as Urban Development Department vide Govt. order dated 14.3.2001.

20.6 One of the priority areas in respect of which the Directorate needs to be strengthened is its Town Planning and Engineering Wings. The strengthening of the Town Planning Wing is particularly necessary as under Section 203 of the Municipal Act, the ULBs are vested with powers with regard to planning and implementation of the Town Planning (TP) schemes. The mushroom growth of slums and defective layouts resulting in unauthorized constructions and encroachments are areas of serious concern which call for pointed attention. Keeping all these facts in view, the previous Commission had suggested to strengthen these two wings necessary to ensure that works could be executed according to the specifications and proper technical support is provided for building of roads and their maintenance, pavement of streets etc. The Commission had also suggested to provide additional support of Rs. 18.00 lakh for this purpose. This recommendation of the Commission was implemented and resultantly the Town Planning Wing is presently headed by Chief Town Planner and Engineering Wing is headed by Superintending Engineer with supporting staff. Now these two wings

are properly equipped with man-power, vehicles, computers and other wherewithals. Given this situation, Commission feels that there is need for proper and optimal utilization of the existing infrastructure of Town Planning and Engg. wings.

20.7 The other area requiring urgent attention is relating to pensions. All municipal services have been made pensionable w.e.f. 16<sup>th</sup> April, 1992. The Government had notified Haryana Municipal Employees Pension and General Provident Rules, 1993, vide its notification dated 5.3.93. These rules stipulate, inter alia, that for the payment of pension, a Pension Fund shall be established by the Director, Urban Development and municipalities shall make monthly contributions towards the fund at the rate of 10% of the basic pay as their contribution towards 'Pension Fund' of all municipal employees who opt for pension. This fund shall be held and administered by the Director, Urban Development and will be utilized only for payment of pensions. Besides, regular monthly contribution by municipalities, the share of money standing in the Contributory Provident Fund Account of the municipal employees, shall also stand transferred to the Pension Fund.

20.8 Apart from the State/Directorate level municipal employees, there are the district level employees and the municipal sweepers, in all totaling to around 11226 for whom pension is to be provided. The number of pensioners at present is reported to 3159 but is likely to increase every year by 300-400 and the disbursements are expected to be of the order of Rs.10 crore per annum. This whole task requires a proper organizational arrangement to effectively deal with all affairs connected with Pension Fund. The most appropriate way is to create a centralized unit wholly devoted to this task of a specialized nature, operating separately and distinctly from the general working of rest of the Directorate. The Commission has been informed that a centralized unit headed by an Accounts Officer has been created in the Directorate looking exclusively this specialized work.

20.9 The other connected issue is the question of actual transference of the money involved in respect of the pension contribution of the employees as well as share of their contributory provident fund till date which the municipalities are duly bound to remit to the centralised pension unit in the Directorate. We have been given to understand that the municipalities often default in remitting the pension contribution for the employees and the State Government had to remit Rs. 2.66 crore to the pension fund to wipe off the past liabilities of the municipalities. We strongly feel that various amendments should be carried out in the relevant rules to ensure that the pension contribution would be a first charge on the municipal budget like "Charged item in the State Budget" so as to improve the financial working of the pension fund.

20.10            Apart from strengthening of the Directorate on the lines suggested above and providing funds for the same from the State Budget on an emergent basis, it would be necessary to give back at least some of the powers to the Directorate which were withdrawn in the year 1982. Out of these, the powers which are presently being exercised by the Deputy Commissioners may have to be vested in the Directorate only concurrently. The other important aspect is regarding the powers exercised under the Municipal Accounts Code, for the sanctioning of municipal budget and excess expenditure etc. Even at present the budget of municipal councils (21 in number) is being sanctioned by the Divisional Commissioners and it is felt that this task could be entrusted to the Directorate so that they can keep a better and closer watch on the income and expenditure of the larger municipalities in the State. A detailed exercise would also have to be undertaken to see if further delegations would be required under various other provisions of the Municipal Accounts Code.

20.11            It may be mentioned in passing that various other suggestions came up during the course of discussions for strengthening the district level from the municipal standpoint and the Directorate by way of creation of posts of Regional Deputy Directors to be stationed at each Division, namely, Ambala, Rohtak, Gurgaon and Hisar. With regard to first, one of the suggestions is to create another post of ADC (Urban) in each District and the other is to attach another HCS Officer with the Deputy Commissioner to look after the municipal work. The Commission looked into this aspect and feels that our districts are quite small with enough staff strength at the district level and no additional strengthening is called for at this level. Likewise, we do not find enough justification for creating posts of Regional Deputy Directors as an agency parallel to the Deputy Commissioners at this stage, though the situation can be reviewed after some time, if the increased volume of work and other circumstances so warrant.

21.12            In so far as the municipal employees are concerned, Directorate strongly feels that a number of categories at the Inspectorate level should be taken away from the Deputy Commissioners' purview and the Directorate of Urban Development should be their appointing and punishing authority. It has been brought to our notice that several functionaries like Accountants, Cashiers and Inspectors are sitting at one place for several years, though there are serious charges of malpractices against them. We feel that integrating the present staff under any of the district cadre would not be a practical proposition. One way out could be to amend the existing rules so as to give overriding powers to the Directorate to effect transfers from one district to another. It would also need consideration, if fresh recruitments in respect of a few more officials

presently, district level categories, may now be brought within the direct purview of the Directorate.

## **2. LOCAL FINANCE DATABASE**

20.13 A dependable and comprehensive database on the finances of the local bodies is another major requirement of the ULBs for the purpose of planning and monitoring of their income and expenditure both at municipality level as well as State Govt. level. For the State Govt. authenticated accounts, information is made available by AG Haryana, but in respect of ULBs, there is no such system. The first SFC had made detailed recommendations in this regard in paras 22.13 to 23.17 of its report, but still the position is unsatisfactory. This Commission had to obtain the requisite data of income and expenditure of the local bodies from them which was not dependable. Several gaps were found in the data so supplied and we had to scrutinize the data and in reality the deficiencies to the extent possible.

20.14 The Eleventh Finance Commission has earmarked Rs. 491.95 lakh for creation of data base of PRIs (Rs. 485.41 lakh) and ULBs (Rs. 6.54 lakh). In para 8.21 of its report, it has emphasized the need for creation of this data-base at District, State and Central Govt. levels which may be made easily accessible by computerizing and linking it through V.SAT. This Commission has already recommended the more use of computerisation for monitoring of income and expenditure and accounts of local bodies. It may not be essential to entrust the responsibility for creation and maintenance of this data base to the Examiner Local Fund Accounts as recommended by the Eleventh Finance Commission. The responsibility may preferably be entrusted to Director Urban Development for ULBs and Director Development and Panchayats for the PRIs. They, being the main users of the data, would be in a better position to devise the proper formats and to keep the data up-to-date. They would also have the requisite authority to ensure that the data is computerized and regularly supplied to higher authorities. The Commission, therefore, recommends that both the departments i.e. Urban Development and Development & Panchayats may draw up suitable schemes for the purpose and the allocations earmarked by the Eleventh Finance Commission may be utilized. In case of municipal corporations and bigger municipal councils, which can afford to create and update their websites, the data should be exhibited on the websites so that it is readily available to all the stakeholders. We also observe that in case allocation of Rs. 6.54 lakh made by Eleventh Finance Commission for creation of data base of ULBs is found short of the requirement, this allocation can be suitably enhanced to the required level within the given annual allocation of Rs. 732.80 lakh recommended by the Eleventh Finance Commission for ULBs.

20.15           The proposed arrangements for data creation would also be helpful not only for policy making but also for checking, enforcement and compliance of instructions issued from time to time. Such an arrangement will be very useful to the successive State Finance Commissions to whom the necessary data could be readily supplied. It would also help in keeping close liaison with the central institutions and information can also be supplied, whenever called for to the Central Finance Commission and other central organizations and financial institutions for strengthening the State case for getting its legitimate share at the All India level and securing further institutional assistance for strengthening the local bodies.

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## **CHAPTER - XXI**

### **AUDIT AND ACCOUNTS OF LOCAL BODIES AND TRAINING PROGRAMMES**

21.1 A proper system of accounting and audit is essential to prevent misappropriation and wastage of funds of local bodies, ensure proper control over expenditure and provide necessary information for policy making. With the increase in resources available to local bodies through additional resources mobilization and transfers from the State and Central Govts., the system needs strengthening.

#### **URBAN LOCAL BODIES**

21.2 Article 243 Z of the constitution of India provides that the Legislature of a State, may, by law, make provisions, with respect to the maintenance of accounts by the Municipalities and the audit of such accounts. At present, the audit and budgeting of accounts of ULBs is governed by the Punjab Municipal Accounts Code, 1930. The accounts are maintained by the ULBs in the proforma prescribed in the Accounts Code and these are audited by Director, Local Audit, who is under the administrative control of the Finance Deptt. The C&AG of India conducts audit of the accounts as far as utilisation of Govt. grants and loans is concerned.

21.3 There is a pre audit system also called the Resident Audit Scheme under which pre-audit is currently being conducted in respect of 20 municipal councils and 7 municipal committees in the State. Municipal Corporation Faridabad is also covered under the pre-audit scheme as provided under section 168(3) of Haryana Municipal Corporation Act, 1994. Under the pre-audit system, day to day audit of accounts is conducted.

21.4 The remaining municipal committees in the State are covered under the post audit system by which accounts of municipal committees with annual income more than Rs.5 lakh are audited biannually and municipal committees with annual income below Rs.5 lakh are conducted annually as per provisions of the Municipal Accounts Code. The audit in such cases is conducted by the audit party headed by a Senior Auditor.

21.5 The existing system of accounts and audit suffers from various shortcomings, as under:-

- (i) In the pre-audit system raising of objections is a continuous process and every payment/claim is approved by audit before actual payment is



made. As and when objection is made, it is intimated to the head of the concerned local body by the Resident Auditor. At the close of the year, a draft audit report on the accounts of the local body for the preceeding year is submitted to the approving authority. In the case of the corporation, the approving authority is the Director, Local Audit and in the case of councils and committees, it is the concerned Zonal Deputy Director. Copies of audit reports are sent to various authorities for information and compliance. It has been brought to the notice of the Commission that very little interest is taken by the bodies to settle objections which keep on piling year after year and there is no system for monitoring the compliance of audit reports, even though there are enough provisions in the Accounts Code wherein specific time limits have been given for compliance at various levels.

- (ii) The same is the position with regard to post-audit and the Commission understands that inspite of Deputy Director Audit being posted at the divisional level, very few objections are got settled.
- (iii) As per the notification dated 14th January, 1982, two committees, one at the divisional level and the other at the district level, were constituted to examine and discuss the annual accounts and reports of the municipalities and to suggest remedial measures. We have been given to understand that these committees have mostly remained non-functional because of the pre-occupation of various Government functionaries in their day to day affairs.
- (iv) It has also been noticed that audit reports are seldom placed before the general house of the ULBs and generally the audit objections are settled only at the time of the next audit and the audit objections, which remain unsettled, are included in the new audit report.

21.6 The first Haryana State Finance Commission had, in para 24.5 of its report, recommended that a State level Public Accounts Committee for municipal finances should be constituted to be headed by the Secretary, Urban Development. It should have non-officials as well as officials of the concerned deptts as members and Director Local Audit as the Member Secretary. The Committee shall have powers to call for and scrutinize the accounts of any municipality, examine the audit report and make suitable recommendations including dropping of objections etc. The report of this committee shall be submitted to the State Govt. for final disposal.

21.7 These recommendations have, however, not been implemented. At present there are no local, regional or state level bodies to monitor the disposal of audit objections. As already stated, the two regional committees, constituted in 1982, one at divisional level and the other at district level, have also become non-functional with the passage of time.

21.8 The 11<sup>th</sup> Finance Commission has, in para 8.19 of its report recommended, that the Comptroller and Auditor General of India should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the tiers of PRIs and ULBs and the Director Local Audit should work under the technical and administrative supervision of the C&AG of India. It has further recommended that the report of the C&AG relating to audit of accounts of the panchayats and municipalities should be placed before a committee of the State Legislature constituted on the same lines as Public Accounts Committee. Following these recommendations, the Ministry of Finance, Govt. of India in its guidelines for the utilization of local bodies grants recommended by the 11<sup>th</sup> Finance Commission, has required the State Govts. to send a request to the C&AG of India to assume the responsibility for exercising control and supervision over proper maintenance of accounts and audit of PRIs and ULBs.

## **RECOMMENDATIONS**

21.9 After analysing the whole position, the Commission is of the firm view that with the decentralization of powers and responsibilities envisaged under the 74<sup>th</sup> constitutional amendment and consequent devolution of resources from the Centre and the State levels to the ULBs, there is a need to ensure that funds are spent judiciously and functionaries are made accountable for their actions. The Commission, accordingly, recommends as under:-

- (i) Greater attention needs to be paid to ensure proper and expeditious action on the audit reports. The State level Public Accounts Committee for municipal finances recommended by the 1st SFC and 11<sup>th</sup> Finance Commission may be contrary to the spirit of the 74<sup>th</sup> amendment which envisages that these local bodies should function as effective units of self-government. It is more appropriate that a committee of ULB concerned and subsequently the full house should examine the report of the audit and take appropriate action thereon. If need be, the municipal code or Act, as case may be, amended accordingly and functions of the

committee may be laid down. This will go a long way in ensuring proper action on the reports of the audit.

- (ii) In regard to audit, it is for the State Govt. to take a decision in consultation with the C&AG of India on the recommendations of the 11<sup>th</sup> Finance Commission and the guidelines of the GOI regarding entrustment of the work to C&AG. The Commission has been told that a joint committee consisted of Special Secretary Finance, Dy. AG, Directors of the deptts. of Development & Panchayats, Urban Development and Local Audit was constituted to examine the issue. This committee found no justification for entrusting the responsibility of supervision and administrative control to C&AG of India as proper arrangements already exist to carryout their audit under the constitutional provisions. However, C&AG may prescribe the procedure for verifying proper utilization of grants given to local bodies as per the award of the Finance Commission. Further, C&AG may also provide technical guidance regarding auditing standards, audit planning, professional training and all other matters to strengthen the local fund audit. This Commission is also of the view that since a large number of local bodies are involved, it may not be feasible for the C&AG to take up the responsibility for audit of their accounts, particularly in view of the fact that the local audit deptt. of the State is fully equipped for the purpose. However, C&AG may examine the working of the Local Audit Deptt. and suggest improvements in its functioning that may be necessary. The Local Audit Deptt. of the State is already independent of the deptts. Of Development & Panchayats and Urban Development as it functions directly under the control of Finance Deptt.
- (iii) It has been felt that the accrual based double entry accounting system seems to have a distinct edge over the present accounting system. The switch over to the new system may, however, require the services of trained manpower. The Commission recommends that the accrual based double entry system of accounting may be initially adopted in municipal corporation and class I municipal councils. The system, as adopted in Tamil Nadu, be adopted with suitable modifications to suit the local conditions. These local bodies may be authorized to engage chartered accountants and other accounts personnel that may be required on

contract basis. This system may be extended to other ULBs depending upon the experience so gained.

- (iv) A considerable part of budget of ULBs is spent on execution of capital works and operation and maintenance of civic services. A thorough analysis of various components of cost through cost audit can help reducing the cost. Thus, a system of cost audit of these expenditures may be started in municipal corporation and class-I municipal councils where the expenditure is sizeable. The services of Cost Accountants may be engaged on contract basis to initiate the system and train the staff.

## **PANCHAYATI RAJ INSTITUTIONS**

21.10 Audit of accounts of PRIs in the State is conducted under the post-audit system by the Director, Local Audit Haryana. In the case of Gram Panchayats, it is conducted every two years and with regard to Zila Parishads and Panchayat Samitis, on half yearly basis by an audit party headed by a Senior Auditor. Under this system, objections raised are handed over to the concerned authority and in case of compliance they are settled on the spot. After conclusion of post-audit, the audit report, after due vetting by various functionaries of the Audit Department, is sent to various authorities concerned for information and compliance. In the case of Panchayat Samitis and Zila Parishads, it is also sent to the Secretary, Development and Panchayats, the Commissioners of the Divisions as well as the concerned Deputy Commissioners. We have been informed that inspite of provisions in the relevant rules, namely, the Punjab Gram Panchayats, Panchayat Samitis, Zila Parishads (General) Finance, Budget, Accounts and Audit Rules, 1964, very little disposal of audit objections takes place and the objections keep on piling up year after year. Even though, the above rules provide for constitution of Public Accounts Committees for scrutinizing the audit reports and other related matters, these committees were never constituted, with the result that there has been no worthwhile monitoring of audit reports of the Panchayati Raj Institutions to ensure their compliance.

21.11 Under Article 243(J) of the Constitution, the Legislature of the State is competent to make provisions in respect of maintenance of the accounts by the panchayats and auditing of such accounts. Rule 108 of the Haryana Panchayati Raj, Finance, Budget, Accounts, Audit, Taxation and Works rules 1996 provides for placing the audit report of Gram Panchayats, Panchayat Samitis and Zila Parishads before the concerned Gram Sabha/Panchayat Samiti and Zila Parishad respectively. In the case

of Panchayat Samiti and Zila Parishad, Rule 108(2) also provides for constitution of a committee by the Government for examination and discussion of these reports. The recommendations of this committee shall be binding on the Panchayat Samiti and Zila Parishad and Rule 109 stipulates that the Government will exercise overall supervision on the work of these committees.

## **RECOMMENDATIONS**

21.12 The 11<sup>th</sup> Finance Commission took cognizance of this problem and in para 8.19 (e) of its report recommended that Gram Panchayats, which do not have trained accounts staff, may contract out the upkeep of accounts to an outside agency. For this purpose, the C&AG of India may lay down the qualifications and experience for the agency/person so contracted out. Director Local Audit or his equivalent authority may do the registration of such agency/person. Director Local Audit, under the direction of the C&AG, may do the supervision over the quality of work of such agency/person. Non-compliance or poor performance should lead to deregistration of the agency/person entrusted with such task. The 11<sup>th</sup> Commission also earmarked a sum of Rs. 242.76 lakh for maintenance of accounts of Gram Panchayats in Haryana out of the funds transferred to PRIs.

21.13 Consequent to delegation of functions and funds on a big scale to the PRIs, it is necessary that expenditure incurred is subject to a rigorous audit to ensure accountability at all levels. This can only be ensured by periodical monitoring of the audit reports to ensure compliance of observations made in audit so that irregularities are not repeated on subsequent occasions. We, therefore, recommend that :-

- (i) As also recommended by the 1st SFC, the committees envisaged under Rule 108 of the Haryana Panchayati Raj, Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996 should be constituted immediately at the State level, particularly, with regard to audit of accounts of the Zila Parishads and the Panchayat Samitis in the State. The Secretary, Development and Panchayats should be the head of this committee and the Director Local Audit should be the Member Secretary. The Deputy Commissioner of the concerned district could be co-opted/associated in the deliberations concerning Panchayat Samitis/Zila Parishads of his district. We do not intend to give any other detailed recommendations on the constitution of this committee and leave it to the State Government. In the case of panchayats, in view of their large number, we recommend that a committee may be formed at the district

level to be headed by the concerned Deputy Commissioner for monitoring and ensuring compliance of audit reports with regard to panchayats in the district.

- (ii) These committees will have powers to summon officers, call for relevant record and to examine and scrutinize the accounts of these bodies from time to time and make suitable recommendations including dropping of objections etc. The reports of these committees both at the State level as well as the district level will be forwarded to the State Government for final disposal.
- (iii) Urgent steps should also be taken to implement the recommendations of 11<sup>th</sup> Finance Commission in regard to maintenance of accounts of PRIs, as mentioned under para 21.12. However, it may be ensured that the expenditure incurred on remuneration of the agency/person engaged for maintenance of accounts bears a reasonable relation to the total expenditure incurred by a Gram Panchayat in a year.
- (iv) One of the functions of the Gram Sabha is to review annual statement of accounts of the Gram Panchayat. This provides a very effective check on misuse of panchayat funds as the Gram Sabha is in a better position to find out whether the expenditure so reported has actually been incurred on the relevant scheme. In order to ensure that the accounts and the audit objections are properly placed before the Gram Sabha and explained to the members and their views are properly recorded, it should be made obligatory for a senior officer of the Panchayat Samiti, nominated by the BDPO, to attend the meeting of Gram Sabha in which these accounts are reviewed.

## **TRAINING**

21.14 The local bodies now enjoy a constitutional status. The functional devolution envisaged under the Acts, would require them to take up the tasks of planning and project formulation, implementation, monitoring, mobilization of local communities and resources etc. In the changed political, social and administrative set up, the local level functionaries would be required to develop a democratic outlook, a broader perspective and a team spirit besides upgrading and creating the right type of skills. These objectives can be achieved only through suitably designed training programmes.

21.15 The 1<sup>st</sup> State Finance Commission had also emphasized the need for stringent training programmes for the official, non-official and elected members of the local bodies and had, thus, recommended the strengthening of HIPA at Gurgaon and HIRD at Nilokheri. We fully endorse the suggestions of the earlier SFC in this regard.

21.16 The training of officials & non-officials of local bodies at different levels has to be a continuous process consisting of foundation courses, refresher courses, reorientation courses, seminars, workshops, study tours etc. at regular intervals. The training modules could vary according to the needs of the job/role of the officials. The major issues which would require consideration are : identification of target groups and assessing their training needs, preparation of course contents, background training materials and manuals and teaching aids etc. The training has to be graded and differentiated for various categories of employees keeping in view the nature of their jobs and functional responsibilities.

21.17 The broad areas where training modules would need to be worked out are:

1. Acts and bye-laws relating to urban local bodies and P.R.I.s;
2. Financial management, local finances, accounts and audit;
3. Assessment of taxes, town planning features and land acquisition procedures;
4. Acts relating to public health and sanitation;
5. Elements of municipal engineering;
6. Techniques of planning, project formulation and appraisal, monitoring and evaluation etc;
7. Service matters, pensionary matters, use of computers, handling of public grievances, public responsiveness and allied aspects of human resource development.
8. Management techniques etc;
9. Information management, Finance Data Base;
10. Elections procedures;
11. Developing leadership qualities and team spirit.

21.18 The training requirement of PRIs & ULBs would be of a larger magnitude. Besides, training of officials, training needs of thousands of elected members of PRIs and ULBs will also have to be taken care of. Among the new entrants, women members will constitute a significant segment. The training of women, keeping in view their literacy level and socio-cultural background would require extra efforts. A large number of women would need to be trained as trainers so as to accomplish meaningful results.

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

21.20 To enable these institutes to undertake additional work load effectively, they will have to be strengthened by way of additional man power and infrastructure facilities. It is suggested that the Urban Development Department as well as Panchayats and Development Department should examine this vital issue on an emergent basis and should adequately provide for undertaking and strengthening the various training programmes.

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## **CHAPTER-XXII**

### **PRIVATISATION OF MUNICIPAL SERVICES AND RECOVERY OF USER CHARGES**

22.1 The level of municipal services at present is much below the mark in almost all the States largely due to poor financial position of the local bodies. Most of the municipalities are not even able to pay salaries to their employees what to talk of providing core civic functions at a satisfactory level. While on the one hand the level of services has been deteriorating continuously, the expenditure on establishment has been rising steadily, leaving no room for improvement of services. It is in this context that the role of the private sector in maintaining certain civic services assumes significance. A number of municipal corporations and municipal councils in the country have utilised services of the private sector for performing some of their functions. Such most common services include waste management, sanitation, development and maintenance of parks, gardens and recreational places as well as maintenance of roads and street lighting. The municipalities of Banglore, New Bombay, Cochin, Pune, Baroda and Rajkot are some examples where such privatization has been successful. Apart from contracting out, other forms of public private partnerships have also been used in different States. Besides contracts for a service on an ongoing basis, one time tasks like designing and construction of specific infrastructure facilities like roads, water supply, distribution net work, etc. can also be contracted out. The need for privatization is more felt in case of a new service or increase the service coverage of the existing, both in terms of quantity and quality, which may be beyond the competence of the local municipality.

22.2 The main objective of privatisation is :-

- i) The foremost consideration should be the likely cost efficiency or economy in the cost of provision of these services and
- ii) to supplement the resources of the ULBs for expansion of civic services.

22.3 The demand for civic services is rising with rapid growth in urban population. Municipal revenues are not increasing at the same pace and there is resistance on the part of tax payers to any increase in taxes or user charges. The financial position of the State Govt. being under stress, the scope for increase in

grants-in-aid from the State is, therefore, very limited. Thus, the demand for improved level of civic services can be met to a greater extent with larger private investment in core civic services.

22.4 Generally any decision to privatize the existing service will lead to resistance from the employees unions apart from making the existing staff of the municipality redundant with no work. In this connection, it is suggested that as long as privatization does not lead to retrenchment of staff, there may not be any appreciable resistance from the employees' unions. Ways will have to be found to utilize the services of the existing staff by assigning them various functions by not filling up the other vacancies till the process of absorption is completed. Privatisation of various services will help municipalities in effecting cost savings on establishment which can be put to productive use in improving service provisions or increasing the present level of coverage of services.

22.5 Keeping in view the positive results of the experience of many municipalities across the country and the need to improve the level of services and simultaneously bring about efficiency and savings in expenditure in establishment, the Commission strongly recommends privatization of services like street lighting, solid waste management, construction/maintenance of toilets, garbage collection and disposal, street cleaning, road maintenance and maintenance of gardens, parks and play grounds in all the major municipalities of the State. We particularly recommend the adoption of practices followed in the Rajkot Municipal Corporation with regard to privatization by the Faridabad municipal corporation, and municipal councils of Haryana. It would be worthwhile for the State Government to depute a few municipal functionaries to the Rajkot Municipal Corporation and study in details the procedures and practices which are being followed there so that a decision could be taken on adopting them suitably for our municipalities.

22.6 Community participation can also be a cost effective method of maintaining and operating civic services. Sanitation committees can be formed which can employ the sanitary workers and supervise their work. The municipality should meet 50% of the charges, whereas the 50% balance can be funded by the committee through collection from the beneficiaries. This method would be cost effective where voluntary agencies or community groups exist.

## **USER CHARGES FOR URBAN SERVICES**

22.7 The Commission is required to suggest ways to improve the financial base of municipalities in the State. User charges is a potential source for improving the

resources of municipalities as well as the quality of services. Fundamentally, user charge is a charge levied for the use or access to a given service like water supply, sewerage, sanitation etc. User charges can be an additional source of revenue, since for many of the services, even a small percentage of operational and maintenance cost is not being recovered. Secondly, it would be possible to ensure that local citizens get efficient service which they want and for which they are willing to pay. Thirdly, by a proper costing and recovery of user charges, it will be possible to ensure adequate return on infrastructure investment leading to still higher investment in this sector.

22.8 Proper pricing of user charges should aim at raising revenue, covering operational cost, meeting financial targets and required rates of return on assets, avoiding abuse of services and ensuring equity among various beneficiaries. The extent of cost to be recovered through user charges will depend on the priorities of the local authorities but for full cost recovery all costs related to maintenance, debt service and depreciation would need to be taken into consideration. A study of water supply and sewerage service in various Indian cities indicates that the cost of recovery ranges from 20% to 100%. In most of the cases they are levied at a flat rate on connections and not on actual consumption. The charges are also progressive with larger size connections paying a higher rate and non-domestic charges being higher than domestic. Another important aspect in the existing system relates to the level of State control in deciding the rates for user charges. In most of the cities the local bodies have no autonomy in fixing these rates. Another constraint in properly pricing user charges is a need to ensure affordability for the poor, since their affordability levels would be lower than the required price level. This can be taken care of by keeping very low rates for the lowest consumption block and progressively increasing the rates for higher consumption blocks, thereby, providing the necessary cross subsidy. The pricing also depends on willingness and ability of different categories of consumers to pay for the services rendered. All this is, however, possible only when the municipality has greater autonomy in setting the charges. It would be desirable that the power to fix user charges and especially for upward revision should vest with the municipality.

22.9 In the State of Haryana, against the average cost of Rs.3.00 per kilo litre for tubewell based water supply and Rs.4.50 per kilolitre for canal based water supply, the recovery in the case of domestic consumer is Re.1 per kilolitre. Added to this is the inefficiency in the actual recovery which has not shown any improvement beyond a level of Rs.2-3 crore per annum. It is, however, reported that when the work was handed over to the PHED, the recovery increased substantially to the level of Rs.6 crore per annum. At present no user charges are being levied for sewerage and solid waste

collection or any other service being provided by the municipality. Based on the general principles enunciated above, the Commission would recommend the following measures, for adoption by the urban local bodies in the State:-

- (i) As a matter of principle, full cost recovery should be ensured for water supply in all the municipalities in the State. However, this may be achieved over a period of time during which rates should be gradually increased to ensure full cost recovery. At the same time, the interest of the weaker sections of the society, mainly of people living in slum areas, needs to be protected and this can be ensured by charging the industrial and commercial consumers at a much higher rate than what is normally applicable to domestic consumers. This is done in municipalities like Mumbai and would ensure the interests of the weaker sections by means of cross subsidy. Levy of water-rates for the industrial purpose in townships like Faridabad, Ballabgarh, Yamunanagar, Panipat, Sonipat, Gurgaon and Ambala can be reviewed from this angle.
- (ii) The rates charged should be reviewed at least every three years and necessary increase be effected to ensure recovery of the full cost including the additionality which has taken place in the intervening period.

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## **CHAPTER - XXIII**

### **TAXATION OF CENTRAL GOVERNMENT AND STATE GOVERNMENT PROPERTIES**

#### **1. CENTRAL GOVERNMENT PROPERTIES**

23.1 Under the provisions of the Article 285 of the Constitution of India, the properties of the Central Government are exempted from all taxes imposed by the States or any authority within a State. The State Governments have long been demanding that the taxation of union properties should be brought under the purview of municipal laws. This issue of taxation of Central Government properties has assumed a new dimension since many Government properties are strictly not used for administrative functions but are essentially related to activities with a distinctly commercial base such as ports, air ports, hotels etc. In the light of the recommendations of the Local Finance Enquiry Committee, the Government of India decided as far back as 1st May, 1954 that payment should be made to the local bodies for service charges in respect of Central Govt. properties and a communication in this regard was issued by the Ministry of Finance on the 10th May, 1954. The Ministry of Finance, vide letter dated 29th March, 1967, issued detailed guidelines for the mode of calculation of such service charges as well as determination of rateable annual value of the property. It was laid down that for various type of services availed of in respect of Central Government properties, service charges equivalent to 75% of the property tax realized from private individuals shall be leviable with respect to large and compact colonies which are self sufficient in respect of most of the services, but where some services are being provided by the local bodies, service charges should be paid at 50% of the normal property tax rate and in those cases where no civic services are directly availed of the payment will be restricted to one third of the normal rate of property tax. However, public sector undertakings and other industrial undertakings constituted into private limited companies would be required to pay all the usual taxes like any other private individual.

23.2 A perusal of the status papers of various State Governments like Maharashtra, Tamil Nadu, West Bengal and Delhi prepared by Times Research Foundation, Urban Studies Centre, Kolkata, shows that the municipal authorities have seriously taken up the question of recovery of service charges for central properties belonging to Railways, Civil Aviation, Posts and Telegraph etc. There have been disputes about payment of such service charges in individual cases pertaining to Delhi

Municipal Corporation and litigation is pending in the Supreme Court. The Government of Maharashtra has set up arbitrators for valuing Central Government properties and in West Bengal, this task has been entrusted to the Central Valuation Authority set up by the State Government. From discussions held by the Commission with Local Government Department officials as well as various municipalities, it transpired that the question of recovery of service charges from Central Government properties situated in the State of Haryana has not been taken up seriously till date and in fact, it appears that the first reference on this subject to the various municipalities was made by the Director Urban Development only on 17.2.95. It has not been possible to obtain any information about the income likely to be realized by way of service charges and Department of Urban Development will have to get the municipality-wise survey done to identify such properties and assess the service charges, which are payable by the departments concerned. There are sizeable properties belonging to Central Government Departments in various parts of the State and we feel that substantial amount of service charges can be realized by the local bodies, if an earnest effort is made in this direction. We hope that the State Government will immediately initiate a survey in this regard and assess the amount, which is due to the various municipalities by way of service charges and take immediate steps to recover the same.

## **2. STATE GOVERNMENT PROPERTIES**

23.3 Under the provisions of the Haryana Municipal Act, properties of the State Government are liable to tax like any other private individual. However, the State Government has granted exemption from tax for certain categories. The Commission has obtained information with regard to outstanding arrears recoverable from various Government Departments and it has been intimated that an amount of Rs. 8.00 crore is to be recovered from 63 Departments of the State Govt. as listed in Appendix A. The Commission views it with concern that huge arrears payable by Government Departments to the local bodies have remained unpaid for a large number of years. If the State Government itself is a big defaulter in the payment of taxes due to a local body, it would set a bad example when recovery proceedings are initiated against private individuals by the municipalities. We do not see any reason as to why a commercial undertaking like Tourism Corporation should continuously default on payment of property tax to municipalities. It has been reported that the Administrative Secretary, Urban Development Department is taking up this matter with the Chief Secretary to Government of Haryana for expediting the recovery. We strongly urge the State Government to ensure that property tax payable to the Local Bodies is paid in time in future apart from clearing all the outstanding arrears within a year.

**APPENDIX 'A'**  
**DEPARTMENTWISE ARREARS OF PROPERTY TAX**

<b>Sr.No.</b>	<b>Department/Corporation</b>	<b>Amount of arrears due as on 25.10.2002.(Rs.)</b>
1.	Agriculture Department	733044
2.	Marketing Board	6500457
3.	Agro Industries	6761
4.	Animal Husbandry	732110
5.	Dairy Development Deptt.	212800
6.	Bal Bhawans	435564
7.	Red Cross Societies	379595
8.	Confed	242792
9.	Co-operative Banks	20675
10.	Co-operative Societies	164625
11.	Primary Education Department	805596
12.	Higher Education Department	1165490
13.	Secondary Education Department	241288
14.	Election Office	61587
15.	Excise & Taxation Department	6065
16.	Fisheries Department	40630
17.	Food & Supplies Department	145908
18.	Food Corporation India	4967435
19.	Forests Department	531888
20.	H.A.F.E.D.	1056569
21.	H.S.I.D.C.	17714
22.	H.U.D.A.	2784151
23.	H.V.P.N.	4188462
24.	Haryana Agricultural University	237924
25.	Haryana ConCast	301880
26.	Haryana Tourism	9152726
27.	Health Department	5899674
28.	Home Guards Department	85203
29.	Housing Board	36122
30.	Improvement Trusts	566472
31.	Income Tax Department	75505
32.	Industrial Training Institutes (ITIs)	1603995
33.	Industries Department	91026

Sr.No.	Department/Corporation	Amount of arrears due as on 25.10.2002.(Rs.)
34.	Irrigation Department	3558753
35.	Jail & Judicial Department	1231464
36.	Khadi Gram Udyog	299823
37.	Land Records Department	3630
38.	M.I.T.C.	151406
39.	P.W.(B&R) Department	9700021
40.	Panchayats Department	1528928
41.	Police Department	1829240
42.	Prosecution Department	7860
43.	Public Health Department	2957436
44.	Rajya Sainik Board	140855
45.	Revenue Department	3441953
46.	Social Welfare Department	4343
47.	Sports Department	355396
48.	Technical Education Department	27026
49.	Transport Department	3820296
50.	Treasury & Accounts Department	198818
51.	Wakf Board	155992
52.	Ware Housing Corporation	508409
53.	Women & Child Development Department	62502
54.	XEN, DHBVN	278458
55.	DIC	120667
56.	CDPO	2245
57.	Bharat Sanchar Nigam Limited	1516104
58.	Cement Factory, Charkhi Dadri	936375
59.	Doordarshan	8750
60.	Post Offices	534715
61.	Railway Department	3110921
62.	State Bank of India	23917
63.	Bhakhra Bias Management Board	40141
	<b>Total</b>	<b>8,00,48,177</b>

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## **CHAPTER – XXIV**

### **BROAD CONCLUSIONS AND RECOMMENDATIONS**

#### **SECTION-ONE: GENERAL OVERALL PERSPECTIVE**

##### **Budgetary Perspective: State and Local Bodies**

24.1 The Commission is cognizant of the fact that the local bodies can not become effective instruments of decentralized governance unless they are endowed with specific powers, authority and funds. Though the enabling Acts fulfill this requirement, yet many more responsibilities and funds need to be devolved on the panchayats and municipalities to enable them to become true units of self government. We have undertaken a brief analysis of the State finances vis-a-vis the local bodies and noted the resource constraint at State level and mounting commitment at the level of local bodies. Thus, the Commission had to deal with an intricate task of striking a proper balance between these two conflicting situations. The total resources of the local bodies are quite inadequate compared to their assignments. The direct assistance provided to the urban and rural local bodies has been very minimal. Rapid progress was made by the State in various fields of economic development and as a result thereof, roads were repaired, widened & strengthened and pacca streets constructed in the villages and lot of funds invested for water supply etc. But due to increase in population and expansion of residential units in urban and rural areas, there is a paucity of funds to meet the basic requirements. It is clear that if environmental conditions and the quality of life in the State is to be improved, adequate finances must be made available to the rural as well as urban local bodies. There is an equally urgent need for maintenance of capital assets already created. The Commission is, thus, of the firm view that this third important segment of governance needs to be strengthened and empowered for its efficient functioning.

##### **OVERALL RURAL SCENARIO**

24.2 As per 2001 census the total rural population of 149.69 lakh is inhabiting in 6781 villages consisting of 6036 Gram Panchayats. The eleventh schedule of the Constitution enlists 29 subjects falling within the purview of PRIs covering almost the entire sphere of rural development but a clearer picture has yet to emerge regarding the functions which would be actually entrusted to them. This is bound to come over a

period of time but it needs to be emphasized that devolution of certain functions or sub-functions would necessarily have to be followed by transference of funds and functionaries concerned. Functions of a purely local nature like environmental improvement, sanitation, maintenance of assets and exploitation of local resources, creation of rural infrastructure and a variety of beneficiary oriented schemes should legitimately fall within the purview of PRIs.

24.3 Dwelling on the discussions held at the district level and experience of some of the other States, the Commission observes that Primary Education is one of the subjects which squarely and legitimately falls within the purview of the PRIs. There are about 11208 Primary Schools (other than those attached with Middle/High Schools) which could as well be placed under the control of PRIs alongwith the budget. A similar dispensation could be provided in respect of 1672 stockman centres/dispensaries of Animal Husbandry Department and anganwaries functioning at the village level. The State Government should take a firm decision and the question of delegation of financial authority, control over staff, future recruitment, etc. would have to be settled to improve the functioning of the local bodies under the changed scenario.

24.4 Although the Panchayati Raj Act, 1994 gives wide enabling powers to the PRIs in the sphere of taxation, there is a marked reluctance on the part of elected representatives to impose any worth-while additional resource mobilization measures on their constituents, even though the entire income so derived may be utilized for their exclusive benefit. However, the Commission hopes that the situation will improve with the passage of time as the PRIs gain in strength and credibility. But, for the present, there is a need to provide the bulk of funds for the PRIs by way of transfer of resources from the State or through grants-in-aid.

24.5 The important issue for consideration is the inter-se distribution of functions and funds among the Zila Parishads, Panchayat Samitis and Gram Panchayats. Even though a large proportion of the local area development work would necessarily devolve on the Gram Panchayats, the Zila Parishads and Panchayat Samitis would have to provide technical and administrative support apart from exercising a supervisory and coordinational role. Keeping these considerations in view, the Commission recommends that whenever resources in bulk are transferred from the State level, the same should be divided inter-se among the Zila Parishads, Panchayat Samitis and Gram Panchayats in the ratio of 10:15:75. Allocation of funds to the districts should be on the basis of the comprehensive formula presently adopted for decentralized planning which gives due weightage to all relevant economic factors.

Within the district, the inter-se distribution between Panchayat Samitis/Gram Panchayats would be on the basis of their respective population.

## OVERALL URBAN SCENARIO

24.6 As per the 2001 census the total urban population of the State was 61.14 lakh living in 106 towns. But the total number of urban local bodies is 68 comprising one Corporation (Faridabad Municipal Corporation), 21 Municipal Councils and 46 Municipal Committees with a municipal population of 58.03 lakh as indicated below:-

U.L.Bs	Nos.	Population ( in lakhs)	% age to total
i) Faridabad Municipal Corporation (FMC)	1	10.55	18.18
ii) Municipal Councils (Above 50,000 population)	21	33.82	58.28
iii) Municipal Committees	46	13.66	23.54
<b>TOTAL:</b>	<b>68</b>	<b>58.03</b>	<b>100.00</b>

24.7 The income scenario of urban local bodies including FMC, reveals that their total income from all sources recorded a marginal increase of 11.4% from Rs.110.02 crore in 1997-98 to Rs.122.54 crore in 2001-02 as under:-

		(Rs. in crores)				
No.	Item	1997-98	1998-99	1999-2000	2000-01	2001-02
i)	Total Tax Revenue	79.56	87.69	69.32	58.07	65.41
ii)	Stamp Duty and Registration fee	17.91	17.40	18.47	21.77	31.76
iii)	Property Tax	19.11	22.37	21.08	32.12	30.03
	<b>Total Receipts (from all sources)</b>	<b>110.02</b>	<b>112.86</b>	<b>125.76</b>	<b>87.26</b>	<b>122.54</b>

24.8 At present house tax and stamp duty and registration fee are the main components of tax revenues of the municipalities. The above table shows that the tax revenue not only remained stagnant but declined in the year 2000-01 due to abolition of octroi from 1.11.99. Property tax showed substantial growth due to adoption of new house tax assessment policy and switching over to the area linked scheme.

24.9 The establishment expenditure of municipal councils/committees is a matter of serious concern. During 2001-02, the expenditure on establishment rose to a whopping 70.35% of the revenue and the State Government had to give a grant of Rs. 41.18 crore to the municipalities to meet their outstanding salary liabilities. The Commission, thus, observes that the growth in staff strength must be contained and staff expenditure be brought down at least to the level of 50% of the total revenue receipts except where absolutely necessary. Simultaneously, productivity of the staff must be increased by providing them with modern aids and privatization should be resorted to the maximum extent possible in the spheres of sanitation, street lighting and maintenance of other services.

### **INSTITUTIONAL ARRANGEMENTS**

24.10 Some of the ULBs are not able to meet even their day-to-day expenses, and even default in making salary payments, what to speak of meeting their developmental needs. We have noticed that many such works are undertaken by un-authorised diversions from resources earmarked for other schemes such as town planning schemes and by way of postponing committed expenditure on items such as provident fund, pension contributions, etc. Capital works are severely starved of funds. Hence, the remedy lies in taking increasing recourse to institutional finances from HUDCO, LIC, etc. The Commission has, therefore, suggested the creation of one new apex body, namely, the Haryana Urban Development Finance Corporation to cater to the financial needs of the urban local bodies. The further loaning operations from this apex body to the municipalities would, however, be successful only if the returns on investment yield tangible returns except for the socially disadvantaged groups for which an element of cross subsidy can be quite legitimately introduced. We feel that there would be no escape from progressively increasing user charges in respect of items such as water supply and sewerage.

### **FINANCIAL PROJECTIONS FOR URBAN LOCAL BODIES (2001-02 TO 2005-06)**

24.11 In the absence of any budgetary format and reliable figures of receipts and expenditure, any attempt at making financial projections for the future in respect of PRIs would tend to be a purely theoretical exercise. Financial projections are, accordingly, being attempted for the ULBs only.

24.12 Projections have been made with regard to receipts and expenditure in the normal municipal budget, the interest liability, repayments and maintenance liability on account of the infrastructure proposed to be created as well as additional receipts on

account of revision of house tax, fees and fines etc. The overall position which emerges for the municipal councils/committees is as follows:-

**TABLE 24.1**

**FINANCIAL PROJECTIONS  
(MUNICIPAL COUNCILS/COMMITTEES)**

(Rs. in crores)

Sr. No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
1.	Deficit in normal budget	36.28	50.61	66.68	88.59	115.73	<b>357.89</b>
2.	Liability on account of maintenance/ construction of roads	15.00	16.05	17.17	18.37	19.66	<b>86.25</b>
<b>3.</b>	<b>Total projected expenditure</b>	<b>51.28</b>	<b>66.66</b>	<b>83.85</b>	<b>106.96</b>	<b>135.39</b>	<b>444.14</b>
4.	Addl. income from stamp duty, house tax, fee & fines	32.33	35.56	39.12	43.03	47.34	<b>197.38</b>
5.	Net Deficit (3-4)	18.95	31.10	44.73	63.93	88.05	<b>246.76</b>

**OVERALL FINANCIAL POSITION OF ULBs (2001-02 TO 2005-06)**

24.13 The overall position of surplus/deficit of all ULBs including that of Faridabad Municipal Corporation is set out below:-

(Rs. in crores)

Sr. No.	Head	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
1.	Municipal Councils/ Committees	(-) 18.95	(-) 31.10	(-) 44.73	(-) 63.93	(-) 88.05	(-) 246.76
2.	Faridabad Municipal Corporation	(+) 8.48	(+) 9.32	(+) 10.25	(+) 11.28	(+) 12.41	(+) 51.74
	<b>Total Position</b>	<b>(-) 10.47</b>	<b>(-) 21.78</b>	<b>(-) 34.48</b>	<b>(-) 52.65</b>	<b>(-) 75.64</b>	<b>(-) 195.02</b>

24.14 The broad overall position which emerges is as follows:-

- (i) There is a huge deficit even in the normal budget mainly on account of establishment charges which work out to about 70.35% of the overall receipts of Municipal Councils/Committees. It is likely to go up very substantially on account of the salaries and other allowances.

- (ii) Faridabad Municipal Corporation is in a somewhat better position but large investments are required by them for augmenting their water supply on the western side of the town, for slum clearance and for augmentation of services in 40 regularized colonies.

24.15 The overall position is far from being satisfactory and there is considerable deficit right from the year 2001-02 which keeps on increasing from year to year. This is inspite of the fact that the additional expenditure on building the urban infrastructure has been estimated on a very conservative basis and we have also taken into account all possible additional resource mobilization efforts of ULBs. The Commission has, accordingly, worked out a package for the devolution of taxes and grants-in-aid by the State Government in favour of the ULBs so as to meet the emerging resource gap of the municipalities.

24.16 Our recommendations for devolution of State resources to the local bodies relate to the period 2001-02 to 2005-06, except with regard to the implementation of the award of the Eleventh Finance Commission, which is applicable for the years 2000-01 to 2004-05. It is further recommended that in case for any reason the recommendations of the next State Finance Commission are not available to the Government by the end of the year 2005-06 the recommendations being presently made by us may be extended till such time the recommendations of the next State Finance Commission are available.

24.17 While an effort has been made to cover the deficit of the ULBs to the extent possible, but it has not been possible for us to meet their entire requirements because of the constraints of resources at the State level. We expect that the gap in resources, if still persists, will receive due attention of the Twelfth Central Finance Commission. Here, it may be noted that in accordance with the amendments carried out in Article 280 of the Constitution of India, the Central Finance Commission is required to consider the question of augmenting the Consolidated Fund of the States for supplementing the resources of the Urban Local Bodies and Panchayati Raj Institutions.

## **SECTION TWO :**

## **DEVOLUTION OF STATE TAXES, DUTIES, TOLLS AND FEES & GRANTS-IN-AID**

**The Commission's major findings and recommendations are summarised below:-**

### **A. PANCHAYATI RAJ INSTITUTIONS**

#### **(a) Devolution of State Taxes**

##### **(i) Royalty on minor minerals**

The Commission recommends that 20% of the annual income from royalty on minor minerals should be shared with the Gram Panchayats and municipalities. The total devolution from this source works out to Rs.24 crore and 50% of this i.e. Rs.12 crore would go to the Gram Panchayats.

As regards panchayat share, it may be passed on to the Panchayats Department for further distribution among the Gram Panchayats partly on the basis of origin and partly on the basis of other criteria evolved by the department.

##### **(ii) Conversion charges : Change of land use**

Normally, an area upto a distance of 8 kms beyond municipal limits is declared as "controlled area". Certain prescribed charges are levied for change of land use from agriculture to commercial, industrial or other uses. This being essentially a local area tax, it is recommended that 10% of the income from this source may be devolved to the panchayats through Panchayats Department for distribution among the panchayats as per the criteria to be evolved. The annual devolution would be Rs.0.20 crore.

##### **(iii) Revenue from cattle fairs**

The income from cattle fairs is generated by way of registration fee of 6% of the sale price paid by the purchaser and Rs.10/- per cattle charged from the seller. Presently 80% of the net income is retained at the level of Panchayat Samitis and the rest 20% at the level of Zila Parishads. The net income is arrived at by deducting establishment expenses as well as 5% of the gross income for maintenance of the cattle fair grounds. It is, thus, recommended that the entire net income from cattle fairs be transferred to the Panchayat Samitis instead of 80% at present. The total income from cattle fairs has been Rs.1.21 crore which would be transferred to the Panchayat Samitis through the Panchayats Department.

#### **(iv) Stamp Duty and Registration Fee**

The Commission recommends that 3% of the net receipts from stamp duty and registration fee collected from the panchayat area be transferred to the PRIs and the amount so worked out be placed at the disposal of the Panchayats Department for further distribution on the basis of the "Decentralized Planning" formula. The inter-se distribution among the GPs, PSs, ZPs would be in the ratio of 75:15:10. The share of PSs and GPs within the district will be on the basis of population. The collections under this head for the year 2001-02 are Rs.488.29 crore and the income coming from Panchayat areas @ 80% works to Rs. 390 crores and the share of PRIs at 3% works out to Rs.11.70 crore.

#### **(v) Electricity consumed in rural areas**

It is recommended that electricity consumed in rural areas for street lighting and water supply should be charged on domestic rates and not on commercial rates.

#### **(vi) Local Area Development Tax (LADT)**

After abolition of octroi on 1.11.99, the Local Area Development Tax (LADT) Act, 2000 was enacted which became effective from 5<sup>th</sup> May, 2000. As per section 22 of LADT Act, 2000, the net proceeds are to be transferred to the rural and urban local bodies for the development of local areas. As per the background given under chapter IX of its report, the Commission recommends that 65% of the net proceeds of LADT are to be transferred to all the tiers of PRIs i.e. ZPs, PSs and GPs to be distributed in the ratio of 10:15:75. The LADT proceeds are to be utilized for the maintenance and creation of civic amenities facilitating free flow of trade and commerce, which mainly include roads and water supply. It is further recommended that after adjusting the provisions allocated for maintenance of roads and water supply, the balance share be transferred to the PRIs in the form of assignments and compensation. As per the calculations made, this share is Rs.11.70 crore per annum.

### **(b) Grants-in-aid**

#### **(i) Maintenance Grant**

The Commission recommends that a grant of Rs.10 lakh per block be provided annually for the maintenance of community assets and Rs.1.00 lakh per block for the maintenance of PRI buildings. With 116 blocks, in the State, the total annual grant works to Rs.1276.00 lakh, as under:-



➤	Rs.10 lakh per block for 116 blocks for maintenance of community assets	<b>Rs.1160.00 lakh</b>
➤	Rs. One lakh per block for 116 blocks for maintenance of PRI buildings	<b>Rs. 116.00 lakh</b>
	<b>Total</b>	<b>Rs.1276.00 lakh</b>

## **(ii) Grant for Sanitation and Environmental Improvement**

The Commission proposes to provide earmarked grants of Rs.495.24 lakh per annum for sanitation and environmental improvement as under :-

		Rs. in lakhs
➤	Panchayats with population less than 2000 @ 3200	49.60
➤	Panchayats with population between 2000-5000 @ 6400	129.92
➤	Panchayats with population between 5000-10000 @ 8000	136.80
➤	Panchayats with population of 10,000 and above @ 12000	178.92
	<b>Total</b>	<b>495.24</b>

## **(iii) Repair Grant**

The Commission also recommends a grant of Rs.25.00 lakh for the repair of Zila Parishad/Panchayat Samiti buildings as a one time measure.

## **(iv) Development Grant**

Having taken into account the development needs and constraints of resources of the PRIs, the Commission recommends an untied grant of Rs.25/- per capita (2001 census) which works to Rs.37.50 crore per annum. A part of this devolution could be made from HRDF. The district-wise allocation should be based on "Decentralized Planning" formula. Distribution among ZPs, PSs and GPs be made in the ratio of 10:15:75. Further distribution among PSs and GPs would be on population basis. 75% of the grant will be released to GPs straightaway and 25% be released on the basis of matching contribution. The share of GPs would be released though PSs so as to exercise better control and monitoring. The State Govt. would lay down guidelines prescribing certain performance criteria like enrolment at primary level, small family norms, raising of local resources, detection of power thefts etc.

#### **(v) Incentive Grant**

As a measure of reward for better performance by the PRIs, the Commission recommends induction of incentive grant, as under:-

- A cash award of Rs.10 lakh, Rs.6 lakh and Rs.4 lakh for the first, second and third best Zila Parishads at State level.
- Cash awards of Rs.8 lakh for the first, Rs.5 lakh for the second and Rs.4 lakh for the third best ranking Panchayat Samiti in each of the revenue divisions.
- Cash awards of Rs.1.00 lakh, Rs.0.50 lakh Rs.0.30 lakh for the first, second and third Gram Panchayat respectively in each of the Panchayat Samitis. The annual requirement of incentive grant works to Rs.292.80 lakh, as under:-

	<b>Rs. in lakhs</b>
▪ Awards to Zila Parishads	20.00
▪ Awards to Panchayat Samitis	64.00
▪ Awards to Gram Panchayats	208.80
<b>Total</b>	<b>292.80</b>

The parameters for assessing the performance of the PRIs would be decided by the State Govt. (in Panchayats Department) on the line suggested for development grants.

#### **(vi) Eleventh Finance Commission Grants**

It is proposed that 11<sup>th</sup> Finance Commission grants of Rs.2941.75 lakh each year be transferred to the PRIs and distributed among ZPs, PSs and GPs in the ratio of 10:15:75. Allocation of Panchayat Samitis and Gram Panchayats would be on the basis of population. The period covered would be from 2001-02 to 2004-05 only. EFC grants for these four years would be Rs.11766.00 lakh.

#### **(c) Financial Implications – Total devolution to PRIs (2001-06)**

The annual financial implications of the Commission's recommendations in regard to tax sharing and transfer of grants-in-aid to all the tiers of PRIs work out to Rs.124.61 crore. A 10% projection per year is recommended for cost escalation and rise in population. Thus, the total devolution to PRIs during the period 2001-02 to

2005-06 covered by the Commission's report works to Rs.696.22 crore comprising tax sharing of Rs.223.35 crore and grants-in-aid of Rs.472.87 crore, as under:-

**Total devolution to PRIs from 2001-02 to 2005-06**

(Rs. in crores)

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

**B. URBAN LOCAL BODIES (INCLUDING MC FARIDABAD)**

**(a) DEVOLUTION OF STATE TAXES**

**(i) Entertainment Duty and Show Tax**

- It is recommended that 50% of the net income from entertainment duty under Punjab Entertainments Duty Act, 1955 (as amended to date) be devolved to the Urban Local Bodies on the basis of origin.
- As regards the Show Tax, it is recommended that this tax be re-imposed at the rate of 10% and the entire amount so collected under the Punjab Entertainments Tax Act, 1954 (amended to date) be transferred to the ULBs on the basis of origin.
- The annual share of ULBs would be between Rs.5 to 6 crore.

## **(ii) Taxes on vehicles**

20% of the net proceeds from vehicle tax should be transferred to the ULBs to be distributed 50% on the basis of population ratio and balance 50% on other criteria related to road length and their maintenance cost or some other criteria laid down by the State Govt. The annual share of ULBs works to Rs.20.72 crore which should be utilized for proper maintenance and upkeep of urban roads.

## **(iii) Tax on consumption of Electricity**

It is recommended that surcharge or tax on electricity should not be increased from existing 5 paise per unit of electricity consumed in municipal area. The share of municipalities in this tax would be around Rs. 2.5 to 3 crore per annum. Besides, it is also suggested that the electricity consumed for street-lighting and water supply be charged at domestic rates from the municipalities.

## **(iv) Royalty on Minor Minerals**

The Commission recommends that 20% of the annual income from royalty on minor minerals should be shared with the rural and urban local bodies. The total devolution from this source works to Rs. 24 crore and 50% of this i.e. 12 crore would go to the municipalities ( mainly the Municipal Corporation Faridabad)

## **(v) Local Area Development Tax (LADT)**

As explained under chapter IX, the Commission recommends that 35% of the net proceeds of LADT (after deducting collection charges) be devolved to municipalities. However, the provisions allocated for maintenance of State roads and water supply in municipal areas be adjusted from municipality share in LADT and the share earmarked as assignments and compensation be transferred to the municipalities and distributed on the basis of criteria for "Decentralized Planning" or any other criteria laid down by the State Govt. The entire share in LADT be utilized on development works facilitating free flow of trade and commerce. The annual share of ULBs works to Rs.49.34 crore. After adjusting a provision of Rs.19.34 crore for water supply and Rs.20.00 crore for roads, the balance share of Rs.10.00 crore is to be transferred to the ULBs in the form of assignments and compensation.

**(b) GRANTS-IN-AID**

After analyzing the financial status of municipal bodies, the Commission recommends a per capita grant of Rs.25/- (2001 census) for all municipal councils/municipal committees per annum. The annual amount of grant works to Rs.11.87 crore based on 47.48 lakh population. A 10% step up is to be given for future years. While making this recommendation, the Commission has noted the resource devolution to ULBs through other sources and their future development needs.

A per capita grant of Rs.25/- is also recommended for Municipal Corporation Faridabad (2001 census). The annual amount works to Rs.2.64 crore. A 10% step up is to be provided for future years. While doing so, the Commission had noted that MCF would secure a major part of tax devolution being recommended for urban local bodies and it has also the potential and scope for generating internal resources through own efforts. Since MCF has undertaken major development works, provision for per capita development grant is justified.

It is recommended that 11<sup>th</sup> Finance Commission grants of Rs.732.80 lakh for each year should be transferred to the urban local bodies for the period of four years i.e. 2001-02 to 2004-05 only as the year 2005-06 would be covered under the report of 12<sup>th</sup> Finance Commission. The total EFC grants would be Rs.2931.20 lakh and should be distributed between the municipalities on the basis of their respective slum population.

**(c) Other financial relief**

Loan liability of Rs.5.92 crore is outstanding against the municipalities over the past several years. The ULBs are not in a position to discharge this liability due to their poor financial health. The Commission finds no justification to keep this liability in record. Hence, it is recommended that this loan liability of Rs.5.92 crore including interest should be waived off only as a one time measure. However, the State Govt. would be required to undertake this liability for payment to the concerned financial institutions.

**(d) Total Devolution to Urban Local Bodies during 2001-02 to 2005-06****(Rs. in crores)**

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

Thus, the total devolution to Urban Local Bodies during 2001-02 comes to Rs.70.56 crore and during the five year period i.e. 2001-02 to 2005-06, Rs.415.37 crore including tax sharing of Rs.297.48 crore and grants-in-aid of Rs.117.89 crore.

**(e) Total devolution to the rural and urban local bodies during the period 2001-02 to 2005-06.****Total financial implications of Commission's recommendations  
for the period 2001-02 to 2005-06****(Rs. in crores)**

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

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

### **SECTION-THREE : RECOMMENDATIONS FOR AUGMENTATION OF INTERNAL RESOURCES OF LOCAL BODIES.**

The Commission is of the firm view that the State budgetary support being limited, the rural and urban local bodies must make consistent efforts to mobilize resources at their own level so as to discharge their responsibilities. The Commission makes the following suggestions in this regard:-

#### **A. PANCHAYATI RAJ INSTITUTIONS (PRIs)**

##### **(a) Augmentation of internal resources**

**(i) House Tax:** Section 41(i) of Haryana Panchayati Raj Act, 1994 provides for the levy of house tax by the Gram Panchayat. House tax rates revised by the State in 1996 were Rs. 30/-, Rs. 20/- and Rs. 10/- per annum depending on the category of occupier or the land owner. The Commission considered these rates as sufficient and found no justification for their immediate revision. However, the Commission observes that these rates may be revised every five years and further that serious efforts should continue to be made to maintain and ensure recoveries of house tax. Presently, the annual income from house tax is about Rs. 7 to 8 crore.

**ii. Common or Shamlat land :** Common land is the main source of income of the panchayats. A substantial part of the cultivable common land is under encroachment. The Commission recommends that since sufficient powers exist in law for removal of encroachments, these should be fully utilised for the

purpose. Maximum of the shamlat land should be leased out and that too at a reasonable price. Minimum lease money be fixed for various panchayat lands by a committee to ensure that no panchayat land is leased out at a price lower than that fixed by the committee. Maximum possible area should be utilised for plantation/afforestation, fishing activities, horticulture, floriculture etc. under a time bound programme. Besides, efforts be made to set up commercial complexes, community centres, residential plots and industries on panchayat lands, particularly land adjoining towns and urban areas. The present income from common land is about Rs.68 crore which would further increase by about Rs. 7 to 8 crore as a result of measures suggested above.

#### **(b) Other Recommendations**

- (i) All the activities listed in the Eleventh Schedule should be transferred to the PRIs alongwith budget, staff and logistic support.
- (ii) Delegation of certain duties and functions to the three levels of PRIs with regard to 16 important departments are of general and supervisory nature for which comprehensive operational instructions should be issued. Each department should issue detailed instructions to the subordinate offices specifying the role and duties assigned to the PRIs. The delegation orders issued so far should also be reviewed so as to make them more comprehensive.
- (iii) A number of beneficiary oriented schemes particularly of education and health departments within easy implementational capacity of the panchayats like distribution of uniforms, stipends and incentives, repair and construction of small buildings should also be transferred to the PRIs alongwith clearly set-out guidelines.

### **(B) URBAN LOCAL BODIES**

#### **(a) Augmentation of municipal revenue**

**(i) Octroi:** The octroi being an elastic source of revenue accounted for about 65% of the total tax revenue of the municipalities. It's abolition in the State w.e.f. 1.11.99 had wide repercussions on the functioning of the local bodies, especially when there is no other matching source of revenue for exploitation. The local bodies are now saddled with wide responsibilities. The Commission has, thus, recommended sharing of LADT proceeds with the local bodies as a measure of



matching resource for municipalities. Still, the State Govt. may consider some more matching sources for exploitation by these bodies.

(ii) **Property Tax:** Property tax is another major source of income and nearly 40% of municipal revenue is generated from this source alone. The rental value system of assessment being highly subjective, the State Govt. switched over to the area linked scheme w.e.f. 13.12.2001 which is based on standardized plinth area cost. This system of estimation is simple, transparent and free from bias and provides differential rates for various types of lands/buildings. Now tax at the rate of 2.5% of the annual value on residential buildings and 5% of the annual value on commercial, industrial and institutional buildings is being levied. The Commission is of the view that even this system should also be streamlined and the arrears should be recovered on priority basis. However, in order to ensure that assessments do not operate harshly, it can be laid down that increases in the house tax under the new system may not be more than 75% or 100% of the earlier assessment. This would improve receipts besides making assessment on a rational basis.

(iii) **Fee, Fines and user charges:** Certain rates of fee/charges and fines have not been revised since long. This also applies to dangerous and offensive trades. However, rates of certain fee/charges were revised in 2001-02. The Commission observes that the fee/ charges and other user charges should be reviewed periodically for their updation so as to augment revenues as well as to meet some maintenance cost.

#### **(b) Other recommendations**

(i) **Sanctioning of budget:** At present the budget of municipal councils is sanctioned by the Divisional Commissioners and that of the Municipal Committees by the Deputy Commissioners. It is proposed that budget of these bodies should be sanctioned by the Directorate of Urban Development as it can have better watch on income and expenditure of municipalities in the State.

(ii) **Privatisation of municipal services:** Most of the municipalities are not in a position to perform core civic functions to satisfactory level due to their poor financial position. The Commission, thus, recommends privatisation of services like street lighting, solid waste management, construction/maintenance of toilets, garbage collection/disposal, street cleaning, maintenance of gardens/parks/play grounds etc. This measure would be cost saving and help improving the level of civic services.

**(iii) Taxation of Central and State Govt. properties:** There are sizeable properties belonging to Central Govt. in various parts of the State and substantial amount of service charges can be realized by the local bodies if earnest efforts are made in this direction. It is suggested to initiate a survey to assess the amount due to various municipalities by way of service charges and take immediate steps to recover the same.

Like-wise, it has been noted that approximately an amount of Rs. 8 crore is to be recovered from 63 deptts. of the State Govt. and urgent steps need be taken to recover this arrear.

**(iv) Empowerment of Directorate of Urban Development:** Keeping in view the important role being played by the local bodies Directorate, it was re-named as "Urban Development Department" in 2001. It has been noted that this Directorate is fully equipped to discharge the functions assigned to it. There is a need to improve the efficiency of the existing staff by way of training, refresher courses etc. so as to have effective control over municipal services. However, the power of clearing the house map in municipal area should vest with the municipal committee.

**(v) Training of officials and non-officials:** The training of officials and non-officials of local bodies has to be a continuous process consisting of foundation courses, refresher courses, re-orientation courses, seminars, workshops, study tours etc. For this purpose, it is recommended to strengthen HIPA at Gurgaon and HIRD at Nilokheri, by way of additional manpower and infrastructure facilities.

**(vi) Creation of data base:** It is proposed to properly utilize the grants recommended by the 11<sup>th</sup> Finance Commission for strengthening the data base of local bodies through computerisation and modern aids. The Directorates of rural and urban local bodies should ensure that the data is collected, computerized and supplied to all the stake-holders.

**(vii) Maintenance of Accounts and their Audit:** It is recommended that grants recommended by the 11<sup>th</sup> Finance Commission for maintenance of accounts and their audit should be utilized as per the guidelines. A committee of the ULBs concerned on municipal finances may be constituted to examine the audit reports. Similarly, a committee as envisaged under rule 108 of Haryana Panchayati Raj Act may be constituted at State level for audit of accounts of ZPs and PSs. In case of panchayats, a committee be set up at district level to

monitor compliance of audit reports. The Commission finds no justification for entrusting the responsibility of supervision and administrative control to C&AG of India. However, C&AG may prescribe procedure for verifying proper utilization of grants given by 11<sup>th</sup> Finance Commission and provide technical guidance regarding audit standards, audit planning, professional training and all other matters to strengthen the local fund audit.

**(viii) Creation of Apex Organisation:** With a view to install a systematic arrangement for tapping institutional finance for undertaking development works in municipal areas, an apex-organisation called "Haryana Urban Development Finance Corporation" should be established which would become an appropriate channel for securing loan assistance from financial institutions and in turn disbursing the same to the local bodies. The State Govt. may provide the share capital of Rs. 5 to 8 crore over a period of two to three years.

**(ix) Use of land and other properties of local bodies:** It is recommended that Electricity Board and other agencies of the Central and State Govts. should compensate the local bodies for use of their lands and other properties. The State Govt. should take suitable steps towards this end.

**(x)** The Commission observes that growth in municipal staff be contained and salary expenditure be brought down to the level of 50% of the total revenue receipts of municipalities.

## **SECTION-FOUR : GENERAL OBSERVATIONS**

### **(A) FINANCE COMMISSIONS**

- The Terms of Reference of this Commission do not indicate the period covered under its report. The Commission has decided that its report would cover the period of five years from 2001-02 to 2005-06.
- An implementation committee under the chairmanship of the Chief Secretary may be constituted to ensure that decisions on all recommendations are taken within a period of three to four months of the submission of Commission's report.
- All recommendations of the Commission relating to devolution of funds to PRIs and ULBs i.e., accepted, partially accepted and/or rejected, should be placed before the council of Ministers for decision.
- The Action Taken Report be placed before the State legislature within a period of five to six months of the submission of Commission's report. The State Govt. should indicate reasons in its action taken report to be presented before the

State legislature for not accepting the recommendations of the State Finance Commission, if any.

- The share of PRIs and ULBs be transferred by the Finance Deptt. to the Deptts. of Panchayats and Urban Development respectively and be further distributed among the rural and urban local bodies in accordance with the principles recommended by the Commission or laid down by the State Govt.
- The Commission strongly feels that a cell should be created each in the departments of Panchayats and Urban Development to collect extensive data on local bodies which could be provided to all the stake-holders, whenever needed, including the next State Finance Commission.
- There is a need for creation of a permanent Finance Commission cell in Finance Deptt. to monitor the finances of local bodies as well as to monitor the follow up measures on implementation of the recommendations of State Finance Commissions and also those of the Central Finance Commissions.
- The State Govt. should constitute the State Finance Commission at an appropriate time and ensure that the composition is not disturbed till the completion of its task. Further, the Member Secretary should be appointed on full time basis. Services of experts, professionals etc. should also be hired to tackle the work of the Commission.
- It is recommended that in case for any reason the recommendations of next State Finance Commission are not available by end 2005-06, the recommendations being presently made by this Commission may be extended till such time the recommendations of next Commission are available.

#### **(B) PRIs AND ULBs**

- The PRIs should consider imposing suitable levies on irrigated and un-irrigated holdings, pumping sets & tractors, local brick kilns etc.
- Gram Panchayats should be empowered to impose token tax on hawkers and other traders who visit the village to sell their goods/products.
- The possibility be explored if moneys donated to panchayats and municipalities could be got exempted from income tax. It would motivate people to donate liberally for welfare schemes.
- Cable operators should be liable to pay Rs. 20/- per month per connection to the concerned panchayat/municipality for using their land for lodging cables.
- Some charges should be imposed by panchayats/municipalities on advertisements and hoardings.

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## **ANNEXURE - 1**

### **HARYANA GOVERNMENT GENERAL ADMINISTRATION DEPARTMENT**

#### **NOTIFICATION**

The 6th September, 2000

No. 19/5/2000-Pol(2P)- In pursuance of the provisions of the article, 243 I and 243 Y of the Constitution of India and section 213 of the Haryana Panchayati Raj Act, 1994 (Act 11 of 1994) and rule 3 of the Haryana Finance Commission Rules, 1994, the Governor of Haryana hereby constitutes the 2<sup>nd</sup> Finance Commission consisting of Sh. Suraj Bhan Kajal, EX-MLA as the Chairman and the following four other members, namely :-

- |    |                             |                  |
|----|-----------------------------|------------------|
| 1. | Sh. P.P. Sahni, IAS (Retd.) | Member           |
| 2. | Sh. Ami Chand Sehrawat      | Member           |
| 3. | Sh. Ram Kumar, Advocate     | Member           |
| 4. | Sh. P.K. Das, IAS           | Member Secretary |

2. The Chairman and other members of the Commission shall hold office from the date on which they respectively assume office up to 31<sup>st</sup> December, 2000.

3. The Commission shall make recommendations relating to the following matters :-

1. (a) the principles which should govern-

- (i) the distribution between the State and the Zila Parishads, Panchayat Samitis and Gram Panchayats, of the net proceeds of the taxes, duties, tools and fees leviable by the State which may be divided between them under part IX of the Constitution of India and the allocation between the Zila Parishad, Panchayat Samiti and Gram Panchayats at all levels of their respective shares of such proceeds ;
- (ii) the determination of the taxes, duties, tools and fees which may be assigned to, or appropriated by the Gram Panchayats, Panchayat Samitis and Zila Parishads ;

- (iii) the grants-in-aid to the Zila Parishad, Panchayat Samiti and Gram Panchayat from the Consolidated Fund of the State ;
  - (b) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads ;
- 2 (a) the principles which should govern-
- (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under part IX A of the Constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
  - (ii) the determination of the taxes, duties, tools and fees which may be assigned to, or appropriated by the Municipalities;
  - (iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the State ;
- (b) the measures needed to improve the financial position of the Municipalities. In making its recommendations, the Commission shall have regard, among other considerations to :-
- (i) the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;
  - (ii) the resources of the State Government and demands thereon particularly in respect of expenditure on Civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditures or liabilities of the State; and
  - (iii) the requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing expenditure.

**VISHNU BHAGWAN,**  
Chief Secretary to Government, Haryana.

No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy is forwarded to the Controller, Printing & Stationery Department, U.T. Administration, Chandigarh for publishing the above notification in the Haryana Government Gazette (Extra Ordinary) of today.

It is requested that 100 printed copy of the above notification may please be supplied to the Haryana Government (Political Department).

Sd/-  
Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy is forwarded to the following for information and necessary action:-

1. Accountant General (A&E), Haryana, Chandigarh.
2. Accountant General (Audit), Haryana, Chandigarh.

Sd/-  
Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy is forwarded to Sh. Suraj Bhan Kajal, Ex-MLA, R/O Julana, District Jind (Haryana) for information and necessary action.

Sd/-  
Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy, each, is forwarded for information and necessary action to :-

1. Sh. P.P. Singh Sahani, IAS (Retd.), 53, Shivalik Enclave, Manimajra, Chandigarh.
2. Sh. Ami Chand Sehrawat S/o Sh. Sher Singh, 7-C, Sajan Singh Park, Sonapat (Haryana).
3. Sh. Ram Kumar, Advocate, Civil Courts, Chamber No. 19, Fatehabad (Haryana).
4. Sh. P.K. Das, IAS, Joint Secretary to Government, Haryana, Finance Department.

Sd/-  
Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

A copy, each, is forwarded for information and necessary action to the :-

1. Financial Commissioner & Secretary to Government, Haryana, Development & Panchayats Department.
2. Commissioner & Secretary to Government, Haryana, Local Government Department.

Sd/-

Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

To

1. Financial Commissioner & Secretary to Government, Haryana, Development & Panchayats Department.
2. Commissioner & Secretary to Government, Haryana, Local Government Department.

U.O.No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy is forwarded to the Joint Secretary to Government, Haryana, Secretariat Establishment for information and necessary action.

Sd/-

Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

To

The Joint Secretary to Government, Haryana,  
Secretariat Establishment.

U.O.No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

A copy is forwarded to the Financial Commissioner & Secretary to Government, Haryana, Finance Department for information with reference to his Diary No. 557-FCF, dated 7.7.2000.

Sd/-

Joint Secretary Political & Services,  
for Chief Secretary to Government, Haryana.

To

The Financial Commissioner & Secretary to Government,  
Haryana, Finance Department.

U.O.No. 19/5/2000 Pol(2P) Dated, Chandigarh the 6<sup>th</sup> September, 2000

Note:- The period of 2<sup>nd</sup> State Finance Commission was notified upto 31.12.2000 vide No.19/5/2000-Pol (2P) dated 6<sup>th</sup> September, 2000. The term was time and again extended upto 30.09.2004 vide notifications dated 2<sup>nd</sup> March, 2001, 4<sup>th</sup> October, 2001, 18<sup>th</sup> March, 2002, 3<sup>rd</sup> September, 2002, 24<sup>th</sup> January, 2003, 15<sup>th</sup> July, 2003 and 15<sup>th</sup> October, 2003.



## ANNEXURE - 2

### SHARE OF STATES IN ALLOCATION FOR PANCHAYATI RAJ INSTITUTIONS AS PER EFC

Name of the state	Composite Index for State's (%age)	Allocation for the State per year (Rupees in lakhs)
1	2	3
Andhra Pradesh	9.503	15204.83
Arunachal Pradesh	0.348	556.85
Assam	2.918	4668.95
Bihar	9.813	15700.76
Goa	0.116	185.45
Gujrat	4.351	6960.87
Haryana	1.839	2941.75
Himachal Pradesh	0.821	1313.38
Jammu & Kashmir	0.930	1488.14
Karnataka	4.926	7882.35
Kerala	4.120	6592.58
Madhya Pradesh	8.943	14309.39
Maharashtra	8.209	13134.58
Manipur	0.235	375.4
Meghalaya	0.320	512.16
Mizoram	0.098	157.11
Nagaland	0.161	257.33
Orissa	4.320	6911.76
Punjab	1.933	3092.71
Rajasthan	6.137	9818.96
Sikkim	0.066	105.85
Tamil Nadu	5.826	9322.36
Tripura	0.356	569.19
Uttar Pradesh	16.489	26382.67
West Bengal	7.222	11554.59
<b>Total</b>	<b>100.000</b>	<b>160000.00</b>

Source:- Report of the Eleventh Finance Commission.

### ANNEXURE - 3

#### SHARE OF STATES IN ALLOCATION FOR URBAN LOCAL BODIES AS PER EFC

Name of the State	Composite Index for State's share (%age)	Allocation for the States per year (Rupees in lakhs)
Andhra Pradesh	8.233	3293.14
Arunachal Pradesh	0.034	13.67
Assam	1.077	430.84
Bihar	4.695	1877.94
Goa	0.232	92.73
Gujrat	6.626	2650.40
Haryana	1.832	732.80
Himachal Pradesh	0.195	77.84
Jammu & Kashmir	0.783	313.16
Karnataka	6.241	2496.39
Kerala	3.762	1504.95
Madhya Pradesh	7.801	3120.22
Maharashtra	15.813	6325.09
Manipur	0.220	87.92
Meghalaya	0.135	53.98
Mizoram	0.192	76.89
Nagaland	0.089	35.72
Orissa	1.998	799.20
Punjab	2.736	1094.53
Rajasthan	4.971	1988.32
Sikkim	0.010	4.16
Tamil Nadu	9.668	3867.34
Tripura	0.201	80.32
Uttar Pradesh	12.582	5032.64
West Begal	9.874	3949.78
Total	100.000	40000.00

Source:- Report of Eleventh Finance Commission.

## **ANNEXURE - 4**

### **INDEX OF DECENTRALIZATION**

#### **I. Panchayati Raj Institutions.**

- Enactment of State Panchayat Legislation in conformity with the Constitution (Seventy third Amendment) Act, 1992.
- Intervention/restriction in the functioning of the Panchayats.
- Assignment of functions to the Panchayats in the State Panchayat Legislation vis-à-vis the Eleventh Schedule.
- Transfer of functions to the Panchayats by way of Rules/Notifications/Orders of State Governments.
- Assignment of taxation powers to the village Panchayats as per State Panchayat Acts.
- Levy of taxes by the village Panchayats.
- Constitution of State Finance Commissions and submission of Action Taken Reports.
- Action taken on the major recommendations of the SFC.
- Elections to the Panchayats.
- Constitution of District Planning Committees.

#### **II. Urban Local Bodies**

- Enactment of state municipal legislation in conformity with the Constitution (Seventy-fourth Amendment) Act, 1992.
- Intervention/restriction in the functioning of municipalities.
- Assignment of functions to the ULBs in the State-Municipal Legislation vis-à-vis the Twelfth Schedule.
- Transfer of functions to the ULBs by way of rules, notifications/orders of State Governments.
- Assignment of taxation powers to the ULBs as per State Municipal Acts.
- Levy of taxes by the ULBs.
- Constitution of State Finance Commissions and submission of Action Taken Reports.
- Action taken on the major recommendations of the SFC states.
- Election to the ULBs.
- Constitution of District Planning Committees.

Source:- Report of Eleventh Finance Commission.

**ANNEXURE - 5**  
**“ELEVENTH SCHEDULE”**  
**(Article 243 G)**

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

**ANNEXURE - 6**  
**“TWELFTH SCHEDULE”**  
**(Article 243 W)**

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and bridges.
5. Water supply for domestic industrial and commercial purposes.
6. Public health, sanitation conservancy and solid waste management.
7. Fire services.
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
13. Promotion of cultural, educational and aesthetic aspects.
14. Burial and burial grounds; cremations, cremation grounds and electric crematoriums.
15. Cattle ponds; prevention of cruelty to animals.
16. Vital statistics including registration of births and deaths.
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.
18. Regulation of slaughter houses and tanneries.

## ANNEXURE - 7

### LIST OF DISTRICTS AND FIELD MEETINGS HELD

S.No.	District	Date of meeting	Number of persons who attend the meetings			Remarks
			Non-official	Official	Total	
1	Fatehabad	24.8.2002	57	30	87	PRIs/ULBs and All District Officers
2	Kurukshetra	18.10.2002	33	39	72	-do-
3.	Gurgaon	8.11.2002	43	61	104	-do-
4.	Faridabad	18.11.2002	16	43	59	Including Mayor and Commissioner of Corporation
5.	Rohtak	17.01.2003	45	49	94	-do-
	<b>Total</b>		<b>194</b>	<b>222</b>	<b>416</b>	

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