Chapter 7

SUMMARY, FINDINGS AND POLICY IMPLICATIONS

Introduction

In the decentralization of governance in India, the 73rd and 74th amendments to the constitution marked a significant milestone. Following these amendments, the government of Kerala passed amendments enabling changes to the state’s Acts available for fiscal and administrative decentralization. Decentralization necessitated a number of changes in administrative structure, allocation of functions and powers and control of resources. Kerala enacted its Panchayat Raj Act in 1994.

The average population of a grama panchayat in Kerala is 25000 and the average geographical area is 37.50 sq.km. The own fund resources by way of taxation and grants is found to be inadequate to meet the expenditure responsibilities. The government of Kerala decided to devolve 35 to 40 percent of the plan funds to panchayats with specific guidelines to spend them in the production, service and infrastructure sectors and launched participatory method of plan formulation called people’s planning in 1996.

The availability of plan grants enabled the panchayats to realize the functional responsibilities assigned to them to a good extent. But the resource mobilization efforts of panchayats are inadequate. The functions and responsibilities of panchayats have increased manifold, but there has not been
a corresponding increase in their financial resources. The own revenue resources of grama panchayats in Kerala comprises taxes, non taxes, assigned taxes and grants. The major items on which panchayats depend for their resources are establishment costs, public works, water supply, street lighting, social welfare, health and sanitation. The gap between the finances necessary for maintaining an optimum level of services and actual resources at the disposal of the panchayats is found to be wide. This gap has not been bridged despite an increase in receipts. Against this background, this study was conducted to analyse the various sources of funds and items of expenditure and to find out the avenues to increase the financial resources of panchayats with the following specific objectives.

Objectives of the study

The specific objectives of the study are

a. To examine the trends, pattern and composition of financial resources in selected grama panchayats in Kerala

b. To examine the trends, pattern and composition of expenditure in selected gram panchayats in Kerala.

c. To identify the financial resources gap between income and expenditure of selected grama panchayats.

d. To identify the factors responsible for the financial resources gap

Hypotheses

1. There is no significant difference in the pattern of income and expenditure for both lower grade and special grade panchayats.
2. Flow of funds from state government to panchayats by way of grants-in-aid and assigned taxes is decreasing over the years.

3. Resource mobilization efforts of panchayats are declining over the years.

4. Own fund of the panchayats is inadequate to meet expenditures pertaining to establishment cost and other essential civic services.

5. Panchayat functionaries are lacking in competency for the effective and efficient fund management of panchayats

Methodology

The study mainly made use of the secondary data which were collected from the offices of grama panchayats. The researcher studied different acts, rules, government orders and related documents, articles, books and reports related to decentralization. Consultation with key functionaries was done to study the plan documents with a view to understand the proportion of funds earmarked for various sectors and projects. Documents relating to existing policies, guidelines, manuals, circulars and instructions were also reviewed. Publications from the state planning board, Government of Kerala, planning commission, state finance commission, department of panchayats, census of India Reports, research papers, papers presented in seminars were also studied. Documents from Indian Institute of Public Administration, New Delhi, National Institute of Rural Development, Hyderabad, National Institute of Public Finance and Policy, New Delhi, were also made use of. Thirty grama panchayats from different geographical zones and levels of
performance had been selected by including 20 lower grade panchayats and 10 special grade panchayats. Northern, southern, midland, coastal hilly and high ranges regions were also given due consideration while selecting the panchayats. The data relating to the two categories of grama panchayats, lower grade and special grade were compared. The data collected were tabulated and analysed using appropriate arithmetic and statistical techniques. t-test, correlation diagrams were also used. Above all rational thinking was adopted throughout the preparation of the report which definitely helped to derive reasonable inferences and valid conclusion.

Coming to the organisation of the thesis, chapter two provided the genesis and evolution of panchayati raj system in India. It briefly chronicled the ancient period, the British period and the post-independence period. It discussed the Community Development Programme launched in 1952. The chapter also discussed the distinct phases, the panchayati raj has passed, viz., the phase of ascendancy, stagnation, decline, revival and the post 73rd amendment period. Then it explained the salient features of the Kerala Panchayat Raj Act 1994, the people’s plan campaign and the Kerala Development Plan.

Third chapter presented a profile of the Kerala panchayat finance with emphasis on various sources of funds and items of expenditure. The chapter gave a demographic profile of Kerala and the developments in the Kerala economy. It discussed the items of financial resources of panchayats, viz., own taxes, assigned taxes, shared taxes, grants-in-aid etc. It also discussed various items of expenditure and the devolution of plan funds.
Chapter four is based on the analysis of the nature and sources of funds. It also focused on the problems faced for the resource mobilization. In the beginning a profile of the sample panchayats was given. The chapter focuses on a detailed item wise analysis of various sources of funds with a view to identifying the relative importance of different sources in terms of the respective tax base and revenue potential. Analysis of revenue sources of lower grade and special grade panchayats were carried out separately and compared.

It was also attempted to make inter-panchayat comparisons of the different sources and factors underlying such differences. The correlation between different items of revenue of lower grade and special grade panchayats were worked out. t-test was also carried out. Reasons for leakage of revenue and problems of resource mobilisation were discussed.

Chapter five concentrated on the analysis of trends and patterns of various items of expenditure. It also attempted to examine the extent and the factors responsible for variations in functional expenditures. It also emphasized on the hurdles faced by panchayats in the form of guidelines, orders and circulars from government during expenditure. Items of sources of utilisation of funds were analysed using tables and diagrams. Statistical analysis was also made use of for comparing the items of expenditure between lower grade and special grade panchayats.

In chapter six a comparative analysis of sources of revenue and expenditure of three panchayats for three year data have been attempted.
Income from own sources, expenditure from own sources and resources gap have also been analysed.

**Major Findings**

The main findings of the study are listed below

1. The most significant own taxes of the panchayats are property tax and profession tax which together constituted more than 80 per cent of the total own tax revenue and they showed an increasing trend.

2. Entertainment tax has lost its buoyancy and it showed a steady decrease. The other entertainment media are well developed which caused decline in the relevance of cinema halls. Due to the development of other entertainment media the buoyancy of entertainment tax from cinemas has declined and hence these media have to be assessed for taxation.

3. The present system of annual rent based arbitrary valuation followed for building tax causes loss of revenue. The building tax assessment must be based on scientific basis.

4. Unnecessary state government interventions cause problems for the panchayats in collecting taxes, resulting in colossal revenue loss (eg. Stopping of quinquennial revision of property tax by way of a circular resulted in 20 to 25 per cent of loss)

5. Many professionals like doctors, advocates, consultants and businessmen who are mainly private practitioners are not assessed for profession tax. Similar is the case with business concerns and
institutions which are run without proper panchayat license. These professionals and institutions are to be brought in to the profession tax net.

6. The most important assigned taxes are duty on transfer of property and vehicle tax compensation which together constituted 85 per cent of the total assigned taxes.

7. The pattern of release of funds of assigned taxes from the state government is found to be irregular and unpredictable which causes difficulties for the panchayats in budget preparation.

8. There is no difference in the pattern of receipts of assigned taxes for lower grade and special grade panchayats. Revenue from this tax recorded a decrease over a period of four years.

9. More panchayats have showed interest in construction of buildings like shopping complexes and community halls by making use of plan funds allotted. But, considering the potential they can invest more in this so as to increase their own income.

10. The capacity of the panchayats in the mobilization of beneficiary contribution has declined. On many occasions, the panchayats lapse their share of plan funds. This resulted in the beneficiaries to have the feeling that the panchayats have enough funds as grants-in-aid.

11. For lower grade panchayats, though, non-tax revenue recorded a reasonable increase, considering its high potential the increase is not adequate.
12. For special grade panchayats non tax revenue recorded a marginal decrease, mainly because they could not mobilize beneficiary contribution to a reasonably good level.

13. Revenue from permanent sources like gate fees, licence fees, permit fees, etc. are very small and hence the income structure of these items have to be thoroughly revised.

14. It is seen that the most significant grants-in-aid is the plan fund devolved under people's planning which constituted 69.65 per cent for lower grade panchayats and 73.15 per cent for special grade panchayats.

15. Receipt of plan funds showed a declining trend mainly due to the inability of the panchayats to follow guidelines issued by government for sectoral allocation, plan formulation, beneficiary selection, projects approval, implementation and monitoring within the prescribed time frame.

16. The "big bang" approach to the devolution of huge quantum of plan funds, along with almost impractical guidelines without waiting for capacity building of local government functionaries resulted in huge wastage of funds especially due to the involvement of binamis.

17. The grants from rural pool and village road maintenance are not significant whose contribution varied only from 1.39 per cent to 0.33 per cent and their devolution is found to be irregular.
18. The trends indicate that the grouping of panchayats into different categories is not relevant. All panchayats are of almost equal status in terms of financial performance with respect to source of funds. The t-test values are found to be statistically insignificant. Hence, the hypothesis that there is no significant difference in the pattern of income and expenditure for both lower grade and special grade panchayats is validated.

19. The panchayats are understaffed with the pattern fixed more than two decades ago when the panchayats had a different face altogether. The redeployed staff from other departments are not integrated with the functions of the panchayat. Job chart is not found to be followed in any panchayat which would make the activities of the panchayat efficient and smooth.

20. Grants received during the period of study showed a decline both in the case of lower grade and special grade panchayats.

21. It is seen that majority of the lower grade panchayats divert the funds under the debt head for meeting establishment expenditure which are expected to be met from own funds of the panchayat. Hence, library cess, provident fund, dearness allowance arrears and other government dues are not remitted in time. It is observed that special grade panchayats have better own funds position so as to meet establishment expenditure and hence there is less diversion of funds from the debt head.
22. The discussions validate the hypothesis that own fund of the panchayats is inadequate to meet expenditures pertaining to establishment costs and other essential civic services.

23. Generally panchayats have not shown effort to avail loans from financial institutions and it is a fully underutilized source of fund. Loans can be availed from Rural Development Board and banks. Elements of professionalism should be instilled into panchayat administration to make successful capital investment decisions.

24. The analysis of sources of funds reveals a declining trend. This has its adverse impact on the problems of resource mobilization and ultimately the development scenario of the panchayats.

25. It is seen that the most important sources of funds are grants-in-aid and assigned taxes which together constituted 82.13 per cent for lower grade panchayats and 85.93 per cent for special grade panchayats of the total source of funds in 1998-99.

26. It is observed that own tax and non tax revenues show almost equal importance and both together constituted 12.82 per cent for lower grade panchayats and 12.31 per cent for special grade panchayats in 1998-99. Later they show an upward trend.

27. It is noticed that though there were budgetary allocations (Appendix IV of the state budget document) in the state budget, in actual practice, the panchayats did not get the amounts due to them, either the panchayats were not able to utilize the prescribed
minimum to get the next instalment or the government had no
money to disburse to panchayats resulting in treasury bans.

28. The true reflection of needs and wants of the grama sabha in the
projects of the panchayats are very limited which caused the
declining interest in participation and beneficiary contribution in
later years.

29. Establishment cost constituted 50 to 77 per cent of the total
expenditure of own funds during the period of study. It uses up a
major chunk of own revenue thus by decreasing considerably the
funds for other obligatory functions of the panchayat.

30. All t-values are statistically insignificant which revalidate the
statement that there are no significant differences between lower
grade panchayats and special grade panchayats. Hence, the
expenditure of the sample panchayats are increasing steadily.

31. Street lighting is an obligatory civic function. It accounts for nearly
3.91 per cent to 8.75 per cent of the own funds revenue of the
panchayats. It is seen that per panchayat expenditure which stood at
Rs. 0.55 lakhs in 1998-99 increased to Rs. 1.02 lakhs.

32. Provision of drinking water is another important civic function. It is
observed that per panchayat expenditure which stood at Rs. 212
lakhs in 1998-99 actually declined to Rs. 0.55 lakhs. Similarly, for
sanitation and maintenance only a very low amount is being
utilized. Almost all the panchayats in Kerala suffer from scarcity of
drinking water. Hence, it is essential that panchayats may earmark more funds to invest in drinking water schemes.

33. Expenditure under centrally sponsored schemes shows a stagnant picture. The funds and the guidelines for expenditure are issued by the central government.

34. It is found that many panchayats adjust their own funds to disburse social security pensions in time which is later on recouped when the fund is adjusted. This is very convenient to the pensioners as they would get pensions without delay. There is a steady increase in expenditure under pensions. This is because more deserved persons are identified and included in the list.

35. It is seen under plan funds, the expenditure under productive sector which constituted 25.23 per cent showed a downward trend. The actual expenditure incurred is much less in the production sector than stipulated by government guidelines. The pattern is the same for lower grade and special grade panchayats.

36. The expenditure under service sector constituted 32.33 per cent in 1998-99 and had a sharp increase to 51.33 per cent of the total expenditure under people's planning. The expenditure is more than that was stipulated by government which is between 30 to 40 per cent.

37. The most significant item of expenditure under production sector is agriculture which stood at 75.24 per cent of the total under this
sector. The expenditure in industry is very low (4.77 per cent to 8.87 per cent) when compared to agriculture and animal husbandry which has its negative impact on industrial production and employment. It is also observed that under agriculture the expenditure incurred is more in civil construction works rather than quality improvement in seeds and the methods of production.

38. It is seen that roads and buildings together constituted 98.61 per cent of the total expenditure under infrastructure sector. It is found that lower grade panchayats give more importance to construction and improvement of roads where as special grade panchayats give more priority to buildings and consequently have more of income generating assets.

39. It is noted that expenditure on energy is comparatively small. As the availability of conventional energy sources are depleting, panchayats have to propagate modern energy saving devices and renewable sources of energy.

Policy implications

1. The method of assessment of property tax has to be made more scientific. The assessment may be based on a) type of construction of the building b) location c) type of use and d) plinth area of the building. Area of each floor has to calculated separately.

2. A large number of buildings which have now been exempted should be brought into the tax net. For example, buildings owned
by central government, air ports, tourist resorts, theme parks, lodging houses, hospitals, private educational institutions etc.

3. In the case of profession tax, many private practitioners like advocates, doctors and consultants who are now evading profession tax should be brought in to the tax net. Similarly, institutions which run without proper panchayat licence should be assessed for profession tax. Audit teams may be made responsible for monitoring and reporting the extent of tax evasion.

4. Entertainment tax from cinemas are declining because of the development of other entertainment media. Therefore, entertainment tax may be imposed on cable television, Internet cafes and similar media.

5. Panchayats can collect advertisement tax by making a bye-law and the collection may be given on auction. But only four panchayats out of a sample of 30 have collected this tax.

6. The panchayats have some control over sand mining and it brings income. Granite mining and clay mining may also be brought to the control of panchayats so as to earn income from these items.

7. Now there is unwillingness of the grama panchayats to enforce the taxes available to them or to levy the maximum available taxes. Hence the state government should help to improve the capacity of panchayat tax administration personnel by providing technical assistance to improve property tax administration systems,
increasing the penalty rate for non-payment and incentives may also be provided to do a complete update of their tax rolls and to enhance the capacity of local officers to maintain the roll.

8. The investment in industry is found to be very small. Labour-intensive, environment-friendly industries which may make use of locally available raw materials and human resources is appropriate to be taken up by panchayats. Entrepreneurship and job training should be imparted to the identified beneficiaries. Effective marketing network is also to be developed and supported by government.

9. With the increased flow of resources to the panchayats the expertise to handle them efficiently and economically is needed. At present panchayats are lacking expertise in handling cash and attending the financial properties. They do not have skilled manpower to deal with matters like budgeting, accounting and record keeping. Modernized file keeping and office automation may be implemented. A portion of the plan funds may be earmarked for it. Systematic, result-oriented training in all aspects of panchayat administration should be imparted to the functionaries based on a meticulously designed and approved training policy.

10. The panchayats are understaffed with the pattern fixed more than two decades ago. Hence the staff pattern should be thoroughly revised, job charts should be prepared by properly assessing the
total quantum of works which should be equitably distributed. This may help to improve the capacity of grama panchayats to deliver services.

11. To ensure participation the conduct of grama sabhas should be made effective. The reports of the panchayats should be presented to the grams sabha. Preparation of proper agendas and writing minutes and publication of the same should be punctually done.

12. Various innovative tools and methods introduced during the people’s plan campaign to improve the accountability of the panchayats have not been perfected. (These include social audit, beneficiary committees, right to information, citizen’s charter and Ombudsman) Government should intervene to strengthen the system

Action Plan

1. The government should prepare and publish panchayat administrative manual, accounts manual, budget manual etc. as soon as possible

2. The various codes like the Kerala Treasury code, financial code, account code etc. should be updated and revised to make them appropriate for local government use. Manual of office procedure should also be revised.

3. Rules corresponding to various acts should be prepared and put in place.
4. Optimum standards for service delivery may be assessed and fixed.

5. A code of conduct may be prepared and published for the elected representatives and official functionaries of the panchayats.

6. Clear cut norms should be followed for the transfer and promotion of employees.

7. Fund flow from the state to panchayats should be made streamlined, systematic, regular and predictable.

8. Adopt and implement e-governance and information technology.

**Contribution of the Researcher**

The researcher has tried to critically evaluate the available literature on decentralized governance and panchayat finances. Even though the area of study had been explored, analysed and explained by various official agencies such as State Finance Commissions, State Planning Board, Local Self Government Department, and individual researchers and scholars earlier, they were not comprehensive, precise and specific. Further, not much work has been done to analyse the various sources of funds and items of expenditure in the post 73rd amendment to the Constitution, the decentralized planning process and devolution of state plan funds to the panchayats in Kerala. Hence the study assumes relevance in the changing context of the new panchayati raj system and decentralized planning concept and was intended to bridge the gap.
Areas for Future Research

Areas of future research identified are

1. The budgeting and accounting practices of panchayats.

2. Evaluation of the service delivery and panchayats with special reference to water supply, sanitation, health, education, etc.

3. Problems in the central-state-local fiscal transfers

4. Elected representative–official interface in panchayats and its impact on the functioning and developmental activities of the panchayats.

5. The impact of fiscal health of the state government on the fiscal health and development of local government finances.