

Chapter – 2

Issues and Approach

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- **Approach**

- 2.1** After analyzing the administrative reports, and research papers of the Central and State Government related to the local bodies and the reports of the Central and State Finance Commissions and discussing with all the concerned parties, it was decided by the State Finance Commission that in order to give recommendations and for economic review of the local bodies, what should be the approach of the Commission. Similarly, during the dialogue with the public representatives of local bodies, many issues were put before the commission, out of which relevant issues have been incorporated by the commission in its decision-making process. In this chapter the issues coming before the State Finance Commission and the approach of the commission have been discussed in detail.

Issues

- 2.2** Commission has adopted a detailed and target-based approach to give shape to its views in terms of reference prescribed for commission. Under this Economic review of local bodies and detailed and in-depth discussions with stakeholders have been done. The economic review of local bodies and issues put before commission during discussions is as follows –

Sources of own Income of local bodies

- 2.3** In pursuance with the provisions made in article 243 of Indian constitution, under Chhattisgarh Panchayati Raj Act 1993, Chhattisgarh Municipal Corporation Act 1956 and Chhattisgarh Municipality Act 1961. Local bodies are conferred with power for imposition of various types of taxes and collection of fees. But, this given right of taxation is not being used effectively by the local bodies and despite taxation, it is not recovered. Only 20% of the Gram Panchayats of the state are collecting the tax after levying it. The situation of urban bodies is also no different, this issue is big which needs to be worked on.
- 2.4** Due to lack of financial commitment and will power among the elected representatives of Gram Panchayats, Panchayats do not levy taxes or do not collect taxes after taxation. Another reason told for non-recovery of taxes is that if the Gram Panchayats adjacent to the taxing Gram Panchayat do not collect taxes then the people in taxing Gram Panchayats do not come forward to pay taxes/fees imposed or levied. It is suggested by Public representatives that after bringing equality in Taxes/fees if the orders for collection of taxes/fees are issued on State, District or Block level, then it will be convenient for Gram Panchayats to collect taxes/ fees for civic facilities provided by them.

- 2.5** In accordance with the constitutional provision, provisions have been made for levy of taxes and service charge by local bodies in the state. Some of the taxes and duties to be collected by local bodies are abolished or postponed by the state government. Due to this, resources of local bodies are continuously getting shrank. Therefore, there is a need for fresh thinking to increase the resources from the local bodies own sources and make them self-reliant in terms of resources.
- 2.6** If there is any tourist spot or religious center within the area of any local body then it has to make necessary arrangements to provide civic facilities to the people visiting those places, but such local bodies do not get any financial assistance or grants for this. During visit of State Finance Commission, the representatives of Ratanpur Nagar Palika Parishad drew attention to this issue that for the visitors of mahamaya Temple, situated in a municipal area, arrangements for drinking water, Roads lights sanitation etc. are made by Nagar Palika Parishad. The expenditure for all these arrangements are expenditure in addition to the routine expenditure of Parishad. The local body collects taxes and service charges for the civic amenities provided to the local citizens but the local body does not receive any financial assistance or additional funds for the civic amenities provided to the visitors/tourists Similarly, the public representatives of Sirpur Gram Panchayat told that thousands of tourists come here every year. Due to the arrival of these tourists Gram Panchayat cleans up the garbage spread around the "tourist places and in other areas of the Gram Panchayat. The public representatives of such local bodies demanded that alternative sources of income should be generated for bodies to compensate for the additional burden on the body's resources due to the arrival of visitors and tourists.
- 2.7** In dialogue programmes organized by State Finance Commission with Representatives of local bodies. in various Divisional and District headquarters major issue repeatedly raised by representative was that in spite of Najul lands falling under the Jurisdiction of urban local bodies, it is not easily available for them even for essential works. This affects the development works related with civic facilities. Some of the Representatives told that building of commercial complex or shops in important place can be good source of income for Nagar Panchayats and small municipalities, but in cases where such important commercial places falls under Najul Lands, It is not allowed for urban bodies. some of the public representatives even said that all the Nazul Land should be transferred to urban bodies, which will be helpful for them to enhance their source of income and to develop civic amenities for their citizens in case of need.

- 2.8** It was told by Representatives of urban local bodies situated in the area of SECL, in such urban bodies all the lands belong to SECL, Hence Urban bodies have to obtain lands from SECL for all their needs, which is full of administrative constraints. There is Therefore obtaining lands for building of commercial purpose complexes and shops is difficult for urban bodies. This is the Reason why the local bodies situated in SECL area are unable to carry out their mandatory works in a proper and timely manner.

Assigned Receipts

- 2.9** As per the provision of Panchayati Raj Act 1994, one percent of the land revenue cess collected on land revenue and the stamp duty levied on purchase and sale of lands, under Gram Panchayat is to be transferred to Panchayati Raj institutions in the form of assigned receipts. Similarly, there is a provision to transfer royalty received from miner minerals under the mineral Act, Excise cess in Excise Act and Rural development cess to Panchayati Raj Institutions. Out of these, stamp duty and royalty received from minor minerals are being transferred to Panchayati Raj Institutions, but Panchayat cess, Excise cess, and Rural Development cess etc, imposed for Panchayati Raj Institutions are not being transferred to them.
- 2.10** In order to provide alternative sources of income to urban local bodies government has made arrangements to transfer receipts from various taxes to ULB'S as assigned receipts which includes passenger tax, entry tax, tax on vehicles, F.L. license fees and stamp duty fees. out of above-mentioned Taxes / fees Provision related to transfer Amount from Passenger Tax, Tax on vehicles and F.L. license fees have been abolished by state government and Entry Tax has been subsumed in the Goods and service Tax. Only cess amount levied on stamp duty fees is transferred to the local bodies, After abolition of aforesaid Taxes/fees and the inclusion of Entry tax in GST, Local bodies are getting fixed amount by state government as a compensation in form of grants. Had these Taxes/ fees were not got abolished or subsumed in another Taxes then local bodies would have got increasing amount of Revenue with addition to continuous growth in economic activities. Proposing a fixed Amount has had an adverse impact on the Recourses of local bodies.
- 2.11** Due to Rationalization of Taxation system, number of Taxes whose Receipts are shared with local bodies are gradually decreasing. This has resulted in increasing dependency of local bodies on state and central government. If the taxes to be shared with local bodies are abolished then state government has to either consider upon arranging alternate sources of Income for local bodies to compensate them in right proportion for their financial loss.

Fund Transfer

- 2.12** Amount related to taxes or cess under the assigned receipts levied within the jurisdiction of local bodies is to be transferred to the local bodies, but the said amount is being distributed under provisions of Chhattisgarh Nagar Palika Nagar Vikas Nidhi Act, 2003 in exercise of the power given under Section 433 of Chhattisgarh Municipal Corporation Act 1956 and Section 355 of Chhattisgarh Municipalities Act 1961. This is anomalous, which needs to be seriously considered.
- 2.13** A certain percentage of the state's own net tax revenue is recommended to be transferred to local bodies by the state Finance commission. The recommended percentage amount is to be transferred to Panchayati Raj Institutions and Urban Bodies, On the basis of different formulas, suggested by state Finance commission for horizontal distribution among them. According to the memorandum presented to this commission by the Panchayat and Rural Development Department and the Urban Administration and Development Department, both the departments, instead of transferring this recommended amount on the basis of the formula suggested by the commission and accepted by the government, it is being sanctioned to local bodies in the form of departmental schemes.

Accountings

- 2.14** Out of the prescribed accounts and Records only cash book, Bank register, salary bill register, stock register and Payment certificates are maintained by Panchayati Raj Institutions. Accounts are neither maintained in prescribed formats nor kept up-to-dated. Due to failing in maintaining records as per law and instructions correct information related to different heads such as actual receipt and expenditures under different heads and fund used in prescribed heads is not available. Due to all these, reliabilities of Data produced by Panchayati Raj Institutions is not of standard level.

Audit

- 2.15** Local bodies are the local governments through which civic amenities are made available to rural and urban citizens. Along with discharging their constitutional responsibilities, these local bodies also implement many schemes of the central and state government. To discharge their constitutional responsibilities, these institutions, along with the power of taxation, also get amount through assigned receipts, grants from the central and state government on the recommendation of the central and State Finance Commission and funds for the implementation of central and state schemes. Thus, a huge amount of money is transacted by these

local bodies. The audit report of the local bodies shows that many objections are raised during Audit, but these objections are not resolved by the local bodies by submitting the compliance report in time. This has a negative impact on the functioning of local bodies.

Encroachment

2.16 Apart from the issues related to fiscal devolution one of the major issues is the issues of encroachment, which is directly related to economic conditions of local bodies. Local representatives whether they are from Panchayati Raj Institutions or from urban local bodies, expressed their concerns over problem of encroachment before commission. They told that due to encroachments in valuable lands situated in important places of local bodies, they are deprived of the commercial benefits of these properties. If encroachment issue is resolved they can increase their source of income through commercial utilization of these valuable spots. However, In theory there shouldn't be any encroachment within the Jurisdiction of local bodies and also certain provisions are available in different Acts/Laws of local bodies for removal of such encroachments still this is a major problem of local bodies which needs to be discussed seriously.

Approach

2.17 As per Census 2011, more than three-fourth of the total population of chhattisgarh lives in villages. Only 23.24% of state's population lives in the cities. But, there is a huge gap between availability of civic facilities in rural and urban areas, not only in chhattisgarh but all over in country also. Urban population gets better facilities of Drinking Water, Drainage water, Solid waste management, Roads, lights etc, while the reach of rural population to this facility is limited.

2.18 In the year 2003, "PURA" scheme was launched as a pilot project to provide urban facilities in rural areas. This was an ambitious 10-yearly Project with convergence of several projects in which villages clusters or villages are not only provided with basic civic facilities but also to be developed as Economic Zone. As of now the scheme is closed. Like the urban population, rural population is also deserving better civic facilities. While assessing the financial assistance given to local bodies there is a need to adopt a balanced approach to provide civic amenities to the rural population at par with the urban population.

Box 2.1

(Provision of Urban Amenities in Rural Area PURA)

A- Facilities provided under schemes of Rural Development department -

- 1- Water and sewerage
- 2- Construction and maintenance of village streets
- 3- Drainage
- 4- Solid waste management
- 5- Skill development
- 6- Development of Economical activities.

B- Facilities provided under schemes of departments, other than Rural development Dept.

- 7- Street lightings of village
- 8- Telecom
- 9- Electricity

C- Income generating People centric Projects -

- 1- Tourist Tourism in villages 2- Integrated Rural hub 3- Rural markets
- 4- Common agriculture facilities
- 5- Godown etc, Any other Rural economy related project

2.19 As per Article 243 (G) of Indian constitution, 29 subjects included in 11th schedule of constitution have been handed over to Panchayati Raj institutions. Similarly, as per article 243 (W) of constitution. 18 subjects induced in 12th schedule of constitution have been handed over to urban local bodies, with exception to one or two subjects included in 12th schedule most of the subjects have been actually handed over to urban local bodies. But in case of Panchayati Raj Institutions, situation is far different. In Principle, 29 subjects included in the 11th schedule have been transferred to Panchayati Raj Institutions, but except for one or two departments, fund, function, and functionaries are not being actually transferred to Panchayati Raj Institutions by any of the Departments. Hence commission is in favor of keeping its

proceedings and recommendations focused on civic amenities provided by local bodies especially by Panchayati Raj Institutions in Present context.

2.20 Since Globalization Urbanization has expanded along with economic developments of country. Due to increasing pressure of population on cities as a result of rapid growth of Urbanization, emphasis has been made on enhancement of infrastructural development of cities. Along with this service benchmarks have also been set by the Ministry of Urban Development, Government of India for measurement and management of basic services being provided to the urban population. Fundamental services provided by local bodies are regularly evaluated by this benchmark values. Commission is of firm opinion that these service benchmarks should also be introduced for evaluation of minimum basic facilities provided by Panchayati Raj Institutions. In the manual issued by Ministry of Jal Shakti Department of Drinking Water and Sanitation, for the utilization of 15th Finance commission tied grants to local bodies, benchmarks related to drinking water supply and sanitation have been included. To provide facilities of Roads, sewerage, solid waste disposal and lighting besides providing facility of drinking water and sanitation is responsibility of Panchayati Raj Institutions. Hence, determination of service benchmarks for all basic services is of instant need. On the basis of benchmark values, services provided by Gram Panchayats can also be evaluated.

2.21 To estimate the grants given by the government to the local bodies, it is necessary to know what is the capital and maintenance cost of the basic services provided to the public by the local bodies. With determination of Panchayat Service Benchmarks, it will be helpful to assess Capital and Maintenance cost of essential services provided by Panchayati Raj institutions. on the basis of difference between estimated value of capital and maintenance cost and estimated value of own-source income resource gap can be obtained. On the basis of resource gap amount, possible grants can be estimated.

2.22 Will a view to dialogue with stakeholders of Panchayati Raj institutions especially with elected Representatives of Panchayati Raj bodies field visits done by State Finance Commission firstly on Divisional Headquarters and then on selected District Headquarters. During this dialogue, it came to the knowledge of commission that even elected Representatives of Panchayati Raj bodies are not aware of the fact that there is provision of a constitutional body in Indian constitution in the form of State Finance Commission for recommendations of distribution of funds to local bodies. They are even unaware of the fact that Funds/Grants received by them by state

government is based upon recommendations of State Finance Commission but they are aware of the fact that they get funds from central Government with recommendations of Central finance Commission. The basis of this un-awareness is that while transferring funds to local bodies by state government, it is not clearly mentioned that such funds or grants are being transferred to local bodies with the recommendations of state finance commission. There have been no training or capacity building programmes for the last three years. previously in Training/capacity building programmes organized for the public representatives of Panchayati Raj Institutions, topics related to State Finance Commission has not been Included. The public representatives of Panchayati Raj Institutions are unaware of the State Finance Commission and its functioning. Therefore, there is complete lack of information about what suggestions should be given to the State Finance Commissions and what issues are to put before them. These situations point the State Finance Commission to think in this direction and all the concerned parties and departments to improve their functioning

2.23 Another thing comes to the light after discussing with the Representatives of Panchayati Raj institutions is that when asked for suggestions to strengthen the Panchayati Raj system, they generally point out their day-to-day systemic administrative problems and demand their Solutions. Further, they are much concerned to demand more and more funds to meet the expectations of the population of their area. Although these problems or demands are not directly related to the commission as per its mandate, despite this, it was listened and duly recorded by the commission in order to meet its solutions in the form of systemic reforms after discussion with experts and all concerned parties and departments.

2.24 To Acknowledge the functions and problems of Panchayati Raj institutions Commission also visited some Gram Panchayats. The summery of convent Conversations with elected public representatives and panchayat secretaries is that rural people wanted to avail civic facilities like water-supply, sanitation, Roads, lights etc. but do not want to pay for them. According to Public representatives villagers believe that to provide aforesaid facilities is sole responsibility of the government and they should not be obliged to pay taxes/fees for this. The elected representatives also do not pressurize people to pay taxes/fees. Initiatives need to be taken to bring change in this attitude of the villagers. In the dialogue program organized with the Panchayat representatives of Bilaspur district, a Gram Panchayat Secretary suggested that the amount received by the villagers in the form of taxes and fees should be used for public utility work in their own area or ward, which can

be directly seen by the villagers. This will give confidence to the villagers that the taxes and fees paid by them are being utilized properly. The commission is of the opinion that there is a need to encourage panchayat public representatives to increase the own source income of Panchayati Raj Institutions. If we are successful in convincing the Panchayat representatives that doing good work, they can collect taxes or fees from the villagers, then it will have a positive impact on the own income of the Gram Panchayat.

2.25 As per Chhattisgarh Panchayati Raj Act 1993, in addition to tasks assigned to gram panchayats, they also have to perform such task which are assigned to them from time to time by state government Zila panchayat or janpad panchayats. All the functions assigned to gram panchayats as per Panchayati Raj Act is performed by Panchayat Secretary who is appointed by the Government. Panchayat secretaries seen struggling to cope with works assigned as per Act and works assigned by state Government from time to time. Some fundamental civic amenities like Water, Sanitation, Roads, light etc, are made available by Gram Panchayats in very limited quantities. Despite this, there is a need for improvement in accounting management of funds received, maintenance of records and execution of works at panchayat level. If minimum civic facilities equivalent to facilities in urban local bodies and as per rural needs are to be provided In Gram Panchayats, then the availability of human resources in Gram Panchayats will also have to be kept in mind to get change in perspectives of Rural People.

2.26 There are two types of pressure of population under increasing urbanization on cities. First Citizens of rural areas who permanently got transferred in cities due to various reasons such as better civic facilities Job, business, education for children health facilities etc. Secondly there are people who live in rural areas near cities and towns. but come to cities daily or frequently for certain works like Job, business education, health etc. Urban local bodies have to develop civic facilities for such people also. The expenditure on these facilities are both capital and maintenance in nature. while assessing the needs of urban local bodies and recommending transfer of funds, both type of pressure of population should also be kept on mind.

2.27 23.24% of state's population and 31.28% of the country's population reside in cities. Cities are called engines of development. These are vast centers of Commerce, trade and industrial activities. Despite this, urban local bodies are dependent mostly on assistance of states. The situation is more or less the same in chhattisgarh also. The economic review of urban local bodies will be done in relevant chapter but broadly,

the commission is of the opinion that urban local bodies need to increase income from their own sources like tax, non-tax and user charges. There are immense possibilities in this also. Bringing all the properties falling under the urban area within the ambit of taxation, accurate determination of property taxes on the properties falling under the ambit of taxation, taxation equal to the expenditure on water supply by installing meters and reducing the amount of the non-revenue water to the 20% limit, profitable management of solid waste, these are such areas where urban bodies have a lot of potential to increase their own income.

2.28 Generally, the monetary recommendations made by the State Finance Commission as a percentage of the own net tax revenue of state is accepted by the state either in its original form or with modifications, but funds are not transferred to local bodies as per accepted recommendations. In order to make sure that recommended amount could be obtained by local bodies it is necessary that state government should make provision of the accepted amount in the budgets of concerned departments ,thereafter amount be transferred to local bodies by concerned departments. At present, despite the recommendation of the SFC and consent given by the State Government, the prescribed amount is not being transferred to the local bodies. For this, two types of measures can be taken. First, the commission should recommend the local body wise amount along with the percentage of state's own net tax revenue. Secondly, after the release of the action taken report, the report of commission should be kept in the public domain. The formula of accepted percentage and accepted horizontal distribution adopted by the government may be different from the recommendations of State Finance Commission because it is not necessary that the recommendations of the commission be accepted by the government in its original form. There may also be difference between the estimates of state's own tax revenue made by the commission and the actual revenue received Due to the aforesaid reasons there will be a possibility of difference between the recommended and the actual transfer. Even if actual transfer vary local bodies will at least have an idea of the approximate amount they will receive or are likely to receive over the five years of the commission's award period.

2.29 Article 243, inserted in the constitution after the 73rd and 74th constitutional Amendments, provides Gram Panchayats and urban bodies with power similar to the legislative assembly as a unit of local self-government after the center and the state. State governments have provided powers to rural and urban bodies through their respective Panchayat and municipal Acts. The ultimate civic facilities to the common citizens in rural or urban areas are to be provided by Gram Panchayats and urban

local bodies only. Therefore, the amount given by the government to the local bodies should be given in such a way that right of self- governance granted by the constitution can be actually exercised by these bodies.

- 2.30** The reports of the State Finance Commission have been commented upon, by various Central Finance Commission, inter alia, on the quality of the reports. Considering specific nature of working procedure of State Finance Commission and to perform its task there is a need of expertise in subjects related to state finance, Panchayati Raj Urban local bodies, Research studies, report writing and thorough knowledge of functionality of State Finance Commission as well. Commission is of opinion that Professors and experts of local educational and research & technical institutions should be added with the activities of the State Finance Commission. Initiatives have been taken by commission to take services of experts in local level. Higher education and Technical Education Departments needs to work in this direction.
- 2.31** To publicize the activities related to State Finance Commission and to create pool of experts, it is necessary to encourage research activities in this field by institutions associated with higher education. Also subjects related to State Finance Commission and central finance commission should be included in the curriculum of undergraduates and Post graduates classes of Economics subject. This will definitely have positive impact in future.
- 2.32** After State Finance Commission submits its report to state government, the system for considering the recommendations, decision making, implementations of approved recommendations and monitoring of implementation should be institutionalized, this will positively affect the implementation of recommendations to be done in minimum time period. The transfer of finance to local bodies depends on the co-ordination and co-relation among departments of finance, urban administration and development, Panchayati Raj Revenue, commercial tax, mining and minerals etc. Efforts should be made in the direction of promoting co-ordination and coherence among these departments.
- 2.33** The amount given by the Central Government to local bodies on the recommendations of State Finance Commission is directly transferred to them by PFMS (Public Finance Management System) through state government. Detailed guidelines are issued to the local bodies to spend the amount provided to them as per the recommended arrangements. Amount is spent by the local bodies as per guidelines circulated. The positive aspect of this system is that local bodies

compulsorily receives the fixed amount to be given to them. Even for the transfer of amount to be given to local bodies on the recommendation of SFC, the commission envisages to adopt the procedure followed by the Central Government. The items of expenditure, process of approval, method of financial control can be determined after considering at the appropriate level.

- 2.34** It is well known fact that income form own sources of local bodies is less, whether it is Panchayati Raj Institutions or be it Urban Local Bodies. This is the reason why local bodies are more dependent on center and state financing. If funding will be from Centre and state then priorities and guidelines for spending the given amount will also be determined by center and state. For self-governance or self-determination, it is necessary that the local bodies own income increases. Appropriate efforts need to be made to increase the income of local bodies. These efforts can be incentive based, performance based and in the form of funding conditions.
