Government of Haryana

Report of the Sixth State Finance Commission Haryana

Empowering Local Bodies for Resilient Governance

December 2021

Letter of Transmittal

Dated : 23rd December, 2021

To
Sh. Bandaru Dattatreya,
His Excellency The Governor of Haryana

The 6th State Finance Commission, Haryana has, in the light of its constitutional mandate and given terms of reference issued vide notification dated 22 September 2020 attempted to faithfully reflect the spirit of the constitutional provisions and fulfill its role in the preparation of SFC report/recommendations.

2. Initially the Commission was to complete its task within a period of one year. However, due to constrains faced by the Commission during its tenure, the Commission sought an extension. Vide notification dated 1 September 2021, the State Government extended the term of the Commission upto 31 December 2021.

3. We are greatly privileged to submit the Report of the 6th State Finance Commission, Haryana. The Commission has benefitted from the consultations with various elected representatives of Urban and Rural Local Bodies, officials of the Government of Haryana and the Government of India, academics and researchers.

4. The theme of the 6th SFC Report is "Empowering Local Bodies for Resilient Governance". The Report contains many specific recommendations to improve local governance; and to help in improving the limited capacity of Urban and Rural Bodies to generate fiscal resources.

5. We are grateful of the Government of Haryana for entrusting the task of producing this Report, and for facilitating and encouraging the Commission's efforts.

Vikas Gupta, IAS
Member Secretary

P. Raghavendra Rao, IAS (Retd.)
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Acknowledgement

The Sixth State Finance Commission, Haryana, has, in the light of its constitutional mandate and the given terms of reference, attempted to faithfully reflect the spirit of the constitutional provisions and fulfil its role in the empowerment of local bodies. It is recognised at the Commission that empowered local bodies would be able to realise resilient governance. In view of this, the theme of the report is envisaged: 'empowering local bodies for resilient governance'.

This Commission was constituted on 22 September 2020, at a time when the first wave of COVID-19 pandemic was at its peak and its repercussions being faced in all parts of the country. Despite these odds, and with the full support of the State Government, particularly the Chief Secretary Office and Finance Department, the Commission was able to begin its preliminary work in all earnestness. The past fifteen months have been an extensive learning process for the Commission, for which I would like to express my deep gratitude to all who enabled it in successfully delivering this report.

At the onset, the Commission would like to thank the Hon'ble Chief Minister who is also the Finance Minister, Haryana, and his team of senior officials for constantly interacting with the Commission and extending their cooperation. The Commission must also acknowledge the considerable work done by the previous Central and State Finance Commissions that gave inspiration for this report and laid a strong foundation of the Commissions' understanding of financial matters of the state, in particular.

The Commission is grateful to the functionaries of various State Government Departments, Boards & Corporations, other establishments, and more particularly, Finance, Development & Panchayats Department and Department of Urban Local Bodies, along with Divisional Commissioners, Deputy Commissioners of various districts, Commissioners of Municipal Corporations, District Municipal Commissioners, Chief Executive Officers Zila Parishads and all other officials, for their consistent and timely support in supply of requisite data & as well as valuable suggestions, to the Commission. The support provided by the district and field level officers also helped the Commission in completing the task at hand, in time.

The Commission also extends its gratitude towards Sh. T.V.S.N. Prasad, Additional Chief Secretary, Finance and Planning; Sh. Amit Jha, Additional Chief Secretary, Development and Panchayats; Sh. S.N. Roy, earlier Additional Chief Secretary, Urban Local Bodies Department; Sh. Arun Kumar Gupta, Principal Secretary, Urban Local bodies; Sh. R.S. Bidhan, Director General, Development and Panchayats; Sh. Ashok Kumar Meena, earlier Director, Urban Local Bodies Department; Sh. D.K. Behera, Director, Urban Local Bodies and Sh. Sunil Sharan, Secretary, Finance, for giving their valuable suggestions that steered the direction of our report. The Commission is also thankful to Sh. Y.S. Gupta, Additional Director, Sh. Ashok Rathi, Chief Engineer, Sh. K.K. Varshney, Chief Town Planner, Sh. Aditya Aggarwal, Consultant, Urban Local Bodies Department and Sh. M. L. Garg, Joint Director, Sh. Venus Nathalia, Assistant Engineer, IT, and his team at the Development and Panchayats Department, Haryana.

Further, the Commission gratefully acknowledges the support extended by Smt. Surina Rajan, Director General Haryana Institute of Public Administration, Gurugram; Sh. R.K. Mehta, the then Director Haryana Institute of Rural Development, Nilokheri and Sh. P.K. Yadav, Principal, Regional Institute of Panchayati Raj & Community Development, in Bhiwani, for arranging seminars on empowerment of local bodies in their institutions which provided valuable inputs to the Commission.

Several eminent administrators, including Sh. S.M Vijayananad, Chairman of Sixth State Finance Commission, Kerala; Sh. T.R. Raghunandan, former Joint Secretary, Government of India, MoPR; Dr Pinaki Chakraborty, Director, National Institute of Public Finance and Policy Delhi; Dr V.N. Alok, Indian Institute of Public Administration (IIPA), Delhi; Dr N.K. Bishnoi, Guru Jambheshwar University of Science and Technology (GJU), Hissar, have sincerely shared their deep knowledge and experience on the relevant topics & gave timely feedback to this Commissions, which is gratefully acknowledged. Thanks, are also due to Sh. N.R. Sheoran, Director, Economic and Statistical Analysis Department, Haryana and his team of officers, for providing infrastructural support for office of the Commission in Yojana Bhawan, Panchkula.

The Commission also acknowledges the useful interactions and consultations held with the Secretaries and senior officials of various central government departments including the Rural Development, Panchayati Raj, Housing & Urban Affairs, Revenue, Expenditure, and also with the Member Agriculture, NITI Aayog cum ex-member of XV Finance Commission. Similarly, meetings held with Additional Chief Secretaries of Public Health and Engineering Department, Health, Excise & Taxation, and Education departments, Government of Haryana also contributed positively to our understanding of the relevant issues.

Guidance given by Sh. Girish Chandra Murmu, Comptroller & Auditor General of India and his team, particularly Sh. Vishal Bansal, Principal Accountant General (Audit), Haryana, was very useful in formulating the Commission's views regarding processes related to budgeting, accounting and auditing of rural and urban local bodies.

As the Chairman of the Commission, I would also like to place on record my sincere gratitude towards the exemplary leadership and commitment shown by Sh. Vikas Gupta, Member Secretary, Sixth State Finance Commission Haryana who constantly guided the deliberations and in drafting of the report, despite his other pressing official engagements.

I would also like to extend my thanks to Dr. Mahi Pal, Advisor (PRI), for his in-depth knowledge of rural local bodies sector and valuable contribution in formulating recommendations for their financial empowerment; Prof. Mukesh Mathur, Advisor (ULB) for supporting the Commission with his vast knowledge and experience in the field of Urban Finance & Governance; Dr. Kaushik Bhadra, Consultant (Public Finance), for his analytical calibre and commendable grip on issues connected with public finance (which proved to be particularly useful in designing the devolution approach and methodology used by the Commission) and Sh. R.K. Mehta, Advisor (Legal and Coordination), for smoothly coordinating the administrative activities within the Commission. Sincere thanks are also due to Mr Kulwant Khullar, Administrative Officer, for his constant support and commitment, from day one till the final submission of the report.

In this endeavour, the Commission has greatly benefitted from the Research Associates as well, who promptly and tirelessly collected relevant data and information, conducted quick analysis, coordinated with various stakeholders, Institutions and officials and aided in the timely completion of the report. Individually, I would like to thank Sh. Sirajul Islam Yazdani for diligently delivering useful research, analytical support, and empirical knowledge in the area of Panchayati Raj Institutions, Ms. Gitika Wahal for her adept research abilities as well as

delivery of theoretical, empirical, and analytical knowledge and support in the area of Urban Local Bodies' finances and governance, which provided a strong base for recommendations proposed on the Urban Finances; Dr. Meenakshi Sinha for suggesting a framework on Land Value Capture in Haryana and formulating recommendations for the same.

My sincere thanks are also due to Mr V.K. Sharma, OSD, for his tireless service to the Commission and coordinating daily activities between our two offices at Delhi and Panchkula, Smt. Veena Rawat, Senior Scale Stenographer; Mr. Himanshu Tanwar, Assistant; Mr. Rakesh Kumar and Ms Mandeep Kaur, Data Entry Operator for arranging excellent logistical support. In addition, a dedicated team of drivers – Mr. Kuldeep Singh, Mr. Narender Raghav, Mr. Rajat Kumar and Mr. Rahul Kumar – assisted the Officers of the Commission even on non-working days and my sincere thanks to all of them.

The Commission is also grateful for the commitment, sincerity, and adherence to timelines displayed by the various Institutes engaged by the Commission in conducting their studies. The Commission is particularly thankful to Sh. Pashim Tewari, Sh. Alok Shiromany and their team from the All-India Institute of Local Self Government. The Commission is also grateful for the handholding support provided by the Institute. Further, we are thankful to Dr. Manish Gupta and his team from the National Institute for Public Finance and Policy; Sh. Srikanth Vishwanathan, Sh. Mohak Mathur, Sh. Taarush Jain and their entire team from Janaagraha; Prof. S.P. Singh, Prof. Rachita Gulati and their team from Indian Institute of Technology Roorkee; Dr. Manveen Kaur, and her team the from the Haryana Institute of Public Administration and many others who helped the Commission, directly or indirectly, in crystalising its recommendations.

Several other individuals and organisations have backed this Commissions' work and functioning throughout its tenure. The Commission earnestly apologises to those whose names have inadvertently been not specified in this acknowledgement.

The Commission is responsible for all the views, interpretations and factual content of the Report and would like to take responsibility for any inadvertent errors that might have occurred.

P. Raghavendra Rao
Chairman
Sixth State Finance Commission, Haryana

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Abbreviations

3Fs	Functions, Functionaries and Finances
AAR	Annual Administrative Report
AFS	Annual Financial Statement
AIILSG	All India Institute of Local Self Government
AMRUT	Atal Mission Rejuvenation to Urban Transformation
ASHA	Accredited Social health activist
BDPO	Block Development and Panchayat Officer
BE	Budget Estimate
C&AG	Comptroller and Auditor General (CAG) Of India
CAA	Constitutional Amendment Act
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CFC	Central Finance Commission
CPE	Continuing Professional Education
CSCs	Common Service Centers
CSO	Central Statistical Office
CSS	Centrally Sponsored Schemes
D&PD	Development and Panchayat Department
DC	District Commissioner
DDMCs	District Development and Monitoring Committee
DDPO	District Development and Panchayat Officer
DESA	Department of Statistical Analysis
DISCOM	Distribution Company
DLC	District Level Committee
DPC	District Planning Committee
DPO	District Planning Officer
DMC	District Municipal Commissioner
DRDAs	District Level Rural Development Authorities
DTP	District Town Planner
DULB	Department of Urban Local Bodies
EG	Economic Growth
EO	Executive Officer
FD	Finance Department
FRBM	Fiscal Responsibility and Budget Management
GDDP	Gross District Domestic Product
GDP	Gross Domestic Product
GIS	Geographic Information System
GMDA	Gurugram Metropolitan Development Authority
GoH	Government of Haryana
GoI	Government of India
GP	Gram Panchayat
GPDP	Gram Panchayat Development Plan
GS	Gram Sachiv
GSDP	Gross State Domestic Product
GST	Goods and Services Tax

Abbreviations

GSTN	Goods and Service Tax Network
GSVA	Gross State Value Added
HD	Human Development
HGVY	Haryana Gramin Vikas Yojana
HIPA	Haryana Institute of Public Administration
HIRD	Haryana Institute of Rural Development
HRDF	Haryana Rural Development Fund
HUDA	Haryana Urban Development Authority
HUIDB	Haryana Urban Infrastructural Development Board
IAY	Indira Awas Yojana
IDC	Inter District Council
IGST	Integrated Goods and Service Tax
IIPA	Indian Institute of Public Administration
IIT	Indian Institute of Technology
IT	Information Technology
IWMP	Integrated Watershed Management Programme
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LAD	Local Area Development
LADT	Local Area Development Tax
LGD	Local Government Directory
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MIS	Management Information System
MLA	Member of Legislative Assembly
MMP	Mission Mode Project
MoF	Ministry of Finance
MoHUA	Ministry of Housing and Urban Affairs
MoPR	Ministry of Panchayati Raj
MoRD	Ministry of Rural Development
MoSPI	Ministry of Statistics and Programme Implementation
MoU	Memorandum of Understanding
MoUD	Minister of Urban Development
MPLADS	Members of Parliament Local Area Development Schemes
MSWM	Municipal Solid Waste Management
NAD	National Asset Directory
NCR	National Capital Region
NDDP	Net District Domestic Product
NGOs	Non- Government Organisation
NIPFP	National Institute of Public Finance and Policy
NITI	National Institution for Transforming India
NMAM	National Municipal Accounting Manual
NPP	National Panchayat Portal
NRLM	National Rural Livelihoods Mission
NSDP	Net State Domestic Product
O&M	Operation and Maintenance
OG	Outstanding Guarantees

Abbreviations

ONTR	Own Non-Tax Revenue
OSR	Own Source Revenue
OTR	Own Tax Revenue
PCI	Per Capita Income
PES	Panchayat Enterprise Suite
PFMS	Public Financial Management System
PHCs	Primary Health Care
PHED	Public Health Engineering Department
PMAGY	Pradhan Mantri Adarsh Gram Yojana
PMAY	Pradhan Mantri Awas Yojana
PRIs	Panchayat Raj Institutions
PRIASoft	Panchayati Raj Institution Accounting Software
PS	Panchayat Samiti
PSDP	Panchayat Samiti Development Plan
PWD	Public and Works Department
RDF	Refused Derived Fuel
RGPSA	Rajiv Gandhi Panchayat Sashaktikaran Abhiyan
RGSY	Rashtriya Gram Swaraj Yojana
SAGY	Sansad Adarsh Gram Yojana
SBM	Swach Bharat Mission
SC	Scheduled Caste
SD	Standard Deviation
SDGs	Sustainable Development Goals
SD&RF	Stamp Duty and Registration Fee
SEPO	Social Education Panchayat Officer
SFC	State Finance Commission
SGSY	Swarna Jayanti Gram Swarojgar Yojana
SHG	Self-Help Group
SJHIFM	Swarna Jayanti Haryana Institute of Fiscal Management
SMAM	State Municipal Accounts Manual
SOPs	Standard Operating Procedures
SOTR	State Own Tax Revenue
SPMRM	Shyama Prasad Mukherji Rurban Mission
ToR	Terms of Reference
UDAY	Ujwal DISCOM Assurance Yojana
ULBs	Urban Local Bodies
VAGY	Vidhayak Adarsh Gram Yojana
VAT	Value Added Tax
VCF	Value Capture Financing
VLE	Village Level Entrepreneur
XEN	Executive Engineer
ZP	Zila Parishad
ZPDP	Zila Parishad Development Plan

Chapter 1
Introduction

Chapter 1

Introduction

Context

1.1 Enactment of the 73rd and 74th Constitutional Amendment Acts (CAAs) were a watershed in the history of decentralisation in India, in making Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) as institutions of self-governments. These Acts made PRIs and ULBs the third tier of government with reasonable substance and contents in terms of powers and authority as well as creating sufficient space for women and marginalised groups in the Indian federal structure. In order to make these institutions financially strong and vibrant, Articles 243I and 243Y of the Constitution require every state to constitute, once in five years, State Finance Commission (SFC), to recommend revenue sharing principles between the state and PRIs and ULBs and to review the financial position of these institutions.

1.2 In order to achieve the above mentioned aims, this Commission has taken into account trends in economic growth and regional disparity patterns across the state, with an in-depth analysis of district-wise availability of resources and their utilisation vis-à-vis the size and growth of the population. The trends in economic growth and regional disparity were analysed in concomitance to the fiscal position of various local bodies. The analysis drove the subsequent recommendations for enhancing potential of local bodies for raising revenues against their capital expenditures, and for deriving the budgetary share of local bodies vis-à-vis the state government. Besides financial devolution, the recommendations provided in this report are continuation of a long-standing effort of various other finance commissions, to promote operational independence of PRIs and ULBs through decentralised planning and by devolving requisite authority and powers to local bodies. To this end, planning mechanisms and administrative instruments at the level of local bodies, been reviewed to promote both independent functioning capacities of PRIs and ULBs, and to enhance the integrated planning mechanisms at sub-district and district levels by oprationalising district planning committees.

1.3 On the whole, while the broad terms of reference and analysis outlined in the report are testimony to the commitment of the Commission to the Constitutional objectives of reforming the local governance, the approach of the Commission to the attainment of objectives was marked by a strong consultative approach that enabled incorporation of insights, beginning from the level of elected representatives and percolating down to grassroots levels officials.

Constitution and Tenure of the State Finance Commission

1.4 In pursuance to 73rd and 74th CAAs, Haryana government enacted the Haryana Panchayati Raj Act 1994, the Haryana Municipal Amendment Act, 1994 and the Haryana Municipal Corporation Act, 1994 and also framed the Haryana Finance Commission Rules, 1994. In pursuance of Section 213 of the Haryana Panchayati Raj Act, 1994 (Act 11 of 1994) and Rule 3 of the Haryana Finance Commission Rules, 1994, the Governor of Haryana constituted the Sixth State Finance Commission vide notification, dated 22 September 2020, with the following composition:

1. Shri P. Raghavendra Rao, IAS (Retd), *Chairman*
2. Shri Vikas Gupta, IAS, *Member Secretary*

1.5 Initially, the Chairman of the Commission was to hold office for a period of one year from the date on which he assumed office, that is, 23 September 2020. As per Paragraph 2 of the state government's notification dated 22 September 2020, the Commission was required to submit its report within a year for the period of five years from 2021-22 to 2025-26. However, due to constraints faced by the Commission during its tenure, including the fact that Commission itself could become operational effectively only from January 2021 and other delays caused due to the ongoing COVID-19 pandemic, the Commission sought an extension for submission of its report. On 1 September 2021 the state government extended the term of the Commission up to 31 December 2021 for the submission of its report.

1.6 The Commission in its task of putting together this report relied on the expertise of the chairman, member secretary and advisors consisting of senior members drawn from academia as well as people of substantial administrative experience. Beyond the expert advisors, a support level team was constituted comprising domain experts and consultants who assisted the Commission in its various tasks, and also brought to the table fresh set skills and scholarship. Besides the efforts put in by the core team, the Commission benefitted from inputs provided by a wide range of stakeholders, both from within and outside the government, who voluntarily or when solicited, provided the Commission with tremendous insights that were crucial to gaining proficiency required for delivering this report.

Terms of Reference

1.7 As per the terms of reference (ToR) of the Sixth State Finance Commission, as given in Paragraph 2 of the Notification dated 22 September 2020, the Commission was to make recommendations relating to the following matters:

1. (a) the principles, which should govern–

(I) the distribution between the State and Zila Parishads, Panchayat Samitis and Gram Panchayats, of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them under part XI of the Constitution of India and the allocation between the Zila Parishads, Panchayat Samitis and Gram Panchayats at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Gram Panchayats, Panchayat Samitis and Zila Parishads;

(iii) the grants-in-aid to Zila Parishad, Panchayat Samitis and Gram Panchayats from the consolidated fund of the State.

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

2. (a) the principles, which should govern–

(i) the distribution between the State and the Municipalities of the net proceeds of 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 share 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 grant-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 was mandated to have regard, among other considerations, to:

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

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

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

Synchronisation of Award Periods of Central Finance Commission (CFC) and State Finance Commission (SFC)

1.8 CFC is required to recommend grants to the states for augmenting resources of PRIs and ULBs in the state, on the basis of recommendations of the SFCs. Generally, this arrangement has not been followed due to diversity in the award periods of the CFC and the SFC, and therefore, reports of SFCs were not available in time to the CFC. The Eleventh, Twelfth and Thirteenth CFCs have strongly recommended the need to synchronise the periodicity of the CFC and the SFCs to enable the former to take into consideration the approach and devolution criteria adopted by the SFCs for local bodies. Seeing the importance of synchronising periods of CFC and SFCs, the Fourth SFC of Haryana rightly observed, 'We have no hesitation endorsing the view that SFCs are to be constituted a couple of years prior to the constitution of CFC so that ample time is available to produce reports that are meaningful, and which can be harnessed by the CFC.'

1.9 Table 1.1 shows the award periods of the CFCs and SFCs, Haryana constituted so far. Synchronisation in the periods of CFC and SFC could be possible only by making some adjustments in the timings of the constitution of next SFCs and in their award periods so that recommendations of the SFCs are available to the CFC at the time of its constitution.

1.10 The Fifteenth Finance Commission was constituted on 27 November 2017 and was asked to submit its report covering a period of five years, starting from 1 April 2020. However, in subsequent developments regarding expanding the scope of work for the Fifteenth Finance Commission, it was asked to submit two reports, a first report for financial year 2020-21 and a final report for an extended period of 2021-22 to 2025-26. Date of submission for first report was 30 November 2019 and that for the submission of the final report was 30 October 2020, which covered a period of five years commencing from 1 April 2021.

1.11 It is important to note here that, the award periods covered by the Fifteenth CFC and the Sixth SFC, Haryana are now matching. Further advantage for Haryana in the long run will be that such synchronisation of periods are expected to happen for future CFCs and SFCs. This puts in an added responsibility for the Sixth SFC, Haryana to set a good precedence of synchronised recommendations. As such, an in-depth analysis of impact of the recommendations of the Fifteenth CFC on local bodies in Haryana is essential.

1.12 Though the period for recommendations for the Fifteenth CFC and Sixth SFC of Haryana, are now matching, it is important to note here that the Fifteenth CFC was constituted in November 2017 and Sixth SFC, Haryana in September 2020. To keep the synchronisation of periods continuing, the Commission is making the following suggestion.

1.13 **Next SFC in Haryana should be constituted two years in advance of the financial year 2026-27, preferably around in financial year 2023-24.** Since the Sixteenth CFC can be expected to submit its report about six months before the start of financial year 2026-27, the next SFC may be

Table 1.1: Synchronisation of Award Periods of CFC and SFC, Haryana

Central Finance Commission (CFC)		State Finance Commission (SFC)	
Name of CFC	**Award Period**	**Name of SFC**	**Award Period**
10th CFC	1995-1999	1st SFC	1997-2001
11th CFC	2000-2004	2nd SFC	2002-2006
12th CFC	2005-2009	3rd SFC	2007-2011
13th CFC	2010-2015	4th SFC	2012-2016
14th CFC	2016-2020	5th SFC	2017-2021
15th CFC	2020-21 & 2021-22 to 2025-26	6th SFC	2022-2026

required to make recommendations well before that.

Transformation of Administrative Profile of Haryana and Its Local Bodies

1. 14 Haryana was carved out as a separate state from Punjab on 1 November 1966. Haryana is a small state with 1.35 per cent of India's total area and a population of 2.53 crore. Total population of the state has increased by 154 per cent from 1971 to 2011. The ratio of rural to urban population changed from 82:18 in 1971 to 65:35 in 2011. Similarly, the ratio of rural to urban area also changed from 99:1 in 1971 to 95.5:4.5 in 2011. Since its formation, the state has been developing rapidly, which is evident from the fact that per capita income of the state is consistently higher than the national level.

1.15 The state has experienced transformational shift in the economic structure with the contribution of primary sector to GSDP reducing from 60 per cent during 1960-1980 to just 20 per cent currently. As much as 57 per cent area of the state is covered under National Capital Region (NCR), presenting both an opportunity and a challenge for speedy development.

1.16 In case of both, PRIs and ULBs, various transformations have taken place in the development journey of the state during the five and a half decades of it coming in existence. The changes, which are visible in the field of rural and urban areas of the state, are listed out in the following paragraphs.

Panchayati Raj Institutions

1.17 Although Haryana had panchayats in the pre-British days, which were called bhaichara panchayats (i.e., community councils), they did not have any popular base at the local level. By the end of thirties, some initiatives were taken towards discharging judicial functions by the panchayats. In 1952, the Punjab Gram Panchayat Act was enacted to further democratise the local institutions. However, there was very little progress in this regard. In 1961, after amending the Gram Panchayat Act, a three tier structure–gram panchayat (GP), panchayat samiti (PS) and zila parishad (ZP), was adopted based on the Balwantrai Mehta Committee's model of decentralised governance. However, in 1973, zila parishads were abolished in Haryana. Elections to the panchayat samitis were not held regularly and continued to be frequently postponed. In brief, zila parishads stood abolished while panchayat samitis were not effective and fully functional. Gram panchayats, however, continued to have elections despite frequent delays.

1.18 In case of PRIs, the transformation has been seen on the basis of number of villages, average age of elected representatives, their educational qualifications and women's participation. The changes observed in number of villages and their population has been as per Census 1971 and Census 2011, whereas comparisons in other variables have been on the basis of panchayats' elections held in 2010 and 2016. Table 1.2 presents the number of villages with their percentages in 1971 and 2011, in order to know the change in the number of villages.

1.19 It is evident from Table 1.2 that the number of villages having more population has increased in 2011, as compared to 1971. It may be on account of two reasons–first, population of these villages has increased over a period of time, which is a natural phenomenon; second, villages might have been reorganised demographically to bring an element of viability in the functioning of the panchayats.

1.20 Currently, there are 6,227 GPs, covering 6,642 inhabited villages, 142 PSs and 22 ZPs in the state. Another interesting phenomenon is that there are 515 GPs having 2 villages and 172 GPs having more than 2 villages under their jurisdiction. Conversely, there are 59 single villages having 2 GPs and 10 single villages having more than 2 GPs.

1.21 Table 1.3 compares the educational qualification of elected representatives between two election periods, that is, 2010 and 2016. In 2010, 32.2 per cent of panchs, 15.8 per cent of sarpanchs, 18.4 per cent of PS members and 7.8 per cent of ZP

Table 1.2: Villages Classified by Population				
Population	1971		2011	
Range	No. of Villages	Percentage	No. of Villages	Percentage
Less than 200	618	9.18	232	3.49
200-499	1,400	20.80	437	6.57
500-999	1,909	28.36	1,035	15.55
1,000-1,999	1,673	24.85	1,967	29.61
2,000-4,999	975	14.50	2,256	33.95
5,000-9,999	148	2.19	594	8.94
10,000 +	8	0.11	121	1.82
Total	6,731	100	6,642	100

Source: Census 1971 and 2011, Government of India and Statistical Abstract of Haryana, 2019-20.

Table 1.3: Educational Qualification of Elected Representatives (%)								
ERs →	Panch		Sarpanch		PS Member		ZP Member	
Election Year →	**2010**	**2016**	**2010**	**2016**	**2010**	**2016**	**2010**	**2016**
Edu. Qualification↓								
Illiterate	32.2	0	15.8	0	18.4	0	7.8	0
Under Matric	38.0	22.3	35.0	16.5	31.1	14.2	17.6	9.4
Matric	21.2	63.0	28.8	58.8	29.1	60.1	29.7	47.8
Senior Secondary	6.3	10.7	10.9	13.3	13.2	17.8	13.1	19.0
Graduation +	2.33	4.0	9.5	11.4	8.2	8.0	31.8	23.8

Source: State Election Commission, Haryana.

Table 1.4: Age-wise Classification of Elected Representatives (%)								
ERs →	Panch		Sarpanch		PS Member		ZP Member	
Election Year →	**2010**	**2016**	**2010**	**2016**	**2010**	**2016**	**2010**	**2016**
Age Group ↓								
21-30	17.6	42.2	12.7	30.6	20.4	39.1	18.5	29.5
31-40	33.9	35.0	34.8	37.5	41.1	38.4	43.3	43.5
41-50	26.5	16.6	26.4	21.1	24.8	17.4	26.5	20.2
51-60	14.6	4.1	17.3	7.1	10.2	3.3	7.2	5.1
60 +	7.4	2.1	8.8	3.7	3.5	1.8	4.5	1.7

Source: State Election Commission, Haryana.

members were illiterate. Conversely, in 2016, the state government barred the illiterate candidates from contesting the elections, resulting in an increased number of literate elected representatives.

1.22 One of the evident results of mandating minimum educational qualification is the reduction in the average age of the elected representatives. Table 1.4 compares the age-wise classification of elected representatives between 2010 and 2016. In

Table 1.5: Gender-wise Percentage of Elected Representatives								
ERs	Panch		Sarpanch		PS Member		ZP Member	
Election Year	2010	2016	2010	2016	2010	2016	2010	2016
Male	60.8	57.8	62.4	58.5	61.4	58.0	59.1	56.5
Female	39.2	42.2	37.6	41.5	38.6	42.0	40.9	43.5

Source: State Election Commission, Haryana.

2016, the elected members are relatively younger than in 2010.

1.23 As far as the representation of women is concerned, in 2010, there were about 39 per cent of women elected representatives. The percentage of women elected representatives increased by 3.3 per cent in 2016. Table 1.5 shows that women's participation, in each tier of PRIs, has increased.

1.24 In 2020, the state government amended the Haryana Panchayati Raj Act, to reserve 50 per cent of seats for woman candidates. It has been provided in Section 9 of the said Act, by way of Haryana Act No. 31 of 2020, notified on 7 December 2020. It is hoped that this positive discrimination would enhance the visibility of women in rural local governance, planning and development.

Administrative Structure of PRIs

1.25 The carving out of Haryana as a state in mid-sixties had brought significant transformation in the rural development administration at village, block and district levels. For example, the posts of panchayat secretary and village-level worker were merged into the post of the gram sachiv (GS). Extension officers (EOs) and the social education and panchayat officer (SEPO) are working under the block development and panchayat officers (BDPOs).

1.26 Since ZPs were abolished, the deputy commissioner (DC) became the controller of the rural development administration in the district. In the post-73rd Constitutional Amendment period, GPs, PSs and ZPs were constituted regularly in the state. As sequel of this, Additional Deputy Commissioner (ADCs), in addition to being the Chief Executive Officers (CEOs) of District Rural Development Agency (DRDA), became CEOs of the ZPs. Later, executive officers from Haryana Civil Services (HCS) were appointed as CEOs of ZPs.

1.27 At PS and GP levels, BDPO and Gram Sachiv have been the main officials in the administration of rural development, under the control of chairperson and sarpanch, respectively. It may be noted that five elections to the PRIs were held so far in Haryana, in December 1994, March 2000, April 2005, June 2010 and January 2016, under the supervision and control of the State Election Commission.

1.28 It may also be noted that people's participation, which was initially confined to dominant castes and classes, has shifted towards marginalised groups, such as SCs, OBCs, etc. Representation of women has also significantly improved. Secondly, rural development administration, which was initially bureaucracy oriented, gradually shifted to being people oriented.

Urban Local Bodies

1.29 Ever since the formation of Haryana in 1966, the state has been rapidly urbanising and continues to do so. The urban population in Haryana, as a per cent to its total population, had risen from 17.23 per cent in 1971 to 24.63 per cent in 1991 and currently stands at 34.88 per cent as per the 2011 Census. It has been soaring above the national average of 31.16 per cent and recording an urban decadal growth rate of 44.6 per cent in this last decade.

1.30 The administrative profile of Haryana has also witnessed several changes across the years. In 1966, Haryana was formed with merely seven districts (namely Rohtak, Jind, Hisar, Mahendragarh, Gurgaon (now Gurugram), Karnal and Ambala), which were, then, reorganised into multiple other

Table 1.6: Number of Urban Local Bodies				
Year	**Corporations**	**Councils**	**Committees**	**Total**
2004	1	24	44	69
2011	9	14	51	74
2021	11	22	60	93

Source: Department of Urban Local Bodies.

1.31 Over the years, and tenures of several SFCs, number of divisions in the state increased from four to six, by 2016, with the formation of Karnal and Faridabad divisions. While in 1991, the state only had 1 municipal corporation, there exist 11 corporations currently.

1.32 The reason for councils and committees to be showing such variation through the years is that during the tenure of the First SFC, each of the corporations, councils and committees fell under a different population range than they do now. This comparison of population range over time is presented in the Table 1.7.

1.33 With the increase in population over the years, there arose a need to redefine administrative jurisdictions. The number of ULBs in Haryana have grown from 78 to 93 in the last decade. Each of these municipalities operate as an individual body, reporting to the Department of Urban Local Bodies (DULB), which came into being on 1 April 1982, with the aim of facilitating coordination and control on the working of municipalities in the state.

1.34 The local bodies are currently governed by two main acts, namely the Haryana Municipal Corporations Act, 1994, which lays guidelines for corporations and the Haryana Municipal Act, 1973 which regulates committees and councils. Administratively, they are led by municipal commissioners in case of corporations and by executive officers and secretaries in case of councils and committees, respectively. The ULBs, in a district, are now looked after by a district municipal commissioner (DMC), except for the districts of Faridabad, which does not have any municipal committee or council, and Charkhi Dadri, which have been combined with Bhiwani district and report to a single DMC.

Studies Undertaken by the Commission

1.35 The Commission has delegated five studies, pertinent to the ToR, to reputed institutions covering wide-ranging fiscal issues and evidence of state government, PRIs and ULBs. These studies have made several relevant recommendations and suggestions for the state and local bodies to improve state-local bodies fiscal relations, followed by their fiscal autonomy. While the findings of these studies have been included in volume 2 of the report, the

Table 1.7: Population Range of ULBs					
Old Population Range	**ULB Category**	**SFC Period**	**New Population Range**	**ULB Category**	**SFC Period**
> 1,00,000	Corporations	1st -3rd SFC	> 3,00,000	Corporations	4th SFC- continuing
50,000 - 1,00,000	Councils		50,000 – 3,00,000	Councils	
< 50,000	Committees		< 50,000	Committees	

Source: Department of Urban Local Bodies.

objectives of the studies are given below.

1.36 '*Devolution of funds to ULBs under State Finance Commissions in Haryana: A Critical Review*' was assigned to the National Institute of Public Finance and Policy (NIPFP), New Delhi, with the following objectives: (a) to study the recommendations of the SFCs with respect to devolution and grants to ULBs; (b) to analyse the conditions imposed by the SFCs in the release and utilisation of the funds to ULBs; (c) to study the extent up to which conditions imposed by the SFCs have been adhered to and to ascertain whether fund flows to ULBs follow the state objectives on timely release and untied nature of the grants; (d) to study the orders/instructions issued by the Finance Department (FD) that operationalised the process and conditions for the release of grants to ULBs; (e) to identify whether the SFC's grants to ULBs have been subsumed and used for substitution of state grants to municipalities; (f) to study whether the SFC funds have been changed into 'schemes' by the states and if the nature of the grant has changed from general purpose to a conditionality-based specific purpose and (g) to suggest the devolution criteria, quantum and distribution method among the ULBs of different categories to the sitting Sixth State Finance Commission of Haryana. Also, to suggest congruence of the SFC devolution with the Fifteenth CFC recommended criteria of performance--tied and untied grants.

1.37 *'Trends and Status of Municipal Finances and Services in the ULBs of Haryana–A Road Map for Sustainable and Efficient Delivery of Services'* was assigned to Haryana Institute of Public Administration (HIPA), Gurugram, with the following objectives: (a) to study the nature and dimensions of urban fiscal crisis in Haryana; (b) to study the legal, administrative and governance structure in urban Haryana; (c) to study the flow of funds from different sources and their utilisation among the various categories of ULBs;(d) to undertake sectoral analysis of municipal expenditures on different functions and services to examine its productivity; (e) to study the mismatch in budgetary outlays versus expenditure; (f) to study the outstanding liabilities of the ULBs and suggest how to bridge them; (g) to study the borrowing capacities and credit worthiness of ULBs of Haryana; (h) to examine the status and capacity of ULBs in utilising VCF tools and their potential to generate revenues; (i) to suggest performance-based system of grants and other transfers from the state/Centre to improve the performance of municipalities to qualify for the Fifteenth CFC Grants; (j) to work out estimated financial requirements both for augmentation and operations and maintenance of municipal services for the next five-years period (Sixth SFC devolution period) and (k) to suggest a road map for sustainable and efficient delivery of services, including to address the SDGs.

1.38 *'A New Urban Agenda for Haryana' comprising, three research studies namely 'Diagnosis and Reform Roadmap for Urban Governance (City-systems) in Haryana', 'A Municipal Finance Blueprint for Haryana'* and *'Voice of Haryana's Cities (including Citizens' & City Administrators' Surveys)'*, was assigned to Janaagraha Centre for Citizenship and Democracy. The objectives of the studies include: (a) a systematic study of urban governance systems, understanding their linkage to quality of life and service delivery; diagnosing challenges and conceiving a roadmap of reform across short-term and long-term horizons; (b) comprehensive diagnosis of municipal finance systems, processes and practices on (i) fiscal decentralisation, (ii) revenue optimisation, (iii) fiscal responsibility and budget management, (iv) transparency and accountability, (v) institutional capacities and (vi) institutional design and conceiving reforms roadmap; and (c) ascertaining perceptions of quality of life, service delivery and governance in Haryana's cities from citizens, mayors, councillors, commissioners/executive officers and other municipal officials.

1.39 *'Accountability and ULBs Audit Framework and Process'* was assigned to the All India Institute of Local Self Government (AIILSG), with the objectives: (a) to study the utilisation of performance-based grants to ULB's and its monitoring by the state-level expert institution; (b) to study the budget management to enhance fiduciary control; (c) to analyse the municipal laws prescribing the resource-raising powers and budgeting, accounting and auditing procedures to be followed by the ULBs; (d) to study the budget and financial control reforms, including examination of the implementation status of the Fifth SFC recommendations/Action Taken Report on the finances and governance structure of ULBs and its impact on delivery of services; (e) to study the efficacy of internal checks and internal control over financial transactions using different criteria/parameters; (f) to study the effectiveness of internal audit system; and (g) to suggest measures to improve their performance.

1.40 *'Assessing the Technical and Expenditure Efficiency of Panchayati Raj Institutions in Haryana'* was awarded to the Indian Institute of Technology, Roorkee, with the objectives: (a) to measure technical and expenditure efficiencies of gram panchayats and setting benchmarks to monitor their progress; (b) to identify the factors that determine the efficiency scores of the GPs; (c) to explore the PRIs' potential for augmenting their own financial resources; and (d) to suggest measures to improve their performance.

1.41 Within a short span of just 15 months, the Commission could put in efforts, required for arriving at prudent opinions regarding the given ToR. Monitoring the progress of five crucial studies and providing them timely guidance, was challenging. However, with teamwork, the Commission could crystalise its views, which have been elaborated upon in the subsequent chapters.

Data Sources and Limitations

1.42 The Commission acknowledges the support of various officials of Development and Panchayats Department and Department of Urban Local Bodies in facilitating access to requisite data for relevant analysis pertaining to PRIs and ULBs.

1.43 Primary as well as secondary data were collected on various aspects of local finance of the PRIs and ULBs. For the purpose of primary data collection, stakeholder consultations were conducted with elected representatives and officials of PRIs and ULBs. Secondary data sources included budget documents, progress of centrally sponsored schemes and state sponsored schemes, previous reports of SFCs, etc.

Primary Data

1.44 In order to collect primary data from the Development and Panchayats Department, Department of Urban Local Bodies and other line departments, the Commission prepared comprehensive questionnaires/schedules for each department, in accordance with their responsibilities towards the PRIs and ULBs, mainly related to functions, functionaries and finances. Only a few departments provided the sought data and information to the Commission. The replies received from the line departments were found generally inadequate to draw meaningful inferences.

1.45 The Commission also prepared a brief questionnaire to seek the views of the elected representatives and officials of the local bodies in regional meetings, particularly regarding the devolution of funds, nature of grants, both tied and untied, own sources revenue, performance grants, accounts and audit etc. Again, the responses gathered to these questionnaires were neither broadly consistent nor sufficient to draw any useful conclusions. The Commission also sought memorandum from the DCs of all of the districts during the divisional level meetings with the officers. In these meetings, officers made presentations on various aspects of local governance, which were useful in writing the Report. However, in some cases, the information supplied was not comprehensive and usable.

Secondary Data

1.46 Secondary data have also been collected from the Development and Panchayats Department, Department of Urban Local Bodies, Department of Economic and Statistical Analysis, Government of Haryana; Ministry of Finance, Ministry of Panchayati

Raj, Government of India; NITI Aayog and reports of previous SFCs of the state and SFCs of the other states. Numerous reports, documents, studies and records have also been consulted to cull out relevant data and information in drafting the Report.

Limitations

1.47 In assessing the needs and requirements of resources by the PRIs, the Commission was constrained by the lack of availability of adequate data on revenue and capital expenditure of PRIs, as the same was not available with the Development and Panchayats Department. Similarly, the department did not have the information about the own sources of revenue of the panchayat samitis (PSs) and zila parishads (ZPs). In the absence of this data, the Commission had to limit its analysis to receipts of the GPs only. Similarly, in urban areas, proper expenditure accounts are also not maintained.

1.48 Accuracy of data is another major issue which needs to be addressed by the Development and Panchayats Department, Department of Urban Local Bodies and Finance Department. For instance, data received from Development and Panchayats Department differs, in certain areas, with the data provided by the Department of Finance. Conversely, the Department of Urban Local Bodies is maintaining a portal for ULBs' data. However, there are issues about the consistency and quality of data across ULBs. For example, it was observed that one ULB had indicated zero revenue expenditure, consistently, for five financial years. There were issues observed with the quality of data collected from primary sources as well. Though, the Commission made its best efforts, within limited time available, for getting clarifications from ULBs, the quality of data is a serious concern.

1.49 Also, the studies commissioned by the SFC involved in-depth field surveys to collect ground-level data. The data gathered from the field surveys were matched against the aggregated figures availed by the Department of Urban Local Bodies for sanctity. The quality of information varied vastly. The data points captured in this process were extremely difficult to corroborate with the data received from the Department of Urban Local Bodies. Root cause of such inconsistencies are due to the outdated Municipal Accounting Code, 1930. Since there are no specific formats prescribed in the code regarding different types of accounting statements, there is no consistency of accounts being maintained by the ULBs.

Conclusion

1.50 The local bodies of Haryana have undergone enormous changes in terms of population, area, sectoral composition in GDDP, and administrative structure. It has emerged from the above discussions that change in economic activities have led the Commission to evaluate the transformation path of administrative profile of the local bodies. The dynamics of administrative transformation was important to understand predominantly because the change in number of local bodies is a better reflective variable in order to comprehend the correction process of interjurisdictional benefit spillovers.

1.51 The major problem before the Commission was to gather information and data on the finances of the PRIs and ULBs, which was a time-consuming matter. Lack of inconsistent and disaggregated level fiscal data for the PRIs and ULBs, however, limits the scope for rigorous fiscal analyses. Nevertheless, the Commission has put enormous efforts in gathering detailed and disaggregated data and information from the concerned departments as much as possible. The reports of the previous SFCs have been a valuable learning experience about the relevant issues and arrangements in Haryana. Besides, the Commission has gained ample understanding of the issues relating to the local finances from the delegated studies. The insights, gained from the analysis and recommendations in the previous SFC reports and delegated studies, have been taken into account in the Sixth SFC's work plan to the degree that they are steady with the evolving dynamics of the state's as well as local bodies' fiscal health.

Structure of the Report

1.52 The report is structured as follows: Chapter 2 presents the issues relating to the economic growth and its composition, inter-district income disparities and its causes. Chapter 3 critically discusses and analyses the cooperative federalism through centre-state-local bodies fiscal relations, which sets the tone of the Commissions core mandate. With the aim of studying in a stepwise planned manner, Chapter 4 examines the issues and challenges in state finances in order to understand the fiscal space available for the state, from which, the divisible pool for the local bodies will be decided. After analysing fiscal health of the state, Chapter 5 examines finances of the PRIs whereas Chapter 6 analyses ULBs' finances. Thereafter, Chapter 7 examines the issues for strengthening decentralised planning for the local bodies by particularly focussing on the role and performance of district planning committees, whereas Chapter 8 evaluates the issues and evidence regarding accounting and audit. Analyses of all these aspects were critically important for designing the devolution formulae, which has been presented and discussed in Chapter 9. In order to ensure effectiveness of the tax devolution to the local bodies, this Commission realised that a few key other decentralised governance aspects are critically important, which are presented in Chapter 10.

Chapter 2

Economic Growth and Regional Disparities in Haryana

Chapter 2

Economic Growth and Regional Disparities in Haryana

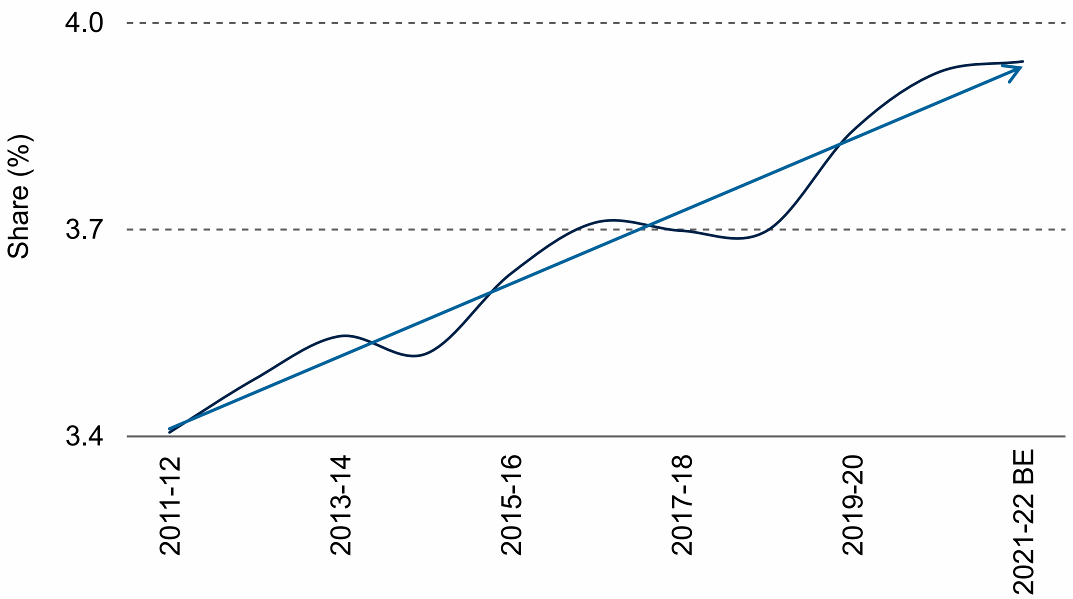
Introduction

2.1 Improvement in fiscal position of an economy, inter alia, largely depends on buoyant economic growth. Prior to analysing fiscal decentralisation to the local bodies in Haryana, it is important to examine the trends in economic growth and pattern of regional disparities in the state. This is important because varying economic activity-led growth path across districts would enable the Commission to realise the resource requirements for the local bodies with differing degrees. Hence, the Commission has carefully examined the economic growth pattern with its structural transformation. Further the Commission examined the inter-district income disparities and its causes that are important for understanding the need of correcting horizontal fiscal imbalances. This analysis provided gainful and meaningful insights regarding how tax devolution formula should be designed to address the persisting regional disparities by offsetting the vertical and horizontal fiscal imbalances.

Economic Growth and Per Capita Income

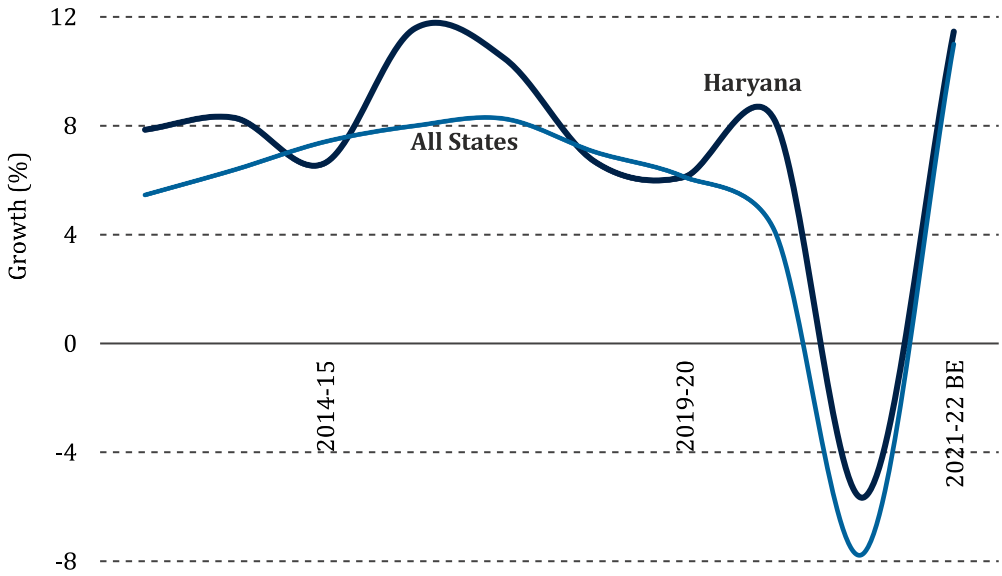
2.2 In real terms, during the period 2012-2022, the gross state domestic product (GSDP) of Haryana has grown at 7.17 per cent per annum from ₹ 2,97,539 crore in 2011-12 to ₹ 5,88,587 crore in 2021-22. On the other hand, the all-states combined real GSDP has grown at 5.69 per cent per annum during the same period. As a result, it has been observed in Figure 2.1A that, in real terms, the share of Haryana's GSDP in all-states GDP has eventually increased. In other words, Haryana's GSDP has increased at a faster rate than all-states combined GSDP during the period. The real and nominal growth of Haryana's GSDP vis-à-vis all states average is presented in Figures 2.1B and 2.1C respectively.

Figure 2.1A: Share of Haryana's Real GSDP in Total All States GDP



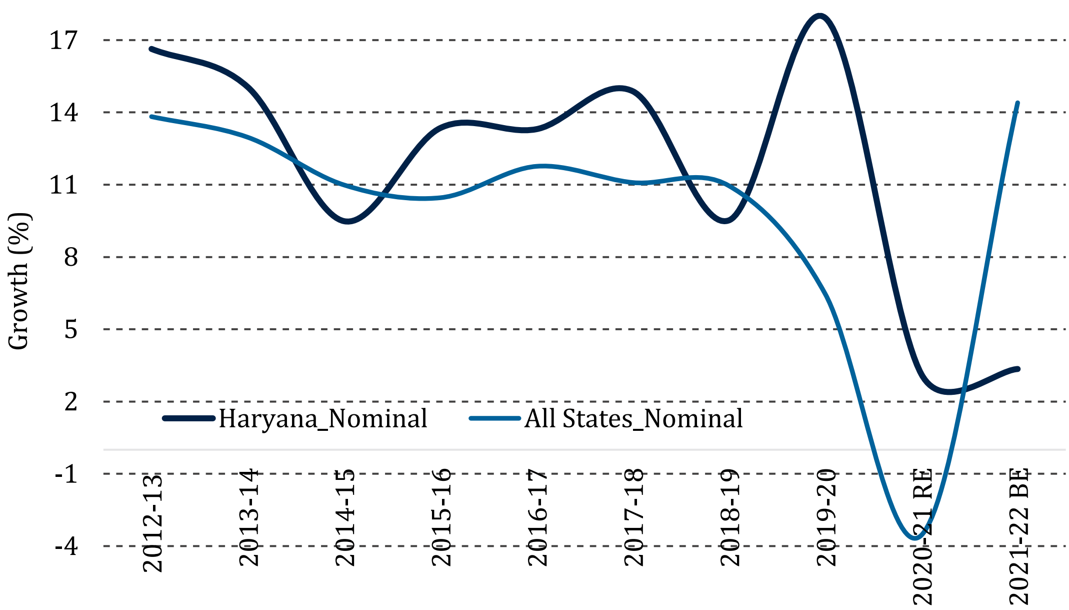
Source: Central Statistical Office, Ministry of Statistics and Programme Implementation; and Union Budget 2021-22

Figure 2.1B: Trends in Real Economic Growth of Haryana vis-à-vis All States Average



Source: Central Statistical Office, Ministry of Statistics and Programme Implementation; and Union Budget 2021-22

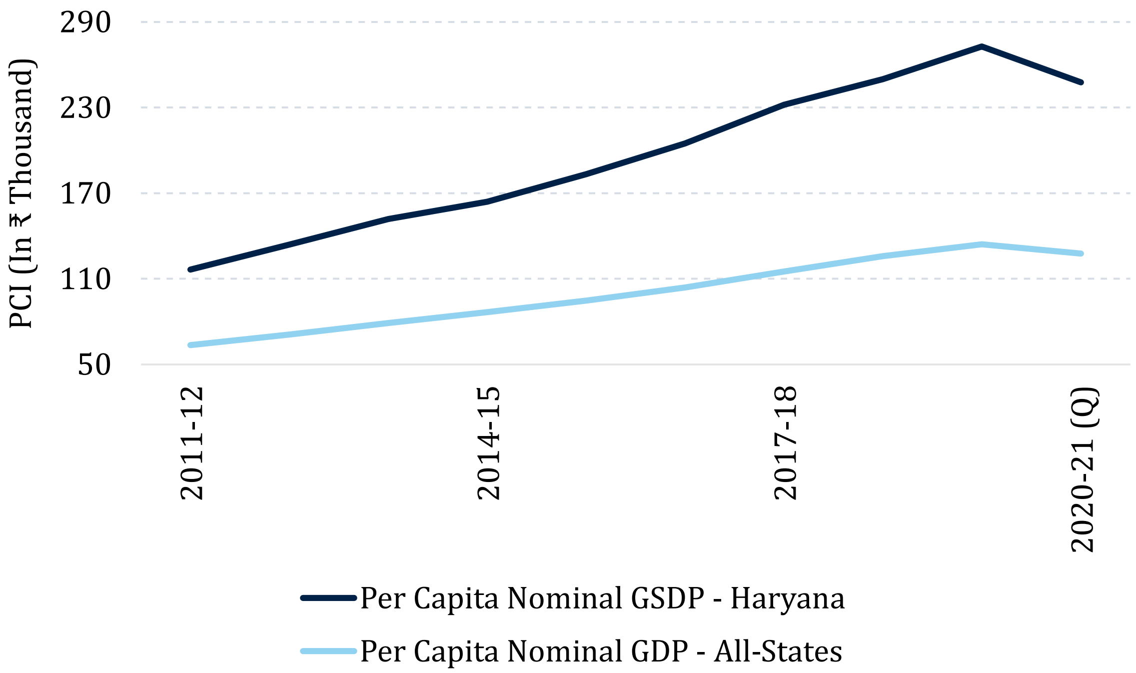
Figure 2.1C: Trends in Nominal Economic Growth of Haryana vis-à-vis All States Average



Source: Central Statistical Office, Ministry of Statistics and Programme Implementation; and Union Budget 2021-22

2.3 Per capita income (PCI) is a vital indicator to evaluate economic growth as well as living standards of the people and it is important to note that the PCI of the state has remained much higher vis-à-vis all-states level in the recent past. The comparative depiction of the trends of per capita nominal NSDP for both the Haryana and all-India average reveals fairly similar trajectory (Figure 2.2). The PCI of Haryana, over the years remains not only comparatively higher vis-à-vis all-states average but has increased at a faster rate than the all-states average. The PCI for all-states average was ₹ 75,765 in 2011-12, which has increased to ₹ 1,58,391 in 2019-20 whereas for Haryana, it increased from ₹ 1,06,085 in 2011-12 to ₹ 2,47,628 in 2019-20.

Figure 2.2: Trends in Per Capita Nominal Income: Haryana vis-à-vis All States



Source: Central Statistical Office, Ministry of Statistics and Programme Implementation

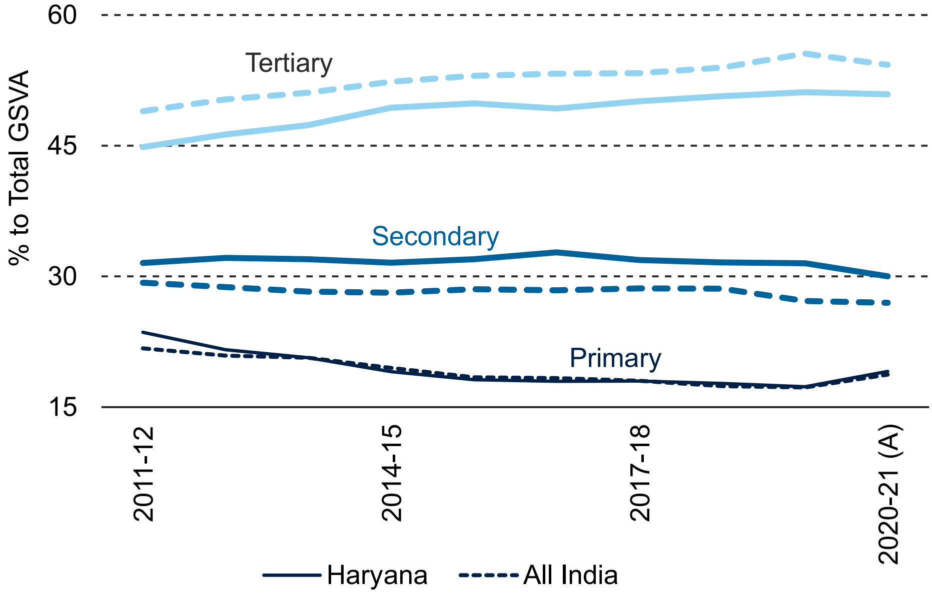
Structural Transformation of GSDP: Trends in Sectoral Composition

2.4 Haryana's structural transformation, by and large, reveals, a progressive and vibrant economic growth. It has been observed from Figure 2.3 and Table 2.1 that the share of secondary sector in total real Gross State Value Added (GSVA) has marginally declined or could be termed as more or less stagnant at around 30 per cent during the last 10-years period, that is, from 2011-12 to 2020-21. During this period, a proliferation in the share of service sector has been observed with the corresponding reduction in the primary sector. The share of service sector in total GSVA has increased from 44.9 per cent in 2011-12 to 50.9 per cent in 2020-21, while in contrast, during the same period, the shares of primary and secondary sectors have declined from 23.6 per cent to 19.1 per cent and from 31.6 per cent to 30 per cent, respectively.

2.5 In real terms, in 2020-21, of total primary sector, agriculture and allied activities contributed 98.8 per cent and the mining sector holds the remaining share (1.2 per cent) while in the secondary sector, manufacturing and construction sectors are as the major contributors. The share of manufacturing sector, in total secondary sector, for the same year was 71.2 per cent whereas the share of construction sector was 24.4 per cent. Further, it is important to note that the share of manufacturing sector has gradually increased from 61.6 per cent in 2011-12 to 71.2 per cent in 2020-21. In contrast, the share of construction sector has correspondingly declined from 34.4 per cent to 24.4 per cent during the same time period.

2.6 The sharp rise in tertiary sector in Haryana ensued predominantly due to 'real estate, ownership of dwelling & professional services' sector followed by 'trade, repairs, hotels and restaurants' sector. At the outset, it is important to mention that these two sectors together constituted more than 60 per cent of the total tertiary sector. Specifically, the real estate, ownership of dwelling & professional services holds the highest share, with an increasing trend, as its share increased from 33.3 per cent in 2011-12 to 35.4 per cent in 2020-21 while the 'trade, repairs, hotels, and restaurants' hold the second highest share with an increasing path from 26.9 per cent to 29.5 per cent, during the last 10 years. It is

Figure 2.3: Trends in Composition of Real GSVA (Sector-wise Share in Total GSVA)



Source: Department of Economic and Statistical Analysis (DESA), GoH.

Table 2.1: Trends in Composition (in per cent) of Real GSVA: (Base: 2011-12 Prices)

S. No.	Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19(P)	2019-20(Q)	2020-21(A)
1	Agriculture, forestry and fishing	23.55	21.55	20.57	18.98	17.97	17.66	17.75	17.55	17.16	18.87
1.1	Crops	14.92	13.13	12.39	10.74	9.95	10.11	9.78	9.40	8.91	9.46
1.2	Livestock	6.90	6.82	6.75	6.81	6.66	6.54	6.82	7.08	7.25	8.39
1.3	Forestry & logging	1.42	1.28	1.16	1.16	1.08	0.71	0.78	0.73	0.68	0.73
1.4	Fishing & aquaculture	0.31	0.31	0.27	0.27	0.27	0.29	0.36	0.34	0.32	0.29
2	Mining & Quarrying	0.04	0.03	0.09	0.10	0.19	0.30	0.25	0.17	0.18	0.22
	Primary	**23.59**	**21.58**	**20.66**	**19.08**	**18.16**	**17.95**	**18.00**	**17.72**	**17.34**	**19.10**
3	Manufacturing	19.44	21.56	21.34	21.59	23.12	24.07	23.04	22.62	22.37	21.38
4	Electricity, Gas, Water Supply & other utility services	1.26	1.15	0.92	0.98	0.81	0.88	1.03	1.09	1.20	1.31
5	Construction	10.86	9.41	9.71	9.00	8.05	7.81	7.83	7.89	7.95	7.33
	Secondary	**31.56**	**32.12**	**31.98**	**31.57**	**31.98**	**32.76**	**31.89**	**31.60**	**31.52**	**30.02**
6	Trade, repair, hotels & restaurants	12.08	12.34	12.16	12.87	13.70	13.87	14.57	14.94	15.41	15.02
6.1	Trade & repair services	11.64	11.93	11.76	12.48	13.30	13.48	14.19	14.57	15.04	14.66
6.2	Hotels & restaurants	0.43	0.42	0.40	0.38	0.40	0.39	0.38	0.37	0.37	0.36
7	Transport, storage, communication & services related to broadcasting	6.30	6.38	6.48	6.85	6.64	6.10	5.75	5.72	5.52	4.48
7.1	Railways	0.98	1.08	1.03	1.12	1.02	0.80	0.72	0.71	0.68	0.52
7.2	Road transport	3.66	3.70	3.72	3.92	3.74	3.62	3.52	3.42	3.26	2.48
7.3	Services incidental to transport	0.51	0.51	0.51	0.54	0.51	0.50	0.48	0.46	0.44	0.34
7.4	Storage	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03
7.5	Communication & services related to broadcasting	1.11	1.04	1.18	1.24	1.33	1.15	1.01	1.10	1.12	1.12
8	Financial services	4.25	4.44	4.53	4.75	4.98	4.98	5.19	5.20	5.33	5.77
9	Real estate, ownership of dwellings & professional Services	14.93	15.82	17.19	17.35	17.31	17.21	17.05	17.43	17.40	18.01
10	Public administration	2.66	2.60	2.43	2.59	2.43	2.35	2.49	2.45	2.56	2.81
11	Other services	4.62	4.71	4.57	4.96	4.81	4.77	5.06	4.93	4.91	4.78
	Tertiary	**44.85**	**46.30**	**47.36**	**49.36**	**49.87**	**49.28**	**50.11**	**50.68**	**51.14**	**50.89**
12	**Total GSVA at basic prices**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Department of Economic and Statistical Analysis (DESA), GoH.

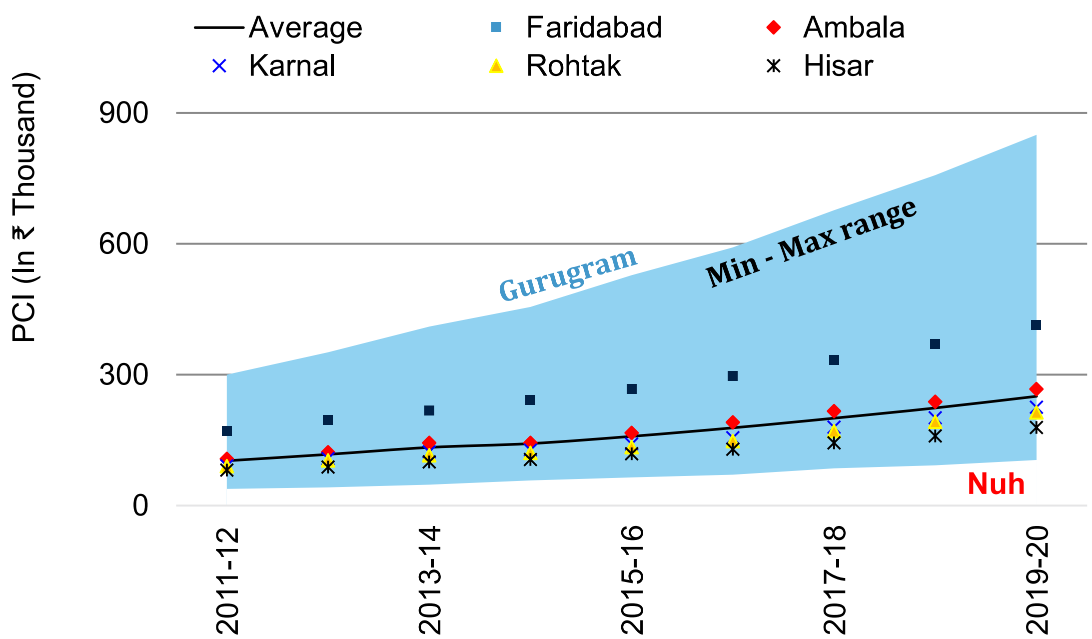
Note: P stands for Provisional, Q stands for Quick estimates, and A stands for Advanced estimates

particularly important to mention that because of COVID-19 pandemic, the share of primary sector has shown an upward trend during 2020-21 (Q).

Gross District Domestic Product (GDDP): Trends and Issues in District-wise Income

2.7 A number of studies have explored inter-district income disparities across many states in India, and its existence (with varying degree) is common in their findings. In this section, a detailed analysis of inter-district income disparity in Haryana is of prime interest. A huge inter-district disparity in per capita real net district domestic product (NDDP) is presented in Figure 2.4 and Table 2.2. The situation is further compounded by its increasing trend as it has been observed from the outliers, in particular, Gurugram stands at highest in terms of per capita income, and its distance from other districts is gradually increasing since 2011-12. This has happened predominantly due to the district-wise varying pattern of sectoral composition where a few districts are mainly agriculture based, a few are service sector based and the remaining districts are based on a mix of agriculture, industry and service sectors (Figure 2.5). More specifically, for instance, it could be seen from Figure 2.5 that the share of secondary sector is substantially higher in Faridabad while the service sector in the district is

Figure 2.4: Per Capita Nominal NDDP: Trends in Inter-District Disparities



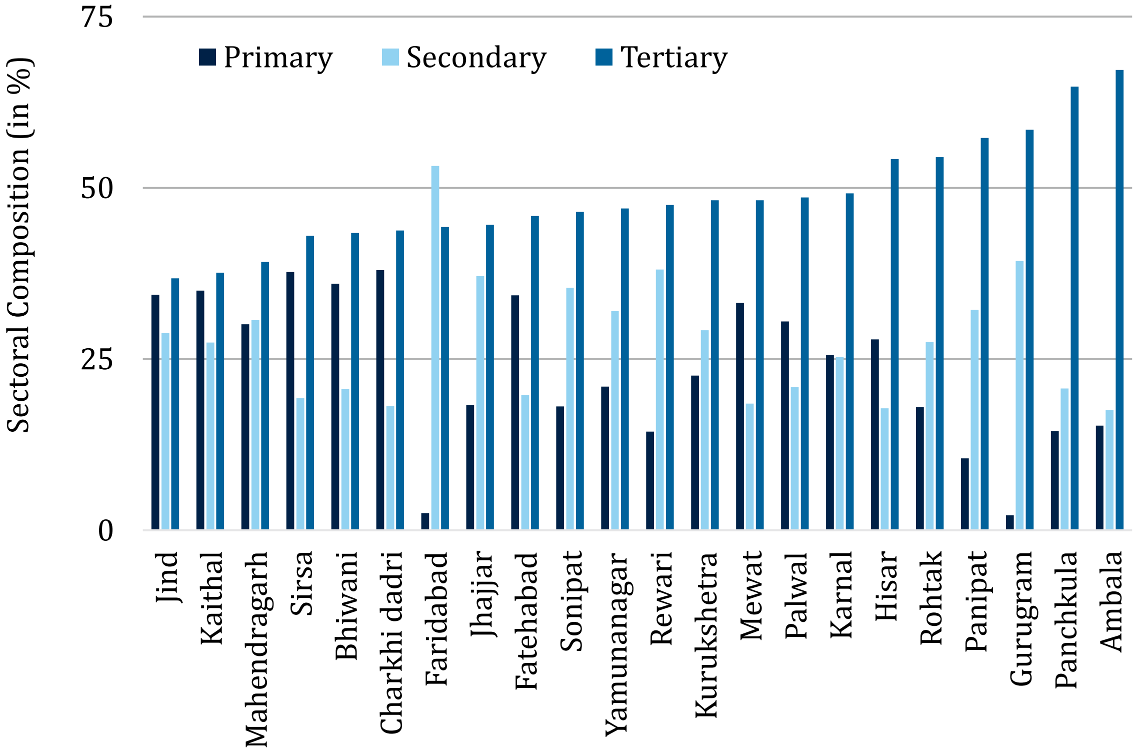
Source: Department of Economic and Statistical Analysis (DESA), GoH.

Table 2.2: Per Capita Nominal NDDP: Descriptive Statistics of Trends in Inter-District Disparities
(₹ in Thousand)

Year	Average	Nuh (Min)	Gurugram (Max)	Ambala	Faridabad	Hisar	Karnal	Rohtak
2011-12	102.69	37.99	300.34	106.54	170.22	81.26	90.65	90.54
2012-13	117.38	41.65	351.64	122.08	195.52	88.12	107.38	103.06
2013-14	133.35	48.28	410.51	143.82	217.08	100.05	122.53	115.30
2014-15	142.15	57.35	455.56	143.65	241.59	105.32	127.15	120.54
2015-16	158.76	64.61	528.06	166.15	267.13	118.36	140.69	133.87
2016-17	178.23	70.92	591.72	190.84	296.75	128.66	155.62	147.39
2017-18	200.36	85.28	676.86	216.05	333.08	143.64	179.90	170.73
2018-19	223.78	92.08	757.69	237.96	370.38	159.81	201.09	192.14
2019-20	250.54	104.52	849.91	267.05	412.85	178.78	225.63	213.77

Source: Department of Economic and Statistical Analysis (DESA), GoH.

Figure 2.5: Sectoral Composition of Real GDDP



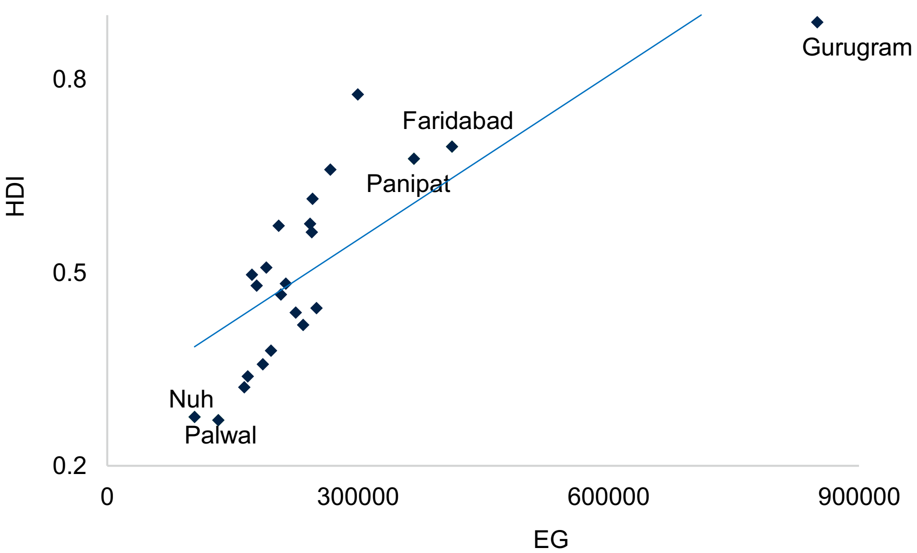
Source: Department of Economic and Statistical Analysis (DESA), GoH.

Interface between Economic Growth and Human Development in Haryana

2.8 The existing regional disparities in economic growth and its impact on the social and human development attainments among districts in Haryana have been a serious concern for policymakers. Across districts in Haryana, different growth and sectoral composition could be observed, which might be due to their different resource availability and its pattern of utilisation and the size and growth of their population.

2.9 There is a two-way causal chain between economic growth (EG) and human development (HD). On the one hand, EG provides the resources to have sustained improvements in HD. On the other, improvements in the human development indicators

Figure 2.6: Linear Relationship between EG and HD across Districts: 2019-20



Source: Department of Economic and Statistical Analysis (DESA), GoH.

(viz. level of education and health and so forth) are important contributors to EG. To support this two-way causal links, the Commission have realised, based on existing research across and within countries, that both EG and HD should be promoted simultaneously but if a choice has to be made due to the resource constraints, HD should get the first priority.

2.10 The relationship between EG and HD has been empirically explored for the districts of Haryana. To measure HD progress (Y-axis), Human Development Index (HDI) value is chosen and to measure EG progress (X-axis) the variable chosen is per capita income in nominal terms. There are two major observations, as is seen from Figure 2.6, which are: one, huge disparities among the districts persist in terms of not only per capita income but in terms of human development index values as well; and two, a few districts have shown high human development is achievable under low economic growth stance.

Conclusion

2.11 This chapter has empirically examined the trends and issues in economic growth in Haryana and the magnitude of inter-district income disparities along with its causes. The specific findings are threefold. First, the share of Haryana's GSDP in all-states GSDP (both in nominal and real terms) has put up an increasing trend, which elucidates that Haryana's GSDP has been increasing at a faster rate than all-states combined GSDP. Second, inter-district disparity in per capita real net district domestic product (NDDP) is not only high but increasing as well. The major driving factor to such occurrence, inter alia, is the district-wise varying pattern of sectoral composition. A few districts have shown agriculture-led growth, a few have put up industry-led growth, and a few have revealed service sector-led growth, whereas the remaining districts have shown a mix of these three sectors. Third, substantial as well as increasing inter-district disparities among the districts persist in terms of not only per capita income but in terms of human development index values as well.

2.12 In sum, it has been realised that inter-district income and human development disparities are substantial, and widely varying sectoral composition in NDDP is one of the important contributory factors, which have created scope for disparities in provisioning of social and economic services that may impede the progress of the state towards achieving Sustainable Development Goals (SDGs). Nevertheless, these inferences are extremely crucial for policymaking, and clearly suggest that the policy should be to improve the overall human development and the process must be reinforced by devising a formula for tax devolution that could ensure equity and augment transparency and accountability for the local bodies.

Chapter 3

Fiscal Decentralisation to the Local Bodies

Chapter 3

Fiscal Decentralisation to the Local Bodies

Introduction

3.1 Fiscal decentralisation can be broadly defined as the process of analysing the institutional structure and functioning of inter-governmental fiscal transfers in a federal set up, which are intended to preserve and augment local fiscal autonomy and have redistributive implications. In this context, the approach, methodology and structure of transfer of resources, is critically important for reinforcing administrative efficiency, and thereby, improving service delivery at the local level.

3.2 Decentralisation evolves as an adaptable practice across many countries and lacks precise definition in practical realms. Many emerging economies coined different definitions of decentralisation based on their socio-economic aspects. Consequently, decentralised governance has been a long-standing debatable issue since its inception. In the Indian context, economists generally argue that unless local governments are given full authority in accessing the necessary resources, with full cooperation, the benefits of decentralisation might considerably be subsided.

Cooperative Federalism and Centre-State-Local bodies Fiscal Relations

3.3 A number of studies have been critical of the practice of decentralisation in India because of its weak interface between and amongst political (devolution of functions), administrative (devolution of functionaries) and fiscal decentralisation (devolution of finances). In this regard, the notion of cooperative federalism has emerged to be an effective instrument, that particularly emphasised on 'trust' factor between centre and states, and between states and their respective local bodies. Thus, under the broad scope of cooperative federalism, the centre-state fiscal relations pose the first point for discussion whereas the state-local bodies fiscal relations being the subsequent point of attention.

Centre-State Fiscal Relations through Inter-governmental Fiscal Transfers

3.4 The fiscal responsibilities and functions assigned to the states for providing public goods and services are somewhat mismatched with the states' own revenues. In this regard, centre-state fiscal relations through inter-governmental fiscal transfers are critically important.

3.5 Inter-governmental transfers have been broadly classified into two general forms: one is unconditional transfers (untied), and the other is conditional transfers (tied). As is well-known, the rationale of unconditional transfers is predominantly to offset vertical and horizontal imbalances; thus, its efficiency gain principally depends on designing a suitable formula. On the other hand, tied funds are intended to provide fiscal incentives to local governments for undertaking certain specific public service programmes or activities and to resolve inter-jurisdictional cost and benefit spillovers. However, such non-formula based discretionary transfers are often criticised by many public economists because this type of transfer is open to political bargaining, and thereby might often be skewed to the high-income states. Consequently, this type of transfer might not bring the desired results if political bias appears between different tiers of government.

3.6 It is evident in India that the share of untied funds that is, tax devolution in total transfers, against the accelerating fund devolution on various

Table 3.1: Inter se Shares for Haryana in Tax Devolution by CFCs: Post 73rd and 74th Constitutional Amendment Acts

CFC	Inter se Share	CFC	Change in Inter se Share
10th	1.238		
11th	0.944	10th to 11th	↓
12th	1.075	11th to 12th	↑
13th	1.048	12th to 13th	↓
14th	1.084	13th to 14th	↑
15th	1.093	14th to 15th	↑

Source: Central Finance Commissions
Note: ↓ indicates 'decline' and ↑ indicates 'increase'.

Centrally Sponsored Schemes (tied grants) has been declining over the years till 2014-15. This, however, implies lower fiscal decentralisation and authority devolution to the states since a good deal of literature argued that the discretionary tied grants are open to political bargaining. Keeping this in mind, the Fourteenth Finance Commission has addressed this issue and recommended to transfer 42 per cent as tax devolution to the states from the central divisible pool. This significant increase from the recommended 32 per cent by the Thirteenth Finance Commission was certainly an unprecedented jump not only to enhance consolidated funds of the state but also a step towards greater fiscal decentralisation, which was envisaged to augment the fiscal autonomy of the local governments. The Fifteenth Finance Commission has also maintained the same devolution pattern. This could be comprehended as one of the important steps towards cooperative federalism.

3.7 However, in the context of centre-state fiscal relations between the Centre and Haryana state government, it could be seen from Table 3.1 that all the CFCs, post 73rd and 74th Constitutional Amendments, have devised tax devolution formulae with varying criteria, and the importance assigned for computing inter se share for Haryana in tax devolution lack unanimity. Due to such prevailing changing pattern, Haryana's gain or loss has throughout been witnessing a winding path.

Implications of Ongoing COVID-19 pandemic on Centre-State Fiscal Relations

3.8 Of late, COVID-19 pandemic has posed heightened challenges to the cooperative federalism and centre-state fiscal relations. In other words, the pandemic has put the mettle of robustness of centre-state fiscal relations, through inter-governmental fiscal transfers to test.

3.9 The economic losses due to the ongoing COVID-19 pandemic have been conspicuously high. More specifically, a prolonged period of halt in nationwide economic activities as a response to fight the pandemic caused revenue contraction at not only the central level but across the states as well. On the capital receipts front, both the top two tiers of governments softened the disinvestment (recovery of loans and advances) targets in the 2021-22 budgets since these were seemingly difficult to meet. In contrast, due to the stimulus packages as a measure of expansionary fiscal policy, a spurt has been observed in both the revenue and capital expenditures in the central and state budgets in 2021-22.

3.10 Against the turbulent times of COVID-19 pandemic, the Union Budget 2021-22 has presented a considerably high fiscal deficit of ₹ 18,48,655 crore (9.5 per cent to GDP) in the revised estimates of 2020-21. At the outset, it is important to mention that such a high deficit is considered 'good' if it creates economic expansion during economic slowdown. In this regard, despite executing huge cash transfers, the Union government's intent of providing fiscal stimulus packages (five "mini-budgets" in continuum), such as free food delivery and capital expenditure (investment on infrastructure), with the aim of giving the economy a massive demand side push, is welcome. The Union government perceived that these fiscal stimulus packages could collectively revive aggregate demand in the economy, which could lead to high growth in the near future ("V-shaped" recovery in 2021-22), and consequently, the level of fiscal deficit (in both the absolute terms and as per cent to GDP) would come down. Nonetheless, such fiscal stimulus measures, as countercyclical expansionary policy, were extremely crucial because low revenue mobilisation effort is evident in many states including Haryana, which is further compounded by the fact of the states' stringent borrowing limits.

Fiscal Relations between the State Government and Its Local Bodies

3.11 It has been realised from the above discussion that the Central Finance Commission plays a crucial role in centre-state fiscal relations by recommending the quantum and types of fiscal transfers. Similarly, post 73rd and 74th Constitutional Amendments, the State Finance Commission was envisaged as an important institution to play a crucial role in state-local bodies fiscal relations through recommending vertical (state to local bodies) and horizontal (across the local bodies) fiscal transfers.

3.12 On inter-governmental fiscal relations, it was imperative to mention one key role of SFCs. It was envisaged that the recommendations of SFCs, followed by their acceptance, would serve as a predominant input to the award of CFC. In this regard, however, the SFCs have not been effective enough to serve so because the timing of setting of SFCs across states has not yet been synchronised with the award of CFC. **While Haryana has broadly followed the timetable for setting up the SFCs, its timing with the award of CFC was not congruous. Therefore, this Commission recommends that the state government may constitute SFC to match with CFC constitution for improved fiscal relations.**

3.13 It is important to note the findings of the National Institute of Public Finance and Policy (NIPFP), to which a study on ULB finances was delegated. The institute observed that the previous SFCs in Haryana have taken considerable time in submitting their report. With the exception of the Fifth SFC, all the other SFCs took around 34 months to submit their reports. In the case of the Second and Fourth SFCs, almost the entire award period had passed by the time the report was submitted by the Commissions. The term of the Commissions was extended by the state government by giving multiple extensions without considering the award period of the Commissions. **Hence, the Commission recommends that while giving extension(s) to the Commission, the government should keep in mind the award period for which the Commission has to make its recommendations.**

3.14 It has been observed that SFCs take a considerable amount of time to submit their report mainly due to non-availability of records of previous Commissions. Understandably, considerable time is lost in re-designing questionnaires and other information formats to collect primary and secondary data and information. **Consequently, this Commission recommends that a permanent SFC cell be set up in the Finance Department (FD). The proposed SFC cell, apart from overseeing the implementation of the recommendations of the SFC, can also act as the repository of data and information collected by SFCs. Whenever a new SFC is constituted, it can act as its secretariat and provide access to this database.**

Inter-Departmental Coordination in Fiscal Relations between Haryana State Government and Its Local Bodies

3.15 There are two types of transfers - untied and tied, which involves two institutions - SFC, that recommends and FD that devolves. In addition, apart from SFC recommended tax devolution, local bodies are entitled for CFC grants and various grants going to the local bodies directly through state budgets (see Table 3.3) Thus, coordination, cooperation and healthy relationship amongst the concerned departments, especially between the Finance Department, Development and Panchayats Department and Department of Urban Local Bodies are critically important for effective fiscal devolution.

3.16 In this context, it could be seen from Table 3.2 that the quantum of the Fifth SFC transfers to the PRIs differ between what FD reported and what Development and Panchayat department has confirmed. In 2019-20, FD reported that ₹ 1,417 crore has been given to the PRIs whereas the Development and Panchayat department informed that only ₹ 1140 crore was received, which was 80.45 per cent of what FD reported. The situation worsened further in the provisional figures of the subsequent year. As per FD, the recommended transfers by the 5th SFC have been ₹ 1,277 crore, which has been devolved to the PRIs, whereas the Development and Panchayat department mentioned that they received only ₹ 255 crore, which constitute merely 19.97 per cent of what the FD reported. Only what such striking differential signifies is that better coordination between the FD and Development and Panchayat department is required regarding the SFC transfers to the PRIs. Fortunately, for the SFC transfers to the ULBs, no such difference was observed between FD and Department of Urban Local Bodies figures.

3.17 Therefore, in this aspect, **the Commission recommends better coordination amongst the concerned departments for enhanced transparency regarding the SFC recommended quantum of devolution.**

3.18 Another important issue is concerning the distributional ratio of divisible pool between PRIs and ULBs. The Fifth SFC recommended distribution criteria of the fund to PRIs and ULBs in the ratio of 55:45. This, however, was not strictly adhered to in 2019-20 and provisional estimates of 2020-21. It has been observed from Figure 3.1 that in 2019-20, PRIs have received 60 per cent, which is more than the recommended share of 55 per cent, and conversely, ULBs have received 40 per cent that is less by 5 percentage points of the recommended share of 45 per cent. The situation has drastically changed in the subsequent year, where the recommended share between PRIs and ULBs was reversed against the recommended distributional shares.

3.19 What this analysis signifies is that even after accepting the recommended formula of tax devolution, the actual implementation is seen to be varying. This puts challenges in the overall fiscal decentralisation process and inter-governmental fiscal relations in Haryana. It is, therefore,

Table 3.2: SFC Devolution to the Local Bodies (₹ in Crore)

Particulars			2019-20	2020-21 (P)	2021-22 (BE)
Net SOTR			**42183**	**41285**	**52094**
SFC Grants	PRIs	FD	1417	1277	1755
		Department	1140	255	1755
	ULBs	FD	936	1493	1500
		Department	936	1493	1500
Total SFC Grants		**FD**	**2354**	**2770**	**3255**
		Department	**2076**	**1748**	**3255**
Total SFC Grants as % to Net SOTR		**FD**	**5.58**	**6.71**	**6.25**
		Department	**4.92**	**4.23**	**6.25**

Source: Finance Department, Department of Development & Panchayats, and Department of ULBs

Table 3.3: Total Fiscal Transfers to Local Bodies from Various Sources

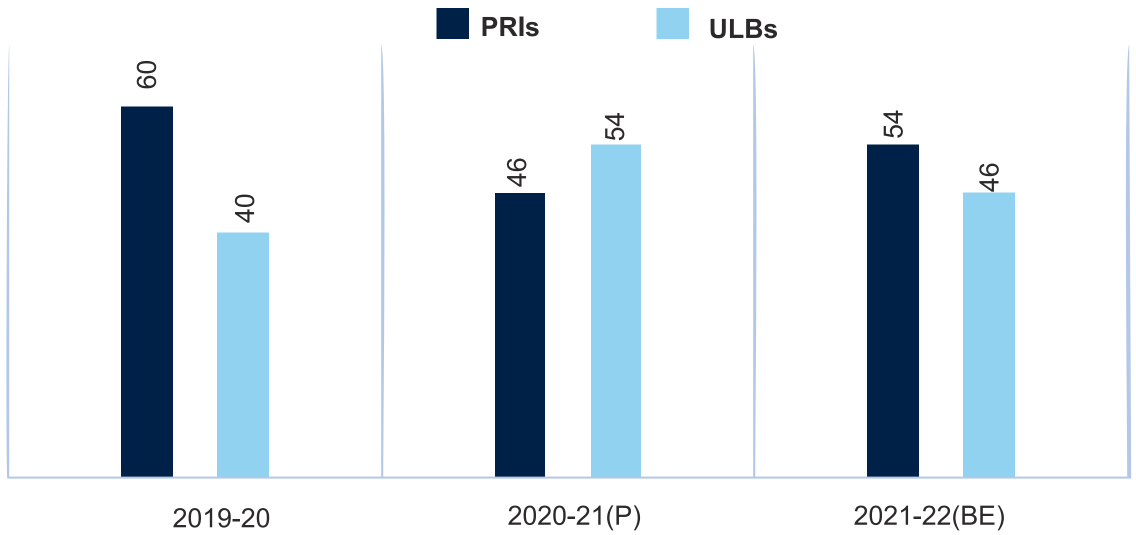
(₹ in Crore)

Fund Devolution	2019-20	2020-21 (P)	2021-22 BE
PRIs			
State Sponsored Schemes	747	458	-
Other Budgetary Transfers	290	336	792
SFC Transfers	1417	1277	1755
Total	**2454**	**2072**	**2547**
ULBs			
State Sponsored Schemes	49	292	-
Other Budgetary Transfers	0	0	0
SFC Transfers	936	1493	1500
Total	**985**	**1785**	**1500**
Total Budgetary Transfers to LBs	**3440**	**3857**	**4047**
Total Budgetary Transfers to LBs (% to Net SOTR)	**8.15**	**9.34**	**7.77**

Source: Finance Department

Note: Haryana Rural Development Fund (HRDF) to the PRIs (₹ 620.76 crore in 2019-20 and ₹ 101.83 crore in 2020-21 (P).

Figure 3.1: Percentage Share of Divisible Pool across Local Bodies



Source: Finance Department, Department of Development & Panchayats, and Department of ULBs

recommended that state government should carefully evaluate this aspect and take necessary steps to ensure that after acceptance, the recommended shares get devolved to the local bodies faithfully.

Devolution of Functions, Functionaries and Finances (3Fs) to Local Bodies in Haryana

3.20 By and large, the practice of decentralisation in India is often criticised due to its weak linkage between political, administrative and fiscal decentralisation. It has been observed not only in Haryana but across states that devolution of functions, functionaries and finances, are incongruous. It has also been observed in the previous section that SFC recommended and accepted transfer scheme to the PRIs and ULBs from the state government has not been strictly followed. Change in ratio between PRIs and ULBs against the recommended ratio and different devolved amounts as given by the departments calls for better coordination.

3.21 In this context, it becomes imperative to evaluate the congruity between devolution of functions, functionaries, and finances. Table 3.4 presents all the 29 functions enlisted in the Eleventh Schedule to be devolved to PRIs and Table 3.5 presents all the 18 subjects enlisted in the Twelfth Schedule to be devolved to ULBs. However, it is important to mention that many of the enlisted functions have been devolved to the local bodies not only of Haryana but in majority of the states but matching or required devolutions of functionaries and funds are lagging far behind the functions.

3.22 As is well known, matching devolution of functionaries and finances to the devolved functions are highly imperative in order to alleviate the asymmetry in the devolution of 3Fs. Matching devolution of functionaries and finances with all the functions to the PRIs and ULBs will enhance the degrees of freedom of local bodies to improve their functional and fiscal autonomy. In this regard, a

Table 3.4: Devolution of 29 Subjects to the PRIs as per Eleventh Schedule (Article 243G)

Sr. No.	List of Subjects
1	Agriculture, including agricultural 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

Table 3.5: Devolution of 18 Subjects to the ULBs as per Twelfth Schedule (Article 243W)			
Sl. No.	Functions	Organisational Remark	Status of Implementation
1	Regulation for land use and construction of land buildings	Department of Town and Country Planning, HSVP and ULBs	State dominated
2	Urban planning, including town planning	Department of Town and Country Planning, HSVP and ULBs	State dominated
3	Planning for economic and social development	Social Justice and Welfare department, ULBs	State dominated
4	Urban poverty alleviation	HBH	State dominated
5	Water Supply for domestic, industrial, and commercial purposes	PHED and ULBs (limited number)	Multiple agencies involved
6	Fire Services	ULBs	ULB
7	Public health, sanitation, conservancy, and solid waste management	Health department, PHED, ULBs	Multiple agencies involved
8	Slum improvement and upgradation	HSVP, ULBs	Multiple agencies involved
9	Safeguarding the interests of weaker sections of society, including the physically handicapped and mentally unsound	Social Justice and Welfare department, ULBs	Multiple agencies involved
10	Urban forestry, protection of environment and promotion of ecological aspects	Forest department, ULBs	Multiple agencies involved
11	Construction of roads and bridges	PWD, NHAI, ULBs	Multiple agencies involved
12	Provision of urban amenities and facilities, such as parks, gardens, and playgrounds	ULBs	ULB
13	Promotion of cultural, educational, and aesthetic aspects	Ministry of Education, Art, and Cultural Affairs	State dominated
14	Burials and burial grounds, cremation and cremation grounds and electric crematoriums	ULBs	ULB
15	Cattle ponds, prevention of cruelty to animals	ULBs	ULB
16	Regulation of slaughterhouses and tanneries	ULBs	ULB
17	Public amenities, including street lighting, parking spaces, bus stops, and public conveniences	State transport department, ULBs	Multiple agencies involved
18	Vital statistics, including registration of births and deaths	Health department, ULBs	Multiple agencies involved

detailed activity mapping is required, which would then elucidate the degree of deficiency that exists in the local bodies' administrative and fiscal powers.

Activity Mapping

3.23 The activity mapping in Haryana is yet to be completed. Unless this is done, estimation regarding the requirements of functionaries to each sub-function cannot be obtained. Subsequently, estimation as to how much finances are required to carry out that particular function cannot be done. This is because fiscal decentralisation is a subset of decentralised governance where funds will be devolved after the devolution of both functions and functionaries. Therefore, activity mapping is critically important for matching devolution of functionaries followed by finance, and consequently this would lead to effective planning for development, allocation and implementation of the centrally sponsored and state sponsored schemes for improved desired outputs and outcomes.

3.24 On 17 February 2006, activity mapping for the devolution of powers to PRIs in Haryana was released by the state government. The activities of 10 departments were considered, namely, Food and Supplies, Health, Public Health, Social Justice and Empowerment, Irrigation, Animal Husbandry, Education, Women and Child Development, Agriculture, and Forest departments. These departments broadly covered 10 subjects listed in the Eleventh Schedule. However, a detailed activity mapping on all the enlisted subjects for not only PRIs but for ULBs as well is highly imperative.

3.25 In this regard, **the Commission recommends what the Development and Panchayats Department and the Department of Urban Local Bodies may carry out activity mapping of all the enlisted and devolved functions in order to get a clear picture as to how many functionaries, followed by requirement of finances is necessary**. The activity mapping is referred to as unbundling of each function / subject into activities and sub-activities. There are three steps involved in order to carry out a clear activity mapping. These are:

1. disaggregate an individual sector into a number of services;
2. unbundle each service into activities and sub-activities; and
3. distribution of the activities and sub-activities to different levels of the local governments (three tiers of PRIs - or Zila Parishad at district level, Panchayat Samiti at block level and Gram Panchayat at village level).

Review of Recommendations of Previous State Finance Commissions

3.26 While the role and issues of SFC and other budgetary transfers to the local bodies have been critically discussed in previous sections within the ambit of state-local bodies fiscal relations, it is imperative to evaluate the recommendations made by each Commission against actions taken on them and their implementation, in greater detail.

3.27 Complying with the 73rd and 74th Amendment Acts, the state constituted the First SFC in 1994, which finally submitted its report in 1997. The Commission recommended to devolve funds to local bodies on specific tax-sharing pattern, under which a certain number of taxes and fee were shared with local bodies. Similarly, the Second SFC also relied on specific tax sharing criteria. Conversely, the Third SFC devised a devolution formula, doing away with the previous two Commissions' approach, which suggested a synthesis of both specific and global tax sharing. The Third SFC defined its divisible pool as state own tax revenue (SOTR) net of excise duty, local area development tax (LADT) and 1.25 per cent of collection charges. During the entire period of implementation, from 2010-11 to 2017-18, of the Third SFC, local bodies received about 1.6 per cent against the recommended 2 per cent of net SOTR. Recommendations of the Fourth SFC, however, were not implemented since the Commission took four years and two months to submit its report. With only one financial year (2015-16) left for the award period, there was no time left to follow further necessary procedures, and thereby, it was proposed to continue with the devolution pattern recommended by the Third SFC.

3.28 The Fifth SFC recommended 7 per cent of Net SOTR as divisible pool to local bodies. The Commission also recommended that Excise Duty and Surcharge on VAT be merged with total divisible pool. Theoretically, Fifth SFC attempted to harmonise the devolution formula, keeping in view the global tax-sharing pattern, resulting in a significant increase in the divisible pool of the local bodies. As discussed earlier, the local bodies have not always received the recommended full amounts of the devolution, and the gap appeared to be considerably high in some cases. In addition, the recommended ratio of horizontal distribution between PRIs and ULBs was also not strictly followed during the award period of the Fifth SFC.

3.29 The inferences drawn from the analysis suggest that fiscal transfers from the state to local bodies are showing fluctuating trends over the last decade, which is partly due to the changing devolution formulae across the SFCs. Consequently, this has created challenges for local bodies to plan an effective and sustainable discharge of services.

3.30 Nonetheless, careful assessment of previous recommendations reveals intriguing trends of Haryana's economic activities over time. Moreover, the Commission believes that every State Finance Commission has carefully considered and studied the economic environment of the state during their tenure. This has not only enabled them to modify the formulae and inter se shares as per the changing economic environment but also to make recommendations on other themes, which were crucial to the effective execution of the proposed fiscal recommendations, across all local bodies. However, as is well known, the Commissions have taken considerable time in submitting their reports, which created challenges with respect to their timely acceptance by the state government and consequently, their implementation.

3.31 While a broad summary of the various themes on which recommendations have been previously made, is presented in Table 3.6, recommendations, actions taken on them, and the status of implementations of the recommendations of all the erstwhile SFCs are discussed in greater detail below.

First SFC (1997-98 to 2000-01)

3.32 The Commission adopted source-specific criteria of sharing state revenues with the local bodies. The taxes to be shared with the local bodies included stamp duty and registration fees, proceeds from cattle fairs, conversion charges for land use, tax on vehicles, entertainment tax, show tax and royalty on minor minerals.

For PRIs, it recommended sharing:

1. 7.5 per cent of the total receipts under stamp duty & registration fee accruing from the registration of the rural lands/properties,
2. 10 per cent of the proceeds under conversion charges for land use
3. 20 per cent of the royalty on minor minerals was to be shared with the local bodies of which 50 per cent accrue to RLBs, and
4. Entire net income from cattle fair to be shared with panchayat samitis only.

For ULBs, it recommended sharing:

1. 50 per cent of net income from entertainment duty and entire proceeds from show tax
2. 20 per cent of the net proceeds from the taxes on vehicles, and
3. 20 per cent of the royalty on minor minerals was to be shared with the local bodies of which 50 per cent accrue to ULBs

3.33 From the examination of the Action Taken Report (ATR) placed in the State Legislature by the state government it is evident, that not all recommendations of the Commission with regard to sharing resources with local bodies were accepted. Some were accepted with modifications, and many were not accepted at all. The government did not implement the recommendations relating to sharing of stamp duty and registration fees despite accepting it with modifications.

Second SFC (2001-02 to 2005-06)

3.34 The Second SFC followed the same methodology as that of the First SFC and adopted source-specific criteria of sharing state revenues with local bodies.

For PRIs, it recommended sharing:

1. 3 per cent of the total receipts under stamp duty & registration fee accruing from the registration of the rural lands/properties,
2. 10 per cent of the proceeds under conversion charges for land use,
3. 20 per cent of the royalty on minor minerals was to be shared with the local bodies of which 50 per cent accrue to RLBs, and
4. entire net income from cattle fair to be shared with panchayat samitis only.

For ULBs, it recommended sharing:

1. 50 per cent of net income from entertainment duty and entire proceeds from show tax,
2. 20 per cent of the net proceeds from the taxes on vehicles, and
3. 20 per cent of the royalty on minor minerals was to be shared with the local bodies of which 50 per cent accrue to ULBs.

3.35 To compensate the local bodies for loss in revenues due to abolishment of Octroi, Local Area Development Tax (LADT) was introduced. Its proceeds were to be shared with PRIs and ULBs after deducting 5 per cent as collection charges.

3.36 From the examination of the Action Taken Report (ATR) placed in the State Legislature, it is clear that not all recommendations of the Commission with regard to sharing resources with local bodies were accepted. Some were accepted with modifications, and many were not accepted at all.

Third SFC (2006-07 to 2010-11)

3.37 The scheme of devolution adopted by the Third SFC involved both, sharing of assigned revenue (i.e., shared taxes) with the local bodies and sharing a specific proportion of SOTR net of the shared taxes and cost of collection with the local bodies. The shared taxes include LADT and revenues from state excise.

3.38 The Third SFC defined the divisible pool as SOTR minus LADT, state excise revenues and 1.25 per cent of SOTR as collection charges and recommended sharing 4 per cent of SOTR net of LADT, revenues from state excise and 1.25 per cent towards collection cost with the local bodies.

3.39 The recommendations of the Third SFC relating to sharing of revenues with local bodies were accepted with modification by the state government and implemented. The recommendations were modified to 2 per cent of the divisible pool for the years 2006-07, 2007-08 and 2010-11 and 3 per cent for 2008-09 and 2009-10. Further, the state government also accepted the recommendations of the Commission, with respect to shared taxes.

Fourth SFC (2011-12 to 2015-16)

3.40 The Commission moved towards adopting global sharing mechanism and its devolution scheme involved two steps.

1. For the period spanning 2011-12 to 2014-15, the scheme of devolution adopted by the Commission involved sharing specific taxes (i.e., shared taxes) and a specific proportion of SOTR with the local bodies. The shared taxes included:

   a. surcharge on VAT (5 per cent of it is shared with local bodies)
   b. excise duties
   c. stamp duty (entire proceeds devolved to local bodies)

Further, the Commission recommended sharing 2.5 per cent of SOTR (inclusive of shared taxes) net of 2 per cent as cost of collections with the local bodies.

2. For the year 2015-16 the Commission adopted a global sharing mechanism and recommended sharing 7 per cent of SOTR (inclusive of shared taxes), net of stamp duty and 2 per cent as cost of collections, with the local bodies.

3.41 However, due to the lapse of Commission's award period and delayed submission of the report, the recommendations were not accepted, and hence, not implemented. The devolution patterns and recommendations proposed by the Third SFC continued to be applied till the Fifth SFC had its report accepted.

Fifth SFC (2016-17 to 2020-21)

3.42 The Commission adopted the principles of global sharing of resources. It recommended sharing 7 per cent of divisible pool with the local bodies during its award period. The divisible pool comprised GST and non-GST SOTR components. While the GST component was transferred to the divisible pool, the non-GST SOTR was adjusted by netting out collection costs at 1.5 per cent, stamp duty at 2 per cent, registration revenue and VAT revenue.

3.43 Additionally, the Commission also recommended using the criteria of population and area in the ratio of 80:20, for the purpose of devolution of funds. The recommendations of the Commission were accepted and implemented by the state government.

3.44 After thorough examination of recommendations of the previous SFCs of Haryana and the Action Taken Reports tabled by the government, this Commission observed varied progress with regards to the status of acceptance and implementation of the recommendations of the SFCs. Thus, to address these issues, **this Commission recommends constitution of a high-level Committee for local bodies, which will review the status of the accepted recommendations from time to time and ensure that they are implemented. We also recommend that the state government submit every year the ATR to the legislative assembly, updating the status of implementation of SFC's recommendations.**

<table>
<tr><th colspan="3">Table 3.6: Major Recommendations by the SFCs: Status Mapping</th></tr>
<tr><th colspan="2">Recommendations for</th><th rowspan="2">Classification</th></tr>
<tr><th>PRIs</th><th>ULBs</th></tr>
<tr><td>Devolution of all the functions should be accompanied by proportional transfer of functionaries (administrative) and funds (fiscal)</td><td></td><td rowspan="2">Congruous devolution of 3Fs</td></tr>
<tr><td></td><td>Activity mapping of the devolved functions should be conducted for improved devolution of functionaries followed by fund devolution</td></tr>
<tr><td colspan="2">Fund sharing between PRIs and ULBs should be in the ratio PRI:ULB = 65:35
The Fifth SFC has changed the ratio to 55:45</td><td rowspan="2">Fund-sharing pattern</td></tr>
<tr><td>The PRIs share at the district level should be allocated among GPs: PSs: ZPs in the ratio of 75:15:10.</td><td></td></tr>
<tr><td colspan="2">▪ A “Standard Operating Procedure” (SOP) should be issued regarding data reporting in a structured format.
▪ A division be created in Swarna Jayanti Haryana Institute for Fiscal Management (SJHIFM) as a repository of the data and information about the PRIs and ULBs about their finances, schemes, services, capacity, central and state government’s initiatives and so forth. This will immensely facilitate the work of the future SFCs.</td><td rowspan="3">Fiscal database creation and management</td></tr>
<tr><td></td><td>A database should be created at the state level (giving access to all ULBs) about all the heads under which tax may be collected along with their rates and manner of collection including the list(s) of license fee with clear guidelines about the coverage of assesses and potential tax or fee which can be collected</td></tr>
<tr><td colspan="2">A grant of ₹10 crore (₹ 5 crore each for PRIs and ULBs) is recommended for creation and strengthening of data bases at all levels of local bodies</td></tr>
</table>

<table>
<tr><td>Department of Panchayats should decide the types and rates of taxes that may be collected at PRIs level as this institution is best equipped to take such decisions</td><td>Revenue raising powers of the Municipal Corporations, Municipal Councils and Municipal Committees should be rationalized and made explicit for better policy coherence. It should also be ensured that they are authorised to levy and collect all taxes, fees, and toll</td><td rowspan="4">Taxation authority, and revenue (tax and non-tax) augmentation</td></tr>
<tr><td>PRIs should impose tax or fee on advertisements, hoardings, cable operators, microwave towers, public schools, coaching centres, technical, medical and management colleges, commercial institutions and other establishments like shops, restaurants, hotels etc., located in their jurisdiction. GPs should impose token tax on hawkers and other traders for selling their goods in villages.</td><td>Rebates and exemptions from property tax should be minimized. Professional tax, fire tax, and vacant land tax should be levied.
It is also recommended to charge some non-tax fees or levies such as valorisation fee, impact fee and betterment levies.</td></tr>
<tr><td colspan="2">The local bodies should be imparted full freedom to levy taxes, duties, fees etc., within limits prescribed by law subject to floor or ceiling rates fixed by the state government. Subsequently, the local bodies should fully exercise all their enabling taxation powers and fully exploit their taxable capacity and potential</td></tr>
<tr><td colspan="2">User charges for water supply and sewerage should be revised periodically at least 5 to 10 per cent each year in tune with cost escalation to ensure that full cost of operation and maintenance (O & M) could be recovered by way of user charges.</td></tr>
<tr><td colspan="2">The annual devolution of SFC fund to each of the ULBs and PRIs be made in a transparent manner. To facilitate expenditure and revenue planning by these bodies, the SFC funds, which are devolved without conditions (untied), be allocated as early in the fiscal year as feasible.</td><td>Nature of fiscal transfers (tied and untied)</td></tr>
<tr><td></td><td>Communication and coordination need to be reinforced between all the three tiers of government for effective functioning and implementation of the schemes</td><td>Coordination amongst Centre, state and local bodies</td></tr>
<tr><td colspan="2">Fiscal autonomy should be improved for the local bodies which would reduce their transfer dependency. In this regard, at first, state government should improve its fiscal autonomy by improving revenue mobilization capacity from own sources and expenditure restructuring with an emphasis on infrastructure creation</td><td>Fiscal autonomy</td></tr>
<tr><td colspan="2">As is observed that devolution of funds to local bodies is often irregular and dilatory, it is recommended to ensure that the requisite funds are transferred to these bodies timely; also, the funds so transferred are properly utilized and effectively monitored.</td><td>Effective Fiscal decentralisation</td></tr>
<tr><td colspan="2">For better management of local bodies, improvement of accounting practices and audit is highly imperative. In this regard, a grant is recommended for setting up of a cadre of qualified personnel equipped with modern tools of management and information technology to ensure revamping of the management of accounts and improving of audit standards.
A well in-built social audit system should be put in place in all GPs through the forum of gram sabha to conduct social audit to avoid corruption and nepotism in the working of local bodies.</td><td>Maintenance of accounts and audit</td></tr>
<tr><td colspan="2">Capacity building and training of officials elected representatives and other stakeholders should be conducted in a carefully planned manner with the support of two premier institutes that are HIRD Nilokheri and HIPA Gurugram.</td><td>Capacity building, training for effective</td></tr>
</table>

Source: Successive SFCs
Note: First and Second SFCs have mainly recommended several tax and non-tax revenue sources for the local bodies' own revenue mobilisation.

Conclusion

3.45 This chapter suggests a requirement of fundamental shift in the institutional and inter-departmental coordination in the sphere of centre-states-local bodies fiscal relations, followed by the fiscal relations between state governments and their respective local bodies. In India's federal polity, with constitutional responsibilities divided between central government, state governments and the PRIs and the ULBs, integrated policy and institutional coordination between these three tiers of government are crucial for decentralised governance and effective service delivery.

3.46 Both the proponents and opponents of decentralisation in the strand of fiscal federalism literature perceive that fiscal decentralisation will not produce desired results unless: (a) local level governments are given full authority to make decisions by their own as well as full access to resources (complete devolution of power); (b) there is good understanding and healthy relationship among all the three tiers of government; (c) political healthy competition exists in each tier; and (d) local politicians have abundant understanding of local needs.

Chapter 4

Haryana State Finances: Lessons from the Past Trends

Chapter 4

Haryana State Finances: Lessons from the Past Trends

Introduction

4.1 As per the ToR, this Commission, in making its recommendations on fiscal devolution to the local bodies, shall have regard, among other considerations, to (a) the objective of balancing the receipts and expenditures of the state and for generating surplus for capital investment and (b) the resources of the state government and the demands thereon, particularly in respect of expenditure on civil administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditure or liabilities of the state. Besides, the ToR of the Commission also requires the Commission to have regard to the fiscal requirements of the PRIs and ULBs, their potential for raising resources and for reducing expenditure. What these signify is that the fiscal space available to the state for fiscal devolution and requirements of the local bodies, collectively, will be the guiding features for the Commission in designing its revenue sharing formulae. Hence, this Commission has undertaken analyses of the fiscal health of the state government.

4.2 Analyses regarding prudent arrangement of state finances with the objective of finding ways to correct fiscal profligacy, if any, is highly imperative for adequate fiscal devolution to the PRIs and ULBs. In view of this, this Commission has made an effort to analyse the fiscal situation of the state government for the period ranging from 2011-12 to 2021-22 BE and to make recommendations for its reference period 2021-22 to 2025-26.

Fiscal Autonomy and Deficit Indicators

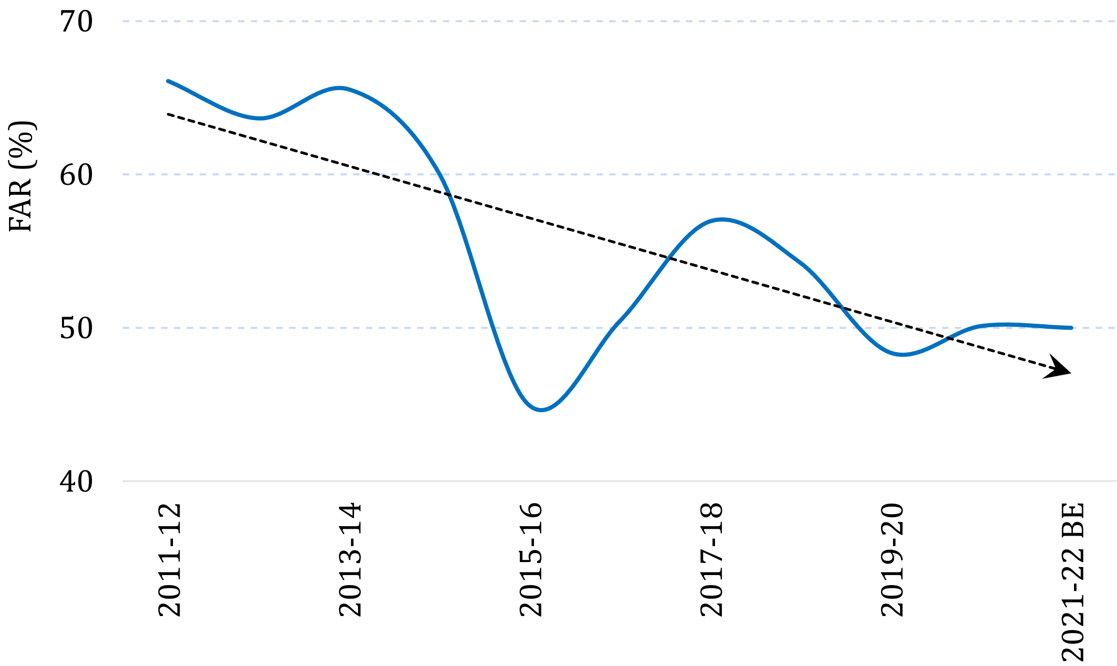
4.3 The analyses of the trends of the sub-national public finance of Haryana revealed a moderate contraction from 2011-12 to 2021-22 BE. By and large, fiscal prudency through trends in fiscal autonomy ratio[1] (FAR) and deficit indicators of the state could be seen in Figures 4.1 and 4.2. To begin with the analyses, it is important to evaluate Haryana's fiscal management vis-à-vis the fiscal management of all-states average.

4.4 Figure 4.1 reveals the status in terms of FAR of Haryana in comparison with the all-states average. The fiscal autonomy ratios of both Haryana and all-states average are low, but Haryana is able to put up comparatively better performance vis-à-vis the all-states average. Although, this suggests comparatively better performance for Haryana, however, the low ratio with declining and winding trend for the state is a concern. When the Government of Haryana collectively could finance 66.1 per cent and 50 per cent of its total expenditures using own revenues in 2011-12 and 2021-22 BE respectively, the FAR of all-states average was far below with 51.10 per cent and 44.46 per cent in 2011-12 and 2021-22 BE, respectively.

4.5 It could be observed from Figure 4.2 that the state has ably managed its fiscal deficit within 3 per cent of GSDP. The fiscal deficit has been estimated to be 3.83 per cent in 2021-22 in order to counter the shock brought by the COVID-19 pandemic. On the other hand, revenue deficit has shown a gradual increase over the studied time period. However, a sudden spurt in all the deficit indicators was observed in the year 2015-16 predominantly due to the inception of Ujwal DISCOM Assurance Yojana (UDAY) scheme, for which the expenditure had increased substantially. This scheme was introduced as a financial rescue scheme that absorbs DISCOM's debt against targets to improve

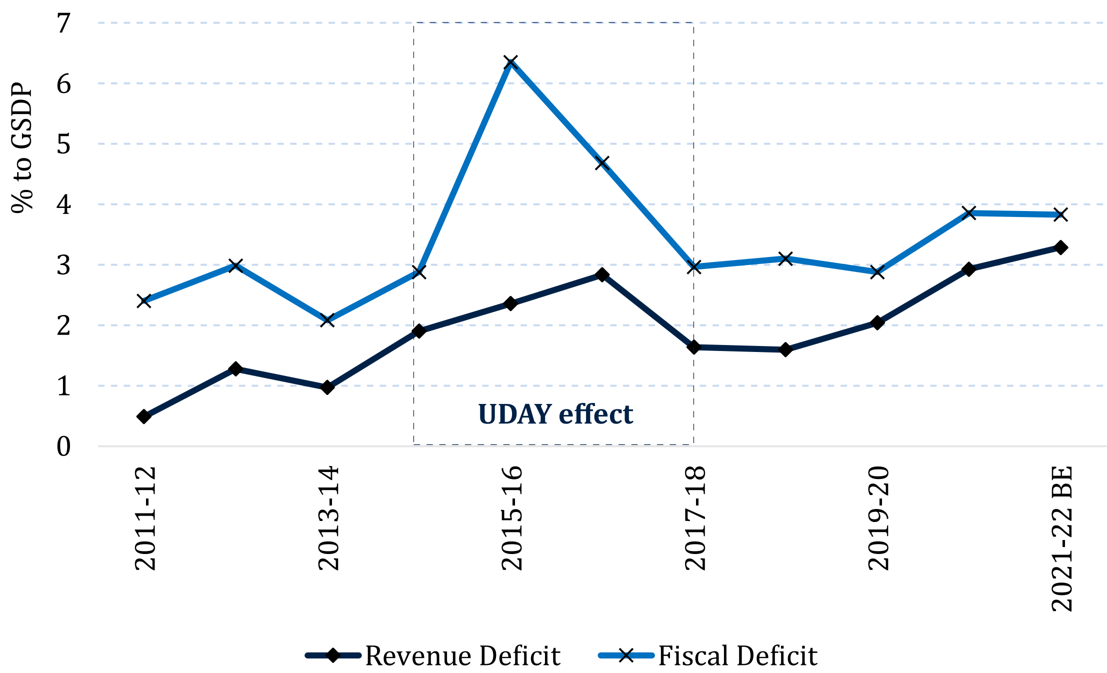
[1]FAR is defined as how much a state can finance its entire expenditure responsibilities using its own revenues.

Figure 4.1: Fiscal Prudency: Trends in Fiscal Autonomy Ratio



Source: Haryana State Budgets (various years)

Figure 4.2: Trends in Deficit Indicators



Source: Haryana State Budgets (various years)

Trends in Revenue Receipts

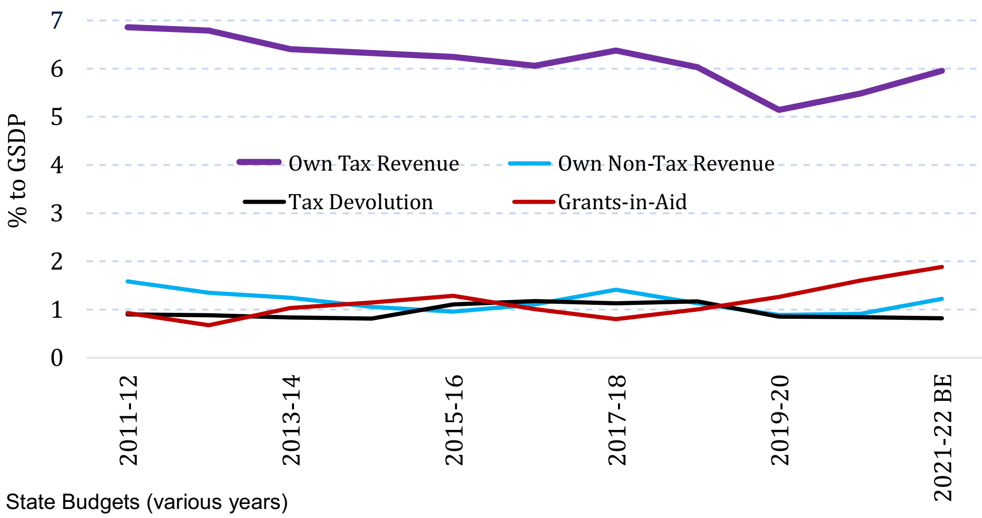
4.6 It has been observed from Table 4.1, which presents the share of revenue receipt heads in total revenue receipts and from Figure 4.3, which presents revenue receipt heads as per cent to GSDP that contribution of own tax revenue in total revenue receipts is considerably higher than the other heads. However, it is important to note that the share of own tax revenue in total revenue receipts shows a marginal decline over the studied period of time, from 66.8 per cent in 2011-12 to 63.1 per cent in 2019-20, and further estimated to decline to 60.3 per cent in 2021-22. Such decline in tax revenue mobilisation suggests that efforts need to be made for revenue augmentation of the state from its own sources. Similarly, the share of own non-tax revenue in total revenue receipts has also declined from 15.5 per cent in 2011-12 to 12.4 per cent in 2021-22 BE. Of total central transfers to the state, the share of tax devolution has marginally increased from 8.8 per cent in 2011-12 to 10.5 per cent in 2019-20, thereafter, it has been estimated to decline to 8.3 per cent, whereas the grants-in-aid are steadily increasing at a much faster rate than tax devolution. The trends in revenue receipts as percentage of GSDP show somewhat similar pattern, as has been seen in the trend in compositions of total revenue receipts (Table 4.1).

Table 4.1: Composition of Revenue Receipts (per cent to Total Revenue Receipts)

Year	Own Tax Revenue	Own Non-Tax Revenue	Tax Devolution	Grants-in-Aid
2011-12	66.8	15.5	8.8	9.0
2012-13	70.0	13.9	9.1	7.0
2013-14	67.3	13.1	8.8	10.9
2014-15	67.7	11.3	8.7	12.3
2015-16	65.0	10.0	11.6	13.4
2016-17	64.8	11.8	12.6	10.8
2017-18	65.6	14.5	11.6	8.3
2018-19	64.6	12.1	12.5	10.7
2019-20	63.1	10.9	10.5	15.5
2020-21 (P)	62.0	10.3	9.5	18.1
2021-22 (BE)	60.3	12.4	8.3	19.1

Source: Haryana State Budgets (various years)

Figure 4.3: Trends in Revenue Receipts (% to GSDP)

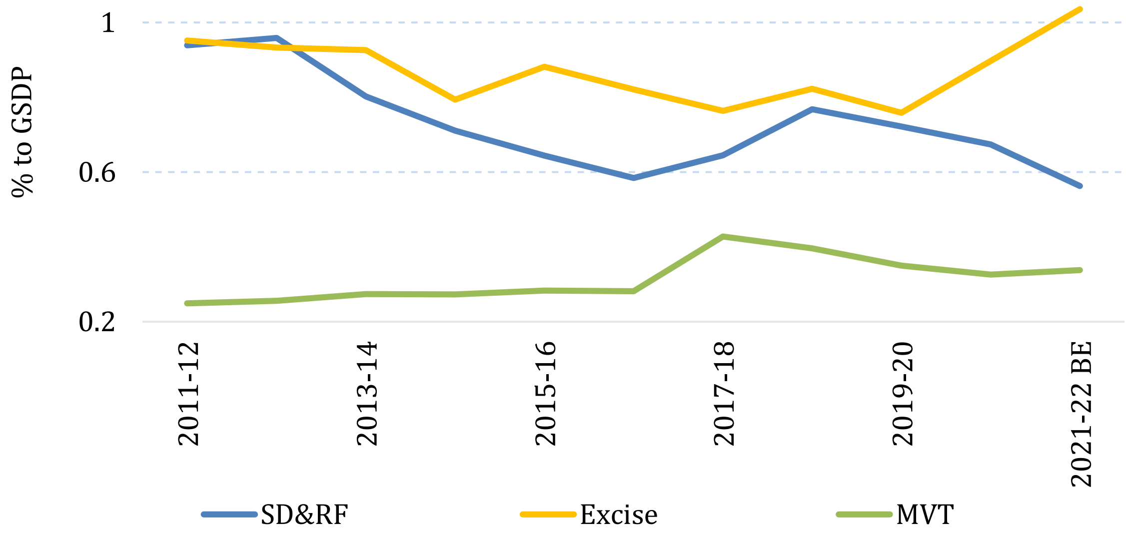


Source: Haryana State Budgets (various years)

Own Tax Revenue Sources: Issues and Challenges

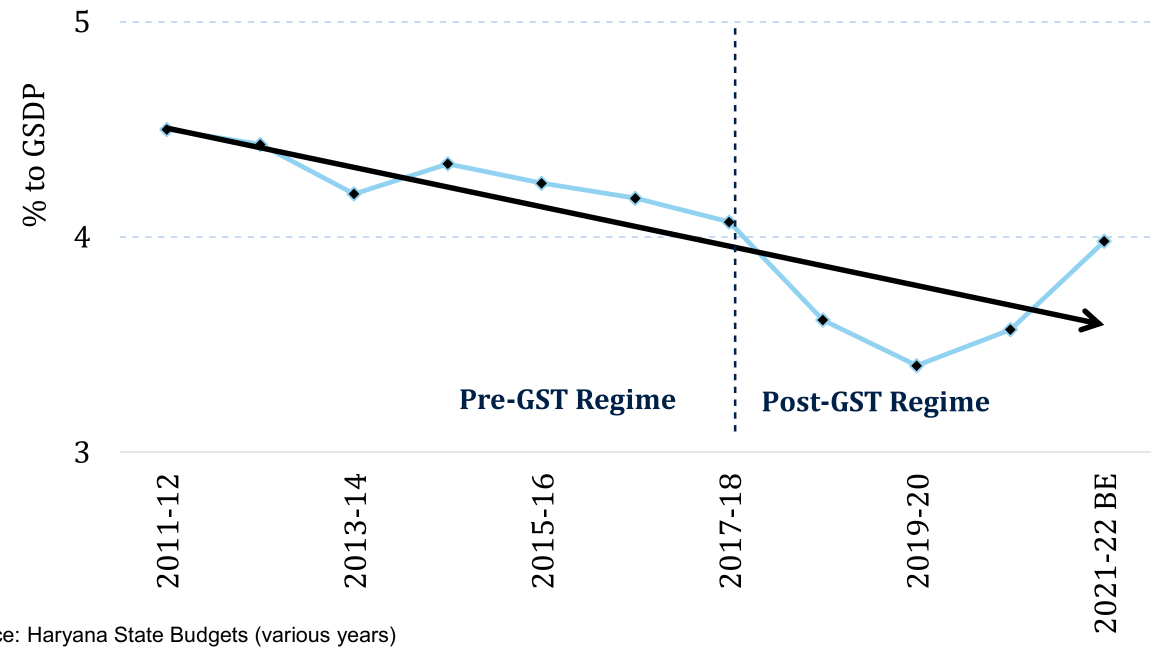
4.7 Trends in Haryana's major own tax heads as per cent to nominal GSDP, is shown in Figure 4.4. It presents the percentage share of these major own tax sources in total own tax revenue. It is important to note that revenues from state GST is comparatively much higher, but its declining trend over the years remains a cause of concern for the state (Figure 4.5). It has been observed that other than GST (VAT mostly has been subsumed in GST), stamp duty and registration fee and excise duty are the two major contributors to the state's own tax revenue, followed by motor vehicle tax. However, revenue collections from duties on electricity and land revenue, as per cent to total revenue receipts, have remained below 1 per cent.

Figure 4.4: SD&RF, Excise Duty and Motor Vehicle Tax as per cent to GSDP



Source: Haryana State Budgets (various years)

Figure 4.5: Trends in VAT and GST Combined (per cent to GSDP)



Source: Haryana State Budgets (various years)

4.8 Revenue collection from stamp duty and registration fees (SDRF) has increased from ₹ 2,793 crore in 2011-12 to ₹ 5,157 crore in 2020-21 and estimated to be ₹ 5,000 crore in 2021-22. Nevertheless, revenue collection of SDRF as per cent to real estate GSDP has declined from 6.82 per cent in 2011-12 to 4.30 per cent in 2020-21 (P). More specifically, it declined sharply till 2016-17 (3.60 per cent), but thereafter, it started increasing. Such revival could be comprehended as a result of Haryana Real Estate (Regulation and Development) Rules[2], 2017 which came into force from 28 July 2017.

4.9 On the other hand, it is important to note that the share of GSDP from real estate, ownership of dwelling and professional services in total GSDP has increased from 13.76 per cent to 16.74 per cent during the studied period (Figure 4.6). Now, the declining revenue collection from SDRF (per cent to GSDP term) in the face of increasing share of real estate in total GSDP raises a serious concern: What are the issues and scope of leakages that are impeding revenue augmentation from this source?

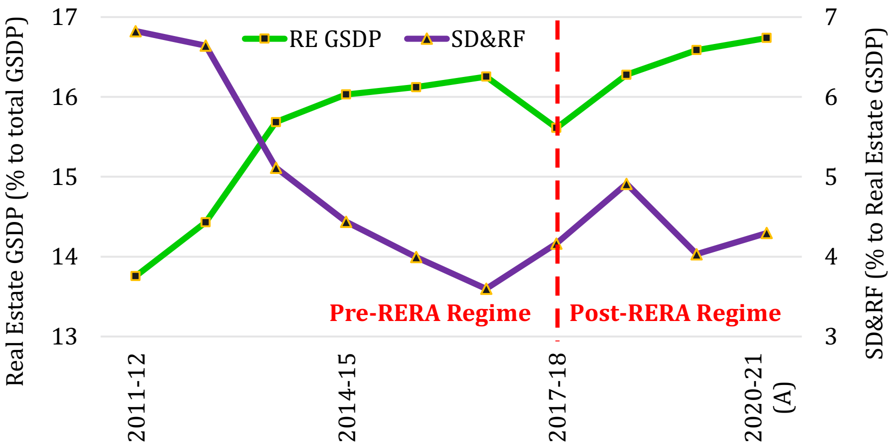
4.10 India traditionally has higher rates of stamp duties and registration fee as compared to international standards. Such high tax rates have led to high transaction costs, which have further led to high time and cost of compliance, and thereby, this has led to high incidence of tax evasion. In this context, it is generally argued that corruption as undervaluation of assets (or, under declaration of property values) has been one of the major loopholes in revenue collected under stamp duty and registration fee.

Own Non-Tax Revenue Sources: Issues and Challenges

4.11 Non-tax revenue is an important part of revenue receipts. All the government receipts, such as profits and dividends as return on investment in public undertakings, prices, fee, and user charges for services provided by the government, fee and prices for social services like education, health, water supply, receipts from agriculture and allied activities, wildlife, tourism, and other economic services, and so forth, comprise the non-tax revenue receipts.

4.12 The receipts from social services constitute

Figure 4.6: Relationship between Real Estate GSDP and Own Tax Revenue on Stamp Duty and Registration

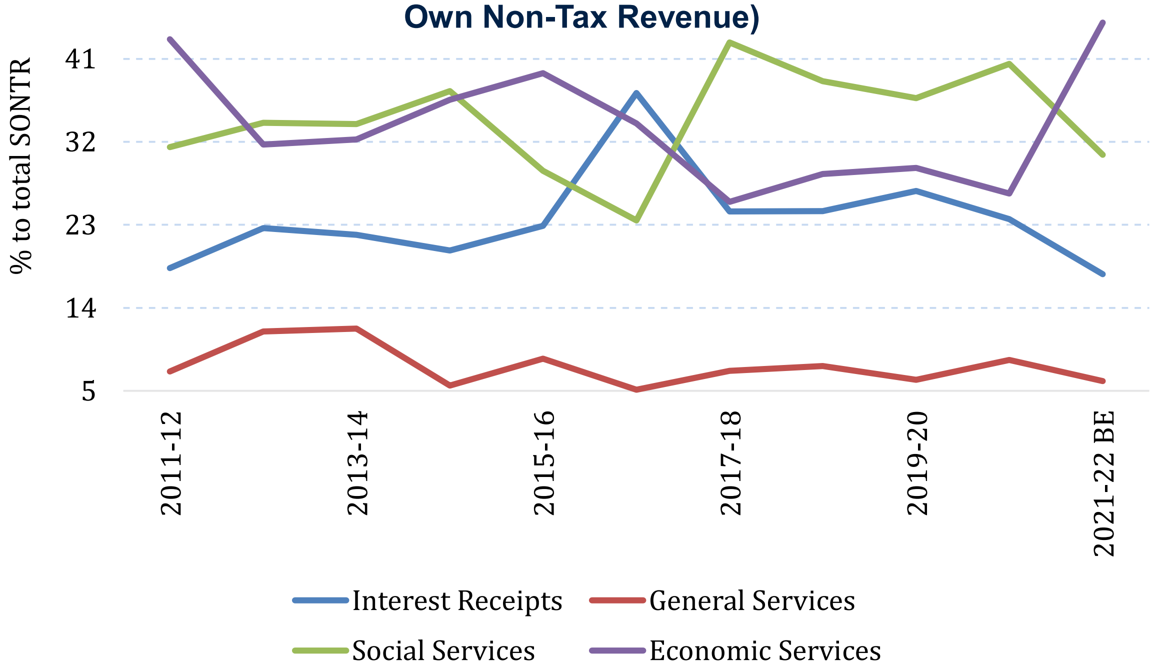


Source: 1) State Budgets of Haryana (various years);
2) CSO, MoSPI, Government of India;
3) Haryana Real Estate Regulatory Authority, Government of Haryana.

[2]The Preamble to the Act reads, "An Act to establish the Real Estate Regulatory Authority for regulation and promotion of the real estate sector and to ensure sale of plot, apartment or building, as the case may be, or sale of real estate project, in and efficient and transparent manner and to protect the interest of consumers in the real estate sector and to establish an adjudicating mechanism for speedy dispute redressal and also to establish the Appellate Tribunal to hear appeals from the decisions, directions or orders of the Real Estate Regulatory Authority and the adjudicating officer and for matters connected therewith or incidental thereto".

the largest share in the total non-tax revenue receipts, followed by economic services, interest receipts and general services (Figure 4.7 and Table 4.2). Over the study period of 10 years starting from 2011-12, the share of social services has remained more or less same with fluctuations, while there is a slight increase in the share of the dividends and profit which nevertheless remains below 1 per cent. However, there is a decline in the share of interest receipts, general services and economic services in the non-tax revenue receipts of the state during the same period.

Figure 4.7: Share of Major Own Non-Tax Revenue Sources (Per cent to Total Own Non-Tax Revenue)



Source: Haryana State Budgets (various years)

Table 4.2: Percentage Share of Own Non-Tax Revenue Sources in Total Own Non-Tax Revenue

Year	Interest Receipts	Dividends and Profit	General Services	Social Services	Economic Services
2011-12	18.32	0.03	7.12	31.42	43.11
2012-13	22.64	0.15	11.45	34.05	31.70
2013-14	21.92	0.13	11.77	33.92	32.25
2014-15	20.24	0.13	5.58	37.51	36.55
2015-16	22.88	0.33	8.49	28.85	39.44
2016-17	37.28	0.10	5.14	23.49	34.00
2017-18	24.45	0.08	7.20	42.76	25.51
2018-19	24.50	0.71	7.71	38.58	28.51
2019-20	26.69	1.18	6.21	36.75	29.18
2020-21 (P)	23.63	1.15	8.37	40.46	26.39
2021-22 (BE)	17.66	0.74	6.08	30.59	44.93

Source: Haryana State Budgets (various years).

Revenue Mobilisation from Own Sources

4.13 There is no consensus among researchers in the domain of public economics on how revenue augmentation should be analysed. Economists have used different assumptions and methods to estimate how revenues at the state level should plausibly be augmented. Fundamentally, tax revenues of a state government can be increased through two measures: direct and indirect. The former measures include increase in- / rationalisation of tax rates, improvement in tax net by bringing the untaxed sectors in the tax net, expansion of tax base, resurgence of discontinued taxes, simplification of tax administration in order to ameliorate tax compliances and levy of new taxes, while the latter measures involve policies that aim to enhance various potential economic activities and wealth.

4.14 However, the tax revenue mobilisation capacity from own sources for the Indian states are quite low, and thereby, this has made them significantly dependent on central transfers (tax devolution and grants-in-aid). In this regard, states need to be more proactive in putting efforts through policy commitments on raising revenues in a pro-people manner. There are several studies that have found that Haryana's tax effort is somewhat low as the state's potential is higher than its actual own tax revenue. In this context, it is important to mention that local bodies do not levy professional tax[3], and thereby 'industrial and commercial property enterprises' employers are not liable to undertake registration process.

4.15 The major focus of tax policy measures in Haryana at the state level lies on augmenting own tax revenues, and each of the measures has different macroeconomic implications as each measure poses varied impacts on the people of different socio-economic categories. **In this context, the Commission is of the view that differential tax incidence could be considered as one of the important tax policies where taxes on sumptuary goods (such as liquor and tobacco products) can be raised to mobilise additional revenue with the movement of taxes on necessary goods. Such sort of measure is crucial for not hindering aggregate demand in the economy and purchasing power of people from different income categories. Consequently, this sort of measure could potentially produce counter-cyclicality.**

4.16 As is discussed, declining own revenue mobilisation in the state has further been compounded by the unforeseen attack of COVID-19. Policy responses post-COVID-19 pandemic have essentially focused on offsetting its pernicious effects on the Haryana state finances, for which, revenue augmentation measures in the short run to immediately counter the situation, and in long run, to create a robust revenue system that would help the state government to be prepared for any future shocks has been critically important. This would enable the state to effectively and timely respond[4] if there is any sudden shock in future.

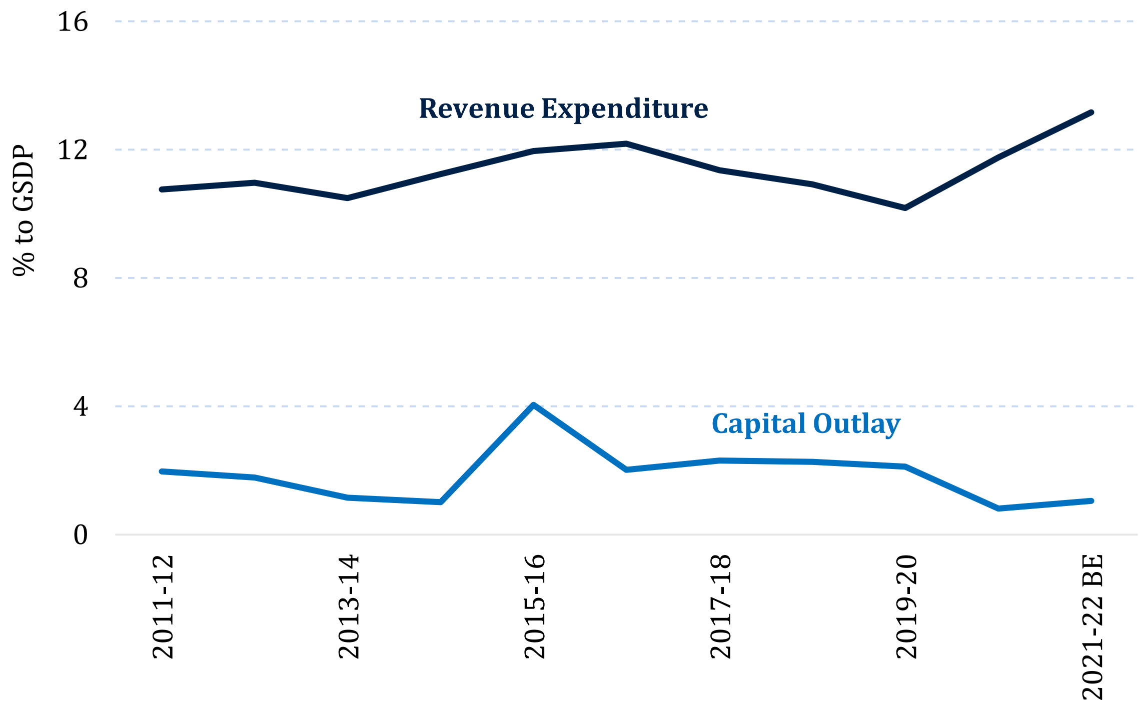
Trends and Issues in Expenditures

4.17 As was seen in Figure 4.1 that Haryana's revenue deficit shows an increasing trend, and Figure 4.8 shows that the state's revenue expenditure has been increasing – these two points only signify that the state's revenue expenditure is increasing at a faster rate than its total revenue receipts. However, it could be seen from Figure 4.9 that capital outlay (excluding loans and advances) remains more or less stagnant at 2 per cent of GSDP during 2011-2020, which is estimated to decline to

[3]This is a tax on all kinds of professions, trades, and employment and levied based on the income of such profession, trade, and employment. It is levied on employees - a person carrying on business including freelancers, professionals, chartered accountants, doctor, lawyer, company secretary and so forth, subject to income exceeding the imposed income threshold.

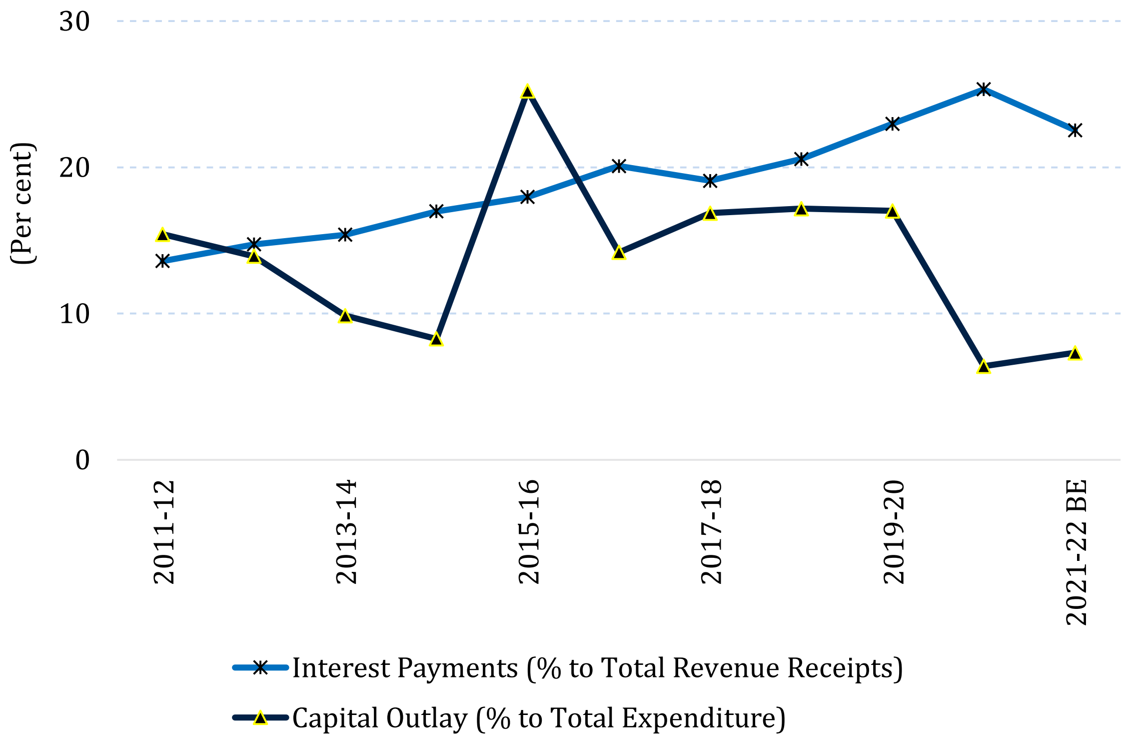
[4]It is important to keep in mind that this pandemic may not be the last one to hit the Indian economy, and therefore, based on the current experience of COVID-19 ramifications on human lives, strengthening the revenue mobilisation capacity and fiscal policies regarding the social protection system across the globe should gain much attention from the academicians and policy practitioners so that the economies could be better prepared to efficiently respond to any unforeseen shock in future.

Figure 4.8: Trends in Revenue Expenditure and Capital Outlay



Source: Haryana State Budgets (various years).

Figure 4.9: Trends in Interest Payments and Capital Outlay



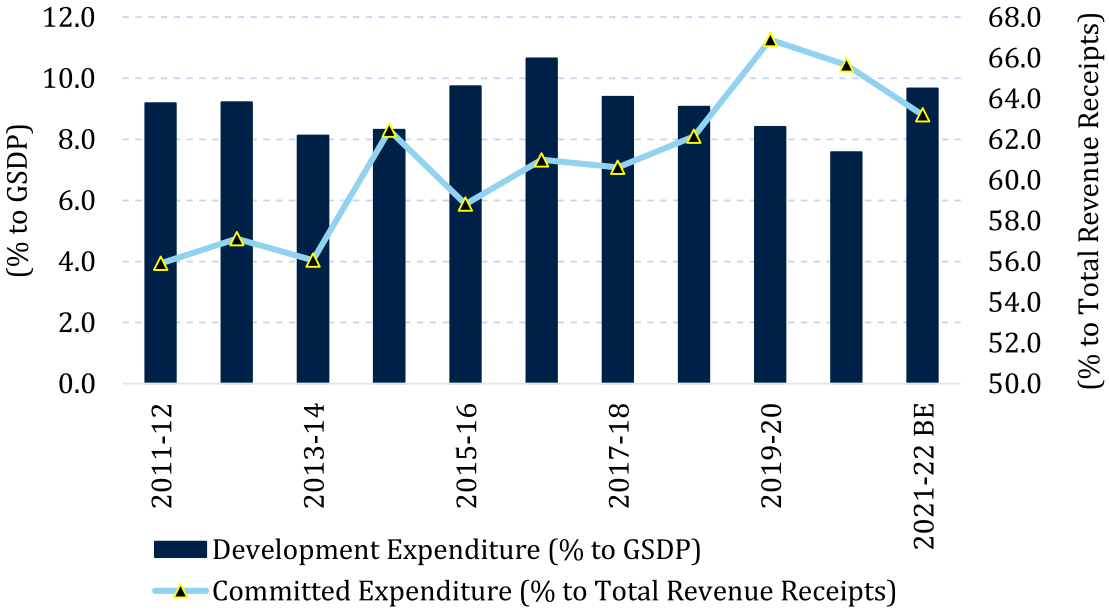
Source: Haryana State Budgets (various years).

4.18 The state's persistent moderately high fiscal deficits over the years have led to increase in public debts since fiscal deficit is the change in debt between the current year and previous year. Outstanding debt as per cent to GSDP has increased from 13.91 per cent in 2011-12 to 25.94 per cent in 2021-22 BE. As a result, the share of interest payments in total expenditure has increased sharply. This has increased from 10.9 per cent in 2011-12 to 15.5 per cent in 2021-22 BE. On this aspect, it has been observed that the state have raised funds by borrowing from their own sources to offset growing expenditure needs, which has led to increased interest payments. However, in this regard, economists argue that interest payments have not only been inflating fiscal deficits but crowding out investments (capital outlay) and other development spending as well.

4.19 Such hard budget constraints have further been compounded by the fact of poor and declining FAR of the state over the years as depicted in Figure 4.1. This has happened predominantly due to the fact that the state's total expenditure has increased at a faster rate than its revenues from own sources. In other words, the almost stagnant own revenue buoyancy against increasing interest payments burden of the state lessens fiscal space for development spending. This whole fiscal stance signifies state's increasing dependency on central transfers.

4.20 More than 60 per cent of the own revenues with an increasing trend in Haryana is being used up for meeting their committed expenditure liabilities (includes salaries and wages, interest payments, and pension). It can be inferred from Figure 4.10 that the shares of committed liabilities in both GSDP and total revenue receipts have gradually increased during the studied period. Understandably, this, as a result, leaves little room for the state to spend on the overall development segments. Consequently, it could be seen from Figure 4.10 that development spending as per cent to GSDP has declined from 9.2 per cent in 2011-12 to 8.4 per cent in 2019-20. This declining trend of the overall development spending as per cent to GSDP could be interpreted in such a way that while revenue expenditure has been showing an increasing trend, there is a decline in development spending.

Figure 4.10: Quality of Expenditure: Pro-poor Fiscal Space: Trends Committed Expenditure (Interest Payments + Salaries and Wages + Pension) and Development Expenditure



Source: Haryana State Budgets (various years).

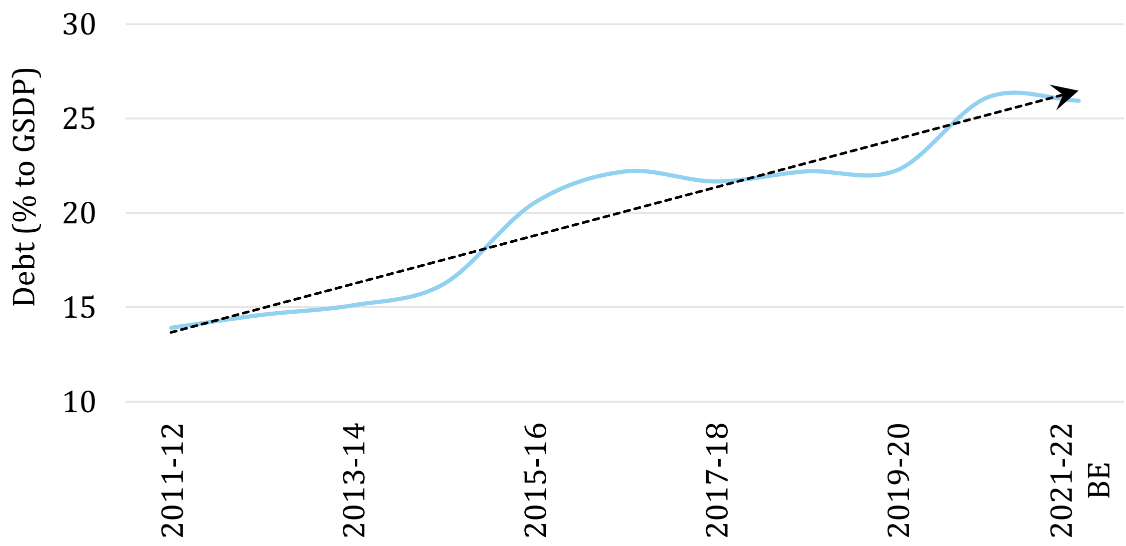
4.21 Besides, the state enacted the Fiscal Responsibility and Budget Management (FRBM) Act in July 2005, which proposed to attain revenue surplus and maintain it thereafter, and also to bring down their fiscal deficit to 3 per cent of their GSDP, based on their revenue and fiscal deficit situation in 2007-08. However, the state has more expenditure responsibilities vis-à-vis centre in the provision of various entitlement programmes of public services while the state does not have alternate sources of finance like monetisation of deficit, external sources of borrowing or unlimited internal borrowing power like the centre. Therefore, due to the commitment towards FRBM Act, the more or less stagnant own revenues to GSDP ratio and high share of committed expenditure in total own revenues, it seems that the state is not in a position to spend any extra amount in development sectors.

Trends in Outstanding Guarantees and Debt Liability of UDAY

4.22 The state guarantees create contingent liability. It could be seen from Figure 4.12 that total state guarantees of public sector enterprises as per cent to GSDP increased from 1.88 per cent in 2011-12 to 6.95 per cent in 2014-15, and thereafter, sharply declined till 2016-17, and started increasing thereafter.

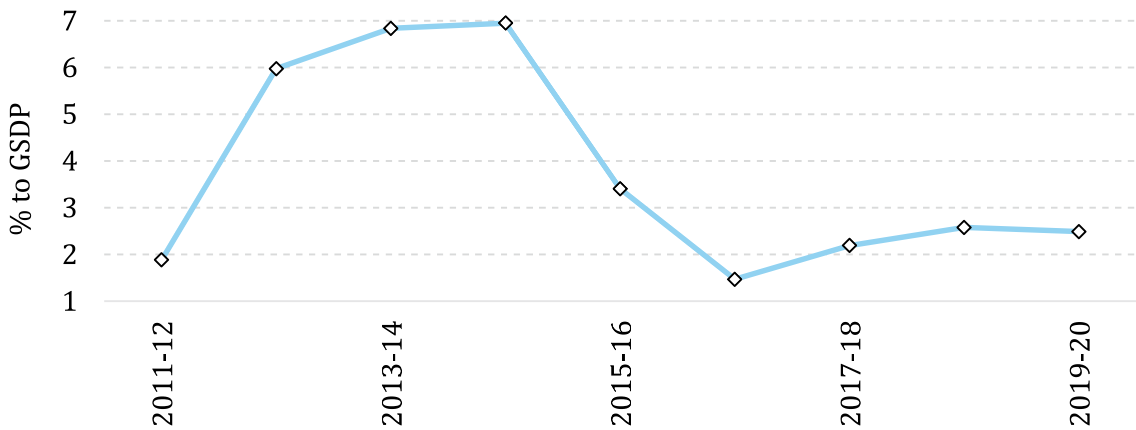
4.23 Due to less than desired performance of state-owned power distribution companies (discoms), Haryana implemented UDAY scheme. The state took over the liability of discoms. The percentage share of debt liability of UDAY in GSDP has been showing declining trend (see Figure 4.13) during the period ranging from 2015-16 to 2019-20.

Figure 4.11: Trends in Outstanding Debt



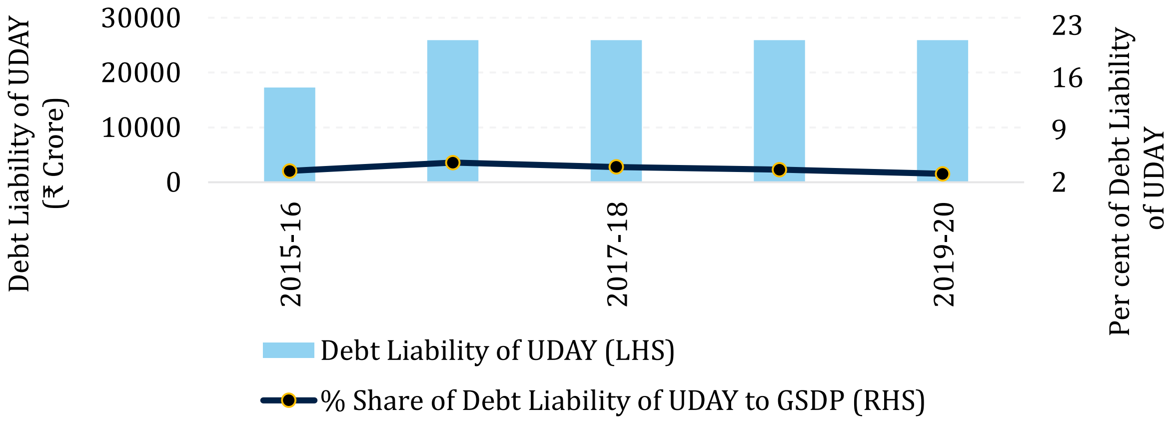
Source: Haryana State Budgets (various years).

Figure 4.12: Trends in Outstanding Guarantees (OG): Percentage Share in GSDP



Source: State Finances: A Study of Budgets, RBI (various years)

Figure 4.13: Debt Liability of UDAY



Source: 1) State Budget Documents (various years);
2) State Finances: A Study of Budgets, RBI (various years)

Conclusion

4.24 This section has examined the fiscal health of Haryana in the view of the state's fiscal space through own tax revenue, which is Commission's prime concern since the divisible pool will be derived from this. In this context, the Commission has found that the state's own tax revenue mobilisation has marginally declined in per cent to GSDP terms, against increasing expenditure responsibilities, which has made the state somewhat an inter-governmental transfer-dependent entity. Further, it has been observed that a major portion of the state's total revenue receipts is being used up for meeting their committed expenditure liabilities, which reduces the scope for the state to spend on its overall development sectors, especially when the state's own tax revenue is declining. The capital outlay, which is investment in infrastructure, has not only remained stagnant but is low as well (in terms of GSDP).

4.25 Major focus of tax policy measures at the state level lies on augmenting own tax revenues, and each of the measures has different macroeconomic implications as each measure poses varied impacts on the people of different socio-economic categories. Analysis of this chapter, broadly reveals that there is ample scope for Haryana to mobilise additional revenues from own sources by rationalising tax rates, widening tax base and net, improving tax compliance and strengthening tax administration.

Chapter 5

Panchayats and Their Finances

Chapter 5

Panchayats and Their Finances

Introduction

5.1 One of the terms of reference of this Commission is to determine the taxes, duties, tolls and fee to be imposed by Panchayati Raj Institutions (PRIs) to improve their financial autonomy in implementing the plan for economic development with social justice and meeting out other requisite financial requirements. Article 243G of the Indian Constitution gives discretionary power to the state governments in devolving functions, functionaries and finances (3Fs) to panchayats. The devolution of these intertwined 3Fs determines their performance, and inadequacy of any of them can adversely affect the intended outcomes. Enlargement of their fiscal resources, functions and the corresponding increase in the quantity and quality of officials of Panchayats can generate a virtuous cycle in achieving the overall development of rural areas. If this virtuous cycle is realised, then PRIs (gram panchayat at village level, panchayat samiti at block level, and zila parishad at district level) in Haryana can become genuine institutions of local self-governance with a solid financial base, along with well-defined revenue sources and their optimal use. In this chapter, the Commission reviews Panchayats' financial position, as it is necessary on the part of it to determine the quantum of financial devolution and grants-in-aid to these institutions.

5.2 Assessment of the PRIs' financial position and requirement is a challenging task due to inadequacy of reliable data and poor record-keeping. The Commission could not get reliable data on the expenditure of PRIs[5]. In the absence of expenditure data, it resorts to the receipt side of the account. It analyses the flow of funds from the PRIs' own tax and non-tax resources, transfers from the State Finance Commission (SFC), Central Finance Commission (CFC), and other budgetary transfers from the state to panchayats for the last 10 years. The extent of the PRIs' efforts in mobilising their own tax and non-tax revenues has also been assessed.

5.3 Poor fiscal autonomy of PRIs seems to be a key constraint in the preparation of decentralised planning and making rural governance effective in the state. The chapter, therefore, suggests measures to improve panchayats' financial position and capacity development in terms of 3Fs, and other administrative requirements at their levels.

Resource Envelope of Panchayats

5.4 Resource envelope of PRIs broadly includes own tax and non-tax revenue, transfers from the SFC, transfers from the CFC, other budgetary transfers from the state government, and grants-in-aid. Apart from these sources, funds received by PRIs through the state and central sponsored schemes are also a part of the envelope.

Own Source Revenue

5.5 A major portion of panchayats' own source revenue (OSR) comes from non-tax revenue sources, which is evident from the fact that as much as 99 per cent share of the total OSR of these institutions has been contributed by non-tax revenue. The tax revenue sources share hardly 1 per cent of the total OSR. Table 5.1 shows that the revenue collection from own tax sources has declined by two-fold since 2011-12. Its collection declined from ₹ 7.30 crore in 2013-14 to ₹ 2.62 crore in 2020-21. If one looks at the share of own tax revenue in total OSR, it showed deceleration from 2.9 per cent in 2012-13 to 0.79 per cent in 2020-21. The share of non-tax revenue in the total OSR of panchayats has remained remarkably high, ranging

[5]The Fifth SFC also faced a similar problem related to PRI's expenditure data. There has not been any noticeable improvement in maintaining authentic data on PRIs' expenditure by the state during the last five years.

from 97 per cent to over 99 per cent.

5.6 It may be noticed from Table 5.1 that the collection of OSR does not follow any specific trend. During the last decade, it was the highest in 2014-15. The revenue collection in 2020-21 has shrunken owing to COVID-19. It reflects greater dependence of PRIs on the state and the Central funds during the COVID-19 crisis. The collection of own total revenue amounted to just ₹ 333.67 crore in 2020-21, compared to the previous year's collection of ₹ 354.71 crore. In 2019-20, the own tax revenue of PRIs reduced by 5.8 per cent and further by 32.5 per cent in 2020-21. Moreover, the total OSR declined by 5.9 per cent in 2020-21.

5.7 House tax is the only own tax source of GPs that generated just ₹ 2.62 crore revenue in 2020-21. The major source of OSR is the non-tax revenue that generated ₹ 331.05 crore in 2020-21. It is observed that the OSR of GPs mostly comes from non-tax sources. Within the non-tax sources, lease money from shamilat land (common land) is the major source. The second important source is lease money from ponds. Other sources–royalty from mining, sale of trees, water/electricity cess, toll tax, and cattle fairs together constitute only a meagre or negligible share in the total non-tax revenue of OSR.

5.8 It is significant to note that per capita tax revenue generation in panchayats was only ₹ 1.62 (population as per Census 2011) in 2020-21, implying the grim scenario of own tax collection. Per capita non-tax revenue of panchayats was ₹ 204.35, which was much higher than the tax revenue. Thus,

Table 5.1: Trends in Own Source Revenue (OSR) of PRIs in Haryana (₹ in Crore)

Year	Own Tax Revenue	Own Non-Tax Revenue	Total Own Revenue	Share of Tax Revenue in Total Own Revenue (in %)	Share of Non-Tax Revenue in Total Own Revenue (in %)
2011-12	5.5	206.3	211.8	2.60	97.40
2012-13	6.9 (25.5)	230.9 (11.9)	237.8 (12.2)	2.90	97.10
2013-14	7.3 (5.8)	252.4 (9.3)	259.7 (9.2)	2.81	97.19
2014-15	4 (-45.2)	407.6 (61.5)	411.6 (58.5)	0.97	99.03
2015-16	3.15 (-21.2)	274 (-32.8)	277.15 (-32.7)	1.14	98.86
2016-17	3.08 (-2.2)	267.66 (-2.3)	270.74 (-2.3)	1.14	98.86
2017-18	3.82 (24.02)	298.33 (11.5)	302.15 (11.6)	1.26	98.74
2018-19	4.13 (8.1)	323.77 (8.5)	327.9 (8.5)	1.26	98.74
2019-20	3.89 (-5.8)	350.82 (8.3)	354.71 (8.1)	1.10	98.90
2020-21	2.62 (-32.6)	331.05 (-5.63)	333.67 (-5.9)	0.79	99.21

Note: Figures in parentheses are per cent to the annual change in the revenue.
Source: Development and Panchayats Department, and report of Fifth SFC, Haryana.

Table 5.2: Sources of Own Tax and Own Non-Tax Revenues (2020-21) (₹ in Crore)

1.	Own Tax Revenue—House Tax (₹ in crore)	2.62
2.	Own Non-tax Revenue—Lease -Money from Agricultural/Shamilat Land and Ponds, etc. (₹ in crore)	331.05
3.	Per Capita Own Tax Revenue (₹)	1.62
4.	Per Capita Own Non-Tax Revenue (₹)	204.35
5.	Per Capita Total Own Revenue (₹)	205.97

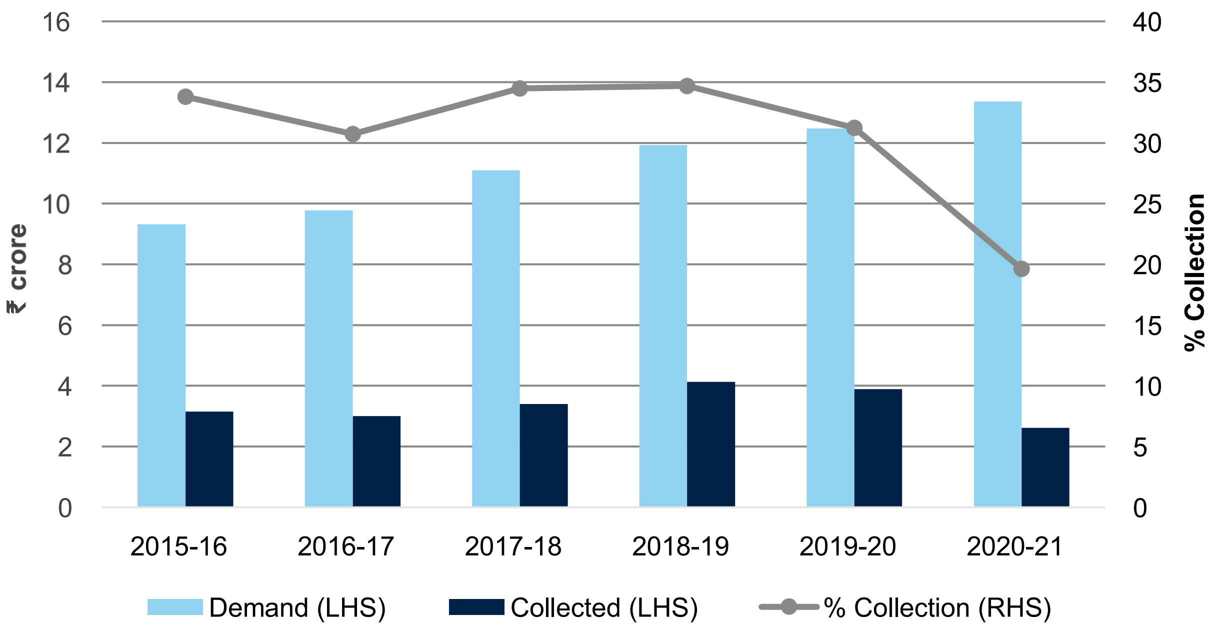
Source: Development and Panchayats Department, Govt. of Haryana.

5.9 The state government estimates house tax potential based on the house tax rates and the number of households eligible for the tax payment. The house tax rates range from ₹ 10 - ₹ 30, depending on the category of households[6]. Table 5.3 shows the gaps between the demand for house tax and the actual collection of the tax. The yearly data indicates that the house tax demand has constantly been rising, while the actual collection fluctuates across years. The tax demand increased from ₹ 9.32 crore in 2015-16 to ₹ 13.36 crore in 2020-21, a net increase of 43.35 per cent during the period. Contrary to this, the actual tax collection does not reveal any significant increase, and it even declined substantially in 2020-21 (Figure 5.1). The gap in demand and collection ranges from 65.31 per cent to 80.40 per cent. Huge potential exists in the realisation of house tax. Although if the GPs were to collect the total house tax demanded in 2020-21, the per capita collection would be only about ₹ 8; however, it would install a feeling of belongingness to panchayats and its functioning among the citizens. It would, in turn, be infusing accountability and transparency in the functioning of rural local government.

5.10 Keeping in view the lower house tax collection and inadequate non-tax revenue, the state government has invoked the provision of assigned taxes, which includes panchayat tax on electricity consumption and surcharge on stamp duty. As per the order issued on 10 July 2017, all GPs in the state were required to levy Panchayat Tax on electricity consumption at the rate of 2 per cent of the bill of any consumer within the limits of the GP. However, it could not be implemented. Consequently, on 28 January 2021, the state government authorised the Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited to collect the tax on behalf of GPs and remit the same to the concerned GP. This tax is likely to generate ₹ 100 crore every year from 2021-22 onwards.

5.11 The order of 9 February 2021 of the Development and Panchayats Department citing order dated 10 December 2020, says that GPs were also required to impose a 2 per cent surcharge on the stamp duty levied on instruments of sale, gift,

Figure 5.1: Demand and Percentage of Collection of House Tax



Source: Development and Panchayats Department

[6] ₹ 10 from SC, ₹ 20 from OBC and ₹ 30 from General categories of households.

Table 5.3: Gap in Demand and Collection of House Tax, 2015 -16 to 2020-21			
Year	Demand for House Tax (₹ in crore)	House Tax Collected (₹ in crore)	The Gap in Demand and Collection of House Tax (%)
2015-16	9.32	3.15	66.2
2016-17	9.78	3.0	69.26
2017-18	11.1	3.4	65.53
2018-19	11.93	4.13	65.31
2019-20	12.47	3.89	68.77
2020-21	13.36	2.62	80.40

Source: Development and Panchayats Department

mortgage and other transfers of immovable property situated in the Sabha area. However, it was not implemented. Therefore, the state government authorised the Revenue and Disaster Management Department to collect the surcharge on behalf of the GPs and remit the same in equal proportion to the concerned GP and ZP. The duty so collected for the Sabha areas falling within Gurugram Metropolitan Development Authority (GMDA) shall be remitted in equal proportion to the concerned GP and GMDA. Income of ₹ 150 crore from the surcharge on stamp duty is likely to be generated annually.

Transfer from the SFC Grants

5.12 The OSR of panchayats constitutes a tiny part of the total resource envelope. The PRIs cannot bear huge costs incurred on the developmental activities. Let alone development works; PRIs cannot even run their day-to-day operations if they do it with OSR only. Therefore, PRIs are largely dependent on the grants from the SFC, CFC, State Sponsored Schemes and Centrally Sponsored Schemes.

5.13 One of the significant components of PRIs' funds is the devolution from the state's own tax revenue (SOTR) that is devolved as per the recommendations of the SFC. From 2011-12 to 2018-19, funds were devolved to PRIs based on the Third SFC's recommendations; recommendations of the Third SFC were extended to the period of the Fourth SFC from 16 April 2010 to 30 June 2014. During this period, local bodies received 2 per cent of SOTR (Net of Excise Duty, Collection Charges, etc.). From September 2018 onwards, recommendations of the Fifth SFC were accepted by the state government for devolution of 7 per cent of net SOTR to the local bodies, comprising ULBs and PRIs.

5.14 In 2018-19, PRIs received ₹ 631 crore, partly based on the Third SFC's and partly based on the Fifth SFC's recommendations. During 2019-20, the total amount devolved to PRIs was ₹ 1,140 crore, which was about 44 per cent higher than the previous year's amount. In 2020-21, they received only ₹ 254.62 crore against the revised estimates of ₹ 1,740 crore, which is around 77 per cent lower than the previous year's devolved amount. According to the Development and Panchayats Department, from 2018-19 to 2020-21, PRIs were entitled to receive ₹ 4,756 crore; however, they have received only ₹ 2,025.62 crore, which is 57.40 per cent less than the total entitlement. In 2021-22, PRIs have not received any SFC grants as of November 2021 due to non-existence of elected PRIs since April 2021. The Development and Panchayats Department emphasised that PRIs should receive their entitlement or due amount as per the SFC's recommendations.

5.15 In 2018-19 and 2019-20, there is a significant increase in the SFC grants' share in the PRIs' resources, mainly due to implementing the Fifth SFC recommendations. In 2019-20, the SFC transfers constituted 42.4 per cent of total PRIs' receipts. However, a sudden and significant decline in the SFC receipts was observed in 2020-21. As a

Table 5.4: Trends and Composition of Resource Envelope of PRIs (₹ in Crore)							
Year	Own Tax Revenue	Own Non-Tax Revenue	Total Own Revenue	SFC Grants	CFC Grants	Budgetary Transfers	Total Receipts
2011-12	5.5 (0.66)	206.3 (24.76)	211.8	143 (17.16)	170.5 (20.46)	308 (36.96)	833.3
2012-13	6.9 (0.68)	230.9 (22.83)	237.8	171 (16.91)	246.4 (24.37)	356 (35.21)	1,011.2
2013-14	7.3 0.65)	252.4 (22.42)	259.7	213 (18.92)	291.2 (25.86)	362 (32.15)	1,125.9
2014-15	4 (0.32)	407.6 (32.88)	411.6	200 (16.13)	284.1 (22.92)	344 (27.75)	1,239.7
2015-16	3.15 (0.26)	274 (22.44)	277.15	150 (12.29)	419.3 (34.35)	374.39 (30.67)	1,220.84
2016-17	3.08 (0.18)	267.66 (15.68)	270.74	312 (18.27)	656.72 (38.46)	468 (27.41)	1,707.46
2017-18	3.82 (0.19)	298.33 (14.75)	302.15	455 (22.50)	756.98 (37.43)	508.46 (25.14)	2,022.59
2018-19	4.13 (0.18)	323.77 (14.31)	327.9	631 (27.88)	775.99 (34.29)	528.27 (23.34)	2,263.16
2019-20	3.89 (0.14)	350.82 (13.06)	354.71	1140 (42.44)	1048.53 (39.03)	143.07 (5.33)	2,686.31
2020-21 (P)	2.62 (0.12)	331.05 (15.13)	333.67	254.62 (11.64)	1264 (57.76)	336 (15.35)	2,188.29

Source: Development and Panchayats Department, Fifth SFC and Finance Department.

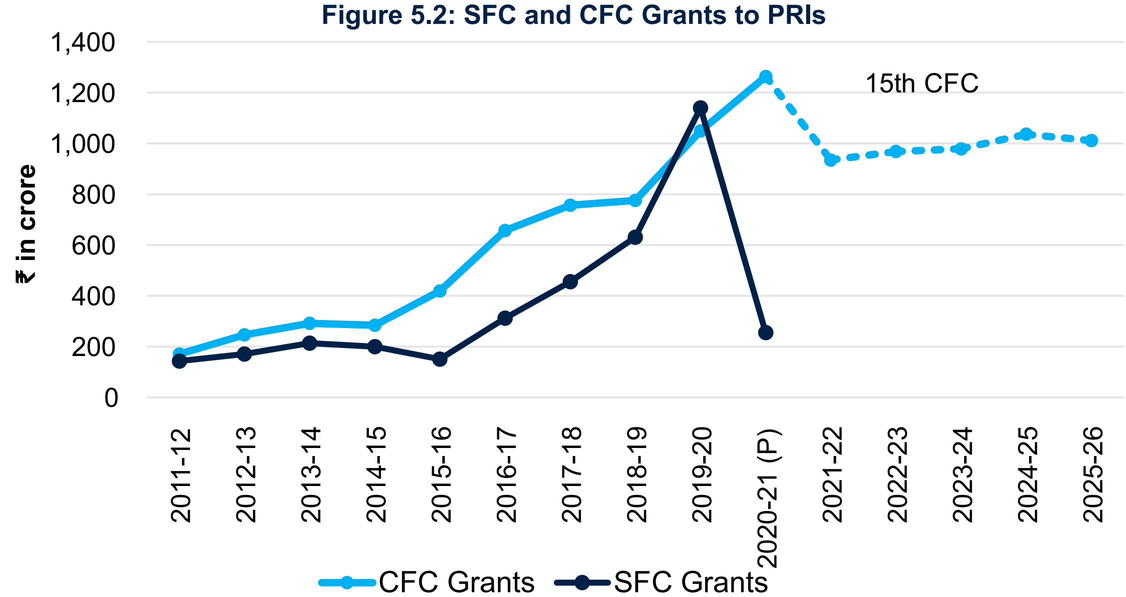
Note: Figures in parentheses are percentage shares in resource envelope.

result, the share of SFC grants declined to 11.6 per cent. Table 5.4 shows the trends and composition of the resource envelop of PRIs.

Transfer from the CFC Grants

5.16 Table 5.4 shows that the CFC grants have been the largest contributor to the PRIs' receipts during 2015-16, 2018-19 and 2020-21. In 2015-16, the CFC grants contributed 34.35 per cent to the total PRI's receipts. The transfers were highest in 2020-21, contributing 57.76 per cent to the total PRIs' receipts. However, the SFC share in the total receipts has overtaken the CFC's share in 2019-20, but in 2020-21, the SFC's share went down

Figure 5.2: SFC and CFC Grants to PRIs



Source: Fifteenth CFC and Development and Panchayats Department.

drastically, relegating it to fourth position. Figure 5.2 compares the SFC grants with the CFC grants to PRIs.

5.17 In addition to basic grants, PRIs were to receive a performance grant from the Fourteenth CFC during its award period. However, PRIs in Haryana have not received any performance grant since 2018-19, despite meeting all the necessary conditions required in this regard. This has deprived PRIs of almost ₹ 100 crore every year.

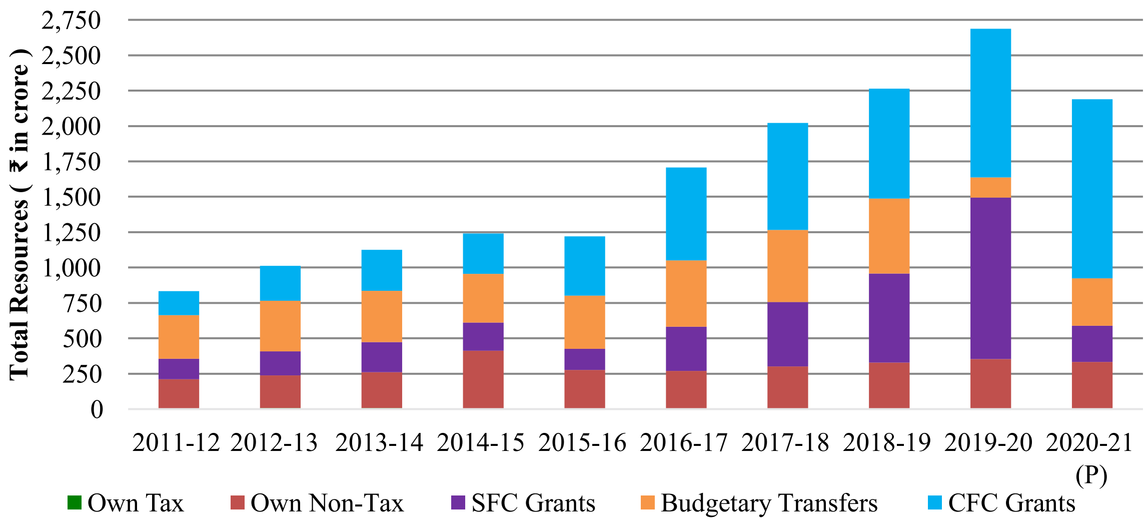
Other Budgetary Transfers

5.18 The percentage share of other budgetary transfers in the revenue receipts of PRIs has declined from 36.96 per cent in 2011-12 to just 15.35 per cent in 2020-21. It is worth noting here that this decline in the other budgetary transfers is observed due to the appropriation of these funds, especially after implementing the Fifth SFC's recommendations. Earlier, a surcharge on VAT and share in excise duty were given separately as part of the budgetary transfers. However, since September 2018, these two taxes were merged into the divisible pool of SFC, consequently raising the percentage share of the SFC grants in the resource envelope and reducing the percentage share of other budgetary transfers.

5.19 The analysis of total receipts from different sources for the last 10 years from 2011-12 to 2020-21 gives a clear picture of the PRIs' finances. There has been a more than three-fold increase in the year-on-year revenue receipts of PRIs in the past decade. The highest percentage growth (39.86 per cent) in total revenues was observed in 2016-17 over the preceding year. It was due to a significant upsurge in the CFC and SFC grants. Furthermore, in 2015-16, there was a 1.52 per cent decline in the total receipts compared to the preceding year.

5.20 Figure 5.3 also shows the trends in different PRIs' revenue sources for the last 10 years. The own tax revenue constitutes a miniscule share in the total revenue receipts from 2011-12 to 2020-21. The major chunk of funds comprises grants from the CFC and SFC and other budgetary funds. The share of CFC grants has increased sharply from 2015-16, and the SFC grants closely follow this. From 2016-17 to 2019-20, a two-fold increase in the CFC and SFC grants is observed. In contrast, the total OSR of PRIs shows the higher dependence of PRIs on external funding and making them less self-reliant

Figure 5.3: Resource Envelope of PRIs



Source: Development and Panchayats Department

Box 5.1: Highlights

- OSR consisted of 15.26 per cent of the total revenue of PRIs in 2020-21, with own tax and non-tax revenue shares of 0.12 per cent and 15.14 per cent, respectively, indicating their high dependence on grants and other external sources.
- House tax is the only source of own tax revenue. The non-tax revenue mainly comes through the leasing of panchayat agricultural/shamilat land. Other sources, such as the sale of trees, lease money on ponds and royalty from mining, constituted a minuscule proportion of total OSR.
- Within the non-tax sources of revenue, lease money from panchayat/agricultural land comprised more than 91 per cent of total non-tax revenue. The second important source is lease money from ponds that constituted less than 5 per cent of the total non-tax revenue. Thus, the tax and non-tax revenue base of PRIs is narrow.
- Analysis of PRIs' finances for the last 10 years (2011-12 to 2020-21) shows more than a three-fold increase in PRIs' revenue receipts. However, the increase was mainly due to a steady rise in the CFC and SFC funds, while OSR shows a decelerated trend, depicting higher resource dependence of PRIs on external funding.
- The percentage share of other budgetary transfers to PRIs declined from 36.96 per cent in 2011-12 to 15.31 per cent in 2020-21.
- Share of own tax revenue in total OSR declined from 2.9 per cent in 2012-13 to 0.79 per cent in 2018-19, whereas the share of non-tax revenue ranged between 97 to 99 per cent.
- Own tax revenue of PRIs varies substantially across years and does not manifest any trend. Average annual growth in tax revenue is negative (–0.39 per cent), while non-tax revenue grew by 23.81 per cent per year.
- Per capita tax revenue generation in PRIs was only ₹ 1.62 in 2020-21, while per capita non-tax revenue was ₹ 204.35.
- The house tax collection as a per cent of total demand ranges from 19.6 per cent to 34.69 per cent, revealing poor performance in the tax collection.

Table 5.5: Funds Released under Centrally Sponsored Schemes (₹ in Crore)

Year	SBM (G)	MGNREGS	Rurbun	IAY/ PMAY-G	MPLADS	IWMP	PMAGY	Total
2016-17	91.59	325.46	-	93.19	30.60	13.41	-	554.25
2017-18	36.09	320.05	-	177.81	52.97	28.87	132.90	748.69
2018-19	45.58	367.03	5.08	44.67	46.45	22.59	159.87	691.27
2019-20	52.98	387.96	110.77	62.02	19.50	27.98	182.55	843.76
2020-21	86.50	802.62	198.53	12.26	0	19.23	183.99	1303.13

Source: Development and Panchayats Department

and arduous in mobilising their own resources. In addition, loans constitute a negligible share in the total receipts. The government offers loans under revenue earning scheme to GPs and PSs with a long gestation period for repayment without interest, mainly for installing tube-wells, wells, construction of shops, etc.

Centrally Sponsored Schemes

5.21 A few centrally sponsored schemes provide funds for specific purposes, such as sanitation under Swachh Bharat Mission (Gramin); employment generation through MGNREGS; housing under Pradhan Mantri Awas Yojana (Gramin); water harvesting projects under Integrated Watershed Management Programme; streets, streetlights and drains, etc., under Rurbun, Member of Parliament Local Area Developments (MPLADS) and Pradhan Mantri Adarsh Gram Yojana. Various state agencies under the direct or indirect supervision of PRIs execute the activities under these schemes, as per the guidelines.

5.22 Over the last five years, the MGNREGS has been the largest contributor among centrally sponsored schemes, followed by PMAGY. In 2020-21, funds transfer under the MGNREGS has more than doubled, possibly due to the higher employment demand during the COVID-19 pandemic (Table 5.5).

State-Sponsored Schemes

5.23 PRIs also get a substantial amount of funds under the state-sponsored schemes. Projects under these schemes are mostly taken up on the recommendations of Members of Legislative Assembly etc. Works up to ₹ 20 lakh are being executed directly by the GPs and above ₹ 20 lakh by the Engineering Wing of the Development and Panchayats Department, based on the resolution passed by the GP.

5.24 Table 5.6 shows that maximum funds over the last five years have been provided under the Haryana Rural Development Fund (HRDF). Haryana Gramin Vikas Yojana (HGVY) has been the largest State Scheme during this period. However, in 2020-21, funds transferred under HRDF are only ₹ 101.83 crore. Similarly, funds under HGVY have also been decreasing since 2019-20.

5.25 Panchayati Raj Engineering Wing executes the development works under the centrally sponsored and state-sponsored schemes with the involvement of PRIs. These works are seldom proposed by the PRIs, rather, the executing agency practically takes the decision on their own, thus limiting PRIs' role as the local self-government. **Therefore, the Commission recommends that, to empower PRIs in the true spirit, all development works, irrespective of any scheme, must be included in the Gram Panchayat Development Plans (GPDPs), which would, in turn, be included in Panchayat Samiti Development Plan (PSDPs), and PSDPs would be converged into Zila Parishad Development Plan (ZPDP) at the district level.**

5.26 Various line departments of the state government are working for development in rural areas within their ambit and through their own central/state government schemes. Although a few departments have constituted village-level committees with sarpanch as a member, GPs are still not directly involved in the execution or planning of the projects. Hence, funds and functionaries are, in practice, not under the administrative control of PRIs.

5.27 With the view to transferring subjects being handled by the line departments to the PRIs, the state government has constituted an Inter-District Council (IDC) on 24 July 2018 under the chairmanship of the chief minister. The IDC assesses the development needs and delegates the

Table 5.6: Funds Released under State Schemes (₹ in Crore)

Year	Haryana Grameen Vikas Yojana	Special Development Works	Surcharge on VAT*	Vidhayak Adarsh Gram Yojana	Haryana Rural Development Fund	Total
2016 -17	281.25	297.24	230.16	-	316.65	1125.3
2017 -18	449.56	86.45	245.00	-	677.81	1458.8
2018 -19	454.13	108.78	175.00	42.0 0	954.19	1734.1
2019 -20	405.73	277.47	-	63.79	620.76	1367.7
2020 -21	331.12	-	-	127.10	101.83	560

Source: Development and Panchayats Department
*Merged with the divisible pool of the Fifth SFC from 2019-20 onwards.

powers to the PRIs; three meetings of IDC have been conducted so far. Various departments like Women and Child Development, Transport, Health, Environment, Education, Agriculture, etc., were requested to implement their selected schemes through PRIs by devolving funds and functionaries. However, these departments are slow in devolving these functions, apparently because of the limited capacity and technical knowledge of the PRIs.

Analysis of OSR of Select GPs of Haryana: Sidelights from Field Study

5.28 IIT Roorkee in their study, '*Assessing the Technical and Expenditure Efficiency of Panchayati Raj Institutions in Haryana*' analyses the OSR of GPs in the state. The analysis of OSR is based on 60 GPs randomly selected from six districts, namely Ambala (Ambala division), Fatehabad (Hisar division), Palwal (Faridabad division), Mahendragarh (Gurugram division), Rohtak (Rohtak division) and Karnal (Karnal division), representing the six divisions of the state. The data indicate that OSR varies substantially across GPs. House tax is the only source of tax revenue. Table 5.7 indicates the distribution of sampled GPs on OSR in 2020-21. About 27 per cent GPs did not collect any house tax in 2020-21. Next 28 per cent GPs collected less than ₹ 2,000; about 15 per cent collected between ₹ 2,000 to ₹ 5,000; further 13 per cent GPs' tax revenue was in the range of ₹ 5,000—₹ 10, 000. Only 15 per cent GPs had the tax revenue in the range of ₹ 10,000—₹ 30,000. One GP, namely Farmana Badshapur collected above ₹ 30,000. Thus, a majority of GPs' own tax revenue is quite low.

5.29 As far as Panchayats' non-tax revenue is concerned, 18 per cent of the total GPs reported having zero income from their own non-tax sources of revenue. Most GPs (about 55%) had their own non-tax revenue of less than ₹ 5 lakh. About 17 per cent GPs had their own non-tax revenue in the range of ₹ 5-10 lakh and 10 per cent GPs had ₹ 10 lakh and above. The frequency distribution reveals that OSR

Table 5.7: Distribution of Sample GPs by Total Own Tax and Non-Tax of Revenue in 2020-21

Total Own Tax (in ₹ 1,000)		Total Own Non-Tax (in ₹ 1,000)		Lease Revenue from Agriculture (in ₹ 1,000)		Other Non-Tax Revenue (in ₹ 1,000)		Total OSR (in ₹ 1,000)	
Classification	No. of GPs	Classification	No. of GPs	Classification	No. of GPs	Classification	No. of GPs	Classification	No. of GPs
Zero	16	Zero	12	Zero	15	Zero	45	Zero	3
0 -1	9	0- 50	5	0-50	5	0-25	1	0-50	14
2-Jan	8	50-100	5	50-100	4	25-50	7	50-100	5
2 – 3	4	100-150	7	100-150	6	50-75	2	100-150	7
3 – 4	4	150-200	3	150-200	2	75-100	1	150-200	3
5-Apr	1	200-300	7	200-300	7	100-125	1	200-300	7
10-May	8	300-400	4	300-400	6	125-150	0	300-400	4
20-Oct	4	400-500	1	400-500	1	150-175	1	400-500	1
20 -30	5	500-1,000	10	500-1,000	8	175-200	1	500-1,000	10
Above 30	1	1,000-2,000	2	1,000-2,000	2	Above 200	1	1,000-2,000	2
Total	60	2,000-3,000	2	2,000-3,000	2	Total	60	2,000-3,000	2
		Above 3,000	2	Above 3,000	2			Above 3,000	2
		Total	60	Total	60			Total	60

Source: Development and Panchayats Department of PRIs varies substantially across sampled GPs (Table 5.7).

5.30 Within the non-tax sources, lease income from GP's agricultural land was the main source. However, 15 out of 60 GPs (25% of the total) did not have any income from this source. About 51 per cent GPs had income from agricultural land below ₹ 5 lakh. There were only eight GPs with income in the range of ₹ 5-10 lakh; two GPs with ₹ 10-20 lakh; two with ₹ 20-30 lakh; and another two with more than ₹ 30 lakh. Other non-tax sources of income were negligible in most of the GPs. It is relevant to note that 75 per cent of GPs did not have any income from other non-tax sources, including income from ponds, sale of trees, mining, cattle fairs, etc. Among GPs that generated revenue from the other non-tax sources, most GPs (11 GPs) had less than ₹ 1 lakh.

5.31 The study also classified sampled GPs on their per capita OSR. More than one-fourth of total GPs did not collect house tax, which was the only source of tax revenue. A majority of GPs (53 per cent of the total) collected less than ₹ 5 per capita. Only 20 per cent GPs had per capita tax revenue collection of ₹ 5 and above (Table 5.8).

5.32 Classification of per capita own non-tax revenue indicates that, except for three GPs, all other GPs generated revenue from this source. About 42 per cent of GPs generated per capita non-tax revenue of zero or less than ₹ 100. Next 18 per cent GPs generated in the range of ₹ 100-₹ 200 on a per capita basis. Thus, about 60 per cent GPs per capita non-tax revenue was less than ₹ 200. Another 17 per cent GPs had per capita ONTR in the range of ₹ 200-₹ 400. Only 10 GP (17 per cent of the total) has ONTR ₹ 400 and above.

5.33 As discussed, lease money from shamilat land is the primary source of ONTR in the sample GPs. Per hectare income from this source varies significantly across GPs. Almost 25 per cent of the total GPs did not have any income from this source. Next, 32 per cent GPs had less than ₹ 10,000 per hectare. Eleven GPs earned in the range of ₹ 10,000-₹ 30,000 per hectare, and only two GPs reached ₹30,000-₹ 50,000. About 20 per cent GPs obtained per hectare ₹ 50,000 and above (Table 5.7).

5.34 Distribution of GPs by total OSR (OTR + ONTR) shows a pattern similar to the total ONTR, as OTR is relatively low. The majority of GPs (45 per cent) have per capita OSR less than ₹ 100. The next 20 per cent had in the range of ₹ 100-₹ 200, and another 17 per cent had in the range of ₹200-₹ 500. Only eight GPs (13 per cent) had per capita OSR ₹500 and above.

5.35 To understand the inter-divisional differences in the OSR of GPs, the study classified

Table 5.8 Distribution of Sample GPs by Per Capita Own Tax and Non-tax of Revenue, 2020-21

Per Capita Own Tax (₹)		Per Capita Own Non-Tax (₹)		Per hectare Lease Revenue from Agriculture (in ₹ 1,000)		Per Capita Total OSR (₹)	
Classification	No. of GPs	Classification	No. of GPs	Classification	No. of GPs	Classification	No. of GPs
Zero	16	Zero	11	Zero	15	Zero	2
0–1.0	12	0-100	19	0-10	19	0-100	28
1.0–1.5	4	100-200	12	10-20	7	100-200	12
1.5–2.0	3	200-300	4	20-30	4	200-300	4
2.0–2.5	7	300-400	5	30-40	2	300-400	5
2.5–5.0	6	400-500	1	40-50	1	400-500	1
5.0–7.50	7	500-1,000	4	50-75	3	500-1,000	4
7.5–10.0	1	1,000-1,500	2	75-100	5	1,000-1,500	2
Above 10	4	Above 1,500	2	Above 100	4	Above 1,500	2
Total	60	Total	60	Total	60	Total	60

Source: Own calculations based on data from Development and Panchayats Department all sampled GPs by selected districts in six divisions. Summary statistics show that Standard Deviation (SD) is quite high in the OSR of all the districts, indicating that some of the GPs had a low level of OSR, while others had a high magnitude of OSR. Due to highly skewed data, the mean value of OSR may not reflect the real position of OSR of an average GP. Therefore, the median value can be a better measure to assess their performance in terms of OSR generation. Table 5.9 shows that Rohtak district had the highest house tax collection per GP (₹19,035), distantly followed by Mahendragarh (₹3,500) and Ambala (₹2,506). GPs in the Palwal district did not have any income from house tax. In the other two districts, Fatehabad and Karnal, per GP house taxes were ₹1,380 and ₹1,370, respectively.

5.36 In some GPs, there is a huge gap between mean and median values per GP ONTR, as shown in Table 5.8. For example, in Rohtak, 6 out of 10 GPs had zero value of ONTR. As a result, the median value is zero, while the mean value is ₹ 1, 32,580 because of high values in the remaining four GPs. Similarly, the mean value of ONTR in Karnal is ₹ 8, 71,185, while the median value is ₹. 1,82,300. More or less, a similar pattern was observed in other districts, except Ambala, where the gap between mean and median values is quite less.

5.37 Based on median value, per GP ONTR is estimated to be the highest in Palwal (₹5,41,875), followed by Fatehabad (₹ 3,01,983) and lowest in Rohtak (0.00), and followed by Mahendragarh (₹ 91,838). Total OSR per GP was the highest in Palwal (₹ 5,41,875), followed by Fatehabad (₹ 3,02,548). It was the lowest in Rohtak (₹ 35,823), followed by Mahendragarh (₹ 1,00,293) and Ambala (₹ 1,48,213).

Constraints in Mobilisation of Panchayats' OSR

5.38 The field study of 60 GPs, conducted by IIT Roorkee, indicates that elected functionaries, in most cases, did not collect the taxes for which the GPs are legally authorised. They were not fully aware of the rationale for the introduction of direct democracy at the village level. The most critical problem in mobilisation and management of the financial resources is improving the awareness and knowledge base of the chairperson and members of GP and the entire gram sabha (GS). Only representation and little contribution by the panchayat leaders are not sustainable in the present context where the state is under resource constraints, and CFC is imposing conditionalities with its grants-in-aid to local bodies.

5.39 In the absence of a vibrant GS, enhancement of OSR seems a challenging task. A perusal of the financial position of GPs in the state reveals that the share of OSR in the total finances of some GPs was quite low. Their functional responsibilities are closely linked with their financial powers; however, there is a mismatch between the two in practice. Panchayats' OSR is not enough to meet their O&M requirements, raising their dependency on external grants. The role of the SFC

Table 5.9: District-wise Own Source Revenue of Sampled GPs in Haryana in 2020-21

District	Own Tax Revenue (₹)			Own Non-Tax Revenue (₹)			Total OSR (₹)		
	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD
Ambala	2,506	2,020	3,435	1,60,853	1,46,012	94,459.94	1,55,359	1,48,213	1,05,448
Fatehabad	4,172	1,380	7,097	7,26,169	3,01,983	1,11,3871	7,30,341	3,02,548	11,12,990
Palwal	0.00	0.00	0.00	8,36,452	5,41,875	8,67,736	8,36,452	5,41,875	8,67,736
Mahendragarh	3,840	3,500	3,658	1,75,576	91,838	217,703	1,79,416	1,00,293	2,15,980
Rohtak	20,901	19,035	10,349	94,090	0.00	167,213	1,14,991	35,823	8,67,736
Karnal	1,839	1,370	1,255	871,185	182,300	1,596,045	873,924	185,759	1,595,788
Overall (Average of the 60 GPs)	5,543	1,620	8,831	4,76,054	1,57,150	9,07,022	4,81,597	1,61,750	9,05,224

Source: Own calculations of IIT Roorkee based on sampled GPs.

could be critical in examining the revenue-sharing arrangements between the state government and PRIs and the entire range of subjects concerning assignment of taxes, transfers of power and such other subjects for improving their financial health.

5.40 PRIs are financially and technically not skilled enough to perform core functions, such as water supply, rural roads/streets, street lighting, sanitation and primary health. The Second Administrative Reforms Commission (ARC) also observed that the internal resource generation at the PRIs is weak due to a thin tax domain and their reluctance to collect revenue. **The Commission recommends that GPs may fix user charges for piped water, sanitation, streetlight, community centres etc. to augment their own resources.**

Expenditure of Panchayats

5.41 Section 18 of the Act provides that the custody of gram panchayat record or property shall remain with the sarpanch. With respect to the accounting of PSs and ZPs, the law provides that the accounts of the receipts and expenditure of every PS and ZP shall be made up in such form as may be prescribed. Thus, the enabling provisions and responsible persons for accounts and audit are provided under the legislation. The manner and format of records to be maintained by the GPs and PSs, and ZPs, with respect to Budget and Cash Book and other records have been given in Haryana Panchayati Raj Rules, 1995, read with the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996.

5. 42 As per information made available to the Sixth SFC, there are 1,700 gram sachivs working against sanctioned strength of 2,237 and around 800 new posts of gram sachivs are likely to be created to assist around 6,233 gram panchayats in the state. The existing gram sachivs do not have the required capacity to maintain accounts using computers. They are thus not in a position to make entries in the accounting software of e-Gram Swaraj Portal. The Development and Panchayats Department has informed that the qualification of these sachivs is being changed from 10+2 (higher secondary) to graduation with basic computer knowledge. The state is making efforts to enhance the assistance to gram sachivs by way of the scheme of establishing Panchayat Sachivalays in which village-level entrepreneurs (VLE) can assist in data entry for accounting. Also, the provisions allow any member of a Sabha area to inspect the budget or accounts of gram panchayat, an ultimate mechanism to ensure accountability of GPs, which practically never seems to have been done in practice.

5.43 Manual records are prepared and there is a vague understanding that these records are based on Model System of Accounting developed in 2009. But in practice, that does not seem to be the case as the functionaries responsible for maintaining accounts lack the requisite capacity. The Model Accounting System can be used appropriately only when records are maintained through a computerised system, which is not the case. The accounts at the GPs, PSs and ZPs level are still mostly maintained under the conventional single-entry system, on manual basis, and are often incomplete and inappropriate. The present accounting system is not in a position to provide data for management decision-making.

5.44 Due to the aforesaid discrepancies in the accounting system and lack of capacity, consolidated data regarding the expenditure of PRIs is not available with the Development and Panchayats Department. Despite putting in numerous efforts, this Commission could not receive any data regarding the revenue and capital expenditure of PRIs.

5.45 The Department has informed that PRIs are not incurring any revenue expenditure, except electricity bill, TA/DA, etc., which is negligible compared to the grants/budget transfers being provided to them. The expenditure on the salaries of safai karamcharis, chowkidars, tube-well operators and an honorarium to PRI's members are being made from the funds being provided by the state government.

5.46 **The Commission recommends that the**

Panchayats need to follow a double-entry accounting system so that the future SFCs do not have to go through the same difficulties while making the recommendations. The Commission also recommends that the Development and Panchayats Department maintains a record of expenditure of PRIs, especially GPs, at the directorate level by implementation of IT tools. The Commission also recommends that e- Gram Swaraj Portal needs to be fully adopted for better control and management of revenue expenditure of PRIs.

5.47 Most GPs do not have computers/laptops with printers and internet facilities in their offices. They take services of private computer/IT centres to upload various documents of GP including GPDP on payment. **With the increasing use of IT in governance and management of PRIs, at least each GP should have requisite facilities to keep the updated and verified GP data, the socio-economic profile of GP, demographic profile, CPRs, occupational structure, details of physical infrastructure, etc. It should also provide e-government services through CSCs to the residents. With a view of securities, these facilities may be provided in those GPs where Gram Sachivalayas are in position. In those GPs where Gram Sachivalayas are not in existence, these should be constructed on a priority basis. In the mean times, these articles may be kept in a cluster of four or five GPs where Gram Sachivalayas are in position.**

5.48 **In view of the increasing responsibilities of GPs in their jurisdiction, it is recommended that there may be maximum two GPs under the jurisdiction of a gram sachiv so that she/he may address the assigned responsibilities effectively. Further, there should be one post of sahayak sachiv-cum-computer operator to assist sachiv in maintaining, updating the online records and data of GPs.**

5.49 **A pre-auditing system in GP should be introduced to remove objections before passing the bills of various activities that have been carried out in GPs. It would hasten the process of timely auditing. For this purpose, one post of an auditor may be created either at the cluster level or block level, keeping in view the quantum of work in a particular area.**

Fiscal Autonomy of PRIs

5.50 Autonomy means freedom to work in a defined framework. Functional, financial and administrative autonomies to panchayats are the key essentialities for their strengthening and effective functioning. The Haryana Panchayati Raj Act, 1994 makes provisions on functional and financial aspects by listing 29 subjects and power to impose taxes and levies to raise fiscal resources with a discretionary power to the state to assign or not to assign these to them. Inadequate functional autonomy has been given to the PRIs by the state. The district line departments are still doing most of the activities related to these 29 subjects, and their plan proposals are not included in the GPDP, PSDP and ZPDP. Panchayats have limited power in mobilisation of tax resources. It is partly due to reluctance on the part of the state government in authorising them to impose taxes and duties as per the provisions of the Act and partly due to lack of willingness, awareness and motivation among the elected functionaries in exercising their rights and entitlements. It is not out of context to quote here that the house tax was abolished for three years and one quarter from 1 November 2007 to 23 February 2011. Although the Third SFC recommended compensation to PRIs in lieu of the abolition of house tax, compensation was given during 2011-12, that too of ₹6.01 crore, whereas the state government accepted compensation of ₹9.28 crore, indicating around 35 per cent less transferred to panchayats, as accepted by the state government. It has further marginalised the fragile own resource position of the panchayats. This section assesses the extent of PRIs' fiscal autonomy and suggests some measures to enhance it.

5.51 The fiscal autonomy of panchayats can be measured on several criteria. One of the key indicators of their fiscal autonomy is the ratio of OSR in the total resource envelope. On this criterion, fiscal autonomy can be measured in terms of the ratio of panchayats' OSR to their total available revenues from various sources. A better indicator could be the share of OSR in the total expenditure of PRIs as some amount of OSR may not be used by them and be parked in their accounts in banks. However, due to a lack of reliable data on expenditure, this could not be estimated. Another critical indicator can be the ratio of their tied and untied grants. In the case of tied grants, the panchayats do not have freedom to utilise such grants as per their felt needs. Therefore, the higher the ratio of tied grants to untied grants, the lower the fiscal autonomy will be. Since the grants-in-aid received by PRIs from the SFC are their legitimate rights under the Constitution, this measure can better reflect autonomy in spending their rightful funds. The third indicator of fiscal autonomy is taxation autonomy and freedom of borrowing. The fourth indicator of fiscal autonomy could be the ratio of their committed expenditure to the total expenditure. The higher the ratio, the lower is the autonomy. Due to the lack of reliable data on the activity-wise expenditure of PRIs at the department level, the Commission examines their fiscal autonomy based only on the ratio of OSR to their total resource envelope.

5.52 To reduce fiscal dependency on state and central governments, PRIs must make efforts to increase their own tax and non-tax revenue. PRIs can impose newer taxes and fee and improve their collection efficiency to augment their own-source revenue. Apart from tax and non-tax measures, PRIs can seek financial contributions from corporate and other non-governmental organisations/parastatal organisations. They can also engage themselves in commercial activities. The discussion in the previous sections shows that the house tax is the only tax source of GPs in Haryana, and its full potential has not yet been utilised. Over the years, GPs have failed to collect even 50 per cent of their potential tax revenue. As far as own non-tax revenue is concerned, 30 per cent of GPs do not have any shamilat land, and the next 10 per cent have minimal landholdings. Therefore, on average, their non-tax revenue base is also limited.

5.53 Focused group discussions (FGDs) and interactions, conducted by IIT Roorkee, with the elected representatives and officials of the PRIs indicate that most sarpanchs of the GPs are reluctant to collect the house tax due to the fear of losing popularity among the local citizens. Moreover, they feel that the house tax rate is so low that the opportunity cost of collection is higher than the actual revenue, implying upward revision of the tax rates. It also emerges from the discussion that the state government may appoint a dedicated functionary to collect the house tax. Most of the time, people do not pay their taxes due to their acquaintance and social relations with the local tax collectors appointed by the GP. However, they might not be able to evade somebody who is appointed by the state government. The state government may also think of incentivising these tax collectors if they improve the overall collection rate.

Fiscal Autonomy under the Haryana PR Act

5.54 Haryana PR Act also gives sufficient powers to PRIs to levy new taxes. These powers are given to each tier of the PRIs. Section 41(1) and 41(2) of the PR Act gives power and authority to GPs to levy taxes and fee subject to rules made under the Act or any order made by the government on this behalf. The Act makes provisions for imposition of (a) a house tax from the residents; (b) a surcharge on stamp duty on sale, gift and mortgage of immovable property in the jurisdiction of a GP up to 2 per cent, if authorised by the government; (c) any other tax, duty or cess, which the legislature of the state has the power to impose. As per the Act's provisions, the state government's authorisation is mandatory for imposing any tax. Provided that if the GP fails to impose the tax, duty or cess, the government may take necessary steps to impose it, and the tax, duty, or cess so imposed shall be deemed to have been imposed by the GP. Further, it also empowers the state government to withdraw the authorisation of any tax, duty or cess under clause (b) or clause (c).

5.55 The Act also makes provision for GPs to impose (a) teh-bazari from the shopkeepers in fairs other than cattle fairs; (b) service fee including fee on cleaning of streets and lighting of streets and sanitation; (c) fees for registration of animals sold in the Sabha area; and (d) water rates where the GP supplies water. The GPs can also impose a special tax on adult male members of GS for constructing any public work of general utility, with the prior permission of the director. It may exempt any member from paying this tax in place of doing voluntary labour or having it done by another person on his behalf. GPs shall levy fee, tax, duty or cess the owner of communication towers, as may be specified in the policy notified from time to time in this regard.

5.56 With the prior sanction of the CEO, and subject to the general direction and control by the government, a PS can levy and collect taxes or fee for the use of or benefits derived from (a) public hospitals, dispensaries, schools, sarai(s), markets, rest houses and other public institutions; (b) the supply, storage and preservation of water for drinking, bathing and agricultural purposes; and (c) preservation and reclamation of soil and drainage and reclamation of swamps. In addition, it may also fix fees on fairs, agricultural shows and industrial

Table 5.10: Measures to Augment OSR of Panchayats under the PR Act, 1994

PRIs	Sr. No.	Tax	Non-Tax
GP (Section 39, 41 (1) and 41 (2))	1.	House tax	Tehbazari, Mela fees, Water fees, Fee for registration of cattle sold
	2.	Surcharge on stamp duty	Fee on the erection of communication tower in Sabha area
	3.	Any other tax, duty or fees which the legislature may impose	Lease money from ponds/lands/shops etc.
	4.	-	Auction Money of *Hadda Rori*
PS (Section 88, 89 91)	1.	With the previous permission of the CEO, any tax which the legislature of the state has power to impose under the Constitution of India.	Levying fee on the public hospitals, dispensaries, schools, sarais, markets, rest houses and other public institutions
	2.	-	Levying fee on the sup ply, storage and preservation of water for drinking, bathing and agricultural purposes
	3.	-	Levying fee for the preservation and reclamation of soil and drainage and reclamation of swamps.
	4.	-	Fixing fees at fairs, agricultural shows and industrial exhibitions held under its authority.
ZP (Section 147 and 149)	1.	With the prior approval of the government, impose any tax which the Legislature of the State has power to impose under the Constitution of India.	Levying fee on the public hospitals, dispensaries, schools, sarais, markets, rest houses and other public institutions
	2.	-	Levying fee for the supply, storage and preservation of water for drinking, bathing and agricultural purposes
	3.	-	Levying fee on the preservation and reclamation of soil and drainage and reclamation of swamps
	4.	-	Fixing fees at fairs, agricultural shows and industrial exhibitions held under its authority

exhibitions held under its area of authority.

5.57 Section 147 of the Act gives similar powers to the ZPs for imposing taxes and fee. Similar to GP and PS, with the prior approval of the state government, a ZP may impose any tax, which the Legislature of the state has the power to impose. As per section 148(1), it may pass a resolution in its special meeting to propose the imposition of any tax under section 147 of the Act. A ZP may levy fee and collect taxes similar to a PS. Section 45B of the Act gives power to PRIs to regulate commercial, institutional and industrial activities. Prior approval is required from GPs to run such activities, and the owner of such activities may pay fee, tax, duty or cess to the concerned GPs, as may be prescribed (Table 5.10).

5.58 The perusal of these provisions indicates considerable scope for revenue mobilisation by imposing taxes and fee on various heads corresponding to the jurisdiction of three-tiered PRIs, provided they submit the proposals passed in their meetings to the state government, which may approve such proposals. Presently, the only tax source of own revenue is house tax, whose rates range from ₹ 10- ₹ 30 per household per year, with some exceptions also. The non-tax revenue comprises rent/lease money from panchayat land/shamilat land and common property resources (CPRs).

5.59 GPs also receive additional funds through assigned taxes and shared taxes. Assigned tax is levied by GPs and is collected by the state, and the proceeds are transferred to GPs after deduction of collection charges. On the other hand, the state levies shared taxes, and a portion is shared with the GPs. Currently, GPs are levying panchayat tax on electricity consumption and a surcharge on stamp duty, which is being collected by the respective departments and distributed among concerned PRIs later on. Apart from that, there is no specific tax levied by the state and shared with PRIs.

5.60 It has emerged from the above discussion that the financial autonomy of the PRIs could be augmented if these institutions put into practice the provisions of the Panchayat Act about financial mobilisation for both tax and non-tax counts. The important area that requires urgent attention is training and capacity building of elected and non-elected functionaries of these institutions to realise that panchayats are self-governments and not the state and central governments' agencies.

5.61 **The Commission recommends that the state government should implement Sections 41, 88 and 147 of the Panchayati Raj Act to enlarge panchayats' own revenue base to enable them to function as institutions of self-government. The initiative taken by the Development and Panchayats Department in using Section 147 of the Panchayati Raj Act for imposing taxes by the ZP be implemented in letter and spirit. The same initiatives are also required to be initiated at GP and PS levels.**

Table 5.11: Estimated Repair and Refabricated Costs and Expected Revenue Generation through Asset Monetisation

Name of GP	Total Number of Villages in a GP	Type and Number of Assets that Can Be Monetised	Estimated Repair and Refabrication Cost (₹)	Estimated Revenue Generation in a Year (₹)	Source of Revenue
Naiyan	1	Old-age home	3,00,000	40,000	Rent
Dostpur	1	4 shops	6,00,000	1,20,000	Rent
Khatoli Ahir	1	Old-age home	3,00,000	40,000	Rent

Source: Field study conducted by IIT Roorkee.

5.62 It may be acknowledged in this context that the state government has taken initiative in this context and has directed the CEOs of ZPs to submit their proposals to the government for the imposition of taxes and rates in their respective areas under Section 147 (indicative list of potential taxes for ZP, Memo 81068-89, dated 11 September 2020, PS-DPD). The Commission recommends that the state Government should operationalise the policy measures for making PRIs autonomous. With the gaining of experience at the district level, it may be extended to sub-district levels.

5.63 The unused assets have been identified in three GPs of Nagal Chaudhry block of district Mahendragarh, which show potential for revenue generation through asset monetisation (Table 5.11). The state government may launch Asset Monetisation Scheme for proper utilisation of dysfunctional assets of panchayats. **The Commission recommends that the dysfunctional assets can be repaired and re-fabricated and then may be given to the private entities on lease through competitive bidding. The Development and Panchayats Department should get a proper account of such assets, work out the detailed estimates of the onetime cost of repair and refabrication of the unused assets, and estimate the potential of annual flows of revenue from such assets.**

5.64 **The Commission recommends that state government may authorise panchayats to levy fee/impose taxes on:**

- **Petrol pumps;**
- **Private schools and colleges, hospitals and nursing homes;**
- **Shops, factories, commercial establishments, line department buildings; and**
- **Establishment fee on the line department buildings located in the jurisdiction of GPs.**

Implications of the Fifteenth Central Finance Commission

5.65 The Fourteenth CFC recommended grants to the local bodies in two parts–an unconditional basic grant and a conditional performance grant in the ratio of 90:10. The basic grant is intended to improve the status of specified basic civic services in GPs. To be eligible for the performance grants, a GP would have to show an increase in its own source of revenue in the GPDP and submit audited annual accounts. Development and Panchayats Department, Government of Haryana, stated that GPs in Haryana have not received any performance grants since 2018-19.

5.66 The Fifteenth CFC grants to the local bodies have two vital implications. First, unlike the preceding CFCs, which provided grants only to GPs, the Fifteenth CFC provided grants to all tiers of Panchayats. The purpose is to strengthen the decentralised planning infrastructure at all levels. Under the decentralised framework of development planning, the plans evolve from the GP level, which are to be integrated with the block level Panchayats, and finally to the district level panchayats. The deficiency in the planning infrastructure, process, and practice at any level can hamper the entire planning process. Second, the Fifteenth CFC put conditions for the local bodies to get these grants. To avail grants in the current year (t), PRIs need to make available both provisional accounts of the previous year (t-1) and audited accounts of the year before the previous (t-2). It could be an essential step towards improving transparency, accountability and governance in the local bodies. However, keeping in view the existing capacity of panchayats in maintaining their updated accounts and inadequacy of trained manpower, the conditions laid down by the Fifteenth CFC may be problematic for the unequipped panchayats. These conditions justify the need for capacity development by improving their human capital base by intensive training of existing staff, recruiting new staff with education in rural management and governance, and creating requisite infrastructure in terms of offices and computer facilities.

5.67 The Fifteenth CFC recommended that the allocation of grants among the three-tiers—gram panchayats, panchayat samitis and zila parishads—shall be in the bands of 70-85 per cent, 10-25 per cent, and 5-15 per cent, respectively, subject to the shares adding up to 100 per cent. Further, intra-tier distribution among the relevant entities across the state should be based on population and area in the ratio of 90:10, or as per the accepted recommendations of the latest SFC of the state. The same criteria were followed by the Fourteenth CFC. Although it ensures continuity, criteria of equity and efficiency could have been emphasised as well.

5.68 Out of the total allocation to PRIs, 40 per cent is untied and can be used by them for felt needs under the twenty-nine subjects enshrined in the Eleventh Schedule, except for salaries and other establishment costs. This may not be said strictly untied because its utilisation is confined to 29 subjects listed in the Eleventh Schedule. However, the expenditure required for auditing of accounts by external agencies approved by the state government may be borne from this grant. Thirty per cent of the total grants shall be earmarked for drinking water, rainwater harvesting, and water recycling. The remaining thirty 30 per cent shall be utilised for sanitation and maintenance of ODF status, including management and treatment of household human waste excreta and fecal sludge management. Thus, 60 per cent of the Commission's grants to the local bodies are tied for water conservation and sanitation. Minimum basic service is necessary for a citizen irrespective of her/his choice of residential location. For this to happen, a functional decentralisation for accessing basic services has been provided under Articles 243G, 243W, 243ZD and 243ZE of the Constitution to integrate plans for economic development and social justice, including 47 subjects listed in the Eleventh and Twelfth Schedules. Above indicated Articles may be operationalised in an integrated manner for effective planning at sub-district and district levels.

5.69 The Fifteenth FC recommended allocation of ₹ 4,929 crore to the local bodies of Haryana for the next five years, that is, from 2021-22 to 2025-26. Table 5.12 shows the sharing pattern of allocation of grants between PRIs and ULBs. For 2021-22 and 2022-23, panchayats and ULBs will get in the ratio of 67:33. For 2023-24 and 2024-25, the ratio is 66:34 and for 2025-26, it is 65:35. The Commission recommended restructuring and apportioning the total grants between PRIs and ULBs in the ratio of 65:35 by the end of the award period to prepare the urban areas to meet future challenges. For the year 2021-22, the Ministry of Finance has released the first instalment (50 per cent) of tied grants, that is, ₹ 280.50 crore to the PRIs of Haryana. Department of Drinking Water and Sanitation, Ministry of Jal Shakti has released a 'manual for utilising the Fifteenth Finance Commission tied grants to rural local bodies/PRIs, for water & sanitation (2021-22 to 2025-26)'.

5.70 In the backdrop of the COVID-19 pandemic, the Fifteenth CFC also recommended a health grant of ₹ 877 crore for PRIs, for five years, as shown in Table 5.13. The Commission believes that involving PRIs as supervising agencies in primary healthcare institutions would strengthen the overall primary healthcare system. For that, it recommended constitution of Committees at the central level under the chairmanship of Secretary, Ministry of Health

Table 5.12: The Fifteenth CFC Grants to Local Bodies of Haryana (₹ in Crore)

Year	2021-22		2022-23		2023-24		2024-25		2025-26		Total	
Local Bodies	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
Grants	935	461	968	477	979	504	1,036	534	1,011	544	4,929	2,520
Sharing Pattern	PRI : ULB = 67:33				PRI : ULB = 66:34				PRI : ULB = 65:35		PRI : ULB = 66:34	

Source: Fifteenth CFC Report.

and Family Welfare and at the state level under the Chief Secretary and comprising officials of the state Departments of Health, Development and Panchayats, and Urban Local Bodies and select representatives from all tiers of PRIs and ULBs. A similar committee needs to be constituted at the district level under the chair of the Deputy Commissioner.

5.71 The Fifteenth CFC also recommended that the central and state governments or any other authority should not impose any conditions or directions other than those indicated by the Fifteenth CFC for releasing the grants for health. No doubt, these are for the promotion of health with the engagement of PRIs. Seeing the reality of PRIs at grassroots levels, G. Bhattacharjee and Rakhee Bhattacharya in their article 'Fifteenth Finance Commission Recommendations: An Appraisal' in Economic and Political Weekly, in 2021, rightly observed that the third tier of the government has been deficient on many counts, including 3Fs and the capacity of functionaries. Without strengthening the health of PRIs by removing these faults, it appears difficult for the rural health system to deliver optimum results from the allocation for the health sector or utilise the grant earmarked for it. It emerged from the above discussion that not only health but access to other core services by the locals will properly be operationalised if PRIs are strengthened in terms of devolving powers and authority to them.

Training and Capacity Building

5.72 The terms 'training', 'capacity building', and 'capacity development' are sometimes used interchangeably. However, they differ from each other. Training is a process of imparting skills and knowledge to personnel and changing their attitudes. It comprises knowledge, skill and attitudes.

5.73 UNDP defines capacity development as *'the process by which individuals, groups, organisations, institutions, and societies increase their abilities to perform core functions, solve problems, define and achieve objectives; and understand and deal with their development needs*

Table 5.13: Health Sector Grants to PRIs of Haryana (₹ in Crore)

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Support for diagnostic infrastructure to the primary healthcare facilities-sub centres	25.48	25.48	26.75	28.09	29.49	135.29
Support for diagnostic infrastructure to the primary healthcare facilities-PHCs	28.05	28.05	29.45	30.64	32.4	148.59
Support for diagnostic infrastructure to the primary healthcare facilities-UPHCs	7.01	7.01	7.36	7.73	8.12	37.23
Financial requirement for establishing block level public health units	28.58	28.58	30	31.5	33.08	151.74
Grants for building-less sub-centres, PHCs, CHCs	29.51	29.51	30.97	32.53	34.15	156.67
Financial requirement for conversion of rural PHCs and SCs into health and wellness centre	46.61	46.61	48.94	51.38	53.95	247.49
Total	**165.24**	**165.24**	**173.47**	**181.87**	**191.19**	**877.01**

Source: Fifteenth CFC Report, pp. 295–303.

in a broad context and in a sustainable manner'.[7] Thus, training is related to providing skills for a specific purpose. In contrast, capacity building denotes the initial capacity development process, and capacity development includes a wide range of activities related to individuals, organisations and society.

5.74 In the context of panchayats, capacity development is a process through which skills, new attitudes and motivations among their functionaries and gram sabha members are infused, and they are equipped with adequate functions, functionaries and finances (3Fs) so that they may perform up to their maximum potential for achieving the intended goals of economic development and social justice. The capacity development measures, among others, consist of creating an enabling environment with appropriate policy and legal frameworks, institution building, human resources development and strengthening of managerial capability. Community audit skills, shared vision, prioritisation of realistic objectives consistent with local values, facilitation of a strategic plan and monitoring and evaluation of works can also be part of capacity development measures.

5.75 The most critical in the entire chain of capacity development is the gram sabha (GS) that has the potential to initiate a participatory process, promote transparency and accountability and act as a social auditor for effective local governance. However, the field study and FGDs, conducted by IIT Roorkee, indicate that GS is yet to become an operational entity in the state. Sarpanchs and other influential people, including local political leaders, dominate the decision-making process. Accountability and transparency mechanism does not exist at the GP level. Although the GPs put the proposals before the GS in its general meetings for approval, due to lack of awareness among its members about their role in planning, monitoring and auditing of programmes/projects and lack of motivation, very few members usually attend the general meetings. A massive awareness campaign is required to enlighten GS about its role in planning, execution, monitoring, auditing GP works and controlling GP resources. The Community Based Organisations (CBOs), Civil Society Organisations (CSOs) and line departments' representatives in the GS meetings can play a crucial role in motivating and sensitising the members to participate in the panchayat affairs. The situation at PS and ZP levels is also worrisome with regard to the capacity building of both elected and non-elected representatives of the panchayats.

5.76 The Second Administrative Reform Commission suggests that any organisation should have the capability of tapping required skills rather than spending a large amount of resources in acquiring such skills themselves. Evolving partnerships, developing networks and outsourcing functions are all methods of enhancing the capability of an organisation. It also recommends that the SFCs be vested with the responsibility of suggesting 'staffing norms' for various levels and categories of local bodies to determine the optimum or desirable degree of outsourcing of functions. The training of elected functionaries should be a continuing activity, and the SFCs should earmark the funds' allocation to meet the training expenses.

Training, Capacity Building and Capacity Development

5.77 The main objectives of training and capacity building of PRIs are to infuse democratic culture at all levels; provide adequate space to marginalised groups like SCs, STs and women in decision-making; prepare and implement plans for economic development and social justice with people's participation; and mobilise own resources to meet out their development and management needs at different levels. Keeping these objectives in view, capacity building/ training measures are the following:

1. At the PRIs and personnel levels, the capacity development measures include: (a) effective functioning of gram sabha in terms of holding the meetings, preparing minutes of it; (b) functioning of GP, PS and ZP as per the rules

[7] A comprehensive discussion on various aspects of training, capacity building and capacity development is given in Chapter 12, 'Training and Capacity Development', pp. 316-343, in Rural Local Governance and Development, 2020, Sage.

and regulations; (c) constitution and functioning of sub-committees at all levels; (d) mobilisation of own resources, both tax and non–tax; (e) role clarity of the panchayats like mandatory, enabling, general and sector-wise functions; (f) role clarity of elected representatives relating to administration, regulation, finance and management; (g) preparation and implementation of GPDP, PSDP and ZPDP; (h) budgeting, accounting and auditing; (i) monitoring and evaluation; (j) convergence and networking; and (k) existence of social capital.

2. At the state level, the measures comprise:

(a) timely constitution of the SFC and SEC and giving them requisite software and hardware support, (b) devolving requisite powers and authority to enable PRIs to function as local self-government, and (c) creating and subsequently strengthening training and capacity building infrastructure both software and hardware.

Training and Capacity-Building Deficit

5.78 If the capacity of panchayats and their functionaries are measured in terms of the above indicators, a big deficit is observed in the state. The PRIs functionaries are not capable of handling their assigned work properly; training and capacity-building infrastructure is inadequate, and the state government has not devolved adequate powers and functions to PRIs. A study, 'Direct Democracy and Rural Development Bureaucracy' conducted by K.K. Mor shows poor awareness levels among officials about the functions of GP and GS. About 47 per cent of officials were ignorant about the membership of GS; 79 per cent were not aware of the quorum for general and extraordinary meetings of the GS; 60 per cent of them were unaware of the relationship between GP and GS, and about 78 per cent were ignorant about the procedure of conducting GS meetings. The Commission's interactions with elected representatives also reveal a lack of awareness among them about the provisions of the Panchayati Raj Act and the overall functioning of PRIs. The Fifth SFC observed that the gram sachivs are the 'weakest link' in the PRIs' functioning.

Status of Training and Capacity Building Infrastructure

5.79 About 75,000 elected representatives (ERs) and official functionaries of the panchayats in Haryana need training to participate and execute policies related to socio-economic development effectively. The three training institutes, namely Haryana Institute of Rural Development (HIRD) Nilokheri, Rajiv Gandhi State Institute of Panchayati Raj and Community Development, Nilokheri and Regional Institute Panchayati Raj and Community Development (RIPR & CD), Bhiwani have limited capacity to impart training to them. There are also District Resource Centres for training. These institutes and centres do not have adequately qualified trainers with them. Currently, HIRD Nilokheri does not have a full-time director of its own. The institute needs a well-qualified, full-time director immediately.

5.80 The HIRD Nilokheri has three assistant professors; none of them has any formal training of skills course to train the ERs and officials of PRIs. Similarly, RIPR & CD Bhiwani has only two faculty members. Although its principal has completed the course on direct training skills[8] and training needs assessment, the instructor does not possess any of them. RGSIPR & CD Nilokheri has five full-time faculty members, including its principal; none has any direct training skills. Table 5.14 shows details of staff at the training institutes. A study, 'Evaluation of Training Programme Haryana Institute of Rural Development, sponsored by the Ministry of Rural Development, Government of India' conducted by AMS (2011) recommended to: increase the number

[8] The Government of Haryana launched its new Training Policy, 2020 on 20 July 2020, to provide training for all and provide the necessary infrastructure,institutions and personnel to achieve the objective. The policy envisages imparting skills through training the state government staff and the citizens and civil society organisations. Keeping in view the skill deficit among the elected and official functionaries of PRIs and inadequacy in the training infrastructure and professionally qualified trainers, it seems to be a daunting task and calls for upgrading the existing infrastructure, training of the existing trainers, and creation of new state-of-art-training infrastructure and recruitment of faculties with good pedigree, preferably with master and PhD degrees from the institutes of eminence in the relevant areas.

of faculty positions in training institutes; review the expertise of subject matter experts; prepare the training modules based on the feedback of trainees; organise field visits of trainees outside the states to observe and replicate the best practices; impart training in the local language; and identify and prioritise complex issues. Despite these recommendations, the Commission observes that there is little improvement in the capacity of ERs and officials in the state. Even after 10 years of the report, the status is still severely worrisome.

5.81 Given the above, the Development and Panchayats Department has demanded a sum of ₹ 400 crore for strengthening these institutions and establishing two new training institutes at Gurugram and Panchkula.

Measures to Build the Capacity of Panchayats

5.82 Effective functioning of any institution, to some extent, depends on the quality of its functionaries. The quality depends on the level of education and skills. Gram sachivs are the key official functionaries of GPs. They look after several GPs and are overburdened, which can adversely affect their performance in dealing with the GP activities, including maintenance and update of accounts. However, most of them do not know the use of ICT tools and computers, which is the need of the hour in the current scenario where fund management is done through the IT system. The CFC funds are mandatorily managed through Public Financial Management System (PFMS). **To bring transparency and efficiency in fund allocation and utilisation, the Commission recommends that the SFC and other budgetary transfers to GPs should also be through PFMS. It calls for upgrading sachivs' skills in computer application by redesigning training modules. The Development and Panchayats Department should carry out the exercise to assess their training needs, and accordingly, comprehensive training programmes may be organised for them in the state.**

5.83 It is good to note that the state government has decided to rationalise the number of posts of gram sachivs. The state government has also made graduation with computer knowledge as the minimum qualification for the post of sachivs. Further, to address the problem of shortages of GP staff, the state government has initiated a recruitment process for filling up 697 positions of sachivs. However, the Development and Panchayats Department did not fix any timeline to fill the vacant post, create new posts and construct gram sachivalays. **The Commission recommends that the Department should set the deadline for meeting out the manpower requirement of panchayats.**

5.84 As far as functionaries of GPs are concerned, training of both elected and official functionaries needs to be given top priority. Although training of elected representatives is mandatorily done at the beginning of the constitution of the new panchayats, it seems to be inadequate to understand various aspects of decentralised planning and management. The training modules should prioritise awareness regarding the governance aspects of the PRIs, in addition to routine day-to-day assignments. Some exposure visits of a few elected functionaries of best

Box 5.2: Suggestions of ERs and Officials regarding Capacity Building

- Training programmes to inculcate leadership qualities among ERs
- Exposure visits to better performing PRIs in Haryana and other states
- Pre-election debate among the contestants
- Regular skill development programmes/diplomas for gram sachivs
- Special focus on the training and capacity building of women representatives
- Promotion of IT practices amongst ERs and officials of PRIs
- Incentives to better performing ERs and officials
- Adequate grants-in-aid to the training institutes to address capacity constraints.

Table 5.14: Details of Educational Qualification of the Staff of Training Institutes

Name of the Institute	Designation of the Staff	General Qualification	Direct Training Skill	Training Need Assessment	Research Study	Technical Qualification
RGSIPR & CD Bhiwani	Principal	MA (Economis) MA (English) PG Diploma in Rural Development	Yes	Yes	(i) Panchayati Raj in Haryana after 73rd Amendment Act (ii) Status of maintenance of record of gram panchayat in Haryana	-
RGSIPR & CD Bhiwani	Instructor	MA (RD) MA (History) PG Diploma in Urban Planning and Development	-	-	The implication of land acquisition under Special Economic Zone (SEZ)	-
HIRD, Nilokheri	Director					-
HIRD, Nilokheri	Assistant Professor	MA (Geography) MSc (Geoinformatics; NET)	No	Certificate awaited		-
HIRD, Nilokheri	Assistant Professor	M.Com, MBA, UGC-NET (JRF), PGDRD, PhD	-	-	Two studies completed Three studies in progress	-
HIRD, Nilokheri	Assistant Professor	M.Sc. (Environment Science) UGC-NET, PGD in Industrial Safety	-	-	One study completed One study in progress	Six Week's training programme on Remote Sensing 2 GIS at HARSAC, Hisar
RGSIPR & CD, Nilokheri	Principal	MSc, PhD (Home Science Ext.) NET	-	-	Three studies completed	-
RGSIPR & CD, Nilokheri	Lecturer (Panchayati Raj)	PhD (Political Science)	-	-	Two studies completed	-
RGSIPR & CD, Nilokheri	Lecturer (Health and sanitation)	MSc (Home Science) B.Ed.	-	-	-	-
RGSIPR & CD, Nilokheri	Lecturer (Rural Development)	MA (Economics)	-	-	-	-
RGSIPR & CD, Nilokheri	Accounts Officer/ Lecturer Accounts	BCom	-	-	-	Haryana State Accounts Service

performing panchayats in the state and outside of the states can be organised.

5.85 Online training is not only cost-effective but also easy to access to both trainees and trainers. It has become more appropriate during COVID-19 in the state. **Thus, the Commission recommends to organise online training sessions for all sarpanchs, panchs and sub-committee members with an in-built mechanism of checking, evaluating and action-taking, and certificates should be given only to those who pass the online exam after training. After completing online training, trainers would record the trainees' learning chart on different activities supposed to be performed by the panchayat's functionaries at the panchayat level for at least six months. If a particular activity is not performed as it should be, as per the Panchayati Raj Act, remedial action would be taken by the concerned authority as per provisions of law.** The decision-makers often raise the issue of the incapability of PRIs in handling their functions and responsibilities effectively as an excuse not to entrust them with their due responsibilities. Therefore, their capacity building through training and follow-up programmes would help to address such issues.

5.86 **The Commission recommends that the training of gram sachivs should be organised in such a way as to keep them captive participants so that they may fully concentrate on the training sessions without any interference of local people and higher officials. Within the state, gram sachivs who are posted in the northern part of the state may be trained in its southern part. Similar is the case for those who are posted in the western and eastern districts of the state. Training duration should be 10-15 days with detailed training modules, a well-developed methodological framework, and post-training feedback and examination.**

5.87 Training programmes should focus on the functional aspect of PRIs, such as preparation of agenda, notification of the meetings and preparation of the minutes of meetings of the PRIs. **The Commission recommends the adoption of a sustainable digital mechanism to ensure proper training and subsequent follow-up. The training of women representatives of PRIs needs special attention, addressing the structural and social stereotypes associated with working women through imbibing a positive attitude among male and female representatives.**

5.88 **The Commission recommends that the state government must focus on both hardware in terms of infrastructural development and software in terms of human resources development capacities of PRIs. Better training modules and experienced trainers are required to improve the software capacities, while infrastructure and technology are required to strengthen the hardware capacities.**

5.89 **The Commission recommends that there should not be more than two GPs per sachiv (may be only one per GP in case of large GPs). Further, the designation of Gram Sachiv may be changed to Gram Panchayat Development Officer (GPDO) to infuse optimism and motivation among them.** Such designation would also bring symmetry in the designation at district, block and GP levels.

5.90 The performance of panchayats largely depends on the ability of their leadership. Visionary, dedicated, dynamic and motivated ERs can improve the vibrancy of GPs positively. Both elected and official functionaries need to be imparted behavioural skills, such as communicating with people, working with them, and appreciating the dynamics of villages' social, political and cultural values through well-thought training modules.

5.91 In addition to the powers, functions and responsibilities of PRIs, **the Commission recommends that training modules should also incorporate topics related to planning, designing, implementation, monitoring and evaluation, and other management techniques relevant for GPDP, PSDP, ZPDP and DPC and their execution and monitoring. The training**

focus must be on developing the knowledge and skills needed to identify a village's problems and priorities, assess the physical, economic and social processes required for managing the GP activities, organise groups, drafting minutes of meetings and maintenance of records and mobilise OSR.

5.92 Finally, the Commission also recommends that the state may adopt the recommendations of the Second Administrative Reforms Commission for capacity building/development of PRIs and their personnel, as given in Box 5.3.

Revenue Generation and Resource-Use Efficiency in Panchayats[9]

5.93 The optimal and judicious use of scarce resources by panchayats is crucial for local development. In this context, understanding of revenue-generation (expenditure efficiency) and resource–use (technical efficiency) is necessary for their practical use at grassroots level. In Haryana, panchayats are financially and technically under-equipped to perform their core functions like water, sanitation, health and education, etc., far less than welfare and other economic functions. To this end, it is important to empirically assess the revenue-generation and resource-use efficiencies of GPs and set the benchmarks for monitoring the performance of the inefficient GPs.

5.94 The study, conducted by IIT Roorkee, conceptualises revenue generation efficiency (expenditure efficiency) as the ability of GPs to maximise the mobilisation of own-source revenues (output) through the optimal utilisation of outlay on wages and salaries to staff, other administrative expenditures, and plan outlay or other transfers to panchayats in a financial year (inputs). However, the revenue generation or expenditure efficiency alone is not adequate to assess local governments'

Box 5.3: The Second Administrative Reforms Commission's Recommendations on the PRIs' Capacity Building

- Capacity building for both the organisation's building requirements and the professional and skills upgradation of ERs and officials, and special capacity building programmes for women members
- Encouraging PRIs to outsource specific functions to public or private agencies through enabling guidelines and support. Outsourcing of activities should be backed by the development of in-house capacity for monitoring and oversight of outsourced activities
- 'Networking' of training institutions concerned with various subjects, such as financial management, rural development, disaster management and general management. This should be ensured by the nodal agencies in state government
- The training of elected representatives and personnel should be regarded as a continuing activity. Expenditure requirements on training may be taken into account by the State Finance Commissions while making recommendations
- Academic research has a definite role in building long-term strategic institutional capacity for the greater public good. Organisations like the Indian Council of Social Science Research must be encouraged to fund theoretical, applied and action research on various aspects of the functioning of local bodies
- A pool of experts and specialists (e.g., engineers, planners, etc.) could be maintained by a federation/consortium of local bodies. This common pool could then be accessed by the local bodies whenever required for specific tasks.

[9]For a detailed discussion, the interested readers may refer to the full report on Assessing the Technical and Expenditure Efficiency of Panchayati Raj Institutions in Haryana by IIT Roorkee,submitted to the Sixth State Finance Commission, Haryana, Government of Haryana, October 2021.

performance holistically because the generating revenues, though important for their financial sustainability, do not explain the welfare impacts on the households. In other words, proper use of mobilised resources is also important to examine whether the so mobilised resources have been instrumental in improving life of members of households in the villages. Therefore, technical efficiency (resource-use) based on a 'goal-oriented' approach is adopted to target how efficiently the allotted funds and committed expenses are utilised to meet desired developmental goals, like the construction of roads[10], water and sanitation, employment generation under MGNREGS, etc.

5.95 For assessing expenditure and technical efficiencies of GPs and ranking them on their performance for decision-making, the mathematical programming-based non-parametric Data Envelopment Analysis-Directional Distance Function (DEA-DDF) approach is adopted. The former is estimated using an output-oriented DDF framework to measure the maximum possible capacity of a GP to earn its own revenues with available inputs. In contrast, for the latter, the input-oriented variant of DEA-DDF is employed.

5.96 The theoretical framework is constructed and applied to evaluate the technical and expenditure efficiency scores of 60 GPs randomly selected from 6 districts (one from each division) of the state for 2020-21. However, given the availability of data on a continual basis, the procedure can be adopted to monitor the performance of all GPs on a year-on-year basis and build a mechanism to allocate the performance grants to GPs based on their persistence in performance.

5.97 The expenditure efficiency is computed using three input resources: wages and salaries to staff, other administrative expenditures, and plan outlay or other transfer to GP in the financial year. Based on the local functioning of GPs, two output variables-own-tax revenue, and own non-tax revenue-are included in the model. The measurement of technical efficiency is performed corresponding to four service goals to be performed by a GP-sanitation and water supply, roads and related construction works, rural employment under MGNREGS and access to basic facilities. In addition to two common inputs, that is, per capita wages and salaries to staff, and other administrative expenses, outlay/expenditure specific to the desired goals to measure the resource utilisation potential of GP in achieving their specific development goals is preferred[11].

5.98 The findings on expenditure efficiency or resource mobilisation reveal that an average GP in the sample has a significant potential of 64.9 per cent to augment their revenues from tax and non-tax sources, given the same level of their inputs. In other words, only 35.10 per cent of total potential has been exploited by the GPs. Only seven sampled GPs, namely Bhirdana (Fatehabad)[12] and Talwara (Jhakal) from Fatehabad district, Kharkara Bhikhlan (Meham) and Farmana Badshahpur (Meham) from Rohtak, along with Kansapur (Barara), Risalwa (Assandh) and Banswa (Hodal), are found to be on the best-practice frontier of 'revenue-generating efficiency'.[13] In other words, these GPs have exploited their 100 per cent potential. None of the sampled GPs from Mahendragarh district have earned the coveted status of 100 per cent revenue-generating efficiency. Moreover, the resource mobilisation or expenditure efficiency in 38 GPs (63 per cent of the sample) is less than 40 per cent. It implies that these GPs have to enhance their OSR (output) by 60 per cent, with the given level of inputs, to become efficient.

[10]Roads in this report are confined only to the village(s) area of a GP. They are also called streets, khadenja (vertical lying of bricks), and pandanja (horizontal lying of bricks).

[11]In the sampled GPs, 100 per cent of funds released under plan outlay are utilised for development purposes. Therefore, it is reasonable to assume total plan expenditure specific to the desired goal equivalent to the planned outlay for a specific activity in the fiscal year.

[12]Block names are given in brackets

[13]The DEA model empirically estimates that the production frontier and the GPs lying on the frontier are efficient (100% efficiency). Those below the frontier are inefficient, with an efficiency score of less than one.

5.99 On average, the revenue-generating efficiency of GPs with shamilat land is 15.8 per cent higher than the GPs without shamilat land. The relatively higher generating efficiency of GPs with shamilat land reflects that these GPs are closer to the efficiency frontier. It suggests that additional sources of revenues may be endowed with shamilat-landless GPs to make them equal to those GPs endowed with shamilat land.

5.100 On the technical efficiency front, an average GP could achieve the given output level by spending 43.5 per cent less inputs. It reflects that the per capita resources allocated to the majority GPs are being underutilised. The results show that GPs have performed fairly well on developing roads in the village locality with an average efficiency score of 0.709, followed by sanitation and water supply (0.577) and employment under MGNREGS (0.556). The estimated technical efficiency scores for road, sanitation and water supply and MGNREGS employment indicate that the average GP in the state could reduce 29.1 per cent, 42.3 per cent and 44.4 per cent input resources, respectively, to become efficient.

5.101 Sampled GPs in Rohtak indicate the significant potential for revenue generation, while GPs in Mahendragarh are the least efficient in this regard. GPs in Karnal have performed well on sanitation and water supply goals, and roads and related construction works. In Rohtak, GPs reflected higher efficiency on MGNREGS activities, and few GPs of Fatehabad (Bhirdaba), Hodal (Banswa) and Meham (Farmana Badshahpur) have outpaced their sampled peers in terms of expenditure and technical efficiency. GPs in Karnal have performed well on sanitation and water supply, and roads and related construction works. Putting together, GPs have immense potential to augment their revenues from tax and non-tax sources and reduce waste of per capita resources allocated.

5.102 The performance matrix of GPs shows that only two GPs, Bhirdana (Fatehabad) and Banswa (Hodal) achieved the status of best performers in terms of revenue generation and resource utilisation to attain local service outcomes. These two GPs can act as a benchmark for inefficient GPs. Three GPs, namely Talwari from Jhakal, Iqbalpur Nangli from Nangal Chaudhary and Badoli from Badoli block, are at the bottom in the rank list. Twenty GPs show lacklustre performance on both dimensions, and they are labelled as underperformers. Strikingly, none of the GPs from Mahendragarh district achieved the status of efficient GP on revenue generation, sanitation and access to basic facilities. Seven out of ten sampled GPs in Mahendragarh district got placed in the under performers group. Majority GPs in Mahendragarh depend on state and central funds, with a meagre collection of income from house tax and other non-tax sources. Most GPs from Rohtak are labelled as better performers with a relatively higher potential to generate revenue for self-sustaining and meet their development goals with less reliance on external funds. While GPs in Ambala and Karnal are better in resource utilisation, their financial status needs to be sustained.

5.103 The regression results show that three variables, **namely ratio of the OSR to total outlay, size of GP and overburdening of gram sachiv, are the key factors that significantly determine the GP efficiency and are critical to its effective functioning. There is a need to enhance the tax and non-tax revenue generation potential of a GP. A revision in the house tax rates and enforcement of entrusted taxes, as provisioned in the Haryana Panchayati Raj Act, are necessary to augment own tax revenue. The GPs can generate additional non-tax revenue as per the provisions in the Act.**

5.104 **The Commission recommends that a yearly conclave of GP functionaries may be organised to exchange innovative ideas, experiences and best practices, and extend honours/awards to sachivs/sarpanchs/panchs of GPs with outstanding performance in their OSR generation and attaining local-service outcome goals. With technology and minimal**

human intervention, an in-built mechanism can be evolved for future allocation of performance grants to panchayats. The state government can use this efficiency benchmarking methodology to measure the efficiencies (resource mobilisation and resource-use) of PSs and ZPs so that they can optimise their scarce resources to achieve the intended socio-economic outcomes. Finally, in line with the suggestions of the Second ARC, small GPs may be clustered, considering the geographical proximity and their resource endowments using GIS-based technology to get the benefits of economies of scale and optimise the costs in creating common assets, such as underground drainage.

5.105 The study conducted by the IIT Roorkee, revealed that demographic size of GP is one of the key factors that significantly determine its efficiency. Moreover, population size of the GP is undoubtedly relevant not only in the preparation of plans but also useful in the efficient transfer of technology and organisation of different services, including health and education. In view of the finding of IIT Roorkee, the Commission recommends that GPs may be reorganised demographically so that each GP has about 5,000 population with some relaxation in the hilly and sparsely populated area.

Conclusion

5.106 Constitution envisages panchayats as institutions of local self-government implying, they have adequate functions, functionaries and finances for their effective functioning. However, in practice, they are largely functioning as agencies of the state and central government, implementing their schemes. Although efforts on the parts of the state and central governments are needed to further strengthen these institutions, panchayats, at their level, have not made sufficient efforts to mobilise their own resources, which in real terms could make them not only financially strong but also autonomous in their working. This opportunity on the part of the PRIs has been missed as the critical evaluation of financial position of these bodies revealed. Efforts have to be made both at state and panchayats levels to make these as real institutions of rural local government so that they could effectively meet people's expectations. Besides, one of the important areas where significant attention is needed is training and capacity building for both elected and non-elected personnel of panchayats. The Commission, after evaluating the financial position of PRIs, recommends relevant measures for making panchayats as vibrant institutions of local government.

Chapter 6

Urban Local Bodies and Their Finances

Chapter 6

Urban Local Bodies and Their Finances

Introduction

6.1 The legal fiat of the 74th Constitutional amendment in 1993 had given recognition to Urban Local Bodies (ULBs) as the third tier of government, intending to make these bodies effective institutions of self-government. In pursuance of this objective, the Commission, in this chapter, attempts to analyse the fiscal and functional issues of the ULBs, and consonance between these two. Assessing the fiscal stance of the ULBs, however, to a certain degree, is a challenging task because of their diverse growth paths owing to varied composition in economic activities across districts in the state of Haryana. Furthermore, this situation is compounded by the incongruity between their increasing expenditure responsibilities and revenue mobilisation from their own sources. Therefore, this exercise is fundamentally crucial for determining the quantum of tax devolution to be suggested for the ULBs to achieve fiscal prudence.

Urban Governance Structure in Haryana: An Overview

6.2 The local government institutions in Haryana can be traced back to the British era, where they existed in the form of specific purpose committees. After Haryana's formation in 1966, a comprehensive Act, namely, the Haryana Municipal Act, 1973 (Amended, 1994), was enacted to regulate the composition, functions, taxation, and allied matters of the urban local bodies in Haryana. Further, the Haryana Municipal Corporation Act, 1994, was enacted to govern the Municipal Corporations. These acts specify areas of responsibilities of the municipalities and their powers to raise revenue through discretionary taxation measures.

6.3 Presently, ULBs are classified into three categories, based on their population sizes, as listed in Table 6.1.

6.4 In modern-day context, Urban Local Bodies are pillars of local urban governance, carrying out several functions entrusted to them, as listed in the Twelfth Schedule of the constitution under the 74th Constitutional Amendment (Table 3.5 in Chapter 3)[14], as well as undertake developmental works in their respective jurisdictions. In response to the Constitutional mandate, the Haryana Municipal Corporation Act, 1994, governing Haryana's Municipal Corporations, accepted all these functions. However, of the 18 enlisted subjects, 5 are fully devolved, 8 are partially devolved, while the

Table 6.1 : Structure of ULBs

Urban Local Body	Population Bracket	Number of Existing Local Bodies
Municipal Committees	< 50,000	60
Municipal Councils	50,0000 - 3,00,000	22
Municipal Corporations	> 3,00,000	11
TOTAL		**93**

Source: Department of Urban Local Bodies, Haryana.

[14]While this analysis, conducted by HIPA, is only based on a sample number of ULBs, it is representative of the rest of them too. The pattern of functional devolution remains similar in most ULBs; however, it still requires in-depth, on-ground analysis to orderly associate institutions with each function in every municipality.

remaining 5 are state government dominated subjects.

6.5 The role of ULBs is gaining relevance with each passing year as the state witnesses rapid urbanisation. The urban population in Haryana as a per cent of its total population has risen from 24.63 per cent in 1991 to 34.88 per cent in 2011, soaring above the national average of 31.16 per cent. This rise in urbanisation is also fuelled by rapid industrialisation as well. With proximity to the national capital region, several industries and businesses have found a haven in Haryana towns, thus fuelling economic activity in the region, and consequently contributing to the state.

6.6 In Table 6.2, it's observed that Municipal Corporations in Haryana house the maximum share of urban population (59 per cent) and span the largest in the area (55 per cent) of all ULBs. Hence, these two indicators have also become significant in deciding the financial devolution pattern among the ULBs for equitable distribution of funds, and consequently services, among all citizens of the state.

6.7 The impact of such an urbanisation growth pattern along the corridors is creating pressure on the ULBs to respond to the ever-growing demand in service delivery and poses to be a challenge for the coming years. While the ULBs are entrusted with 18 functions, there is also a multiplicity of urban planning and development agencies in the state that partake in the delivery of these functions. For instance, there are several agencies working for planning, such as Haryana Shahri Vikas Pradhikaran (HSVP; erstwhile HUDA), Haryana Slum Clearance Board (HSCB), Haryana Urban Infrastructure Development Board (HUIDB), Haryana State Industrial and Infrastructure Development Corporation Ltd (HSIIDC), Gurugram and Faridabad Urban Development Authorities besides Town and Country Planning department and Department of Urban Local Bodies. More often than not, it is seen that this multiplicity is the cause of duplication of authority, overlapping of jurisdictions, functional confusion, shifting responsibilities, lack of accountability and poor inter-departmental coordination. Further, it also results in a varied set of rules and procedures put in place by each of these agencies. Better inter-departmental coordination has, thus, become necessary for improved service delivery in the state.

6.8 **Hence, in this context, the Commission recommends that efforts must be made through conducting activity mapping in order to identify the sub-functions for comprehending the matching requirements of functions, functionaries and finances.**

6.9 Functions like water supply, sewerage and storm water drainage services are being delivered by the Municipal Corporation of Faridabad since 1979 and Municipal Corporation of Gurugram since 2013. According to the memorandum submitted by the Department of Urban Local Bodies (DULB), these services were decided to be transferred to the remaining Corporations over the next few years and before the completion of the AMRUT Project. Municipal Corporations of Sonipat and Karnal took over these services in 2018, while the transfer to Municipal Corporations of Panchkula and Panipat are underway. However, the Public Health and Engineering Department still addresses the demand for these services in Municipal Committees and Councils.

Table 6.2 : Haryana - Types of ULBs and Select Indicators

Urban Local Body	Population	Area (Sq. Km)
Municipal Corporations	54,35,999 (59)	1,554.16 (55)
Municipal Councils	23,96,337 (26)	602.61 (21)
Municipal Committees	13,82,467 (15)	672.73 (24)
TOTAL	**92,14,803 (100)**	**2,829.50 (100)**

Source: Department of Urban Local Bodies, Haryana
Note: Figures in parentheses are percentage shares.

Revenue Administration: Gap between Municipal Laws and Implementation

6.10 The Constitution of India provides guidelines for collecting, levying, and expanding the financial resources of ULBs vide Article 243X. The provision suggests that the municipal bodies must first rely on their own sources of income, then on the assigned taxes by the state and lastly, on the grants provided to them. The municipal legislation of Haryana provides for taxation powers of the ULBs and for the grants by the SFC, which empowers the Commission to recommend the principles to distribute the share of taxes or assign the taxes of the state to the ULBs.

6.11 The Haryana Municipal Corporations Act, 1994, under sections 87 and 88, extends the power to levy and collect taxes and fee to the municipal corporations. Similarly, Sections 69 and 70 of the Haryana Municipal Act, 1973, extend these powers to the Committees and Councils. The subjects under which these taxes/fee etc., can be imposed are: (a) tax subjects, including property tax, fire tax, taxes on animals and vehicles, etc., which are in the hands of the ULBs. In addition, the state has the authority to allow any other tax or fee that the municipalities want to impose. The state government decides upon the rates of these taxes in the case of Corporations, while the Committees can decide their own rates subject to upper limits as suggested by the state; (b) Fee subjects like advertisement fee, tehbazaari, rent from municipal shops, building application fee etc., are available to be exercised by the Corporations. The Government may additionally notify other leviable fee.

6.12 However, through the research and interactions conducted by the Commission, it was observed that many elected representatives were unaware of the legal provisions intended to empower them, and hence, did not propose levy of certain charges/fee which they otherwise could have. There was also certain reluctance among the representatives to levy those charges even when they had been made aware. It is mainly because they perceive it as a threat to their power and fear of becoming unpopular among citizens.

6.13 **The Commission believes that the law must be amended to further empower the representatives and officials to exercise greater autonomy in imposing taxes and deciding rates, away from the state's current authority. Thus, the Commission recommends that the representatives must be made fully aware of the financial powers extended to them by law.**

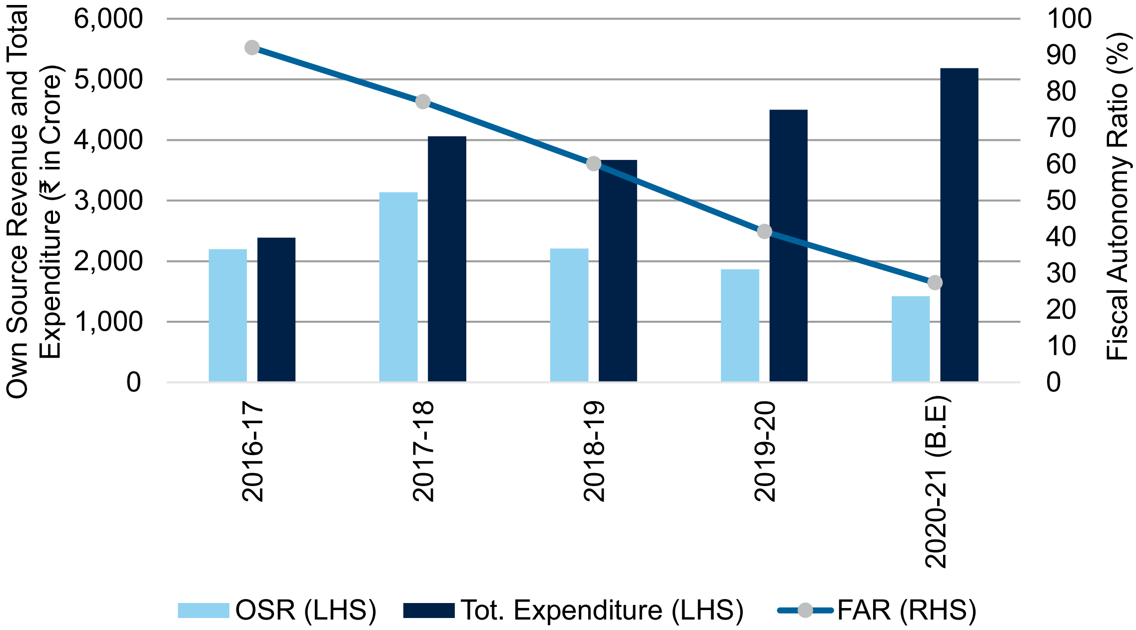
Analysis of the Fiscal Autonomy in ULBs

6.14 Fiscal Autonomy in ULBs has been witnessing a declining trend over time. It is defined and calculated as the ratio of total own revenue to total expenditure, which signifies how much of total expenditure a municipal body is able to fund from its own source of revenue. The ratio holds utmost significance in municipal finance, as it assesses and indicates the fiscal prudency of the respective local governments. Besides, it also elucidates dependency on budgetary transfers from the top two tiers of government.

6.15 In this regard, Figure 6.1 presents the Fiscal Autonomy Ratio represented as a line graph and presented on the Right-Hand Side (RHS) axis. The downward sloping line shows a sharp decline in fiscal autonomy of ULBs in the last five years, from 92.05 per cent in 2016-17 to 41.44 per cent in 2019-20 and estimated to decline further to 27.41 per cent in 2020-21. This result shows a serious cause of concern and insinuates that the ULBs in Haryana are rapidly increasing their dependence on grants from the upper-tier governments through various channels. However, to once again tread on the path of higher fiscal autonomy, the ULBs need to boost their own efforts to generate higher resources to finance their activities without depending much on higher layers of governments.

6.16 There are various factors that contribute towards, as well as jeopardise, the fiscal dependency of local governments. The

Figure 6.1: Fiscal Autonomy Ratio of ULBs



Source: Commission's calculations based on DULB data.

Commission, thus, has endeavoured to deeply examine the incongruency of resource structure and spending patterns of the ULBs of Haryana in the following sections.

Revenue Structure of ULBs

6.17 The Commission has carried out a comprehensive analysis of the revenue resources and expenditure pattern of the ULBs of the state over the five-year period ranging from 2016-17 to 2020-21. The municipal financial structure comprises tax and non-tax revenue sources, grants-in-aid from the CFCs and SFCs, and a proportion of the state's shared taxes and other budgetary transfers.

6.18 Assessing the financial position of the local bodies has been a challenging task owing to their large and growing number, coupled with the poor state of data maintenance. Despite these challenges, the Commission has, to the best of its capabilities, attempted to provide an accurate picture of the status and suitably make recommendations to facilitate further the Urban Local Bodies in meeting their responsibilities effectively and efficiently. Table 6.3 presents the revenue pattern and its composition for the ULBs over the last five years across different revenue streams.

6.19 **Own Tax and Non-Tax Revenue:** The two crucial own source income streams for the municipal bodies arise out of Own Tax Revenue (OTR) (e.g., property tax, fire tax, development charges, etc.) and Own Non-Tax Revenue (ONTR) (e.g., user charges, sewerage charges, proceeds from the sale of land or assets, etc.). Furthermore, a deeper analysis of the income streams also showed that fee such as trade license fee also form a part of the non-tax revenue of the ULBs. An overall growth is seen in own non-tax revenue with a compound annual growth rate (CAGR) of 5.9 per cent; total revenue has recorded a negative CAGR of 8.4 per cent. On the other hand, grants-in-aid shows a positive CAGR of 8.4 per cent.

6.20 **Others:** The items listed and recorded under the 'Any Other' category vary across ULBs. Hence, this category can include income from various sources--from rental incomes to other investments. However, the amount of revenue under this head is exceptionally high. **Hence, the Commission recommends the identification of specific sub-heads and streamlining the definition of this category. Additionally, the department must conduct regular checks for compliance with the same.**

6.21 State Budget Fund: This category initially included three major components, which are: (a) the shares of taxes collected by the State either on account of ULBs and transferred to them, like stamp duty, electricity duty etc. (these taxes are levied under the ULB legislation); (b) the taxes which are levied and collected by the state and transferred to the ULBs on account of state policy, like 5 per cent cess on VAT (now largely subsumed into GST) and the state excise duty on liquor; (c) the amount transmitted to the ULBs on account of state-sponsored schemes and centrally sponsored schemes. However, the last two years have seen a shift in the composition and amount of state budget funds from state taxes to state-sponsored schemes. In 2019, it comprised only two schemes-solid waste management and *Deen Dayal Upadhyay Sewa Basti Utthan Yojana*. Three additional schemes were included in 2020-21, namely *Mera Shahar Sarvottam Shahar, Jagmug Shahar Yojana and Mukhya Mantri Samagra Shahri Vikas Yojana.*

6.22 Grants-in-Aid: This component of ULBs mainly comprises financial transfers based on the recommendations from the Central and State Finance Commissions. Specific purpose grants or scheme grants announced by the higher governments also appear under this head and constitute a substantial amount of funds for the ULBs to carry out developmental works. The amount of funds being devolved and transferred to the local bodies has substantially increased over the review period from ₹ 2,178 crore to ₹ 3,256 crore.

In sum, what we can concisely infer from Table 6.3 are outlined below:

1. The trends of all own revenue sources are characterised by arbitrariness with a substantial amount of volatility, other than grants from SFCs which appears to be gradually increasing;
2. Amongst the own revenue sources, tax and non-tax revenues contribute substantially, whereas it is expected for loans and advances given by ULBs to be considerably low, however, the gap between the budget estimates and actual repayment appears to be significantly high;
3. Amongst the grants-in-aid sources, the contribution of SFC grants are much higher vis-à-vis other sources, followed by the CFC grants.

Budget Estimation

6.23 As is well-known, high dependence on

Table 6. 3: Composition of Resources to ULBs: 2016-17 to 2020-21 (₹in Crore)

Sr. No.	Component	2016-17		2017-18		2018-19		2019-20		2020-21		CAGR (per cent)
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
	Own Sources of Revenues											
1.	Own Tax Revenue	621.25	512.65	752.00	487.87	778.71	442.59	721.95	378.85	1,717.64	496.45	-0.6
2.	Own Non-Tax Revenue	1,077.60	434.60	1,037.71	568.43	1,684.35	777.97	2,175.46	634.78	2586.96	578.41	5.9
3.	Loan Repayment	153.62	3.86	163.50	4.94	162.50	8.89	153.70	17.48	153.62	22.75	42.6
4.	Any Other	1,957.04	1,251.21	1,798.66	2081.05	2041.55	980.18	1,990.75	835.28	2931.15	326.00	-23.6
	Total (A)	**3,809.51**	**2,202.32**	**3,751.86**	**3,142.29**	**4,667.11**	**2,209.63**	**5,041.86**	**1,866.38**	**7,389.38**	**1,423.60**	**-8.4**
	Grants - in - Aid											
1.	CFC Grants	427.96	301.21	536.84	433.28	474.26	177.87	972.00	730.11	609.00	560.99	13.2
2.	SFC Grants	221.50	241.32	250.00	250.00	700.00	318.00	936.42	936.42	1,493.00	1,493.00	44
3.	Centrally Sponsored Schemes	218.85	131.98	259.00	130.51	362.25	197.74	307.93	72.32	241.00	196.86	8.3
4.	State Budget Funds	1,217.80	1,217.80	2,252.40	1,818.75	1,310.31	1,305.03	154.47	48.78	518.13	292.08	-24.8
5.	AMRUT	390.00	101.76	400.00	123.50	384.00	193.44	759.84	759.84	522.00	369.19	29.4
6.	SMART CITY	184.00	184.00	400.00	204.00	200.00	101.00	100.00	7.00	344.00	344.00	13.3
	Total (B)	**2,660.11**	**2,178.07**	**4,098.24**	**2,960.04**	**3,430.82**	**2,293.08**	**3,230.66**	**2,554.47**	**3,727.13**	**3,256.12**	**8.4**

Source: Department of Urban Local Bodies, Haryana.
*BE - Budget Estimate

grants is a significant concern to the fiscal autonomy of the ULBs. It not only incapacitates them in making independent decisions for the welfare of their people but also discourages carrying out developmental work as per their discretion or need. Therefore, accurately estimating their revenue requirements and corresponding generation potential must be assessed for more efficient execution of efforts. For this purpose, an attempt has been made to evaluate the accuracy of budget estimates for the period 2016-17 to 2020-21, in Table 6.4.

6.24 Accuracy of budget estimates has been calculated as a ratio of budget estimates to actual revenue. It implies that actual own tax revenue was 82 per cent of the estimated revenue in 2016-17. From Table 6.4, it is evident that the accuracy in budget preparation and estimation has been declining over the years in the case of own-source revenues. The accuracy ratio had plunged from 57 per cent in 2016-17 to a mere 19 per cent in 2020-21. On the other hand, the ratio sees an upward trend for grants-in-aid, both in the case of CFC and SFC grants, as well as other central and state scheme grants. This is suggestive of lower collection efficiency on the part of ULBs, and hence a greater need for grants.

Resource Envelope

6.25 Having understood the composition of the resource structure in the ULBs of Haryana, it is also essential to analyse their composition and contribution to the state's GSDP. It could be seen from Table 6.5 that the value of total resources as a percentage of GSDP declined over the five-year period. So has been the trend under individual own source revenue and grants-in-aid heads. Table 6.5 presents the resource envelope of ULBs as a percentage of GSDP. A sharp decline has been registered in total resources as a percentage of GSDP from 0.78 to a mere 0.61 per cent.

6.26 Figure 6.2(a) presents the five-year aggregate percentage composition of OSR and GIA as a part of the total resource pool. The grants had risen from 50 per cent in 2016-17 to 70 per cent in 2020-21. The rise has not only fuelled higher dependency of the local bodies on the grant funds but also made the local governments complacent in pushing themselves to expand their OSR base. It further highlights the consistent decline in OSR

Table 6.4 : Accuracy of Budget Estimates

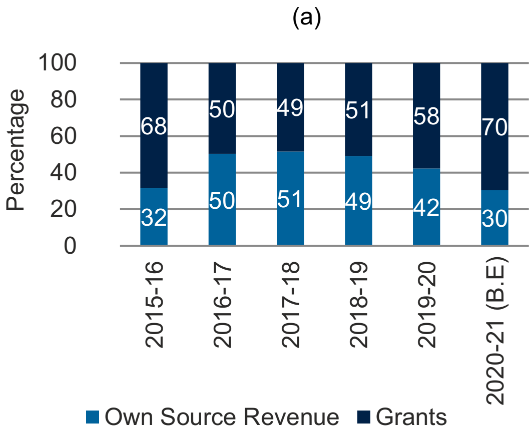
Component	2016-17	2017-18	2018-19	2019-20	2020-21
Own Source					
Total Receipts	0.57	0.72	0.47	0.37	0.19
Own Tax Revenue	0.82	0.65	0.57	0.52	0.29
Own Non-Tax Revenue	0.40	0.55	0.46	0.29	0.22
Loan Repayment	0.025	0.03	0.055	0.11	0.15
Any Other	0.64	1.16	0.480	0.42	0.11
Grants - in- Aid					
Total Grants-in-Aid	0.67	0.77	0.79	0.79	0.87
CFC Grants	0.70	0.81	0.37	0.75	0.92
SFC Grants	1.08	1	0.45	1	1
Centrally Sponsored Schemes	0.60	0.50	0.54	0.23	0.82
State Budget Funds	1	0.81	0.99	0.31	0.56
AMRUT	0.26	0.31	0.50	1	0.70
SMART CITY	1	0.51	0.50	0.07	1

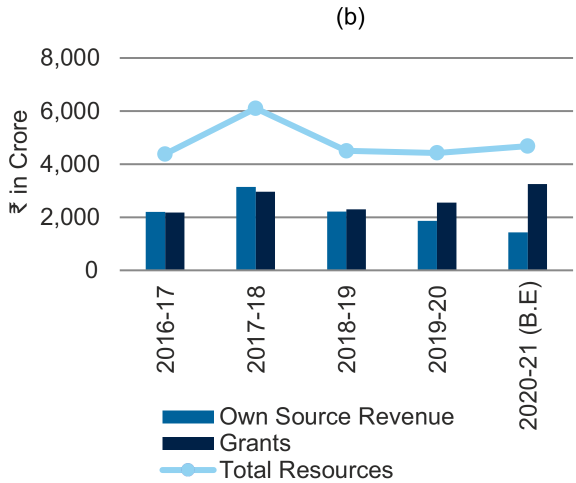
Source: Department of Urban Local Bodies, Haryana.

Table 6.5: Haryana, Resource Envelope of Urban Local Bodies					
					(₹ in Crore)
Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
GSDP	5,61,424	6,44,963	7,06,367	8,32,972	8,59,056
Total Resources	4,380.39	6,102.33	4,502.71	4,420.85	4,679.72
Per cent to GSDP	0.78	0.95	0.64	0.53	0.54
Own Source Revenue (OSR)	2,202.32	3,142.29	2,209.63	1,866.38	1,423.6
Per cent to GSDP	0.40	0.48	0.31	0.22	0.18
Grants-in-Aid	2,178.07	2,960.04	2,293.08	2,554.47	3,256.12
Per cent to GSDP	0.39	0.46	0.32	0.31	0.38

Source: Department of Urban Local Bodies, Haryana.

Figure 6.2: Resource Envelope of the ULBs





Source: Department of Urban Local Bodies, Haryana.

since 2017. Figure 6.2(b) shows the actual figures of the period and also highlights the total revenue line peaking in 2017-18 and declining thereafter.

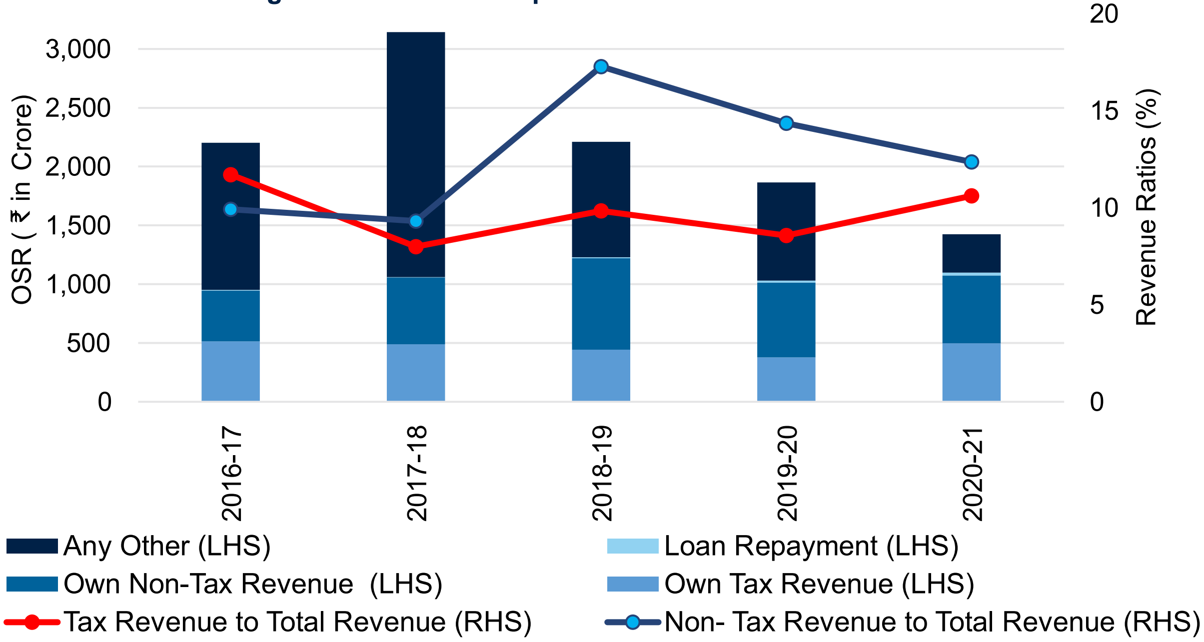
Composition of Own Source Revenue of ULBs

6.27 Taking the resource envelope break-up one step further by graphically representing it (Figure 6.3), we see that own non-tax revenue as a share of the total revenue has only increased from 9 per cent to 12 per cent, over the years, while the share of own tax revenue to total revenue has registered a decline of about 1 per cent. Even though this fall is not alarmingly high, it does point towards poor collection efficiency. Furthermore, the 'Any Other' component has consistently been soaring and accounting for a high proportion of revenue resources, which poses a challenge for the Commission in carrying out a meaningful analysis of the revenue resources. A deeper look into the composition of OSR explains the different heads under which the urban local bodies generate revenue. The same is presented in Table 6.6.

6.28 Property tax is one of the most important and largest direct tax avenues in the hands of the Haryana ULBs and thus also forms a significant portion of their revenue stream, owing to its high revenue potential. However, it can be observed that the amount of tax being collected is not coherent with the urbanisation and industrialisation rate in the state. Instead, there has been a downward trend in property tax collection. From ₹ 474 crore in 2016-17 to a low ₹ 350 crore in 2019-20, a sharp decline of 24 per cent can be observed.

6.29 In this context, it is essential to mention that the Fifteenth Finance Commission mandates fixation of floor rates and a year-on-year increase in the property tax collections. However, instead of increasing in value each year, property tax collections have been declining and poses a significant hindrance in receiving its corresponding

Figure 6.3: Actual Composition: Own Source Revenue



Source: Department of Urban Local Bodies, Haryana.

Table 6.6: Revenue Receipts of Municipalities, 2016-17 to 2020-21 (₹ in Crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Property Tax	474.97	463.59	412.88	350.68	441.38
Motor Vehicle Tax	12.58	4.87	0.02	0.00	0.00
Fire Tax	10.97	3.74	11.72	7.31	42.54
Vehicle Driving Licence Fee	2.78	0.39	0.01	0.01	0.00
Advertisement Fee	23.44	19.14	17.33	20.02	12.02
Development Charges	56.15	81.59	103.16	82.89	96.87
Teh bazari	3.72	3.81	3.45	2.99	2.17
Fee and Fines	6.10	5.91	9.42	22.23	15.39
Rent	47.30	39.33	44.47	61.57	41.27
Interest	114.26	155.40	213.77	224.31	113.43
Licence Fees	17.47	17.64	22.09	12.02	9.47
Sales on land	9.50	18.58	102.15	35.43	81.67
Miscellaneous	140.18	209.60	206.08	135.70	174.36

Source: Department of Urban Local Bodies, Haryana.

grants. Thus, such a situation demands urgent action in order to make the ULBs more efficient in the collection but also self-sustainable.

6.30 The Commission further gathered interesting insights from a study assigned to and conducted by Janaagraha, results of which are presented in Tables 6.7 (a) and 6.7 (b). Sixty-one ULBs have been considered for the analysis since the annual financial statements (AFS) of all 92 ULBs are not available for all years. In comparison, the AFS of these 61 ULBs were available in the public domain (DULB portal) for the 3 years, that is, 2017-

Table 6.7 (a): Analysis of Property Tax to OSR (₹ in Crore)							
Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	Total	Average
Property Tax Revenue (₹ Crore)	474.97	463.59	412.88	350.68	441.38	2143.51	
Total OSR	2202.32	3142.29	2209.63	1866.38	1423.60	10844.21	
Property Tax to OSR (Per cent)	22	15	19	19	31	20	21.2
Property tax YoY Growth Rate (Per cent)		-2	-11	-15	26	-2	-0.4

Source: Department of Urban Local Bodies, Haryana.

18, 2018-19 and 2019-20. Property tax accounted for 21 per cent of own-source revenues, on average, across the five-year review period, which has increased substantially from 15 per cent in 2017-18 to 31 per cent in 2020-21. In 2020-21, the property tax revenue rose significantly in absolute terms, from ₹ 350 crore in 2019-20 to ₹ 441 crore in 2020-21 (i.e., 25 per cent growth), the own source revenues (OSR) base has in fact shrunk, from ₹ 1,866 crore in 2019-20 to ₹ 1,423 crore in 2020-21 (i.e., 23 per cent de-growth), which has contributed to this increase in the share of property tax revenue to total OSR in 2020-21. This is a consequence of the COVID-19 pandemic. On the other hand, Table 6.7(b) highlights the volatility of property tax over the last three years. It brings to the surface the average negative collection rate of 14 per cent in the case of Corporations. For Councils this had only declined in 2019-20,while the Committees have shown a positive trend in such collections.

6.31 Table 6.8 highlights the two major generators of property tax in Haryana– Gurugram and Faridabad. The two Corporations are among the largest in Haryana and contributed 65 per cent of total property tax revenue in 2019-20.

6.32 A significant concern towards tapping its tax potential, among others, has been the lack of a comprehensive database of all the taxable properties. Nevertheless, in the last five years, there have been steps taken towards the augmentation of the property tax base in the form of the property tax survey. It has enabled the mapping of over 40 lakh properties in the urban areas and the process of assigning a unique ID for each such property is underway. These measures have been instrumental in technologically transforming the tax landscape in Haryana with digital monitoring of properties and their tax fulfilments. However, it needs to be acknowledged that the survey has been ongoing for

6.33 It must also be pointed out that the fixed property tax rates pose a hindrance in expanding the tax base and hence merit consideration for revision of rates as a policy measure. Property tax is being collected as per formula/provisions of Notification dated 11 October 2013. As the current recovery of property tax is also poor due to the COVID-19 pandemic, the Government of Haryana has waived off 25 per cent property tax for the year 2021-22 and also extended the annual rebate of 10 per cent from 31 July 2021 up to 30 September 2021 to improve the recovery of property tax. Staff shortages and their capacity building are also major concerns.

6.34 **Therefore, the Commission recommends a review of the existing structure of property tax rates and congregate it with the new measures being taken to digitise this area of**

Table 6.7 (b): Property Tax Growth Rate in Haryana's ULBs (Analysis of Annual Financial Statements of 61 ULBs) (₹ in Crore)									
Particulars	Corporations			Councils			Committees		
	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Property Tax Collections (₹ Crore)	422	342	311	12	17	14	6	9	10
Y.o.Y. Growth Rate (per cent)	-	-19	-9	-	44	-19	-	55	10
Average Growth Rate (per cent)	-14			12			33		

Source: Annual financial statements of 61 ULBs available on DULB portal for years 2017-18 to 2019-20.

taxation and make it accessible to those without the knowledge of the internet. It may be considered to redesign the tax structure based on the value of the properties concerned.

6.35 While motor vehicle tax has been discontinued, Fire tax is being collected as a proportion of the property tax. From 1 April 2017, the Government of Haryana has established a separate Directorate of Fire Services, integrating fire services operated through various agencies. Table 6.9 shows that there exist wide variations in the collection of fire tax, with a significant rise in 2020-21.

6.36 Further, Section 117 of Haryana Municipal Corporation Act, 1994, and Section 70 of Haryana Municipalities Act, 1973, provide for levying of 'a development tax on the increase in the value of the land or building comprised in a scheme put into operation within the Municipal area' and 'a development tax on the increase in urban land values caused by the execution of any development or improvement work' respectively. The estimated revenue potential from Development charges, is far greater than what is being collected at present, and if exploited appropriately, it will prove to be an important avenue for revenue generation and source of financing for other developmental works in the urban areas. This concept is further discussed in Chapter 10 under recommendations proposed for Land Value Capture. 'Interest' shows extremely high amounts of income which is understood to be generated from interest on loans advanced, fixed deposits, other investments and so forth.

Table 6.8: Haryana Property Tax Collection by ULB in 2019-20			
Sr. No.	Particulars	Amount (₹ in Crore)	Percentage
1	Total Property Tax Collection	350.7	100
2	Gurugram	167	48
3	Faridabad	58.52	17

Source: Department of Urban Local Bodies.

Table 6.9: Haryana: Fire Tax collection by the ULBs, 2016-17 to 2020-21 (₹ in Crore)					
	2016-17	2017-18	2018-19	2019-20	2020-21
Fire Tax	10.97	3.74	11.72	7.31	42.54

Source: Department of Urban Local Bodies, Haryana Urban Local Bodies.

Box 6.1: Excerpts from Stakeholder Consultations

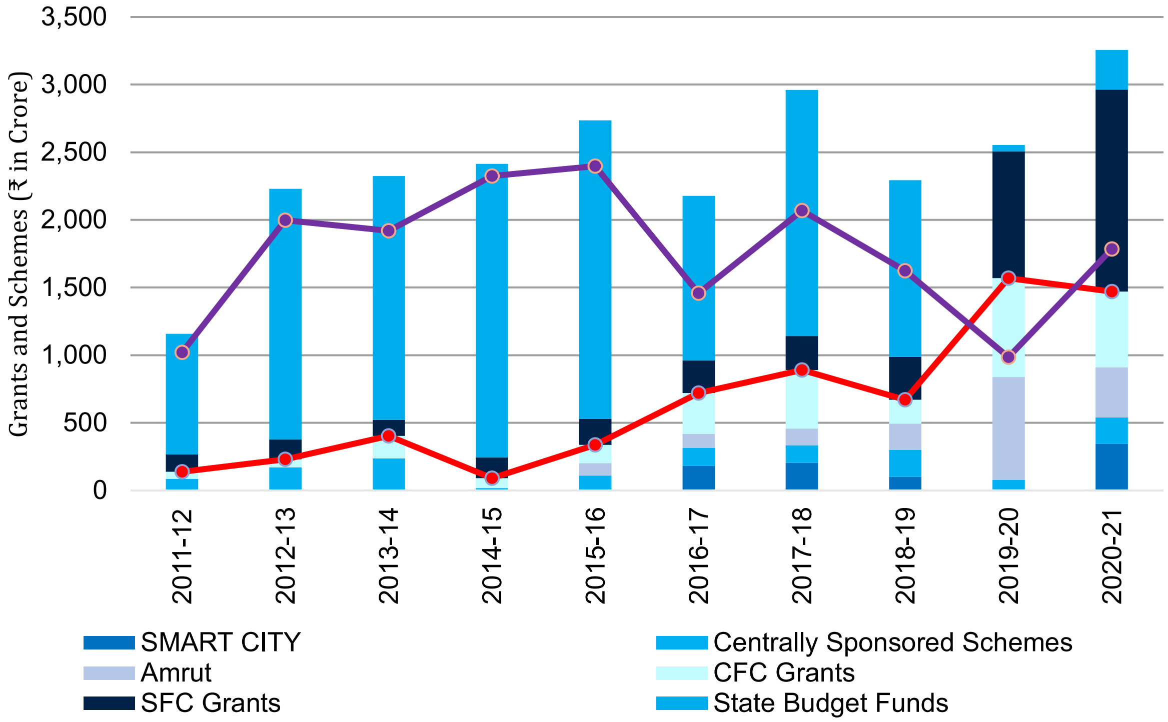
Stakeholder meetings held by the Commission, with the representatives and officials of urban local bodies, at Haryana Institute of Public Administration (HIPA), Gurugram revealed that Gurugram Municipal Corporation has been able to increase its tax base substantially by digitising the tax payment portal and offering rebates to those paying their dues on time. However, this has still not achieved its collection potential due to the legal and technical challenges in the property tax laws. The current framework of fixed rates does not consider the geographical valuation of the locality or the property but instead has fixed tax rates, widening the disparities among the wealthy and the poor.

Table 6.10: ULBs Receipts of Shared tax 2016-17 to 2020-21 (₹ in Crore)

Components	2016 -17	2017 -18	2018 -19	2019 -20	2020 -21
Stamp Duty	471.72	992.89	596.87	627.96	453.10
State Excise Duty	133.04	243.85	118.63	23.59	0.97
Surcharge on VAT	1,074.71	1,739.30	588.78	0.00	0.00
Vehicle Tax	12.58	4.87	0.02	0.00	0.00
Total	**1,692.04**	**2,980.92**	**1,304.30**	**651.55**	**454.07**

Source: Department of Urban Local Bodies, Haryana.

Figure 6.4: Actual Composition: Grants-in-Aid



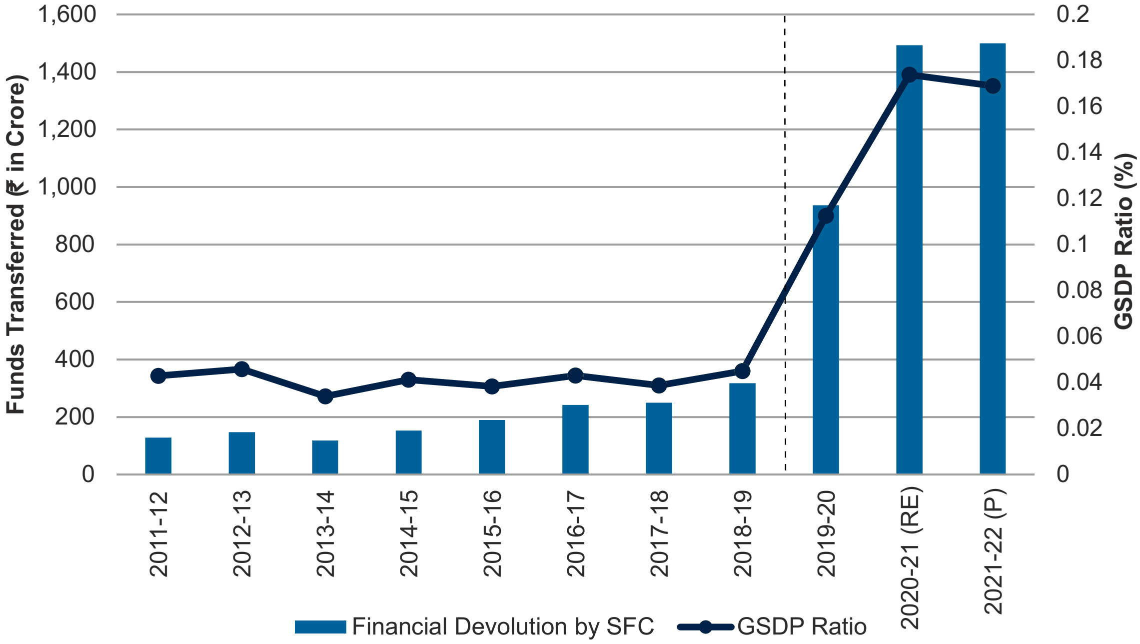
Source: Department of Urban Local Bodies, Haryana.

Assigned Revenues

6.37 Assigned revenue or shared taxes are either levied by the state or the municipality but not directly collected by the municipality. The State collects the taxes and distributes a proportion of the collected amount to the respective ULBs; and so, they constitute a substantial proportion of their total revenue pool. Major taxes under this category are listed in Table 6.10.

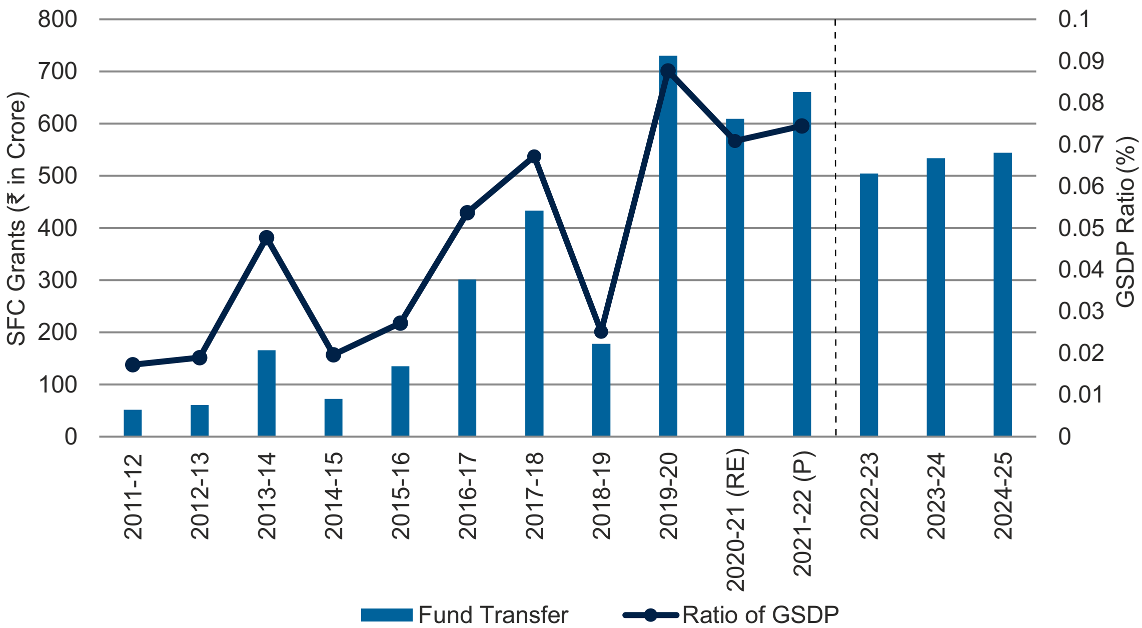
6.38 It could be seen from Table 6.10 that all the shared taxes show wide variations. Initially, assigned revenues showed growth but dampened post 2017-18. The most significant and consistent tax has been additional stamp duty. This is levied on immovable properties situated within the jurisdiction of the municipalities. This duty is 2 per cent of the

Figure 6.5: Total Funds Devolved to ULBs on Account of SFC



Source: Budget Document, Fifth SFC Report.
Note: Slacked line separates the Third SFC period with the Fifth SFC period.

Figure 6.6: Total Funds Devolved to ULBs on account of CFC



Source: Fifth SFC, Fifteenth Finance Commission Report, Budget Documents.
Note: Slacked line separates the actual devolutions with recommended devolutions.

property transaction value, which was completely distributed to the municipalities. However, this duty is now shared equally between the state and municipalities equivalent to1 per cent of the property transaction value. The interactions with representatives highlighted their views on this decision, where most of them wanted distribution of the full 2 per cent rate to be restored. Nevertheless, considering the abundance of financial transfers already being made towards the ULBs, the Commission stands by the decision on stamp duty distribution.

6.39 Surcharge on VAT has declined to nil in 2019-20 as VAT was discontinued in July 2017 with the introduction and implementation of the Goods and Services Tax (GST), except on petroleum products and liquor. However, the amount collected in 2018-19 and 2019-20 owe largely towards the arrears of previous years. State share in excise duty has also witnessed a steep fall over time due to its discontinuation in 2018-19. On an overall scale, assigned revenue collection has witnessed a steep decline over the years.

Composition of Grants-in-Aid

6.40 Preceding sections of this chapter analysed the own sources of revenue levied and collected and taxes shared by ULBs in Haryana. To gain a comprehensive understanding of the revenue side, it is imperative to look into the grants offered to these ULBs, under the central and state schemes, CFC and SFC. The break-up of such grants is presented in Figure 6.4. The broad heads include the CFC grants, SFC grants, centrally sponsored schemes, and state schemes.

6.41 Figure 6.4 shows a high variation in grants-in-aid but also a steady overall rise over the years, as indicated in our resource tables earlier. The SFC and CFC grants have been contributing significantly to this rise, with a considerable jump seen in SFC

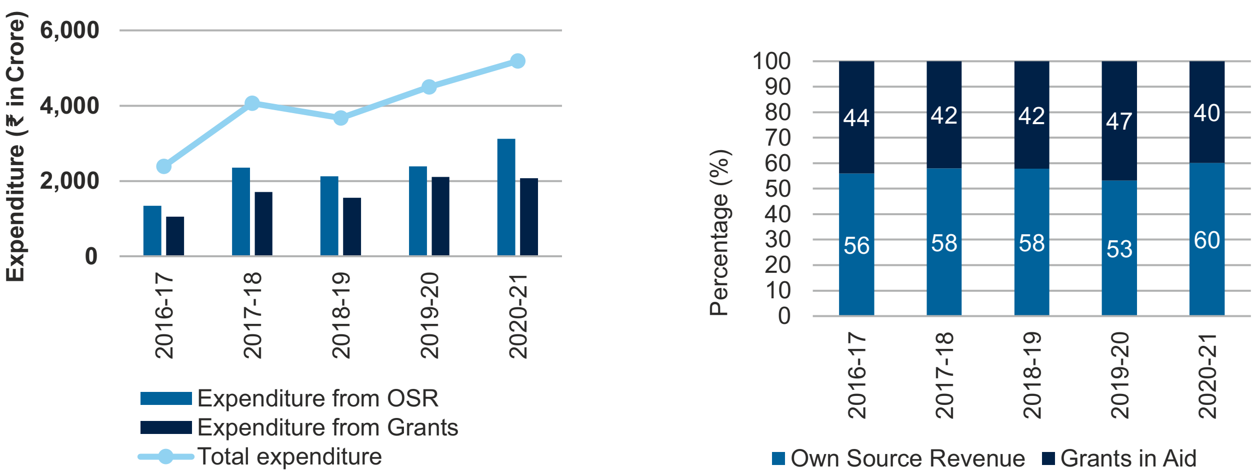
Table 6.11: Haryana Disaggregation of Expenditure from Municipal Fund: 2016-17 to 2019-20

(₹ in Crore)

Components	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure	**2,388.64**	**4,061.01**	**3,672.42**	**4,496.39**	**5,184.94**
Expenditure from Municipal Funds	1,338.04	2,354.68	2,122.39	2,391.44	3,116.14
Expenditure from Grants	1,050.60	1,706.33	1,550.03	2,104.95	2,068.80

Source: Department of Urban Local Bodies

Figure 6.7: Expenditure Envelope of ULBs Receipts of Shared tax 2016-17 to 2020-21



(a) **(b)**

Source: Department of Urban Local Bodies

recommendations between 2018-19 to 2019-20. A substantial decline in the state budget funds has also been noticed. Further, the two-line graphs depict the totals for central grants and state grants, respectively.

CFC and SFC Transfers to the ULBs

6.42 Previous sections have highlighted the importance and position of grants in the revenue base of urban local bodies. It is evident that they not only form a significant portion of their revenue but also the ULBs are heavily and increasingly dependent on them for their functioning.

6.43 Figure 6.5 shows the financial transfers made to ULBs as per the recommendations of the SFC. Funds devolved to the ULBs had been relatively stable until 2018-19 but rose sharply after the Fifth SFC recommendations. The Third SFC recommendations lasted for a prolonged period of eight years, owing to the lapse of the period of the Fourth SFC and hence its recommendations could not be implemented. On the other hand, we also reviewed the pattern of financial transfers to ULBs as per the recommendations of the Central Finance

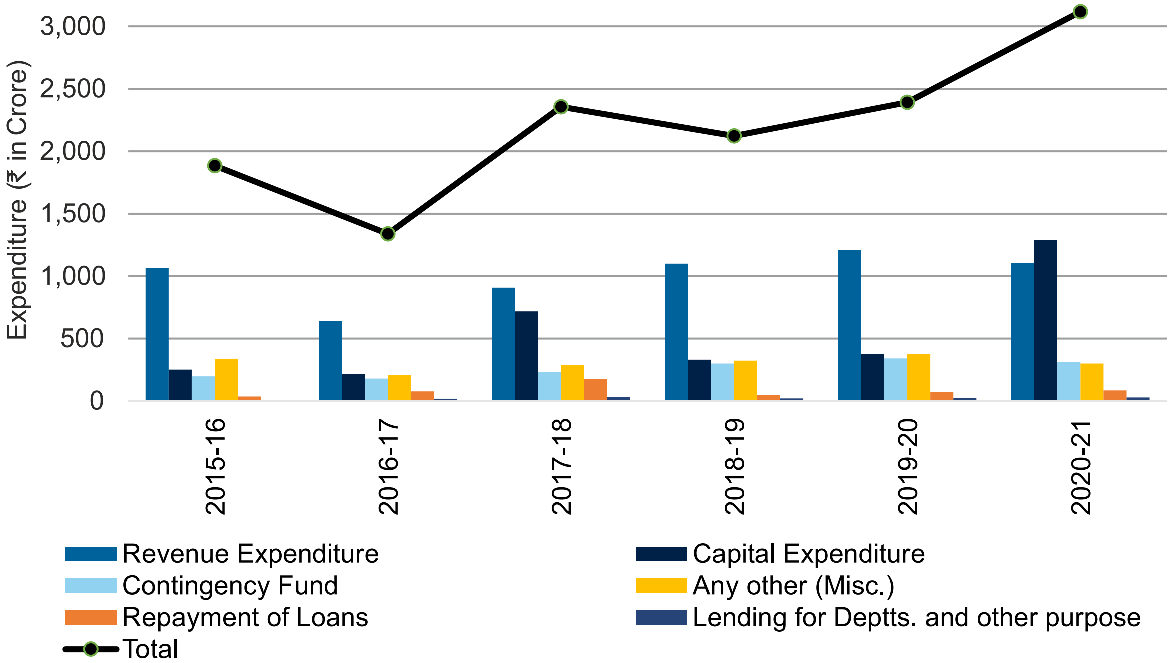
Table 6.12: Haryana Disaggregation of Expenditure from Municipal Fund: 2016-17 to 2020-21

(₹ in Crore)

Components	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure (A+B)	**2,388.64**	**4,061.01**	**3,672.42**	**4,496.39**	**5,184.94**
Total Expenditure from MC Funds (A)	**1,338.04**	**2,354.68**	**2,122.39**	**2,391.44**	**3,116.14**
Revenue Expenditure	640.01	907.49	1,100.19	1,207.78	1,103.17
Lending for Departments and Other purpose	17.60	33.24	19.37	22.32	27.89
Capital Expenditure	217.63	717.28	330.38	372.95	1,289.76
Contingency Fund	179.58	234.06	299.64	341.74	311.72
Any Other (Misc.)	206.74	286.85	323.66	374.09	299.10
Repayment of Loans	76.47	175.75	49.15	72.55	84.49
Total Expenditure from Grants-in-Aid (B)	**1,050.60**	**1,706.33**	**1,550.03**	**2,104.95**	**2,068.80**

Source: Department of Urban Local Bodies

Figure 6.8: Expenditure from OSR



Source: Department of Urban Local Bodies

Commission, in Figure 6.6.

6.44 Unlike the SFC funds, the CFC funds show several peaks and troughs over the years. One such sharp fall was visible in 2018-19. On further investigation of this variation by the Commission, it was informed that the CFC funds are transferred to the ULBs on a quarterly basis. Due to the delay in the transfer of funds or the lapse of the financial year, the funds were not recorded in that year as received for that particular year.

Expenditure pattern of the ULBs

6.45 An in-depth assessment of the expenditure side on the part of the Commission, remains crucial to ensure that the money is being utilised judiciously, effectively, and efficiently in achieving the targets and objectives that it has been assigned for and its benefits are being trickled down to every last person. Table 6.11 below displays the break-up of expenditure from municipal funds and grants-in-aid. Here, municipal funds are used as an alternative to the own sources of revenue of the municipalities.

6.46 Figure 6.7(b) graphically represents the percentage composition of spending carried out through the two broad components. Own source revenue remains the dominant spending source. While this is an ideal result, it is also an interesting one. The result seems to be contrary to our hypothesis regarding over-dependency of municipalities on grants and lesser on their own revenue streams. The Commission, hence, corroborates this analysis in the latter part of the chapter.

6.47 Table 6.12, further, lays out the expenditure envelope of the municipalities. Revenue expenditure, which consists of salaries, operation and maintenance, and administrative expenses, constitutes the major portion of total expenditure. The table shows a lot of variation in expenditure pattern and does not show a specific trend in spending. While the revenue expenditure has risen in absolute terms, its proportion in total expenditure has fallen from 26.8 per cent (2016-17) to 21.2 per cent (2020-21). On the other hand, the percentage of capital expenditure sharply rose from 9.1 per cent to 24.8 per cent. This could be indicative of huge infrastructural developments carried out in Haryana over the last five years. The 'Any other' component remains high in value, but due to lack of information on its sub-components, the nature of its expenses

Table 6.13: Haryana, Per Capita Receipt of Selected Municipal Corporations: (By Broad Categories, 2019-20) (₹ in Crore)

Components	Faridabad	Gurugram	Panchkula	Panipat	Rohtak
Population as per Census 2011	14,14,050	8,76,969	3,03,746	6,23,571	3,74,292
Total Receipts (₹) in Crore)	556.51	473.99	50.42	59.19	78.69
Per Capita Total Receipts	3,935.55	5,404.89	1,660.01	949.28	2,102.26
Own Tax Revenue (₹ in Crore)	61.05	184.30	6.88	8.48	19.71
Per Capita Own Tax Revenue (₹)	431.72	2101.53	226.44	135.94	526.54
Own Non-Tax Revenue (₹ in Crore)	119.79	189.93	19.49	36.10	28.69
Per Capita Own NonTax Revenue (₹)	847.16	2165.74	641.51	578.92	766.46
Other (₹ in Crore)	375.67	99.77	24.06	14.62	30.29
Per Capita Other Receipts (₹)	2,656.68	1,137.62	792.06	234.42	809.26

Source: Department of Urban Local Bodies

Table 6.14: Haryana, Per Capita Receipt of Selected Municipal Councils: (by Broad Categories, 2019-20)					
Components	Bahadurgarh	Jind	Kaithal	Palwal	Sirsa
Population as per Census 2011	1,70767	1,67,592	1,44,915	1,31,926	1,82,534
Total Receipts(₹ in Crore)	27.61	14.81	14.16	16.77	19.11
Per Capita Total Receipts (₹)	1,616.83	883.67	976.94	1,271.52	1,046.69
Own Tax Revenue(₹ in Crore)	1.86	0.97	1.48	0.97	3.32
Per Capita Own Tax Revenue(₹)	109.04	57.65	101.86	73.62	181.61
Own Non-Tax Revenue(₹ in Crore)	3.43	2.52	3.46	3.31	10.08
Per Capita Own Non-Tax Revenue (₹)	201.03	150.57	238.55	251.26	552.25
Other (₹ in Crore)	22.32	11.32	9.22	12.49	5.71
Per Capita Other Receipt (₹)	1,306.76	675.45	636.53	946.63	312.83

Source: Department of Urban Local Bodies.

remains uncertain.

6.48 On assessing the expenditure pattern, it was revealed that there exist many fault lines in the expenditure data available with the department. Due to the inconsistencies in the way of recording expenditures among ULBs, it often becomes difficult to estimate the expenditure requirements. In this regard, the Commission is of the view that better budget, accounts, and audit measures need to be established. Hence, **the Commission recommends the revision of accounting codes and the formulation of the state municipal accounts manual in order to streamline the budget preparation by the ULBs.** This will increase accuracy in estimating actual budget needs. These aspects are further discussed in greater detail in Chapter 8.

6.49 Major portion of the revenues of ULBs is spent on the establishment, leaving very little for development works and providing civic amenities. Most ULBs are often not even in a position to pay salaries to all their employees, which has also further deteriorated due to the revision of pay scales and other allowances on state government pattern.

Per Capita Comparative Analysis

6.50 Seeing the state of fiscal health in the ULBs, the Commission has extended the per-capita macro analysis from the Fifth Finance Commission, Haryana, by comparing certain Municipal Corporations, Councils and Committees based on their own tax/non-tax revenue along with its corresponding per capita values. This exercise is crucial to better understand the broad per-capita revenue patterns in different municipalities over time.

6.51 Table 6.13 in this series reflects five Municipal Corporations, among which, vast variations can be observed in all revenue components. The per-capita income differences across Corporations reveal huge disparities between them. Gurugram stands at ₹ 5,404 compared to ₹ 949 for Panipat, which is approximately six times in value. A similar but relatively narrower variation can be seen in the case of Municipal Councils shown in Table 6.14. Additionally, the difference between per capita's of Bahadurgarh and Jind lowered to 46.3 per cent in 2019-20 from 58.3 per cent in 2015-16 (As per the Fifth Finance Commission Report). Table 6.15 further carries out the same comparison across certain municipal committees, and it can be observed that the least variation in per capita exists in this case.

6.52 The observations highlighted from this analysis are threefold: (a) disparities in per capita receipts are greater in Corporations followed by Councils and then Committees; (b) the share of grants has continuously been increasing as seen in the previous section while a downward trend is observed in the own tax revenue, own non-tax revenue and 'Any other' heads; (c) there lies extensive variation in revenue potential and fiscal capacity within and across different classes of ULBs.

6.53 Though this analysis underlines some significant points, it, however, leaves out an important factor, that is, collection effort exerted on the part of local bodies to sustain and expand their OSR base. Hence, while the Commission recognises that certain ULBs are endowed with higher capacity to generate income from their own sources, it also keeps in view other smaller municipal bodies are lacking such capacity, compelling them to rely more on grants. Despite this, the ULBs must not become complacent and increase their dependence on transfers from higher governments. They must push towards achieving the objective of 'self-reliance at the local level' in the spirit of 74th Constitutional Amendment.

6.54 This per capita comparative analysis prompted the Commission towards adopting a normative approach and providing a level playing field to all the municipalities. To compute fiscal gaps, the normative approach plays a paramount role, in which revenues are analysed based on the capacities of ULBs while expenditures are analysed based on the requirements. The predominant aim of this exercise has been to ensure greater fiscal equalisation by correcting inter-jurisdictional spillovers, which then is highly critical to fixing fiscal profligacy given the resource constraints of ULBs in mind. Besides, this was highly imperative because

Table 6.15: Haryana, Per Capita Receipt of Selected Municipal Committees (by Broad Categories, 2019-20) (₹ in Crore)

Components	Jhajjar	Meham	Nilokheri	Nuh	Samalakha
Population as per Census 2011	48,424	20,484	17,938	16,260	39,810
Total Receipts (₹ in Crore)	4.56	1.88	1.48	1.54	3.70
Per Capita Total Receipt (₹)	941.97	917.40	827.41	947.54	930.12
Own Tax Revenue (₹ in Crore)	0.62	0.25	0.18	0.08	0.80
Per Capita Own Tax Revenue (₹)	128.32	121.75	98.45	48.28	201.33
Own Non -Tax Revenue (₹ in Crore)	1.42	1.33	0.52	0.63	0.57
Per Capita Own Non -Tax Revenue (₹)	294.13	648.02	288.88	388.38	142.53
Other (₹ in Crore)	2.52	0.30	0.79	0.83	2.33
Per Capita Other Receipts (₹)	519.52	147.63	440.07	510.89	586.26

Source: Department of Urban Local Bodies

Table 6.16: Per Capita Normative Expenditure and Normative Revenue across ULBs

Category	Population	Per Capita Normative Revenue	Per Capita Normative Expenditure
1	< 50K	525	1,517
2	50K-1L	682	1,545
3	1L - 3L	1,395	1,387
4	3L - 5L	2,404	1,403
5	5L - 10L*	28,253	1,400
6	> 10L**	12780	1,326

Source: Commission's own calculations.
Note: *Gurugram, **Faridabad.

of the heterogeneous population from different socio-economic categories with differing degrees.

6.55 Hence, with the aim of delving deeper into the equity principle for ULBs, the Commission further divided the three categories of ULBs into six categories based on their population size; and dampen the effect of outliers. The Commission then exercised the approach and calculated the normative revenues and expenditures for each of the ULBs by extensively studying their actual data and running statistical tests to arrive at the values presented in Table 6.16.

6.56 Table 6.16 highlights the stark mismatch in the per-capita revenue and expenditures of the ULBs. Category 1 and 2 representing all Committees and a majority of Councils respectively, suffers from acute deficit of funds, while the rest of the Councils are operating nearly at a break-even point. Corporations in this regard, reflect a surplus. This disparity among the ULBs creates challenges in service delivery. **It then becomes imperative that ULBs employ the powers assigned to them in the municipal acts and strive to expand their resource pool by levying appropriate taxes, fee, and fines, like the professional Tax.**

Resource Gap Analysis, and Bridging the Resource Gap: Ways and Means

6.57 Haryana ULBs still have a long way ahead before they can sustain themselves on their own resource pool. The dependence on higher governments has now become a deep-rooted challenge. **Hence, the Commission believes the problem lies not in the shortage of funds with the municipalities but rather in their poor utilisation. Only proper maintenance of accounts and utilisation reports, itself cannot prevent unscrupulous use of funds. Thus, the Commission recommends a review of the status of financial transfers and their detailed utilisation reports.**

6.58 This argument has also been reasoned in the following analysis conducted by Janaagraha, for

Table 6.17: Aggregate Financial Position of ULBs (₹ in Crore)

Component	2016-17	2017-18	2018-19	2019-20	2020-21
I. RESOURCE ENVELOPE					
A. Own Source Revenue (MC Funds)	2,202.32	3,142.29	2,209.63	1,866.38	1,423.60
B. Grants in- Aid	2,178.07	2,960.04	2,293.08	2,554.47	3,256.12
C. Total Receipts (A + B)	4,380.39	6,102.33	4,502.71	4,420.85	4,679.72
II. EXPENDITURE ENVELOPE					
D. Total Expenditure from MC Funds	1,338.04	2,354.68	2,122.39	2,391.44	3,116.14
E. Total Expenditure from Grants-in- Aid	1,050.60	1,706.33	1,550.03	2,104.95	2,068.80
F. Total Expenditure (D + E)	2,388.64	4,061.01	3,672.42	4,496.39	5,184.94
III. SURPLUS / DEFICIT					
G. Surplus/Deficit from MC Funds (A- D)	864.28	787.61	87.23	-525.06	-1,692.54
H. Surplus/Deficit from Grants- in- Aid (B - E)	1,127.47	1,253.71	743.05	449.52	1,187.32
I. Overall Surplus/Deficit (G + H)	1,991.75	2,041.32	830.28	-75.54	-505.22

Source: Department of Urban Local Bodies

the Commission. The present overall financial position of ULBs in Haryana is captured in Table 6.17. The ULBs were in surplus during the first three (out of five) years of the review period, with highest overall surplus recorded in 2017-18. Aggregate MC funds (own revenue receipts) were also highest in 2017-18, while grants- in- aid (i.e., transfers from central and state government) were highest in 2020-21, which depicts increased dependency of ULBs on the grants-in-aid in the last two years of the review period. This could also be due to the increased spending arising because of the pandemic, and hence higher financial transfers. However, the ULBs should have been able to sustain themselves largely via the surplus attained in the previous years, yet extremely high deficits have been seen.

Capacity Gap and Its Impact on Municipal Services

6.59 The Sixth SFC interacted with several officials and commissioned multiple studies to understand better the state of staff employed and their skill sets in various departments of the ULBs of Haryana. What the Commission could determine is that while the number of urban local bodies is growing rapidly and dynamically, the same cannot be said for its human resources and their capacities. These local governments are rife with the absence of role awareness, skill enhancement and inadequate training.

6.60 A common concern raised by most of the elected representatives was associated with the shortage of personnel to carry out even routine work. Lack of technical skills also poses challenges in recruiting people, hence creating further shortages of legal, IT and accounting professionals. The Commission was also informed that many of the elected representatives did not receive proper training before assuming roles in their respective jurisdictions, and hence were not cognisant of the powers, responsibilities and knowledge that came with it. Thus, not only these local governments are functioning on low capacity but also on a weak foundation, in most cases.

6.61 While there exist formal training institutions to impart these skill sets on the side of rural local bodies, like HIRD Nilokheri and HIPA Gurugram, no such institutional arrangement had been established so far for ULBs. At best, there have just been scattered arrangements for urban training programmes, which also often do not reach all the beneficiaries, thus being ineffective in providing a

Box 6.2: MoHUA Guidelines for Capacity Building

The Ministry of Home and Urban Affairs published a report on Capacity Building Scheme for local bodies and provided detailed suggestions on the same. The ULBs in Haryana can also consider its implementation in ways suited to them. Below are some of those suggestions tailored to the context of this Commission's report.

- Project Management Unit (PMU): Under the JNNURM, MoUD supported PMUs at state levels. In case of Haryana ULBs, the SFC recommends that the ULB department can float tenders for capacity building and training of all its officials and non-officials, to autonomous institutions like National Institute of Urban Affairs, All India Institute of Local Self Government, National Institute for Public Finance and Policy, etc., in collaboration with state institutes like HIPA.
- Training of Women (Elected) Representatives: In stakeholder consultations, it was observed that the jurisdictions which were represented by women, in reality, were often controlled by their male spouses. This form of suppression could have risen due to several factors like unpopularity of the spouses, insufficient education of women, or mere gender dynamics. MoHUA directs that women representatives be provided proper training, to play a dual role of acting as a member of the local body as well as impacting women positively with their work. This initiative will not only empower them but also enable them to carry out their responsibilities without external control or pressures from their families.
- Peer Experience and Reflective Learning (PEARL): This initiative was launched under the JNNURM in 2007, to create manageable networks for Knowledge and cross-learning among JNNURM cities. A similar initiative can be replicated at the Haryana ULBs level, where the officials and non-officials cab experience peer-to-peer learning, discuss best practices in different ULBs, IT training, exposure visits from officials of better performing states, etc.

level playing field to the local bodies. It is only recently that a Centre for Urban Management was set up in HIPA, Gurugram. This will be serving the purpose of providing training to urban elected representatives and functionaries and carrying out formal and regular research on urban governance and administration as well as citizen perceptions.

6.62 **The Commission recommends that HIPA be entrusted the responsibility institution to lead urban capacity building from the fore and design training modules to facilitate skill enhancement, awareness, and empowerment of functionaries towards their responsibilities.** For this, it must identify their training needs, select suitable course subject matter, use effective teaching aids, cater to language requirements, etc. Such capacity building is imperative for the elected representatives to exploit the potential of the legal framework enshrined in the municipal acts to the best of their abilities. It will also facilitate in improving service delivery, responsive and tailored to people's requirements in each ULB. **Therefore, the Commission recommends that a more extensive network of such decentralised centres under HIPA must be established for sharing the burden of training every functionary in every urban local body. Further, developing proper Standard Operating Procedures (SOPs) for staff deployment and training must be put in place for smoother functioning hereon.**

6.63 Citizen awareness programmes must also be run by the urban institutes to connect with them, empower them as well as receive their participation in the form of suggestions to improve the delivery of services. Therefore, to bridge this ever-widening capacity gap, three principles must be followed: (a) capacity building of the municipal functionaries and urban managers, first, who can then enable their elected representatives to function effectively and efficiently; (b) the elected representatives then must be provided proper training and knowledge on the legislative provisions of the acts and powers that govern their local bodies; (c) this must then be trickled down to the citizens by raising awareness among them regarding their responsibilities.

6.64 **The recommendations on the urban capacity building are two-pronged: (a) empower HIPA to take on the role of urban capacity building. Further, also encourage participation from various autonomous institutions; (b) training modules must be designed to suit the purpose of capacity building. They must include topics relating to power, responsibilities, and legal provisions as well as policy, design, planning, implementation, and evaluation of various schemes.**

Fifteenth Finance Commission Recommendations: Status for Haryana ULBs

6.65 The Fifteenth Finance Commission has laid out certain conditions and criteria for the ULBs to mandatorily follow, non-compliance of which will make them ineligible for availing grants from the CFC during its award period. From the analysis

Table 6.18: Fifteenth Finance Commission's Recommendations
Recommended Grants Based on Population: Area = 80:20
Eligibility criteria to avail grants: (a) Fixed, minimum floor property tax rates (From 2022-23) and yearly increase in collection of property tax. (From 2023-24) (b) Online publication of provisional and audited accounts
Grants – 40 per cent United; 60 per cent tied grants for non-Million-Plus cities for (a) Solid Waste Management (b) Clean Drinking Water
Recommended grants to the states for incubation of new cities. (Good opportunity for Haryana to setup new cities using this grant.)

Source: Fifteenth CFC Report

above and the stakeholder interactions, it has been brought to light that the ULBs need to take urgent reforms in order to achieve those targets.

Publishing Utilisation Report

6.66 Fifteenth CFC mandates the ULBs to publish detailed reports highlighting proper utilisation of grants extended to the local governments, during the previous financial years. Currently, there is no digitisation in the process of preparing these reports and hence is prone to an inaccurate account of expenditures, from grants. IT transformation is thus required to streamline the process of preparing detailed and accurate statements.

Year on Year Increase in Property Tax Collections

6.67 In the previous sections, we saw the poor state of collection efficiency under the current property tax regime. The Fifteenth Finance Commission mandates fixation of floor rates, along with a year-on-year increase in the property tax collection.

6.68 The current declining trend in property tax collections will ultimately impact the grants that ULBs receive. Thus, such a situation demands urgent action in order to make the ULBs more efficient in the collection and self-sustainable.

Conclusion

6.69 The analysis of finances of ULBs reveals that the fiscal autonomy of the ULBs tend to shrink over time. This ensues predominantly due to their growing expenditure responsibilities against declining revenue mobilisation from their own sources, which has led to make them excessively transfers-dependent entities. Their fiscal situation is further compounded by the fact of volatile fund transfers from CFCs, SFCs and budgetary support from the state.

6.70 It is also noteworthy that within the ULBs, revenue mobilisation capacity from own sources of municipal committees is significantly lower vis-à-vis municipal corporations and municipal councils. This has become the driving factor for the Commission to embark on a normative approach for effectively computing fiscal gaps across these three institutions of ULBs.

6.71 Thus, the Commission is of the view that fiscal devolution to the ULBs in Haryana is characterised by ad-hocism, to a certain degree. Therefore, for effective fiscal devolution, the Commission realised the urgent requirement of conducting an activity mapping of the enlisted 18 subjects in order to understand what the sub-functions of each function are, how much functionaries are required pertaining to each function, and consequently, how much fund is required. This way effective fiscal devolution from many sources would produce the desired results.

Chapter 7

Strengthening Decentralised Planning in Haryana

Chapter 7

Strengthening Decentralised Planning in Haryana

Introduction

7.1 Articles 243G and 243W of the Constitution enabled the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to prepare plans for economic development and social justice, including 47 subjects listed in the Eleventh and Twelfth Schedules. The plans prepared by PRIs and ULBs would be integrated at the district level by the District Planning Committee or Metropolitan Planning Committees, constituted according to Articles 243ZD and 234ZE of the Constitution. This has been an important Constitutional provision for decentralised planning.

7.2 Operationalising decentralised planning is significant for strengthening PRIs and ULBs by awarding requisite powers and authority to them to act as the institutions of local self-government. After reviewing the progress achieved in this area at the national and state levels, this chapter discusses as to how the District Planning Committees (DPCs) in Haryana could be made more vibrant institutions for preparing and implementing decentralised plans with people's participation.

The Evolution of Decentralised Planning in India

7.3 The large size of the country, marked with economic inequality, scarcity of resources and cultural diversities, is a strong case for decentralised planning[15]. Even before Independence, scattered efforts for local planning had been made for socio-economic development. The evolution of decentralised planning with the First Five-Year Plan onward is summarised in Table 7.1.

7.4 Seeing the chronology of efforts made towards decentralised planning, it may be said that idea of local planning with people's participation has been debated a lot, but in practice, very little has been operationalised at the grassroots level. Even after the Constitutional amendment and subsequent setting up of Ministry of Panchayati Raj (MoPR) in 2004, and the constitution of some expert groups, not much headway took place in grounding decentralised planning in true spirit in India.

Decentralised Planning in Haryana

7.5 Haryana, carved out as a separate state from Punjab on 1 November 1966, inherited Panchayati Raj System, which was in vogue there. The Haryana government, in 1972-73, set up the District Planning Units (DPUs) with the objective to draw the District Development Plans (DDPs), based on the needs and potential of the area, by ensuring full utilisation of local resources and decentralising the process of planning and decision-making.

7.6 The requirements of the district, under different sectors, were obtained. The heads of the different offices at the district level worked out the requirements, without considering availability of financial resources. As in the State Plan, no separate provision for the District Plan existed. Under such a situation, the plans drawn up by the DPUs could not be accommodated in the State Plan. The requirements of each district were available with the heads of line departments, who were also aware of financial resources allocated to their departments out of the State Plan. Therefore, only departmental plans were found feasible. The funds allotted to a department were allocated to districts according to its requirements. There were no separate district plans in the state, and it was easier to identify the requirements of all the districts by the state itself. Therefore, integrated district plans were discontinued.

[15]Decentralised planning is also known as district planning, micro-planning, local planning, decentralised district planning, integrated district planning. Decentralised planning denotes an integrated, participatory and coordinated exercise for local development.

Table 7.1: Evolution of Decentralised Planning in India		
Year	**Particulars**	**Recommendations**
1951–56	First FiveYear Plan	Recognised the need to have multilevel planning at the national, state, district and local levels, and recommended Community Development Block (CDB) and (National Extension Service) NES for decentralised planning
1956–61	Second Five–Year Plan	Establishment of District Development Councils (DDCs) and Development Committees (DCs) at block level
1957	Balwantrai Mehta Committee	Three-tier system of PRIs at village, block and district level
1969	Guidelines for the preparation of district plan, planning commission	Planning methodology for drawing up the annual plan, medium-term plan and perspective plan
1977	Professor Dantawala Working Group	Block-level planning with the main purpose of eliminating poverty and unemployment
1978	Ashok Mehta Committee	Creation of district planning unit at ZP level under the supervision of its chief executive officer, and c onsisting subject specialists, such as economists, statisticians, agronomists, engineers, industry officers, credit planning officers, etc.
1984	Professor C.H. Hanumantha Rao Working Group	The methodological aspects of the district planning are based on the idea of integrated area planning within the structure of multilevel planning He also recommended three stages, namely ‘initiation’, ‘limited decentralisation’ and ‘final phase’ of progress towards decentralisation
1985	G.V.K. Rao Committee	Three planning cells: (i) Planning, (ii) District Rural Development, (iii) District Budgetary and Finance
1986	Singhvi Committee	Gram as the base of decentralised democracy and institutions of self-government Constitutional status to PRIs
1993	Chimanbhai Patel Committee	Defined the scope and content of micro -level or sub-level planning to delineate the procedure and devise steps for making micro-level planning operationally viable
1992	73rd and 74th Amendment Acts	Planning at the village and urban levels : Articles 243G, 243W, 243ZD and 243ZE
2006	V. Ramachandran Expert Group	An action programme for planning at the grassroot s level for Eleventh Five-Year Plan
2013	Mani Shankar Aiyar Committee	Activity mapping, planning and integration at the district level

7.7 In 1973-74, District Planning Boards, with sub-committees called District Planning Committees and District Executive Committees, were constituted to supervise the work of DPUs in the districts. These committees were also discontinued due to the abandonment of District Plans. In the absence of district planning, various departments of the state government prepared their plans accordingly and communicated to the district officers. At the district level, Deputy Commissioner (DC) used to review and coordinate the implementation of plan schemes. Vertical coordination was done by the heads of the departments and administrative secretaries. It is worth mentioning that during that period, PRIs were not organised in the state and, there was no participation of elected representatives of the local governments in planning. Therefore, the plan was reviewed and coordinated with the implementing departments, mainly by the DC in the district. Since the districts did not have revenue sources of their own, they were dependent on the state funds and local needs were not truly reflected in these plans.

7.8 The State of Haryana launched the Decentralised Planning Scheme in 1985-86 to execute the developmental works/schemes of local needs (Government of Haryana, Annual Plan-2010-11). In 1994-95, the Decentralised Planning Scheme was renamed as MLA's Local Area Development Scheme, but soon, it was renamed as the Decentralised Planning Scheme in 1996-97. Funds under decentralised planning were provided to the Additional Deputy Commissioner-cum-Chief Planning and Development Officer, in each district. Subsequently, District Plans were incorporated in the State Annual Plan in 2008-09 and Eleventh Five-Year Plan (2007-2012). Accordingly, The Planning Department was appointed as the Nodal Department for preparing/monitoring the District Plans in April 2006. The District Chief Planning and Development Officer was designated as Ex-Officio Member Secretary of the District Planning Committee to coordinate with different departments at the district level. In this regard, formats were designed and finalised to collect village/municipality-wise information required to prepare the District Plan. The DPU was formulating a Draft District Plan and submitting to the DPC for its approval. Funds under the District Plan Scheme were being distributed based on a formula that includes indicators, such as (a) population of district (40 per cent), (b) population of SCs in district (25 per cent), (c) number of villages in district (25 per cent), and (d) literacy gap in district (10 per cent).

7.9 In addition to poor planning machinery and infrastructural support for decentralised planning at the district level, inadequate devolution of functional and financial powers to the district and lower levels from the state were the main obstacles in strengthening decentralised planning by the local bodies.

7.10 In Haryana, insufficient attention was given to decentralised planning even after the 73rd and 74th Amendments to the Constitution. The decentralised planning, referred to in the discussion, was a scheme of the state government for benefitting local people. Subsequently, this scheme was subsumed in the District Plan scheme. Different departments in the state might be having such schemes, and for that, they might be having a separate agency for completing formalities like approval of projects etc. The decentralised planning, as an integrated, participatory and coordinated exercise for local development, has neither been conceived nor operationalised.

The Decentralised Planning Process and Practice

7.11 The decentralised planning is initiated from

Box 7.1: Decentralised District Planning

Planning involves gathering relevant data, analysing it to set priorities, matching them to available budgets, defining implementation processes and setting and monitoring targets. Decentralised district planning comprises what different planning units within a district can achieve by envisioning collectively, operating their budgets, exercising their skills and leveraging their initiative. Typically, in a good decentralised district planning exercise, each planning unit, namely panchayats at the district, intermediate and village levels, municipalities, line departments and parastatals, would prepare a plan for the execution of each of their functions and responsibilities after holding consultations with people. While collaborating and coordinating with each other, they would not, in the normal course, trespass into each other's area of responsibility unless there are definite gains to be had and with mutual consent. The final plan would result from a buckling together of these unit plans through a consultative process of consolidation.

Source: Manual for Integrating District Planning, Planning Commission of India, 2008, p. 9.

the lowest tier of the local government. Ward sabha and gram sabha are pivotal in the whole process of planning; the vibrancy of these can ensure success and dormancy as failure in the planning. Next to ward sabha/gram sabha are gram panchayats and their sub-committees that require revitalisation. Largely, sarpanch and gram sachiv influence the planning process, which is one of the major constraints in realising participatory planning at the GP level. The participation of people needs to be encouraged through the involvement of civil society organisations and effective enforcement of the provisions of the Panchayati Raj Act. Strengthening these institutions at the village level and preparing the Gram Panchayat Development Plans (GPDPs) in an inclusive and participatory manner, reflecting the needs and aspirations of all rural communities are most important. Preparation of GPDP must include determination of objectives, priorities and targets; resource estimation, mobilisation and allocation; and formulation of proposals, based on local needs and their execution, periodical review and monitoring.

7.12 The GP is a basic planning unit that needs to prepare GPDP with the help of ward panchs, sub-committees, gram sabha members, gram sachiv, officials of line departments and front-line workers like Anganwadis, ASHA etc. The plan proposal can include, among others, related to the activities, such as construction and maintenance of village streets, culverts, sanitation, drains and field channels; flood control; maintenance of school buildings and panchayat ghar; provision of drinking water, welfare of SCs, women and children, and rural self and wage-employment schemes. All the proposals are to be put in the general body meeting that approves the plan, reviews the existing programmes/schemes, approves the budget of GP, considers fresh proposals for taxation and identifies beneficiaries of development schemes. The plan approved by GP is sent to the panchayat samiti (PS).

7.13 **The Commission recommends a Planning Committee at GP level under the chairpersonship of sarpanch comprising gram sachiv, ward members and knowledgeable persons of the GP. Alternatively, the task of preparation of GPDP may be given to a committee constituted under the Panchayati Raj Act at the GP level. The plans of those GPs, which are located in the vicinity of urban centres or peri-urban zones, may be spatially linked with these centres.**

7.14 The PS prepares the Panchayat Samiti Development Plan (PSDP) by integrating all GPDPs and its own plan on the devolved subjects and forwards the draft plan to the zila parishad (ZP) that prepares the Zila Parishad Development Plan (ZPDP), by integrating all the PSDPs and its own plan, on the devolved subjects. ZP forwards the ZPDP to the DPC, which is mandated to prepare the draft development plan by integrating the rural (ZPDP) and urban development plan consisting of plans of municipal corporations, municipal councils, municipal committees and urbanisable area. The DPC also includes the plan proposals of common interest of rural and urban areas.

7.15 Previous paras highlighted the process of making the decentralised plans as per the guidelines for decentralised planning. In practice, the decentralised district planning is found to be unsatisfactory and there is scope to improve it; the institutions that are required to prepare and execute the plan need to be fully operationalised. **The GPDP needs to include the proposals of the concerned line departments and make efforts towards the integration of Centrally Sponsored Schemes (CSSs) and State Sponsored Schemes (SSSs) in the GPDP, PSDP and ZPDP.**

7.16 There is a need to establish linkages between the development plan and SDGs at all levels and the involvement of a large stakeholder base. Planning, being a political and economic process, requires a combination of political, technical and scientific exercise, with a focus on spatial parameters, economic rationality and inclusivity in decision-making. Gaps identified by the survey conducted under Mission Antyodaya in each GP need to be addressed through the preparation of GPDP.

7.17 Article 243G of the Constitution mandates panchayats to formulate their development plans for economic development and social justice by converging and integrating all such programmes of the panchayat, state and Centre, within their geographical area. Article 243W of the Constitution mandates the same for the urban areas. Article 243ZD makes it mandatory for the state governments to constitute DPC to prepare Draft District Development Plan by consolidating the plans prepared by panchayats and urban local bodies. Thus, the framework provided in the Constitution for formation of decentralised planning is required to be opertionalised in constituting DPC so that this institution functions satisfactorily.

7.18 There are weak links in the planning process at GP, block and district levels. The Fifteenth CFC also recommended grants-in-aid to PSs and ZPs to strengthen the planning process at these levels. To effectively operationalise decentralised planning process in the state, strengthening the planning infrastructure at GP, PS and ZP levels is essential. The Ministry of Panchayati Raj, Government of India's guidelines for preparing GPDP, suggested constituting an Empowerment Committee at the state level to ensure convergence of the schemes and inter-departmental coordination.

7.19 The Panchayati Raj Act of Haryana makes provisions for decentralised planning under the Panchayati Raj System. However, the field survey and focussed group discussions (FGDs), with various stakeholders reveal that the plans under the decentralised framework are not being prepared as per the set guidelines prepared by the Ministry of Panchayati Raj. During the field survey done by IIT Roorkee, it was observed that the meetings of GS are held occasionally and maintaining quorum of GS meetings is also a concern as people are less interested in participating in these meetings. There is lack of interest among the members of GS in its activities. External interference in decision-making in the village governance and ignoring concerns of GS members seems to be disincentive for the members, resulting in their absence from these meetings.

7.20 Sarpanchs and panchs are not fully aware of the provisions of the Panchayati Raj Act, and their powers and responsibilities. Most of them are not even aware of the names of sub-committees, which are vital in the making the GP functions more smooth, transparent and inclusive, but they have not yet been operationalised on the ground. Although these committees were constituted as per the Panchayati Raj Act's provisions, they are rarely operationalised to carry out their responsibilities in the panchayats.

7.21 Ward sabha has not yet been fully operationalised; formal ward sabha meetings are rarely held. The work proposed by GS members for inclusion in GPDP is often not considered, due to which their interest in the gram sabha meetings is lost. GPs are not handling all of the 29 subjects mentioned in the Panchayati Raj Act. These are also the subjects of line departments and there is lack of coordination between the concerned line departments and GP's activities. **To create coherence between the decisions taken by the GPs and line departments, the Commission urges that all concerned line departments' representatives should compulsorily attend the meetings and submit their proposals to be included in the GPDP under the convergence[16] framework.**

7.22 It has been observed that agenda and notice of the meetings of GPs are now being circulated through WhatsApp messages in large number of cases. The signatures of panchs on the meeting notice are not being taken, and a copy of the notices signed by panchs is not kept for record. The quorum of the GP meetings is, however, being maintained. Some GP members (panchs) stay

[16]Convergence may be defined as dovetailing vertical (national, state, district, block, GP levels) and horizontal (sectors such as agriculture, Industry, and services) connections for financial and non-financial resources, planning activities, information, monitoring and implementation.

outside the village in town/city and hardly attend the meeting. Therefore, effective participation of all panchs in the GP affairs is found to be lacking. Any activity/scheme executed in the jurisdiction of gram sabha should be done with prior information/approval of GP. Sometimes, assets of GS are damaged due to work done by the line departments, and these departments do not put the assets back in order after the execution of their work (for example, damage caused due to laying of water pipelines, etc.).

7.23 Most GPs do not possess computer/laptop facilities, along with printer and internet facilities in their offices. They prepare GPDP and other documents from private computer centres, on payment.

7.24 Although the government has recently enhanced women's participation in PRIs from 33 per cent to 50 per cent, the entire system needs to be made gender-sensitive (women-friendly) to implement it on the ground. Women feel comfortable interacting with women officers and staff. For example, most women of rural areas are engaged in agriculture, but there is a deficiency of female extension staff. Similar is the condition in other line departments, except education and healthcare. **Therefore, the Commission recommends that for creation of an inclusive and women-friendly atmosphere in the district offices of the departments, due representation of women should be promoted through the recruitment of sufficient number of women officials.**

7.25 Size of the GP is critical for making it an effective planning unit. Too small and too large GPs can create diseconomies of scale in delivering essential services, building productive infrastructure and their efficient functioning as autonomous institutions of local self-governance. The Second ARC suggested that the minimum size of a GP be determined on the basis of (a) potentiality for resource generation, (b) sustainability of the staff structure, (c) suitability as a unit of planning for core functions, (d) geographical cohesiveness, (e) terrain conditions and (f) communication facility within the panchayat area. Any of the two options may be considered. First, the delimitation of GPs can be worked out to make them economically and administratively viable units of local governance. Second, small GPs may be clustered, considering the geographical proximity and their resource endowments using GIS-based technology.

7.26 It was noticed in the field that the boundaries of wards have not been properly demarcated based on contiguous population. This practice is not as per the rules of demarcation of ward boundaries. **The Commission recommends that wards may be properly demarcated based on the adjacent population, wherever felt necessary.**

The District Planning Committee (DPC) in Haryana

7.27 Article 243ZD of the Constitution makes provisions for the constitution of District Planning Committee (DPC) in each District[17]. Under the DPC Rules, 1997, the Government of Haryana constituted the DPC in each district. It comprises 20 to 25 members, depending on the population size of a district. Districts with a population size up to 10 lakhs shall have 20 members, and those above 10 lakh shall have 25 members. It consists of 4/5th members elected from amongst the elected members of panchayats and municipalities in the proportion of their population and 1/5th nominated by the state government, consisting of divisional commissioner, DC, ADC and one economist in the case of 20 members, and two economists in the case of 25 members. Local MPs, MLAs belonging to the concerned district are the special invitees in its meetings. The state government appoints chairperson of the committee from the nominated members, and ADC is its ex-officio member secretary. The tenure of the elected members is in concurrence with their tenure in the respective local

[17] The Haryana PR Act states that DPC constituted under the Haryana Municipal Act, 1973 shall consolidate the plans prepared by the GPs, PSs and ZPs and also prepare a draft development plan for the district as a whole as per the provisions of Article 243ZD of the Constitution of India.

bodies.

7.28 The DPC in Haryana has a mandate to integrate rural and urban development plans and prepare the draft district plan. It covers sectors such as agricultural production, soil conservation, forests, fisheries, animal husbandry, marketing and storage, minor irrigation, primary and secondary education, district and village roads, health, water supply and sanitation, urban development, the welfare of SCs, and BCs, social welfare, housing, cooperation, and rural development and poverty alleviation programme. While preparing the plan, DPC is required to consider matters of common interest between panchayats and municipalities, including spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure, environmental conservation, etc.

7.29 The members of DPC are nominated by the Urban Local Bodies Department which consists of technical officers, that is, District Town Planner (DTP) and District Planning Officer (DPO) and elected members. The elected members are designated and notified 'by name'. Other than DTP and DPO, there is no technical officer like an engineer, agriculture officer or a health professional in the DPC, which is required in order to achieve effective planning of the District Level Committee (DLC), constituted by concerned deputy commissioner of the district, consisting of officers of various departments. The said development plan mainly prescribes the land use of the proposed town along with the amenities/facilities, infrastructure for the projected population.

7.30 The DPC has to meet at least once in three months. It needs to examine all the proposals submitted by the rural and urban local bodies and integrate them with the departmental schemes. It has to provide background information about the district, reviews past developmental efforts, sets out planning principles, makes projections and sets

Box 7.2 Constitution of District Planning Committee under Article 243ZD

(1) There shall be constituted in every State at the District level a District Planning Committee to consolidate the plans prepared by the Panchayats and the Municipalities in the district and prepare a draft development plan for the district.

(2) The Legislature of a State may, by law, make provision with respect to (a) the composition of the District Planning Committees; (b) the manner in which the seats in such Committees shall be filled: Provided that not less than four-fifths of the total members of such Committee shall be elected by, and from amongst, the elected members of the Panchayat at the district level and of the Municipalities in the district in proportion to the ratio between the population of the rural and the urban areas in the district; (c) the functions relating to district planning which may be assigned to such Committees; (d) the manner in which the Chairpersons of such Committees shall be chosen.

(3) Every District Planning Committee shall, in preparing the draft development plan,- a) have regard to- (i) matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other physical and natural resources, the integrated development of infrastructure and environmental conservation; (ii) the extent and type of available resources whether financial or otherwise; (b) consult such institutions and organisations as the Governor may, by order, specify.

(4) The Chairperson of every DPC shall forward the development plan, as recommended by such Committee, to the Government of the State.

Source: Constitution of India.

targets, fixes up the costs and estimates for the projects included in the plan, and determine the extent and type of available resources.

7.31 Presence of one-third of its members in the meeting forms the quorum. If the quorum is not met, then the chairperson has to adjourn the meeting to another day, and the business brought before the original meeting shall be transacted at the adjourned meeting whether the quorum is met or not. There is a provision of holding at least one quarterly meeting, and decisions are to be taken by majority votes, with a casting vote of the chairperson in case of equal votes for and against any decision. The chairperson shall send the draft development plan to the state government for consideration.

7.32 **The Commission recommends that the state mandatorily implement the Manual for Integrated District Planning (2008) framework prepared by the then Planning Commission. To address the capacity issues, the state should adopt the guidelines of the Framework for Preparation of Block and Development Plans for Rural Areas (2020) prepared by MoPR.**

The DPC Functioning

7.33 After examining the constitution of DPC in a few districts, it is observed that some of the rules seem to have been overlooked. For example, the DPC does not have even a single elected member from panchayats in Rohtak district. As per the rules, the representation of rural and urban local bodies has to be in proportion to the district's rural and urban population. The notification dated 11 November 2020, for the constitution of DPC in Rohtak shows that all the 20 elected members of the DPC are from urban areas.

7.34 The constitution of DPC in Sirsa, vide notification, dated 30 October 2020, does not include an eminent economist in the list of nominated members. Instead, it includes DTP, DPO and District Statistical Officer (DSO) as nominated members. Further, in the case of elected members, there is no clarity on how many are from the rural and the urban local bodies and from what levels, as their official positions/designations are not given in the notification.

7.35 The constitution of the DPC in Panchkula does not include an eminent economist as nominated member. Out of total 16 elected members, seven are from ZP, and nine are from Panchkula Municipal Corporation. It does not have any representation from PSs, GPs, municipal committees and municipal councils. As per the DPC rules, it shall have representation from all tiers of local governments.

7.36 Minutes of one of the meetings of the DPC held in Panchkula have been examined. It is observed that the meeting, which approved the Development Plan of Raipur Rani, 2031, was attended only by seven members (three nominated and four elected), and there was no member from the Municipal Corporation of Panchkula in the meeting.

7.37 The operational guidelines prepared by the Government of India for the approval of the draft development plan for the district should have been followed in the State. In a nutshell, the DPCs in the state have not been functioning to the extent desired. In fact, other issues such as technical support and capacity building of the DPCs become relevant only when they are made functional.

7.38 **The Commission recommends that the state government should empower DPCs to discharge their responsibilities effectively, as per rules. Their meetings should be held regularly. At least once a year, a DPC members' convention may be held to exchange ideas, facilitate peer-to-peer learning and develop a shared understanding of issues and concerns affecting the local population and work out an action plan to overcome them.**

Views of the Stakeholders regarding DPC

7.39 The Commission conducted division level meetings in all six divisions of the state and interacted with the senior officers like divisional commissioners, CEOs of ZP, DMCs and commissioners of municipal corporations. Their views were sought on the role of DCs in the functioning of DPCs, and whether DPCs are functioning as per Article 243ZD of the Constitution. The details of the responses of the participants are given in Table 7.2.

7.40 Only few respondents (from Rohtak, Bhiwani, Charki Dadari, etc.) reported that DPC is regularly constituted in their district, but it is not functioning as required.

7.41 District Hisar reported that DPC's meetings are organised just for the approval of the draft development plan of the town; otherwise, it rarely meets. DDMC has a more active role in monitoring the development works, and it seems that it has usurped the role of DPC in the districts. DC, Karnal suggested that DPC should be revamped with the power of distribution of District Plan Fund, as it was practiced earlier.

7.42 ZP, Kurukshetra reported that DPC is ineffective in the district and District Plan Funds are approved and implemented through DDMC. It

Table 7.2: Whether District Plans are being Prepared as per the Guidelines?

Sr. No.	District	Response
1.	Faridabad, DC	More skilled and trained manpower required for District Plan.
2.	Nuh, DC	Yes, it is being prepared as per the guidelines.
3.	Faridabad, MC	Yes, it is being prepared as per the guidelines.
4.	Fatehabad, DC	Yes, it is being prepared as per the guidelines.
5.	Hisar, ZP	DPC rarely meets except for some tasks like approving the Town and Country Planning Fund. Moreover, a separate body, District Development and Monitoring Committee (DDMC), has been created to ensure proper and timely utilisation of district plan funds in public interest and to avoid non-utilisation of funds. The Committee is chaired by the minister heading the District Public Relations and Grievances Committee in the district concerned. The DDMC has largely usurped the role of DPC in the districts.
6.	Hisar, DC	DDMC chairperson has been authorised for District Plan approval.
7.	Jind, DC	Yes, it is being prepared as per the guidelines.
8.	Sirsa, DC	DPCs should be revamped.
9.	Karnal, DC	DPC may be revamped with the power of distribution of District Plan fund as per the previous practice.
10.	Mahendragarh, DC	Yes, District Plan is being prepared accordingly.
11.	Gurugram, DC	Standard operative system should be developed at the directorate level and to bring uniformity in the rates of non-scheduled items used in the development works should be fixed every year for the ULBs.
12.	Bhiwani, DC	District Plans are being prepared. Can play critical role in project prioritisation at district level.
13.	Sonipat, ZP	Plans are not prepared.
14.	Charkhi Dadri, DC	District Planning Committee meetings are held on regular basis and District. Plans as envisaged above are being prepared.
15.	Sonipat, MC	DPC is not related to MC.
16.	Rohtak, DC	Yes, it is being prepared as per the guidelines.
17.	Palwal, MC	It is submitted that all development works are commissioned after getting approval from competent authority as per rules. MC implements all the directions given by DPC.
18.	Panckula, DC	Not being prepared as per the guidelines, and there has to be a discussion at the State level regarding the current status of DPCs.
19.	Kurukshetra, ZP	Presently DPC is not much effective. Projects under District Plan are approved by District Development & Monitoring Committee under the chairmanship of minister in-charge of District Grievance Committee. To have better and judicious utilisation of funds, DPC should be more effective and plan should be prepared in such a way that funds of all schemes are regulated through single agency.
20.	Kurukshetra, MC	To coordinate with the line departments, DC's role is very important. Under the DC's guidance, District Plan should be prepared.
21.	Rewari, DC	No such plans are prepared by the MC Rewari. ZP prepares the Plans.
22.	Ambala, DC	DPCs should be revamped.
23.	Yamunanagar, MC	Plans are not prepared.

recommended that DPC should be more effective to have better and judicious utilization of funds. The plan should be prepared in such a way that funds of all schemes are regulated through it.

7.43 A few respondents suggested that more skilled and trained manpower is required to ensure the proper functioning of the DPCs, which can play a significant role in the prioritisation of the projects at the district level. The role of the deputy commissioner is very important in the preparation of the annual decentralised district plan.

7.44 The Commission observes that even some of the respondents, who have an active role to play in district planning, have a very vague idea about the constitution and objectives of the DPC. The District Plan must be prepared by integrating the plans of both PRIs and ULBs; however, it has been reported that the plan preparation at the grassroots level is not being done. Another concern is regarding the misconception that DDMCs have taken over DPCs, while the DDMC is only for the District Plan Scheme and DPC is for the entire plan of the district.

7.45 Officers have an impression that DDMC substitutes DPC, which is not correct because the former is only for the District Plan Scheme implemented by the DESA. In contrast, the latter is supposed to examine and approve the plan of the entire district by integrating plans of the rural and

Box 7.3: Key Functions of the DPC

- Providing overall leadership to the planning process without taking away the functional responsibilities of the local governments
- Identification of local needs and objectives within the perspective of national and state goals
- Collection, compilation and updating data on natural and human resources to prepare a decentralised district plan using a solid database
- Tabation and sketch-mapping of the facilities available at the village, block and district levels
- Policy making and fixing of programmes and priorities for rational exploitation, use and development of natural and human resources
- Reviewing the plans of rural and urban local bodies, while consolidating the district plan and making sure that there is no duplication or overlap
- Preparing blueprints of annual plans for the district, consolidating the plans prepared by the panchayat and the municipal bodies and assigning the same to the state government for inclusion in the state plan
- Preparing employment scheme for the district
- Estimating financial resources for monetary support to the district plan
- Providing for finance of regional and sub-regional plans under the blueprint of the entire District Delopment Planning
- Persuasion, evaluation and review of plans of the Centre and state domains, CSS, SSS and the Local Area Development schemes
- Submission of progress reports of the plans within the district to the state government
- Ensuring cooperation of NGOs in the development process of the district
- Identifying institutional finance related plans and programmes and tagging them with the district development plan and providing necessary financial support
- Advising the state government regarding the important plans of the state in the process of the overall development of the district
- Other functions assigned by the state government, if any

urban areas of the district. DPCs in the State are lingering without any administrative and political support. The positive aspect that appeared from the stakeholders' consultation is that all senior district level officers were in favour of proper constitution and effective functioning of the DPCs for preparation, execution and monitoring of integrated decentralised district plan.

7.46 **Based on the findings of the Commission, it is recommended that the DDMC may be merged with the DPC and made fully operational. The District Plan Scheme, which the DDMC is administering, would be routed through DPC, as it used to be in the past. Similar schemes being implemented by the different departments should also be routed through DPC.**

Support for Strengthening DPCs

7.47 The preceding part reveals that DPCs have been functioning unsatisfactorily at the district level due to various reasons enumerated in the discussion. In this scenario, the question arises of what should be the possible prescription for making DPCs active. Keeping this perspective in view, some suggestions are given in the following part of the chapter.

7.48 To strengthen the DPCs, **the Commission recommends establishing a DPC secretariat at the district level encompassing experts in economics, statistics, geography, planning and management so that vertical and horizontal integration and convergence of various schemes may be addressed effectively and adequately.** The Sixth Report of Second ARC in 2006 and the Roadmap for the Panchayati Raj (2011-17): An All India Perspective, published by the MoPR in 2011, also have similar views on strengthening DPCs

7.49 **The Commission recommends creation of a separate service structure, consisting of Haryana Economic Service and Haryana Statistical Service, on the lines of Indian Economic Service and Indian Statistical Service at the central level, to provide professional and technical support to the PRIs, ULBs and other departments of the government, and subsequently operationalise decentralised planning.**

7.50 The state government established the Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM) on 3 November 2016 with the objectives of facilitating policymaking and evaluation of public finances and their management, and monitoring issues related to the SFC. The SJHIFM could provide a common platform to the ULBs and PRIs where both the departments, that is, Development and Panchayats and DULB, interact and synthesise their policies with the line departments, as per the integrated district planning framework. Currently, lack of interaction and coordination among these departments has been observed, hindering the idea of decentralised planning, consequently compromising the effective functioning of DPCs.

7.51 A grant of ₹ 70 crore recommended by the Fifth SFC has not been effectively utilised as the Institute has received merely 17.33 per cent of the total recommended grant from 2018-19 to 2020-21. **The Commission recommends that the SJHIFM should act as a think tank and support the DPCs in carrying out their responsibilities at district levels. For that, its capacity needs to be enhanced in terms of finance, human resources and requisite infrastructure.**

Spatial Planning

7.52 Spatial planning means management of space. It encompasses (a) land use management and (b) vision for holistic development by taking into account spatial patterns and processes. It is a sort of territorial management focusing on spatial planning relations within intra and inter-territories. The spatial planning prepared within the three tiers of PRIs governance system and ULBs are finally to be integrated at DPC level.

7.53 In view of the importance of spatial planning, the DPC while preparing District Plan also needs to look into spatial angles of the draft plan of the district. In fact, Articles 243G and 243W are deficient because although they prepare plans for economic development and social justice, it is not mentioned that such plans should be spatial. Only Article 243ZD, dealing with DPC, mentioned that economic and social development plans should be spatial plans.

7.54 Presently, Ministry of Panchayati Raj, GOI, emphasises on spatial planning. Recently, Rural Area Development Plan Formulation and Implementation Guidelines, 2016 are being revised in view of the developments that have taken place after 2016, such as SPMRM, Survey of Village and Mapping with Improved Technology in Village Area (SVAMITVA), emerging Census Towns, latest tools for analysing rural development through gram manchitra, etc.

7.55 In view of above background, **the Commission recommends the following with regard to spatial planning:**

1) **GP Plan Committee may be constituted at GP level under the chairpersonship of sarpanch comprising gram sachiv, ward members and knowledgeable persons of the GP. Alternatively, the task of preparation of plan may be given to any committee constituted under the Act at GP level.**
2) **In order to make village plan a reality, various maps such as base map, land use map, cadastral map, property mapping, utility and infrastructure mapping, terrain maps, surveying and mapping, village map, etc., are to be prepared for a meaningful plan.**
3) **It is observed that the village is not an isolated settlement but a part of cluster of settlements. The formation of cluster, as being done under Shyama Prasad Mukherji Rurban Mission (SPMRM), may be operationalised for optimising scarce resources.**
4) **The plans of those GPs which are located in the vicinity of urban centres or peri-urban areas may be spatially linked with these centres.**

Activity Mapping

7.56 The field observations and the FGDs reveal that both elected and official functionaries are not adequately aware of the activity mapping. Probably, the document was not circulated and widely disseminated among the functionaries. In practice, GPs' role is limited to a few functions, and most of the functions are yet to be devolved to them.

7.57 To make the PRIs and ULBs real institutions of self-governance rather than the implementing agencies of the government schemes and programmes, **the Commission recommends that all functions under Article 243G and Article 243W should be devolved to PRIs and ULBs respectively and the activity mapping is to be made for all the 47 subjects listed in the Eleventh and Twelfth Schedules of the Constitution and be effectively implemented on the ground. Adequate and trained staff may also be made available to facilitate handling of these subjects at all levels. Clear demarcation of activities at different levels is essential for decentralised planning.**

7.58 **The Commission recommends that the state government may constitute a high-level task force to look into the existing institutional arrangements at all levels, identify the bottlenecks, and suggest a new institutional framework in conformity of the provisions of the Panchayati Raj Act & Municipal Acts and prepare detailed activity mapping covering all the subjects to be devolved to local bodies.**

Strengthening Inter-District Council

7.59 The state government has constituted the Inter-District Council (IDC) under the chairmanship of Hon'ble Chief Minister to establish effective coordination and linkages with the development administration. As per the notification dated 24 July 2018, the council consists of chief minister as chairman and finance minister, development and panchayats minister, urban local bodies minister, all presidents of ZPs, all mayors of municipal corporations, all presidents of municipal councils, and all presidents of municipal committees at district HQ as permanent members. The council also consists of the non-permanent members representing PSs, municipal committees and GPs on a rotational basis. It comprises one chairperson of PS and one president of non-district HQ municipal committee from each district selected on a rotation basis, by arranging the names of PSs/committees in alphabetic order. It also includes one sarpanch to represent panchayats from each district, which is nominated by the concerned DC. Director, Swarna Jayanti Haryana Institute for Fiscal Management (SJHIFM) is its member secretary. In addition, all CEOs of ZPs, commissioners of municipal corporations and executive officers of municipal councils are special invitees.

7.60 The IDC mandates preparing district-specific credible action plans to assess the development needs of and the delegation of powers to PRIs and ULBs, and reviewing the progress of various flagship programmes of the Government of India and the state government. The IDC meeting is to be held at least once in each quarter of the financial year.

7.61 The establishment of the IDC is a pioneering initiative of the state government towards strengthening the functioning of local bodies and bringing direct democracy for the local governance. Its composition indicates that it represents the elected functionaries from all tiers of rural and urban local self-government institutions and the state government, ensuring effective coordination and linkages amongst them. It envisages delegating more powers to ZPs to enhance their administrative and financial capacities and envision their effective role in monitoring various Central and state schemes.

7.62 The IDC, constituted on the line of the Inter-State Council (ISC) set up by the Government of India, is a vital platform for the elected representatives and government officials to share their ideas on various issues related to the functioning of the local bodies. The discussions and resolutions in the IDC meetings would help the state government to make policy decisions. The minutes of the IDC meetings held so far indicate that the elected representatives deliberate on a wide range of issues, including tied and untied grants, mobilisation of own-source revenue of local bodies, coordination among elected representatives and officials, capacity building of the local bodies in terms of 3Fs, doing commercial activities on shamilat land, etc. Major decisions taken so far by the IDC are given in the Box 7.4.

Linkage of IDC with DPC: Suggestive Framework

7.63 One of the objectives of the IDC is to bring about effective coordination between and among PRIs and ULBs for their better understanding of the tasks to be performed by them. Despite various provisions in the Constitution for their empowerment and efforts made to strengthen these institutions, more concrete efforts are needed so that not only quantitative but also qualitative developmental works are visible at grassroots level in both rural and urban areas.

7.64 The participation of people and their leaders at different levels of these institutions, is necessary to bring changes at the local level. It is pertinent to mention here that a meeting was held on 3 January 2019 under the chairmanship of the Hon'ble CM on the transfer of funds, functions and functionaries to PRIs. One of the announcements in this meeting was that the meeting of chairman of PSs be conducted at divisional level on the pattern of IDC (ATR of the meeting held on 3 January 2019). The concerned department informed all divisional commissioners in this regard on 10 April 2019. Such type of interaction should be a regular event at the

Box 7.4: Major Decisions Taken in IDC Meetings

- The DRDA will be under the control of ZP and the president and CEO of ZP will be the president and CEO of the DRDA, respectively.
- The XEN of the Panchayati Raj will be under the supervision of ZP's CEO, and an independent engineering wing at the ZP level will be established for technical support.
- Additional posts for ZPs will be created to revamp their administrative setup.
- The president and CEO of ZP will be allowed to utilise the services of the retired government officials and the ex-servicemen residing in their respective districts for monitoring the development works.
- ZPs will now decide the location of bus queue centres.
- ZPs will do monitoring of primary schools.
- Maintenance and monitoring of Anganwadi, Shivdham, Health sub-centres, primary schools, and MGNREGS will be done by ZPs.
- A separate ZP Bhawan will be constructed in each district.
- The state government decided to transfer schemes related to setting up of eco-club, crèche, bio-Gas lant, maintenance of primary schools, sub-health centres, awareness on SC/BC rights, differently-abled children, crop diversification, support to horticulture farmers, support for girl's marriage, housing and livelihood promotion of SC/BC, etc., to ZPs for local implementation.
- The ZPs will initiate proposals for the imposition of 18 different tax sources for revenue generation.
- A pilot project will be started to transform Anganwadi centres into crèches/modern playschools.
- ZPs and their CEOs should evolve an effective system for further empowering the PRI system in the state that could become a role model for other states in the country.
- The state is a big unit, hence for decentralisation and coordination, the ZP is being evolved as a bridge between state administration and local self-governance.
- An e-system should be adopted for ensuring transparency in the system as the entire world is shifting to automation and regular monitoring by the IDC.
- Several big projects could be delegated to the levels of ZPs and PSs and IDC can be a facilitator for these projects with the concerned departments.

DPC level. This will not only strengthen PRIs & ULBs but also enlarge the role of IDC in local governance. In this context, making DPC an integral part of the IDC is the need of the hour due to the following reasons:

1. Schemes are currently implemented in a stand-alone mode without any horizontal convergence and vertical integration resulting in umpteen District Plans often conflicting with each other without any combined vision and perspective. An example of the implementation of the District Plan Scheme through DDMC is a case in this regard. There may be a District Plan of different departments in the state. Convergence and integration of plans prepared by ZP would be with the plans prepared by the municipalities. This role can be performed effectively by the DPCs with the active support of IDC. Further, government personnel at the district and sub-district levels would be more accountable to the DPC, as it is connected with IDC headed by the CM.
2. Generally, the District Plan is assumed as the rural development plan and not the holistic plan of the district. Towns play an important role in the rural economy. The plan prepared in isolation, either for the rural area or urban area, is bound to reflect inadequacies. Therefore, there

should be a district development plan in place of a rural development plan or urban development plan, reflecting the expectations and aspirations of the district's entire population.

3. Interlinkage of IDC with DPCs would enhance the intensity of participation among different stakeholders, which would, in turn, bring out effective economic development with social justice because those who participate less have the least benefits from development as compared to those who participate more. Here, the DPC could provide an additional platform for rural and urban leaders to participate in plan preparation, execution, monitoring and assessment for a better outcome.

4. IDC, concerned to respond to participative democratic rise at district and sub-district levels, would be more effective by engaging elected representatives of PRIs and ULBs through DPCs and deepening federalism at the sub-state level. Since the DPC is a constitutional body, it may emerge as the third level of government effectively meeting people's expectations and aspirations. Its connection with DPC would be an innovative policy decision by the state government and would be an unparalleled experience in the country.

5. The DPC would be a participative body where elected representatives of PRIs, ULBs, and experts would interact for better planning and its implementation and guide institutions like PSs, GPs and MCs at block and village level in their technical and administrative issues.

6. DPCs may also be used to allocate and channelise funds of various agencies like CFC, SFC, CSSs and SSSs to PRIs and municipalities in the multilevel planning framework, keeping in view the people's needs and expectations in a more concrete way.

7. To make proper coordination and cooperation between DPCs and the IDC, the DPC should be chaired by the chairman of the district development and monitoring committee, who is a minister, and the DC may be the member secretary of the committee.

8. Adequate funds and infrastructure may be created to further strengthen the secretariat of the IDC.

7.65 **The Commission recommends that in order to give a new thrust to decentralisation, DPC may be elevated as district government and its integration with IDC would be a paradigm shift towards sub-state level federalism. It may, in addition to consolidating plans of rural and urban areas, also discharge such duties and responsibilities which are neither handled by the PRIs nor ULBs. In this way, not only PRIs and ULBs would be strengthened and decentralised planning would be a reality, but also bring about effective delivery of goods and services to local population.**

7.66 **Further, the Commission recommends that with the purpose of proper coordination and cooperation between DPCs and IDC, the chairman of the district development and monitoring committee should be the chairman of the DPC and the DC be its member secretary. Adequate funds and infrastructure should be provided to strengthen the secretariat of the IDC.**

Capacity Building and Digitisation

7.67 In Chapter 5, capacity issues of elected representatives and officials of the PRIs have been discussed in detail. However, while focusing on decentralised planning and DPCs, special attention is required to address issues related to the common interest of rural and urban areas.

7.68 The interaction with the elected representatives of ULBs and PRIs suggests that despite the willingness to participate in decentralised planning, the state functionaries are held back due to their limited capacity to prepare and integrate the District Plans. At the GP level, the availability of data regarding the expenditure is required to prepare a better development plan.

Table 7. 3: Applications under Panchayat Enterprise Suite		
Sr. No.	**Application**	**Description**
1.	Local Government Directory (LGD)	Captures all details of local governments and assigns unique code. Also maps panchayats with assembly and parliamentary constituencies
2.	Panchayati Raj Institutions Accounting Software (PRIASoft)	Captures receipt and expenditure details through voucher entries and automatically generates cash book, registers, etc.
3.	National Panchayat Portal (NPP)	Dynamic Web site for each panchayat to share information in public domain.
4.	Area Profiler	Captures geographic, demographic, infrastructural, socio-economic and natural resources profile of a village/panchayat. Universal database for planning of all sectoral programmes and also provides details of elected representatives, etc.
5.	National Asset Directory (NAD)	Captures details of assets created/maintained, helps avoid duplication of works
6.	Training Management	Portal to address training needs of stakeholders including citizens, their feedback, training materials etc.
7.	Plan Plus	Helps rural local bodies and line departments in preparing Perspective, Annual and Action Plans.
8.	ActionSoft	Facilitates monitoring of physical and financial outcomes/outputs under various programmes
9.	Service Plus	A dynamic metadata-based service delivery portal to help in providing electronic delivery of all services in all States. The functionality of the erstwhile Grievance Redressal Application has also been subsumed into this application
10.	Social Audit	Captures details of statutory meetings held at ZP/BP/GP levels and prepares reports for social audit
11.	Geographic Information System (GIS)	A spatial layer to view all data generated by all applications on a GIS map.

Therefore, the adoption of digitisation becomes crucial.

7.69 e-Panchayat, as one of the State Mission Mode Projects (MMP), was initiated by the Ministry of Panchayati Raj (MoPR), Government of India, under the National e-Governance Plan (NeGP). Under this project, a suite of 11 Core Common Applications, which include (a) Local Government Directory (LGD); (b) PRIASoft; (c) National Panchayat Portal (NPP); (d) Area Profiler; (e) National Asset Directory (NAD); (f) Training Management; (g) Plan Plus; (h) Action Soft; (i) Service Plus; (j) Social Audit; and (k) GIS, known as Panchayat Enterprise Suite (PES), was developed by the National Informatics Centre (NIC), New Delhi. It addresses nearly the entire spectrum of panchayats' functioning viz. from internal core functions, such as planning, monitoring, implementation, budgeting, accounting, social audit etc. (Table 7. 3).

7.70 To provide sustainability to the formulation of development plans into a participative and transparent exercise, MoPR mandated development plans preparation at district, block, and gram panchayat levels. Subsequently, to strengthen the PRIs through e-Governance, e-Gram Swaraj Portal was launched to bring transparency in the decentralised planning, reporting progress and work-based accounting. The portal aims to solidify the financial system by integrating PFMS and PRIASoft.

7.71 Haryana has started adopting the application of the PES from the year 2009 onwards. The state has adopted the e-Gram Swaraj portal right after its launching. Currently, 22 ZPs, 142 PSs and 6,227 GPs have been registered on e-Gram Swaraj. All of the GPs have been uploading their GPDP on the portal for the last two years. Around 25 per cent of the GPs have started making payments using PFMS, through e-Gram Swaraj portal. Moreover, the local audit department, using the Audit Online Portal has done online audit of 20 per cent of GPs.

7.72 In addition to PES, the state government also has launched Gram Darshan portal with the objectives of providing information of rural areas to the citizens, bringing transparency, accountability and RTI compliance of PRIs, improving local self-governance, empowering the local community through engagement, creating a culture of cooperative living for inclusive development. The portal intends to provide 'unique identity to each GP and will act as the cyber face of PRIs' (D&P Department, 2020).

7.73 The Commission appreciates the state government for launching the Gram Darshan portal. If sustained, it will surely bring the stakeholders, that is, PRIs, line departments, NGOs and rural citizens together to achieve the goal of better coordination among them and subsequent outcomes. However, the Commission has reviewed the capacities of elected representatives and officials of the PRIs and observed that without proper training and capacity building, such ambitious projects might face some challenges. Therefore, **the Commission recommends that the state government sensitise the stakeholders regarding the functioning of the portals, i.e., e-Gram Swaraj, Gram Darshan and other portals, through regular training.**

7.74 Notwithstanding the availability of digital infrastructure, the following challenges in digitisation of PRIs have been identified by the Development and Panchayats Department: (a) non-updating of data/information on a regular basis; (b) lack of standardisation of data and information; (c) lack of infrastructure and manpower at the PRIs level; (d) lack of capacity building and training; (e) lack of ownership and support from district and block level authorities; (f) non-devolution of services by line departments that can be provided through the GPs. The Department also proposed that a special grant-in-aid of ₹ 100 crore per annum for five years may be allocated for digitisation and effective work monitoring of the PRIs.

Conclusion

7.75 Strengthening DPC is very crucial for achieving economic development and social justice by formulating and implementing plans at district level. As DPCs are expected to prepare draft plan of the district after integrating the plans prepared by PRIs and ULBs, it would be reflecting the concerns and expectations of people living both in rural and urban areas. However, in practice, DPC has a very limited involvement in decentralised planning. In this context, the Commission has identified the bottlenecks in the functioning of DPCs and support required to strengthen them. The Commission has, inter alia, suggested a framework of linking DPC with IDC, for better outcomes. Finally, to support decentralised planning, the role of capacity building of personnel and digitisation is also essential. Secretariats of the DPC and IDC may also be strengthened at district and state levels.

Chapter 8

Accounting, Audit Framework and Processes in Local Bodies

Chapter 8

Accounting, Audit Framework and Processes in Local Bodies

Introduction

8.1 Local bodies are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. One of the significant areas, which currently does not exist or is grossly unattended, is internal financial management. To accomplish that, local bodies must develop capacities and competencies and to have characteristics of efficiency, transparency and accountability in their operations, actions, deeds, service deliverance and resource management.

8.2 Finance is an all-pervading activity that is a thread running through all affairs, and as financial management is related to efficient augmentation and utilisation of resources, it should be an essential area of reforms at the local bodies level to improve their overall efficiency to cope with future challenges.

8.3 This chapter discusses the accountability framework of the local bodies in Haryana with a focus on presentation, availability, relevance, compliance with legislation and regulation and timeliness of financial reporting. It comprises the study of systems of accounting, auditing, and budgeting in the local bodies of Haryana state. The chapter also includes a review of existing systems, legal framework, adequacy of controls, decision-making, stakeholder participation, the effectiveness of audit, staff competence and strength, capacity building and training, areas requiring strengthening and preparedness for grants eligibility as suggested by the Fifteenth Central Finance Commission. It also sheds light on the public financial management practices implemented by other states in India. It includes discussion on account statements and their compositions, State Municipal Accounts Manual status, maintenance of centralised database, use of accounting software, and recommendations to reform/modernise/upgrade the existing system.

8.4 Over the last three decades, several steps, guidelines and acts were formulated and introduced by the central and state governments, which were further advocated by the Central and State Finance Commissions, etc., to implement reforms in the financial management system at the local bodies level. These are presented in Table 8.1.

8.5 The above developments are the result of sustained efforts of both central and state governments. However, the additional thrust on the need of reforming the financial management system of the local bodies cannot be ignored. Figure 8.1 indicates that an accrual-based accounting system is being implemented in ULBs of nine states across the country. However, ULBs of Haryana are yet to implement it.

8.6 Another integral part of expectations of governance is public information without which there cannot be meaningful participation or shared decision-making. The citizen expects a fair account of how the government is performing its job. It requires timely, meaningful, and user-friendly reporting that provides reliable financial information and facilitate effective decision-making, and for decision-making purposes.

8.7 Financial reporting is intended to satisfy the information needs of users. This, in turn, determines the objectives of financial reporting by any organisation and depending upon its environment-economic, legal, social, and political, may change as the environment changes. The system in which local bodies operate is complex. An understanding of the significant characteristics of the environment

Table 8.1: Financial Management Reforms at Local-Bodies Timeline

Panchayati Raj Institutions	Urban Local Bodies
• **Based on the recommendations of the Eleventh Finance Commission, the Ministry of Finance (MoF)** had issued guidelines for utilization of grants to local bodies. Paragraph 6.4 of the Ministry of Finance guidelines states that 'The CAG shall be responsible for exercising proper control and supervision over the proper maintenance of accounts and their audit for all 3 tiers/levels of PRIs and ULBs **(2001)'.** • **The Twelfth Finance Commission** had strongly stressed the need for creating data base on finances of the PRIs at all levels, accessible on electronic media and earmarked substantial funds for it as well **(2004)**. • For exercising proper control and securing better accountability, the formats for the preparation of budget and accounts and database on finances were prescribed by **CAG (2002)**. • Sixth report of Second Administrative Reform Commission, 'Local Governance- An inspiring journey into the future', had recommended that there should be a clear-cut demarcation of functions of each tier of the government. • The **Technical Committee on Budget and Accounting Standards** in the meeting held on 4h August 2008 co-chaired by Secretary, Ministry of Panchayati Raj, Government of India and Deputy Comptroller and Auditor General (LB), considered the need for developing simple but robust format of accounts and constituted a sub-Committee co-chaired by Director General (LB) and Principal Secretary, Panchayati Raj department, Government of Gujarat, for the purpose. The mandate of the sub-committee was to prescribe simple but robust accounting system for, comprehensible to the elected representatives and functionaries of and facilitates generation of financial reports through information and communication technology. The simplified accounting formats or Model Accounting System was introduced among the members of the sub-committee and were subsequently approved on **15 January 2009**.	• **The Eleventh Finance Commission** recommended CAG's oversight over accounts and audit of all ULBs **(2000)**. • **ICAI** publishes *Technical Guide on Accounting and Financial Reporting* by ULBs **(2000)**. • Local bodies department established in the CAG **(2001)**. • The Supreme Court ordered the GoI to develop guidelines for implementation of accrual-based accounting system **(Almitra Patel vs Union of India**, **[2002])**. • Model Municipal Law and NMAM issued by MoUD **(2003, 2004)**. • The **Twelfth Finance Commission** recommended that GoI should gradually move towards accrual-based accounting system **(2004)**. • ICAI constitutes a full-fledged Committee on Accounting Standards for Local bodies (CASLB) **(2005)**. • The GoI launched reform-linked urban investment programme, **JNNURM**, to encourage reforms **(2005)**. • The **Thirteenth Finance Commission** recommended a cautious 'Bubble up Approach' from cash basis of accounting system to accrual-based accounting system **(2009)**. • The Fourteenth Report of the **Second Administrative Reforms Commission** recommended that task force should be set up to examine the costs and benefits of introducing the accrual-based accounting system **(2009)**. • **Fourteenth Finance Commission** endorsed the view that the transition to accrual-based accounting system by both the union and state governments is desirable. This transition can only be made in stages, as it requires considerable preparatory work and capacity building of accounting personnel **(2014)**. • **AMRUT** reform agenda includes migration to double entry accounting system and to obtain an audit certificate to that effect (**2015)**. • **Fifteenth Finance Commission** recommended publishing the audited and provisional financial statements online in the public domain. The financial statements should include minimum of (i) balance sheet, (ii) income and expenditure statement, (iii) cash flow statement, (iv) schedules to balance sheet, income and expenditure statement and cash flow statement and (v) signed and stamped auditor's report.

Source: Reports of various Finance Commissions, committees and organisations as mentioned in the table above.

surrounding local bodies is essential to determine the objectives of financial reporting by these bodies. Primarily, the objectives of financial reporting are to provide information about the local body that is useful to stakeholders for accountability purposes and for decision-making purposes.

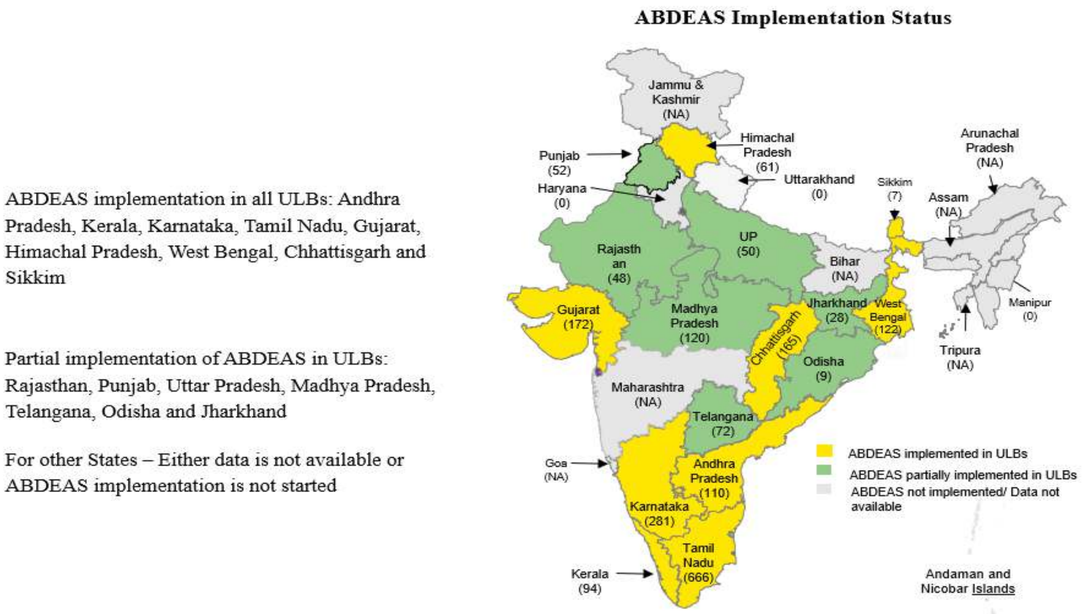
8.8 Moreover, the assessment of local bodies' capabilities and performance can be evaluated by examination of financial position, financial performance, and cash flows or by examination of the General-Purpose Financial Reports (GPFRs). The GPFRs facilitates information and assessment thereof, to the stakeholders concerned, such as:

1. assess the local bodies' overall financial position as well as allocation and use of resources;
2. assess the extent to which costs of operations were recovered through revenues;
3. assess the financial performance of the local bodies' through their spending priorities and patterns;
4. predict the timing and amount of cash flows and future cash and borrowing requirements;
5. assess the local bodies long-term ability to meet financial obligations, both short and long term and
6. provide the public with information concerning ownership and control, composition, condition, and maintenance of assets.

8.9 Financial reporting is intended primarily to provide useful information to a variety of external users, most of whom have limited authority, ability, or resources to obtain relevant and reliable information concerning the local body and who, therefore, rely on the financial reports as the principal, if not exclusive, source of relevant information. It is, therefore, important to consider who are the users of financial reports of the local bodies and what are the information needs of these users relating to governmental-type activities of local bodies that their financial reports ought to satisfy. The following are the principal user-groups of financial reports relating to governmental-type activities of a local body:

1. those to whom the local body is primarily accountable (the citizens);
2. those who directly represent the citizens, that is, legislature and
3. those who lend to the local body (creditors, such as financing or lending institutions, including international financial institutions)

Figure 8. 1: Status of Accounting Reforms in India



Source: Study on 'State of Municipal Finances in India' for Fifteenth Finance Commission by ICRIER.

8.10 The importance of preparation and presentation of General-Purpose Financial Reports (GPFRs) is of utmost for the citizens, legislature, and other stakeholders. It requires special attention of this Commission to lay down the contours around which the State of Haryana needs to work upon for developing capacities and competencies at the local body level.

Legal Framework for Financial Reporting in Local Bodies

8.11 Under the provisions contained in Article 243J and 243Z of the Constitution of India, state governments are mandated to conduct the audit of Panchayati Raj Institutions and ULBs. Haryana has entrusted the Statutory Audit of PRIs to Local Audit Department under Rule 99 of the Haryana PRI Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996 and Statutory Audit of Urban Local bodies to Local Audit Department under Rule XVII.17 of the Municipal Account Code, 1930.

8.12 Based on the recommendations of the Central and State Finance Commissions, State Government of Haryana passed and implemented

Table 8.2: Haryana State Reforms in Financial Reporting and Disclosure of Local Bodies

Panchayati Raj Institutions	Urban Local Bodies
• **The Haryana Panchayati Raj Act, 1994,** provides that, accounts of the receipts and expenditure of every **Gram Panchayat** shall be made up in such form as may be prescribed and the Gram Panchayat shall make arrangements for the examination and audit of the accounts by such persons as the Government may appoint in this behalf. Every Gram Panchayat shall cause a copy of its budget considered under section 12 and of account made up under sub-section (1) to be kept at its office; and any member of Sabha Area may, at all reasonable times, inspect any such budget or account on payment of fee as may be prescribed **(Section 43)**. • Every **Panchayat Samiti** shall on or before a prescribed day in each year hold a meeting at which the Committee for finance and taxation shall submit to the Panchayat Samiti an estimate of income and expenditure (hereinafter referred to as the "Budget") of the Panchayat Samiti for the next financial year in such form as may be prescribed. The Panchayat Samiti budget shall consist of two parts, Part (1) shall contain the budget of the Community Development Block and Part (2) the funds transferred from the other departments and income derived by the Panchayat Samiti from other sources **(Section 102)**. • Accounts of the receipts and expenditure of every Panchayat Samiti shall be made up in such form as may be prescribed and the Panchayat Samiti shall make arrangements for the examination and audit of the accounts by such persons as the Government appoints in this behalf **(Section 105)**.	• **Haryana Municipal Act (HMA), 1973** is enacted to consolidate and amend the law relating to municipalities in Haryana. It classified and constituted 3 classes of municipalities namely Municipal Committee, Municipal Council and Municipal Corporation. • Audit of Account of Fund. - The Directorate of Local Audit or the authority as specified by the State Government by order, shall audit the account of Fund annually **(Section 203N)**. • **Haryana Municipal Corporation Act (HRMCA), 1994** enacted constitution of Municipal Corporation, their functions, funds, and accountability framework. • There shall be kept in such manner and in such form as may be prescribed by regulations accounts of receipts and expenditure of the Corporation. Till regulations as mentioned in sub-section (1) are framed, the provisions of the **Municipal Account Code, 1930**, presently, in force in respect of the Municipal Committees shall be applicable **(Section 168)**. • The Examiner, Local Fund Accounts, Haryana, shall conduct day to day examination and audit of the Corporation accounts and shall furnish monthly report thereon to the Corporation who shall publish monthly an abstract of the receipts and expenditure of the month last preceding **(Section 168)**. • The Corporation shall not later than the first week of February of every year, adopt for the ensuing year a budget estimate which shall be an estimate of the income and expenditure of the Corporation to be received and incurred on account of the Corporation. The budget estimate adopted under

Panchayati Raj Institutions	Urban Local Bodies
• Every **Zila Parishad**, shall, at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and submit it to the Government **(Section 152)**. • A Zila Parishad shall keep such accounts in such manner as may be prescribed **(Section 153)**. • The audit of the accounts of the Zila Parishad shall be carried out by the authority as may be prescribed by the Government and a copy of the audit note shall be forwarded to the Zila Parishad within one month of the completion of the audit. On receipt of the audit report, the Zila Parishad shall either remedy any defect or irregularities which have been pointed out in audit and send, to the Government within three months, an intimation of its having been done so or shall, within the said period, supply further explanation to the prescribed authority in regard to such defects or irregularities as it may wish to give **(Section 154)**. • **Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996,** provides that, the budget estimates of the Gram Panchayat and Panchayati Samiti shall be drawn up by Gram Sachiv and Executive Officer respectively and that of the Zila Parishad by the Accounts Officer of the Zila Parishad in Form1. • The audit of accounts of all receipts and expenditure of every Gram Panchayat shall be conducted once after every two years and that of Panchayat Samiti and Zila Parishad after every year by such officer as may be appointed by the Secretary to Government Haryana, Finance Department and Director, Local Audit, Haryana. • **Rule 12 of Haryana Panchayati Raj Rules, 1995**, GPs are required to maintain register.	sub-section (1) shall be submitted to the Government not later than the last week of February preceding the year to which the budget estimate relates. The budget estimate received by the Government under sub-section (2), shall be returned to the Corporation before the 31st day of March after approval without any modification or with such modification as the Government may deem fit **(Section 83)**. • **The Haryana Municipal Citizens Participation Act (HRMCP)** approved institutionalisation of citizen's participation in municipal functions by setting up of Area Sabha (2008). • **The Haryana Municipalities Public Disclosure Act, 2008 (HPDL)** provides for transparency and accountability in the functioning of municipalities in the State of Haryana. • **Para vii of the notification 14/78/2003-3FA dated 20.12.2011**- "The annual technical inspection report of CAG as well as the annual audit report of the Director, Local Audit Haryana will be placed before the State Legislature and the Comptroller and Auditor General or his representative will have the right to report to the State Legislature the results of audit at his discretion". • **The Municipal Accounts Code, 1930** provides that, the committee shall on or before the [15 day of January] each year submit in duplicate through the Deputy Commissioner to the Commissioner an estimate of its income and expenditure in the ensuing financial year (hereinafter called the budget) in Form G. 1 **(Clause II.1)**. • For the purposes of classifying the income and expenditure, a Classified Abstract shall be maintained in Form G. 3 in two volumes, one for income and one for expenditure, a separate page of which shall be assigned to each head of account under which income or expenditure has been budgeted for, and the items appertaining to these heads shall be taken from the General Cash-book (Form G. 2) either as they occur or in the aggregate for the day and entered in the appropriate columns of the abstract, and at the end of each month the monthly and progressive totals shall be entered under each heads of the abstract **(Clause III.2)**. • After each audit of its accounts the committee shall deal promptly with the objection statement and audit note sent by the audit officers, and shall as soon as possible decide upon the action to be taken on the objections and suggestions made by the audit officer the action so taken shall be indicated on an interleaved copy of the audit note, and one copy of such annotated copy of the audit note shall be produced for the information of inspecting officers at their next visit, one copy shall be forwarded to the Examiner, Local Fund Accounts and one copy to the Deputy Commissioner for transmission to the Commissioner of the Division.

Source: Extracts from various Acts.

enacted several Acts and laws to strengthen the process of accountability, efficiency, and transparency for both PRIs and ULBs. The important legal provisions for PRIs and ULBs in relation to accounting, auditing, and budgeting are indicated in Table 8.2.

8.13 The public financial management and practices are an evolving field that support the government in public disclosures, transparency, accountability, and decision making. The legal framework needs to support the public financial management practices. A holistic review of the existing legal framework for financial management practices in PRIs and ULBs sheds light on the key issues and limitations which are discussed hereunder:

1. The existing acts, rules and government guidelines do not mandate the PRIs and ULBs to prepare their financial statements on an accrual-based accounting system. The Haryana Panchayati Raj Act, 1994, requires GPs, PSs and ZPs to prepare 'Accounts of Receipts and Expenditure' only. Similarly, Section 168 of the Haryana Municipal Corporation Act (HMCA), 1994, read with the Municipal Accounts Code, 1930, requires the municipal corporations, councils, and committees to prepare 'Accounts of Receipts and Expenditure' only. Also, it does not recognise the concept of 'accrual' in the presentation and preparation of accounts. The Acts do not provide for the preparation and presentation of assets and liabilities, and consequently, PRIs and ULBs do not prepare any balance sheet for the financial year.
2. There is no state-specific manual for accounting by PRIs and accounting by ULBs. An accounting manual provides for standardised formats, accounting principles and practices, records and registers, policies etc. It also helps field level staff with day-to-day accounting transactions' reporting and presentation. This is presented in Box 8.1.
3. Financial statements for PRIs and ULBs do not currently include a balance sheet, income and expenditure statement, receipts, and payments account/cash flow statement, etc.
4. The audited financial statements, along with the report of an independent auditor, are not published or made available in the public domain.
5. Approved budget statements of PRIs and ULBs are not published or made available in the public domain. The timeline for publishing the budget statement is not prescribed.

Box 8.1: Need of State Specific Accounts Manual

Based on the recommendations of the Eleventh Finance Commission and the Guidelines issued by the Ministry of Finance, the CAG constituted a Task Force to recommend budget and accounting formats for ULBs in India. The CAG Task Force in its report, interalia, suggested adoption of accrual-based system of accounting for ULBs.

Thereafter, MoUD formulated the National Municipal Accounts Manual (NMAM), based on Task Force recommendations so as to provide a generic framework of municipal accounting and a simplified toolkit to ULBs for recording the accounting entries. CAG facilitated and oversaw the development of the Manual. The State Governments while drafting their state specific municipal accounts manuals are to adopt and follow the NMAM.

A Manual is comprehensively detailing the accounting policies, procedures, guidelines designed to ensure correct, complete, and timely recording of municipal transactions and produce accurate and relevant financial reports. It helps State Governments, municipal administrators and accountants and other stakeholders in improved financial management and reporting practices, standardised formats, decision making, and ultimately to provide good urban governance.

6. Continuing Professional Education (CPE) or certificate courses and minimum hours for training on accounting, auditing, and budgeting aspects for the officials of PRIs, ULBs and the LA are not prescribed.

7. The acts, rules and guidelines do not provide for appropriate action against officials for non-submission or delayed submission or faulty/insufficient submission of records, documents, vouchers, and registers, etc., for audit purposes. Moreover, the acts, rules and guidelines do not provide for appropriate action against officials for non-action or delayed action on audit observations/paras.

8. Distinction between internal audit, external audit and certification of financial statements is not provided. LAD conducts a pre-audit, which is an internal audit. Principal Accountant General (Pr. AG) conducts an audit of selected PRIs and ULBs as part of their Technical Guidance and Support.

(a) The Technical Guidance and Support reports of Pr. AG, Haryana and audit reports by LAD are placed before the Legislatures. The status of placing of these reports and subsequent approval/discussion is not available in the public domain.

(b) There is no 'Chart of Accounts' prescribed in the present legal framework both for PRIs and ULBs. The 'Chart of Accounts' provides a specific code or number to a head of account. It also helps in the standardised naming of heads of accounts. Presently, different PRIs are following different nomenclature for the same head of account. A similar issue was also noted for ULBs.

8.14 The Commission is of the view that the existing legal framework for accounting, auditing, and budgeting of local bodies needs to be amended/strengthened and recommends the following to the State Government of Haryana:

1. To adopt an accrual-based double-entry accounting system for the preparation of financial statements by ULBs.

2. To define 'Financial Statements' of ULBs and PRIs and to include Balance Sheet, Income and Expenditure Statement, Receipts and Payments Account/Cash flow statement, Notes to Accounts, Schedules to Accounts and Significant Accounting Policies.

3. That provisional financial statements for a financial year must be prepared and published in public domain latest by the 15th of May of the subsequent financial year. Action may be taken against the erring officials in case of delay or late preparation and publishing of provisional accounts of the ULBs.

4. That audited financial statements shall mean financial statements audited by an independent Chartered Accountant. A supplementary audit shall be carried out by the Office of the CAG/LAD in line with the pattern adopted for the audit of Public Sector Undertakings (PSUs) Section 139 (5) of the Companies Act, 2013.

5. That for audit of a financial year, independent Chartered Accountants will be appointed by the DULB, 3 months before the conclusion of the financial year from a panel of reputed CA firms created for the purpose.

6. That fee for independent Chartered Accountants for audit of ULBs will be determined by DULB in consultation with C AG and ICAI.

7. That the audit of financial statements will be completed by Chartered Accountants within 3 months from the conclusion of the financial year and issue his/her audit report.

8. That the ULB officials will provide a response or action taken report within 3 months/stipulated time from the date of receipt of audit report received from LAD or Pr. AG/Chartered Accountants.

9. To introduce and adopt Haryana Audit Manual. The manual shall govern the transaction audits of various departments by

LAD as well as audits of financial statements by independent Chartered Accountants.

10. To introduce and adopt the concept of an output-outcome budget framework for PRIs and ULBs in line with the State Government's policy.

11. To consult CAG for strengthening institutions/empowered committees on audit observations and ATRs at the district level which may help in monitoring and to ensure follow up action and accountability mechanism.

12. To introduce and adopt Haryana Municipal Budget Manual. The manual shall provide for the budget framework, citizen participation, formats, budget presentation, budget approval, reporting of capital expenditure and revenue expenditure, variation analysis and reasoning, etc. The budget format shall be aligned with the formats of financial statements and the manual needs to be in line with National Municipal Accounts Manual (NMAM).

Till such time the budget manual is prepared, the municipal accounts manual may contain a chapter on important aspects of budget preparation and management. In this context, the NMAM may be referred to as it contains a chapter on budgeting covering all the important aspects of budgeting.

13. That the approved budget shall be published in the public domain within stipulated time/ 30 days from the date of approval.

14. To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State.

15. To entrust the responsibility of capacity building and training on accounting and budgeting aspects to State and Central Institutions and in consultation with Pr. AG and LAD, for PRIs' and ULBs' staff and elected representatives. Certificate courses for different aspects of accounting and budgeting must also be organised in this regard. The courses should be available both online and offline.

Existing System of Accounting in Local Bodies

8.15 In PRIs, the accounts are currently prepared on the cash basis, that is, a transaction is only recorded when the actual amount is received, or actual payment is made. Every day the details of transactions as recorded in the cash book, are transferred to either Register of Receipts or to the Register of Payments, under the respective heads of account. At the end of the month, totals in the Register of Receipts and Register of Payments are calculated. It provides the total expenditure under each head of account for the month.

8.16 In April 2010, the State Government of Haryana adopted Model Accounting Structure, 2009, developed by the MoPR in consultation with the CAG. A software PRIAsoft was also developed based on Model Accounting Structure, 2009. To strengthen e-Governance in PRIs across the country, in 2020, the MoPR launched e-Gram Swaraj, a user-friendly web-based portal, which covers the financial transactions being entered in PRIAsoft. e-Gram Swaraj aims to bring in better transparency in decentralised planning, progress reporting and work-based accounting. It is to be noted that e-Gram Swaraj does not facilitate the preparation of the balance sheet presently.

8.17 With respect to accounting in ULBs of Haryana, the Municipal Account Code, 1930, is presently in force. Clause III.2 of the Code requires ULBs to prepare monthly accounts and annual accounts and to record all their receipts and payments. However, the Code does not prescribe preparation of balance sheet, income and expenditure statement, cash flow statements, presentation of assets and liabilities and to apply accrual-based double-entry accounting system.

8.18 A detailed review of the existing system of accounting including reporting framework in PRIs and ULBs was undertaken, which provided key issues and limitations of the present system of accounting. These are discussed hereunder:

1. A review of the existing Statement of Accounts uploaded by the ULBs on the website of the Directorate of Urban Local Bodies (DULB), shows that the ULBs are preparing their accounts on the cash basis of accounting and terming the statement as 'Income and Expenditure Account'.
2. ULBs are not preparing their balance sheets and thus, not reporting the available assets/resources and liabilities /commitments, payable in future. This is not an appropriate and professional system of accounting for local bodies. Based on actual receipts collected during the year, the incomes of the local bodies are assessed and presented in the income and expenditure account by the ULBs. Local bodies, in general, due to a lack of professionally qualified staff/resources, do not capture the correct income and receivables for the year. Expenditures are captured based on actual payment only and payables or liabilities are not recorded and presented. For example, a large Municipal Corporation of the State of Haryana projected high income in the budget and bid out large contracts for several projects without having the resources and subsequently petitioned the State Government to fund these contracts. This would not be possible if the Municipal Corporation followed accrual-based accounting as the receivable income would be shown in the Financial Statements separately.
3. PRIs and ULBs do not have information with respect to their Contingent liabilities.
4. Review of statements of accounts of PRIs and ULBs[18] in Haryana also highlights that there is a lack of uniform and standardised formats of accounts. This is a major issue in annual accounts reporting. Not only there is a variation in the reporting format of different local bodies, even the same local body sometimes uses different formats for different years. Inconsistent nomenclature for the same accounting head of income and expenditure is used by the local bodies while preparing and presenting accounts.
5. The review also highlights that currently, there is no codification structure or 'Chart of Accounts' for heads of income and expenditure for local bodies.
6. Most of the development works are being executed in ULBs/PRIs from grants received from the Centre/state government but they do not have records regarding how many assets have been created out of these grants[19].
7. After the Seventy-fourth Constitution Amendment Act, several developments are made in the field of accounting, which covers reporting framework, IT enablement, preparation of accounts on the accrual basis, continuous capacity building and training, etc. However, the ULBs in Haryana are found to be trailing when compared with ULBs of several other states in terms of accounting reforms. The NMAM was introduced by the MoUD in the year 2004 and had mandated states to develop their 'State Municipal Accounts Manual' based on the NMAM and, by incorporating local needs and compliance. However, the State of Haryana is yet to prepare such a manual. The DULB has submitted that the draft of the 'State Municipal Accounts Manual' is under review and will be approved in the next six to eight months.
8. PRIs and ULBs are also facing the problem of a shortage of professional staff. The current staff is not trained or equipped with the new age accounting concepts, such as preparation of the balance sheet and other financial statements on the accrual-based accounting system. Existing training and capacity building programmes are inadequate and ineffective. Thus, implementation of the accrual-based accounting system at the

[18]Review of select ULBs, namely Gurugram, Faridabad, Panchkula, Karnal, Thanesar, Kaithal, Palwal, Narnaul, Pundri, Tauru, Pataudi, Ladwa. From Memorandum of Local Audit Department (LAD).

[19]From Memorandum of Local Audit Department (LAD).

ULBs level will be a challenging task and cannot be achieved without engaging external professionals like chartered accountants (Cas). Also, preparation of financial statements by PRIs cannot be accomplished without engaging professionals.

9. The usage of IT systems and applications for data capturing, preparation of accounts and reporting is very limited in practice in PRIs and ULBs. In ULBs, there are IT systems in place for property taxes, building permissions, etc., but they are working in a standalone mode without any communication or linkage with the accounting systems. Most of the records, registers and reports are either prepared manually or prepared by using basic IT applications such as spreadsheets or documents only.

10. Rule 5 of the Haryana Municipality Public Disclosure Rules, 2009, provides transparency and accountability for ULBs in Haryana and requires public disclosures of audited financial statements such as Balance Sheet, Receipts and Expenditures, and Cash Flow Statement on a quarterly basis, within two months of the end of each quarter; and statutorily audited financial statements for the full financial year. However, as the data in Table 8.3 highlights, during 2019-20, only 56 ULBs out of 81 ULBs (whose data is available) uploaded their income and expenditure statements on the website of DULB, which further reduced to only five ULBs during 2020-21.

8.19 Based on issues observed, the Commission is of the view that the existing system of accounting needs to be strengthened and recommends the following for the DULB and Development and Panchayats Department:

1. **To prepare and implement State Municipal Accounts Manual & State Panchayats Accounts Manual.**
2. **Before actual implementation of the accounts manual, local bodies are to update/prepare their fixed assets, property registers and records for its assets and liabilities.**
3. **Sensitise and train each level of municipal & PRI staff on the accounts manual.**
4. **To develop a strategic roadmap for implementation of the State Accounts Manual. The introduction of IT-based solutions for timely and smooth implementation may be considered. The focus should be more on developing in-house capacities and competencies**

Table 8.3: Status of Availability of Statement of Accounts on DULB Website

	Year 2016-17		Year 2017-18		Year 2018-19		Year 2019-20		Year 2020-21	
Municipality type	Up-loaded	Not up-loaded	Up-loaded	Not up -loaded	Up-loaded	Not up -loaded	Up-loaded	Not up -loaded	Up-loaded	Not up -loaded
Municipal Corporation	10	0	10	0	10	0	5	5	1	9
Municipal Council	16	0	16	0	16	0	11	5	0	16
Municipal Committee	53	2	53	2	53	2	40	15	4	51
Total	**79**	**2**	**79**	**2**	**79**	**2**	**56**	**25**	**5**	**76**

Source: Basis of data available for 81 ULBs on DULB website: https://ulbharyana.gov.in

through training, etc., ensuring continuity of reform.

5. **To ensure the creation of a panel of experienced CA firms for preparation of opening Balance Sheet in ULBs and PRI and subsequent Financial Statements till in-house capacity and competence is developed at the LB level.**
6. **To facilitate ULBs in publishing their provisional Financial Statements at prescribed websites.**
7. **To depute teams to update/prepare fixed assets, property registers and records for assets and liabilities of the Lbs.**
8. **To ensure publishing of provisional financial statements and audited financial statements in the public domain or prescribed websites.**

Existing System of Auditing in Local Bodies

8.20 The State Government of Haryana entrusted the statutory audit of Panchayati Raj Institutions to Local Audit Department under Rule 99 of the Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996. Further, the statutory audit of Urban Local Bodies was entrusted to the Local Audit Department under Rule XVII.17 of the Municipal Account Code, 1930.

8.21 Director, Local Audit Department (LAD), Haryana is the statutory auditor and conducts audits of local bodies. In August 2008, the state government entrusted test audit of local bodies to the CAG under Section 20 (1) of CAG (DPC) Act, 1971 on the recommendations of the Eleventh Central Finance Commission. In December 2011, the state government notified that Annual Technical Inspection Report (ATIR) of CAG, as well as the annual report of LAD, would be placed before the State Legislature on the recommendations of the Thirteenth Central Finance Commission. Section 120 of the Audit and Account Regulation, 2020 provides for the entrustment of functions of technical guidance and support (TGS) to the audit of Panchayati Raj Institutions and Urban Local Bodies to the CAG under Section 20(1) of the DPC Act.

8.22 Section 168(4) of the HMCA, 1994 provides that the Examiner, Local Fund Accounts shall have access to all the ULB accounts and to all records and correspondence relating thereto and the Commissioner shall forthwith furnish to the Examiner, Local Fund Account, any explanation concerning any receipts or expenditure which they may call for and Examiner, Local Fund Account shall examine and audit the same.

8.23 Pre-audit is the preliminary examination of the financial document for ensuring the correctness of the information contained in the document, before making any payment against it. It is a kind of

Table 8.4: Position of Outstanding Inspection Reports (IRs)/Paragraphs of PRIs

S. No.	Year of issue of Inspection Reports (IR)	Opening Balance of Outstanding Auditing Objection		Addition		Total		No. of IRs/paras Settled		No. of IRs/paras Outstanding as on September 2016	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2011-12	92	761	43	301	135	1,062	-	7	135	1,055
2.	2012-13	135	1,055	36	241	171	1,296	-	3	171	1,293
3.	2013-14	171	1,293	63	452	234	1,745	-	-	234	1,745
4.	2014-15	234	1,745	43	307	277	2,052	9	149	268	1,903
5.	2015-16	268	1,903	46	271	314	2,174	51	890	263	1,284
	Total	**900**	**6,57**	**231**	**1,572**	**1,131**	**8,329**	**60**	**1,049**	**1,071**	**7280**

Source: Annual Technical Inspection Report on PRIs and ULBs for the year 2015-16.

Table 8.5: Position of Outstanding Inspection Reports (IRs)/Paragraphs of ULBs											
S. No.	Year of issue of Inspection Reports (IRs)	Opening Balance of Outstanding Auditing Objection		Addition		Total		No. of IRs/paras settled		No. of IRs/ paras Out-standing as on September 2016	
		IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
1.	2011-12	54	501	21	260	75	761	-	7	75	754
2.	2012-13	75	754	36	264	111	1,018	-	-	1 11	1,018
3.	2013-14	111	1,018	32	453	143	1,471	-	-	143	1,471
4.	2014-15	143	1,471	32	271	175	1,742	-	21	175	1,721
5.	2015-16	175	1,721	54	345	229	2,066	35	807	194	1,259
	Total	**558**	**5,465**	**175**	**1,593**	**733**	**7,058**	**35**	**835**	**698**	**6,223**

Source: Annual Technical Inspection Report on PRIs and ULBs for the year 2015-16.

internal audit at the transactional level. The pre-audit system is enforced by the LAD in all municipalities of the state. The Local Audit Department also conducts audits of 6,391gram panchayats and various other institutions under the post-audit system, which comprise the accounts of zila parishads, panchayat samitis and gram panchayats.

8.24 The Annual Technical Inspection report, known as Annual Administrative Report (AAR) is prepared by CAG. Both AAR and the Annual Report of Local Fund Audit are then placed before the State Legislature.

8.25 A comprehensive analysis of the existing system of auditing including reporting framework in PRIs and ULBs is undertaken which provides the key issues and limitations in the present system, these are discussed hereunder:

1. The purpose of an audit is to bring to the notice of the administration, any shortcomings or weaknesses in the rules, regulations, procedure, accounts, etc., and to suggest, wherever possible, ways and means for the execution of plans and projects with greater expedition, efficiency, and economy. In this regard, the auditor mentions audit paragraphs, recommending actions, seeking information, etc. However, the indifferent attitude displayed by officials obstructs the purpose of the audit.

   A review of the audit reports issued by the Pr. AG and the LAD for local bodies indicate that audit objection/paras generally remain outstanding/unresolved for a long time. In many cases, no action is taken on the audit paras by the concerned local bodies for several years. Refer Tables 8.4 and 8.5.

2. Another common problem observed is that the local bodies fail to provide all the records, registers, documents, and vouchers, etc., to the audit party for audit. The list of records, registers, documents, and vouchers, etc., not produced for audit is increasing with the passing of each year. Records in respect of revenue-generating assets are not generally put up in audit for verification by the ULBs/ PRIs, such as records/registers of property tax, building application fee, road cut charges, etc.

3. Office manual followed by LAD for auditing was last updated in 1998. The Manual needs to be updated to incorporate new-age auditing concepts, usage of IT tools and software for audit, risk profiling, audit documentation, standardised audit report format in different audit scenarios, etc. The updated manual shall help in strengthening the existing system of pre-audit/internal audit.

4. Local Audit Department is also facing the problem of shortage of staff. There are 93 ULBs and 6,391 PRIs in the State of Haryana, which

are required to be audited by LAD on a continuous basis. LAD is also required to audit all 21 State Universities, Board of School Education, Haryana, Bhiwani, and Maharaja Agrasen Institute of Medical Research & Education (MAIMRE), Agroha, etc. However, due to a shortage of professional staff, the timely and effective audit could not be carried out. The current staff is not trained or equipped with the new age accounting concepts such as preparation of the Balance Sheet and other financial statements on an accrual-based accounting system. Thus, the audit of accrual-based financial statements would be challenging for LAD staff. With the existing capacities and strengths, it appears that the LAD is not likely to conduct the audit of all the local bodies in Haryana in time, in line with the recommendations of the Fifteenth CFC, for claiming grants.

5. A review of the audit reports issued by the Pr. AG and the LAD for local bodies indicate that the existing auditing system focuses more on the audit of expenditures and assets related issues. Reporting on income, liabilities, procurement processes and post-procurement executions needs more focussed attention.

6. The current reporting format also needs to be strengthened. It generally covers the observation found in the transactions with non-compliance of any Act or Rule. The reporting format does not provide for criteria of observation, condition, cause, effect, recommendation, and auditee's comment on the observation specifically.

7. Also, the existing training and capacity building programmes for audit staff are insufficient and ineffective in terms of online audit, risk-based assessments, effective reporting, and audit documentation, etc.

8.26 Based on the above observations, the Commission is of the view that the existing system of auditing needs to be strengthened and recommend the following:

A. For the Department of Urban Local Bodies and Development and Panchayat Department

1. To issue instructions to the officials of ULBs and PRIs to dispose-off previous years' pending audit paras, comments, and observations, etc., on or before 31st March of the following year.

2. To take appropriate action against erring official of LBs in case of any audit paras, comments, and observations, etc., are made on pending audit paras by the auditor.

3. To appoint the independent chartered accountants for audit of the local bodies from a panel of reputed CA firms created for the purpose.

4. Sensitise and train each level of municipal staff on the importance of audit, role, and duties of ULB & PRI officials in the audit.

5. To issue instructions to the officials of local bodies to prepare and organise their registers and records for audit purposes before the commencement of the audit.

6. To take appropriate action against erring officials in case of any audit para, comment, and observation, etc., is made on non-submission of records, register by LBs to the auditor.

7. To facilitate all local bodies in publishing their audited financial statements at the Department website.

B. For Local Audit Department

1. The LAD should continue the pre-audit of local bodies as per existing practice.

2. To prepare and implement State Audit Manual. It is suggested that the manual should prescribe guidelines for risk profiling of units/departments and to give appropriate attention to transactions related to expenditure, income, assets procurement and liabilities. Off Balance Sheet items like

contingent liabilities, Notes to Accounts and Accounting Policies shall also need to be part of the audit.

3. Sensitise and train each level of municipal staff and LAD staff on the audit manual.

C. For Urban Local Bodies and Panchayati Raj Institutions

1. To provide records, registers, books of accounts to the auditor for audit.

2. To facilitate audit by LAD or Pr. AG or Chartered Accountants, as the case may be.

3. To participate in capacity building programmes or trainings.

Existing System of Budgeting in Local Bodies

8.27 Budgeting is a statutory activity for all the local bodies in India. Local self-government being a state subject as per the Indian Constitution, it is the state government that promulgates laws regarding the existence, operation, powers, and responsibilities of local self-government. A budget document is a financial plan, an expression of financial intent. It sets forth the expenditures that a local body is expected to incur during the year on various programmes and the means of financing them. At the same time, the budget is the principal means of control having the force of law. A budget thus provides both the authorisations of, and limitations on, the amounts that may be spent for specific purposes. The local body needs to demonstrate its accountability from both the authorisation and the limitation perspectives. Generally, local bodies prepare annual budgets that are adopted by the legislature.

8.28 In local bodies, the budget is prepared with the active participation of the citizens, albeit indirectly through elected representatives. Once adopted, the budget becomes a formal expression of public policy, local body's objectives, and priorities and on how resources will be provided to meet those objectives.

8.29 Budget also provides a basis for evaluating performance. Comparisons of actual results with the budget can provide information to help users assess whether resources were obtained and expended as anticipated. However, as far as performance evaluation is concerned, adherence to the legislature-adopted budget cannot be used as the sole measure of performance. Proper performance evaluation requires the local bodies to establish service efforts and accomplishment goals and to accumulate actual data for comparison purposes.

8.30 As per Haryana Panchayati Raj Finance, Budget, Accounts, Audit, Taxation and Works Rules, 1996, the budget estimates of the gram panchayat and panchayat samiti shall be drawn up by gram sachiv and executive officer, respectively, and that of the zila parishad by the accounts officer of the zila parishad in Form1. The PRIs are required to prepare abstracts of the budget estimates, budget estimates of receipts and budget estimates of the payments as per Form1. It is noted that these budget formats do not provide for comparison of budget estimates with the actual information of the corresponding previous year. The formats do not provide for the apparent distinction between capital expenditure and revenue expenditure.

8.31 As per section 139 of the Panchayati Raj Act, a zila parishad may constitute such committees as it may deem necessary for executing its functions. This provision for the formation of committees enables the members to participate in the process of local governance, but none of the ZPs had made any efforts to form such committees at its level.

8.32 As per Clause II.1 of the Municipal Accounts Code, 1930, the Committee shall on or before the 15 day of January each year submit in duplicate, through the deputy commissioner to the commissioner, an estimate of its income and expenditure in the ensuing financial year (the budget) in Form G. 1. Section 83 of the Haryana Municipal Corporation Act (HMCA), 1994, provides that the corporation shall, not later than the first week of February of every year, adopt for the ensuing year a budget estimate which shall be an estimate of the income and expenditure of the corporation to be received and incurred on account of the corporation.

8.33 A detailed analysis of the budgeting system including reporting framework in PRIs and ULBs was undertaken, which highlighted key issues and limitations in the present system. These are discussed hereunder:

1. On review of select ULBs, it was noted that the budget does not provide an apparent distinction between capital expenditure and revenue expenditure. Moreover, ULBs do not prepare capital budgets and long-term budgets to plan the capital expenditure in an appropriate manner.
2. There is no budget manual available to the PRIs and ULBs for the preparation of their budgets. A budget manual prescribes the methodology for budget preparation in the local bodies in Haryana. For active citizen participation, timely reporting is of utmost importance. Hence, the manual should provide guidelines for timely reporting in the public domain.
3. The changes in budget estimates and revised estimates are not explained. Comparison of budget estimates with the actuals of the previous period though presented, but variances are not explained in the budget document.
4. Another area worth mentioning is the requirement of capacity building for budget preparation and its usage as a tool of control, transparency, and decision-making. The capacity building needs to be taken both for elected representatives as well as the executives of the local bodies. An elected representative needs to handle various important functions pertaining to decentralised governance, planning and development. Hence, the task of evolving a suitable future strategy for enhancing the capacity of elected representatives through training needs to be ensured.
5. Citizens are the most important stakeholders in any government and their participation is an important part of the budget-making process. It is prescribed in the Haryana Municipal Citizens Participation Act, 2008, that the ward committee shall assist in the preparation of ward budget in accordance with ward plans. However, this system is not followed in practice. Currently, details regarding different components of budget get uploaded on the website but initiating more direct consultations with RWAs, housing committees, NGOs, prominent citizens is needed.
6. Haryana is one of the first few states to adopt the 'Output-Outcome Framework' at the state level. However, the 'Output-Outcome Framework' at the local bodies level, in line with state government's implementation, is yet to be adopted.

8.34 In view of the observations discussed above, the Commission is of the opinion that the existing system of budgeting needs to be strengthened and the following steps need to be taken:

A. For the Department of Urban Local Bodies and Development & Panchayat Department

1. **To prepare and implement State Budget Manual. Also, develop a strategic roadmap for timely implementation of the State Budget Manual,**
2. **To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State,**
3. **Sensitise and train each level of local bodies' staff on the budget preparation, performance budget, Output-outcome budget framework,**
4. **To ensure that the budgeting codes are**

aligned/linked with the accounting code,

5. Introduction of IT-based solution for timely and smooth preparation and presentation of the budget ,

6. To facilitate local bodies in publishing Manual. Also, develop a strategic roadmap for timely implementation of the State Budget Manual,

7. To appoint a cadre of Municipal/Panchayati Finance Officers for ULBs/PRIs of the State,

8. Sensitise and train each level of local bodies' staff on the budget preparation, performance budget, Output-outcome budget framework,

9. To ensure that the budgeting codes are aligned/linked with the accounting code,

10. Introduction of IT-based solution for timely and smooth preparation and presentation of the budget,

11. To facilitate local bodies in publishing their budget at the Department website.

B. For Urban Local Bodies and Panchayati Raj Institutions

1. To participate in capacity building programmes or trainings on budgeting,

2. To prepare budgets in the prescribed format within prescribed time and to ensure publishing of approved budget statements in the public domain or prescribed websites.

Table 8.6: Summary of Reforms in ULBs of Other States vis-à-vis Haryana

S. No.	Practices	States	Activities
1	Status of Accrual Basis of Double Entry Accounting System	Maharashtra	All ULBs are following Accrual-Based System. The accounts of the ULBs have been prepared using the Double Entry Accounting standards from the year 2009-10.
		Gujarat	The ULBs have adopted Accrual-Based Double Entry Accounting system from 2006-07 onwards.
		Jharkhand	All ULBs are following Accrual Basis of Accounting System since 2012-13.
		Karnataka	ULBs are preparing fund-based accounts in double entry system from 2017-18 onwards.
		Odisha	All ULBs are following Accrual Basis of Accounting System.
		Tamil Nadu	All ULBs are following Accrual Basis of Accounting System (revised) 2014-15 onwards.
		Uttarakhand	Most of the ULBs are following Accrual Basis of Accounting System.
		Haryana	None of the ULB is following Accrual Basis of Accounting System.
2	States Municipal Accounts Manual	Maharashtra	Government of Maharashtra published (January 2013) the Maharashtra Municipal Account Code, 2013 prescribing the procedure for maintenance of accounts of receipts and disbursements for the Municipal Councils only.
		Gujarat	The draft Municipal Accounts Manual approved by the Government.
		Jharkhand	State Municipal Accounts Manual developed in accordance with NMAM, was approved by the state government in October 2012.
		Karnataka	State Government brought out the Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), based on NMAM with effect from 01.04.2006.
		Odisha	The draft Municipal Accounts Manual prepared by the Government of Odisha. in April 2012.
		Tamil Nadu	State brought a new manual based on the needs of ULBs and principle of NMAM and accounts were compiled based on this newly updated Municipal Accounting Manual from 2014-15 onwards.
		Uttarakhand	The Municipal Accounts Manual based on NMAM prepared by the Government of Uttarakhand.
		Haryana	Under advance stage of preparation.

S. No.	Practices	States	Activities
3	Primary Auditor	Maharashtra	The Director, Local Fund Audit (DLFA)
		Gujarat	The Examiner, Local Fund Accounts
		Jharkhand	Government of Jharkhand entrusted Office of the Accountant General (Audit) (AG) to conduct audit of ULBs under Technical Guidance and Supervision (TGS) module
		Karnataka	State Manual entrusts Karnataka State Audit & Accounts Department and Accountant General, Karnataka as primary Auditor.
		Odisha	The Director, Local Fund Audit
		Tamil Nadu	The Director, Local Fund Audit
		Uttarakhand	The Director, Local Fund Audit
		Haryana	The Examiner, Local Fund Accounts (LAD).
4	Authority that maintains the accounts of ULBs	Maharashtra	Account Officer of ULBs under the supervision of Chief Officer
		Gujarat	ULB maintains own accounts
		Jharkhand	ULB maintains own accounts
		Karnataka	ULB maintains own accounts
		Odisha	Executive officer, concerned ULB
		Tamil Nadu	Financial Advisor in Chennai Corporation; AC (Accounts) in all other corporations; Accountants in Municipalities; Executive Officer - Town Panchayats
		Uttarakhand	Few ULBs maintain own accounts through their employees (permanent/outsourced staff). However, most of the ULBs have appointed CAs firms.
		Haryana	The accounts of the ULBs are maintained by the staff of ULBs.
5	Whether formats revised by CAG adopted for accounting purpose	Maharashtra	Yes
		Gujarat	Yes
		Jharkhand	Yes
		Karnataka	Yes
		Odisha	Yes
		Tamil Nadu	Yes
		Uttarakhand	Approval for the Revised Manual is awaited.
		Haryana	No.
6	Latest year up to which accounts maintained	Maharashtra	2016-17
		Gujarat	2015-16
		Jharkhand	2017-18
		Karnataka	2016-17
		Odisha	2017-18
		Tamil Nadu	2017-18
		Uttarakhand	2019-20
		Haryana	Data of 79 ULBs uploaded at DULB website for 2018-19.
7	Details of Auditing Authority	Maharashtra	Directorate, Local Fund Audit
		Gujarat	The Examiner, Local Fund Accounts
		Jharkhand	CA Firms
		Karnataka	Karnataka State Audit & Accounts Department and Accountant General, Karnataka
		Odisha	The Director, Local Fund Audit
		Tamil Nadu	Local Fund Audit Department & Accountant General
		Uttarakhand	The Director, Local Fund Audit
		Haryana	The Examiner, Local Fund Accounts

8.35 The summary of current practices followed by ULBs in other states and comparison with ULBs in Haryana are given in Table 8.6.

Conclusion

8.36 Local Bodies in Haryana continue to employ archaic accounting and auditing practices, which have caused the state huge financial drainage over the years. Despite the several attempts of implementation and advocacy of financial management reforms recommended by previous Central and State Finance Commissions, very little has been achieved by the local bodies in the state. From amending legal provisions surrounding accounts and audit to the digitisation and technological transformation of the financial system of the local governments, there lies a long road ahead of Haryana. This, however, cannot be accomplished without a sound knowledge and resource base in the form of capacitated and reliable human resources at the grassroots level. Thus, the Commission believes that strengthening the accountability of functionaries is key to achieving the targets for accounting, auditing, and responsible budgeting procedures on part of the local bodies.

Chapter 9

Principles of Fiscal Devolution and Share of Local Bodies

Chapter 9

Principles of Fiscal Devolution and Share of Local Bodies

The Approach

9.1 The approach of the Sixth State Finance Commission, Haryana has been based on the fundamental principle that this Commission should firmly abide by the ToR. Besides, this Commission recognises the significance of taking a comprehensive view of inter-governmental fiscal relations. The approach of the Commission to address local functional, administrative and fiscal issues is mainly based on needs, equity and performance. In this realm, the Commission reviewed the trends and existing arrangements to the extent possible. The fiscal situation of the local bodies as well as the state and the relationship between the state and local bodies in this broader and current context, have been examined to fulfil the mandate provided to the Commission by its ToR. This approach has helped the Commission in comprehensively identifying the issues not only of the local bodies but of the state government as well.

9.2 As per ToR, the Commission is mandated to make recommendations regarding the distribution of a share of net proceeds of taxes, duties, tolls, and fees leviable by the state to local bodies, and allocate the share to different tiers of panchayats and municipalities for the period of 2021-22 to 2025-26. The Commission is also mandated to suggest measures needed to improve the functional, administrative and financial status of panchayats and municipalities. While doing so, the Commission is expected to have regard, among other considerations, to the fiscal resources of the state government. Besides, the Commission is also required to keep in view the requirements of PRIs and ULBs, their potential for raising revenues against their expenditure responsibilities. It, thus, suggests that resource availability with the state government and needs of the local bodies are the driving considerations for the Commission in designing its revenue sharing formulae.

9.3 In this context, detailed analysis of state budgets emerged to be extremely important. This is more so because of the unexpected shock to the states' fiscal health brought by the COVID-19 pandemic. Exceptional circumstance needs exceptional policy stance, and Haryana government has undertaken various measures relating to tax and non-tax revenue receipts and recovery of loans and advances. Increase in revenue expenditure and decline in capital infrastructure spending in the state budget 2021-22 have generated mixed responses amongst the economists towards achieving a counter-cyclical expansionary budget. It is, therefore, innocuous to conclude that there is considerable policy space for designing, implementing and administering the budgetary provisions, particularly for local bodies.

9.4 In any federation, the need for fiscal transfer arises predominantly to offset the vertical and horizontal fiscal imbalances. Such imbalances occur because of an incongruency between revenue assignments and expenditure responsibilities across different tiers of governments. In Indian federation also vertical fiscal imbalances have persisted since revenue powers assigned to the central government are more elastic and buoyant in nature as compared to the state's resources, whereas the functions assigned to the states are much larger. Further, a similar vertical imbalance exists between expenditure and tax assignments with respect to states and local bodies. Tax and non-tax powers assigned to the local bodies have a narrow base and low potential for revenue mobilisation and are less buoyant in comparison with revenue resources of the state governments. The local bodies are, therefore, not in a position to discharge the functions assigned to them with their own revenues.

9.5 The 73rd and 74th Constitutional Amendments gave new dimensions and institutional depth to the PRIs and ULBs. However, execution of many provisions of both these two Constitutional Amendments were kept with the State governments. The 73rd and 74th Constitutional Amendments did not impose any mandate regarding the transfers of functionaries and funds on each of the subjects listed in the Eleventh and Twelfth Schedules from the state to its PRIs and ULBs. These amendments provide for devolution of enlisted subjects on which, activity mapping is highly imperative to assess the requirements of devolution of functionaries and funds to strengthen their fiscal status so that these bodies could generate resources at their own level to meet their expenditure needs. However, this has not ensued to the necessary extent as major recommendations of previous Commissions were accepted but not fully implemented by the state government. Thus, this Commission, while taking cognizance of the whole situation, observes that the devolution of functions, if any, decided to be made by the state government during the award period of this Commission to the local bodies during subsequent years, should be accompanied by matching functionaries and funds. In this regard, a detailed activity mapping of the devolved functions is critically important. Besides, assignment of adequate revenue sources to these bodies is extremely important.

9.6 As is well-known, the traditional approach of fiscal devolution tends to reward poor or backward local bodies and correspondingly discount the efforts of fiscally better performing local bodies to offset the horizontal fiscal imbalances. In this regard, this Commission believes that the normative approach effectively has an advantage over the traditional approach. In normative approach, revenues are assessed based on fiscal capacities whereas expenditures are assessed based on needs. Thus, at the outset, the major problem before the Commission was to gather information and data on the status of finances of the PRIs and ULBs, which was a time-consuming affair. The Commission, in its apprehension for computing normative fiscal gaps of the local bodies, has put the best efforts through all possible means to get relevant information and data, required to compute the normative fiscal gaps. It is important to mention that it was, however, challenging to apply the normative principle in totality due to the heterogeneity across and within the local bodies predominantly due to the varied population, income, revenue mobilisation capacity and expenditure responsibilities.

9.7 The objective has been to fill the resource gaps of each local body to the extent possible through tax devolution. However, the Commission also recommends post-devolution gap funds to both the PRIs and ULBs where devolution alone could not cover the assessed gap. This Commission believes that the recommendations of this SFC will contribute to enhance coordination between the state and local governments and promote competition. As a step towards this direction, the Commission has kept a quantum of performance grants and Post-Devolution Gap Funds (PDGF) to the PRIs and ULBs during its award period. The Commission, in the process, recognised and articulated a legitimate role for the state in effectively transferring funds to the local bodies and provide fiscal space for the purpose.

9.8 Officials of this Commission could not undertake visits to other states due to the COVID-19 pandemic as well as paucity of time, which could have been insightful to the Commission. Nevertheless, officials of the Commission have interacted with the officials of a few other State Finance Commissions such as Karnataka, Kerala, Madhya Pradesh and Odisha, which to a certain degree, has been very useful on obtaining the requisite clarifications on several issues important to this Commission.

9.9 The presentations given by the officials at divisional level were essentially in terms of insistence on effective fiscal transfers. It has emerged from their presentations and meetings with the elected representatives that they felt constrained not only by the lack of resources, but also by the inadequate administrative infrastructure. Alongside, they suffer due to the lack of discretion available to them for efficiently providing basic services. They argued that they are important institutions in local governments for the provision of most of the local-level public goods and services. They also pointed out the constraints they faced in raising local resources. Thus, in this regard, the Commission has suggested certain key measures in the subsequent chapter, in which, the respective local bodies can enable additional resource mobilisation.

The Devolution Formulae

9.10 The Sixth SFC has carefully reviewed all the previous Commissions' devolution formulae in view of its timely relevance based on how criteria, weightages and the entire formulae have changed over time in correspondence with the economic change of Haryana by the successive SFCs. More specifically, one important question regarding computing vertical and horizontal devolution formulae is: why does each SFC frequently make changes in criterion and their weightages applied in computing the devolution of funds? In this regard, this Commission realised that changes should be in tune with the evolution of the state's economy and changing pattern of economic activities.

9.11 Two approaches have commonly been used for sharing of revenues with the lower-level governments. One is that of sharing of revenues in specific taxes. The other is that of global sharing, which means a specific share of local bodies in the total divisible pool instead of shares in specific taxes. In other words, the global sharing technique in vertical fund sharing of state revenues denotes that all own taxes of a state are to be pooled and a proportion of that pool would be shared amongst the local bodies. Majority of SFCs have also adopted the principle of global sharing of the divisible pool of state revenues with the local bodies.

9.12 The system of global sharing has distinctive advantages. It permits the states to levy tax on more buoyant tax sources and guarantees a regular and predictable flow of tax revenues to the local bodies. In addition to this, this system has twin advantage of transparency and predictability. It is also helpful in annual budgetary exercises both at the state and local body levels. This certainly enables the state and local bodies to plan their budgets according to the expected flow of funds with a considerable degree of certainty and predictability.

9.13 The First and Second SFCs of Haryana adopted source-specific criteria of sharing state revenues with the local bodies. Thereafter, the third SFC made a distinctive departure by adopting the principle of global sharing of resources, and the Fourth and Fifth SFCs continued the same. In continuation to this, **this Commission has also considered the global sharing mechanism for fiscal devolution.**

9.14 After carefully analysing the fiscal requirements of the local bodies with the changing pattern of economic activities, **this Commission recommends a revision in divisible pool from its previous Fifth SFC. The Commission recommends augmenting the divisible pool from earlier 7 per cent to 9 per cent. Out of this entire 9 per cent, it is recommended that 7 per cent would be devolved as per the formula presented in Table 9.1, whereas the remaining 2 per cent is recommended to be used for special grants and other budgetary transfers to both PRIs and ULBs and for water and sewage services taken over by municipal corporations, to be decided by the state government.**

9.15 In sum, the Commission has bifurcated the divisible pool of 9 per cent into two categories: 7 per cent as formula-based devolution, and the remaining 2 per cent as special development purpose grants. The rationale behind such consideration has been to impart greater transparency and accountability in budget-making process of Haryana in order to ensure fiscal equalisation. Before making recommendations on sharing of state resources, it is necessary to have a glance at the existing level of funds transfer from state budget to the local bodies. Hence, apart from SFC transfers, it has been observed that funds are flowing to the local bodies through several budget heads, which could be seen in the budget document namely, 'Budgetary transfers to the Local Bodies'. This tends to make the budgetary allocation to the local bodies somewhat more complex than one commonly perceives. **Thus, in order to create a seemingly easy to understand budgeting for local bodies, this Commission recommends bringing all such fiscal arrangements under the purview of State Finance Commission, which is expected to impart greater transparency and accountability.**

9.16 A study on assessment of the technical and expenditure efficiency of PRIs in Haryana was assigned to the Indian Institute of Technology Roorkee, and the study from primary survey on sampled GPs in Ambala, Fatehabad, Karnal, Palwal, Rohtak and Mahendragarh found that streetlights in most of the GPs had been installed, but these became non-functional due to lack of maintenance. Based on this finding, the study argued that expenditure should be made on the maintenance of assets created.

9.17 The Commission has observed that the PRIs and ULBs traditionally have spent a significant amount of the divisible pool on pavement of streets, which reduces effectiveness of the main objective of the untied tax devolution to the local bodies, that is, to offset the vertical and horizontal fiscal imbalances. **Thus, in this context, the Commission has also put a condition that not more than 30 per cent of the devolved funds is to be utilised on pavement of streets by the PRIs and ULBs.**

9.18 Besides, the Commission also understood that in case the need for very special, specific, or exceptional grants arises, then this 2 per cent divisible pool can effectively mitigate the fiscal stringency. Any such special need-based grants should be a non-recurring or one-time arrangement so that they do not generate fiscal profligacy on the part of PRIs and ULBs, who should usually be able to meet their respective liabilities. Such grants should be based on transparent considerations and should also consider the fiscal needs and capacities of the local bodies. This consideration of 2 per cent of divisible pool as special development purpose grants, therefore, reveals another rationale.

9.19 **The Commission further recommends performance grants and post-devolution gap funds to both PRIs and ULBs, which will be met by the finance department from this 2 per cent of divisible pool.** The entire devolution formula, presented in Table 9.1, has been discussed in a stepwise manner in subsequent sections.

The Divisible Pool and Its Compositions

9.20 While recommending revenue sharing criteria, the Commission is first required to determine the divisible pool. The divisible pool comprises the proceeds of taxes, duties, tolls, and fee leviable by the state. The total revenue receipts of the state have four sections. These are: own tax revenue, own non-tax revenue, share in central taxes (tax devolution) and grants-in-aid. The Commission has found wide variations across states in defining components of the divisible pool. A few SFCs used total revenue receipts to compute the divisible pool whereas a few SFCs used only own revenue receipts of their respective states, including both tax and non-tax revenues to compute the divisible pool. However, majority of SFCs have treated own tax revenue as the sole component of the divisible pool. The Fifth SFC of Haryana gave due thought to this aspect and decided own tax revenue to be the main component of divisible pool of state revenues to be shared with the local bodies.

9.21 It has traditionally been observed that since CFC reserves certain portion of divisible pool of central taxes as specific grants for the local bodies, thus, share of the state in central taxes should not be

Table 9.1: Fiscal Devolution to the Local Bodies: Revenue Sharing Formula

Divisible Pool: 9% of Actual Net SOTR [SOTR – Collection Charges (1.5%)]
Out of 9%, 7% to be Devolved as per Formula below

50% → **PRIs**

50% → **ULBs**

PRIs

Horizontal Distribution

Zila Parishad	Panchayat Samiti	Gram Panchayat
(15%)	(15%)	(70%)

Devolution within each Individual Tier (ZP, PS, & GP) Criteria & Weightage

Population (2011 Census / Updated)	100 %	[ZP]
Population (2011 Census / Updated)	100 %	[PS]
Population (2011 Census / Updated)	75 %	[GP]
Per Capita Own Revenue Distance	25 %	[GP]

ULBs

Devolution Criteria & Weightage

Population (2011 Census / Updated)	75 %
Per Capita Own Revenue Distance	25 %

1) Apart from the formula-based 7%, remaining 2% recommended to be used for special grants and other budgetary transfers
2) Performance grants and post-devolution gap funds may also be met by the state government using the remaining divisible pool of 2%

made shareable with the local bodies. Similarly, grants-in-aid received from the central government are majorly scheme specific and thereby, should not form part of the divisible pool. The non-tax revenue of the state should also remain outside the divisible pool since it is termed as recovery of the cost of the goods and services being rendered by the various State government departments. This Commission, therefore, observes that it is the own tax revenue of the state, which should be taken as the acceptable component of the divisible pool in the scheme of revenue sharing.

9.22 Hence, taking a holistic view of the situation, this Commission has decided to treat the SOTR only as the acceptable component of the divisible pool in its scheme of revenue sharing. This decision arises from the notion that the citizens of the state, being the ultimate beneficiaries, have innate prerogative over tax sources of the state. However, following the pattern adopted by the Central Finance Commission and various SFCs, the SOTR constituting the divisible pool should be discounted for tax collection charges at the rate of 1.5 per cent each year. In other words, SOTR of the state, net of collection charges, becomes net SOTR that constitutes the divisible pool. **The Commission recommends fixing the share of local bodies, both PRIs and ULBs, at 9 per cent of net SOTR.**

Distribution of Local Bodies Share between PRIs and ULBs

9.23 After deciding the composition of the divisible pool, it is imperative for the Commission, subsequently, to determine the share of local bodies in the divisible pool and the relative share of PRIs and ULBs.

9.24 Since the approach of the Commission is based on the principles of equity, efficiency and promotion of inclusive growth, it has carefully considered the rapid urbanisation of Haryana. The situation is compounded by the understanding that the existing urban infrastructure is not adequate to assimilate the rising population pressure and to check population shift to urban from rural areas, there is an urgent need to develop rural infrastructure with urban-like amenities for the rural population. In addition to this, it is also analysed that due to the share of (i) levy of 2 per cent additional stamp duty; and (ii) electricity duty to the PRIs, they have started getting extra funds. After giving due thought to these issues, by adopting a balancing approach, **this Commission has decided that a good fit ratio of PRIs and ULBs would be 50:50. The projections of SOTR, and the computations of divisible pool of 7 percent and the shares of PRIs and ULBs are presented in Table 9.2.**

9.25 Besides, it is important to note that the ULBs are entrusted with responsibilities for addressing not only the existing needs of the ULBs, but also the changing requirements for the growing urban population as well. The SFC analysis has, therefore, focused on whether the ULBs in Haryana, in their existing form and functioning, are geared to meet the above responsibilities. It is realised that the enhanced share of divisible pool to the ULBs will

9.2 : Projections of SOTR and Computations of Divisible Pool and Shares of PRIs and ULBs

Year	SOTR	Net SOTR	Divisible Pool @ 7%	PRIs' Share @ 50%	ULBs Share @ 50%
2021 -22	62087.50	61156.19	4280.93	2140.47	2140.47
2022 -23	51413.30	50642.10	3544.95	1772.47	1772.47
2023 -24	55897.09	55058.64	3854.10	1927.05	1927.05
2024 -25	60851.73	59938.95	4195.73	2097.86	2097.86
2025 -26	66330.36	65335.40	4573.48	2286.74	2286.74

Source: Finance Department
Note: Net SOTR = SOTR – 1.5 per cent of collection charges

meet, to a certain extent, the requirement of increasing pressure on urban infrastructure and the responsibilities entrusted on them.

Horizontal Distribution of PRIs Shares among GPs, PSs and ZPs, and Devolution Criteria and Weightages

9.26 After computing 50 per cent share of PRIs from the divisible pool, the Commission recommends that the shares of GPs, PSs, and ZPs should be allocated based on population as per 2011 Census or updated data, with 100 per cent weight for ZPs and PSs, whereas population with 75 per cent weightage and per capita own revenue distance with 25 per cent weightages for GPs. The per capita on revenue distance should be calculated from the highest per capita revenue of GP within each districts. The resource raising capacity of a smaller local body is limited and low vis-à-vis a bigger one and thus, a smaller body needs to be compensated for its lower fiscal capacity. Hence, the Commission has decided the variable of per capita own revenue distance with 25 per cent weight assigned for GPs. **The relative shares (horizontal devolution) of the divisible pool for PRIs should be released to all tiers of PRIs that is, GPs, PSs, and ZPs in the ratio of 70:15:15, which was 75:15:10, as per the Fifth SFC.**

9.27 Based on the analysis of the requirements of the PRIs and consultations with the stakeholders, the Commission has changed this ratio from that of the Fifth SFC predominantly because of additional functional responsibilities imparted to the ZPs. The Commission observes that ZPs are given a few additional responsibilities/functions since the constitution of Inter-District Council. These functional responsibilities require an additional amount of funds since most of the ZPs do not have enough own revenues. Keeping in view the financial constraints of ZPs, the Commission is slightly deviating from the previous SFC's recommendation while recommending the inter-se distribution among PRIs. In particular, the Commission duly recognised the increased functional responsibility of the ZPs towards infrastructure development. As a result, this Commission is of the opinion to increase the horizontal devolution share for ZPs. The calculations pertaining to the relative shares of GPs, PSs and ZPs in the ratio of 70:15:15 and their inter se shares should be made by the concerned department of the state government and transfers be made to the PRIs accordingly.

Distribution of ULBs Shares

9.28 The Commission did not consider the step to compute horizontal distribution of ULBs, which was present for PRIs. The rationale behind such consideration was the vast variation in the size of PRIs and ULBs, with a total of 93 ULBs compared to 6391 PRIs (6227 GPs, 142 PSs, and 22 ZPs), as on 30 September 2021. Besides, the Commission has noted that in urban areas, municipal bodies consist of municipal corporations, municipal councils and municipal committees. Their functional and financial domains are independent of each other, and these are not superimposing bodies. Thus, the Commission has directly moved to compute the devolution of the 50 per cent share of the divisible pool for the ULBs.

9.29 Population across these three municipal institutions is the major driving factor for determining the quantum of transfers, and therefore, **the Commission has assigned 75 per cent weight to population and 25 per cent weight to per capita own revenue distance.** The per capita own revenue distance should be calculated from the highest per capita revenue of ULB within each sub-category of municipal corporations, municipal councils and municipal committees. It is also important to note that our analyses and findings suggest that the revenue mobilisation capacity of some of the ULBs from their own sources is considerably low. This is also validated by the study, which was delegated to NIPFP on ULBs finances. Therefore, the Commission is of the opinion that they should receive an extra share, and hence, considering this, **the Commission has recommended the post-devolution gap funds to**

ensure the principle of fiscal equalisation.

Haryana Fiscal Responsibility and Budget Management Act, 2005

9.30 The Haryana Fiscal Responsibility and Budget Management Act, 2005 (the HFRBM Act, 2005) provides for the responsibility of the State Government to ensure maintenance of fiscal stability and sustainability by continual riddance of revenue deficit, fiscal deficit and prudent debt management in operations of the government. However, such legal provisions do not currently exist for local governments. Hence, for responsible budgeting on part of urban local bodies, budget estimation analysis has been conducted earlier, in Chapter 6. The analysis was useful in highlighting a major fault line between budget preparation and the actual requirements of funds by the ULBs. The budgets are not just observed to be overestimated, but consequently, also, compromised their accuracy.

9.31 The Commission believes that there is a need for developing an appropriate mechanism which encourages the ULBs to move towards realistic budget estimates and responsible fiscal management. Thus, **the Commission recommends that, the budget estimates of actual revenue from own sources (including tax and non-tax sources), must reflect accuracy equal to a minimum of 85 per cent (that is, actual revenue must be minimum 85 per cent of the budgeted revenue) in audited accounts of the previous year (t-1), failing which, the non-compliant ULBs will face a 20 per cent cut from recommended share from the SFC grant, due to those ULBs, in the current year (t).**

Performance Grants to the Local Bodies

9.32 The main observation of this Commission regarding special, specific and exceptional grants is that such grants should be a yearly arrangement during the award period of this Commission and not a general or a usual means of resource transfer to local bodies. Such grants should be based on certain performance-oriented objectives and transparent considerations. Performance grants are an essential step away from the influence of the state government and towards performance-oriented outcomes on part of the local governments.

Performance Grants to the PRIs

9.33 The Commission, in Chapter 5, has reviewed the financial position of panchayats and concluded that PRIs are predominantly dependent on the grants from state and central government. In 2020-21, the share of own source revenues in total revenues of PRIs was just 15.25 per cent.

9.34 Over the last decade, own tax revenue of the GPs has been less than one per cent of the total resource envelope (Table 5.4, Chapter 5). In 2020-21, it was about ₹ 2.62 crore which is 0.12 per cent of the total resource envelope. As far as own non-tax revenue is concerned, it has a relatively higher contribution in revenue receipt. In 2020-21, own non-tax revenue was ₹ 331.67 crore, which is 15.13 per cent of the total resource envelope of PRIs. Major portion of the own non-tax revenue comes from the lease money of shamilat land.

9.35 House tax is the only source of own tax revenue of GPs. However, the collection of house tax has been very poor in the state. The state calculates the demand and actual collection of

Table 9.3 : Criteria for Performance Grants to the PRIs

Indicator/Condition	Incentive
Improved OSR (excluding stamp duty, electricity duty, lease money and interest from bank deposits) collection by at least 10 per cent compared to the previous year	Matching share of the increased amount
Note: The performance grant will be provided based on the audited figures	

house tax every year. In 2020-21, the demand of house tax was ₹ 13.36 crore, while the collection was only ₹ 2.62 crore which is 29.6 per cent of the actual demand (Table 5.3 in Chapter 5).

9.36 The Commission observes that to encourage PRIs for mobilising their Own Source Revenue (OSR), a performance grant may be allocated based on the criteria, presented in Table 9.3.

9.37 Stamp duty, electricity duty, lease money from the shamilat land and interest from bank deposits have been excluded from the OSR. The reason behind the exclusion of these sources is that shamilat land is unevenly distributed among the GPs. Besides, some GPs have huge income from bank deposits while others do not have any income from this source. Further, the reason behind the exclusion of stamp duty and electricity duty is that the shares of these two are flowing from state to the PRIs. Therefore, to keep the criteria equally achievable, the Commission has excluded both the sources.

9.38 **The Commission recommends that a performance grant may be paid to the eligible PRIs. It may be met from the devolution of 2 per cent to local bodies (PRIs and ULBs).**

9.39 **The Commission also recommends that the Department of Development and Panchayats may constitute a dedicated wing or cell to look after the release of performance grant.**

Performance Grants to the ULBs

9.40 The Commission finds the need to earmark performance grant to be made available to the ULBs during the award period 2021-22 to 2025-26. This grant shall remain additional to the performance grants recommended by the Fifteenth Finance Commission.

9.41 Firstly, Solid Waste Management is an essential and obligatory function of municipal bodies. The Commission has observed that inadequate attention towards this function has resulted in problems of health, sanitation and environmental degradation. With the passage of time and rapid pace of urbanisation, the situation is becoming more and more critical. Existing infrastructure is not able to keep pace with population growth. Lack of financial resources, institutional weaknesses, improper choice of technology and public apathy towards solid waste management has made this service far from satisfactory. Hence, these grants will be given to the eligible ULBs, only on accomplishment of the pre-defined criteria, as laid by the Commission in Table 9.4. This criterion is recommended based on the latest available Swachh Survekshan Survey report in 2020, published by the Ministry of Urban Development of Government of India. **In this regard, the Commission recognises the fact that new report may be published in near future, in particular, during the award period on the Commission. If this happens with change in city rankings, then the Commission recommends to revise the criteria accordingly. In this regard, it is specifically important to mention that the state government may consider change of this pre-defined criterion based on the latest available Swachh Survekshan Survey.**

9.42 The Commission recognises the necessity for clean surroundings and effective waste processing mechanisms, for a healthier lifestyle, especially, in the recovery phase of the gripping COVID-19 pandemic. Thus, ULBs are ranked based on their sanitation levels through assessment of several detailed parameters under the Swachh Survekshan Survey. The indicators of the survey include evaluation on solid waste management, garbage collection, disposal and processing etc. Hence, **the Commission recommends performance grants for sanitation, conservancy and solid waste management (Table 9.4), based on rankings in the Swachh Survekshan Survey**.

9.43 Secondly, another integral measure towards strengthening local governments is augmenting their revenue base. However, the Commission is also cognizant that tax generation abilities vary vastly across different ULBs. Thus, **the**

Commission recommends a performance grant for those local bodies who increase their efforts towards generating higher revenue each year, as well as show a year-on-year increase in their tax coverage.

9.44 Furthermore, the Fifteenth Finance Commission requires the ULBs to maintain audited records of property tax collection as well as exhibit an upward trend in it, each year, failing which they will not be entitled to any grants. After reviewing Haryana's status quo vis-à-vis property tax collection among ULBs, **the Commission recommends a performance grant for those ULBs, that upscale their efforts in reviving and augmenting their property tax base.**

Eligibility for such grants entails satisfying any of the two conditions provided below:

1. Year-on-year increase in property tax collection (excluding arrears)
2. Improvement in Own Source Revenue (excluding stamp duty) in entirety, over the preceding year, by a minimum of 15 per cent (excluding arrears). The year 15 per cent will be achieved, thereafter, the target for the subsequent year will be 10 per cent, and in the next year, the target would be revised to 5 per cent.

On achievement, grants equivalent to 50 per cent of the increased amount will be incentivised.

9.45 The ULBs must make available timely, reliable data and evidence of an increase in its own source revenue, in the form of audited reports of the preceding year for which performance grant will be claimed. Primarily issued by the Local Audit Department / Principal Auditor General, these reports must also be validated and ratified by the Department of Urban Local Bodies before release of grants.

9.46 The DULB must maintain the funds and transfer them to the eligible ULBs each year. Performance grant fund is recommended to be fixed

Table 9.4 : Criteria for Performance Grants to the ULBs

Targets	Indicators	Norms			
		Population	**Swachh Survekshan Survey 2020 Ranking**		
			Top 10	**11 - 25**	**26 - 50**
1. Sanitation, conservancy, and solid waste management	- City Ranking in Swachh Survekshan	< 1 Lakh	₹7.5 Crore	₹5 Crore	₹2 Crore
		1 – 10 Lakh	₹ 15 Crore	₹7.5 Crore	₹3.5 Crore
		> 10 Lakh	₹ 20 Crore	₹ 10 Crore	NA
2. Coverage and Collection of OSR (excluding stamp duty)	- Increasing Tax Coverage given unchanged tax rates - Improvement in Data Collection of Property Tax and maintenance of Records	- If OSR (excluding stamp duty) increases by 15% and above (excluding arrears); then 50% of the increased amount will be incentivised			

in the first year, following which, the lapsed amount shall be rolled over to the next year. **The Commission recommends an allocation should be made from the divisible pool of 2 per cent, for performance grants to eligible ULBs.**

9.47 It has been realised from Chapters 6 and 8 that there is a need for the state government to notify the state municipal accounts manual (SMAM) and its effective implementation. In this regard, **it is recommended that state municipal accounts manual (SMAM) to be notified within six months of acceptance of the report by the state government. If DULB does not notify the SMAM, then after 6 months, 2 per cent penalty cut will be imposed on recommended devolution of the 50 per cent share of ULB of the divisible pool of 7 per cent. Further if the DULB fails to notify the SMAM within 12 months of acceptance of the recommendations of this Commission by the government then 5 per cent penalty cut to be imposed on recommended devolution of the 50 per cent share of ULB of the divisible pool of 7 per cent. Besides, it is recommended that ULBs should implement SMAM within 12 months of notification, otherwise penalty cut of 5 per cent will be imposed on the share of the concerned ULB.**

Post-Devolution Gap Funds

9.48 While tax devolution is intended to provide sufficient funds to local bodies to meet their fiscal needs, there still arise deficit grants to meet non-plan gaps in the finances of local bodies. This is like the recommendations regarding the performance grants to reward the better performing local bodies in revenue collection, delivery of services and other economic and social objectives.

9.49 However, there are still certain local bodies which might be at a comparatively greater advantage due to their population and area, coupled with their relatively higher capacity to generate more resources. Hence, the Commission suggested gap funding from the 2 per cent of the divisible pool to both the PRIs and ULBs which report shortage of funds even after devolution. To cover the post-devolution gap, this Commission suggests a formula for both the PRIs and ULBs, based on which, gap fund will be allotted to the fiscally weak local bodies on yearly basis, during the award period of this Commission. The formula for PRIs is presented in Table 9.5.

Calculation of Per Capita Amounts for Each ULB

9.50 The post-devolution gap funds formula for ULBs is presented in Table 9.6. For calculating per

Table 9.5: Formula for Post - Devolution Gap Funds for PRIs

Steps	Computation
State level per capita devolution to the PRIs	(50% SFC + 30% CFC) / State rural population = **S_{PC}**
PRI-wise Gap Fund	(50% SFC + 30% CFC + Revenue Budget Transfers + 50 % Own Revenue) – Committed Expenditure = **G**
PRI-wise Per Capita Gap Fund	**G** ÷ Population of the PRI = G_{PC}
Deficit / Surplus Determination	If **G_{PC} > S_{PC}** **[Surplus]** If **G_{PC} < S_{PC}** **[Deficit]**
In case of deficit, the Gap Fund will be	[**S_{PC} - G_{PC}**] x Population of PRI

Note: Committed expenditure includes expenditure on street lighting, sanitation, parks, salary, and other statutory expenses.

capita amounts for each ULB, we first divided the existing three-tier system into further six categories of population as presented in Table 9.7, based on 2011 census population. Owing to the major demographic changes and addition of multiple urban local bodies in the last decade, we use current area to calculate the shifting population.

9.51 The purpose for such population-based segregation is to reduce the vast variations and distortions that arise due to differences in resources and revenue collection efforts across ULBs. It also helped in eliminating outliers like Gurugram and Faridabad from the main Corporations category. They have been converted into separate categories.

9.52 **Due to the inconsistencies in actual data, the Commission adopted a normative revenue and expenditure approach.** Major revenue and expenditure heads are picked, aggregated, and divided across respective population categories.

Per Capita Revenue

9.53 Table 9.8 presents major revenue heads under the ambit of ULBs in Haryana.

9.54 These per capita values were arrived at by analysing actual data for each ULB, and running statistical tests of mean, median, range and standard deviation. For columns in stamp duty, licence fee, electricity duty, development charges, and property tax, median values have been assumed as normative values that is, every ULB is capable of at least generate that amount of revenue through its collection efforts.

Table 9.6 : Formula for Post-Devolution Gap Funds for ULBs

Steps	Computation
State level per capita devolution to the ULBs	(50% SFC + 30% CFC) / State urban population = **SPC**
ULB-wise Gap Fund	(50% SFC + 30% CFC + 75% Normative Revenue + 25% Actual Revenue) – (75% Normative Committed Expenditure + 25% Actual Committed Expenditure) = **U**
ULB-wise Per Capita Gap Fund	**U** ÷ Population of the ULB = **UPC**
Deficit / Surplus Determination	If **UPC** > **SPC** [**Surplus**] If **UPC** < **SPC** [**Deficit**]
In case of Deficit, the Gap Fund will be	[**SPC** - **UPC**] x Population of ULB

Note: Committed expenditure includes expenditure on street lighting, sanitation, parks, salary and other statutory expenses.

Table 9.7 : Categorisation of ULBs with Population (based on Census 2011 Population)

Category	Population	ULBs
1	< 50K	municipal committees
2	50K-1L	municipal councils
3	1L - 3L	municipal councils
4	3L - 5L	municipal corporations
5	5L - 10L	Gurugram
6	> 10L	Faridabad

Normative Revenue = Category total * Population of Respective ULB

Per Capita Expenditure

9.55 A similar exercise was carried out for assessing the expenditure requirements of ULBs, as presented in Table 9.9. The figures reflect median per capita expenditure for streetlight, parks and statutory expenses, while the sanitation expenses have been standardised. It is important to mention that the Commission has not included expenditure of roads predominantly because, consultations of the Commission with various stakeholders revealed that large amounts of funds have already been spent on pavements of roads from various schemes sponsored by the central and state government.

Normative Expenditure = Category total * Population of Respective ULB

9.56 As is seen, different categories of population reflect different per capita revenues and expenditures, hence, the Commission recommends associating each such revenue/expenditure with the respective ULBs that fall under these population categories.

Conclusion

9.57 The Commission has evaluated full range of resources of the local bodies. Approach of this Commission has been principally led by the consideration that 'own fiscal domain' of local bodies should be expanded and their resources be complemented through external transfers to the necessary extent. It is hoped that while considering the recommendations of this Commission, the State government will take a holistic view of these and that decisions on specific recommendations about tax and non-tax resources, tax sharing and other devolutions will not be taken in a discrete and isolated manner. This Commission further expects the State government to ensure that appropriate decisions on SFC recommendations are taken in a time-bound manner and to place the ATR before the

Table 9.8: Major Source-wise Per Capita Normative Revenues

(In ₹)

Population	Advertisement Tax	Stamp Duty	Licence Fee	Electricity Duty	Development Charges	Property Tax	Total
< 50K	20	41	1	16	277	170	525
50K-1L	30	155	2	42	245	208	682
1L - 3L	40	745	4	187	210	209	1395
3L - 5L	50	1427	42	336	210	339	2404
5L - 10L	200	25000	623	2217	325	2105	28253
> 10L	100	8776	608	2548	275	473	12780

Source: Own calculations using DULB data

Table 9.9: Major Source-wise Per Capita Normative Expenditures

(In ₹)

Population	Streetlight	Sanitation	Parks	Statutory	Total
< 50K	272	730	26	489	1517
50K - 1L	233	730	32	550	1545
1L - 3L	211	730	47	399	1387
3L - 5L	169	730	54	450	1403
5L - 10L	165	730	60	445	1400
> 10L	99	730	52	445	1326

Source: Own calculations using DULB data state legislature within the stipulated period.

9.58 Recommendation of the Commission's 9 per cent of divisible pool as global sharing, of which, tax devolution (7 per cent of divisible pool) is unconditional (untied) general transfers to the local bodies, accompanied by special development purpose grants (2 per cent of divisible pool). The 'other budgetary transfers' are to be assimilated in this pool of 2 per cent. The Commission has recommended the 'performance grants' and 'post-devolution gap funds' may also be assimilated in this divisible pool of 2 per cent. The Commission realised that in case need for grants arises for special developmental purpose, then that may be met from this pool of 2 per cent. Also, this Commission is of the view that, in normal circumstances, this pool should be sufficient to meet O&M expenses on establishment and provision and maintenance of core services by the PRIs and ULBs.

9.59 **The Commission firmly recommends that the annual devolution of SFC fund to each of the ULBs and PRIs be transparently executed.** To facilitate expenditure and revenue planning by the local bodies, the SFC funds, which are devolved without conditions, be allocated in the fiscal year as early as feasible.

Chapter 10

Other Key Issues and Recommendations

Chapter 10

Other Key Issues and Recommendations

Introduction

10.1 From Chapters 1 to 8, several recommendations have been made that have collective implications in shaping and designing the recommendations regarding tax devolution to the local bodies. Consequently, in Chapter 9, the Commission has made recommendations on tax devolution to local bodies, followed by recommendations regarding post-devolution gap funds and performance grants. In order to ensure effectiveness of the tax devolution to the local bodies, this Commission, after careful examination, realised that a few key other recommendations relating to decentralised governance, planning and development aspects of local bodies are critically important not only to improve effectiveness of the tax devolution and tax administration but also helpful in improving the autonomy of the local bodies in right perspective. In this context, **as per the ToR of the Commission, it recommends some other imperative measures to enable local bodies to effectively function as local self-governments.**

Land Value Capture (LVC)

10.2 The state of Haryana is one of the rapidly urbanising states within the Indian Union, with 36 per cent of population living in urban areas, as per Census 2011. These urban centres have been attracting potential investment opportunities as well as seeing rapid expansion of urban infrastructure services with links to residential, industrial and commercial complexes. To look at figures, at present, the state has 93 municipalities, comprising 11 municipal corporations, 22 municipal councils and 60 municipal committees[24]. Along with witnessing rapid urbanisation expansion, the proximity of the state to the National Capital Region (NCR) has resulted in growth of urban clusters (like Gurugram and Faridabad) adjoining NCR. These urban clusters have become spatial centres for economic growth as part of the extended urban areas and have at the same time witnessed significant inflow of migrant populations from nearby regions. This has subsequently resulted in rising demands on urban local bodies for providing housing, transit infrastructure and other basic services to cater to the demands of the growing population. Consequently, there is higher demand for raising revenue shares of urban local bodies.

10.3 Of late, the financial position of most of the urban local bodies in Haryana remained weak, with inelastic sources of revenue that is insufficient to meet the growing demands for urban infrastructure as well as other civic services. In this context, land-based sources, if effectively exploited, can prove to be source of additional revenue for urban local bodies. The infrastructural growth, in and around urban areas, has led to rise in land prices along the growth corridors creating windfall gains for select few property owners. This has also led to rise in land acquisition costs for development works, which in some cases is as high as ₹44 crore per acre[25]. Thus, there is a need to recoup these increments in land values, so that they can be used to cross-subsidise development works and providing civic infrastructure for the larger urban area; thereby creating a more equitable pattern of growth. The government may additionally establish a state level fund from the cess collected for funding future road/rail infrastructure. To this end, the following suggestions are made with the aim to strengthen the existing fiscal position of urban local bodies, and also to encourage development and arrest land speculation alongside urban infrastructure corridors:

[24]Department of Urban Local Bodies, Haryana (2021). Memorandum, 6th State Haryana Finance Commission.
[25]*Haryana Shehri Vikas Pradhikaran*

1. Whenever any new **expressway/ highway/ major district road** is constructed, for the properties that lie outside the acquired right of way (RoW), up to a depth of 2 acres, a cess of 2 per cent may be levied every time on transaction of sale and purchase of land, till the time it is converted to non-agriculture use. This cess may not be applicable on the land parcels lying along access-controlled expressway/ highway.

2. (i) On the **access-controlled expressway /highway** wherever there are interchanges, then for the properties lying along the access road of these interchanges up to a depth of 2 acres and distance of 2 kilometers from the interchange cess of 2 per cent may be levied every time on transaction of sale and purchase of land till the time it is converted to non-agriculture use.

(ii) In case such access road of these interchange is new expressway/ highway/ major district road on which 2 per cent cess as mentioned above point 1 is already imposed, an additional 2 per cent cess may be levied every time on transaction of sale and purchase of land till the time it is converted to non-agriculture use.

3. (i) Whenever an area is declared as **Controlled Areas** under the Punjab Scheduled Roads and Controlled Areas Restriction of Unregulated Development Act, 1963, and its development plan is notified, then on the land falling within the residential, commercial, industrial and institutional use of development plan from the date of its notification, cess may be imposed on every transaction of agriculture land till the time it is converted to non-agriculture use. This cess for different land uses may be as under:

Land use category	Cess (per cent)
Commercial	4
Residential	2
Industrial and Institutional	1
Others uses	0

(ii) For properties lying along the proposed sector roads of development plan, up to two-acre depth, an additional two per cent cess may be levied, in addition to the cess levied above 3.(i) till the time it is converted to non-agriculture use.

4. For **Transit Oriented Development (TOD),** for all properties falling within the zone of consideration, a cess of two per cent may be levied on each sale and purchase – that is, every time ownership of property is transferred. This cess may be made applicable from the date of approval of the metro/rapid rail project and up to five years after the date of completion of the project.

5. For all agricultural/vacant lands falling within the urbanisable limits of the development plan for which change of land use permission has not been granted, an annual cess of one per cent of the collector rate may be levied.

Strengthening Output-Outcome Framework for Local Bodies

10.4 Outcome budgeting has been asserted as a key budgetary reform, which is considered as a "pre-expenditure instrument" that aims to inform and engage various external stakeholders on government goals, accomplishments, and the involved costs of achieving the outcomes. Haryana has started to include outcomes in its state budget since 2019-20. However, the interface between the general budget and outcome budget needs further strengthening.

10.5 Outcome budget is designed to capture the outputs, and how efficiently the outputs deliver the desired outcomes. It is a part of the General Budget, prepared by the line departments and compiled and consolidated by the SJHIFM. Detailed department-wise study on achieving the desired outcomes is the foremost important factor, based on which, the General Budget needs to be presented. However, the preparations of the General Budget and Outcome Budget are, in practice, observed as two discrete exercises that fall short of effectively interacting with each other.

10.6 'Output-Outcome Framework' largely intends to develop a thorough understanding of the welfare and developmental activities amongst all the stakeholders, enabling government departments to track the progress of their goals decided by them in the beginning of the year and provide an integrated approach to achieve Sustainable Development Goals (SDGs)[26] in the state. Therefore, primary focus of the framework is to focus on the outcomes pertaining to SDGs and Vision 2030 of the Government of Haryana.

Output-Outcome Framework and Local Bodies

10.7 Local bodies, in the state, have a key role in facilitating the output and ensuring outcomes of the targets set by the state government. In this regard, the Commission is of the view that Output-Outcome exercise should be extended to the local level as well. In particular, this exercise should be executed at the levels of ULBs, ZPs and PSs in the first phase, and at GP level in the second phase of execution. However, currently, there is lack of adequate awareness amongst the stakeholders as to how this framework could be localised for achieving the targets set in the framework.

10.8 The Output-Outcome Framework envisaged by the state government mainly focusses on top-down approach of setting the targets and, consequently, achieving them. However, for better outcomes, the framework needs to be made at local level, then it should be integrated with that of the departments. Local bodies, while preparing their development plans, can outline the framework to achieve desired outputs and, subsequently, outcomes, keeping SDGs in the centrality of all activities. This would enhance the active involvement of PRIs and ULBs in achieving desired level of SDGs in stipulated time.

10.9 Another important aspect is the relation amongst public expenditures, outputs, and outcomes. It needs to be kept in mind that public expenditures, conceptually, address outputs, and not outcomes, directly. For instance, if the causal link between literacy rate and public spending on education would be examine, then that can be misleading. It is because the outcome that is, literacy rate does not only depend on public spending on education but also depends on several factors such as, the student's health, quality of transport (roads and bridges), availability of water supply and sanitation facilities at school. As a result, public expenditures on these aspects have collective implications on that particular outcome which is literacy rate. Therefore, public spending on any particular sector at first directly addresses outputs and these outputs are the sources of delivering desired outcomes.

10.10 Many SDG targets are within the purview of the enlisted subjects in Eleventh and Twelfth Schedules of the Constitution, and local bodies can play a crucial role in achieving the SDGs because these are universal goals with local implications and intervention possibilities. Besides, PRIs and ULBs are expected to prepare plans for economic development and social justice. This would take care of all vulnerabilities, if these plans were prepared holistically. Therefore, a detailed activity mapping of functions is critically important to be conducted for each department, which would lead to effective policy and planning for development, allocation, and implementation of the centrally sponsored and state sponsored schemes, resulting in improved outputs and outcomes.

10.11 In this regard, to strengthen linkages between departmental policies, planning and outcome budgeting in Haryana, a key conceptual facet needs to be kept in mind, which is, several departments have collective implications on several SDGs. In this regard, conducting a detailed status mapping is the first and foremost factor in terms of which departments are bearing collective consequences on each SDG. Thus, inter-departmental coordination becomes a key for the success of department-wise outcome budget. In view of above, **the Commission recommends that a 'District SDG Cell' may be constituted in each district to support SDG aligned plans of local bodies at the levels of three tiers of PRIs and municipal corporation, municipal council and municipal committee levels. Further, the already established Gram Sachivalayas could be properly utilised and further strengthened to support clusters of GPs in carrying forward the**

[26] *SDGs are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone everywhere. The 17 goals were adopted by all UN Member States in 2015, as part of the 2030 Agenda for Sustainable Development which set out a 15-year plan to achieve the Goals.*

SDG agenda at the grassroots level. The Commission also recommends that constituting and operationalising sub-committees dealing with different subjects at three tiers of PRIs may be done on priority basis to enable people to know SDGs and to work for them. It has become more important in the context of the suggestion of MoPR for constituting six sub-committees by panchayats and their linkage with the achievement of SDGs.

Formation of Fiscal Database and Institutional Arrangements

10.12 Similar to the earlier SFCs, the major problem before this Commission was to gather detailed information and data on the status of finances of the local bodies. This was not only a time-consuming affair but challenging as well.

10.13 During the tenure and data collection phase of this Commission, it has been observed that, despite several recommendations made by the previous SFC, emphasising the need for a strong and exhaustive database, it remains far from being realised. The mechanism for data consolidation, at state or departmental level, and at the level of local bodies needs to be strengthened. While the PRIs, now, have a common platform to collate data in the form of e-gram portal, it is still a challenge, on the side of ULBs, to reconcile various information sets from different ULBs and draw relevant conclusions from them.

10.14 **Extending the recommendations forward from the Fifth SFC and reiterating the dire and undeniable need for establishing a strong fiscal database, the Commission recommends strengthening of Swarna Jayanti Haryana Institute of Fiscal Management (SJHIFM).** This institution was established in 2016, for the purpose of acting like a policy think tank and data repository for the state and capacitate its various stakeholders through structured training and research programmes. However, since its inception, no significant headway has been made in achieving its objectives.

10.15 Considering the current status, the Commission recommends that an SFC Cell be established in the Finance Department with the main purpose of following up on the accepted SFC recommendations and enabling the future Commissions to have easy access to relevant data required for their study. The Fifth SFC also recommended the same. Thus, in this context, **the Commission recommends that the State Finance Commission Cell prepare comprehensive formats and collect relevant information/data on various important aspects of local finances, including income and expenditure of all tiers of PRIs and ULBs for a period of last five years, and project them for the next five years.**

10.16 The Cell must be endowed with three operational teams overlooking the urban, rural and state finances, respectively. These teams will produce a single point of contact for coordination with their respective departments in collating, corroborating and analysing all relevant data and efficiently fulfilling their objectives.

10.17 **An interactive and well-designed website must also be created, administered and maintained by the SFC Cell, to publish all relevant data/information, accepted recommendations and actions taken, associated with the previous and present Commissions.** Any feedback received from stakeholders, through this website must be conveyed to the respective departments for making amends. Follow-up on part of the Cell must also be made continuously, for effective implementation. Additionally, it would be beneficial if the SFC Cell also interacts regularly with institutions like HIRD and HIPA, for on ground coordination. This is expected to substantially reduce the time employed in delivering a quality report, by the next Commission and pave the way for timely implementation of their accepted recommendations.

Shock-Responsive Fiscal Arrangements for Social Protection at the Local Level

10.18 By and large, there are three factors that enable social protection[27] system of an economy to shocks. These are: preparedness; response; and recovery. Preparedness measures and draws up activities, based on experience of any past shock, and reflects the quality of governance. Such measures and activities are primarily important for effective shock response through mobilisation and rapid expansion of social protection measures, and eventually these two factors would lead to quick recovery and make the communities resilient.

10.19 Effective delivery of social protection to the citizens at the local level, in normal circumstances itself, is a challenging task because of a complex dynamic of poverty and socio-economic backwardness and enormous number of informal workers. The condition becomes more exacerbated when such lower-level economies get hit by any sudden shock. This is where the importance of preparedness activities is greatly realised. This was seriously felt after observing ramifications of the ongoing COVID-19 pandemic, at the local levels in Haryana.

10.20 In this regard, the Commission is of the view that the state government has done its best to effectively combat the pandemic and ensuring availability of funds for meeting the salary needs of the ULBs' staff and other establishment expenses, development woks have suffered to that extent. To effectively counter such sort of unforeseen shocks in future, **the Commission recommends creation of an earmarked fund (at the state/department level) for addressing contingencies in future from which local bodies could be supported in times of critical needs. In case of PRIs, some funds may be made available at PS level to help GPs immediately.**

10.21 Recognising the role played by local governments in addressing the pandemic, the Commission has realised that there is a dire need of carrying out a detailed study on shock-responsive social protection budgeting at the local level in Haryana based on the experience of current pandemic. **The Commission recommends that the State government should conduct a study on this aspect for better understanding of the ramifications of this shock in order to be better prepared for meeting such eventualities in future.**

Lack of Awareness about the SFC and its role amongst the Elected Representatives

10.22 The Commission, after holding series of meetings with the elected representatives of the PRIs and ULBs, found that there is a lack of adequate awareness about the SFC and its role. Given their role in the functioning of the local bodies, **it is recommended to educate the elected representatives of PRIs and ULBs along with their officials, about SFCs and their role in strengthening local governments, through induction training (to be conducted after the local body elections). They should also be made aware of the various programmes/schemes of the government that are currently in operation, by conducting by regular training camps/workshops.**

Effective Management of Common / Panchayat lands

10.23 The Commission has observed during interactions with elected representatives of PRIs that effective management of shamilat lands can be an important own source of revenue. The elected representatives suggested that laws pertaining to removal of encroachments on these lands should be made more stringent and efforts be made to enforce them strictly. Village and block level functionaries should be made responsible for pursuing such cases.

10.24 It is imperative that some powers be delegated to the panchayats for dealing with minor encroachments and imposition of penalties at the level of elected bodies. The village common lands

[27] Social protection is commonly understood as public action for social and humanitarian assistance in the form of social insurance, delivery of social services, subsidies on private and merit goods, flagship initiatives(schemes and programmes) and proactive labour market policies. On the other hand, shocks are the occurrence of one or multiple unforeseen events that result in a loss of individuals' and households' welfare in terms of deaths, injuries, property, livelihoods, environment, and economic activities

should be physically identified, properly recorded, and demarcated through fencing, etc. Further, the residents must be made aware of the details of each such land parcels, through regular notices, in order to avoid encroachments.

10.25 **The Commission believes that management and development of shamilat lands is an essential component of village and district level plan and hence, must also form part of the training modules for PRI functionaries and representatives. The Commission also recommends that mass campaigns for land literacy should be undertaken for increasing people's awareness about the importance and protection of shamilat lands.**

10.26 With concerted efforts, these common lands can be utilised for initiating economic activities by establishing commercial complexes, rural industries, industrial sheds etc. where sufficient land is otherwise available for local requirements. A proportion of the area can also be devoted towards agrarian activities like plantation, afforestation, horticulture, floriculture etc. as a means to augment income of panchayats.

10.27 **The Commission further recommends imposing user charges for the use of shamilat lands (other than through leasing) to boost revenue streams in PRIs. Additionally, shamilat lands must be leased out, wherever feasible, through transparent auctioning mechanisms and in the presence of elected representatives of PRIs (this aspect has been discussed in Chapter 5).**

Elected Women Representatives

10.28 As per Census data, India is experiencing a growing proportion of women population. However, the proportion of Elected Women Representatives (EWRs) in positions of authority are not rising at the same pace. As per the recent statistics published by the Ministry of Panchayati Raj in 2019, approximately 13.75 lakh women representatives are elected in PRIs, out of the total 31 lakh (approx.) across India. This accounts for 44.35 per cent women representation in the electoral system of India.

10.29 While these numbers show a positive upward trend from the minimum 33.33 per cent reservation as prescribed by the Constitution, many states have also increased the reservation of women in panchayats to 50 per cent. Haryana is one such state that recently passed a bill to increase women's participation in panchayats to 50 per cent, in all three tiers of the PRIs. Table 10.1 presents the share of EWRs to total representation across PRIs in Haryana.

10.30 Presently, women hold 42 per cent of the elected seats in the PRIs of the state. However, the local bodies must work towards achieving equal representation of both women and men. EWRs must not only be viewed as greater number of women in the local governing system, but rather as an opportunity to empower them as panchayat leaders. It helps in uplifting their socio-economic and political standing in their community and in the entire village. They should not be treated merely as women leaders but leaders of the entire village

Table 10.1: Elected Women Representatives across PRIs

PRIs	Total ERs	Total EWRs	% Share of EWRs
Gram Panchayats	66622	28060	42
Panchayat Samitis	2997	1258	42
Zilla Parishads	416	181	44
Total	**70035**	**29499**	**42**

Source: Basic Statistics of Panchayati Raj Institutions, Ministry of Panchayati Raj, 2019 community.

10.31 To that end, during this Commission's interactions with the elected representatives of various local bodies, women representatives were particularly found to be under-confident, unaware and often accompanied by different members of their family. It was observed that most women were not familiar with their responsibilities and could not muster courage to communicate effectively their opinions or interact freely with the Commission, owing to spousal dominance in their work and responsibilities.

10.32 The Commission believes that, if supported and encouraged appropriately, EWRs can prove to be an indispensable asset in the development of their territories. T**he recommendations proposed by the Commission in this regard are threefold:**

1. **Training programmes must be held exclusively for women representatives, enabling them with a better understanding of their roles and responsibilities as well as embolden them to take decisions free from the influence of their family members.**
2. **The programmes must also include subject matters relating to financial and digital literacy as well as health, nutrition and sanitation.**
3. **Organise interactive sessions with EWRs from other neighboring PRIs to facilitate a congenial environment of knowledge sharing.**

Community Participation and Social Audit

10.33 The Commission has observed three key interesting realities about community participation in Haryana. First, citizen response and feedback in urban governance is still limited. Second, while the state is compliant with the Haryana Municipality Public Disclosure Act, 2008, it is not reflected adequately in routine administrative activities. Third, while Haryana has enacted Municipal Citizens' Participation Act, 2008, rules are yet to be notified, which is posing implementational challenges.

10.34 Further, it is important to mention the findings of a study delegated to Janaagraha. The study observed lack of mandate imposed on ULBs towards participatory budget preparations and the publication of civic data. Participatory meetings like ward committee meetings, intended to engage the citizens in conversations around service delivery, budgeting and audits in their jurisdiction, are not held regularly, and thus, leaving the interaction between community and its representatives ad-hoc. Hence, the channels of communication between elected representatives and the citizens remains unstructured.

10.35 Keeping this in view, the Commission believes that effective implementation of citizen-centric laws and policies is imperative in further empowering the local bodies and efficiently allocate resources in different services of communities. This initiative not only brings about cordial relationship between government officials and elected representatives, but also be instrumental in creating cohesive environment for participatory development in their areas.

10.36 Therefore, **the Commission's recommendations in this aspect are multi-pronged. These are: (a) Notification of rules corresponding to Municipal Citizens' Participation Act, 2008 (b) Forming functional ward committees and conducting regular ward meetings to facilitate and strengthen citizen feedback mechanisms in the ULBs (c) Publishing authentic and actionable data in public domain which facilitates informed decision making on the part of citizens and ward committees.**

10.37 In case of PRIs, various channels of people's participation (discussed in Chapter 5) given in the Panchayati Raj Act and in guidelines of CSSs and SSSs are required to put in practice. Such efforts not only enable community to engage in its holistic development but also bring about resiliency at local level. **Empowerment of gram sabhas must be done through regular meetings and education programmes for the residents**

about service delivery and the importance of their involvement in improving it.

10.38 The Haryana Panchayati Raj Act has given extensive authority and responsibility to the gram sabhas to supervise and monitor the functioning of gram panchayat and government functionaries. This Act has also given powers and responsibilities to the gram sabhas to examine the annual statements of accounts and audit reports. These provisions indirectly empower the gram sabhas to conduct social audit, in addition to other functions. Formation and operationalising various sub-committees on different matters is additional forums for community engagement. The active engagement of community in its development leads to activation of social capital, which in turn, promotes better coordination and cooperation between and amongst different stakeholders reinforcing added outputs and outcomes from less resources.

10.39 Social audit is a way of measuring, understanding, reporting, and ultimately improving an organisation's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality. Social audit has the potential for making a meaningful impact on the effectiveness of the programme delivery system as it values the voice of stakeholders, including marginalized/poor groups. Social auditing is taken up for the purpose of enhancing local governance, particularly for reinforcement of accountability and transparency in local bodies.

10.40 Assessing the physical and financial gaps between needs and resources available for local development, creating awareness amongst beneficiaries and providers of social services and increasing efficacy and effectiveness of local development programmes are main objectives of the social audit. This is another instrument for improving transparency in the functioning of local bodies.

10.41 The most appropriate institutional level for social audit is the gram sabha, which has been given 'watchdog' powers and responsibilities by the Panchayati Raj Act to supervise and monitor the functioning of PRIs' elected representatives and government functionaries. Gram sabha can also examine the annual accounts and audit reports of Gram Panchayat. These are implied powers indirectly empowering gram sabhas to carry out social audit, in addition to other functions. Members of the gram sabha at the village level and through elected representatives of PRIs, can raise issues of social concern and public interest and demand explanations. Social audit committee members can be drawn from amongst programme stakeholders. It is advisable to use the services of retired functionaries of different organisations, teachers or persons of impeccable integrity living in the rural areas. Thus, **the Commission recommends that a well in-built social audit system should be put in place in all the GPs, through the forum of gram sabhas and ward sabhas, to prevent 'elite capture' and nepotism in the working of local bodies.**

10.42 Development and Panchayats department, in its memorandum, has mentioned that Panchayati Raj Institutions may ensure social audit of all development works. On enquiry, it was explained that at present social audit of CSSs under MGNREGS and PMAY is being conducted by the Rural Development Department. However, in the memorandum, recent decision of state government has also been indicated that social audit of all the State sponsored schemes being implemented by the various departments will also be conducted by the Social Audit Unit of the Rural Development Department. Accordingly, Social Audit Act is being enacted by the state government.

10.43 The Commission, after duly considering all inputs received from the extensive consultations with the field functionaries and representatives of local bodies, **recommends that the gram sabha should have the mandate to inspect all public documents related to budget allocations, list of beneficiaries, assistance under each scheme, muster rolls, bills, vouchers, accounts, etc., for scrutiny; examine annual statements of**

accounts and audit reports to seek clarifications from the implementing agencies about any decision-making, activity, scheme, income and expenditure incurred by them. Gram sabha should also be empowered to discuss the report of GP of the preceding year and also to review local development plan. Further, gram sabha should also be given certain powers to establish accountability of functionaries found guilty of violating established norms/rules and suggest measures for promoting transparency in identifying beneficiaries, planning, implementing, monitoring and evaluating relevant local development programmes and also voice their concerns while participating in social audit meetings.

10.44 It would also be appropriate that gram sabha needs to be mandated to have access to registers and documents relating to all development activities undertaken by the implementing agencies or government departments. This also requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

10.45 The findings of the social audit should be shared with all local stakeholders. This encourages transparency and accountability. A report of the social audit meeting should be distributed for Gram Panchayat auditing. In addition, key decisions should be written on walls and boards and also communicated orally.

10.46 To sum up, **the Commission recommends that social audit unit, at village level, be made a regular and effective institution to promote the culture of transparency and accountability through the gram sabha, to make them an effective instrument of participatory decision-making and ensuring accountability of PRIs.**

10.47 Area sabha also determines priority of schemes and development programmes to be implemented in the area and forwards the same to the ward committee, or to the municipality, for inclusion in the development plans of the municipality and also identifies deficiencies in the civic amenities in the area and suggest remedial measures.

Conclusion

10.48 While offsetting vertical and horizontal fiscal imbalances to local bodies is the prime concern for the Commission, the ongoing pandemic has made the role of this Commission more challenging. The pandemic clearly reveals the dire need of a robust and resilient local self-governance. In this regard, the Commission urges the state government to consider a sustained and more effective intervention regarding the recommendations on all these key aspects for local bodies, as mentioned in earlier paras. These recommendations are not only envisioned to reinforce local self-governance but expected to significantly help improve the positive impact of the main recommendations already made regarding tax devolution, post-devolution gap funds, and performance grants to the local bodies.

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