CHAPTER 1

TERMS OF REFERENCE, CONSTITUTION, APPROACH AND METHODOLOGY

A. TERMS OF REFERENCE

1.1 Towards evolving and ensuring active participation of the grass-root level local government bodies in the democratic governance, the Constitution of India was amended through 73^{rd} and 74^{th} Constitutional Amendments to make space for the Panchayati Raj Institutions and Urban Local Bodies as the third level of democratic governance at local level, after Parliament and State legislatures. Through these amendments, it was also laid down that the State Governments shall, within one year from the commencement of the Constitution (Seventy third Amendment) Act, 1992, and there-after at expiration of every fifth year, constitute a Finance Commission to review the financial position of local bodies and make recommendations to the State Government in the direction of strengthening the financial position of these institutions.

1.2 As a consequence of this amendment, the Government of Himachal Pradesh enacted/amended the then existing Himachal Pradesh Panchayati Raj Act and put in place a new Panchayati Raj Act, 1994, to meet the spirit of the Constitutional amendment, under which the State Finance Commissions came to be constituted. The Third State Finance Commission was constituted vide Himachal Pradesh

Government Notification No. Fin-IF (C)-A (3) 4/2004 dated 26th May, 2005. The text of the notification constituting the Commission is reproduced below:-

1.3 ***"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 3rd 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 Kuldeep Singh Pathania, M.L.A.***	***- Chairman***
2.	***Ms. Upma Chawdhry, I.A.S. Secretary, RD & PR***	***- Member***
3.	***Shri D.K. Sharma, Secretary, Planning***	***- Member Secretary***

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

(a) the principles which should govern-

(i) the distribution between the State and Panchayats/Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the Government which may be divided between them and allocation between the

Panchayats/Municipalities at all levels, of their respective shares of such proceeds;

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

(iii) the grants-in-aid to Panchayats/Municipalities from the Consolidated fund of the State;

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

(c) the Commission should make a normative assessment of needs based on the actual devolution of functions to each tier of the PRIs/Municipalities and an assessment of potential fiscal capacity based on the tax and non-tax resources available to PRIs/Municipalities in making any recommendations on devolving untied grants or share of State taxes to these bodies;

(d) the Commission should make an assessment of recurring grants for specific schemes of the State government relating to support for honorarium and expenses of elected representatives and employees of PRIs/Municipalities and suggest improvements in these schemes in order to promote the exercise of

fiscal autonomy and responsibility by the PRIs/Municipalities;

(e) the Commission should suggest appropriate ways to take forward the process of devolution of functions, funds and functionaries to the PRIs/Municipalities keeping in view the existing delivery system and the financial capacity of the State Government. It may make specific suggestions with regard to:

- *support for pilots to hand over responsibility for delivery of primary education, primary health, water and sanitation and rural roads to appropriate levels of PRIs/Municipalities;*
- *changes in legislation and procedures necessary to enhance the tax and non-tax capacity of the PRIs/Municipalities consistent with accepted principles of taxation at the local level;*
- *strengthening of administrative capacity of PRIs/Municipalities by placing under their control relevant categories of employees either by way of recruitment at the level of relevant tiers of the PRIs/Municipalities or by seconding of existing State Government staff to them;*

(f) any other matter referred to the 3rd H.P. State Finance Commission by the Government in the interest of sound finance of the Panchayats and Municipalities.

1.5 ***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.***

1.6 ***The Commission shall make its report available by the 31st July, 2006, covering a period of five years commencing from 1st April, 2007.***

1.7 ***The Planning Department would be the nodal department for functioning of the Commission on the pattern of 1st and 2nd State Finance Commissions ".***

1.8 The term of the Commission was extended twice first by extending it upto 25th November, 2006 and then to 25th May, 2007 vide Government Notification No. Fin-IF(c)-A(3)4/2004 dated the 26th July 2006 and No. Fin-IF(c)–A(3)4/2004 dated the 25th November, 2006, respectively. The Commission was further reappointed for a period of six months vide notification No. Fin- IF (c)-A (3)4/2004 dated the 16th May, 2007 upto 25th November, 2007. The constitution of the Commission remained unchanged for this period of reappointment.

1.9 The composition of the Third State Finance Commission was modified upon proceeding of Ms. Upma Chawdhry, I.A.S., Member, on deputation to Government of India. In her place Smt. Parminder Mathur, I.A.S., was notified as Member vide Notification No. Fin. IF (C) - A (3) 4/2004 dated the 8th December, 2005. In place of Smt. Parminder Mathur, Sh. Narinder Chauhan, I.A.S., was notified as Member vide

Notification No. Fin. IF (C)-A (3)4/2004 dated 23rd December, 2006. The Chairman and the Member Secretary held the office throughout the tenure of the Commission. Copies of the notifications constituting/extending the term/ reappointment of the Commission are appended to the report as Appendix I.

1.10 The first meeting of the Third State Finance Commission was held on 3rd June, 2005 in which terms of reference assigned to the Commission were carefully examined and following policy decisions taken:

1. It was noted that the State Government had assigned additional terms of reference to the Third State Finance Commission over and above the standard terms of reference as required to be gone into by the Commission in accordance with the provisions of Articles 243-I and 243-Y of the Constitution of India and Section 98(1) of the Himachal Pradesh Panchayati Raj Act. These additional terms of reference as contained in para-2(c), para-2(d) and para-2(e) of the notification No. Fin-IF(C)-A (3)4/2004, dated the 26th May, 2005 refer to examination on these matters, which the Commission will attempt to examine and process in detail, in comprehensive consultation with the concerned departments.

2. It was decided to issue an advertisement in all the regional newspapers as also in two or three national

newspapers for inviting views and suggestions from public at large, research institutions, elected representatives of the Parliament, State Legislature, PRIs and ULBs on the terms of reference assigned to the Commission.

3. To gather data to deal with the additional terms of reference, it was decided that the questionnaires used by the Second State Finance Commission would be modified to include collection of specific information on the additional terms of reference.

4. It was decided that the departments of Panchayati Raj and Urban Development should be asked to submit the implementation reports on the recommendations of the First and the Second State Finance Commission which were accepted by the State Government.

5. With regard to the financial devolution to the Local Government Institutions, the previous Commissions had only used the grants-in-aid mode for financing the gap between the committed levels of expenditure of these institutions and their own revenues. With a view to provide dynamism to the design of devolution, it was decided that the Third State Finance Commission could examine to adopt a mixed approach, namely lay down the principles for distribution between the State and Local Government Institutions of the net proceeds

of taxes, duties, tolls and fees leviable by the Government and meet the gap in assessed level of revenue receipts and revenue expenditure post such tax devolution by grants-in-aid.

6. It was decided that the Commission may analyze the announcements made by the State Government after enactment of the local Government legislation in 1994 through the budget speeches in terms of the intent and implementation of such announcements towards affording the Commission a view on the entire question of delegation and decentralization with respect to the additional terms of reference.

B. NEED FOR INTERIM REPORT COVERING ONE YEAR'S PERIOD OF 2007-08 BY THE COMMISSION.

1.11 As has been discussed above, the Third State Finance Commission was set up by the Government on 26th May, 2005 and it was required to make over its report by 31st July, 2006. Due to delayed engagement of secretarial and support technical staff of the Commission coupled with the following reasons, the Commission decided to submit an Interim Report for the first year i.e. 2007-08 of its award period of 2007-12 to meet the Constitutional obligation and also for providing continuity;

1. The State Finance Commission was constituted on 26th May, 2005, its Member Secretary assumed charge on 27th May, 2005 and Chairman assumed

charge on 3rd June, 2005 but the officers and staff could not be appointed in time due to various official formalities. Despite best efforts, the secretarial staff of the Commission could only be appointed in December, 2005.

2. The Commission was required to make its report available for the period 2007-2012 starting from 1st April, 2007 but it was constituted in May, 2005 and actually became functional only in December, 2005, thus leaving hardly 6-7 months' time according to the original notification to complete its job which was impossible given the prevailing circumstances.

3. The Commission could not begin its field work due to the elections to the local government institutions.

4. The questionnaires for collecting information from the Panchayati Raj Institutions were prepared in time but the same could not be printed in time owing to the State Government Printing Press remaining busy in printing of election material for the elections of Panchayati Raj Institutions and the same could also not be circulated due to setting in of the election process to these bodies.

5. The number of Gram Panchayats increased from 3037 to 3243 and the number of wards of these institutions also underwent change. To have information from all the Gram Panchayats, the Commission had to wait till the election process for

these institutions was over to have a correct and complete picture.

6. The period covered by the report of the Second State Finance Commission comes to an end on 31.3.2007 and the period for the award of the Third State Finance Commission begins from 1.4.2007, which necessitates an Interim Report for the first year. The full report, as and when made over to the government will internalize this award as well.

C. FORECASTING OF RECEIPTS AND EXPENDITURE FOR THE INTERIM REPORT (2007-08)

1.12 Since the interim report was to be made for one year (2007-08) no comprehensive methodology was possible to be followed due to the constraint of time. The revenue receipts of the Gram Panchayats were estimated by taking the receipts data of last year of the 2nd State Finance Commission report and giving a growth of 6 per cent over it. The Panchayati Raj Institutions at all the three levels have some field level functionaries, actual wages of such functionaries were also provided for.

1.13 In the budget speech for the year 2006-07 the honorarium of the representatives of all the three tiers of Panchayati Raj Institutions as also of the Urban Local Government institutions was enhanced. The number of Gram Panchayats had also risen from 3037 to 3243. To provide for basic infrastructure to these bodies in the shape of

Panchayat Ghars and furniture, specially for the newly created panchayats, some token provision has been recommended. The provision for the performance of statutory/obligatory functions by these bodies was also taken into account.

1.14 Summing up the position of receipt and expenditure as given above, the Commission recommended transfer of Rs. 1759.39 Lakh as grants to the Panchayati Raj Institutions for the year 2007-08 as per the details given below:

Forecasting For 2007-2008

Sl. No.	Item	Forecast (Rs.in Lakh)
1	**Receipts:**	
	(i) Own receipts of the PRIs	1054.20
	(ii) Grants for Panchayat Ghars for 321 Panchayats	160.50
	(iii) Grants for Office infrastructure for 206 new Panchayats	41.20
TOTAL RECEIPTS		**1255.90**
2.	**Expenditure:**	
	(i) Honorarium to elected Members of PRIs	1379.99
	(ii) Provision for office expenses to PRIs	264.61
	(iii) Provision for honorarium to Chowkidars	175.12
	(iv) Expenditure on staff engaged by PRIs	683.78
	(v) Expenditure on performance of obligatory functions	310.09
	(vi) Expenditure on construction of Panchayat Ghars	160.50
	(vii)Expenditure on office	41.20

	infrastructure	
TOTAL EXPENDITURE		**3015.29**
3	**Gap (expenditure- Receipts)**	**1759.39**

1.15 To work out receipt of the Urban Local Bodies the census data of 2001 was used in arriving at the aggregate revenue receipts for 2007-08 and per capita revenue accrual assumed at Rs. 1754.87 for Municipal Corporation and Rs. 573.61 for the Municipal Councils and Nagar Panchayats. The Commission based its assumptions on the data of 2006-07 of the 2nd State Finance Commission report as the data supplied by the Urban Development Department was of the year of 2004, and there were possibilities of its suffering from classificatory errors. On the basis of these assumptions, the total revenue receipts for all the Urban Local Bodies put together were estimated at Rs. 3915.83 lakh.

1.16 On the expenditure side, the Commission considered availability of posts in all the categories of Urban Local Bodies as on 1st May, 2006 and taking the per employee establishment cost relating to the year 2000-01 as the base figure which was estimated at Rs. 0.86 lakh. This was inflated by six percent on account of dearness allowance increases and three percent on account of annual increments based on which the per employee establishment cost for the year 2007-08 comes to about Rs. 1.20 lakh per annum. The total liability on account of salary of these employees comes to Rs. 3126.90 lakh. To meet the committed liability of honorarium to the elected representatives of the Urban Local Bodies on revised rates an amount of Rs. 48 lakh was worked out. For the maintenance of urban civic infrastructure of Municipal roads, streets, drains, street lighting and public toilets an estimation of Rs. 617.86 lakh has been made. Thus total liability of committed expenditure comes to Rs. 3792.76 lakh. The comparison to the income and expenditure of these bodies results in a surplus of Rs. 123.07 lakh. Hence, the Commission has no recommendation to make for gap filling grants.

1.17 For the recommendation of developmental grants the Commission based grant of 2006-07, as base and marked it by an inflation rate of six per cent for the year 2007-08, and arrived at a recommendation of Rs. 3052.05 lakh for developmental grants.

1.18 The devolutions emerging out of the recommendations of the Twelfth Finance Commission and Centrally Sponsored Schemes were recommended to be budgeted by the State Government in accordance with the guidelines for utilization of such grants. The recommendations of the Interim Report for the year 2007-08 have been subsumed in the main report. Full copy of the Interim Report for 2007-08, is appended to this report as Appendix II.

D. GENERAL FRAMEWORK AND APPROACH

1.19 The decisions taken in the first meeting of the Third State Finance Commission as at paragraph 2.5 above were made part of general frame-work and approach. Besides, the detailed methodology adopted by the Commission is outlined in the following paragraphs.

1.20 The recommendations of the Twelfth Finance Commission for supplementing State resources were also taken into consideration while firming up the approach of the Commission. As was expected from the Twelfth Finance Commission, it has recommended a grant of Rs. 147 crore for Panchayati Raj Institutions and Rs. 8 crore for Urban Local Bodies to be used to improve service delivery in respect of water supply and sanitation in rural areas and on the schemes of solid waste management in urban areas. This grant is intended to augment Consolidated Fund of the State to supplement the resources of the local bodies. As far as the Third State Finance Commission is concerned, it would not take the resource transfers recommended by the Twelfth Finance Commission into account on either receipt or expenditure account since these would be counterbalancing entries. The extent to which these transfers cater to the statutory functions of these bodies would, however, be duly considered by the Commission while firming up the recommendations.

1.21 The constitution of the 3rd State Finance Commission has coincided with the new fiscal and economic scenario which is all together different from that of the previous Commissions. Under the changed financial circumstances the role of the Commission has assumed a greater significance and it has to tread cautiously for making realistic revenue receipt and expenditure assessments. The Government has enacted "The Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005" which has come into force from 21st day of June, 2005. The Act envisages that the State Government shall take appropriate measures to reduce the revenue deficit and manage the debt consistent with fiscal stability for which following fiscal management principles have been prescribed.

(a) to maintain State Government debt at prudent levels;

(b) to manage guarantees and other contingent liabilities prudently with particular reference to the quality and level of such liabilities;

(c) to ensure that policy decisions of the State Government have due regard to their financial implications on future generations;

(d) to ensure a reasonable degree of stability and predictability in the level of the tax burden;

(e) to maintain the integrity of the tax system by minimizing special incentives, concessions and exemption;

(f) to pursue tax policies with due regard to economic efficiency and compliance costs;

(g) to pursue non-tax revenue policies with due regard to cost recovery and equity;

(h) to ensure that physical assets of the State Government are properly maintained; and

(i) to disclose sufficient information to allow the public to scrutinize the conduct of fiscal policy and the state of public finances.

1.22 To achieve the principles laid out under the above Act, the State Government has framed rules to achieve annual targets which are as under:

(1) In order to achieve the elimination of revenue deficit by 31st of March, 2009, the State Government shall endeavour to reduce the deficit by an amount equivalent to two percentage points of the total revenue receipts at the end of each financial year, compared to previous year, beginning with the financial year 2005-06, till revenue deficit is eliminated.

(2) The State Government shall progressively reduce the outstanding guarantees below 80 per cent of total revenue receipts.

(3) Fiscal deficit will be brought down by two percentage points every year compared to previous year, till it is reduced to 3 per cent of the Gross State Domestic Product.

1.23 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 fiscal deficit problem. Given the precarious financial position of the State, it becomes difficult for the Commission to balance available resources and the emerging responsibilities at different levels of Government, which could be shared gainfully while the imperatives of decentralization and delegation are also not lost sight of at the same time.

1.24 The estimation of revenue and expenditure of the Panchayati Raj Institutions and the Urban Local Bodies is one of the most critical functions of the Commission towards forecasting of resources and expenditure and finding ways and means of matching the two. The award period to be covered by the recommendations of the Third State Finance Commission will be from 2007-2008 to 2011-2012. This period at the national and State levels will witness significant changes in the economic scenario, fiscal federalism and overall question of responsibility sharing. It will also coincide with the Eleventh Five Year Plan which promises to take the process of decentralization further for making the third level of governance a reality in several ways, including development. The mandate of the Commission originates from the Constitution of India and, therefore, the Commission is required 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 has to ensure that while deliberating upon the sensitive issue of resource sharing, it does not lose the overall perspective of difficult situation of State finances and yet manage 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 will like to emphasize the need for equity, efficiency and owning of the responsibility at all levels, which could only be realized if available financial resources were put to most productive use and such investments could lead to the generation of resources for further growth.

1.25 Since the finances of the Special Category States are under stress due to mis-match in the overall revenue receipts and the expenditure commitments, these are likely to have an impact on the local government resources. 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 worked out by the Commission, are used in the most cost-effective and efficient manner and for maximizing the benefits, on the other. The Commission, in the course of its work, realized 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 look 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, a certain quantum of resources for maintenance purpose should be generated at the local level by introduction of appropriate user charges or institutionalization of the community ownership and participation.

1.26 One of the important components of the approach was the question of estimating the existing revenue receipts and revenue expenditure of the Panchayati Raj Institutions. The response of reporting data on questionnaires was unprecedented. Though the data supplied suffered from some inconsistencies, yet it was inferred that the sources of receipts of these bodies were mainly, House Tax, share in liquor cess, Local rate, Fees in the nature of Birth/Death Certificates, Marriage Fee, Ration card fee and Teh Bazari etc. Apart from the resource items shown for the Panchayati Raj Institutions which are equally applicable to the Urban Local Bodies in revenue generation, the additional items of revenue generation of the Urban Local Bodies are ground tax, map passing fee, sanitation and water supply charges, show tax, Animal tax, slaughter house fee, copying fee etc. etc. The data on Grant-in-Aid and Finance Commission devolutions from both Central and State Finance Commission were collected from the Panchayati Raj department and the Urban Development department to firm up receipts on this count as the data supplied by Panchayati Raj Institutions on questionnaires was inconsistent.

1.27 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, and the relevant sections 42 and 43 of the Municipal Acts 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 local government bodies, were not in a position to undertake the responsibilities and effectively carry out the same for lack of capacity and appropriate administrative support, on the one hand, and lack of resources, on the other.

E. METHODOLOGY OF DATA COLLECTION

1.28 The terms of reference of the Commission required detailed and exhaustive collection, collation, sifting and analysis of the data. To achieve this end, the Commission had to access a very large number of units for the collection of basic data and to make interaction with different departments and stake holders. The decisions taken in the first meeting of the Commission held on 3rd June, 2005 as given at paragraph 2.5 above were made part of methodology. Besides, towards meeting the requirements of Terms of Reference, the Commission devised following methodology:

(a) <u>PANCHAYATI RAJ INSTITUTIONS :</u>

1. Since the Commission was to refer to a vast strata for the collection of basic information, it mailed different sets of questionnaires devised by it for collection of basic data from all the three tiers of Panchayati Raj Institutions viz. 12 Zila Parishads, 75 Panchayat Samitis and 3243 Gram Panchayats through the office of District Panchayat Officer who also happens to be Secretary to Zila Parishad and Block Developmental Officers who are ex-officio Executive Officers of Panchayat Samitis for collection and mailing of filled-in questionnaires in respect of Zila Parishads, Panchayat Samitis and Gram Panchayats to Commission.

2. To give wider publicity to Terms of Reference and to elicit views of non-governmental organizations, public figures, academic institutions, elected representatives and other interested public in local bodies' finances, decentralization and strengthening of local

Government systems, the Commission invited views and suggestions by publishing advertisements in selected national/ regional news papers. The advertisement was also issued to a Hindi weekly "Giri Raj" which has wide circulation in these bodies as also by broadcast through the All India Radio, Shimla.

3. With a view to have direct interaction and in its bid to acquaint itself and to have first hand knowledge of the implementation of existing devolution and status of administrative apparatus at their disposal, implementation of statutory and obligatory functions, sources of receipt in term of tax, non-tax, fees, grants-in-aid etc., the Commission had direct interaction with the Chairpersons of Zila Parishads, Panchayat Samitis and 5% Pradhans of Gram Panchayats of the districts concerned and the urban local government institutions. This interaction besides making representatives of the local government Institutions aware of the role of the Commission also equipped the Commission with very practical, fruitful and to the point suggestions which helped Commission in its endeavour to firm up suitable and realistic recommendations.

4. The Department of Panchayati Raj being the nodal department and charged with the responsibility of implementing and overseeing devolved functions,

powers and programmes through the Panchayati Raj Institutions, was also interacted with by arranging meetings at different levels. The memoranda submitted by the departments were debated and discussed to arrive at the feasibility of incorporating their suggestions. The Action Taken Report on the recommendations of the 1st and 2nd State Finance Commissions was also examined to assess the status of implementation of recommendations of the previous Commissions.

5. The Administrative Secretaries of implementing departments of functions entrusted to Panchayati Raj Institutions devolved vide Rule 11(1) of Panchayati Raj Act 1994 and delegated vide notification No. PCH-HA (1) 12/87-10406-606 dated 31st July, 1996 were asked to submit detailed memoranda showing status of implementation and road map of powers to be devolved with regard to three Fs (Funds, Functions and Functionaries).

6. Though the questionnaires devised by the Commission were complete in itself, yet to have an appropriate assessment with regard to availability of basic infrastructure to the grass root, the Commission asked for basic infrastructure availability in the form of Educational, Health including Ayurveda, Animal Husbandry and like institutions by obtaining directories on infrastructure from the concerned departments of

the Government. This enabled the Commission to cross check the information obtained on questionnaires and working out at appropriate estimates of infrastructure and arriving at maintenance provision for these assets.

7. To assess level of decentralization of powers, functions and finances to Panchayati Raj Institutions reached by the different States of India, the Commission collected reports of other States relating to the reports of the previous Finance Commissions and the action taken thereon.

(b) URBAN LOCAL BODIES

1. There is One Municipal Corporation, 20 Municipal Councils and 28 Nagar Panchayats under the Urban Local Government structure in Himachal Pradesh. The Third State Finance Commission has been assigned the responsibility of making recommendations to the Government with regard to distribution between the State and Municipalities of the net proceeds of taxes, duties, tolls and fees leviable by the Government: determination of taxes, duties and fees which may be assigned to Municipalities from the consolidated fund of the State and also suggest measures needed to improve the financial position of these bodies and

devolution, funds and functionaries, inter-alia amongst other.

2. In order to assess the financial position of Municipalities, a comprehensive schedule for collection of basic data was prepared by the Commission. Since the Commission did not have enough staff, it was decided to resort to the methodology of mailed questionnaires for collection of basic information. In addition to this, Commission also circulated many proformae to the ULBs from time to time to collect the required information. Commission invited the views and suggestions from public at large, research institutions, elected representatives of the Parliament, State Legislature, PRIs and ULBs on the terms of reference of the Commission by sending advertisements in all regional and selected national level news papers. The Directorate of Urban Development was asked to submit a memorandum on the financial position of the ULBs, which could help the Commission to compare the information directly received from the ULBs through the prescribed schedules and proformae with the information supplied by the Urban Development department through memorandum.

3. Several meetings were convened with the department of Urban Development level to resolve the problems faced by the Commission in the process of writing of

final report of Third State Finance Commission. The Commission also convened the interaction meetings with the elected representatives of PRIs/ULBs in all district headquarters to assess the status of implementation of the recommendations of 1st and 2nd State Finance Commission and also examine the financial position and constraints faced by the local bodies to implement the decentralization of powers and resources. In order to assess and understand the problems faced by the local bodies, the Commission recorded the views of the public representatives and decided to incorporate these in the final report of the Third State Finance Commission.

4. For assessing the expenditure and receipts of the Urban Local Bodies and for devolution of resources, it was decided to collect information on the basis of 2001 population census, area, statutory functions, delegated functions, existing establishment expenditure, detail of assets to be maintained and any other committed expenditure of the Urban Local Bodies. On the receipt side, the information to be collected on all possible receipt heads available in respect of Urban Local Bodies was classified in following groups:-

(i) Those for which they have the statutory powers to raise or collect taxes and fees;

(ii) Those which arise from any other source or say, non tax revenue; and Grants-in-Aid, assistance for centrally sponsored schemes and work specific grants from the State Government.

5. With regard to the financial devolution to the local Government institutions, the previous Commissions had only used the Grants-in-Aid mode for financing the gap between the committed levels of expenditure of these institutions and their own revenues. With a view to provide dynamism to the design of devolution, it was considered that the Third State Finance Commission could adopt a mixed approach: namely lay down the principles for distribution between the State and Local Government Institutions of the net proceeds of taxes, tolls and fees leviable by the Government and meet the gap in assessed level of revenue receipts and revenue expenditure post such devolution by the grants-in-aid, if the situation so demanded. Subsequently, the Commission reconsidered the entire matter and concluded that keeping in view the case of administering the resource transfers, the method of gap filling grants may be best suited given the present level of delegation and decentralization.

6. The Commission also analyzed the announcements made by the State Government after enactment of the Local Government legislation in 1994 through the

budget speeches in terms of the intent and implementations of such announcements towards the Commission a view on the entire question of delegation and decentralization.

7. Commission's recommendations are based on the following conditions:-

   (a) Financial review of the Urban Local Bodies for last six-seven years.

   (b) Recommendations for the 1st and 2nd State Finance Commission.

   (c) Recommendations of Eleventh and Twelfth Finance Commission.

   (d) State's financial position.

   (e) Existing system of data collection and its maintenance.

   (f) Revenue resources and its projections for next five years.

8. For collection of data on receipts and expenditure of Urban Local Bodies, department of Urban Development was also approached. The Commission places on record its appreciation to the department of Urban Development who made available the actuals for period of 5 years that is 2000-01 to 2004-05 in respect of all 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 and 2nd State Finance Commissions.

1.29 The record of interaction the Commission had at different levels is given in the following table, in a chronological order. The overwhelming response by way of filled in questionnaires received from all the local government institutions is a record in itself. The interaction with different levels was lively and educative which enriched Commission with innovative ideas. For all this, the Commission records it with appreciation to one and all.

MEETINGS HELD BY THE COMMISSION

Sl. No.	Date	Meeting	Business Conducted
1	2	3	4
1.	3.6.2005	I[st] internal meeting of the Finance Commission	General action plan for the 3[rd] State Finance Commission finalized.
2.	11.5.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Bilaspur	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level.
3.	12.5.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Mandi	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
4.	13.5.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Kullu	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
5.	3.6.2006	Second internal meeting of the Finance Commission	Interim Report for the year 2007-08 finalized and submitted to the Government
6.	5.6..2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Nahan	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
7.	6.6.2006	Distt. Level meeting with the representatives of PRIs/ULBs	Interaction, stock taking of expectations and status of functioning

		and Distt. Administration at Solan	of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
8.	31.7.2006	Meeting with the Director, Urban Development, Shimla	To discuss memorandum submitted for devolution in respect of Urban Local Bodies
9.	1.8.2006	Meeting with the Secretary and Director, Panchayati Raj, Himachal Pradesh	To discuss memorandum submitted for devolution in respect of Panchayati Raj Institutions
10.	14.9.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Una	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
11.	15.9.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Hamirpur	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
12.	16.10.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Chamba	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
13.	17.10.2006	Distt. Level meeting with the representatives of PRIs/ULBs and Distt. Administration at Dharmshala	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level
14.	22.12.2006	Meeting with Forests, Excise & Taxation, Industries and Revenue departments	To discuss estimation of resources relating to tax, cess, fee and royalty for the Panchayati Raj Institutions
15.	03.01.2007	Internal meeting of the F.C.	1. To assess the situation with regard to entire question of delegation and decentralization and subsequently transfer of developmental resources, the constitutional provision of setting up of District Panchayat Committees be studied; 2. It was agreed to adopt a tax sharing and gap filling grant mix to meet the gap in the resources and committed expenditure of local bodies institutions instead of only gap filling grant mechanism followed by the previous Commissions; 3. With regard to delegation to Local

			Government Institutions which constitutes an additional term of reference, it was decided that the Commission will adopt a cautious approach keeping in full view the capacity and readiness constraint of these institutions.
16.	April, 2007	Internal meeting of the F.C.	Decision to undertake a comprehensive case study of at least 5 Gram Panchayats was taken for ground-truthing the data received. In the selection of Gram Panchayats the variations in topography, climate, population, backwardness and resource endowments should be captured.
17.	25.4.2007	Distt. Level meeting with the representatives of Panchayati Raj Institutions of Shimla, Kinnaur and district Administration of Shimla at D.C. Office, Shimla.	Interaction, stock taking of expectations and status of functioning of these bodies at Gram Panchayat, Panchayat Samiti and Zila Parishad level and of Municipal Council/Nagar Panchayat level.
18.	20 & 21.6.2007	Meeting with the elected representatives of Panchayat Samiti Chopal, Gram Panchayats Nerwa and Sarain.	The data received through the mailed questionnaires was verified and discussed with the representatives.
19.	22 &23.6.2007	Meeting with the elected representatives of Panchayat Samiti Rajgarh and Gram Panchayats Bhuira and Lana Bhalta.	The data received through the mailed questionnaires was verified and discussed with the representatives.
20.	16 & 17.7.2007	Meeting with the Administrative Secretaries and HODs to review TOR and views expressed by the representatives of PRIs on delegation and devolutions.	Agenda item discussed and view point of the departments taken to be included in the report.
21.	11.10.2007	Meeting with the Panchayati Raj Department in regard to the issues raised by various elected representatives and the issues relating to amendments in the existing Panchayati Raj Act.	The Agenda for the meeting included the suggestions given by the elected representatives on various terms of reference of the Commission and allied issues on which the viewpoint of the Commission was firmed up in consultation with the department.
22.	12.10.2007	Meeting with the department of Urban Development and Municipal Corporation Shimla.	The Agenda included comprehensive discussion on the fiscal health of the Municipal Corporation and the Commission's viewpoint was firmed up after detailed deliberations.

1.30 The Commission wishes to acknowledge the co-operation received from various stakeholders in obtaining data, having free and frank discussions and the other support given by the nodal departments in enabling the Commission to complete its task. The Commission would also like to place on record the hard work done by the officers and staff of the Commission the details of the officers and staff of the Commission are contained in Appendix III of the report.

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CHAPTER 2

BRIEF REVIEW OF THE TOTAL FISCAL TRANSFERS AND IMPLEMENTATION OF SOME SPECIFIC RECOMMENDATIONS OF 1ST AND 2ND STATE FINANCE COMMISSION

2.1 The reports of the First and Second State Finance Commission were accepted by the State Government almost in totality. The Commission decided to compile comprehensive implementation reports on the recommendations of the First and Second State Finance Commission from the concerned departments as also sought data and views about the difficulties faced by the departments in implementing the recommendations so that Commission could take the same into account while formulating the report of the Third State Finance Commission, as also in making some recommendations towards strengthening the fiscal capacity.

2.2 The reports of the first two State Finance Commissions were preliminary in nature as the Local Government Institutions at the initial stage were taking shape and coming to be established as per the spirit of the 73rd and 74th Constitutional amendment. The devolutions recommended by the Commissions were also in respect of meeting the committed expenditure, in general. With the setting up of the successive Finance Commissions, their role and scope has been getting enlarged by way of moving towards higher degree of delegation and decentralization. The mechanism of Finance Commission is becoming transparent and the provisions recommended by it are to be devolved to the Local Government Institutions in consonance with the design of the Constitution while simultaneously taking a comprehensive view of the State finances alongside.

2.3 In this background, the Commission decided to take an overall view of the financial devolutions recommended by the previous Finance Commission and the actual resource transfers made by the State Government. As for the urban local bodies, the year-wise details for the tenure of the First Finance Commission are as under:-

(Rs. lakh)

Sl. No.	Year	Recommended Amount	Amount Actually released
1	1996-97	1221.11	849.98
2	1997-98	1343.21	2655.94
3	1998-99	1477.53	1477.53
4	1999-2000	1625.28	1625.28
5	2000-2001	1787.81	1787.81
6	Total	7454.94	8396.54

2.4 It is clear from the above data that the actual resource transfers to urban local bodies exceeded the recommended amount by about 12.6 per cent over the full tenure. The amount of transfers during the year 2001-02, was of the order of Rs. 1792.81 lakh, almost the same level as 2000-01. The period of the Second State Finance Commission covers the year 2002-03 to 2006-07. The position of the transfers recommended and the actual transfers to the urban local bodies for this period is depicted in the following table:-

(Rs. lakh)

Sl. No.	Year	Recommended Amount	Amount Actually released
1	2002-03	5275.79	5275.79
2	2003-04	2570.42	1300.86
3	2004-05	2602.67	2115.04
4	2005-06	2617.53	2337.70
5	2006-07	2879.29	2336.70
6	Total	15945.70	13366.09

2.5 It is seen from the above data that the actual resource transfers were about 16.2 per cent short of the recommended levels. The shortfall occurred due to non-availment of the incentive fund on the one hand, and non compliance of increase in last recovery of water and street lighting services.

2.6 In the case of Panchayati Raj institutions, the position of recommended transfers and the actual transfers for the tenure of the First Finance Commission is depicted in the following table:-

(Rs. lakh)

Sl. No.	Year	Recommended Amount*	Amount Actually released*
1	1996-97	1102.40	315.76
2	1997-98	1093.01	1160.05
3	1998-99	1082.78	1217.25
4	1999-2000	1071.67	1202.82
5	2000-2001	1059.59	1582.40
6	Total	5409.45	5478.28

* Also includes the transfers on account of the 10th Finance Commission.

2.7 Similar data for the tenure of the Second State Finance Commission is as under:-

(Rs. lakh)

Sl. No.	Year	Recommended Amount	Amount Actually released
1	2002-03	1452.27	1825.75
2	2003-04	1428.84	1982.35
3	2004-05	1404.05	1794.83
4	2005-06	1375.36	2439.02
5	2006-07	1344.15	3903.42
6	Total	7004.67	11945.37

2.8 It may, therefore be seen that the fiscal transfers recommended by the previous Finance Commission have, by and large, been implemented by the State Government. In the case of the PRIs, the actual transfers are in excess of the recommended levels. This came about due to the fact that the committed expenditure levels went up due to the announcements by the State Government for grant of higher honorarium to the elected representatives and also for the award of incentive to such panchayats where the entire panchayat was elected unopposed. Needless to say, the total financial transfers to the third level of governance are a function of the statutory and delegated responsibilities; these bodies are entrusted to perform by the State Government.

2.9 Total transfers to the local government institutions, i.e., the Panchayati Raj bodies and the Urban Local bodies put together are not very significant as is brought out by the following data:-

(Rs. Crore)

Sl. No.	Year	Total transfers		Total own tax & non tax revenue of the State	Col. 3 as % of Col. 5	Col. 4 as % of col. 5
		Recom.	Actual			
1	2	3	4	5	6	7
1.	1996-97	15.19	11.65	544.99	2.79	2.14
2.	2000-01	20.43	33.70	864.41	2.36	3.90
3.	2002-03	39.86*	43.50*	1050.14	3.80	4.14
4.	2006-07	42.23	62.40	2398.25	1.76	2.60

2.10 The above data clearly brings out the fact that despite increase in the quantum of fiscal transfers to the third level of governance in nominal terms, such recommended transfers as a percentage of the State's own revenues (tax and non tax put together) saw a decline from 2.79 per cent to 2.36 per cent during the tenure of the First Finance Commission. The level of decline in this ratio is even sharper during the tenure of the Second State Finance Commission. The percentage was 3.80 in the first year and it has come down to 1.76 per cent for 2006-07. The decline is primarily attributable to the higher growth rates in both the tax (implementation of VAT) as well as the non-tax revenues of the State (own revenues). In terms of the actual transfers, the percentage increased from 2.14% in the first year of the First Finance Commission to 3.90% in the last year of the First Finance Commission. Similar trend could not be kept up during the tenure of the Second Finance Commission and the percentage declined from 4.14 per cent in the first year to 2.60 per cent in the last year of the award period of the Second Finance Commission. The decline in share of transfers is attributable to the faster growth in the State's own tax and non-tax revenues during 2002-03 to 2006-07.

2.11 The Action Taken Report on some of the specific recommendations contained in the reports of the First and Second State Finance Commission is given below along with the observations of the Third State Finance Commission.

TABLE-I

IMPLEMENTATION REPORT ON THE RECOMMENDATIONS OF 1ST AND 2ND STATE FINANCE COMMISSION REPORT

<table>
<tr><th>Sl. No.</th><th>Recommendations</th><th>Action Taken</th><th>Observations of the Third State Finance Commission</th></tr>
<tr><td>1.</td><td>2.</td><td>3.</td><td>4.</td></tr>
<tr><td>1.</td><td><u>1st State Finance Commission (1996-97 to 2000-01)</u>

Decentralization brings greater responsibilities upon the lower levels of hierarchy. This implies that local Governments at all levels will have to be extremely careful about the efficient use of available scarce resources. They will also have to assume responsibility for raising resources, an area which have remained a very low priority so far. Panchayati Raj Institutions must raise resources which are exclusively their responsibility.</td><td rowspan="2"><u>1-3</u>: To allow Panchayati Raj Institutions fair degree of freedom to raise resources through taxes and levies, the Government issued instructions to raise their resources by way of imposition of various type of taxes, such as professional tax, property tax, taxes on construction of houses, commercial establishments, taxes on fruits and vegetables etc. So far only house tax is being collected by the Gram Panchayats.

In so far as prescribing maximum rates of each tax the Government has approved maximum rates of taxes and fees to be levied by the Gram Panchayats as indicated below:

Section 100 (I) (a):
<u>House Tax:</u>
<table><tr><th>Sr. No.</th><th>Particulars</th><th>Max. Rate of House Tax per year (In Rupees)</th></tr><tr><td>1.</td><td>2.</td><td>3.</td></tr><tr><td>1.</td><td>Where the person liable to pay house tax owns house</td><td></td></tr></table></td><td rowspan="2">Although the State Government has fixed upper limit of taxes to be imposed, yet freedom to Gram Panchayats needs to be given to levy even higher tax keeping in view potential and tax paying capacity of the people. The Commission has observed that some rural areas have developed very fast especially where mini-micro and big hydel Projects have come up, extraction of minerals has been taking place, tourist spots have been developed, educational centers have been established etc. In these areas, living standard of the people has improved and they are in the capacity to pay more tax to get better civic amenities. Hence amendment in the existing tax law will go a long way in the generation of resources of Gram Panchayats and Urban Local bodies which will result in improving the basic civic amenities.</td></tr>
<tr><td>2.</td><td>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 this context, the State Government could</td></tr>
</table>

	consider setting the minima and maxima of the rates for each of such taxes and let the local Government institutions take a view on the current rates which certainly merit to be raised. For this purpose, the State Government could consider amending the statutes to provide for such a flexible arrangement.	having the total built up area up to 40 Sq. mtrs. — 10 2. Where the person liable to pay house tax owns house having the total built up area from 40 to 100 sq. mtrs. — 25 3. Where the person liable to pay house tax owns house having the total built up area above 100 sq. mtrs. — 50 4. Where the person liable to pay house tax uses his building (pucca construction) for commercial purposes and the total built up area is up to 20 sq. mtrs. — 50	
3.	Some of the Gram Panchayats are not levying taxes which should be statutorily levied by them. It should be mandatory to raise resources within their purview. In case of non collection of statutory levies by Gram Panchayats, the department of Panchayati Raj should ensure that resources transfer recommended by the Commission should not be released from the Consolidated Fund of the State.	5. Where the person liable to pay house tax uses his building (pucca construction) for commercial purposes and the total built up area is above 20 sq. mtrs. — 100 6. Where the person liable to pay house tax uses his building (kutcha construction) for commercial purposes and the total built up area is up to 20 sq. mtrs. — 30 7. Where the person liable to pay house tax uses his building (kutcha construction) for commercial purposes and the total built up area is above 20 sq. mtrs. — 50 **Section 100 (I) (d):** **<u>Tax on extraction and export of Sand, Stone, Bajri and Slates:</u>** i) Tax on extraction and export of sand, stone, bajri not exceeding Rs.10/- per truck and Rs.5/- per trolley; ii) Tax on slates not exceeding Rs. 50/- per truck. **Section 100 (2):** **<u>Fees:</u>** i) Teh-Bazari from the shopkeepers in the fairs at the rates as it may deem proper but not exceeding Rs. 30/- per Sq. mtr. Per day; ii) Service fee including fee on cleaning of streets and lighting of streets and sanitation at the rates as the Gram Panchayat may deem proper but not exceeding Rs. 20/- per month from those individual households/ shopkeepers/ business establishments, who are being provided such services by the Gram	

		Panchayat, keeping in view their paying capacity; iii) Fee for registration of animals sold in the Sabha areas at such rates as may be fixed by the Gram Panchayat subject to a maximum of 2% of the sale price. Due to geographical condition of the State the people of Panchayat live below poverty line and are not capable to pay taxes and tolls, hence no proposal for levying taxes as per recommendations of the State Finance Commission have been received from the Panchayati Raj Institutions.	
4.	Proper inventories of assets-either owned by these bodies or delegated to be maintained by these bodies did not exist. This is extremely necessary so that exact availability of infrastructure, civic as well as developmental is known and need of resources for its effective upkeep are possible to be quantified for providing of resources for upkeep and maintenance. The inventories may be prepared and continuously up dated.	The action taken report is silent on this issue.	The assets of the Gram Panchayats need to be inventorised by according highest priority. Even after around sixty years of independence, this tier of grass root level of governance has no inventory of assets to show. Over the years, several assets have been sanctioned, built for Gram Panchayats but due to lack of concern these have gone to disuse and got lost to time. In the absence of inventories of assets of various types, no provision for maintenance could be made. Hence, inventories of assets be prepared for knowing their utility and providing of maintenance provision taking into account the existing budgetary provisions in the Demands for Grants of the concerned departments.
1	**2nd State Finance Commission (2002-03 to 2006-07)** Decentralization brings greater responsibility upon the lower levels of hierarchy. This implies that the local government at all levels will have to be extremely careful about the efficient use of available	**1-3:** It was recommended by the Second State Finance Commission that the existing provisions should allow a fair degree of freedom to the Panchayati Raj Institutions to raise resources through the taxes and levies. Presently Zila Parishads and Panchayat Samitis are not	Although the State Government has fixed upper limit of taxes to be imposed, yet freedom to Gram Panchayats needs to be given to levy even higher tax keeping in view potential and tax paying capacity of the people. The Commission has observed that some rural areas have developed very fast especially where mini-micro and big hydel Projects have come up, extraction of minerals has been taking place, tourist

<table>
<tr>
<td></td>
<td>scarce resources. Not only this, they will also have to assume responsibility for raising resources, and areas 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.</td>
<td>levying any tax, fees, cess etc. However, Gram Panchayats have been empowered to levy the following taxes and fees subject to the maximum rates fixed by the Government as per the provisions of relevant sections under the Himachal Pradesh Panchayati Raj Act 1994 and vide notification dated 2nd November, 1999:-</td>
<td>spots have been developed, educational centers have been established etc. In these areas living standard of the people has improved and they are in the capacity to pay more tax to get better civic amenities. Hence, amendment in the existing tax law will go a long way in the generation of resources of Gram Panchayats and the Urban Local bodies which will result in improving the basic civic amenities.</td>
</tr>
<tr>
<td>2</td>
<td>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.</td>
<td rowspan="2"><u>House Tax:</u>
<table>
<tr><th>Sr. No.</th><th>Particulars</th><th>Maximum rate of House Tax (In Rs. Per annum)</th></tr>
<tr><th>1.</th><th>2.</th><th>3.</th></tr>
<tr><td>1.</td><td>Where the person is liable to house tax, own house having the total built up area upto 40 Sq. Mtrs.</td><td>10</td></tr>
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</table>
<u>Tax on extraction and export of Sand, Stone, Bajri and Slates:</u>

i) Tax on extraction and export of sand, stone, bajri not exceeding Rs.10/- per truck and Rs.5/- per trolley;
ii) Tax on slates not exceeding Rs. 50/- per truck.

<u>Fees:</u>

i) Teh-Bazari from the shop keepers in the fairs at the rates as it may deem proper but not exceeding Rs. 30/- per Sq. mtrs. Per day;

ii) Service fee including fee on cleaning of streets and lighting of streets and sanitation at the rates as the Gram Panchayat may deem proper but not</td>
<td>No comments.</td>
</tr>
<tr>
<td>3.</td>
<td>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 transfer recommended through this Report of the Commission, should not be released. Compliance to collect taxes</td>
<td>No comments</td>
</tr>
</table>

	at all 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.	exceeding Rs. 20/- per month from those individual households/ shopkeepers/ business establishments, who are being provided such services by the Gram Panchayat, keeping in view their paying capacity; iii) Fee for registration of animals sold in the Sabha areas at such rates as may be fixed by the Gram Panchayat subject to a maximum of 2% of the sale price. At present, Gram Panchayats are collecting house tax based on flat rates and not on the built up area. The average rate of house tax ranges from Rs. 10 to Rs. 15 per annum. In addition to this very few Gram Panchayats are levying tax on sand, stone, bajri and slates, because these items are not exported from every Panchayat. Teh-bazari was collected by Gram Panchayats in whose area fairs organized.	
4.	In the course of its works, the Commission realized 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.	Basic data which will form the base for the maintenance of inventory of assets is not being kept for the Panchayati Raj Institutions as such inventory of the assets could not be maintained. Now the department has devised a format for maintenance of basic data which will further generate information of inventory of assets.	The assets of the Gram Panchayats need to be inventorised by according highest priority. Even after around sixty years of independence, this tier of grass root level of governance has no inventory of assets to show. Over the years, several assets have been sanctioned, built for Gram Panchayats but due to lack of concern these have gone to disuse and got lost to time. In the absence of inventories of assets of various types, no provision for maintenance could be made. Hence, inventories of assets be prepared for knowing their utility and providing of maintenance provision taking into account the existing budgetary provisions in the Demand for Grants of the concerned departments.
5.	As recommended by the Eleventh Finance Commission, all government properties,	Proposal to levy user charges could not be carried through.	No comments.

	which belong to the Central or the State Government should be subject to the levy of user charges. The Commission, also suggest that it should be regulated by a suitable legislation.		
6.	Decentralisation of the development process is a desirable objective. But it can prove effective only if local resources are mobilized for local development, thus ensuring minimum leakage and cost effective deployment. 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 by creating nucleus of technical staff created for the Commission converting into a permanent arrangement and added as a division in the Planning Department:- 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 decentralization. b) to collect data and	Not agreed to by the Government.	The non setting up of the Permanent Institutional Arrangement to continuously monitor the implementation of various recommendations of the Finance Commission has resulted in a vacuum between setting up of the two State Finance Commissions as also causing lack of co-ordination with the departments. The lack of such an institutional arrangement has led to inconsistent and incohesive data generation and management. Factually, no department has such a mechanism in existence which can monitor, supervise and continue the efforts put in by the successive Finance Commissions. Hence, the Commission observes that a Permanent Institutional Arrangement is the need of the hour and should be set up in any of the departments dealing with the finances of local bodies, be that in Finance or Planning department, but should at one place.

	analyse the trends in actual receipts and expenditure of the Panchayati Raj Institutions and identify the reasons for variations vis-à-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.		
7.	The Commission recommended that the State Government could consider the release of recommended funds to Panchayati Raj Institutions form out of the consolidated fund of the State on a quarterly basis and the Panchayati Raj Institutions would qualify for getting funds for the subsequent quarter on the basis of mobilization of revenue resources by these bodies and tendering of the utilization certificates. The transfer of the grants should be administered through the institutional mechanism suggested.	The grants were released to the department regularly.	In the course of continued dialogue held by the Commission with the representatives of Panchayati Raj Institutions, it was found that there is a huge time lag in the transfer of recommended resources to the field formations. The devolutions in totality comprise mainly of committed liabilities which are stringent and even its delayed releases further stress the fiscal situation of the Panchayati Raj Institutions, making them look up to the State Government for non-statutory fiscal transfers from time to time.

2.12 The above status of implementation report reveals, that many of the recommendations have been acted upon, but on a few, still action requires to be initiated. The items on which actions are required to be taken have been mentioned in the chapter “Summary of recommendations.”

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CHAPTER 3
SUGGESTIONS OF THE TWELFTH FINANCE COMMISSION AND OTHER SUGGESTIONS RELATING TO PANCHAYATI RAJ INSTITUTIONS

3.1 The Twelfth Finance Commission in a study got conducted by the National Institute of Rural Development (NIRD) in the States of Kerala, Gujarat and Madhya Pradesh to see innovative/best practices being adopted by different States to augment the resources of the Panchayati Raj Institutions with a view to exploring the scope for replication in other States has exhibited some distinct features in the system of Panchayati Raj Institutions. An attempt was also made to cull out important features of Panchayati Raj in other major States. The study reported that the obligatory/mandatory provisions of the 73rd amendment have largely been complied with by almost all the States.

3.2 In regard to replicating the best practices, the study suggested the following:

i) levy of certain major taxes and exploitation of non-tax revenue sources be made obligatory for the panchayats. The minimum rates for all such levies be fixed by the State government;

ii) a minimum revenue collection from the panchayat taxes be insisted;

iii) incentive grants related to revenue collection beyond a prescribed minimum be introduced by the State government;

iv) user charges be made obligatory levies;

v) all common property resources vested in the village panchayats may be identified, listed and made productive of revenue;

vi) valuation of taxable lands and buildings should be done by a separate cell in the Panchayati Raj department of the State government and not left to the panchayats;

vii) powers to levy a tax/surcharge/cess on agricultural holdings should be given to the intermediate or district panchayats;

viii) revenue transfers from the States to panchayats in the form of revenue sharing/revenue assignment be made statutory in nature;

ix) State governments should desist from unilaterally taking decisions in regard to revenues whose proceeds are to be transferred either in full or in part to the panchayats;

x) the quantum of revenue that a panchayat can reasonably expect under the revenue sharing mechanism should be predictable;

xi) State government should adhere to its commitment in regard to the grants-in-aid; all untied grants to the panchayats should be made statutory in nature;

xii) the maintenance of accounts by the panchayats be standardized; panchayat department officials should not be made statutory auditors of the village panchayats; the accounts of the intermediate and district panchayats be subjected to audit by Comptroller and Auditor General (C&AG); and

xiii) a performance audit system be adopted.

3.3 The NIRD was also asked by the Twelfth Finance Commission to study the recommendations of the SFCs with a view to assessing their impact on state finances so that the required augmentation of the consolidated fund could be known. The findings of the study are summarized below:

(i) States have not made any progress in mobilizing additional resources exclusively for supplementing the resources of panchayats;

(ii) together with village panchayats, the intermediate and district panchayats have been granted some revenue powers;

(iii) the data deficiencies observed four years ago have not been corrected by the States as yet;

(iv) the size of the own resources of the panchayats are extremely limited in relation to their needs. During 1990-91 to 1997-98, the internal revenue mobilization (IRM) of the panchayats at all levels in 23 states constituted 4.17 percent of the total revenue. In Bihar, Rajasthan, Manipur and Sikkim, there was virtually no IRM. The annual per capita IRM of the panchayats in some States was only around Rs.8;

(v) there has been a phenomenal dependence of panchayats on revenue transfer from both the Union and the State governments. In 1997-98, the panchayats mobilized 0.04 percent of the GDP and incurred an expenditure of 1.38 percent of GDP;

(vi) assistance to the panchayats from the State government takes the form of revenue sharing, revenue assignments and grants-in-aid. State Government grants account for not less than 80 per cent of the total resources of the panchayats, but most of them are tied grants. The system of grants has not been rationalized in many States and the quantum to be made available is often not predictable;

(vii) in some States, there were delays in constituting the second SFC whereas in others the second SFC was not constituted at all. Only 19 States constituted the second SFC, of which 10 had submitted their reports. Of these, only six have been laid before the State legislature along with action taken report;

(viii) with regard to implementation of the SFC reports which were accepted, the following issues were highlighted:-

a) several States did not take follow up action in terms of legislative/ administrative measures;

b) recommendations marked "under examination" meet with "natural death";

c) very few States have honoured their commitment for the release of additional resources against these recommendations;

d) budgetary provisions regarding these recommendations have "fallen short''.

3.4 The above study has admitted that it could not succeed in assessing the net additional resource flow from the States to the panchayats consequent to the implementation of the SFC recommendation.

3.5 Many of the above suggestions and findings have been taken into account by the Third State Finance Commission in the relevant chapters of this report. The other suggestions relating to the Panchayati Raj Institutions are elaborated in the following text.

District Planning Committees:-

3.6 The Himachal Pradesh Panchayati Raj Act, 1994 vide Section 185 conveys that the Government shall constitute District Planning Committees in each district for the consolidation of district level plans. The State Government has also constituted such committees. The issue for preparation and consolidation of district plans was raised by the elected representatives of Panchayati Raj Institutions in its interaction with the State Finance Commission. The Panchayati Raj Institutions were not found in a position to undertake this important task in the absence of appropriate machinery equipped to do the same. The department of Panchayats also expressed in explicit terms the need for a mechanism to operationalise preparation and consolidation of district level plans.

3.7 In the meetings held with the Secretary/Director Panchayati Raj to discuss the issue it was the common consensus that the already available plan formulation setup of Planning Department, Social Justice and Empowerment Department and Tribal Development Department established in the districts in the shape of Planning cells in the office of Deputy Commissioners a unit to implement Special Component Plan for Scheduled Castes in the office of District Welfare Officer in non tribal districts and Integrated Tribal Development Projects in Tribal areas dealing with Tribal Sub Plan respectively may be put under the functional command of the Zila Parishad for the purpose.

3.8 This matter was subsequently considered by the State Government and a notification to give effect to the district planning set up becoming the planning secretariat for Zila Parishads and the Deputy Commissioners becoming the secretaries of the District Planning Committees was issued by the State Government in March, 2007. The text of this notification is as follows:-

> ***"Consequent upon the constitution of District Planning Committees (DPCs) by the Panchayati Raj Department, H.P. under Article 243 ZD of the Constitution of India, the Governor Himachal Pradesh is pleased to place the existing District level Planning Institutions of Planning Department under the technical control of concerned Zila Parishad for strengthening structures of District Planning Committees. The existing Planning Institutions will also give technical assistance in respect of formulation, implementation and monitoring & review of district plan and plan schemes. The Planning Institutions at concerned district will function as Planning Secretariat for Zila Parishad. The administrative control of the existing District level Planning Institutions will***

remain with the Planning Department as earlier. This arrangement will come into force w.e.f. 01.04.2007."

Appointment of Panchayat Secretaries/ Panchayat Sahayaks:-

3.9 The role of Panchayat Secretaries/ Panchayat Sahayaks in the day to day functioning of Gram Panchayats can not be under estimated. Factually, he is the key functionary for the smooth running of the office of Gram Panchayat. Almost every Gram Pradhan who put forward his views emphasized the need of having Panchayat Secretaries/Panchayat Sahayak in each Panchayat to conduct the affairs of the Gram Panchayat instead of having one Panchayat Secretary for three or more Gram Panchayats, such an arrangement in no way justifies the job undertaken by him. The Panchayat Sahayak, wherever provided, only assists Panchayat Secretary and has no powers to issue certificates or authenticate record under his own signatures. In the absence of Panchayat Secretary he remains of no use to the institution of Gram Panchayat. For the conduct of business of Gram Panchayat, Panchayat Sahayak may also need to be given powers so that the work of Gram Panchayat continues to be attended to in the absence of Panchayat Secretary.

Training to elected representatives/office bearers of Panchayati Raj Institutions and Gram Sabha:-

3.10 The constitution of the Third State Finance Commission and coming into being of new set up of Panchayati Raj Institutions coincided; as the elections of it were held in December, 2005. During the course of its district level interaction, the elected representatives insisted for imparting of training to equip them for understanding work and take on responsibilities. Since the elected representative of Panchayati Raj Institutions were mostly new as there was little possibility of repeat representation due to rotation of seats and in view of importance of training which aims at perfection, the Commission was to make a suitable provision for training component but the same was provided to by the Government of India. The Commission emphasises that training to these bodies is of utmost importance and it should not be a one time affair. Repeat condensed courses may continue to be arranged to make representative aware of their duties, responsibilities, work and the like.

Untied grants to Panchayati Raj Institutions:

3.11 One of the major demand of department of Panchayati Raj as well as of elected representatives of Gram Panchayats was to give them untied funds for carrying out developmental works. With the expansion of the National Rural Employment Guarantee Act programme, these institutions will have adequate access to funds for local level development works. The Commission, therefore, found sufficient merit in not making provision of untied grants for local developmental works. Besides this, the Commission observes that need of the hour is to devolve maintenance functions of all the departments as listed in Schedule II of Panchayati Raj Act, 1994 to Gram Panchayats. This issue has been discussed in the separate chapter.

CHAPTER 4

OVERALL FINANCIAL SCENARIO OF HIMACHAL PRADESH ON REVENUE ACCOUNT

4.1 As mentioned in another chapter, the environment in which the Third State Finance Commission has been asked to determine the devolution of resources from the State Government to the third level of governance, i.e. the Panchayati Raj Bodies and the Urban Local Bodies is vastly different from the one obtaining during the tenures of the earlier State Finance Commissions. In pursuance of the recommendations of the Twelfth Finance Commission which were accepted to be implemented by the Union Government, all the State Governments were required to legislate in regard to fiscal responsibility and budget management. Accordingly, the Government of Himachal Pradesh enacted the Fiscal Responsibility and Budget Management Act, 2005 which requires the State Government to bring down the revenue deficit to zero level by 2007-08 and reduce the fiscal deficit to a level of 3 per cent of the Gross State Domestic Product. With the revenue deficit to be contained to zero level by 2007-08 and turn it into a surplus, the State Government will be required to monitor the revenue account in a more intensive manner. This parameter becomes important in the context of resource transfers to the third level of governance because such transfers have historically been outgoes on revenue account. Therefore, larger the quantum of transfers, larger will be the revenue deficit unless the increase in transfers or expenditure on revenue account of the State Government is matched or more than matched by the increase in revenue receipts.

4.2 The overall position of the revenue account of the State Government is depicted in the following table:-

(Rs. crore)

Year	Revenue Receipts	Revenue Expenditure	Surplus (+) or deficit (-)
2001-02 (A)	3715.80	4576.26	(-) 860.46
2002-03 (A)	3658.75	5141.15	(-) 1482.40
2003-04 (A)	3980.92	5588.08	(-) 1607.16
2004-05 (A)	4634.51	5792.93	(-) 1158.42
2005-06 (A)	6558.62	6466.15	(+) 92.47
2006-07 (RE)	6946.01	6999.99	(-) 53.98
2007-08 (BE)	7305.45	7555.61	(-) 250.16
2008-09 (P)	8819.00	8558.00	(+) 261.00
2009-10 (P)	10005.00	9532.00	(+) 473.00

Source : Annual Financial Statements and compliance report on the implementation of FRBM Act, 2005 tabled in the State Vidhan Sabha.

(A) : Actuals
(BE) : Budget Estimates
(RE) : Revised Estimates
(P) : Projections

4.3 The above data reveals that the overall revenue account of the State had massive deficits during the years 2001-02 to 2004-05. These years belong to the award period of the Eleventh Finance Commission. After the year 2004-05, there has been a significant improvement in the revenue account of the State. It largely resulted from a quantum increase in the level of devolutions from the Centre to the State under the dispensation of the Twelfth Finance Commission, large increase in revenues of sales tax due to implementation of VAT and beginning of the accrual of non tax revenues under the head "power" due to 12 per cent free power and availability of power against investment made by the State Government.

4.4 Having looked at the overall revenue account and seen that the years to come are likely to witness a certain level of surplus on revenue account, it appears that the transfer of resources to the third level of governance would not very adversely impact the overall revenue account scenario. In this context, it may be of interest to look at the picture of growth projections in the State's own tax revenue and the non tax revenue during the award period of the Twelfth Finance Commission. The data is presented in the following table:-

(Rs. crore)

Year	Own Tax Revenue	Non-tax Revenue
2005-06 (A)	1496.95	689.67
2006-07 (RE)	1516.62	881.39
2007-08 (BE)	1950.90	802.92
2008-09 (P)	2263.04	899.27
2009-10 (P)	2625.13	1007.18

Source : Annual Financial Statement and compliance report on the implementation of FRBM Act, 2005 tabled in the State Vidhan Sabha.

(B) : Actuals
(BE) : Budget Estimates
(RE) : Revised Estimates
(P) : Projections

4.5 The State's own tax and non-tax revenue for 2005-06 was of the order of Rs. 2186.62 crore and is projected to reach Rs. 3632.31 crore by the year 2009-10 according to the projections made in the compliance report under the FRBM Act. Presently, out of the aggregate own revenues of the State, the total transfers by way of assignment of taxes and grant transfers to the third level of governance for the year 2006-07 are estimated to be of the order of about Rs. 62 crore against the devolution of Rs. 42.23 crore recommended by the Second State Finance Commission. Thus the level of recommended transfers constitutes 1.76 per cent of the State's own revenues whereas the actual transfers constitute about 2.60 per cent of the aggregate own tax and non-tax revenue. Given this scenario, the transfers to the local government institutions should not cause any unbearable stress, specially, if the transfers are also accompanied by the responsibilities.

4.6 The Commission has kept these facts in view while firming up its recommendations on the resource transfers from the State Government to the third level of governance.

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CHAPTER 5

SUGGESTIONS RECEIVED FROM GENERAL PUBLIC AND NON-GOVERNMENTAL INSTITUTIONS ON THE TERMS OF REFRENCE OF THE THIRD STATE FINANCE COMMISSION

5.1 With a view to eliciting the views and opinions from persons, institutions, non-governmental organizations or elected representatives at different levels with regard to the local body finances, decentralization and strengthening of local government systems, the Commission had sent advertisement in the National and Regional newspapers. The Commission gratefully acknowledges the responses received from various quarters. The gist of the suggestions made and brief comments, after detailed consideration of these suggestions, are summarized in the following text:-

A. Rural Technology and Development Centre, Palampur.

Suggestions received:-

1. Funds: To make PRIs financially sound and self-reliant local institutions of participatory democracy, 10% of the total consolidated state plan funds be devolved to PRIs as their own fund for planning and implementation of participatory plans.
2. To carry out their Non-Plan activities, PRIs should be provided 10% of the total Non Plan fund of the state. The fund will cover

honorarium, salary and other administrative expenses of elected representatives and the functionaries of fifteen departments of PRIs.

3. Functions of fifteen line departments also be devolved along with fund and functionaries to PRIs under notification of 31st July,1996 and the lowest level plan on such function should be drawn and executed by Up-Gram Sabha and Gram Sabha.
4. Minor Minerals-Management of locally available minor minerals e.g. sand, grit etc be handed over to PRIs. Decision pertaining to mining of such minerals should be that of PRIs at different levels. However at the village, decision to this effect be taken by Up-Gram Sabha and Gram Sabha. A part of the income from the royalties-preferably 25% be utilized for conservation and treatment of the affected area.
5. Revenue land under relevant sections should be declared as community land and its management and control should be transferred to Panchayati Raj Institutions for promoting livelihood oriented activities, mixed forest, grazing land, soil and water conservation. Revenue so generated be divided between the community and concerned Gram Panchayat in ratio 3:1. However ¾ th of Gram Panchayat shares should be spent on conservation and development of these resources while the rest be utilized as untied fund of Gram Panchayat, to efficiently discharge the function, Gram Panchayat should be given both fund and functionaries.
6. Concerned water resources should be developed by and vested within Panchayati Raj Institutions.

7. (a) Non-timber forest produces-Herbs, Fruits, Flower etc. are highly valuable products, the income generated from these should be shared between the community and the concerned Gram Panchayat in ratio of 3:1. However, 50% of the Gram Panchayat share should be utilized for the conservation and development of these resources while the rest be considered as own fund of the Gram Panchayat.

(b). Excessive Pine plantations in the State have adversely affected the local livelihood, as a measure of compensation one fourth of the total revenue generated by resin collection be devolved to Panchayati Raj Institutions. Further distribution of the same between community and Panchayati Raj Institutions be in the ratio 3:1. This measure will cultivate a sense of belongingness among rural people and Panchayati Raj Institutions as well. It will help strengthen the efforts at conservation and fire control.

(c). On the forest land where forest cover has been maintained and protected by user groups of a Gram Panchayat, 2% of the income from timber yield in the area should be transferred to the Panchayat.

(d). Out of the total income earned from various National Parks and Sanctuaries, where local Communities/Gram Panchayats have contributed towards a conservation-oriented tourism, 2% should be transferred to Gram Panchayats towards their consolidated fund.

8. Gram Panchayats should create Ward Development Fund. Monthly or annually contribution should be collected from the Households. Various projects can be undertaken with the above fund.

Comments:-

Item 1, 2 and 3:- Resource transfers to the different levels of Local Government Institutions for various delegated functions are to be implicitly governed by the exact scheme and design of delegation as decided by the government from time to time. As regards the resource transfers for statutory functions, the Commission ensures that appropriate resources are devolved to the local governments for performance of such functions. The entire question of transfer of functions, funds and functionaries is to be guided by the exercise of comprehensive activity mapping for each sector on the one hand, and the process of capability and capacity build up of the local government institutions, on the other.

Item 4:- The State Government has already allowed a tax on extraction and export of sand, gravel and stones under the category of minor minerals to the Gram Panchayats. The delegation stands ordered vide Himachal Pradesh Government, Department of Panchayati Raj Notification No. PCH-HA (2)2/95-20381-680 dated the 1st November, 1999.

Item 5:- The suggestions made by the RTDC is good and was voiced in the interaction of the Commission with elected representatives of local governments in various districts. The elected representatives went beyond the suggestions made by the RTDC to the extent that the local government institutions should be allowed to use such waste land for creation of remunerative assets so that their financial position could be strengthened. However, transfer of such land is presently constrained by the provisions of the Indian Forest Act and this suggestion, therefore, runs into practical difficulties for implementation.

Item 6:- The Watershed Development Programmes are being managed by the Gram Panchayats now under the modified guidelines issued by the Government of India under "Hariyali" programme. As regards the question of development and vesting of water resources in the Panchayati Raj Institutions, keeping in view the capacity constraints and state of preparedness of the Gram Panchayats, the State Government is following a considered approach under which the operation and maintenance of 10 per cent of the rural water supply schemes has been brought within the purview of Gram Panchayats and comprehensive guidelines have been issued in this behalf. Further movement in enlarging the extent of delegation for development and vesting of the control of water resources will be guided by the element of success achieved in the present level of delegation.

Item 7 (a):- The State Government has already devolved powers for Gram Panchayats for issuance of permits for export / transportation of the minor forest produce in respect of 38 species and the fees thus realized shall be the revenue of the Gram Panchayats. The Forest Department will continue to enlarge this delegation as was revealed in discussion with them.

Item 7 (b):- There is no such body of firm scientific evidence that pine plantations have adversely affected the local livelihoods. On the contrary, such plantations raised in the barren areas have resulted in serving the general cause of soil conservation, provision of fuel-wood and minor timber to the local communities and improvement of environment at large. In some cases, such plantations will inevitably lead to provision of raw material for industries. As such, the question of provision of compensation for loss of livelihoods at local level does not arise.

Item 7 (c):- The State Government has already issued comprehensive guidelines for sharing of usufruct by the government, involved communities and the Gram Panchayats under the various participatory forest management programmes. Since the Gram Panchayats already have a specified share in the proceeds of usufruct in plantations raised under participatory forest management, this suggestion stands implemented nearly over a decade ago.

Item 7 (d):- The revenue earnings of the National Parks and Sanctuaries are required to be utilized under specific guidelines issued by the Government of India and therefore, the question of transferring some share of such earnings to the Gram Panchayats can not be deliberated upon at the level of the State Finance

Commission. In any case, the revenue earnings are such a small sum at the level of an individual Park or Sanctuary that the suggested 2 per cent resource transfers from such collection will be an insignificant and inconsequential amount.

Item 8:- The suggestion is well taken but at present there is no provision for creation of Ward Development Fund for which the individual Households in a Panchayat would make contribution. If a community, ward or a Gram Panchayat is keen on a specific developmental requirement in the nature of infrastructural upgradation, it is free to approach the State Government for financing of such projects under the peoples' participation programme titled "Vikas Mein Jan Sahyog" or can voluntarily create such a fund informally at their own level.

B. Joint comments by Himachal Pradesh Eco Development Society & Navrachna, Palampur

Suggestions received:-

1. It should be Micro planning, which must become the grassroots underlying tool to plan the local development, identification and allocation of financial/technical resources which will be invested to fulfill or make the;
    - Local development plan operational,
    - Monitoring mechanisms functional,

- Aggregated/cumulative interfacing of micro plans with regional/block/district development plan,
- Calibration of Macro plan of the state and the local/district/regional micro-planning at the district level.

2. The Panchayat/Municipal Development plan should be directly given the grant–in–aid from the consolidated fund of the state. It would be easier and will not confuse or complicate about which taxes, fees and levies etc. should be allocated by PRIs and divided among Municipalities and Gram Panchayats. Taxes related to Natural Resource Management sector should be kept with PRIs.
3. The tax, fee etc. must be entrusted to PRIs.
4. GIA in the range of 8%-10% out of annual consolidated fund of the state may be given to PRIs. Here we can also work with indicators based on which, the amount and the type of funds can be decided. However in-depth survey on the overall expenditure, plan outlays and allocation of resources to Gram Panchayats is recommended.
5. All types of land revenues and especially NTFP, wild-life, mining, tourism, industrial, savings development fund out of local contribution, Biroza /resin extraction etc. can add to the currently very low income of Gram Panchayats.
6. Projects such as Kandi, Changer could be jointly asked to sponsor a study to visualize the emerging scenarios in 10 years' time and necessary human, technical and financial resources needed to support PRIs in the next decade.
7. As far as suggestion for devolution of functions, funds, and functionaries to Panchayati Raj Institutions/Municipalities is concerned, it should be in phases to start with water, sanitation and

primary education and set a deadline that by next 5 years Panchayati Raj Institutions will take charge in both the fields but simultaneously capacity will have to be built.

Comments:-

Items I & 2:- The 73rd and 74th amendments to the Constitution of India and the Acts relating to the Panchayati Raj Institutions and Municipalities provide for constitution of the District Planning Committee in each district to look after the functions outlined in the suggestions. As the District Planning Committees get established and their functioning gathers momentum, the aspects outlined in the suggestions will be taken care of.

Items 3 & 4:- These suggestions relate to strengthening the fiscal capacity of the PRIs. The State Finance Commissions are entrusted the responsibility of not only determining the resource transfers from the State to the third level of governance but also to recommend measures to strengthen the fiscal capacity of the local government institutions.

Item 5:- The successive State Finance Commissions have made recommendations in this direction and the State Government is actually moving in this direction by transfer or assignment of resources to the local government institutions. So far the land revenue; tax on extraction and export of minor minerals like sand, gravel and stone; transportation/permit fee for movement of minor forest produce for the specified 38 species, etc. have already been assigned/ entrusted to the Gram Panchayats.

Item 6:- For developing of a perspective as made out in the suggestion, the State Finance Commission would like to leave the follow up action to the Department of Panchayati Raj. The Department of Panchayati Raj could commission appropriate study to develop a perspective encompassing the human, technical and financial needs of the Panchayati Raj Institutions over a period of 10 years into the future. Such a study could also lay out the road map for activity mapping and entrusting functions to the local government institutions.

Item 7:- Comprehensive comments on the suggestions made under this item have been elaborated against items 1, 2, 3, 4, 6 and 7 of A above.

C. Shri R.Sehgal and associates, Management Consultant Ambala.

Suggestions received:-

1. Presently Municipal Councils and Panchayats in India are following single entry system of accounting. This system is not arithmetically accurate. He suggested for the double entry system of accounting so that the receipt, expenditure and potential for more receipt can be seen simultaneously.

2. It is imperative for the Municipal and Local Bodies to issue their own bonds to meet their short term and long term funding requirements. This cannot be done unless a proper rating has been obtained and that in turn is dependent upon the presentation of acceptable sets of financial statements prepared on accrual basis.
3. Regular orientation programmes should be conducted by consultants in which staff of local bodies should be encouraged to participate in such programmes so that proper and cordial atmosphere is provided for better management.
4. As there is severe problem of manpower in accounting and finance functions. It is recommended that people who have professional qualification in accounting and management area should be employed by Municipalities and Panchayats on assignment basis.
5. Computerised accounting may be used.
6. An accrual based accounting system should be accepted. It helps the government in discharging its function more effectively. It assesses the accountability for all the resources, assesses the performances, financial position and cash flow of Municipalities and PRIs, evaluates government's ability to finance its activities and to meet its liabilities and commitments.

Comments:-

Item 1:- The suggestion for improving the accounting procedures in the Municipalities and the Panchayati Raj Institutions for adoption of double entry system is well taken. In fact, the Government of India is making it mandatory under the National Urban Renewal Mission to immediately implement this if the designated cities in various States have to avail of the central assistance under the mission. The State Finance Commission would also recommend such a system to be put in place depending upon the physical capacity of the institutions and the need for training the functionaries.

Item 2:- The idea of issue of Municipal bonds is not new in the country context. States like Tamil Nadu and Karnataka have successfully implemented the mobilization of resources for specific objectives by issue of Municipal bonds after a proper process of rating. The Commission endorses the suggestions for implementation after due consideration by the State Government.

Item 3:- Orientation programmes and targetted training programmes for the staff and elected representatives of the local bodies are a necessity in the present context. While taking note of this suggestion, the Commission would recommend to the departments of Panchayati Raj and Urban Development and also to the Himachal Pradesh Institute of Public Administration for having a regular and sustained programme of generic trainings and orientation seminars for the staff and elected representatives of the local government institutions towards ensuring incremental capacity build up.

Item 4:- This suggestion is for consideration of the local government institutions or the administrative departments. The Commission supports the view that the local government institutions should have trained personnel for accounting and financial management.

Item 5:- Computerization of accounts is a necessity towards ensuring greater transparency as also for making available the latest accounts. This has already started happening in some manner as the local government institutions get computerized. For the designated towns/cities to be covered under the National Urban Renewal Mission, this is a requirement for availing the assistance.

Item 6:- The suggestion to switch over to the accrual based accounting system is a good suggestion to make the entire financial planning more realistic. This, however, could be achieved in a more realistic manner once the accounting process is computerized and the entire revenue collection is also virtually online. It is felt that this status will be achieved in a gradual and phased manner.

D. Lt. Colonel (retd.) Dr. B.S.Rana, Devaki Homeopathic Clinic JLR

Suggestions received:-

1. Election of the Pradhan of Panchayat/Gram Sabha in the state should be changed through nomination from the concerned villagers. It should be out of well/ highly experienced retired army/AF/Navy officers or from State Commissioned Officers/Educated officers. Following should be the criteria:-

   Inhabitant–From the respective village.
   Education-10+2 and above.
   Age-50 to 70 years.

Physical fitness-Should be fit.

Written test-Must pass test equal to 10^{th}.

Training-The nominated member must undergo 90 days orientation course.

2. State Government should issue instructions and guidelines duly approved by the Chief Minister to the Panchayats and Local bodies.
3. Panchayats should workout recurring expenditure and new necessities and the demands be forwarded to the government.
4. Grant-in-aid and collection of tax, fee and revenue should rest with the Panchayats. Monthly report be sent to the Government.
5. The Panchayats should be allowed to work independently in their area because they know the ground realities.

Comments:-

Item 1:- These are suggestions relating to the election process on which the State Finance Commission has no comments to make or views to offer.

Item 2:- Issuance of instructions and guidelines for transaction of business by the Gram Panchayats is an administrative matter which will have to follow the provisions of the Constitution of India and the Himachal Pradesh Panchayati Raj Act.

Items 3 and 4:- The State Finance Commissions determine the revenue and expenditure of the Local Government Institutions from time to time.

Item 5:- The Gram Panchayats are now a Constitutional body and are expected to function in their domain in an independent manner.

E. Jivak Chauhan, Delhi

Suggestions received:-

1. There should be a private news channel or government itself monitor progress at all fronts in the state.
2. All institutions in the government should function in transparent manner
3. We should provide computers to every Panchayat with internet connection, GIS and video conference facility. President of the Panchayats be accountable.
4. There must be land consolidation in whole Himachal Pradesh. It should be the responsibility of the Panchayat to complete the process.
5. Take inputs from each Panchayat about the resources they possess which can be utilized in improving socio economic condition of the area as well as of the state. Consolidate & review this data at government level after having meeting with Panchayats Representatives. Make groups of Panchayats based on their common resources, allocate funds to them on framed work &

monitor them very closely & should have debate in media specially on T.V. and let people also watch it and contribute to head the state towards a sound economically developed Himachal Pradesh.

6. Government should provide back up support to Panchayats/Municipalities on export earning in terms of fruits export, herbs etc.
7. A retired Senior army officer should be appointed at the district level to adopt a check back system of each Panchayats work and expenditure. He will work as a nodal officer for the Panchayats. Anticipated demand and expenditure should have the approval of the nodal officer, later he will have the approval of State government.
8. Funds should never be given to NGOs.
9. Get the feed back from the nominated personal of the Panchayats or local bodies after that do the new work.
10. Nominal honorarium should be paid to the nominated members. As per the existing rules 4% administrative expenditure is permitted.
11. Pilferage of revenue collection in case of electricity theft, felling of valuable trees, smuggling of wood, cheating of accounts should be plugged at every level.

<u>Comments:-</u>

<u>Items 1 and 2</u>:- The issue raised relates to transparency. This has now been dealt with by putting on books the Right to Information (RTI) Act. Hence no comments are necessitated.

Item 3:- The Gram Panchayats are being provided computers now in a phased manner. Thus, the suggestion made out will be addressed over the next few years.

Item 4:- The State Government has taken a policy decision to undertake consolidation of holdings on demand from people and below a certain altitude. The Panchayats could be taken on board whenever such operations are initiated in an area to ensure expediency in the time taken to implement.

Items 5 and 6:- Financial resource mobilization by the Panchayati Raj Institutions can be undertaken in accordance with the provisions of the Panchayati Raj Act. The resource devolution to the local government institutions follows a well considered design by the State Finance Commissions, based on the levels of delegation and the statutory functions required to be performed by the Panchayati Raj Institutions or the Urban Local Bodies.

Item 7:- The suggestion is not in line with the provisions of the statutes. As a matter of fact, the statutes provide for a system of checks and balances and should be sufficient. Imposing external agency for the purpose of overseeing implementation will defeat the very spirit of decentralised democratization.

Item 8:- The suggestion of not passing on the funds to the non-governmental institutions does not fall in the purview of the State Finance Commission. The mode for implementation could be best determined by the elected body at the local government level and should be left to them to promote decentralization.

Items 9 and 10:- There is no provision for nomination of members to the Gram Panchayats under the present statute. In any case, introducing and enlarging the scope of nominations to these bodies will run counter to democratic functioning and as such deserves to be discouraged.

Item 11:- The suggestion for preventing pilferage in the revenue collection is of a general nature and is more administrative than an effort for system reform.

F. Dr. A.P. GUPTA, DIRECTOR, ECONOMIC MANAGEMENT INSTITUTE, NEW DELHI

The Commission received a research paper from Dr. A.P. Gupta which deals with the issues relating to reforming management of government expenditure. As such, no specific suggestions were received from this quarter. The suggestions made out in the paper relate to development outcomes and their monitoring rather than the development outlays, periodic review and restructuring of the programmes and schemes to make them more relevant to the fast changing context and general expenditure management and reform issues. The Commission gratefully acknowledges the input and would use it to the extent possible in the local context of Himachal Pradesh.

5.2 The Commission has carefully considered the inputs received from this mode and attempted to internalize some of the core issues into its framework of the recommendations.

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CHAPTER 6

STATUS OF DEVOLUTION TO PANCHAYATI RAJ INSTITUTIONS AND THEIR ASPIRATIONS

6.1 The Panchayati Raj Institutions have completed a decade of their existence after the constitutional amendments came into force and have also experienced the financial devolutions provided by the first two State Finance Commissions, the Central Finance Commissions as also various steps taken by the State Government for their empowerment. It is in this context, the Commission decided to analyse the announcements made by the State Government after enactment of the Local Government legislation in 1994 through the budget speeches for the period 1996-2007, in terms of the intent and implementation of such announcements towards affording the Commission a view on the entire question of delegation and decentralization. The period of a decade is sufficient to gauge the levels of awareness of the elected representatives of the Panchayati Raj Institutions as also to assess their level of expectations on the entire process of delegation and devolution of powers. It was also considered necessary to ask only those departments for the extent of powers and functions devolved to Panchayati Raj Institutions which have been covering the activities as contained in Schedule I and Schedule II of the Panchayati Raj Act, 1994. The item wise detail on these issues is discussed in the following paragraphs.

I **Status of pronouncements made through the budget speeches:**

6.2 To ascertain the implementation status of the pronouncements made through the Budget Speeches, the Commission culled out the pronouncements for the period 1996-2007 from the speeches of the relevant years and sent the same to the Panchayati Raj department for a status report. The pronouncements were mainly related from training to elected representative to devolution of financial and administrative powers to Panchayati Raj Institutions of different tiers. In a summarized form these were ranging from training to elected representatives, giving membership to the elected representatives of Panchayati Raj Institutions members in different development committees, providing honorarium to elected representatives, making Chairperson of Zila Parishads Chairman of District Rural Development Agency, amending the rules to give right to avail loans, to select beneficiaries under various developmental programmes, constitution of District Planning Committees, improving service conditions of the Panchayat Chowkidars and Tailoring teachers, delineation of such functions to Panchayati Raj Institutions which could be delegated relating to construction of Government institutional buildings, appointing authority of Panchayat level functionaries, empower to check attendance and report absence of officers/ official working in panchayat area, strengthening technical and administrative capacity of the Panchayati Raj Institutions including computerisation etc.

6.3 The stocktaking and analysis of the implementation reports established that a majority of pronouncements like the ones relating to training to elected representatives, providing of honorarium to elected representatives and revision of honorarium to Panchayat functionaries, making the representatives of Panchayati Raj Institutions members in different development committees, provision of delegation to Gram Panchayats for raising loans for financially sustainable activities, constitution of District Planning Committees and making them appointing authority of panchayat level functionaries etc. have been fulfilled. The crucial aspect concerning devolution of administrative and financial powers to these bodies is yet to manifest itself to an extent where the Panchayati Raj Institutions could actually become the third tier of governance at the grass-root level.

II <u>Views of representatives of the Panchayati Raj Institutions with regard to devolution/decentralization and resource raising:</u>

6.4 In an another effort to acquaint itself and to have first hand knowledge of the implementation of the recommendations of the First and Second State Finance Commission and to assess degree of awareness amongst the elected representatives of the Panchayati Raj Institutions, the Commission held meetings with the representatives of these bodies on a definite agenda at various district headquarters except Lahaul and Spiti. The elected representatives expressed wide ranging views on various aspects. These relate to resource raising; delegation and decentralization; amendment in the statutes, tax sharing and enhancing accountability of the field level functionaries to the local government institutions. The department-wise sum up of the suggestions emerging from these consultations is listed out as follows:

VIEWS EXPRESSED BY REPRESENTATIVES OF THE PANCHAYATI RAJ INSTITUTIONS

A. AGRICULTURE:

1. Some form of tax be imposed on commercial production of vegetables and shared with Panchayats.
2. Tomato is a major produce of Solan and Sirmaur districts but due to lack of storage and marketing facilities, the farmers do not get remunerative prices.
3. There should be some cold storage and processing facilities so that farmers could get remunerative prices.

B. HORTICULTURE:

1. The orchards which are on encroached land should be handed over to Panchayats after vacation of encroachment instead of cutting them.
2. Under National Horticulture Technology Mission, the Pradhan should be an integral part of the implementation set up for the smooth implementation of this project.

C. FORESTS:

1. The Panchayats protect forests from fire and other losses but the revenue generated from forests is taken away by the Forests department. Panchayats may be given share from out of revenue of Forest department and should be empowered to fine illicit felling @ Rs.500 per tree, subject of course to recovery and retention of the case property.
2. Panchayats may be permitted to raise orchards in vacant government land for income generation even if it is forest land as it is the ultimate responsibility of the Panchayats to protect forests. Whenever Panchayats make such an effort, at their own level, Forest department comes in picture to halt it.
3. The ownership of forests be given to Panchayats for proper maintenance and security of forests.
4. The Panchayats execute works of public importance but do not get timber for public purposes under TD. There must be some policy under which such arrangements are possible to be made for Panchayats for undertaking works of public interest.
5. The royalty from Forest Corporation and Forest department be shared with PRIs as these institutions provide protection to forests.
6. Some fee be imposed on TD, and the income generated by granting TD be given to Panchayats.
7. The Panchayats may also be provided share from the damage report prepared by the Forest department.

8. The conservation and maintenance of forests can best be looked after by the Panchayats. The Panchayats be given 25 percent share from the forest’s income.

D. <u>REVENUE:</u>

1. The funds allocated under head “Relief” should be routed through Panchayats.
2. Like in urban areas, the Panchayats be also given share of 2% in all sale deeds of real estate.
3. The share of urban local bodies from the sale deeds be raised from the existing 2% to 3%.
4. The Revenue department income from sale of revenue papers of any type be shared with the Panchayats.
5. The government land which is not under use and falling in the jurisdiction of local bodies should be transferred to these bodies for creation of capital assets to generate income.
6. The Shamlat land available with the government be distributed to Panchayats, Panchayat Samitis and Zila Parishads for making best use of this land in public interest and also for generating resources for the local governments by creation of remunerative assets.
7. The fee charged by the revenue authorities for issuing different revenue records be suitably enhanced so that income of Panchayats is increased.

8. The grass on ex-village common lands (Shamlats) should be auctioned by the Panchayats and control of this land should also be entrusted to Panchayats.
9. Shamlat land should be reverted to Gram Panchayats. It will result in proper utilization of land, generation of revenue and also deter encroachers as the land will be in close supervision of Panchayats.

E. PANCHAYATI RAJ:

I. Taxes:

1. The businessmen, orchardists and employees in Panchayat area be allowed to be taxed and for starting new business some tax be allowed to be imposed.
2. The Panchayat should have full powers to impose taxes and no case should go to State Government for approval which hinders the process. The Gram Panchayats should be empowered to impose taxes at their own.
3. The Gram Panchayats should have share in every divisible tax collected by the Government.
4. The private schools in Panchayat be allowed to be taxed on per student basis.
5. The rate of house tax should be same throughout the State.
6. The stone crushers in the panchayat area be levied tax @ Rs.100 per month to augment panchayat income.

II. Fees:

1. The rate of fee of birth/death certificate and registration of marriages be increased.
2. For every construction in Panchayat area the Panchayat should be empowered to charge map processing and passing fee.
3. The Gram Panchayats be given 2% share of registration fee on Vehicles for the maintenance of such roads which have been constructed by the Gram Panchayats.
4. The construction material remains unloaded on roads for days, which causes inconvenience. Some fee may be allowed to be charged for this unloaded material.
5. The Panchayat should be empowered to register migrant labour. It will reduce the incidence of crime.

III. Service and Administrative Matters:

1. The wages of Gram Panchayat Chowkidars may be revised in view of their duties and responsibilities. If possible, regular Chowkidars be appointed.
2. Every Panchayat be provided with Panchayat Sahayak alongwith Panchayat Secretary for efficient conduct of work and staff provided should be regular to ensure accountability. The absence of these functionaries hinders work of Gram Panchayat. The Technical staff viz. Junior Engineer or like should also be with Gram Panchayat to ensure quality control of works.

3. The accommodation of Panchayat Ghar is bare minimum. Since the Panchayat functionaries are increasing and the work load is also on the rise, the accommodation should be commensurate with manpower, office need and other public requirements. The provision of toilet especially for ladies office bearers and the lady visitors and accommodation for computers provided to Panchayats be constructed. A provision for repairs of Panchayat Ghars should also be made regularly.
4. For release of funds the Pradhan has to go to Block Development Officer’s office frequently. Some system be evolved to make direct payment to Gram Panchayats. For the works costing up to Rs.50000/- the payment should be released to Panchayats in one go.
5. The role of Pradhan, Gram Panchayat should be that of an Administrator and supervisory in nature and should not be merely an executing agency of the Block.
6. The Panchayat Samitis have no source of income and can not impose taxes. The Panchayat Samitis should also be devolved some powers and given role similar to that given to Zila Parishad and Gram Panchayats to make them effective.
7. In the name of judicial powers, Panchayat has to approach judicial courts for the execution of orders passed by it. The Panchayat Act should be so amended that at least power to issue bail able warrants rests with the Panchayat.
8. The dissemination of information to these bodies is very poor. The orders and instructions issued by the Government should

invariably be sent to each institution to keep them abreast with the latest.

9. There is general slackness of staff towards work coupled with lack of discipline. The work culture needs to be improved and for ensuring that, the staff needs to be made answerable to the Panchayati Raj Institutions.
10. The grants recommended by the Central and State Finance Commissions should come to Panchayats directly.
11. The Panchayati Raj Act should be amended to provide for discretionary allocation from out of Panchayat Fund.
12. Due to ignorance, Panchayats do not exercise judicial powers. The Panchayats should be made aware of these powers and their use by arranging training programmes for the Pradhans and Panchayat Secretaries.

IV. <u>Works:</u>

1. The Panchayats are provided funds for certain works on unit cost basis. The expenditure on works depends on the location of site, hence flexible cost norms are needed for different locations. It will be appropriate if funds are sanctioned on the basis of estimates.
2. The Government has fixed rates for sand, stone, steel and bricks. The rates of these items are highly fluctuating. These items be allowed to be purchased as per prevailing market rates.
3. There is difference of labour rates of Government vis-à-vis labour rates prevailing in the market. At Government rate, no

labourer is willing to work. This leads to manipulation in Panchayat records which brings bad name even without doing any malafide action. Hence the fixation of labour rates should be left to the Panchayat.

4. Instead of routing funds through other departments, the flow of funds should be channelised direct to Panchayats as these are grass root level democratic institutions.
5. There is huge pendency of funds in the Block Office. These funds are meant for Panchayats. The interest earned on these funds be transferred to Panchayats for utilization on the same pattern as Panchayats utilize interest earned on its deposits.
6. The Panchayat be given untied funds for their overall development.
7. In Public Works Department the payment is made on the basis of entries made in the measurement book, where as in Panchayats Department, assessment of the work is also done apart from entries made in the measurement book. Why this double standard, in Panchayats also PWD pattern should be followed.
8. The Panchayats have meager income of its own. The government should transfer funds, functions and functionaries to these bodies to make them self sufficient.
9. The government should earmark at least 25% of the budget (development) to these bodies. In Kerala the government is allocating 40% of plan resources to these bodies.

10. The difference of rates for execution of civil works by the PWD and Panchayats should be bridged. The Panchayats may also be allotted funds as per PWD schedule of works.
11. For the execution of works the Panchayats be also allowed 15% departmental charges on the analogy of PWD.
12. Only work plan of Gram Panchayat be funded through resource flows from various sources.
13. The allocation of funds to Panchayats for award of works etc. should be on equitable basis and not on extraneous reasons.
14. There are instances where a single work is being funded from different programmes due to lack of coordination which leads to confusion. The schemes should be sanctioned on the basis of recommendations of Panchayats to avoid over-lapping of schemes.
15. The Member of Parliament /Member of Legislative Assembly funds are allocated in a partisan manner. Some mechanism be evolved for its equitable distribution. Preferably, these funds should be allocated on the schemes included in the shelf of works prepared and approved by the Panchayats in their work plan.
16. The liability of sub standard works should rest with the Government functionaries.

V. <u>MISCELLANEOUS:</u>

1. The government should provide funds for building commercial complexes on vacant land.

2. The encroached land vacated by the efforts of Panchayats be allotted to Panchayat and funds allocated for building of remunerative assets.
3. The entire system has become subsidy dependent whereas incentive money should be provided.
4. Like Gram Panchayat, the powers to execute work should also be delegated to Panchayat Samitis.
5. The Panchayat should not have only powers for maintenance and repair but must have full control on all the departments under its jurisdiction.
6. The district plans should be prepared on the resolution of Gram Panchayats. For the present, these are formulated at upper level.
7. In the District level 20 Point Programme, Development and Planning review committees, the representation to Panchayati Raj Institutions be also given.
8. The reservation of single post of Pradhan is absolutely wrong as it forestalls merit to take leading role in the grass roots, with the result growth of these bodies and development of Panchayats is impaired.
9. The biggest blow to Panchayati Raj Institutions is one time election of a person. The reservation of seats should be in such a manner that at least a person gets a choice of re-election. It will lend stability and accountability to these institutions.
10. The integrity of Panchayats is doubted for which vigilance committees have been constituted. Such committees should be for PWD/IPH and other departments where works are executed.

11. In 1996, Panchayats did an exercise of micro planning but it was shelved at higher level. There is a feeling at higher level that this function of Panchayati Raj Institutions will become parallel to our legislative body which is misplaced. In fact the role of both the bodies is complimentary and supplementary. The exercise of micro planning be started afresh.
12. The chairpersons of Zila Parishads and Panchayat Samitis should be provided some developmental funds on the lines of MLA Local Area Development Scheme.
13. The public participatory schemes should be introduced to have involvement of people and for the maintenance of assets.

F. <u>IRRIGATION AND PUBLIC HEALTH:</u>

1. The drinking water supply schemes be transferred to Local bodies along with maintenance provision and collection of water bills be handed over to these bodies to improve their resource base.
2. The private taps in villages are taxed whereas there is no tax on public taps. The people take water from public taps and avoid payment of water bills. There must be some rationale in providing public taps otherwise income from water will not come to Panchayats. The availability of water should also be ensured so that people pay water rates gladly. If possible, water users of public taps be also charged some fee.
3. The water supply for drinking water purpose should be metered so as to check its misuse and ensure proper billing.

4. The schemes for sanitation can only become successful if water facility is provided. The government must provide/augment water supply schemes, especially when water is available in plenty in khads.

G. POWER:

1. The 1 Paisa surcharge on electricity duty is meagre, which should be raised to 5 Paisa.
2. The electricity used in the offices of local bodies is charged on commercial rates whereas these are public offices. The electricity consumption should be charged on domestic rates instead on commercial rates from these bodies.
3. The collection of electricity bills be entrusted to local bodies and some percentage be allowed to be retained by these as part of their income.
4. A number of power projects are under implementation. The local bodies falling in the vicinity of such projects may be provided some tax generated from the project authorities to compensate ecological degradation in the area.
5. The lighting provided by local bodies should be charged on domestic rates instead on commercial rates as it is one of the functions performed in public interest.
6. The surcharge on electricity duty is allocated in urban areas only; it should be extended to rural areas also.

H. INDUSTRIES:

1. The local bodies may be provided some share from the profit of big industrial units/mines to compensate on account of pollution and environmental losses.
2. The water level in khads is going down due to mining, the mining rates be increased and permits for extraction of minor minerals should only be issued with the concurrence of Gram Panchayats.
3. The royalty of minor minerals be handed over to Panchayats in full.
4. Every stone crusher be levied Rs.20 to Rs.100 per month and tax so generated be passed on to local bodies.
5. Local bodies be delegated powers for taxing industrial activities.
6. The Panchayats get tax from minor minerals on the basis of issue of M Forms. The contractors do not issue M Forms as per actual extraction of minerals. The Panchayats should be given share on the basis of permit issued for Rs. 75000 for three months, otherwise contractors take mine on lease for Rs. 75000 and issue M Forms of less amount and evade royalty due to Panchayats.
7. Some tax on industries in a contiguous area be imposed to be distributed for the development of that area only.

I. TRANSPORT:

1. Share in income earned on transfer of vehicles should be given to local bodies @ Rs.50/- per vehicle.

2. On every registration of vehicle, local bodies be provided Rs.100 for light vehicle and Rs.150 for heavy vehicle.

J. TOURISM AND CIVIL AVIATION:

1. The air ports fall under the jurisdictional area of either Nagar Panchayat or Gram Panchayat. The local body provides infrastructure facilities to it but gets nothing in lieu thereof. The share from the air port tax passed on to local body.

K. PUBLIC WORKS:

1. The integrity of Panchayats is doubted for which vigilance committees have been constituted. Such committees should also be constituted for PW/IPH and other departments where works are executed.
2. The link roads constructed by the Panchayats or any other agency be transferred to the Public Works Department and the Panchayats may also be associated in the process of inspection of roads.
3. The Panchayats which are on the road side there is a problem of material which is unloaded on roads and remains there for days. The PWD should issue challans in such cases and pass on income to Panchayats.

L. EDUCATION:

1. The private schools in Panchayats should be allowed to be taxed.
2. The private educational institutions functioning in urban areas be made to share 10% of their fee income with local bodies as basic infrastructure is provided by local bodies.
3. The PRIs should also be involved in secondary education as well.
4. From the private schools falling in the area of local bodies, Re.1 per student be allowed to be levied.
5. The educational set- up, up to primary level should completely be handed over to Panchayats with full powers.

M. HEALTH AND FAMILY WELFARE:

1. The local bodies remove waste from the government as well as private hospitals but nothing is charged for this service. Some service fee may be imposed on hospitals to be shared with local bodies.
2. The Health Sub-Centers should be completely handed over to Panchayats with full powers.
3. In certain cases due to different pressing reasons, the people could not register birth/death within the stipulated period of twenty one days with the result they have to file an affidavit before a Magistrate. The Panchayati Raj Institutions should be empowered to issue birth/death certificates even for the delayed

period by charging certain late fee. It will relieve people from visiting courts at far away places and enable them to save their time and money.

N. SOCIAL JUSTICE AND EMPOWERMENT:

1. The social security pensions should be disbursed through the Panchayats and for the new coverage the families should also be selected by it.

O. TOWN AND COUNTRY PLANNING:

1. The government has set up Special Area Development Authorities (SADA) which charge handsome amount from the residents of the designated areas, a part of income generated by the SADA be shared with the local bodies.

P. FOOD AND SUPPLIES:

1. The powers to make ration card should be fully with the Gram Panchayats. At present for the issue of ration card prior permission of Block Development Officer is required.

Q. EXCISE AND TAXATION:

1. The rate of cess on liquor be raised from Re.1/- to Rs.5/-. The Panchayats have been given its share of 2004-05 in the year 2006; it should be released early in future.

2. The sale of liquor promotes public nuisance, its sale be banned.
3. The liquor cess share should be heavily weighted in favour of such Panchayats where consumption of liquor is less so as to discourage the evil of drinking.
4. Like in Goa, the production of liquor be given status of domestic industry, only then it will increase the income of Panchayats.
5. The Government should earmark some percentage say 1% of revenue generated under Value Aided Tax (VAT) to be given to local bodies.
6. Some percentage of tax generated from sale of diesel/petrol under the jurisdiction of local bodies should be shared with the local bodies which may be Re.1/- for diesel and Rs. 2/- for the sale of petrol.
7. The entry tax which is collected by the State government at single entry point be shared appropriately with the urban local bodies.
8. The local bodies should be given share in all the taxes imposed and collected by the government.

R. DEVELOPMENT OF NEW AND RENEWABLE SOURCES OF ENERGY (HIMURJA):

1. The Panchayats should be issued solar lights for public lighting.
2. The solar light point costs Rs.23,500 which is exorbitant keeping in view meager resources of Panchayats. These lights should be provided on cost sharing basis.

S. ALL DEPARTMENTS:

1. The assets of different departments in Panchayats should be transferred to Panchayats.
2. Since 1996, when the concept of decentralization of powers was mooted the devolution status of financial and administrative powers is the same. The Panchayats have been delegated powers in selected repair and maintenance works. To make these bodies effective, full control of 15 departments be delegated to Panchayats.
3. The functional control of entire staff posted in Panchayats should be immediately given to these bodies and their salaries should also be disbursed by the Panchayats only.
4. It has been observed that no employee of any government department ever attends the meeting of Panchayat. The presence of employees in the meetings should be ensured.
5. The construction of government buildings of every department in the area of local bodies should be through these bodies only. It will ensure generation of income along with good quality of construction.
6. As a first step towards delegation of powers, a mapping of functions be done for the entire three tier structure of Panchayati Raj and technical and administrative powers devolved in a time bound manner.
7. The powers delegated with regard to reporting absence of certain categories of employees is meaningless as any citizen can make such a complaint. The disciplinary, administrative,

financial, leave sanctioning powers and initiation of Annual Confidential Reports of village level functionaries be entrusted to these bodies for proper administration and involvement.

The Commission circulated these suggestions for obtaining the views of the departments and also held meetings with the individual departments. The reactions indicated by the departments and their suggestions have been internalized by the Commission in firming up its recommendations on various aspects.

III **Status of powers and functions devolved to Panchayati Raj Institutions:**

6.5 The most important indicator of decentralization is devolution of powers and functions to the Panchayati Raj Institutions. The successive budget speeches of the Government lay emphasis on empowering Panchayati Raj Institutions. The Commission studied the level of financial and administrative powers devolved to these institutions by collecting information alongwith executive orders delegating powers to Panchayati Raj Institutions. The State Government had issued a notification in 1996 entrusting certain responsibilities to the different levels of PRIs in respect of fifteen departments. A copy of this order is added as Appendix 'IV' to the report. It was in the nature of a preliminary "activity mapping" exercise largely focussing on the entrustment of supervisory role to the different levels of Panchayati Raj Institutions. In actual practice over time, a definitive movement for furthering the decentralization has occurred in certain areas. The department wise situation on devolution of powers and functions as gathered from the departments is given below:

A. AGRICULTURE:

1. The Department is assisting Panchayati Raj Institutions by making the programmes available to them.

B. HORTICULTURE:

The following is the list of activities that can be delegated to Panchayati Raj Institutions:

a. Zila Parishad:

1. Review and coordinate various activities of Horticulture in district and suggest measures for improvement.
2. Conduct of Horticulture Census to prepare long-term plan for development of horticulture.
3. Develop and maintain database on soil type and characteristics, land use and horticultural cropping pattern.
4. To prepare a consolidated plan on horticultural input requirement. (Plant, material, packing material, tools and equipments, pesticides and credit requirement)
5. Monitor timely distribution of horticultural inputs.
6. Identification of beneficiaries and preparation of calendar to organize training of farmers.

7. Organization of Kisan melas, fairs and exhibitions.
8. To monitor the regulated fruit and vegetables market.
9. Consolidate report on crop losses due to natural calamities and suggest relief measures required for submission to the Government.

b. <u>Panchayat Samitis:</u>

1. Assist Zila Parishad in the conduct of Horticulture Census.
2. Monitor soil testing work and take appropriate corrective measures.
3. Identifying the beneficiaries for Block Level training programme.
4. Preparing Taluk level consolidated plan on inputs requirement.
5. Ensure timely availability of inputs to Gram Panchayats and arrange storage and transport facilities for inputs.
6. Prepare plan for organization of training camps to bring awareness and skill.
7. Consolidate reports on crop losses and convey to Zila Parishad.
8. Organization of periodic meetings with the Horticulture Development Officer regarding review of horticultural activities.
9. Arranging credit facilities for the establishment of orchards, their maintenance, floriculture, mushroom, Bee-keeping, marketing of produce etc.

c. Gram Panchayats:

1. Maintain database on cropping pattern and prepare crop plan covering new and remunerative crops, crop diversification, promote organic farming.
2. Arrange for soil/leaf testing and communicate farmers on test results.
3. Identification and recommendation of beneficiaries for providing subsidy under various horticultural schemes with special emphasis to IRDP, Scheduled Caste and Scheduled Tribe families.
4. Assess requirements of horticultural inputs and ensure timely distribution of inputs.
5. Encourage the formation of co-operative societies for the development of horticulture and arrange for credit and marketing facilities.
6. To cooperate in selection and maintenance of fruit procurement centers under Market Intervention Scheme.
7. Report crop losses due to natural calamities and the extent of relief required to Panchayat Samitis.
8. To invite Horticulture Extension Officer in Gram Sabha to coordinate in implementation of horticulture schemes.

d. Funds and Functionaries:

i) Funds: As regards devolution of funds to Panchayati Raj Institutions, it is stated that the department usually gets about 16 %

of the total funds from developmental activities which are utilized on multifarious programmes besides utilizing the funds for upkeep of various Government orchards, nurseries and other units. The funds are so meagre that it is becoming increasingly difficult to even maintain the departmental units even, as such the department is of the firm opinion that Panchayati Raj Institutions should arrange funds from the concerned departments of the state Government with Rural Development department and Panchayati Raj department etc. besides arranging funds from the central ministries.

ii) <u>Functionaries</u>: In so far as the question of transferring functionaries to the Panchayati Raj Institutions is concerned, it is stated that the department is facing acute shortage of staff at field level. Apart from this, because of multifarious activities and functions assigned to field officers, it would not be advisable to transfer and put the field functionaries of department under absolute control of Panchayati Raj Institutions because due to lack of technical manpower and knowledge, the Panchayati Raj Institutions will not be able to utilize the full potential of the functionaries of the department.

C. <u>ANIMAL HUSBANDRY</u>:

1. Pradhan of Gram Panchayats have been entrusted the power of reporting of physical attendance of the staff posted in Veterinary Dispensaries.

2. Chairpersons, Zila Parishads and Chairpersons, Panchayat Samitis have been authorized to conduct periodical supervision and inspection of Veterinary Dispensaries/ A.I. Centers/ Sub Centers.
3. The construction and maintenance of veterinary Institutions would be undertaken by the Panchayat Samitis under the supervision of Zila Parishads.
4. To organize calf rallies, animal exhibitions and milk competitions.
5. Gram Panchayats are empowered to supervise milk collection center/society and may make complaint of mall functioning to the District level authorities.

D. <u>FISHERIES</u>:

1. Chairperson and all members of Zila Parishads, Pradhans and Up-Pradhans of Gram Panchayats have been declared as Fisheries Officers and have been empowered for collection of money from offenders on account of compensation/ fines realized and keep it as revenue of PRIs.
2. Pradhans and Up-Pradhans of Gram Panchayats and Chairperson, Block Samitis have been authorized to issue fishing license to Professional fishermen and Anglers with powers to retain money realized in the account of Panchayati Raj Institutions as its revenue.
3. Panchayati Raj Institutions have been further authorized for sanctioning of assistance for fish ponds in rural areas.

E. FORESTS:

1. The Forest Department has devolved powers and associated Gram Panchayats in the following manner:

   (i) The Pradhan, Gram Panchayats have been appointed Forest Officer to carry out the purpose of rule 11 of H.P. Forest Produce Transit (Land Route) Rules, 1978 for the issuance of pass for transportation of minor Forest produce collected from the forests in concerned Panchayat in respect of 38 items/ species which are given below. The fee so realized shall form the revenue of the Gram Panchayats.

Sr. No.	Botanical Name of the Minor Forest Produce	Local Name of the item	Export Fee (In Rs. per Quintal)
1	2	3	4
1.	Alnslea aptera	Sath Jalori	50/-
2.	Plerorhiza kurroo	Karoo	540/-
3.	Jurinea macrocephala	Dhoop	500/-
4.	Angalica glauca	Chora	125/-
5.	Viola odorata	Banafsha	2,250/-
6.	Valeriann wallichi	Mushk Bala	600/-
7.	Thalletrum spp.	Mamiri	335/-
8.	Thymus sephylum	Ban Ajwain	100/-
9.	Morchella esculante	Guchhi	10,000/-
10.	Potentilla nepalensis	Dori	40/-
11.	Pistachla integerina	Kakarsinghi	1,000/-
12.	Polygonatum verticilliatum	Salm Mishri	1,000/-
13.	Salvia moorcroftlana	Thuth	180/-
14.	Banium persicum	Kala zira	2,000/- (if it is collected from forest)
15.	Selinium vaginstrum	Butkesh	400/-
16.	Tinospora cordifolla	Gloe	100/-
17.	Orchis latifolla	Salam Panja	6,000/-
18.	Valerlana hardwichii	Nihani	600/-
19.	Acorus calamus	Buch	130/-
20.	Pinus wallichlana	Kail cones	1,000/-
21.	Adiantum lanulatum	Dusgtuli	80/-
22.	Lichens	Chalora	225/-

23.	Ables webblana	Taispatra	85/-
24.	Hedychlum acuminatum	Kapper Kuchri	70/-
25.	Heraclsum spp.	Patishan roots	25/-
26.	Corardiana heterophylia	Bichhu Buti	150/-
27.	Cedar rosette	Deodar Rossette	150/-
28.	Birch pine	Kush Cones	150/-
29.	Cehrella spp.	Bari phool	50/-
30.	Pyrus pashia	Kainth	30/-
31.	Colebrookea oppositifolia	Bindi phool	50/-
32.	Rhododendron spp.	Brass Phool	150/-
33.	Coleus aromaticus	Pthan Bail	30/-
34.	Lichens & Mosses	Green Mous ghass	250/-
35.	Hypericum patulum	Khaarera/Basanti	250/-
36.	Curcuma spp.	Ban Haldi	50/-
37.	Juniperus recurva	Bether Patta	100/-
38.	Pine Needles	-	

ii) The Gram Panchayats have also been associated in the implementation of externally aided projects.

F. RURAL DEVELOPMENT:

1. The department has no objection if the Panchayats are empowered to check the attendance of staff located in their territorial jurisdiction.
2. It is intimated that the department has not received any additional grant for the repair and maintenance of water supply and sanitation schemes. However, in the TSC projects, protection of water sources from different kinds of pollution is a priority area being implemented in all the districts of the State as per approved projects.
3. The department is also taking initiatives for better Rain Water harvesting and moisture conservation techniques under its various Watershed Development Projects by involving Panchayati Raj Institutions.

G. REVENUE:

No devolution made in the nature of administrative control etc.

H. IRRIGATION AND PUBLIC HEALTH:

1. The operation and maintenance of 10 percent Rural Water Supply Schemes has been brought within the ambit of Panchayats, who would be authorized to appoint persons for operating the distribution system at a wage of up to Rs. 750 per month. Some of the salient features of the devolutions are given below:-

I. Procedure for handing over of schemes to PRIs for operation below sector storage tanks:

1. Operation and maintenance process of Rural Water Supply Schemes has been classified into:-
   a. System under Sector Storage Tank (SST).
   b. System under main storage tank up to Sector Storage Tank (SST).
   c. System under pumping stations to main storage tank.
   d. System including head work, mechanical treatment system up to pumping station.
2. The operation and maintenance system shall be handed over in a phased manner. The operation part shall be handed over first starting from the lower most system component i.e.

system under Sector Storage Tank (SST) including the Sector Storage Tank. After the successful and sustained system operation of this component by the user group or PRIs, the maintenance part of this component shall be transferred.

3. The other component upward in the system i.e. (b), (c) and (d) of Para 1 above shall be considered for transfer of operation, one after another as the process is consolidated into former component.
4. In the first phase of the process, those systems can be considered for handing over to the PRIs for operation which do not have more than two controls to operate below the SST. Each section should select one SST that covers only a singly village or a cluster of habitations.
5. Each concerned Panchayat would be given a sum of up to Rs. 750/- per part time worker per month for taking over operation of distribution below the Sector Storage Tank (SST).

II. Selection of the scheme for transferring to PRIs:-

1. The scheme selected should have Sectoral Storage Tanks, which receive adequate quantity of water round the year.
2. The Sector Storage Tank should be well protected from sanitary point of view and there should not be any leakage from the tank.

3. The capacity of the tank should be adequate as required to meet the supply to the covered population at the required norms. Any capacity in excess of required norms shall be treated equal to the required capacity.
4. The Sectoral Storage Tank should have minimum required capacity of 7000 ltrs. Smaller capacity adjoining tanks may be clubbed together to form minimum level of 7000 ltrs.
5. The distribution system should be in a healthy functional condition i.e. there should be no leakage in the system. All the hydrants provided in the system should be working satisfactorily and must discharge the required quantity of water.
6. The distribution system should not have more than two controls to regulate the supply of water in the system.
7. The system under Sector Storage Tank which may be proposed for transfer should be studied and in case some small adjustments, corrections and improvements are required to satisfy the above conditions the same should be carried out and the system should be set right before handing over to the PRIs.
8. Any operation & maintenance staff found surplus after handing over the system below sector storage tank to PRIs shall be transferred and adjusted within the same Division/Circle, where there is a vacancy. In case, there is no vacancy on the nearby water supply/ irrigation schemes, the surplus staff shall be clubbed together and deployed on the original works or on maintenance teams.

III. Selection of the person to operate the system :

1. The Panchayat would be free to appoint any person having good health and sound mind for operating the system below the Sector Storage Tank.
2. The selected person(s) would be imparted training for 30 days by the Department in operating the distribution system as well as chlorination of the Sector Storage Tanks.
3. The person selected to operate the scheme should preferably belong to the same village/villages being served under the SST and should be committed to serve the community. Preference should be given to mature literate persons who can act responsibly and will remain in the area rather than young persons who will move out for jobs.
4. The Gram Panchayat will decide the number of persons to be deployed depending upon the site conditions and local needs in consultation with A.E./J.E. who will approve the numbers to be appointed and the related wage proposal.

IV. Duties of the person appointed to operate the distribution system below sector storage tank:-

1. Operation work to be carried out by the part time worker in the distribution system includes:-

   A. The task of operation of the distribution system has to be done twice a day and is limited only to opening and closing of valves in the distribution network daily with the required chlorination of the Sector Storage Tank (SST) to be carried out periodically as required.

B. To check for status of scouring and then proper closure of wash out valves.

C. To check for leakage through pipes and report the same to IPH Department.

D. To check for the status of manhole cover over the storage tank and chamber cover.

E. To inspect the distribution system and the storage tank and chamber cover.

F. To intimate the requirement of bleaching powder to the IPH department.

G. To carry out minor repairs such as replacement of washers in the tap etc.

H. To clean and disinfect the Sector Storage Tank periodically preferably once in a quarter.

I. To check for any misuse/pilferage of drinking water by any person and also bring it to the notice of the VWSC/Panchayat.

2. The appointed person would also be required to report on any disruption of the distribution network to the nearest IPH office/functionary so that the supply of drinking water can be restored through necessary repair at the earliest.

3. IPH Department will prepare a statement of private water connections beyond the SST showing the name and amount

to be collected for each month. The person appointed shall be liable to collect the amount due every month and deposit it promptly with AE/JE., against government receipt (GR).

V. Monitoring by the Panchayat:-

- A complaint register shall be maintained by the VWSC/Panchayat to lodge complaint regarding disruption in the supply of water in public stand post/private connections. Minor repairs shall be carried out by the part time worker and in case of major repairs the same shall be reported to the VWSC/ Panchayat/ J.E. who will take the necessary action.
- A three member committee of the user group shall be formed by the VWSC/ Panchayat to oversee the working of the part time worker deployed for operation of the distribution system below the sector storage tank.
- Any irregularity found in performing the duties shall be reported to the VWSC/ Panchayat in writing, which shall be free to remove any of the persons appointed by it from the job.
- The decision taken by the VWSC/ Panchayat shall be considered as final and reported to the concerned A.E./J.E., in charge of the scheme.
- If the decision is taken by VWSC/ Panchayat to remove the worker or he is unwilling to serve, he will be immediately replaced by appointing another part time worker to operate

the scheme and this person shall be trained by the Department.

- The Panchayat/ VWSC shall take suitable action including imposing fine/ issuing warning/ disconnection of the tap against the persons indulging in misuse/ pilferage of drinking water.

VI. Maintenance support to be provided by the Department:-

- The IPH Department will provide all maintenance support to VWSC/Panchayat responsible for the operation of the scheme below Sector Storage Tank (SST). Any minor/major repair/leakage shall be attended to by the Department by deploying its own maintenance crew.
- A maintenance team will be constituted at every section headquarter out of the existing staff or staff withdrawn from the scheme after handing over to PRIs. Maintenance team will function under the guidance and control of concerned J.E. and will look after the minor and major repairs of the schemes handed over to the PRIs.
- All the funds required for carrying out minor/major repairs/replacements shall be met by the Department.

VII. Funding support to be provided to the Gram Panchayat:-

- The funds required to meet out the expenditure on wages of persons appointed by the Gram Panchayat shall be met by

IPH Department utilizing the O&M funds available under ARWSP funds or other schemes.

- The Gram Panchayat will prepare an advance statement, of the expenditure to be incurred on the wages of the persons appointed for the next quarter and send it to the A.E./J.E., who will make payment of the same well in time.

I. INDUSTRIES:

1. Panchayats have been authorized to issue permits without charging fee for the bonafide use of extraction of material to the extent as follows: -

(In Tonnes)

Sr. No.	**Items**	**House**	
		Repair	**New Construction**
1	**2**	**3**	**4**
1.	Sand	20	160
2.	Stone	50	400
3.	Gravel	10	90

2. The Government has decided to devolve Panchayats tax on extraction and export of sand, stone, bajri on the following rates:

Sr. No.	Items	Rate of extraction and Export
1	**2**	**3**
1.	Sand, Stone & Bajri	(i). Rs. 10/- per Truck (ii). Rs. 5/- per Trolley
2.	Slates	Rs. 50/- per Truck

3. The tax will be collected by the concerned Mining Officer and deposited in the Government Treasury. The detail of tax collected will be intimated to District Panchayat Officer on quarterly basis who in turn will send the same to Director, Panchayati Raj. The Director, Panchayati Raj will consolidate the proposal and obtain Governments' approval for its drawl and give sanction to concerned District Panchayat Officers. The District Panchayat Officers will then draw the amount and distribute the same to Gram Panchayats.

J. <u>TRANSPORT:</u>

It is proposed to empower Panchayati Raj Institutions to check the time-table of buses as well as to give recommendations for grant of stage carriage permits in their territorial jurisdiction.

K. <u>ELEMENTARY EDUCATION</u> :

Under the process of decentralization, the Gram Panchayats have been devolved following powers:

1. Pradhans of Gram Panchayats have been authorized to check and report on physical attendance of teachers.
2. The ownership of all Government Primary School buildings has been transferred to standing committee of Panchayati Raj Institutions for construction/maintenance and the Gram Panchayats have been declared as Beneficiary Trustees.
3. The Gram Panchayats have also been assigned a role for the appointment of Primary Assistant Teachers and Part Time Water Carriers in Government Primary Schools.
4. The guidelines have also been issued to associate Gram Panchayats in promoting attendance/enrolments and to provide help in the implementation of Mid Day Meal Scheme.

L. EDUCATION:

1. Supervisory functions viz. inspection of Schools, report on physical attendance of School Teachers has been handed over to Panchayati Raj Institutions.

2. PRIs are associated in the decisions to open/ upgrade the Schools and also about the location of educational institutions.

M. AYURVEDA:

Decentralisation includes the following activities:

1. Construction of New Buildings :

1. The Gram Panchayat will get the estimate prepared from some Government agency for the construction of Ayurvedic buildings after the land is transferred to Ayurveda Department. Then it will forward estimate to Zila Parishad who in turn will send it to District Ayurveda Officer. After obtaining necessary approval from the Government by the District Ayurveda Officer, the building work will be executed from the same agency which has prepared the estimate by the Panchayat. The work will be supervised by the following committee:

1.	Chairman	Pradhan
2.	Secretary	Ayurvedic Chikitsa Adhikari/ Pharmacist
3.	Member	Gram Panchayat Vikas Adhikari
4.	Member	Ward Panch/ Pradhan Mahila Mandal

2. The committee will ensure execution of work as per norms and quality control requirements. The payment for work will be made in three instalments after obtaining Utilization Certificate.

2. Repair and Maintenance:

1. The Gram Panchayat will also undertake repair and maintenance works of Ayurvedic Government buildings. The procedure for preparation of estimate and approval will be the same as for the construction of new buildings. The work will be supervised by the following committee:

1. Chairman Pradhan
2. Secretary Ayurvedic Chikitsa Adhikari/ Pharmacist
3. Member Junior Engineer of Block
4. Member Ward Panch

2. The committee will be responsible for ensuring quality repair and releasing payment in two instalments after receipt of Utilization Certificate.

N. SOCIAL JUSTICE AND EMPOWERMENT:

1. The PRIs have been entrusted the work of selection of beneficiaries of Old Age Pension under Social Security Scheme.
2. In the Village Level Coordination Committees, due representation has been given to the PRIs. The main functions of these Committees are to organize Bal melas, celebration of events like nutrition week, breast feeding week, women related functions, Environment day, etc.
3. The PRIs have also been entrusted the important role of Supervision/opening of new Anganwari Centres under I.C.D.S. Programme.
4. The administrative control of running Anganwari Centres can also be entrusted to PRIs, if these bodies are strengthened administratively.

O. FOOD AND SUPPLIES:

1. Panchayati Raj Institutions have been authorized to recommend opening of Fair Price Shops/godowns.
2. Panchayati Raj Institutions are involved in the constitution of vigilance committees. Zila Parishads/Panchayat Samitis and Gram Panchayats are the integral part of the vigilance committees which are constituted at Fair Price Shops' level/Block level/District level and State level. The Panchayati Raj Institutions can also report about the malpractices such as adulteration, hoarding and profiteering, if committed, by the Fair Price Shops, to the competent field functionaries of the departments concerned i.e. Health and Family Welfare and Food and Civil Supplies for initiating of action against defaulters.
3. Model citizen charter, showing the functioning of the department has been circulated to the Panchayati Raj Institutions and these Institutions are involved in the effective implementation of the Targeted Public Distribution System.
4. Panchayat Samitis will supervise and maintain the availability of essential commodities and review the public distribution system in these areas.
5. Panchayat Samitis will assess the coverage of consumers by Fair Price Shops especially for the weaker section.
6. Gram panchayat will decide the location and arrange the running of Fair Price Shops along with preparation and issuing of the ration cards.

6.6 Based on the interaction of the Commission with the departments, some additional information on delegation and decentralization also emerged beyond the contents elaborated in this chapter earlier. A brief resume of such actions or proposed action is given below:-

A. <u>Department of Social Justice and Empowerment :</u>

1. The department has constituted Village Level Coordination Committees for the supervision of Anganwaries. These VLCCs could be chaired by the concerned ward member.
2. The functioning of the Anganwaries is assessed and graded presently by the CDPOs. It is proposed to give this authority/function to the Gram Sabha.

B. <u>Department of Health & Family Welfare :</u>

1. Under the National Rural Health Mission (NRHM), the Health Sub Centre level Parivar Kalyan Salahkar Samiti (PARIKAS) has been provided Rs. 10,000 per PARIKAS for maintenance, procurement of medicines and sanitation related activities. This is implemented through the Panchayats.
2. The Chairperson of Zila Parishad has been notified as the Vice Chairman of the District Health Mission under the NRHM.

C. Public Works Department :

1. The Panchayati Raj Institutions are involved in firming up the shelf for PMGSY or Bharat Nirman.
2. The Panchayat Samitis are involved in one time approval of the core plan of rural connectivity.
3. The department is considering transfer of all non-core roads to PRIs along with the transfer of funds and functionaries. PRIs will also be involved in supervision of general nature.

D. Department of Industries and Mining :

1. The department would consider the transfer of entire royalty on minor minerals to the Panchayati Raj Institutions.
2. Local Area Development Authorities for industrial projects have been decided to be put in place and the PRIs shall be an integral component of LADA management so that the LADA funds are utilized in consultation with the PRIs.

E. Department of Animal Husbandry :

1. The department will consider transfer of Go Sadans to the PRIs with funds, functions and functionaries.

F. Department of Fisheries :

1. The function of surveillance of the riverine resources alongwith functionaries could be entrusted to Gram Panchayats.

2. Village Ponds could be entrusted to the Gram Panchayats for development of fisheries and the department will provide all technical guidance.
3. The selection of beneficiaries for assistance under FFDA programmes can be entrusted to the Gram Panchayats.

G. Department of Horticulture :

1. The department would consider the organization of input supply through the Panchayati Raj Institutions and also consider the possibility of making the horticultural extension officers answerable to the PRIs at the appropriate level.
2. The panchayats could levy some fee on plant material being exported from the panchayat.
3. It was observed that certain residential buildings constructed under the National Agricultural Extension Project were lying unutilized by the department. The department would consider transferring the control of such buildings to the PRIs so that the same could be utilized gainfully.

H. Department of Forests :

1. In regard to expanding the control of PRIs over the exploitation of minor forest produce, the department would keep adding species to the list already notified. In this behalf the Chil pine needles already stand added and it is under consideration to transfer the Jetropha also to the PRIs.

2. The plantations raised by the department could be entrusted to the PRIs along with transfer of funds except for the first year of maintenance to enlarge the stake of Gram Panchayats in this function.

I. Rural Development :

1. Since sanitation is one of the obligatory function of the Panchayati Raj Institutions, it was agreed that the department will consider transfer of the total sanitation campaign work to the PRIs along with funds and functionaries.

J. MPP & Power Department :

1. The H.P. State Electricity Board will consider introducing a pilot scheme for collection of electricity bills by the PRIs on a specific and pre-determined commission to be given to the PRIs. Expansion of this activity will depend upon the success of the pilot.
2. The departments of Urban Development and Panchayati Raj may approach the government for increasing the surcharge on consumption of electricity towards strengthening the resource base of the Local Government Institutions and also for meeting the liability of the bills of street lighting.

6.7 The whole idea of presenting the above spectrum of status, expectations and groundswell for decentralization is to prepare the ground for appropriate action by the various State Government departments in the direction of enhancing the elements of governance at the local level.

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CHAPTER 7

FORECASTING THE COMMITTED EXPENDITURE OF PANCHAYATI RAJ INSTITUTIONS FOR THE PERIOD 2007-2012

7.1 Different levels of Panchayati Raj institutions have a certain liability of committed expenditure to defray honorarium to elected representatives, honorarium to field level functionaries and office expenses for day to day running of the office. To work out the financial implications on this account, the Commission decided to adopt normative approach for the functionaries provided to Panchayati Raj Institutions as per prevalent rates approved by the State Government and the revision of wages to Panchayat Chowkidars, Panchayat Sahayaks and Tailoring Teachers as announced in the budget speech of 2007-2008. For the honorarium to elected representatives the calculations are based on revised rates as announced in the budget speech for 2006-07 and notified to be effected from 1.4.2006 and the total number of elected representatives. Items wise detailed working of such committed expenditure is contained in the following paragraphs:

I GRAM PANCHAYATS:

7.2 The liability of committed expenditure for the Gram Panchayats consists of four components viz. i) honorarium to elected Pradhans, Up-Pradhans and Members; ii) honorarium to Chowkidars of Gram Panchayats along with livery provisions; iii) honorarium to other functionaries of Panchayats; and iv) office expenses. To asses the level of committed expenses on account of honorarium to elected representatives of Gram Panchayats, the Commission obtained the revised rates of honorarium granted to them w.e.f. 1.4.2006. For the honorarium of Chowkidars of Gram Panchayats which was paid at the rate of Rs. 500 per month and stands revised to Rs. 800 per month with effect from the 1st July, 2007 of which Rs. 650 will be paid by the State Government and the remaining Rs. 150 will be paid by the Gram Panchayats from their own resources. To work out the financial liability on these functionaries of Gram Panchayats, the Commission took cognizance of the numbers of the functionaries and the rates as provided by the Panchayati Raj department. The total liability for the forecast period works out to Rs. 1201.53 lakh of which Rs. 189.73 lakh is recommended for 2007-08 and thereafter an annual provision of Rs. 252.95 lakh shall be required. In so far as office expenses were concerned, the same were considered necessary to be marked up by ten percent per annum over the level of Rs. 184.57 lakh for 2006-07 as per the recommendations of the 2nd State Finance Commission for neutralization of inflation and for catering to the increased level of activity for the day to day functioning of the Gram Panchayats, besides the increase in the number of Panchayats. The State Government has notified the rates of travelling allowance and dearness allowance to the elected functionaries of the PRIs as a result of which, the provision for office expenditure will need to be marked up. Since no separate estimates of such expenditure are available, the Commission took the view to provide an amount of Rs. 50 lakh per annum for this purpose of which Rs. 40 lakh will be for Gram Panchayats, Rs. 7 lakh for Panchayat Samitis and Rs. 3 lakh for Zila Parishads.

7.3 As regards the assessment of committed expenses on account of honorarium to the elected representatives of Gram Panchayats, after taking into account the number of Panchayats, the total number of various elected representatives and the new rates of honorarium announced by the State Government through the State budget for 2006-2007, for the 3243 Gram Panchayats, the annual liability works out to Rs. 1166.07 lakh. As per the revised rates, the Pradhan of Gram Panchayat gets Rs. 1000 per month; the annual liability works out to Rs. 389.16 lakh. For the Up-Pradhans, an honorarium of Rs. 750 per month is given for which the annual liability comes to Rs. 291.87 lakh. The members of the Gram Panchayats are paid Rs. 125 per meeting and two such meetings are held in a month and therefore, the annual liability for the honorarium of members comes to Rs. 485.04 lakh for 16168 members.

7.4 During the dialogue with the Commission and through correspondence, a large number of Pradhans of Gram Panchayats forcefully recommended for a uniform to be provided to Gram Panchayat Chowkidars to make them identifiable as employees of Gram Panchayats as also to compensate them by providing the uniform as a motivational measure. The Commission considered it as a genuine demand in view of very nominal honorarium paid to these functionaries and recommends that they may be provided uniform on 50:50 sharing basis between State and Gram Panchayats from their own sources. As per government order in existence for providing livery items to its class IV employees, the Gram Panchayat Chowkidars may be provided uniform allowance at the rate of Rs. 140 per month at par given in government offices which comes to Rs. 1680 per annum. This amount may be shared between State and Gram Panchayat as given above. The Government may provide Rs. 840 per annum to one Chowkidar, which works out to an annual liability of Rs. 27.24 lakh to 3243 Gram Panchayat Chowkidars. It shall remain the responsibility of the Gram Panchayat Pradhan to ensure that the Chowkidar wears the uniform.

7.5 For the smooth conduct of day to day business of the Gram Panchayats, these institutions need a reasonable provisioning for meeting the office expenses. Keeping in view inflation and rising cost of articles used in the functioning of office, the Commission took into account provision of Rs. 184.57 lakh kept for the year 2006-2007 for office expenses and marked it up by ten percent to arrive at Rs. 203.03 lakh for the year 2007-2008 which is the first year of the award period. For every successive year the provision of office expenses has been marked up by ten percent and additional provision of Rs. 40 lakh per annum has been recommended for meeting the liability of travelling and daily allowance admissible to these functionaries.

7.6 Out of 3243 Gram Panchayats, the memorandum submitted by the Panchayat Department in March, 2006 mentioned that there were 1940 Panchayat Sahayaks who were paid a fixed amount of Rs. 600 per month, the number has been revised to 2148 in January, 2007 and the emoluments have also been revised to half the minimum basic pay and dearness pay of Panchayat Secretary which is Rs. 3120-5160 and works out to Rs. 2340 per month per Panchayat Sahayak with effect from 1st July, 2007. In view of their necessity in providing assistance to Panchayat Secretary, the Commission agrees to the proposal of the department and recommends an amount of Rs. 603.16 lakh per annum for the honorarium to Panchayat Sahayaks. To defray travelling allowance charges proposed at the rate of Rs. 32 per day for two days in a month, the liability per annum works out to Rs.16.50 lakh. The total liability of honorarium and travelling allowance to Panchayat Sahayaks per annum thus comes to Rs. 619.66 lakh which is repeated as an expenditure provision for successive years of the award period 2007-12.

7.7 Tailoring Teachers were also engaged in 2922 Gram Panchayats at an honorarium of Rs. 700 per month which stands revised to Rs. 900 per month with effect from 1st July, 2007. Tailoring teaching provide an opportunity in self employment of the needy women to start an important economic activity at village level and also attend to her own household needs. The Commission agrees for the continuation of this activity and recommends an annual provision of Rs. 315.58 lakh for the same.

7.8 Based on the forecast of the committed expenditure on above items for the Gram Panchayats, the financial implications for the forecast period work out as under:

Table-I

Forecast of expenditure on committed liabilities for Gram Panchayats for 2007-2012

(Rs. in lakh)

Sl. No.	Year	Honorarium						Livery for Chowki-dars	Office Expenses	Total
		Pradhans	Up Pradhans	Members	Chowki-dars	Panchayat Sahayaks	Tailoring Teachers			
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**	**10.**	**11.**
1.	2007-08	389.16	291.87	485.04	189.73	619.66	315.58	27.24	243.03	**2561.31**
2.	2008-09	389.16	291.87	485.04	252.95	619.66	315.58	27.24	263.33	**2644.83**
3.	2009-10	389.16	291.87	485.04	252.95	619.66	315.58	27.24	285.66	**2667.16**
4.	2010-11	389.16	291.87	485.04	252.95	619.66	315.58	27.24	310.22	**2691.72**
5.	2011-12	389.16	291.87	485.04	252.95	619.66	315.58	27.24	337.25	**2718.75**
Total	**(2007-12)**	**1945.80**	**1459.35**	**2425.20**	**1201.53**	**3098.30**	**1577.90**	**136.20**	**1439.49**	**13283.77**

7.9 The total committed liability on the items given in the table-I above comes to Rs.13283.77 lakh for Gram Panchayats for the forecast period.

II **PANCHAYAT SAMITIS**:

7.10 Panchayat Samiti is a middle level tier of the Panchayati Raj Institutions and there are 75 Panchayat Samitis in the State. The Panchayat Samitis have no staff of their own and the secretarial assistance is provided by the Executive Officers of the Panchayat Samiti, who also happen to be the Block Development Officers. Since it has no staff of its own the committed expenses in the case of Panchayat Samitis consists of primarily three elements that is honorarium to Chairpersons, Vice Chairpersons and Members of the Panchayat Samiti, honorarium to functionaries placed at the disposal of the Panchayat Samiti and office expenses. The Panchayat Samitis have been provided Junior Engineers and Junior Accountants as assisting functionaries, who though virtually function from the office of Block Development Officers, yet the financial liability on this account has been devolved through the State Finance Commission mechanism in the past. The same practice is proposed to be continued.

7.11 The committed expenditure of honorarium to the representatives of Panchayat Samitis which has been revised for the Chairpersons, Vice Chairpersons and Members to a level of Rs. 1500, Rs. 1200 and Rs. 800 per month, respectively, works out to Rs. 169.94 lakh per annum. The elected representative wise expenditure on revised rates per annum is Rs. 13.50 lakh for Chairpersons, Rs 10.80 lakh for Vice Chairpersons and Rs. 145.64 lakh for 1517 members.

7.12 The Panchayat Samitis have also been provided some functionaries on honorarium basis in the category of Junior Engineers and Junior Accountants. These functionaries are deployed in the Development Blocks for the day to day office work, inspections and accountancy work.

7.13 In the memorandum submitted by the Panchayati Raj department, the number of Junior Engineers engaged on honorarium basis is 147 who are paid at the monthly rate of Rs. 6000 for placement in the non-tribal areas and Rs. 7500 for working in the tribal areas. Going by the deployment of 14 Junior Engineers in 7 Development Blocks of tribal areas and 133 Junior Engineers in Development Blocks of non-tribal areas, the actual honorarium per year works out to

Rs.108.36 lakh. The memorandum also suggests for the provision of travelling allowance to Junior Engineers at the rate of Rs. 56 per day for 15 days in a month. After due consideration, it is recommended that so far as travelling on tour by Junior Engineers is concerned, ten days touring by them should be sufficient considering the total number of working days in a month. Two days additional touring by Junior Engineers is also recommended for attending to the attachment duties with the visiting VIPs or the officers to their area. Accordingly a provision of Rs. 11.85 lakh is recommended per annum for this purpose. Total liability on Junior Engineers for honorarium and travelling allowance works out to Rs. 120.21 lakh per annum.

7.14 The Panchayat Samitis also have ten Junior Accountants, who are paid an honorarium at the rate of Rs. 2500 per month. The annual liability on account of honorarium to Junior Accountants comes to Rs. 3.00 lakh. The Commission recommends this provision to be made through the forecast period.

7.15 In so far as third component of office expenses in respect of Panchayat Samitis is concerned, it was Rs. 13.22 lakh for the last year (2006-07) of the 2nd State Finance Commission award period. It was considered appropriate to give the same treatment to this element of committed expenditure as in the case of Gram Panchayats and mark it up by ten percent per annum for the entire award period. The provision for 2007-08 works out to Rs. 14.54 lakh and for the award period (2007-12) Rs. 88.76 lakh. In addition to this, a provision of Rs. 7 lakh per annum has also been recommended for meeting the TA/DA costs of the elected representatives.

7.16 As per the details of expenditure on committed items as above, the aggregate financial implication for the forecast period comes to as summed up in the following table:

<u>Table-II</u>

Forecast of Committed Expenditure for Panchayat Samitis for 2007-2012

(Rs. in lakh)

Sl. No.	Year	Honorarium					Office Expenses	Total
		Chairpe-rsons	Vice-Chairpersons	Members	Junior Engineers	Junior Accountants		
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**
1.	2007-08	13.50	10.80	145.64	120.21	3.00	21.54	**314.69**
2.	2008-09	13.50	10.80	145.64	120.21	3.00	22.99	**316.14**
3.	2009-10	13.50	10.80	145.64	120.21	3.00	24.59	**317.74**
4.	2010-11	13.50	10.80	145.64	120.21	3.00	26.35	**319.50**
5.	2011-12	13.50	10.80	145.64	120.21	3.00	28.29	**321.44**
Total		**67.50**	**54.00**	**728.20**	**601.05**	**15.00**	**123.76**	**1589.51**

7.17 The total committed liability for the Panchayat Samitis thus comes to Rs. 1589.51 lakh for the award period.

III <u>ZILA PARISHADS:</u>

7.18 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 - the Gram Panchayats and Panchayat Samitis. Pursuant to 73rd amendment to the Constitution of India and the succeeding legislation for 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. Post the 73rd amendment to the Constitution, the first election to Zila Parishads were held in December, 1995. For the present, this tier of Panchayati Raj system has well rooted and is gaining strength on a sustained basis.

7.19 There was no provision for the payment of honorarium to the elected representatives of the Zila Parishads up to 1996-97. As such no provision for the payment of honorarium was made in the report of First State Finance Commission. Over the years, like Gram Panchayats and Panchayat Samitis, the Zila Parishad has acquired its own functionaries for the running of its office. It also has three major components in the shape of committed expenditure liabilities, namely i) honorarium to Chairpersons, Vice Chairpersons and Members, ii) office expenditure and iii) honorarium to functionaries.

7.20 The rates of honorarium to Chairpersons, Vice Chairpersons and Members have been revised with effect from 1.4.2006 along with the elected representatives of the other tiers. The new rate of honorarium to Chairpersons is Rs. 3000, for Vice Chairpersons Rs. 2000 and for Members Rs. 1350 per month. The annual financial liability on this account comes to Rs. 4.32 lakh, Rs. 2.88 lakh and Rs. 36.78 lakh for Chairpersons, Vice Chairpersons and 227 Members of Zila Parishads, respectively.

7.21 Unlike Panchayat Samitis, which obtain entire secretarial support from the Block Development Officer's office, the Zila Parishad has its own set up and independent office. The actual expenditure figures under head “Office Expenses” obtained from all the Zila Parishads for the five year period of 2001-2006 give highly skewed picture of such expenditure ranging from Rs. 1.86 lakh to Rs. 7.06 lakh per annum. The Commission thus took past year’s (2006-2007) devolution of 2nd State Finance Commission under office expenses as base which was Rs. 42.79 lakh and marked it up by ten percent per annum for the succeeding years. The first year expenditure estimate was arrived at Rs. 47.07 lakh, which was given a mark up of ten percent annually for the forecast period. Thus, for the award period of five years (2007-12), the provision under office expenses for Zila Parishads is estimated at Rs. 287.40 lakh which by using average of five years come to Rs. 57.48 lakh per annum and Rs. 4.79 lakh per Zila Parishad per annum. Additional provision of Rs. 3 lakh per annum has been recommended for meeting the expenses on account of TA/DA to the elected members of the Zila Parishads.

7.22 To assist the Zila Parishad in its functioning, 12 Assistant Engineers and 12 Personal Assistants have also been engaged on the strength of Zila Parishad and are paid out from the devolutions recommended by the State Finance Commission. The post of Assistant Engineers existed during the award period of 2nd State Finance Commission but the Personal Assistants for Chairpersons have been included in the devolution scheme for the 3rd State Finance Commission tenure.

7.23 An Assistant Engineer each has been engaged in all the Zila Parishads for a monthly honorarium of Rs. 8000. The liability for honorarium of Assistant Engineer thus worked out to Rs. 11.52 lakh per annum. For attending to field inspection of works, the Assistant Engineers have to undertake tour for 10 days in a month for which daily allowance at the rate of Rs. 64 per day is granted. The liability on account of the travelling allowance comes to Rs. 0.92 lakh per annum. The total liability for Assistant Engineers for honorarium and travelling allowance for a year works out to Rs. 12.44 lakh.

7.24 The Chairpersons of the Zila Parishad have also been provided with the services of a Personal Assistant for the smooth conduct of office and to provide them efficiency in functioning. The honorarium of Personal Assistant is Rs. 3000 per month. The annual liability on this account works out to Rs. 4.32 lakh. The State Finance Commission agrees to the proposal of department and recommends providing of Personal Assistants to Chairperson along with the incumbents financial liability as indicated alone.

7.25 In this manner, the aggregate level of committed expenditure for Zila Parishads on the items described above, for the forecast period works out as given in the sub-joined table:

Table-III

Forecast of Committed Expenditure for Zila Parishads (2007-2012)

(Rs. in lakh)

Sr. No.	Year	Honorarium					Office Expenses	Total
		Chairpersons	Vice Chairpersons	Members	Assistant Engineers	Personal Assistants		
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**
1.	2007-08	4.32	2.88	36.78	12.44	4.32	50.07	**110.81**
2.	2008-09	4.32	2.88	36.78	12.44	4.32	54.78	**115.52**
3.	2009-10	4.32	2.88	36.78	12.44	4.32	59.96	**120.70**
4.	2010-11	4.32	2.88	36.78	12.44	4.32	65.66	**126.40**
5.	2011-12	4.32	2.88	36.78	12.44	4.32	71.93	**132.67**
Total		**21.60**	**14.40**	**183.90**	**62.20**	**21.60**	**302.40**	**606.10**

7.26 The total liability on committed expenditure thus works out to Rs. 606.10 lakh for the award period for the Zila Parishads.

IV SUM UP OF THE REVENUE EXPENDITURE FOR PANCHAYATI RAJ INSTITUTIONS:

7.27 As per the items-wise details of the committed revenue expenditure of the three tiers of the Panchayati Raj bodies contained in section 7.1 to 7.3 above, the total liability on account of such expenditure for these bodies has been summed up in the following table:

Table-IV

Revenue Expenditure of Panchayati Raj Institutions for forecast period 2007-2012

(Rs. in lakh)

Sr. No.	Year	Gram Panchayats				Panchayat Samitis			
		Hon. to elected rep.	Hon. to Funct.	Office Exp.	Total	Hon. to elected rep.	Hon. to Funct.	Office Exp.	Total
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1.	2007-08	1166.07	1152.21	243.03	**2561.31**	169.94	123.21	21.54	**314.69**
2.	2008-09	1166.07	1215.43	263.33	**2644.83**	169.94	123.21	22.99	**316.14**
3.	2009-10	1166.07	1215.43	285.66	**2667.16**	169.94	123.21	24.59	**317.74**
4.	2010-11	1166.07	1215.43	310.22	**2691.72**	169.94	123.21	26.35	**319.50**
5.	2011-12	1166.07	1215.43	337.25	**2718.75**	169.94	123.21	28.29	**321.44**
Total		**5830.35**	**6013.93**	**1439.49**	**13283.77**	**849.70**	**616.05**	**123.76**	**1589.51**

Table-IV ….Contd.

(Rs. in lakh)

Sr. No.	Year	Zila Parishads				Grand Total (6+10+14)
		Hon. to elected representatives	Hon. to Functionaries	Office Expenses	Total	
1.	2.	11.	12.	13.	14.	15.
1.	2007-08	43.98	16.76	50.07	**110.81**	**2986.81**
2.	2008-09	43.98	16.76	54.78	**115.52**	**3076.49**
3.	2009-10	43.98	16.76	59.96	**120.70**	**3105.60**
4.	2010-11	43.98	16.76	65.66	**126.40**	**3137.62**
5.	2011-12	43.98	16.76	71.93	**132.67**	**3172.86**
Total		**219.90**	**83.80**	**302.40**	**606.10**	**15,479.38**

7.28 The revenue expenditure at a glance for all the three tiers of Panchayati Raj Institutions is given in the following table:

Table-V

Revenue Expenditure of Panchayati Raj Institutions by classification for forecast period 2007-2012

(Rs. in lakh)

Sr. No.	Year	Hon. to elected rep.	Hon. to Functionaries	Office Expenditure	Total
1.	**2.**	**3.**	**4.**	**5.**	**6.**
1.	2007-08	1379.99	1292.18	314.64	**2986.81**
2.	2008-09	1379.99	1355.40	341.10	**3076.49**
3.	2009-10	1379.99	1355.40	370.21	**3105.60**
4.	2010-11	1379.99	1355.40	402.23	**3137.62**
5.	2011-12	1379.99	1355.40	437.47	**3172.86**
Total		**6899.95**	**6713.78**	**1865.65**	**15479.38**

7.29 The comparative position of the recommendations made by the 1st and 2nd State Finance Commissions on the committed expenditure in the nature of honorarium to elected representatives, Panchayat functionaries and variable expenditure on office expenses devolved by the State Finance Commissions vis-a-vis the proposed recommendations of 3rd State Finance Commission is given in the following table :

Table-VI

1st and 2nd State Finance Commission devolution on Revenue expenditure of Panchayati Raj Institutions

(Rs. in lakh)

Sr. No.	State Finance Commn. Period	Gram Panchayat Honorarium					Office expenses	Total (6+7+8)
		Pradhans	Up Pradhans	Members	Total (3-5)	Functionaries		
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1.	1st SFC	175.32	87.66	-	262.98	525.96	606.53	**1395.47**
2.	2nd SFC	1366.65	1184.43	3136.70	5687.78	1888.65	839.05	**8415.48**
3.	3rd SFC (Recom.)	1945.80	1459.35	2425.20	5830.35	6013.93	1439.49	**13283.77**

Table-VI ....Contd.

(Rs. in lakh)

Sr. No.	State Finance Commn. Period	Panchayat Samitis Honorarium					Office expenses	Total (13+14+15)
		Chairpersons	Vice Chairpersons	Members	Total (10-12)	Functionaries		
1	2	10	11	12	13	14	15	16
1.	1st SFC	12.96	6.48	-	19.44	-	43.96	**63.40**
2.	2nd SFC	56.25	45.00	678.00	779.25	406.85	60.10	**1246.20**
3.	3rd SFC (Recom.)	67.50	54.00	728.20	849.70	616.05	123.76	**1589.51**

Table-VI ....Contd.

(Rs. in lakh)

Sr. No.	State Finance Commn. Period	Zila Parishads Honorarium							Total (20-23)	Grand Total (9+16+24)
		Chair-persons	Vice Chairp-ersons	Membe-rs	Total (17-19)	Functio-naries	Office expens-es	Lib.		
1	2	17	18	19	20	21	22	23	24	25
1.	1st SFC	-	-	-	-	-	-	-	-	**1458.87**
2.	2nd SFC	19.44	12.96	170.25	202.65	43.20	194.51	5.00	**445.36**	**10107.04**
3.	3rd SFC (Recom.)	21.60	14.40	183.90	219.90	83.80	302.40	-	**606.10**	**15479.38**

7.30 A comparison in nut-shell of the estimates of the above expenditure by the first two State Finance Commissions with that of the 3rd State Finance Commission is given in the following table:

Table-VII

Comparative presentation of data of State Finance Commission devolutions

(Rs. in lakh)

Sr. No.	State Finance Commn. Period	Hon. to elected rep.	Hon. to Functionaries	Office Expenditure	Total
1.	2.	3.	4.	5.	6.
1.	1st SFC	282.42	525.96	650.49	**1458.87**
2.	2nd SFC	6669.68	2338.70	1098.66	**10107.04**
3.	3rd SFC (Recom.)	6899.95	6713.78	1865.65	**15479.38**

7.31 The above data reveals that the committed expenditure levels have seen a progression over time and apart from the, honorarium to all the elected representatives, each tier of Panchayati Raj Institution has now its own functionaries as well to a certain extent. The increase in the amount in honorarium to elected representatives has been due to the increased number of Gram Panchayats, Panchayat Samitis and members in all the tiers coupled with revision of rates of honorarium. So far the functionaries, during the period of 1st State Finance Commission, the Panchayati Raj Institutions had lone functionary as Gram Panchayats Chowkidar. By the time of constitution of the 3rd State Finance Commission and in view of the memorandum submitted to it by the Panchayati Raj Department, now each tier has functionaries as a result of which the expenditure has shown a sharp increase.

7.32 While firming up financial estimates of honorarium granted to elected representatives and other functionaries of the Panchayati Raj Institutions, it was observed by the Commission that mid course revision of honorarium lead to significant degree of disturbance in assessing actual liabilities and imbalance fiscal balance of these bodies. The Commission proposes that a set system to grant revision of honorarium may be followed like the Pay Commission for the award period so that the actual liability is built into expenditure forecast.

V <u>CAPITAL EXPENDITURE:</u>

7.33 The capital expenditure needs of the Panchayati Raj Institutions were addressed for the award period of first two State

Finance Commissions in a limited manner. The provision made during the First State Finance Commission period was Rs. 300 lakh for the twelve Zila Parishad buildings at the rate of Rs. 25 lakh per district and during the award period of the Second State Finance Commission, a provision of Rs. 23 lakh was made for the infrastructural development of Gram Panchayats, leaving the onus and responsibility of the construction of Panchayat Ghars from out of Centrally Sponsored Schemes/Central Finance Commission devolutions.

7.34 The Panchayati Raj Institutions have now come through a decade of active existence, so their needs have also grown in so far as physical infrastructure is concerned. The growing role of Gram Panchayats at the grass root level and their strengthening by way of functionaries and equipment has led to the demand for appropriate accommodation at the Gram Panchayat headquarter level. The infrastructural needs of these institutions are discussed below:

A. <u>Gram Panchayats</u>:

7.35 In the name of office accommodation, the Panchayat Ghars are functioning from single room, two rooms or without any accommodation. There are no toilets, sufficient sitting space or space for keeping record of the Gram Panchayat does not exist at most places and more recently, provision of computer in each Gram Panchayat has added to the shortage of proper accommodation. The representation of women in Gram Panchayats has made the requirement of toilets an inescapable necessity, pressing in the complex itself.

7.36 The number of Gram Panchayats has increased from 3037 to 3243 during the award period of the 2nd State Finance Commission. There are 206 new Gram Panchayats which have been created just before the Panchayat elections and would not have their own Panchayat Ghar. As pointed out above, the 2nd State Finance Commission had provided an infrastructural support of Rs. 23.00 lakh at the rate of Rs.0.20 lakh for new Gram Panchayats numbering 115 but had not provided for the construction of Panchayat Ghars. It was brought to the notice of the Commission that these Gram Panchayats do not have their own buildings even now and would, therefore, require support from State Government for the construction of their own buildings. By taking a holistic view of the situation, there are 321 Gram Panchayats which do not have their own buildings. These consist of 115 Gram Panchayats carried forward from the end of First State Finance Commission that is 2001-02 and 206 Gram Panchayats created just before the Panchayati Raj elections, which were held in December, 2005.

Construction of Panchayat Ghar for newly created Gram Panchayats:

7.37 To ensure that the Gram Panchayats have sufficient and reasonable accommodation in the shape of Panchayat Ghar, a model design of Panchayat Ghar was prepared at a cost of Rs. 3.40 lakh by the Panchayati Raj Department. The liability of 321 Gram Panchayats (115 Gram Panchayats carried forward and 206 Gram Panchayats created just before the election of December, 2005) at this estimate works out to Rs. 1091.40 lakh. The infrastructural grants for 115 Gram

Panchayats which were in existence during the award period of 2nd State Finance Commission was provided Rs. 23.00 lakh by the 2nd State Finance Commission hence these Gram Panchayats are not being recommended infrastructural grant. The Gram Panchayats which were created just before the election of Panchayati Raj Institutions held in December, 2005 numbering 206 are being recommended Rs. 0.20 lakh for infrastructural grants. The liability on this comes to Rs. 41.20 lakh. Thus a total provision on account of providing accommodation and infrastructural grant to the Gram Panchayat comes to Rs. 1132.60 lakh. The Commission felt that such capital upgradation would be necessary and thus recommends this provision.

Construction of additional accommodation and toilets in 2922 old Gram Panchayats:

7.38 The Commission in its field level interaction with the Pradhans of Gram Panchayats came to know about the abject shortage of accommodation in existing Panchayat Ghars in the nature of their offices. The Commission acknowledges this fact and consider necessary to make a provision of Rs. 1.00 lakh per Panchayat for augmentation of accommodation and construction of toilets, specially for the ladies keeping in view that nearly one third of all the elected members are women and more and more women would be visiting the Gram Panchayats as a result of the overall effort for empowerment of women. The provision on this count works out to Rs. 29.22 crore over a period of four years (2008-2012) which has been phased out to keep balance in the devolutions.

B. Panchayat Samitis:

Refurbishing the offices of Panchayat Samitis:-

7.39 The Panchayat Samitis are an old institution which over the years of constant use of buildings and furniture qualifies for refurbishing by way of replacement/acquisition of furniture and special repairs to the existing Panchayat Samiti buildings for all the Panchayat Samitis. A one-time provision of Rs. 1.50 crores at the rate of Rs. 2.00 lakh per Panchayat Samiti considered sufficient to make them function from a proper accommodation with good furniture which at present is broken, shabby and insufficient. The amount of Rs. 1.50 crores is proposed to be made available to these institutions in 2008-09 itself.

C. Zila Parishads:

7.40 The Zila Parishads have already been provided their own accommodation during the 1st State Finance Commission period. In view of this and the fact that no demand was made before the Commission at any level of interaction, it is not felt necessary to make any provision for Zila Parishads.

D. Reconstruction of Panchayati Raj Training Institute at Baijnath:

7.41 In its memorandum submitted to the Commission and during a meeting with the Secretary, Panchayati Raj, the department impressed upon the need for the reconstruction of Panchayati Raj Training Institute at Baijnath at an estimated cost of Rs. 2.30 crore. The

Commission paid a visit to this institute and found that the existing building, apart from being old and dilapidated, was insufficient to cater to the required needs of training to the elected representatives of Panchayati Raj Institutions and Gram Sabha on a sustained basis especially in view of enhanced requirement of training post 73rd amendment of the Constitution of India. The Institute is responsible for imparting training to the functionaries and elected representatives of seven districts of Chamba, Kangra, Una, Hamirpur, Mandi, Kullu and Lahaul-Spiti.

7.42 Based on the assessment of the building and enhanced needs for training, the Commission recommends a one-time provision of Rs. 2.30 Crore for the reconstruction of the building in a phased manner.

7.43 The capital investment needs for the award period in the currency of the Third State Finance Commission for Panchayati Raj Institutions the (Gram Panchayats, Panchayat Samitis and Training Institution) work out as under:

Table-VIII

Capital component of Panchayati Raj Institutions for the forecast period 2007-2012

(Rs. in lakh)

Sr. No.	Year	Panchayat Ghars			Refurbishing of Panchayat Samitis	Reconstruction of Panchayati Raj Training Institute, Baijnath	Total
		Construction (321 Gram Panchayats)	Addl. Accom. in 2922 old Gram Panch.	Infrastructural grant (206 Gram Panchayats)			
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**
1.	2007-08	160.50	-	41.20	-	-	**201.70**
2.	2008-09	465.45	730.50	-	150.00	115.00	**1460.95**
3.	2009-10	465.45	730.50	-	-	115.00	**1310.95**
4.	2010-11	-	730.50	-	-	-	**730.50**
5.	2011-12	-	730.50	-	-	-	**730.50**
Total		**1091.40**	**2922.00**	**41.20**	**150.00**	**230.00**	**4434.60**

VI SUMMARY OF REVENUE AND CAPITAL EXPENDITURE ESTIMATES:

7.44 The liability of Panchayati Raj Institutions on account of establishment related expenditure and expenditure on capital needs is summarized in the following table:

Table-IX

Summary of revenue and capital expenditure for the forecast period 2007-2012

(Rs. in lakh)

Sr. No.	Year	Honorarium		Office Expenses	Total (3-5)	Capital Expenditure	Total (6+7)
		Elected Representatives	Functionaries				
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**
1.	2007-08	1379.99	1292.18	314.64	**2986.81**	201.70	**3188.51**
2.	2008-09	1379.99	1355.40	341.10	**3076.49**	1460.95	**4537.44**
3.	200910	1379.99	1355.40	370.21	**3105.60**	1310.95	**4416.55**
4.	2010-11	1379.99	1355.40	402.23	**3137.62**	730.50	**3868.12**
5.	2011-12	1379.99	1355.40	437.47	**3172.86**	730.50	**3903.36**
Total		**6899.95**	**6713.78**	**1865.65**	**15479.38**	**4434.60**	**19913.98**

7.45 The Commission recommends a total provision of Rs. 19913.98 Lakh for revenue and capital expenses be made for the period 2007-2012, while making out its overall recommendations.

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CHAPTER 8

RESOURCES OF THE PANCHAYATI RAJ INSTITUTIONS

8.1 The Himachal Pradesh Panchayati Raj Act, 1994, envisages resource raising powers for the Gram Panchayats only. The Zila Parishads and Panchayat Samitis have not been empowered with any type of resource raising. The three-tier Panchayati Raj system has been established in Himachal Pradesh after amending the Himachal Pradesh Panchayati Raj Act in 1994. The third tier introduced in the system was Zila Parishad which came in existence in the year 1994 and first elections to the Panchayati Raj institutions were held in December, 1994 for all the three tiers. Till now, three general elections to these bodies have been held, the last election which was third in the series was held in December, 2005 for 3243 Gram Panchayats, 75 Panchayat Samitis and 12 Zila Parishads. The district wise distribution of Panchayat Samitis and Gram Panchayats alongwith number of villages, rural population, households etc. is given in the table below:

Table-I

District wise Distribution of Panchayat Samitis/ Gram Panchayats/Villages /Households and Rural Population

Sr. No.	Name of District	No. of Panchayat Samitis	No. of Panchayats	No. of Villages (2001)	No. of House-holds (2001)	Rural Population (2001/Nos.)	%age Distribution of Rural Population
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Bilaspur	3	151	1061	60788	318934	5.82
2	Chamba	7	283	1591	79618	426345	7.78
3	Hamirpur	6	229	1672	80024	382494	6.98
4	Kangra	14	760	3868	256490	1266745	23.11
5	Kinnuar	3	65	660	18641	78334	1.43
6	Kullu	5	204*	172*	69483	351478	6.41

7	Lahual Spiti	2	41	521	7999	33224	0.6
8	Mandi	10	473	3338	168021	840362	15.33
9	Shimla	9	363	2914	110603	555269	10.12
10	Sirmour	6	228	971	71097	410923	7.49
11	Solan	5	211	2536	77086	409362	7.47
12	Una	5	235	814	79947	408849	7.46
	Total	**75**	**3243**	**20118**	**1079797**	**5482319**	**100**

Source: Statistical Outline 2003-04

* The greater number of Panchayats as compared to villages in district Kullu is due to non undertaking of settlement operation in this district. In fact, there are many sub villages of villages.

8.2 To work out estimates of revenue accrual from tax, non-tax and fees of the Panchayati Raj Institutions, the Commission collected information on the questionnaire from all the levels of Panchayati Raj Institutions, which consist of 2910 Gram Panchayats out of 3243, 67 Panchayat Samitis out of 75 and all the Zila Parishads numbering 12, held meetings with the departments concerned which devolve funds to these institutions and wherever data gaps were found the information was collected from the Panchayati Raj department and its annual publication on finances of Panchayati Raj bodies for the year 2002-03 and 2003-04 titled "A Report on the Finances of Gram Panchayats in Himachal Pradesh." was consulted.

8.3 The income of these institutions has been classified in following main heads and sub heads:

1. **Tax:** The main source of revenue of the Gram Panchayats is collection and devolution of taxes. These taxes include cess on liquor, land revenue, house tax, tax on minor mineral extraction and export etc.
2. **Non-tax:** The income generated by the Gram Panchayats by way of obtaining rents, interest, auctions is counted under this item.

3. **<u>Fee and levies and other miscellaneous sources</u>:** The main components of fee were birth and death certificate, teh-bazari, ration card and copying fee etc.

A. GRAM PANCHAYATS:

8.4 Among all the three tiers of Panchayati Raj Institutions, the Gram Panchayats are the only institutions which have income from all the above three types of resource components. The item-wise details are discussed in the following paragraphs.

I INCOME FROM OWN TAXES, ASSIGNED TAXES AND ROYALTIES:

8.5 Tax income is a major contributor in the "own resources income" of Gram Panchayats. The Gram Panchayats directly collect house tax and income from some of export permits on minor forest produce but the income from other taxes viz. cess on liquor, land Revenue and tax on extraction and export of sand, stone, bajri and slate is devolved to Gram Panchayats after collection of the same by the concerned departments. The item-wise details and forecasting is discussed in the following paragraphs:

Cess on liquor:

8.6 One of the major sources of revenue of Gram Panchayats is the share in cess on liquor. The cess is charged at the rate of Rs.

2 per bottle, out of which Re.1 is retained by the Government and Re.1 is distributed in the ratio of 80:20 to Gram Panchayats where a liquor vend is functioning and where there is no liquor vend, respectively.

8.7 The methodology of collection of this cess is based on quarterly sale of liquor. The lessee on the basis of quarterly sale deposits cess in the State exchequer which is calculated at district level. The Assistant Excise and Taxation Commissioners raise the demand through Deputy Commissioner concerned with Excise and Taxation Commissioner for arranging releases from the Government. The budget allocated by the Government is then disbursed to Gram Panchayats in consultation with the Deputy Commissioner by the Assistant Excise and Taxation Commissioner in the ratio of 80:20 as given in the above paragraph. In this process, the actual collection of a financial year is effectively transferred to the Gram Panchayats in the next financial year.

8.8 On the basis of above methodology, the Excise and Taxation department disbursed Rs. 2.33 crore and Rs. 6.54 crore to Gram Panchayats during 2004-05 and 2005-06, respectively. For the financial year 2006-07, an expenditure of Rs. 4.98 crore has been estimated under cess on liquor as outgo from the State Budget. The Commission has taken the figure of Rs. 4.98 crore of 2006-07 as base for estimation of resources and a growth of 5 percent in sale of liquor has been assumed by the department for future forecast. The Commission has assumed resources for the forecast period accordingly. The forecast for the period of 2007-12 under cess on liquor thus works out to Rs. 2888 lakh, with the annual estimates as follows:-

Table-II

Revenue from Cess on Liquor

(Rs.in lakh)

Sl. No.	Year	Projected revenue
1	**2**	**3**
1	2007-08	523
2	2008-09	549
3	2009-10	576
4	2010-11	605
5	2011-12	635
Total		**2888**

8.9 The methodology of distribution of cess on liquor amongst Gram Panchayats in the ratio of 80 per cent where the vend is functioning and 20 per cent where there is no vend, respectively, does not appear to be based on well founded principles. The differentiation in distribution of cess was raised by the representatives of Panchayati Raj Institutions during the interaction the Commission had at district level. The Commission observes that consumption of liquor is injurious to health and different public bodies advocate for minimizing its consumption. Various Gram Panchayats/Mahila Mandals/Non Governmental Organizations resist opening of new outlets for sale of liquor in their respective areas and some of them have also succeeded. Therefore, Commission recommends that distribution of cess on liquor between the Panchayats should be on equitable basis in proportion to the population of the Panchayats instead of in the ratio of 80:20 as is at present. It will also overcome complications in assessment and distribution, and simplify the procedure. Such an arrangement will also remove any perverse incentive for increased consumption of liquor.

Tax on extraction and export of sand, stone, bajri and slates:

8.10 The Government of Himachal Pradesh has allowed Gram Panchayats to levy tax on the extraction of export of sand, stone, bajri and slate to the maximum rate specified as given under:

a) *On extraction and export of sand, stone, bajri to be Rs.10 per truck and Rs. 5 per trolley:*
b) *On slates to be Rs. 50 per truck.*

8.11 The implementation of this decision has taken effect from June, 2006. The Department of Industries under Mining Wing has estimated a realization of Rs. 65 lakh during the financial year 2006-07. For the year 2007-08 the collection is assumed at Rs. 75 lakh. Accordingly, the Commission has assumed a constant revenue accrual of Rs.75 lakh per annum during the forecast period 2007-12. The devolution to concerned Gram Panchayats is made on year to year basis and there is no spill over to next financial year.

Permit Fee on export of minor forest produce:

8.12 For the collection of fee on minor forest produce the Pradhan, Gram Panchayats have been appointed as Forests

Officers to carry out the purpose of Rule 11 of Himachal Pradesh Forest Produce Transit (Land Route) Rules, 1978 for the issuance of passes for transportation of minor forest produce collected from the forests in respect of following 38 items/species:

Sr. No.	Botanical Name of the Minor Forest Produce	Local Name of the item	Export Fee (In Rs. per Quintal)
1	2	3	4
1.	Alnslea aptera	Sath Jalori	50/-
2.	Plerorhiza kurroo	Karoo	540/-
3.	Jurinea macrocephala	Dhoop	500/-
4.	Angalica glauca	Chora	125/-
5.	Viola odorata	Banafsha	2,250/-
6.	Valeriann wallichi	Mushk Bala	600/-
7.	Thalletrum spp.	Mamiri	335/-
8.	Thymus sephylum	Ban Ajwain	100/-
9.	Morchella esculante	Guchhi	10,000/-
10.	Potentilla nepalensis	Dori	40/-
11.	Pistachla integerina	Kakarsinghi	1,000/-
12.	Polygonatum verticilliatum	Salm Mishri	1,000/-
13.	Salvia moorcroftlana	Thuth	180/-
14.	Banium persicum	Kala zira	2,000/- (if it is collected from forest)
15.	Selinium vaginstrum	Butkesh	400/-
16.	Tinospora cordifolla	Gloe	100/-
17.	Orchis latifolla	Salam Panja	6,000/-
18.	Valerlana hardwichii	Nihani	600/-
19.	Acorus calamus	Buch	130/-
20.	Pinus wallichlana	Kail cones	1,000/-
21.	Adiantum lanulatum	Dusgtuli	80/-
22.	Lichens	Chalora	225/-
23.	Ables webblana	Taispatra	85/-
24.	Hedychlum acuminatum	Kapper Kuchri	70/-
25.	Heraclsum spp.	Patishan roots	25/-
26.	Corardiana heterophylia	Bichhu Buti	150/-
27.	Cedar rosette	Deodar Rossette	150/-
28.	Birch pine	Kush Cones	150/-
29.	Cehrella spp.	Bari phool	50/-
30.	Pyrus pashia	Kainth	30/-
31.	Colebrookea oppositifolia	Bindi phool	50/-
32.	Rhododendron spp.	Brass Phool	150/-
33.	Coleus aromaticus	Pthan Bail	30/-
34.	Lichens & Mosses	Green Mous ghass	250/-
35.	Hypericum patulum	Khaarera/Basanti	250/-
36.	Curcuma spp.	Ban Haldi	50/-
37.	Juniperus recurva	Bether Patta	100/-
38.	Pine Needles	-	

8.13 The fee realized on the above items becomes revenue of the Gram Panchayats. The estimate on account of income from minor forest produce for the year 2006-07 was Rs. 35 lakh. The same level of accrual has been assumed for the entire forecast period.

8.14 During the course of discussion with the Forest department, it came to the notice of the Commission that the fee was not being collected by a single agency which should be the Gram Panchayats. The Divisional Forest Officers of some of the divisions were also issuing permits which was leading to dual operation of powers. The Commission observed that the system needed to be singularized by fully devolving powers to Gram Panchayats and withdrawing the same from the Divisional Forest Officers. While doing so, it was suggested that staff support deputed for the collection of fee on minor forests produce, if any may be brought under the control of Gram Panchayats for this purpose if there is any such staff so that income on this item is ensured to Gram Panchayats on regular basis. This suggestion of the Commission to have the powers exercised at the level of Gram Panchayats only has since been accepted by the government.

Land Revenue:

8.15 The revenue earned under head “Land Revenue” is distributed between Gram Panchayats and lambardars in the ratio of 70:30, respectively. The Commission decided to assess revenue under this head from the data collected from 2910 Gram Panchayats. The actual of local rate/land revenue for the years 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 were of the order of Rs. 10.33 lakh, Rs. 13.86 lakh, Rs 14.90 lakh, Rs. 20.68 lakh and Rs. 22.32 lakh, respectively. The Gram Panchayats have also forecast the revenue on this item for 2005-06 to 2009-10. The forecast period is from 2007-08 to 2011-12 and accordingly, the Commission took the forecast figures from 2007-08 onwards in the same progression as projected by the Gram Panchayats. The figures worked out are as under:-

Table-III

Revenue accrual estimates from Land Revenue

(Rs. in lakh)

Sl. No.	Year	Estimated Revenue
1	**2**	**3**
1	2007-08	26.67
2	2008-09	28.92
3	2009-10	31.59
4	2010-11	34.11
5	2011-12	36.83
Total		**158.12**

House Tax:

8.16 House tax is the major tax which is being collected, by and large, by every Gram Panchayat. The State Government has fixed maximum rates for its collection vide notification dated the 2nd November, 1999. The rates fixed are as under:

Sr. No.	Particulars	Maximum rate of House tax (In Rs. /Per annum)
1.	**2.**	**3.**
1.	Where the person is liable to house tax, own house having the total built up area upto 40 Sq. Mtrs.	10
2.	Where the person is liable to house tax, own house having the total built up area from 40 to 100 Sq. Mtrs.	25
3.	Where the person is liable to house tax, own house having the total built up area above 100 Sq. Mtrs.	50

8.17 The data collected by the Commission reveals that House Tax was being collected by a large number of Gram Panchayats and it has now widely been accepted. A large number of Gram Panchayat Pradhans during their interaction with the Commission, were apprehensive that the State Government should not grant any exemption in collection of House Tax since such a measure will result in the loss of revenue to Panchayats. The Commission recommends that the taxes which are being paid by the people willingly and have come to stay should not be altered to the disadvantage of the Gram Panchayats, on the one hand and also towards enabling the Panchayats to muster resources for performing their statuary functions, on the other.

8.18 According to the data collected from the Gram Panchayats, the actual collection of House Tax for 2000-01 to 2004-05 for 2910 panchayats was reported as under:-

Table-IV

Actual Collection of House Tax

(Rs. in lakh)

Sl. No.	Year	House Tax Revenue
1	2	3
1	2000-01	94.82
2	2001-02	136.21
3	2002-03	118.11
4	2003-04	122.08
5	2004-05	218.44
Annual average		137.93

8.19 Based on the projections given by the Panchayats for the years 2005-06 and 2006-07, the revenue forecast from this source for 2007-12 period has been made as under:

Table-V

Projected Revenue from House Tax

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	2	3
1	2007-08	192.62
2	2008-09	203.79
3	2009-10	215.61
4	2010-11	228.12
5	2011-12	241.34
Total		1081.48

Occupation Tax:

8.20 The Panchayati Raj Act, 1994 provides for tax on carrying on profession, trades, employment etc. Only a few Gram

Panchayats are levying it. Out of sampled 301 Gram Panchayats only 2 Gram Panchayats levied it. The income from this tax is negligible, hence has not been taken into account in forecasting resources for the Gram Panchayats. The State Government had also imposed the Profession Tax but the same was withdrawn in the year of being introduced. Keeping in view this position, the Commission felt that it will not be reasonable to assume any revenue from this source.

Miscellaneous Income:

8.21 A large number of Gram Panchayats have shown miscellaneous income under tax classification. Since the nature of income has not been classified, despite Commission's instructions, it has been taken into miscellaneous head as such. The income for the year 2007-08 has been taken as Rs.11.20 lakh which has been repeated for each year of the award period.

8.22 The revenue receipt forecast on the above items for the period 2007-12 in respect of Gram Panchayats is given in the table-VI below:

<u>**Table-VI**</u>

Generation of revenue receipts under tax for the period (2007-2012)

(Rs. in lakh)

Sr. No.	Year	Items						Total
		Cess on liquor	Land Revenue	House Tax	Tax on minor/ Minerals	Permit fees on Minor Forest produce	Misc. Income	
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**
1.	2007-08	523	26.67	192.62	65	35	11.20	**853.49**
2.	2008-09	549	28.92	203.79	75	35	11.20	**902.91**
3.	2009-10	576	31.59	215.61	75	35	11.20	**944.40**
4.	2010-11	605	34.11	228.12	75	35	11.20	**988.43**
5.	2011-12	635	36.83	241.34	75	35	11.20	**1034.37**
Total		**2888**	**158.12**	**1081.48**	**365**	**175**	**56.00**	**4723.60**

II <u>INCOME FROM FEES:</u>

8.23 The revenue from fees is carried and collected by the Gram Panchayats themselves. The revenue collected under this head hardly accounts for around ten percent of the total receipts. The item wise details and estimation of receipts from fees is discussed as under:

<u>Teh-Bazari:</u>

8.24 The Government has fixed Teh-Bazari from the shopkeepers in the fairs at the rates as it may deem proper but not exceeding Rs. 30/- per sq. mtrs. per day. The data received from a sample of 301 Gram Panchayats revealed that from the period 2000-01 to 2005-06 only 13 to 15 Gram Panchayats have been having income from Teh-Bazari, the average annual income per Gram Panchayat which collects Teh-Bazari works out to Rs.

7277. The income from Teh-Bazari is generated only by those Gram Panchayats which have locational advantage of organizing fairs and festivals in their respective areas. If the same ratio is adopted, than out of 3243 Gram Panchayats, only 162 Gram Panchayats would have been collecting Teh-Bazari having total collection of Rs. 12 lakh. The Commission has taken this income static for the forecast period. In the overall forecast, this item will be clubled with parking fees. The estimated revenue for the forecast period on this account is as follows:-

Table-VII

Revenue forecast from Teh-Bazari and Parking Fees

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	24.85
2	2008-09	26.61
3	2009-10	28.22
4	2010-11	30.05
5	2011-12	32.00
Total		**141.73**

Ration Card Fee:

8.25 Ration Card fee is collected by almost each Gram Panchayat. The periodicity of this levy is variable but it was considered reasonable to make some assumption on this account. As per the data of 2910 Gram Panchayats, the revenue collection from this item for the period 2000-01 to 2004-05 comes to Rs. 64.92 lakh which gives an annual average of Rs. 12.98

lakh. This could be given a growth of two percent per year keeping in view the fragmentation of existing households. Based on this, the annual revenue forecast from this item works out as follow:-

Table-VIII

Revenue forecast from Ration Card Fees

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	13.50
2	2008-09	13.77
3	2009-10	14.04
4	2010-11	14.32
5	2011-12	14.61
Total		**70.24**

Fee on birth and death certificates:

8.26 The receipts under this head depend upon the incidence of births and deaths taking place in the concerned Gram Panchayat area. In the year 2004-05, income under this head in respect of 2910 Gram Panchayats was Rs. 7.30 lakh. Since the rate of birth and death have been declining over time, the Commission decided to assume a constant level of revenue from this item over the forecast period

Marriage registration fee:

8.27 The income under this head comprise of Marriage registration fee and donations made to the Gram Panchayats in the event of solemnization of marriages in the village. The 2910

Panchayats from which the data was received, indicated an average annual receipt of about Rs. 2 lakh. For the forecast period, the estimated revenue on this account has been worked out on the basis of projection made by 2910 Panchayats and is as follows:-

Table-IX

Revenue forecast from Marriage Registration Fees

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	2	3
1	2007-08	2.77
2	2008-09	3.08
3	2009-10	3.29
4	2010-11	3.51
5	2011-12	3.74
Total		16.39

Registration of sale of animals and holding of cattle fair:

8.28 The Government has empowered Gram Panchayats to charge fee for registration of animals sold in the Sabha area at such rates as may be fixed by the Gram Panchayat subject to a maximum of 2 percent of the sale price. The data sent by the Gram Panchayats numbering 2910 shows that the Gram Panchayats are in the range of earning income ranging from Rs. 3.49 lakh in 2000-01 to Rs. 4.28 lakh in 2003-04. These Panchayats have also forecast the revenue accrual from this source for the period 2005-06 to 2009-10. The estimate for 2006-07 is Rs. 6.54 lakh. Based on this, the estimated revenue from this source over the forecast period for all the Panchayats has been worked out as under:-

Table-X

Revenue forecast from Registration of Sale of animals

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	7.87
2	2008-09	8.47
3	2009-10	9.15
4	2010-11	9.88
5	2011-12	10.67
Total		**46.04**

Income from judicial fee, late fee, fine and Misc. items:

8.29 The income of Gram Panchayats from judicial fee, late fee, fine and other miscellaneous items being small has been clubbed together for estimation purposes. As per the data from 2910 Panchayats, the income of Gram Panchayats from these items after normalization of the data for 2000-01 to 2004-05 has been estimated at Rs. 17.78 lakh per annum. For the forecast period, this figure has been used and a nominal growth of 5 percent per annum has also been assumed. The data on the revenue forecast is presented in the following table:-

Table-XI

Revenue forecast from Miscellaneous Fees

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	22.93
2	2008-09	24.08
3	2009-10	25.28
4	2010-11	26.54
5	2011-12	27.87
Total		**126.70**

8.30 The total revenue accrual on account of fees for the forecast period 2007-12 in respect of Gram Panchayats has been estimated as contained in the following table-XII:

Table-XII

Generation of revenue receipts under fees for the period (2007-2012)

(Rs. in lakh)

Sr. No.	Year	Items						Total
		Teh –Bazari and Parking fee	Ration Card fee	Birth and death certificate	Registration of sale of animals	Marriage registration fee	Other Misc. Income	
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**
1.	2007-08	24.85	13.50	7.30	7.87	2.77	22.93	**79.22**
2.	2008-09	26.61	13.77	7.30	8.47	3.08	24.08	**83.31**
3.	2009-10	28.22	14.04	7.30	9.15	3.29	25.28	**87.28**
4.	2010-11	30.05	14.32	7.30	9.88	3.51	26.54	**91.60**
5.	2011-12	32.00	14.61	7.30	10.67	3.74	27.87	**96.19**
Total		**141.73**	**70.24**	**36.50**	**46.04**	**16.39**	**126.70**	**437.60**

III NON TAX INCOME:

8.31 The income of Gram Panchayats under non tax classification covers items like interest earned on bank deposits, alms gives by local residents on certain auspicious occasions, auction of old office papers and sale of grass etc. and other miscellaneous income. It constitutes second largest component of own resources of Gram Panchayats. The item wise details of which are as discussed below:

Interest income:

8.32 Interest income is generated by almost all the Gram Panchayats and is one of the major component of income under non tax receipts. As per analysis of data received from 2910 Gram Panchayats the income from interest has ranged from Rs. 65.86 lakh in 2000-01 to Rs. 110.48 lakh for 2003-04 and Rs. 106.25 lakh for 2004-05. The revenue forecast made by these 2910 Panchayats for 2005-06 is Rs. 89.71 lakh. Going by the past trend, the revenue forecast from this source for all the Panchayats has been estimated as depicted in the following table:-

Table-XIII

Revenue forecast for income on account of Interest

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	104.97
2	2008-09	110.22
3	2009-10	115.73
4	2010-11	121.52
5	2011-12	127.60
Total		**580.04**

Alms:

8.33 There is a tradition of giving alms for some community work after the solemnization of some auspicious event in a family. Though per Gram Panchayat share of this income comes to only Rs. 827 annually yet it has been reported by almost all the sampled Gram Panchayats. Since such events repeat at a fixed frequency, the annual income of all the Gram Panchayats from this item has been estimated at Rs. 22.56 lakh for 2006-07 and has been given a normal growth of 5 percent per annum for the forecast period. The estimates are contained is the following table:-

Table-XIV

Revenue forecast from Alms

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	23.69
2	2008-09	24.87
3	2009-10	26.11
4	2010-11	27.42
5	2011-12	28.79
Total		**130.88**

Rent:

8.34 The rental income is one of the major incomes of the Gram Panchayats which have property available for rental purposes. The data from 2910 Panchayats indicates about Rs. 50 lakh annual income during 2000-01 to 2004-05. For 2006-07, the estimated income has been projected by these Panchayats at Rs. 63.76 lakh. This figure has been used to forecast the revenue from this source for 2007-12 period assuming 5 percent growth and the annual details are as given in the following table:-

Table-XV

Revenue forecast from Rent

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	74.61
2	2008-09	78.34
3	2009-10	82.26
4	2010-11	86.37
5	2011-12	90.69
Total		**412.27**

Miscellaneous:

8.35 This head includes income from horticulture, recovery pointed out by the audit, income from auctions and other miscellaneous income. For the period 2000-01 to 2004-05, the income from all these sources was reported at an average of Rs. 53.17 lakh by 2910 Panchayats. This has been used to project the revenues for the forecast period by giving a 5 percent annual growth rate on the base figure for 2006-07. The details are as under:-

Table-XVI

Revenue forecast from Miscellaneous sources

(Rs. in lakh)

Sl. No.	Year	Projected Revenue
1	**2**	**3**
1	2007-08	70.25
2	2008-09	73.76
3	2009-10	77.45
4	2010-11	81.32
5	2011-12	85.39
Total		**388.17**

8.36 The total revenue receipt from non-tax sources for the forecast period 2007-12 in respect of Gram Panchayats is given in the table-XVII below:

Table-XVII

Generation of revenue receipts under Non-tax for the period (2007-2012)

(Rs. in lakh)

Sr. No.	Year	Items				Total
		Interest	Alms	Rent	Misc.	
1.	2.	3.	4.	5.	6.	7.
1.	2007-08	104.97	23.69	74.61	70.25	**273.52**
2.	2008-09	110.22	24.87	78.34	73.76	**287.19**
3.	2009-10	115.73	26.11	82.26	77.45	**301.55**
4.	2010-11	121.52	27.42	86.37	81.32	**316.63**
5.	2011-12	127.60	28.79	90.69	85.39	**332.47**
Total		**580.04**	**130.88**	**412.27**	**388.17**	**1511.36**

IV SUM UP OF OWN RESOURCES OF GRAM PNCHAYATS:

8.37 The revenue receipt of the Gram Panchayats under tax, fee and non-tax has been contained in section I to III above, the receipt on account of all the three components has been summed up in the following table:

Table-XVIII

Own resource income of Gram Panchayats

(Rs. in lakh)

Sr. No.	Year	Items			Total
		Tax	Fee	Non-Tax	
1.	2.	3.	4.	5.	6.
1.	2007-08	853.49	79.22	273.52	**1206.23**
2.	2008-09	902.91	83.31	287.19	**1273.41**
3.	2009-10	944.40	87.28	301.55	**1333.23**
4.	2010-11	988.43	91.60	316.63	**1396.66**
5.	2011-12	1034.37	96.19	332.47	**1463.03**
Total		**4723.60**	**437.60**	**1511.36**	**6672.56**

B. PANCHAYAT SAMITIS:

8.38 As has been said earlier, the Panchayat Samitis and the Zila Parishads do not have any powers of taxation. However, these two tiers of Panchayati Raj Institutions derive some income from sources like rent on properties, income from interest, income from auctions and income from other miscellaneous items. It, however, needs to be underlined that the revenue accrual from these sources to these bodies is a very small amount.

8.39 The data on such income was called for from all the Panchayat Samitis and the response has been almost universal. The actual accrual for the period 2000-01 to 2004-05 has been tabulated below:-

Table-XIX

Non-Tax income of Panchayat Samitis

(Rs. in lakh)

Sr. No.	Year	Items				Total
		Rent	Interest	Auctions	Misc.	
1	2	3	4	5	6	7
1	2000-01	17.10	6.13	0.60	2.84	**26.67**
2	2001-02	13.30	5.56	0.78	3.97	**23.61**
3	2002-03	13.23	8.38	1.57	5.43	**28.61**
4	2003-04	20.79	9.18	2.46	4.62	**37.05**
5	2004-05	17.53	9.59	2.29	6.36	**35.77**
Total		**81.95**	**38.84**	**7.70**	**23.22**	**151.71**

8.40 As may be seen, the total income of the Panchayat Samitis as detailed out in the above table has ranged between Rs. 24 lakh and Rs. 37 lakh annually. For a total of 75 Panchayat Samitis, this income is a very small amount and averages to about Rs. 50,000 per Panchayat

Samiti. By any consideration this is not a significant amount and in the opinion of the Commission, such sundry income at a low level may be best left with the Panchayat Samitis for the purposes of the preventive upkeep and maintenance of the physical assets these bodies have.

C. <u>ZILA PARISHADS</u>:

8.41 The Commission had also called for the data of the income of Zila Parishads. The response was received from all the 12 Zila Parishads and the data on actual receipts for the period 2000-01 to 2004-05 is presented below:-

<u>Table-XX</u>

Non-Tax income of Zila Parishads

(Rs. in lakh)

Sr. No.	Years	Items			Total
		Rent	Interest	Misc.	
1	2	3	4	5	6
1	2000-01	5.45	15.87	4.87	**26.19**
2	2001-02	5.26	15.16	3.90	**24.32**
3	2002-03	4.77	13.21	3.42	**21.40**
4	2003-04	5.96	12.90	2.76	**21.62**
5	2004-05	5.68	9.89	4.69	**20.26**
Total		**27.12**	**67.03**	**19.64**	**113.79**

8.42 The above data indicates that the Zila Parishads on an average have an income in the range of Rs. 1.75 lakh to Rs. 2.25 lakh per unit. This level of income also be left out of the aggregate forecast of resources for the Panchayati Raj Institutions and may be left to be utilized by the Zila Parishads for preventive upkeep and maintenance of the Zila Parishad Bhavans which have been constructed with the grants provided by the earlier Finance Commission.

CHAPTER 9

FORECAST FOR THE PERFOMANCE OF STATUTORY AND DELEGATED FUNCTIONS BY PANCHAYATI RAJ INSTITUTUTIONS

9.1 Different tiers of the Panchayati Raj Institutions have to perform certain statutory and delegated developmental functions as contained in Schedule-I and Schedule-II of the Himachal Pradesh Panchayati Raj Act, 1994. The implementation of these functions is primarily carried out by the institution of Gram Panchayat, which executes some of the listed functions, as the Gram Panchayats are neither financially equipped nor suitably staffed to deal with all the assigned functions. The institutions of Zila Parishads and Panchayat Samitis, normally, have supervisory and coordinating roles.

9.2 To meet the financial liabilities for the execution of whatever functions are being performed, the Gram Panchayats utilize Panchayat fund and the grants devolved by the Union Finance Commissions and the State Finance Commissions for the performance of specific assignments. Some funds by different development departments for maintenance of assets pertaining to their department are transferred to Gram Panchayats. The State Government allocates certain funds at the disposal of Deputy Commissioners at the District level for carrying out works of immediate need which are of unforeseen nature, the implementation of such minor works is carried out by the Gram Panchayats. The execution of works sanctioned by the District Rural Development Agency under various programmes is also undertaken by the Gram Panchayats, by and large.

9.3 The Third State Finance Commission in its meeting held on 1st August, 2006 with Secretary and Director Panchayati Raj reviewed the efforts made by the Gram Panchayats towards resource mobilization and found that non levying the statutorily leviable taxes and levies by the Gram Panchayats left limited funds for discharging the statutory, delegated developmental and maintenance functions at the local level. 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 Panchayati Raj Institutions over and above the admissible (minimum) funds, the Commission would keep in view linking of resource transfers to the resource mobilization 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 Panchayati Raj Institutions and those transferred to Panchayati Raj Institutions on a normative basis, according to the population data, attempting a minimum transfer irrespective of infrastructure, thereby de-linking it with grants-in-aid.

9.4 The Finance Commission had circulated different sets of questionnaires to all the three tiers of the Panchayati Raj Institutions which inter-alia required information from these bodies on the devolution made by the Union Finance Commission and State Finance Commission. While the data received from these bodies on other items was relevant, it was not so in respect of Union and State Finance Commission devolutions. The Commission felt it appropriate to seek the data on devolution from the Union Finance Commission and State Finance Commission from the Panchayati Raj department. The Department of Panchayati Raj being the nodal department for all types of financial releases to Panchayati Raj Institutions is an authorized institution, the data supplied by it was considered relevant, accurate and in order.

9.5 Though the Panchayati Raj department had supplied voluminous data, the Commission utilized the data pertaining to the period 2000-2001 onwards so as to coincide it with the duration of the Union Finance Commissions. The Commission had also sought from the Panchayati Raj department other releases made to these local bodies pertaining to the Centrally Sponsored Schemes and other items which were to be specified, but the department only furnished releases under Finance Commission devolutions. In view of it, the Commission concluded that the department of Panchayats had made no releases other than the Finance Commission devolutions to Panchayati Raj Institutions.

9.6 The tier wise and District wise detail of devolutions made by the Panchayati Raj Department to Gram Panchayats, Panchayat Samitis and Zila Parishads pertaining to actual average annual releases for the period 2000-2005 and year wise anticipated releases for the period 2005-2010 are given in the following tables :

Table-I

District-wise Finance Commission and State Finance Commission devolutions to Panchayati Raj Institutions

(Rs. In Lakh)

Sr. No.	District /Year	GRAM PANCHAYATS			PANCHAYAT SAMITIS			ZILA PARISHADS			Grand Total (5+8+11)
		Finance Commis -sion	State Finance Comm./ GIA	Total	Fin. Commi -ssion	State Finance Commi- sion /GIA	Total	Fin. Com.	State Fin. Comm./ GIA	Total	
1	2	3	4	5	6	7	8	9	10	11	12
I	ACTUAL ANNUAL AVERAGE RELEASE FOR 2000-2005:										
1.	Bilaspur	69.95	63.92	**133.87**	0*	7.89	**7.89**	0*	7.29	**7.29**	**149.05**
2.	Chamba	91.07	130.17	**221.24**	0	15.97	**15.97**	0	9.24	**9.24**	**246.45**
3.	Hamirpur	87.52	98.86	**186.38**	0	11.07	**11.07**	0	10.90	**10.90**	**208.35**
4.	Mandi	194.78	200.62	**395.40**	0	22.00	**22.00**	0	10.76	**10.76**	**428.16**
5.	Kangra	279.34	323.03	**602.37**	0	33.35	**33.35**	0	12.31	**12.31**	**648.03**
6.	Kinnaur	16.40	52.13	**68.53**	0	4.47	**4.47**	0	6.86	**6.86**	**79.86**

7.	**Kullu**	69.27	87.75	**157.02**	0	10.99	**10.99**	0	8.42	**8.42**	**176.43**
8.	**Lahaul - Spiti**	11.46	29.26	**40.72**	0	3.93	**3.93**	0	7.89	**7.89**	**52.54**
9.	**Shimla**	129.12	160.72	**289.84**	0	21.40	**21.40**	0	9.65	**9.65**	**320.89**
10.	**Sirmaur**	92.65	100.92	**193.57**	0	14.02	**14.02**	0	9.53	**9.53**	**217.12**
11.	**Solan**	92.87	91.89	**184.76**	0	10.95	**10.95**	0	7.93	**7.93**	**203.64**
12.	**Una**	84.03	98.96	**182.99**	0	12.57	**12.57**	0	7.73	**7.73**	**203.29**
Annual Average		**1218.46**	**1438.23**	**2656.69**	**0**	**168.61**	**168.61**	**0**	**108.51**	**108.51**	**2933.81**

Note :- *The Central Finance Commission provided funds to Panchayat Samitis and Zila Parishads only in the year 2000-01 hence the provision has not been shown in the table.

9.7 The projected/ anticipated releases/ transfers for the period 2005-2010 for various districts are tabulated in the following table: -

Table-II

Anticipated/ Projected resource releases for 2005-10 period

(Rs. in Lakh)

Sr. No.	**District /Year**	**GRAM PANCHAYATS**			**PANCHAYAT SAMITIS**			**ZILA PARISHADS**			**Grand Total (5+8+11)**
		Fin. Comm.	State Fin. Com. /GIA	**Total**	Fin. Comm.	State Finance Commission /GIA	**Total**	Fin. Comm.	State Finance Commission /GIA	**Total**	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
II	**ANTICIPATED**										
1.	**Bilaspur**										
	2005-2006	98.50	108.33	**206.83**	13.13	9.14	**22.27**	19.70	5.51	**25.21**	**254.31**
	2006-2007	161.46	174.05	**335.51**	13.53	15.88	**29.41**	20.30	27.16	**47.46**	**412.38**
	2007-2008	161.46	182.75	**344.21**	13.53	16.68	**30.21**	20.30	28.51	**48.81**	**423.23**
	2008-2009	161.46	191.89	**353.35**	13.53	17.51	**31.04**	20.30	29.93	**50.23**	**434.62**
	2009-2010	161.46	201.48	**362.94**	13.53	18.39	**31.92**	20.30	31.42	**51.72**	**446.58**
	Total	**744.34**	**858.50**	**1602.84**	**67.25**	**77.60**	**144.85**	**100.90**	**122.53**	**223.43**	**1971.12**
2.	**Chamba**										
	2005-2006	124.31	206.13	**330.44**	18.04	17.10	**35.14**	27.06	5.94	**33.00**	**398.58**

	2006-2007	198.74	292.46	**491.20**	18.50	26.96	**45.46**	27.75	33.25	**61.00**	**597.66**
	2007-2008	198.74	307.08	**505.82**	18.50	28.31	**46.81**	27.75	34.91	**62.66**	**615.29**
	2008-2009	198.74	322.43	**521.17**	18.50	29.73	**48.23**	27.75	36.65	**64.40**	**633.80**
	2009-2010	198.74	388.55	**587.29**	18.50	31.22	**49.72**	27.75	38.48	**66.23**	**703.24**
	Total	**919.27**	**1516.65**	**2435.92**	**92.04**	**133.32**	**225.36**	**138.06**	**149.23**	**287.29**	**2948.57**
3.	**Hamirpur**										
	2005-2006	118.13	132.63	**250.76**	15.75	15.11	**30.86**	23.63	6.31	**29.94**	**311.56**
	2006-2007	181.69	136.35	**318.04**	16.23	22.84	**39.07**	24.34	6.74	**31.08**	**388.19**
	2007-2008	181.69	143.17	**324.86**	16.23	23.98	**40.21**	24.34	7.07	**31.41**	**396.48**
	2008-2009	181.69	150.33	**332.02**	16.23	25.18	**41.41**	24.34	7.42	**31.76**	**405.19**
	2009-2010	181.69	157.85	**339.54**	16.23	26.44	**42.67**	24.34	7.79	**32.13**	**414.34**
	Total	**844.89**	**720.33**	**1565.22**	**80.67**	**113.55**	**194.22**	**120.99**	**35.33**	**156.32**	**1915.76**
4.	**Mandi**										
	2005-2006	359.54	294.60	**654.14**	34.60	30.52	**65.12**	51.91	9.18	**61.09**	**780.35**
	2006-2007	327.39	480.69	**808.08**	35.64	47.37	**83.01**	53.46	14.88	**68.32**	**959.43**
	2007-2008	327.39	504.72	**832.11**	35.64	49.74	**85.38**	53.46	15.62	**69.08**	**986.57**
	2008-2009	327.39	529.96	**857.35**	35.64	52.23	**87.87**	53.46	16.40	**69.86**	**1015.08**
	2009-2010	327.39	556.46	**883.85**	35.64	54.84	**90.48**	53.46	17.22	**70.68**	**1045.01**
	Total	**1669.10**	**2366.43**	**4035.53**	**177.16**	**234.70**	**411.86**	**265.75**	**73.30**	**339.05**	**4786.44**
5.	**Kangra**										
	2005-2006	392.84	461.43	**854.27**	52.37	47.30	**99.67**	78.58	12.28	**90.85**	**1044.79**
	2006-2007	464.72	593.50	**1058.22**	53.94	70.14	**124.08**	80.92	13.54	**94.46**	**1276.76**
	2007-2008	464.72	623.18	**1087.90**	53.94	73.65	**127.59**	80.92	14.21	**95.13**	**1310.62**
	2008-2009	464.72	654.34	**1119.06**	53.94	77.33	**131.27**	80.92	14.92	**95.84**	**1346.17**
	2009-2010	464.72	687.06	**1151.78**	53.94	81.20	**135.14**	80.92	15.66	**96.58**	**1383.50**
	Total	**2251.72**	**3019.51**	**5271.23**	**268.13**	**349.62**	**617.75**	**402.25**	**70.61**	**472.86**	**6361.84**
6.	**Kinnaur**										
	2005-2006	29.36	99.83	**129.19**	3.92	0.45	**4.37**	5.87	3.47	**9.34**	**142.90**
	2006-2007	29.36	145.50	**174.86**	3.92	1.00	**4.92**	5.87	4.00	**9.87**	**189.65**
	2007-2008	29.36	152.78	**182.14**	3.92	1.05	**4.97**	5.87	4.20	**10.07**	**197.18**

	2008-2009	29.36	160.42	**189.78**	3.92	1.10	**5.02**	5.87	4.41	**10.28**	**205.08**
	2009-2010	29.36	168.44	**197.80**	3.92	1.16	**5.08**	5.87	4.63	**10.50**	**213.38**
	Total	**146.80**	**726.97**	**873.77**	**19.60**	**4.76**	**24.36**	**29.35**	**20.71**	**50.06**	**948.19**
7.	**Kullu**										
	2005-2006	108.55	148.23	**256.78**	14.48	13.46	**27.94**	21.71	5.71	**27.42**	**312.14**
	2006-2007	171.81	242.64	**414.45**	14.92	21.89	**36.81**	22.37	9.20	**31.57**	**482.83**
	2007-2008	171.81	254.77	**426.58**	14.92	22.98	**37.90**	22.37	9.66	**32.03**	**496.51**
	2008-2009	171.81	267.50	**439.31**	14.92	24.13	**39.05**	22.37	10.14	**32.51**	**510.87**
	2009-2010	171.81	280.88	**452.69**	14.92	25.34	**40.26**	22.37	10.64	**33.01**	**525.96**
	Total	**795.79**	**1194.02**	**1989.81**	**74.16**	**107.80**	**181.96**	**111.19**	**45.35**	**156.54**	**2328.31**
8.	**Lahaul and Spiti**										
	2005-2006	12.46	44.66	**57.12**	1.66	0.42	**2.08**	2.49	0	**2.49**	**61.69**
	2006-2007	12.46	67.02	**79.48**	1.66	0.37	**2.03**	2.49	3.00	**5.49**	**87.00**
	2007-2008	12.46	70.37	**82.83**	1.66	0.39	**2.05**	2.49	3.15	**5.64**	**90.52**
	2008-2009	12.46	73.89	**86.35**	1.66	0.41	**2.07**	2.49	3.31	**5.80**	**94.22**
	2009-2010	12.46	77.58	**90.04**	1.66	0.44	**2.10**	2.49	3.48	**5.97**	**98.11**
	Total	**62.30**	**333.52**	**395.82**	**8.30**	**2.03**	**10.33**	**12.45**	**12.94**	**25.39**	**431.54**
9.	**Shimla**										
	2005-2006	171.49	248.10	**419.59**	22.87	27.35	**50.22**	34.30	8.26	**42.56**	**512.37**
	2006-2007	236.67	521.75	**758.42**	23.55	41.11	**64.66**	35.33	13.54	**48.87**	**871.95**
	2007-2008	236.67	547.83	**784.50**	23.55	43.16	**66.71**	35.33	14.22	**49.55**	**900.76**
	2008-2009	236.67	575.22	**811.89**	23.55	45.32	**68.87**	35.33	14.93	**50.26**	**931.02**
	2009-2010	236.67	603.98	**840.65**	23.55	47.59	**71.14**	35.33	15.68	**51.01**	**962.80**
	Total	**1118.17**	**2496.88**	**3615.05**	**117.07**	**204.53**	**321.60**	**175.62**	**66.63**	**242.25**	**4178.90**
10.	**Sirmaur**										
	2005-2006	126.91	146.74	**273.65**	16.92	20.16	**37.08**	25.38	6.16	**31.54**	**342.27**
	2006-2007	190.72	278.69	**469.41**	17.44	26.00	**43.44**	26.15	6.61	**32.76**	**545.61**
	2007-2008	190.72	292.62	**483.34**	17.44	27.30	**44.74**	26.15	6.94	**33.09**	**561.17**
	2008-2009	190.72	307.25	**497.97**	17.44	28.67	**46.11**	26.15	7.29	**33.44**	**577.52**
	2009-2010	190.72	322.61	**513.33**	17.44	30.10	**47.54**	26.15	7.65	**33.80**	**594.67**
	Total	**889.79**	**1347.91**	**2237.70**	**86.68**	**132.23**	**218.91**	**129.98**	**34.65**	**164.63**	**2621.24**

11.	**Solan**										
	2005-2006	126.15	127.05	**253.20**	16.82	14.13	**30.95**	25.23	6.16	**31.39**	**315.54**
	2006-2007	189.93	241.63	**431.56**	17.33	21.67	**39.00**	25.99	18.63	**44.62**	**515.18**
	2007-2008	189.93	253.71	**443.64**	17.33	22.75	**40.08**	25.99	19.56	**45.55**	**529.27**
	2008-2009	189.93	266.40	**456.33**	17.33	23.89	**41.22**	25.99	20.54	**46.53**	**544.08**
	2009-2010	189.93	279.72	**469.65**	17.33	25.08	**42.41**	25.99	30.81	**56.80**	**568.86**
	Total	**885.87**	**1168.51**	**2054.38**	**86.14**	**107.52**	**193.66**	**129.19**	**95.70**	**224.89**	**2472.93**
12.	**Una**										
	2005-2006	126.27	135.18	**261.45**	16.84	15.73	**32.57**	25.25	6.26	**31.51**	**325.53**
	2006-2007	190.06	227.08	**414.14**	17.34	23.54	**40.88**	26.02	32.74	**58.76**	**516.78**
	2007-2008	190.06	238.43	**428.49**	18.56	24.72	**43.28**	26.02	34.38	**60.40**	**532.17**
	2008-2009	190.06	250.35	**440.41**	19.49	25.96	**45.45**	26.02	36.10	**62.12**	**547.98**
	2009-2010	190.06	262.87	**452.93**	20.46	27.26	**47.72**	26.02	37.91	**63.93**	**564.58**
	Total	**886.51**	**1113.91**	**2000.42**	**92.69**	**117.21**	**209.90**	**129.33**	**147.39**	**276.72**	**2487.04**
Grand Total		**11214.55**	**16863.14**	**28077.69**	**1169.89**	**1584.87**	**2754.76**	**1745.06**	**874.37**	**2619.43**	**33451.88**

9.8 The analysis of the data given in the above tables reveals that the Union Finance Commission did not devolve any amount for the period 2001-2005 to Panchayat Samitis and Zila Parishads, however it did devolve some nominal amount in the year 2000-2001 which has not been taken into account while working out five year average of actual devolution. For the period 2005-2010 the Union Finance Commission devolved amount to all the three tiers of the Panchayati Raj Institutions. The award for this period also witnessed a visible mark up by the Union Finance Commission as well as State Finance Commission. The annual average of 2000-2005 period reveals a flow of Rs. 87766 per Gram Panchayat, Rs. 2.25 lakh per Panchayat Samiti and Rs. 9.04 lakh per Zila Parishad.

Infrastructural availability and maintenance of assets :-

9.9 In its effort to assess basic infrastructural availability in the sectors of Education, Health and Animal Husbandry, the questionnaire on Gram Panchayats contained specific items for the collection of this information. Only 2910 Gram Panchayats out of 3243 furnished data, in many cases the data received was found inconsistent. Due to less reporting from Gram Panchayats coupled with inconsistency of data, the concerned departments were requested to furnish data on the availability of district wise institutions as on 31st March, 2005. The data collected from different departments is given in the following table:-

Table-III

District-wise availability of basic institutions (Rural and Urban)

(In Nos./ 31.3.2005)

Sr. No.	District	Institutions									
		Education					Health				
		Primary Schools	Middle Schools	High Schools	Sr.Sec. Schools	Total	Health Sub.Cent.	Dispen-saries	Pri. Health Center	Com. Health Center	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	**Bilaspur**	589	121	52	38	**800**	117	2	27	5	**151**
2	**Chamba**	1082	241	80	52	**1455**	169	0	40	7	**216**
3	**Hamirpur**	509	126	65	58	**758**	152	0	24	5	**181**
4	**Kangra**	1766	391	192	145	**2494**	434	2	78	13	**527**
5	**Kinnaur**	190	38	26	15	**269**	33	0	17	3	**53**
6	**Kullu**	727	111	51	31	**920**	100	0	17	5	**122**
7	**Lahaul and Spiti**	207	37	14	15	**273**	35	0	14	3	**52**
8	**Mandi**	1728	345	140	102	**2315**	311	0	59	9	**379**
9	**Shimla**	1622	335	150	95	**2202**	260	9	77	6	**352**
10	**Sirmaur**	969	172	65	46	**1252**	148	3	34	3	**188**
11	**Solan**	756	157	59	50	**1022**	178	5	32	3	**218**
12	**Una**	507	123	54	51	**735**	131	1	20	4	**156**
Total		**10652**	**2197**	**949**	**697**	**14,495**	**2068**	**22**	**439**	**66**	**2595**

Sr. No.	District	Institutions					
		Animal Husbandry			Ayurveda		
		Dispensaries	Hospitals	Total	Dispensaries	Hospitals	Total
1	**2**	**13**	**14**	**15**	**16**	**17**	**18**
1	**Bilaspur**	97	18	**115**	67	2	**69**
2	**Chamba**	161	32	**193**	102	2	**104**
3	**Hamirpur**	115	16	**131**	70	3	**73**
4	**Kangra**	338	52	**390**	230	5	**235**
5	**Kinnaur**	38	19	**57**	30	1	**31**
6	**Kullu**	88	15	**103**	66	1	**67**
7	**Lahaul and Spiti**	41	13	**54**	23	1	**24**
8	**Mandi**	265	36	**301**	164	2	**166**
9	**Shimla**	257	39	**296**	146	3	**149**
10	**Sirmaur**	125	26	**151**	79	1	**80**
11	**Solan**	132	21	**153**	79	1	**80**
12	**Una**	104	16	**120**	70	3	**73**
Total		**1761**	**303**	**2064**	**1126**	**25**	**1151**

9.10 The availability of budget in the Demands for Grants in respect of departments of Education, Health, Animal Husbandry and Ayurveda for the year 2007-08 under the maintenance head was analyzed to assess outlay provided for the maintenance of buildings of these departments. Since the Panchayati Raj Act devolves the functions of fifteen departments to the Panchayati Raj Institution, it was considered necessary to assess and ascertain the award of Twelfth Finance Commission of Rs. 147.60 crore for the maintenance of buildings for a period of four years (2006-2010) along with normal maintenance provisions made in the budget.

9.11 The year wise breakup of the amount was sought from the Finance Department. The Finance department supplied the maintenance provision for two years that is 2006-07 and 2007-08, for further two years the figures were not made available as the same were to be finalized at the time of finalizing the budget estimates. The budgetary provision for 2006-07 and 2007-08 for maintenance of the non-residential buildings under non plan is given in the following table:

Table-IV

Year wise Twelfth Finance Commission and normal provision for the maintenance of non-residential buildings

(Rs. In lakh)

Sl. No.	Name of the Department	Years					
		2006-07			2007-08		
		TFC	Normal	Total	TFC	Normal	Total
1	2	3	4	5	6	7	8
1.	**Education**						
	i) Elementary	1000.00	0	**1000.00**	500.00	0	**500.00**
	ii) Secondary	700.00	0	**700.00**	500.00	0	**500.00**
2.	**Health & Family Welfare**						
	i) Ayurveda	35.00	0	**35.00**	0	0	**0**
	ii) Health	520.00	0	**520.00**	300.00	0	**300.00**
3.	**Agriculture**	0	20.00	**20.00**	0	0.01	**0.01**
4.	**Horticulture**	0	8.00	**8.00**	0	0.01	**0.01**
5.	**Irrigation Public Health**	0	10.00	**10.00**	50.00	0	**50.00**
6.	**Animal Husbandry**						
	i) Animal Husbandry	0	10.00	**10.00**	0	0.01	**0.01**
	ii) Fisheries	0	3.00	**3.00**	0	0.01	**0.01**
7.	**Forests**	0	15.00	**15.00**	50.00	0	**50.00**
8.	**Supplies, Ind. & Minerals**						
	i) Industries	0	3.00	**3.00**	0	0.01	**0.01**
	ii) IT and Biotechnology	0	0	**0**	0	0.01	**0.01**
9.	**Social Justice & Empowerment**	0	5.00	**5.00**	0	0.01	**0.01**
10.	**Rural Development**						
	i) Panchayati Raj	0	10.00	**10.00**	0	0	**0**
	ii) Rural Development	0	20.00	**20.00**	50.00	0	**50.00**
11.	**Cooperative**	0	4.00	**4.00**	0	0.01	**0.01**
12.	**Food & Supplies**	0	6.00	**6.00**	0	0.01	**0.01**
13.	**Labour, Employment and Training**						
	i) Technical Education	0	40.00	**40.00**	50.00	0	**50.00**
	ii) Employment	0	3.00	**3.00**	0	0.01	**0.01**
14.	**Miscellaneous General Services**						
	i) Language Art and Culture	0	5.00	**5.00**	0	0.01	**0.01**
	ii) Mountaineering Institute	0	1.00	**1.00**	0	0.01	**0.01**
	iii) Sports & Youth Service	0	2.00	**2.00**	0	0.01	**0.01**
Grand Total		**2255.00**	**165.00**	**2420.00**	**1500.00**	**0.13**	**1500.13**

9.12 The maintenance provision kept in the budget as shown in table-IV vis-à-vis availability of institutions of Education, Health and Ayurveda as shown in table-III indicate per institution average availability of a provision of Rs. 9314 for Educational institutions and Rs. 13113 for Health institutions by taking two year annual average of Twelfth Finance Commission and normal budget provisions kept for the period of 2006-2008, which is abysmally low. In views of scarcity of resources at the Government level and its limitation to implement the Fiscal Responsibility and Budget Management Act, and the powers devolved by the departments to Gram Panchayats and as per Section-26 (1) of the Himachal Pradesh Panchayati Raj Act, 1994, the Commission recommends that for these social sector assets, the quantum of normal budget be increased by assessing the maintenance needs of these institutions and providing maintenance grants on normative basis for each type of institution. To work out maintenance provision for the assets in the sectors of Education, Health and Animal Husbandry, the Commission has adopted a separate methodology to ensure that resources for the maintenance of these institutions at normative rates could be provided.

9.13 The institutions identified were in the sectors of Education, Health and Animal Husbandry which required to be maintained by the Gram Panchayats. The number of these institutions as on 31st March, 2005 was 17826 consisting of 10652 Primary Schools, 2197 Middle Schools, 2068 Health Sub Centers, 22 Allopathic dispensaries, 1126 Ayurvedic dispensaries and 1761 dispensaries of Animal Husbandry department, the institution wise normative area for estimating devolutions for maintenance purpose has been taken 600, 800, 500, 500, 400 and 400 sq. feet, respectively. Going by these yardsticks, the total area for maintenance of these institutions comes to 10348600 sq. feet. Assuming a normative rate of Rs. 5 per sq. foot, the estimated preventive maintenance cost of these buildings comes to Rs. 517.44 lakh, which consists of Rs. 319.56 lakh for Primary Schools, Rs. 87.89 lakh for Middle Schools, Rs. 51.70 lakh for Health Sub Centers, Rs. 0.55 lakh for Allopathic dispensaries, Rs. 22.52 lakh for Ayurvedic dispensaries and Rs. 35.22 lakh for Animal Husbandry dispensaries.

9.14 A provision of Rs. 800.00 lakh has been provided for the maintenance of all buildings of these sectors in the budget for the year 2007-08. The Commission presumes that the State Government will maintain the level of this provision for the remaining years of the award period of State Finance Commission (2008-12). To provide fully for the maintenance of these institutions, the Commission recommends an annual provision of Rs. 481.24 lakh for the maintenance of buildings of Primary Schools, Middle Schools, Health Sub Centers and dispensaries of Health, Ayurveda and Animal Husbandry departments to be channelised through the Panchayati Raj Institutions. A ten percent increase to cater to the increased costs of inputs for maintenance and the increase in wages etc. has also been taken care of while forecasting the provisions.

9.15 In so far as maintenance provision of other departments, the same may continue to be with the departments but its devolution to Gram Panchayat be made for carrying out maintenance to gradually enhance the stake of Gram Panchayat in the basic infrastructure meant for local level service delivery.

9.16 To ensure targeted delivery of the budgetary provision for the assets, such provision be made in the Demands for Grants of the Panchayati Raj Department by declaring Director Panchayati Raj as Head of the Department for the proper utilization of the same by the Panchayati Raj Institutions.

9.17 The Panchayati Raj Department has no inventory of its own assets. The same should be prepared and continuously updated so that the quantification of resources needed for the upkeep and maintenance of the same could be worked out.

<u>Statutory functions of the Gram Panchayats</u> :-

9.18 The Himachal Pradesh Panchayati Raj Act, 1994 and the rules made thereunder specifies following powers and functions to Gram Panchayats.

- Gram Panchayats have been empowered to enquire and make report about misconduct of certain officials such as Peon, Bailiff, Constable, Head Constable, Chowkidar, Patrol of the Irrigation Department, Forest Guard, Patwari, Vaccinator, Canal Overseer, Game Watcher, Panchayat Secretary, etc.
- Gram Panchayats have been empowered to hear and decide cases relating to minor offences under I.P.C., the

Vaccination Act, 1880, the cattle tress pass Act, 1878, the Himachal Pradesh Juveniles (Prevention of Smoking Act), 1952 and the Public Gambling Act, 1867 and also to hear and decide applications for maintenance under section 125 of the Cr. P. C.

- Gram Sabhas have been empowered to approve the annual budget of the Gram Panchayat as well as to consider and take appropriate action in respect of the annual statement of accounts of the Gram Panchayat, report of the administration of the preceding financial year and the last audit note and the replies, if any, made thereto;
- Gram Sabhas have been empowered to approve plans, programmes and budget prepared by the Gram Panchayat for economic development and social justice and also to authorize, after being satisfied, issuance of utilization certificates of funds spent on the implementation of the plans, projects and programmes of the Gram Panchayat.
- Gram Sabhas have been empowered to constitute Vigilance Committees to supervise the Gram Panchayat works, schemes and other activities and to put reports concerning them in its meeting and shall also send a copy of the said report to the BDO.
- Developmental works costing upto Rs. 5.00 lakh will be executed by the Gram Panchayats.
- Gram Panchayats are authorized to accord administrative approval and expenditure sanction for the work costing

upto Rs. 3.00 lacs for which technical sanction of Junior Engineer is required. However, for the work costing upto Rs. 50,000/- technical sanction of Takniki Sahayak is required. If the cost of work is more than Rs. 3.00 lacs and upto Rs. 10.00 lacs then administrative approval of Panchayat Samiti and technical sanction of Assistant Engineer is essential and in the case of works costing more than Rs. 10.00 lacs administrative approval of Zila Parishad and technical sanction of Executive Engineer is essential.

- With a view to achieve maximum participation in the meetings of the Gram Sabhas it has been made mandatory that every Gram Sabha shall hold four general meetings in each year on the predetermined days i.e. on 1st Sunday of January, April, July and October.
- There shall be constituted Up-Gram Sabha for each ward of the Gram Panchayat and all members of the Gram Sabha residing within the area of the ward shall be members of the Up- Gram Sabha.
- Panchayats at all the three levels have been empowered to constitute standing committees.
- Panchayats at all the three levels have been empowered to raise loans for creation of income generating assets without previous sanction of the Government if the project is assessed by the financial institutions as economically/ financially viable. However the Gram Panchayat shall be

required to obtain prior approval of the Gram Sabha for raising a loan.

- The Gram Panchayats have been empowered to protect public property such as sign boards, mile stones on public roads, paths, irrigation and water supply schemes, public taps, public wells, hand pumps, community centers, mahila mandal bhavans, school buildings, health institution buildings. In case of violation of the orders of the Gram Panchayats in the matter, the Gram Panchayat can also impose penalty upto Rs.1000/- and in case of recurring breach, further penalty @ Rs. 10/- per day with maximum upto Rs. 5,000 can be imposed.
- Panchayats have been authorized to levy taxes, fees, fines and cess.
- It has been made mandatory that the village level functionaries of the Agriculture, Animal Husbandry, Primary Education, Forest, Health and Family Welfare, Horticulture, Irrigation & Public health, Revenue and Welfare department shall attend the meetings of the Gram Sabha.
- Rates of various penalties and fines to be imposed by the Panchayats have been increased.

9.19 The Commission had asked for information from all the 3243 Gram Panchayats out of which 2910 Gram Panchayats responded. The number of Gram Panchayats which were found performing statutory functions during 2000-05 was compiled and annual average arrived at, which is given in the following table:

Table-V

Performance of Statutory functions by Gram Panchayats during 2000-2005

(Five Year annual average/No. of GPs)

Sr. No.	District	No. of Gram Panchayats	Functions					
			Cleanliness	Main. Of Water Bodies	Lighting	Main. Of Path/Toilet/Drains	Drinking Water for Animals	Others
1	2	3	4	5	6	7	8	9
1	Bilaspur	83	3	17	1	43	6	4
2	Chamba	179	10	30	1	49	30	4
3	Hamirpur	225	9	75	2	97	10	14
4	Kangra	742	24	141	9	382	35	43
5	Kinnaur	65	3	5	-	19	3	1
6	Kullu	204	9	35	3	74	17	10
7	Lahaul and Spiti	41	3	9	5	17	2	1
8	Mandi	467	5	115	6	203	35	15
9	Shimla	317	11	69	12	95	44	10
10	Sirmaur	155	11	34	2	42	9	5
11	Solan	202	23	66	10	93	29	14
12	Una	230	16	42	4	94	20	19
Total		**2910**	**127**	**638**	**55**	**1208**	**240**	**140**
			(4.4)	**(21.9)**	**(1.9)**	**(41.5)**	**(8.3)**	**(4.8)**

Note:- The figures given in parentheses shows percentage of Gram Panchayats performing functions.

9.20 It is mandatory on the part of Gram Panchayats to perform statutory functions which are their responsibility since the inception of the institution of Gram Panchayats. The analysis of figures given in the above table reveals that a few Gram Panchayats have been performing these functions. The main function which was being performed by 1208 Gram Panchayats out of 2910 is related to maintenance of paths, toilets and drains. Even this basic function was performed by only 41.5 percent Gram Panchayats whereas by now each Gram Panchayat should have performed such an important function. The main reason attributable to lack of performance of statutory functions was due to shortage of funds and staff at the disposal of Gram Panchayats.

9.21 The financial comparison of the years 2000-05 with that of number of Gram Panchayats performing functions as given in the table-V throws the data as given in the table below:

Table-VI

Annual average Expenditure on Statutory Functions by Gram Panchayats during 2000-05

(Rs. in lakh)

Sr. No.	District	No. of Gram Panchayats	Expenditure on Statutory functions						
			Cleanliness	Main. Of Water Bodies	Lighting	Main. Of Path/Toilet /Drains	Drinking Water for Animals	Others	Total
1	2	3	4	5	6	7	8	9	10
1	Bilaspur	83	0.49	5.67	0.29	111.52	1.99	8.22	128.18
2	Chamba	179	1.15	11.47	0.55	177.20	12.12	0.29	202.78
3	Hamirpur	225	1.40	28.63	1.32	176.31	4.88	10.39	222.93
4	Kangra	742	2.27	44.31	2.85	807.71	14.66	37.62	909.42
5	Kinnaur	65	0.14	1.96	0.02	63.66	0.43	0.33	66.54
6	Kullu	204	2.28	13.35	2.43	189.90	2.46	6.67	217.09
7	Lahaul & Spiti	41	2.75	10.66	1.10	72.83	0.22	0.71	88.27
8	Mandi	467	0.35	31.07	4.38	575.63	9.72	27.55	648.70
9	Shimla	317	3.67	27.34	7.11	207.27	12.14	5.18	262.71
10	Sirmaur	155	1.81	14.30	4.22	130.08	3.37	0.97	154.75
11	Solan	202	2.88	25.66	3.44	205.87	3.56	5.76	247.17
12	Una	230	0.82	15.27	4.25	235.00	4.14	6.23	265.71
Total		**2910**	**20.01**	**229.69**	**31.96**	**2952.98**	**69.69**	**109.92**	**3414.25**
Per Panchayat average exp.			**0.007**	**0.08**	**0.01**	**1. 01**	**0.02**	**0.04**	**1.17**

9.22 The analysis of above table reveals that a Gram Panchayat spends as minimum as Rs. 700/- annually for cleanliness and maximum Rs. 1.01 lakh for the maintenance of paths, toilets and drains. Average, annual expenditure per Gram Panchayat comes to Rs.1.17 lakh for the performance of statutory functions which is low by all means.

9.23 While ground truthing the data given at table-VI above, the Commission observed that per Gram Panchayat average expenditure of Rs. 1.01 lakh under the maintenance of paths/ toilets/ drains is a case of misclassification of booking expenditure as the funds received from the Rural Development department for undertaking devolved functions have been shown in the implementation of statutory functions. Thus Commission reduces this amount from the performance of statutory functions. After reduction of this amount per Gram Panchayat average share works out to Rs. 0.16 lakh. The Commission takes it as a legitimate expenditure of per Gram Panchayat which comes to Rs. 518.88 lakh per annum for all the 3243 Gram Panchayats. Since the Gram Panchayats have very low resource base, the Commission recommends that this amount may be taken as a base for the year 2007-08 and thereafter be marked up by 10 percent for each year of the award period and provided to the Gram Panchayats over and above their own resources.

9.24 According to the data collected from the Gram Panchayats, the actual expenditure on statutory functions for the period 2000-05 in respect of 2910 Gram Panchayats was reported as under:

Table-VII

Actual Expenditure on Statutory Functions of Gram Panchayats

(Rs. in lakh)

Sl. No.	Year	Expenditure
1	2	3
1	2000-01	2237.30
2	2001-02	2971.52
3	2002-03	3659.74
4	2003-04	3736.52
5	2004-05	4466.20
Annual Average		3414.25

9.25 Since resources of this order are actually not available with the Panchayati Raj Institutions, this again was a case of inappropriate classification of expenditure on which the Commission found it difficult to rely upon. However, some projections for this responsibility had been made by the Gram Panchayats. These combined with certain ground-truthing of data for some Panchayats indicated the requirements in the proximity of Rs. 5 to 6 crore per annum. Based on the projections given by the Gram Panchayats for the year 2005-06 and 2006-07 the Commission recommends following provision over and above their own resources for the statutory functions for 2007-12 period as given in the following table:

Table-VIII

Forecast of provision for statutory functions during 2007-12 over and above Gram Panchayats own resources

(Rs. in lakh)

Sl. No.	Year	Projected Expenditure
1	**2**	**3**
1	2007-08	-
2	2008-09	570.77
3	2009-10	627.84
4	2010-11	690.62
5	2011-12	759.68
	Total	**2648.91**

Devolved functions of the Gram Panchayats: -

9.26 To strengthen democracy at the grass root level and to make the Panchayati Raj Institutions viable institutions of self governance, the State Government has devolved powers, functions and responsibilities relating to fifteen departments to Panchayati Raj Institutions on 31st July, 1996 covering 27 subjects out of 29 as mentioned in the 11th schedule of the Constitution. The Government has also delegated following powers to the Panchayati Raj Institutions.

1. Preparation of Micro-Plan by Gram Panchayats.
2. Powers to decide about location of Institutions of public utility.
3. Powers to report on the physical attendance in their assigned areas of work with regard to the grass root level functionaries.

4. Village level committees of the department to be integrated with the standing committees on the PRIs set up.
5. Selection of beneficiaries under various schemes shall be done through Gram Sabha.
6. PRIs have been empowered to report about the physical attendance of Ayurvedic, Allopathic and Animal Husbandry Doctors, School Teachers, Patwaris, Forest Guard etc. at their places of posting.

7. Chairpersons of Zila Parishads have been designated as the Chairpersons of the Governing Body of the respective DRDAs.

8. Pradhan or Up-Pradhan of Gram Panchayats have been empowered for issuing fishing license to anglers for sport fishing and Chairperson and Vice-Chairperson Panchayat Samitis for issuing license to professional fishermen for general and trout water fishing and the money realized as license fee would be retained by the concerned Panchayats as its revenue.

9. Cess of Re.1/- per bottle of liquor sold in the rural area will be collected and transferred to the Gram Panchayats for utilization in developmental activities.

10. Before grant of any lease for mining and minerals a resolution from the concerned Panchayat has been made compulsory.

11. Zila Parishads have been empowered to appoint Assistant Engineers against the vacant post of Assistant Engineers in DRDA (RDD) on contract basis for giving technical guidance to PRIs.

12. Panchayat Samitis have been empowered to appoint Kanisht Lekhapal against the vacant posts of Clerk/Steno typist.

13. The Gram Panchayats have been made the appointing authority in respect of the grass root level functionaries such as Panchayat Chowkidar, Panchayat Sahayak, Tailoring Mistress, Anganwari Worker/ Helper, Part time Water Carrier in Primary School, Vidya Upasak/Para Teacher, Swathaya Sahayak etc.

14. Primary School Buildings have been transferred to the Gram Panchayats and the maintenance/ repair and control of Primary School buildings would be the responsibility of Gram Panchayats.

15. Zila Parishad and Panchayat Samitis have been empowered to supervise the duties and functions regarding revenue matter, to assist the revenue officials in identification of landless/houseless persons and formulation of policies for utilization of government land giving no objection certificates for such land on lease at district and block level.

16. Gram Panchayats have been empowered to collect the land revenue from the land owners/right holders and Gram Panchayats will use the collected land revenue at their own level.

17. Gram Sabha resolution has been made compulsory before granting of any area on money lease and installation of mineral based industry. The Gram Panchayats have also been given powers to issue permits for the personal bonafide use for extraction of sand, stone, bajri and slates.

18. Pradhans of Gram Panchayats have been appointed as Forest Officers to carry out the purposes of rule 11 of the Himachal Pradesh Forest Produce Transit (Land Routs) Rules, 1978 for the issuance of pass for transport of Minor Forest Produce collected form the Forests in respect of 37 items.

9.27 In the like manner and as in the case of statutory functions, the Commission had specifically called for information on devolved functions from all the Gram Panchayats. The response of 2910 Gram Panchayats which responded to questionnaire regarding performance of the devolved functions during 2000-2005 were compiled and annual average arrived at, is given in the following table:

Table-IX

Performance of devolved functions by the Gram Panchayats during 2000-05

(Annual Average/ No. of Gram Panchayats)

Sr. No.	District	No. of Gram Panchayats	Functions					
			Agriculture	Animal Husbandry	Education	PWD/ IPH	Health	Rural Develo -pment
1	2	3	4	5	6	7	8	9
1	Bilaspur	83	-	-	4	1	-	23
2	Chamba	179	-	-	7	3	-	5
3	Hamirpur	225	2	3	35	38	1	86
4	Kangra	742	4	10	80	119	3	184
5	Kinnaur	65	-	-	10	6	-	11
6	Kullu	204	2	1	24	58	-	64
7	Lahaul and Spiti	41	-	1	5	1	-	12
8	Mandi	467	2	4	46	39	1	98
9	Shimla	317	-	-	41	36	-	72
10	Sirmaur	155	1	1	3	12	-	28
11	Solan	202	1	1	20	30	1	35
12	Una	230	-	-	4	6	1	74
	Total	**2910**	**12**	**21**	**279**	**349**	**7**	**692**
			(0.41)	**(0.72)**	**(9.59)**	**(11.99)**	**(0.24)**	**(23.78)**

Note:- The figures given in parentheses indicate percentage of Gram Panchayats performing functions.

9.28 The analysis of the above data reveals that an insignificant number of Gram Panchayats were performing devolved functions. The functions performed by the Gram Panchayats were in the nature of construction of school buildings, and for the works, the funds for which given to Gram Panchayats by the District Rural Development Agency and through the Deputy Commissioner's office on account of decentralized planning mechanism for the execution of different types of civil works. It also signifies that the actual devolutions to be made by certain other departments for construction and maintenance of assets were yet to percolate down.

9.29 For the performance of devolved functions given in table-IX above the average annual expenditure for the period 2000-2005 remained as given in the following table:

Table-X

Annual average expenditure on devolved functions by Gram Panchayats during 2000-05

(Rs. in lakh)

Sr. No.	District	No. of Gram Panch-ayats	Expenditure on devolved functions						Total
			Agric-ulture	Animal Husba-ndry	Educatio n	PWD/ IPH	Health	Rural Deve.	
1	2	3	4	5	6	7	8	9	10
1	Bilaspur	83	0	0.01	3.18	0.68	0	19.09	**22.96**
2	Chamba	179	0	0	5.96	2.38	0	2.78	**11.12**
3	Hamirpur	225	2.19	1.25	31.19	34.14	0.78	139.76	**209.31**
4	Kangra	742	1.41	9.97	72.40	128.83	2.18	221.30	**436.09**
5	Kinnaur	65	0	0	9.56	32.22	0	31.60	**73.38**
6	Kullu	204	5.83	5.40	23.54	78.64	0.53	97.43	**211.37**
7	Lahaul and Spiti	41	0	0	2.35	0.44	0	18.42	**21.21**
8	Mandi	467	0.47	2.36	49.61	40.83	0.89	98.28	**192.44**
9	Shimla	317	0	0.31	30.02	38.80	0.31	87.14	**156.58**
10	Sirmaur	155	1.14	3.36	1.65	10.35	0	49.55	**66.05**
11	Solan	202	0.79	0.61	17.60	38.45	0.50	46.20	**104.15**
12	Una	230	0.35	0	3.08	7.27	0.12	93.61	**104.43**
Total		**2910**	**12.18**	**23.27**	**250.14**	**413.03**	**5.31**	**905.16**	**1609.09**
Per Panchayat average exp.			**0.004**	**0.008**	**0.09**	**0.14**	**0.002**	**0.31**	**0.55**

9.30 Though 27 subjects out of 29 stand devolved to Gram Panchayats, yet these institutions are performing the partial functions of only seven departments. For the functions of devolved nature the minimum spending was of Health department Rs. 200 and maximum was of Rural Development department Rs. 31000 per Gram Panchayat per annum.

9.31 According to the data collected from the Gram Panchayats, the actual expenditure on devolved functions for the period 2000-01 to 2004-05 for 2910 Gram Panchayats was reported as under.

Table-XI

Actual expenditure on devolved functions of Gram Panchayats

(Rs. in lakh)

Sl. No.	Year	Expenditure
1	**2**	**3**
1	2000-01	1065.92
2	2001-02	1377.44
3	2002-03	1726.36
4	2003-04	1912.06
5	2004-05	1963.67
Annual Average		**1609.09**

9.32 In effect, the interface of the Commission with the Panchayati Raj Institutions revealed that these institutions had not been entrusted any specific implementation functions and the data contained in tables IX, X and XI in the foregoing text could be an outcome of lack of understanding or wrong classification. Also, the expenditure on devolved functions in Education, Public Works Department/Irrigation and Public Health and Rural Development Departments accounted for 98.2 per cent of the total reported expenditure whereas no specific implementation functions for these sectors appeared to have been devolved by the State Government to the Panchayati Raj Institutions. Keeping this in view, the Commission decided to repeat the stance of the previous two Commissions that funds should flow as the functions are effectively devolved to Panchayati Raj Institutions.

<u>Untied grants to Gram Panchayats</u>: -

9.33 The Commission in its wider interaction held with the representatives of the Gram Panchayats and during field visits to some of the sampled selected Gram Panchayats has observed that this foremost tier of local self governance is in a pathetic condition in respect of cleanliness and provision of basic facilities. It is mainly due to shortage of funds and negligible own resources of Gram Panchayats. Whatever funds received by the Gram Panchayats were in the shape of tied nature for undertaking some specific work.

9.34 The number of functions performed by the Gram Panchayats on basic necessities and expenditure thereon has been given above in the tables-V and VI, respectively, covering statutory functions, which reveals a small number of Gram Panchayats undertaking these functions and very low spending on basic necessities. However, this situation must witness a sea change in the performance of basic functions relating to water and sanitation by the Panchayati Raj Institutions as a result of the recommendations of the Twelfth Finance Commission. Whereas the Twelfth Finance Commission grants give pre-eminence to expenditure on water and sanitation, these do not exclude the local developmental works. Also, as mentioned in para 3.11 earlier, the merit for provision of untied grants could not be sustained merely on account of such a demand being raised. Hence no provision was considered necessary on this account at any level.

Forecasting of expenditure:-

9.35 As per the analysis given above, the forecasting of expenditure for the period 2007-12 comes as under:-

Table-XII

Forecasting of Provision for the Years 2007-12

(Rs. In lakh)

Sl. No.	Item	Years					Total (3 to 7)
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	2	3	4	5	6	7	8
1	Maintenance of assets of Education, Health and Animal Husbandry departments.	481.24	529.36	582.29	640.52	704.57	**2937.98**
2	Performance of statutory functions.	-	570.77	627.84	690.62	759.68	**2648.91**
Total		**481.24**	**1100.13**	**1210.13**	**1331.14**	**1464.25**	**5586.89**

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CHAPTER 10

APPROACH FOR THE URBAN LOCAL BODIES

10.1 Himachal Pradesh has a total of 49 units of Urban Local Government. After the passing of the 74^{th} amendment to the Constitution of India, these entities have been entrusted with various constitutional, statutory and obligatory functions. The above mentioned amendment to the Constitution of India envisages ever increasing decentralization of administrative, legislative and financial functions to the Urban Local Bodies with progressive financial autonomy.

10.2 The Government of Himachal Pradesh has enacted three Acts for facilitating the administration of Urban Local Governments. These include Himachal Pradesh Municipal Services Act, 1994; Himachal Pradesh Municipal Act, 1994; and Himachal Pradesh Municipal Corporation Act, 1994. These acts bestow upon the Municipal Governments numerous additional functions which are in conformity with the 12^{th} Schedule of the Constitution. Three specific functions which have been added to the list of earlier obligatory functions in the 12^{th} Schedule in Article 243 W include urban planning including town planning; regulation of land use and construction of buildings; and planning for economic and social development. Needless to say, these functions call for enhanced capacity of the Urban Local Bodies for effective performance and regulation. These also call for some synergy and harmony in the various State Acts so that the local government institutions could also take on the responsibility of performing these functions.

10.3 Various sections of the relevant Acts for administering municipal bodies provide for a wide range of obligatory and discretionary functions which need not be recounted here. In the context of laying down the approach for assessing the financial resources and expenditure of the urban local bodies, given the interface the Commission had with elected representatives in various districts, it is felt that the approach may restrict itself to assessing the committed expenditure on salaries, wages and maintenance of civic infrastructure and the revenue receipts from various sources.

10.4 In its efforts to understand in depth the problems of municipal finances, the Commission had asked the Urban Development Department to send a memorandum to the Commission covering various aspects of this subject. After the memorandum was received in June, 2006, a meeting was organized towards the end of July, 2006 in which clarity on the issues relating to functions of the municipalities, staff position and financial liabilities, regularization of daily waged staff, provision of light vehicles to the big ULBs, liquidation of arrears of bulk water supply and street lighting, decentralization of staff to local bodies, setting up of new nagar panchayats and need for capacity building of these local government institutions emerged. The common ground reached in this behalf has been internalized into the approach.

10.5 The mandate of the Commission originates from the Constitution of India and therefore, the Commission has the responsibility 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 has to ensure that while deliberating upon the sensitive issue of resource sharing, it does not lose the overall perspective of difficult situation of State finances and yet manages to strike a balance for performance of the statutorily assigned functions as also the ones delegated by the State government to the local government entities.

10.6 Keeping in view the general framework and approach, the Commission decided to adopt a realistic approach in assessment of receipts and expenditure as would attempt to strike a balance between the responsibilities and over-all resource availability. The main points of the approach adopted by the Commission for Urban Local Bodies are as under:-

1. The Commission noted that the areas of revenue generation in case of the Urban Local Bodies were considerably regulated by the State Government. After examination, it was found that there was wide difference between the actual receipts from own resources and the projected receipts forecast during the award period of the Second State Finance Commission for 2002-03 to 2006-07. Therefore, it was decided that for the award period of the Third State Finance Commission, Commission would assume

a growth rate of 12.5 per cent per annum on the actual aggregate accrual of Urban Local Bodies over the year 2004-05, after studying the trends in actual receipts over the last few years. In this manner, the Commission decided to deviate from the forecast methodology used by the previous commissions which need the per capita estimates of receipts to forecast the renames. The Commission noted that exemptions were granted by the State Government on levy of urban taxation which led to a considerable dip in the actual realisation vis-à-vis the potential.

2. On the expenditure side, the Commission decided to assume a growth rate of 8.5 per cent in respect of the Committed liabilities, like salary and wages after analysing the actual establishment expenditure over 2000-01 to 2004-05 or 2001-02 to 2005-06, depending upon availability of data. The provision for maintenance of the stock of assets owned by the local government institutions would be largely determined by the actual inventory and the age (if available) and suitable mark up in the per unit cost would be provided over the norms used for this purpose by the previous Commission. As regards the provision for honorarium, it will be determined by the existing rates.
3. While formulating the recommendations, Commission has broadly followed the principles of equity, efficiency and owning responsibility. An effort has been made to strike a balance between the scarce resources and emerging responsibilities of Urban Local Bodies in the context of 74th amendment to the Constitution of India. On meeting the gap in the resources and the committed expenditure of the Urban Local Bodies, it was

agreed that instead of only the mechanism of a gap filling grant followed by the previous Commissions, the Third State Finance Commission will adopt a mix of tax sharing and gap filling grant as was decided in an earlier meeting of the Commission, if required. Such devolutions will have no linkage with the recommendations and devolution from the 12th Central Finance Commission due to object specificity of such recommendations.

4. With regard to the Constitutional provision for the setting up of the District Planning Committees, the Commission would like to ascertain the latest status about their constitution, role assigned, the role of the old DPCs and the process of plan formulation by the DPCs. It was considered necessary to assess this situation with regard to the entire question of delegation and decentralization, and subsequently the transfer of development functions and resources.
5. The Commission carefully considered the 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 were not performing all these functions specially

the ones which involved large expenditure, e.g. water supply, sewerage etc. In some cases, costs of providing the services like street lighting and payments for bulk supply of drinking water had become overdue 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 subsidized services. To some extent, these bodies were also restrained or constrained by the State policies in pricing or providing these services. Some important functions assigned also involved sizeable resource transfer and administrative control of staff of various government departments which has not so far happened.

6. In discussion with the Urban Development Department, it emerged that most of these functions were being performed by the local bodies. Except for Palampur, Shimla and Solan, all other local bodies have water supply schemes, regulated and controlled by the IPH Department. For Shimla and Solan, the bulk supply is with the IPH Department and internal distribution with the local body. Forest areas with the exception of Dalhausie and Dharamshala are with the Forest Department. The expenditure on performance of these functions is met by the aggregate resources of the local bodies, which largely comprises of the staff expenditure.

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CHAPTER 11

STATUS OF DEVOLUTION TO URBAN LOCAL GOVERNMENT INSTITUTIONS AND THEIR ASPIRATIONS

11.1 Prior to the enactment of the 73^{rd} and 74^{th} amendments to the Constitution of India, the Urban Local Bodies were governed by the Municipal Act of 1968 for the municipalities and the Himachal Pradesh Municipal Corporation Act, 1979 for the Municipal Corporation of Shimla. The old municipal Act of 1968 was repealed and replaced by the Himachal Pradesh Municipal Act, 1994. The functions of municipal committees as defined under section 51(2) of the Himachal Pradesh Municipal Act, 1968 were incorporated as such in the new Act and certain new functions were added to this list as contained in section 48 of the Himachal Pradesh Municipal Act, 1994. The provisions of this section are reproduced below:-

" 48. (1) With prejudice to the generality of the provisions of sub-section (1) of section 47, the State Government shall, by notification endow the municipalities with such powers and authorities as may be necessary from time to time to enable them to function as institutions of Local Self Government, subject to such conditions as may be specified therein, with respect to, _

(i) ***the preparation of plans for economic development and social justice;***

(ii) ***the performance of functions and implementation of the schemes which may be entrusted to them including the following, namely:-***

1. ***urban planning including town planning;***
2. ***regulation of land use and construction of buildings;***
3. ***planning for economic and social development;***
4. ***roads and bridges;***
5. ***water supply for domestic, industrial and commercial purposes;***
6. ***public health, sanitation conservancy and solid waste management;***
7. ***fire services;***
8. ***urban forestry, protection of the environment and promotion of ecological aspects;***
9. ***safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded;***
10. ***slum improvement and upgradation;***
11. ***urban poverty alleviation;***
12. ***provision of urban amenities and facilities such as parks, gardens and play grounds;***
13. ***promotion of cultural, educational and aesthetics aspects;***
14. ***burials and burial ground, cremations, cremation grounds and electric crematoriums;***
15. ***cattle ponds and prevention of cruelty to animals;***
16. ***vital statistics including registration of births and deaths;***

17. ***public amenities including street lighting, parking lots, bus stops and public conveniences;***
18. ***regulation of slaughter houses and tanneries:***

Provided that the notification regarding devolution of powers under this sub-section shall be issued within three months from the date of commencement of this Act, in the first instance.

(2) Nothing contained in the provisions of this section shall be construed to divest the municipalities of various powers and functions vested in them under various provisions of this Act, rules and bye-laws, made thereunder."

11.2 In so far as the functions of the Municipal Corporation are concerned, sections 43 and 44 of the Himachal Pradesh Municipal Corporation Act, 1994 provide for the obligatory and discretionary functions to be performed by the Municipal Corporation of Shimla. These functions are identical to and a reproduction of the sections 43 and 44 of the Himachal Pradesh Municipal Corporation Act, 1979. Section 42 of the Himachal Pradesh Municipal Corporation Act, 1994 empowers the State Government to determine various additional functions of the Corporation. Since there is a certain overlap in the list of obligatory and discretionary functions, the Government of Himachal Pradesh issued a notification in August, 1994 specifying the obligatory and discretionary functions, and the additional functions besides their normal traditional functions both in the case of corporation and all the municipalities. A copy of this notification is at Appendix-V.

11.3 In the course of the work of the First Finance Commission, the responsibilities entrusted to the Urban Local Bodies through the above mentioned notification were gone into detail and it was found out that the following functions should be transferred to these bodies along with the requisite resources:-

1. Planning for economic and social development:
   a) Formulation of schemes for upliftment of poor,
   b) Implementation of poverty alleviation programme.
2. Roads and bridges:
   a) Construction and maintenance of public streets, lanes and bye lanes and pavements.
3. Public health:
   a) Provision of drains and nullahs,
   b) Provision of public latrines and urinals and their upkeep.
4. Urban forestry, protection of the environment and promotion of ecological aspects:
   a) Planning, maintenance and preservation of ornamental and economic trees within the municipal areas,
   b) Establishment and maintenance of electric crematoria.
5. Slum improvement and upgradation:
   a) Identification of slum areas, formulation of schemes for rehabilitation of the people living in slums.
6. Urban Poverty Alleviation:

   a) Identification of urban poor and the localities predominantly occupied by them.
   b) Formulation and execution of schemes for their upliftment.
7. Provision of urban amenities and facilities such as parks, gardens, playgrounds, fitness centres or trails:
   a) Provision of parks, gardens, playgrounds, fitness centres or trails and improvement of existing parks and gardens.
8. Promotion of cultural, educational and aesthetics aspects:
   a) Promotion and encouragement of cultural activities.
   b) Suggest remedial measures for improvement of education and educational institutions.
   c) Establishment and maintenance of libraries and reading rooms.
9. Burial and burial grounds, crematoria, cremation grounds and electric crematoria:
   a) Provision and maintenance of burial grounds, cremation grounds and to improve their surroundings and regulate their use.
   b) To establish and maintain electric crematoria.

10. Cattle ponds, prevention of cruelty to animals:
    a) Establishment and maintenance of cattle ponds.
    b) To prevent roaming of stray cattle.

11. Vital Statistics including registration of births and deaths.

12. Public amenities including lights, parking lots bus stops and public convenience:
    a) Street lights,
    b) Bus stands, bus stops, rain shelters, loading and unloading points,
    c) Public amenities like public latrines, public baths, public paths, ponds, tanks and lakes,
    d) Serais, Dharamshalas and night shelters,
    e) Ferries and boats.

13. Establishment, maintenance, regulation and control of slaughter houses and tanneries.

11.4 The Commission had the opportunity of discussing in detail the status of performance of these functions by the Urban Local Bodies in the course of interaction with the elected representatives in all the districts which have notified urban local bodies. In addition to this, the data gathered from the Urban Local Bodies was also analysed in regard to performance of these functions. By and large, all the Urban Local Bodies attend to these functions and there is no specific provision for creation of basic infrastructure for these functions from the State Plan except through the transfers recommended by the State Finance Commissions. Some of the activities listed above are taken care of through the provisions recommended by the successive State Finance Commissions for maintenance of some basic infrastructure. In view of these facts, the Commission came to this conclusion that appropriate provision for performance of these functions would be necessary.

11.5 The First State Finance Commission had made a per capita provision of Rs. 300 for performance of these functions. The Second State Finance Commission had also followed the same principle and made a provision. The basis for adoption of a per capita expenditure norm of Rs. 300 by the First State Finance Commission was its linkage to the per capita level of assistance under the scheme of environmental improvement of urban slums. It is felt that the norm needs to be reconsidered due to increase in the costs. The best assumption would have been to neutralize the inflation. However, the Commission feels that a 50 per cent mark up in this norm will be reasonable to cater to the needs of the above basic functions. The urban population in the State grew by 38.15 per cent during 1981-1991 period and by 32.73 per cent during 1991-2001 period. Keeping in view the increasing trend of urbanization, the urban population could grow by about 40 per cent in the 2001-2011 period. Going by this assumption, it is necessary to provide for a population of about 7 lakh in the urban areas of the State for the first year of the Third State Finance Commission award and increase it by 4 per cent per annum during the forecast period. In this manner the expenditure provision for the delegated functions for 2007-08 would work out to Rs. 30 crore. For the entire forecast period it will work out to Rs. 162.50 crore. The annual details are as under:-

RECOMMENDED PROVISIONS FOR PERFORMANCE OF DELEGATED FUNCTIONS BY THE URBAN LOCAL BODIES FOR THE FORECAST PERIOD

(Rs. crore)

Year	Provision for the delegated functions
2007-08	30.00
2008-09	31.20
2009-10	32.45
2010-11	33.75
2011-12	35.10
Total	162.50

11.6 The allocation of the above provision among the various urban local bodies will be in proportion to the urban population for the year 2001 because an identical growth rate for projecting the population upto 2011-12 has been used for all the urban local bodies.

11.7 The notifications issued by the State Government in regard to performance of various functions in August, 1994 for the Municipal Corporation and the municipalities are very comprehensive and it should be the endeavour of the State Government to move in the direction of completely entrusting of the notified functions in a calibrated manner depending upon the physical capacity of the individual bodies specifically in the context of planning and construction of water supply schemes, planning and construction of the sewerage treatment plants and solid waste management apparatus. For doing so, there would be a need for strengthening the administrative support for these activities which could be done by seconding the staff of the IPH Department to the local bodies as per the existing practice in some of the Urban Local Bodies. Most of the urban local bodies expressed their willingness to take upon themselves the functions of distributions of water supply and provision of sewerage alongwith the responsibility of fixation and collection of water rates for such services.

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CHAPTER 12

FORECASTING THE COMMITTED EXPENDITURE AND EXPENDITURE ON DELEGATED FUNCTIONS OF THE URBAN LOCAL BODIES

12.1 The Commission collected data from all the Urban Local Bodies in the State for assessing the committed expenditure of these local government institutions. Besides the data flow from the individual Urban Local Bodies, the Commission also had a comprehensive interface with the Urban Development Department for obtaining data on items of committed expenditure. The committed expenditure comprises of the expenditure on salaries and wages of the employees, the honorarium to the elected representatives of these bodies and the maintenance of civic infrastructure in the territorial jurisdiction of the individual local bodies.

12.2 The Commission, in undertaking this exercise, also took into account the assessments made by the previous Commissions. One of the important things which need to be noted is that the aggregate sanctioned strength of the staff of various Urban Local Bodies for the present assessment is 3088 as against the total sanctioned strength of 3246 which was used by the Second State Finance Commission. Therefore, the aggregate sanctioned strength has marginally declined and further look at the data revealed that the reduction in the sanctioned strength of regular staff was largely in the case of Municipal

Corporation, Shimla, which was reported to have come down from 1166 to 1011. Another fact which came to the notice of the Commission was that almost all the Urban Local Bodies had hired daily waged and contractual staff in large numbers and this was over and above the sanctioned strength of staff. When the vacancy position for all the local bodies was reviewed in May, 2006, it was found that the total number of vacancies was 788 as against the sanctioned strength, but the local bodies had engaged a total of 1188 daily wagers and 206 contractual employees. Thus, against 788 regular vacancies, 1394 daily wage and contractual employees had been hired. This issue was discussed with the Urban Development Department and it was understood that such hiring of staff could not be stopped. It was also understood that the overall vacancy position against the sanctioned strength was 26 per cent but this figure was only 4 per cent for Municipal Corporation, 27 per cent for the Municipal Councils and 54 per cent for the Nagar Panchayats. In terms of hiring daily waged/contractual staff, Municipal Corporation, Shimla had exceeded the sanctioned strength by 407. The excess hiring vis-à-vis the sanctioned strength in case of the Municipal Councils was 259. In the case of Nagar Panchayats, the staff hired as daily wagers/contract employees was 299 whereas the number of vacancies against the sanctioned strength was 348. The excess hiring was of the order of over 40 per cent in the case of Municipal Corporation, Shimla and 18 per cent for the Municipal Councils. The major excess was for the councils of Solan, Dharamshala and Kullu. The Commission agreed to make provision for all the existing daily waged staff and advised a freeze in the overall number of regular, sanctioned staff and the number of daily wagers. Since the contractual employees were indicated to be against the sanctioned strength, it was felt necessary to make expenditure provision for the sanctioned strength instead of the filled up positions. No increase in staff strength has been assumed during the forecast period. All these facts have been taken into account while forecasting the expenditure on salaries and wages.

12.3 The per capita expenditure on salaries used by the Second State Finance Commission for the forecast was Rs. 0.86 lakh as an average figure for all the local bodies for the base year 2000-01. Against this the Urban Development Department has projected an average expenditure of Rs. 1.07 lakh per employee which seems reasonable, keeping in view the increase in salaries and allowances at an overall level. In forecasting the expenditure on salaries, the Commission took the view that it would provide for salary expenditure as projected by the Urban Development Department instead of the data sent by the individual local bodies due to serious inconsistencies and mix up of the liabilities of regular and other staff. The actual data on salary expenditure was analyzed for trend growth for the years 2000-01 to 2004-05 or 2005-06, depending upon the availability of actual expenditure. The average growth rate worked out to about 8.5 per cent per annum. This number was decided to be used to reach the base year figure for 2006-07 and then for the forecast period, a growth of 8.5 per cent per annum was agreed to be provided so that the normal increases, additional dearness allowance burden etc. are taken care of as has been witnessed during the period 2000-01 to 2005-06. Since the staff hired on daily wages and on contract was a physical reality, the

Commission decided to make provision for expenditure on this account as well for the daily wagers. The per capita expenditure for such employees was projected at Rs. 0.30 lakh which would be a reasonable figure to be assumed during the forecast period, providing for some increase in the level of minimum wages, against the presently announced level of Rs. 75 per day which comes to Rs. 0.27 lakh per annum.

12.4 Based on the above assumptions, the projected expenditure for salaries and wages on the existing number of sanctioned strength and the posts filled up on daily wage basis has been worked out on the following basis:-

Municipal Corporation, Shimla.

Sr. No.	Particulars	Detail
1.	Sanctioned posts	1011
2.	Daily wager employees	389
3.	Liability of sanctioned posts for 2005-06 @ Rs. 1.10 lakh per employee	Rs. 11.12 crore
4.	Liability of daily wager employees @ Rs. 0.30 lakh per employee	Rs. 1.17 crore
5.	Total salary/wages liability for 2005-06	Rs.12.29 crore

Municipal Councils.

Sr. No.	Particulars	Detail
1.	Sanctioned posts	1437
2.	Daily wager employees	582
3.	Liability of sanctioned posts for 2005-06 @ Rs. 1.07 lakh per employee	Rs 15.38 crore
4.	Liability of daily wager employees @ Rs.	Rs. 1.75 crore

	0.30 lakh per employee	
5.	Total salary/wages liability for 2005-06	Rs.17.13 crore

Nagar Panchayats

Sr. No.	Particulars	Detail
1.	Sanctioned posts	640
2.	Daily wager employees	217
3.	Liability of sanctioned posts for 2005-06 @ Rs. 1.07 lakh per employee	Rs 6.85 crore
4.	Liability of daily wager employees @ Rs. 0.30 lakh per employee	Rs. 0.65 crore
5.	Total salary/wages liability for 2005-06	Rs.7.50 crore

12.5 On the basis of the above figures for 2005-06, after applying the assumptions, the recommended provisions for salary and wages expenditure for the 2007-12 period for the three types of Urban Local Bodies have been worked out as follows:

FORECAST OF THE COMMITTED EXPENDITURE ON SALARIES ANS WAGES FOR THE URBAN LOCAL BODIES

(Rs. in crore)

Year	Municipal Corporation	Municipal Councils	Nagar Panchayats	Total
2007-08	14.46	20.15	8.82	43.43
2008-09	15.69	21.86	9.57	47.12
2009-10	17.02	23.72	10.38	51.12
2010-11	18.47	25.74	11.26	55.47
2011-12	20.04	27.93	12.22	60.19
Total	85.68	119.40	52.25	257.33

12.6 Provision for office expenses was also impressed upon by the representatives of the local bodies in the meetings of the Commission apart from a similar proposal from the Urban Development Department. After analysis of the data and the projections made by these bodies, the Commission decided to recommend a provision of an amount equal to 5 per cent of the aggregate salary burden across the board. Therefore, a total provision of Rs. 12.87 crore for office expenses is recommended over the forecast period.

12.7 The second element of committed expenditure is the honorarium to the elected representatives of the Urban Local Bodies. Keeping in view, the revision of rates of honorarium announced by the State Government, the estimated liability for the year 2006-07 comes to a total of Rs. 45.77 lakh annually for all the Urban Local Bodies, as also projected by the Urban Development Department. The Commission decided to recommend an amount of Rs. 50 lakh per annum for the forecast period keeping in view the possibility of an increase of about 10 per cent in the rates of honorarium during the forecast period. Thus a provision of Rs. 2.50 crore is recommended for this purpose.

12.8 The third element of the committed expenditure is the maintenance of civic infrastructure by the various Urban Local Bodies. Although some elements of the maintenance expenditure of the capital assets are a part of the mandate of the delegated functions, yet it was felt necessary that like the predecessor Commissions, the Third State Finance Commission will also provide for the maintenance of roads/ streets, drains, public lighting and toilets. In addition, the Commission also decided that it would provide for the maintenance of the parks and the office buildings including the Town Halls of these local bodies. The justification for addition of these two items was that the parks were set up all over but were generally in a state of very poor upkeep. Similarly, the maintenance of office buildings and town halls also suffered in the face of a resource crunch being faced by these bodies. Data were also called for on several other physical assets like landed property, shops, stalls, rest houses, parking areas and other commercial assets. However, the Commission felt that there was no need to provide for the maintenance of such assets which could generate resources for their upkeep. The data was called for from all the Urban Local Bodies for items for which the maintenance provisions were felt necessary to be made alongwith the data used by the 2nd State Finance Commission if inconsistent figures emerged from the compilation on the basis of which the aggregate stock of civic infrastructure which needs to be provided for maintenance, as was done by the previous two Finance Commissions. The details of such infrastructure are depicted in the following table:-

AGGREGATE STOCK OF INFRASTRUCTURE FOR WHICH MAINTENANCE PROVISIONS ARE TO BE MADE

Item	Unit	MC Shimla	Municipal Councils*	Nagar Panchayats*	Total
Roads	Kms.	115	350	235	700
Streets	Kms.	76	220	165	461
Drains	Kms.	122	430	250	802
Public Toilets	Number	146	466	180	792
Street lights	Number	5465	27600	7850	40915
Public parks	Sq. m.	14000	103600	12600	121665
Office buildings	Sq.m.	1313	10000	6000	17313

Note : : Figures have been rounded off.*

12.9 As to the question of providing resources for maintenance of the above infrastructure, the Commission decided to provide neutralization of inflation in so far as the normative unit costs were used by the 2nd State Finance Commission. Accordingly, the maintenance of roads during the forecast period would be provided for the 1st year at Rs. 30,800 per kilometre. The provision for maintenance of streets will be Rs. 10,250 per kilometre. The norm for maintenance of drains will be Rs. 7,650 per kilometre length. The maintenance of toilets will be provided for at Rs. 2,050 per unit and the maintenance of street lights at the rate of Rs. 300 per point. The maintenance of office buildings will be provided at the rate of Rs. 50 per sq. metre of area whereas the maintenance of parks will be provided for at the rate of Rs. 20 per sq. metre of the area. On the basis of these norms the maintenance provision recommended for the 1st year comes to Rs. 496.18 lakh. For the forecast period the annual aggregate maintenance provision are recommended as follows after providing for an annual increase of 10 per cent to cater to the increased costs of inputs for maintenance and the increase in wages etc.

RECOMMENDED MAINTENANCE PROVISIONS FOR THE FORECAST PERIOD

(Rs. lakh)

Year	**Maintenance provision**
2007-08	496.18
2008-09	545.80
2009-10	600.38
2010-11	660.41
2011-12	726.45
Total	3029.22

12.10 The previous State Finance Commissions have been assuming the resource availability under the Centrally Sponsored Schemes and the Central Finance Commission Grants on the receipt side and also making counter balancing provisions on the expenditure side. Since these provisions neutralize each other, this Commission decided that these will not be included on either side this time for the sake of simplification.

12.11 The 2nd State Finance Commission had made a special provision for liquidating the arrears in respect of street lighting charges payable by the Local Bodies to the State Electricity Board as also for liquidating the arrears payable to the I&PH department for bulk water supply. While doing so, the Commission had laid down certain principles for raising the cost recovery from users to reach the full recovery of O & M charges.

12.12 The matter was discussed with the Urban Development Department and it was revealed that whereas the grants were released, no sincere efforts appear to have been made to move towards full O & M cost recovery. The Urban Development Department indicated that the street lighting arrears now stood at Rs. 9.28 crore whereas the arrears of bulk water supply came to Rs. 21.28 crore. These figures are apparently upto the year 2005-06 and the department impressed upon the Commission to make provision for liquidation of these arrears. The Commission deliberated on this issue and came to the conclusion that repetitive provision for liquidation of arrears would serve as an adverse incentive for those Urban Local Bodies who do not have such arrears.

12.13 On the question of arrears on account of the cost of street lighting, the matter was analyzed by the Commission and it was understood that the present levy of 2 paise per unit on consumption of electricity in the urban areas could be entirely utilized for payment of the street lighting bills (instead of only one paisa per unit out of this being devoted for this purpose) or the rate of the levy could be increased from the present 2 paise to 3 paise per unit out of which 2 paise per unit of consumption could be used for defraying the cost of street lighting bills. For either option, the existing provisions in the Act need to be amended. Generally speaking, the quality of street lighting, by and large, is satisfactory and the users could well afford to pay one paisa extra for a more improved supply of street lighting.

12.14 In regard to the cost recovery of drinking water supply, efforts were certainly made by the Urban Local Bodies which had run up huge arrears last time to raise the rates yet the arrears have again compiled because the rate of bulk water supply was also raised. The cost recovery rates have, therefore, attempted to chase the bulk supply rates but the gap continues to widen. Another fact which needs to be internalized is that despite nearly doubling the bulk supply rates, the State Government is heavily subsidizing the urban water supply at large, and at a very conspicuous level for the Shimla residents. Despite all these facts, the Commission is of the view that for the local bodies where the I&PH department is the bulk supplier of drinking water to the local bodies, it should be ensured by the Local Bodies that the bulk supply costs are fully recovered from the consumers besides the service cost of distribution supplies. The cost recovery from the consumers should match these two elements fully. Therefore, the Commission did not consider it prudent to provide for liquidation of arrears to provide for a disincentive to those bodies which are not in arrears to the bulk supplier or for those who are themselves managing the water supply efficiently.

12.15 The Urban Development Department approached the Commission to make a special provision of grant-in-aid of Rs. 5 crore per annum to Municipal Corporation Shimla for the development of the three SADA areas of Dhalli, Totu and New Shimla (Kasumpti). This provision was impressed upon for upgrading the civic amenities and for additional staff required for managing these areas. Although these areas were a part of the Shimla Municipal Corporation at one time, yet considering the fact that there has been an enormous expansion in the population, housing and resultantly increased pressure on civic amenities in these areas, the Commission considered it appropriate to recommend a provision of special developmental grant of Rs. 3 crore per annum for these areas which may be further allocated in proportion to the population of these areas.

12.16 The other demands raised by the Urban Development Department or the individual Local Bodies were carefully gone through and the Commission could not find sufficient merit in providing for such demands.

12.17 Summing up, the total expenditure commitments of the Urban Local Bodies for 2007-12 period on various counts as elaborated in the above test work out as detailed in the following table:

FORECAST OF THE EXPENDITURE COMMITMENTS FOR 2007-12 FOR URBAN LOCAL BODIES.

(Rs. crore)

Year	Salary & Wages	Office expenses	Honor-arium	Maint-enance expdt.	Dele-gated functions	One time grants	Total
2007-08	43.43	2.17	0.50	4.96	30.00	3.00	84.06
2008-09	47.12	2.36	0.50	5.46	31.20	3.00	89.64
2009-10	51.12	2.56	0.50	6.00	32.45	3.00	95.63
2010-11	55.47	2.77	0.50	6.60	33.75	3.00	102.09
2011-12	60.19	3.01	0.50	7.27	35.10	3.00	109.07
Total	257.33	12.87	2.50	30.29	162.50	15.00	480.49

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CHAPTER 13

FORECASTING THE RESOURCES OF THE URBAN LOCAL BODIES

13.1 As has been mentioned earlier, the 3rd State Finance Commission called for comprehensive data on the revenue receipts of the Urban Local Bodies. The data collection specifically focussed on the actual accrual for the five years period 2000-01 to 2004-05 so that a comparison could be made with the assumptions taken by the 2nd State Finance Commission as against the actual collection.

13.2 A comparison of the per capita revenue collections which included taxes, non-tax revenues and fees etc. for the years 2002-03 to 2004-05 revealed that there was a huge gap in the assumptions taken for forecast and the actual collections. This phenomenon was visible in the case of all the three types of Urban Local Bodies. The comparative position is presented in the following table:-

COMPARATIVE PER CAPITA REVENUE COLLECTIONS

(Rupees)

Year	Type of the body	Assumption of 2nd Finance Commission	Actual accrual
2002-03	Municipal Corporation	1089.64	591.59
	Municipal Councils	356.17	310.36
	Nagar Panchayats	356.17	264.71
2003-04	Municipal Corporation	1198.61	753.38
	Municipal Councils	391.79	332.24

	Nagar Panchayats	391.79	293.78
2004-05	Municipal Corporation	1318.47	1088.80
	Municipal Councils	430.96	347.70
	Nagar Panchayats	430.96	338.51

13.3 As would be seen from the above data, the gap narrowed down from about Rs. 5 crore in 2002-03 for the Shimla Municipal Corporation to Rs. 2.30 crore in the year 2004-05. In discussion with the officials of the Corporation, it emerged that the revenues will continue to show better buoyancy in the years ahead due to better tax administration and the overall reforms which the Corporation will have to undertake for availing the central assistance under the National Urban Renewal Mission. In the case of Municipal Councils, no such phenomenon was visible and the gap, in fact, widened in the year 2004-05 as compared to the earlier years. The gap stayed at a nearly constant level in the case of Nagar Panchayats.

13.4 The Commission tried to ascertain the reasons for such a large gap in the resources assumed and the actual collection. It was found that the Urban Local Bodies were not levying the statutory taxes in a uniform manner. Secondly, the exemptions and concessions were also contributing to the gap. It was also found that the compliance by the tax payers varied from one local body to another and sometimes the arrears compiled up. The dues on certain taxes payable by the Government agencies to the local bodies were also not paid on time and this led to accumulation of arrears. All these factors have contributed to such a large gap in the assumptions and actual accrual. The level of shortfall in the year 2004-05 was 17.5 per cent for

Municipal Corporation, 19.3 per cent for the Municipal Councils and 21.5 per cent in the case of Nagar Panchayats. The trend indicates that the gaps would be narrowing down for the year 2005-06 and 2006-07. However, no serious fiscal stress was visible in these bodies as a result of this gap, for the years for which actual data was available and analysed.

13.5 Keeping the above facts in view, the Commission decided to adopt a more realistic approach in determining the base for projection of revenue receipts of the Urban Local Bodies. For this purpose, the actual total receipts of the Municipal Corporation, Municipal Councils and the Nagar Panchayats for 2000-01 to 2004-05 were analyzed for determining the trend growth rates. The detailed data in this behalf is contained in Annexures-I to III to this chapter.

13.6 It is revealed that the growth rate in total revenue collections for the Municipal Corporation, Shimla during the study period averaged to 21.48 per cent per annum. This was unusually high and further probing revealed that the year 2004-05 had a large accrual of arrears which led to a very high growth of 44.50 per cent over the year 2003-04. After eliminating the element of such one time accrual, it was found that the revenues grew at an average growth rate of about 15 per cent during this period in the case of Municipal Corporation, Shimla.

13.7 The growth rate in the total revenue collections for all the Municipal Councils put together during the study period came to 5.80 per cent. This was unusually low and it resulted from about 15.50 per cent dip in revenue collections during 2001-02 as compared to 2000-01. No valid explanation could be found for this unusual dip. Since the basket of taxes and duties is the same for all the Urban Local Bodies, the Commission took the view that it would assume a uniform growth rate for all the local bodies.

13.8 As regards the Nagar Panchayats, the average annual growth rate in total revenue collections during the study period came to 14.88 per cent and this figure was in line with the trend shown by the Municipal Corporation, Shimla. This fact further strengthened the belief that it would be reasonable to use a uniform rate of growth for projecting the revenue accruals of the Urban Local Bodies for the forecast period. The aggregate average growth rate for all the three types of bodies put together came to 14 per cent per annum during 2000-01 to 2004-05. However, keeping in view the ground realities and other factors like increase in the number of tax payers (which was adequately evidenced by the data indicated to the Commission by the Municipal Corporation, Shimla), better tax collection and liquidation of arrears and the overall environment of high growth rates of economy across the State as well as country, the Commission took a view that it would be reasonable to assume a growth rate of 12.5 per cent per annum during the forecast period comprising of a real growth rate of about 7.5 per cent and inflation provision of 5 per cent. These would be applied to the existing taxes and the existing rates of taxes. In case newer areas of taxation emerge and the State Government decides to give greater freedom in revision of the existing rates of taxes and duties during the forecast period, the own revenue collections of the local bodies could further improve. The Commission also deviated from the methodology used by the previous Commission to project the revenue growth based on projected population and adopted the base year figures of 2004-05 in terms of total revenue collection by these bodies. The projections for the forecast period are indicated in the following table:-

PROJECTED REVENUE RECEIPTS OF URBAN LOCAL BODIES

(Rs. Crore)

Year	Municipal Corporation	Municipal Councils	Nagar Panchayats	Total
2007-08	22.10	14.46	6.01	42.57
2008-09	24.86	16.26	6.76	47.88
2009-10	27.97	18.29	7.60	53.86
2010-11	31.46	20.57	8.55	60.58
2011-12	35.39	23.14	9.62	68.15
Total	141.78	92.72	38.54	273.04

13.9 The grants in lieu of octroi which were named as the developmental grants by the 2nd State Finance Commission also constitute the most significant and major resource transfer from the State Government to the Urban Local Bodies. The growth in the level of these grants would generally be understood to follow the same trends as in the case of sales tax or the value added tax. As is well known, the collections of sales tax/VAT have been fairly buoyant and it was felt that a growth rate of 12.5 per cent per annum over the figure of Rs. 28.79 crore recommended by the 2nd State Finance Commission for the year 2006-07 should be provided. Given this assumption, the figures for the fore-cast period work out as under:-

PROJECTED DEVELOPMENTAL GRANTS FOR URBAN LOCAL BODIES (Rs. Crore)

Year	Amount
2007-08	32.39
2008-09	36.44
2009-10	41.00
2010-11	46.12
2011-12	51.88
Total	207.83

13.10 Taking the above two items of revenue accrual/transfer to the Urban Local Bodies, the aggregate receipts for the forecast period work out as under:-

TOTAL REVENUE RECEIPTS OF THE URBAN LOCAL BODIES FOR 2007-12 PERIOD.

(Rs. Crore)

Year	Developmental grants	Revenue receipts	Total
2007-08	32.39	42.57	74.96
2008-09	36.44	47.88	84.32
2009-10	41.00	53.86	94.86
2010-11	46.12	60.58	106.70
2011-12	51.88	68.15	120.03
Total	207.83	273.04	480.87

13.11 The Commission took the view to exclude the devolution to the Urban Local Bodies as recommended by the Twelfth Finance Commission on the receipt side, as was done on the expenditure side. These are purpose-specific and hence would be better treated as such rather than amalgamating these into general receipts.

13.12 On the question of expanding or enhancing the quality of the existing civic infrastructure, it is understood that sizeable resources would flow through the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for the Municipal Corporation Shimla. Some resource flows would also be available for other towns through the JNNURM. In addition to these, the State Government has also instituted the Rajiv Gandhi Urban Renewal Facility for selective upgradation of civic infrastructure in certain critical areas. All these resource flows should come handy to the Urban Local Bodies and meet their genuine developmental needs. In view of this, the Commission did not consider it necessary to make any recommendations on these areas/activities.

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ANNEXURE-I

(In Rupees)

Actual Revenue Receipts of Municipal Corporation, Shimla from own Resources					
Detail/Years	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
1	2	3	4	5	6
Total Tax Revenue	**35898000**	**37525000**	**39389000**	**40943000**	**64413000**
Per capita taxes	**251.82**	**263.23**	**276.31**	**287.21**	**451.85**
Total Fees	**1412000**	**1480000**	**1802000**	**1766000**	**1783000**
Per capita Fees	**9.90**	**10.38**	**12.64**	**12.39**	**12.50**
Total Non-Tax Revenue	**36559000**	**44678000**	**43143000**	**64689000**	**89018000**
Per capita Non-Tax Receipts	**256.46**	**313.41**	**302.64**	**453.78**	**624.45**
Total Receipts	**73869000**	**83683000**	**84334000**	**107398000**	**155214000**
Per capita Total Receipts	**518.18**	**587.02**	**591.59**	**753.38**	**1088.80**

ANNEXURE-II

(In Rupees)

Actual Revenue Receipts of Municipal Councils From own Resources					
Details/Years	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
1	**2**	**3**	**4**	**5**	**6**
Total Tax Revenue	**29952365**	**24795804**	**31504188**	**32220496**	**34328905**
Per capita Taxes	**102.54**	**84.89**	**107.85**	**110.31**	**117.53**
Total Fees Revenue	**7147042**	**7961665**	**8869065**	**10583650**	**11382560**
Per capita Fees	**24.47**	**27.26**	**30.36**	**36.23**	**38.97**
Total Non-Tax Revenue	**47407986**	**38652948**	**50281666**	**54243525**	**55852799**
Per capita Non-Tax Receipts	**162.30**	**132.33**	**172.14**	**185.70**	**191.21**
Total Receipts	**84507393**	**71410417**	**90654919**	**97047671**	**101564264**
Per capita Total Receipts	**289.31**	**244.48**	**310.35**	**332.24**	**347.71**

ANNEXURE-III

(In Rupees)

Actual Revenue Receipts of Nagar Panchayats from own Resources					
Details/Years	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
1	**2**	**3**	**4**	**5**	**6**
Total Tax Revenue	**8753853**	**7453857**	**8484301**	**11769273**	**12177878**
Per capita Taxes	**70.08**	**59.67**	**67.92**	**94.22**	**97.49**
Total Fees Revenue	**6954213**	**8872689**	**11517592**	**13567433**	**15316557**
Per capita Fees	**55.67**	**71.03**	**92.20**	**108.61**	**122.62**
Total Non-Tax Revenue	**8590174**	**11925083**	**13064816**	**11360543**	**14791162**
Per capita Non-Tax Receipts	**68.77**	**95.47**	**104.59**	**90.95**	**118.41**
Total receipts	**24298240**	**28251629**	**33066709**	**36697249**	**42285597**
Per capita Total Receipts	**194.52**	**226.17**	**264.71**	**293.78**	**338.51**

CHAPTER 14

MEASURES TO IMPROVE THE FINANCIAL POSITION OF LOCAL GOVERNMENT INSTITUTIONS.

14.1 Paragraph 2 (b) of the notification constituting the Third State Finance Commission lays down that the Commission will make recommendations to the Government to suggest measures to improve the financial position of the Panchayats / Municipalities. The framework within which the Commission is expected to make such recommendations is contained in Sections 100 to 106 of the Himachal Pradesh Panchayati Raj Act; sections 84 to 143 of the Himachal Pradesh Municipal Corporation Act; and sections 65 to 93 of the Himachal Pradesh Municipal Act. The powers of taxation exist with the Gram Panchayats only under the Panchayati Raj Act whereas in the case of Urban Local Bodies, the Nagar Panchayats, the Municipal Councils and the Municipal Corporation all have such powers. The taxation powers are classifiable into mandatory taxation and taxation subject to general or specific orders of the State Government. It needs to be highlighted that the powers of taxation of the local governments have several constraints and limitations and therefore, need to be carefully examined in the context of furthering the fiscal decentralization.

14.2 The previous State Finance Commissions have deliberated upon this aspect and generally recommended a greater degree of freedom to allow the local government institutions to raise taxes and duties etc., and also recommended that the State Government may prescribe the lower and the upper bounds for such levies for the sake of uniformity. It had also been recommended that the existing statutory provisions may be amended to provide space for such play in raising resources by the local governments. Some ground has been covered in this behalf and the result is a visible buoyancy in actual collection of revenues in certain areas.

14.3 The report of the Second State Finance Commission had listed out a total of 23 suggestions to supplement the resources of the Panchayati Raj Institutions which generally dealt with the existing levies and indicated the need for raising the existing rates of the levies. Some of the suggestions contained in the said list were impracticable since these would involve amendments in the State and Central statutes.

14.4 This time around, the interaction with the elected representatives was extremely broad-based as compared to the earlier Commissions. Accordingly, a full chapter has been included in this report to summarize the views of the elected representatives with regard to the questions of decentralization / devolution and of raising resources. There is no doubt that the aspirations of the elected representatives at the third level of governance have grown with the passage of time towards becoming effective vehicles of governance.

14.5 The detailed suggestions given by the elected representatives from the Panchayati Raj Institutions and the Urban Local Bodies in regard to raising resources and other matters have been presented in this report in a separate chapter but the specific suggestions on enhancing the resource raising capacity of the local government institutions fall into the following categories:-

1. Increase the existing rates for liquor cess, surcharge on consumption of electricity, house tax, etc.
2. Seeking re-introduction of octroi since the compensation by way of grants was perceived to be far below the possible collection in case octroi was still in practice or alternatively providing adequate compensation for loss of revenue due to abolition of octroi.
3. Seeking a specific share in the proceeds of Entry Tax as the powers to levy the same were withdrawn by the government. Similarly, seeking share in the electricity revenues, forest revenues, taxes on registration and sale of vehicles and other State taxes.
4. Transfer of government lands falling in the territorial jurisdiction of panchayats or urban local bodies to these bodies for raising resources by creation of remunerative assets on such lands.
5. Transfer of Stamp duty collection in the rural areas to the concerned Gram Panchayats on the same lines as is the case with the municipalities.
6. The exemptions on collection of house tax granted by the State Government should be withdrawn and such a levy should

be on the basis of per unit area of the dwellings or the commercial properties for which a well considered formula or weighting diagram should be introduced.

7. The local governments should be allowed to levy the profession tax.
8. Many of the elected representatives also mentioned the need for transfer of certain service provision functions to the local government institutions alongwith the responsibility for collection of user charges. Some of the important services could include the drinking water, water for irrigation, collection of electricity dues with a certain share for the local government institutions, etc.

14.6 The Commission also noted the fact that the State Government had progressed in the matter of assigning the revenue collection from the cess on liquor; surcharge on consumption of electricity in the urban areas; land revenue; tax on minor minerals like sand, gravel and stones; and the permit fees for specified species of minor forest produce to the local government institutions. These measures had resulted in a significant strengthening of the resource base of the local governments. It was also felt that this basket should be gradually expanded over a long time frame so that the need for transfer of grants to these institutions could be done away with.

14.7 A brief comment on the question of transfer of the assigned levies is necessary since in the course of interface with the elected representatives, the Commission was told about the delay or the time lag in the transfer of such resources as also about the complexity of the existing roadmap for transfers.

14.8 The revenues on account of cess on liquor, tax on minor minerals (sand, gravel and stone), permit fees for export of minor forest produce and land revenue put together come to about Rs. 5 crore annually. The cess on liquor accounts for about 80 per cent of this pool. The transfers on account of cess have a time lag of one year whereas all others accrue in the same year. The Commission felt that a cycle would get established and therefore, the issue of time lag would be taken care of. However, in the matter of distribution of the proceeds of cess on liquor, it was observed that the distribution was in the ratio of 80:20 in case of Panchayats having a liquor vend within their territory and Panchayats without a liquor vend. In the course of discussion with the elected representatives in various districts, this issue was raised that the existing scheme of allocation of resources to the Panchayats had a perverse incentive in the sense that higher consumption of alcohol in a Panchayat would lead to higher revenue accrual. It was argued by most of the elected representatives that the existing scheme should be dispensed with and the total proceeds distributed equitably among all the Panchayats irrespective of the fact whether a liquor vend existed in a Panchayat or not. The Commission finds sufficient merit in the argument and recommends that the total proceeds of the cess on liquor may be pooled together and allocated to the Gram Panchayats and the Municipalities in proportion to the population. The total pool should be divided into two components – rural and urban in proportion to the population according to 2001 census and then the further distribution among the Gram Panchayats and the individual municipalities should also follow the same principle. Such a measure will be more equitable at an overall level and will not prevent Gram Panchayats from opposing opening of liquor vends towards promoting prohibition and containing the extent of social evil on account of consumption of alcohol.

14.9 Another issue which was commonly raised by the elected representatives related to an increase in the rate of cess on liquor. Most of the representatives pleaded for this rate to be raised from Re. 1 per bottle to Rs. 5 per bottle. A hike of that order will raise the estimated revenue from Rs. 4 crore per annum to Rs. 20 crore per annum even if the consumption was assumed at a constant level. The Commission feels that such a large hike could become counter productive and could become a perverse incentive for illicit distillation or smuggling. However, the Commission feels that the level of resource transfers could be doubled without any adverse impact either by transferring the entire collection of cess (which is @ Rs. 2 per bottle presently of which half is transferred to the Gram Panchayat) or by raising the cess to Rs. 3 per bottle and then transferring Rs. 2 per bottle to the Panchayats. This will lead to sizeable enhanced revenue to the Panchayats. The Government may examine the feasibility of increasing this cess either by an executive order or by amending the relevant Act, if required.

14.10 As regards the permit fee for export of specified species of minor forest produce, it was observed by the Commission that the powers to grant such permits were being exercised by Gram Panchayat

Pradhans and the Divisional Forest Officers at the same time, thus creating a dual situation. Since the State Government has delegated this authority to the Gram Panchayats, it should be exercised only by the Gram Panchayat Pradhans and by none else so that the revenue accrual comes to the Gram Panchayats. This has since been accomplished as was revealed in the interaction of the Commission with the departments.

14.11 The Urban Local Bodies are entitled to the proceeds of stamp duty under section 65 of the Himachal Pradesh Municipal Act, 1994 which is reproduced below:-

"Section-65

(b)………………A duty on transfer of property in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899 in its application to Himachal Pradesh, on instruments of sale, gift and mortgage with possession of immovable property situated on municipal area at such rate as may be fixed by the Government not exceeding two percent on, as the case may be, the amount of the consideration, the value of the property or the amount secured by the mortgage as set forth in the instrument;

The said duty as shall be collected by the Registrar in the shape of non-judicial stamp paper at the time of registration of the document and intimation thereof shall be sent to the municipality immediately. The amount of the duty so collected shall be paid to the municipality concerned."

14.12 Across the State, during the interaction of the Commission with the elected representatives of Panchayati Raj Institutions, this issue of entitlement of the stamp duty as specified above being available to the municipalities and not being available to the Gram Panchayats was raised. Most of the representatives said that this treatment was discriminatory and impressed upon the Commission to allow a parity in the matter of entitlement for the rural areas as well. There is a reasonable merit in the argument and the Commission feels that the Himachal Pradesh Panchayati Raj Act may be amended to make provision on the same lines as exists in the Municipal Act. This will provide a sound and dynamic source of revenue to the Gram Panchayats.

14.13 At the time of analyzing data relating to receipts from fee of Gram Panchayats, it came to the notice of the Commission, that the Gram Panchayats were collecting water charges of drinking water supply from the households during the financial year 2001-02, 2002-03 and 2003-04 on behalf of Irrigation and Public Health department. The 50 percent share of water charges so collected was used to be retained by the Gram Panchayats and balance 50 percent handed over to Irrigation Public Health department for depositing the same in the receipt head of the Government. This system had not only involved the Gram Panchayats in the devolution process but had also added to their income. At a later stage this process was discontinued. Now the Gram Panchayats expressed their readiness for restoration of the system. It is firmly believed that the restoration of the water rates for drinking water through the Gram Panchayats will lead to better cost recovery and also make Panchayats more responsible for ensuring the regular water supply to the consumers. It will lead to a greater confidence building between the ground level functionaries of the Irrigation and Public Health Department and the Gram Panchayats. The Commission is in agreement with the demand of the Gram Panchayats and apart from suggesting restoration of the system, it recommends that the sharing pattern of the collected water charges may continue to be in the ratio of 50:50 between Gram Panchayats and Irrigation and Public Health department, respectively, as was envisaged in the earlier order.

14.14 The Commission noted the fact that collection of Abiana charges on account of provision of irrigation as per the receipts reflected in the budget documents was far below the optimal level on account of a variety of reasons. The total annual revenue to the State Government on this account was in the range of Rs. 75 lakh to about Rs. 100 lakh whereas the potential for collection based on the created culturable command area under the irrigation schemes and the O & M costs incurred by the State Government specially in the case of lift based irrigation schemes was estimated to be in the region of about Rs. 5 crore. The State Government has recently decided to handover certain activity on the drinking water supply schemes to the Gram Panchayats, the modalities of which have been detailed out in a separate chapter in this report. Keeping this beginning in view, it may be appropriate to allow the Gram Panchayats the collection of Abiana Charges and retain 50 per cent of such collection at the local level for minor repairs only in the distribution systems and deposit the remaining

50 per cent in the government treasury. This will be a situation of gains on both ends towards improving the capacity utilization of the irrigation potential and enlarge the responsibility and participatory role of the Gram Panchayats.

14.15 It may be recalled that the Second State Finance Commission had made a provision of an incentive fund of Rs. 20 crore (at the rate of Rs. 4 crore per annum) to be used by Gram Panchayats. The Second Commission had indicated that the Gram Panchayats could avail the incentive against the net fresh additional resource mobilization by these bodies. It had also been prescribed that for every additional rupee of net fresh additional resource mobilization, the Panchayats could be entitled to double the amount out of this incentive fund. In the course of discussions with the elected representatives of Gram Panchayats by the Third Finance Commission, it was realized that the Panchayats had not been able to avail of any funds out of the provision of incentive grants. This may have been due to a lack of knowledge on the part of the Gram Panchayats on the one hand, and a certain lack of clarity in the administration of scheme, on the other. The Commission strongly feels that provision of an incentive grant for resource raising should be made and the broad outline of the scheme for administering the same should be detailed out in the report itself. In this behalf, the “net fresh additional resource mobilization” should mean any additional revenue accrual to the Gram Panchayat by way of either a fresh levy to be introduced by the Panchayat or by way of increase in the existing rates of various taxes, fees or levies being imposed by the Gram Panchayat under sections 100 to 106 of the Himachal Pradesh

Panchayati Raj Act. In the interim report of the Third State Finance Commission, no provision for incentive fund/grant on this account was made keeping in view the fact that the recommendation of the Second State Finance Commission in this behalf had remained unimplemented. Accordingly, the provision of incentive fund will now require to be made for the remaining part of the award period of the Third Finance Commission. Thus it is proposed that the aggregate corpus of the incentive fund for the period 2008-09 to 2011-12 may be kept at Rs. 40 crore (Rs. 10 crore for each year) and the department of Panchayati Raj may publicize this fact to the Gram Panchayats through all media and the training programmes which are being organized on a continuous basis.

14.16 Most of the elected representatives mentioned the need to allow the Gram Panchayats to charge a reasonable sum for the registration of births and deaths. They also impressed upon the need for allowing the Gram Panchayats to issue such certificates in case the registration was past the specified time with an appropriate late fee charge instead of the certificates being issued at the level of the Sub-Divisional Magistrates. The Panchayats also wanted that since the registration of marriages had been made compulsory, these bodies may be allowed to levy a certain marriage registration fee. On these two levies, the general view was that the marriage registration fee should be fixed at Rs. 200 whereas the registration fee for the birth and death may be fixed at Rs. 100 with a provision of concessional registration at the rate of Rs. 25 for the IRDP families. The late fee for delayed registration of such events may be double the basic rate.

14.17 Many of the elected representatives of the Panchayati Raj Institutions (Zila Parishads, Panchayat Samitis and Gram Panchayats) and Urban Local Bodies (Municipal Councils and Nagar Panchayats) impressed upon the Commission the need for tax sharing between the State and the third level of governance. This matter was examined at length by the Commission and it is of the opinion that given the present status of existence and functioning of the various entities at the third level of the governance, the mode of resource transfers from State to these Institutions by way of grants as was adopted by the earlier Commissions might be the easiest option available. This easiest option takes away the advantage of buoyancy in revenues to be passed on to the third level of governance. The aggregate actual transfers have ranged between 2.14 per cent for 1996-97 to about 4.14 per cent for 2002-03. For the year 2006-07, the total transfers are 2.60 per cent of the State's own tax and non-tax revenue. The total transfers are of the order of Rs. 62.40 crore which is about 43 per cent higher as compared to the corresponding amount for 2002-03. But the percentage to total own tax and non-tax revenues of the State falls from 4.14 per cent to 2.60 per cent. It clearly indicates that the State's own revenues have, of recent, been exhibiting a much higher buoyancy as also mentioned in another chapter. The projects made by the State Government in the Medium Term Fiscal Forecast prepared in compliance of the FRBM Act assume 14.8 per cent per annum growth in the own tax and non-tax revenues of the State. Considering this situation, the Commission is of the opinion that the past system of gap filling grants needs to be given up in favour of a design for tax sharing. Going by the previous history and analysis of the total grant transfers to these bodies as a ratio to the total “States own tax and non-tax” revenue, the Commission feels that at an overall level, four per cent of the total state’s own tax and non-tax revenue collection should be transferred to the local government institutions. The apportionment of this pool between the Panchayati Raj Bodies and the Urban Local Bodies shall be separately dealt with after assessing the gap in present level of revenue receipts of local government institutions and their expenditure commitments.

14.18 One of the major demands raised by the elected representatives of Urban Local Bodies related to either re-introduction of octroi or providing reasonable compensation in lieu thereof to compensate the urban local bodies for the loss of revenue from the most important resource raising area available with these bodies. The Commission has gone into this question at length. Octroi as a levy was abolished in the year 1981-82 and the State Government started making a provision for grants in lieu of octroi from the year 1982-83 onwards. The transfer during 1982-83 was of the order of Rs. 158.33 lakh and it increased to Rs. 406.07 lakh for 1995-96. The First State Finance Commission had gone into the entire issue and experimented with different options to rationalize the level of grants for compensating the loss of revenue due to abolition of octroi. After a thorough and considered analysis of various options, the First Commission had recommended a grant of the order of Rs. 1221.11 lakh for the year 1996-97 against the budget estimates of Rs. 446.68 lakh provided as grants in lieu of octroi in that year. Subsequently, the Commission had recommended a 10 per cent increase every year in the base year figure of Rs. 1221.11 lakh for 1996-97. In this manner the revenue provided by way of grants in lieu of octroi more than compensated the potential revenue accrual had the octroi continued to be levied. The Second State Finance Commission also continued the same system of compensation but decided to re-name these grants as "Developmental Grants".

14.19 It will be of relevance to link the revenue accrual of octroi with the Sales Tax collection. During the year 1982-83, the Sales Tax revenue was about Rs. 20 crore and the estimated octroi revenue was Rs. 1.5 crore. The past trends in growth of octroi fell way short of the growth in Sales Tax prior to 1982-83. If the historical growth rate of octroi prior to 1982-83 was applied, it would bring the revenues for 1996-97 to about Rs. 6 crore. Against this, the First Finance Commission had raised the level of compensation to Rs. 12.21 crore. Therefore, the general understanding at the level of elected representative of the Urban Local Bodies that the revenues from octroi would have been a much larger sum do not hold much water. The Second State Finance Commission raised the level of the grants to Rs. 19.67 crore for 2002-03 and to Rs. 28.79 crore for 2006-07. Up to this year, the previous Commissions have maintained a 10 per cent annual growth rate in the level of compensation. However, Commission took note of the fact that collections of Sales Tax / Value Added Tax have been buoyant and thus it has decided to provide a growth rate of 12.5 per cent per annum over the base figure of Rs. 28.79 crore for 2006-07. With this dispensation, the level of these grants would be reaching Rs. 51.88 crore for 2011-12 and the Commission feels that the point raised by the elected representatives of the Urban Local Bodies has been adequately addressed.

14.20 House Tax in the Urban Areas is one of the principal sources of revenue. The statutes for the Municipal Corporation and the municipalities (Nagar Panchayats and Municipal Councils) provide for this tax to be levied at a minimum of 7.5 per cent and a maximum of 12.5 per cent. In the course of discussion with the elected representative of Urban Local Bodies, it was generally agreed that all the Local Bodies were collecting this tax and were also keen to gradually increase the rate towards the upper bound. It was, however, mentioned that the exemptions granted by the State Government precluded a large part of revenue not to be collected. Some of the elected representatives also impressed upon the need for a different basis for levy of this tax from the commercial, residential and slum/peripheral areas. In the suggestions received from various representatives, whereas the one relating to exemption could be easily carried through by withdrawal of the same by the State Government, the one relating to levy of the House Tax according to different zones would need an amendment in the existing provisions of the Act. It may be recalled that the Second State Finance Commission while making general recommendations had made a similar suggestion. After due consideration, the Third State Finance Commission feels that reiterating the same suggestion for implementation would be extremely appropriate in the direction of enhancing the fiscal capacity of the Urban Local Bodies. For the purposes of levy of tax on buildings and lands, the individual urban areas could be divided into different zones and different slabs of taxation per unit of area may be applied. A hypothetical example for any urban body for this purpose could include classification of the buildings and land into the following categories or zones:-

1.Commercial.
2. Residential.
3. Slums.

14.21 The slabs for taxation for these three zones will have to be different. For example, the flat rate of Rs. 2 per unit of area may be fixed for the commercial properties. The residential properties could be tax that half the level of commercial properties i.e. Re. 1 per unit of area and the peripheral slum areas could be taxed at say one tenth of the commercial area i.e. at the rate of 20 paise per unit of area. Such a scheme of zonation and a weighted rate of tax per unit of area will not only be easy to implement and administer but will also bring in a much higher level of revenues on this account.

14.22 Keeping in view the above, the Commission recommends that the State Government may withdraw the exemption granted from levy of House Tax in all the urban areas. This should be followed by considering an amendment in the Municipal Acts to pave the way for introduction of a slab rate of taxation according to different zones per unit of area rather than per dwelling or the total land area as is presently done. It is understood that such a suggestion has also been given by the Government of India in their design of the reforms menu for implementation of the National Urban Renewal Mission.

14.23 There is a very wide range of areas or activities on which the municipal local governments could impose taxes but the same are constrained by other provisions. The elected representatives have generally expressed that there was a need for comprehensive delegation in the matter of taxation by the Local Governments. The Commission feels that if these bodies have to become the real vehicles of local level governance, they may need to be given a fair degree of freedom in the matter of raising resources. In this context, the suggestion given by the First State Finance Commission which was partially implemented needs to be reconsidered. It should be mandatory for all the Urban Local Bodies to raise the resources within their purview. The existing provisions which restrain a fair degree of freedom to the local governments for raising resources should be considered for amendment and the State Government may simultaneously consider revisiting the minima and maxima of the rates of various taxes and allow the local government institutions to amend the rates from time to time. Another way of providing flexibility could be link the revision in rates to inflation by amending the acts accordingly.

14.24 The Commission analysed in detail the existing provisions in the Acts relating to Municipal Corporation, Municipal Bodies and Panchayati Raj Institutions in regard to their existing powers relating to taxes and fees etc. The Commission is of the opinion that in regard to enhancing the content of delegation, improving the financial position of the local government institutions and for making these bodies financially self-sustaining as also more answerable at the local level, the following amendments in the existing statutes will go a long way in achieving these objectives. The State Government may consider these and adopt for amendment in the existing Acts.

Taxes and Fees of Municipal Corporation

The Himachal Pradesh Municipal Corporation Act, 1994
&
Recommendations of 3rd State Finance Commission.

Section/ Sub - Section	Existing Provision	Suggestions/ Recommendations of the Commission
84 (1)	The Corporation shall, for the purposes of this Act, levy the following taxes : - (a) taxes on buildings and lands; (b) such other tax, at such rates as the State Government may, by notification, in each case direct; (c) a duty on the transfer of immovable properties situated within the limits of the municipal area in addition to the duty imposed under the Indian Stamp Act, 1899, as in force for the time being in the State of Himachal Pradesh, on instruments of sale, gift and mortgage with possession of immovable property situated in the municipal area at such rate, as the State Government may, by notification, direct, which shall not be less than one per centum and more	The words ***"at such rate, as the State Government may, by notification, direct, which shall not be less than one per centum and more than two percentum"*** be replaced by ***"at the rate of two percent".***

	than two per centum on the amount of consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument. The said duty shall be collected by the Registrar or Sub-Registrar in the shape of non-judicial stamp paper at the time of registration of the document and intimation thereof shall be sent to the Corporation immediately. The amount of the duty so collected shall be paid to the Corporation.	
84 (2)	Subject to the prior approval of the Government, the Corporation may for the purposes of this Act, in addition to the taxes specified in sub-section (1) levy, - (a) a tax on profession, trades, callings and employments; (b) a tax on vehicles other than motor vehicles and animals; (c) a tax on the increase in urban land values caused by the execution of any development or improvement work; (d) show tax; (e) tax on consumption of energy at a rate not exceeding 2 paise for every unit of electricity consumed by any person within the municipal area; (f) sewerage tax on commercial buildings; (g) any other tax that may be imposed under the provisions of the Himachal Pradesh Municipal Act, 1994: Provided that no tax shall be imposed under this sub-section unless an opportunity has been given in the prescribed manner to the residents of the municipal area to file objections and the	1. The Municipal Corporation may be permitted to levy Profession Tax subject to the limits or floor level prescribed by the Govt. of India, since the State Govt. imposed this levy and then withdrew the same. 2. Tax on consumption of energy be raised to 3 paise per unit for ensuring full coverage of the energy bills of street lighting and the entire proceeds should be passed on to the Corporation. 3. Sewerage charges/tax be allowed to be levied at the rate of 25 per cent of the water bill of every consumer.

	objections, if any, thus received have been considered.	
84 (3)	The taxes as specified in sub-sections (1) and sub-section (2) shall be levied at such rates as may, from time to time, be specified by the Government by notification and shall be assessed and collected in accordance with the provisions of this Act, and the bye-laws made thereunder.	As suggested against 84 (1) and 84 (2) above.
84 (4)	The Government may, by special or general order, direct the Corporation to impose any tax falling under sub-section (1) or sub-section 2 not already imposed, within such period as may be specified and the Corporation shall thereupon act accordingly.	This sub-section is not required since it runs counter to the process of local/decentralized governance.
84 (5)	If the Corporation fails to carry out any order passed under sub-section (4), the Government may by a suitable order notified in the Official Gazette impose the tax and the order so passed shall operate as if the tax had been duly imposed by the Corporation under sub-section (1) or sub-section (2), as the case may be.	This sub-section is not required since it runs counter to the process of local/decentralized governance.
85 (1)	Subject to the prior approval of the State Government, the Corporation may in the manner prescribed, levy a fee with regard to the following : - (i) a fee on advertisements other than advertisements in the news-papers; (ii) a fee on building applications; (iii) development fee for providing and maintaining civic amenities in certain areas; (iv) a fee with regard to lighting; (v) a fee with regard to scavenging; (vi) a fee in the nature of costs for providing internal services in a building scheme or town planning scheme; (vii) any other fee as deemed fit by the	The State Government may prescribe the maximum rates for such fees and let the Municipal Corporation fix and collect the fees.

	Corporation for services rendered.	
85 (2)	The rates at which and the conditions subject to which the fees as laid down in sub-section (1), may be levied by the Corporation, would be decided by the Government.	This may be deleted.
86 (1)	Save as otherwise provided in this Act taxes on lands and buildings in the municipal area shall consist of the following, namely : - (a) a water tax at such percentage of the rateable value of lands and buildings as the Government may deem reasonable for providing water supply in the municipal area or in lieu thereof water charges of such rate as may be decided by the Government from time to time ; (b) a general tax not more than fifteen percent of the rateable value of land and buildings within the municipal area less : Provided that the general tax may be levied on a graduated scale, if the Government so determines : Provided further that the general tax would not be leviable on the lands and buildings within the *abadi deh* of villages forming part of the municipal area provided they are self occupied.	No Comments
86 (2)	Notwithstanding anything contained in sub-section (1), that the Government may exempt the certain classes or categories of persons or lands and buildings from the payment of the general tax.	This may be deleted
87	Save as otherwise provided in this Act the water tax shall be levied only in respect of lands and buildings, - (a) to which a water supply is furnished from or which are connected by means of pipes with	No comments

	municipal water works ; or (b) which are situated in any portion of the municipal area in which the Commissioner has given public notice that sufficient water is available from municipal water works for a reasonable supply to all the lands and buildings in the said portion.	
88	Subject to the rules, if any made by the State Government in this behalf, the rateable value of any land or building assessable to taxes specified in section 86 shall be, - (a) in the case of land, the gross annual rent at which it is let ; (b) in the case of any building, the gross annual rent at which such building, together with its appurtenances and any furniture that may be let for use for enjoyment therewith, is let, subject to the following deductions : - (i) such deductions not exceeding ten percent of the gross annual rent as the Commissioner in each particular case may consider reasonable allowance on account of the furniture let therewith ; (ii) a deduction of ten percent for the cost of repairs and all other expenses necessary to maintain the building in a state to command such gross annual rent. The deduction under this sub-clause shall be calculated on the balance of the gross annual rent after the deduction, if any, under sub-clause (i) ; (iii) where land is let with a	 No Comments No Comments

	building, such deduction, not exceeding ten peer cent of the gross annual rent, as the Commissioner in each particular case may consider reasonable on account of the actual expenditure, if any, annually incurred by the owner on the up-keep of the land in a state to command such annual rent ; *Explanation-I.* – For the purpose of this clause it is immaterial whether the house or building and the furniture and the land let for use or enjoyment therewith, are let by the same contract or by different contracts, and if by different contracts whether such contracts are made simultaneously or at different times. *Explanation*-II. – The term "gross annual rent" shall not include any tax payable by the owner in respect of which the owner and tenant have agreed that it shall be paid by the tenant.	
	(c) where the gross annual rent of any land or building cannot be determined under clause (a) or clause (b) – (i) in the case of land, ten percentum of the cost of land; (ii) in the case of buildings, ten percentum of the sum of the cost of erection of the building and the cost of land : Provided that in the calculation of the rateable value of any building, ten percentum of the rateable value so	No Comments

	determined shall be deducted for the cost of repairs and for all other expenses necessary to maintain the building : Provided further that where the property is in the occupation of the owner for the purpose of this own residence, the annual value shall first be determined as in clause (c) and further be reduced –	
	(1) where the covered area of a building under self occupation does not exceed one hundred square metres ; — by full amount so determined;	This general exemption granted for self occupied buildings where covered area does not exceed one hundred square metres may be deleted and differential slabs of taxation be applied as suggested in the main chapter.
	(2) where the covered area of a building exceeds one hundred square metres ; — by full amount so determined for first one hundred square metres and by half of the amount so determined for the area by which it exceeds one hundred square metres.	
	(d) where the gross annual rent of the whole of the land or a building cannot be determined under any of the clauses (a), (b) and (c), - (i) in relation to that part or portion of such land or building to which clause (a) or (b) applies as determined under the said clause ; and (ii) in relation to the remaining part or portion of such land or building, as determined under clause (c). *Explanation.* – For the purpose	

	of this section "cost of land" and "cost of erection of the building" shall mean cost of land and/or cost of erection of building at the time of purchase of such land and/or erection of building, as the case may be.	
89	Notwithstanding anything contained in the foregoing provisions of this Chapter, lands and buildings being properties of the Union of India shall be exempted from the taxes on lands and buildings specified in section 86 : Provided that nothing in this section shall prevent the Corporation from levying any of the said taxes on such lands and buildings to which immediately before the 26th January, 1950, they were liable, or treated as liable, so long as that tax continues to be levied by the Corporation on other lands and buildings : Provided further that nothing in this section, shall prevent the Corporation from charging the service charges in lieu of services provided as may be leviable as per Government of India instructions.	No Comments

Taxes and Fees of Municipal Councils/ Nagar Panchayats

The Himachal Pradesh Municipal Act, 1994
&
Recommendations of 3rd State Finance Commission.

Section/ Sub - Section	Existing Provision	Suggestions/ Recommendations of the Commission
65	For the purpose of this Act and subject to the provisions thereof every municipality shall impose the following taxes namely : - (a) a tax payable by the owner on buildings and lands which shall not be less than seven and a half per centum and more than twelve and a half percentum, as the State Government may, by notification, direct, of the annual value of such buildings and lands;	No Comments
	(b) if so authorized by the Government, a duty on transfer of property in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899 in its application to Himachal Pradesh, on instruments of sale, gift and mortgage with possession of immovable property situated in municipal area at such rate as may be fixed by the Government not exceeding two percent on, as the case may be, the amount of the consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument ; the said duty shall be collected by the Registrar or Sub-Registrar in the shape of non-judicial stamp paper at the time	1. The words ***"if so authorized by the Government"*** may be deleted. 2. The words ***"such rate as may be fixed by the Government not exceeding two percent on, as the case may be"*** be replaced by ***"two percent".***

	of registration of the document and intimation thereof shall be sent to the municipality immediately. The amount of the duty so collected shall be paid to the municipality concerned.	
66 (1)	Subject to any general or special orders of the State Government in this behalf and to the rules, a municipality may, from time to time, for the purposes of this Act, impose in the whole or any part of the municipality any of the following taxes, tolls and fees, namely: - (i) a tax on profession, trades, callings and employments ; (ii) a tax on vehicles, other than motor vehicles, plying for hire or kept within the municipal area ; (iii) a tax on animals used for riding, draught or burden kept for use within the municipal area, whether they are actually kept within or outside the municipal area ; (iv) a tax on dogs, kept within the municipal area ; (v) a show tax ; (vi) a toll on vehicles other than motor vehicles, and other conveyances entering the municipal area ; (vii) a tax on boats moored within the municipal area ; (viii) a tax on the consumption of electricity at the rate of one paise for every unit of electricity consumed by any person within the limits of the municipal area ; (ix) a tax on advertisements other than advertisements published in the newspapers ; (x) a tax on buildings payable along with the application for sanction of the building plans ; (xi) a fee with regard to pilgrimages ; (xii) a fee with regard to drainage ;	1. Urban Local Bodies may be allowed to raise these taxes subject to the maximum rate/limits fixed by the State Government. 2. The Municipal Council/Nagar Panchayat may be permitted to levy Profession Tax subject to the limits or floor level prescribed by the Govt. of India, since the State Govt. imposed this levy and then withdrew the same. 3. Tax on consumption of energy be raised to 3 paise per unit for ensuring full coverage of the energy bills of street lighting and the entire proceeds should be passed on to the Municipal Council/Nagar Panchayat. 4. Sewerage charges/tax be allowed to be levied at the rate of 25 per cent of the water bill of every consumer.

	(xiii) a fee with regard to lighting ; (xiv) a fee with regard to scavenging ; (xv) a fee for cleaning of latrines and privies ; (xvi) a fee in the nature of costs for providing internal services under the scheme framed under section 205 ; (xvii) an education cess ; (xviii) a local rate on land revenue ; (xix) with the previous sanction of the State Government, any other tax, toll or fee which the State Legislature has power to impose in the State under the Constitution of India.	
66 (2)	The rates of any tax, toll or fee under sub-section (1) except that under clause (viii) thereof shall be determined by the municipality : Provided that such rates shall not exceed the maximum limits which the State Government may from time to time, by notification, specify in this behalf.	No Comments
67	Nothing contained in sections 65 and 66 shall authorise a municipality to levy any tax, toll or fee which the State Legislature has no power to impose in the State under the Constitution of India: Provided that any tax, toll or fee which immediately before the commencement of the Constitution was lawfully being levied in any municipal area, may continue to be so levied until provision to the contrary is made by Parliament by law. *Explanation.*- In this section 'tax' includes any duty or cess.	No Comments

71 (1)	The State Government, may, by special or general order notified in the Official Gazette, require a municipality to impose any tax, mentioned in section 66 not already imposed, at such rate and within such period as may be specified in the notification and the municipality shall thereupon act accordingly.	This may be deleted.
71 (2)	The State Government may require a municipality to modify the rate of any tax already imposed and thereupon the municipality shall modify the tax as required within such period as the State Government may direct.	This may be deleted.
71 (3)	If the municipality fails to carry out any order passed under sub-section (1) or sub-section (2) the State Government may, by a suitable order notified in the official Gazette, impose or modify the tax. The order so passed shall operate as if it were a resolution duly passed by the municipality and as if the proposal was sanctioned in accordance with the procedure contained in section 70.	This may be deleted.

Taxes and Fees of Panchayats

The Himachal Pradesh Panchayati Raj Act, 1994
&
Recommendations of 3rd State Finance Commission.

Section/ Sub - Section	Existing Provision	Suggestions/ Recommendations of the Commission
100	**Levy of taxes and fees by Gram Panchayats : -**	
100 (1)	Subject to such maximum rates as the Government may fix and the provisions of the rules made under this Act or any order made by the Government in this behalf, a Gram Panchayat shall impose – (a) a house tax payable by the occupier or, where a house is vacant, by the owner : Provided that if any house remains vacant for a period of one year or more, it shall be exempted from payment of the house tax. (b) with the previous approval of the Government, a tax on persons carrying on any profession, trade, calling and employment other than agriculture in the Sabha area: provided such tax has not been imposed in the Sabha area by any other local authority under any law for the time being in force ; (c) if so authorized by the Government, a duty on transfers of property in the form of a surcharge on the duty imposed by the Indian Stamp act, 1899 in its application to Himachal Pradesh, on instruments of sale, gift and mortgage with possession of	No Comments The Gram Panchayat may be permitted to levy Profession Tax subject to the limits or floor level prescribed by the Govt. of India, since the State Govt. imposed this levy and then withdrew the same. 1. The words ***"if so authorized by the Government"*** may be deleted 2. The words ***"at such rate as may be fixed by the Government not exceeding two percent"*** be replaced by ***"two percent".***

	immovable property situated in the Sabha area at such rate as may be fixed by the Government not exceeding two percent on, as the case may be, the amount of the consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument; and (d) if so authorized by the Government, any other tax, duty or cess which the Legislative Assembly of Himachal Pradesh has power to impose : Provided that if the gram Panchayat fails to impose the tax, duty or cess, the Government may take necessary steps to impose it and the tax, duty or cess so imposed shall be deemed to have been imposed by the Gram Panchayat : Provided further that the Government may at any time withdraw the authorization under clause (c) or clause (d) whereupon the tax, duty or cess shall cease to be levied.	
100 (2)	Subject to such maximum rates as the Government may prescribe, a Gram Panchayat may levy the following fees, namely : - (i) teh-bazari from the shop-keepers in fairs ; (ii) service fee including fee on cleaning of streets and lighting of streets and sanitation ; (iii) fees for registration of animals sold in the Sabha area; and (iv) water rate where water is supplied by the Gram Panchayat.	(i) No comments (ii) Tax on consumption of energy be raised to 3 paise per unit for ensuring full coverage of the energy bills of street lighting and the entire proceeds should be passed on to the Gram Panchayat. (iii) & (iv) No Comments
101	**Special tax for community services : -** A Gram Panchayat may, with the prior approval of the Gram	No Comments

	Sabha, impose a special tax on the adult male members of the gram Panchayat area for the construction of any public work of general utility for the inhabitants of the said area : Provided that it may exempt any member from payment of this tax in lieu of doing voluntary labour or having it done by another person on his behalf. *Explanation.*- for the purposes of this section, the expression "adult male member" means a male member who has attained the age of 21 years.	
102	**Commutation of tax by labour.** – A Gram Panchayat may with the consent of the person by whom any tax is payable under this Act, commute the payment into a contribution of labour not exceeding twenty four units of labour in any one year, at such intervals, for such period of time and on such conditions, as may be prescribed. *Explanation.*- One unit of labour means four hours of manual labour.	No Comments
103	**Local Rate**	
103 (1)	Except as hereinafter provided all land shall be subject to payment of a rate to be called "local rate" at such rate of its annual value not exceeding twenty five per cent as Government may determine from time to time.	No Comments
103 (2)	The Government, may by notification, abolish, reduce or exempt any land or any class of land from the levy of the local rate.	
104	**Levy of taxes by Panchayats.-** Subject to the general direction and control of the Government, a Panchayat may, with the previous permission of the Government and in the prescribed manner, impose any tax which the Legislative Assembly of Himachal Pradesh has power to impose under the Constitution of India :	No Comments

	Provided that no tax under this section shall be imposed in respect of any property subject to the local rate.	
105	**Power of State Government to regulate taxes.-**	
105 (1)	The State Government may make rules to regulate the imposition, assessment, collection and sharing of taxes under this Act.	No Comments
105 (2)	No objection shall be taken to any assessment nor shall be the liability of any person to be assessed or taxed be questioned otherwise than in accordance with the provisions of this Act or the rules made thereunder.	No Comments
106	**Power of State Government in regard to relief in taxes.-**	
106 (1)	If it appears to the State Government that any tax imposed by Panchayat is excessive in its incidence on tax-payer it may, after calling a report from the Panchayat in this regard, abolish any tax or suspend or reduce the amount or rate of any tax.	No Comments
106 (2)	The State Government may, on its own motion or otherwise after giving the Panchayat an opportunity of expressing its view in the matter, by order, exempt from the payment of any tax in whole or in part any person or class of persons or any property subject to such conditions as may be specified in such order.	This may be deleted.

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CHAPTER 15

TAKING FORWARD THE PROCESS OF DEVOLUTION OF FUNCTIONS TO THE LOCAL GOVERNMENT INSTITUTIONS

15.1 As mentioned earlier, the Third State Finance Commission was asked by the State Government for suggesting appropriate ways to take forward the process of devolution of functions, funds and functionaries to the Panchayati Raj Institutions and the municipalities keeping in view the existing delivery system and the financial capacity of the State Government. The Commission was also asked to make specific suggestions with regard to support for pilots to handover responsibility for delivery of primary education, primary health, water and sanitation and rural roads to the appropriate levels of the local government institutions. Whereas the existing status of devolution of functions in various sectors has been dealt with in detail in a separate chapter, this chapter is devoted to making suggestions to the State Government for entrusting certain functions in the above mentioned sectors to the Local Government Institutions with a view to taking forward the process of delegation and decentralization and also deepening the role of Local Government Institutions in delivery of certain basic services to enhance the stake of these institutions on the one hand, and also enhance the accountability factor for delivery of such services.

15.2 The Commission had comprehensive consultations at various levels of local government in this behalf and has come to a conclusion that the following functions/activities could be best delivered to the target groups if these were entrusted to the Local Government Institutions:-

1. Primary Education implying primary schools, pre-primary schools or alternative learning centres at the same level and the mid-day meals programme;
2. Rural health implying the institutions at the level of health sub centres;
3. ICDS Programme implying institutions at the level of Anganwaris; and
4. Animal Husbandry implying institutions up to the level of Veterinary Dispensaries and artificial insemination centres.

15.3 The Commission felt that the above four services are central to the basic role envisaged for the local government institutions in terms of universalisation of primary education (which has been achieved in Himachal Pradesh and the focus now onwards is on the continued enrolment of fresh children getting into the age group and for delivery of quality primary education, besides the maintenance of the primary school infrastructure), universalisation of the maternity and child health care services including immunization, ensuring appropriate provision and guidance for nutritional support and continued monitoring of the pregnancies which could be ensured through appropriate coordination between the health sub centres and Anganwaris and provision of basic animal health care keeping in view the key role being played by animal husbandry activities in the rural economy as also the nutritional support for pregnant and lactating mothers and pre-school children. The Commission would also like to add that the national flagship programmes of universalisation of elementary education (with special emphasis on primary education), National Rural Health Mission, universalized ICDS programme and the mid-day meals programme all envisage key responsibility to be entrusted to Panchayati Raj Institutions.

15.4 Having firmed up the above view, the Commission considered the existing capacity of the local government institutions in handling the complete responsibility of the above suggestions. In its interface with the different levels of local government institutions, the Commission was, time and again, impressed about the general lack of administrative capacity at the Gram Panchayat and the upper levels of hierarchy. Given this fact, the Commission is of the view that the staff engaged for delivery of the above four services should be made answerable to the appropriate levels of the Panchayati Raj Institutions and the efficacy of the service delivery should be squarely the responsibility of the Panchayati Raj Institutions. The cadre control for the regular employees should continue to be with the concerned departments whereas the control of the staff hired for the delivery of above services on contractual basis should vest in the Panchayati Raj Institutions. In a gradual manner, the total control of the staff of the above institutions should pass on to the Gram Panchayats or the higher levels of hierarchy, as the case may be. The funds for programme administration are suggested to be channelized through the PRI system, giving appropriate stake to different levels.

15.5 At the present level of being, the Commission feels that the local government institutions should completely own the responsibility for sanitation in their respective territories for which adequate funding is already available through various channels.

15.6 The State Government may consider the above suggestions for taking forward the process of devolution and decentralization to the Panchayati Raj Institutions to make them an effective tier of local governance. The suggestions for transfer of funds and functionaries as indicated above may also be implemented by the State Government after making appropriate budgetary changes towards moving the control to the Panchayati Raj Department and the Panchayati Raj Institutions.

15.7 In regard to the Urban Local Bodies, the existing design of delegation of responsibilities and functions should be implemented in letter and spirit because these bodies have appropriate avenues of resource raising with them besides the resource transfers recommended by the State Finance Commission and the Central Finance Commission.

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CHAPTER 16

SUMMARY OF RECOMMENDATIONS

16.1 A wide range of recommendations have been made by the Third State Finance Commission which deal with the fiscal transfers from the State government to the local government institutions at the Panchayati Raj and the Urban Local Government levels. It may be recalled that the Commission had made over to the State Government an Interim Report for the year 2007-08 in June, 2006 to ensure the continuity in fiscal transfers as also in fulfillment of the Constitutional requirements. The State Government had accepted the Interim Report and implemented the same for the year 2007-08. For the year 2007-08, the Panchayati Raj Institutions are expected to received a total gap filling grant of the order of Rs. 1759.39 lakh to meet the obligations of committed expenditure as also infrastructural support grants amounting to Rs. 201.70 lakh for augmentation of accommodation of Panchayat Ghars and office infrastructure. For the Urban Local Bodies, an amount of Rs. 3052.05 lakh was recommended to be devolved by way of developmental grants for 2007-08. The Commission while making out the full Report for the period 2007-08 to 2011-12 will take into cognizance these amounts and separately offset them from the overall recommendations.

Finances of Panchayati Raj Institutions and Recommendations

16.2 The detailed working of the committed expenditure of the Panchayati Raj Institutions has been elaborated in Chapter 7 of this report. The detailed working of the resources of the Panchayati Raj Institutions is contained in Chapter 8 of the report and the expenditure commitment requirements for performance of statutory functions and maintenance of assets of Primary School buildings, Middle School buildings, Health Sub-Center buildings, Allopathic Dispensary buildings, Ayurvedic Dispensary buildings and the Veterinary Dispensary buildings have been worked out in detail in Chapter 9 of the report. Chapter 7 also contains recommendations by the Commission in regard to the capital expenditure at different levels of Panchayati Raj Bodies which it considered necessary to be provided, based on the most widespread interaction it had with the elected representatives at different levels. A summary of the revenue receipts, committed revenue expenditure and recommended capital expenditure for the Panchayati Raj Institutions for the year 2007-08 and the total forecast period of 2007-12 is contained in the following table : -

Table I

Summary of Revenue Receipts and Expenditure for Panchayati Raj Institutions.

(In Rs. lakh)

Sl. No.	Item/ Detail	2007 - 08	2007 - 12
1.	Total Revenue Receipts of Gram Panchayats from their own sources and assigned revenues.	1206.23	6672.56
2.	Total Committed Revenue Expenditure of the Panchayati Raj Institutions including office expenses.	2986.81	15479.38
3.	Capital Expenditure for Panchayati Raj Institutions for construction of 321 new	201.70	4434.60

	Gram Panchayat bhawans and additional accommodation for all the old 2922 Gram Panchayats.		
4.	Expenditure provision for maintenance of physical assets of various departments.	**481.24**	**2937.98**
5.	Expenditure provision for performance of statutory functions.	**Nil**	**2648.91**
6.	Incentive fund for promoting resource raising.	**Nil**	**4000.00**
7.	Total recommended Expenditure provision for Panchayati Raj Institutions (2+3+4+5+6)	**3669.75**	**29500.87**
8.	Gap in available resources and recommended expenditure (7 -1).	**2463.52**	**22828.31**

16.3 The annual phasing of the receipts and total expenditure over the forecast period of 2007-08 to 2011-12 is indicated in the following table : -

Table II

Annual phasing of the Receipts and Expenditure of Panchayati Raj Institutions

(In Rs. lakh)

Sl. No.	Item/ Detail	2007- 08	2008-09	2009-10	2010-11	2011-12
1.	Total Revenue Receipts of Gram Panchayats from their own sources and assigned revenues.	1206.23	1273.41	1333.23	1396.66	1463.03
2.	Total Committed Revenue Expenditure of the Panchayati Raj Institutions including office expenses.	2986.81	3076.49	3105.60	3137.62	3172.86

3.	Capital Expenditure for Panchayati Raj Institutions for construction of 321 new Gram Panchayat bhawans and additional accommodation for all the old 2922 Gram Panchayats.	201.70	1460.95	1310.95	730.50	730.50
4.	Expenditure provision for maintenance of physical assets of various departments.	481.24	529.36	582.29	640.52	704.57
5.	Expenditure provision for performance of statutory functions.	Nil	570.77	627.84	690.62	759.68
6.	Incentive Fund for Resource raising.	Nil	1000.00	1000.00	1000.00	1000.00
7.	Total recommended Expenditure provision for Panchayati Raj Institutions.	3669.75	6637.57	6626.68	6199.26	6367.61
8.	Gap in available resources and recommended expenditure.	2463.52	5364.16	5293.45	4802.60	4904.58

16.4 As mentioned in the beginning of this Chapter, the Interim Report had provided for a gap filling grant amounting to Rs. 1759.39 lakh for the Panchayati Raj Institutions. Against this recommendation in the Interim Report, the revised gap as worked out above after taking into account the revision in the rates of honoraria to the elected representatives and also the revision in the levels of remuneration of the functionaries of the Panchayati Raj Institutions works out to Rs. 2463.52 lakh. Accordingly, the State Government may make a further provision of Rs. 704.13 lakh in the current year through the supplementary demands for grants to meet such committed expenditure.

Finances of Urban Local Government Institutions and Recommendations

16.5 The detailed working of the committed expenditure and expenditure on delegated functions for the Urban Local Bodies has been given in Chapters 11 and 12 of this report. The estimates of the resources of the Urban Local Bodies are contained in Chapter 13 of the report. A summary of the revenue receipts and committed revenue expenditure along with the expenditure projections for maintenance and performance of delegated functions for the Urban Local Bodies for the year 2007-08 and the total forecast period of 2007-12 is contained in the following table : -

Table III

Summary of Revenue Receipts and Expenditure for Urban Local Bodies.

(In Rs. lakh)

Sl. No.	Item/ Detail	2007 - 08	2007 - 12
1	Total Revenue Receipts of Urban Local Bodies from their own sources	**4257.00**	**27304.00**
2.	Developmental Grants (Grants in lieu of Octroi)	**3239.00**	**20783.00**
3.	Total Receipts (1+2)	**7496.00**	**48087.00**
4.	Total Committed Expenditure including Office Expenses	**4610.00**	**27270.00**
5.	Provision for Expenditure on maintenance of assets	**496.00**	**3029.00**
6.	Expenditure provision for performance of statutory and delegated functions	**3000.00**	**16250.00**
7.	One-time grants for inclusion of new	**300.00**	**1500.00**

	areas in Shimla Municipal Corporation and provision of civic amenities in these areas		
8.	Total Expenditure (4+5+6+7)	**8406.00**	**48049.00**
9.	Gap (-)/ Surplus (+)	**(-) 910.00**	**(+) 38.00**

16.6 The annual phasing of the receipts and total expenditure over the forecast period of 2007-08 to 2011-12 is indicated in the following table : -

Table IV

Annual phasing of the Receipts and Expenditure of Urban Local Bodies

(In Rs. lakh)

Sl. No.	Item/ Detail	2007- 08	2008-09	2009-10	2010-11	2011-12
1	Total Revenue Receipts of Urban Local Bodies from their own sources	4257.00	4788.00	5386.00	6058.00	6815.00
2.	Developmental Grants (Grants in lieu of Octroi)	3239.00	3644.00	4100.00	4612.00	5188.00
3.	**Total Receipts (1+2)**	**7496.00**	**8432.00**	**9486.00**	**10670.00**	**12003.00**
4.	Total Committed Expenditure including Office Expenses	4610.00	4998.00	5418.00	5874.00	6370.00
5.	Provision for Expenditure on maintenance of assets	496.00	546.00	600.00	660.00	727.00
6.	Expenditure provision for performance of statutory and delegated functions	3000.00	3120.00	3245.00	3375.00	3510.00
7.	One-time grants for inclusion of new areas in Shimla Municipal Corporation	300.00	300.00	300.00	300.00	300.00

	and provision of civic amenities in these areas					
8.	**Total Expenditure (4+5+6+7)**	**8406.00**	**8964.00**	**9563.00**	**10209.00**	**10907.00**
9.	**Gap (-) / Surplus (+)**	**(-) 910.00**	**(-) 532.00**	**(-) 77.00**	**(+) 461.00**	**(+) 1096.00**

16.7 For the year 2007-08, the Interim Report of the Commission had recommended a total transfer of Rs. 3052.05 lakh for the Urban Local Bodies. As against this, the above data indicates that the State Government may be required to provide a further grant of Rs. 910.00 lakh for 2007-08 towards meeting the expenditure commitments as detailed above. Such a provision for 2007-08 may be made through a supplementary demand for grants during the current year. For the remaining four years of the forecast period, the total transfers to the Urban Local Bodies by way of developmental grants (grants in lieu of Octroi) and gap-filling grants will be required as under : -

Table V

Total Transfers to Urban Local Bodies

(In Rs. lakh)

Year	Developmental Grants	Gap-filling Grants	Total Resource transfers
2008-09	3644.00	532.00	4176.00
2009-10	4100.00	77.00	4177.00
2010-11	4612.00	Nil	4612.00
2011-12	5188.00	Nil	5188.00

16.8 It may be noted that the surplus in the overall finances of the Urban Local Bodies as brought out in Table IV above for the years 2010-2011 and 2011-12 has not been taken into account to be offset against the developmental grants. The Commission took such a view keeping in picture the fact that in case the Urban Local Bodies end up with a nominal surplus due to the projected effort of raising resources at their own level, such surplus may be left to be best utilized by the local bodies for improvement and upgradation of civic infrastructure.

16.9 The total resource transfers to the local government institutions over the 2007-12 period sum as under :

Table VI

Resource Transfers to Local Government Institutions for 2007-12

(Rs. lakh)

Year	Panchayati Raj Bodies	Urban Local Bodies	Total
2007-08	2463.52	4149.00	6612.52
2008-09	5364.16	4176.00	9540.16
2009-10	5293.45	4177.00	9470.45
2010-11	4802.60	4612.00	9414.60
2011-12	4904.58	5188.00	10092.58
TOTAL	22828.31	22302.00	45130.31

16.10 Given the projections of State's own revenues on account of tax as well as non-tax revenue as per the budget estimates for 2007-08, the gross resource transfers for 2007-08 would comprise of 2.40 per cent of the State's own revenues. This level would marginally rise to 2.70 per cent of the projected revenues for 2008-09 and would be 2.33 per cent of the projected own revenues of the State for 2009-10 assuming the projections indicated in the compliance report of the implementation of Fiscal Responsibility and Budget Management Act, 2005. The comparative position of the State's own revenues and transfers to the local government institutions for the entire forecast period is presented in the following table : -

(In Rs. crore)

Year	Tax Revenue	Non-tax Revenue	Total Own Revenue of the State (2 + 3)	Transfers to PRIs	Transfers to ULBs	Total Transfers (5 + 6)	Column 7 as per cent of Column 4
1	2	3	4	5	6	7	8
2007-08	1950.90	802.92	2753.82	24.64	41.49	66.13	2.40
2008-09	2263.04	899.27	3162.31	53.64	41.76	95.40	3.02
2009-10	2625.13	1007.18	3632.31	52.93	41.77	94.70	2.61
2010-11	3045.15	1128.04	4173.19	48.03	46.12	94.15	2.26
2011-12	3532.37	1263.40	4795.77	49.05	51.88	100.93	2.10

Foot notes :
1. The data in columns 2 & 3 for 2007-08 is based on the budget estimates presented in the State Vidhan Sabha.
2. The data for 2008-09 and 2009-10 in columns 2 and 3 is based on the projections given by the State Government in the compliance report tabled in the State Vidhan Sabha under the FRBM Act in December, 2005.
3. The data for 2010-11 and 2011-12 under column 2 has been projected assuming 16 per cent annual growth in the tax revenues.

4. The data for 2010-11 and 2011-12 under column 3 has been projected assuming 12 per cent annual growth in the non-tax revenues of the State.

16.11 It may be seen from the above data that even though the transfers to the local government institutions show a marginal increase during the forecast period in nominal terms, yet the percentage of the total devolution to the State's total own revenues keeps declining over time due to the fact that the State's projected total own revenues show a growth rate higher than the increase in the recommended level of devolutions.

16.12 The Commission is of the opinion that the recommended resource transfers to the local government institutions may not be passed on as grants-in-aid as has happened during the award periods of the First and the Second State Finance Commissions. Instead, it may be more appropriate if the State Government fixes the resource transfers to the local government institutions as a percentage of the State's own tax and non-tax revenues. Given the fact that transfers during 2008-09 are recommended at 3.02 per cent of the total State's own tax and non-tax revenues and also the fact that the local government institutions should be encouraged to play a larger role in democratic governance at the decentralized level, the Commission is of the opinion that the State government may, instead of transferring the recommended devolution as gap filling grants, consider to devolve an amount equivalent to 2.75 per cent of the aggregate State's own tax and non-tax revenues to the local government institutions starting with the year 2008-09. This percentage may be kept fixed for the forecast period upto 2011-12 and could be reviewed by the next State Finance

Commission. As to the distribution of this aggregate transfer between the Panchayati Raj Bodies and the Urban Local Bodies, the Commission recommends that the ratios of the total recommended devolution to these respective bodies may be used for apportioning the corpus. It would work out as under : -

(In Rs. crore)

Year	Transfers to PRIs	Transfers to ULBs	Total Transfers	Percentage of Column 2 to Column 4	Percentage of Column 3 to Column 4
1	2	3	4	5	6
2008-09	53.64	41.76	95.40	56.22	43.78
2009-10	52.93	41.77	94.70	54.34	45.66
2010-11	48.03	46.12	94.15	51.00	49.00
2011-12	49.05	51.88	100.93	48.60	51.40

16.13 Based on the above percentages, the aggregate transfers equivalent to 2.75 per cent of the State's own tax and non-tax revenues between Panchayati Raj Bodies and the Urban Local Bodies would be as under : -

(Percent)

Year	**Percent of Total Own Revenues to be allocated to PRIs**	**Percent of Total Own Revenues to be allocated to ULBs**	**Total**
2008-09	1.5460	1.2040	2.7500
2009-10	1.4944	1.2556	2.7500
2010-11	1.4025	1.3475	2.7500
2011-12	1.3365	1.4135	2.7500

16.14 For the purposes of operationalization of this system, the State Government may budget transfers equivalent to the above percentages against the budget estimates of the State's own tax and non-tax revenue put together as a singular entry in the respective budgets of the Panchayati Raj Department and the Urban Development Department. After the budget is passed by the State Legislature, these departments could administer the resource transfers to the concerned subordinate levels of local governance at their own level in accordance with the principles enunciated by the State Finance Commission for such allocation. Such an arrangement will be very simple to implement and administer and will also afford a greater degree of freedom for resource transfer mechanism to pave the way for strengthening the democratic decentralization.

16.15 The Commission was specifically asked to suggest ways and means to improve the financial position of the Panchayati Raj and Municipal Institutions. The Commission, after having comprehensive interaction with the local government institutions at different levels and inviting their suggestions in this behalf, has made detailed recommendations for strengthening of the fiscal base of the local government institutions. Chapter 14 of the report contains these recommendations. Paragraph 14.24 of this chapter comprehensively deals with the existing provisions on the taxes and fees of the Panchayati Raj Institutions and Municipal Bodies and the suggestions or recommendations of the Commission for amendment in the existing provisions towards achieving the underlying objectives. The

Commission recommends to the Government that the suggested amendments may be carried through in the existing statutes so that the financial position of these bodies is strengthened. These amendments will also lead to making these bodies more effectively answerable at the local level besides moving them in the direction of financial self-sustainability. In addition to this, the Commission has also recommended that the Panchayati Raj Bodies may also be allowed access to the duty on transfer of property in the form of surcharge on the duty imposed by the Indian Stamp Act, 1899 on the same lines as the Urban Local Bodies (Paragraph 14.12). Other specific recommendations of the Commission which have a bearing on the financial well-being of the local government institutions as elaborated in chapter 14 are summed-up as below : -

1. The proceeds of the cess on liquor should be equitably distributed among all the panchayats irrespective of the fact whether a liquor vend exists within the geographical territory of a panchayat or not. Also, the total proceeds of the cess on liquor should be divided into rural and urban pools in the ratio of population according to 2001 census and then further distributed among the individual local government bodies in the ratio of population according to 2001 census (Paragraph 14.8).
2. The Commission has recommended that the entire collection of the cess on liquor at the rate of Rs.2 per bottle should be transferred to the local bodies instead

of retaining half of the proceeds by the State government. In the alternative, in case the State Government wishes to retain Re.1 out of the Rs.2 per bottle collection, the cess may be raised to Rs.3 per bottle and Rs.2 per bottle out of this be transferred to the local bodies (Paragraph 14.9).

3. The Commission has recommended that collection of water charges on drinking water supply for private domestic connections be entrusted to Panchayats and 50 % of the charges thus collected be retained by the Gram Panchayats on the same pattern as was done earlier. However, the Gram Panchayats should be made responsible for preventive maintenance and upkeep of the water supply schemes on account of this resource (Paragraph 14.13).
4. The Commission has recommended that the Gram Panchayats may be entrusted the collection of Abiana charges for irrigation and 50 % of the proceeds be allowed to be retained at their level for minor repairs in the distribution system. This would lead to better capacity utilization and enhanced participation by the Panchayati Raj Bodies (Paragraph 14.14).
5. The Commission has recommended that the marriage registration fee and the fee for birth and death may be fixed at Rs.200 and Rs.100, respectively with a provision for concessional registration for the IRDP families at the rate of Rs.25 in both the cases. The

late fee for delayed registration of such events may be double the basic rate (Paragraph 14.16).

6. The Commission has recommended differential taxation for urban properties according to their geographical location within a town on the same lines as was recommended by the Second State Finance Commission. The details of this design are contained in paragraphs 14.20 to 14.22 and the State Government may consider setting up a study group to go into the suggestions made and amend the statutes on these lines subsequently as such a suggestion has also been made under the National Urban Renewal Mission (Paragraph 14.20 to 14.22)

16.16 The Commission was also entrusted the responsibility of making recommendations in regard to taking forward the process of devolution of functions to the local government institutions. Based on the existing level of being of the Panchayati Raj Bodies and their capacity to take on certain developmental responsibilities, the Commission has recommended entrusting the activities related to primary education, mid-day meals programme, rural health functions and infrastructure upto the level of health sub-centre, ICDS programme upto the level of Anganwaris and animal husbandry programme upto the level of veterinary dispensaries and artificial insemination centres. The details in this behalf are contained in chapter 15 of the report.

16.17 The need for continuity of an institutional mechanism to track the implementation of the recommendations made by the State Finance Commission and to collect and compile the financial data relating to the local government institutions on a regular basis needs no over-emphasis. The previous Commissions have also made similar recommendations. The Third State Finance Commission reiterates the need for a permanent mechanism for this purpose and the specific recommendation in this behalf has been detailed out in Chapter 2 of this report while analysing the implementation of the recommendations of the previous commissions.

(Kuldeep Singh Pathania)	(Narinder Chauhan)	(D. K. Sharma)
Chairman	**Member**	**Member Secretary**

Dated the 2nd November, 2007