

CONFIDENTIAL

**REPORT
OF THE
HIMACHAL PRADESH
2nd STATE FINANCE COMMISSION
IN RESPECT OF
URBAN LOCAL BODIES**

*2nd STATE FINANCE COMMISSION
HIMACHAL PRADESH, SHIMLA-2*

CONTENTS

	PAGES
SECTION-I	
I INTRODUCTION	1-3
SECTION-II	
II FRAME WORK AND APPROACH	4-5
III METHODOLOGY OF DATA COLLECTION	6-7
SECTION-III	
IV SITUATIONAL ANALYSIS OF THE EXISTING FINANCIAL RESOURCES, EXPENDITURE, ADMINISTRATIVE INFRASTRUCTURE AND FUNCTIONAL PERFORMANCE OF THE MUNICIPALITIES	8-17
SECTION-IV	
V FORECASTING THE RESOURCES OF THE URBAN LOCAL BODIES	18-21
VI FORECASTING THE COMMITTED EXPENDITURE OF THE URBAN LOCAL BODIES	22-29
VII RESOURCES FOR PERFORMANCE OF THE STATUTORY AND DELEGATED FUNCTIONS BY THE URBAN LOCAL BODIES NEED AND MODALITIES FOR MEETING THE COMMITMENTS	30-34
VIII RESOURCE MOBILISATION BY THE URBAN LOCAL BODIES	35-37
SECTION-V	
IX OTHER ISSUES AND GENERAL RECOMMENDATIONS	38-40
X SUMMARY OF RECOMMENDATIONS	41-42
SECTION-VI	
X ANNEXURES	
A) ULB wise population Annexure “A”	
B) ULB wise area Annexure “B”	
C) ULBs’ questionnaires Annexure “C”	

CHAPTER I

INTRODUCTION.

- 1.1 The State Finance Commission has been constituted pursuant to the 73rd and 74th amendments to the Constitution of India and the follow up legislation enacted by the State Government in the respective Legislature relating to the Panchayati Raj Bodies and the Urban Local Bodies at different levels. These amendments created a framework for democratic decentralization by providing for local government systems through the Gram Panchayat, Panchayat Samiti and Zila Parishad levels in the rural context; and Nagar Panchayat, Municipal Council and Municipal Corporation in the context of Urban Local Self Government.
- 1.2 The First State Finance Commission was constituted by the State Government in the month of April, 1994 and covered the period 1996-2001 in its recommendations. It submitted its report in the month of November, 1996. The report was tabled in the State Legislative Assembly in April, 1997 and was accepted without any modifications.
- 1.3 The composition of the 2nd State Finance Commission underwent changes during its course of term. Km. Shyama Sharma replaced Sh. O.P. Yadava as chairperson vide notification No Fin-c-a(3)-4/94 dated 5th September, 1998. She headed the Commission from 21st September to 5th Jan, 1999. Subsequently, Km. Shyama Sharma resigned and an interim report of the Commission was submitted to the Govt. on 5-1-99. The Commission ceased to function with acceptance of the resignation of the chairperson. Shri Des Raj, M.L.A. was appointed as chairperson of the Commission on 27th May 1999 for the period of one year. On the expiry of his term, Sh. A.K. Goswami, I.A.S, was appointed as the chairperson of the Commission. After Shri A.K Goswami's proceeding on deputation to the Central Govt., Shri Harsh Gupta, was appointed as the Chairman of the Commission. Shri K.D. Dharmani was appointed as Chairman of the Commission w.e.f 16 September, 2002. Shri Deepak Sanan, IAS remained Member of the Commission till 10-2-2002 from its inception. However, after he proceeded on study leave, Shri Nariender Chauhan, IAS was appointed as the Member of the Commission w.e.f. 11.2.2002. The office of the Member Secretary of the Commission was held by Sh. D.K. Sharma all through the tenure. The recommendations of the Second State Finance Commission will cover the period 2002-03 to 2006-07.
- 1.4 The terms of reference of State Finance Commission constituted by the State Govt. have been defined in the clause 64(1) of the State Municipal Act, 1994. They relate mainly to the financial resources of the Municipalities and the Commission shall make recommendations to the Govt. as to:-

(a) The principles which should govern-

(i) the distribution between the State and the Panchayats/Municipalities of the net proceeds of the taxes, duties and fees leviable by the State which may be divided between them and the allocation between Panchayats/Municipalities all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls, fees which may be assigned to or appropriated by the Panchayats and Municipalities;

(iii) the grant-in-aid to the Panchayats/Municipalities from the consolidated fund of the States;

(b) To suggest measures needed to improve the financial position of the Panchayats/Municipalities;

(c) Any other matter referred to the H.P. State Finance Commission by the Govt. in the interest of sound finance of the Panchayats and Municipalities. The notification relating to the constitution of 2nd State Finance Commission also covered:-

i) The Commission shall devise its own procedure and may appoint such Advisors, institutional Consultants as it may consider necessary. It may call for such information and take such evidence as it may consider necessary.

ii) The Commission shall make its recommendations as soon as feasible. It may consider, if necessary, sending reports on any of the matter as and when recommendations are finalised.

1.5 The Second State Finance Commission held its first meeting on the 3rd August, 1998 to discuss the nature of data to be called for from the Panchayati Raj Institutions and Urban Local Bodies to facilitate its work. A preliminary discussion on the possible methodology to be followed by Commission also took place. In this meeting, detailed questionnaires for the collection of data from various local Government institutions were framed up. A copy of each of the questionnaires is appended at Annexure "A" to this Report. Thereafter in November, 1998, the Chairperson under-took a tour to Kinnaur District to interact with the elected representatives of the local bodies in the tribal areas. On the basis of discussions during this tour, additional input was obtained on the approach to be followed by this Commission. At a subsequent meeting of the Second State Finance Commission held on 17.11.98, the approach and methodology to be adopted by the Commission were given shape.

- 1.6 In order to achieve a wider interaction with representatives of PRIs and ULBs and also to ensure that the third level of governance both at rural and urban level was made aware about the role of the Commission as also the expectations of the Commission from these bodies of democratic governance, it was decided to hold one day orientation seminar for representatives of ULBs, representatives of Zila Parishads and Panchayat Samitis and representatives of Gram Panchayats to elicit their views on the Commission's terms of reference. These seminars were held on 24-12-98, 26-12-98 and 29-12-98 in the Conference Hall of H.P. Secretariat, Shimla.
- 1.7 The issues relating to the augmentation of revenue and other related subjects emerged in the seminar have been assimilated in the process of firming up the report of the Commission.
- 1.8 The interim report of the Commission was submitted to the Govt. on 5.01.99 which contained suggestions on the detailed approach, framework and methodology to be followed by the Commission.
- 1.9 After the new chairperson Sh. Des Raj, M.L.A. assumed office, first meeting of the full Commission was held on 15.7.99.
- 1.10 The second meeting of commission was held on 1.11.99.
- 1.11 As per decision taken in the meeting held on 1.11.99, meeting with elected members of the Municipalities was arranged at Shimla on 17.1.2000. In this meeting, representatives from the Municipalities of Shimla, Solan and Sirmaur participated.
- 1.12 The Commission also took separate meetings with representatives of the nodal departments viz Panchayati Raj and Urban Development Deptt. as and when needed.
- 1.13 The Commission had several internal meetings to review the progress of the data collection, compilation and report writing etc.

CHAPTER II

FRAMEWORK AND APPROACH

- 2.1 The Second State Finance Commission has by and large adopted the same approach as followed by the 1st State Finance Commission because financial scenario both at the State and Central level has not undergone any positive change. On the contrary, the fiscal stress has become more pronounced both at the Centre and in the States. Therefore, the Commission's approach has largely been guided by the fact that:
- a) Municipal Bodies should not entirely look forward towards the Central or State Govt. to meet their financial needs through devolution of resources.
 - b) State Govt. itself is facing a serious fiscal crisis.
 - c) Scope for privatising the essential civic services needs to be explored in the context of urban areas.
 - d) Realising the user charges from the beneficiaries through appropriate price mechanisms has become inescapable.
- 2.2 While formulating the recommendations, Commission has broadly followed the principle of equity, efficiency and owning responsibility. An effort have been made to strike a balance between the scarce resources and emerging responsibilities of PRIs and ULBs in the context of 73rd and 74th amendment to the Constitution of India. It has also been ensured that imperatives of decentralisation and delegation are duly honoured. While deliberating upon the issue of resource sharing, balance has been maintained between the performance of statutorily assigned functions of Municipalities and delegated functions.
- 2.3 The award period to be covered by the recommendations of the 2nd Finance Commission will be fiscal years 2002-03 to 2006-07. One of the important components of the approach was the question of estimating the existing revenue receipts and expenditure of the PRIs and ULBs in relation to the functions presently being performed, preparation of inventory of assets being maintained and organisational structure so that normative indicators are prepared for future projections of income and expenditure.

2.4 The Commission carefully considered the Statutory functions assigned to the Panchayati Raj Institutions as enshrined in Section 11, 81 and 92 of Himachal Pradesh Panchayati Raj Act, 1994 for Gram Panchayats, Panchayat Samitis and Zila Parishads, respectively, in the process of firming up of the approach. Similarly, obligatory functions of the Municipal Corporation as laid down under Section 43 and delegated functions under Section 42 of Himachal Pradesh Municipal Corporation Act, 1994 and delegated functions for the Municipalities under Section 48 of Himachal Pradesh Municipal Act, were also considered and assimilated for the purpose of determining the approach. The Commission took note of the fact that although the requisite delegated functions in respect of the Urban Local Bodies, i.e. the Municipal Corporation and the Municipalities were notified by the State Government through notifications issued in August, 1994 yet an overwhelming majority of these bodies was not performing these functions. In some cases, the services like street lighting and payments for bulk supply of drinking water had become over due and the urban local bodies neither had the resources to liquidate such arrears, nor did they have any concern or commitment for raising user charges for provision of such highly subsidised services. Some important functions assigned also involved sizeable resource transfers and administrative control of staff of various Government departments which has not so far happened.

CHAPTER III

METHODOLOGY OF DATA COLLECTION.

3.1 For assessing the expenditure and receipts of the urban local Bodies and for devolution of resources, Commission adopted the following methodology.

Expenditure:

3.2 It was decided to collect information on the following items from the Urban Local Bodies:

1. 1991 Population.
2. Area.
3. Statutory Functions.
4. Delegated Functions.
5. Existing establishment Expenditure.
7. Details of assets to be maintained.

3.3 On the basis of this information, Urban Local Bodies were classified into groups, based on a suitable population/area criteria. For each group a normative list of assets which should exist and the services which should be provided was drawn and per capita requirement in each case was determined.

Receipts :

3.4 The information to be collected on all possible receipts head available in respect of Urban Local Bodies was classified in the following groups:-

- (a) Those for which they have the statutory powers to raise or collect taxes and fees.
- (b) Those which arise from any other source or say non tax revenue

(c) Grants-in-aid, assistance for centrally sponsored schemes and work specific grants from the State Government.

3.5 Based on the information, normative assumptions of per capita receipts from different sources which were available to Urban Local Bodies in their specific group and on the population area criteria basis were drawn.

3.6 For collection of data on receipt and expenditure of Urban Local Bodies, department of Local Bodies was approached. The Commission places on record its appreciation to the department of Urban Local Bodies, who made available the actual for the period of six years i.e. 1993-94 to 1998-1999 in respect of all the Urban Local Bodies. As a result, the Commission could base its analysis on the firm data and was at a better footing as compared to the 1st Finance Commission.

3.7 Commission's recommendations are based on the following considerations:-

- (a) Financial review of the Urban Local Bodies for the last six/seven years
- (b) Recommendations of the 1st State Finance Commission.
- (c) Recommendations of the Tenth and Eleventh Finance Commission.
- (d) State's Financial position.
- (e) Existing system of data collection and its maintenance.
- (f) Revenue resources and its demand for next five years.

CHAPTER IV

SITUATIONAL ANALYSIS OF THE EXISTING FINANCIAL RESOURCES, EXPENDITURE, ADMINISTRATIVE INFRASTRUCTURE AND FUNCTIONAL PERFORMANCE OF THE MUNICIPALITIES.

- 4.1 After the enactment of Constitutional (74th Amendment) Act, 1992, the State Govt. replaced and consolidated the laws relating to municipalities in Himachal Pradesh and enacted Himachal Pradesh Municipal Act, 1994 and Himachal Pradesh Municipal Corporation Act, 1994. Prior to this Act, there were three categories of the Municipal Bodies which were called Notified Area Committees, Municipal Councils and Municipal Corporation. To bring these in conformity with the constitutional provisions, the nomenclature of Municipal Committees numbering **nineteen** was changed to Municipal Councils and of Notified Area Committees numbering **twenty nine** to Nagar Panchayats. There is only **one** Municipal Corporation in the Pradesh. All these bodies are independent of each other and draw powers from the H.P. Municipal Act, 1994 and H.P. Municipal corporation Act, 1994.
- 4.2 Out of the twelve districts in the State, Kinnaur and Lahaul & Spiti districts do not have any municipal areas. In these two districts, Special Area Development Authorities have been constituted under the Town and Country Planning Act to maintain the civic amenities. Besides this, in Cantonments basic civic amenities are being maintained by the Cantonment Boards. Like the first Finance Commission, 2nd Finance Commission has also decided to keep these SAD Authorities and Cantonments out of the consideration of the local bodies. After the 1st Finance Commission report, number/status of municipalities have changed marginally. The Nagar Panchayat, Parwanoo was upgraded to Municipal Council. Industrial area of the Baddi was notified as Nagar Panchayat. This report covers 28 Nagar Panchayats, 20 Municipal Councils and one Municipal Corporation in the Pradesh. During process of the finalisation of this report, Municipal Corporation, Shimla was trifurcated into Nagar Panchayat, Dhalli, New Shimla (Kasumpti) and Totu. Another Nagar Panchayat namely, Paprola (Baijnath) was also carved out. Commission decided to make separate normative indicators in respect of newly created/upgraded/bifurcated local bodies to make necessary adjustment in the grant-in-aid.
- 4.3 Given the situation in Himachal Pradesh, with few exceptions, most of the municipalities have rural characteristics in terms of the development of civic infrastructure as compared to villages in plains. Many have population sizes smaller than villages.

4.4 Even the municipalities differ in area, population, Civic infrastructure, resource endowment, assets and administrative infrastructure. Given the situation, it would be very difficult and impractical to evolve uniform approach in dealing with the financial status of these bodies.

4.5 Classification of municipalities according to the size of their population and area is as under:-

Area (SQ Kms)	No of Municipalities			Population (Nos)	No of Municipalities	
	Municipal Councils	Nagar Panchayats			Municipal Councils	Nagar Panchayats
15 to above	10	5	1	20000 and above	3	-
10 to above	5	5	1	19999 to 10000	8	-
				9999 to 5000	5	4
5 to above	3	6	10	4999 to 3000	2	9
3 and below	4	16		2999 and below	2	15
Total		20	28*		20	28*

Note:- Municipalities wise details are given at the Annexure at “A” & “B”

*Number of Nagar Panchayats have increased to 32 after the trifurcation of Municipal Corporation, Shimla and creation of Paprola (Bajjnath) Nagar Panchayat.

4.6 The data collected and analysed relate to all the municipalities covering the period from 1993-94 to 1988-99. However, for Nagar Panchayat, Sunni data were available only for the year 1998-99. Given the constraints of poor maintenance of data and weak accounting system, efforts were made to collect as much disaggregated details in respect of income, expenditure and administrative infrastructure as possible, disaggregated details were available only for the year 1998-99. Performae circulated for the collection of information have been appended at Annexure-“D”

4.7 While analysing the income and expenditure of the municipalities, an independent analysis of both the components have been made as we find little co-relation between these two. Figures supplied by the department reflect the surplus position whereas it is not the factual position. In fact most of the Urban Local Bodies look towards Government for meeting the expenses on staff salaries and provision of Civic amenities.

Review of Finances of the Municipalities

4.8 Finances of the Municipalities have been categorised as (a) Income from own sources which includes (i) Non tax income and (ii) Income from taxes and fees. (b) Grants comprising, (i) Statutory grants, (ii) Grants from centrally sponsored schemes and work specific grants from State Govt. While scrutinising the finances of the municipalities, disturbing trends were observed in the total revenue in certain years. This was due to inclusion of one time grants given by the State Govt. to discharge some of the obligatory liabilities such as salary arrears, water charges, electricity bills etc. To make the data consistent, these one time grants have been excluded from the receipt side of that particular year. In addition to this, amount appearing against the items suspense, stocks and stores were also ignored from both receipts as well as expenditure side.

4.9 Total revenue generated by all the municipalities of the State including grants from State Government and under Centrally sponsored Schemes was at the level of Rs 1646.63 lakh in the year 1993-94 which touched to Rs. 4730.37 lakh in the year 1998-99, thereby registering an increase of about 287 percent. The quantum jump in the total revenue of municipalities in the year 1997-98 is due to implementation of the recommendations of 1st State Finance Commission. Year wise status of total revenue is as under :-

Total Revenue of Municipalities		(Rs in Lakh)					
Category of ULB	No of MCs	Year 1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
1. Municipal Corporation	**1	606.17	850.07	1029.54	765.86	1233.29	1430.94
2. Municipal Councils	20	803.34	826.59	927.58	1079.35	1503.85	2415.81
3. Nagar Panchayats	*28	237.12	364.88	321.15	433.15	559.42	883.62
Total	*49	1646.63	2041.54	2278.27	2278.36	3296.56	4730.37

Note- 1. Information about newly carved out Nagar Panchayat, Baddi and Nagar Panchayat, Sunni was not available.

2. Information in respect of newly created Nagar Panchayats has not been included.

** Information inclusive of Nagar Panchayats Dhalli, New Shimla and Totu.

4.10 Per capita total revenue in case of Municipal Corporation ranged from Rs.706 in the year 1993-94 to Rs. 1546 in the year 1998-99 where as in case of Municipal Councils, and Nagar Panchayats, it is Rs. 325 and Rs.260 in the year 1993-94 and reached to Rs 854 and Rs. 834 in the year 1998-99, respectively. The wide gap between the Municipal Corporation, Municipal Councils and Nagar Panchayats in per capita revenue is attributed to the intensity of Municipal functions required to be carried out in the Municipal areas due to its vast area, population and influx of tourists etc. Table below depicts the per capita total revenue in all these categories of Municipalities.

Per Capita Share of Total Revenue		(in Rs.)					
Category of ULB	Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	1. Municipal Corporation	706	976	1164	853	1353	1546
2. Municipal Councils	325	326	356	403	546	854	
3. Nagar Panchayats	260	389	332	434	544	834	

4.11 Quantum jump in per capita revenue after the year 1997-98 is due to the release of grants as per the recommendations of the 1st Finance Commission.

4.12 In the subsequent paras, more disaggregated details have been discussed separately for all these categories of the municipal bodies. This analysis would also form the basis for future projections.

A Municipal Councils

Based on the averages worked out for the period starting from 1993-94 to 1998-99 following conclusions have been drawn.

4.13 Himachal Pradesh has 20 Municipal Councils. These have vast diversity in terms of area, population, resource endowment and civic infrastructure. Out of 20 bodies, 16 have rest houses, 11 Councils have town hall, all own their office building and have marketing complex in their ownership. Except for four Councils, all Councils own more than 100 stalls /shops. Road length varies from 4.65 Kms to 48 Kms . Six Councils are maintaining sewerage system and two have their own water distribution

system. All the Municipal Councils have at least one children park, few have more than one also. Street light and public toilet facility are other civic amenities which are being provided by all the councils.

- 4.14 Total average revenue receipts from own sources of all the Municipal Councils is Rs. 398.63 lakh. Out of this, 57.48 percent comes in the shape of Non Tax revenue and 42.52 percent forms the part of income from fees & taxes.
- 4.15 There is no uniformity in the nature of taxes and rate of taxes in different Municipal Councils. While some Municipal Councils are collecting property tax and conservancy tax, others have imposed house tax or chullah tax. Water tax, show tax, cattle pond tax, profession tax, cattle sale tax, servant tax, sanitation tax and animal tax are also reported by some of the Municipalities. It has been observed that even some basic taxes like sanitation tax/ safai tax have not been levied by all the bodies.
- 4.16 Average total receipts from taxes in respect of all the Municipal Councils have been estimated to Rs. 112.28 lakh per annum. Average per capita tax collected is Rs. 42. This comprises 28.17 percent of the income from own sources.
- 4.17 Revenues from fees are not uniform in rates and its form. These have been reported to be collected under heads license fee for offensive and dangerous trade, vehicles, dog etc. and from copying fees, tehbazari fees, fees for death and birth certificates, fair fees, sign board fees, projection fees, map approval fees, hand cart fees, tree cutting fees, adda fees, water connection fees, slaughter house fee, meat license fee and entry fees etc. Average annual revenue from fees has been estimated at Rs. 57.20 lakh which is 14.35 percent of the total revenue from own sources. Average per capita share per annum is Rs. 22 only.
- 4.18 As regards non tax revenue receipts, income has been reported under items such as income from property, interest, fairs and auctions and under some other unclassified items which has been clubbed under head miscellaneous. Under this item also, accruals are not uniform and vary from Council to Council depending upon the assets and deposits these bodies possess individually. In the total income from own sources, non tax revenue contributes Rs. 229.15 lakh. Percentage contribution is 57.48 percent and per capita share is Rs 87.

Components Wise Detail of Receipts from Own Sources (MCs)

Components	Average Receipts 1993-94 to 1998-99	Average % Contribution to total Rev.	Average Per Capita Receipts
	(in Lakh Rs)	(%)	(Rs.)
I Income from own sources	398.63	100.00	151
a) Non Tax Income	229.15	57.48	87
i) Income from Property	123.52	30.99	47
ii) Income from Interest	20.99	5.27	8
iii) Miscellaneous Income	84.64	21.22	32
b) Income from Taxes & Fees	169.48	42.52	64
i) Taxes	112.28	28.17	42
ii) Fees	57.20	14.35	22

B Nagar Panchayats

- 4.19 This report covers 28 Nagar-Panchayats out of 32 Nagar Panchayats (four Nagar Panchayats were created during the finalisation of this report). As is the case with Municipal Councils, Nagar Panchayats also have vast diversity and variation in area, population, civic infrastructure, resource endowment and tax base etc. The area of Nagar Panchayats range between 11 sq kms to 40 sq Kms and population from 6,848 persons to 689 persons. All the Nagar Panchayats except two, own their office building and have shopping complex. Number of shops vary from 1 to 128. Thirteen Nagar Panchayats have town hall, four bodies have sewerage system. Total road length covering all the Nagar Panchayats is about 194 Kms and have 3068 street light points and 191.5 Kms of drainage. In addition to these, few bodies also have children parks and cattle ponds.
- 4.20 Total average revenue receipts per annum from own sources of all the Nagar Panchayats is Rs. 205.96 lakh out of which 46.31 percent is received in the shape of non tax and 53.69 percent comes from taxes and fees.
- 4.21 There is no uniformity in the services and commodities taxed and their rates. Major taxes being collected are house tax/property tax, sanitation tax, vehicle/toll tax. Some of the Nagar Panchayats have also reported animal tax, water tax, profession tax and chulha tax etc.

4.22 Average total receipts from taxes in respect of all the covered Nagar Panchayats have been estimated to be Rs. 55.99 lakh per annum. Average per capita tax collected is Rs 58. Tax receipts are 27.18 percent of the income from own resources.

4.23 Revenue from fees is also not uniform in rates and its form as in the case of Municipal Councils. Various forms of fees collected are license fee for trade, vehicles, food, dog, copying fees, tehbazari fee, registration of birth and death certificates, fair fees, map approval fees, hand cart fees, tree cutting fees, adda fees, water connection fees, electricity connection fees, marriage registration fees, identity card fees, slaughter house fees and entry fees etc. Average annual revenue from fees from all the covered Nagar Panchayats has been estimated to Rs. 54.58 lakh which is 26.51 percent of the total revenue from own sources. Average per capita receipts per annum is Rs 56 only.

Components Wise Detail of Receipts from Own Sources (NPs)

Components	Average Receipts 1993-94 to 1998-99	Average % Contribution to total Rev.	Average per Capita Receipts
	(Rs in lakh)	(%)	(Rs.)
I Income from own sources	205.96	100.00	213
a) Non Tax Income	95.39	46.31	99
i) Income from Property	45.37	22.02	47
i) Income from Interest	9.76	4.74	10
iii) Miscellaneous Income	40.26	19.55	42
b) Income from Taxes & Fees	110.57	53.69	114
i) Taxes	55.99	27.18	58
ii) Fees	54.58	26.51	56

C Municipal Corporation

- 4.24 Himachal Pradesh has only one Municipal Corporation i.e. Municipal Corporation, Shimla. The Municipal Govt. was introduced in Shimla in December 1851 under the provision of the Act XXVI of 1850. The Shimla Municipality was oldest in the erstwhile Punjab. The Govt. of Himachal Pradesh changed its status as Municipal Corporation, Shimla in the year 1960 with the object of providing civic amenities like garbage collection, street lighting, maintenance of road, water supply, sewerage, trade activities etc. to the people living within the limits of the Corporation. In addition, implementation of schemes sponsored by State/Centre like NRY, EIVS, NORAD, IDMT, SJSRY etc. was also entrusted to the Corporation.
- 4.25 Shimla town is situated on several small spurs in the lower Himalayas at an elevation of 2215 metres above sea level. It is most favourite hill Station in northern India having Municipal area of 32.30 Sq.Kms. Originally, Shimla was designed to cater to a population of 25,000 souls whereas now permanent population of the town has swollen to approximately 1.40 lakh. Keeping in view the disparity between the core municipal area and newly developed fringes, government of H.P. trifurcated the Municipal Corporation, Shimla into three separate Nagar Panchayats namely, Dhalli, New Shimla(Kasumpti) and Totu vide its notification No.UD-A(1)3/2001 dated 29.11.01 so as to provide better administration and efficient municipal services. As no separate details were available for the newly carved out Nagar Panchayats, the analysis of income and expenditure relates to the old structure of Municipal Corporation.
- 4.26 The Municipal Corporation has been vested with a long list of functions under section 43 and 44 of H.P. Municipal Corporation Act. 1994. A list of all the functions is appended at Annexure "J". These functions broadly relate to the maintenance of water supply, sewerage and sanitation system, eradication of communicable diseases, prescribing and enforcing building bylaws, prevention of encroachment on public land, fire protection, street lighting, registration of death and birth etc. Apart from this, Municipal administration has also been made responsible for maintenance of inner city roads, nallahs, forests, construction of parking places, cremation grounds, rain shelters, collection & disposal of waste of the city.
- 4.27 Based on the averages worked out for the period starting from 1993-94 to 1998-99, the total average revenue receipt per annum from own sources of the Corporation is Rs. 473.98 lakh, of which

56.62 percent is received in the shape of non tax revenue and 43.38 percent comprises income from taxes and fees. The per capita revenue income of the corporation is Rs. 531.

4.28 After the abolition of octroi, house tax constitutes major source of revenue of the Corporation. The contribution from other taxes such as vehicle, show, animal, sanitation and water taxes etc. are not significant in terms of share in the total revenue of the Corporation. After the commencement of H.P. Municipal Corporation Act, 1994, the sanitation tax has also been abolished. The average total receipt from taxes has been estimated to Rs. 191.33 lakh per annum and average per capita tax collected is Rs. 214. Tax receipts constitute 40.37 percent of the revenue from own sources of the Corporation.

4.29 Average annual revenue from fees of the Corporation has been estimated to Rs. 14.28 lakh which is 3 percent of the total revenue from own sources. The average per capita fees collected is Rs. 16 only.

4.30 Non tax revenue which is an important source of income of the Corporation includes Income from property, interest and miscellaneous income comprising of user charges, lease rent, income from investment, sale proceeds of water etc. This comprises 56.62 percent of the revenue generated from own sources. The average total non tax revenue of the Corporation has been estimated to Rs. 268.37 lakh per annum and Rs. 301 per capita.

Components Wise Detail of Receipts from Own Sources (M. Corp.)

Components	Average Receipts 1993-94 to 1988-99	Average% Contribution to total Rev.	Average Per Capita Receipts
	(Rs. in Lakh)	(%)	(Rs.)
I Income from own sources	473.98	100.00	531
a) Non Tax Income	268.37	56.62	301
i) Income from Property	62.41	13.17	70
ii) Income from Interest	24.38	5.14	27
iii) Miscellaneous Income	181.58	38.31	204
b) Income from Taxes & Fees	205.61	43.38	230
i) Taxes	191.33	40.37	214
ii) Fees	14.28	3.01	16

4.31 The Municipal Corporation, Shimla has created following types of infrastructure to cater the need of the population and tourists.

(1) Road length	Kms	162
(2) Drains length	Kms	122
(3) Toilets seats	Nos	414
(4) Residential houses	Nos	654
(5) Shops/Stalls	Nos	874
(6) Sheds	Nos	187
(7) Car parking	Nos	3
(8) Water Pipe (Main lines)	Kms	65
(9) Water Pipe (Branch lines)	Kms	110
10) Sewerage line	Kms	18
11) Sewerage Plants	Nos	5
12) Septic tanks	Nos	10
13) Storage tanks (Water)	Nos	32
14) Toilets and Urinals	Nos	114
15) Street light points	Nos	4749
16) Street length	Kms	41

4.32 Beside this, Corporation has its own office building, rest house and town hall. The Corporation is also running one Labour Hostel, one Women Working Hostel and one Cutting & Tailoring Centre.

4.33 The Commission observed that the urban local bodies were not levying the statutory taxes in a uniform manner. It was also seen that the exemptions and concessions were more a matter of rule than rare exceptions. Given the serious fiscal stress of the State Finances, it will be too much of an expectation on the part of the urban local bodies to ask for every thing from the State Government without any effort on their part to levy statutory taxes on the one hand, and also simultaneously move towards a regime of full cost recovery of at least the O & M costs for various civic services being provided by these bodies.

CHAPTER V

FORECASTING OF RESOURCES OF URBAN LOCAL BODIES

A Revenue Receipts

5.1 Detailed situational analysis of the revenue receipts of the Urban Local Bodies have been presented in chapter IV. Based on the parameters drawn out of this analysis in accordance with the methodology adopted by the Commission, projections for the forecast period have been made and presented in the following paragraphs.

**Average Per Capita Receipts from Own Sources based on Actual Data
i.e. 1993-94 to 1998-99 (in Rs.)**

Category of Local Body			
Component of Receipts	Municipal Councils	Nagar Panchayats	Municipal Corporation
1 Tax Receipts	42	58	214
2 Receipts from Fees	22	56	16
3 Non Tax Receipts	87	99	301
Total	151	213	531

5.2 As question of grants has separately occupied the space in the Report, the same has not been included while estimating the average per capita receipts. As has categorically been stated in the chapter on situational analysis of receipts, there is no uniform pattern or system of taxation of resource raising in the Urban Local Bodies, hence, Commission has clubbed the receipts from all taxes while forecasting the receipts. The above estimates are based on the six year time series data i.e. 1993-94 to 1998-99.

5.3 It was observed that actual average per capita receipts generally remained below the forecast made by the First Finance Commission up to the year 1998-99, the period up to which actual receipts figures were made available to the Commission. However, for the period 1999-2000, department of Urban Local Bodies was requested to provide the tentative figures, but from the analysis of these figures also, the same situation emerged.

5.4 Commission tried to find out the reasons for this shortfall in the revenue receipts of the Urban local bodies, and observed that it is due to the delayed implementation of the recommendations made by the 1st State Finance Commission. As of now, as per the recommendations of the First State Finance Commission, State Govt. has already notified the minima and maxima of the rates for such taxes those are mentioned in the statute and have allowed a fair degree of freedom to raise resources through these taxes. Considering that these measures would give quantum jump in the receipts of the Urban Local Bodies in future, Commission decided to adopt the same base year figures of per capita receipts as arrived at by the forecasts made by the 1st State Finance Commission. In making these assumptions, due consideration has also been given to the general potential of statutory taxes and user charges.

Base year's Per Capita Receipt Accrual (Rs)

S. No	Category of ULBs	Year 2000-2001
1.	Nagar Panchayats	294.35
2.	Municipal Councils	294.35
3.	Municipal Corporation	900.53

5.5 Base year's per capita receipts accruals have been projected for the future years taking growth assumption of 10 percent per annum. This assumption is much below the weighted average growth rate of 17.18 percent observed in the actual receipts figures. Commission deliberately ignored the observed weighted average growth and adopted 10 percent growth to keep the forecast figures in the vicinity of reality.

5.6 The per capita receipt accrual figures adopted for forecasting revenue of the Urban Local Bodies is as under:-

Projected Per Capita Revenue of Urban Local Bodies

Years	Municipal Corporation	Municipal Councils/ Nagar Panchayats
2002-2003	1089.64	356.17
2003-2004	1198.61	391.79
2004-2005	1318.47	430.96
2005-2006	1450.31	474.06
2006-2007	1595.34	521.46

5.7 The details of the revenue receipts for each of the Urban Local Body based on projected population for the forecast period are contained in the following table:-

Projected receipts from own sources of revenue (Rs. in Lakh)

Name of the ULB	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	Total
(A) MUNICIPAL CORPORATION*						
1. Shimla	1440.19	1608.20	1795.81	2005.30	2239.22	9088.72
(B) MUNICIPAL COUNCILS						
1. Rampur	21.40	24.18	27.33	30.89	34.91	138.71
2. Theog	13.58	15.35	17.35	19.61	22.16	88.05
3. Solan	107.19	121.15	136.92	154.74	174.88	694.88
4. Nalagarh	36.71	41.48	46.88	52.99	59.88	237.94
5. Nahan	107.82	121.85	137.71	155.64	175.90	698.92
6. Poanta Sahib	65.09	73.56	83.13	93.95	106.18	421.91
7. Sri Naina Devi J	4.28	4.83	5.46	6.17	6.98	27.72
8. Bilaspur	52.29	59.09	66.78	75.48	85.30	338.94
9. Una	59.15	66.84	75.54	85.38	96.49	383.40
10. Hamirpur	61.82	69.86	78.96	89.24	100.85	400.73
11. Dharamshala	86.21	97.43	110.11	124.45	140.64	558.84
12. Kangra	44.45	50.23	56.77	64.16	72.51	288.12
13. Nurpur	39.23	44.34	50.11	56.63	64.00	254.31
14. Palampur	17.93	20.26	22.90	25.88	29.25	116.22
15. Chamba	84.74	95.77	108.23	122.32	138.25	549.31
16. Dalhausie	33.78	38.18	43.15	48.77	55.11	218.99
17. Mandi	114.34	129.23	146.05	165.06	186.54	741.22
18. Sunder Nagar	100.52	113.61	128.39	145.11	163.99	651.62
19. Kullu	71.80	81.15	91.71	103.65	117.14	465.45
20. Parwanoo	30.05	34.08	38.64	43.82	49.69	196.28

Total **1152.38** **1302.47** **1472.12** **1663.94** **1880.65** **7471.56**

*Inclusive of newly created Nagar Panchayats i.e Dhalli, New Shimla and Totu.

(C) Nagar Panchayats**	2002-03	2003-04	2004-05	2005-06	2006-07	Total
1. Sunni	6.52	7.39	8.39	9.51	10.78	42.59
2. Narkand a	3.53	4.00	4.54	5.14	5.83	23.04
3. Kotkhai	4.60	5.21	5.91	6.70	7.60	30.02
4. Jubbal	7.07	8.02	9.10	10.32	11.70	46.21
5. Chopal	5.51	6.25	7.08	8.04	9.11	35.99
6. Rohru	17.27	19.59	22.22	25.19	28.57	112.84
7. Arki	10.14	11.50	13.04	14.79	16.77	66.24
8. Baddi	34.43	39.04	44.27	50.20	56.93	224.87
9. Rajgarh	9.14	10.36	11.75	13.32	15.11	59.68
10. Ghumarwin	19.03	21.58	24.47	27.75	31.46	124.29
11. Talai	7.95	9.02	10.23	11.60	13.15	51.95
12. Gagret	21.85	24.78	28.10	31.87	36.14	142.74
13. Daltpur	14.10	15.99	18.13	20.56	23.32	92.10
14. Mehatpur	32.93	37.34	42.35	48.02	54.46	215.10
15. Santokhgarh	35.14	39.85	45.19	51.25	58.11	229.54
16. Nadaun	17.34	19.66	22.30	25.29	28.67	113.26
17. Sujanpur	28.11	31.87	36.14	40.99	46.48	183.59
18. Bhota	6.60	7.48	8.49	9.62	10.91	43.10
19. Jawalamukhi	20.77	23.55	26.71	30.28	34.34	135.65
20. Dehra	17.33	19.66	22.29	25.28	28.67	113.23
21. Nagrota	23.11	26.21	29.71	33.70	38.21	150.94
22. Chowari	10.81	12.26	13.90	15.77	17.88	70.62
23. Rewalsar	5.36	6.08	6.90	7.82	8.86	35.02
24. Sarkaghat	15.86	17.99	20.40	23.13	26.23	103.61
25. Jogindernagar	23.16	26.26	29.78	33.77	38.30	151.27
26. Manali	12.49	14.16	16.06	18.21	20.65	81.57
27. Bhuntar	15.25	17.29	19.61	22.24	25.22	99.61
28. Banjar	5.32	6.04	6.84	7.76	8.80	34.76
Total	430.72	488.43	553.90	628.12	712.26	2813.43
Grand Total	3023.29	3399.10	3821.83	4297.36	4832.13	19373.71

** Separate information in respect of four Nagar Panchayats is not available.

B Grants

5.8 After carefully considering all the aspects such as abolition of octroi vis-a-vis the developmental activities being undertaken by the Urban Local Bodies, 1st State Finance Commission reached at a logical figure of Rs. 1221.11 lakh in the base year to be transferred to the Urban Local Bodies as grants and named it “grants in-lieu-of octroi” which was given a markup of 10% annually for the forecast period. But Department could not apprehend the basic issue which was taken care of while fixing the base year figure and mistook this grant only as the grant- lieu-of octroi whereas it covered grants required to carry out delegated functions by the Urban Local Bodies as well. To avoid this confusion on nomenclature, the Second State Finance Commission re-ascertained the facts from working sheet and thereafter the same level of grants in the base year as was actually got transferred to the Urban Local Bodies in the year 2001-2002 and decided to name it as “developmental grants”. The grant transferred to the Urban Local Bodies in the year 2001-2002 was Rs. 1787.81 lakh. Commission decided to take the base year figure of Rs. 1787.81 lakh. To neutralise the effect of inflation, this was given 10% markup annually for the forecast period. The figure so arrived at is as under :-

<u>Years</u>	<u>(Rs. in lakh)</u>
2002-03	1966.59
2003-04	2163.25
2004-05	2379.58
2005-06	2617.53
2006-07	2879.29
-----	-----
Total	12006.24
-----	-----

CHAPTER VI

FORECASTING OF COMMITTED EXPENDITURE OF THE URBAN LOCAL BODIES

- 6.1 In earlier part of this report, it has been explained that commission collected data from all the Nagar Panchayats, Municipal Councils and the only Municipal Corporation for analysing the receipt and expenditure patterns.
- 6.2 Accordingly, Commission approached the Department of Urban Local Bodies which had the firm data on the salary structure, the number of posts sanctioned, posts filled up and the vacant posts etc. as on 31-3-99. The Commission was also supplied projected additional staff requirements for each of the urban local body by the Department. However, the Commission decided not to deliberate upon the demand for additionality of staff for a variety of reasons. The data on the above aspects is contained in the table below:

Name of Urban Local Body	Sanctioned Strength	Staff in Position 31-3-99
A) MUNICIPAL CORPORATION		
1. Shimla*	1166	1119
B) MUNICIPAL COUNCILS:		
1. Rampur	49	34
2. Theog	24	17
3. Solan	158	134
4. Nalagarh	49	32
5. Nahan	166	102
6. Poanta Sahib	48	36
7. Sri Naina Devi ji	16	13
8. Bilaspur	62	39
9. Una	61	54
10. Hamirpur	62	33
11. Dharamshala	81	68
12. Kangra	52	35
13. Nurpur	35	27
14. Palampur	32	22
15. Chamba	81	72
16. Dalhausie	58	49
17. Mandi	147	113
18. Sundernagar	95	69
19. Kullu	122	82
20. Parwanoo	36	21
Total	1434	1052

* Relates to the integrated area of Municipal Corporation.

Name of Urban Local Body	Sanctioned Strength	Staff in Position 31-3-99
C).NAGAR PANCHAYATS:		
1. Sunni	18	1
2. Narkanda	18	2
3. Kotkhai	19	3
4. Jubbal	18	1
5. Chopal	18	2
6. Rohru	19	5
7. Arki	23	8
8. Rajgarh	18	1
9. Ghumarwin	20	5
10. Talai	18	2
11. Gagret	19	5
12. Daulatpur	18	3
13. Mehatpur	19	4
14. Santokhgarh	18	3
15. Nadaun	24	13
16. Sujanpur	21	5
17. Bhota	18	2
18. Jwalamukhi	64	37
19. Dehra	35	25
20. Nagrota	35	20
21. Chowari	18	-
22. Rewalsar	20	-
23. Sarkaghat	19	9
24. Jogindernagar	18	5
25. Manali	54	42
26. Bhuntar	21	14
27. Banjar	18	-
28. Baddi	18	1
Total	646	218
Grand Total	3246	2389

6.3 The Commission observed that the Directorate Urban Local Bodies allowed creation of staff in contravention of the requirements of the Act. Creation of staff is to be strictly linked to the capacity of the local body to pay its employees. Exact data on the establishment expenditure was called for by the Commission from the Municipal Corporation, Shimla and from all the Municipal Councils and Nagar Panchayats for the period 1993-94 to 1998-99. The figures on expenditure on establishment vis-a vis normative derivatives are presented in the following table:-

(A) Municipal Corporation.

Years	*Total Establishment Expenditure (Rs. in lakh)	Staff in position (No)	Per Employee Expenditure (Rs)	Growth over Previous year (%)
1	2	3	4	5
1993-94	360.93			-
1994-95	382.54			5.98
1995-96	514.14			34.40
1996-97	543.75			5.76
1997-98	700.41			28.81
1998-99	831.35	1119	74294	18.69
Average Growth				18.72

*This includes Honorarium to the Elected Representatives at old rates

(B) Municipal Councils

Year	*Total Establishment Expenditure (Rs. in lakh)	Staff in Position (No)	Per Employee Expenditure (Rs.)	Growth over Previous year (%)
1	2	3	4	5
1993-94	414.01			-
1994-95	455.91			10.12
1995-96	516.12			13.21
1996-97	577.50			11.89
1997-98	690.08			19.49
1998-99	785.43	1031	76180	13.81
Average Growth Rate				13.70

Note : Excluding newly upgraded MC Parwanoo

*This includes Honorarium to the Elected Representatives at old rates

(C) Nagar Panchayats.

Year	*Total Establishment Expenditure (Rs. in lakh)	Staff in Position (No)	Per Employee Expenditure (Rs.)	Growth over Previous year (%)
1993-94	93.30			-
1994-95	99.08			6.19
1995-96	113.60			14.65
1996-97	139.61			22.88
1997-98	171.70			22.98
1998-99	177.68	238	74655	3.48
Average Growth Rate				14.04

Note : Excluding Nagar Pnchayat, Baddi and including NP, Parwanoo.

***This includes Honorarium to the Elected Representatives at old rates**

6.4 On the analysis of the actual figures received from the Urban Local Bodies per employees establishment expenditure as on 31.3.99 and average annual growth rate of establishment expenditure has been worked out. The position emerged has been presented in the table given below:

Category of ULB	Per Employee Establishment Expenditure as on 31-3-99	Growth rate on Establishment Expenditure (1993-94 to 1998-99)
Municipal Corp. Shimla	74294	18.72
Municipal Councils	76180	13.70
Nagar Panchayats	74655	14.04

6.5 To arrived at the base year figure, per employee expenditure for the base year i.e 2001-02 was worked out. As the trend growth rate was on a higher side because of the implementation of the recommendations of the pay commission which resulted in nearly 40 percent increase in the total emoluments of the employee and due to payment of arrears. Therefore, trend growth rate was ignored and it was decided to use the average inflation rate for the period. The average inflation rate for the period 1993-94 to 1997-98 was 7.34 percent. In working out the per employee expenditure and total establishment expenditure for the base and forecast period, the Commission decided to use the total sanctioned strength instead of the positions filled up. The Commission would however, like to caution that the local bodies may adopt a more prudent stance in not filling up the vacancies and use the available resources for better delivery systems of civic amenities. The aggregate provisions have been made as follows:-

Category of ULB	Per Employee Establishment Expenditure for base year 2000-2001	Sanctioned Strength of Employee as on 10-10-2000	Total Establishment Expenditure for base year 2000-2001 (Rs. in Lakh)
1	2	3	4
Municipal Corporation	85601	1166	998.11
Municipal Councils	87774	1434	1258.68
Nagar Panchayats	86017	646	555.67

6.6 During the course of the finalization of the report the State Government increased the rates of Honorarium to the elected representatives at the following rate.

(In Rs.)

Name of Representatives	Old Rate	Revised Rate	% Increase
A) Municipal Corp.			
i) Mayor	2400	2700	12.50
ii) Deputy Mayor	1500	1800	25
iii) Members	1200	1500	25
Municipal Councils			
i) Presidents	1000	1250	25
ii) Vice Presidents	750	1000	33
iii) Members	200	400	100
B) Nagar Panchayats			
i) Presidents	500	750	50
ii) Vice Presidents	400	650	62
iii) Members	200	400	100

6.7 The financial implication for the payment of Honorarium on old rates was Rs. 23.34 lakh which rose to Rs. 39.04 lakh thereby rendering an additional implication of Rs. 15.70 lakh. The percentage of Honorarium as proportionate to total establishment expenditure is only 1.28 percent.

6.8 Commission has accordingly decided to make an additional provision of Rs. 15.70 lakh annually. The total burden for the entire forecast period come to Rs. 78.50 lakh.

6.9 Recommended provisions for the establishment expenditure for the forecast period is as under:-

(Rs.in Lakh)

Year	Municipal Corporation	Municipal Councils	Nagar Panchayat	Addl. Impact of Revision of Honorarium	Total
1	2	3	4	5	6
2002-2003	1150.00	1450.24	640.24	15.70	3256.18
2003-2004	1234.42	1556.69	687.22	15.70	3494.03
2004-2005	1325.03	1670.94	737.67	15.70	3749.34
2005-2006	1422.28	1793.59	791.81	15.70	4023.38
2006-2007	1526.67	1925.23	849.92	15.70	4317.52
Total	6658.40	8396.69	3706.86	78.50	18840.45

6.10 The other area of committed expenditure is the maintenance of physical assets owned by the urban local bodies. In this behalf, Commission collected the actual data for the M.C Shimla and for all the Municipal Councils and Nagar Panchayats. Details of the civic infrastructure for which Commission recommends for the maintenance provision are presented in the following table:-

Infrastructure with the Urban Local Bodies

Urban Body	Roads (In Kms)	Streets	Drains	Streetlight Points	Public Toilets
(1) MC Shimla	162.48	40.58	121.89	4749	114
(2) Municipal Councils	353.82	295.34	428.57	16002	466
(3) Nagar Panchayats	234.54	234.95	250.86	4792	176
Total	750.84	570.87	801.32	25543	756

6.11 In addition to the civic infrastructure/assets specified in the above table, many local bodies have other infrastructure for maintenance. But Commission decided to restrict its recommendations to the above categories of civic infrastructure only. Like First Finance Commission, this Commission also decided to keep the civic amenities of water supply and sewerage out of its recommendations in view of their extremely capital intensive nature of maintaining the services.

6.12 In case Govt. decides to transfer these activities to the Urban Local Bodies the same may be transferred along-with the staff and budgetary provisions. Commission decided to mark up the norms as provided by the 1st Finance Commission to 10% every year and based on this, Commission decided to provide for maintenance of roads at the rate of Rs. 24150 per kilometre. For the streets, Rs 8050 per kilometre

which is one third of the provision made for single lane road. For street light, it was decided to provide at the rate of Rs. 240 based on the need for replacing the lighting fixtures. For public toilets, a maintenance provision at the rate of Rs. 1600 per unit per annum would suffice.

6.13 As no provisions were kept for maintenance of drainage during the 1st Finance Commission, this Commission felt the need for making the maintenance provision for this item also to minimise the damages being caused to the roads due to rain and snow. For this item, it is felt that norm of Rs. 6000/ per K.M. would be sufficient in view of the width of the drainage.

6.14 The aggregate maintenance provisions for these services for the first year worked out to Rs. 383.64 lakh. With the assumed 10 percent mark up for every year during the forecast period, the annual provisions are recommended as under:-

(Rs. in lakhs)

Year	Aggregate Maintenance Provisions
2002-2003	383.64
2003-2004	422.01
2004-2005	464.21
2005-2006	510.63
2006-2007	561.69
Total	2342.18

6.15 Commission also observed that during past few years, Urban Local Bodies have been equipped with sufficient garbage handling equipments under various projects. The infrastructure provided was in the shape of Hydraulic Dumper Placers, Garbage Containers, Wheel Barrows, Dust Bins, Tippers etc. It was felt that after conclusion of the projects, it would be difficult for the Urban Local Bodies to replace machinery/equipments from out of their own resources being capital intensive in nature. Commission recommends the lump sum provision of Rs. one crore for replacement of these equipments which can

further be distributed among Urban Local Bodies considering the demand submitted by the local bodies on merit basis.

6.16 Putting the two items of committed expenditure together, the commission recommends to provide 3639.82 lakh in the first year of the award and Rs. 21182.63 lakh over the total five year forecast period for the Urban Local Bodies for meeting the expenditure on salaries and maintenance of civic amenities and lump sum provision of Rs. 1.00 crore for the period of five years for the replacement of garbage handling machinery.

CHAPTER VII

RESOURCES FOR PERFORMANCE OF THE STATUTORY AND DELEGATED FUNCTIONS BY THE URBAN LOCAL BODIES _ NEED AND MODALITIES FOR MEETING THE COMMITMENTS

- 7.1 All over the world, the higher levels of Government provide financial assistance to the Local Self Governing bodies by way of grants-in-aid to meet their obligations in the discharge of functions entrusted to them. Ours is a federal system under which local self government is a State subject, and it is the responsibility of the State not only to specify the functions of Urban Local Bodies, but also provide assistance through devolutions in the form of grants etc. for building up the financial capabilities at the local level to provide fiscal autonomy. It is to be viewed in the context of the functional responsibilities of different levels of governance involved in such financial transfers. The 73rd and 74th Constitution Amendments and the terms of reference of the State Finance Commission, require the Commission to specify the principles which should govern the grants-in-aid to the said bodies.
- 7.2 Before making specific proposals in this regard, it is necessary to appreciate the appropriate need or otherwise of different grants provided to the Urban Local Bodies.
- 7.3 Firstly, the Urban Local Bodies differ in their capacity to raise the resources as all of them are not uniformly developed. Because of the limited taxable capacity many of the Urban Local Bodies fail to provide even the minimum civic and developmental services needed by the citizens. Hence the important principle of equity demands that grants be to such Urban Local Bodies in order to enable them to manage the functions entrusted to them.
- 7.4 Secondly, grants are also the means of inducing the Urban Local Bodies to take functions for which money is provided by the Government which otherwise may not be taken up by the Urban Local Bodies.
- 7.5 Thirdly, grants provided on matching basis with reference to their efforts in raising revenues encourage Urban Local Bodies to increase their income and become eligible for more grants.
- 7.6 Lastly, Compensatory grants are to be provided when the State Government takes over or prevents levy of taxation or fees by the Urban Local Bodies to which they are normally entitled to.

- 7.7 Considering the purpose or purposes, there are two types of grants, either purpose specific in nature or general purposes. The former are given for specific purpose like salaries, development works or maintenance or for administrative purposes like T.A., Honorarium to elected representatives, Office rents, Contingencies etc. The Urban Local Bodies have no authority to spend such funds for any purpose other than the one specified. Whereas the general purpose grants may be applied at the discretion of the Urban Local Bodies for their felt needs depending upon their priorities.
- 7.8 There is a view point expressed in several quarters that the obligatory functions at minimum level of efficiency should be provided by the local bodies from their own resources while grants from the Government may be given for Capital Works.
- 7.9 Section 48 of the Himachal Pradesh Municipal Act, 1994 deals with the powers and authority of the Nagar Panchayats and Municipal Councils. The bodies perform the functions in accordance with a notification issued by the State Government on the 30th August, 1994. The Commission would like to deal with the resource requirements for such delegated functions to the Nagar Panchayats and the Municipal Councils.
- 7.10 Talking of the Municipal Corporation, Section 42 of the Himachal Pradesh Municipal Corporation Act, 1994, deals with the question of delegated functions parallel to the provisions of section 48 of the Himachal Pradesh Municipal Act, 1994 for the lower level formations of urban local government. This aspect will, therefore, be dealt with in the subsequent paras.
- 7.11 However, Section 43 of the Himachal Pradesh Municipal Corporation Act, 1994, defines the obligatory functions of the Municipal Corporation. These functions are being performed by the Shimla Municipal Corporation from out of its own resources or with the help of general grants it receives. Since both these aspects of financial resources have been separately dealt with earlier on in the report, the Commission will not like to make any specific or additional provisions of resources for this purpose.
- 7.12 Discretionary functions of the Municipal Corporation have been defined in section 44 of the Himachal Pradesh Municipal Corporation Act, 1994. Taking cognizance of the overall resource scenario, the Commission endorses recommendations made by the 1st State Finance Commission that the Municipal Corporation could delve into the territory of discretionary functions in case it could mobilise resources for doing so at its own level.

7.13 Since there is a considerable overlap in the statutory functions required to be performed by the Urban Local Bodies and delegated functions, the Commission decided to assess the resource requirements for these together.

7.14 The State Government has issued notifications for delegation of functions to the Urban Local Bodies, as were statutorily warranted. The Commission scrutinised the notifications carefully and arrived at the conclusion that most of the delegated functions were in the nature of developmental functions. This aspect needs to be highlighted since the resource transfers on this account will be governed by the overall size of the developmental outlays for the State Plans on a year to year basis. The Commission also understood that many of the Urban Local Bodies were under-equipped to perform the functions as had been delegated and would have to follow a gradual and calibrated process of gaining experience and gathering expertise for this purpose. Keeping this aspect in view, the Commission decided to have a detailed dialogue with the Urban Development Department to have a clear perception of the entrusted functions and the resource implications for meeting the need.

7.15 The Commission had meeting with the Director (Urban Development) on 29th September, 2000 to have discussion on Memorandum submitted by the Urban Department and impact of notifications issued by the Govt. for delegation of functions to the Nagar Panchayats, Municipal Councils and the Municipal Corporation. Number of issues were raised by the Director (Urban Development) in this meeting on matters related to their resource, expenditures and working. After careful considerations of the suggestions made by the Urban Development Department, Commission is of the view that :-

- i) Developmental schemes be transferred along-with supporting staff and resources.
- ii) Schemes transferred to the Urban Local Bodies should be in the State of the Art technical existence. Sufficient financial support be made available after proper assessment for renovation or augmentation.
- iii) Cost of services being provided to the people should invariably cover at least running and maintenance cost of the service.

7.16 After careful consideration of the issues flagged in the Seminar with elected representatives of Urban Local Bodies and meeting with Govt. functionaries of Urban Development Department, Commission decided to go on with system of making a separate provision by way of devolution for meeting the expenditure for performing the delegated functions as recommended by the 1st State Finance Commission

and adopted the same formulae to calculate the per capita expenditure on delegated civic functions as adopted by the 1st State Finance Commission.

7.17 As for the implementation of the Centrally Sponsored Schemes the allocation will be governed by the outlays sanctioned under the Central Sector and State Plan on a year to year basis. The receipts and expenditure will counter-balance each other.

7.18 Based on the parameters of 1st State Finance Commission the devolution of resources for delegated functions for the forecast period worked out as under:-

(Rs. in Crore)

Year	For delegated civic functions	Under Centrally Sponsored Schemes	Total
2002-2003	19.07	2.83	21.90
2003-2004	20.53	2.83	23.36
2004-2005	22.11	2.83	24.94
2005-2006	23.81	2.83	26.64
2006-2007	25.63	2.83	28.46
Total	111.15	14.15	125.30

Note:- Per capita expenditure of Rs.300/- was marked up by 5 percent.

7.19 In addition to this, the Commission would also take into cognizance the grants recommended by the Eleventh Finance Commission under the 74th amendment to the Constitution of India which are of the order of Rs. 77.84 lakh per annum for the entire forecast period. It works out to Rs. 389.20 lakh for 2000-2001 to 2002-2005. The year wise award of Eleventh Finance Commission to Urban Local Bodies in H.P. is as under:-

Items	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1. Creation of data base	3.83	3.83	3.83	3.83	3.83	19.15
2. Civic Services	74.01	74.01	74.01	74.01	74.01	370.05
Total	77.84	77.84	77.84	77.84	77.84	389.20

7.20 The amount indicated for maintenance of accounts and audit and for development of data base, would be the first charge on the grant recommended by Eleventh Finance Commission and would be released by the concerned Ministries of the Govt. of India after the arrangements suggested by the Eleventh Finance Commission have become operational. The remaining amount should be utilised for maintenance of core civic services.

CHAPTER VIII

RESOURCE MOBILISATION BY THE URBAN LOCAL BODIES

- 8.1 Consequent upon the implementation of the 1st State Finance Commission report, the Govt. have decentralised the fiscal powers and have given more autonomy to Urban Local Bodies both in respect of collection and levy of taxes.
- 8.2 The Govt. of Himachal Pradesh has already notified the following limits of rates of taxes/fees leviable by the Municipal Corporation, Municipal Councils and Nagar Panchayats in Himachal Pradesh. These notifications can go in long way to supplement the resources of the Urban Local Bodies.

Municipal Corporation

Category of Tax	Rate of Tax
1. Show Tax Rs.	50/ per show
2. Tax on consumption of energy at a rate not exceeding 2 paise for every unit of electricity consumed by any person within the limits of the municipal area.	2 Paise per unit
3. Sewerage tax on commercial building.	15% of the general tax on building
4. Duty on transfer on immovable property.	2% of the amount

Municipal Councils/Nagar Panchayats

1. Tax on dogs kept within the Municipal area.	Rs. 50/- per dog per annum
2. Show tax	Rs. 50/- per Show
3. Tax on the consumption, on electricity at the rate of one paise for every unit of electricity consumed by any person within the limits of the municipal area.	1 Paise per unit
4. Tax on advertisements other than advertisements published in the newspapers.	Rs. 300/- per sq. meter per annum
5. Tax on buildings payable along-with the application for residential / Govt. for sanction of the buildings plans.	Rs. 2.50 paise per sq. meter Rs. 5/- per sq. meter for commercial/other buildings
6. Duty on transfer on immovable property.	2 % of the amount

8.3 Before making any specific proposal regarding decentralised tax system as recommended by the 1st State Finance Commission, this Commission feels that some in built checks and balances are necessary so that decentralised tax system may not distort the allocation of resources among local bodies. In order to harmonise the tax system, better redistribution and lower cost of tax collection, State Govt. needs to exercise control over the tax structure. Keeping this in view, Commission has categorised State taxes into three groups.

- i) To be collected by the State only and devolved to third level of governance either through a scheme of tax sharing or lump sum grants.
- ii) To be collected by local bodies with limited financial autonomy by prescribing maxima and minima.
- iii) Full financial autonomy both in terms of imposition and collection.

Category wise illustrative identification of such taxes is as under:-

Group I

1. Taxes and Tolls on vehicles.
2. Royalties on forest produce.

Group II

1. Registration Fees for land and properties.
2. Excise on liquor
3. Local tax on consumption of electricity.

Group III

1. House Tax
2. Tehbazari Fees
3. Dog Tax
4. Servant Tax
5. Registration of birth & death certificates
6. Show Tax

8.4 For taxes identified in Group I, responsibility of the collection of these taxes should preferably be vested with State Govt. and question of vertical scheme of sharing of recompensing by way of grants should be addressed to by the successive Finance Commissions.

8.5 State Govt. should also review the tax structure periodically. For this, Commission recommends that strong data base for the Urban Local Bodies be built up. This could also result from the recommendations of the Eleventh Finance Commission.

- 8.6 As far as taxes identified in Group II are concerned, Finance Commission agrees with the present arrangement made by the State Govt. vide which share of respective local bodies automatically stands transferred on some fixed percent/rate basis and recommends to continue with this arrangement. However, periodic restructuring and reassessment is must after every two years.
- 8.7 For Group III, Commission recommends that these should be collected directly by the Urban Local Bodies. For these, Urban Local Bodies may be given full fiscal autonomy regarding their structure and imposition.
- 8.8 The Commission feels that the bounds prescribed in para 8.2 in this chapter need to be freed from upper limits. To illustrate, upper limit of the local tax on consumption of electricity has been frozen at two paise a unit for MC Shimla and one paise per unit for other urban bodies. This should be made open so as to ensure adequate recovery in the case of all urban local bodies to pay for the cost of street lighting. This example is only illustrative.

CHAPTER IX

OTHER ISSUES AND GENERAL RECOMMENDATIONS

- 9.1 The Commission noted with satisfaction that the general recommendations made by the First State Finance Commission were given a serious consideration by the State Government. Positive movement has been observed by the Commission in the context of enhanced autonomy on the issue of raising resources. Similarly, the Commission would like to record its appreciation for a sound data base on assets owned by the local bodies as also in the case of receipts and expenditure. Despite these efforts and positive developments, the need for a permanent institutional mechanism to administer and monitor the implementation of the recommendations of the State Finance Commission hardly need to be re-emphasized. The Commission has dealt at length on this issue in Part-II of the Report of the Second State Finance Commission under paragraph 8.3 to 8.6 of Chapter VIII. The Commission would recommend the same institutional mechanism for taking care of the Urban local bodies' issues as well.
- 9.2 The Commission observes that local bodies have not shown adequate sincerity in their efforts in mobilizing revenue resources and look towards Govt. for mitigating their deficit. Some of the local bodies have not imposed even the minimum of the statutory taxes such as house tax etc. Commission recommends that release of grants be linked with the imposition of house tax. As the local bodies are empowered to impose house tax at the minimum rate 7.5 percent of rental value to maximum of 15 percent, Commission recommends that the release of grants be administered in the following manner.
- i) 75 percent of the grants be released provided the local body imposes and collects a house tax on a minimum of 7.5 percent.
 - ii) 25 percent of grant be released provided the local body commits to raise the rate of house tax by a percentage point each year so that it reaches 12.5% by the end of the award period.

9.3 Commission noticed that existing tax structure of local bodies suffered from certain drawbacks and lacks transparency and integrity which need to be rationalised. Commission considers it appropriate to recommend zonation of urban areas based on the principle of equity and justice and rate of taxes be rationalised accordingly. Urban areas should be classified into three different zones and taxes based on slab system be apportioned accordingly. An hypothetical example of house tax is given as under :- For example local body “A” is classified into three following zones.

- a) Commercial.
- b) Residential
- c) Peripheral slum area.

If the rate of house tax is at a flat rate of Rs. 2 per unit of area in zone “a”, then in zone “b” it could be 0.5 of the zone “a” and in zone “c” it could be 0.1 of the zone “b” or say Rs. 2, Re. 1 and paise 10, respectively. Such a zonation scheme, if accepted, would be easy to implement and administer and also be more equitable

9.4 Commission feels that present system of centralised cadre of employees merits to be reviewed and status-quo-ante restored as it will lead to reduction in expenditure and better local control. Commission, however, considers it appropriate to have central cadre for only one category of the functionaries i.e. of Secretary/Executive officers who serves as a link between local body and Govt. and is also statutorily required.

9.5 Commission is of the view that smaller local bodies should not have any permanent staff except Secretary as they do not have full time work and their resource capacity is severely limited. System of engaging staff on part time or contractual basis would lead to reduction in expenditure.

9.6 The Commission was apprised by the State Electricity Board and the Department of IPH about the arrears of payments due from Urban Local bodies on account of street lighting energy bills and bulk supply of water. The arrears of energy bills for street lighting amount to Rs. 10.39 crore of which arrears from MC Shimla (Rs. 6.29 crore) and Municipal Council Mandi (Rs. 3.17 crore) account for 91% of the arrears. This is a matter of serious concern. Similarly the arrears on account of water

supply amount to Rs. 17.13 crore. Here also MC, Shimla accounts for 96% and Municipal Council, Solan for another 3%. The Commission was at a loss to understand how could these services continue to be provided in such an environment. Also, the larger Urban Local bodies are the principal defaulters. Since these arrears adversely impinge upon the otherwise poor fiscal health of the local bodies on the one hand and also severely affect the efficiency and capability of the service provider on the other, the Commission recommends a one-time liquidation of the arrears. The arrears should be paid to the HPSEB or the Deptt. of IPH directly during the first year of the award period. In doing so, the Commission wishes to make it clear that it does not intend rewarding the defaulters and punishing the good pay masters. Therefore, the Commission recommends that the administration/release of grants for the future years to the defaulting bodies shall be governed as under:-

- (i) The arrears for energy bills for street lighting shall be adjusted against the future grants in 4 equal installments in case the local bodies fail to raise the Local tax on consumption of electricity in a manner that no arrears accrue in future.
- (ii) For water supply, the Local bodies, as a first step, will raise the water rates to cover full cost of bulk supply at existing rates of supply and subsequently raise the rates towards ensuring full cost recovery of O&M charges over a five year period. In case of a failure to comply, the grants due to the local bodies will be adjusted at the rate of 25% of the arrears paid during the first year.

9.7 The Commission would also like to make a recommendation to reward the local bodies which pay for such services on a regular basis. In the event of any hike in the rates of local tax on consumption of electricity or water rates, for every additional rupee raised the local bodies shall be entitled to an incentive grant of Rs. 2. This lower will apply only to these bodies which have no arrears. For this purpose, the Commission recommends an “Incentive Fund” amounting to Rs. 1.50 crore per annum from the year 2003-04, implying a total Corpus of Rs. 6 crore over the forecast period.

CHAPTER X
SUMMARY OF RECOMMENDATIONS

10.1 Summary of the recommendations made by the Commission relating to the revenue raising and expenditure commitments for the Urban Local Bodies is as below:-

(Rs.in lakh)

Item	2002-2003	Forecast Period
(A) URBAN LOCAL BODIES		
(1) Receipts :	5350.72	33628.47
a) Revenue receipts	3023.29	19373.71
b) Development Grants	1966.59	12006.24
c) Grants on CSS	283.00	1415.00
d) EFC grants	77.84	233.52
e) Incentive Funds	-	600.00
(2) Expenditure :	8659.92	37298.70
a) Salaries	3256.18	18840.45
b) Maintenance of assets	383.64	2342.18
c) Delegated functions	1907.26	11115.55
d) CSSs	283.00	1415.00
e) EFC Grants	77.84	233.52
f) Grant to liquidate the arrears in Respect of Electricity Charges For street lighting payable to HPSEB	1039.00	1039.00
g) The arrears in respect of bulk supply Of water made by IPH Deptt. to Local Bodies	1713.00	1713.00
h) Incentive Funds	-	600.00
(3) Deficit(-)/Surplus(+)	(-) 3309.20	3670.23
(4) Gap filling grant	3309.20	3670.23

10.2 The year-wise phasing of the projected receipts and expenditures of Urban Local Bodies along-with estimated deficit are depicted in the following table:

Item	2002-03	2003-04	2004-05	2005-06	2006-07	Total
I RECEIPTS :						
A) Rev. Receipt	3023.29	3399.10	3821.83	4297.36	4832.13	19373.71
B) Development Grants	1966.59	2163.25	2379.58	2617.53	2879.29	12006.24
C) CSS	283.00	283.00	283.00	283.00	283.00	1415.00
D) EFC	77.84	77.84	77.84	-	-	233.52
E) Incentive Fund	-	150.00	150.00	150.00	150.00	600.00
Total I	5350.72	6073.19	6712.25	7397.89	8144.42	33628.47
II EXPENDITURE :						
A) Salaries	3256.18	3494.03	3749.34	4023.38	4317.52	18840.45
B) Maintenance Assets of	383.64	422.01	464.21	510.63	561.69	2342.18
C) Delegated Functions	1907.26	2053.48	2210.95	2380.58	2563.28	11115.55
D) CSSs	283.00	283.00	283.00	283.00	283.00	1415.00
E) EFC	77.84	77.84	77.84	-	-	233.52
F) Grant to liquidate The arrears in respect Of street lighting charges Payable to HPSEB	1039.00	-	-	-	-	1039.00
G) Grants to liquidate The arrears in respect Of a bulk supply of Water made by IPH Deptt. to Local Bodies	1713.00	-	-	-	-	1713.00
H) Incentive Fund	-	150.00	150.00	150.00	150.00	600.00
Total II	8659.92	6480.36	6935.34	7347.59	7875.49	37298.70
III DEFICIT(I-II)	(-) 3309.20	(-)407.17	(-)223.09	(+) 0.30	(+)268.93	(-) 3670.23
IVGAP FILLING Grant	3309.20	407.17	223.09	(-) 0.30	(-)268.93	3670.23

(K.D. DHARMANI)
CHAIRMAN

(NARINDER CHHAUHAN)
MEMBER

(D.K. SHARMA)
MEMBER SECRETARY

Dated the 24-Oct-2002

Annexure-“A”

CLASSIFICATION OF MUNICIPALITIES ACCORDING TO THEIR POPULATION AS ON 1991

Name of Municipality	Population as on 1991.
1) MC Shimla	110360
1) MC Mandi	23202
2) MC Nahan	21878
3) MC Solan	21751
4) MC Sunder Nagar	20397
5) MC Dharamshala	17493
6) MC Chamba	17194
7) MC Kullu	14569
8) MC Poanta Sahib	13207
9) MC Hamirpur	12544
10)MC Una	12001
11)MC Bilaspur	10609
12)MC Kangra	9019
13)MC Dalhausie	6855
14)MC Nurpur	7961
15)MC Nalagarh	7448
1) NP Santokhgarh	6848
2) NP Baddi	6709
3) NP Mehatpur	6417
16)MC Parwanoo	5856
4) NP Sujanpur	5477
5) NP Joginder Nagar	4513
67 NP Nagrota	4503
16)MC Rampur	4342
7) NP Gagret	4258
8) NP Jawalamukhi	4047
9) NP Ghumarwin	3708
18)MC Palampur	3638
10)NP Nadaun	3379
11)NP Dehra	3378
16)NP Rohru	3366
12)NP Sarkaghat	3093
14)NP Bhunter	2972
15)NP Daultpur	2748
19)MC Theog	2757
16)NP Manali	2433
17)NP Chawari	2107
18)NP Arki	1976
19)NP Rajgarh	1780
20)NP Talai	1550
21)NP Jubbal	1379
22)NP Bhota	1286
23)NP Sunni	1271
24)NP Chopal	1074
25)NP Rewalsar	1045
26)NP Banjar	1037
27)NP Kotkhai	896
20)MC Naina Devi Ji	868
28)NP Narkanda	687
Total	427886

Annexure-“B”

CLASSIFICATION OF MUNICIPALITIES ACCORDING TO THEIR AREAS

Name of Municipality	Area in Sq.Kms
1) MC Shimla	32.30
1) NP Gagret	18.37
1) MC Parwanoo	15.00
2) MC Hamirpur	5.24
3) MC Sundernagar	11.46
4) MC Bilaspur	10.62
5) MC Dharamshala	10.63
6) MC Nahan	8.78
7) MC Dalhausie	7.58
2) NP Santokhgarh	7.00
8) MC Kullu	6.68
9) MC Solan	6.18
10)MC Poanta Sahib	6.18
3) NP Daultpur	5.09
11)MC Una	4.97
12)MC Nurpur	4.75
4) NP Mehatpur	3.80
5) NP Manali	3.00
6) NP Jawalamukhi	4.52
13)MC Chamba	4.33
14)MC Mandi	4.26
7) NP Jogindernagar	4.25
8) NP Chopal	4.00
15)MC Theog	4.00
9) NP Rewalsar	3.97
10)NP Bhota	3.40
11)NP Dehra	3.27
16)MC Kangra	3.12
12)NP Sujanpur	3.03
13)NP Ghumarwin	3.10
14)NP Talai	2.89
15)NP Sarkaghat	2.95
16)NP Nadaun	2.28
17)NP Banjar	2.25
18)NP Chawari	2.13
17)MC Rampur	2.08
19)NP Baddi	2.05
20)NP Rajgarh	2.05
21)NP Bhunter	2.00
18)MC Nalagarh	1.94
22)NP Sunni	1.76
23)NP Rohru	1.07
24)NP Arki	1.45
25)NP Nagrota	1.15
26)NP Narkanda	1.00
27)NP Jubbal	0.96
19)MC Palampur	.67
20)MC Naina Devi Ji	.82
28)NP Kotkhai	.40
Total	244.78

PART-II

CONFIDENTIAL

**REPORT
OF THE
HIMACHAL PRADESH
2nd STATE FINANCE COMMISSION
IN RESPECT OF
PANCHAYATI RAJ INSTITUTIONS**

*2nd STATE FINANCE COMMISSION
HIMACHAL PRADESH, SHIMLA-2*

CONTENTS

Pages

SECTION-I

- | | | |
|-----|--|-------|
| I | Tasks before State Finance Commission in A Federal System. | 1-9 |
| II | H.P. 2 nd State Finance Commission-TOR, General Framework, Approach and Methodology of data collection. | 10-16 |
| III | Approach for Panchayati Raj Institutions (PRIs) in H.P. | 17-19 |

SECTION-II

- | | | |
|----|---|-------|
| IV | An analysis of the existing Financial Resources, Expenditure and Functional Performance of PRIs in H.P. | 20-32 |
| V | Forecasting the Resources of PRIs for the period 2002-07. | 33-37 |

SECTION-III

- | | | |
|-----|--|-------|
| VI | Forecasting the committed expenditure of PRIs for the period 2002-07. | 38-43 |
| VII | Forecasting the expenditure requirements for performance of Statutory/Delegated Developmental/Maintenance functions. | 44-47 |

SECTION-IV

- | | | |
|------|--|-------|
| VIII | Some general observations and comments. | 48-52 |
| IX | Summary of the recommendations relating to Revenue Receipts and Expenditure in respect of PRIs in H.P. for the period 2002-07. | 53-54 |

ANNEXURE

PRIs' Questionnaires-Annexure-A

CHAPTER-I

Tasks Before State Finance Commission In A Federal System

- 1.1** At the State level, devolution denotes transfer of powers and resources to sub State level political entities. Devolution which has a statutory backing, needs to be accompanied by real functional, organizational and fiscal autonomy. Devolution encompasses the right combination of political, fiscal and institutional elements involving a continuous process of modification, reflecting changes in social, political and economic conditions. Devolution is considered the strongest form of decentralization. The 73rd and 74th Constitutional Amendment Acts have added a new dimension to fiscal federation and decentralized public finances in the Indian federal system. As a result of these, the structure of intergovernmental fiscal relations and transfers necessarily will have to undergo significant changes. Their provisions relating to the creation of State Finance Commission (SFC) to rationalise fiscal relations at sub State level and make periodic fiscal corrections, assume significance in this context. The recommendations of SFC will have to set norms, conventions and practices relating to fiscal federalism and local governance in the country at large.
- 1.2** The task of State Finance Commission in a federal system where it is expected to correspond between functional responsibilities and financial resources at various levels of government is difficult and the same is compounded when the Constitution provides a deliberate mis-match. The 73rd Constitutional Amendment Act itself has left the tasks of devolving more powers, authority, functions, finances etc. to the State Legislature, of course, subject to part IX of the Constitution and Eleventh Schedule (Article 243-G). Patterned largely on the Union Finance Commission (Article 280), the responsibilities of the State Finance Commission are laid down in Article 243-I of the Constitutional Amendment. SFC can not perform its task independent of Article 243 (G to E). These tasks can be outlined as :-
- (a) to review the finances of the local bodies in accordance with the functional responsibilities which include the preparation of plans and social justice;
 - (b) to fix the size of the divisible pool taking into account the functional domain of the State, on the one hand, and that of the Local Self Government bodies on the other;
 - (c) to evaluate the vertical gap at various levels taking into account the functional responsibilities, on the one hand, and tax assignments, on the other;

- (d) to suggest measures for improving the financial position of the local bodies, which include revenue sharing and/ or grant -in- aid;
- (e) to design methods for inter-se distribution of the share of the local self government bodies on an equitable and efficient basis and
- (f) to make explicit principles underlying the measures suggested.

1.3 The SFC has to take a total view of development and finance, design its approach in regard to the effort towards creating institutions of local self government and to territorial equity, especially, in terms of rural-urban and intra- Panchayats equity. Before taking a total view of finance, a view of development requirements in toto is equally essential. The 9th and 10th Finance Commissions tried to breach the watertight approach between plan and non-plan funds. At least, in regard to local bodies, the distinction between plan and non-plan funds have been found irrelevant for a variety of reasons. Transfer of more functions to the rural local bodies logically means transferring of resources as well. The annual allocations to rural local bodies comprise of grant-in-aid and their own funds including, donations from the public. While taking a total view of finances before recommending a share out of the State's own revenue to be allocated to these bodies, there being a need to lay stress on ensuring a minimum standards of basic essential services, such as, delivery of safe drinking water, primary health care, primary education, rural roads, street lighting etc. at the local level, on the one hand, taking into account the financial requirements (plan and non-plan) for providing these services, on the other. Also, the requirement of funds for maintenance and repairs of the assets already created, being an important area, can not be lost sight of in the fiscal devolution.

A. Fiscal Devolution Scheme of State Finance Commission

1.4 The preparation of local fiscal policy is a delicate exercise. It calls for striking a balance between the expenditure and revenue assignments in the scheme of fiscal evolution.

B. Expenditure Assignment

1.5 Expenditure assignment must precede to that of tax assignment because tax assignment would generally be guided by expenditure requirements at different levels and these cannot be worked out in advance of expenditure assignment. In general, expenditure assignment is more decentralized than revenue collection. For measuring expenditure needs, an equalization transfer programme is normally suggested which naturally takes into consideration the expenditure of local bodies. Expenditure needs can be defined as the cost of supplying the average performance levels for existing mix of State/ local programmes. The expenditure needs basically flow from the type of functions that are to be performed by the rural local bodies.

C. Revenue assignment and Fiscal autonomy

1.6 The rural local institutions need an appropriate level of fiscal resources in order to perform their expenditure responsibilities devolved or taken upon by them. Three main sources of revenue which could normally be available to them are locally generated resources, namely, local taxes and non-tax revenues; transfers and grants from higher levels of government and resources through borrowing. The basic criteria in financing local rural services can be efficiency in the use of public services (the highest quality of services per rupee of expenditure), and equity in the distribution of benefits and burdens from the delivery of public goods. Fiscal autonomy depends on the extent of own resources a local rural body can raise. The level of revenue that can be raised by the rural local body (gram panchayats) locally is also restricted. The reasons for poor revenue raising range from the poor administrative capability at the local level, to the reluctance of the State Government and legislature to part with revenue raising powers.

D. Tax assignment

1.7 Relevant tax assignment and rationalisation of local tax structure are the important tasks before SFC. SFC has to keep in view key aspects, such as, measures to promote fiscal autonomy and building up a cost effective tax administration and local structure. Devolving of power to tax to the rural local bodies

often induces these bodies a sense of fiscal responsibility and gives them a stake in the cost effectiveness of expenditure. SFC has to rationalise the local tax structure.

E. Non Tax Revenue

1.8 For ensuring greater autonomy to the PRIs, their capability to raise Non-tax revenue has to be increased.

1.9 In H.P., Non-tax revenue receipts include items like rent, interest, proceed from auctions (including grass), fees from fairs and festivals, minor forest produce, royalty on minor minerals etc.

F. Borrowing

1.10 SFC can recommend that PRIs should borrow from banks and other financial institutions for development projects in their areas without State Government's sanction & guarantee. For this, there can be a separate financial corporation to look after the credit and technical needs of PRIs.

G. Privatisation

1.11 While examining the question of resource mobilisation by local bodies, SFC can recommend privatisation of certain specific local (rural) services which could ensure their cost effectiveness.

H. Inter Governmental Transfers

1.12 The way taxing and spending authorities are delineated and the manner in which inter-governmental transfers are structured in a country, have come to be recognised in modern public finance as of fundamental importance in the efficient and equitable provision of public services in it. Certain Principles in designing inter governmental fiscal transfers for genuine decentralisation can be:-

- (i) Transparency- the basis on which transfers are made (including any equalisation formula), must be stated.
- (ii) Predictability- inter governmental fiscal transfer mechanisms should ensure predictability of sub-national government shares from year to year to permit advanced planning; and
- (iii) Autonomy- sub national governments should have complete independence and flexibility in setting their own development priorities. While designing the intergovernmental fiscal transfers, other

criteria could be :-

- (i) Absorptive Capacity- the resource transfer should be in tune with the utilisation ability, including the personnel of the local rural bodies,
- (ii) Simplicity- the allocation formula should be simple and transparent and
- (iii) Incentive- there should be adequate built-in arrangements for encouraging resource mobilisation by the local rural bodies and penalising them for waste and uneconomical policies.

1.13 The major instruments of transfers provided for in the scheme of transfers to local rural bodies are revenue sharing and grants. In the pre 73rd Constitutional Amendment regime, transfers to the PRIs were dominated by grants, which promoted a dependency syndrome. There is, therefore, need to build a strong local rural financial base in the post 73rd Constitutional amendment regime.

I. Revenue Sharing

1.14 Revenue sharing mechanisms are quite common in developing countries. Besides straight sharing revenue per se, they attempt to address multiple objectives, such as, equilisation, regional development, earmarking, etc. These mechanisms also vary a great deal across the countries. Countries like Mexico and Pakistan use simple criteria, such as, Population and derivation, some countries like Malaysia and China primarily use derivation as the basis for revenue allocation, whereas countries like India, Brazil and Nigeria use complex grant allocation formulae, adopting a number of factors, such as, population, per capita income, school enrolments, backwardness index etc. Revenue sharing has to be associated with clearly defined specifications of responsibility like the following :-

- (i) A scrutiny of locally provided services, with the purpose of distinguishing (a) obligatory local services (b) discretionary services and (c) activities better administered by special agencies;
- (ii) A review of local tax and fee sources to work out a more effective source of local revenues; and
- (iii) estimating the extent to which the revenue gap should be filled up by revenue sharing or conditional (gap filling) grants.

- 1.15** For review of Panchayat finance, a critical evaluation of the Conformity Acts in terms of the Constitutional provisions under which they have been enacted, is necessary. Equally important is the task of relating the financial powers and responsibilities of the Panchayats with functional responsibilities. Parastatals that duplicate the works of local bodies, will have to be abolished and their funds and personnel too will have to be re-deployed. This exercise of reviewing the CAs has to be made in terms of the letter and spirit of the 73rd Amendment.
- 1.16** Unlike the tax revenue of the Union Government, only some of which are shared with the States, all tax revenues of a State Government are shareable with local bodies. However, the 10th Finance Commission strongly favoured treating of the total tax revenue of the Union Government as shareable and recommended a Constitutional amendment for the purpose.
- 1.17** The revenue sharing approach does not promote a dependency syndrome, as transfers are automatic and according to norms which enables the local bodies to plan firmly for the future.

J. Grants:

- 1.18** There are two types of grants - general and specific. The general grants provide the local rural self governing bodies with additional resources with autonomy in their use. Specific grants take the form of a payment towards the cost of providing a particular local service or they may have some conditionalities attached to their use. Specific grants alter the opportunity cost of local authorities. General grants increase (reduce) the level of provision of all local services, whereas specific grants effect both the mix and size of local expenditure on services. Grants sometimes provide for matching provisions and require the local bodies to contribute funds of their own, if they are to get access to counter part funding from the higher government. They evolve a significantly enhanced role for local governments in decision making, as regards the projects and programmes to be taken up at the local level. Matching grants have economic and fiscal advantages in terms of both allocative efficiency and efficient use of resources so as to attain desired levels of certain services. They may have the political advantage of introducing an element of local involvement, commitment, accountability and responsibility for the aided activities. Properly designed, matching grants may contribute to equalisation (horizontal fiscal balance) and like all other transfers, they help to resolve any basic fiscal mismatch (vertical fiscal balance) problem.

K. Fiscal effort and financial autonomy in SFC

- 1.19** Fiscal capacity is the ability of governments to raise revenues from their own resources. The estimation of fiscal capacity is difficult, both conceptually and empirically. Crude macro indicators, such as, income or output (personal income, personal disposable income, State domestic product, etc.) are commonly used to serve as indicators of ability to bear the tax burdens by the residents of a State. However, it is highly imperfect and partial measure of fiscal effort. A good measure of tax effort would be actual tax collection, tax base and tax rate. Giving too much weight on fiscal effort in allocating grants, may penalise the poorer areas, on the one hand, omitting it altogether would be counter productive in view of reluctance of local rural bodies to impose taxes, on the other.
- 1.20** The second SFC has got to learn some lessons from the experiences of the first SFC. Given the constitutional provisions especially articles 243-G, 243-ZD and 243-I and 243-Y, a systematic approach for the SFC would have been to initially identify the functional responsibilities of the local bodies, then estimate the financial requirements non-plan as well as for plan activities, and determine the principles for tax assignment, revenue sharing and grant mechanism, besides reviewing the financial position of the local bodies and suggesting measures for augmenting their resources and suggesting methods for interse distribution which would ensure territorial equity and efficiency. Recommending measures towards proper budgeting, auditing, autonomy and transparency are the right steps to be pursued by the SFC with regard to fiscal devolution. The SFC has a responsibility to build up the financial capability at the local level, otherwise, fiscal autonomy can not be promoted. On the contrary, if local governments are allowed unrestricted transfers without an appropriate system of checks and balances, fiscal profligacy can emerge. In addition, the vicious circle of financial irresponsibility should not be allowed to develop among local governments. This would impair their financial sovereignty and expenditure responsibility. Hence, there should be a system of accountability and fiscal autonomy at local level. The constitution requires of SFC to spell out the principles on which its recommendations are based. The purpose of making explicit the principle/ principles on which the recommendations are based, is to know the rational of specific recommendations. SFC's recommendations can go a long way towards promoting autonomy and decentralisation, while laying stress on principles, such as, transparency and procedures relating to budgetary formulation and rationalisation at the three tiers of PRIs, on the one hand, principles of tax assignments, revenue sharing, transfer of grants, on the other. The principles for general purpose grants can be-system of grant to be transparent, predicable and based on objective measurable factors, should promote equity and justice, ensure sufficient autonomy and flexibility in planning the priorities, including incentive to the local bodies for better resource mobilisation and management of their resources. Further, the grants should be utilised for the

improvement and up-gradation of essential services and not for payment of salaries and wages and there should be monitoring of their use for the purpose for which these are given. Other principles in regard to specific grants can be, such as, local bodies' own commitment for the function for which grants are received, their accountability to the higher levels of government for proper utilization of grants and provision to cover the emergency expenditure and cost of performance of State functions entrusted to the local bodies, which could be reimbursed to them by the State Government.

1.21 The recommendations of the SFC must lay the foundations of a decentralised, but sound public finances in the Indian federal system, besides promoting regional balance especially in relation of certain basic services. The scheme of fiscal devolution following from the recommendations of the SFC, should promote not only fiscal autonomy, but functional and administrative autonomy as well within their defined domain so as to create institutions of self government.

1.22 In any case, the economic development through various programmes, which has a massive financial provision for rural development, has to be channelised through provision of funds to PRIs in time with the active involvement of grass roots organisations, both at the level of planning and implementation.

CHAPTER II

H.P. 2nd State Finance Commission–TOR, General Frame Work, Approach and Methodology of data collection.

A. TERMS OF REFERENCE

2.1 The Second State Finance Commission was constituted vide H.P. Government Notification No. FIN C-A(3)-4/94 dated 25th May, 1998. The text of the notification is reproduced below:

"In exercise of the powers conferred by Section 98(1) of the Himachal Pradesh Panchayati Raj Act, 1994(Act No.4 of 1994) read with Articles 243-I and 243-Y of the Constitution of India, the Governor, Himachal Pradesh, is pleased to constitute the H.P. State Finance Commission to review the financial position of the Panchayats and Municipalities and devolution of resources to these institutions and to appoint the following as its Chairman and Members with immediate effect. The Chairman and Members will look after this job in addition to their own work:-

1. Shri O.P. Yadava, IAS

.....Chairman

2. Shri Deepak Sanan, IAS

.....Member

3. Shri D.K. Sharma,

.....

...Member Secretary

The Commission shall make recommendations to the Government as to:-

- a) The principles which should govern-
 - i) the distribution between the State and the Panchayats/Municipalities of the net proceeds of the taxes, duties and fees leviable by the State which may be divided between them and the allocation between Panchayats /Municipalities all levels of their respective shares of such proceeds;
 - ii) the determination of the taxes, duties tolls, fees which may be assigned to, or appropriated by the Panchayats and Municipalities;
 - iii) the grant-in-aid to the Panchayats/ Municipalities from the Consolidated Fund of the State;
- b) to suggest measures needed to improve the financial position of the Panchayats/Municipalities;
- c) any other matter referred to the H.P. State Finance Commission by the Government in the interest of sound finance of the Panchayats and Municipalities. The Commission shall devise its own procedure and may appoint such Advisors, Institutional Consultants as it may consider necessary. It may call for such information and take such evidence as it may consider necessary. The Commission shall make its recommendations as soon as feasible. It may consider, if necessary, sending reports on any of the matter as and when recommendations are finalised."

2.2 The composition of the 2nd State Finance Commission underwent changes during its course of term. Ms. Shyama Sharma replaced Sh. O.P.Yadava, as chairperson vide notification No Fin-C-A(3)-4/94 dated 5th September,1998. She assumed the charge in that capacity on 21st September, 1998 and remained as such upto 5th January, 1999 when she resigned. Commission ceased to function with acceptance of her resignation. Shri Des Raj, M.L.A. was appointed as chairman of the Commission on 27th May 1999 for the period of one year. On the expiry of his term, Sh. A.K. Goswami, I.A.S, assumed the office of the Chairman of the Commission. After Sh. A.K Goswami's proceeding on deputation to Govt. of India, Sh.Harsh Gupta, I.A.S., took over the office of the Chairman of the Commission. Sh. K.D Dharmani was appointed as Chairman of the SFC w.e.f. 16th September, 2002. Shri Narinder Chauhan, I.A.S., took over as Member of the Commission in place of Sh. Deepak Sanan, I.A.S., w.e.f. 11th Feb., 2002. However, the Member Secretary held office all through the tenure of the Commission.. The recommendations of the Second State Finance Commission would cover the period 2002-03 to 2006-07.

- 2.3** The Second State Finance Commission held its first meeting on the 3rd August, 1998 to discuss the nature of data to be called for from the Panchayati Raj Institutions and Urban Local Bodies to facilitate its work. A preliminary discussions on the possible methodology to be followed by Commission also took place. In this meeting, detailed questionnaires for the collection of data from various local Government institutions were firmed up. Thereafter, in November, 1998, the Chairperson undertook a tour to Kinnaur District to interact with the elected representatives of the local bodies in the Tribal areas. On the basis of discussions during this tour, additional input was obtained on the approach to be followed by this Commission. At a subsequent meeting of the Second State Finance Commission held on 17.11.98, the approach and methodology to be adopted by the Commission, was approved.
- 2.4** In order to achieve a wider interaction with the representatives of PRIs and also to ensure that the third Tier of government at rural level was made aware about the role of the Commission, as also the expectations of the Commission from these bodies of democratic governance, it was also decided to hold orientation seminars for representatives of Zila Parishads, Panchayat Samitis and Gram Panchayats to elicit their views on the Commission's terms of reference. These seminars were held on 24-12-98, 26-12-98 and 29-12-98 in the Conference Hall of H.P. State Secretariat, Shimla.
- 2.5** The Interim Report of the Commission was submitted to the Govt. on 5.01.99 which contained the detailed Approach, Framework and Methodology to be followed by the Commission.
- 2.6** After the new Chairman, Sh. Des Raj, M.L.A. assumed office, first meeting of the full Commission was held on 15.7.99.
- 2.7** The second meeting of the Commission was held on 1-11-99.
- 2.8** As per decision taken in the meeting held on 1.11.99, meeting with the elected Members of the Panchayati Raj Institutions, was arranged at Shimla on 17-1-2000. In this meeting, representatives from the PRIs of Shimla, Solan, Kinnaur and Sirmaur Districts participated. Full Commission also met on 28th July, 2000.
- 2.9** The Commission also took separate meetings with representatives of the nodal Department viz, H.P.Panchayati Raj Deptt. as and when needed.

2.10 The Commission had several internal meetings to review the progress of the data collection, compilation, report writing etc.

B. GENERAL FRAMEWORK AND APPROACH

2.11 The Commission's approach has been largely guided by the fact that newly elected bodies of local governance should not entirely look forward to a situation where their financial needs will be entirely met by devolution of resources from the State or Central Government. The Commission was also guided by the fact that State Government itself was facing a budgetary deficit problem. Hence, the Commission had the difficult task of finding a balance where scarce available resources and the emerging responsibilities at different levels of government, could be gainfully shared at the same time while the imperatives of decentralisation and delegation, were also not lost sight of.

2.12 The Award period to be covered by the recommendations of the second State Finance Commission would be from 2002-2003 to 2006-2007. This period at the National and State levels will witness significant changes in the economic scenario, fiscal federalism and overall question of responsibility sharing. The Mandate of the Commission originates from the Constitution of India and, therefore, the Commission has to perform the judicious function of division of resources based on the responsibilities enjoined upon the local government system below the State level. The Commission had to ensure that while deliberating upon the sensitive issue of resource sharing, it did not lose the overall perspective of difficult situation of State finances and yet managed to strike a balance for performance of the statutorily assigned functions, as also the ones delegated by the State Government. In the whole design, the Commission would like to emphasize the need for equity, efficiency and owning the responsibility at all levels which could only be realised if available limited financial resources were put to most productive use and such investments could lead to the generation of resources for further growth.

2.13 The national economy had a surplus on the revenue account up to 1981-82. Then onwards, the revenue deficits have been increasing till recently when the macro economic adjustment of the national economy forced the Government to have a hard look at the yawning deficits and caused certain correctives to be thought of and enforced. As for Himachal Pradesh, the situation of budgetary deficits became difficult after the fiscal year 1989-90 when the Award of the Ninth Finance Commission was put into operation. The State Government has, since then, been raising the problem with the Central Government and has also suggested some steps for improving the situation in

accordance with the recommendations of the Rangarajan Committee which was appointed by the National Development Council to look into the financial difficulties of the Special Category States. The implications are that the whole question of financial devolution at the sub State level should become an exercise in assigning greater responsibility for raising resources, on the one hand, and also ensuring that whatever resources became available through efforts at local level and through the scheme of devolution to be suggested by the Commission, were used in the most cost effective manner and for maximising the benefits, on the other. The Commission, in the course of its work, realised that the upkeep and maintenance of assets created in the past, deserved greater attention. The situation of maintenance of assets at the level of local bodies was more precarious, since these bodies all along looked forward to grants from the State rather than assuming responsibility for this purpose and levying of appropriate user charges. The Commission felt that before estimating requirement of funds for maintenance of assets at the local level, inventory of physical assets should be prepared and updated. However, bulk of resources for maintenance purpose should be generated at the local level by introduction of appropriate user charges or institutionalisation of the community ownership and participation. PRIs could also have recourse to the various financial institutions for raising loans on viable projects so as to supplement the resources of the local bodies.

2.14 One of the important components of the approach was the question of estimating the existing revenue receipts and revenue expenditure of the PRIs. Data sent by these bodies suffered from serious inconsistencies, mainly of classificatory nature, where it was difficult to sift what constituted their own revenue receipts and what comprised the object specific grants from the State Government or the Central Government.

2.15 The Commission carefully considered the Statutory functions assigned to the Panchayati Raj Bodies as enshrined in Section 11,81, and 92 of the Himachal Pradesh Panchayati Raj Act, 1994 for Gram Panchayats, Panchayat Samitis and Zila Parishads, respectively, in the process of firming up the Approach. The Commission also took note of the fact that even though the delegation had been ordered, a vast majority of the Panchayati Raj bodies, were not in a position to undertake the responsibilities and effectively carry out the same for lack of appropriate administrative support, on the one hand, and lack of resources, on the other.

C. METHODOLOGY OF DATA COLLECTION

- 2.16** The Commission had to access a very large number of units for collection of basic data. The Commission had to collect data separately for the three Tiers of the Panchayati Raj System. There are 3037 Gram Panchayats, 75 Panchayat Samitis and 12 Zila Parishads in Himachal Pradesh under the PRI structure.
- 2.17** The Commission devised separate proformae for collection of basic data from these bodies. The Commission also resorted to the methodology of mailed questionnaires for collection of basic information. In addition, the Commission also invited views of the general public on the terms of reference of the Commission by sending advertisements in the selected national level newspapers, Giriraj and through broadcast on the AIR, Shimla.
- 2.18** Besides the mailed questionnaires, the Commission also resorted to meetings at a selective levels. Meetings were held with the elected representatives of PRIs as well as with the concerned Heads of Departments.
- 2.19** The Commission examined the memorandum, Tier-wise Revenue receipts and Action Taken Report on the recommendation of First SFC which was received from the Department. Also, the survey results were meticulously examined.
- 2.20** Commission would like to place on record the co-operation it received from the officers of the State Government in its above endeavour.

CHAPTER III

Approach for Panchayati Raj Institutions(PRIs) in H.P.

3.1 Keeping in view the general framework, approach, and methodology of data collection, the Commission decided to adopt the following approach for assessing the revenue receipts and expenditure of the Panchayati Raj Institutions:-

- a) In the case of PRIs, it was found that these bodies had very limited sources of revenue at their own level. In many cases, such of the taxes/levies/cess were not being levied as were in their purview. Also, it was found that the rates varied from place to place and there was no uniformity in determining the rates. It was also realised that the gross accruals were not indicative of any trends. Given these factors, the Commission decided that it would assume a rural growth rate of 5 percent per annum in the case of revenue receipts. A growth rate of 5 percent was assumed keeping in mind the fact that the conventional areas of resource generation were population or household based and not linked to economic activity.
- b) As for the revenue expenditure, the Commission would like to advise against any increase in the levels of committed non-plan revenue expenditure resulting from expansion of staff. Accordingly, it was decided to adopt a real growth rate of 5 percent over the base year, for the forecast period. The Commission took note of the fact that disbursement of the honorarium to the Panchayat Chowkidars and honorarium to the Pradhans, Up-Pradhans and Members of Gram Panchayats, were the committed expenditure. Similarly, the committed expenditure on payment of honorarium to the Chairpersons and Vice-chairpersons of the Panchayat Samitis, Zila Parishads and Members of each of these two bodies also had to be taken into cognizance. As for the Panchayat Samitis, the existing Block level Staff should continue to be sufficient for the time being. The Commission took note of the fact that the State Government had already provided the office for the Chairperson of each Zila Parishad with a staff component of four, namely, a stenographer cum personal assistant, a driver, a clerk and a peon. The financial liability on account of Block/ District level staff should continue to be met in the ongoing manner. However, the Commission took note of other committed expenditure, additional expenditure on existing schemes and anticipated expenditure on new schemes.
- c) Certain taxes and levies currently administered by the State Government, needed to be entirely assigned to the Panchayati Raj Bodies for a variety of reasons. The reasons for assignment

include, ease of administration at the PRI level and cost effectiveness and also the fact that such an assignment would lead to making these Tiers of local government, more responsive to the needs of maintenance of certain assets, on the one hand, and give some financial autonomy to them, on the other. The question of assignment would, however, be finally determined after an overall assessment of resource situation.

- d) On the question of deficit mitigation, the Commission was of the opinion that in the current scenario, this could be best achieved by the gap filling grants rather than a scheme of tax sharing. Another factor supporting this approach of the Commission, was that certain areas of revenue generation could also be considered to be assigned to these bodies which would give them a certain degree of dynamism and buoyancy in raising revenues.
- e) Given the above scenario, the Commission also seriously considered the question of a revenue surplus situation to be provided for the PRIs. In its opinion, a revenue surplus situation would become a disincentive at the level of these bodies for raising resources. The Commission, therefore, decided that it would be appropriate not to provide for a revenue surplus situation and the grants should only be limited to the level of deficit mitigation.
- f) The Commission noted that despite delegation of powers to Gram Panchayats in respect of sharing of land revenue, liquor cess etc., all other areas of revenue generation by the Gram Panchayats, were largely regulated by the State Government. Thus, while finalising the Approach, it was observed that assuming revision in rates of taxation or imposition of new taxes would not be realistic.
- g) For all projections, the Commission would use the data for the period 1996-2001 available through survey in respect of 2113 Panchayats, supplemented with the information received from the Panchayati Raj Department in respect of 10 districts (2643 Panchayats) for bridging the gap in revenue receipts, especially in respect of liquor cess, land revenue etc. The data on receipts would then be reduced to a per capita basis. The Commission used the level of the revenue receipts for the year 2000-2001 for making the forecast. The base year figure was marked up by 5% per year for neutralization of inflation impact. In addition, population growth @1.510624882% per annum was also superimposed. For forecasting the committed expenditure i.e honorarium and office expenses, Commission used the actual number of elected representatives, multiplied by rates of honorarium payable to different categories of PRIs and to

Chowkidars of GPs. For office expenses, the Commission decided to adopt the same level as was recommended by the First SFC, by giving 5 percent annual increase for neutralising the inflation impact, as data thrown up by the Survey results on office expenses was on a very lower side.

- h)** The survey results did not provide component wise separate expenditure details on statutory/delegated developmental and maintenance functions/works. The Commission, therefore, decided to make forecast for the period 2002-03 to 2006-07 by clubbing the entire expenditure on these three components. The per capita expenditure level available for the year 2000-01(as per survey results),was taken as the base and the same was given 5% annual mark up for forecasting expenditure commitments. The projected rural population for the period 2002-07 was also taken into account. However, the Commission recommended an alternative approach for discharging obligatory type of functions by the PRIs.

CHAPTER IV

An Analysis of the Existing Financial Resources, Expenditure and Functional Performance of PRIs in H.P.

4.1 Panchayati Raj system has been in existence in Himachal Pradesh in a statutory form since 1961. There used to be two tiers in the Panchayati Raj System in Himachal Pradesh viz., the Gram Panchayats and the Panchayat Samitis. Pursuant to the 73rd amendment to the Constitution of India and the succeeding legislation after amending the Himachal Pradesh Panchayati Raj Act which was carried through in 1994, the State of Himachal Pradesh has established a three tier Panchayati Raj System. Elections to all the three tiers were also held in December, 1999. There were 2922 Gram Panchayats, 72 Panchayat Samitis and 12 Zila Parishads. Since July, 2000, the number of Panchayats and Panchayats Samitis have gone upto 3037 and 75 respectively, due to the reorganisation of Panchayats and Panchayats Smitis in the Pradesh. District-wise distribution of Panchayat Samitis, Panchayat etc. is given in the Table below :-

Districtwise Distribution of Panchayat Samitis, Panchayats, Villages etc.

Sr. No.	Name of District	No of Panchayat Samitis	No of Panchayats	No of Villages 2001	Rural Population	% Distribution of Rural Population
1	Chamba	7	270	1597	425981	7.77
2	Kangra	14	732	3869	1266362	23.10
3	Hamirpur	6	215	1676	381836	6.96
4	Una	5	219	601	408545	7.45
5	Bilaspur	3	136	1076	318786	5.82
6	Mandi	10	422	3367	840029	15.32
7	Kullu	5	192	173	349772	6.38
8	Lauhal Spiti	2	41	403	33224	0.61
9	Shimla	9	331	2597	554912	10.12
10	Solan	5	198	2511	408205	7.45
11	Sirmour	6	219	987	410765	7.49
12	Kinnaur	3	62	664	83950	1.53
Total		75	3037	*19521 **(20118)	5482367	100.00

Notes :- * Revenue villages, **Census villages detail not yet available. Source:

Commissioner of Revenue, H.P.

4.2 For the collection of data on resources and expenditure of the Panchayats, and for suggestions on TOR, Commission adopted three approaches. Firstly, by mailing questionnaires through the Block

Development Officers and the response was almost 85 percent with the exception of Kangra district, where the response was only 18 percent. Secondly, Commission also made an effort to collect the information through Panchayati Raj Department, so that figures from two sources were available for comparison purpose. Thirdly, the terms of reference of the Commission were broadcast on AIR and circulated through national level newspapers and Giriraj to solicit valuable suggestions from the public.

4.3 The information reported in the survey had some data gaps, as it did not cover the share of taxes, receipts allocated to them (during the implementation of recommendations of First SFC), such as, liquor cess and enhanced rates in case of house tax, land revenue, water charges, registration fees etc. whereas, Department of Panchayati Raj, H.P., included the share of the above taxes and fees while reporting the receipt figures. Therefore, the Commission decided to supplement the survey results with the Departmental figures to fill the gaps.

4.4 After analysis of expenditure on committed liabilities which included honorarium to the elected representatives of PRIs, honorarium to Chowkidars of GPs and office expenditure of PRIs, it was observed that survey results did not take into account the revised rates of honorarium which resulted in under-reporting of expenditure on committed liabilities. As the Commission has firm basis for calculating the committed liability, it was decided to work out the per Panchayat expenditure by taking into account the revised rates of honorarium and actual number of elected representatives of PRIs, including honorarium on revised rates to Chowkidars of GPs and expenditure on office expenses of PRIs.

4.5 Tier - wise existing status of these bodies is given in the subsequent paragraphs.

A GRAM PANCHAYATS :

4.6 In response to the mailed questionnaire sent to the Panchayats, the Commission received responses from 2285 Gram Panchayats spread all over the State. However, the responses from 2113 Panchayats were, after scrutiny, found in order, which constituted 72.32 percent of the total number of Panchayats in the State, if we take 2922 Panchayats into account (and 69.57 percent, if 3037 Panchayats are taken as the base). Average number of villages per Panchayat in the sampled Panchayats comes to 8, whereas, the range is 1 to 32 villages. The average number of households per Panchayat comes to 370. Average population per Panchayat is 1805 according to the 2001 Census, as against the population of 1863 according to the 1991 Census.

4.7 The data supplied by Panchayati Raj Department on resources and expenditure was analysed and the results are as follows:-

1. The main taxes from which Panchayats raise resources include, house tax, tax on trade/profession, stamp duty, commodity tax, property tax, local rate, land revenue, liquor cess, etc.
2. The fees being levied by the Panchayats include, the tehbazari fees, sanitation fee, water charges, judicial fee, birth and death certificate fee, marriage fee, fee on timber distribution rights, ration card fee and the cattle fee.
3. Non-tax receipts include items like rent, interest, proceeds from auctions, minor forest produces, royalty on minor minerals etc.
4. Purpose specific and general purpose grants from the State Government or the Central Government.

4.8 The question of deficit mitigation will be separately dealt with at a later stage after taking into account the responsibilities assigned to these bodies by the State Government. However, it would be of academic interest to look at the data which has been collected with regard to the question of performing the obligatory etc. functions by the Gram Panchayats. Such functions have been enshrined in Schedule I to Section 11(1)(2) of the Act. It emerged from the Memorandum received from the Department of Panchayati Raj and the information collected from the Gram Panchayats that at the implementation level, the available resources have been spent on statutory, delegated developmental and maintenance functions and due to mis-classification of accounts and poor reporting system, separate information on these

functions, was not available. The Commission would, however, underline that these three types of functions have been clubbed for working out the estimates for the forecast period.

4.9 The Commission recognises the fact that it is only the Gram Panchayats which have been given powers to raise resources. The Commission went into the possibilities which could be direct taxation, indirect taxation, miscellaneous capital receipts and other receipts. Direct taxes could include profession tax, property tax, land revenue, tax on construction of house and commercial establishments and taxes on fruits and vegetable contractors. These areas have not fully been exploited by the Panchayats so far. Indirect taxation could include levies on minor forest produce, toll tax, service tax and taxes on horticultural produce and liquor etc. As for the miscellaneous capital receipts, royalty on minor minerals, taxes on vehicles carrying stones and sand, charges for night stay of buses in the Gram Sabha area, charges from the forwarding companies, etc., can supplement the resources of the local bodies. Among the other receipts, these can be fee from hawkers, levies on fairs and festivals, fee on registration of pet animals, marriage fee, fee on registration of births, ration card fee, judicial fees, cleanliness tax and fines and penalties.

4.10 The forecast of tax, fees, and non tax revenue of the PRIs has been done in the Chapter V. Regarding measures/efforts to mobilise additional resources for the Panchayats, the Eleventh Finance Commission has also recommended to the States, the following measures for augmenting the Consolidated Fund of the States, so as to supplement, later on, the resources of the Panchayats also :-

"We entrusted two studies-one for rural local bodies and the other for urban local bodies-to National Institute of Rural Development(NIRD) and National Institute of Public Finance and Policy(NIPFP) to study the position of devolution of functions to the local bodies, the powers to raise resources and for working out the requirements for the maintenance of core services. The core services were identified as primary education, primary health, rural or municipal roads, drinking water supply, sanitation and street-lighting. The study done by the NIRD reveals that the 73rd Amendment has not significantly altered the functional domain of the Panchayats at various tiers. A few States have been serious in vesting the Panchayats with the necessary powers, funds and staff to enable them to perform the functions assigned to them under the Statutes. The Centre as well as the States have sponsored schemes for rural people without associating Panchayats in planning and implementation. These have further marginalised them. The State's legislation provides for levy and collection of certain taxes, fees and tolls but the rules relating to fixation of rate / structure are not periodically reviewed. The assessment of the requirement of funds has been stated at Rs.142128

crore for a period of five years for rural local bodies for operation and maintenance of core services alone. The capital expenditure is assessed at Rs. 83603 crore for the same period. For urban areas, the study done by NIPFP does not indicate the requirement of funds separately for the maintenance of each core service. It has given five options based on level of transfers in 1997-98, revenue gap at 1997-98 level, enhancement of spending by municipalities deficient in revenue expenditure, enhancement of the level of spending of municipalities deficient in operation and maintenance expenditure on core services and enhancement of the level of core services in accordance with Zakaria Committee Report. It indicates the requirement of funds ranging from Rs. 6907 crore to Rs. 32598 crore over a period of five years depending on the option chosen. None of these studies has indicated the possible measures that need to be taken at the local and State level to bridge this gap”.

Measures to augment the Consolidated Fund of the States.

“ Our primary task is to identify and recommend measures needed for the augmentation of the Consolidated Funds of the States for supplementing the resources of the local bodies. -----

----- Additional efforts are needed-both at the local and State level for raising the resources to meet the growing requirements of the local bodies. In our view, the States may take the measures indicated below for augmenting their Consolidated Fund to supplement the resources of Panchayats and municipalities:

- a) Land taxes: In many States, land revenue has either been abolished or land holdings up to a certain size have been exempted. However, taxes on land/farm income in some form may be levied to strengthen the resource base of the local bodies. The rate structure should be fixed suitably keeping in view the present economic conditions. The revision should not be linked to or depend on survey and settlement operations. In the urban areas, similar measures should be taken for revision of the lease rents. The amounts so collected may be passed on to the local bodies for improving and strengthening the civic services. Local bodies may also be involved in collection of these taxes.
- b) Surcharge/Cess on State taxes: Cess on land based taxes and other State taxes/duties may be levied to mobilise resources for augmenting specific civic services and for improving their quality. For example, a cess or surcharge of 10 percent on sale tax, State excise, entertainment tax, stamp duties,

agricultural income tax, motor vehicles tax, electricity duties etc., may give significant additional revenue which could be devolved to the local bodies for improving the basic civic services and for taking up schemes of social and economic development.

- c) **Profession Tax:** Article 276 of the Constitution provides for levy of a tax on professions, trades, callings or employment for the benefit of the State or local bodies at a rate not exceeding Rs.2500 per tax-payer per year. Many States either do not levy this tax or levy it at very low rates. States should levy this tax with a view to supplement the resources of local bodies or they should empower the local bodies to levy it. The rates should be suitably revised to bring them nearer to the ceiling prescribed under the Constitution. Further, the ceiling that was fixed in 1988 by an amendment to the Constitution, need to be suitably enhanced. Parliament should be empowered to fix this ceiling without going in for a Constitutional amendment every time”.

Reforms in local taxes and rates

“In addition to the measures mentioned above, we would like to highlight the need for improving the revenue mobilisation by the local bodies themselves. Many SFCs have, in their reports, given suggestions in this regard, of which some are State specific but some can be considered useful for all the States. We mention two local taxes, besides user charges, for consideration of all the States.

- a) **Property/House Tax:** Property tax/house tax is the single most important local tax today, in a majority of the States. Yet it has remained beset with a variety of problems that have prevented the local bodies to exploit its full potential. Such problems are not merely confined to the proximity factor, namely, the local bodies being too close to the people to be effective tax collectors. In most States, the tax rates have not been revised periodically and there is no standard mechanism for determination of property tax rates and their revision. Indeed, West Bengal has experimented with the institution of Central Valuation Authority and some other States have initiated reforms in the system of property taxation with provisions for self-assessment, mandatory periodic revision, dispensing with the demand notice for the tax and putting the onus on property owners for timely tax payment, etc. Such measures have yielded good results and need to be pursued by all States in a rationalised manner. Most States have accorded a variety of tax concessions/ exemptions leading to revenue loss to the local bodies. Arrears of taxes are allowed to accumulate either due to sheer inefficiency or due to delay in assessments and in appeals. Yet another major impediment to the growth of revenue from the property/house tax has been the rent control laws.

The property/house tax legislation, should be suitably modified to overcome this impediment. Where the property has been let out, the property tax should be made recoverable from the occupier.

- b) **Octroi/Entry Tax:** Besides the property/house tax, octroi has been the major source of revenue for the municipalities and, in some States, even for the Panchayats, many States have, however, abolished octroi with a view to remove impediments to the physical movement of goods, though several other new barriers have been created. Some States have introduced a levy in lieu of octroi, usually the entry tax, the net proceeds of which are transferred to the local bodies in the form of grant. During our interaction with the representatives of the local bodies, we were told that though the grant in lieu of octroi given to the local bodies was raised by a certain percentage from year to year, it does not have as much buoyancy as the octroi had. There have also been numerous complaints of delay in release of the compensatory grants. While we do not advocate reintroduction of octroi, we do feel that there is a need for replacing it with a suitable tax that is buoyant and can be collected by the local bodies.

- c) **User Charges:** In many States, the operation and maintenance costs of drinking water supply and many other civic services are met by the local bodies. However, the user charges are not revised periodically and a significant percentage of the demand remains in arrears. The rate structure should be revised regularly to keep pace with inflation and to recover at least, as far as possible, the full operations and maintenance cost of providing these services. Local bodies should have the power to fix the rate of taxes and user charges for themselves. That will make for accountability at the margin. People would be willing to pay, if they get better services".

4.11 The Commission in its meeting held on 28th July 2000 also reviewed the efforts made by the Panchayats towards resource mobilisation and found that non levying the statutorily leviable levies by the Gram Panchayats, left limited funds for discharging the statutory, delegated developmental and maintenance functions at the local levels. The Commission decided that the Panchayati Raj Department may make the elected representatives of the Panchayati Raj Institutions aware about the various provisions contained in the Panchayati Raj Act for raising resources locally. It was also decided that

- i) while recommending devolution of funds to PRIs over and above the admissible (minimum) funds, the Commission would keep in view linking of grants-in-aid to the resource mobilisation efforts as statutorily required in the Panchayati Raj Act.
- ii) Suggest an inbuilt system in terms of incentives/disincentives in the scheme for devolution of funds. In the same meeting, it was also observed that the Commission would examine the proposal regarding making provision for maintenance of assets belonging to PRIs and those transferred to PRIs on a normative basis, according to the population data, attempting a minimum transfer irrespective of infrastructure, thereby de-linking it with grants-in-aid.

4.12 On the basis of interactions by the Commission with the elected representatives of the PRIs of Shimla, Solan, Sirmour and Kinnaur districts on January 17, 2000, there was a consensus to supplement the resources of PRIs through the following measures:-

- 1 House tax to be increased from Rs. 10 to 20.
- 2 Water tax per tap be fixed between Rs. 25 to 30.
- 3 Various fees levied by Gram Panchayats to be increased.
- 4 Powers to fix the rates of various funds chargeable from the Primary and Middle Schools to be vested in the Gram Panchayats.
- 5 Charges/fees levied/collected by patwari for issuing Revenue Certificates/Records, such as, Tatima, Jamabandi etc. be deposited in Gram Panchayat's account.
- 6 Hawkers/nomadic Feriwalas to be taxed on a per day basis.
- 7 Cess on irrigation water to be levied.
- 8 Part of the shamlat lands to be transferred to Gram Panchayats for raising afforestation., grass, orchard etc., and to construct shops for which Govt. to provide financial assistance to Gram Panchayats.

- 9 Cess on liquor to be raised from Rs.5 to 10.
- 10 Fees paid by TD right-holders be allowed to be deposited in Gram Panchayat's account.
- 11 A part of the income generated through the sale of timbers by H.P. Forest Corporation, be shared with Gram Panchayats.
- 12 Land Revenue to be deposited in GP's account.
- 13 50% of the royalties presently paid to the Industry Department on account of mining of minor minerals, be shared with the Panchayats.
- 14 GPs be allowed to do mining on private lands and to transport the produce (by transferring mining rights to Panchayati Raj Department) on private lands. By this, the transport subsidy provided by Centre and State Govts. will go to the GP's account.
- 15 Untied grant of Rs.2.00 lakh for execution of participatory schemes be provided annually to each Panchayat.
- 16 Marriage registration fee to be raised to Rs.100 with some exceptions to the Weaker Sections.
- 17 Installation of petrol pumps, construction of packing and grading houses by the Govt. in potential apple growing areas and putting these two, under the control of Gram Panchayat for day to day affairs will supplement the income of Gram Panchayats, as well as these efforts will provide employment to the unemployed local youths.
- 18 A part of the income of the micro hydel projects be allowed to GPs.
- 19 Local produce should be allowed to be taxed for augmenting PRIs resources, such levies could be on apples in apple-belt-districts, fish in Bilaspur district, vegetables in Solan district etc.
- 20 Money available on account of big projects for rehabilitation purposes be released to Panchayats also.

- 21 A part of tourist tax be shared among the PRIs.
- 22 A part of the income collected by way of various taxes at State level, be shared with PRIs.
- 23 Occupation/professional tax should be levied.
- 4.13 In the light of the recommendations of the First SFC, the State Govt. has been making sincere efforts towards additional resource mobilisation, some of which are briefly listed below :-
- 1 Vide Notification number PCH-HA(2)2/95 dated 1st, November 1999 from Commissioner -cum-Secretary Panchayati Raj to the Govt. of H.P., conferring powers u/s 100 of H.P Panchayati Raj Act 1994 (Act no. 4 of 1994) to the Gram Panchayat to levy taxes and fees subject to the maximum rate as indicated/specified in the said notification.
 - 2 Notification No.Rev.-D(F)4-3/94 dated 6th May, 2000 from FC-cum-Secretary(Rev.) to the Govt. of HP regarding transferring proceeds of land revenue collected from land owners/right holders to the Panchayats.
 - 3 Letter No.-7-51/98-EXTN 3833-43 dated 29th Feb., 2000 from Excise and Taxation Commissioner(HP) regarding distribution of cess @ of Re.1 per bottle from the sale of liquor amongst the local bodies of the State.
 - 4 Panchayats can raise loans from Government, Financial Institutions or any other local bodies in accordance with the provisions of Section 110 of H.P. Panchayati Raj Act 1994, subject to certain conditions- para 28 of H.P. Panchayati Raj Draft (Finacial) Rules 2001.

B. PANCHAYAT SAMITIS

- 4.14 Panchayat Samitis have been constituted in all the 75 community development blocks of the State. By design, these are supposed to provide linkage services to their respective areas of jurisdiction. The inter Panchayat linkages in infrastructure and services are presumed to be their domain. Under Section 83 of the Himachal Pradesh Panchayati Raj Act, the Panchayat Samitis have been accorded limited autonomy in so far as the powers of the State Government in relation to the functions of the Panchayat

Samitis are concerned. The State Government may add to the list of functions or withdraw any functions or duties assigned to the Panchayat Samitis.

4.15 The Commission circulated the questionnaire to the Panchayat Samitis, also for collection of the basic data. It got response from 43 units which comprises 57.33 percent of the total number of Panchayat Samitis, average number of Panchayats per Samiti in the sample comes to 37, the range being 23 to 76. On an average, a Panchayat Samiti has about 12473 households and a population of about 61805.

4.16 Prior to the latest amendment to the State Panchayati Raj Act, the Panchayat Samitis, under Section 120 of the H.P. Panchayati Raj Manual, were authorised to impose any such tax with the prior permission of the Government which the Legislative Assembly of the State had powers to impose, provided that no tax under this section, shall be imposed in respect of any property subject to local rate. Section 121 of the same Manual also had some powers of taxation assigned to the Panchayat Samitis. However, as for the new Act, Section 81 assigns a wide range of functions to the Panchayat Samitis under general or special orders issued by the State Government. The notification issued by the State Government on 31st July, 1996 has elaborated about assignment of specific functions. The assignment of these functions does not mention any financial powers to raise resources at local level. First State Finance Commission did not recommend any provision for the same and the Commission will keep the recommendation of 11th Finance Commission in view, while forecasting resources for Panchayat Samitis for the period 2002-2007. However, Panchayat Samitis were given grants-in-aid for performing the municipal functions assigned to them by the Panchayati Raj Department, the detail of grants-in-aid provided to these bodies (as reported by the Department) during the period 1996-2002, is as under:-

Year	Amount in lakh
1996-1997	5.00
1997-1998	4.00
1998-1999	-
1999-2000	10.00
2000-2001	15.15
2001-2002	14.00

ZILA PARISHADS

4.17 In the case of Zila Parishads, Section 92 of the Himachal Pradesh Panchayati Raj Act defines the functions. The functions of the Zila Parishads also fall in two categories- the Statutory functions and the Assigned functions. The statutory functions really do not involve any financial implications, as would need devolution of resources from the State Government. However, for the assigned functions, the Commission will make recommendations as per the notification issued by the State Government, along with statutory and maintenance functions, keeping in view the recommendations of Eleventh Finance Commission also.

CHAPTER V

Forecasting the Resources of PRIs for the Period 2002-07.

5.1 Coming to the question of forecasting the resources of Panchayati Raj Bodies, it would be pertinent to state that it is only the Gram Panchayats which have the powers to raise resources. Himachal Pradesh Panchayati Raj Act, 1994, does not envisage any resource raising powers for the Panchayat Samitis and the Zila Parishads. As mentioned in the earlier Chapter on the resources of the PRIs, in terms of the own revenue raising effort by the Gram Panchayat, it has been stated that other than the grants from the State and the Central Government, the Gram Panchayats raise resources by way of taxes, fees and non-tax receipts. Commission has supplemented the total receipt figures forthcoming from the survey results with the transfers being made to Panchayats on account of liquor cess, house tax, land revenue and royalty on minerals and minor forest produces, to arrive at the per capita revenue receipts and per Panchayat revenue receipts.

- 1. Liquor Cess :** During the year 1999-2000 and 2000-01, 180.65 lakh and 219.06 lakh bottles, respectively, were sold in the rural areas of the Pradesh which indicate about 22% annual increase during this period. The Commission has, therefore, firm base in estimating revenue receipts on account of liquor cess for the PRIs but the Commission presumed an annual markup of 10% instead of 22% increase (as mentioned above) for the forecast period 2002-07 and the estimated receipts on this account come to Rs. 1618.24 lakh for the forecast period. The year wise details are given below in Table "A".
- 2. House Tax:** The house tax rates for different categories of built-up areas were revised by the Govt. subsequent to (reference period of) the survey conducted by the Commission. For working out resources on account of this revision, the Commission projected the house holds for the year 2001 and subsequent period upto 2007 (as the house holds data was still not available from the Census Department), on the basis of growth rate observed during 1981-1991 period. The house holds were classified in different percentages keeping in view the notification governing house tax rates fixed for different built-up areas. Thereafter, the forecasts were made for the period 2002-07 by multiplying the house tax rates prescribed for different built-up areas by the number of house holds thus classified. The estimated receipts on account of house tax rates come to Rs. 1307.09 lakh for the forecast period and the details are given in the Table "A".
- 3. Land Revenue :** The estimates in respect of land revenue based on the departmental report available for the year 2000-01 were divided by the population to arrive at per capita land revenue (Re. 0.48) and,

therefore, this figure was marked by 5% per year. The per capita land revenue thus worked out was multiplied by the projected population of the respective years and the total revenue on account of land revenue for the forecast period comes to Rs. 170.26 lakh and the details are given below in Table “A”.

4. **Royalty :** The forecast under Royalty for the period 2002-07 are based on the report of H.P Industries Department after taking an average of the annual receipts for the years 1999-2000 and 2000-01 and the figure thus arrived at, was given 5% annual mark up. However, the forecast of royalty under minor forest produces were made on the basis of the information received from Forest department, which was not given any mark up. The revenue receipts on account of royalty come to Rs. 272.98 lakh for the forecast period 2002-07 and the details are given below in Table “A”.
5. **Other Tax, Fees and Non-Tax Revenue :** The forecast under other taxes, fees and non tax revenue are based on the survey results for the year 2000-01. By giving 5% annual markup in the base year figure and multiplying the same by projected population for working out estimates and the total estimated receipts come to Rs. 1076.63 lakh and details are given below in Table “A”.

Estimated Total Revenue Receipts (Liquor Cess, House Tax, Land Revenue, Royalty and Other Taxes, Fees and Non Tax Revenue) of PRIs for the period 2002-03 to 2006-2007.

Table A

(Rs.in lakh)

Year	Liquor Cess	House Tax	Land Revenue	On Minor	On Minerals	Taxes, Fees and Total	Total Revenue	Royalty		Other Non
								Per GP	Per Capita Forest Produces	
2002-03	265.06	256.92	29.94	35.83	15.00	50.83	188.67	791.42	26059	14.01
2003-04	291.57	259.30	32.12	37.62	15.00	52.62	201.30	836.91	27557	14.59
2004-05	320.73	261.57	33.74	39.50	15.00	54.50	214.28	884.82	29135	15.20
2005-06	352.80	263.76	36.05	41.48	15.00	56.48	228.73	937.82	30880	15.87
2006-07	388.08	265.84	38.41	43.55	15.00	58.55	243.65	994.53	32747	16.57
Total	1618.24	1307.39	170.26	197.98	75.00	272.98	1076.63	4445.50		

The district wise break up of estimated revenue receipts of PRIs for the period 2002-07 is given in table "B" below:-

The District wise Details of Estimated Revenue Receipts (Liquor Cess, House Tax, Land Revenue, Royalty and Other Taxes, Fees and Non Tax Revenue) of PRIs for the period 2002-03 to 2006-2007.

Table B

Distts.

Distts.	Revenue Receipts (Rs. lakh)						Projected Population				
	2002-03	2003-04	2004-05	2005-06	2006-07	2002-03	2003-04	2004-05	2005-06	2006-07	Total
1.Chamba	439736	446779	453935	461206	468593	61.60	65.20	68.99	73.19	77.68	346.66
2.Kangra	1299080	1315755	1332644	1349750	1367075	181.99	192.02	202.55	214.19	226.62	1017.37
3.Hamirpur	389398	393144	396987	400868	404786	54.55	57.37	60.34	63.61	67.10	302.97
4.Una	422351	429428	436623	443939	451378	59.17	62.67	66.36	70.45	74.83	333.48
5.Bilaspur	327481	331918	336414	340971	345590	45.88	48.44	51.13	54.11	57.29	256.85
6.Mandi	866190	879576	893168	906970	920985	121.34	128.36	135.75	143.92	152.67	682.04
7.Kullu	365318	373348	381554	389941	398513	51.18	54.48	57.99	61.88	66.07	291.60
8.L & S	33624	33826	34029	34233	34439	4.71	4.94	5.17	5.43	5.71	25.96

9.Shimla	568597	575565	582619	589760	596988	79.65	84.00	88.55	93.59	98.97	444.76
10.Solan	424666	433144	441792	450611	459607	59.49	63.21	67.15	71.51	76.19	337.55
11.Sirmaur	426190	434118	442194	450420	458799	59.71	63.35	67.21	71.48	76.06	337.81
12.Kinnaur	86745	88177	89633	91112	92617	12.15	12.87	13.62	14.46	15.35	68.45
Total	5649376	5734778	5821592	5909781	5999370	791.42	836.91	884.81	937.82	994.54	4445.50

5.2 It is important to mention that while forecasting the revenue receipts for the Panchayati Raj Institutions, the Commission has taken a very conservative view in the sense that it has neither assumed any new areas of resource raising, on the one hand, and has also not assumed any revision in the existing rates of various levies, on the other. Thus, the Commission has not put any specific burden on these bodies in the forecast period, as could not be honoured by them. This has been specifically done to ensure that the resource raising expectations from these bodies, are not pitched at an unusually high level. The Commission expects that these bodies will gradually generate more resources in the coming years and will certainly be able to collect more revenues vis-a-vis the assumptions made in this Report.

5.3 The Commission also examined the possibility of introducing an “Incentive Fund” from the State Government in lieu of additional resource mobilisation efforts made by the Panchayats over and above the level of taxes and fees assumed by the Commission. Keeping in view the need for building up an incentive structure for better resource mobilisation efforts, the Commission recommends setting up an “Incentive Fund” of Rs 20 crore. Apart from the stipulation to meet other conditions made by the EFC and the transfers recommended by Second SFC, the PRIs shall be able to draw upon from this fund double the amount of the net “fresh additional resource mobilisation efforts” made by them. This is major break away path from the age old “matching incentive grants” (MIG) Scheme experimented for nearly four decades. The year wise details are given in Table “C” below :-

Funds for Miscellaneous Functions of GPs for the period 2002-07
Table C

(Rs.in lakh)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Incentive Fund	400	400	400	400	400	2000

5.4 Commission took note of the fact that 115 new GPs had been constituted before the last elections. These new bodies need some one time support for infrastructure like furniture. The Commission recommends a one time grants of Rs. 20,000 to each of these new GPs. At the same time, the Commission has assumed that Panchayat Ghars for these bodies will be constructed out of the EFC grant or any other Centrally Sponsored Scheme being implemented by the Gram Panchayats.

5.5 No assumption has been taken since the EFC award period expires on 31-03-2005 for the future years, appropriate will be assumed in the course of implementation depending upon the formulation of Twelfth Finance Commission. The State Finance Commissions' dispensation does not affected as EFC/TFC grants have a counter balancing entry on the expenditure side also. Besides this, the Commission has presumed that the share of State Government for CSSs/JGSY/SJGRY would be available to PRIs during the period 2002-07 on the pattern of 1996-2001. The estimated total receipts in respect of PRIs for the period 2002-07 are given in Table D below:-

Table D

(Rs.in lakh)

Items	Years					Total
	2002-03	2003-04	2004-05	2005-06	2006-07	
1. Revenue Receipts	791.42	836.91	884.82	937.82	994.53	4445.50
2. EFC Grants	1241.41	1241.41	1241.41	-	-	3724.23
3. CSSs/JGSY/SJGRY(State Share : Indicative figure)	226.00	226.00	226.00	226.00	226.00	1130.00
4. Transfers by Way of Incentive Fund	400.00	400.00	400.00	400.00	400.00	2000.00
5. One Time Infra-structure grant for Newly created GPs	23.00	-	-	-	-	23.00
Tot al	2681.83	2704.32	2752.23	1563.82	1620.53	11322.73

CHAPTER VI

Forecasting the Committed Expenditure of PRIs for the Period 2002-07.

A GRAM PANCHAYATS

- 6.1** As mentioned earlier, Commission decided to adopt the normative approach on the basis of revised rates and total number of elected representatives while working out the committed liabilities. Committed liability comprise of two components: one is the expenditure on payment of honorarium to the elected Pradhans, Up-Pradhans and Members, honorarium to the Chowkidars of the Gram Panchayats and other functionaries of Panchayats, whereas the other component is the expenditure on office expenses.
- 6.2** In the opinion of the Commission, it must provide for the committed expenditure to the Gram Panchayats. To do so, the Commission must also assess the levels of committed expenditure. The committed expenditure comprises of (a) the burden on account of honorarium and (b) the expenditure for day to day running of the office of Gram Panchayat. As for the honorarium, Commission had firm basis to work out the details but in assessing the need of resources for office expenses by the Gram Panchayats, Commission decided to adopt the same level of office expenses, as was recommended by the First SFC, by giving 5 percent annual increase for neutralising the inflation impact.
- 6.3** The revised rates of honorarium to the Gram Panchayat Pradhan and Up-Pradhan are Rs.750 and Rs.650 per month, respectively, for which gross annual liability comes to Rs. 510.22 lakh. In addition, payment @ Rs. 100 per meeting is also made to each Member of Gram Panchayat on a fortnightly basis (maximum Rs. 200/- per month) in lieu of sitting fees. While working out the committed liability on this aspect, total number of Members in all the Panchayats in the State have been multiplied by the rate of honorarium, thereby the annual liability on this account comes to Rs.14657 per Panchayat and gross liability Rs.445.12 lakh per annum. Honorarium for the Panchayat Chowkidar is @ Rs.500 per month which is currently met to an extent of 90 percent from the State's budgetary resources and the remaining 10 percent is disbursed by the Gram Panchayat from its own resources. While taking stock of committed expenditure, the Commission preferred to take the entire honorarium of the Chowkidar into account. The monthly committed expenditure on the above account works out to Rs. 500 per Chowkidar per GP, implying an annual burden of Rs. 182.22 lakh. The total number of Panchayats in the State being 3037, the gross annual implication on account of honorarium comes to Rs. 1137.56 lakh. Since this is

to be provided on a fixed basis, no increase has been recommended for the forecast period. For office expenses, Commission decided to keep the same level of office expenses as was recommended by the First SFC after giving 5 percent annual increase for neutralising the inflation impact. The base year level has been fixed at Rs. 5000 per annum per Panchayat. In the first year, this will amount to a gross expenditure of Rs. 151.85 lakh. Based on the forecast of the committed expenditure for the Gram Panchayats, the financial implications for the forecast period is worked out as under:-

**Expenditure on Honorarium and Office Expenses of Gram Panchayats
for the Period 2002-07**

(Rs. in lakh)

Year	Honorarium	Office Expenses	Total
2002-03	1137.56	151.85	1289.41
2003-04	1137.56	159.44	1297.00
2004-05	1137.56	167.41	1304.97
2005-06	1137.56	175.78	1313.34
2006-07	1137.56	184.57	1322.13
Total	5687.80	839.05	6526.85

6.4 Based on the above, the Commission recommends the provision of Rs. 6526.85 lakh for payment of honorarium and for meeting the expenditure on office expenses by the Gram Panchayats.

B PANCHAYAT SAMITIS

- 6.5 There are 75 Panchayats Samitis in the State. As mentioned in the Framework and Approach, the committed expenditure in the case of Panchayat Samitis consists of two elements i.e. honorarium to the Chairpersons, Vice Chairpersons and Members of the Panchayat Samiti and office expenses of the Panchayat Samiti. The revised rates of honorarium to Chairperson, Vice-Chairperson and Members are @ Rs.1250, Rs. 1000, and 750 respectively, per month. On this basis, the annual expenditure on honorarium is worked out to Rs.207960.00 per Panchayat Samiti. Since this is to be provided on a fixed basis, the annual expenditure comes to Rs. 155.97 lakh for all the Panchayat Samitis put together. For the entire forecast period, this would require a provision of Rs. 779.85 lakh.
- 6.6 As the provision for office expenses by the Panchayat Samiti is concerned, the Commission decided to mark up the level used in the First SFC with 5 % annually for making forecast for the remaining period. The office expenses per Panchayat Samiti for the year 2002-03 comes to Rs. 14500 accordingly. A provision of Rs. 10.88 lakh and Rs. 60.10 lakh would be required for the first year and for the entire period 2002-07, respectively.
- 6.7 In totality, the Commission recommends a provision of Rs. 839.95 lakh for the Panchayat Samitis for the forecast period 2002-2003 to 2006-2007, with the following annual provisions:-

Expenditure on Honorarium and Office Expenses of Panchayat Samitis for the Period 2002-07

(Rs.in lakh)

Year	Provision for		Total
	Honorarium	Office Expenses	
2002-2003	155.97	10.88	166.85
2003-2004	155.97	11.42	167.39
2004-2005	155.97	11.99	167.96
2005-2006	155.97	12.59	168.56
2006-2007	155.97	13.22	169.19
Total	779.85	60.10	839.95

C. ZILA PARISHADS

- 6.8 Zila Parishads are the newly constituted bodies in so far as Himachal Pradesh is concerned. Up to year 1996-97, there was no provision for the payment of honorarium to the elected representatives of these bodies, as such, no provision on this account was made in First SFC report. But now, a provision

for payment of honorarium @Rs.2700 to Chairperson, @Rs.1800 to Vice-Chairperson and @ Rs.1250 to each Member per month, respectively, has to be made. On this basis, actual committed liability on this account was worked out. Per Zila Parishad wise annual liability to meet the expenses for the payment of honorarium comes to Rs.337750 The annual liability and gross liability for all the Zila Parishads would be Rs. 40.53 lakh and Rs. 202.65 lakh, respectively, for the entire forecast period.

6.9 As far as office expenses for ZPs are concerned, no provision was recommended by the First SFC. But during the implementation of First SFC Report, Planning department agreed in principle to make a provision Rs. 25.68 lakh in the budget of PRIs during the year 1997-98. The Panchayati Raj Department made provisions for Office Expenses for Zila Parishad for the subsequent years accordingly. The Panchayati Raj Department provided Rs. 35.20 lakh in the budget under office expenses of Zila Parishads for the year 2002-03. Commission decided to give 5% annual mark up to this figure and total liability for entire forecast period would be Rs.194.51 lakh.

6.10 In totality, Commission recommends a provision of Rs.397.16 lakh for meeting the expenditure on honorarium and office expenses of Zila Parishads. Annual provisions for the forecast period i.e. 2002-2003 to 2006-2007 are as under:-

Expenditure under Honorarium and Office Expenses of Zila Parishads for the period 2002-07

(Rs. in lakh)

Years	Honorarium	Office Expenses	Total
2002-2003	40.53	35.20	75.73
2003-2004	40.53	36.96	77.49
2004-2005	40.53	38.81	79.34
2005-2006	40.53	40.75	81.28
2006-2007	40.53	42.79	83.32
Total	202.65	194.51	397.16

6.11 The Commission also examined other expenditure commitments which were in the opinion of the Commission of recurring nature presently being incurred by the Panchayati Raj Department in PRIs and additional anticipated expenditure on account of strengthening of the existing schemes and/or engagement of additional persons on honorarium basis especially in the post First SFC period. The Commission worked out expenditure commitments on account of these developments in respect of PRIs for the forecast period 2002-07 which are as follows:-

The Expenditure Commitments for the year 2002-03.

(Rs. in lakh)

Sr.No	Item	No. of Functionaries	Honorarium P.M (in Rs.)	Annual Exp.
A.	Hon. to Tailoring Teachers	3008	700	252.67
B.	Hon. to Panchayat Sahayaks	1737	600	125.06
C.	Hon. to JEs(Including TA @ Rs. 48 per day for ten days in a month)	138	3600	67.57
D.	AEs for ZPs	12	6000	8.64
E.	Junior Accountants For PSSs	46	2500	13.80
F.	Library			1.00
	Total	4941		468.74

The estimates for the forecast period 2002-07 were made on the basis of level of expenditure commitments of Rs. 468.74 lakh during the year 2002-03 without giving any markup.

6.12 The expenditure commitments on honorarium, other committed expenditure, additional anticipated expenditure on the existing scheme and office expenses estimated for the forecast period 2002-07 are as given in the Tables "I & II" below:-

Forecast of Expenditure Commitments of PRIs for the period 2002-07

Table I

(Rs. in lakh)

Year	<u>Panchayats</u>		<u>Panchayat Samitis</u>		<u>Zila Parishads</u>		<u>Total</u>	
	Hon.	OE	Hon.	OE	Hon.	OE	Hon.	OE
2002-03	1137.56	151.85	155.97	10.88	40.53	35.20	1334.06	197.93
2003-04	1137.56	159.44	155.97	11.42	40.53	36.96	1334.06	207.84
2004-05	1137.56	167.41	155.97	11.99	40.53	38.81	1334.06	218.21
2005-06	1137.56	175.78	155.97	12.59	40.53	40.75	1334.06	229.12
2006-07	1137.56	184.57	155.97	13.22	40.53	42.79	1334.06	240.56
Total	5687.80	839.05	779.85	60.10	202.65	194.51	6670.30	1093.66

Table II

(Rs.in lakh)

Year	Hon. to PRIs' and to GPs' Chowkidars	Other Elected Representatives	Total Expenditure Commitments	Office (C2 + C3)	Grand Expenses	Total (C4 + C5)
2002-03	1334.06	468.74	1802.80	197.93	2000.73	
2003-04	1334.06	468.74	1802.80	207.84	2010.64	
2004-05	1334.06	468.74	1802.80	218.21	2021.01	
2005-06	1334.06	468.74	1802.80	229.12	2031.92	
2006-07	1334.06	468.74	1802.80	240.56	2043.36	
Total	6670.30	2343.70	9014.00	1093.66	10107.66	

CHAPTER VII

Forecasting the Expenditure Requirements for Performance of Statutory/ Delegated Developmental/Maintenance Functions of PRIs for the Period 2002-07.

7.1 The functions of the three Tiers of Panchayati Raj Institutions (after taking stock of the delegated functions contained in the H.P. Panchayati Raj Department Notification dated 31st July, 1996), were short listed by the First SFC in consultation with concerned Depts. In the course of scrutiny of the survey results on implementation of the recommendations relating to Statutory and Delegated Developmental/Maintenance Functions in respect of Panchayati Raj Institutions for which financial implications were separately assessed by the First SFC, the Commission found that there has been no clear demarcation of functions and the recommended funds as well as funds available to the Panchayati Raj Institutions from other sources including by way of additionalities from the State Planning Department/Finance Department, were spent simultaneously on Statutory, Delegated Developmental and to some extent on Maintenance Functions. The Commission attempted to examine the estimated expenditure on these three components/programmes by clubbing the expenditure for the year 2000-2001. It may be relevant to point out that even the short-listed functions are mainly performed by the Gram Panchayats and not by the Panchayat Samitis and Zila Parishads. The Commission has, therefore, not preferred to assess the financial implications of Statutory/Delegated Developmental/Maintenance Functions in respect of Panchayat Samitis and Zila Parishads, keeping in view, also the recommendations of the Eleventh Finance Commission.

7.2 The estimated expenditure under Statutory/Delegated Developmental/Maintenance functions (as per survey results) for the year 2000-2001 comes to Rs. 3241.54 lakh. The Commission attempted to classify the expenditure under different components purely for analysis purpose. Out of the total estimated expenditure of Rs. 3241.54 lakh, 47% expenditure was reported under the Delegated Developmental Functions, whereas 53% on Statutory Functions. Under Delegated Developmental Functions, percentage anticipated expenditure on Public Works (30.73), Education (25.77), Rural development (24.04), Irrigation & Public Health (7.64) and other miscellaneous works (11.82) respectively, were observed during the year 2000-2001. Percentage anticipated expenditure under Statutory Functions was, 57.18 on construction/maintenance of village roads, culverts, bridges and other public buildings, 21.30 on construction/maintenance and clearing of public streets, latrines, drains, tanks, wells and ponds etc., 9.25 on construction/maintenance of public wells, ponds, tanks and supply of water for domestic use and 12.27 on

other misc. functions. The position of per capita anticipated expenditure (as per Survey Report) for the period 1996 to 2001, is as under:-

Per Capita Estimated Expenditure on Statutory/Delegated Developmental/Maintenance Functions

Year	Expenditure on Statutory/ Delegated Developmental/ Maint. Functions (Excluding O.E. & Hons)	Per Capita Expenditure
	(Rs. in lakh)	(In Rupees)
1996-97	2096.44	40.59
1997-98	2702.84	51.56
1998-99	2896.07	54.43
1999-2000	3088.71	57.19
2000-2001	3241.54	59.13

7.3 The information on actual and estimated expenditure (received from the Panchayati Raj Department), in respect of the Panchayati Raj Institutions, did not reveal the flow of funds available to the Panchayati Raj Institutions from sources other than the Department. The Commission did not take into account the Departmental data on expenditure incurred/anticipated on Statutory/Delegated Developmental/Maintenance functions and, therefore, forecast were attempted on the basis of the per capita expenditure of Rs.59.13 as per the survey results for the year 2000-2001, by giving annual growth rate of 5%. Per capita accruals for the forecast period worked out as under :-

Years	Projected Per Capita Expenditure (Rs)	
2001-2002		62.08
2002-2003		65.18
2003-2004	68.44	
2004-2005		71.86
2005-2006		75.45
2006-2007		79.22

7.4 The projections of resources for the forecast period after taking into account the above per capita accruals and projected population for the period 2002 to 2007, worked out as under :- **(Rs. in lakh)**

Year	Provision For Statutory/Delegated Developmental and Other Maintenance Functions	
2002-2003	3682.26	
2003-2004		3924.88
2004-2005		4183.40
2005-2006		4458.93
2006-2007		4752.70
Total	21002.17	

7.5 The Commission did not find any justification for recommending Rs.21002.17 lakh for statutory/delegated developmental and maintenance functions of GPs for the period 2002-07 because these figures for the period 1996-01 were only estimated expenditure details. Besides this, the functions/ activities on which the expenditure estimates have been received through survey are those which the PRIs have proposed to take up for execution over a long period. Most of these functions are already being performed under various CSSs and State Sponsored Schemes by the concerned departments. The Commission also suggested that since some of the obligatory functions as contained in the H.P. Panchayati Raj Act, Schedule-I to, Section-11(1) and those delegated, vide notification dated 31-7-1996, overlaps, these would need to be recast by appointing a Committee to go into necessary details before making suggestions for amendments in the said Act/Schedule. Keeping in view the financial position of the State and the TOR and past experience with regard to the utilization of funds by the Panchayats, the Commission recommended the provision of Rs. 8000 per Panchayat for the base year 2002-03 with annual mark-up of 5 percent for discharging the obligatory type of functions. Based on this, estimates for the forecast period i.e. 2002-07 comes to Rs.1342.51 lakh. The year wise details are as under :-

(Rs.in lakh)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Funds for Obligatory Functions	242.96	255.11	267.86	281.26	295.32	1342.51

7.6 The Commission also examined the matter regarding payment of TA/DA to elected representatives of Panchayat Samitis and Zila Parishads as contained in the the Memorandum of Finances received from H.P. Panchayati Raj Deptt. and recommended that expenditure on payment of TA/DA on elected representatives of Panchayat Samitis and Zila Parishads, should be met out in the on-going manner from their own resources.

In the process of strengthening of PRIs, the State Govt. would be identifying the functions to be performed by these bodies with regard to developmental responsibilities. The Commission has presumed that the process will take care of transfer of functions, functionaries and funds, which will go a long way in supplementing the revenue resource and expenditure commitments as were forecast for the PRIs by the Commission.

Year wise estimated expenditure commitments including EFC Award and Grants from State Govt. for CSSs for PRIs during the period 2002-07.

(Rs.in lakh)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	Total
1. (a) Hon. to PRIs' Elected Representatives and to GPs' Chowkidars	1334.06	1334.06	1334.06	1334.06	1334.06	6670.30
(b) Other Committed Expenditure	468.74	468.74	468.74	468.74	468.74	2343.70
2. Office Expenses	197.93	207.84	218.21	229.12	240.56	1093.66
3. EFC Award	1241.41	1241.41	1241.41	-	-	3724.23
4. CSSs/JGSY/SJGRY (State Share)	226.00	226.00	226.00	226.00	226.00	1130.00
5. Funds for Obligatory Functions	242.96	255.11	267.86	281.26	295.32	1342.51
6. Funds for Misc. Functions of GPs (Incentive Fund)	400.00	400.00	400.00	400.00	400.00	2000.00
7. One Time Infrastructure grant for Newly created GPs		23.00	-	-	-	23.00
Total	4134.10	4133.16	4156.28	2939.18	2964.68	18327.40

CHAPTER VIII

Some General Observations and Comments.

8.1 In the context of Himachal Pradesh, the process of democratic decentralisation with the statutory back up has begun. As the process goes along, it will throw up a variety of issues. It would also be important to have a regular mechanism for monitoring the whole process. The sub-State level hierarchies of local government will have to understand that the process is a collective endeavour. The responsibility of raising resources to meet local aspirations, will always remain a tricky question but it merits to be realised that this responsibility will have to be shared all along the hierarchy. In the Indian context, the issue of sharing of resources is going to become more and more complex. With the problem of ever increasing revenue deficits in the recent past and the economic restructuring which the Nation is going through, in the years to come, it will become more a question of sharing deficits rather than surpluses and assuming responsibilities for raising resources. The issue of user charges for various services, has been evaded for long but it will increasingly become imminent that such charges will need to be levied. Resources which can be legitimately raised, will require to be raised and no alibis will help sustaining the current scenario for long. Subsidisation, if any, will have to be a system of cross subsidies, some one paying a higher price to subsidise the ones who have poor paying capacities. Keeping this background in view, the Commission will like to make the following suggestions for consideration of the State Government:-

1. Decentralisation brings greater responsibility upon the lower levels of hierarchy. This implies that the local governments at all levels will have to be extremely careful about the efficient use of available scarce resources. Not only this, they will also have to assume responsibility for raising resources, an area which may have remained at a very low priority so far. Panchayati Raj Institutions must raise resources which are exclusively their responsibility which needs to be supplemented through institutional fundings for economically viable income generating projects/assets creation activities.
2. The existing provisions in the Acts do not really allow a fair degree of freedom to the Panchayati Raj Institutions to raise resources through the taxes and levies mentioned in the Statutes. In the opinion of the Commission, the State Government could consider amending the Statutes so as to empower the local bodies to levy new taxes and levies/cess as well as the revision of the existing rates.

3. As mentioned in the Report, some of the local government bodies are not levying the rates and taxes which should be statutorily levied by them. It should be mandatory for all to raise resources within their purview. The Commission feels that in case some local government bodies do not collect the statutory levies, the resource transfers recommended through this Report of the Commission, should not be released. Compliance to collect taxes at the local level should only qualify these bodies for availing the resource transfers from the Consolidated Fund of the State. The Department of Panchayati Raj should ensure implementation of this suggestion. It is also clarified that this suggestion should not be construed to imply any staff proliferation in the Panchayati Raj Institutions.
4. In the course of its work, the Commission realised that proper inventories of the assets - either owned by these bodies or delegated to be maintained by these bodies - did not exist. This has to be created so that exact availability of infrastructure - civic as well as developmental - is known and the needs of resources for its effective upkeep are possible to be quantified. In the context of quantification of resources needed for upkeep and maintenance, it would be necessary to have the inventories prepared and continuously updated.
5. As recommended by the Eleventh Finance Commission, all governments properties, which belong to the Central or the State Govts. should be subject to the levy of user charges. The Commission also suggest that it should be regulated by a suitable legislation.

8.2 The Commission would like to quote from the Report of the Tenth Finance Commission on the subject of decentralisation which is still relevant to the entire scheme of things, emerging from this Report. The text is as under :-

amendments to the Constitution, "Because of the 73rd and 74th Finance Commissions will be required in future to

suggest measures in the light of the recommendations of the State Finance Commissions. We believe it is important that the Panchayati Raj Institutions are firmly established and strengthened. Equally, we think it is necessary to guard against generation of dependency for resources at each sub-national level. The three tier structure, with two layers of Finance Commission, may generate expectations that in the end it will be the responsibility of the Centre to channel resources through the State Governments to the Panchayats and urban local bodies. The fiscal system can scarcely meet such expectations. Panchayats and urban local bodies need to have well defined sources of income and taxing powers. They must be encouraged to exploit them to the full, relying on the transfers from the above only at the margin and preferably on a matching basis. Decentralisation of the development process is a desirable objective. But it can prove effective only if local resources are mobilised for local development, thus ensuring minimum leakage and cost effective deployment."

8.3 The Commission has expressed the above concern in the Report at several places. It is felt that in order to achieve the back up for such a system, there should be a Permanent Institutional Arrangement in the State Planning Department to perform the following functions on a sustaining basis :-

- a) to oversee the implementation of the recommendations of the State Finance Commission and continuously monitor the methodology for implementation of various recommendations so that the local level institutions develop a system which could be useful in the context of these bodies becoming effective in the overall design of decentralisation.
- b) to collect data and analyse the trends in actual receipts and expenditure of the Panchayati Raj Institutions and identify the reasons for variations vis-a-vis the recommendations of the State Finance Commission.
- c) to conduct studies and publish data on the finances of the Panchayati Raj Institutions and Urban Local Bodies, and
- d) to study and analyse the disparities in the levels of development at various levels, as also the capabilities of raising resources.

8.4 In the context of institutionalising a permanent arrangement for sustained performance of the above tasks, the Commission recommends that such an arrangement would be best institutionalised in the State Planning Department on account of the State Finance Commission devolution being canalised to the PRIs as plan

outlays. It has also been the experience of the Commission that the monitoring of the implementation of the recommendations of the First Finance Commission leaves much to be desired and grants have been released to the PRIs without adequate tie up on the issue of raising resources by the PRIs. The existing system of administering devolution of funds lead to the following problems:-

- i) Grants released to PRIs in violation of the guidelines result in audit objections.
- ii) Future grants receivable from the Govt. of India under Special Purpose grants of Finance Commission (Eleventh) would be adjusted against such releases and result in reduced resources transfers to PRIs.
- iii) CAG has indicated its intent to audit the accounts of PRIs on a sustained and universal basis.

8.5 Although Planning Department has a Regional and Decentralised Planning Division which could perform the functions relating to sub-State level planning and decentralisation of development, yet the past experience has shown that the said division is burdened with other multifarious duties and can not take on the additional burden of monitoring the implementation of the recommendations of the State Finance Commissions from time to time. Also, in the coming years, the transfer levels are going to rise substantially as more and more duties and functions get enjoined upon the PRIs with the march of decentralisation. Important studies, if required in the above context, could also be considered to be farmed out to appropriate institutions and individuals having the right kind of experience. Keeping all these considerations in view, the Commission recommends that the nucleus of technical staff created for the Commission should be converted into a permanent arrangement and added as a division in the Planning Department.

8.6 The Commission recommended that the State Govt. could consider the release of recommended funds to PRIs from out of the Consolidated fund of the State on a quarterly basis and the PRIs would qualify for getting funds for the subsequent quarter on the basis of mobilisation of revenue resources by these bodies and tendering of the utilisation certificates. The transfer of the grants should be administered through the institutional mechanism suggested above.

CHAPTER IX

Summary of the Recommendations relating to Revenue Receipts and Expenditure in respect of PRIs in H.P. for the Period 2002-07.

Receipts						(Rs. in lakh)
Items	Years					Total
	2002-03	2003-04	2004-05	2005-06	2006-07	
1. Revenue Receipts	791.42	836.91	884.82	937.82	994.53	4445.50
2. EFC Grants	1241.41	1241.41		1241.41	-	3724.23
3. CSSs/JGSY/SJGRY (State Share: Indicative figure)	226.00	226.00	226.00	226.00	226.00	1130.00
4. Transfers by way of Incentive Fund	400.00	400.00	400.00	400.00	400.00	2000.00
5. One Time Infrastructure Grant to newly Created GPs	23.00	-	-	-	-	23.00
Total	2681.83	2704.32	2752.23	1563.82	1620.53	11322.73

II. Expenditure

Items	Years					Total
	2002-03	2003-04	2004-05	2005-06	2006-07	
1. (a) Hon. to PRIs' Elected Representatives and to GPs' Chowkidars	1334.06	1334.06	1334.06	1334.06	1334.06	6670.30
(b) Other Expenditure						
Commitments	468.74	468.74	468.74	468.74	468.74	2343.70
2. Office Expenses	197.93	207.84	218.21	229.12	240.56	1093.66
3. EFC Grants	1241.41	1241.41	1241.41	-	-	3724.23
4. CSSs/JGSY/SJGRY (State Share: Indicative figure)	226.00	226.00	226.00	226.00	226.00	1130.00
5. Funds for Obligatory Functions	242.96	255.11	267.86	281.26	295.32	1342.51
6. Funds for Misc. Functions for GPs (Incentive Fund)	400.00	400.00	400.00	400.00	400.00	2000.00
7. Infrastructure Grants to newly Created GPs	23.00	-	-	-	-	23.00
Total	4134.10	4133.16	4156.28	2839.18	2964.68	18327.40

Items	Years					Total
	2002-03	2003-04	2004-05	2005-06	2006-07	
III. GAP	1452.27	1428.84	1404.05	1375.36	1344.15	7004.67
IV. GAP FILLING GRANTS	1452.27	1428.84	1404.05	1375.36	1344.15	7004.67

(K.D. DHARMANI)
Chairman

(NARINDER CHAUHAN)
Member

(D.K. SHARMA)
Member Secretary

Dated 24-Oct-2002