CHAPTER - 6

SUMMARY OF RECOMMENDATIONS ON PANCHAYATS

6.1.0 Prelude

In Chapter-1, we have already outlined our approach and methodology adopted for an analysis of the Panchayat finances in our State and mentioned in detail the difficulties and constraints that our Commission had to encounter in addressing to the tasks entrusted to the Commission *vis-à-vis* the Panchayats at all levels in our State. We had suggested certain corrective measures be taken by the State government in the relevant paras of other succeeding Chapters of this Report, and hope that the government would take all possible administrative measures to ensure that such difficulties and constraints do not again pose a serious problem for the next State Finance Commissions in fulfilling their mandated tasks.

6.2.0 Internal Revenue Mobilization By The Panchayats :

6.2.1 In the broader and long-term interests of a viable and vibrant rural local government in Chhattisgarh, as well as to ease the fiscal burden on the State government, it is imperative that the fiscal domain of the Panchayats is clearly and appropriately designed, and the Panchayats are both motivated and compelled to exploit, to the fullest extent, all their available revenue potential in the rural areas. Administrative and functional autonomy of local government is largely determined by the extent to which the Panchayats, for that matter any local government unit, enjoy their financial autonomy. ***The index of the degree of financial autonomy which a local government unit enjoys is again contingent upon the proportion of their total normal expenditure met by the resources that are generated by them through their own efforts.*** Towards this direction, devolution packages need to be evolved.

6.2.2 In fact, externally-conceived and funded rural development programmes for implementation at local level need not pose a problem to the Panchayats so long as the costs in administering or implementing them are made available to the

Panchayats. Such costs take the form of financial resources and staff support, besides specific guidelines by the sponsoring / funding agencies for getting their programmes or schemes implemented by the Panchayats.

In other words, the functional domain of a local government unit should consist of two broad spheres of activity, ***first***, their 'normal' functions as a unit of local self-government, and ***second*** their 'agency' functions as a cost-effective and people-centered mechanism for being implemented through the Panchayats. Internal resource mobilization by the Panchayats is always associated with 'normal functions' only. ***In a sense, the SFC as provided in Art.243-(I) of the Indian Constitution has to attend to the primary task of 'building the revenue-gap' in the area of the 'normal' functions of the Panchayats and Urban Bodies.***

In the light of this approach, the Commission had made ***certain*** recommendations in the area of ***'Internal Resource Mobilization by the Panchayats'*** in the State in Chapter-2 of this Report which are ***summarized*** hereunder.

6.2.3 We consider that the Panchayat Act of 1993 of the composite MP State needs to be modified to suit the peculiar and specific needs and problems of a predominantly-tribal populated State of Chhattisgarh. In a State where a significant number of 'dwelling houses or buildings' are owner-occupied and are not capable of being let out on consideration of 'rent', the annual value or capital value may not constitute an appropriate and equitable basis of assessment for the tax on buildings. Moreover, the existing statutory rules governing the tax on buildings (but not non-agricultural vacant lands) are deficient in several respects. With a view to rationalizing the tax structure of this obligatory tax of the **Gram Panchayats** we recommend that:

1) The existing ***'capital value'*** as the basis of assessment for the tax on buildings be changed to ***'classified plinth area' basis***. The State government may amend the relevant statutory provision, and executive instructions or Rules may be issued to this effect defining various terms of like 'plinth area, classified plinth area, building, building used for commercial purposes partly or fully, 'floor' of a building, *kutcha* /semi-*pucca* / *pucca* building', etc.

[Para 2.4.2 (1)]

2) All residential buildings classified as *'kutcha'* in nature whose plinth area is not more than a prescribed size be exempt from the tax.

[Para 2.4.2 (3)]

3) The CEO of a **Zila Panchayat** be made responsible to ensure, through the CEOs of **Janpad Panchayats** and the Secretary of **Gram Panchayats**, that all the buildings in **Gram Panchayats** in the district are fully listed in a separate Register, duly classified into *pucca*, semi-*pucca* and *kutcha* categories; residential, semi-residential or semi-commercial or commercial categories, with number of 'floors' of each building.

[Para 2.4.2 (5) (6)]

4) The State government may prescribe different minimum and maximum rates for various categories of taxable buildings on the lines of the illustrative classification of buildings and tax rates provided in Table No.2.27, on the basis of plinth area. Each **Gram Panchayat** may, at its description, fix its own rates for different categories of taxable buildings in its locality, subject however to the minimum and maximum limits prescribed by the government.

[Table No.2.27]

5) With the exception of government and Panchayat buildings, all other categories of buildings to be brought under the purview of the tax on buildings.

[Para 2.4.2 (10)]

6) A separate cadre of ***'Panchayat Tax Officers'*** of the rank of a Dy.CEO of a **Janpad Panchayat** be created whose primary duty should be 'conducting general revaluation / reassessment of the taxable buildings once in every three years in each **Gram Panchayat**, by rotation under the general control of the CEO of the **Zila Panchayat** concerned. In other words, we strongly recommend that **Gram Panchayats** be divested of the power to conduct general reassessments of the taxable buildings in their respective localities. It is one of the sound principles of local government finance that the ***'valuers'*** of taxable buildings in a local government jurisdiction should be independent of the local government functionaries where they conduct their ***'revaluations'.***

[Para 2.4.2 (11)]

7) Our Commission made a provisional exercise regarding the required strength of the cadre of ***'Panchayat Tax Officer'*** in the State. We arrived to a figure of 70 which may cost an annual expenditure of Rs.0.95 lakh in 2007-08 which may increase each year by about 10 % thereafter.

[Para 2.4.2 (11) (12) and (13)]

6.2.4 To meet the O&M costs of delivery of certain basic civic services, the **Gram Panchayats** in non-tribal areas be required to levy a single additional ***Civic Services Tax*** at the minimum rate of 50 % of the tax on buildings. The existing taxes on private latrines, lighting, and water rate listed in Schedules I and II may be deleted from the Act of 1993. This should be an ***Obligatory Tax*** for the non-tribal **Gram Panchayats**. Moreover, no building whatsoever in the **Gram Panchayat** area should be exempt from the payment of this tax.

[Para 2.4.3]

6.2.5 **Gram Panchayats** in the State be empowered to levy a ***Tax on Advertisements*** other than in the newspapers. The State government may issue appropriate guidelines for the administration of this tax, including the minimum and maximum tax rates, to the **Gram Panchayats**.

[Para 2.4.4]

6.2.6 ***The temporary tax for special works*** of public utility be confined only to non-tribal **Gram Panchayats**. The matching share of peoples' contribution for this tax may also be reduced from its present level of 50 % to 40 %.

[Para 2.4.5]

6.2.7 The existing 'Theatre Tax' entrusted to the **Janpad Panchayats** be modified in such a way that the tax on 'cinematographic exhibitions' is levied by the **Janpad Panchayats** and the **Gram Panchayats** given the power to levy the tax on all other forms of non-cinematographic exhibitions / performances. Moreover, the existing rates of this 'exhibition / show' tax be increased as suggested in Table No.2.29. In addition, this tax may be re-designated as ***'Show / Exhibition Tax'***.

[Para 2.4.6]

6.2.8 As the Commission had prepared a single 'civic service tax' covering public scavenging services, lighting, water supply and sanitation in para 2.4.3, **Gram Panchayats** be empowered to collect a ***'fee'*** not a tax, from the occupier or owner of the buildings to which such latrines are attached, towards cleaning charges.

[Para 2.1.2]

6.2.9 For several other sources of non-tax revenue of **Gram Panchayats** in the State, the Commission suggests an increase in their existing statutory rates of levy which may be seen from Table No.2.30.

[Para 2.4.9]

6.2.10 ***In the event of total or persistent default in performing their mandatory duty of levying and collecting their Mandatory Taxes, Gram Panchayats concerned be made liable to be punished*** by the State government in any manner specified hereunder :

1) non-release of SFC grants and other revenue transfers (***Assigned Revenues***) until the **Gram Panchayats** concerned mend themselves and consistently comply with the statutory obligations or executive instructions of the State government within a specified period, and / or

2) ***dissolution*** of the **Gram Panchayats** concerned for their persistent failure to levy and collect their mandatory taxes and non-taxes; and / or

3) ***disqualifying*** the Sarpanch and the members of the **Gram Panchayat** concerned from being chosen as a Sarpanch / member of the **Gram Panchayat** for a period of 6 years; and/or

4) ***removal*** of the Sarpanch from office for his failure where he is declared the executive authority of the **Gram Panchayat**; and / or

5) Initiating proceedings of ***recovery*** of the legitimate revenue that was left uncollected against the Sarpanch and the members of the **Gram Panchayats** concerned. The State government may give effect to Sections 87 and 89 Act of 1993 without any hesitation.

Moreover, the State government may stipulate that (i) no **Gram Panchayat** can reduce any of its tax or nontax rates without obtaining the previous approval of the government; (ii) if the tax collections in any year get reduced *vis-à-vis* the corresponding figure of the preceding year, the **Gram Panchayat** concerned must explain the reasons thereof to the government; (iii) tax and nontax rates should be revised upwards at least for every 5 years by the **Gram Panchayats**; and (iv) **Gram Panchayats** should achieve an annual increase of at least five % in their internal revenue.

[Para 2.4.10]

6.2.11 **Janpad Panchayats** be required to levy an ***additional tax*** equivalent to 50 % to 200 % of the principal taxes on buildings and / or lands leviable by the **Gram Panchayats** (other than the civic service tax) situated within a ***radius of 10 km***. from the territorial boundaries of such municipal corporations and/or municipality, as may be notified by the State government. The Government may group the municipalities / corporations in the State and prescribe minimum and maximum rates for each group for the different **Gram Panchayat** areas which attract this additional levy.

[Para 2.6.1]

6.2.12 **Janpad Panchayats** be required to ***compulsorily levy*** a ***"Show / Exhibition' Tax*** at the minimum and maximum rates of Rs.15 and Rs.30 per ***cinematographic exhibition on the managers / proprietors of the cinema shows,*** in their respective jurisdiction. The tax would have to be collected by the **Gram Panchayats** concerned, and 50 % of the gross revenue of the tax be transferred to the **Janpad Panchayat** concerned.

[Para 2.4.6]

6.2.13 The existing ***`Market Fees'*** which is one of the ***Obligatory Levies*** of the **Gram Panchayats** be rationalised in the manner suggested by us.

[Para 2.4.8]

6.2.14 If any **Gram Panchayat** persistently defaults in properly exercising its revenue-raising powers relating to its mandatory levies, the CEO of the **Janpad Panchayat** be required to exercise the powers of the **Gram Panchayat**. In all such cases, the CEO may require the Secretary of the **Gram Panchayat** concerned to levy and collect the mandatory levies and transfer 10 % of the gross proceeds thereof to the **Janpad Panchayat** Fund, and credit the balance of 90 % to the **Gram Panchayat** Fund concerned. Similarly, the CEO of a **Zila Panchayat** be empowered to exercise the power of requiring any **Janpad Panchayat** to levy any of its mandatory levies within a specified period. Where any **Gram Panchayat** or **Janpad Panchayat** willfully neglects its mandatory duty in levying and/or collecting their lawful taxes or non-taxes, despite being afforded a reasonable opportunity to mend its ways, Sections 87 and 89 may be invoked and stern action taken against the recalcitrant Panchayats without any reservation. In addition, measures suggested by us in para 2.4.10 should invariably be exercised to deter other Panchayats from being indolent or lax in their duty of mobilising local revenues, as per law.

[Para 2.4.7]

6.2.15 The existing statutory provision relating to ***Development Tax'*** on agricultural lands under Section 77(3) of the Act and the Rules issued there under be withdrawn from the purview of the **Janpad Panchayats**.

[Para 2.5.3]

6.2.16 ***Janpad Panchayats*** and ***Zila Panchayats*** be empowered to levy a surcharge of not exceeding 50 % and 100 % respectively on the amount of the ***Additional Stamp Duty*** in their respective jurisdictions. If both the **Janpad Panchayat**(s) and the **Zila Panchayat** decide to levy the surcharge, the rate suggested by the **Zila Panchayats** may alone be taken into account.

[Para 2.6.4]

6.2.17 ***Janpad and Zila Panchayats*** be empowered to levy a surcharge on ***State Excise Duty*** at a rate not exceeding 10 %, in their respective jurisdictions. When a **Janpad Panchayat** and the **Zila Panchayat** by resolution, request the government that a surcharge on excise duty be levied in their Block or rural area of the district as the case may be, the State government should invariably levy the surcharge at the suggested rate, and collect the same, along with their principal duty in the specified areas. In all such cases, the government should transfer 90 % of the gross proceeds of the surcharge to the Janpad or **Zila Panchayat** concerned. Where both the Janpad and **Zila Panchayats** in a district make such a request, the government may consider the request of the **Zila Panchayat** only. When a **Zila Panchayat**'s request is complied with, 90 % of the gross proceeds of the surcharge may be distributed between the **Zila Panchayat** and the **Janpad Panchayats** in the district in the ratio of 20:80 respectively. *Inter se* distribution among the **Janpad Panchayats** may be made on a per capita basis. Moreover, if a surcharge is levied on the request of specific **Janpad Panchayats** alone, the government may offer an ***Incentive Grant*** to such **Janpad Panchayats** equivalent to 50 % of the net proceeds of the surcharge on state excise duty.

[Para 2.6.5]

6.2.18 ***Zila Panchayats*** be empowered to increase the ***normal land cess*** from Rs.2.50 to Rs.10 per rupee of ***land revenue*** leviable in the entire rural area of the district or part (s) thereof. For the **Zila Panchayats** exercising this power, the State government may offer a ***Matching Grant*** upto the extent of 150 % of the collections from the additional land cess levied, depending upon the rate of this additional land cess proposed by the ***Zila Panchayat*** concerned. Moreover, the government may transfer 90 % of the gross proceeds of this additional land cess to the ***Gram Panchayats****,* ***Janpad Panchayats*** and the ***Zila Panchayat*** in the district in the ratio of 5:3:2 respectively. *Inter se* ***distribution of the additional land cess*** among the **Janpad Panchayats** and **Gram Panchayats** may be made on population basis.

[Para 2.6.6]

6.3.0 A Review Of Internal Resource Mobilization In Panchayat Finances In The State :

6.3.1 In Para 2.3 of our report, we have endeavoured to analyse the status of ***Internal Revenue Mobilisation*** (IRM) of the Panchayats at all the three levels, to the extent of our ability and availability of relevant statistical information, however imperfect it may be. From the data to which we had access relating to ***2728 Gram Panchayats*** spread over all the 16 ***districts, 146 Janpad Panchayats*** and 16 **Zila Panchayats** in the State, the following pathetic state of affairs attract our attention.

1) The ***aggregate size of the IRM*** of the 2728 **Gram Panchayats** (hereinafter to as sample **Gram Panchayats** or simply SGPs), rose in absolute terms, from Rs.3.64 crores in 1999-2000 to Rs.5.48 crores in 2003-04, though inter-district variations in this figure obviously exist. However, the percentage share of the four obligatory taxes of the Gram Panchayats in their ***total IRM*** declined from 9 in 1999-2000 to a mere 6.62 in 2003-04. In absolute terms, the ***average*** contribution of these four taxes to the ***IRM*** of an individual SGP increased marginally from Rs.1200 in 1999-2000 to Rs.1332 in 2003-04.

[Paras 2.3.5 (1) (I) to (III)]

2) Compared to 1999-2000, more number of SGPs exhibited their reluctance to ***levy the four Mandatory Taxes*** in 2003-04. For instance, of a total 2728 SGPs, the percentage of **Gram Panchayats** which reported `nil revenue' from these taxes is as follows:

S.no.	**Mandatory Tax**	**% Of SGPs Reporting `Nil Revenue'**	
		1999-2000	**2003-04**
1.	Tax On Lands And Buildings	15.36 (419)	19.68 (537)
2.	Light Tax	27.38 (747)	32.84 (896)
3.	Tax On Private Latrines	76.91 (2098)	80.24 (2189)
4.	Tax On Professions, Etc.	31.42 (857)	34.24 (934)

Note**:** Figures in the parenthesis indicate the absolute umber of SGPs.

[Para 2.3.5 (1) (IX)]

3) The share of ***Revenue from the Obligatory Levies in the Total IRM*** of the SGPs had declined from 9 % in 1999-2000 to 6.62 % in 2003-04.

[Para 2.3.5 (I) (III) Table No.2.9]

4) The ***Per Capita IRM of the SGPs*** however rose from Rs.7.71 in 1999-2000 to Rs.10.99 in 2003-04. However, district-wise distribution of the data indicates that, at the micro-level, the district ***average per capita IRM of the SGPs*** in 12 districts and 10 districts was lower than their ***State average per capita IRM*** in 1999-2000 and 2003-04 respectively.

[Para 2.3.5 (1) (XVII) (iii) & Table No.2.23]

6.3.2 Apart from the ***2728 SGPs*** for which we had obtained data for only 2 years, viz., ***1999-2000 and 2003-04,*** another quick exercise was made by the Commission to collect time-series data for the period ***2001-02 to 2004-05*** (5 years) from ***77 Gram Panchayats*** which may be seen from ***Tables No. 2.24 and 2.25*** with a view to assess the trends, if any, in the IRM of these **Gram Panchayats** spread over 8 Blocks in six districts. The findings that emerged from the data relating to these ***77 sample Gram Panchayats*** indicate that:

1) Their ***IRM*** accounted for 3.40 % to 5.19 of their ***Total Annual Receipts*** during the 5-year period under review. For the entire 5 years, their average annual ***IRM*** stood at around 4.13 % of their ***Total Receipts*** and 4.74 % of their ***Total Expenditure***.

2) ***The Annual Average Per Capita IRM*** of these **Gram Panchayats** was a little over Rs.10 during the specified 5-year period.

3) The ***Revenue*** from ***Obligatory Levies*** claimed a lion's share (57 %) in their ***IRM*** during the 5 year period, and

4) Around 29 % of their ***Revenue Expenditure*** was met by the *IRM* of these ***Gram Panchayats*** during the period under review.

[Table No. 2.24,2.25]

6.3.3 ***`Demand Collection and Balance' (DCB)*** data were made available by our 2728 ***SGPs*** only for their ***Obligatory Levies*** which may be seen from ***Table No. 2.26.*** The reported data exhibit a ***collection rate*** of 68 % for 1999-2000 and of 73 % for 2003-

04. Inter-district distribution of the data reveals that this rate varied between 53 and 100 % across the 16 districts in 2003-04. Nevertheless, this data does not reflect the reality in view of the fact that the `demand' is obviously understated and `depressed' deliberately by most of these **Gram Panchayats**. In fact, there are reportedly not even 10 % of the **Gram Panchayats** in the State which levy and collect their obligatory and other levies in accordance with the statutory provisions of rules issued thereunder. One does not even find a `register of assessments' in a large majority of the Panchayats in the State. Equating the meagre `collections', if at all, with `demand' is notoriously prevalent in the State. Hence, the Commission does not, on an objective examination, take the reported figures are reliable at all for a serious and meaningful analysis.

[Para 2.3.6]

6.3.4 In regard to the ***IRM*** of the ***Janpad Panchayats*** in the State, the two tax powers granted to these intermediate Panchayats, *viz*., a ***`Theatre Tax'*** and a ***`Development Tax'*** have not, by and large, been exercised by them. The ***`Theatre Tax'*** is a mere show / exhibition tax' which, in view of the strictly limited number of taxable amusements / performances, particularly of cinematographic exhibitions, is not capable of yielding any tolerable level of revenue to the **Janpad Panchayats**. The other tax, namely, `development tax' on agricultural lands is virtually a tax that can not, in the existing rural scenario, be made use of by either the **Gram Panchayats** or **Janpad Panchayats** in the State. The **Janpad Panchayats** however, mobilised a meagre amount of internal revenue from a few nontax sources in the form of rents, fees and interest receipts which, in 2003-04 accounted for a mere 1.26 % of their ***Total Receipts***. For all practical purposes, the ***Janpad Panchayats*** continue to ***exist on State-aid*** which account for not less than 99 % of their aggregate receipts. They are merely implementing agencies of schemes of the government and its line departments.

[Paras 2.5.1 to 2.5.4 and 2.5.7]

6.3.5 ***Zila Panchayats*** in the State entirely depend upon the grants received from the government. ***Internal Revenue Mobilisation*** by these apex units of rural local government is virtually absent as in the case of their counterparts in most other States in the country.

[Para 2.5.9]

6.4.0 Revenue Transfers From Government Through Assigned Revenues :

6.4.1 At present, the State government has been transferring the proceeds of land revenue, normal land cess, additional stamp duty, surcharge on sales tax and royalty from minor minerals to the Panchayats of different levels in prescribed ratios. Despite our efforts, we could not procure data relating to the quantum of funds transferred or proposed to be transferred under land revenue and normal land cess for the last 5 years, Assuming that the State government had transferred these earmarked revenues to the full, we noticed that a total sum of Rs.8.60 crores relating to ***additional duty on stamp duty*** (Rs.1.00 crore) and share ***in surcharge on Sales Tax*** (Rs.7.60 crore) for the period 2003-04 to 2005-06 is still due be paid to the Panchayats. The Commission therefore, recommends that these arrears of Rs.8.60 crore be released to the Panchayats to them in 2007-08 themselves.

[Paras 3.1.7 to 3.1.9]

6.4.2 The existing rate of 1% of additional stamp duty levied under Section 75 of the Act of 1993 may be increased to 2 % the proceeds of which are meant for the Panchayats. Moreover, the scope of the stamp duty as well as the additional stamp duty be enlarged to cover also the instruments of ***`exchange'*** and ***`lease in perpetuity'*** of immovable properties on par with the ***practices in the Southern States.*** In addition, the proceeds of the additional stamp duty be distributed to the **Gram Panchayats**, **Janpad Panchayats** and **Zila Panchayats** in the ratio of 3:1:1 respectively. Also the revenue from the additional stamp duty be credited to the Panchayats concerned every quarter by the relevant district authorities themselves with a view to avoiding delays in the transfer of this revenue to the Panchayats.

[Para 3.1.9 (2)]

6.4.3 In regard to the land revenue and the various cesses/supplementary levies thereon in terms of the relevant provisions of the Act of 1993, a single ***cess*** on land revenue at the rate of 250 % of the ***land revenue***, but not at the rate of 50 % as is the case hitherto, be levied by the State government which, along with the land revenue, should be credited to the ***District Panchayat Raj Fund*** of each district. An amount equivalent to the land revenue collections may also be contributed in the form of a separate grant, to the Fund by the State government. The provisions relating to the levy of a ***`development tax on agricultural lands'*** in the Act [Sections 74(2) and 77 (3)] pertaining to the development tax be deleted from the statute book. Besides, State government should not unilaterally abolish or grant remissions or exemptions to land revenue/or the compulsory cess thereon or alter the rates of land revenue and the compulsory cess thereon. In all such cases, where the State action results in adverse effects on the revenue from these sources to the Panchayats, the latter must be appropriately compensated.

[Para 3.1.9 (3)]

6.4.4 The existing share of 30 % to the ***Gram Panchayats*** in the proceeds from the ***Surcharge On Sales Tax*** may be increased to 50 %, and the revenue thereof be distributed among the **Gram Panchayats**, **Janpad Panchayats** and **Zila Panchayats** in the ratio of 3:1:1 respectively ***on per capita basis.*** Alternatively, the State government may increase the rate of surcharge from its existing 10 % to 15 %, and transfer one-third of the surcharge proceeds to the three levels of Panchayats in the ratio specified above.

[Para 3.1.9 (4)]

6.4.5 ***The Royalty on Minor Minerals*** may be distributed between the **Gram Panchayats** and **Janpad Panchayats** in the ratio of 3:1 instead of in the existing ratio of 4:1.

[Para 3.1.9 (5)]

6.4.6 Ninety (90) % of the revenue from the State-administered entertainment tax be allotted to ***Urban Bodies*** and ***Panchayats*** in the ratio of 2:1 respectively. The share of the Panchayats in the divisible pool may however be transferred to the ***District Panchayat Raj Fund*** of the districts on the ***basis of their rural population.***

[Para 3.1.9 (6)]

6.4.7 30 % of the gross proceeds from minor forest produce be transferred by the Forest Department to the **Gram Panchayats** in the Schedule –V areas.

[Para 3.1.9 (7)]

6.4.8 Atleast 50 % of the revenue being collected by the Agriculture Produce Marketing Federation Corporation (APMFC) be transferred to the local bodies. 80% of this revenue should be given to Rural Local Bodies and be distributed among **Janpad Panchayats** and **Gram Panchayats** in the ratio of 1:2 respectively, and *inter se* distribution among the individual Panchayats made on collection basis. Remaining 20 % of this revenue of APMFC should be transferred to Urban Local Bodies and among Municipal Councils and Nagar Panchayats in the ratio of 7:18 respectably and inter-se distributed equally among respective Urban Local Bodies. The Agriculture produce Mandi Act should be Amended Accordingly.

[Para 3.1.9 (8)]

6.4.9 Revenue from ***land revenue, normal land cess*** levied at the suggested rate of Rs.2.50 per rupee of land revenue, ***Matching Contribution*** to the Fund by the State Government and the share of Panchayats in the ***Entertainment Tax***, be credited to the ***District Panchayat Raj Fund***. This Fund may be utilized for purposes of sanctioning loan capital to eligible Panchayats for taking of revenue-yielding enterprises in their localities. Also a part of the Fund may be utilized initially for sanctioning incentive revenue-matching grant to the eligible Panchayats as reward for achieving satisfactory levels of IRM.

[Para 3.1.9 (9)]

6.4.10 All revenue transfers, other than the SFC devolution, in the form of assigned revenues/supplementary levies must be statutory and to a large extent, ***untied/unconditional*** payments to the Panchayats.

[Para 3.1.12]

6.5.0 Revenue Transfers From Government Through Grants-In-Aid :

6.5.1 Obviously, grants-in-aid constitute the major source of support to the Panchayats in the State, as in most other States. There are several grants that are received by the Panchayats from the State and Union governments. A glance at the role played by external support in the budget of Panchayats at different levels in the State indicates that **Gram Panchayats** in the State received Financial Assistance of Rs.262.45 from the State and Central governments in 2003-04 which accounted for 93 % of their Aggregate Receipts during the said year. Of this, only Rs.37.16 crore claimed by `SFC devolution' which accounted for a little over 13 % of aggregate receipts of the **Gram Panchayats**. Among the different components of the grants received by the **Gram Panchayats**, the single largest item was SGRY grants (Rs.63.45 crore) which constituted about 22.48 % of their total receipts during the year.

[Para 3.2.1 (9) (i) and Table No.3.7]

6.5.2 ***Janpad Panchayats Received*** Rs.214 crore by way of ***Grants and Assigned revenues*** in 2003-04 which accounted for about 99 % of their aggregate receipts. Again, grants from the State and Union governments claimed a major share of 95 % in the aggregate receipts of these Panchayats in the same year.

[Para 3.2.1 (2) (i) and Table No. 3.8]

6.5.3 In 2003-04, ***Zila Panchayats*** in the State received a total quantum of 394.91 crore through ***Grants-in-Aid***. Of this, a large percentage of 74 % was claimed by the grants for ***`Agency Functions'***. Grants under `SFC devolution' however, accounted for a mere 2 % of the ***Total Receipts*** of these apex-level Panchayats in the State.

[Para 3.2.1 (3) and Table No. 3.9]

6.5.4 From the statistical data made available to the Commission by the State government departments, the total quantum of grants made available to the Panchayati Raj institutions by the State and Union governments during 2003-04 was Rs.498.83 crores.

[Para 3.2.1 (5) and Table No. 3.10]

6.5.5 As for the ***'SFC Devolution'*** during 2001-02 to 2005-06, the actual quantum of grants made available to the **Gram Panchayats** and **Zila Panchayats** increased from Rs.42.69 crore in 2001-02 to Rs.99.18 crore in 2005-06 (BE) which looks rather impressive. This amount, as a proportion of the total State's own tax and non-tax revenue, also rose from 1.57 % in 2001-02 to 2.13 % in 2005-06 (BE). Admittedly, the State government has been striving hard to gradually increase this percentage during the last few years. Nevertheless, assuming that the State government, in terms of the accepted recommendations of the first SFC of the composite MP, had accepted the transfer of 2.91 % of its own tax and non-tax revenues, the available data indicate that there was an aggregate shortfall of Rs.213.41 crore in the releases made by the State government to the Panchayats for the five-year period of 2001-02 to 2005-06 (see Table No. 3.11 to 3.14). However, *taking a pragmatic view of the infant nature of the State and the pressures on the State exchequer, the Commission refrains from making any recommendation for the release of these 'arrear' grants to the Panchayats.* ***Nevertheless, the Commission hopes that from 2007-08 onwards, the State Government would invariably adhere to fuller release of the committed quantum, in terms of a specified percentage of the State's net own tax revenue recommendations relating to the SFC Devolution as well as Assigned Revenues.***

[Para 3.2.2]

6.5.6 We will provide an account of the `SFC devolution package' suggested by us in our para 3.2.3 hereunder:-

(1) All posts of secretaries to the **Gram Panchayats** must be held by regular government employees. For this, the Commission, after careful consideration, is of the view that for a group of small and contiguous **Gram Panchayats**, the combined population of which will be around 3,000, one ***"Group Gram Panchayat Secretary"*** who is a regular government employee be posted. The existing cadre of Panchayat Secretary who is a regular government employee consists of 2270 government servants against the total requirement of 5570 ***Group Gram Panchayat Secretaries***, as per our norm of one secretary for an average rural population of 3,000. Thus, there will be a shortfall of 3300 in regular government **Gram Panchayat** secretary posts. The State government

may therefore take measures as suggested by us to ensure that the existing balance of 3300 posts is filled urgently. Towards this, the ***Commission recommends that the estimated vacant posts of 3300 be filled through a competitive examination conducted by the State Public Service Commission***, subject to the condition that 50 % of those posts are reserved for the eligible candidates among the existing Pinhead Karmas. The State government may declare, by an appropriate notification, that the cadre of ***Gram Panchayat Secretary*** is no longer a ***'dying cadre'*** but an ***'active cadre'***. Assuming further that among the existing Panchayat Karmis, the State Public Service Commission would find at least 1650 suitable candidates for being appointed as ***Regular Gram Panchayat Secretary***, the balance of 1650 posts could be filled by direct recruitment

[Para 3.2. 3 (A)]

(2) The Commission is of the view that each **Gram Panchayat** should have at least one ***Panchayat Clerk/Assistant*** to assist the **Gram Panchayat** secretary. Accordingly, it recommends that, of the existing 7750 Panchayat Karmis, after inducting 1650 of them into regular government service, the balance of 6100 Panchayat Karmis may be redesignated as ***`Panchayat Assistant'*** on a monthly consolidated fee/salary of Rs.2000. The shortfall in the posts of 3720 Panchayat Assistants could however be filled by a ***Block-level Selection Committee*** duly constituted as per the rules that may be framed by the government. The additional net financial commitment for the government resulting from our recommendations in para 6.5.6 (1) and (2) is estimated be Rs.63.86 crore in 2005-06. From 2008-09 onwards, this amount needs to be increased by at least 10 % every year.

[Para 3.2.3 (A) (1),(2)]

(3) From the fiscal year 2007-08, the grants be given to Panchayats in the State towards honoraria, allowances and other facilities to the elected functionaries of Panchayats should be Rs.7 crore. This amount may be increased by 10 % each year.

[Para 3.2.3 (A) (3)]

(4) The Commission thus recommends *`**Establishment Grants'***` to Panchayats in the State on account of (a) to (c) above estimated to be Rs.71.81 crores in 2005-06.

[Para 3.2.3 (2)]

(5) All committed expenditure of the State government in relation to the Panchayats should be continued as usual.

[Para 3.2.3 (B)]

(6) An ***`Agency Grant'*** equivalent to 3 % of the estimated cost of the schemes of the government line departments, including the schemes under the Centrally-sponsored programmes, may be allowed to the Panchayats towards their implementation costs.

[Para 3.2.3 (C)]

(7) An Expert Committee to be constituted by the State government with subject-experts and heads of relevant government departments as its members to make estimates, on a normative basis, on the physical and financial requirements of each basic/core civic service expected to be provided by the Panchayats. The Committee may be required to make a normative estimate of the capital and O&M requirements of these services to be delivered by the Panchayats, separately in both physical and financial terms, and to prepare a timeframe within which the estimated net requirement could be met.

[Para 3.2.3 (d) (5)]

(8) ***Per Capita Grants*** at the rate of Rs.90, Rs.8 and Rs.2 for ***Gram Panchayats, Janpad Panchayats*** and ***Zila Panchayats*** to be given each year. The grant for the **Gram Panchayats** has to be earmarked to ***`basic services'***, while the grants to ***Janpad Panchayats*** and ***Zila Panchayats*** be earmarked to ***`General Purposes'*** or made ***"untied"***. In absolute terms, these ***per capita grants work*** out to Rs.149.83 crore for the **Gram Panchayats**, Rs.13.32 crore for the **Janpad Panchayats** and Rs.3.33 crore for the **Zila Panchayats** ***in a year. The total amount of Rs.166.48 crore to be distributed among the districts on the following basis which will also constitute the basis for the distribution of the 12th Finance Commission grants:***

S.No.	Distribution Base	Weight (%)
(i)	Rural Population	60
(ii)	Rural Area	20
(iii)	Rural Sc/St Population	10
(iv)	Per Capita IRM Of **Gram Panchayats**	10
	Total	**100**

An illustrative a locative formula on the weights suggested for the four suggested indices may be seen from Table No.3.15.

[Para 3.2.3 (D) (7) (i) to (iii)]

(9) The allocation made to each district may be earmarked to **Gram Panchayats**, **Janpad Panchayats** and **Zila Panchayats** in the ratio of 90:8:2 respectively. The shares of individual **Janpad Panchayats** and the **Zila Panchayats** in the divisible pool of each district may be distributed to them on per capita basis as ***'General Purpose/ Untied' Grants.***

[Para 3.2.3 (7) (iv) to (vi)]

(10) The share of the **Gram Panchayats** in each district may be earmarked exclusively to basic civic services under capital and O&M accounts. The CEO of the **Zila Panchayat** in each district may distribute 75 % of the divisible pool of the **Gram Panchayats** among individual units in the district on the basis of population, area and combined population of SCs and STs in the ratio of 50:20:5 respectively. A District Basic Needs Committee may be constituted for the distribution of the balance of 25 % of the `basic services grant' under the SFC devolution and the ***XIIth Finance Commission*** grants, to those **Gram Panchayats** which need additional financial support for two or three specific basic civic services prioritised by the Committee for the district.

[Para 3.2.3 D) (7) (vii)]

(11) ***The Commission thus recommends a `total SFC devolution' of Rs.238.29 crore for the Panchayats for the year 2005-06. This constituted 6.628 % of the State's own net tax revenue for 2005-06 (SFCs projection). The absolute quantum of grants to Panchayats in the State under the `SFC devolution' from the year 2006-07 may be worked out on the basis of this 6.628 % of the State's own net tax revenue of each year for being transferred to the Panchayats***

[Para 3.2.3 (2)]

6.6.0 Distribution Of XIIth Finance Commission Grant :

(1) From 2007-08 till the next recommendations of the second SFC of the State are put in operation, the Commission recommends that, from out of the ***XIIth Finance Commission grant of Rs.123 crore per annum for the Panchayats,*** 15 % of the grant may be earmarked to the following purposes in the manner specified:

1.	Creation Of 3 Posts Of Accountants In Each Janpad Panchayat	6% (Rs.738 lakh)
2.	Creation Of A Separate Monitoring & Evaluation Cell	3% (Rs.369 lakh)
3.	Strengthening Of The Proposed Community Panchayat Cluster Resource Centres	4% (Rs.492 lakh)
4.	Strengthening Of Training Infrastructure And Organising Training Programmes On Financial Management For The Panchayat Functionaries By SIRD And PTCS/ETCS	2% (Rs.246 lakh)
Total		**15% (Rs.1845 lakhs)**

[Para 3.2.4 (10) (i) to (iv)]

(2) The balance of 85 % of the XIIth Finance Commission grant amounting to Rs.104.55 crore per annum be allocated to the districts for being distributed to the ***Gram Panchayats***, ***Janpad Panchayats***, *and* ***Zila Panchayats***, in the ratio of 60:25:15 respectively in each district. The absolute quantum of grant admissible to the **Gram Panchayats**, **Janpad Panchayats** and **Zila**

Panchayats would work out to Rs.6273 lakh, Rs.2613.75 lakh and Rs.1568.25 lakh respectively per annum. These allocations may be effected from 2007-08 fiscal. These grants may be ***"Untied"*** in nature subject however to the broad guidelines that may be issued by the government.

[Para 3.2.4 (10) (v)]

(3) Inter-district allocation of the 85 % of the annual grant of Rs.123 crore be made also in accordance with the weightages suggested by us earlier in para 6.5.6 (8) of this Chapter.

[Para 3.2.4 (10) (vii) and Table No.3.15]

(4) The CEO of each **Zila Panchayat** may allocate the divisible pool of the district to the ***Gram Panchayats***, ***Janpad Panchayats*** *and the* ***Zila Panchayats*** in the ratio of 60:25:15 respectively. Inter-**Janpad Panchayat** allocation of the divisible pool may be made on the basis of population, area and combined SC/ST population in the Blocks in the ratio of 60:25:15 respectively. **Janpad Panchayats** and the **Zila Panchayats** may utilise not less than 75 % of the XIIthFC grant received by them for meeting the O&M costs of schemes under their control, maintenance of their assets, including office buildings, etc. They may apply not more than 25 % of the ***XIIthFC*** grant for meeting their office and administrative expenses of a recurring nature.

[Para 3.2.4 (10) (viii) and (x)]

(5) As for the divisible pool of the **Gram Panchayats**' share in the ***XIIthFC Grant***, the CEO of a **Zila Panchayat** may directly distribute 75 % of the grant among the **Gram Panchayats** according weightages of 70 % to population and 30 % to geographical area of the Panchayats. **Gram Panchayats** should apply not less than 50 % of their allocation to the O&M costs of safe drinking water supply and sanitation including drainage. They must have exclusive control over provision of basic civic services and the State government may take appropriate urgent action to ensure that the relevant physical assets of

these services are handed over to the **Gram Panchayats**, where governmental agencies still have control over these assets and services. Moreover, **Gram Panchayats** may be required to raise additional revenue through `user charges' at least to the extent of 25 % of the ***XIIthFC Grant*** allocated to them.

[Para 3.2.4 (10) (viii)]

(6) As regards the 25 % of the divisible pool of the **Gram Panchayats**, a separate ***District Gram Panchayat Fund*** to be operated by the CEO of the **Zila Panchayat** may be constituted. The District Basic Needs Committee constituted for sanctioning additional funds to the needy **Gram Panchayats** from out of the SFC devolution of grants (para 3.2.3 (D) (7) (vii) may be required to distribute this part of the TFC grant to the **Gram Panchayats**, which genuinely need additional assistance for the O&M of their basic services.

[Para 3.2.4 (10) (ix)]

6.7.0 In order to motivate the Panchayats for ***Optimizing their Internal Revenue Mobilisation, a revenue-matching incentive grant scheme*** may be introduced by the State government as suggested by us.

[Para 3.2.5]

6.8.0 The State government may introduce a ***`Group Accident Insurance Scheme'*** for the elected Sarpanches for the period of their tenure on the lines suggested by us.

[Para 3.2.6]

6.9.0 With the broad objects of economising election expenditure of the government, avoiding wasteful election expenses of the competing candidates on their election campaign, and creating peaceful atmosphere in the villages, the State government may introduce a scheme under which ***Incentive Grants*** can be offered to those Panchayats where the chairperson and/or members are unanimously elected in the general Panchayat elections.

[Para 3.2.7]

6.10.0 Audit Of Panchayat Accounts :

6.10.1 As statutory audit of accounts of **Gram Panchayats** has also been entrusted to the ***Directorate of LF Audit***, the existing ***Panchayat Auditors*** are stated to be conducting 'internal audit' of the **Gram Panchayats**. Their services can be used, in our view, in a still better manner. To start with, they may be designated as ***'Panchayat Internal Auditors'*** and may be required not only to conduct 'pre-audit / internal audit' but also perform advisory, educative, and promotional roles *vis-à-vis* the administrative and financial management in the Panchayats, like their ***West Bengal*** counterparts, the object being to ensure that the nature and number of possible audit objections of the LF auditors is minimized to the extent possible. The details of the tasks that can be entrusted to these Panchayat Internal Auditors can be seen from

[Para 5.1.4]

6.10.2 There is need for strengthening the LF Directorate in terms of staff in relation to **Gram Panchayat** audit in view of the increasing volume of funds being made available to the **Gram Panchayats**, and the possible misapplication of these funds at the village level.

[Para 5.1.5]

6.10.3 All Secretaries of **Gram Panchayats**, Panchayat Internal Auditors, and all Accounts Officers / Dy.Accounts Officers / Accountants working at different levels of Panchayats in the State should be given at least a week's training in the area of Panchayat accounts and audit each year by the State Institute of Rural Development (SIRD) of the State. Moreover, every training programme, both the induction and refresher training programmes, for the existing and new official functionaries of Panchayats should invariably contain at least a three-day course content relating to ***budgeting, accounts and audit in Panchayats.***

[Para 5.1.6 , 5.6.0]

6.10.4 At present, the Commission understands, '***audit fees' for the audit of Panchayat accounts at the rate of 0.33 % of the 'own income'*** of each Panchayat is being collected from the Panchayats concerned. The Commission recommends that this 'audit fee' should be waived for the Panchayats as, in their view, there is no justification for imposing such 'fee', and further that this is proving to be one of the obstacles in ensuring independent statutory audit of Panchayat accounts by the LF auditors. ***The relevant provisions in the Panchayat Act of 1993 and in the statutory rules issued thereunder may therefore be suitably modified deleting the 'audit fee' prescription.***

[Para 5.1.6 and 5.1.7]

6.10.5 The LF auditors may be empowered to issue surcharge proceedings against those found guilty of embezzlement, irregularity, fraud, misappropriation, misapplication, etc., of Panchayat funds.

[Para 5.1.8]

6.10.6 The Panchayat functionaries who are found to indulge in mischief and misuse of public funds should be severely dealt with.

[Para 5.1.10]

6.10.7 As audit of accounts of the Panchayats at different levels is in heavy arrears, a time-bound programme for the completion of post-audit of all unaudited accounts of the Panchayats needs to be drawn to ensure that not more than 10 % of the preceding years' accounts remain unaudited in a year. A ***'special drive'*** for the clearance of pending Panchayat accounts by the LF auditors is considered necessary.

[Para 5.1.10]

6.11.0 The State government may explore the feasibility and desirability of transferring all executive powers to the regular government **Gram Panchayat** secretaries. However, for **the *withdrawal of moneys from the Panchayat funds, the relevant cheques should be jointly signed by both the Sarpanch and the Regular Government Panchayat Secretary only.*** Panchayat Karmis should not however be made one of the signatories on the cheques drawn for withdrawal of funds of the Panchayats.

[Para 5.2.2]

6.12.0 The feasibility and desirability of classifying the Panchayats at all levels into two or three broad categories with reference to certain simple, identifiable and objective indicators of development may be explored by the State government with a view to treating differently-situated Panchayats differently for purposes of ***Revenue Transfers Through Grants-In-Aid***.

[Para 5.4.2]

6.13.0 The ***Process Of Transfer Of Additional Powers, Authority And Responsibilities***, along with the necessary staff and fund support, to the Panchayats may be expedited.

[Para 5.5.2]

6.14.0 Training of the Panchayat functionaries for capability-building to perform their assigned duties satisfactorily and more effectively should be one of the crucial priority areas of the State government. The ***State Institute of Rural Development*** and the PTCs/ETCs may therefore deserve to be strengthened to cater to the needs of training of Panchayat functionaries.

[Para 5.6.1]

6.15.0 The existing ***Statutory Provisions And The Executive Rules*** issued there under *vis-à-vis* the working of the Panchayats at all levels deserves a fresh review and necessary modifications.

[Para 5.7.0]

6.16.0 Panchayats may be ***Encouraged To Take Up Revenue-Yielding Remunerative Enterprises*** by raising loan capital to initially finance them.

[Para 5.8.0]

6.17.0 The possibility of creating a separate ***'Local Government Service'*** (LGS) for the official functionaries of the local government institutions may be explored so as to confer a separate identity for the employees of these institutions of local government.

[Para 5.9.0]